annual report 2009

Management Board Report on the status of the company

Dear customers and business partners,

Despite difficult operating circumstances and a deep recession, in the year 2009 OTP banka still remained profitable and stable. Although the increased provisions reduced our profit compared to the year before, the operating results of the Bank were stable. Thus we were able to set aside the required provisions for defaulting loans without losing the profitability.

The risk management policy, relaying on the retail banking and the small and medium enterprises, built up a firm and stable credit portfolio even in the difficult operating circumstances. This is certainly a significant accomplishment, taking into account the extent of economic hardship.

Results achieved by the Bank in 2009

OTP banka Hrvatska successfully ended the business year 2009, realising the total profit after tax in the amount of HRK 88,647 thousand, where the return on assets (ROA) equalled 0.70 percent and the return on equity (ROE) equalled 5.73 percent.

In addition, this year also saw an increase in capital in the amount of HRK 12,030 thousand based on the revaluation of securities classified in the "available for sale" portfolio.

Given the adverse economic and financial situation in 2009, Bank's result was lower than in the year before. Still, this was primarily a consequence of higher provisions that had to be set aside for coverage of credit risks, whilst the operating income of the Bank recorded a drop of 5 percent.

In the operating income structure, the net interest income recorded a drop of 8.7 percent whilst the net fee income grew insignificantly and the net income from trading and evaluation of financial instruments grew by 22.5 percent.

The decrease of net interest income was caused by shrinkage of the interest margin, due to an increase of the interest paid on sources, primarily on retail customers' deposits.

The operating expenses grew by 2.8 percent in 2009, mostly due to an increase in amortisation generated by investments made during 2008 and 2009.

During the preceding year the Bank successfully managed all the risks (credit, liquidity, interest, f/x, operating), without violating any regulatory measures or compromising the regular operations.

The Bank's liquidity was at a satisfactory level, which contributed to creation of the assumptions for rational management of sources. Throughout the last quarter the share of large expensive deposits in the sources was reduced, which improved our net interest margin, but cut down our balance sheet. The total balance sheet decreased by 1.95 percent compared to the end of 2008. As much as EUR 20 million and CHF 15 million of our international borrowings were repaid, and the liabilities under the interbank deposits were cut down. The total retail customers' deposits grew by 6 percent. The market share held by the Bank in this segment grew from 5.22 percent to 5.25 percent. The market share of the total customers' deposits grew from 4.08 percent to 4.19 percent.

Due to deterioration in the economic circumstances, the Bank's credit portfolio went down by 1.4 percent. However, despite such a trend, the Bank still increased its market share in retail lending (from 4.41 percent to 4.42 percent).

New products and services

During the year we continued working on further development of our products and services. Thus, OTP banka launched a new VISA web prepaid card primarily serving for safe internet shopping, with a unique prepaid model that provides this advantage even to the persons who previously have not been able to get a credit card due to irregular income, such as students. The new savings product called OTP Dynamic Savings enables customers to earn favourable interest without depositing their funds for a specified period. In addition to the above mentioned, the products and services range offered to the Private Banking customers was expanded further with a new service - investment portfolio offer, and the internet banking for retail customers was improved as well. Furthermore, OTP banka kept its strategy of expanding and building up the business network, so at the end of the year we boasted 99 branches and 200 ATMs.

Corporate social responsibility

For the first time last year OTP banka published a report on corporate social responsibility, although, together with responsible and transparent day-to-day operations, for a number of years prior to that we had been applying the corporate social responsibility strategy through various activities from the programme titled "Green light to…". In addition to loan approval and savings management, our bank has been permanently striving to raise the level of its service, especially in consideration of risk management, protection of customers' deposits and responsible crediting. Apart from the economy, the business operations of our bank also affect the society and the environment given that we employ over one thousand people, which makes us a major employer in our domicile regions, whilst indirectly, we help maintain the stability of jobs at many suppliers and systematically invest into the wellbeing of the local community. OTP banka incites a constant dialogue with interest/influence groups, develops a business ethics, supports different associations and institutions in the areas in which it operates, offers favourable loans as stimulus to entrepreneurship, encourages the development of knowledge, sports and arts, as well as health protection, promotes environmental awareness and human rights. Equally, being a bank with strong regional character, OTP banka recognises all the varieties and particularities of the regions in which it operates. The cooperation with local communities and state authorities in the matters such as financing of development projects has been expanding continuously during the last few years, and in the last year only we had 17 such projects. In 2009 the Bank set aside HRK 3.2 million as investments for the requirements of local communities, through 150 donation projects. OTP banka has been an active educator of the public in the topics such as good financial habits, as a part of our work with children and the youth, and for three years already we have been taking part in the project of the Croatian Banking Association concerning the organisation of free educational workshops for citizens.

Group achievements in 2009

OTP Invest

Despite a very demanding year, OTP invest recorded a growth of assets under management from HRK 160.5 million at the end of 2008 to HRK 234.6 million at the end of 2009. At that, the market share of the Company (at the open-end investment funds' market) grew from 1.72 percent to 2.05 percent in 2009. The largest rise in assets was recorded in OTP Index fund (an index fund where the *benchmark* is the share index of the Zagreb Stock Exchange- CROBEX), where the assets grew from HRK 8 million to HRK 9 million in 2009. Consequently, OTP Index fund became the sixth biggest equity fund in Croatia, which proved to be an important tool for exposure to Croatian shares, not only for institutional investors, but also for small investors.

The yields of funds managed by OTP Invest were very satisfactory in 2009. OTP Balanced Fund and OTP Bond Fund realised the highest yields in their respective categories, whilst OTP Meridian 20, a regional equity fund, had a yield as high as 35.32 percent.

OTP Nekretnine

In 2009 OTP Nekretnine operated in the circumstances of the ebbing real estate market in general, with the biggest plunge in the demand for flats and in lease of office premises, which was followed by the decrease in the scope of crediting the real estate business. However, despite such difficulties the financial results were in line with the planned targets - the net profits of HRK 720,000.00, with appropriate liquidity. The company provided suitable support in the management of risk of real estate crediting to all the business divisions in the Bank.

Plans for 2010

We expect that the recession will continue throughout 2010, followed by an economic stagnation and with possible first indications of recovery in the best production firms. In average, credit risks will remain high, but a favourable structure of the economy in the regions where OTP banka is most present should ensure that our portfolio rises above average.

We will keep developing the business model that proved to be successful in the previous periods. Trying to enlarge our credit portfolio, we will still stand by the principle of cautious selection of borrowers, as well as good security instruments. Doing that, the Bank will remain focused on its traditional customers and regions it operates in, supporting their business growth. Needless to say, we will keep an eye on the rest of the Croatian market and take opportunities that may arise there.

This year the credit portfolio will start growing again, but at a slower pace than in the years preceding 2009. The growth will be based on corporate customers and consumer lending somewhat more, as we expect the demand for housing loans to remain low.

The Bank will keep showing the credit risks conservatively, in accordance with the standards established by the Croatian National Bank and the OTP Group, making sure that provisions correspond to the state of the portfolio. As concerns cost management, we will follow the strategy of slower growth of costs than the operating result, making sure that the Bank remains a responsible employer in the long run.

Conclusion

Finally, on my behalf, on behalf of the Management Board, our employees and the entire OTP Group, I would like to thank our customers and business partners for the trust shown. I am convinced that we have proved worthy of such trust, but we also feel obligated to expand and improve our offer each year, at competitive prices, whilst maintaining the secure and stable operations.

Yours faithfully,

Damir Odak

President of the Management Board

Corporate Governance Code

Zadar, September 2009

By virtue of the provisions of the Companies Act and the views of the Croatian National Bank, the Management Board of OTP banka Hrvatska d.d. by its decision No 2001-319/09 of 17th September 2009, adopted the following

CORPORATE GOVERNANCE CODE

1. OBJECTIVES AND BASIC PRINCIPLES

OTP banka Hrvatska d.d. (hereinafter: the Bank) as a credit institution is well aware of the importance of a responsible and ethics-based conduct of corporate entities as an essential prerequisite for developing high-quality relations and loyal competition between business partners as well as for efficient functioning of the market.

To this end, the Bank is developing its business activities and acting in accordance with the good corporate management practice. Moreover, it is trying, by way of its business strategy, business policy, key internal acts and business practice, to contribute to transparent and efficient business activities and better-quality relations with its business environment.

Bank's adequate corporate management includes:

1. clear organisational structure with well defined authorisations and responsibilities;
2. efficient activities for establishing, measuring and monitoring of the risks the Bank is or may be exposed to as well as related reporting activities;
3. adequate internal controls mechanisms which also involve prudent administrative and accounting procedures, the strategies and the procedures for a constant assessment and review of the figures, the structure and the distribution of the internal capital required as coverage for current and future risks;
4. fulfilment of general transparency requirements dictated by investors, clients, rating assessment agencies, supervisors and other counterparties;
5. meeting the obligations and the responsibilities towards the shareholders, the employees and other interested parties;
6. safe and stable business activities in accordance with law and regulations.

It is considered that a vital segment of the Bank's identity is responsible management, therefore the Bank's view is that good corporate management is realised not just by fully meeting the regulatory requirements but that is also derives from the corporate culture prevailing in the Bank and personal integrity of all Bank's employees.

Basic corporate management principles of the Bank are the following:

1. transparency of the business activities;
2. clearly elaborated operating procedures;
3. avoidance of the conflict of interest;
4. efficient internal control;
5. efficient responsibilities system.

Any interpretation of the provisions contained herein should be governed primarily by accomplishment of the mentioned objectives and adherence to the mentioned principles.

2. PUBLICATION

In addition to the data the Bank publishes as it is required to do so by laws and other regulations, the Bank shall also publish and thus make available to any interested party, pertinent information on its work and activities which primarily refers to financial statements given that they are the most important and the most complete source of information on the Bank and the Annual Report on the company's status.

If the Bank's shares are listed on the stock exchange and they are traded in on a regulated securities market, the Bank shall:

1. give notice of any change to the rights under issued shares or other issued securities;
2. publish any information it is familiar with in respect of the shares and other securities of the Bank that are owned by any member of the Supervisory Board or the Management Board;
3. make public any other information that may be regarded vital in relation to the Bank, its financial standing, operating results, the ownership structure and management;
4. publish all the information categories clearly and unambiguously and enable any interested party equal and timely access to such information;
5. publish instantly any information that may have an impact on the making of decisions on investments into shares and other securities of the Bank, covering equally the positive and the negative aspects, with a view to allowing the investor to understand and correctly assess the Bank's standing.

Publishing of information is carried out in the manner laid down in law or the Bank's Articles of Association, whereas the Bank also ensures that pieces of information are published on own web pages and over the Internet.

3. BODIES OF THE BANK

The bodies of the Bank ensuring that good corporate management practice is implemented are the ones stated below:

1. General Meeting
2. Supervisory Board
3. Management Board

3.1 GENERAL MEETING

The General Meeting is the body of the Bank whereby shareholders exercise their main management rights by passing decisions on the Bank's activities that fall under their competence. The decisions passed by the General Meeting are laid down in law and the Bank's Articles of Association.

General Meetings are called when necessary, but at least once a year, and whenever the interests of the company require so.

General Meetings shall be called by the Management Board.

General Meetings may be called by the Supervisory Board in cases prescribed by law, and whenever the Supervisory Board deems it necessary.

The General Meeting shall also be called if so requested by shareholders who separately or together hold no less than 1/20 (One Twentieth) of the Bank's share capital providing that the Management Board has been notified about the purpose of the General Meeting.

Shareholders decide on their rights and obligations at the General Meeting in accordance with law and the Articles of Association.

Shareholders must meet the conditions prescribed by law and the Articles of Association in order to participate in the work of the General Meeting.

Each share, except for those not carrying the right to vote, entitles the shareholder to one vote, in proportion to the nominal value of each share.

The Bank issues shares made out to a name, and depending on the rights they carry they are either regular or preferential.

The Bank shall treat and accord equal conditions to all shareholders regardless of the number of shares they hold. The Bank shall equally accord same treatment to the investors notwithstanding the nature of the investor i.e. individual or institutional investors.

The General Meeting shall make its decisions by votes given by the shareholders present in person or by proxy at the General Meeting.

The General Meeting shall have a quorum if shareholders representing at least 50% (Fifty per cent) of the total share capital of the Bank are present (either in person or represented by proxy).

The General Meeting shall make decisions by a simple majority of the votes, except when deciding on the matters that require a certain necessary majority determined by law and the Articles of Association.

The right of a shareholder to participate in the General Meeting and exercise his/her voting rights may be realised by proxy, a legal entity or a natural person.

A power of attorney shall be issued and verified in the form prescribed by the Management Board and certified by a Notary Public.

3.2 SUPERVISORY BOARD

The Supervisory Board shall supervise the management of the Bank. The competence of the Supervisory Board is laid down by law, the Articles of Association and other acts of the Bank.

It has authority to inspect the Bank's business books and all the Bank's documents and assets including cash and securities, which and when it deems necessary.

Supervisory Board members shall act in the Bank's interest, keep business and bank secrets and act with the due care of a good businessman.

The Supervisory Board members shall dedicate sufficient time to their obligations in the Bank and carry out activities based on complete and reliable information, whilst driven by good intentions.

The Supervisory Board shall have 5 members, one of whom is independent. The members of the Supervisory Board are elected by the General Meeting. The election of the Supervisory Board members is based on the acceptance or rejection of the proposed list of members as a whole. The members of the Supervisory Board shall elect the Chairman and the Deputy of the Supervisory Board among themselves.

The mandate of each Supervisory Board member is two years from the date of the General Meeting at which the member was elected.

The Supervisory Board members can be re-elected.

The Supervisory Board's activities are carried out at its meetings.
The Supervisory Board's meetings are chaired by the Chairman of the Supervisory Board or the Deputy. The Supervisory Board shall make valid decisions if at least 3 (Three) members attend the meeting. Each member of the Supervisory Board has one vote.

The Supervisory Board can pass decisions without convening a meeting, if votes are cast by a letter, phone, fax or by using other envisaged technical possibilities for that purpose, if none of the Supervisory Board members objects to such manner of voting.

The Supervisory Board shall have its own Rules of procedure whereby the arrangement of meetings, decision-making process, position of the committees and their authorities shall be governed.

The Management Board can perform particular types of business activities subject to prior consent of the Supervisory Board.

3.2.1 Audit Committee

In accordance with law, the Supervisory Board established the Audit Committee and appointed its members.

The authority of the Audit Committee is laid down in the provisions of the Audit Act and the Credit Institutions Act.

The work of the Audit Committee is laid down in detail in the Rules of procedure of the Audit Committee.

The Audit Committee shall always have uneven number of members.

3.3 MANAGEMENT BOARD

The Management Board is responsible for conducting the Bank's business. The Management Board acts jointly.

The Bank is represented individually and independently by the president of the Management Board and Management Board members. The Bank can be represented by procura holder providing that he/she acts jointly with a Management Board member.

The Management Board consists of 3 (Three) to 5 (Five) members appointed by the Supervisory Board, subject to prior consent of the Croatian National Bank.
Any person who meets the requirements of the

Companies Act and the Credit Institutions Act can be appointed a member of the Management Board.

Members of the Management Board are appointed for a period not longer than 5 (Five) years and may be re-elected.

When appointing Management Board members, it shall be attempted that they possess the following characteristics:

- experience in banking operations management
- developed organisational skills
- experience in detection and monitoring of risks and dealing with crisis situations
- knowledge of accounting and finance
- familiarization with Bank's business scope
- understanding of domestic and international money market
- ability to incorporate all the interests within the Bank
- personality that contributes to the realisation of the Bank's objectives
- knowledge of good corporate management practice
- strategic vision.

The Management Board shall unanimously adopt the Rules of Conduct of the Management Board, subject to prior consent of the Supervisory Board.

The scope of the Management Board's activities and responsibilities includes the activities in line with law, the Articles of Association and the Rules of Conduct of the Management Board.

During his/her term of office, no member of the Management Board shall without prior written consent of the Supervisory Board:

a) take or have employment, mandate or engagement with any other company or bank,
b) in his/her own name and on his/her own behalf directly or indirectly be concerned or interested in business activities which are related to the Bank's business activities;
c) take or have membership in any limited liability company/partnership.
d) directly or indirectly own, conduct, contract, invest or acquire shares, engage or take part in some other way in any business activity or enterprise, which would represent competition to activities of the Bank.

4. RELATIONS BETWEEN THE MANAGEMENT BOARD, THE SUPERVISORY BOARD AND THE COMPANY

The Management Board and the Supervisory Board shall establish the strategic goals and the corporate values of the Bank and familiarize all the employees therewith.

The Management Board shall adopt the strategy and the risk policy, subject to prior consent of the Supervisory Board.

The Bank shall ensure a reasonable, transparent and documented decision-making procedure and see to that assigning of responsibilities and competences within the Bank is clear.
The Bank shall clearly define in writing the powers and key responsibilities of the Management Board, the Supervisory Board, the employees, committees and advisory bodies in the Bank.

The Management Board and the Supervisory Board shall cooperate in the best interest of the Bank as well as negotiate and come to a mutual agreement on the strategic features of the Bank's business activities.

The members of both the Management Board and the Supervisory Board shall avoid conflict of interest or a potential conflict of interest, including also spending of company funds for personal purposes and abuse of power with regard to transactions with related parties.

The Management Board shall timely and in full report to the Supervisory Board on all the facts and circumstances that may have an impact on the business activities, the financial standing and the balance of the Bank's assets and shall grant access to all the required data and the documents necessary to exercise their powers.

Members of the Management Board are entitled to remuneration for their work. The Supervisory Board shall sign contracts with members of the Management Board in order to regulate mutual rights and obligations.

Members of the Supervisory Board shall receive reward for their work in the amount decided by the General Meeting. The reward may be different for each member of the Supervisory Board, depending on the duties entrusted to them.

4.1 CONFLICT OF INTEREST

Conflict of interest exists in a member of the Supervisory Board, that is, a member of the Management Board who is not neutral in respect of the matter to be decided or it can be assumed on the grounds of his connection with other companies, persons or deals that his interests and inclinations do not necessarily correspond to Bank's interests.

Members of the Management Board and the Supervisory Board shall not pass decisions based on personal interests or the interests of the persons they are closely involved with.

All the activities the members of the Management Board or the Supervisory Board or their related parties and the Bank or its related parties are engaged in shall be market-based particularly as concerns deadlines, interest, guarantees etc.

All the contracts or agreements between a member of the Supervisory Board or a Management Board member and the Bank are subject to prior consent of the Supervisory Board.

4.2 PROHIBITION OF COMPETITION

Members of the Management Board i.e. the Supervisory Board shall not, for own or someone else's account, personally or through third parties carry out the activities under the Bank's scope nor shall they supply advice to the persons that may be deemed Bank's competition.

Moreover, members of the Management Board and the Supervisory Board shall not hold a significant stake in the companies that may be deemed Bank's competitors.

5. INDEPENDENT EXTERNAL AUDITOR

The Bank is aware of the importance and the role of the audit function for the success of the corporate management, the legality and the transparency in the performance of all business processes in the Bank.

One of the important corporate management factors is to contract an independent external auditor, which the Bank must do, with a view to ensuring that financial statements adequately reflect the actual and the overall situation in the Bank.

The external auditor shall be deemed any auditor who is not related to the Bank by ownership or interests and does not provide, on its own or through related parties, any other service to the Bank.

The independent external auditor shall, as clearly and unambiguously as possible, give own opinion on whether the financial statements prepared by the Management Board adequately reflect the capital balance and the Bank's financial standing and assets as well as the results for the given period.

6. INTERNAL CONTROLS SYSTEM

The Bank shall ensure an adequate internal controls system which enables it to timely monitor and detect any material risk the Bank is or may be exposed to in the pursuit of its business activities.
The Management Board is responsible for developing and maintaining the system which allows for efficient business activities, adequate risk control, reliability of financial and other non-financial information as well as compliance of the Bank's business activities with laws, regulations and Bank's internal acts.

In addition to the members of the Management Board and the Supervisory Board, employees and all organisational units of the Bank partake in the implementation of the mentioned control measures which are directly or indirectly integrated into the business processes.

In the Bank the internal controls system is realised through three mutually independent functions:

1. risk monitoring function
2. compliance monitoring function
3. internal audit function.

When establishing the mentioned functions the Management Board shall adhere to the following principles:

1. all three functions must be co-independent;
2. each function independently and directly reports on its work to the persons and/or bodies in line with laws, regulations and Bank's internal acts;
3. the Management Board should employ sufficient number of the persons qualified to exercise the mentioned functions.

7. BUSINESS BOOKS AND FINANCIAL STATEMENTS

The Bank keeps business books and other business documentation and records, evaluates assets and liabilities, prepares and publishes annual financial statements and the Annual

Report on the company's status as required by applicable regulations and professional standards.

The Bank keeps business books and other business documentation and records by applying a method by way of which it may be checked at any time whether the Bank operates in line with applicable regulations and professional standards.

8. RISKS

The Bank manages risks by implementing the procedures and the methods for detecting, measuring i.e. assessing, controlling and monitoring risks and also by reporting on the risks it is or may be exposed to in its business activities.

The Bank prescribes procedures, criteria and methods for measuring, assessing and managing of risks in its acts, in accordance with statutory regulations, standards and rules of profession.

Risk management includes continuous detection, measuring, assessing and reporting on all materially significant risks the Bank is or may be exposed to.

The risk policy is connected to the Bank's strategy and encompasses defining of the type and the level of risk the Bank is willing to assume in order to reach its business objectives.

The Bank possesses written policies and procedures relating to risk management which are updated and the implementation of which is controlled.

9. TRANSPARENT AND TIMELY REPORTING

The Bank publishes corporate management data and information which are based on statutory regulations and good practice.

The information being published must be true, relevant, timely and available so that all the interested parties' needs are met.

The Bank places special emphasis on transparent and timely reporting to both the Bank's clients and the Bank's shareholders, as well as to any other interested party.

10. STATEMENT ON ADHERING TO THE CORPORATE MANAGEMENT CODE

The Bank's shares are not traded in on a regulated securities market, that is to say, the shares are not listed on the stock exchange.

If the shares of the Bank are listed and traded in on a regulated securities market, the Management Board and the Supervisory Board shall ensure that the Management Board publishes the data laid down in Article 272 p of the Companies Act in a special section of the Annual Report on the company's status.

In accordance with Article 18 of the Accounting Act the Bank shall also introduce into the Annual Report on the company's status an overview of the corporate management rules it applies.

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Law and the Croatian Banking Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with the applicable legislation and regulatory requirements, which give a true and fair view of the financial position of OTP banka Hrvatska d.d. Zadar (the ''Bank'') and Group OTP banka Hrvatska d.d. Zadar (the ''Group'') and of the results of their operations, changes in equity and cash flows for that period.

After making enquiries, the Management Board has a reasonable expectation that the Bank and the Group have 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 and the Group 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 the Group and must also ensure that the financial statements comply with the Croatian Accounting Law and the Croatian Banking Law. The Management Board is also responsible for safeguarding the assets of the Bank and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These financial statements were authorized for issue by the Management Board on 19 March 2010 and were therefore signed on its behalf as follows:

Damir Odak
President of the Management Board

Zorislav Vidović
Member of the Management Board

OTP banka Hrvatska d.d.
Domovinskog rata 3
23 000 Zadar
Republic of Croatia

19 March 2010

Independent Auditor's Report

TO THE SHAREHOLDERS OF OTP BANKA HRVATSKA D.D.:

We have audited the accompanying unconsolidated and consolidated financial statements of OTP banka Hrvatska d.d. ("the Bank") and its subsidiaries (together "the Group") which comprise the unconsolidated and consolidated Statements of Financial position as at 31 December 2009 and the unconsolidated and consolidated Statements of Comprehensive Income, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as

evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the unconsolidated and consolidated financial statements, set out on pages 4 to 78, give a true and fair view of the financial position of the Bank and the Group, respectively, as at 31 December 2009 and of their financial performances and their cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Emphasis of Matter

Other legal and regulatory requirements.
Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 79 to 88, which comprise the statement of financial position as of 31 December 2009, and the statements of comprehensive 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 78, but rather a requirement specified by the Decision.
The financial information provided in those forms have been derived from the financial statements of the Bank.

Deloitte.
Deloitte d.o.o.

Branislav Vrtačnik
Branislav Vrtačnik, Certified Auditor

Zagreb, 19 March 2010

All amounts are expressed in thousands of HRK

Statements of comprehensive income

For the year ended 31 December 2009

		Group		Bank	
	Note	2009	2008	2009	2008
Interest and similar income	3	742,258	740,955	742,315	727,100
Interest and similar expense	3	(380,861)	(344,803)	(380,893)	(331,102)
Net interest income		361,397	396,152	361,422	395,998
Fee and commission income	4	143,591	149,132	136,679	135,996
Fee and commission expense	4	(37,640)	(37,362)	(37,640)	(37,362)
Net fee and commission income		105,951	111,770	99,039	98,634
Net trading and valuation gains on financial instruments	5	42,607	34,767	42,605	34,769
Other operating income	6	18,118	18,310	13,795	15,168
Net trading and other income		60,725	53,077	56,400	49,937
Operating income		528,073	560,999	516,861	544,569
Operating expenses	7	(353,140)	(347,081)	(341,333)	(332,031)
Profit before loss provisions and income tax		174,933	213,918	175,528	212,538
Impairment losses and provisions	8	(64,523)	(27,307)	(64,523)	(27,307)
Profit before taxation		110,410	186,611	111,005	185,231
Income tax	9a	(22,585)	(37,415)	(22,358)	(36,683)
Net profit for the year		87,825	149,196	88,647	148,548
Net profit for the year		87,825	149,196	88,647	148,548
Other comprehensive income					
Revaluation surplus on land and buildings, net of deferred taxes		-	10,318	-	-
Assets available for sale:					
Revaluation gains taken to equity		15,037	10,390	15,037	10,390
Tax on items taken directly to or transferred from equity	9	(3,007)	(2,078)	(3,007)	(2,078)
		12,030	8,312	12,030	8,312
Total comprehensive income		99,855	167,826	100,677	156,860
Net profit attributable to:					
Owners of the Bank		88,611	149,674	88,647	148,548
Non-controlling interests		(786)	(478)	-	-
Profit for the year		87,825	149,196	88,647	148,548
Total comprehensive income attributable to:					
Owners of the Bank		87,039	148,718	88,647	148,548
Non-controlling interests		786	478	-	-
Total comprehensive income		87,825	149,196	88,647	148,548
EARNINGS PER SHARE					
- Basic and diluted (in HRK)	10	21.55	38.17	21.56	37.88

• The accompanying notes form an integral part of these financial statements.

All amounts are expressed in thousands of HRK

Statement of financial position

As at 31 December 2009

	Note	Group 2009	Group 2008	Bank 2009	Bank 2008
ASSETS					
Cash and balances with the Croatian National Bank	11	1,428,335	1,351,542	1,428,335	1,351,536
Amounts due from other banks	12	1,378,016	1,665,752	1,378,016	1,665,752
Financial assets at fair value through profit or loss	13a	9,237	8,428	8,937	8,428
Amounts due from customers	14	8,370,419	8,485,400	8,373,389	8,489,165
Financial assets available for sale	15	883,096	789,852	883,094	789,851
Held-to-maturity investments	16	30,631	71,231	30,631	71,231
Investments in subsidiaries	17	-	-	79,882	77,242
Investment property	18	85,717	85,717	-	-
Property and equipment	19	217,041	219,277	207,065	208,882
Intangible assets	20	37,584	28,926	37,055	28,306
Goodwill	21	42,966	42,966	42,966	42,966
Other assets	22	74,925	62,009	75,653	61,780
Total assets		12,557,967	12,811,100	12,545,023	12,795,139
LIABILITIES					
Amounts due to other banks	23	68,954	435,304	68,954	435,304
Amounts due to customers	24	9,186,587	8,867,092	9,187,136	8,867,934
Other borrowed funds	25	1,562,450	1,836,057	1,562,450	1,836,057
Financial liabilities at fair value through profit or loss	13b	-	84	-	84
Provisions	26	34,186	32,612	34,186	32,612
Deferred income tax liability	9c	8,928	5,854	7,092	3,903
Current income tax	9d	-	25,946	-	25,481
Other liabilities	27	89,640	100,893	87,998	97,230
Total liabilities		10,950,745	11,303,842	10,947,816	11,298,605
SHAREHOLDERS' EQUITY					
Share capital	28	822,280	822,280	822,280	822,280
Share premium		171,260	171,260	171,260	171,260
Statutory and legal reserves	28	82,228	60,528	82,228	60,528
Other reserves	28	224,936	212,910	188,486	176,460
Retained earnings		306,603	239,580	332,953	266,006
Total shareholders' equity attributable to equity holders of the Bank		1,607,308	1,506,558	1,597,207	1,496,534
Minority interests		(86)	700	-	-
Total shareholders' equity		1,607,223	1,507,258	1,597,207	1,496,534
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		12,557,967	12,811,100	12,545,023	12,795,139
CONTINGENCIES AND COMMITMENTS	29	1,082,767	1,227,442	1,082,792	1,228,637

• The accompanying notes form an integral part of these financial statements.

All amounts are expressed in thousands of HRK

Statement of Changes in Equity

For the year ended 31 December 2009

Group	Share capital	Share premium	Legal and statutory reserves	Other reserves	Retained earnings	Minority interests	Total
Balance at 1 January 2008	605,280	171,260	60,528	194,284	89,792	268	1,121,412
Net profit for the period	-	-	-	-	149,674	(478)	149,196
Other comprehensive income	-	-	-	18,630	-	-	18,630
Total comprehensive income	-	-	-	18,630	149,674	(478)	167,826
Issued share capital	217,000	-	-	-	-	910	217,910
Proposed transfer to the general banking risk reserve	-	-	-	-	-	-	-
Other movements (in the reserve funds for housing units and holders of minority interests)	-	-	-	(4)	114	-	110
Balance at 31 December 2008	822,280	171,260	60,528	212,910	239,580	700	1,507,258
Changes in equity during 2009							
Net profit for the period	-	-	-	-	88,611	(786)	87,825
Other comprehensive income	-	-	-	12,030	-	-	12,030
Total comprehensive income	-	-	-	12,030	88,611	(786)	99,855
Issued share capital	-	-	-	-	-	-	-
Transfer to reserve	-	-	21,700	-	(21,700)	-	-
Other movements (in the reserve funds for housing units and holders of minority interests)	-	-	-	(4)	114	-	110
Balance at 31 December 2009	822,280	171,260	82,228	224,936	306,605	(86)	1,607,223

• The accompanying notes form an integral part of these financial statements.

All amounts are expressed in thousands of HRK

Statement of Changes in Equity

For the year ended 31 December 2009

Bank	**Share capital**	**Share premium**	**Legal and statutory reserves**	**Other reserves**	**Retained earnings**	**Total**
Balance at 1 January 2008	605,280	171,260	60,528	168,152	117,458	1,122,678
Changes in equity during 2008						
Net profit for the year	-	-	-	-	148,548	148,548
Other comprehensive income	-	-	-	8,312	-	8,312
Total comprehensive income	-	-	-	8,312	148,548	156,860
Issued share capital	217,000	-	-	-	-	217,000
Proposed transfer to the general banking risk reserve	-	-	-	-	-	-
Other movements (in the reserve funds for housing units)	-	-	-	(4)	-	(4)
Balance at 31 December 2008	822,280	171,260	60,528	176,460	266,006	1,496,534
Changes in equity during 2009						
Net profit for the year	-	-	-	-	88,647	88,647
Other comprehensive income	-	-	-	12,030	-	12,030
Total comprehensive income	-	-	-	12,030	88,647	100,677
Issued share capital	-	-	-	-	-	-
Transfer to reserve	-	-	21,700	-	(21,700)	-
Other movements (in the reserve funds for housing units)	-	-	-	(4)	-	(4)
Balance at 31 December 2009	822,280	171,260	82,228	188,486	332,953	1,597,207

• The accompanying notes form an integral part of these financial statements.

All amounts are expressed in thousands of HRK

Cash flow statements

For the year ended 31 December 2009

	Note	Group Year ended 31 December 2009	Group 2008	Bank Year ended 31 December 2009	Bank 2008
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxes		110,410	186,611	111,005	185,231
Adjustments to reconcile profit before taxes to net cash from operating activities					
Net impairment allowance on loans and receivables		(14,040)	27,177	(14,040)	27,177
Provisions for legal actions and off-balance sheet items		1,574	130	1,574	130
Depreciation and amortisation		31,964	25,164	30,936	24,273
Gain on disposal of property and equipment		(1,047)	(1,957)	(1,047)	(1,957)
Interest income		(742,258)	(740,955)	(742,315)	(732,443)
Interest expense		380,861	344,803	380,893	336,445
Realised gains on assets available for sale		430	(2,432)	430	(2,432)
Operating income before changes in working capital		(230,012)	(161,459)	(232,564)	(163,576)
(Increase)/decrease in operating assets:					
Obligatory reserves with the CNB		(62,373)	433,241	(62,373)	433,236
Amounts due from other banks		(23,808)	143,541	(23,808)	706
Amounts due from customers		115,702	(1,390,762)	116,497	(1,370,788)
Assets at fair value through profit or loss		(893)	(228)	(593)	(228)
Assets available for sale		(80,255)	-	(80,367)	-
Other assets		(6,317)	(6,940)	(7,274)	(13,318)
Increase/(decrease) in operating liabilities:					
Amounts due to other banks		(366,350)	233,527	(366,350)	233,527
Amounts due to customers		304,944	(101,691)	319,202	(105,798)
Other liabilities		(8,179)	3,698	(6,043)	6,509
Provisions		-	(8,615)	-	(8,615)
Other borrowed funds		(273,607)	169,369	(273,607)	389,123
Net cash from operating activities before interest and income taxes paid		(633,237)	(686,319)	(631,831)	(599,222)
Income tax paid		(48,531)	(34,151)	(47,839)	(34,382)
Interests paid		(366,310)	724,775	(366,342)	(336,625)
Interests received		745,562	(344,983)	745,619	717,333
Net cash generated from / (used in) operating activities		(302,516)	(340,678)	(300,393)	(252,896)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of property and equipment, intangible assets and investment property		(41,593)	(92,166)	(41,075)	(87,762)
Proceeds from sale of property, equipment and intangible assets and foreclosed assets		4,254	24,466	4,254	5,740
Increase in investments in subsidiaries		-	-	(2,640)	20
Net proceeds on sale of available-for-sale financial assets		-	64,708	-	64,231
Proceeds from matured held to maturity securities		40,600	11,706	40,600	11,706
Net cash generated from investing activities		3,261	8,714	1,139	(6,065)
CASH FLOWS FROM FINANCING ACTIVITIES					
Issued share capital		-	217,000	-	217,000
Net cash from financing activities		-	217,000	-	217,000
Net increase/(decrease) in cash and cash equivalents		(299,255)	(114,964)	(299,254)	(41,961)
Cash and cash equivalents at beginning of year		2,084,696	2,199,660	2,084,695	2,126,656
Cash and cash equivalents at end of year	30	1,785,441	2,084,696	1,785,441	2,084,695

• The accompanying notes form an integral part of these financial statements.

notes to the financial statements

Notes to the financial statements

For the year ended 31 December 2009

1. GENERAL

The consolidated group of OTP banka Hrvatska d.d. (the "Group") consists of the parent company OTP banka Hrvatska d.d. (the "Bank") and three subsidiaries fully owned by the Bank (OTP Invest d.o.o., OTP Nekretnine d.o.o., and Kratos Nekretnine d.o.o.). The Bank is headquartered in Zadar, Domovinskog rata 3, and is incorporated in the Republic of Croatia as a joint stock company. The Bank provides retail and corporate banking services. The Bank is registered at the Commercial Court in Zadar, with the registered share capital in the amount of HRK 822,279,600 as at 31 December 2009 (2008: HRK 822,279,600).

The Bank's main areas of operation are as follows:

1. Foreign exchange operations in Croatia
2. Domestic payment transactions
3. Receipt of all types of deposits
4. Issuance of all types of loans, opening of letters of credit, issuance of warranties and bank guarantees, and assuming other financial obligations
5. Bill-of-exchange, cheque and deposit certificate operations for own account or on behalf of the Bank's customers
6. Services related to securities (including brokerage)
7. Issuance and management of payment instruments (including cards)
8. Foreign credit operations and payment transactions
9. Domestic payment operations

Directors and Management

General Assembly	
Viktor Siništaj	President of the General Assembly

Supervisory Board	
Antal György Kovács	President
Gábor Czikora	Member
Gábor Kovács	Member
Lászlo Kecskes	Member
Csaba Farago	Member

Management Board	
Damir Odak	President
Balazs Bekeffy	Member
Zorislav Vidović	Member

Shareholding structure

The shareholding structure of the Bank is as follows:

	31 December 2009		31 December 2008	
	Paid capital	Ownership %	Paid capital	Ownership %
OTP Bank Rt, Hungary	822,280	100.00	822,280	100.00
Total	822,280	100.00	822,280	100.00

OTP Bank Rt., Hungary, increased the share capital of the Bank on 6 March 2008 by HRK 217,000 thousand.

All services are provided in the Republic of Croatia, and therefore are considered a single geographical segment. The Group considers that its business consists of a single business segment, banking and related services, hence no segment information is presented.

These financial statements comprise both the separate and the consolidated financial statements of the Bank as defined in International Accounting Standard 27 "Consolidated and Separate Financial Statements".

2. ACCOUNTING POLICIES

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

2.1 Statement of compliance

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

The accounting regulations of the CNB are based on International Financial Reporting Standards. The main difference between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards ("IFRS") is as follows:

The CNB requires banks to recognise impairment losses, through profit and loss, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets at fair value through profit or loss). The Group and the Bank have made portfolio based provisions of HRK 110,477 thousand (2008: HRK 115,314 thousand) carried in the statement of financial position in compliance with these regulations, and have recognised a income of HRK 4,837 thousand in relation to these provisions (2008: charge of HRK 6,171 thousand). Although, in accordance with IFRS, such provisions should more properly be presented as an appropriation within equity, in accordance with CNB rules the Group continues to recognise such provisions as a substitute for existing but unidentified impairment losses calculated in accordance with the requirements of IFRS. The Group is in the process of compiling the observable historical data in respect of the unidentified losses existing in its various credit risk portfolios at the statement of financial position date, determining the appropriate emergence period over which these losses come to light, and identifying, for each portfolio, the relevant current economic conditions with which the historical data should be adjusted, as a basis for estimating the extent of unidentified losses existing at the statement of financial position date on the basis required by IFRS.

A further difference between IFRS and the accounting regulations of the CNB relates to the determination of impairment losses by discounting the estimated cash flows of the impaired asset at the instrument's original effective interest rate. Contrary to IFRS, the amortisation of such discount should be recognised as a reversal of the impairment loss in accordance with local regulations, and not as interest income. Additionally the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognised in accordance with IFRS.

Management expects that unidentified impairment losses estimated on this basis will not exceed those required to be calculated in accordance with the accounting regulations of the CNB.

2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

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

Judgements made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in the next year are discussed in Note 39.

The accounting policies have been consistently applied to all periods presented in these financial statements and are presented bellow. Accounting policies are unified for both Bank and Group except where emphasized.

Adoption of new and revised standards and Interpretations

Standards and Interpretation accepted by International Accounting Bord and not yet effective for Banks in Republic of Croatia

- IFRS 8 “Operating Segments” (effective for annual periods beginning on or after 1

January 2009),

- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) 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 2009),
- IAS 1 (revised) "Presentation of Financial Statements" - A revised presentation (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 4 "Insurance contracts" and IFRS 7 "Financial Instruments: Disclosures" - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 1 "First-time Adoption of IFRS" and IAS 27 "Consolidated and Separate Financial Statements" - Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" Đfinancial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009),
- IAS 23 (revised) "Borrowing Costs" (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 2 "Share-based Payment" - Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" -Embedded Derivatives (effective for annual periods ending on or after 30 June 2009),
- IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008),
- IFRIC 15 "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009),
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008),

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),
- IFRS 3 (revised) "Business Combinations" (effective for annual periods beginning on or after 1 July 2009),
- IFRS 1 (revised) "First-time Adoption of IFRS" (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 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 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 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 27 “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IAS 32 “Financial Instruments: Presentation” Ð Accounting for rights issues (effective for annual periods beginning on or after 1 February 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 resulting from the Annual quality 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, 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),
- 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 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),
- IFRIC 19 “Extinguishing Liabilities with Equity Instruments” (effective for annual periods beginning on or after 1 July 2010).

The Bank and the Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank and the Group in the period of initial application.

Standards and Interpretations in issue not yet adopted

As part of Improvements to IFRSs 2009 issued in April 2009, the International Accounting Standards Board (IASB) amended the requirements of IAS 17 Leases regarding the classification of leases of land. Prior to amendment, IAS 17 Leases generally required leases of land with an indefinite useful life to be classified as operating leases. This was inconsistent with the general principles of the Standard, and the relevant guidance has been removed due to concerns that it could lead to accounting that did not reflect the substance of arrangements. Following the amendments, leases of land are classified as either ‘finance’ or ‘operating’ using the general principles of IAS 17. These amendments are effective for annual periods beginning on or after 1 January 2010, and they are to be applied retrospectively to unexpired leases at 1 January 2010 if the necessary information was available at the inception of the lease. Otherwise, the revised Standard will be applied based on the facts and circumstances existing on 1 January 2010 (i.e. the date of adoption of the amendments) and the Company will recognise assets and liabilities related to land leases newly classified as finance leases at their fair values on that date; any difference between those fair values will be recognised in retained earnings.
In June 2009, the IASB issued amendments to IFRS 2 Share-based Payment. These amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award. The directors anticipate that these amendments will be

adopted in the Group's financial statements for the period beginning 1 January 2010. The directors have not yet had an opportunity to consider the potential impact of the adoption of these amendments.

2.3 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated and unconsolidated financial statements are presented in Croatian HRK ("HRK") which is the Bank's and the Group's functional and presentation currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

The principal rates of exchange set by the Croatian National Bank and used in the preparation of the Group's statement of financial position at the reporting dates were as follows:

31 December 2008

EUR 1 = HRK 7.324425 USD 1 = HRK 5.155504

31 December 2009

EUR 1 = HRK 7.306199 USD 1 = HRK 5.089300

2.4 Basis of consolidation

These consolidated financial statements of the Group incorporate the financial statements of the Bank and the entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

2.5 Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

2.6 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Non-monetary assets and items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated at statement of financial position date. The Group does not have qualifying cash flow hedges and qualifying net investment hedges as defined in International Accounting Standard 39 "Financial Instruments: Measurement and Recognition" ("IAS 39").

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences are recognised in statement of comprehensive income, and other changes in carrying amount are recognised in equity.

The Group has certain assets and liabilities originated in HRK, which are linked to foreign currency with one-way currency clause. In accordance with this clause the Group has an option to revalue relevant assets by the higher of the foreign exchange rate valid as of the date of maturity and foreign exchange rate valid as of the date of origination of the financial instrument. In the case of relevant liabilities the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia the fair value of this option cannot be calculated as forward rates for HRK for periods over 6 months are not available. The Group therefore values its assets and liabilities governed by such clauses at the higher of the middle rate of the Croatian National Bank valid at the statement of financial position date and foreign exchange rate agreed by the option (rate valid at origination).

2.7 Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.9 Non-controlling interest

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interest consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

2.10 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.11 Interest 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.

Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments.

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

2.12 Fee and commission income and expense

Fees and commissions consist mainly of fees on domestic and foreign payments, granted loans and other credit instruments issued by the Group.

Fees and commissions are generally recognized as income when due.

2.13 Employee benefits

Short-term service benefits

Obligations for contributions to defined contribution pension plans and other short-term benefits are recognised as an expense in the statement of comprehensive as incurred.

Long-term service benefits

The Group provides employees with jubilee and one-off retirement awards. The obligation and costs of these benefits are determined by using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

2.14 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

2.15 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Croatian National Bank ('CNB'), current accounts with other banks and term placements with other banks with residual maturity up to 1 months.

Cash and cash equivalents exclude the obligatory reserves with the CNB, as these funds are not available for the Group's day to day operations.

2.16 Financial instruments

Classification

The Group classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, financial assets available for sale, held-to-maturity investments or other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. The management determines the classification of financial instruments upon initial recognition and, where appropriate, reviews this designation at every reporting date. Items are only classified as at fair value through profit or loss upon initial recognition. Items classified as at fair value through profit or loss are not reclassified.

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

This category has two sub-categories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, for the purpose of short-term profit-taking, or designated as such by management.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial instruments at fair value through profit or loss include investments in the investment funds as well as derivatives.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Group provides money to a debtor with no intention of trading with the receivable and include amounts due from other banks, loans to and receivables from customers, and the obligatory reserve with the Croatian National Bank. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. These include certain debt securities. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Available-for-sale financial assets are non derivatives that are either designated in this category or not classified in any of the other categories. Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include debt and equity securities and units in open ended investment funds. Fair value is determined in the manner described in note 15. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in the statement of comprehensive income when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Other financial liabilities
Other financial liabilities comprise all financial liabilities which are not held for trading or designated at fair value through profit or loss. Other financial liabilities include amounts due to other banks, amounts due to customers and other borrowed funds.

Recognition and derecognition

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

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

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

Initial and subsequent measurement

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

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

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

Gains and losses

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

Gains and losses from a change in the fair value of available-for-sale monetary assets are recognised directly in a fair value reserve within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in the statement of comprehensive income. Dividend income is recognised in the statement of comprehensive income.

Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses are transferred to the statement of comprehensive income.

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the statement of comprehensive income, when a financial instrument is derecognised or when its value is impaired.

Fair value measurement principles

The fair values of quoted investments are based on current closing bid prices. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Group establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate. The fair value of non-exchange-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the statement of financial position date taking into account current market conditions and the current creditworthiness of the counterparties.

Reclassification of financial assets

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short-term. In all cases, reclassifications of financial assets are limited to debt instruments. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

2.17 Impairment of financial assets

Impairment of financial assets identified as impaired

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group. If there is objective evidence that an impairment loss on loans and receivables or held-to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan and receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Those individually significant assets which are not impaired are included in the basis for collective impairment assessment.
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, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

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

Financial assets carried at fair value

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity securities are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

Financial assets carried at cost

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

An impairment loss is calculated as the difference between the carrying amount of the financial asset and the present value of expected future cash receipts discounted by the current market interest rate for similar financial assets. Impairment losses on such instruments, recognised in the statement of comprehensive income, are not subsequently reversed through the statement of comprehensive income.

Impairment of financial assets not identified as impaired

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

Debt securities at fair value through profit or loss were excluded from the basis of such calculation at the statement of financial position date.

2.18 Derivative financial instruments

The Group uses derivative financial instruments to hedge economically its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative trading purposes. No derivatives are accounted for as hedging instruments.

All derivatives are classified as financial instruments held for trading, within financial instruments at fair value through profit or loss. Derivative financial instruments including foreign exchange contracts, forward rate agreements and cross currency swaps are initially recognised in the statement of financial position and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when negative.

Changes in the fair value of derivatives are included in the statement of comprehensive income.

2.19 Sale of repurchase agreement

If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognized, as the Group retains substantially all the risks and rewards of ownership.

Securities sold under sale and repurchase agreements ('repos') are recorded as assets in the statement of financial position as originally classified or the Group reclassifies the asset on its statement of financial position as a repurchase receivable if the transferee obtains the right to sell or pledge the asset. The corresponding liability towards the counterparty is included in amounts due to banks or amounts due to customers as appropriate.

All amounts are expressed in thousands of HRK

Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets due from banks or as loans and receivables as appropriate, with the corresponding decrease in cash being included in cash and balances with the Croatian National Bank.

The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

2.20 Property, equipment and intangible assets

Property, equipment and intangible assets are stated at cost less accumulated depreciation/ amortisation and impairment loss, if any. Land and assets under construction are not depreciated.

Depreciation and amortization are calculated for all assets, except for land and assets under construction, under the straight line method at rates estimated to write off the cost of each asset to their residual values over their estimated

	2009	2008
Buildings	10-40 years	10-40 years
Computers	4 years	4 years
Furniture and equipment	2.5-10 years	2.5-10 years
Motor vehicles	4 years	4 years
Intangible assets	5-15 years	5-15 years

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the statement of comprehensive income when the expenditure is incurred. Improvements are capitalised.

2.21 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. Subsidiary adopted cost model for valuation of investment property.

2.22 Impairment of tangible and intangible assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are assessed at each statement of financial position date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

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

An impairment loss in respect of goodwill is not reversed.

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

2.23 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

2.24 Off-balance-sheet commitments

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

2.25 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors at the statement of financial position date. Provisions are discounted to present value where the effect is material.

2.26 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements when the Group acts in a fiduciary capacity such as nominee, trustee or agent. Fees earned by the Group for such services are recognised as income when earned.

2.27 Issued share capital

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

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

2.28 Treasury shares

When any Group company purchases the Bank's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Bank's equity holders until the shares are cancelled, reissued or disposed of and classified as treasury shares. When such shares are subsequently sold or reissued, any consideration received net of transaction costs is included in equity attributable to the Bank's equity holders.

2.29 Retained earnings

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

2.30 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

3. NET INTEREST INCOME

	Group		Bank	
	2009	2008	2009	2008
Interest and similar income				
Cash reserves and amounts due from other banks	12,145	73,836	12,202	59,981
Balances with Croatian National Bank	6,121	10,442	6,121	10,442
Corporate loans	212,987	191,394	212,987	191,394
Retail loans	465,869	418,547	465,869	418,547
Debt securities	45,120	46,722	45,120	46,722
Other	16	14	16	14
	742,258	740,955	742,315	727,100
Interest and similar expense				
Amounts due to retail customers	273,962	217,635	273,962	217,635
Amounts due to corporate customers	52,339	47,940	52,339	47,940
Other borrowed funds and amounts due to other banks	53,076	76,821	53,108	63,120
Other	1,484	2,407	1,484	2,407
	380,861	344,803	380,893	331,102

4. NET FEE AND COMMISSION INCOME

a) Net fee and commission income by source

	Group		Bank	
	2009	2008	2009	2008
Fee and commission income				
Corporate customers	40,953	46,416	34,041	33,280
Banks	21,020	25,451	21,020	25,451
Retail customers	81,618	77,265	81,618	77,265
	143,591	149,132	136,679	135,996
Fee and commission expense				
Corporate customers	30,329	29,813	30,329	29,813
Banks	7,311	7,549	7,311	7,549
	37,640	37,362	37,640	37,362

b) Net fee and commission income per type of fee

	Group		Bank	
	2009	2008	2009	2008
Fee and commission income				
Loans related fees and commissions	10,295	10,973	10,295	10,973
Credit card related fees and commissions	35,967	32,254	35,967	32,254
Domestic payment transaction related fees and commissions	39,449	40,171	39,449	40,171
Foreign payment transaction related fees and commissions	6,754	8,314	6,754	8,314
Guarantee related fees and commissions	6,136	7,092	6,136	7,092
Investment management, brokerage and consultancy fees	2,049	2,458	2,049	2,458
Other fees and commissions	42,941	47,870	36,029	34,734
	143,591	149,132	136,679	135,996
Fee and commission expense				
Credit card related charges	9,597	8,775	9,597	8,775
Domestic payment transaction related charges	14,324	16,019	14,324	16,019
Foreign payment transaction related charges	2,271	1,967	2,271	1,967
Other fees and commissions	11,448	10,601	11,448	10,601
	37,640	37,362	37,640	37,362

All amounts are expressed in thousands of HRK

5. NET TRADING AND VALUATION GAINS ON FINANCIAL INSTRUMENTS

	Group		Bank	
	2009	2008	2009	2008
Net gains on foreign currency spot transactions	41,569	32,294	41,569	32,294
Realized (loss)/gain on securities available-for-sale	(430)	2,432	(430)	2,432
Net (loss) on derivatives	(106)	(7,150)	(106)	(7,150)
Net gain on translation of foreign currency assets and liabilities	1,574	7,191	1,572	7,193
	42,607	34,767	42,605	34,769

6. OTHER OPERATING INCOME

	Group		Bank	
	2009	2008	2009	2008
Management fees	4,269	4,611	-	-
Income from litigations	2,796	-	2,796	-
Income from rentals	1,907	316	1,907	316
Accrued profit under the collective insurance policy	1,517	-	1,517	-
Income generated from bankruptcy estate	1,495	624	1,495	624
Gains on sale and disposal of property and equipment	1,047	1,957	1,047	1,957
Dividend income	619	1,818	619	1,818
Income on closing of dormant accounts	149	175	149	175
Sale of written-off inventory	140	1,733	140	1,733
Income from sale of shares	-	5,159	-	5,159
Other income	4,179	1,917	4,125	3,386
	18,118	18,310	13,795	15,168
Net book value of sold /disposed assets	(810)	(3,441)	(810)	(3,441)
Sale of assets	1,857	5,398	1,857	5,398
Gains on sale and disposal of property and equipment	1,047	1,957	1,047	1,957

7. OPERATING EXPENSES

	Group		Bank	
	2009	2008	2009	2008
Staff costs	155,588	156,977	151,454	153,163
Provisions for retirement benefits and bonuses to employees	1,632	132	893	132
	157,220	157,109	152,347	153,295
Professional services and cost of material	105,554	105,016	102,552	98,636
Savings deposit insurance premiums	21,651	19,668	21,651	19,668
Marketing	17,214	17,662	17,011	17,061
Amortisation and depreciation	31,960	25,164	30,932	24,273
Administrative expenses	12,305	14,121	12,305	14,121
Other taxes and contributions	1,707	2,389	1,707	2,389
Write-off of receivables	597	522	597	522
Other costs	4,932	5,430	2,231	2,066
	353,140	347,081	341,333	332,031

Staff costs:

	Group		Bank	
	2009	2008	2009	2008
Gross salary	111,192	108,015	107,675	104,762
- Net salaries	75,486	74,322	73,466	72,440
- Taxes, surtaxes and contributions	35,706	33,693	34,209	32,322
Contributions on salaries	19,184	18,626	18,567	18,065
Other payments to employees	26,844	30,468	26,105	30,468
	157,220	157,109	152,347	153,295

At year end, the Group had 1,039 (2008: 1,088) and the Bank 1,028 (2008: 1,074) employees.

8. IMPAIRMENT LOSSES AND PROVISIONS

	Group		Bank	
	2009	2008	2009	2008
Impairment of loans receivables and other assets	62,949	36,261	62,949	36,261
Litigation provisions	2,814	(8,486)	2,814	(8,486)
Provisions for off-balance sheet items	(1,240)	(468)	(1,240)	(468)
	64,523	27,307	64,523	27,307

All amounts are expressed in thousands of HRK

9. TAXATION

(a) Income tax expense recognised in the statement of comprehensive income

	Group		Bank	
	2009	2008	2009	2008
Current income tax charge	22,404	37,175	22,176	36,461
Net deferred tax charge	181	240	181	222
	22,585	37,415	22,357	36,683

(b) Reconciliation of the accounting profit and income tax expense at 20%

	Group		Bank	
	2009	2008	2009	2008
Profit before income tax	110,409	186,611	111,004	185,231
Tax calculated at statutory tax rate of 20% (2008: 20%)	22,082	37,322	22,201	37,046
Income not subject to tax net of non-tax deductible expenses	(210)	(397)	65	(445)
Utilisation of double-dip benefits	(90)	(140)	(90)	(140)
Tax loss in a subsidiary not recognised as deferred tax asset	623	389	-	-
Current Income tax charge	22,404	37,175	22,176	36,461
Effective income tax rate	20.3%	19.9%	20.0%	19.7%

(c) Movement in deferred tax asset and (liability)

Group

	Deffered loan origination fees	Unrealised gains/(losses) on available-for-sale securities	Other	Total
Balance at 1 January 2008	7,246	(8,849)	531	(1,072)
Charged to statement of comprehensive income	(222)	-	(17)	(239)
Charged to equity	-	(2,078)	(2,465)	(4,543)
Balance at 31 December 2008	7,024	(10,927)	(1,951)	(5,854)
Charged to statement of comprehensive income	(181)	-	-	(181)
Charged to equity	-	(3,007)	114	(2,893)
Balance at 31 December 2009	6,843	(13,934)	(1,837)	(8,928)

Bank

	Deffered loan origination fees	Unrealised gains/(losses) on available-for-sale securities	Other	Total
Balance at 1 January 2008	7,246	(8,849)	-	(1,603)
Charged to statement of comprehensive income	(222)	-	-	(222)
Charged to equity	-	(2,078)	-	(2,078)
Balance at 31 December 2008	7,024	(10,927)	-	(3,903)
Charged to statement of comprehensive income	(182)	-	-	(182)
Charged to equity	-	(3,007)	-	(3,007)
Balance at 31 December 2009	6,842	(13,934)	-	(7,092)

(d) Current income tax liability

	Group		Bank	
	2009	2008	2009	2008
Current income tax charge	22,404	37,175	22,176	36,461
Paid income tax charge	(22,404)	(11,229)	(22,176)	(10,980)
Current income tax liability	-	25,946	-	25,481

(e) Tax losses

The Group is subject to corporate income tax in accordance with Croatian law. Tax gains and losses of individual Group companies cannot be utilised on the Group level or transferred from one Group member to another. Tax losses can be carried forward up to five years and are subject to adjustment resulting from inspections by the Croatian Ministry of Finance.

Tax losses:

	Group		Bank	
	2009	2008	2009	2008
Tax losses brought forward	5,799	4,494	-	-
Tax loss for the year	3,077	1,952	-	-
Amounts utilised in the year	-	-	-	-
Tax loss not available for carry forward	(345)	(647)		-
Total tax losses available for carry forward	8,531	5,799	-	-
Tax effect from tax losses carried forward (at a rate of 20%)	1,706	1,160	-	-
Amount not recognised as deferred tax assets	(1,706)	(1,160)	-	-
Recognised deferred tax assets	-	-	-	-

At 31 December 2009 unutilised gross tax losses that are available for setting off against the future profits amount to HRK nil (2008: nil) for the Bank and HRK 8,531 thousand (2008: HRK 5,799 thousand) for the Group. Based on these losses, no deferred tax asset has been recognised by the Group.

At 31 December 2009 and 2008, gross tax losses available for carry forward expire as follows:

	Group		Bank	
	2009	2008	2009	2008
Up to 5 years	3,077	1,952	-	-
Up to 4 years	1,952	206	-	-
Up to 3 years	206	2,388	-	-
Up to 2 years	2,388	908	-	-
Up to 1 year	908	345	-	-
Total tax loss available for carry forward	8,531	5,799	-	-

Croatian tax legislation and practice have changed significantly in recent years. Many parts of the legislation remain untested and there is uncertainty about the interpretation that the tax authorities may apply in a number of areas. Tax positions taken by the Group are subject to examination and could be challenged by the tax authorities. As a result there is uncertainty about the potential impacts should the interpretation of the tax authorities differ from that applied by the Group. However, the Group's management considers that any tax liability which might arise in connection with this would not be material.

All amounts are expressed in thousands of HRK

10. EARNING 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. A reconciliation of the profit after tax attributable to ordinary shareholders is provided below.

	Group	
	2009	2008
Profit for the year attributable to equity holders of the Bank	88,611	149,674
Profit attributable to ordinary shareholders	88,611	149,674
Weighted average number of shares of 200 HRK each (for basic and diluted earnings per share)	4,111,398	3,921,671
Earnings per ordinary share - basic and diluted (HRK)	21.55	38.17

	Bank	
	2009	2008
Profit for the year	88,647	148,548
Profit attributable to ordinary shareholders	88,647	148,548
Weighted average number of shares of 200 HRK each (for basic and diluted earnings per share)	4,111,398	3,921,671
Earnings per ordinary share - basic and diluted (HRK)	21.56	37.88

11. CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

	Group		Bank	
	2009	2008	2009	2009
Cash in hand	129,699	134,457	129,699	134,457
Giro account balance	262,555	253,907	262,555	253,907
Current accounts with foreign banks	33,094	22,493	33,094	22,493
Current accounts with domestic banks	5,065	4,674	5,065	4,668
Items in course of collection	3,865	4,327	3,865	4,327
Assets included in cash and cash equivalents (Note 30)	434,278	419,858	434,278	419,852
Obligatory reserve at Croatian National Bank				
- in HRK	814,975	632,042	814,975	632,042
- marginal	-	-	-	-
- in foreign currency	179,082	299,642	179,082	299,642
Total obligatory reserve at Croatian National Bank	994,057	931,684	994,057	931,684
	1,428,335	1,351,542	1,428,335	1,351,536

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

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

At 31 December 2009, the required rate of the HRK obligatory reserve with the CNB amounted to 70% (2008: 70%), while the remaining 30% (2008: 30%) must be held in the form of other liquid receivables, excluding cash in the vault and in hand. The percentage includes the part of foreign currency obligatory reserve required to be held in HRK (see below).

Of the total foreign currency obligatory reserve, 60% (2008: 60%) is maintained with the CNB, while the remaining 40% (2008:

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

12. AMOUNTS DUE FROM OTHER BANKS

	Group		Bank	
	2009	2008	2009	2008
Short-term placements with other banks	1,379,614	1,652,599	1,379,614	1,652,599
Loans and advances to other banks in Croatia	-	16,887	-	16,887
	1,379,614	1,669,486	1,379,614	1,669,486
Less: impairment allowance	(1,598)	(3,734)	(1,598)	(3,734)
	1,378,016	1,665,752	1,378,016	1,665,752

Movements in provisions for impairment for amounts due from other banks for the Group and the Bank were as follows:

	2009	2008
Balance as at 1 January	(3,734)	(3,708)
New provisions released / (made)	2,136	(26)
Balance as at 31 December	(1,598)	(3,734)

All amounts are expressed in thousands of HRK

13. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Assets

	Group		Bank	
	2009	2008	2009	2008
Units in open-ended investment funds	9,237	8,428	8,937	8,428
	9,237	8,428	8,937	8,428

The Bank has entered into derivative contracts as noted below.

Group and Bank

	2009 Notional amount	2009 Fair value	2008 Notional amount	2008 Fair value
Derivatives classified as trading - OTC products				
Cross-currency swap	-	-	18,311	-
	-	-	18,311	-

(b) Liabilities

	Group		Bank	
	2009	2008	2009	2008
Fair value of derivatives	-	84	-	84
	-	84	-	84

The Bank has entered into derivative contracts as noted below.

Group and Bank

	2009 Notional amount	2009 Fair value	2008 Notional amount	2008 Fair value
Derivatives classified as trading - OTC products				
Cross-currency swap	-	-	18,346	84
	-	-	18,346	84

The Bank uses cross-currency swaps to reduce the currency exposures that are inherent in any banking business. Counterparties of the Bank's derivative transactions are financial institutions (including related parties).

14. AMOUNTS DUE FROM CUSTOMERS

Analysis by type of product

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
HRK denominated				
Retail customers	5,394,062	5,554,704	5,394,062	5,554,704
Corporate customers	2,767,991	2,888,769	2,770,961	2,892,534
Foreign currency denominated				
Retail customers	85	139	85	139
Corporate customers	545,409	382,941	545,409	382,941
Total loans	8,707,547	8,826,553	8,710,517	8,830,318
Less: allowance for impairment	(337,128)	(341,153)	(337,128)	(341,153)
	8,370,419	8,485,400	8,373,389	8,489,165

Included within Group HRK loans are balances linked to foreign currency, such as Euro (EUR), Swiss franc (CHF) and US dollar (USD), which amount to HRK 5,568,403 thousand (2008: HRK 5,603,816 thousand). Repayments of principal and interest payments are determined in foreign currency and paid in the HRK equivalent translated at the foreign exchange rate applicable on the date of payment.

Movements in allowance for impairment were as follows:

GROUP AND BANK

	31.12.2009	31.12.2008
Balance at 1 January	341,153	436,775
Amounts collected	(24,544)	(25,455)
New provisions made	86,973	64,513
Exchange differences	(54)	(776)
Amounts written off	(66,400)	(133,904)
Balance at 31 December	337,128	341,153

At 31 December 2009, the total gross amount of non-performing loans for the Bank and the Group was HRK 491,947 thousand (2008: HRK 320,862 thousand).

All amounts are expressed in thousands of HRK

Concentration of credit risk by industry

Set out below is an overview of the Group's and Bank's concentration by various types of industries (gross amounts before allowance for impairment):

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Agriculture, forestry and fisheries	268,448	302,039	268,448	302,039
Mining	68,259	61,988	68,259	61,988
Food and beverages	90,068	131,002	90,068	131,002
Leather and textiles	7,815	1,269	7,815	1,269
Publishing and printing	12,854	41,934	12,854	41,934
Production of oil and oil derivatives	-	55,370	-	55,370
Non-metal mineral and chemical products	16,441	6,068	16,441	6,068
Metal-working industry	22,514	25,488	22,514	25,488
Other manufacturing industries	239,513	299,518	239,513	299,518
Energy, gas and water supply	53,514	37,239	53,514	37,239
Construction	669,339	463,775	669,339	463,775
Trade and commerce	509,840	511,203	509,840	511,203
Hotels and restaurants	425,208	414,197	425,208	414,197
Transport and communications	72,704	143,504	72,704	143,504
Financial intermediation	18,002	3,550	18,959	4,509
Real estate	151,659	340,048	153,672	342,854
Public administration and defence	460,847	232,477	460,847	232,477
Education, health and social welfare	141,926	151,962	141,926	151,962
Other services and social activities	84,497	49,079	84,497	49,079
Foreign entities	-	-	-	-
Total corporate loans	3,313,448	3,271,710	3,316,418	3,275,475
Retail customers	5,394,099	5,554,843	5,394,099	5,554,843
	8,707,547	8,826,553	8,710,517	8,830,318
Less: impairment allowance	(337,128)	(341,153)	(337,128)	(341,153)
Total loans	8,370,419	8,485,400	8,373,389	8,489,165

15. FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Equity securities	12,545	8,999	12,545	8,999
Debt securities	848,704	768,269	848,704	768,269
Units in open-ended investment funds	21,847	12,584	21,845	12,583
	883,096	789,852	883,094	789,851

(a) Equity securities

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Equity securities at cost				
- unquoted	16,901	14,635	16,901	14,635
Less: impairment allowance				
	(4,356)	(5,636)	(4,356)	(5,636)
	12,545	8,999	12,545	8,999

(b) Debt securities

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Quoted				
Bonds of the Ministry of Finance	15,612	15,516	15,612	15,516
CBRD bonds	13,237	16,762	13,237	16,762
Bonds of foreign governments	175,118	-	175,118	-
Subtotal: Quoted debt securities	203,967	32,278	203,967	32,278
Treasury bills of the Ministry of Finance	186,508	284,330	186,508	284,330
Replacement bonds of the Croatian Ministry of Finance	458,229	451,661	458,229	451,661
Subtotal: Unquoted debt securities	644,737	735,991	644,737	735,991
	848,704	768,269	848,704	768,269

RHMF-0-103A bonds of the Republic of Croatia were issued in 2005. They are denominated in Croatian HRK and bear interest at a rate of 6.75 %, which is paid semi-annually. The bonds mature in 2010 and are quoted on the Zagreb Stock Exchange.

RHMF-0-172A bonds of the Republic of Croatia were issued in 2007. They are denominated in Croatian HRK and bear interest at a rate of 4.75%, which is paid semi-annually. The bonds mature in 2017 and are quoted on the Zagreb Stock Exchange.

The bonds of the Croatian Bank for Reconstruction and Development ("CBRD") are issued with the guarantee of the Ministry of Finance on behalf of the Croatian Government. The bonds are denominated in Euro and the interest rate on these bonds is 5.75% and interest is paid annually. The bonds mature on 4 December 2012. These bonds are quoted on the Luxembourg Stock Exchange.

Replacement bonds were issued by the Croatian Government to replace economic restructuring bonds based on the Government decision of 6 April 2000. The replacement bonds are denominated in Croatian HRK and are indexed to the industrial price index. Every six months the principal amount of the bond is revalued based on changes in the index and the revaluation gains/(losses) are recognized directly in equity. The interest rate on these bonds is 5% annually, and the interest is paid on a semi-annual basis. The principal is due in 2011.

The replacement bonds of the Croatian Ministry of Finance are not traded publicly.

The Romanian government bonds were issued

All amounts are expressed in thousands of HRK

in 2003. They are denominated in EUR and bear interest at a rate of 5.75%, which is paid annually. The bonds mature in 2010 and are listed on six stock exchanges.
The Hungarian government bonds were issued in 2003. They are denominated in EUR and bear interest at a rate of 4%, which is paid annually. The bonds mature in 2010 and are listed on nine stock exchanges.
Included in the Bank's portfolio are Treasury Bills of the Ministry of Finance, both Euro and Croatian HRK denominated, with a maturity of 364 days. They bear interest at market rates.

16. HELD TO MATURITY INVESTMENTS

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Receivables for Bonds of the Croatian Ministry of Finance	16,013	16,053	16,013	16,053
Corporate bills of exchange	14,618	55,178	14,618	55,178
	30,631	71,231	30,631	71,231

The receivables for bonds of the Ministry of Finance relates to compensation for flats purchased by the Government of Croatia. Pending the clarification of the terms, the Bank has not recognised accrued interest on these bonds. Management of the Bank is aware that there is uncertainty in collection of these receivables, however, there is no need for impairment.
The investments held-to-maturity are not traded publicly.

17. INVESTMENTS IN SUBSIDIARIES

Set out below are the operating subsidiaries of the Bank, included in the consolidated statements of the Group:

Name	Business activity	Effective share	
		31.12.2009	31.12.2008
OTP Invest d.o.o.	Investment fund management	74.35%	74.33%
OTP Nekretnine d.o.o.	Real estate	100%	100%
Kratos nekretnine d.o.o	Real estate	100%	100%

In July 2007 OTP Invest d.o.o., then a fully owned subsidiary of the Bank, underwent a process of legal division into three separate companies, each fully owned by the Bank. As a result of this process, the Bank became the owner of two new subsidiaries, Kratos nekretnine d.o.o. and Kvirinal nekretnine d.o.o., each with an issued share capital of HRK 20 thousand. During 2008, the company Kvirinal nekretnine d.o.o. was merged into the Bank.
As of 31 December 2009, total investment in subsidiaries was 79,882 thousand HRK. Investment in OTP Nekretnine d.o.o. is HRK 72,762 thousand (2008: HRK 72,762 thousand), OTP Invest d.o.o. HRK 7,100 thousand (2008: HRK 4,460 thousand) and in Kratos Nekretnine d.o.o. HRK 20 thousand (2008: HRK 20 thousand).
The Bank assessed the recoverability of its investments in subsidiaries and determine that there is no impairment on these investments.

18. INVESTMENT PROPERTY

	Group	Bank
At 1 January 2008	67,530	-
Transfer from property and equipment (previously owner-occupied)	14,918	-
Transfer from property and equipment under construction	-	-
Additions	3,269	-
Disposals	-	-
At 31 December 2008	85,717	-
Transfer from property and equipment (previously owner-occupied)	-	-
Transfer from property and equipment under construction	-	-
Additions	-	-
Disposals	-	-
At 31 December 2009	85,717	-

Investment property includes property previously held by the Group as property and equipment, measured at amortised cost. Upon the change of use of such property into investment property, the Group recognised the difference between the fair value and amortised cost at the date of change of use as a revaluation gain directly in a revaluation reserve in equity.

19. PROPERTY AND EQUIPMENT

Group	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Assets under construction	Total
Cost:							
At 1 January 2008	203,620	61,068	113,897	3,233	960	15,761	398,539
Transfer from assets under construction	24,040	7,763	17,568	7	-	(71,822)	(22,444)
Revaluation of buildings prior to change in use and transfer to investment property	12,897	-	-	-	-	-	12,897
Transfer to investment property due to change in use	(14,918)	-	-	-	-	-	(14,918)
Additions	-	48	349	198	-	87,762	88,357
Disposals	(5,634)	(2,458)	(3,505)	(885)	-	-	(12,482)
At 31 December 2008	220,005	66,421	128,309	2,553	960	31,701	449,949
At 1 January 2009	220,005	66,421	128,309	2,553	960	31,701	449,949
Transfer from assets under construction	9,431	7,419	14,693	390	-	(48,129)	(16,196)
Additions	-	6	202	231	6	41,078	41,523
Disposals	(4,494)	(327)	(6,277)	(306)	-	-	(11,404)
At 31 December 2009	224,942	73,519	136,927	2,868	966	24,650	463,872
Accumulated depreciation/amortisation and impairment							
At 1 January 2008	87,996	46,386	80,585	3,145	3	-	218,115
Charge for the year	4,803	7,240	9,351	74	-	-	21,468
Disposals	(2,069)	(2,457)	(3,500)	(885)	-	-	(8,911)
At 31 December 2008	90,730	51,169	86,436	2,334	3	-	230,672
At 1 January 2009	90,730	51,169	86,436	2,334	3	-	230,672
Charge for the year	5,480	7,412	11,309	154	-	-	24,355
Disposals	(1,442)	(327)	(6,122)	(306)	-	-	(8,197)
At 31 December 2009	94,768	58,254	91,623	2,182	3	-	246,830
Net book value:							
At 1 January 2009	129,275	15,252	41,873	219	957	31,701	219,277
At 31 December 2009	130,174	15,265	45,304	686	963	24,650	217,042

All amounts are expressed in thousands of HRK

Bank	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Assets under construction	Total
Cost:							
At 1 January 2008	195,019	60,723	113,744	2,840	961	15,761	389,048
Transfer from assets under construction	24,040	7,763	17,568	7	-	(71,822)	(22,444)
Additions	-	-	-	-	-	87,762	87,762
Disposals	(5,621)	(2,458)	(3,505)	(885)	-	-	(12,469)
At 31 December 2008	213,438	66,028	127,807	1,962	961	31,701	441,897
At 1 January 2009	213,438	66,028	127,807	1,962	961	31,701	441,897
Transfer from assets under construction	9,431	7,419	14,693	390	-	(48,129)	(16,196)
Additions	-	-	-	-	6	41,069	41,075
Disposals	(4,494)	(327)	(6,277)	(306)	-	-	(11,404)
At 31 December 2009	218,375	73,120	136,223	2,046	967	24,641	455,372
Accumulated depreciation/amortisation and impairment							
At 1 January 2008	91,779	46,132	80,431	2,840	-	-	221,182
Charge for the year	4,230	7,186	9,318	1	-	-	20,735
Disposals	(2,069)	(2,457)	(3,491)	(885)	-	-	(8,902)
At 31 December 2008	93,940	50,861	86,258	1,956	-	-	233,015
At 1 January 2009	93,940	50,861	86,258	1,956	-	-	233,015
Charge for the year	4,907	7,354	11,227	1	-	-	23,489
Disposals	(1,442)	(327)	(6,122)	(306)	-	-	(8,197)
At 31 December 2009	97,405	57,888	91,363	1,651	-	-	248,307
Net book value:							
At 1 January 2009	119,498	15,167	41,549	6	961	31,701	208,882
At 31 December 2009	120,970	15,232	44,860	395	967	24,641	207,065

20. INTANGIBLE ASSETS

	Group Intangible assets	Bank Intangible assets
Cost:		
At 1 January 2008	65,273	46,166
Transfer from assets under construction	22,444	22,444
Additions	540	-
Disposals	(20,782)	(2,060)
At 31 December 2008	67,475	66,550
Additions	16,267	16,196
At 31 December 2009	83,742	82,746
Accumulated amortisation		
At 1 January 2008	36,697	36,550
Charge for the year	3,696	3,538
Disposals	(1,844)	(1,844)
At 31 December 2008	38,549	38,244
Charge for the year	7,609	7,447
At 31 December 2009	46,158	45,691
Net book value:		
At 31 December 2008	28,926	28,306
At 31 December 2009	37,584	37,055

Intangible assets relate to the software and leasehold improvements.

21. GOODWILL

Goodwill reported on the Bank's statement of financial position represents goodwill originally arisen on the acquisition of Istarska Bank d.d., Pula and Sisačka Bank d.d. Sisak (which is included in the Bank's accounts following the merger with these banks on 30 June 2002), and Dubrovačka Bank d.d., Dubrovnik (which is included in the Bank's accounts following the merger with this bank on 30 September 2004). The value of goodwill as of 31 December 2009 amounts to HRK 42,966 thousand (2008: HRK 42,966 thousand). The Group assessed the recoverability of the goodwill and determine that there is no impairment on goodwill as of 31 December 2009 and 2008.

22. OTHER ASSETS

	Group		Bank	
	31.12.2009	**31.12.2008**	**31.12.2009**	**31.12.2009**
Accrued fees and commissions	11,786	11,611	11,786	11,381
Accounts receivable	17,974	16,809	17,690	15,906
Foreclosed assets	178	178	178	178
Receivables in respect of credit card operations	19,266	19,866	19,266	19,866
Due from insurance company	20,794	17,099	20,794	17,099
Receivables for prepaid taxes and contributions	3,142	228	2,880	195
Prepaid expenses	6,920	8,122	6,920	8,122
Other	2,457	2,287	3,731	3,224
	82,517	76,200	83,245	75,971
Less: impairment allowance	(7,592)	(14,191)	(7,592)	(14,191)
	74,925	62,009	75,653	61,780

Movements in provisions for impairment for other assets for the Group and the Bank were as follows:

	2009	**2008**
Balance as at 1 January	14,191	21,761
Provisions release	(6,599)	(7,570)
Balance as at 31 December	7,592	14,191

23. AMOUNTS DUE TO OTHER BANKS

	Group		Bank	
	31.12.2009	**31.12.2008**	**31.12.2009**	**31.12.2009**
Demand deposits				
HRK denominated	319	132	319	132
Foreign currency denominated	39,173	15,111	39,173	15,111
Time deposits				
Foreign currency denominated	29,462	420,061	29,462	420,061
	68,954	435,304	68,954	435,304

All amounts are expressed in thousands of HRK

24. AMOUNTS DUE TO CUSTOMERS

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Retail customers				
Demand deposits				
HRK denominated	838,411	974,617	838,411	974,617
Foreign currency denominated	920,822	956,464	920,822	956,464
Time deposits				
HRK denominated	1,021,838	1,232,528	1,021,838	1,232,528
Foreign currency denominated	5,183,968	4,363,714	5,183,968	4,363,714
Corporate customers				
Demand deposits				
HRK denominated	451,254	655,722	451,254	655,722
Foreign currency denominated	144,967	166,229	144,967	166,229
Time deposits				
HRK denominated	420,728	233,733	420,728	233,733
Foreign currency denominated	204,599	284,085	204,599	284,085
Current accounts and deposits of subsidiaries	-	-	549	842
	9,186,587	8,867,092	9,187,136	8,867,934

25. OTHER BORROWED FUNDS

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Domestic creditors:				
CBRD	766,577	807,889	766,577	807,889
Ministry of Finance	2,802	2,802	2,802	2,802
Other borrowings from domestic banks	2	2	2	2
Foreign creditors:				
Refinanced foreign currency borrowings	783	4,450	783	4,450
Commercial banks	753,313	980,683	753,313	980,683
Government agencies	38,973	40,231	38,973	40,231
	1,562,450	1,836,057	1,562,450	1,836,057

(a) Amounts due to the Croatian Bank for Reconstruction and Development (the "CBRD")

Other funds borrowed from CBRD are designated for approving loans to end users Đ corporate and retail customers Đ under the SMEs, tourist trade and agriculture incentive programme supported by the CBRD, at an average interest rate of 2,09 % (2008: 2.15 %). No short-term repo borrowings existed as of 31 December 2008.

(b) Other borrowings from domestic banks

As of 31 December 2009, the Group and the Bank had no other long-term borrowings from domestic banks.

(c) Refinanced foreign currency loans

London Club

As of 31 December 2009, the liabilities to the London Club amount to HRK 735 thousand (2008: HRK 1,542 thousand) for the Group and for the Bank. Based on the Information Memorandum of 9 May 1999 and the Notification of Offer of 14 June 1996, the Croatian Government assumed at 31 July 1996 the obligation in respect of 29.5% of reprogrammed debt of the former Yugoslavia to commercial banks under the New Financial Agreement by issuing own A- and B-series bonds on 31 July 1996 to replace the debt under the New Financial Agreement. The financial debt is USD denominated and has been reprogrammed on over 14 years, at an interest rate of six-month LIBOR for USD + 13/16% margin annually.

Paris Club

As of 31 December 2009, the liabilities to the Paris Club amount to HRK 0 (2008: HRK 2,882 thousand) for the Group and for the Bank. The loans repayable between 1984 and 1988 were refinanced and reprogrammed by means of several agreements, concluding with the Paris Club Agreement of 21 March 1995. Under the Agreement, principal is repayable in 24 semi-annual instalments, commencing on 31 January 1998. During 1997 and 1998, further individual negotiations with Paris Club members took place and bilateral consolidation agreements were concluded. In addition, on 16 December 2005, the Government of Croatia and the Government of Italy reached an agreement on the consolidation of the debt of Croatia. The loan was repaid in full on 1 July 2009.

(d) Amounts due to commercial banks

Major portions of total amounts due to commercial banks relates to the:

a) Loans from OTP Bank Rt. Hungary extended to the Group in the total amount of HRK 736,413 thousand (2008: HRK 956,821 thousand) and to the Bank in the total amount of HRK 736,413 thousand (2008: HRK 956,821 thousand), with a variable interest 3-month CHF LIBOR . In year 2011, CHF 115 mil mature, and in 2012, CHF 35 mil will mature.

b) A World Bank (IBRD) loan, with the balance outstanding in the amount of HRK 15,763 thousand (2008: HRK 21,067 thousand), both for the Group and for the Bank. The interest on the borrowings is determined at a variable rate in the amount of 6-month EURIBOR + 0.50% margin annually. The loan is repayable in semi-annual instalments and matures in 2012.

(e) Amounts due to government agencies

The major portion of this debt relates to the debt to the Deutsche Investitions und Entwicklungsgeselschaft (the ''DEG''), which amounts to HRK 37,356 thousand (2008: HRK 37,449 thousand). The loan was approved for a period of 6 years, at a variable interest rate (6-month EURIBOR + 1.3%); these funds are included in the Bank's supplementary capital in accordance with CNB regulations. The entire loan is due on 15 November 2014.
HRK 1,508 thousand (2008: HRK 2,519 thousand) of the total debt to government agencies represents a loan from MEDIOCREDITO, which is repayable in equal semi-annual instalments until 2011, at a fixed interest rate of 1.75%.

All amounts are expressed in thousands of HRK

26. PROVISIONS

(a) Analysis of provisions

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Provisions for off-balance sheet items	9,204	10,444	9,204	10,444
Litigation provision	24,982	22,168	24,982	22,168
	34,186	32,612	34,186	32,612

(b) Movements in provisions for risks and charges

Provisions for off-balance sheet items	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Balance at 1 January	10,444	10,911	10,444	10,911
Additional provisions established	547	-	547	-
Amounts utilised	(1,787)	(467)	(1,787)	(467)
Balance at 31 December	9,204	10,444	9,204	10,444

Litigation provisions	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Balance at 1 January	22,168	30,654	22,168	30,654
Additional provisions established	3,266	130	3,266	130
Amounts utilised	(452)	(8,616)	(452)	(8,616)
Balance at 31 December	24,982	22,168	24,982	22,168

Litigation provision relates to the legal disputes in relation to the loan agreements between the Bank and its clients. The Bank has provided for these legal cases where it is expected that outcome of the legal case will result in an outflow from the Bank of resources embodying economic benefits.

27. OTHER LIABILITIES

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Provisions for retirement benefits and bonuses to employees	11,510	13,229	11,510	13,229
Liability under guarantee issued for client	808	2,877	808	2,877
Amounts due to suppliers	19,974	28,137	18,802	27,159
Salaries and contributions payable	23,234	20,744	22,909	20,391
Due to State agency for deposit insurance and bank rehabilitaion for saving deposits insurance	4,690	5,335	4,690	5,335
Deferred income	1,272	1,003	1,272	1,003
Liabilities under credit card operations	4,403	4,772	4,403	4,772
Liabilities under currency dealings	32	(36)	32	(36)
Tax-liability from previous years	6,711	6,711	6,711	6,711
Liabilities under opening accounts	4,023	3,605	4,023	3,605
Other liabilities	12,983	14,516	12,838	12,184
	89,640	100,893	87,998	97,230

28. SHAREHOLDERS' EQUITY

ISSUED SHARE CAPITAL

As at 31 December 2009 the share capital of the Bank comprised 4,111,398 ordinary shares (2008: 4,111,398 ordinary shares), with a par value of HRK 200 each. All the ordinary shares are ranked equally and carry one vote per share.

RESERVES

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Legal reserve	41,114	30,264	41,114	30,264
Statutory reserve	41,114	30,264	41,114	30,264
Total legal and statutory reserves	82,228	60,528	82,228	60,528
Fair value reserve	79,415	67,386	79,415	67,386
General banking risks reserve	105,819	105,819	105,819	105,819
Other	39,702	39,705	3,252	3,255
Total other reserves	224,936	212,910	188,486	176,460

Legal and statutory reserves

A legal reserve has been formed in accordance with Croatian law, which requires 5% of the profit for the year to be transferred to this reserve until it reaches 5% of issued share capital. The legal reserve, in the amount of up to 5% of issued share capital, can be used for covering current and prior year losses. In addition, in accordance with the Bank's internal regulations, an additional reserve equivalent to the legal reserve has been created in an amount of up to 5% of the share capital to cover impairment losses, payment of dividend on preference shares and for the same purposes as legal reserve.

Reserve for general banking risks

According to CNB regulations the Bank is obliged to create a reserve for general banking risks if the increase of relevant on- and off-balance-sheet exposure at the statement of financial position date exceeds 15% of the exposure at the prior year end.

The general banking risk reserve is not transferrable to retained earnings or other reserves, or otherwise distributable until the expiry of a consecutive three-year period from the period in which the Bank has recorded an annual growth over 15%.

Fair value reserve

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

Other reserves

Other reserves at Group mainly represent revaluation reserve related to investment property.

Retained earnings

Retained earnings include accumulated profits from prior years.

All amounts are expressed in thousands of HRK

29. CONTINGENCIES AND COMMITMENTS

Presented below are contractual amounts of the Group's and the Bank's off-balance-sheet financial instruments:

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Payment guarantees	88,263	116,136	88,263	116,136
Performance guarantees	82,190	120,205	82,190	120,205
Letters of credit	13,875	20,034	13,875	20,034
Approved unused loans	897,605	968,718	897,630	969,913
Other	834	2,349	834	2,349
	1,082,767	1,227,442	1,082,792	1,228,637

30. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statements, cash and cash equivalent comprise the following balances with maturities of up to 90 days:

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Cash and cash equivalents (excluding mandatory reserve with Croatian National Bank - Note 11)	434,278	419,858	434,278	419,852
Amounts due from other banks - Note 12	1,351,163	1,664,838	1,351,163	1,664,843
	1,785,441	2,084,696	1,785,441	2,084,695

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2008.

The capital structure of the Group consists of net debt (borrowings as detailed in notes 23 and 25 offset by cash and bank balances) and equity of the Group (comprising issued capital, reserves and retained earnings as disclosed in note 28).

The Group is not subject to any externally imposed capital requirements.

The Group's risk management committee reviews the capital structure of the Group on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 20% - 25% determined as the proportion of net debt to equity. The gearing ratio at 31 December 2009 of 12.6% (see below) was at the lower end of the target range. The gearing ratio at end of the reporting period was as follows:

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Debt (i)	1,631,404	2,271,361	1,631,404	2,271,361
Cash and bank balances	1,428,335	1,351,542	1,428,335	1,351,536
Net debt	202,709	919,819	202,709	919,825
Equity (ii)	1,607,223	1,507,258	1,597,207	1,496,534
Net debt to equity ratio	12.6	61.0	12.7	61.5

(i) Debt is defined as long- and short-term borrowings (excluding derivatives and financial guarantee contracts), as described in notes 23 and 25.

(ii)Equity includes all capital and reserves of the Group that are managed as capital.

32. CREDIT RISK

The Group and the Bank take on exposure to credit risk, which is the risk upon credit approval that the counterparty will be unable to pay amounts in full when due. Both the Group and the Bank structure the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to credit risk for all assets exposed to credit risk is limited by the carrying amount of that asset in the statement of financial position.

The exposure to credit risk of derivatives with positive fair value is their notional amount. Additionally, the Group and Bank are exposed to credit risk on off-balance-sheet items, including undrawn commitments to extend credit guarantees and letters of credit. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

All amounts are expressed in thousands of HRK

Concentration of assets and liabilities related to the Croatian state and its institutions.

		Group		Bank	
	Notes	31.12.2009	31.12.2008	31.12.2009	31.12.2009
Current account with the Croatian National Bank	11	262,555	253,907	262,555	253,907
Obligatory reserve with the Croatian National Bank	11	994,057	931,684	994,057	931,684
Ministry of Finance - Treasury bills	15b)	186,508	284,330	186,508	284,330
Republic of Croatia bonds	15b)	15,612	15,516	15,612	15,516
Loans provided by Croatian Bank for Reconstruction and Development and Government		445,701	219,733	445,701	219,733
Replacement bonds	15b)	458,229	451,661	458,229	451,661
Other assets		3,643	313	3,367	280
Liabilities to the Ministry of Finance in respect of rescheduled foreign borrowings		(783)	(4,450)	(783)	(4,450)
Current income tax payable	9d)	-	(25,946)	-	(25,481)
Other liabilities		(8,510)	(5,021)	(8,218)	(4,592)
		2,357,012	2,121,727	2,357,028	2,122,588

In addition, the Group had indirect exposure to the Croatian state in respect of loans and other financing granted to state funds as follows:

	Group		Bank	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
DAB bonds for the restructuring of Dubrovačka banka and other assets	-	735	-	735
	-	735	-	735

33. CURRENCY RISK

The Bank and the Group take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial positions and cash flows.

The table below provides an analysis of the Group's and of the Bank's main currency exposures. The remaining currencies are shown within 'Other currencies.' Both the Group and the Bank monitor their foreign exchange (FX) position for compliance with the regulatory requirements of the Croatian National Bank established in respect of limits on open positions. Measuring the open positions of the Group and of the Bank includes monitoring the value at risk limit both for the Group and for the Bank. Other currencies also include CHF linked.

The Bank has made VaR analysis (Value at Risk). This analysis is defined as worst possible scenario in time frame in normal market conditions. For the calculation, 10 days frame is taken and reliability of 99%. Possibility that the Bank will lose more that VaR calculated in normal market conditions is 1%. VaR calculated as of 31 December 2009 is HRK 426 thousand.

Group	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	Total
At 31 December 2009							
Assets							
Cash and balances with the Croatian National Bank	45,454	-	45,454	194,665	1,166,765	21,451	1,428,335
Amounts due from other banks	668,758	-	668,758	619,331	-	89,927	1,378,016
Financial assets at fair value through profit or loss	-	-	-	-	9,237	-	9,237
Amounts due from customers	541,160	4,707,942	5,249,102	41,755	2,264,171	815,391	8,370,419
Financial assets available for sale	188,434	181,345	369,779	9,151	504,166	-	883,096
Held-to-maturity investments	16,013	-	16,013	-	14,618	-	30,631
Property and equipment and intangible assets	-	-	-	-	297.591	-	297,591
Investment property	-	-	-	-	85,717	-	85,717
Other assets	237	-	237	62	74,567	59	74,925
Total assets	1,460,056	4,889,287	6,349,343	864,964	4,416,832	926,828	12,557,967
Liabilities							
Amounts due to other banks	36,907	-	36,907	1,379	319	30,349	68,954
Amounts due to customers	5,445,640	66,769	5,512,409	858,459	2,658,656	157063	9,186,587
Other borrowed funds	54,798	722,833	777,631	955	46,548	737,316	1,562,450
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Provisions	-	-	-	-	34,186	-	34,186
Deferred tax liability	-	-	-	-	8,928	-	8,928
Other liabilities and current income tax liability	4,415	-	4,415	1,267	83,883	75	89,640
Total liabilities	5,541,760	789,602	6,331,362	862,060	2,832,520	924,803	10,950,745
Net FX position	(4,081,704)	4,099,685	17981	2,904	1,584,312	2,025	1,607,222
At 31 December 2008							
Total assets	1,515,631	4,673,865	6,189,496	853,248	4,770,160	998,196	12,811,100
Total liabilities	5,418,268	775,233	6,193,501	852,039	3,278,149	980,153	11,303,842
Net FX position	(3,902,637)	3,898,632	(4,005)	1,209	1,492,011	18,043	1,507,258

Bank	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	Total
At 31 December 2009							
Assets							
Cash and balances with the Croatian National Bank	45,454	-	45,454	194,665	1,166,765	21,451	1,428,335
Amounts due from other banks	668,758	-	668,758	619,331	-	89,927	1,378,016
Financial assets at fair value through profit or loss	-	-	-	-	8,937	-	8,937
Amounts due from customers	541,160	4,707,942	5,249,102	41,755	2,267,141	815,391	8,373,389
Financial assets available for sale	188,434	181,345	369,779	9,151	504,164	-	883,094
Held-to-maturity investments	16,013	-	16,013	-	14,618	-	30,631
Investments in subsidiaries	-	-	-	-	79,882	-	79,882
Property and equipment and intangible assets	-	-	-	-	287,086	-	287,086
Other assets	237	-	237	62	75,295	59	75,653
Total assets	1,460,056	4,889,287	6,349,343	864,964	4,403,888	926,828	12,545,023
Liabilities							
Amounts due to other banks	36,907	-	36,907	1,379	319	30,349	68,954
Amounts due to customers	5,445,640	66,769	5,512,409	858,459	2,659,205	157063	9,187,136
Other borrowed funds	54,798	722,833	777,631	955	46,548	737,316	1,562,450
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Provisions	-	-	-	-	34,186	-	34,186
Deferred tax liability	-	-	-	-	7,092	-	7,092
Other liabilities and current income tax liability	4,415	-	4,415	1,267	82,241	75	87,998
Total liabilities	5,541,760	789,602	6,331,362	862,060	2,829,591	924,803	10,947,816
Net FX position	(4,081,704)	4,099,685	17981	2,904	1,574,297	2,025	1,597,207
At 31 December 2008							
Total assets	1,515,625	4,673,865	6,189,490	853,248	4,754,205	998,196	12,795,139
Total liabilities	5,418,273	775,233	6,193,506	852,039	3,272,907	980,153	11,298,605
Net FX position	(3,902,648)	3,898,632	(4,016)	1,209	1,481,298	18,043	1,496,534

All amounts are expressed in thousands of HRK

Group	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	Total
At 31 December 2008							
Assets							
Cash and balances with the Croatian National Bank	46,299	-	46,299	309,762	977,157	18,324	1,351,542
Amounts due from other banks	1,113,583	-	1,113,583	438,290	23,703	90,176	1,665,752
Financial assets at fair value through profit or loss	-	-	-	-	8,428	-	8,428
Amounts due from customers	322,652	4,667,940	4,990,592	99,560	2,505,577	889,671	8,485,400
Financial assets available for sale	16,885	5,925	22,810	5,560	761,482	-	789,852
Held-to-maturity investments	16,053	-	16,053	-	55,178	-	71,231
Property and equipment and intangible assets	-	-	-	-	291,169	-	291,169
Investment property	-	-	-	-	85,717	-	85,717
Other assets	159	-	159	76	61,749	25	62,009
Total assets	1,515,631	4,673,865	6,189,496	853,248	4,770,160	998,196	12,811,100
Liabilities							
Amounts due to other banks	434,509	-	434,509	142	132	521	435,304
Amounts due to customers	4,769,830	93,987	4,863,817	847,126	2,990,379	165,770	8,867,092
Other borrowed funds	209,071	681,246	890,317	2,557	129,447	813,736	1,836,057
Financial liabilities at fair value through profit or loss	-	-	-	-	84	-	84
Provisions	-	-	-	-	32,612	-	32,612
Deferred tax liability	-	-	-	-	5,854	-	5,854
Other liabilities and current income tax liability	4,858	-	4,858	2,214	119,641	126	126,839
Total liabilities	5,418,268	775,233	6,193,501	852,039	3,278,149	980,153	11,303,842
Net FX position	(3,902,637)	3,898,632	(4,005)	1,209	1,492,011	18,043	1,507,258
At 31 December 2007							
Total assets	1,677,561	4,102,495	5,780,056	726,404	4,620,097	995,551	12,122,108
Total liabilities	5,144,311	625,200	5,769,511	784,818	3,512,679	933,688	11,000,696
Net FX position	(3,466,750)	3,477,295	10,545	(58,414)	1,107,418	61,863	1,121,412

Bank	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	Total
At 31 December 2008							
Assets							
Cash and balances with the Croatian National Bank	46,293	-	46,293	309,762	977,157	18,324	1,351,536
Amounts due from other banks	1,113,583	-	1,113,583	438,290	23,703	90,176	1,665,752
Financial assets at fair value through profit or loss	-	-	-	-	8,428	-	8,428
Amounts due from customers	322,652	4,667,940	4,990,592	99,560	2,509,342	889,671	8,489,165
Financial assets available for sale	16,885	5,925	22,810	5560	761,481	-	789,851
Held-to-maturity investments	16,053	-	16,053	-	55,178	-	71,231
Investments in subsidiaries	-	-	-	-	77,242	-	77,242
Property and equipment and intangible assets	-	-	-	-	280,154	-	280,154
Other assets	159	-	159	76	61,520	25	61,780
Total assets	1,515,625	4,673,865	6,189,490	853,248	4,754,205	998,196	12,795,139
Liabilities							
Amounts due to other banks	434,509	-	434,509	142	132	521	435,304
Amounts due to customers	4,769,835	93,987	4,863,822	847,126	2,991,216	165,770	8,867,934
Other borrowed funds	209,071	681,246	890,317	2,557	129,447	813,736	1,836,057
Financial liabilities at fair value through profit or loss	-	-	-	-	84	-	84
Provisions	-	-	-	-	32,612	-	32,612
Deferred tax liability	-	-	-	-	3,903	-	3,903
Other liabilities and current income tax liability	4,858	-	4,858	2,214	115,513	126	122,711
Total liabilities	5,418,273	775,233	6,193,506	852,039	3,272,907	980,153	11,298,605
Net FX position	(3,902,648)	3,898,632	(4,016)	1,209	1,481,298	18,043	1,496,534
At 31 December 2008							
Total assets	1,461,712	4,102,495	5,564,207	726,404	4,616,510	995,551	11,902,672
Total liabilities	4,925,307	625,200	5,550,507	784,818	3,510,981	933,688	10,779,994
Net FX position	(3,463,595)	3,477,295	13,700	(58,414)	1,105,529	61,863	1,122,678

34. INTEREST RATE RISK

Interest rate sensitivity of assets and liabilities

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Group's and of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy both of the Group and of the Bank to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the statement of financial position. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in the 'Non-interest-bearing' category. Earnings will also be affected by the currency of the assets and liabilities. The Group and the Bank have a significant proportion of interest earning assets and interest-bearing liabilities denominated in or linked to foreign currency. A significant portion of loans and receivables from customers presented as at fixed rate relates to corporate loans where the Bank has the right to change the interest rates, but in practice has not done so to date.

The Bank has calculated impact of change in interest rates for 200 bps. In this case, the Bank will gain additional 6.04% in net amount on their liable capital.

Group	**Up to 1 month**	**1 do 3 months**	**3 months to 1 year**	**Over 1 year**	**Non-interest bearing**	**Total**
At 31 December 2009						
Assets						
Cash and balances with the Croatian National Bank	836,530	-	-	-	591,805	1,428,335
Amounts due from other banks	1,376,679	-	-	-	1,337	1,378,016
Financial assets at fair value through profit or loss	-	-	-	-	9,237	9,237
Amounts due from customers	5,417,878	229,506	1,201,362	1,453,290	68,383	8,370,419
Financial assets available for sale	838,056	-	-	-	45,040	883,096
Held-to-maturity investments	3,244	9,236	2,136	-	16,015	30,631
Property and equipment and intangible assets	-	-	-	-	297,591	297,591
Investment property	-	-	-	-	85,717	85,717
Other assets	-	-	-	-	74,925	74,925
Total assets	8,472,387	238,742	1,203,498	1,453,290	1,190,050	12,557,967
Liabilities						
Amounts due to other banks	68,941	-	-	-	13	68,954
Amounts due to customers	4,842,735	1,122,912	3,110,389	27,004	83,547	9,186,587
Other borrowed funds	1,095	48,646	85,090	1,422,903	4,716	1,562,450
Provisions	-	-	-	-	34,186	34,186
Deferred tax liability	-	-	-	-	8,928	8,928
Other liabilities and current corporate income tax liability	-	-	-	-	89,640	89,640
Total liabilities	4,912,771	1,171,558	3,195,479	1,449,907	221,030	10,950,745
On-balance-sheet interest rate gap	3,559,616	(932,816)	(1,991,981)	3,383	969,020	1,607,222

All amounts are expressed in thousands of HRK

Bank	Up to 1 month	1 do 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
At 31 December 2009						
Assets						
Cash and balances with the Croatian National Bank	836,530	-	-	-	591,805	1,428,335
Amounts due from other banks	1,376,679	-	-	-	1,337	1,378,016
Financial assets at fair value through profit or loss	-	-	-	-	8,937	8,937
Amounts due from customers	5,418,828	229,506	1,203,362	1,453,290	68,403	8,373,389
Financial assets available for sale	838,056	-	-	-	45,040	883,096
Held-to-maturity investments	3,244	9,236	2,136	-	16,015	30,631
Investments in subsidiaries	-	-	-	-	79,882	79,882
Property and equipment and intangible assets	-	-	-	-	287,086	287,086
Other assets	-	-	-	-	75,653	75,653
Total assets	8,473,335	238,742	1,205,498	1,453,290	1,174,158	12,545,023
Liabilities						
Amounts due to other banks	68,941	-	-	-	13	68,954
Amounts due to customers	4,843,284	1,122,912	3,110,389	27,004	83,547	9,187,136
Other borrowed funds	1,095	48,646	85,090	1,422,903	4,716	1,562,450
Provisions	-	-	-	-	34,186	34,186
Deferred tax liability	-	-	-	-	7,092	7,092
Other liabilities and current income tax liability	-	-	-	-	87,998	87,998
Total liabilities	4,913,320	1,171,558	3,195,479	1,449,907	217,552	10,947,816
On-balance-sheet interest rate gap	3,560,015	(932,816)	(1,989,981)	3,383	956,606	1,597,207

Group	Up to 1 month	1 do 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
At 31 December 2008						
Assets						
Cash and balances with the Croatian National Bank	838,310	179,835	392,406	4,239	406,899	1,351,542
Amounts due from other banks	1,665,370	-	-	-	382	1,665,752
Financial assets at fair value through profit or loss	-	-	-	-	8,428	8,428
Amounts due from customers	5,607,242	263,371	778,811	1,781,574	54,402	8,485,400
Financial assets available for sale	-	62,408	226,093	480,962	20,389	789,852
Held-to-maturity investments	20,328	15,245	19,603	-	16,055	71,231
Property and equipment and intangible assets	-	-	-	-	291,169	291,169
Investment property	-	-	-	-	85,717	85,717
Other assets	-	-	-	-	62,009	62,009
Total assets	7,771,643	493,742	1,320,113	2,280,152	945,450	12,811,100
Liabilities						
Amounts due to other banks	434,925	-	-	-	379	435,304
Amounts due to customers	3,251,474	993,173	2,961,926	1,594,883	65,636	8,867,092
Other borrowed funds	12,456	78,615	492,707	1,244,869	7,410	1,836,057
Provisions	-	-	-	-	32,612	32,612
Deferred tax liability	-	-	-	-	5,854	5,854
Other liabilities and current corporate income tax liability	-	-	-	-	126,923	126,923
Total liabilities	3,698,855	1,071,788	3,454,633	2,839,752	238,814	11,303,842
On-balance-sheet interest rate gap	4,072,788	(578,046)	(2,134,520)	(559,600)	706,636	1,507,258

Bank	Up to 1 month	1 do 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
At 31 December 2008						
Assets						
Cash and balances with the Croatian National Bank	478,697	152,718	295,606	17,616	406,899	1,351,536
Amounts due from other banks	1,665,370	-	-	-	382	1,665,752
Financial assets at fair value through profit or loss	-	-	-	-	8,428	8,428
Amounts due from customers	5,608,192	263,371	781,616	1,781,574	54,412	8,489,165
Financial assets available for sale	-	62,408	226,093	480,962	20,388	789,851
Held-to-maturity investments	20,328	15,245	19,603	-	16,055	71,231
Investments in subsidiaries	-	-	-	-	77,242	77,242
Property and equipment and intangible assets	-	-	-	-	280,154	280,154
Other assets	-	-	-	-	61,780	61,780
Total assets	7,772,587	493,742	1,322,918	2,280,152	925,740	12,795,139
Liabilities						
Amounts due to other banks	434,925	-	-	-	379	435,304
Amounts due to customers	3,252,316	993,173	2,961,926	1,594,883	65,636	8,867,934
Other borrowed funds	12,456	78,615	492,707	1,244,869	7,410	1,836,057
Provisions	-	-	-	-	32,612	32,612
Deferred tax liability	-	-	-	-	3,903	3,903
Other liabilities and current income tax liability	-	-	-	-	122,795	122,795
Total liabilities	3,699,697	1,071,788	3,454,633	2,839,752	232,735	11,298,605
On-balance-sheet interest rate gap	4,072,890	(578,046)	(2,131,715)	(559,600)	693,005	1,496,534

The table below summarises the average effective interest rate at year-end for monetary financial instruments.

	Group			
	31.12.2009	Interest rate %	31.12.2008	interest rate %
Cash and balances with the Croatian National Bank	1,428,335	0.4	1,351,542	0.5
Amounts due from other banks	1,378,016	0.6	1,665,752	1.7
Amounts due from customers	8,370,419	7.8	8,485,400	7.5
Held-to-maturity investments	30,631	4.0	71,231	5.4
Financial assets available for sale	883,096	5.0	789,852	5.5
	12,090,497		12,363,777	
Amounts due to other banks	68,954	0.9	435,304	5.0
Amounts due to customers	9,186,587	3.8	8,867,092	3.1
Other borrowed funds	1,562,450	1.8	1,836,057	2.6
	10,817,991		11,138,453	

	Bank			
	31.12.2009	Interest rate %	31.12.2008	interest rate %
Cash and balances with the Croatian National Bank	1,428,335	0.4	1,351,536	0.5
Amounts due from other banks	1,378,016	0.6	1,665,752	1.7
Loans and other financial assets created by the Bank	8,373,389	7.8	8,489,165	7.5
Held-to-maturity investments	30,631	4.0	71,231	5.4
Financial assets available for sale	883,094	5.0	789,851	5.5
	12,093,465		12,367,535	
Amounts due to other banks	68,954	0.9	435,304	5.0
Amounts due to customers	9,187,136	3.8	8,867,934	3.1
Other borrowed funds	1,562,450	1.8	1,836,057	2.6
	10,818,540		11,139,295	

All amounts are expressed in thousands of HRK

35. LIQUIDITY RISK

The Group and the Bank are exposed to daily calls on their available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives. The Group and the Bank do not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The table below analyses assets and liabilities of the Group and of the Bank into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date.

Group	Up to 1 month	1 do 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
At 31 December 2009						
Assets						
Cash and balances with the Croatian National Bank	838,310	179,835	392,406	4,239	13,545	1,428,335
Amounts due from other banks	1,292,714	58,449	-	-	26,853	1,378,016
Financial assets at fair value through profit or loss	-	-	9,237	-	-	9,237
Amounts due from customers	1,181,658	315,691	1,532,519	1,481,108	3,859,443	8,370,419
Financial assets available for sale	32,496	2,412	363,123	459,655	25,410	883,096
Held-to-maturity investments	3,247	9,236	2,135	-	16,013	30,631
Property and equipment and intangible assets	87,784	-	-	-	209,807	297,591
Investment property	-	-	-	-	85,717	85,717
Other assets	74,747	-	178	-	-	74,925
Total assets	3,510,956	565,623	2,299,598	1,945,002	4,236,788	12,557,967
Liabilities						
Amounts due to other banks	68,954	-	-	-	-	68,954
Amounts due to customers	3,786,531	1,657,295	3,616,222	39,066	87,473	9,186,587
Other borrowed funds	5,811	48,646	85,090	913,615	509,288	1,562,450
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Provisions	-	-	-	-	34,186	34,186
Deferred tax liability	-	-	-	8,928	-	8,928
Other liabilities and current income tax liability	89,640	-	-	-	-	89.640
Total liabilities	3,950,936	1,705,941	3,701,312	961,609	630,947	10,950,745
Net liquidity gap	(439,980)	(1,140,318)	(1,401,714)	983,393	3,605,841	1,607,222
At 31 December 2008						
Total assets	3,592,745	581,654	1,785,003	2,268,432	4,583,266	12,811,100
Total liabilities	5,028,622	1,553,215	3,295,860	748,750	677,395	11,303,842
Net liquidity gap	(1,435,877)	(971,561)	(1,510,857)	1,519,682	3,905,871	1,507,258

Bank	Up to 1 month	1 do 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
At 31 December 2009						
Assets						
Cash and balances with the Croatian National Bank	838,310	179,835	392,406	4,239	13,545	1,428,335
Amounts due from other banks	1,292,714	58,449	-	-	26,853	1,378,016
Financial assets at fair value through profit or loss	-	-	8,937	-	-	8,937
Amounts due from customers	1,182,615	315,691	1,534,532	1,481,108	3,859,443	8,373,389
Financial assets available for sale	32,494	2,412	363,123	459,655	25,410	883,094
Held-to-maturity investments	3,247	9,236	2,135	-	16,013	30,631
Investments in subsidiaries	-	-	-	-	79,882	79,882
Property and equipment and intangible assets	87,255	-	-	-	199,831	287,086
Other assets	75,475	-	178	-	-	75,653
Total assets	3,512,110	565,623	2,301,311	1,945,002	4,220,977	12,545,023
Liabilities						
Amounts due to other banks	68,954	-	-	-	-	68,954
Amounts due to customers	3,787,080	1,657,295	3,616,222	39,066	87,473	9,187,136
Other borrowed funds	5,811	48,646	85,090	913,615	509,288	1,562,450
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Provisions	-	-	-	-	34,186	34,186
Deferred tax liability	-	-	-	7,092	-	7,092
Other liabilities and current income tax liability	87,998	-	-	-	-	87,998
Total liabilities	3,949,843	1,705,941	3,701,312	959,773	630,947	10,947,816
Net liquidity gap	(437,733)	(1,140,318)	(1,400,001)	985,229	3,590,030	1,597,207
At 31 December 2008						
Total assets	3,592,519	581,654	1,788,758	2,268,432	4,563,776	12,795,139
Total liabilities	5,025,336	1,553,215	3,295,860	746,799	677,395	11,298,605
Net liquidity gap	(1,432,817)	(971,561)	(1,507,102)	1,521,633	3,886,381	1,496,534

Group	Up to 1 month	1 do 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
At 31 December 2008						
Assets						
Cash and balances with the Croatian National Bank	885,602	152,718	295,606	3,558	14,058	1,351,542
Amounts due from other banks	1,664,843	-	-	-	909	1,665,752
Financial assets at fair value through profit or loss	-	-	8,428	-	-	8,428
Amounts due from customers	939,750	351,283	1,235,095	1,809,787	4,149,485	8,485,400
Financial assets available for sale	20,389	62,408	226,093	455,087	25,875	789,852
Held-to-maturity investments	20,330	15,245	19,603	-	16,053	71,231
Property and equipment and intangible assets	-	-	-	-	291,169	291,169
Investment property	-	-	-	-	85,717	85,717
Other assets	61,831	-	178	-	-	62,009
Total assets	3,592,745	581,654	1,785,003	2,268,432	4,583,266	12,811,100
Liabilities						
Amounts due to other banks	435,304	-	-	-	-	435,304
Amounts due to customers	4,459,758	1,474,600	2,803,153	33,652	95,929	8,867,092
Other borrowed funds	19,866	78,615	492,707	709,244	535,625	1,836,057
Financial liabilities at fair value through profit or loss	84	-	-	-	-	84
Provisions	-	-	-	-	32,612	32,612
Deferred tax liability	-	-	-	5,854	-	5,854
Other liabilities and current income tax liability	113,610	-	-	-	13,229	126,839
Total liabilities	5,028,622	1,553,215	3,295,860	748,750	677,395	11,303,842
Net liquidity gap	(1,435,877)	(971,561)	(1,510,857)	1,519,682	3,905,871	1,507,258
At 31 December 2008						
Total assets	4,172,825	607,812	1,845,085	1,377,415	4,118,971	12,122,108
Total liabilities	5,261,962	1,653,335	2,952,768	173,789	958,842	11,000,696
Net liquidity gap	(1,089,137)	(1.045,523)	(1,107,683)	1,203,626	3,160,129	1,121,412

All amounts are expressed in thousands of HRK

Bank	Up to 1 month	1 do 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
At 31 December 2008						
Assets						
Cash and balances with the Croatian National Bank	885,596	152,718	295,606	3,558	14,058	1,351,536
Amounts due from other banks	1,664,843	-	-	-	909	1,665,752
Financial assets at fair value through profit or loss	-	-	8,428	-	-	8,428
Amounts due from customers	939,760	351,283	1,238,850	1,809,787	4,149,485	8,489,165
Financial assets available for sale	20,388	62,408	226,093	455,087	25,875	789,851
Held-to-maturity investments	20,330	15,245	19,603	-	16,053	71,231
Investments in subsidiaries	-	-	-	-	77,242	77,242
Property and equipment and intangible assets	-	-	-	-	280,154	280,154
Other assets	61,602	-	178	-	-	61,780
Total assets	3,592,519	581,654	1,788,758	2,268,432	4,563,776	12,795,139
Liabilities						
Amounts due to other banks	435,304	-	-	-	-	435,304
Amounts due to customers	4,460,600	1,474,600	2,803,153	33,652	95,929	8,867,934
Other borrowed funds	19,866	78,615	492,707	709,244	535,625	1,836,057
Financial liabilities at fair value through profit or loss	84	-	-	-	-	84
Provisions	-	-	-	-	32,612	32,612
Deferred tax liability	-	-	-	3,903	-	3,903
Other liabilities and current income tax liability	109,482	-	-	-	13,229	122,711
Total liabilities	5,025,336	1,553,215	3,295,860	746,799	677,395	11,298,605
Net liquidity gap	(1,432,817)	(971,561)	(1,507,102)	1,521,633	3,886,381	1,496,534
At 31 December 2008						
Total assets	4,190,021	535,806	1,702,245	1,377,415	4,097,185	11,902,672
Total liabilities	5,255,575	1,581,329	2,809,928	174,320	958,842	10,779,994
Net liquidity gap	(1,065,554)	(1,045,523)	(1,107,683)	1,203,095	3,138,343	1,122,678

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

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

36. RELATED PARTY TRANSACTIONS

The Bank is the parent of the OTP banka Group. The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; its subsidiaries and associates; the investment funds managed by one of its subsidiaries, OTP Invest; Supervisory Board members, Management Board members; close family members of Management Board; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" (the "IAS 24").

Outstanding balances at the year-end and relating expense and income for the year are as follows:

	31.12.2009		31.12.2008	
	Receivables	Payables	Receivables	Payables
OTP Bank Rt. Hungary	124,574	782,187	105,836	1,009,086
OTP Nekretnine d.o.o.	3,523	625	3,840	185
OTP Invest d.o.o.	1,811	839	959	789
Kratos nekretnine d.o.o.	-	20	-	48
	129,908	783,671	110,635	1,010,108

	31.12.2009		31.12.2008	
	Income	Expenses	Income	Expenses
OTP Bank Rt. Hungary	2,517	17,168	2,237	31,979
OTP Nekretnine d.o.o.	845	588	2,003	27,703
OTP Invest d.o.o.	103	65	328	4
Kratos nekretnine d.o.o.	1	-	1	44
Kvirinal nekretnine d.o.o.	-	-	179	-
	3,466	17,821	4,748	59,730

Remuneration paid to key management personnel amounted to HRK 6,857 thousand and relates to short-term employee benefits (2008: HRK 9,585 thousand). Included in key management personnel are Management Board members.

Remuneration paid to Supervisory Board members amounted to HRK 511 thousand (2008: HRK 386 thousand).

37. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Group manages funds on behalf of third parties placed mainly as loans between enterprises through the Group as agent. These assets are accounted for separately from those of the Group and no liability falls on the Group in connection with these transactions. The Group charges a fee for these services.
At 31 December 2009, Funds managed by the Group and the Bank as an agent on behalf of third parties amounted to HRK 97,245 thousand (2008: HRK 92,697 thousand). Additionally, assets under the management of OTP Invest, a subsidiary of the Bank, amounted to HRK 243,744 thousand (2008: HRK 162,333 thousand).

38. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial instruments is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's-length transaction, where available. Fair value is based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where quoted market prices are not readily available, fair value is estimated using alternative techniques, or financial assets are measured at cost, amortised cost or indexed cost.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value measurements recognised in the statement of financial position

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:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- 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

- 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).

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Financial assets at fair value through profit or loss				
Derivative financial assets	-	-	-	-
Non-derivative financial assets	9.237	-	-	9.237
Available-for-sale financial assets				
Equity securities	9,151	-	3,394	12,545
Debt securities	203,967	186,508	458,229	848,704
Units in open-ended investment funds	21,847	-	-	21,847
Total	244.202	186,508	461,623	892.333
Financial liabilities at fair value through profit or loss				
Contingent consideration in a business combination	-	-	-	-
Other derivative financial liabilities	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-
Total	-	-	-	-

	Bank			
	Level 1	**Level 2**	**Level 3**	**Total**
	HRK'000	**HRK'000**	**HRK'000**	**HRK'000**
Financial assets at fair value through profit or loss				
Derivative financial assets	-	-	-	-
Non-derivative financial assets	8.937	-	-	8.937
Available-for-sale financial assets				
Equity securities	9,151	-	3,394	12,545
Debt securities	203,967	186,508	458,229	848,704
Units in open-ended investment funds	21,845	-	-	21,845
Total	243.902	186,508	461,623	892.033
Financial liabilities at fair value through profit or loss				
Contingent consideration in a business combination	-	-	-	-
Other derivative financial liabilities	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-
Total	-	-	-	-

There were no transfers between Level 1 and 2 in the period.

All amounts are expressed in thousands of HRK

39. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment losses on loans and receivables

The Group and the Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with regulations, the need for impairment of the Group's on- and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying value of loans to and receivables from corporate and retail customers (summarised in note 14), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of undrawn lending commitments, guarantees, letters of credit and unused credit card limits (summarised in note 26). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

		Group		Bank	
	Notes	2009	2008	2009	2008
Summary of impairment losses on customers					
Impairment allowance on loans to and receivables from customers	14	337,128	341,153	337,128	341,153
Provisions for off-balance-sheet exposures	26	9,204	10,444	9,204	10,444
		346,332	351,597	346,332	351,597

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

The Group estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers; and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults. The Group takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgement in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Group also has regard to the ranges of specific impairment loss rates prescribed by the CNB.

At the year end, the gross value of specifically impaired loans to and receivables from customers, and the rate of impairment loss recognised, was as follows:

Group and Bank			**2009**			**2008**
	Corporate	**Retail**	**Total**	**Corporate**	**Retail**	**Total**
Gross value of Exposure of impaired loans	201,002	290,945	491,947	120,080	200,782	320,862
Impairment rate	26.20%	62.96%	47.94%	72.95%	74.99%	74.23%

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2009 would lead to the recognition of an additional impairment loss of HRK 4,919 thousand for the Group and the Bank.

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

The amount of impairment allowance at 31 December 2009 calculated on a portfolio basis in accordance with local regulations amounted to HRK 110,477 thousand (2008: HRK 115,314 thousand) of the relevant on- and off-balance-sheet exposure for the Group and Bank. The total of these portfolio based impairment losses amounted to 0,85 % (2008: 0.85%) of eligible loans to and receivables from customers and commitments and contingencies of the Group and the Bank respectively, in both cases net of amounts individually assessed as impaired.

At the maximum rate prescribed by the CNB, portfolio based impairment losses would be HRK 45,490 thousand (2008: HRK 47,482 thousand) higher than the amount recognised by the Group and Bank.

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost.

This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the nominal volatility in share price.

In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Held-to-maturity investments

The Group 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 Group evaluates its intention and ability to hold such investments to maturity.

Taxation

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

Regulatory requirements

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

Legal actions

In the ordinary course of business, the Group is subject to various legal actions and complaints, the outcome of which is uncertain. As of 31 December 2009, based on the advice of legal counsel, management created provisions for the related risks amounting to HRK 24,982 thousand (2008: HRK 22,168 thousand).

40. APPROVAL OF FINANCIAL STATEMENTS

The consolidated and unconsolidated financial statements are signed by and approved for issuing by the Management Board of OTP banka Hrvatska d.d. Zadar on 19 March 2010

Damir Odak
President of the Management Board

Zorislav Vidović
Member of the Management Board

Pursuant to the Croatian Accounting Law, Croatian National Bank issued the Decision on structure and contents of annual financial statement of the banks.

The following tables present consolidated financial statements in accordance to the above mentioned decision

Statements of comprehensive income

	2009 HRK '000	2008 HRK '000
1. Interest income	742,072	727,389
2. (Interest expenses)	(402,507)	(350,995)
3. Net interest income	339,565	376,394
4. Commission and fee income	136,657	136,020
5. (Commission and fee expenses)	(37,639)	(37,361)
6. Net commission and fee income	99,018	98,659
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-
8. Gain/(loss) from trading activities	41,463	25,144
9. Gain/(loss) from embedded derivatives	(1)	23
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	930	434
11. Gain/(loss) from financial assets available for sale	(430)	2,432
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	655	1,818
16. Gain/(loss) from foreign exchange differences	1,746	6,305
17. Other income	12,312	13,040
18. Other expenses	(25,807)	(22,424)
19. General and administrative expenses, depreciation and amortization	(297,243)	(290,193)
20. Net income before value adjustments and provisions for losses	172,208	211,632
21. Expenses from value adjustments and provisions for losses	(61,203)	(26,401)
22. Profit/(loss) before tax	111,004	185,231
23. Income tax	(22,358)	(36,683)
24. Current year profit/(loss)	88,647	148,548
25. Earnings per share	21.56	37.88
26. Current year profit/(loss)	88,647	148,548
27. Distributable to the parent company shareholders	88,647	148,548
28. Minority participation	-	-

All amounts are expressed in thousands of HRK

Statement of financial position

Assets	2009	2008
	HRK '000	HRK '000
1. Cash and deposits with the CNB	1,389,658	1,323,878
1.1. Cash	133,563	138,785
1.2. Deposits with the CNB	1,256,095	1,185,093
2. Deposits with banking institutions	1,415,963	1,677,473
3. Treasury bills of Ministry of Finance and treasury bills of the CNB	186,508	284,330
4. Securities and other financial instruments held for trading	-	-
5. Securities and other financial instruments available for sale	685,116	496,895
6. Securities and other financial instruments held to maturity	30,629	71,229
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	8,937	8,428
8. Derivative financial assets	26	53
9. Loans to financial institutions	16,150	15,950
10. Loans to other clients	8,452,011	8,599,735
11. Investments in subsidiaries, affiliated companies and joint ventures	80,703	78,063
12. Repossessed assets	178	178
13. Tangible and intangible assets (minus depreciation and amortization)	199,831	201,228
14. Interests, fees and other assets	265,427	221,402
15. Special reserves for identified losses	(101,273)	(104,870)
A. Total assets	12,629,864	12,873,970
Liabilities and equity		
1. Borrowings from financial institutions	766,527	807,742
2. Deposits	9,167,798	9,215,694
2.1. Deposits on giro-accounts and current accounts	1,317,892	1,628,959
2.2. Savings deposits	1,064,228	1,115,896
2.3. Term deposits	6,785,678	6,470,839
3. Other borrowings	753,792	983,457
3.1. Short-term borrowings	-	-
3.2. Long-term borrowings	753,792	983,457
4. Derivative financial liabilities and other trading financial liabilities	59	221
5. Issued debt securities	-	-
6. Issued subordinated instruments	37,356	37,449
7. Issued Subordinated debt	-	-
8. Interests, fees and other liabilities	307,124	332,873
B. Total liabilities	11,032,656	11,377,436
1. Share capital	989,607	989,607
2. Current year gain/loss	88,647	148,548
3. Retained earnings/(loss)	267,986	141,138
4. Legal reserves	41,114	30,264
5. Statutory and other capital reserves	154,117	143,271
6. Unrealised gain /(loss) from available for sale fair value adjustment	55,736	43,707
C. Total equity	1,597,207	1,509,092
D. Total liabilities and equity	12,629,864	12,890,839
8. Total equity	1,597,207	1,509,092
9. Equity distributable to parent company shareholders	1,597,207	1,509,092
10. Minority participation	-	-

Statement of Changes in Equity

Change in equity	Share capital	Legal statutory and other reserves	Retained earning /(losses)	Current year profit /loss	Unrealised gain/(losses) from available for sale financial assets fair value adjustement	Total capital and reserves
1. Balance at 1 January 2009	989,607	173,535	141,138	148,548	43,707	1,496,535
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-
3. Restated balance at 1 January 2009(1+2)	989,607	173,535	141,138	148,548	43,707	1,496,535
4 . Sale of financial assets available for sale	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	15,036	15,036
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	(3,007)	(3,007)
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-
8. Net gains/losses directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	-	-
9. Current year gain/(loss) 2009.	-	-	-	88,647	-	88,647
10. Total income and expenses recognised for the current year 2009	-	-	-	88,647	12,029	100,676
11. Increase/ (decrease) in share capital	-	-	-	-	-	-
12. Buying/(sale) of treasury shares	-	-	-	-	-	-
13. Other changes	-	(4)	126,848	-	-	126,844
14. Transfer to reserves	-	21,700	-	(148,548)	-	(126,848)
15. Dividends paid	-	-	-	-	-	-
16. Distribution of profit (14+15)	-	21,700	-	(148,548)	-	(126,848)
17. Balance at 31 December 2009 (3+10+11+12+13+16)	989,607	195,231	267,986	88,647	55,736	1,597,207

Changes in equity	Share capital	Legal statutory and other reserves	Retained earning /(losses)	Current year profit /loss	Unrealised gain/(losses) from available for sale financial assets fair value adjustement	Total capital and reserves
1. Balance at 1 January 2008	772,607	125,682	84,209	104,785	35,394	1,122,678
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-
3. Restated balance at 1 January 2008. (1+2)	772,607	125,682	84,209	104,785	35,394	1,122,678
4 . Sale of financial assets available for sale	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	10,391	10,391
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	(2,078)	(2,078)
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-
8. Net gains/losses directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	8,313	8,313
9. Current year gain/(loss) 2008.	-	-	-	148,548	-	148,548
10. Total income and expenses recognised for the current year 2008.	-	-	-	148,548	8,313	156,861
11. Increase/ (decrease) in share capital	217,000	-	-	-	-	217,000
12. Buying/(sale) of treasury shares	-	-	-	-	-	-
13. Other changes	-	(4)	56,929	-	-	56,925
14. Transfer to reserves	-	47,857	-	(104,785)	-	(56,928)
15. Dividends paid	-	-	-	-	-	-
16. Distribution of profit (14+15)	-	47,857	-	(104,785)	-	(56,928)
17. Balance at 31 December 2008. (3+10+11+12+13+16)	989,607	173,535	141,138	148,548	43,707	1,496,535

All amounts are expressed in thousands of HRK

Cash flow statement

	2009 HRK '000	2008 HRK '000
Operating activities		
1,1, Gain/(loss) before tax	111,004	188,703
1,2, Value adjustments and provisions for losses	(3,597)	6,638
1,3, Depreciation and amortization	30,936	25,164
1,4, Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	-	(434)
1,5, Gain/(loss) from tangible assets sale	11,536	(1,957)
1, Operating cash flow before operating assets movements	149,879	218,114
2.1. Deposits with CNB	(71,009)	417,792
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	97,822	(360,323)
2.3. Deposits with banking institutions and loans to financial institutions	261,510	(12,640)
2.4. Loans to other clients	147,524	(960,179)
2.5. Securities and other financial instruments held for trading	482	-
2.6. Securities and other financial instruments available for sale	(176,195)	182,354
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	-	70
2.8. Other operating assets	(44,025)	13,023
2. Net (increase)/decrease in operating assets	(215,152)	(719,903)
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	(311,067)	(105,045)
3.2. Savings and term deposits	263,171	229,354
3.3. Derivative financial liabilities and other trading liabilities	(162)	(546)
3.4. Other liabilities	(268)	(33,181)
3. Net increase/(decrease) in operating liabilities	(48,236)	90,582
4. Net cash flow form operating activities before profit tax paying	316,705	(411,207)
5. Paid profit tax	(47,839)	(10,979)
6. Net inflows/(outflows) of cash from operating activities	268,866	(422,186)
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	(41,075)	77,901
7.2. Receipts from sale /(payments for buying) investments in subsidiaries, affiliated companies and joint ventures	(2,640)	47,625
7.3. Receipts from collection/(payments for buying) securities and other financial instruments held to maturity	40,600	13,443
7. Net cash flow from investing activities	3,115	138,969
Financial activities		
8.1. Net increase/(decrease) in borrowings	(270,880)	(172,289)
8.2. Net increase/(decrease) in issued debt securities	-	-
8.3. Net increase/(decrease) in subordinated and Subordinated debt	(93)	(4)
8.4. Receipts from issued share capital	-	217,000
8.5. (Dividends paid)		-
8.6. Other receipts/(payments) from financial activities		-
8. Net cash flow from financial activities	(270,793)	44,707
9. Net increase/(decrease) in cash and cash equivalents		
10. Effects from foreign exchange rates changes on cash and cash equivalents	(5,222)	(5,226)
11. Net increase/(decrease) in cash and cash equivalents	299,260	(243,736)
12. Cash and cash equivalents at the beginning of the year	2,084,701	2,199,665
13. Cash and cash equivalents at the and of the year	1.785.411	2,084,701

As data in financial statements prepared in accordance with the Croatian National Bank ("CNB") decision are classified differently from those in financial statements prepared according to the statutory accounting requirements for banks in Croatia the following tables present comparatives.

Comparative statements of comprehensive income for 2009 and 2008

HRK '000

	Croatian National Bank decision 2009	**Accounting Requirements for banks in Croatia for 2009**	**Difference 2009**	**Croatian National Bank decision 2008**	**Accounting Requirements for banks in Croatia for 2008**	**Difference 2008**
1. Interest income	742,072	742,315	(243)	727,389	727,100	289
2. (Interest expenses)	(402,507)	(380,893)	(21,614)	(350,995)	(331,102)	(19,893)
3. Net interest income	339,565	361,422	(21,857)	376,395	395,998	(19,604)
4. Commission and fee income	136,657	136,679	(22)	136,020	135,996	24
5. (Commission and fee expenses)	(37,639)	(37,640)	1	(37,361)	(37,362)	1
6. Net commission and fee income	99,018	99,039	(21)	98,659	98,634	25
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-	-	-	-	-
8. Gain/(loss) from trading activities	41,463	41,463	-	25,144	25,144	-
9. Gain/(loss) from embedded derivatives	(1)	-	(1)	23	25,144	-
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	930	-	930	434	-	434
11. Gain/(loss) from financial assets available for sale	(430)	(430)	-	2,432	2,432	-
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	655	-	655	1,818	-	1,818
16. Gain/(loss) from foreign exchange differences	1,746	1,572	174	6,305	7,193	(888)
17. Other income	12,312	13,795	(1,483)	13,040	15,168	(2,128)
18. Other expenses	(25,807)	-	(25,807)	(22,424)	-	(22,424)
19. General and administrative expenses, depreciation and amortization	(297,243)	(341,333)	44,090	(290,193)	(332,031)	41,838
20. Net income before value adjustments and provisions for losses	172,208	175,528	(3,320)	211,632	212,538	(906)
21. Expenses from value adjustments and provisions for losses	(61,203)	(64,523)	3,320	(26,401)	(27,307)	906
22. Profit/(loss) before tax	111,005	111,005	-	185,231	185,231	-
23. Income tax	(22,358)	(22,358)		(36,683)	(36,683)	-
24. Current year profit/(loss)	88,647	88,647	-	148,548	148,548	-
25. Earnings per share	21,56	21,56	-	37,88	37,88	-
26. Current year profit/(loss)	88,647	88,647	-	148,548	148,548	-

Reconciliations between the statement of financial position items disclosed in the Annual Report and those specified by the CNB Decision relate to the following categories:

Reconciliation notes to the 2009 Statements of comprehensive income

The departures of the statements of comprehensive income items as published in the Annual Report from the standard prescribed by the CNB Decision comprise the following:

The difference between the total interest income as per the CNB accounting standards for banks and the Annual Report are net exchange differences on interest income, which are presented in the Annual Report within "Net gains and losses on foreign currency dealings, equities and translation of monetary assets and liabilities"

The difference between the total interest income as per the CNB accounting standards for banks and the Annual Report is in the savings deposit premiums, which are presented in the Annual Report under "Operating expenses", as well as in the position "Net exchange differences on interest expense" that are reported within "Net gains and losses on foreign currency dealings, equities and translation of monetary assets and liabilities".

"Trading gains/losses", "Gains/losses on embedded derivatives", "Gains/losses on activities involving assets available for sale", and "Gains/losses on accrued exchange differences" are items that are presented separately under the CNB accounting standards for banks, whilst in the Annual Report they are included within "Net gains and losses on foreign currency dealings, equities and translation of monetary assets and liabilities".

"Gains/losses on assets at fair value through profit or loss not actively traded", "Income from other equity investments", "Other income" and "Extraordinary income" are items that are presented separately under the CNB accounting standards for banks, while in the Annual Report they are included in "Other operating income".

"Other expenses", "Extraordinary expenses", and "General and administrative expenses, and depreciation and amortisation" are items that are presented separately under the CNB accounting standards for banks, while in the Annual Report they are included in "Operating expenses".

Comparatives for Statement of financial position as at 31 December 2009 and 2008

HRK '000

Assets	Croatian National Bank decision 2009	Accounting Requirements for banks in Croatia for 2009	Difference 2009	Croatian National Bank decision 2008	Accounting Requirements for banks in Croatia for 2008	Difference 2008
1. Cash and deposits with the CNB	1,389,658	1,428,335	(38,677)	1,323,878	1,351,536	(27,658)
1.1. Cash	133,563	434,278	(300,715)	138,785	419,852	(281.067)
1.2. Deposits with the CNB	1,256,095	994,057	262,038	1,185,093	931,684	253,409
2. Deposits with banking institutions	1,415,963	1,378,016	37,947	1,677,473	1,665,752	11,721
3. Treasury bills of Ministry of Finance and treasury bills of the CNB	186,508	-	186,508	284,330	-	284,330
4. Securities and other financial instruments held for trading	-	8,937	(8,937)	-	8,428	(8,428)
5. Securities and other financial instruments available for sale	685,116	883,094	(197,978)	496,895	789,851	(292,956)
6. Securities and other financial instruments held to maturity	30,629	30,631	(2)	71,229	71,231	(2)
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	8,937	-	8,937	8,428	-	8,428
8. Derivative financial assets	26	-	26	53	-	53
9. Loans to financial institutions	16,150	-	16,150	15,950	-	15,950
10. Loans to other clients	8,452,011	8,373,389	78,622	8,599,735	8,489,165	110,570
11. Investments in subsidiaries, affiliated companies and joint ventures	80,703	79,882	821	78,063	77,242	821
12. Repossessed assets	178	-	178	178	-	178
13. Tangible and intangible assets (minus depreciation and amortization)	199,831	287,086	(87,255)	201,228	280,154	(78,926)
14. Interests, fees and other assets	265,427	75,653	189,774	221,401	61,780	159,261
15.Specif reserves for indentified losses	(101,273)	-	(101,273)	(104,870)	-	(104,870)
A. Total assets	12,629,864	12,545,023	84,841	12,873,970	12,795,139	78,831

Liabilities and equity	Croatian National Bank decision 2009	Accounting Requirements for banks in Croatia for 2009	Difference 2009	Croatian National Bank decision 2008	Accounting Requirements for banks in Croatia for 2008	Difference 2008
1. Borrowings from financial institutions	766,527	1,562,450	(795,923)	807,742	1,836,058	(1,028,315)
2. Deposits	9,167,798	-	9,167,798	9,215,694	-	9,215,694
2.1. Deposits on giro-accounts and current accounts	1,317,892	-	1,317,892	1,628,959	-	1,628,959
2.2. Savings deposits	1,064,228	-	1,064,228	1,115,896	-	1,115,896
2.3. Term deposits	6,785,678	-	6,785,678	6,470,839	-	6,470,839
3. Other borrowings	753,782	-	753,792	983,457	-	983,457
3.1. Short-term borrowings	-	-	-	-	-	-
3.2. Long-term borrowings	753,792	-	753,792	983,457	-	983,457
4.Due to other banks and deposits from customers	-	68,954	(68,954)	-	435,304	(435,304)
5. Due to customers	-	9,187,136	(9,187,136)	-	8,867,934	(8,867,934)
6. Derivative financial liabilities and other trading financial liabilities	59	-	59	221	-	221
8. Issued subordinated instruments	37,356	-	37,356	37,449	-	37,449
9. Financial liabilities through fair value	-	-	-	-	84	(84)
10. Provisions	-	34,186	(34,186)	-	32,612	(32,612)
11. Deferred tax liabilities	-	7,092	(7,092)	-	3,903	(3,903)
12. Income tax liabilities	-	-	-	-	32,192	(32,192)
13. Interests, fees and other liabilities	307,124	87,998	219,126	332,873	90,517	242,356
B. Total liabilities	11,032,656	10,947,816	84,841	11,377,436	11,298,604	78,831
1. Share capital	989,607	822,280	167,327	989,607	822,280	167,327
Share premium	-	171,260	(171,260)	-	171,260	(171,260)
2. Current year gain/loss	88,647	-	88,647	148,548	-	148,548
3. Retained earnings/(loss)	267,986	332,953	(64,967)	141,138	244,307	(103,169)
4. Legal reserves	41,114	-	41,114	30,264	-	30,264
Statutory and other capital reserves	-	82,228	(82,228)	-	82,228	(82,228)
5. Statutory and other capital reserves	154,117	-	154,117	143,271	-	143,271
Other reserves	-	188,486	(188,486)	-	176,460	(176,460)
6. Unrealised gain /(loss) from available for sale fair value adjustment	55,736	-	55,736	43,707	-	43,707
C. Total equity	1,597,207	1,597,207	-	1,496,535	1,496,535	-
D. Total liabilities and equity	12,629,864	12,545,023	84,841	12,873,970	12,795,139	78,831

Reconciliations between the statement of financial position items disclosed in the Annual Report and those specified by the CNB Decision relate to the following categories:

Reconciliation notes to the 2009 Statement of financial position

ASSETS

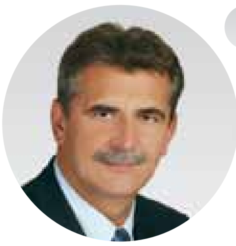
"Cash and deposits with CNB" and "Deposits with, and loans to banking institutions" are items that are presented separately under the CNB accounting standards for banks, while in the Annual Report they are included in "Cash and amounts due from banks", "Mandatory reserve with CNB" and "Loans to other banks". Treasury bills of the Ministry of Finance and treasury bills of the CNB are reported separately according to the CNB accounting standards for banks, while in the Annual Report they are included in "Financial assets available for sale". Securities and other financial instruments at fair value through profit or loss not actively traded are reported separately under the CNB accounting standards, while in the Annual Report they are included under the caption "Financial assets at fair value through profit or loss".
Repossessed i.e. foreclosed assets are items reported separately according to the CNB accounting standards, while in the Annual Report they are included under "Other assets".
Interest and fees due and not yet due and intangible assets are included under "Interest, fees and other assets" according to the CNB accounting standards for banks, while in the Annual Report, intangible assets are reported separately, and interest and fees are presented within the corresponding loan principal and securities due and not yet due.

LIABILITIES AND EQUITY

Short- and long-term loans from financial institutions, other short-term and long-term loans and issued subordinated debt instruments are items that are reported separately under the CNB accounting standards for banks, whereas in the Annual Report they are included within "Other borrowed funds".
Current and giro account balances, savings deposits and term deposits are separately under the CNB accounting standards for banks, whereas in the Annual Report they are presented under the captions "Amounts due to other banks" and "Amounts due to customers".
Provisions, deferred tax liabilities and income tax liability are included within "Interest, fees and other liabilities" according to the CNB accounting standards for banks, while they are reported separately in the Annual Report.
Accrued interest and fees due and not yet due are presented in the Annual report within the corresponding principal due and not yet due, while under the CNB standards they are included in "Interest, fees and other liabilities".

Supervisory Board and Management Board

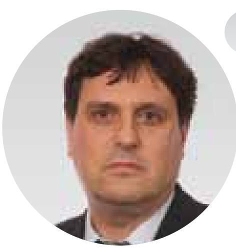
Supervisory Board



Antal György Kovács

Executive Director for South Transdanubian region in OTP Bank Rt

Antal György Kovács, President of the Supervisory Board, OTP Bank Executive Director for South Transdanubian region, was born in 1953. He graduated from the Budapest Faculty of Economics in 1985, and in 1990 he started his career in finances by taking a position with K&H Bank in Nagyatád, where he was promoted to the position of a director three years later. During his employment with that bank he attended numerous seminars in the USA, specialising in the finance field. He joined OTP Bank in 1995 as the director for Somogy county and in 1997 he was in charge of the branch offices for Somogy and Tolnu counties. He took his current position in the bank in 1998, where he is in charge of management of the regional branch offices' operations, business planning, cost management, loan granting and other tasks.



Gábor Czikora

Managing Director of the IT Development Department in OTP Bank Rt

Gábor Czikora, SB Deputy President, was born in 1958. After obtaining programmer degree on Számalk university, specialized in IT technology and economics, he finds employment in Volán Elektronik as an operator. In 1980 he transfered to OTP Bank, where he started as an operator and advanced to the position of project manager. Since 1996 he was assistant to the Head of Loan Systems IT Development Unit and became the Head of Unit in 2000. After four years on this position he became Head of IT Development Directorate, C/A and Loan Systems IT Development Department. In October 2006 he was appointed IT Development Directorate Managing Director.

Gábor Kovács

Head of the Marketing and Sales Department in OTP Bank Rt

Gábor Kovács was born in 1973 in Pécs. He received the degree in geography and library history in 1996, but continues education and obtains Professional Master of Business Administration Training on Faculty of Economics Pécs. In 1996 he begins his career in Nationale Netherlanden, where he was in charge of life insurance segment. He transfered to OTP Bank Pécs in 1997 and advanced within Sales and Branch Management Departmen. In June 2004 he moved to Budapest, where he became a part of OTP Bank START project in Marketing and Sales Division. As of October 2004 he holds the position of OTP Bank Marketing and Sales Division Head of Deparment.

László Kecskés graduated on Financial Accounting College and began his career as the Manager of Kecskés and Co accountant and tax-consultant company. After two years he transfered to the position of Chief Manager at Intertia Accountant Trustee, where he remained until 1994 when he became an auditor in OTP Bank. In 1996 he became Deputy Head of the Banking Operation Audit Department and obtained the position of the General Director in 2001. Since April 2007 he is the Managing Director of the OTP Bank Internal Audit Directorate.

László Kecskés

Managing Director of the Internal Audit Department in OTP Bank Rt

Csaba Attila Faragó was born in 1956 in Gödöllő. He graduated from the University of Agricultural Sciences and Economics in Gödöllő and received special recuation at the Ministry of Foreign Trade. From 1985 until 1998 he worked as head of maintenance, technological developer, marketing director and financial consultant with various companies. From 1998 until 2002 he served as the CEO of the Hungarian Privatization Agency and from 2005 until 2007 as a consultant to the CEO of MKB Bank Plc. He is the independent member of the Supervisory Board.

Csaba Attila Faragó

Independent member of the Supervisory Board

Management Board

Damir Odak

President of the Management Board of OTP banka Hrvatska d.d.

Damir Odak, president of the Management Board of OTP banka d.d., was born in 1964 in Split. He graduated from the Faculty of Economics and started his career as a junior researcher at the Institute of Economics in Zagreb. He was the Chairman of the Management Board of Trgovačka banka (now a part of the Erste Group) from 1990 to 1997. In the period from 1997 until 2003 he was the director of the Corporate Banking Sector and a member of the Management Board of Zagrebačka banka. In September 2003 he was appointed president of the Nova banka Management Board and he has been exercising this function since. He is in charge of the Risk Management, Legal Affairs, Human Resources, Audit, Marketing and Corporate Communications and Security.

Zorislav Vidović

Member of the Management Board of OTP banka Hrvatska d.d.

Zorislav Vidović, member of the Management Board of OTP banka d.d., was born in 1964 in Šibenik. He graduated from the Faculty of Economics at the University of Zagreb in 1988. In the period from 1988 to 1990 he held a job in the Finance Section of the company Kepol Zadar. By the end of 1990, he joined Dalmatinska banka where he was assigned to the Assets and Lending Division and in 1992, he obtained a broker license. From 1997 to 2002 he held the position of the head of the Treasury Department. He has been a member of the Management Board since 1 April 2002. He is in charge of the Treasury, Finance and Corporate Banking. He was a member of the Supervisory Boards of the Dalmatinska banka subsidiaries for a number of years.

Balázs Békeffy

Member of the Management Board of OTP banka Hrvatska d.d.

Balázs Békeffy, member of the Management Board of OTP banka d.d., was born in 1977 in Budapest. He graduated from the Budapest University of Economics, and gained specialised education at professional schools in Moscow and Sweden. He started his career in a subsidiary of the Swiss-based pharmaceutical and research company Novartis Seeds, and afterwards he worked with the audit company PricewaterhouseCoopers, as a consultant at Corporate Finance Services. He joined OTP Bank in March 2003, as a senior project manager in charge of bank acquisitions. In March 2006, he was appointed as director of the Operations Division within OTP banka Hrvatska, and since September 2006, he has been the Management Board member. He is in charge of Operations, Retail Banking and IT.

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