ANNUAL REPORT 2010

Report of the Supervisory Board Chairman

On behalf of the Supervisory Board of Podravska banka and myself, I would like to present the Financial Reports for 2010. At a global level, after the crisis period during 2008 and 2009, last year has brought an easing of uncertainty, market stabilisation and a more positive investment climate. As a result, according to the IMF's forecast, global GDP growth is 5%. However, the economic crisis has left a deep mark on the Croatian economy, which has recorded negative trends for the second consecutive year.

Despite the difficult and challenging circumstances, Podravska banka has managed to achieve good business results, and generate profit before taxation of more than HRK 16 million. Last year was marked by intensified commercial activities across the business network, and mostly the activities directed to the entrepreneurship sector, the taking of measures for cost optimisation and intensification of activities in the collection of outstanding debts. In addition to the above, significant activities were also directed towards the planning of improvements in the area of IT technology. Through sensible risk management, market diversification and raising the quality of services, Podravska banka is strengthening its position in the Croatian banking market. A further strengthening of its market position, internal efficiency improvements and maximising customer satisfaction are the most important strategic goals of the Bank in the coming years.

In accordance with its statutory obligations, the Supervisory Board carried out a permanent supervision of the Bank's overall operations in 2010, which were in compliance with statutory regulations, internal regulations and the decisions of the General Meeting.

Members of the Management Board regularly attend the Supervisory Board's meetings and report to the Supervisory Board about specific issues within their business domains under their responsibility, and provide it with necessary information in order for the Supervisory Board to discuss all items on the agenda in detail and adopt the necessary decisions. The Supervisory Board may request and receive information from the Management Board at any time, about all issues related to the Bank's operations, and in particular about those which have a significant impact or which might impact the Bank's operations and standing. In accordance with the Audit Act, the Supervisory Board has established the Audit Committee comprising of all members of the Supervisory Board. By holding the function of the Audit Committee, the Supervisory Board has supervised the adequacy of the internal controls system, which is implemented in the Bank through three independent organisational units, i.e. internal audit, monitoring the alignment

of operations and risk control, all with the objective to establish such a system of internal controls that will ensure timely monitoring and disclosing of any risks which the Bank may be exposed to in its operations.
In accordance with its obligations, the Supervisory Board has carried out control and reviewed the Bank's accounts and documents, and established that Podravska banka d.d. is operating in compliance with law, the Articles of Association and other Bank's regulations and in accordance with the decisions of the General Meeting.

The Supervisory Board has reviewed the auditor's reports by Deloitte d.o.o., Zagreb, Radnička cesta 80, who audited the Bank's Financial Statements for the year ended 31 December 2010 and accepts the submitted auditor's report. Having reviewed the 2010 Annual Financial Statements, submitted by the Bank's Management Board, the Supervisory Board established that the Annual Financial Statements of Podravska banka d.d. were drawn up in accordance with the state in the Bank's accounts and that they exhibited a correct view of the state of Bank's property and operations, and approved them. Therefore, in accordance with the provision of Article 300(d) of the Company Law, this Report is considered approved.

The Supervisory Board has received a proposal from the Bank's Management Board on the use of profit generated in the year ended 31 December 2010. In this proposal it has been established that Podravska banka d.d. in the year that ended 31 December 2010 generated a profit of HRK 12,974,310.63, and the proposal is to allocate the profit generated by Podravska banka d.d. to the Bank's reserves.

The Supervisory Board agrees with the proposal by the Bank's Management Board on the use of profit and proposes to the General Meeting of the Bank to pass this decision. The management and employees have shown a high level of professionalism and dedicated work, enabling the Bank's plan to be realised in virtually all segments, and justify our trust. On behalf of the Supervisory Board of Podravska banka, I would like to thank all the customers and shareholders for the trust they have shown in us, to all employees and the management of the Bank for the results achieved. I would also like to thank all of my colleagues in the Supervisory Board for their active support and contribution to the Bank's development.

Miljan Todorovic
Chairman of the Supervisory Board

Management Report on the Bank's results

It is the pleasure of the Podravska banka Management Board to present the Bank's business results for 2010. Last year was marked by the recovery of the global economy, and according to the IMF's forecast, the global GDP rose by as much as 5%, and world trade increased by 12% in terms of volume. For 2011 and 2012, the global economy growth rates are forecast above 4%, which leads to the conclusion that at a global level, the crisis is over. However, the past period is characterised by the so far unrecorded volume of government interventions in the financial sector as well in the bailouts of individual industries, which opens up the possibility for the creation of new bubbles and inflationary pressures in the future. Since, on the other hand, the recovery is still not strong enough, it will be necessary to carefully weigh the risks in the future to withdraw surplus liquidity on time and reduce fiscal deficits, without generating future inflation or jeopardising the recovery.

In 2010, the Croatian economy was marked by a continuation of recession trends, the growth of unemployment and reducing the balance of payments current account deficit. According to estimates, a drop in GDP of about 1.4% took place in 2010, while for 2011, a reversal of negative trends and a gradual economic recovery are expected, which should result in a GDP growth of ca. 1.4%.

Unlike the economy, the Croatian banking sector faced the recession highly capitalised so that the guarantee capital adequacy rate at the end of 2010 was high at 18.36%. Total bank assets grew by 5.25%, which was mostly the consequence of growth in placements. Retail placements were up by 3.8%, corporate sector by 9.6%, while the largest increase was recorded by the government crediting, by 16.9%. Retail deposits were up by 8.1%, while corporate sector deposits were up by only 1.5%. In 2010, the average rate interest payable decreased faster than lending interest rates, which resulted in an increase in interest margin when compared with the previous year. Despite the increase in non-revenue generating placements and provisioning expenses, the banking sector profitability grew in 2010 when compared with the previous year.

A high level of the banking sector capitalisation as well as improvements in risk management methods guarantee the sustainability of the banking sector.

In such an economic environment, Podravska banka has remained stable and achieved satisfactory business results in 2010.

Podravska banka is a modern and dynamic financial institution of a universal type, targeting mostly segments of natural persons, craftsmen, and small and medium-sized entrepreneurs.
At the end of 2010, the Bank holds the 11th - place ranking in terms of assets, among the 33 banks in Croatia.

The Bank operates with over 150,000 customers through a network of 30 branches and other distribution channels - 42 ATMs, 13 day-and-night vaults, and 870 EFTPOS terminals. The Bank's total assets grew by 1.5%, and amounted to HRK 2.80 billion at the end of 2010.

When compared with the previous year, total deposits were up by 3.2% and amounted to HRK 2.11 billion. In the structure of total deposits, retail deposits accounted for 77.7% and corporate deposits for 22.3%, whereas retail deposits fell by 3.4%, while corporate deposits rose by 35.5%.
In the area of lending operations, the Bank continued with a more intensive corporate crediting in 2010, which resulted in an increase in corporate placements by 43.2% when compared with the previous year.
Retail credits were down by 6.7% when compared with the previous year, which is the consequence of a relatively high indebtedness of the retail sector and a reduced inclination to assume debt.

Due to the decline in interest rates in the domestic interbank market, the Bank invested its surplus liquid funds in government and corporate bonds by timely forming a portfolio which ensured a return at much higher yield rates than those that could be achieved in the money market or time deposits in foreign interbank markets. At the end of 2010, the Bank's investment in the Bank's financial assets amounted to HRK 458 million, or up by 75% from the end of the previous year.

The Bank is well capitalised with regard to the risks it is exposed to and the guarantee capital adequacy rate was 15.40% at the end of 2010.
The Bank's core income amounted to HRK 138.0 million, and in the operating income structure, net interest income accounted for 62.4%, net income from fees and commissions for 19.4%, and net income from purchase of foreign currency, and other income for 18.2%. Ordinary operating profit rose by HRK 2.1 million, when compared with the previous year, and amounted to HRK 28.5 million, while profit before taxation amounted to HRK 16.1 million. In the course of 2010, the Bank was highly liquid, and it appeared as creditor in the interbank market.

In accordance with statutory regulations, the Bank has to set up a system of measuring and monitoring of risks which it is exposed to in its operations. The most important risks that impact the Bank's operations include credit risk, liquidity risk, market risk and operational risk.
The Bank defines risk management through a system of internal regulations, organisation and control mechanisms which include concentration, validation and risk assessment as well as the systems of limits and risk-taking by individual business areas.

The risk management framework has been set up in accordance with quantitative and qualitative regulatory requirements. The Bank tries to achieve risk management efficiency through a continued improvement of processes, methodologies, models, controls and systems.

In 2010, the Bank continually invested in the information system. In the segment of systemic and technical infrastructure and software it invested HRK 3.5 million, with the objective to increase the quality of its service to the clients, align with regulatory requirements and report to the regulator. The above investments mostly referred to the implementation of disc sub-systems, applications for reporting to the CNB and the modernisation of the platform and the system of interbank payments. In 2011, there is a project for the implementation of a new centralised system.

During last year, the Bank did not acquire its own shares, so as at 31 December 2010 the Bank had a total of 9,023 own treasury shares, which represented 1.38% of the share in the Bank's equity.

Following the previous fiscal year, there were no significant business events that could have a significant impact on the Bank's operations. The year that is ahead of us will also be challenging and difficult, both for the banking sector, and for the economy as a whole. Market conditions will continue to be difficult, and the recovery of the Croatian economy will be gradual and slow.

In such circumstances, a decline in retail credit demand is expected with a simultaneous increase in corporate credit demand. In this regard, the Bank will try to avoid highly concentrated placements and will place short-term, self-liquidating credits with an adequate collateral coverage.

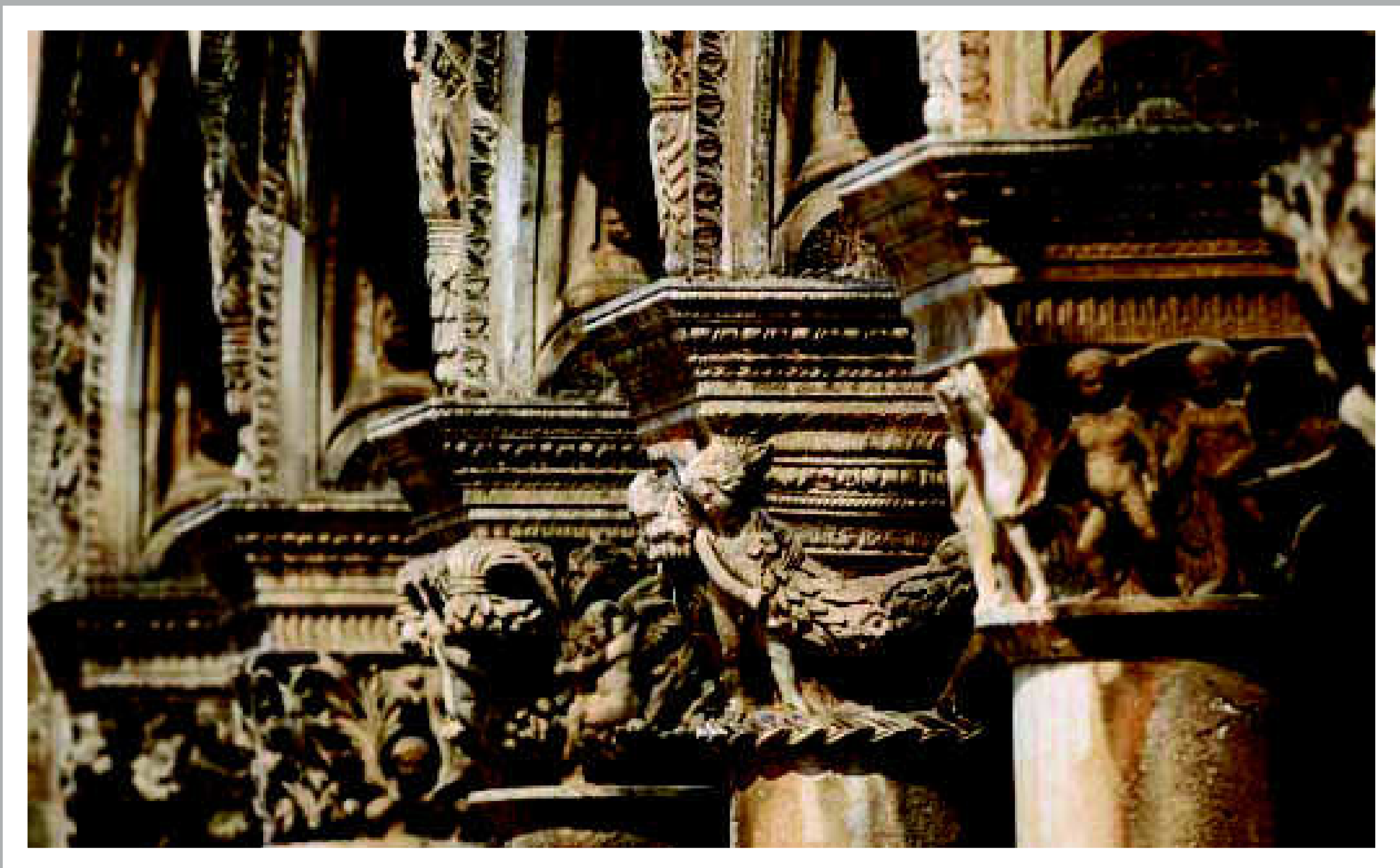
In 2011, the Treasury Division activity will be of key importance. In addition to the segment that refers to investments and to currency trading, to securities and the introduction of new financial instruments in the treasury activity (forwards, futures, etc.), Treasury will also play an important role in the financing of commercial activities.
In accordance with the strategic guidelines adopted in the previous fiscal year, investment of all surplus liquid funds in securities, predominantly in bonds of the adequate rating is also foreseen in 2011, by combining the quality of investment and the need to ensure adequate yields, keeping in mind the considerable costs of the Bank's financing, all in line with the internal policies adopted by the Supervisory Board and the Management Board of the Bank.

For this purpose, additional efforts are foreseen directed at brokerage operations, investment operations and money trading activities.
The Bank will continue to try and meet the needs of its clients and will accordingly develop products and services with the aim of maintaining long-term relationships with them. For this purpose the Bank will optimise its retail network, strengthen its position in the area of Zagreb and Čakovec, and develop and implement new services such as asset management services for private banking, factoring, forfeiting and others.
The Bank's activities will be directed at using its internal resources, optimisation of costs, adjustment to market trends, improvement of business processes and employment of specialised staff who can meet the demands of the development of the financial market and the Bank.

With the aim of increasing the effectiveness and profitability of the Bank's operations, which will especially be shown through a stronger negotiation position, improved reputation and through the possibility of a stronger concentration on sales activities, the project implementation will be carried out until the full integration of the new IT system within the shortest possible timeframes.
The above activities, which will be challenging, both with respect to costs and with respect to the human resource engagement, will to a considerable extent involve every structure of the Bank.
All of the above activities, despite uncertainty and expected difficulties, are directed at the strengthening of the market activity and the increase in the share of Podravska banka in the Croatian financial market.
In conclusion, I take this opportunity to thank my colleagues in the Management Board and all Bank's employees for their effort and commitment in 2010.
Also, on behalf of the Bank's Management Board, I would like to thank our shareholders for their support, and all our clients and business partners for their trust and cooperation, which oblige us to continue improving the quality of our services.

I would also like to thank the members of the Supervisory Board for their exceptional cooperation and support.

Julio Kuruc
Chairman of the
Management Board



1.] Description of Business operations

Overview of the Croatian economy in 2010

In 2010, according to estimations, GDP fell by ca. 1.4%, while a moderate growth of 1.4% is forecast for 2011. Unemployment continued to grow, and the decline of some sectors such as construction continued, as well as the stagnation of industrial production and retail.

In 2010, unlike most countries in Central and Eastern Europe, Croatia did not manage to stop negative economic trends, so that the continued deterioration of operations spilt over to almost all economic sectors in the country. The earlier foundation of economic growth and the most important component of GDP – personal consumption, recorded the first positive growth rate in the third quarter of 2010, after seven consecutive negative quarters. However, the recorded growth is the consequence of the effects of the tourism season, and at the year end a slight decline in personal consumption was recorded again. During most of the year, retail was negatively affected by the growth of unemployment, and the negative impact which the so-called “crisis” tax on incomes had on consumer spending.

2010 was marked by negative expectations of consumers and economic operators, which almost led to the standstill of investment activities.
Export of goods and services recorded solid growth rates in the first three quarters, thanks to the increased foreign demand and a good tourism season. Nevertheless, this growth is insufficient for a significant economic recovery of the country due to limited export capacities.

Negative labour market trends also continued last year where employment was down by an average 5.3% at annual levels, while the average unemployment rate was up by 18.8%. Net salaries corrected by the “crisis” tax realistically fell by 0.5% in the past year.
A realistic salary decrease is expected in 2011, due to intensified inflationary pressures and high unemployment.

A continuation of recession trends and low domestic demand were the main factors limiting the rise in prices in 2010 to an average of 1.1% over the previous year. The commercial banks’ credit portfolio grew moderately, while retail deposits grew at somewhat higher rates. The growth of partly recoverable and irrecoverable banks’ placements continued, but despite this, banks remained highly capitalised and the banking system as a whole remained very stable.

At the end of 2010, the total deposits with banks were up by 4.8% over the previous year, with retail deposits up by 8.1% and corporate deposits up by 1.6%. The highest growth rate was recorded by foreign exchange deposits as a consequence of the increase in retail savings.

Total credits were up by 8.2%, as a consequence of the increased economy crediting by 9.6% at annual levels. Retail credits were up by 3.8% nominally, but they were realistically down by ca. 1%, and the nominal growth was the consequence of the Swiss franc strengthening to which ca. 40% of housing loans were tied, or one fourth of the total credits placed to retail customers. Credit card loans decreased by 12.5% and car loans by 18%, which indicates the fact of a decrease in personal spending of households for the second consecutive year.

The banks' credit portfolio quality continued to deteriorate in 2010, as a consequence of a decrease in the volume of economic activities, which led to the problems of liquidity of companies, in particular of SMEs, and to lower household incomes. The share of credits classified under category B and C increased from 7.8% at the end of 2009 to 10.2% in the third quarter of 2010. At the same time, retail crediting reached 7.5% and the share of corporate crediting reached 15.9%. The deterioration in the quality of placements led to a significant rise in costs for write-offs of banks, but the banks, according to the CNB's data, increased their net profit by almost 18% by the consolidation of revenue and other expenditures.

The liquidity of banks was very high so that there was no need for repo operations, and interest rates on the money market were relatively stable and low. Active interest rates of the banks did not change significantly during 2010. The HRK to EUR exchange rate showed an enviable level of stability so that the CNB intervened in the market only twice to ease appreciation pressures.

There were very few changes in monetary regulations in 2010. In February, the rate of mandatory reserves was reduced from 14% to 13%, with the aim to free the liquidity of banks, by which credit activity towards the corporate sector would be stimulated, i.e. to support the programme of the Croatian Government and the Croatian Bank for Reconstruction and Development (HBOR) to provide incentives for the economic recovery.

In 2010, the following macroeconomic indicators were recorded:

	Value
Gross domestic product, growth rate, % of year over year change	-1.4
Industrial production, growth rate, % of year over year change	-1.4
Consumer prices, % of year over year change	1.1
Producer prices, % of year over year change	4.3
Trade balance (USD billion)	-8.25
Exports of goods, USD billion	11.8
Imports of goods, USD billion	20.1
Foreign debt of the Republic of Croatia, USD billion	45.8
Average net salary in HRK	5,343
Unemployment rate, %	18.8
No. of unemployed persons, Croatian Employment Service	319,845
HRK/USD exchange rate, average	5.50
HRK/EUR, exchange rate, average	7.29

Source: Central Bureau of Statistics, Croatian National Bank, Ministry of Finance

SUMMARY OF BUSINESS OPERATIONS

Products and Services

Podravska banka offers its clients a wide range of products and services in the private, corporate and investment segment of operations.
The Bank offers 24-hour availability to its clients through 30 branches, 42 ATM machines, as well as by the POBA*klik* e-banking service.

Focused on the needs of its clients and the maintenance of quality and competitiveness, in 2010 the Bank continuously worked on improving the existing offer, by which it kept pace with the best Croatian banks.
Among others, housing loans were improved by expanding purposes, more favourable conditions and the possibility to have various discounts in the commercial network, by which it has become one of the most attractive loans of this kind in the market, which has been confirmed by a 100% increase in its sale when compared to the year before.
Also, new products have been developed, the most interesting of which, in taking into consideration their acceptance by clients, include the loans for refinancing or settling of cash and housing loan obligations with other banks. They are the result of listening to clients' needs and wishes to integrate their obligations in other banks under more favourable conditions, with longer repayment periods and a more favourable interest rate.

Worth mentioning is the cash loan with wildcards under any condition as one of the most inventive products of this kind on the market (according to the selection by the daily newspaper Večernji list for top banking products in 2010) because it offers the clients several unique options they can use during the term of the credit.

A savings product, POBA Duet, has also been created. With these well-tuned savings, the client disposes of half of the time deposit earlier, with a simultaneous provision of the same interests that the client contracts for the other half of the savings time deposited for a longer period.

In the investment banking segment, Podravska banka has created the POBA-portfolio service, by which a portfolio is created for clients according to their preferences and needs. Investment in the portfolio enables clients to use the potentials of the Croatian and foreign capital and/or money markets, in taking into consideration their personal investment preferences and demands to achieve an optimum portfolio structure in accordance with investment goals agreed in advance.

Credits from the existing offer, intended for retail customers and entrepreneurs, have been tailored for the target user groups. With the offered conditions the Bank has tried to meet the expectations of the existing clients and attract new clients while simultaneously ensuring the minimisation of risk and increasing the security of placements.

The Bank is also active in the area of bank insurance so that, as a natural continuation of a long-term cooperation with the strategic business partner – Generali Insurance, a joint product called Savings Kapital+ has been created, which represents a combination of time deposit savings and life insurance.

The Bank has supported business entities with the most diversified forms of short-term financing, where special emphasis has been on bill of exchange discounts, foreign and domestic factoring, as well as the financing of receivables. The Bank has enabled long-term investments predominantly through the participation in programmes supported by the regional government, different ministries, the Croatian SME Agency (HAMAG), the Development and Employment Fund and HBOR. The activity in the economy segment has resulted in an increase in total placements by more than 50% in 2010 compared to the previous year.

The Bank has also been active towards entrepreneurs in the area of Treasury transactions by offering them the admission of exchange rates at the most favourable market conditions with direct communication with the dealer. The offer for the clients of specific instruments for the protection of exchange rate differences is prepared within Treasury.

Among the products that the Bank is preparing to launch to the market, we point out the MaestroCash service, which enables the withdrawal of cash at the Bank's ATMs with interest free repayment in instalments. In addition to this service and the existing MaestroShop service, which enables the purchase by instalment and deferred payment via ca. 800 EFTPOS Bank terminals, the Podravska banka current account is becoming increasingly attractive and the Bank is counting on attracting new clients.

Following a moderate capital market recovery, the Bank initiated preparations for the strengthening of this segment of operations as well, so that it plans to make specific-purpose credits for the purchase of financial instruments (margin credits) even more favourable, as well as Lombard loans against the pledge of financial instruments. Also, there are plans to redesign the Bank's website to make it more modern and user-friendly.

Deposits

In 2010, total deposits were up by 3.2% and amounted to HRK 2.11 billion, whereas retail deposits were down by 3.4%. In the structure of deposits, retail deposits declined from 83.0% to 77.7%.

Deposits of legal entities were up by 35.5%, and amounted to HRK 469.8 million at the end of 2010. At sight deposits and time deposits recorded growth, which increased the share of the deposits of legal entities in total deposits from 17.0% in 2009 to 22.3% in 2010.

Total deposits - amounts in HRK 000			CHANGES
	31/12/2010	**31/12/2009**	2010/09
Retail	1,637,942	1,696.366	- 3.4%
Total deposits	2,107,741	2,043,071	**3.2%**

Time deposits - amounts in HRK 000			CHANGES
	31/12/2010	**31/12/2009**	2010/09
Retail	1,282,176	1,381,042	- 7.2%
Total time deposits	1,531,733	1,555,431	**- 1.5%**

Lending operations

In 2010, the Bank intensified its focus on lending to enterprises, so that loans to this sector grew by 43.2%, and in the structure of total placements their share increased from 52.4% in 2009 to 62.8% at the end of 2010. The Bank tried to concentrate predominantly on clients with positive business prospects for whom it performs a complete banking and financial service profiling itself as a stable and reliable partner. For the purpose of credit risk protection, the Bank is trying to place as few highly concentrated placements as possible, and as many self-liquid placements as possible with an adequate reduction of maturity and the strengthening of collateral coverage.

In 2010, retail credits which the Bank traditionally strategically focuses on were down by 6.7%, and their share in total credits decreased from 47.6% in 2009 to 37.2% at the end of 2010. Such trends are the consequence of a reduction in household revenues and a reduced tendency to borrow in the conditions of the economic crisis and rising unemployment.

Loans in HRK 000			CHANGES
	2010	**2009**	2010/09
Total gross loans	1,718,976	1,438,719	19.5%
Total reserves on loans	147,098	133,642	10.1%
Total net loans	1,571,878	1,305,077	**20.4%**

Treasury operations

Money market

2010 was marked by the growing problems with high budgetary deficits of peripheral euro-zone countries, primarily of Greece, Ireland and Portugal, with indications of possible problems in Spain. To stimulate recovery, the ECB kept the key interest rates at low levels during all of 2010, which also reflected on the interest rates in the euro interbank market. EONIA and EURIBOR were at low levels in the first half of the year, while in the second half of the year they grew somewhat, conditioned by vague signals which depicted the current situations of different European and global economies. Thus 1M EURIBOR jumped from the level of 0.50% to the level of about 0.80% by the end of the year. At the same time, with the growth of global commodities prices, primarily the prices of food and crude oil, slight inflationary pressures were beginning to be felt in the euro-zone.

Part of the Euro denominated short-term liquidity was time deposited primarily in the domestic interbank market, on a short-term basis, to ensure the satisfactory liquidity of the Bank at any moment.

In the domestic interbank market, 2010 was marked by the continuation of the decline of kuna interest rates, which is best illustrated by the fact that 1Y ZIBOR plummeted from the level of 5.80% to the level of almost 3.00%, to end up at the level of ca. 4.00% by the end of the year. In accordance with the development of the situation, the Bank did the same with kuna liquidity as with foreign exchange liquidity. Instead in time-deposited interbank deposits, the Bank directed them to the domestic government and corporate bond issues, both in the primary and in the secondary market. By time depositing part of the kuna liquidity with minor domestic banks on a short-term basis, the Bank ensured short-term liquidity with a simultaneous increase in profitability. In addition to a decline in interest rates in the interbank market, the decline of kuna and foreign exchange passive interest rates on retail and corporate time deposits was inevitable. During the year, the Bank reviewed the interest rates it offers on deposits in accordance with the market situation, while maintaining competitiveness with a simultaneous decrease in interest expenditures.

Financial instruments market with fixed yield

In line with the above macroeconomic developments, the Bank allocated its foreign exchange liquidity primarily towards the government and corporate debt markets, by timely forming a portfolio which ensured a return at much higher yield rates than would be the case if liquidity surpluses had been time deposited in foreign interbank markets. At the same time, despite the reallocation of asset classes, regulatory criteria of the ALM ratio were met with regard to the coverage of foreign exchange obligations towards foreign exchange receivables. The bonds portfolio value in the portfolio available for sale in 2010 ranged from HRK 310 million to HRK 463 million. In the domestic bond market, most activity was reported in the segment of government bonds. The Croatian Ministry of Finance issued two new bonds, the first with maturity in 2012 and the second in 2017. With these issues, ca. HRK 16.5 billion was collected for the state budget. The Bank participated in public offerings through which it contributed to the financing of the Croatian state budget needs in 2010.

At the end of the year, S&P rating agency downgraded the long-term credit rating of Croatia for foreign issues from BBB to BBB-, with a negative outlook due to the deteriorated fiscal position. Croatian credit risk insurance to the 5-year debt in 2010 (CDS spread) ranged from 175 to 350 base points. The highest levels were recorded in the period of the debt crisis breakout in the peripheral countries of the EU. In 2010, the foreign bond market was marked by the debt crises in the euro-zone peripheral countries and by the central banks' expansive monetary policy in the more developed markets. The debt crisis impacted the high growth in the variance between yields on the debt of the euro-zone peripheral countries (Portugal, Ireland, Italy, Greece, Spain) when compared with the reference yields of the countries such as Germany, France and the northern European countries.

The first half of the year was marked by the fall of interest rates on 10-year government bonds of the Republic of Germany. The decline in yields continued and accelerated in the third quarter where a minimum was reached at the 2.10% level. Yields began to rise near the end of the year, and ended the year slightly below 3%. The deflation and recession fear due to somewhat weaker leading indicators and the FED's announcement that it intends to launch a new programme for the purchase of government bonds in the market are the reasons for the decline of the yields. In the last quarter, macroeconomic indicators showed that economies were nevertheless in the expansion phase, which led to higher bond yields. Government bond yields of the euro-zone peripheral countries did not follow the yield trend on the German government bonds, so that bond yields of those countries mostly grew due to high indebtedness and weak economic growth. In taking into consideration high volatility of the capital market and the debt crisis in the euro-zone, the Bank made prudent investments with an emphasis on government bonds of lower-risk countries and bonds of issuers with a high credit rating. The exposure to bonds of the euro-zone peripheral countries is minimal, with the highest exposure to Italian bonds. At the end of the year, due to positive macroeconomic indicators, the trend of investment in corporate debt instruments increased in the expectation of the narrowing of the credit spread when compared to the reference issues.

Foreign exchange market

The beginning of 2010 was marked by the continuation of the EUR/HRK exchange rate growth, which had begun at the end of 2009. The levels of the EUR/HRK currency pair opened the beginning of the year at the level of 7.295. Gradual depreciation pressures lasted until the beginning of February when it was traded at the levels of HRK 7.315 for one euro. This was followed by a trend of the appreciation of kuna with a downward trend of the EUR/HRK exchange rate. At the end of the first quarter of the fiscal year, the exchange rate was lowered to the level of 7.260, and consolidated at these levels until the beginning of June. Until mid-July, seasonal influences of the outflow of foreign currency impacted on an additional weakening of the euro by lowering the exchange rate below the level of 7.200. These were also the lowest euro levels last year. A prolonged period of the appreciation of kuna at the end of the summer season was followed by the exchange rate recovery. An exceptionally strong exchange rate growth was recorded at the end of November when euro was traded at the 7.436 levels, which were also the highest levels for the euro last year. The high exchange rate levels were caused by the increased volume of the purchase of foreign currencies by a banking group. The Croatian National Bank influenced the stabilisation of the exchange rate and then its weakening by the end of December through interventions in the foreign exchange market. At the end of December, the exchange rate was 7.385, while the average middle rate for last year was 7.292. Last year, the USD/HRK exchange rate movements were closely correlated with the EUR/USD currency pair movements in the foreign exchange market, showing the signs of strengthening when the euro weakened in relation to the dollar. From the beginning of the year, the USD/HRK exchange rate movements were marked by a strong strengthening of the dollar for a full seven months, following this trend through July. In that period the dollar strengthened by 16% in relation to kuna at the beginning of the year. In that period, it shortly managed to break the psychological level of 6 kuna for 1 dollar. Strong growth of the dollar as a safe haven was conditioned by the deepening of the debt problems of the euro-zone peripheral countries, which had a negative impact on the bond market of these countries, on the share market and on the euro as a currency. The crisis peaked in the summer months, followed by the calming down of the market. Market stabilisation was also followed by the weakening of the dollar until the beginning of October (5.420) to grow moderately to the 5.568 levels until the end of the year. The strengthening of the dollar as a safe haven was accompanied by the Swiss franc strengthening, standing out as the most appreciated currency last year, with the highest growth rate when compared to the kuna. From the beginning of the year it strengthened from 4.919 levels to 5.929 levels, which was a high 20.5%. For the first time in a longer time period of ten years it managed to come close to the level of 6 kuna for 1 Swiss franc, thus also reaching the parity level with the dollar exchange rate. In 2010, the average middle rate for the Swiss franc was 5.327. In the foreign exchange markets the past two years were marked as the most volatile in the past decade with very unpredictable developments and trends in the financial markets, by which the riskiness of such investments grew significantly. Despite high volatility, and thus riskiness, the Bank optimally managed its foreign exchange position. With an increased trading volume, it adequately managed the maturity and foreign exchange structure of its assets and liabilities. The Treasury Division fully met the needs of natural and legal entities for foreign cash and currencies with a visible increase in transactions and volume. In the course of 2010, the trading at the Sales Desk in the Trading Directorate of the Treasury Division was marked by narrowing the margin of exchange rate (spread) in the key currency pairs in relation to the kuna. The Bank reacted quickly and adequately to the market changes to maintain its competitiveness. In taking into consideration a rather volatile and at times even difficult situation in the market, despite the narrowing of the margin spread, the Bank kept the existing clients, attracted new clients, increased the volume and the number of transactions, which also had impact on the increased revenue from the purchase of foreign currency.

Investment banking

Until December 2010, all trading indicators showed that this was going to be another exceptionally bad year for the domestic capital market with small volumes and poor liquidity, but then Ina d.d. “happened”, which considerably improved the statistical indicators. Some of the daily trading in December was among the ten best daily tradings in the history of the Zagreb Stock Exchange, and stock exchange indices recorded two-digit growth percentages.Despite this, the trading of shares in 2010 decreased by 22.3% and was a modest HRK 5.77 billion. In comparison, a year earlier it was HRK 7.43 billion. Trading in the Montenegrin capital market was significantly lower and was almost cut by half when compared to the previous year.

Brokerage operations

In 2010, the Bank realised a total turnover at the Zagreb Stock Exchange of HRK 97,950,726.00 and was ranked the 22nd among the 36 investment companies, which represented a 0.66% share in the total Stock Exchange turnover. The Bank was ranked 6th according to the bond turnover at the Zagreb Stock Exchange. In the Montenegrin market, actual turnover was EUR 5,033,182.61. As at 31 December 2010, the Bank had 3,981 client accounts for trading in the domestic market and 279 trading accounts for trading in the Montenegrin market. In 2010, clients issued a total of 2,741 orders to brokers.

Custody over financial instruments

In the course of the year, in transactions of custody over securities, a slight decline of the value of assets in custody accounts was recorded over the previous year. As at 31 December 2010, the Bank provided custody of securities portfolio worth HRK 101.2 million.

Portfolio Management (POBAportfolio)

In 2010, the existing portfolio management service was improved by changing the manner of asset management and the approach to the client itself. Instead of the previous aggregate portfolio management, the service has been modified to a tailor-made service, or the adjustment to each and individual client, risk profile, desired yields and specific characteristics and needs. Portfolio investment enables clients to use the potentials of the Croatian and foreign capital markets and the money market, in taking into account the client's personal investment preferences and demands, to achieve an optimal portfolio structure according to the investment goals agreed in advanced. After a promotional campaign and successful education of the Bank's retail network, the service was successfully implemented and the first portfolio accounts were opened.

Payments

The main characteristic of the Bank clients' payment transactions carried out in 2010 was an increase in the total payment transactions value from the previous year and an increase in the number of opened accounts. The number of transactions carried out via the Internet increased significantly while transactions on paper forms and other media were at the level of 2009. A total volume of foreign payment transactions was up by 12%, and realised inflows to clients' foreign exchange accounts grew by 22% from the previous year.

The highest rise of 38% was recorded in the segment of clients' foreign Internet transactions, while domestic Internet payment transactions were up by 31% from the previous year. A total volume of domestic payment transactions of clients was up by 6% from the previous year, and in the segment of inflow onto transaction accounts, this growth was 9%. The number of opened transaction accounts by legal entities in foreign payment transactions rose by 10% over 2009. The data on the increase in the number of Internet banking users was 13%.

Foreign exchange payments			EUR
DESCRIPTION	**31/12/2010**	**31/12/2009**	**Index 2010/09**
INFLOWS TO FOREIGN CURRENCY ACCOUNT	**248,007,972**	**203,808,586**	**122**
1. Domestic legal entities	236,996,471	200,163,649	118
2. Non-resident legal entities	1,733,528	2,419,533	72
3. Custody	1,418,194	1,225,404	116
4. Retail	7,859,779	8,338,468	94
OUTFLOWS ABROAD	**93,409,952**	**96,052,217**	**97**
1. Legal entities - Orders 14 manual	36,162,906	51,086,772	71
2. Legal entities - Web 14	41,579,534	30,108,306	138
3. Letters of credit	11,446,957	13,249,149	86
4. Custody	4,220,555	1,607,989	262
5. Retail res. and non-res.	3,011,396	2,243,405	134
ITALIAN PENSIONS	24,762,589	26,385,015	94
TOTAL FOREIGN PAYMENTS	366,180,513	326,245,818	**112**

No. of SWIFT messages			
DESCRIPTION	**2010**	**2009**	**Index 2010/09**
Incoming MT 100, 102, 103 (inflows)	15,397	16,697	92
Outgoing MT 100, 102, 103 (outflows)	7,329	9,386	78
Outgoing MT 700 (letters of credit)	293	249	118

Domestic payments			U KUNAMA
DESCRIPTION	31/12/2010	31/12/2009	Index 2010/09
POBA*klik* - internal	1,359,162,253	1,043,739,869	130
POBA*klik* - external	3,336,780,391	2,542,500,143	131
TOTAL POBA*klik*	**4,695,942,644**	**3,586,240,012**	**131**
TOTAL DOMESTIC PAYMENTS	**33,560,226,634**	**36,820,610,643**	**91**
1. CLIENTS' PAYMENTS	**10,189,161,391**	**9,657,757,938**	**106**
inflow	5,437,608,913	4,986,317,597	109
outflow	4,751,552,478	4,671,440,341	102
2. TREASURY PAYMENTS	**18,298,171,635**	**22,873,742,840**	**80**

Number of payment orders			
DESCRIPTION	31/12/2010	31/12/2009	Index 2010/09
POBA*klik*- internal	131,117	121,851	108
POBA*klik*- external	559,700	493,289	113
TOTAL POBA*klik*	**690,817**	**615,140**	**112**
TOTAL DOMESTIC PAYMENTS	**2,293,788**	**2,300,446**	**100**
1. CLIENTS' PAYMENTS	**2,289,530**	**2,295,668**	**100**
inflow	879,349	898,918	98
outflow	1,410,181	1,396,750	101
2. TREASURY PAYMENTS	**3,754**	**4,273**	**88**

Number of opened transaction accounts			
DESCRIPTION	31/12/2010	31/12/2009	Index 2010/09
FOREIGN PAYMENTS	1,852	1,686	110
DOMESTIC PAYMENTS	7,368	7,108	104
INTERNET BANKING USERS	4,001	3,540	113

Retail network and distribution channels

The Bank's retail network consisted of 30 branches at the end of 2010. In addition to its retail network, the Bank is accessible to its clients through other distribution channels – ATMs, day-and-night vaults and EFTPOS terminals. All ATMs are equipped with a chip technology protecting the users against misuse and skimming. The Bank has 870 EFTPOS terminals installed, while the trend of the growth of the number of transactions through the Bank's EFTPOS terminals continued in 2010.

The number of users of Internet banking (POBA*klik* service) and POBA*sms* service increased by 13%. The number of orders effected through POBA*klik*-Internet banking increased by 12% in 2010 over the previous year.

The users of Podravska banka services can access business information through the Information Centre, which records a steadily increasing number of calls. Particular attention is given to retail network management and the design and equipment of branch offices, with a view to offering the best quality service to our clients. Podravska banka will continue to make efforts to be as close as possible to its clients – whether through its branch offices, the Internet, ATMs or the telephone.

Organisation and staff

Podravska banka had 307 employees on 31 December 2010, 2% less than on 31 December 2009. Of the total number of employees, 61% are women, and 61% of the total number of employees works directly with clients (front office). The average age of the Bank's employees is 41.

Certain organisational changes were conditioned by the Bank's business development aimed at increasing efficiency and achieving the best utilisation of technical and human resources, while the alignment with statutory regulations resulted in the upgrading of the existing and the setting up of new control functions in the Bank. Ongoing training and professional development of employees are the Bank's primary objectives. In 2010, almost two thirds of the employees attended in-house and external trainings in different areas relevant for the Bank's operations. At the same time, the Bank employed young skilled professionals, who will contribute quality to the Bank's development.

Since human capital represents the main competitive advantage, Podravska banka attaches special importance to motivating and rewarding its employees, and to developing their competences.

Capital

The Bank's capital without profit earned in 2010 totalled HRK 360.9 million. In relation to the previous year, capital increased by 2.7% based on allocating the profit made in 2009 to the Bank's reserves. At the end of 2010, the Bank's guarantee capital was HRK 327.0 million and the Bank's capital adequacy rate was 15.41%. As at 31 December 2010, the nominal value of share capital amounted to HRK 267.5 million.

Share capital consists of 668,749 ordinary registered shares, each at a nominal value of HRK 400.00.

According to the ownership structure, foreign nationals own 87% of equity capital, while the remaining capital is owned by domestic legal and natural persons.

Profit and Loss Account

In 2010, the Bank made a pre-tax profit of HRK 16.1 million, and net profit of HRK 12.97 million.

Bank's revenue from regular operations in 2010 was HRK 138.0 million, and in the structure of operations net interest income accounted for 62.4%, net income from fees and commissions 19.4%, and net income from purchase of foreign currency, and other income 18.2%

Core business costs including amortisation amounted to HRK 121.9 million, having decreased by 1.8%. The decrease in costs is a result of cutting administration costs by 3.6% from the previous year.

The assessment of credit risks and the allocation of reserves for problem loans and contingent liabilities are based on the conservative policy principle and the application of current regulations. On this basis, the Bank allocated HRK 12.5 million for depreciation in value and provisions in 2010.

Use of profit

The Management Board proposes to the Supervisory Board to make a joint proposal to the General Meeting to allocate total profits made in 2010 to the Bank's reserves.

THE MANAGEMENT AND THE GOVERNANCE ORGANISATION

Declaration on the application of the Corporate Governance Code

In accordance with the rules of the Zagreb Stock Exchange, the Management Board and the Supervisory Board of Podravska banka d.d. hereby declare that Podravska banka d.d. is applying the Corporate Governance Code drafted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange.

An integral part of this Declaration is the completed Annual Questionnaire for 2010 containing the answers to the questions and necessary explanations. The data on the implementation of internal supervision and risk management and the data on the Bank's shareholders are contained in the Notes to Financial Statements. Rules on the appointment and revocation of the Management Board members are defined in the Bank's Articles of Association. The number of the Bank's Management Board members is defined by the Supervisory Board. According to its decision, the Management Board has three members. In its decision, the Supervisory Board determines the candidates for the members and the Chairman of the Bank's Management Board who have to meet the requirements set by the law regulating banking operations and by other relevant regulations.

After obtaining prior consent from the Croatian National Bank, the Supervisory Board appoints the Chairman and the members of the Management Board to a term of up to five years with the possibility of reappointment. The Supervisory Board may revoke its decision on the appointment of the Chairman or a member of the Management Board if there is a material reason for this under current legislation. Authorities of the Bank's Management Board are defined in the Bank's Articles of Association. The distribution of competences among the individual Management Board members is defined by a separate decision. The Bank's Management Board has not been authorised to acquire own shares of the Bank in an organised market or to issue new shares of the Bank.

The data on the composition and activities of the Bank's Management Board and Supervisory Board is presented in the attached Annual Questionnaire. The rules on amending the Bank's Articles of Association are defined in the Articles themselves. A decision on amending the Articles of Association is adopted at the Bank's Shareholders' Meeting in accordance with legislation and the Articles of Association, by votes representing at least three fourths of the share capital represented at the Shareholders' Meeting when passing the decision. Amendments to the Articles of Association are proposed by the Supervisory Board, the Management Board or the Bank's shareholders.

In order to protect the interests of all investors, shareholders, clients, employees and other stakeholders, the Bank has implemented high standards of corporate governance.

2. Corporate governance code Annual questionnaire

All questions contained in this questionnaire relate to the period of one year to which annual financial statements also relate.

1. **Does the company have a website?**

   ☑ YES

   if so, what is its address? **www.poba.hr**

   if not, why?

2. **Are the annual, semi-annual and quarterly reports available to the shareholders?**

   at the Company's headquarters and business address (if not, why?)

   ☑ YES

   on the Company's web pages on the Internet (if not, why?)

   ☑ YES

   in the English language (if not, why?)

   ☑ YES

3. **Has the company prepared the calendar of important events? (if not, why?)**

   If so, has the calendar of important events been published on the Company's website?

   ☐ NO, the Bank announces major events on its website

   (if not, why?)

   is the calendar of important events properly and timely updated?

   (if not, why?)

4. **Is the company in a cross-shareholding relationship with another company or other companies?**

   ☐ NO

   If so,

   which companies are those?

   is the data on cross-shareholding publicly announced and how? (if not, why?)

5. **Does the company publish in its annual report data on financial instruments issued by the company and owned by members of the Supervisory or Management Board or the management of the company? (if not, why?)**

   ☑ YES

6. **Does the company publish on its website data on financial instruments issued by the company and owned by members of the Supervisory or Management Board or the management of the company, and is this data regularly updated (within 24 hours)? (if not, why?)**

☐ NO, any changes are published through the Zagreb Stock Exchange in accordance with the prescribed content and within the prescribed deadline

7. **Does the company determine and publicly announce risk factors?**

☑ YES, they are contained in the Financial Statements

(if not, why?)

8. **Has the company established mechanisms to ensure:**

that persons who control or come into contact with privileged information understand

☑ YES

the nature and importance of such information and restrictions related to it?

☑ YES

(if not, why?)

the supervision over the flow of privileged information and any misuse thereof

☑ YES

(if not, why?)

9. **Does each share of the company have one voting right?**

☑ YES

If not, have all relevant disclosures pertaining to non-voting shares been publicly and timely released? **(if not, why?)**

how have these explanations been released?

10. **Have the lists of all candidates for membership on the Supervisory or Management Board being elected at the Shareholders' Meeting or being appointed, including their CVs, been published on the Company's website?**

☐ NO

(if not, why?)

In 2010, the Bank had no election of the members to the Supervisory Board

11. **Does the Company treat all shareholders equally and under the same conditions?**

☑ YES

(if not, why?)

12. **Has the Company issued new shares?**

☐ NO

If so,

has participation in the increase of the Company's share capital been made possible to all shareholders in proportion to their shares in the earlier share capital of the Company, in the form of transferable financial instruments containing pre-emption right, in order to protect interests of the shareholders who at the time of issue cannot subscribe and buy new shares? (if not, why?)

was the intention to issue new shares published at least 10 days prior to the day set as the date for defining the status in the register of shares, which will be relevant for determining which shareholders are entitled to pre-emption right while acquiring newly issued shares? (if not, why?)

13. Has the company acquired or released any own shares (treasury shares)?

☐ NO

If so, has the acquisition or release been performed

in an open market? (if not, why?)

in a manner not favouring any shareholder or investor or group of shareholders or investors? (if not, why?)

14. Has the issuance of powers of attorney for voting at the Shareholder's Meeting been simplified to the greatest possible extent not involving any strict formal requirements?

☑ YES

(if not, why?)

15. Has the company ensured that the shareholders of the Company who, for whatever reason, are not able to vote at the Shareholders' Meeting in person, have proxies who are obliged to vote in accordance with instructions received from shareholders, with no extra costs for those shareholders?

☑ YES

(if not, why?)

16. Has the management or the Management Board of the Company, when convening the Shareholders' Meeting, set the date according to which the status in the register of shares will be established, which will be relevant for exercising voting rights at the Company's Shareholders' Meeting, by setting the date prior to the day of holding the Shareholders' Meeting and may not be more than 6 days prior to the day of holding the Shareholders' Meeting?

☑ YES it is established by the Bank's Articles of Association

(if not, why?)

17. Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to dividend payment,

and information on the date or period during which the dividend will be paid?

☐ NO, there has been no dividend payment

(if not, why?)

18. **Is the date of dividend payment or advance payment set to be not later than 30 days after the date of decision making?**

Please refer to the response to question 17.

(if not, why?)

19. **Has the decision on dividend payment or advance dividend payment defining the above-mentioned dates been published and submitted to the Stock Exchange not later than within two days after its adoption?**

Please refer to the response to question 17.

20. **Have any shareholders been favoured while receiving their dividends or advance dividends? (if so, why?)**

Please refer to the response to question 17.

21. **Has the agenda of the Shareholders' Meeting, as well as all relevant data and documentation with explanations relating to the agenda, been published on the Company's website and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda?**

☑ YES

(if not, why?)

22. **Is the agenda of the Shareholders' Meeting and all relevant data and documentation published on the Company's website in English as well? (if not, why?)**

☐ NO, the Company has not taken such an initiative, but is ready to comply with it, if necessary

23. **Have the conditions been defined for participating at the General Meeting and the exercise of voting rights (irrespective of whether this is permitted by law or the Articles of Association), such as, for example, registration for participation in advance, certification of powers of attorney, and similar? (if so, why?)**

☑ YES, participation and exercise of the voting right at the General Meeting are to be registered within the deadline determined by the Articles of Association

24. **Does the report to be submitted by the Supervisory or Management Board to the General Meeting include, apart from the content of the report defined by law, an evaluation of the overall business performance of the Company,**

of the activities of the management of the company, and a special comment on its cooperation with the management?

☑ YES

(if not, why?)

25. **Are the shareholders given the opportunity to participate and to vote at the General Meeting of the Company using modern communication technology? (if not, why?)**

☐ NO, there was no need for such participation and voting

26. **Has the management of the Company published the decisions of the General Meeting, as well as the data on legal actions, if any, challenging those decisions?**

☑ YES

(if not, why?)

27. **Has the Supervisory or the Management Board adopted a decision on the master plan of its activities, including the list of its regular meetings and the data to be regularly and timely made available to Supervisory Board members? (if not, why?)**

☐ NO, the Supervisory Board meets upon need

28. **Has the Supervisory or the Management Board passed its internal rules of procedure?**

☑ YES

(if not, why?)

29. **Please provide the names of the Supervisory Board or the Management Board members**

Miljan Todorovic – Chairman of the Supervisory Board,
Sigilfredo Montinari – Deputy Chairman,
Filippo Disertori - Member,
Dolly Predovic - Member,
Maurizio Dallocchio - Member,
Dario Montinari – Member,
Djuro Predovic – Member.

30. **Please specify for each Supervisory Board or Management Board member in what other companies he/she is a member of the Supervisory or Management Board or management.**

Miljan Todorovic, Director of Cerere S.p.A., Trieste,
Sigilfredo Montinari, Chairman of the Board of Directors of Hipotekarna banka a.d. Podgorica

Also, provide information on whether some of those companies are considered as the Company’s competition.

There is no competition.

31. **Is the Supervisory Board composed of mostly independent members, i.e. non-executive directors of the Company’s Management Board? (if not, why?)**

☐ NO, the majority of Supervisory Board members are shareholders of the Company

32. **Which members of the Supervisory Board and which non-executive directors of the Management Board are independent?**

Filippo Disertori and Maurizio Dallocchio

33. **Is there a long-term succession plan in the Company?**

☑ YES

(if not, why?)

34. **Is the reward or the remuneration received by the Supervisory or Management Board members entirely or partly determined based on their contribution to the Company’s business performance?**

☑ YES

(if not, why?)

35. **Is the remuneration to the Supervisory or Management Board members:**

determined by a decision of the General Meeting YES

stipulated in the Articles of Association of the Company NO

determined in some other way NO

(if so, in which way?)

36. **Have detailed records on all remunerations and other earnings of each member of the Supervisory or Management Board received from the company or from other persons related to the Company, including the structure of such remuneration, been made public? (if not, why?) (if so, where?)**

☑ YES, in the audited annual report

37. **Does every member of the Supervisory or Management Board inform the Company of any changes relating to their acquisition or disposal of shares of the Company, or to the possibility to exercise voting rights arising from the Company’s shares, not later than on the next business day after such a change occurs? (if not, why?)**

☑ YES

38. **Please specify any transactions involving both members of the Supervisory or Management Board or persons related to them, and the Company or persons related to it.**

    Regular banking transactions

39. **Have all transactions involving members of the Supervisory or Management Board or persons related to them and the Company or persons related to it been:**

    concluded on the market basis (especially with regard to terms, interests, guarantees, and similar) (if not, why and which transactions were they?) YES

    clearly stated in the Company's reports? (if not, why and which transactions were they?) YES

    confirmed by an independent assessment of experts independent as regards the participants in the relevant transaction? (if not, why and which transactions were they?) YES

40. **Are there any contracts or agreements between members of the Supervisory or Management Board and the Company?**

    ☐ NO

    If so, did they obtain prior approval of the Supervisory or Management Board? (if not, why?) have the essential elements of all such contracts or agreements been included in the annual report? (if not, why?)

41. **Have the Supervisory or Management Board established an appointment committee? (if not, why?)**

    ☐ NO

    If so,

    has the committee evaluated the structure, size, membership and quality of work of the Supervisory Board and the management, and prepared appropriate recommendations for the Supervisory Board? (if not, why?)

    has the committee evaluated the knowledge, skills and experience of each member of the Supervisory Board and informed the Supervisory Board thereof? (if not, why?)

    has the committee analysed problems related to the planning of work continuity of the Supervisory Board and the management? (if not, why?)

    has the committee analysed the policy of the management on the employment of senior management? (if not, why?)

42. **Have the Supervisory or Management Board established the remuneration committee?**

    ☐ NO

    If so,

have the majority of the committee members been selected from the group of independent members of the Supervisory Board? (if not, why?)

has the committee proposed to the Supervisory Board the remuneration policy for the management, which shall include all types of remuneration, especially its fixed part, variable part dependent on business results, pension scheme and severance pay? (if not, why?)

in the case of variable part of remuneration dependent on business results, did the proposal of the committee include recommendations for determining impartial criteria for assessing efficiency? (if not, why?)

has the committee proposed to the Supervisory Board the amount of remuneration for each member of the management, in compliance with the company's remuneration policy and evaluation of business performance of each member of the management? (if not, why?)

has the committee proposed to the Supervisory Board the appropriate form and content of contracts with the members of the management? (if not, why?)

has the committee monitored the amount and structure of remuneration to senior management and made general recommendations to the management thereon? (if not, why?)

as regards the part of the remuneration to the management representing stimulus, in the case where it consists of stock options or other arrangements based on share acquisition, has the committee analysed the general policy on such type of remuneration and proposed to the Supervisory Board appropriate solutions, as well as analysed information published thereon in the annual report, prior to the publication?

43. Have the Supervisory or Management Board established the audit committee?

☑ YES

(if not, why?)

if so,

have the majority of the committee members been selected from the group of independent members of the Supervisory Board? (if not, why?)

☐ NO, it corresponds to the composition of the Supervisory Board

has the committee monitored the integrity of the financial information of the Company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the criteria for the consolidation of financial reports of the companies belonging to the group? (if not, why?)

☑ YES

has the committee assessed the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (if not, why?)

☑ YES

has the committee worked at ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (if not, why?)

☑ YES

if there is no internal audit system in the Company, has the committee considered the need to establish it? (if not, why?)

☐ NO, the Bank established its internal audit

has the committee made recommendations to the Supervisory Board on the selection, appointment, reappointment and replacement of the external auditor, and on terms and conditions of his/her employment? (if not, why?)

☑ YES

has the committee monitored the independence and impartiality of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (if not, why?)

☑ YES

has the committee monitored the nature and quantity of services other than audit, received by the company from the audit company or from persons related to it? (if not, why?)

☑ YES

has the committee prepared rules defining which services may not be provided to the Company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee?

☐ NO

has the committee analysed the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (if not, why?)

☑ YES

has the committee examined the circumstances related to the dismissal of the external auditor, and made adequate recommendations to the Supervisory Board

(in a case of such dismissal)? (if not, why?)

☐ NO, there have been no such circumstances

does the committee maintain open and unlimited communication with the management and the Supervisory Board? (if not, why?)

☑ YES

who is the committee accountable to for its work? To the Supervisory Board

does the committee maintain open and unlimited communication with the internal and external auditor? (if not, why?)

☑ YES

does the management submit to the audit committee:

timely and periodic presentations of financial statements and related documents prior to their publication (if not, why?);

☑ YES

data on changes in accounting principles and criteria (if not, why?);

☑ YES

accounting procedures accepted for the majority of operations (if not, why?);

☑ YES

data on all major differences between the book and real value by items (if not, why?);

☐ NO, there have been no differences

all correspondence with the internal audit department or independent auditors (if not, why?).

☑ YES

Has the management informed the audit committee of the methods used for booking significant and unusual transactions and business events in cases when booking of such events may be done in different ways? (if not, why?)

☑ YES

Has the audit committee discussed with the independent auditor issues related to:

changes or retention of accounting principles and criteria, (if not, why?)

☑ YES

application of regulations, (if not, why?)

☑ YES

important assessments and conclusions in the preparation of financial statements, (if not, why?)

☑ YES

methods of risk assessment and results, (if not, why?)

☑ YES

high risk areas of business operations, (if not, why?)

☑ YES

observed major deficiencies and significant shortcomings in the internal audit system, (if not, why?)

☑ YES

effects of external factors (economic, legal and industrial) on financial statements and audit procedures (if not, why?)

☑ YES

has the audit committee ensured the submission of high quality information by dependent and associated companies, as well as by third parties (such as expert advisors)? (if not, why?)

☑ YES

44. Has the documentation relevant for the work of the Supervisory Board or the Management Board been submitted on time to all members? (if not, why?)

☑ YES

45. Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results, along with information on votes of each individual member? (if not, why?)

☑ YES

46. Have the Supervisory or the Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?

☑ YES

47. Please provide the names of the members of the Management Board or executive directors.

Julio Kuruc, Davorka Jakir and Marijan Marušić

48. Have rules been established for the work of the management or executive directors, covering the following issues:

scope of activities and objectives, YES

rules of procedure, YES

rules of solving conflicts of interest, YES

management secretariat, YES

manner of convening meetings, adopting decisions, agenda, taking minutes and delivering documents, YES

cooperation with the Supervisory Board. YES

(if not, why?)

49. Has the Company published a statement on the remuneration policy for the management, Management Board and Supervisory Board as part of the annual report? (if not, why?)

☐ NO, although there is no formal statement on the remuneration policy of the Management Board and the Supervisory Board, the Bank publishes aggregate data on information with related parties as well as on the amount of the calculated and the amount of the remuneration the Bank's management is entitled to as part of the annual report prepared in compliance with the IFRS, which is published on the Bank's website

50. In the case where remuneration policy has been defined, does it include the following parts:

significant changes in comparison with the remuneration policy in the past year, (if not, why?) We refer to the response under 49.

explanation of the relative share and of the importance of fixed and variable components of remuneration, (if not, why?) Please refer to the response to question 49.

sufficient information on performance criteria, the fulfilment of which the right to acquire shares, stock options, or other form of variable compensation is based on, (if not, why?) Please refer to the response to question 49.

sufficient information on the connection between the amount of remuneration and performance, (if not, why?) Please refer to the response to question 49.

basic indicators and reasons for payments of annual bonuses or benefits which are not cash, (if not, why?) Please refer to the response to question 49.

abbreviated overview of contracts with management members, which shall include data on contract duration, notice periods and especially severance pays. Every type of remuneration for members of the management, the Management Board and the Supervisory Board which consists of stock options or other rights to acquire shares, or if remuneration is based on the price of Company shares, shall be approved by the General Meeting of the Company prior to becoming effective. This approval relates to remuneration principles and not to the approval of remuneration for individual members of the management, the Management Board or the Supervisory Board. (if not, why?) Please refer to the response to question 49.

51. Is the statement on the remuneration policy for the management or executive directors permanently available on the Company's website? (if not, why?)

☐ NO, please refer to the response to question 49

52. Has detailed data on all earnings and remunerations received by each member of the management or executive directors from the Company been published in the annual report of the company? (if not, why?)

Please refer to the response to question 49

53. Have all forms of remunerations to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, been made public, broken down by items and persons, in the annual report of the company? (if not, why?)

Please refer to the response to question 49

54. Does the statement on remunerations to the members of the management or Management Board include the following data on each member who exercised that function in the year which the statement relates to:

total amount of the salary payment, irrespective of whether it has already been paid or not, (if not, why?) Please refer to the response to question 49

remunerations or benefits received from associated companies, (if not, why?) Please refer to the response to question 49

remunerations in the form of participation in profit or bonuses and the reasons for its payment, (if not, why?) Please refer to the response to question 49

any other additional rewards paid to the members of the management for activities they performed for the Company outside the usual scope of duties of a management member, (if not, why?) Please refer to the response to question 49 compensation that was or should be paid to a former member of the management due to cessation of exercise of his/her duties during the year which the statement relates to, (if not, why?) Please refer to the response to question 49

total estimated value of non-cash benefits considered as remuneration, but not listed in the items above, (if not, why?) Please refer to the response to question 49

as regards the remuneration in shares or stock options or other forms of remuneration based on acquisition of shares:

the number of options or shares approved by the Company in the year which the statement relates to and terms and conditions for their disposal (if not, why?) Please refer to the response to question 49

the number of options exercised in the year which the statement relates to, and for each of them, the number of shares and the price it was exercised at, or the value of shares distributed to the members of the management at the year end, (if not, why?) Please refer to the response to question 49

the number of options not exercised at the end of the year, the price they can be exercised at, the exercise date and the main conditions relating to the exercise, (if not, why?) Please refer to the response to question 49

each change related to the change in conditions of exercise of the existing options which occurred in the Company in the year which the statement relates to, (if not, why?) Please refer to the response to question 49

each loan (including the debt balance and the interest rate), advance payment or a guarantee paid to members of the management by the Company and its associated companies included in consolidated financial statements. (if not, why?) Please refer to the response to question 49

55. Has every member of the management or executive director informed the Supervisory Board or Management Board of the Company of any changes relating to their acquisition or disposal of shares of the Company or to the possibility to exercise voting rights arising from the Company's shares not later than on the next business day after such a change occurs, whereas the company has the obligation to publish such a change within the shortest possible time? (if not, why?)

☐ NO, during 2010 there were no changes of ownership over Bank's shares by the members of the Management Board

56. Please provide information on all transactions involving both members of the management or executive directors and persons related to them, and the Company or persons related to it.

Regular banking transactions carried out under commercial conditions

57. Have all transactions involving members of the management or executive directors and persons related to them and the Company and persons related to it been:

concluded based on the market basis (especially with regard to terms, interests, guarantees, and similar)? (if not, why and which transactions were they?) YES

clearly presented in reports of the Company? (if not, why and which transactions were they?) YES

confirmed by an independent estimate of experts independent as regards the participants in the relevant transaction? (if not, why and which transactions were they?) YES

58. Do any members of the management or executive directors own a significant holding in the companies which might be considered as the Company's competition? (if so, which members, where do they own holdings and what is the size of those holdings?)

☐ NO

59. Are any members of the management or executive directors also members of the Supervisory Boards of other companies? YES (if so, provide the names of those members of the management, names of the companies in which they are members of the Supervisory Board, and functions they exercise in those Supervisory Board)

Davorka Jakir – Supervisory Board member, Hotel Panonija d.o.o., Sisak

60. Does the Company have an external auditor? (if not, why?)

☑ YES

61. Is the external auditor of the Company:

related to the Company in terms of ownership or interests (if so, state in which way) NO

providing to the Company, him/herself or through related persons, other services? (if so, provide information on those services and on how much it costs the Company) NO

62. Have the independent auditors directly informed the audit committee of the following issues:

discussion on the main accounting policy, NO

major deficiencies and significant shortcomings in the internal audit system, NO

alternative accounting procedures, NO

disagreement with the management, NO, there have been none
risk assessment, and NO
analysis, if any, of fraud and/or abuse. NO, there have been none
If not, why? Such cases have not been recorded

63. Has the Company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (if not, why)

☐ NO, the charge for the audit has been established in accordance with the contract

64. Does the Company have internal auditors and an internal audit system established? (if not, why?)

☑ YES

65. Do investors have the possibility to request in writing and receive on time all relevant records from the management of the Company or from the person in the Company responsible for investor relations (if not, why?)

☑ YES

66. How many meetings did the management of the Company hold with investors?

There have been no meetings with investors, except for the two General Meetings held

67. Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the Company or outside it shortcomings in the application of rules or ethical norms within the Company? (if so, why?)

☐ NO

68. Do all members of the management, and the Supervisory Board or the Management Board agree that the answers provided in this questionnaire are, to the best of their knowledge, truthful in their entirety? (If not, please provide names of the members of the management and the Supervisory Board who do not agree with the answers, list the answers they do not agree with and explain why.)

☑ YES

3. Financial statements for the year ended 31 December 2010 together with the Independent Auditor's Report

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law (Official Gazette No. 109/07), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with applicable laws and regulatory requirements that provide a true and fair view of the financial position, performance, changes in equity and cash flows of Podravska banka d.d. for that period.

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

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

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

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

These financial statements were authorised for issue by the Management Board on 20 April 2011 and were signed on its behalf by Management Board:

Julio Kuruc	Marijan Marušić	Davorka Jakir
President of the Board	Member of the Board	Member of the Board

Koprivnica, 20 April 2011

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Owners of Podravska banka d.d.:

We have audited the financial statements of Podravska banka d.d ("the Bank") which comprise the statement of financial position as at 31 December 2010, and the related income statement, statement of comprehensive income, statements of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with legal requirements applicable to the accounting 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 independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements on pages 4 to 69, present fairly, in all material respects, the financial position of the Bank as at 31 December 2010, and the results of its operations and its cash flows for the year then ended in accordance with the legal requirements applicable to the accounting 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 I to these financial statements on pages 70 to 79, which comprise the balance sheet as of 31 December 2010, and the statements of income, changes in equity and cash flows for the year then ended, as well as the reconciliation to the financial statements. These forms and the accompanying reconciliation to the 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 4 to 69, 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.

Deloitte d.o.o.
Branislav Vrtačnik, Certified Auditor

Zagreb, Republic of Croatia
20 April 2011

Income statement
For the year ended 31 December 2010

(All amounts are expressed in thousands of HRK)

	Notes	2010	2009
Interest and similar income	3	167,098	178,107
Interest and similar expense	3	(79,698)	(84,958)
Net interest income		87,400	93,149
Fee and commission income	4	38,528	40,697
Fee and commission expense	4	(11,807)	(13,772)
Net fee and commission income		26,721	26,925
Other operating income, net	5	25,169	19,408
Operating income		139,290	139,482
Impairment losses and provisions	6	(13,748)	(11,239)
Administrative expenses	7	(96,651)	(100,023)
Depreciation and amortisation	8	(12,826)	(12,813)
Profit before taxation		16,065	15,353
Income tax expense	9	(3,091)	(3,229)
Net profit for the year		12,974	12,124
Earnings per share	10	**HRK 19.40**	**HRK 18.13**

The accompanying accounting policies and notes on pages 53 to 117 form an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2010

(All amounts are expressed in thousands of HRK)

	Note	2010	2009
Net profit for the year		12,974	12,124
Other comprehensive income			
Net decrease of fair value of available for sale financial assets		(3,371)	(523)
Deferred tax recognised in equity		674	1,654
Other comprehensive income		(2,697)	1,131
Total comprehensive income after tax		10,277	13,255

The accompanying accounting policies and notes on pages 53 to 117 form an integral part of these financial statements.

Statement of financial position
As at 31 December 2010

(All amounts are expressed in thousands of HRK)

	Notes	31 December 2010	31 December 2009
ASSETS			
Cash and amounts due from banks	11	221,847	209,263
Balances with the Croatian National Bank	12	189,963	196,092
Placements with other banks	13	242,885	669,342
Loans and advances to customers	14	1,571,878	1,305,077
Financial assets available for sale	15	401,906	136,362
Financial assets held to maturity	16	56,308	125,552
Investments in subsidiaries	19	3,570	1,530
Intangible assets	17	20,791	18,733
Property and equipment	18	67,317	77,053
Deferred tax assets	9	5,171	4,387
Other assets	20	15,463	13,551
TOTAL ASSETS		**2,797,099**	**2,756,942**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Amounts due to other banks	21	154,565	136,226
Amounts due to customers	22	2,107,741	2,043,071
Other borrowed funds	23	135,876	182,677
Other liabilities	24	22,123	29,220
Provisions for contingent liabilities and charges	25	2,900	2,131
Total liabilities		**2,423,205**	**2,393,325**
Shareholders' equity			
Share capital	26	267,500	267,500
Share premium		3,015	3,015
Treasury shares		(11,082)	(11,082)
Other reserves	27	101,487	92,060
Profit for the year		12,974	12,124
Total shareholders' equity		**373,894**	**363,617**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,797,099**	**2,756,942**

The accompanying accounting policies and notes on pages 53 to 117 form an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2010

(All amounts are expressed in thousands of HRK)

	Notes	2010	2009
Profit from operations		16,065	15,353
Adjustments to reconcile profit before taxation to net cash from operations			
Depreciation and amortisation		12,826	12,813
Net losses on sale of non-current tangible assets		15	27
Increase in provisions for loans and advances and other provisions		13,748	11,293
Dividend income		(1,491)	(2,267)
Increase of assets held to maturity		(1,241)	(375)
Profit from operations before changes in operating assets		39,922	36,594
Changes in operating assets			
Net decrease in balances with the Croatian National Bank		6,129	11,483
Net (increase) /decrease in loans and advances to customers		(280,551)	191,261
Net increase in placements with banks		(20,000)	-
Net increase in other assets		(2,691)	(4,771)
Decrease in other liabilities		(7,257)	(4,235)
Increase in amounts due to other banks		18,339	96,360
Increase / (decrease) in deposits		64,670	(126,771)
Net cash inflow from operating activities		(181,439)	200,171
Purchases of property and equipment		(5,163)	(15,065)
Increase in financial assets available for sale		(268,915)	(100,562)
(Decrease) / increase in investments held to maturity		70,485	(70,021)
Investment in subsidiary		(2,040)	-
Net cash outflow from investing activities		**(205,633)**	**(185,648)**
Borrowed funds		(46,801)	(6,466)
Purchases of treasury shares		-	(14)
Net cash outflow from financing activities		**(46,801)**	(6,480)
Net (decrease) / increase in cash		(433,873)	8,043
Cash at beginning of period	11	878,605	870,562
Cash at end of period	11	444,732	878,605

The accompanying accounting policies and notes on pages 53 to 117 form an integral part of these financial statements.

Statement of changes in shareholders' equity
For the year ended 31 December 2010

(All amounts are expressed in thousands of HRK)

	Share capital	Share premium	Treasury shares	Capital gains	Reserves	Profit for the year	Total
Balance at 1 January 2009	**267,500**	**3,015**	**(11,068)**	**4,802**	**66,050**	**20,077**	**350,376**
Allocation of 2008 profit	-	-	-	-	20,077	(20,077)	-
Purchase of tre-asury shares	-	-	(14)	-	-	-	(14)
Other compre-hensive income	-	-	-	-	1,131	-	1,131
Profit for the year	-	-	-	-	-	12,124	12,124-
Balance at 31 December 2009	**267,500**	**3,015**	**(11,082)**	**4,802**	**87,258**	**12,124**	**363,617**
Allocation of 2009 profit	-	-	-	-	12,124	(12,124)	-
Purchase of tre-asury shares	-	-	-	-	-	-	-
Other compre-hensive income	-	-	-	-	(2,697)	-	(2,697)
Profit for the year	-	-	-	-	-	12,974	12,974
Balance at 31 December 2010	**267,500**	**3,015**	**(11,082)**	**4,802**	**96,685**	**12,974**	**373,894**

The accompanying accounting policies and notes on pages 53 to 117 form an integral part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2010

1. GENERAL

1. 1. History and incorporation

Podravska banka d.d., Koprivnica (the ''Bank") is incorporated in the Republic of Croatia and was registered as a joint stock company at the Commercial Court in Bjelovar on 12 July 1995. The registered seat of the Bank is in Koprivnica, Opatička 3.

1. 2. Principal activity

As at 31 December 2010, the Bank was operating a total of 30 branches throughout the Republic of Croatia. The Bank's main areas of operation include:

1. Accepting deposits or other refundable funds from the public and approving loans out of those funds on its own account;
2. Accepting deposits or other refundable funds;
3. Approving loans and credits, including consumer credits and loans as well as mortgage credit and loans if allowed by a separate law, and financing of commercial businesses, including export trade financing on the basis of redemption at discount and without recourse of long-term receivables not yet due secured by financial instruments (forfeiting)
4. Purchase of receivables with or without recourse (factoring);
5. Financial lease;
6. Issuing guarantees or other sureties;
7. Trading, on its own account or on the account of customers, in:
- money market instruments
- transferable securities
- foreign currencies, including exchange operations
- financial futures and options
- foreign-exchange and interest-rate instruments
8. Payment operations in accordance with separate laws;
9. Loan related services, such as data collection, preparation of analyses and providing credit reports on legal entities and self-employed individuals;
10. Providing and managing other payment security instruments, unless these services are deemed payment operation services in accordance with a separate law;
11. Providing safe-deposit box services;
12. Intermediation on money markets;
13. Offering advisory services to legal entities covering capital structuring, business strategy and similar as well as providing services related to business acquisitions and acquisitions of shares in other companies;

14. Issuing electronic money;
15. Providing investment and ancillary services and activities in accordance with a separate capital market law, such as:
   - receiving and transmitting orders in relation to one or more financial instruments;
   - executing orders on behalf of customers;
   - own-account trading;
   - portfolio management;
   - investment consulting;
   - underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;
   - underwriting of financial instruments and/or placing of financial instruments without a firm commitment basis;
   - safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management;
   - granting credits or loans to an investor to allow him/her/it to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
   - advice on capital structure, industrial strategy and related matters, and advice and services relating to mergers and acquisitions of equity shares in companies;
   - foreign exchange services where these are connected to the provision of investment services;
   - investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments;
   - services related to underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;
   - investment services and activities as well as ancillary services mentioned in this Article related to the underlying assets of the derivatives referred to in Article 3, paragraph 1, point 2, sub-point (d), indents 2, 3, 4 and 7, of this Act where these investment services and activities are connected to the provision of investment or ancillary services.
16. Performing activities in connection with the sale of insurance policies in accordance with the applicable insurance regulations.

The operations of the Bank are overseen by the Supervisory Board. The members of the Supervisory Board of Podravska banka d.d., Koprivnica during 2010 were as follows:

Miljan Todorovic, President
Sigilfredo Montinari, Deputy President
Dario Montinari, Member
Djuro Predovic, Member
Dolly Predovic, Member
Maurizio Dallocchio, Member
Filippo Disertori, Member

The operations of the Bank are managed by the Management Board. The members of the Management Board during 2010 were as follows:
Julio Kuruc, President
Marijan Marušić, Member
Davorka Jakir, Member
The structure of the Bank's shareholders as at 31 December 2010 and 2009 is provided in Note 26. The Bank's shares are included on the Public Joint Stock Company Listing on the Zagreb Stock Exchange.

1. 3. Current economic environment and its impact on the Bank

The economic environment showed signs of economic recovery, but with higher inflationary pressure towards the end of the year. Difficulties encountered by individual eurozone states (Greece, Ireland and Portugal) and the uncertainties surrounding the measures aimed at solving the problems in the eurozone once again rattled the stability of European financial markets.

Croatia's financial and economic positions are characterised by a high level of foreign indebtedness, rising deficit, high citizen indebtedness, low exports, problems in the area of investment, lack of foreign direct investments, the continued prevailing economic slowdown, declining credit rating, rising unemployment as well as growing past due debt. The year 2011 is anticipated to see discontinuation of the negative trends and a gradual economic recovery, which should result in an annual GDP growth of 1.4 percent.

At the onset of the recession, the Croatian banking industry was highly capitalised. Thus, the regulatory capital adequacy ratio at the end of 2010 was high at 18.36 percent. Total banking assets rose 5.25 percent, mainly due to higher lending. Loans to individuals rose 3.8 percent, corporate lending increased 9.6 percent, with the lending to government showing the highest growth rate at 16.9 percent. Retail deposits increased 8.1 percent, whereas corporate deposits grew by a mere 1.5 percent. In 2010, the average interest rate on deposits fell faster than the average interest rates on bank borrowings, resulting in a higher interest margin compared to the previous year. Despite a higher level of non-performing loans and provisioning costs versus the previous year, the banking industry saw increasing profitability in 2010.

The high capitalisation of the banking industry, coupled with improved risk management techniques, provides assurance that its stability will be maintained.
At the end of 2010, the assets of Podravska banka amounted to HRK 2.8 billion, which is an increase of 1.5 percent compared to last year. Loans to customers rose 20.4 percent, and investments in financial assets grew by 75 percent. Customer deposits increased by 3.2 percent and reached HRK 2.11 billion at the end of the year.

The Bank's operating income amounted to HRK 138 million, a drop by 1.0 percent compared to the previous year. Impairment allowance and provisions made in 2010 amounted to HRK 12.5 million, which is 13.0 percent more than in the previous year.
During 2010 the Bank focused its efforts towards increasing short-term adequately backed loans to corporate customers, safer lending and improved collectability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Bank's principal accounting policies is set out below.

Basis of accounting

The Bank maintains its accounting records in Croatian kuna (HRK) and in accordance with the Croatian law and the accounting principles and practices observed by financial enterprises in Croatia.

Statement of compliance

The financial statements have been prepared in accordance with the legal requirements applicable to the accounting for banks in Croatia. In the Republic of Croatia, banking operations are carried out in accordance with the Banking Law, under which the financial reporting requirements for banks are specified by the Croatian National Bank ("the CNB"). These financial statements have been prepared in accordance with the CNB accounting requirements.

The CNB accounting requirements are based on International Financial Reporting Standards ("IFRS"). The key differences between the CNB accounting requirements and those provided in International Financial Reporting Standards include estimations of impairment losses on a portfolio basis for both balance sheet and off-balance sheet items not identified as individually impaired. The CNB requires from banks to recognise impairment losses on a portfolio basis in the range from 0.85% to 1.20% of qualifying items. As at 31 December 2010, the aforementioned allowances amounted to HRK 26,190 thousand (2009: HRK 23,390 thousand) and the expense of provisions for portfolio impairment losses in the income statement for the year ended 31 December 2010 amounted to HRK 2,800 thousand (2009: expense in the amount of HRK 850 thousand).

According to IAS 39, future cash flows for groups of financial assets subject to a collective evaluation of impairment should be estimated on the basis of historical loss data about assets with similar credit risk characteristics and should not be limited from any aspect. The Bank is in the process of collecting data about past experience in unidentified losses in various portfolios, considering the appropriate economic conditions to adjust that data, to establish the basis for estimating the level of unidentified losses existing at the reporting date in accordance with the IFRS requirements.
The Management Board considers that unidentified impairment losses as determined on this basis would not exceed the losses determined in accordance with the CNB accounting requirements.

Basis of preparation

The Bank's financial statements are prepared in thousands of Croatian kuna (HRK) and all values have been rounded to the nearest thousand, unless stated otherwise.

The financial statements for the year ended 31 December 2010 have been prepared under historical cost convention, except for financial assets and liabilities carried at fair value through profit or loss in accordance with IAS 39 "Financial instruments: Recognition and Measurement". The accounting policies have been consistently applied, unless stated otherwise.

The financial statements of the Bank have been prepared under the going-concern assumption.

In the preparation of the financial statements, the directors are required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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 the current and future periods.

The accounting policies applied are consistent with those from prior years.

The Bank also expects that, in the ordinary course of updating its accounting regulations, the CNB will take into account the following Standards and Interpretations issued by the International Accounting Standards Board and its International Financial Reporting Interpretations Committee, which were in issue as of the date on which these financial statements were authorised for issue, but which are applicable to entities reporting under IFRS in periods commencing after 31 December 2010, and which may have an impact on the Bank.

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- IFRS 1 (revised) “First-time Adoption of IFRS” (effective for annual periods beginning on or after 1 July 2009),
- IFRS 3 (revised) “Business Combinations” (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IFRS 2 “Share-based Payment” - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),
- Amendments to various standards and interpretations “Improvements to IFRSs (2009)” resulting from the annual improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),
- IFRIC 17 “Distributions of Non-Cash Assets to Owners” (effective for annual periods beginning on or after 1 July 2009),
- IFRIC 18 “Transfers of Assets from Customers” (effective for transfer of assets from customers received on or after 1 July 2009)

The Management Board has assessed the impact of these standards and has concluded that these changes do not have impact on the Bank’s financial statements.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- Amendments to IFRS 7 “Financial Instruments: Disclosures”- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IAS 24 “Related Party Disclosures” - Simplifying the disclosure requirements for government-related entities and clarifying the definition of

a related party (effective for annual periods beginning on or after 1 January 2011),

- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),
- Amendments to various standards and interpretations “Improvements to IFRSs (2010)” resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011),
- Amendments to IFRIC 14 “IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction” - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after 1 July 2010).

The Management has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Management anticipates that the adoption of standards 7 and 9 will have a significant impact on financial statements mostly in respect of financial instruments classification, while acceptation of other standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

Reporting currency

At 31 December 2010, the effective exchange rate of the Croatian Kuna for 1 Euro was HRK 7.385173 and for 1 American dollar (USD) HRK 5.568252 (31 December 2009: EUR 1 = HRK 7.306199; USD 1 = HRK 5.0893).

Interest and similar income and expense

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

Loan origination fees for loans which are probable of being drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loan and as such adjust the interest income.
When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Other fees receivable are recognised when earned. Dividend income is recognised when declared by the General Assembly.

Fee and commission income

Fees and commission income comprises mainly of fees receivable from enterprises for loans and guarantees granted and other services provided by the Bank, together with commissions from managing funds on behalf of legal entities and individuals and fees for foreign and domestic payment transactions.
Fees and commissions are recognised when the related service is rendered. Loan origination fees for loans which are likely of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan.

Operating income

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

Foreign currencies

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

The Bank has receivables and liabilities originating in HRK, which are linked to foreign currencies with a one-way currency clause. Due to this clause the Bank has an option to revalue the asset by the higher of: foreign exchange rate valid as of the date of repayments of the receivables by the debtors, or foreign exchange rate valid as of the date of origination of the financial instrument. The counterparty has this option if the liability is linked to this clause. Due to the specific conditions of the market in the Republic of Croatia the fair value of this option cannot be calculated as the forward rates for HRK for periods over 9 months are generally not available. As such the Bank revalues its receivables and liabilities linked to this clause by the agreed reference rate valid at the reporting date or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher.

Staff costs

Provisions for bonuses are recognised when the Bank has a constructive obligation arising from a contract or past practice. A provision is made for accrued vacation days by reference to the unused vacation days at the reporting date.

Personnel social contributions

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

	2010	2009
Contributions for Pension Fund	20%	20%
Contributions for State Health Fund	15%	15%
Contributions for the State Employment Bureau	1.7%	1.7%
Injuries at work	0.5%	0.5%

The Bank is also obliged to withhold contributions from the gross pay on behalf of the employee for the same funds.

The contributions on behalf of employees and on behalf of employer are charged to expenses in the period to which they relate (see Note 7).

In the course of normal operations, the Bank makes regular payments of contributions on behalf of its employees who are members of mandatory pension funds as provided by law. The mandatory pension contributions are included in the payroll costs when they are accrued. The Bank has no additional retirement benefit plan and, therefore, has no further obligations in respect of employee retirement benefits. In addition, the Bank has no obligation to provide any post-employment benefits to its employees.

Taxation

The corporate income tax payable is provided on taxable profits for the year at the current rate. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the expected tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to reverse. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Bank re-assesses unrecognised deferred tax assets and the appropriateness of carrying amount of the tax assets. The Bank is subject to a tax rate of 20 percent in accordance with the Income Tax Law.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days of remaining maturity, including cash and current accounts with other banks.

Financial instruments

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

The Bank recognises financial assets and liabilities on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument.

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

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

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

Financial assets at fair value through profit or loss

Financial instruments included in this portfolio are instruments held for trading, acquired to generate profits from short-term fluctuations in prices or brokerage fees, or are securities included in a portfolio with a pattern of short-term profit taking.

Such instruments are initially recognised at cost and subsequently measured at fair value, which is based on the quoted bid prices in an active market.

All related realised and unrealised gains and losses are included in the income statement under "Net trading gains". Interest earned whilst holding the instruments is reported under "Interest and similar income".

Held to maturity assets

Financial instruments included in this portfolio are non-derivative financial assets with fixed or determinable payments and fixed maturity, where management has both the intent and the ability to hold to maturity. All held-to-maturity financial instruments are carried at amortised cost, less any provision for impairment. Interest earned from held-to-maturity financial instruments is reported as interest income and recognised based on effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

The Bank assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When an impairment of assets is identified, the Bank recognises allowances through the income statement. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Loans and receivables

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

Loans and receivables are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loan and as such adjust the interest income.

Impairment of financial assets

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. Loan loss allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include: delinquency in contractual payments of principal or interest, cash flow difficulties experienced by the borrower, breach of loan covenants or conditions, initiation of bankruptcy proceedings and deterioration of the borrower's competitive position.

If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

When a loan is uncollectible, it is written-off against the related provision for loan impairment. Such loans are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

Financial assets available for sale

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

This portfolio comprises equity and debt securities. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect specific circumstances of the issuer. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has substantially transferred all risks and rewards of ownership. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

For available-for-sale assets, gains and losses arising from changes in fair value are recognised directly in equity under the caption "Reserves and retained profits", until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Interest earned whilst holding available-for-sale securities is accrued on a monthly basis using the effective interest rate method and reported as Interest income in the income statement. Foreign exchange differences related to available-for-sale equity instruments held in foreign currency are reported together with fair value gains and losses in equity until the financial asset is sold. Foreign exchange differences related to available-for-sale debt instruments held in foreign currency are reported in the income statement.

Dividends on securities available for sale are recorded as declared and included as a receivable in the statement of financial position line "Other assets" and in "Other operating income" in the income statement. Upon payment of the dividend, the receivable is offset against the collected cash.

Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. Such properties are recognised at the net recoverable value of the subsidiary claims on loans and advances or at the current fair value of those assets, whichever is lower. Gains or losses on disposal are recognised in the income statement. Real estate used as collateral for loans given to customers can be sold only in case it is subject to enforcement procedure.

Sale and repurchase agreements

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

Property and equipment

Property and equipment is stated at cost less accumulated depreciation less any provision for impairment. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the income statement in the period in which the costs are incurred. Construction-in-progress represents properties under construction and is stated at cost. This includes cost of construction, property and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use and reclassified to the appropriate category of property and equipment. Property and equipment is depreciated on a straight-line basis over the useful life of the assets as follows:

	2010	2009
Buildings	40	40
Furniture	5	5
Computers	4	4
Motor vehicles	5	5
Equipment and other assets	2 - 10	2 - 10

Land is not depreciated. The assets' residual values useful lives and methods are reviewed, and adjusted if appropriate, at least every financial year end. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed at each reporting period. Intangible assets are amortised over the periods of 4 years (software). Amortisation period and amortisation method are reviewed at least every year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Impairment of non financial assets

Property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property and equipment and intangibles carried at cost and treated as a revaluation decrease for assets that are carried at their revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same asset. The recoverable amount is the higher of an asset's net selling price and its value in use. In assessing the 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 for which the estimates of future cash flows have not been adjusted.

Provisions for contingent liabilities

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

Managed funds

The Bank manages a significant amount of assets on behalf of third parties. A fee is charged for this service. These assets are not recorded in the Bank's statement of financial position. The details are set out in note 28.

Dividend policy

The Bank has a policy to pay dividends to its shareholders based on the audited annual results.

Significant accounting judgements and estimates

Judgements

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

Held to maturity investments

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

Estimation uncertainty

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

Allowances for impairment of loans and receivables

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

3. INTEREST INCOME AND EXPENSE

(All amounts are expressed in thousands of HRK)

	2010	2009
Interest income		
Citizens	61,615	75,534
Companies	69,266	62,837
Securities	28,107	7,243
Banks	5,268	29,062
Public and other sectors	2,842	3,431
	167,098	178,107
Interest expense		
Citizens	(63,176)	(66,913)
Companies	(11,583)	(12,116)
Banks	(3,341)	(2,432)
Public and other sectors	(1,598)	(3,497)
	(79,698)	**(84,958)**
Net interest income	87,400	93,149

Interest income also includes deferred fees on loans in total amount of HRK 10,211 thousand (2009: HRK 8,803 thousand), which are recognised applying the effective interest rate methodology.

	2010	2009
Interest income recognised on:		
Substandard loans	3,088	3,030
Non performing loans	868	1,001
	3,956	4,031

4. FEE AND COMMISSION INCOME AND EXPENSE

(All amounts are expressed in thousands of HRK)

	2010	2009
Fee and commission income		
Payment transaction fees and commissions	13,127	13,458
Fees and commissions on credit card services	13,948	14,791
Fees and commissions from lending operations	6,108	6,848
Fees and commissions on securities trading	953	1,404
Other fees and commission income	4,392	4,196
	38,528	40,697
Fee and commission expense		
Payment transaction charges	(3,504)	(3,960)
Cash operation fees and commissions	(5,020)	(5,531)
Interbank service fees	(720)	(1,712)
Other fee and commission expense	(2,563)	(2,569)
	(11,807)	(13,772)
Net fee and commission income	26,721	26,925

Other fee and commission income consist mainly of fees collected on the Bank's counters from customers for the payments made and amounted to HRK 2,107 thousand (2009: HRK 2,117 thousand).

5. OTHER OPERATING INCOME, NET

(All amounts are expressed in thousands of HRK)

	2010	2009
Foreign exchange trading gain	11,529	8,696
Net gains on dealings in available-for-sale securities	10,155	3,740
Foreign exchange revaluation	811	2,497
Dividend income	1,491	2,267
Income on subsequent collection of loans previously written off	58	47
Net losses on disposal of property and equipment	(15)	(27)
Net losses on sale of repossessed assets	(695)	-
Other income	1,835	2,188
	25,169	19,408

Other income relates mainly to legal expenses recovered, and collected damages.

6. IMPAIRMENT ALLOWANCE AND PROVISIONS

(All amounts are expressed in thousands of HRK)

	2010	2009
Provisions for loans and advances to customers (Note 14)	(13,459)	(12,291)
Other assets (Note 20)	(46)	550
Collection of suspended interest receivables	526	-
Provisions for guarantees and commitments (Note 25)	(769)	698
Provisions for legal cases	-	250
	(13,748)	**(11,293)**

7. ADMINISTRATIVE EXPENSES

(All amounts are expressed in thousands of HRK)

	2010	2009
Staff costs	48,435	47,913
Materials and services	30,003	32,830
Rentals	11,303	12,292
Deposit insurance premium	4,408	4,694
Taxes and contributions	1,276	1,308
Other expenses	1,226	986
	96,651	100,023

Other operating expenses include: cost of advertising, sponsorships, donations and other costs.

Overview of staff costs

(All amounts are expressed in thousands of HRK)

	2010	2009
Net salaries	25,631	25,234
Pension insurance costs	7,202	7,111
Health insurance costs	5,970	5,901
Other compulsory contributions	876	865
Taxes and surtaxes	6,969	6,988
Provisions for employee benefits	181	140
Other staff costs	1,606	1,674
	48,435	47,913

At 31 December 2010, the number of staff employed by the Bank was 307 (2009: 313).

8. DEPRECIATION AND AMORTISATION

(All amounts are expressed in thousands of HRK)

	2010	2009
Depreciation of property and equipment	10,558	10,546
Depreciation of leasehold improvements	1,432	1,533
Amortisation	836	734
	12,826	12,813

9. INCOME TAX EXPENSE

Income tax is determined by applying the rate of 20 percent to taxable profits (2009: 20 percent).

Tax returns remain not final and are subject to supervisory inspection for at least a three-year period. The management states that the Bank has made adequate provisions for tax obligations in the presented financial statements.

Tax expense comprises the following:

(All amounts are expressed in thousands of HRK)

	2010	2009
Current tax expense	3,201	3,033
Deferred tax (income) /expense	(110)	196
Income tax expense	3,091	3,229

The reconciliation between accounting profit and taxable profit is set out below:

	2010	2009
Profit before taxation	16,065	15,353
Statutory tax rate	20%	20%
Income tax calculated at 20%	3,213	3,071
TEMPORARY DIFFERENCES		
Unrealised losses on financial assets	(614)	-
Deferred loan origination fees	1,162	(976)
Deferred other fees	-	(6)
Net temporary differences	**548**	(982)
PERMANENT DIFFERENCES		
Tax effect of non-taxable income:	**(1,491)**	**(2,267)**
Dividends received	(1,491)	(2,267)
Tax effect of expenses not recognised for tax purposes	880	3,061
Entertainment and personal transportation	398	350
Depreciation above prescribed amounts	289	237
Write-offs	173	2,472
Other	20	**2**
Net permanent differences	(611)	**794**

Taxable profit	16,002	15,165
Tax base	16,002	15,165
Tax rate	20%	20%
Tax liability	3,201	3,033
Current tax expense	3,201	3,033
Effective tax rate	**19.92%**	**20.00%**

Movements in deferred tax assets are as follows:

	2010.			
	Opening balance	Charged to income statement	Charged to equity	Closing balance
Losses on financial assets	936	(123)	-	813
Losses on other investments	43	-	-	43
Deferred loan origination fees	1,754	233	-	1,987
Financial asset available for sale	1,654	-	674	2,328
	4,387	110	674	5,171

	2009.			
	Opening balance	Charged to income statement	Charged to equity	Closing balance
Losses on financial assets	936	-	-	936
Losses on other investments	43	-	-	43
Deferred loan origination fees	1,949	(195)	-	1,754
Deferred other fees	1	(1)	-	-
Financial assets available for sale	-	-	1,654	1,654
	2,929	(196)	**1,654**	4,387

10. EARNINGS PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net profit after tax for the period attributable to ordinary shareholders after deducting preference dividends.

	2010	2009
Profit for the year (in HRK'000)	12,974	12,124
Weighted average number of shares	668,749	668,749
Earnings per share (in HRK) - Basic and diluted	19.40	18.13

11. CASH AND AMOUNTS DUE FROM BANKS

(All amounts are expressed in thousands of HRK)

	31 December 2010	31 December 2009
Cash in hand	34,785	34,721
Current account with the Croatian National Bank	108,841	93,061
Current accounts and demand deposits with foreign banks	54,418	61,684
Current accounts and demand deposits with domestic banks	11,771	7,971
Other items	12,032	11,826
	221,847	209,263

Cash and cash equivalents included in the cash flow statement:

(All amounts are expressed in thousands of HRK)

	31 December 2010	31 December 2009
Cash in hand	34,785	34,721
Current account with the Croatian National Bank	108,841	93,061
Current accounts and demand deposits with foreign banks	54,418	61,684
Current accounts and demand deposits with domestic banks	11,771	7,971
Other items	12,032	11,826
Cash equivalents - deposits with other banks (Note 13)	222,885	669,342
	444,732	878,605

12. BALANCES WITH THE CROATIAN NATIONAL BANK

(All amounts are expressed in thousands of HRK)

	31 December 2010	31 December 2009
Obligatory and marginal reserve	189,963	196,092

Obligatory reserve represents the amount of liquid assets required to be deposited with the Croatian National Bank. At the end of each month the obligatory reserve is calculated on certain balances of attracted funds for the previous month. The obligatory reserve is calculated as 13 percent of HRK denominated and of foreign currency denominated balances (in 2009: 14 percent). From that amount the banks should maintain at least 70 percent for the kuna obligatory reserve and 60 percent for the obligatory reserve in foreign currency with the Croatian National Bank. The percentage of the obligatory reserve funds denominated in Croatian kuna includes a portion of the foreign currency denominated funds maintained in kuna. The balances maintained with the Croatian National Bank earned annual interest of 0.75 percent for HRK amounts (in 2009: 0.75 percent). The balances in foreign currencies maintained with the Croatian National Bank at the end of 2010 and 2009 did not bear interest rate for EUR and USD deposits. The banks are required to maintain 75 percent of the foreign currency obligatory reserve in HRK.

13. PLACEMENTS WITH OTHER BANKS

(All amounts are expressed in thousands of HRK)

	31 December 2010	31 December 2009
Term deposits	222,885	522,068
Repo loans to banks	-	14,617
Loans to HBOR	20,000	-
Loans to other banks	600	133,257
	243,485	669,942
Impairment allowance	(600)	(600)
	242,885	669,342

Term deposits are short-term deposits with local and foreign banks bearing an interest rate of 0.20 to 1.70 percent (in 2009: 0.25 to 4.50 percent). Of the total term deposits with other banks, deposits with foreign banks amount to HRK 18,463 thousand (2009: HRK 216,170 thousand). Loans to other banks in 2009 comprise short-term loans (up to one month) to domestic banks provided at interest rates from 0.30 to 3.20 percent. Pursuant to the Club Loan Agreement between HBOR and banks acting as mandated lead arrangers and lenders, as well as PBZ as Agent, the Bank approved loans for a total amount of HRK 20,000 thousand. The interest rate on the utilised funds, which amount to HRK 7,810 thousand, is 3.00 percent, and the interest rate on the undrawn funds of HRK 12,890 thousand is 0.75 percent.

Movements in impairment allowance

(All amounts are expressed in thousands of HRK)

	31 December 2010	31 December 2009
At 1 January	600	3,345
Write off	-	(2,745)
At 31 December	600	600

The impairment allowance presented above relates to domestic banks in bankruptcy.

Geographical analysis

The analysis includes term deposits and current accounts with foreign banks:

	31 December 2010	31 December 2009
Australia	1,260	1,303
Austria	1,522	410
Belgium	549	70,175
Monte Negro	586	35,793
Denmark	182	166
Italy	909	40,033
Canada	1,352	660
Netherlands	375	341
Germany	27,435	43,357
United States of America	2,964	3,783
Slovenia	1,004	700
Turkey	-	-
Spain	19,506	66,105
Sweden	555	596
Switzerland	14,682	14,432
	72,881	277,854

14. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis by type of customer

(All amounts are expressed in thousands of HRK)

	31 December 2010	31 December 2009
Citizens		
- HRK denominated	635,141	679,703
- foreign currency denominated	3,560	4,737
	638,701	684,440
Companies		
- HRK denominated	854,336	505,539
- foreign currency denominated	225,939	248,740
	1,080,275	754,279
	1.718.976	1.438.719
Impairment allowance	(147.098)	(133.642)
	1.571.878	1.305.077

b) Analysis by sector

(All amounts are expressed in thousands of HRK)

	31 December 2010	31 December 2009
Citizens	638,701	684,440
Wholesale and retail trade	343,157	243,724
Processing industry	194,733	95,697
Real estate activities	16,000	31,933
Transport, storage and communication	70,971	60,547
Agriculture and forestry	80,242	39,471
Construction	125,523	98,978
Food and beverage industry	144,977	77,903
Energy (electricity, gas, water)	1,352	1,378
Hotels and restaurants	21,510	14,129
Other	81,810	90,519
	1,718,976	1,438,719
Impairment allowance	(147,098)	(133,642)
	1,571,878	1,305,077

c) Changes in principal of substandard and bad loans

	2010		2009	
	Substandard loans	Bad loans	Substandard loans	Bad loans
As of 1 January	104,690	79,981	99,079	70,398
Transfer from performing loans	46,152	1,804	35,726	1,533
Transfer from bad loans	85	(85)	6	(6)
Transfer from substandard loans	(15,577)	15,577	(19,453)	19,453
Transfer to performing loans	(3,589)	(63)	(1,411)	(17)
Amounts collected	(22,041)	(1,429)	(7,891)	(996)
Amounts written off	-	(3)	-	(8,804)
Other changes	(103)	(1,637)	(1,366)	(2,580)
As of 31 December	109,617	94,145	104,690	78,981

On 31 December 2010, the gross principal amount of non-performing loans was HRK 94,145 thousand (2009: HRK 78,981 thousand). During 2010, HRK 1,429 thousand of non-performing loans was collected (2009: HRK 996 thousand). Also, during 2010 the amount of HRK 2.060 thousand of loans to companies and sole traders were renegotiated (in 2009: HRK 1,444 thousand).

d) Provisions for losses

	2010	2009
Balance at 1 January	133,642	127,411
New provisions made	23,482	23,356
Amounts collected	(10,113)	(11,122)
Foreign exchange differences	(1,705)	57
Write offs	(3)	(6,060)
Increase of provisions for interest receivables	1,795	-
Balance at 31 December	147,098	133,642

The Bank manages its exposure to credit risk by applying a variety of control measures: regular assessment using agreed credit criteria, diversification of sector risk to avoid undue concentration in a single industry. Where required, the Bank obtains acceptable collateral to reduce the level of credit risk.

15. FINANCIAL ASSETS AVAILABLE FOR SALE

(All amounts are expressed in thousands of HRK)

	31 December 2010	31 December 2009
Treasury bills of the Republic of Croatia	-	19,621
Commercial bills	1,410	-
Bonds	333,997	84,518
Units in investment funds	4,557	4,738
Equity securities	63,168	28,711
	403,132	137,588
Permanent impairment allowance	(1,226)	(1,226)
	401,906	136,362

Investments in debt securities are shown as follows:

a) Treasury bills of the Republic of Croatia

	2010	2009
Balance at 1 January	**19,621**	**-**
Purchase	-	19,621
Collection	(19,621)	-
Balance at 31 December	-	**19,621**

b) Commercial bills

	2010	2009
Balance at 1 January	-	-
Purchase	1,410	-
Balance at 31 December	1,410	-

c) Bonds

	2010	2009
Balance at 1 January	**84,518**	**4,356**
Purchase	650,737	100,125
Sale / collection	(400,500)	(21,876)
Realised gain	9,793	-
Changes in fair value	(10,551)	1,913
Balance at 31 December	333,997	**84,518**

The table below presents the debt portfolio structure:

	31 December 2010	31 December 2009
Bonds of domestic issuers		
- Ministry of Finance of the Republic of Croatia	30,483	59,016
- local government	4,566	2,413
- financial institutions	1,829	1,785
- non financial institutions	71,736	21,304
	108,614	84,518
Bonds of foreign issuers		
- foreign governments	76,368	-
- financial institutions	114,811	-
- non financial institutions	34,204	-
	225,383	-
	333,997	84,518

Investments in equity securities are shown as follows:

d) Units in investment funds

Units in investment funds include investments in Poba Ico Equity - an open investment fund with public offer.

	2010	2009
Balance at 1 January	4,738	**2,569**
Purchase	-	1,500
Changes in the fair value	(181)	669
Balance at 31 December	**4,557**	**4,738**

e) Equity securities

	31 December 2010	31 December 2009
Quoted securities	60,487	20,360
Unquoted securities	2,681	8,351
	63,168	28,711
Impairment allowance	(1,226)	(1,226)
Total	61,942	27,485

Changes in equities during the year:

	2010	2009
Balance at 1 January	27,485	29,398
Purchases	29,946	8,828
Sale	(3,212)	(7,635)
Realised gains	362	-
Movement in the fair value	7,361	(3,036)
Exchange differences on fair value revaluation		(70)
Balance at 31 December	61,942	27,485

Set out below are the details of the equity investment portfolio:

	31 December 2010	31 December 2009
Equity investments of domestic issuers		
- financial institutions	6,731	7,726
- non financial institutions	16,650	16,518
	23,381	24,244
Equity investments of foreign issuers		
- financial institutions	35,350	1,108
- non financial institutions	4,437	3,359
	39,787	4,467
	63,168	28,711
Impairment allowance	(1,226)	(1,226)
	61,942	27,485

e) Revaluation reserve for financial assets available for sale

Type of security	31 December 2010	31 December 2009
Debt security	(9,427)	1,305
Equity security	(2,214)	(9,575)
Calculated deferred tax	2,328	1,654
Total revaluation reserve	**(9,313)**	**(6,616)**

Movements in the revaluation reserve

	2010	2009
Balance at 1 January	**(6,616)**	(7,747)
Change in the fair value of debt securities	(10,732)	2,582
Change in the fair value of equity securities	7,361	(3,105)
Deferred tax recognised in equity	674	1,654
Balance at 31 December	**(9,313)**	**(6,616)**

16. FINANCIAL ASSETS HELD TO MATURITY

	31 December 2010	31 December 2009
Treasury bills of the Republic of Croatia	-	70,273
Bonds of the Republic of Croatia	56,308	55,279
Total value	56,308	125,552

Movements in held-to-maturity assets

a) Treasury bills of the Republic of Croatia

	2010	2009
Balance at 1 January	**70,273**	**-**
Purchase	-	77,648
Collection	(70,273)	(7,375)
Balance at 31 December	-	**70,273**

b) Bonds of the Republic of Croatia

	2010	2009
Balance at 1 January	55,279	55,156
Purchase	1,241	375
Collection	(212)	(252)
Balance at 31 December	56,308	55,279

17. INTANGIBLE ASSETS

(All amounts are expressed in thousands of HRK)

	Software	Goodwill	Assets under development	Total intangible assets
COST OR VALUATION				
Balance at 1 January 2009	9,196	16,867	436	26,499
Additions	-	-	256	256
Disposals and retirements	-	-	-	-
Transfer from assets under development	87	-	(87)	-
Balance at 31 December 2009	9,283	16,867	605	26,755
Additions	-	-	2,894	2,894
Disposals and retirements	(17)	-	-	(17)
Transfer from assets under development	2,058	-	(2,058)	-
Balance at 31 December 2010	11,324	16,867	1,441	29,632
ACCUMULATED AMORTISATION				
Balance at 1 January 2009	7,288	-	-	7,288
Charge for the year	734	-	-	734
Disposals and retirements	-	-	-	-
Balance at 31 December 2009	8,022	-	-	8,022
Charge for the year	836	-	-	836
Disposals and retirements	(17)	-	-	(17)
Balance at 31 December 2010	8,841	-	-	8,841
Net book value				
At 31 December 2010	2,483	16,867	1,441	20,791
At 31 December 2009	1,261	16,867	605	18,733

Goodwill has been allocated to the cash generating units acquired on the merger of Požeška Banka d.d. The recoverable amount of the cash generating units is determined on the basis of profitability calculation. For the purposes of calculation, cash flow forecasts have been developed on the basis of financial projection over a time horizon of five years.

The budgeted gross margin has been determined on the basis of past experience and the expected market development. The discount rate applied reflects the specific risks of the relevant business segment.

18. PROPERTY AND EQUIPMENT

Cost or valuation	Land and buildings	Furniture and equipment	Motor vehicles	IT equipment	Leasehold improvements	Assets under construction	Total
Balance at 1 January 2009	88,466	45,385	5,854	35,342	11,436	223	186,706
Additions	-	-	-	-	-	14,985	14,985
Transfer from assets under construction	2,108	3,939	1,039	5,554	2,530	(15,170)	-
Disposals and retirements	-	(1,592)	(609)	(3,361)	(746)	-	(6,308)
Balance at 31 December 2009	90,574	47,732	6,284	37,535	13,220	38	195,383
Additions	-	-	-	-	-	2,379	2,379
Transfer from assets under construction	488	128	-	1,801	-	(2,417)	-
Disposals and retirements	-	(975)	(136)	(1,591)	(754)	-	(3,456)
Balance at 31 December 2010	91,062	46,885	6,148	37,745	12,466	-	194,306
ACCUMULATED DEPRECIATION							
Balance at 1 January 2009	36,642	35,688	2,887	29,041	8,098	-	112,356
Charge for the year	1,840	4,292	1,024	3,390	1,533	-	12,079
Disposals and retirements	-	(1,536)	(487)	(3,336)	(746)	-	(6,105)
Balance at 31 December 2009	38,482	38,444	3,424	29,095	8,885	-	118,330
Charge for the year	1,674	3,937	1,043	3,904	1,432	-	11,990
Disposals and retirements	-	(961)	(89)	(1,591)	(690)	-	(3,331)
Balance at 31 December 2010	40,156	41,420	4,379	31,408	9,627	-	126,989
Net book value							
At 31 December 2010	50,906	5,465	1,770	6,337	2,839	-	67,317
At 31 December 2009	52,092	9,288	2,860	8,440	4,335	38	77,053

Tangible assets with a book value of HRK 9,209 thousand (2009: HRK 9,106 thousand) were pledged as collateral for deposits made by companies in the amount of HRK 35,212 thousand (2009: HRK 35,155 thousand).

19. INVESTMENTS IN SUBSIDIARIES

(All amounts are expressed in thousands of HRK)

	2010. year	2009. year
Balance 1 January	1,530	1,530
Investment	2,040	-
Balance 31 December	3,570	1,530

In 2007, the Bank acquired a 51% equity share in the company POBA ICO d.o.o.. Investment in 2010 in the amount of HRK 2.040 thousand relates to the investment in capital reserves of the company, whereby the same share in ownership is maintained. The subsidiary has not been consolidated in these financial statements as its net assets are considered not material for the financial statements of the Bank.

The following key data was reported by POBA ICO d.o.o. at 31 December:

	2010	2009
Total assets	1,211	992
Total net assets	260	(1,240)
Net loss for year	(1,599)	(1,346)

20. OTHER ASSETS

	31 December 2010	31 December 2009
Accrued fees and commissions	4,021	3,739
Foreclosed assets	8,605	7,275
Income tax refund	226	421
Prepaid expenses	2,164	1,748
Other advances made	4	60
Other assets	1,895	1,717
	16,915	14,960
Impairment allowance	(1,452)	(1,409)
	15,463	13,551

Foreclosed property and equipment are assets not used by the Bank and amounted to HRK 8,605 thousand at 31 December 2010 (2009: HRK 7,275 thousand). They are carried by the Bank at cost.

Movements in impairment allowance for potential losses on other assets were as follows:

	2010	2009
Balance at 1 January	1,409	1,968
Additions	1,464	3,849
Amounts collected	(1,413)	(4,400)
Amounts written off	(3)	(9)
Exchange differences	(5)	1
Balance at 31 December	1,452	1,409

21. AMOUNTS DUE TO OTHER BANKS

(All amounts are expressed in thousands of HRK)

	31 December 2010	31 December 2009
Foreign currency demand deposits	46,620	43,187
Domestic currency demand deposits	14	-
Foreign bank term deposits in foreign currency	36,928	36,534
Domestic currency term deposits in HRK	71,003	56,505
	154,565	136,226

Demand deposit funds represent funds received from Banche Popolari Milano for the payment of pension benefits to all the beneficiary of Italian pensions in the Republic of Croatia, with interest rate agreed at 30 percent of one-month EURIBOR. The interest rate on received term deposits foreign banks is 2.0%. The interest rate on received term deposits domestic banks is from 0.90% to 2.5% (2009: 1.0% to 2.0%.).

22. AMOUNTS DUE TO CUSTOMERS

(All amounts are expressed in thousands of HRK)

	31 December 2010	31 December 2009
CITIZENS		
Demand deposits		
HRK denominated	201,033	182,107
foreign currency denominated	154,733	133,217
Term deposits		
HRK denominated	347,782	377,499
foreign currency denominated	934,394	1,003,543
TOTAL CITIZENS	1,637,942	1,696,366
LEGAL ENTITIES		
Demand deposits		
HRK denominated	191,060	149,683
foreign currency denominated	29,182	22,632
Term deposits		
HRK denominated	185,340	98,984
foreign currency denominated	64,217	75,406
TOTAL LEGAL ENTITIES	469,799	346,705
TOTAL DEPOSITS FROM CUSTOMERS	2,107,741	2,043,071

23. OTHER BORROWED FUNDS

(All amounts are expressed in thousands of HRK)

	31 December 2010	31 December 2009
Repo loans from domestic banks, HRK denominated	20,000	100,006
Short-term money market borrowings from domestic banks	25,001	7,000
CBRD loans	90,875	75,671
	135,876	182,677

Repo loans from domestic banks and other legal entities represent a loan facility for which the Bank has pledged its securities with the obligation to repurchase those securities at a certain future date. The repo loan received in 2010 bears interest at the agreed rate of 1.10 percent (2009: 1.3% and 1.4%). The pledged securities are RHMF-O-172A, with a market value of HRK 20,130 thousand (2009: RHMF-O-15CA bonds of the Republic of Croatia, with a market value of HRK 35,689 thousand and Republic of Croatia treasury bills, with a market value of HRK 70,155 thousand). Short-term money market borrowings were raised from domestic banks for current liquidity purposes. The interest rates on those borrowings were from 0.90% to 2.50% (2009: 1%). Loans received from the Croatian Bank for Reconstruction and Development (CBRD) relate to loans approved by the CBRD through the Bank in accordance with the CBRD's programs for subsidising small and medium-sized entrepreneurs, tourism and agriculture, which bear interest at rates from 0 % to 5 % (2009: 0% - 5%).

24. OTHER LIABILITIES

(All amounts are expressed in thousands of HRK)

	31 December 2010	31 December 2009
Deferred fees and commissions	868	884
Accrued premiums for insuring term deposits payable	1,085	996
Dividends payable	145	146
Amounts due to employees	3,706	3,613
Provisions for severance pay	2,439	2,258
Amounts due to suppliers	3,147	3,443
Pending disbursements under loan commitments	5,388	4,563
Accruals in respect of received funds	595	8,445
Current income tax liability	253	384
Items in course of payment	2,894	2,844
Other HRK denominated liabilities	1,593	1,519
Other foreign currency denominated liabilities	10	125
	22,123	29,220

25. PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES

a) Analysis

	2010	2009
Provisions for other contingent liabilities	2,650	1,881
Provisions for legal cases	250	250
	2,900	2,131

b) Movements in provisions

Movements in provisions for contingent liabilities and charges

	2010	2009
Balance at 1 January	2,131	2,579
Increase during the year	1,116	250
Decrease during the year	(347)	(698)
Balance at 31 December	2,900	2,131

26. SHARE CAPITAL

Share capital consists of ordinary shares. The total number of ordinary shares in issue at the end of 2010 was 668,749 (2009: 668,749 shares), with a nominal value of HRK 400.00 per share.

At 31 December 2010, the Bank held 9,203 treasury shares, which it carries at cost (2009: 9,203 treasury shares).

Movements in shares

	Number of shares issued	Treasury shares	Total number of shares
31 December 2008	668,749	**(9,173)**	659,576
Purchase of treasury shares	-	(30)	(30)
Sale of treasury shares	-	-	-
Allocation of 2008 profit	-	-	-
31 December 2009	668,749	**(9,203)**	659,546
Purchase of treasury shares	-	-	-
Sale of treasury shares	-	-	-
Allocation of 2009 profit	-	-	-
31 December 2010	668,749	**(9,203)**	659,546

The key shareholders of the Bank at 31 December were as follows:

	2010		2009	
	Number of shares	Ordinary shares in %	Number of shares	Ordinary shares in %
Lorenzo Gorgoni	66,002	9.87	66,002	9.87
Antonia Gorgoni	65,336	9.77	65,336	9.77
Assicurazioni Generali S.p.A.	63,791	9.54	63,791	9.54
Cerere S.p.A. Trieste	63,735	9.53	63,735	9.53
Miljan Todorovic	55,731	8.33	55,731	8.33
Sigilfredo Montinari	38,529	5.76	38,529	5.76
Dario Montinari	38,526	5.76	38,526	5.76
Andrea Montinari	38,515	5.76	38,515	5.76
Piero Montinari	38,515	5.76	38,515	5.76
Giovanni Semeraro	27,494	4.11	27,494	4.11
Liaci Luigi	26,346	3.94	26,346	3.94
Other shareholders (individually below 3%)	146,229	21.87	146,229	21.87
	668,749	100.00	668,749	100.00

27. OTHER RESERVES

(All amounts are expressed in thousands of HRK)

	31 December 2010	31 December 2009
Legal reserves	84,064	71,940
Reserves for treasury shares	16,830	16,830
General banking risk reserve	5,104	5,104
Undistributable reserves	105,998	93,874
Capital gains on trading in treasury shares	4,802	4,802
Fair value reserve	(9,313)	(6,616)
Distributable reserves	**(4,511)**	**(1,814)**
	101,487	92,060

In accordance with the Croatian Companies Act, banks are required to allocate 5 percent of the net profit to a non-distributable legal reserve until the reserve funds reach 5 percent of the share capital or more if specified by the bank's statute. The general banking risk reserve was allocated in accordance with the CNB regulations out of the net profits for the year 2006. The general banking risk reserve funds may be allocated upon the expiry of three consecutive years in which the Bank's exposure has been increasing at a rate below 15 percent annually. Other reserves are distributable only with the approval by the General Shareholders' Assembly.

Both the distributable and non-distributable reserves of the Bank have been determined and presented in these financial statements in accordance with Croatian regulations and decisions of the Croatian National Bank.

28. FUNDS MANAGED FOR AND ON BEHALF OF THIRD PARTIES AND CUSTODY SERVICES

The Bank manages significant funds for and on behalf of third parties, entities and individuals. Those assets are accounted for separately from those of the Bank. Income and expenses arising from these funds are credited and charged to corresponding sources and no liability falls on the Bank in connection with these transactions. The Bank is compensated for its services by fees chargeable to the funds. Assets and liabilities on loans managed for and on behalf of third parties can be presented as follows:

(All amounts are expressed in thousands of HRK)

	2010	2009
ASSETS		
Loans to individuals	26,165	26,648
Loans to corporate entities	28,720	20,718
Cash	1,630	9,325
Total assets:	56,515	56,691
LIABILITIES		
Public sector	37,579	31,877
Corporate entities	3,714	9,567
Financial institutions	15,222	15,247
Total liabilities:	56,515	56,691

The Bank provides custody services for securities. The market value of equities taken under custody was HRK 101,299 thousand at 31 December 2010 (2009: HRK 118,475 thousand). During 2010, the total Bank's fee income in respect of funds managed for and on behalf of third parties amounted to HRK 2,343 thousand (2009: HRK 3,443 thousand).

29. CONTINGENT LIABILITIES AND COMMITMENTS

Legal actions

At 31 December 2010 and 2009 there were several legal actions outstanding against the Bank. Based on the management's estimate, 250 thousand kuna is provided for the potential losses in legal actions,(2009: HRK 250 thousand kuna).

Commitments to extend credit, guarantees and other financial instruments

Total outstanding amounts under guarantees, letters of credit and undrawn loans at the year end were as follows:

	31 December 2010	31 December 2009
Commitments - undrawn overdraft facilities on transaction accounts	125,330	111,085
Commitments - undrawn loans	58,579	39,567
Letters of intent	500	-
Guarantees	52,089	37,668
Foreign currency letters of credit	29,544	12,879
	266,042	201,199

The primary purpose of commitments and contingencies is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Future minimum lease payments under operating leases are as follows:

	2010	2009
Up to 1 year	7,985	9,458
From 2 to 5 years	19,765	26,556
Over 5 years	6,252	11,425
Total	34,002	47,439

Upon the expiry of the lease term, the lease agreements are renewable at the market price.

30. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Such transactions are made in the ordinary course of business at market terms and conditions, and market interest rates. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Parties related to the Bank include the Bank's Management Board, its officers with the general power of attorney, members of the Supervisory Board and their related persons. Related party transactions at the year end were as follows:

	Key management and their related persons		Supervisory Board	
	2010	2009	2010	2009
Loans				
Opening balance	3,309	2,642	-	-
Increases/(decreases) during the year	(653)	667	-	-
Closing balance	2,656	3,309	-	-
Interest income	155	177	-	1
Deposits received				
Opening balance	8,996	8,688	136	919
Increases/(decreases) during the year	579	328	1,110	(783)
Closing balance	9,575	9,016	1,246	136
Interest expense	160	465	42	2

Key management remuneration

	2010	2009
Gross salaries and other short-term benefits	7,035	6,870
Bonuses (shares)	-	-

The Management Board consists of three members.

The exposure and liabilities to the company Poba Ico Invest d.o.o., an investment fund management company, in addition to the direct investments in the investment fund managed by the company are as follows:

	Assets		Liabilities	
	2010	2009	2010	2009
Poba Ico Invest d.o.o.	8,927	8,168	1,117	1,714
	Income		Expense	
	2010	2009	2010	2009
	124	32	19	89

31. FINANCIAL RISK MANAGEMENT POLICIES

This section provides details of the Bank's exposure to risk and describes the methods used by the management to control the risk.

The Bank's operations expose it to various types of financial risks. These operations include analysing, assessing, accepting and managing a certain level of risk, or a combination of risks. Assuming risk is a fundamental feature of financial operations, with risks being inherent to the business. The Bank's aim is to achieve an appropriate balance between the risk and return, whilst minimising potential negative effects on its financial performance.

The Bank's risk policies have been designed to identify and analyse those risks in order to define appropriate limits and controls, and to monitor those risks and limit compliance by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect any changes in its markets, products and best practices. The most important types of financial risks to which the Bank is exposed are the credit risk, liquidity risk, market risk and operational risk. The market risk includes the currency risk, interest rate risk and equities and securities price risk.

An integrated system of risk management is being established at Bank level by introducing a set of policies and procedures, determining the risk level limits acceptable to the Bank. The limits are set according to the amount of the regulatory capital and apply to all types of risk. The methodology and models for managing the operational risk have been developed.

Credit risk

The Bank takes on exposure to credit risk, which may be defined as the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. Major changes in the economy or the status of an industry in which the Bank's portfolio is concentrated, may lead to losses not provided for at the reporting date. Therefore, the Board manages its exposure to credit risk with a high level of prudence. The exposure to credit risk arises primarily in respect of loans and advances, debt and other securities. Credit risk is also present in off-balance sheet financial arrangements, such as commitments to extend credit and guarantees issued. Credit risk management and control have been centralised within the Risk Management Division.

The Bank manages credit risk in accordance with its policies, procedures and other internal guidelines. The Bank has defined its credit policy as a set of measures for allocating loan funds to loan applicants with the aim of sound and prudent credit risk management, by ensuring unbiased lending principles and goals and setting them as a general rule and reliable guidance in making every decision to lend. The credit policy defines the focus of considerations to be made in performing credit operations. If a proposal to extend a loan departs from the credit policy, the final decision is made by the Bank's management.

The structure of loans over a certain period is defined by the credit policy. Loans are structured by type of customer, or groups of customers, type or group of products, by sector and industry. The policy sets limits for individual placements in accordance with the guidelines of the Croatian National Bank. Given that loans are approved using the two pairs of eyes principle, it is very unlikely that a loan authorised by overriding the procedures might remain undetected (unless in a group of persons acts jointly in agreement).

The credit policy defines and sets out policies and procedures for extending loans to individuals and legal entities. Credit risk is reviewed on an ongoing basis and reported on regularly to promptly identify any indication of impairment in the loan portfolio. The Bank has been continually applying prudent methods and models used in the process of the credit risk assessment.

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

- Performing loans – A Risk Group – subject to a collective assessment;
- Substandard loans – B Risk Group – subject to individual assessment;
- Non-performing loans (bad debt) – C Risk Group – subject to individual assessment.

All three levels contain sub-categories, which are mandatory for the substandard loans. Loans are classified into the groupings by criteria specified in the applicable Decision of the Croatian National Bank and the Bank's internal decision. In assessing each individual customer, the Bank considers the credit rating of the borrower, the past debt service history and the collaterals obtained for loans, guarantees and other placements.

The Bank reviews the risk assessment of its loans and advances on a quarterly basis. Based on the risk assessment and the risk groupings as defined by the Decision on the Internal Loan Classification System, the required level of provision is determined for every individual debtor impaired or type of placement. The final decision on the required level of provisions for identified potential losses is made by the Bank's management.

Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates, and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings, subordinated liabilities including deposits, borrowings and share capital. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as a part of its liquidity risk management.

The Bank adjusts its business activities related to liquidity risk according to regulatory and internal policies for maintenance of liquidity reserves, by matching liabilities and assets, monitoring compliance with the externally and internally set limits, preferred liquidity ratios and contingency planning procedure. The Treasury manages liquidity reserves daily, ensuring also the accomplishment of all customers' needs.

Concentration indicators indicate the concentration in the deposit portfolio (top 20 individual and corporate depositors in the total deposits) which is regularly reported to the Bank's Management Board on a monthly level.

In addition to the regulatory requirements set out above, the Bank has the obligation to monitor the structural indicators of the liquidity and concentration levels, which have been set in the internal regulations of the Bank.

The structural liquidity level indicators present the correlations between certain items of assets and liabilities such as: the ratio of total loans to total deposits received; the ratio of total loans to total assets; the ratio of liquid assets to total deposits received; the ratio of total loans to total liabilities.

Market risk

The majority of available for sale instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous. Market risks represent potential effects of external factors on the value of assets, liabilities and off-balance sheet items of the Bank, resulting from fluctuations in prices and trends on the financial markets. The instruments are recognised at fair value, and all changes in market conditions directly affect revaluation reserves. The Bank manages its use of trading instruments in response to changing market conditions.

The limits are defined in accordance with the Bank's requirements and strategy, and the senior management risk policy indications. The exposure to market risk is formally managed within the risk limits approved by the Management Board and revised annually at the least.

Key liquidity data about the liquidity positions in the local and foreign currency is provided to the Banks' Board and senior management on a daily basis, with a focus on the most significant fluctuations in interest and foreign exchange rates. The Treasury Division provides the Management Board with weekly reports on currency risk exposure. Also, the Risk Management Division provides the Management Board with monthly reports on the total currency risk exposure.
In managing its market risks, the Bank resorts to various strategies. The Value-at-risk (VaR) methodology is applied to the Bank's open foreign currency position to estimate the maximum potential losses on the basis of certain assumptions regarding various changes in market conditions. The methodology defines the maximum loss that the Bank may suffer with a 99 percent limited level of reliability. However, this approach does not preclude any losses outside the defined limits in case of major changes in market terms and conditions.

Currency Risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The foreign exchange risk exposure is monitored on the overall balance sheet level in terms of foreign exchange open position as prescribed by the regulatory provisions and additionally through the internal limits on a daily basis.
The currency position of the Bank is monitored daily through the report on the open foreign currency positions in accordance with the CNB requirements. For the purposes of analysing the currency risk exposure, the Market, Operational and other risks management Division prepares regular management reports.
The Bank has the obligation to adjust its foreign currency position in line with the currency risk to ensure that the foreign exchange open position does not exceed 30 percent of the Bank's regulatory capital, as determined by the CNB.

Interest rate risk

The interest rate risk is the sensitivity of the Bank's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or re-price in a given period generate interest rate risk.
The Bank's operations are subject to the risk of interest rate fluctuations to the extent that the interest-earning assets and interest-bearing liabilities mature or change rates at different times or in differing amounts. In case of the floating rate, the assets and liabilities of the Bank are also exposed to the basis risk which is the difference in re-pricing characteristics of the various floating rate indices.
Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The exposure to interest rate risk is monitored and measured using re-pricing gap analysis in the sensitivity to chan-

ges in interest rates, the net interest income and economic value of equity. Risk management activities are aimed at optimising the net interest income and economic value of equity, when the market interest rate levels are consistent with the Bank's business strategies.
Interest rate risk is reported through an interest rate gap report, by which the Management Board approves internally set limits for individual time horizons. The Bank's Management Board and Asset and Liability Committee control and manage the interest rate risk by involving all organisational units that operatively apply the prescribed interest rates.

Equity and debt security price risk

Equity and debt security price risk is the risk that equity and debt security prices will fluctuate, affecting the fair value of the underlying investments and other instruments that derive their value from these investments. The primary exposure to equity price risk arises from the available-for-sale equity shares accounted for at fair value.

Derivative financial instruments

The Bank enters into derivative financial instruments primarily to satisfy the needs and requirements of the customers. Derivative financial instruments used by the Bank include a one-way foreign currency clause.

Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk.

In order to efficiently measure and manage the operational risk exposure at Bank level, the Bank is developing internal models for the operational risk exposure management in line with the Basel II prescribed framework. The main goals of this internal model are to introduce and apply methods enabling a detailed analysis of operational risks at the Bank and support the decision-making processes through development of efficient policies for the management and mitigation of the operational risk at Bank level. Operational risk events are aggregated in a single database using a web application.

According to the Basel II guidelines and EU Directives, there are three operational risk assessment methods, which are as follows:

- Basic Indicator Approach (BIA);
- Standardised Approach (SA); and
- Advanced Measurement Approach (AMA).

The Bank has opted to adopt the Basic Indicator Approach.

Within the operational risk management framework, the Bank has adopted the Operational Risk Policy that provides the methodology for managing operational risks, together with a Data Collection and Operational Risk Reporting Procedure that specifies the methods for collecting operational risk event data and reporting. By using the risk mapping method the Bank is in the process of identifying risks and monitoring key risk indicators (KRI) which, together with the measures specified above, would constitute the entire operational risk management framework. The Bank will continue its efforts towards establishing a reliable and adequate operational risk management system.

32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Loans and advances to customers and assets held to maturity are measured at amortised cost less impairment.

The following methods and assumptions have been made in estimating the fair value of financial instruments:

- Loans and advances to customers are presented net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected future cash flows are estimated considering credit risk and any indication of impairment. Since the Bank has a limited portfolio of loans and advances with fixed rate and longer term maturity, the fair values of loans and advances are not significantly different from their carrying amounts.
- The fair value of securities is based on market prices, with the exception of unquoted equity investments whose fair value is based on the latest available financial statements of the issuer.
- The fair value of certain investments carried at amortised cost less impairment for which no quoted market price is available is, where possible, estimated using mark to model techniques and, as a result, their estimated fair values appeared not to be materially different from their carrying value. However, the afore-mentioned techniques did not include market liquidity factor on similar instruments.

- For demand deposits and deposits with no defined maturities, fair value is determined to be the amount payable on demand at the reporting date.
- Most of the Bank's long-term borrowings are at variable rates which are linked to the market and are repriced regularly. As such, the management believes that the book value of the long-term borrowings approximates their fair value.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

1. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
3. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

2010	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Equity securities	26,114	1,455	34,373	66,498
Debt securities	330,240	8,314	1,410	335,408
Total	356,354	9,769	35,783	401,906

2009	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Equity securities	23,059	9,164	-	32,223
Debt securities	84,518	19,621	-	104,139
Total	107,577	28,785	-	136,362

33. INTEREST RATE RISK

The tables below provide the Bank's interest rate sensitivity position at 31 December 2010 and 2009 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of other items.

At 31 December 2010	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non - interest bearing	Total
ASSETS						
Cash and amounts due from banks	-	-	-	-	221,847	221,847
Balances with the Croatian National Bank	-	93,950	70,899	25,009	105	189,963
Placements with other banks	238,040	4,810	-	-	35	242,885
Loans and advances to customers	1,298,367	102,699	62,261	94,260	14,291	1,571,878
Financial assets available for sale	-	1,800	31,372	295,703	73,031	401,906
Financial assets held to maturity	-	-	27,839	27,953	516	56,308
Investments in subsidiaries	-	-	-	-	3,570	3,570
Intangible assets	-	-	-	-	20,791	20,791
Property and equipment	-	-	-	-	67,317	67,317
Deferred tax assets	-	-	-	-	5,171	5,171
Other assets	-	-	-	-	15,463	15,463
TOTAL ASSETS	1,536,407	203,259	192,371	442,925	422,137	2,797,099
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	154,560	-	-	-	5	154,565
Amounts due to customers	1,238,765	275,521	527,846	33,812	31,797	2,107,741
Other borrowed funds	45,656	8,954	19,473	61,651	142	135,876
Other liabilities	-	-	-	-	22,123	22,123
Provisions for continent liabilities and charges	-	-	-	-	2,900	2,900
Total liabilities	1,438,981	284,475	547,319	95,463	56,968	2,423,205
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,082)	(11,082)
Other reserves	-	-	-	-	101,487	101,487
Profit for the year	-	-	-	-	12,974	12,974
	-	-	-	-	-	-
Total shareholders' equity	-	-	-	-	373,894	373,894
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,438,981	284,475	547,319	95,463	430,862	2,797,099
Net interest gap	97,427	(81,216)	(354,948)	347,462	(8,725)	-

At 31 December 2009	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non - interest bearing	Total
ASSETS						
Cash and amounts due from banks	-	-	-	-	209,263	209,263
Balances with the Croatian National Bank	-	90,204	74,449	31,332	107	196,092
Placements with other banks	639,216	21,919	7,854	-	354	669,342
Loans and advances to customers	1,187,246	68,978	12,905	24,568	11,380	1,305,077
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets available for sale	-	10,000	11,608	80,716	34,038	136,362
Financial assets held to maturity			70,273	54,799	480	125,552
Investments in subsidiaries	-	-			1,530	1,530
Intangible assets	-	-	-	-	18,733	18,733
Property and equipment	-	-	-	-	77,053	77,053
Deferred tax assets	-	-	-	-	4,386	4,387
Other assets	-	-	-	-	13,551	13,551
TOTAL ASSETS	1,826,462	191,101	177,089	191,415	370,875	2,756,942
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	136,218	-	-	-	8	136,226
Amounts due to customers	1,198,931	153,711	619,806	29,843	40,780	2,043,071
Other borrowed funds	107,248	16,993	8,905	49,234	297	182,677
Other liabilities	-	-	-	-	29,220	29,220
Provisions for continent liabilities and charges	-	-	-	-	2,131	2,131
Total liabilities	1,442,397	170,704	628,711	79,077	72,436	2,393,325
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,082)	(11,082)
Other reserves	-	-	-	-	92,060	92,060
Profit for the year	-	-	-	-	12,124	12,124
Total shareholders' equity	-	-	-	-	363,617	363,617
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,442,397	170,704	628,711	79,077	436,053	2,756,942
NET INTEREST GAP	384,065	20,397	**(451,622)**	112,338	**(65,178)**	-

During 2010, the weighted average effective interest rate on loans and advances to customers was 9.03 percent (2009: 9.38 percent). During 2010, the weighted average effective interest rate on deposits from customers was 3.36 percent (2009: 4.39 percent). The Table below presents the sensitivity of the Bank's variable rate assets and liabilities to the fluctuations in interest rates assuming the maximum recorded increase or decrease in the interest rates during 2010. Changes in interest rates have a direct impact on net interest income. In case of an interest rate decrease at the same percentage, there would be an interest expense of the same amount.

	Assumed increase of the interest rate	Impact on 2010 profit and loss	Impact on 2009 profit and loss
Assets	5%	5,531	7,129
Liabilities	5%	(2,734)	(3,030)
Impact on net interest income		2,797	4,099

34. CURRENCY RISK

The Bank manages its exposure to currency risk through a variety of measures, including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies.

	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
At 31 December 2010						
ASSETS						
Cash and amounts due from banks	47,825	4,404	25,103	77,331	144,516	221,847
Balances with the Croatian National Bank	19,763	4,672	-	24,434	165,529	189,963
Placements with other banks	67,804	12,061	-	79,866	163,019	242,885
Loans and advances to customers	985,379	11,225	853	997,457	574,421	1,571,878
Financial assets available for sale	282,826	-	-	282,826	119,080	401,906
Financial assets held to maturity	-	-	-	-	56,308	56,308
Investments in subsidiaries	-	-	-	-	3,570	3,570
Intangible assets	-	-	-	-	20,791	20,791
Property and equipment	-	-	-	-	67,317	67,317
Deferred tax assets	-	-	-	-	5,171	5,171
Other assets	127	1	-	128	15,335	15,463
TOTAL ASSETS	1,403,724	32,363	25,956	1,462,043	1,335,056	2,797,099
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	83,548	-	-	83,548	71,017	154,565
Amounts due to customers	1,207,077	29,038	16,304	1,252,419	855,322	2,107,741
Other borrowed funds	73,419	-	-	73,419	62,457	135,876
Other liabilities	2,452	16	16	2,484	19,639	22,123
Provisions for continent liabilities and charges	-	-	-	-	2,900	2,900
Total liabilities	1,366,497	29,054	16,320	1,411,871	1,011,334	2,423,204
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,082)	(11,082)
Other reserves	-	-	-	-	101,487	101,487
Profit for the year	-	-	-	-	12,974	12,974
Total shareholders' equity	-	-	-	-	373,894	373,894
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,366,497	29,054	16,320	1,411,871	1,385,228	2,797,099
NET FX GAP	37,228	3,309	9,636	50,172	**(50,172)**	-

At 31 December 2009	EUR	USD	Other currencies	Total foreign currencies	HRK	Total
ASSETS						
Cash and amounts due from banks	55,182	4,959	23,891	84,032	125,231	209,263
Balances with the Croatian National Bank	21,846	5,298	-	27,144	168,948	196,092
Placements with other banks	352,661	7,519	-	360,180	309,163	669,343
Loans and advances to customers	876,631	12,492	1,220	890,343	414,734	1,305,077
Financial assets available for sale	53,693	-	-	53,693	82,669	136,362
Financial assets held to maturity	70,273	-	-	70,273	55,279	125,552
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	18,733	18,733
Property and equipment	-	-	-	-	77,053	77,053
Deferred tax assets	-	-	-	-	4,386	4,386
Other assets	159	2	-	161	13,390	13,551
TOTAL ASSETS	1,430,445	30,270	25,111	1,485,826	1,271,116	2,756,942
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	79,721	-	-	79,721	56,505	136,226
Amounts due to customers	1,268,219	29,543	15,359	1,313,121	729,950	2,043,071
Other borrowed funds	58,220	-	-	58,220	124,457	182,677
Other liabilities	4,954	213	9	5,176	21,786	26,962
Provisions for continent liabilities and charges	-	-	-	-	2,131	2,131
Total liabilities	1,411,114	29,756	15,368	1,456,238	937,087	2,393,325
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,082)	(11,082)
Other reserves	-	-	-	-	92,060	92,060
Profit for the year	-	-	-	-	12,124	12,124
Total shareholders' equity	-	-	-	-	363,617	363,617
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,411,114	29,756	15,368	1,456,238	1,300,704	2,756,942
NET FX GAP	19,331	514	9,743	29,588	**(29,588)**	-

The Table below presents the sensitivity of the Bank's net assets and profit and loss to an increase in the CNB's middle exchange rate. By applying the same assumed percentage to a decrease of the CNB middle exchange rate, the impact on the profit or loss, on the net principle, by individual currency would be the same and opposite, that is, the aggregate impact on all currencies would result as an expense for the year 2010 and as an income for the year 2009. The results of fluctuations in exchange rates are reported in the income statement as foreign exchange gains or losses.

Currency on 31 December 2010	Assumed increase of the CNB's middle exchange rate	Influence on profit and loss	Influence on profit and loss	Influence on profit and loss
		Bank Assets	Bank Liabilities	Net
Assets	2.5%	36,551	-	-
Liabilities	2.5%	-	35,297	-
Net assets/(liabilities)		**-**	**-**	1,254

Currency on 31 December 2009	Assumed increase of the CNB's middle exchange rate	Influence on profit and loss	Influence on profit and loss	Influence on profit and loss
		Bank Assets	Bank Liabilities	Net
Assets	3%	44,574	-	
Liabilities	3%	-	43,687	
Net assets/(liabilities)				887

35. LIQUIDITY RISK

At 31 December 2010	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	221,847	-	-	-	-	221,847
Balances with the Croatian National Bank	105	93,950	70,898	19,787	5,223	189,963
Placements with other banks	238,075	4,810	-	-	-	242,885
Loans and advances to customers	295,337	245,697	337,097	343,710	350,037	1,571,878
Financial assets available for sale	278,664	-	5,976	117,266	-	401,906
Financial assets held to maturity	-	-	28,355	-	27,953	56,308
Investments in subsidiaries	-	-	-	-	3,570	3,570
Intangible assets	-	-	-	-	20,791	20,791
Property and equipment	-	-	-	-	67,317	67,317
Deferred tax assets	-	-	5,171	-	-	5,171
Other assets	-	-	11,315	-	4,148	15,463
TOTAL ASSETS	1,034,028	344,457	458,812	480,763	479,039	2,797,099
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	154,565	-	-	-	-	154,565
Amounts due to customers	815,094	333,854	794,341	135,014	29,438	2,107,741
Other borrowed funds	45,799	8,954	19,473	28,507	33,143	135,876
Other liabilities	6,589	734	3,303	8,807	2,690	22,123
Provisions for contingent liabilities and charges	1,746	165	757	220	12	2,900
Total liabilities	1,023,793	343,707	817,874	172,548	65,283	2,423,205
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,082)	(11,082)
Other reserves	-	-	-	-	101,487	101,487
Profit for the year	-	-	-	-	12,974	12,974
Total shareholders' equity	**-**	**-**	**-**	**-**	**373,894**	**373,894**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,023,793	343,707	817,874	172,548	439,177	2,797,099
NET LIQUIDITY GAP	10,235	750	**(359,062)**	308,215	**39,862**	

At 31 December 2009	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	209,263	-	-	-	-	209,263
Balances with the Croatian National Bank	107	90,204	74,449	25,439	5,893	196,092
Placements with other banks	639,570	21,919	7,854	-	-	669,342
Loans and advances to customers	217,842	162,115	361,174	300,237	263,709	1,305,077
Financial assets available for sale	85,277	37,372	12,909	804		136,362
Financial assets held to maturity			70,753	54,799		125,552
Investments in subsidiaries	-	-	-	-	1,530	1,530
Intangible assets	-	-	-	-	18,733	18,733
Property and equipment	-	-	-	-	77,053	77,053
Deferred tax assets	-	-	1,654	2,732		4,387
Other assets	3,920	1,835	421	100	7,275	13,551
TOTAL ASSETS	1,157,386	313,445	529,214	384,111	374,193	2,756,942
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Amounts due to other banks	136,226	-	-	-	-	136,226
Amounts due to customers	693,711	284,254	837,356	192,200	35,550	2,043,071
Other borrowed funds	107,545	16,993	8,905	17,470	31,764	182,677
Other liabilities	17,153	4,774	4,279	-	3,014	29,220
Provisions for contingent liabilities and charges	457	384	928	336	26	2,131
Total liabilities	955,092	306,405	851,468	210,006	70,354	2,393,325
Shareholders' equity						
Share capital	-	-	-	-	267,500	267,500
Share premium	-	-	-	-	3,015	3,015
Treasury shares	-	-	-	-	(11,082)	(11,082)
Other reserves	-	-	-	-	92,060	92,060
Profit for the year	-	-	-	-	12,124	12,124
Total shareholders' equity	**-**	**-**	**-**	**-**	**363,617**	**363,617**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	955,092	306,405	851,468	210,006	433,971	2,756,942
NET LIQUIDITY GAP	200,887	**7,040**	**(322,254)**	174,105	(59,778)	-

36. CREDIT RISK

a) Overall exposure to credit risk - on-balance sheet and off-balance sheet

As at 31 December 2010	Gross placements	Provisions on individual basis	Provisions on general basis	Net placements
A. BALANCE SHEET EXPOSURE				
Balances with Croatian National Bank	189,963	-	-	189,963
Placements with other banks	243,485	(600)	-	242,885
Assets available for sale	401,906	-	-	401,906
Assets held to maturity	56,308	-	-	56,308
Loans and advances to customers				
Performing	1,515,213	-	(23,920)	1,491,293
Substandard	109,617	(29,032)	-	80,585
Non-performing (bad)	94,146	(94,146)	-	-
Overall Balance sheet exposure	2,610,638	**(123,778)**	**(23,920)**	2,462,940
B. OFF-BALANCE SHEET EXPOSURE				
Customers				
Performing	265,464	-	(2,270)	263,194
Substandard	305	(107)	-	198
Non-performing (bad)	273	(273)	-	-
Overall Off-balance sheet exposure	266,042	**(380)**	**(2,270)**	263,392
OVERALL EXPOSURE (A+B)	**2,876,680**	**(124,158)**	**(26,190)**	**2,726,332**

As at 31 December 2009	Gross placements	Provisions on individual basis	Provisions on general basis	Net placements
A. BALANCE SHEET EXPOSURE				
Balances with Croatian National Bank	196,092	-	-	196,092
Placements with other banks	669,943	(600)	-	669,343
Assets available for sale	136,362	-	-	136,362
Assets held to maturity	125,552	-	-	125,552
Loans and advances to customers				
Performing	1,255,048	-	(21,680)	1,233,368
Substandard	104,690	(32,981)	-	71,709
Non-performing (bad)	78,981	(78,981)	-	-
Overall Balance sheet exposure	2,566,668	**(112,562)**	**(21,680)**	2,432,426
B. OFF-BALANCE SHEET EXPOSURE				
Customers				
Performing	200,961	-	(1,710)	199,251
Substandard	98	(31)	-	67
Non-performing (bad)	140	(140)	-	-
Overall Off-balance sheet exposure	201,199	(171)	**(1,710)**	**199,318**
OVERALL EXPOSURE (A+B)	**2,767,867**	**(112,733)**	**(23,390)**	**2,631,744**

b) Past due claims

Past due claims consist of balances due but not impaired for both the principle due and not yet due. They are arranged according to age, based on the individual placement including uncollected and not yet due interest and other income related to the principle. Other past due claims consist of interest not yet due and uncollected, and amounts written off or still in the process of collection. The total individual placement is classified by reference to the oldest past due claim, regardless of whether the principle or the interest is due.

As at 31 December 2010	Past due up to 30 days	Past due between 31 and 90 days	Past due between 91 and 180 days	Past due between 181 and 365 days	Past due between 1 and 2 years	Past due between 2 and 3 years	Past due over 3 years
Placements with other banks	-	-	-	-	-	-	600
Loans and advances to customers							
Citizens	41,127	23,845	8,716	9,086	15,493	12,685	39,102
Companies	36,150	4,447	6,712	8,590	39,792	13,928	66,560
Public and other sectors	11,098	-	-	-	1	9	1,837
Other past due claims	3,519	923	547	1,320	3,346	2,059	52,130
Total past due claims	**91,894**	**29,215**	**15,975**	**18,996**	**58,632**	**28,681**	**160,229**

As at 31 December 2009	Past due up to 30 days	Past due between 31 and 90 days	Past due between 91 and 180 days	Past due between 181 and 365 days	Past due between 1 and 2 years	Past due between 2 and 3 years	Past due over 3 years
Placements with other banks	-	-	-	-	-	-	600
Loans and advances to customers							
Citizens	19,059	56,834	16,234	17,625	13,705	7,646	33,443
Companies	11,091	36,589	38,925	8,464	14,264	10,669	58,869
Public and other sectors	2	-	6	1	1	-	1,912
Other past due claims	2,145	3,776	2,140	1,391	2,205	3,208	49,855
Total past due claims	**32,297**	**97,199**	**57,305**	**27,481**	**30,175**	**21,523**	**144,679**

c) Placements covered by collaterals

As at 31 December 2010	Deposit	Housing mortgages	Business mortgages	Other collaterals	No collateral
A. BALANCE SHEET EXPOSURE					
Balances with Croatian National Bank	-	-	-	-	189,963
Placements with other banks	-	-	-	-	242,885
Loans and advances to customers	54,167	163,302	168,753	300,022	885,634
Assets available for sale	-	-	-	-	401,906
Assets held to maturity	-	-	-	-	56,308
Overall Balance sheet exposure	54,167	163,302	168,753	300,022	1,776,696
B. OFF-BALANCE SHEET EXPOSURE					
Customers	4,123	2,883	2,185	-	254,201
Overall Off-balance sheet exposure	4,123	2,883	**2,185**	-	254,201
OVERALL EXPOSURE (A+B)	58,290	166,185	170,938	300,022	2,030,897
Fair value of collaterals		221,580	341,876		

As at 31 December 2009	Deposit	Housing mortgages	Business mortgages	Other collaterals	No collateral
A. BALANCE SHEET EXPOSURE					
Balances with Croatian National Bank	-	-	-	-	196,092
Placements with other banks	-	-	-	15,343	654,000
Loans and advances to customers	80,776	143,760	141,762	150,824	787,955
Assets available for sale	-	-	-	-	136,362
Assets held to maturity	-	-	-	-	125,552
Overall Balance sheet exposure	80,776	143,760	141,762	166,167	1,899,961
B. OFF-BALANCE SHEET EXPOSURE					
Customers	180	1,264	-	-	197,874
Overall Off-balance sheet exposure	180	1,264	-	-	197,874
OVERALL EXPOSURE (A+B)	80,956	145,024	141,762	166,167	2,097,835
Fair value of collaterals		166,164	155,406		

d) Provision ratio in performing and non-performing loans

	2010		2009	
	Loans and advances to customers (%)	Provision ratio (%)	Loans and advances to customers (%)	Provision ratio (%)
Performing loans	88.1	1.6	87.2	1.7
Substandard loans	6.4	26.5	7.3	31.5
Non-performing loans	5.5	100.0	5.5	100
Total	100.0		100.0	

37. PRICE RISK

Equity and debt instrument price risk represents the sensitivity of the available-for-sale assets to fluctuations in market prices, with effects on the income statement and the revaluation reserve within the Bank's equity.

	Assumed price change	Influence of price increase on revaluation reserves
At 31 December 2010	3%	12,057
At 31 December 2009	20%	27,272

38. CONCENTRATIONS OF ASSETS AND LIABILITIES

There is a significant concentration of the Bank's assets towards the Republic of Croatia, which is analysed as follows:

	2010	2009
Current account with the Croatian National Bank	108,841	83,061
Other cash reserve funds	10,000	10,000
Mandatory reserve with the Croatian National Bank	189,963	196,092
Treasury bills of the Republic of Croatia	-	89,894
Bonds of the Republic of Croatia	86,791	114,295
Other assets	1,874	421
Deposits received	(546)	(7,899)
Current tax liability	(3,200)	(3,033)
	393,723	482,831

At 31 December 2009, the Bank's indirect exposure to the Republic of Croatia in respect of debt securities issued by local and municipal authorities, loans and other exposures were as follows:

	2010	2009
State Agency for Deposit Insurance and Rehabilitation of Banks	(1,085)	(996)
Municipal bonds of the City of Koprivnica	4,566	2,413
HBOR loans guaranteed by the State	20,000	-
Loans and advances to customers guaranteed by the State	14,794	10,347
Deposits received	(41,347)	(26,851)
Loans from the Croatian Bank for Reconstruction and Development	(90,876)	(75,671)
	(92,863)	**(90,758)**

39. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management Board on 20 April 2011 and were signed on its behalf by:

mr Julio Kuruc	Marijan Marušić	Davorka Jakir
President of the Board	Member of the Board	Member of the Board

4. About the Bank

Bank’s management and organizational structure

The Bank’s operations are supervised by the Supervisory Board and managed by the Management Board.

Supervisory Board

Miljan Todorovic, Chairman

Sigilfredo Montinari, Deputy Chairman

Maurizio Dallocchio, Member

Filippo Disertori, Member

Dario Montinari, Member

Djuro Predovic, Member

Dolly Predovic, Member

Bank’s Management Board

Julio Kuruc, Chairman of the Management Board

Davorka Jakir, Member of the Management Board

Marijan Marušić, Member of the Management Board

Chief Executive Officer

Moreno Marson

Units

Operations and Organization Unit- Marko Žigmund

Product Development and Marketing Unit - Sanda Fuček Šanjić

Risk Management Unit - Renata Vinković

Administration and HR Management Unit - Božana Kovačević

Accounting and Reporting Unit - Vesna Laloš

Support Unit - Dragica Hrkalović

Internal Audit Unit - Krunoslav Vnučec

Compliance Monitoring Unit - Božica Širić

Risk Control Unit - Biserka Seretin

Head of Information System Security - Damir Vukelić

Departments

Treasury Department - Goran Varat

Commercial Banking Department - Daniel Unger

Retail Banking Department - Zoran Potočnik

Payments and Back-Office Department - Snježana Pobi

LEGEND

Commercial center

Branches

Retail centres

Commercial Centre Zagreb

Zagreb, Nova galerija - Zagrebačka avenija 104, tel. ++385 62 655 490, fax. ++385 62 655 499

Zagreb, Miramarska cesta 23, tel. ++385 62 655 450, fax. ++385 62 655 459

Zagreb, Gajeva 5, tel. ++385 62 655 400, fax. ++385 62 655 409

Zagreb, Vlaška ulica 129, tel. ++385 62 655 410, fax. ++385 62 655 419

Commercial Centre Koprivnica

Koprivnica, Opatička 3, tel. ++385 62 655 000, fax. ++385 62 655 200

Koprivnica, Trg bana Jelačića 10, tel. ++385 62 655 310, fax. ++385 62 655 319

Koprivnica, Trg Eugena Kumičića 11, tel. ++385 62 655 330, fax. ++385 62 655 339

Koprivnica, Ivana Meštrovića bb, tel. ++385 62 655 340, fax. ++385 62 655 349

Gola, Trg kardinala A. Stepinca 6b, tel. ++385 62 655 352, fax. ++385 62 655 353

Đelekovec, P. Kvakana bb, tel. ++385 62 655 354, fax. ++385 62 655 355

Legrad, Trg Svetog Trojstva bb, tel. ++385 62 655 356, fax. ++385 62 655 357

Ludbreg, Petra Zrinskog 32, tel. ++385 62 655 620, fax. ++385 62 655 629

Commercial Centre Bjelovar

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Veliki Grđevac, Kralja Tomislava 26, tel. ++385 62 655 840, fax. ++385 62 655 849

Đurđevac, Stjepana Radića 16, tel. ++385 62 655 370, fax. ++385 62 655 379

Garešnica, Trg hrvatskih branitelja 7, tel. ++385 62 655 830, fax. ++385 62 655 839

Križevci, I. Z. Dijankovečkog 2, tel. ++385 62 655 360, fax. ++385 62 655 369

Commercial Centre Osijek

Osijek, Kapucinska 38, tel. ++385 62 655 790, fax. ++385 62 655 799

Commercial Centre Požega

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Požega, Trg Svetog Trojstva 8, tel. ++385 62 655 740, fax. ++385 62 655 749

Velika, Bana Josipa Jelačića 24, tel. ++385 62 655 760, fax. ++385 62 655 769

Pleternica, Ivana Šveara 4, tel. ++385 62 655 770, fax. ++385 62 655 779

Kutjevo, Kralja Tomislava 2, tel. ++385 62 655 780, fax. ++385 62 655 789

Commercial Centre Pula

Pula, Giardini 13, tel. ++385 62 655 680, fax. ++385 62 655 689

Commercial Centre Rijeka

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Commercial Centre Sisak

Sisak, Stjepana i Antuna Radića 6, tel. ++385 62 655 850,
fax. ++385 62 655 859

Commercial Centre Split

Split, Ulica slobode 33, tel. ++385 62 655 630, fax. ++385 62 655 639

Commercial Centre Varaždin

Varaždin, Trg slobode 2, tel. ++385 62 655 600, fax. ++385 62 655 609

Commercial Centre Zadar

Zadar, Stjepana Radića 2f, tel. ++385 62 655 650, fax. ++385 62 655 659

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Appendix 1

Appendix 1
Supplementary Reports for the Croatian National Bank

Pursuant to the Croatian Accounting Act (Official Gazette No. 109/07), the Croatian National Bank has promulgated the Decision on the Structure and Content of the Financial Statements of Banks (Official Gazette 62/08). Set out below are the statutory financial statements of the Bank presented in accordance with the Decision:

Income Statement

	2010 Unaudited HRK '000	2009 Unaudited HRK '000
1. Interest income	167,110	178,302
2. (Interest expenses)	(84,317)	(89,497)
3. Net interest income	82,793	88,805
4. Commission and fee income	38,529	40,697
5. (Commission and fee expenses)	(11,806)	(13,772)
6. Net commission and fee income	26,723	26,925
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-
8. Gain/(loss) from trading activities	11,529	8,750
9. Gain/(loss) from embedded derivatives	-	(1)
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	-	-
11. Gain/(loss) from financial assets available for sale	10,155	3,739
12. Gain/(loss) from financial assets held to maturity	-	-
13. Gain/(loss) from hedging transactions	-	-
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-
15. Income from other equity investments	1,491	2,267
16. Gain/(loss) from foreign exchange differences	1,043	2,408
17. Other income	1,969	2,377
18. Other expenses	(5,904)	(6,014)
19. General and administrative expenses, depreciation and amortisation	(100,046)	(102,679)
20. Net income before value adjustments and provisions for losses	29,753	26,577
21. Expenses from value adjustments and provisions for losses	(13,688)	(11,224)
22. Profit/(loss) before tax	16,065	15,353
23. Income tax	(3,091)	(3,229)
24. Current year profit/(loss)	12,974	12,124
25. Earnings per share	19.40	18.13

Appendix to the Income Statement

	2010 HRK '000	2009 HRK '000
Current year profit/(loss)	-	-
Attributable to the equity holders of the parent	-	-
Minority interest	-	-

Balance Sheet

	2010 Unaudited HRK '000	2009 Unaudited HRK '000
Assets		
1. Cash and deposits with the CNB	343,726	333,858
1.1. Cash	35,027	34,813
1.2. Deposits with the CNB	308,699	299,045
2. Deposits with banking institutions	289,039	591,530
3. Treasury bills of Ministry of Finance and treasury bills of the CNB	-	89,894
4. Securities and other financial instruments held for trading	-	-
5. Securities and other financial instruments available for sale	417,682	119,987
6. Securities and other financial instruments held to maturity	97,319	60,495
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	-	-
8. Derivative financial assets	-	-
9. Loans to financial institutions	20,000	147,112
10. Loans to other clients	1,517,672	1,301,098
11. Investments in subsidiaries, affiliated companies and joint ventures	3,570	1,530
12. Repossessed assets	8,605	7,275
13. Tangible and intangible assets (minus depreciation and amortisation)	88,194	95,906
14. Interests, fees and other assets	23,216	17,558
A. Total assets	2,809,023	2,766,243
Liabilities and equity		
1. Borrowings from financial institutions	135,734	182,380
1.1. Short-term borrowings	52,200	110,500
1.2. Long-term borrowings	83,534	71,880
2. Deposits	2,220,235	2,121,254
2.1. Deposits on giro-accounts and current accounts	352,390	287,057
2.2. Savings deposits	259,983	226,514
2.3. Term deposits	1,607,862	1,607,683
3. Other borrowings	-	-
3.1. Short-term borrowings	-	-
3.2. Long-term borrowings	-	-
4. Derivative financial liabilities and other trading financial liabilities	-	-
5. Issued debt securities	-	-
5.1. Issued short-term debt securities	-	-
5.2. Issued long-term debt securities	-	-
6. Issued subordinated instruments	-	-
7. Issued subordinated debt	-	-
8. Interests, fees and other liabilities	78,430	98,235
B. Total liabilities	2,434,399	2,401,869
Equity		
1. Share capital	259,433	259,433
2. Current year gain/loss	12,974	12,124
3. Retained earnings/(loss)	-	-
4. Legal reserves	84,065	71,940
5. Statutory and other capital reserves	29,793	27,493
6. Unrealised gain /(loss) from available for sale fair value adjustment	(11,641)	(6,616)
C. Total equity	374,624	364,374
D. Total liabilities and equity	2,809,023	2,766,243

Appendix to the Balance Sheet

	2010 HRK '000	2009 HRK '000
Total equity	-	-
Attributable to the equity holders of the parent	-	-
Minority interest	-	-

Cash Flow Statement

	2010 Unaudited HRK '000	2009 Unaudited HRK '000
OPERATING ACTIVITIES		
1.1. Gain/(loss) before tax	16,065	15,353
1.2. Value adjustments and provisions for losses	13,688	11,224
1.3. Depreciation and amortisation	12,826	12,813
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	-	-
1.5. Gain/(loss) from sale of tangible assets	15	27
1.6. Other (gains)/losses	-	-
1. Operating cash flow before changes in operating assets	42,594	39,417
2.1. Deposits with the CNB	6,126	11,458
2.2. Treasury bills of Ministry of Finance and treasury bills of the CNB	89,894	(89,894)
2.3. Deposits with banking institutions and loans to financial institutions	(20,000)	-
2.4. Loans to other clients	(230,262)	159,582
2.5. Securities and other financial instruments held for trading	-	-
2.6. Securities and other financial instruments available for sale	(297,695)	(53,551)
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	-	-
2.8. Other operating assets	(11,675)	(3,007)
2. Net (increase)/decrease in operating assets	(463,612)	24,588
Increase/(decrease) in operating liabilities		
3.1. DEMAND DEPOSITS	65,333	(100,103)
3.2. Savings and term deposits	33,648	79,509
3.3. Derivative financial liabilities and other trading liabilities	-	-
3.4. Other liabilities	(14,888)	(9,793)
3. Net increase/(decrease) in operating liabilities	84,093	(30,387)
4. Net cash flow from operating activities before profit tax	**(336,925)**	**33,618**
5. Profit tax paid	**(3,426)**	**(3,454)**
6. Net cash inflow/(outflow) from operating activities	(340,351)	30,164
INVESTING ACTIVITIES		
7.1. Proceeds from sale/(payments on purchases) of tangible and intangible assets	(5,163)	(15,065)
7.2. Proceeds from sale/(payments on purchases) of investments in subsidiaries, associates and joint ventures	(2,040)	-
7.3. Proceeds from sale/(payments on purchases) of securities and other financial instruments held to maturity	(36,824)	6,905
7.4. Dividends received	(1,491)	(2,267)
7.5. Other receipts/(payments) from financial activities	(1,330)	(5,152)
7. Net cash flow from investing activities	**(46,848)**	**(15,579)**
FINANCING ACTIVITIES		
8.1. Net increase/(decrease) in borrowings	(46,646)	(6,528)
8.2. Net increase/(decrease) in issued debt securities	-	-
8.3. Net increase/(decrease) in subordinated debt and hybrid instruments	-	-
8.4. Receipts from issued share capital	-	-
8.5. (Dividends paid)	-	-
8.6. Other receipts/(payments) from financial activities	(28)	(14)
8. Net cash flow from financial activities	**(46,674)**	(6,542)
9. Net increase/(decrease) in cash and cash equivalents	(433,873)	8,043
10. Cash and cash equivalents at the beginning of the year	878,605	870,562
11. Cash and cash equivalents at the end of the year	444,732	878,605

Statement of Changes in Equity

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/losses from available for sale financial assets fair value adjustment	Minority interest	Total capital and reserves
	Unaudited HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000
1. Balance at 1 January 2010	270,515	**(11,082)**	99,433	12,124	**-**	**(6,616)**	**-**	364,374
2. Changes in accounting policies and corrections of errors	-	-	-	-	-	-	-	-
3. Restated current year balance	270,515	**(11,082)**	99,433	12,124	**-**	**(6,616)**	**-**	364,374
4. Sale of financial assets available for sale	-	-	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	-	(3,371)	-	(3,371)
6. Tax on items recognised directly in, or transferred from capital and reserves	-	-	-	-	-	674	-	674
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	1	-	1
8. Net gains/losses recognised directly in capital and reserves	-	-	-	-	-	(2,696)	-	(2,696)
9. Current year gain/ (loss)		-	-	-	12,974	-		12,974
10. Total income and expenses recognised for the current year	-	-	-	-	12,974	(2,696)	-	10,278
11. Increase/ (decrease) in share capital	-	-	-	-	-	-	-	-
12. Purchase/(sale) of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	(28)	-	-	-	-	(28)
14. Transfer to reserves	-	-	-	-	-	-	-	-
15. Dividends paid	-	-	-	-	-	-	-	-
16. Allocation of profit		-	12,124	**(12,124)**	**-**	**-**		**-**
17. Balance at 31 December 2010	270,515	**(11,082)**	111,529	**0**	12,974	**(9,312)**	**-**	374,624

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/losses from available for sale financial assets fair value adjustment	Minority interest	Total capital and reserves
	Unaudited HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000	*Unaudited* HRK '000
1. Balance at 1 January 2009	270,515	**(11,068)**	79,376	20,077	-	(7,747)	-	351,153
2. Changes in accounting policies and corrections of errors	-	-	-	-	-	-	-	-
3. Restated current year balance	270,515	**(11,068)**	79,376	20,077	-	(7,747)	-	351,153
4. Sale of financial assets available for sale	-	-	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	-	(523)	-	(523)
6. Tax on items recognised directly in, or transferred from capital and reserves	-	-	-	-	-	1,654	-	1,654
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-	-	-
8. Net gains/losses recognised directly in capital and reserves	**-**	**-**	**-**	**-**	**-**	**1,131**	**-**	**1,131**
9. Current year gain/ (loss)					12,124			12,124
10. Total income and expenses recognised for the current year	**-**	**-**	**-**	**-**	12,124	**1,131**	**-**	13,255
11. Increase/ (decrease) in share capital	-	-	-	-	-	-	-	-
12.Purchase/(sale) of treasury shares	-	(14)	-	-	-	-	-	(14)
13. Other changes	-	-	(20)	-	-	-	-	(20)
14. Transfer to reserves	-	-	-	-	-	-	-	-
15. Dividends paid	**-**	**-**	-	**-**	**-**	**-**	**-**	**-**
16. Allocation of profit			20,077	**(20,77)**				-
17. Balance at 31 December 2009	270,515	**(11,082)**	99,433	**-**	12,124	**(6,616)**	**-**	364,374

Since the data in the financial statements prepared in accordance with the Croatian National Bank ("CNB") Decision is classified differently from those in the financial statements prepared according to the statutory accounting requirements for banks in Croatia, set out below are the comparative figures.

Comparatives for the income statement ended 31 December 2010 and 2009:

	2010 Croatian National Bank Decision	2010 Accounting Requirements for banks in Croatia	2010 Difference	2009 Croatian National Bank Decision	2009 Accounting Requirements for banks in Croatia	2009 Difference
	Unaudited HRK '000	HRK '000	HRK '000	*Unaudited* HRK '000	HRK '000	HRK '000
Interest and similar income	167,110	167,098	12	178,302	178,107	195
Interest and similar expense	(84,317)	(79,698)	(4,619)	(89,497)	(84,958)	(4,539)
Net interest income	82,793	87,400	**(4,607)**	88,805	93,149	**(4,344)**
Fee and commission income	38,529	38,528	1	40,697	40,697	-
Expense for fees and commissions	(11,806)	(11,807)	1	(13,772)	(13,772)	-
Net fee and commission income	26,723	26,721	**2**	26,925	26,925	-
Net trading gain	11,529	11,529	-	8,750	8,696	54
Gain/(loss) from embedded derivatives	-	-	-	(1)	-	(1)
Gain/(loss) from assets at fair value through profit or loss	-	-	-	-	-	-
Gain/(loss) from financial assets available for sale	10,155	10,155	-	3,739	3,740	(1)
Income from other investments in equity securities	1,491	1,491	-	2,267	2,267	-
Net foreign exchange differences	1,043	811	232	2,408	2,497	(89)
Other operating income	1,969	1,183	786	2,377	2,208	169
Total other income	26,187	25,169	1,034	19,540	19,408	132
General and administrative expenses, depreciation and amortisation	**(100,046)**	**(109,477)**	9,431	**(102,679)**	**(113,086)**	10,407
Impairment allowance and provisions	(13,688)	(13,748)	60	(11,224)	(11,043)	(181)
Other operating expenses	(5,904)		(5,904)	(6,014)	-	(6,014)
Total other expenses	(119,638)	(121,956)	2,318	(119,917)	(124,129)	4,212
Profit before tax	**16,065**	**16,065**	-	**15,353**	**15,353**	-
Income tax expense	**(3,091)**	**(3,091)**	**-**	**(3,229)**	**(3,229)**	**-**
NET PROFIT FOR THE YEAR	12,974	12,974	-	12,124	12,124	-
EARNINGS PER SHARE (inHRK)	**19.40**			**18.13**		

The difference for the year ended 31 December 2010 in "Interest and interest similar income" relates to foreign exchange differences based on the interest income. The difference for the year ended 31 December 2010 in "Interest and similar expense" of HRK 4,619 thousand (2009: HRK 4,539 thousand) relates mainly to the savings deposit insurance premium expenses, which were presented within “General and administrative expenses" in the audited income statement per amount HRK 4,408 thousand (2009: HRK 4,694 thousand). Other differences are in respect of the reclassification of other expense items from the audited accounts to interest expense and of exchange differences on interest expense into net foreign exchange gains on translation of monetary assets and liabilities.

The differences in the positions included in Net foreign exchange differences relates to foreign exchange differences based on the translation of foreign currency balances to mid or contracted exchange rate.

The differences in the positions included in "Total other expenses" result from reclassification of representation and advertising expenses, and other and extraordinary expenses to “General and administrative expenses in audited financial statements.

Comparatives for the balance sheet at 31 December 2010 and 31 December 2009:

	2010 Croatian National Bank	2010 Accounting Requirements for banks	2010 Difference	2009 Croatian National Bank	2009 Accounting Requirements for banks	2009 Difference
	Unaudited HRK '000	HRK '000	HRK '000	*Unaudited* HRK '000	HRK '000	HRK '000
Assets						
Cash and deposits with the Croatian National Bank	343,726	411,810	(68,084)	333,858	405,355	(71,497)
Treasury bills of Ministry of Finance and treasury bills of the CNB	-	-	-	89,894	-	89,894
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets available for sale	417,682	401,906	15,776	119,987	136,362	(16,375)
Financial assets held to maturity	97,319	56,308	41,011	60,495	125,552	(65,057)
Placements with and loans to other banks	309,039	242,885	66,154	738,642	669,343	69,299
Loans and receivables	1,517,672	1,571,878	(54,206)	1,301,098	1,305,077	(3,979)
Investments in subsidiaries	3,570	3,570	-	1,530	1,530	-
Repossessed assets	8,605	-	8,605	7,275	-	7,275
Property, plant and equipment and intangible assets	88,194	88,108	86	95,906	95,786	120
Derivative financial assets	-	-	-	-	-	-
Deferred tax assets	5,171	5,171	-	-	4,386	(4,386)
Other assets	18,045	15,463	2,582	17,558	13,551	4,007
Total assets	2,809,023	2,797,099	11,924	2,766,243	2,756,942	9,301
Liabilities			0			
Due to other banks and deposits from customers	2,355,969	2,398,182	(42,213)	2,303,634	2,361,974	(58,340)
Long-term debt securities issued	-	-	-	-	-	-
Provisions for liabilities and charges	-	2,900	(2,900)	-	2,131	(2,131)
Derivative financial liabilities and other trading financial liabilities	-	-	-	-	-	-
Other liabilities	78,430	22,122	56,308	98,235	29,220	69,015
Total liabilities	2,434,399	2,423,204	11,195	2,401,869	2,393,325	8,544
Hybrid instruments			0	-	-	-
Shareholders' equity			0			
Share capital	259,433	267,500	(8,067)	259,433	267,500	(8,067)
Share premium		3,015	(3,015)	-	3,015	(3,015)
Treasury shares		(11,082)	11,082		(11,082)	11,082
Net profit for the year	12,974	12,974	0	12,124	12,124	-
Retained profit/(accumulated losses)	-	-	-	-	-	-
Hedging reserve	-	-	-	-	-	-
Unrealised gain /(loss) from fair value adjustment of available for sale assets	(11,641)	(9,313)	(2,328)	(6,616)	(6,616)	-
Reserves	113,858	110,800	3,058	99,433	98,676	757
Total equity	374,624	373,894	730	364,374	363,617	757
Total liabilities and capital	2,809,023	2,797,099	11,924	2,766,243	2,756,942	9,301

The difference in net of HRK 11,924 thousand (2009: 9,301 thousand) in the balance sheet totals between the balance sheet as per the CNB Decision and the balance sheet according to the statutory accounting requirements for banks in Croatia arises from the different classification of deferred loan origination fees in the amount of 9,929 thousand (2009: HRK 8,767 thousand) and liabilities recognised deferred tax arising from unrealised gains from the value of assets available for sale in the amount of HRK 534 thousand. The balance of the statutory accounting requirements for banks in the Republic of Croatia in the "total assets" are delimited loan origination fees accounted for as an impairment in the position of "Loans and receivables" and the deferred tax liability is reported netted in the position "Deferred tax assets". The differences in other positions arise from a different classification of interest receivables and interest payables. In the balance sheet according to the CNB Decision, interest receivables and interest payables are recognised in "Other assets", whereas in the balance sheet according to the statutory accounting requirements for banks in Croatia they are recognised on the balance sheet within the corresponding principal component.

Assets

Cash balances on current accounts with domestic and foreign banks as well as other deposits in the total amount of HRK 67,979 thousand (2009: HRK 71,497 thousand) are presented in the audited accounts within “Cash and amounts due from banks”, while according to the CNB Decision, they are reported within “Deposits with banking institutions”. In the audited accounts, placements with customers in respect of discounted bills and factored receivables in the total amount of HRK 63,835 thousand (2009: HRK 10,757 thousand) are presented within “Loans and advances to customers”, while under the CNB Decision they are reported by the financial asset portfolio to which they are allocated as follows: HRK 22,308 thousand to financial assets available for sale (2009: HRK 5,060 thousand) and HRK 1,789 thousand to financial assets held to maturity (2009: HRK 5,697 thousand), while factoring receivables are classified as financial assets held to maturity in the amount of HRK 39,738 thousand (2009: HRK 3891 thousand). Repossessed i.e. foreclosed assets are reported under the CNB Decision separately, while in the audited accounts they have been included within “Other assets”. Small inventories of HRK 86 thousand (2009: HRK 120 thousand) are presented in the audited accounts within “Other assets”, whereas under the CNB Decision they are included in “Property, plant and equipment, and intangible assets”. Deferred tax assets in the amount of HRK 5,171 thousand (2009: HRK 4,386 thousand) are reported separately in the audited accounts, whereas according to the reporting requirements of the CNB they are included within “Other assets”.

Liabilities and capital

According to the CNB Decision, “Other liabilities” include provisions for contingent liabilities and legal cases, which have been presented separately in the audited accounts in the amount of HRK 2,900 thousand (2009: HRK 2,131 thousand).
According to the CNB requirements, the position “Statutory and other capital reserves” include reserves in the amount of HRK 729 thousand, formed in respect of flats with tenancy rights not sold (2009: HRK 756 thousand), which are included in the audited accounts within “Other liabilities”.