Annual report 2010

2010

General information

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Report on the Supervision Performed in 2010

Pursuant to Article 263, Paragraph 3 and Article 300c, Paragraph 2 of the Companies Act, and Article 8, Paragraph 1 of Articles of Association of Erste&Steiermärkische Bank d.d. (hereinafter: the Bank), on March 17, 2011 the Bank's Supervisory Board adopted the following

REPORT On the Supervision Performed in 2010

I. During 2010 the Supervisory Board fulfilled its tasks and made decisions pursuant to its authorities set by relevant laws.

The Management Board regularly informed the Supervisory Board through written and oral reports on the state of the Bank, business politics issues, development plans and the Bank's financial results.

The activities of the Supervisory Board related to the supervision of the Bank's operations in 2010 were conducted in meetings; respectively by the Supervisory Board members' written declarations.

In 2010 the Supervisory Board held four meetings. A number of issues related to the Bank's condition and business operations were addressed. Pursuant to the provisions of the Articles of Association and the Supervisory Board Rules of Procedure, the Supervisory Board also made decisions without convening meetings, by the Supervisory Board members' written declarations. In that manner the Supervisory Board made decisions thirty two times. Such decisions were made in writing and were subsequently verified in the first meeting of the Supervisory Board that followed.

The Supervisory Board paid great attention to the Management Board Reports on the Bank's operations and gave approval to the Bank Management Board to make decisions and regulations for which the Supervisory Board approval is required, pursuant to the Credit Institutions Act and the Bank's Articles of Association.

The Credit Committee and the Audit Committee helped the Supervisory Board in its work. In 2010 the Credit Committee made sixty three decisions in writing and the Audit Committee held four meetings. These Committees discussed and made decisions according to their authorities and responsibilities provided by the Supervisory Board Rules of Procedure and the Audit Committee Charter. The committees submitted quarterly reports on their work to the Supervisory Board.

II. In accordance with its legal obligations, the Supervisory Board carried out the supervision of the Bank's operations and found that the Bank operates in compliance with the law, the Bank's Articles of Association and other by-laws, and in line with the General Meeting's decisions.

III. Having inspected the financial statements of the Bank and the Group submitted by the Bank's Management Board, the Supervisory Board found that the annual financial statements of the Bank and the Group for the year 2010 complied with the records in the business books of the Bank and the Group, that they reflected the state of the assets and operations of the Bank and the Group accurately, and therefore the Supervisory Board granted its consent, whereby pursuant to Article 300.d of the Company Act, those financial statements are considered to be defined.

The Supervisory Board reviewed the Report of the independent auditor Ernst & Young d.o.o., Milana Sachsa 1, 10000 Zagreb, which had audited the Bank's annual financial statements for 2010, as well as the consolidated annual financial statements of the Bank's Group, and accepts the Auditor's report without any objections.

The Supervisory Board granted consent to the Management Board's Report on the good standing of the Bank and affiliated companies.

IV. The Supervisory Board received the Management Board's proposal for the distribution of profit earned in 2010, whereby it was determined that in 2010 the Bank realised net profit in the amount of HRK 609,620,531.76, which is to be distributed as follows:

- **Retained earnings in the amount of HRK 446,742,293.51,**
- **Shareholders' dividend in the amount of HRK 162,878,238.25.**

The shareholders' dividend amounts to 9.59% of the nominal value of a share, which is HRK 9.59 per share.

Reserves for General Banking Risks in total amount of HRK 125,694,691.99 shall be allocated to retained earnings so that the Bank's total retained earnings as of adoption of the General Meeting's Decision on profit distribution amounts to HRK 2,253,765,996.90.

The Supervisory Board gives its consent to the Management Board's proposal for the distribution of profit.

V. The Supervisory Board shall submit this report to the General Meeting with the proposal to accept the Management Board's proposal for the distribution of profit realised in 2010.

President of the Supervisory Board
Herbert Juranek

Report of the President of the Management Board

We are glad to present last year's business results of Erste&Steiermärkische Bank d.d. in this report. In 2010, Erste&Steiermärkische Bank d.d. (”Erste banka”) continued to post solid financial results, despite the more demanding market conditions compared with the previous period. We have proved that even in the challenging market conditions we have the know-how and strength to meet the set business goals, and our financial result was completely in accordance with the plans set for last year. We are also happy to have won our fourth Golden kuna award, which confirms that our work and efforts are recognized by industry professionals.

The Bank's total assets as of 31.12.2010 stood at HRK 50.51 billion, which is 3.2% more compared with HRK 48.94 at 2009 end. Running a quality business policy, adapting its operations to the difficult market circumstances and further increasing its internal efficiency, the Bank improved its operating income by 9.4%, from HRK 1.92 billion in 2009 to HRK 2.10 billion in 2010. Net profit in 2010 amounted to HRK 610 million, up 0.5% on the year before. This way, the Bank managed to keep a stable profitability level even in these difficult times. Given the market circumstances and economic conditions, the Bank also shares the burden of the overall economic situation, which is clear from the operating indicators. However, the Bank has foreseen such developments in advance and has integrated them in its business plans for this year, while having fully achieved the plans set for the year 2010. Return on Assets was 1.3% in 2010, while Return on Equity reached 10.6%. The Bank continued cutting costs, which resulted in a further improvement of the Cost/Income ratio, from 41.5% in 2009 to 38.2% in 2010.

The Bank's loan volume grew to HRK 35.02 billion, up 7.9% versus the end of 2009, when loans had amounted to HRK 32.45 billion. We are especially satisfied with the increase in market share in the segment of retail loans, where we recorded a 7.3% growth, while the market fell 3.7% in that segment at the same time. For instance, we recorded a decline of nearly 14.5% in housing loan segment, while the market grew at 9.5% rate. The Bank devoted strong attention to operations with legal persons. Gross credit portfolio of the Economy Sector rose 10.8%, i.e., by 1.9 billion compared to the end of 2009. The bank increased the number of its corporate clients by 13% compared to the year before and was one of the most active business banks in the use of HBOR's credit lines, including the Model A.

In 2010, the Bank successfully finalized an important IT project, migration to a new IT platform, which provides it with even better technological conditions for successful performance in the future. In 2010 the Bank paid special attention to the segment of social responsibility. More than HRK 9.7 million was realized for sponsorships and donations, as part of cultural, scientific, charity and sport projects. In addition, the seventh edition of “Erste fragments”, a support to the artists under 30 years of age, was held last year.

The Bank will continue to be a reliable business partner in the period to come, and together with clients it will look for optimal solutions to meet their needs. In 2011 we will be even more committed to the SME segment and will certainly support all quality projects that can contribute to increasing employment in the real economy. It is still our goal to record growth higher than the market average, and we see an integrated approach to clients and understanding of their specific needs as the prerequisites for achieving this.

Finally, I would like to thank all our clients, business partners and employees.

Petar Radaković
President of the Management Board

Management Board

PETAR RADAKOVIĆ, Chairman of the Board

– responsible for Property Management Division, Internal Audit Department, Legal Department and Economic Research Department

TOMISLAV VUIĆ, Deputy Chairman of the Board

– responsible for Retail Division, Multi Channel Management Department, Human Resources Department, Marketing Department and Communication Department

BORISLAV CENTNER, Member of the Board

– responsible for Corporate Division, Financial Markets and Investment Banking Division and ALM Department

SLAĐANA JAGAR, Member of the Board

– responsible for Accounting Division, Processing Division, IT Division, Controlling Division and Organization Department

CHRISTOPH SCHÖFBÖCK, Member of the Board*

– responsible for Risk Management Division

*Member of the Board as of February 3, 2011

Business results of Erste&Steiermärkische Bank d.d. and its subsidiary in 2010

Macroeconomic indicators

After a considerable downturn in economic activity in 2009, the first three quarters of 2010 brought a modest recovery and deceleration of downfall. This was particularly evident in the second half of the year – a positive growth rate (+0.2% y/y) was recorded in 3Q 2010, the first one after 4Q 2008, while the last quarter still brought a slight drop of 0.7% y/y. Domestic demand remained a heavy burden on recovery, mainly due to a strong decline in investment activity, but also a slow recovery of private consumption. Thus, GDP contraction amounted to 1.4% in 2010. A positive growth rate of around 1% is expected in 2011, with mild stabilization of domestic demand and the continuance of positive impulses from foreign markets, i.e. export growth.

Compared to 2009, 2010 saw a stabilization of other macroeconomic variables. The decline of industrial production and retail trade slowed down in 2010 (with only a slight decline on annual level). The year 2010 also saw a continuing adjustment of the current account balance as a result of positive trends on the merchandise account, primarily export recovery.

Furthermore, labour market trends point to further unemployment rate growth. We expect to see the unemployment rate in the region around 12% in 2010 (ILO methodology), compared to 9.1% recorded in 2009. In addition, registered unemployment rate, published monthly by the Croatian Bureau of Statistics, grew in 2010 (18.8% in December). Given the sluggish economic recovery we do not anticipate any recovery during 2011, only some signs of stabilization of employment level towards the year end (in a positive scenario).

Inflationary pressures were low throughout 2010, facilitated by slow recovery and subdued domestic demand pressures. The increase of the general price level (as measured by the Consumer Price Index) was 1.1% in 2010. Considering a slow recovery of domestic demand, inflation pressures remain sensitive to the cost side pressures, particularly global energy and raw materials prices and the likely hikes of some administrative prices. Therefore, we see average inflation accelerating in 2011, while maintaining inflation pressures at relatively low levels (around 2.5%).

MAIN ECONOMIC INDICATORS FOR THE PERIOD FROM 2007 TO 2011

	2007	2008	2009	2010(e)	2011(e)
GDP (current prices, in HRK million)	314,223	342,159	333,063	332,177	343,931
GDP (current prices, in EUR million)	42,810	47,390	45,376	45,629	46,666
GDP per capita (in EUR)	9,729	10,771	10,313	10,370	10,606
GDP – real growth rate (%)	5.5	2.4	-5.8	-1.4	1.0
Annual inflation rate (%)	2.9	6.1	2.4	1.1	2.5
Current account balance (in EUR million)	-3,254	-4,360	-2,496	-1,186	-1,680
Current account balance (% of the GDP)	-7.6	-9.2	-5.5	-2.6	-3.6
Foreign debt (in EUR million)	32,921	40,329	44,605	45,081	47,600
Foreign debt (% of the GDP)	76.9	85.1	98.3	98.8	102.0
Foreign debt (% of the goods and services exports)	179.6	205.3	274.6	260.0	262.9
HRK/EUR exchange rate (end of period)	7.33	7.32	7.31	7.40	7.40
HRK/EUR exchange rate (annual average)	7.34	7.22	7.34	7.28	7.37
Unemployment rate (definition by ILO)	9.6	8.4	9.1	11.9	12.2

Source: the CNB, Erste Bank

Monetary policy remained focused on exchange rate stability, while stable trends during 2010 enabled Croatian National Bank (CNB) to balance between ensuring a stable exchange rate and high liquidity in the system. The same stability of exchange rate is expected in the upcoming period. With rising fiscal/external risks we anticipate cautious approach to further loosening of the monetary policy and freeing additional kuna liquidity. Foreign debt growth decreased significantly in 2010, compared to the year before. The strongest contribution to the foreign debt growth came from public sector activities, both in the form of direct government borrowing and via public sector enterprises. International FX reserves coverage of total foreign debt, as well as relatively low share of short-term debt (ca. 10%) indicates the stability of foreign debt settling. The EU integration processes continues without significant obstructions and Croatia is in the final phase of the EU accession negotiations. However, there are still some important issues to be resolved and the EU accession can be expected in 2013 at the earliest.

Lending operations of Erste Bank in 2010

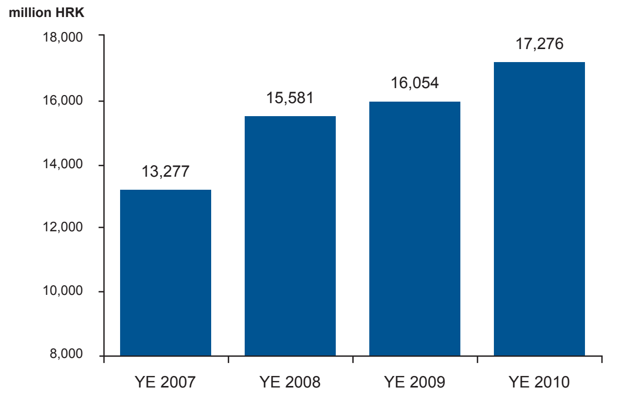
The entire market and economic environment, marked by a series of negative economic fluctuations, largely affected lending activity in 2010 requiring continuous business adjustments to clients' changed needs and requests.

In the segment of retail loans, lending activity of Erste Bank was affected by unfavourable trends in the labour market and by the increasing unemployment, the problem of clients receiving a lower regular income or not receiving an income regularly and increased caution about new borrowings, especially larger long-term housing investments. All this resulted in reduced demand for loans during the entire year, with minimum recovery in the final quarter of 2010.

Last year business operations of legal entities were affected by the unfavourable business environment marked by further increase of illiquidity and uncertain recovery dynamics. In the micro business segment, the demand for short-term loans, loans for liquidity and loans for restructuring liabilities was dominant while medium and large businesses postponed investment projects and which caused a limited demand in financing investment segment.

Retail loans in 2010 achieved a growth of HRK 1.22 billion, that is 7.61%, and on 31 December 2010 they amounted to HRK 17.28 billion. (*Chart 1*)

Chart 1: Retail loans



In the course of 2010 retail loans to privates market noted a 3.68% increase, while in the same business segment Erste Bank achieved a 7.29% growth. This positively reflected in a market share growth from 13.09% to 13.54%. (*Charts 2 and 3*)

Chart 2: Retail loans to privates - market share

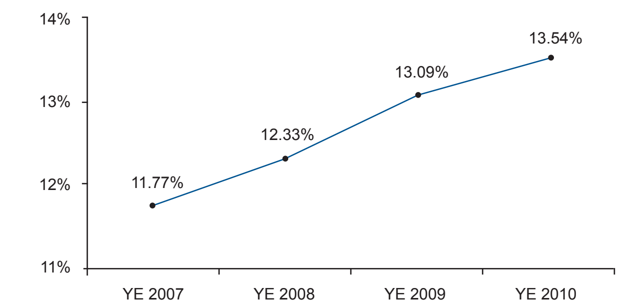
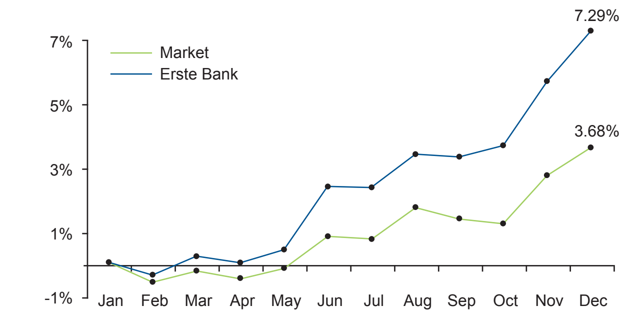


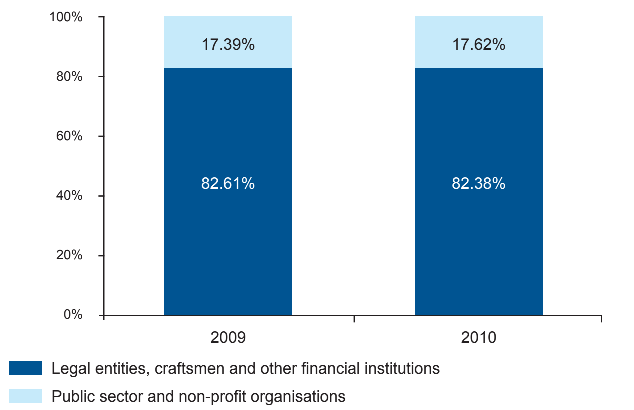
Chart 3: Retail loans to privates - market and Erste Bank growth in 2010 in comparison to YE 2009



Housing loan market share increased from 11.26% to 11.77%, achieving a 14.49% growth of Erste Bank, while housing loan market grew by 9.51% in that business segment.

The total gross loan portfolio of Corporate Division on 31 December 2010 amounted to HRK 19.9 billion, which is a 10.8% increase, i.e. HRK 1.9 billion, compared to 31 December 2009.

Chart 4: Gross loan structure of Corporate Division



The total corporate loan market share is 13.10% and it decreased from 13.29% compared to 31 December 2009 The market share of loans granted to companies also showed a slight decrease of 0.15 pp, from 14.50% at the end of 2009, to 14.35% at the end of 2010.

Erste Bank is still one of the most active corporate banks in using HBOR programmes (Croatian Bank for Reconstruction and Development), and the loans from these programmes on 31 December 2010 amounted to HRK 1,694 million.

Deposits in 2010

Last year clients' preference for less risky forms of investments was still on a high level and, despite a trend towards passive interest rates decrease, clients' savings continued to grow as a result of taking considerable caution, restraining from spending, and a growing concern for the future.

In 2010 retail deposits achieved a growth of HRK 1.76 billion, which is 9.35%, and amounted to HRK 20.62 billion on 31 December 2010 (*Chart 5*). Retail deposits structure remained almost unchanged in comparison to the previous year, with term deposits taking up a share of 81.40%, and demand deposits a share of 18.60%. (*Chart 6*)

Chart 5: Retail deposits

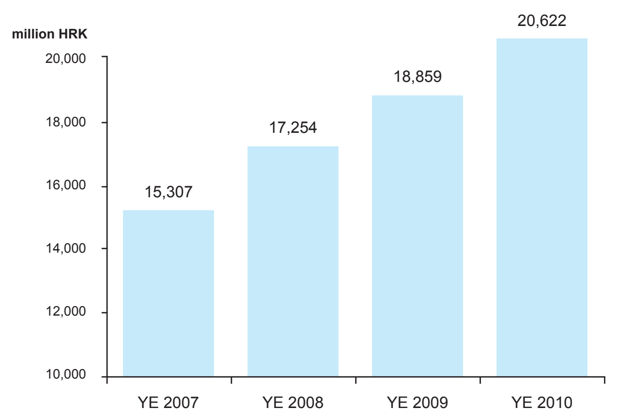
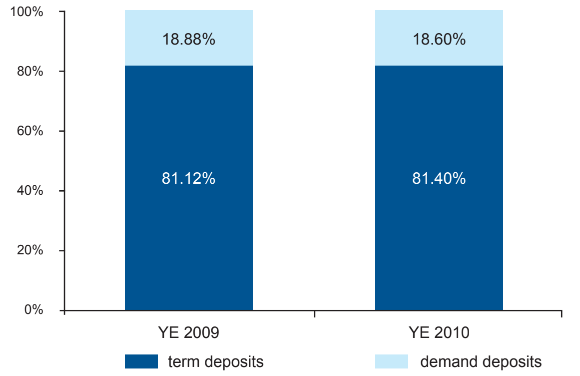


Chart 6: Retail deposits structure



Retail private deposits market noted a growth of 8.11% in 2010, while in the same business segment Erste Bank achieved an 8.23% growth, which resulted in a market share growth from 12.59% to 12.60%. (*Charts 7 and 8*)

Chart 7: Retail private deposits - market share

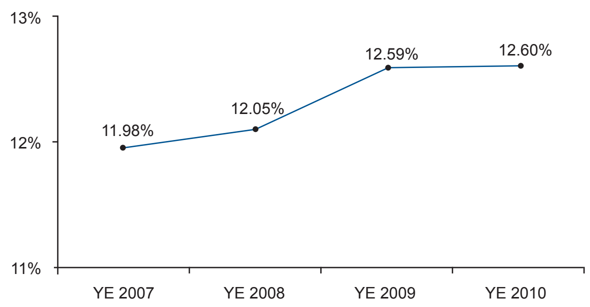
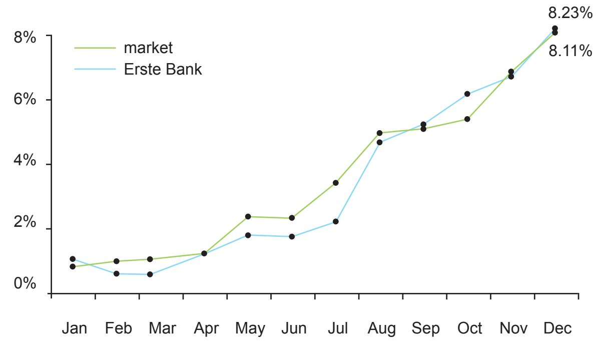
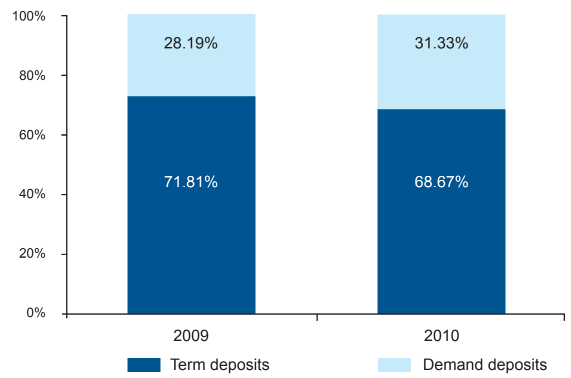


Chart 8: Retail private deposits - market and Erste Bank growth in 2010 in comparison to YE 2009



Total corporate deposits on 31 December 2010 amounted to HRK 9.7 billion and noted a decline in comparison to 31 December 2009 when they amounted to HRK 11.7 billion. Term deposits on 31 December 2010 amounted to HRK 6.6 billion and decreased by 20.5% compared to the year before (HRK 8.4 billion). Sight deposits on 31 December 2010 amounted to HRK 3 billion and decreased by 7.6% compared to the year before.

Chart 9: Corporate Division deposit structure



Total market share in corporate deposits is 14.71% and it decreased from 17.06% compared to 31 December 2009. Companies' deposits market share is 11.55% and also showed a 1.20 pp decline, from 12.75% compared with the end of the year before. The Bank increased the market share in the group of sight deposits from 9.20% (at the end of 2009) to 9.40% (at the end of 2010). Market share in the segment of corporate deposits was purposefully decreased with the basic aim to optimise the expenses of financing.

Retail and corporate products and services of Erste Bank in 2010

Customer care and providing adequate financial support, flexibility and innovativeness are the basic guidelines of Erste Bank's business which marked the previous year. These principles guided us during the implementation of new and changing the existing products and services.

In the retail segment last year Erste Bank implemented a unique service Erste Maestro Plus. It is an additional feature of a current account opened with Erste Bank, enabling clients to pay for goods and services at contracted points of sale in instalments. Specificity and uniqueness of Erste Maestro Plus service refer to the possibility of withdrawing cash at the Bank's ATMs repayable in instalments.

A range of electronic banking services was expanded by introducing a new information service Erste Fon Start which enables clients, private and legal entities to obtain information on balance and turnover in their accounts, on other products in use, and to get other service information.

A range of loans products was expanded by introducing several new loan models intended for and adjusted to different segments of clients. Special loan model was introduced for clients without regular income, unemployed clients or clients with temporary employment. In the housing loans segment a special housing loan was introduced for financing foreign citizens buying residential real estate in Croatia. Furthermore, an additional housing loan model enabling simultaneous financing of purchasing and renovating residential real estate was introduced. At the same time, the loans product range was expanded to include ECO loans for financing the purchase and construction of energy efficient housing units, as well as the purchase of appliances and equipment which use renewable energy sources.

With the aim of facilitating the repayment of housing loans with CHF currency clause, the clients were first offered the possibility of converting their loans from CHF to EUR, under favourable conditions and simpler procedure, and then interest rates on the existing housing loans were decreased for all clients. In addition, a possibility of prolonging loan maturity, as well as a possibility of creating residual value on the existing loans, was introduced.

Erste Bank got actively involved in the programme of repurchasing farmers' claims from the Ministry of Agriculture, realising almost 5,000 individual claims in the amount of HRK 42 million.

In the segment of business operations with legal entities in 2010 active cooperation between Erste Bank and ministries, counties, local government and self-governments, cities and development agencies continued through different programmes of lending to SME clients. Erste Bank participated in preparing and carrying out special programmes within the economy recovery measures of the Croatian Government and in HBOR auctions (Croatian Bank for Reconstruction and Development) within Model A. The funds were intended for financing working capital, including paying suppliers, financial institutions, the government and other creditors. The total of nine auctions was held for Model A, Erste Bank participated in seven, and was awarded a part of the quota at six of them. Clients showed strong interest in using these loans due to interest rates for loans from the Model A Working Capital Crediting Programme, which are the most favourable interest rates on the market at the moment. In the course of 2010 Erste Bank and HBOR granted the total of 89 loans, amounting to HRK 376 million total granted loans (EBC share was HRK 225 million). Out of that amount in 2010 HRK 317 million was released. Considering the fact that HBOR credits 40% of the principal, and Erste Bank 60% of the principal, the Bank's share in total loans release is HRK 190 million.

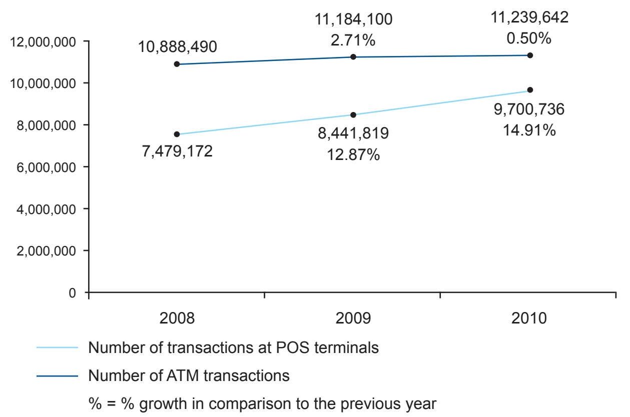
A credit line for financing small and medium enterprises and local governments, that is projects worth up to EUR 25 million from public and private sector, was set up in cooperation with the European Investment Bank (EIB) with the aim of providing financial support and mitigating the effects of the financial crisis. The funds were intended for financing investment projects and working capital in the SME segment, as well as other investment projects regardless of the size and ownership of the end user. Special emphasis is placed on the projects in the segments of environmental protection, infrastructure development, knowledgeable society, rational energy use, health and education, industry and services, including tourism. The price of the loan is determined according to market parameters at the moment of withdrawal, and as a rule it is more favourable that market prices. Usage of EIB loans was intensified in 2010; the total of 35 requests for financing by EIB was granted, and EUR 32 million were placed.

Assuming that the most significant impact on market growth will be achieved within the GLC clients as well as clients in the public sector, greater and stronger focus was placed on those clients. In 2010 Erste Bank participated in a series of public tenders and won 12 of them, amounting to HRK 1.4 billion.

Direct banking services

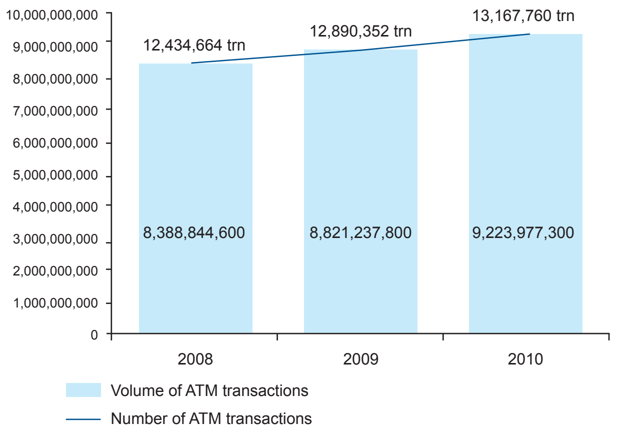
On 31 December 2010 Erste Bank had a total of 683,670 issued debit cards, which is an increase of 27,518 cards, i.e. 4.19%, in comparison to 2009. The number of debit card transactions at the end of 2010 amounted to 20.94 million, which is an increase of 6.70% in comparison to the previous year. Volume of transactions rose by 3.89% and at the end of 2010 it amounted to HRK 9.24 billion.

Chart 10: Number of debit cards transactions



During 2010 Erste Bank installed 25 new ATMs and at the end of the year it had a total of 531 ATMs installed, which represents an increase of 4.94% in comparison to 2009. Total turnover on Erste Bank's ATMs amounted to HRK 9.22 billion, which represents an increase of 4.57%. The number of transactions amounted to 13.17 million, growing by 2.15% in comparison to 2009.

Chart 11: Number and volume of transactions on EBC ATMs



The number of Erste NetBanking retail users increased to 80,070, which is a 22.80% increase in comparison to 2009. There were 106,125 retail users of the SMS service, which is a 7% increase in comparison to 2009. The number of mBanking service users during 2010 increased to 14,768, which is an 11.95% increase in comparison to 2009. The number of open direct debits increased by 23.74% in comparison to 2009, and now amounts to 145,012. Retail users made 2.88 million transactions via the ErsteNetBanking service, which is an increase of 30.03% in the total volume of HRK 3.29 billion which increased by 12.21%.

The number of Erste NetBanking corporate users increased from 25,444 to 26,436 users (there can be more users in one company), which is an increase of 3.90% in comparison to 2009. The number of companies increased from 16,904 to 17,867, which is an increase of 5.70%. The number of Erste SMS service users for corporate users decreased to 2,735, which is a 1.94% decrease, as a result of the new method of counting active users. The companies made 7.61 million transactions (which includes HRK transactions, foreign exchange transactions and transactions in the HSVP (Croatian Real Time Gross Settlement System)) through Erste NetBanking, which is a 5.99% drop in comparison to 2009. The transactions were made in the volume of HRK 118.72 billion, which is an increase of 23.31%.

The number of ErsteFonBanking (telephone banking) service users increased by 10% in comparison to 2009. By the end of 2010 there were 20,506 users of ErsteFonBanking service, 97% of them retail clients. In 2010 the Bank offered its corporate clients the possibility to make payments by telephone (previously, only telephone answering machine services were available to them).

In 2010 an average of 22,778 clients visited the Bank's website daily, which is a 22.98% increase in comparison to the previous year. The website was accessed almost 67 million times, which is 11.89% more than in 2009. In 2010 the Bank also offered its clients a new service, so called Erste Chat, and it is the first bank in the Croatian banking market which has created an official profile on the popular social network, Facebook.

Financial markets and investment banking

Money market

In the course of 2010, kuna money market was characterised by an extremely high liquidity in the interbank market and the stability of the interest rates. In 2010, ZIBOR O/N interest rates ranged from 0.71 to 2.68% with an average interest rate of 1.06%, while ZIBOR 1M interest rates were at somewhat higher levels ranging from 1.00 to 2.59% with an average interest rate of 1.57%. Since liquidity level in interbank market was high, unlike in the previous years, there was no need for reverse repo auctions of the Croatian National Bank and for releasing additional liquidity on the market. In February 2010 the Croatian National Bank lowered banks' obligatory reserve rate from 14% to 13%. According to that decision, HRK 2.9 billion of additional liquidity (about HRK 2.4 billion in kuna and HRK 0.5 billion in the FX part of the reserve) was released to commercial banks.

During 2010 the government continued to issue kuna bills and treasury bills with currency clause. Yields for all maturities were corrected in accordance with low interest rates throughout the year. The yields of HRK treasury bills with 91-day maturity varied from 1.939 to 2.498%, and the year was closed at 2.299%. The yields of HRK treasury bills with 182-day maturity varied from 3.00 to 3.549%, while the year closed at the level of 3.549%. The yields of HRK treasury bills with 364-day maturity varied from 3.49 to 4.35%, and the yield at the last auction was 3.849%. The yields of treasury bills with currency clause with 364-day maturity varied from 2.799 to 3.95%, and the year closed at 3.00%.

In 2010 Erste Bank managed its liquidity efficiently. Throughout the year the bank had no problems meeting its obligations to clients and to the Croatian National Bank, while the extra liquidity was adequately placed. All clients' requests and regulations such as maintaining the obligatory reserve and minimally required amount of FX claims were met. Throughout the year Money Market Group of Erste Bank was a competitive FX swaps and treasury bills (issued by the Croatian Ministry of Finance) trading centre and it was responsible for meeting the needs of all group members for HRK liquidity.

Chart 12: Fluctuations of ZIBOR during 2010

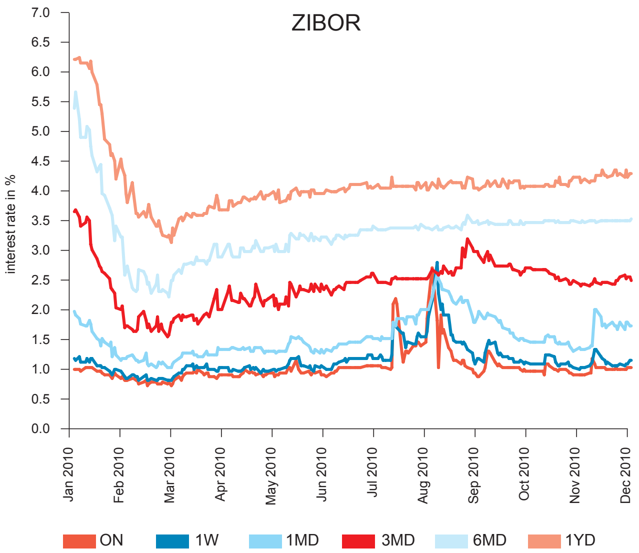
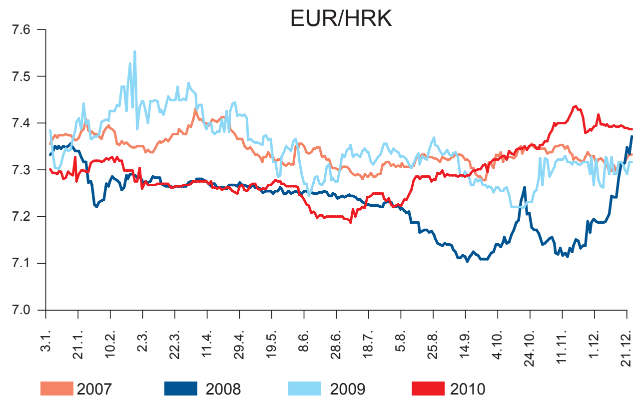


Chart 13: EUR/HRK exchange rate flows from 2005 to 2010



FX market

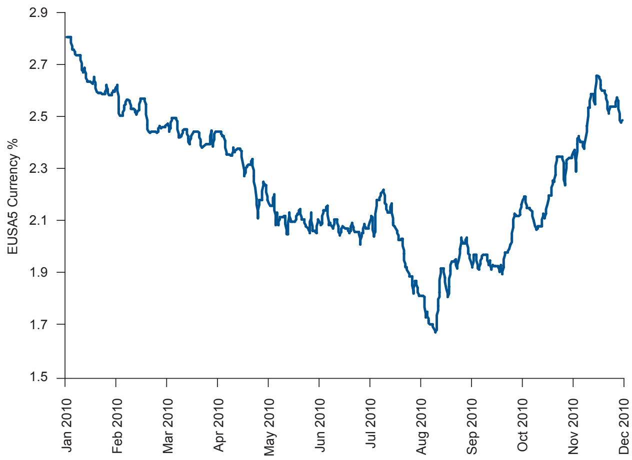
The beginning of 2010 was marked by a very stabile EUR/HRK exchange rate on the domestic FX market, ranging between 7.26 and 7.32. Exchange rate stability was achieved in the conditions of balanced offer and demand for foreign currencies and of high HRK and FX liquidity. Expectations related to the foreign capital inflow (EUR 200 million loan granted to the government by the World Bank) and FX funds that the government got for issuing bonds on the American market at the end of 2009, which were partially used for covering the government's foreign liabilities at the beginning of 2010, facilitated depreciation pressures common for the beginning of the year. In addition, continuing decrease of the deficit with foreign merchandise trade affected the decrease of the demand for foreign currencies. Unlike moderate appreciation to EUR, in the first two months of 2010 kuna weakened against US dollar significantly, by as much as 5.0%, from 5.09 USD/HRK at the end of 2009 to 5.34 USD/HRK at the end of February 2010. Such fluctuations particularly reflect further strengthening of US dollar against Euro in the global foreign exchange market. Ever more growing concern of the investors over high budget deficits of individual eurozone country-members, Greece, Portugal and Spain in particular, greatly affected the strengthening of US dollar. EUR-HRK exchange rate in the third quarter of 2010 was relatively stable, ranging from 7.24 to 7.30. After somewhat increased appreciation pressures in June and the beginning of July, which the Croatian National Bank decreased by intervening in the FX market and buying out a total of EUR 363.7 million from commercial banks, EUR-HRK exchange rate started weakening slowly. Somewhat stronger depreciation pressures were recorded in the second half of August, mostly due to seasonal reducing of foreign currencies inflow from tourism. After a longer period of time in which there were pressures for its strengthening, in mid June US dollar began to weaken against EUR, which continued until the end of the first decade of August. This is mostly due to the ever more widespread perception that individual eurozone countries would manage to finance their budget deficit properly. In that period HRK rose against US dollar from 5.75 to 5.25. Depreciation pressures on HRK continued in November and December and it fell against EUR from 7.30 to 7.42. In that period the Croatian National Bank intervened in the FX market by selling EUR 250.1 million. Swiss franc appreciated during whole year in comparison to HRK. In early January the value of CHF was about 4.91 and in the course of the year it increased to 5.95. CHF/HRK exchange rate appreciation was a consequence of the conditions in world and European market where the aforementioned debt crisis affected the rise of Swiss franc in which investors like investing in times of economic uncertainties.

Capital market

Debt securities market

In 2010 issuers with registered residence in Europe issued bonds in the total amount of USD 2.282 billion, which is 25% less compared to year 2009. The principal reason behind activity drop on the primary market is the fact that some peripheral countries/members of the eurozone had financial problems due to uncontrolled growth of the public debt, unsustainably high budget deficits and simultaneous drop of economic activity. Such a situation made investors both nervous and afraid that the financial crisis might deepen again and be transferred to the rest of the market. The seriousness of the problem was also demonstrated by a strong debt yield growth in some countries. For instance, in 2010 the yield on the Greek's 10Y bonds grew from 6% to over 11%. Greece was the first country to face serious problems. In order to overcome nervousness on the markets and keep Euro stable, the EU and the IMF granted EUR 110 billion to Greece in early May for refinancing mature debt. Although the situation was temporarily stabilized, fears grew of similar situations in Ireland and Portugal, even Spain. Government bond yield in Portugal rose from 5.5 to 6.6% and in Ireland from 5 to 9%. It is evident that in such circumstances many potential issuers put off coming on the capital market and turned to other financing sources.

Chart 14: 5Y EUR SWAP maturity curve from January 2010 to 31 December 2010



Source: Bloomberg

As for the Croatian market, in the corporate debt securities segment 2010 was not much different from 2009. That means that the primary activity was limited mostly to refinancing maturing debt securities, mainly commercial papers. It is important to note that fresh capital inflow in debt securities was very low, so securities were mainly refinanced by investors who had initially invested in maturing securities. There are two main reasons behind investors' lack of interest in buying debt securities. The first one is extreme illiquidity on the secondary debt market, and the second one is risk aversion, i.e. investing in uncovered corporate securities. Not even the significant yield drop of the Croatian Finance Ministry treasury bills, which serve as benchmark for determining yield on other short-term securities, and more than satisfying liquidity of the banking system, were sufficient to excite interest on the market. Two corporate bonds, which were in fact the existing debt refinancing in the market, were issued in 2010. A significant difference from 2008 and 2009 lied in the fact that the Republic of Croatia entered the domestic capital market. The government issued three bonds and made increase of two existing issues, with the total value of these transactions amounting to around HRK 16.3 billion. That is the highest amount of a central government borrowing on a domestic capital market in one year. Such debt was a result of recessionary budget deficit, as well as a negative feeling on the European capital markets in 2010, so a domestic debt turned out to be a logical choice, especially considering the fact that domestic pension funds, which are natural investors in government papers, have at the disposal enormous resources compared to the size of the domestic market.

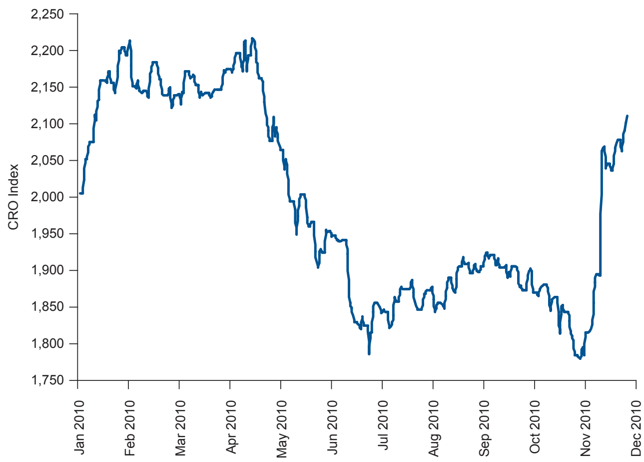
In 2010 Erste Bank participated in the domestic market as a co-arranger in issuing commercial papers. The Bank participated as joint agent and lead arranger of the three new issues of government bonds and two increases of the existing issues in the total nominal amount of HRK 9 billion and EUR 1 billion. The Bank addressed the needs of the government through loans as well. Erste Bank also participated in the financing of the Croatian Bank for Reconstruction and Development (HBOR) through a club loan for the purposes of financing Model A economic recovery programme. It was the first time that Erste Bank participated in issuing government bonds with equal percentage as Zagrebačka banka, PBZ and Raiffeisen bank.

Equity market

2010 was the year in which the recovery of relevant equity markets continued, considering the fact that the US and EU support to economy started producing positive effects in real sector. DAX index increased in 2010 by more than 16%, S&P 500 index by 12.5%, and Dow Jones Industrial by 11%. Market recovery was particularly strong in the last quarter, after a number of macroeconomic reports from the US and Germany as a forefront of European economy showed results better than the analysts expected. BRIC economy growth contributed to the overall positive atmosphere.

In 2010 CROBEX grew by modest 5%. It needs to be said, however, that during most part of the year CROBEX was in the negative, as Croatian economy is still in recession. The trend took a strong turn at the end of November, when Hungarian oil company MOL offered small shareholders of INA the price of HRK 2,800 per share. Up until that moment INA share was traded at HRK 1,700 which resulted in a nearly 65% premium. This shook up the market a bit, and the situation was made even more interesting by the fact that pension funds joined the race for shares and started buying them on Zagreb Stock Exchange at the price higher than the one offered by MOL. High liquidity of INA share and releasing the small shareholders' liquidity resulted in the purchase of other shares and strong appreciation pressure on a number of shares. The overall result was CROBEX rising by significant 18% in the period from November (when it reached the 2010 low) until the end of the year. Regular trading on Zagreb Stock Exchange in 2010 was 22% lower. Considering the fact that HT and INA shares accounted for 46.7% of total regular trade, it is evident that the liquidity of most issues was additionally reduced. The overall turnover was higher by 18.2% thanks to the OTC transactions.

Chart 15: The flow of CROBEX share index value in 2010 (from January 2010 to December 2010)



Source: Bloomberg

Technology advances in IT segment

During 2010 Erste Bank successfully carried out a complex project of migration to a modern and open IT platform. The successful fulfilment of the migration project implemented a modern technological basis for further development of the core banking solution (IBIS), increased the efficiency of the IT support and significantly improved system performance and stability. It enabled much better integration within the application portfolio and considerably reduced the IT infrastructure costs. The implementation of these new technologies is the basis not only for further enhancements of the IBIS solution but also for further expansion and utilisation of that solution within the CEE region.

The human factor – the prerequisite of successful operations of Erste Bank in 2010

The year 2010 was marked by the continuation of optimization measures, which also affected human resources management and referred specifically to a slow-down in new recruitments, except in cases when opening new positions was strictly necessary. The Bank also continued with the measures of internal resources optimization. Soft skill training in 2010 was mostly held internally. As for development, the Bank carried out a series of researches on organizational environment and held special workshops tuned to the business needs. The Bank also implemented or started implementing new programs of management development and continued to work on developing an internal training system for sales staff. Considering the fact that Erste Bank is a constituent of an international group, employees had an opportunity to participate in lectures, trainings and job rotations in countries in which Erste Group operates.

In 2010, Erste Bank had 1,930 employees according to number of hours worked, down four from 2009. Educational structure of the employees in 2010 continued to reflect an upward trend in the number of employees with a university degree and decline in the number of employees without a degree, which is understandable since Erste develops specific jobs that require specialized knowledge. The average age of employees at the end of 2010 was 38, as in previous years.

Erste Bank worked intensely on improvements and interactivity of its websites in terms of employment. As the first bank that created its official Facebook profile, it started announcing vacancies on Facebook, which increased the number of visits to its website and contributed to a better response to vacancies. The Bank continued participating in job fairs presenting the bank, its employment processes and opportunities for new employees. Erste took part in seven job fairs in 2010, independently or together with members of Erste Group in Croatia.

Erste Bank's social responsibility in 2010

Erste Bank rendered the total of HRK 7.8 million in sponsorships and donations programs in 2010. The Bank continued to run donation and sponsorship programs aimed at supporting projects that contribute to development of social community in which the bank operates. The Rijeka Carnival, Julian Rachlin & Friends Festival in Dubrovnik, Špancirfest in Varaždin and BOK Fest in Bjelovar are some of the cultural initiatives supported by Erste Bank.

As for social and humanitarian activities, Erste Bank supported many institutions in 2010, such as the following: SOS Children's Village Croatia, the Bjelovar General Hospital, associations of persons with cerebral palsy in Zagreb and the Sisak-Moslavina County, the Zagreb Clinic for Children Diseases, Goljak – Special Hospital for Children and many elementary and secondary schools nationwide. Erste Bank has also supported many sports clubs: Primorje Erste Bank water polo club, Erste Zagreb beach volleyball club, KHL Medveščak Zagreb ice hockey team, HNK Rijeka football club, KK Zadar basketball team, Bjelovar handball team, Marijan Zadravec gymnastic club, Croatian Archery Association, the Zagreb Sports Association and others.

Erste Bank completed Erste Fragments 7, the project of purchasing artwork of young and unestablished visual artists. The bank purchased eight artworks worth the total of HRK 73,800. Furthermore, the Bank granted the Erste Fragments one-year fellowship grant. Apart from main prize for the best artwork according to a jury of experts, the bank awarded a special Facebook prize for the best work voted by Erste's Facebook website visitors.

Finally, Erste Bank engaged in a humanitarian project in Croatia called "Step into Life" by awarding eight scholarships to parentless students who grew up in orphanages.

Business results of Erste Bank AD Podgorica, Crna Gora – the subsidiary of Erste&Steiermärkische Bank d.d.

In 2010 Erste Bank AD Podgorica, Crna Gora ("Erste Bank") grew significantly faster than the local banking market and managed to increase its market share with respect to all relevant parameters. Thanks to special attention directed to lending activities stimulation, risk management and operative efficiency, in 2010 Erste Bank achieved pre-tax profit in amount of EUR 2.52 million, which is 218.1% more in comparison to 2009. Net profit amounted to EUR 2.23 million with return on equity of 9.3% and return on assets of 1%.

Total operating income was generated in amount of EUR 20.19 million, which is EUR 3.95 million more in comparison to 2009, or an increase of 24%. Net interest income amounted to EUR 18.59 million and was 22% higher than in the previous reporting period, although net interest margin was reduced from 10.3% at the end of 2009 to 9.9% at the end of 2010. Net fee and commission income was increased by 73.8% amounting to EUR 1.44 million. Operating expenses amounted to EUR 10.62 million and Cost/Income ratio was significantly reduced from 60.2% to 52.6% in comparison to the previous year. At the end of the year, total assets amounted to EUR 238.85 million and increased by 31.9% in comparison to 2009. Net loans to customers amounted to EUR 185.09 million and are 34.2% larger than in 2009, thereof EUR 105.74 million refers to retail loans and EUR 79.35 million to corporate loans.

In Retail Division, loan portfolio in 2010 was increased by 11.29%, which led to an increase in the Bank's/Retail Division's market share from 10.99% at the beginning of 2010 to 12.51% at the end of October 2010. In SME/Corporate segment, a significant increase in loan portfolio of 93.5% was achieved, and market share was increased from 2.93% to 5.72% (November 2010). Apart from the support to small, medium and large companies in Montenegro, Erste Bank considerably raised the level of cooperation with the public sector as well. During 2010 total deposits from customers increased by EUR 20.03 million (an increase of 18.1%) and amounted to EUR 130.49 million at the end of 2010, out of which EUR 101.18 million referred to retail deposits and EUR 29.31 million to corporate deposits. Increase in both retail and corporate deposits shows the increase of clients' trust in the youngest member of banking market in Montenegro – Erste Bank – as well as in the entire banking sector in general.

Erste Bank achieved significant results thanks to an increase in the volume of business with clients, improvements in operating efficiency and stability, development of new products and recruitment new employees. The achieved result can be considered even more significant since it was achieved in the period of very difficult business conditions on the local level. At the same time the attention was directed at expanding the network of branch offices and reconstructing the existing ones, according to Erste Group's standards, and increasing the number of clients. Erste Bank operated through a network of 15 branch offices throughout Montenegro, and offered services to more than 85.7 thousand clients at the end of 2010.

Erste Bank will continue developing target products and services by analysing market needs in order to provide its clients with quality support. It will additionally develop existing products and services and continue offering highly professional services to a growing number of clients. At the same time it will raise the level of client satisfaction, taking into account the interests of its employees, social community and shareholders.

Statement on the Corporate Governance Code Implementation

Erste&Steiermärkische bank d.d. (hereinafter: the Bank) pays special attention to corporate governance as the most significant determinant of its operations, which gives an impetus to the Management Board, the managers and the Supervisory Board in achieving interests and protecting both its shareholders and the Bank as a whole.

In order to establish high standards and achieve good rate governance, transparency in operations as the basis for the protection of shareholders, investors and other holders of interest, as well as to take care of employees and to support sustainable development and environment protection, the Bank applies Corporate Governance Principles (hereinafter: the Principles) to its business, adopted in 2009. The Principles are based on positive regulations of the Republic of Croatia and they ensure strategic governance of the Bank, efficient supervision over management and responsibilities of the Management Board and the Supervisory Board towards the Bank, its employees, clients and other interested parties; the Principles are published on the Bank's official website.

In its operations the Bank particularly complies with the following corporate governance principles:

- Transparency in operations;
- Protection of shareholders' rights;
- Clearly defined authorizations and responsibilities of the Bank's bodies;
- Cooperation between the Management Board and the Supervisory Board, transparent relationships among all the Bank's bodies, employees, shareholders, Bank's clients and the public as a whole;
- Efficient internal control system.

The Bank has ensured the integrity of the accounting system and financial reporting, adequate internal control systems, risk management system and the reliability of the information system covering all the major Bank's activities. In addition, the Bank hired an external auditor (one of the Big 4 audit firms) and has applied previous, current and subsequent financial supervision of the financial reporting and decision making process.

The accounting system, based on the International Accounting Standards and the International Financial Reporting Standards, is regulated by the Accounting Rules that define rights, obligations and responsibilities of all the participants, including the obligation of ongoing monitoring, while the functioning of the other systems is governed by special standard regulations.

The Bank's internal control system includes efficient direct monitoring through integrated procedures and processes set for monitoring the efficiency of the Bank's operations, reliability of financial reports and compliance with the legal and sub-legal rules, as well as through fair business practice. The Bank's internal control system is established through parallel operating of three mutually independent functions: (a) risks monitoring function, (b) compliance monitoring function, and (c) internal audit function.

The Bank's share capital, fully subscribed, amounts to HRK 1,698,417,500.00 and is divided into 16.984.175 ordinary shares issued in dematerialized form, each in the nominal amount of HRK 100.00, registered with the Central Depositary and Clearing Company under »RIBA-R-A.« mark. After the squeeze out of the Bank's minority shareholders, i.e. as of September 8, 2010, the company ESB Holding GmbH holds all the Bank's shares.

The nominal value of each share amounts to HRK 100.00. Each share entitles the holder to one vote at the Bank's General Meeting.

The rules on the appointment and recall of the members of the Management Board and the Supervisory Board and their authorizations, as well as the data on the composition and operations of the Management Board, the Supervisory Board and relevant assistant bodies have been regulated by the Principles. The Bank's General Meeting decides on amendments to the Articles of Association by the majority of votes representing at least three quarters of the equity capital represented at the General Meeting.

On 29 June 2010 the Bank held its regular General Meeting at which a decision was made on the use of the Bank's profit achieved in 2009. A part of net profit in the amount of HRK 453,602,334.75, that is, 74.73% was allocated to the retained earnings. The remaining amount of HRK 153,367,100.25 or 25.27% was allocated for shareholders' dividend or 9.03% of share's nominal value, which amounts to HRK 9.03 per share. The shareholders were paid dividend on 15 July 2010.

Besides this decision, decisions on granting discharge to the members of the Management Board and the Supervisory Board of the Bank for their work in 2009 were also made. Current Supervisory Board members whose term of office expired were re-elected for the following four years or until the end of the Bank's General Meeting in 2014.

As in 2009, Ernst & Young d.o.o. was appointed as the Bank's auditor for 2010.

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ('IFRS') as published by the International Accounting Standards Board which give a true and fair view of the state of affairs and results of Erste&Steiermärkische Bank d.d. (the 'Bank') and its subsidiaries (the 'Group') for that period.

After making enquiries, the Management Board has a reasonable expectation that the Group and the Bank 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,
- judgments and estimates are reasonable and prudent,
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and the Bank will continue in business.

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

Signed on behalf of the Management Board

Petar Radaković Slađana Jagar

Erste&Steiermärkische Bank d.d.
Jadranski trg 3a
51 000 Rijeka
Republic of Croatia

3 March 2011

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Račun / Account: 2402006-1100280716
IBAN: HR3324020061100280716
SWIFT: ESBCHR22

Independent auditor's report

To the Shareholders of Erste & Steiermärkische Bank d.d.

We have audited the accompanying consolidated and separate financial statements ('the financial statements') of Erste & Steiermärkische Bank d.d. (the 'Bank') and its subsidiaries (together, the 'Group'), which comprise Consolidated and Separate statement of financial position as at 31 December 2010 and Consolidated and Separate income statement, Consolidated and Separate statement of comprehensive income, Consolidated and Separate statement of changes of equity and Consolidated and Separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (as set out on pages 24 to 105).

Management Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 entity'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 separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and of the Group as at 31 December 2010, their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Legal and Regulatory Requirements

In accordance with the By-law on the structure and content of the annual financial statements (National Gazette no 62/08) (hereinafter "the By-Law") the Bank's management has prepared forms which are presented on pages 106 to 123, and which contain a balance sheet as at 31 December 2010, profit and loss account, statement of changes in equity and cash flow statement for the year then ended together with reconciliation with the primary financial statements of the Bank and the Group. This financial information is the responsibility of the Bank's management and is, pursuant to IFRS, not a required part of the financial statements, but is required by the Bylaw. This financial information presented in the forms has been properly derived from the audited financial statements of the Bank and the Group which were prepared in accordance with International Financial Reporting Standards as presented on pages 24 to 105.

Ernst & Young d.o.o.

Ernst & Young d.o.o.

Zagreb, 3 March 2011

Income statement

For the year ended 31 December 2010 (All amounts are expressed in HRK million)

			GROUP		BANK
	Notes	2010	2009	2010	2009
Interest income	3	3,109	3,690	2,921	3,552
Interest expense	4	(1,376)	(2,196)	(1,315)	(2,144)
Net interest income		**1,733**	**1,494**	**1,606**	**1,408**
Fee and commission income	5	520	515	451	449
Fee and commission expense	6	(101)	(108)	(117)	(122)
Net fee and commission income		**419**	**407**	**334**	**327**
Net trading income	7	119	168	120	167
Other operating income	8	37	84	35	13
Operating income		**2,308**	**2,153**	**2,095**	**1,915**
Personnel expenses	9	(468)	(442)	(386)	(372)
Other operating expenses	10	(389)	(390)	(360)	(361)
Depreciation of property and equipment	26	(56)	(62)	(41)	(50)
Amortization of intangible assets	27	(18)	(16)	(13)	(12)
Operating Expense		**(931)**	**(910)**	**(800)**	**(795)**
PROFIT BEFORE PROVISION FOR IMPAIRMENT LOSSES, SHARE OF RESULTS OF ASSOCIATES AND INCOME TAX		**1,377**	**1,243**	**1,295**	**1,120**
Provision for impairment losses on loans and advances	11	(585)	(384)	(537)	(346)
Provision for impairment losses on financial investments	12	(2)	(11)	(2)	(11)
Other provisions	13	1	(5)	2	(4)
PROVISION FOR LOAN AND FINANCIAL INVESTMENT LOSSES AND OTHER PROVISIONS		**(586)**	**(400)**	**(537)**	**(361)**
Share of profit of associates	25	**16**	**15**	**-**	**-**
PROFIT BEFORE INCOME TAX		**807**	**858**	**758**	**759**
Income taxes	14	(155)	(156)	(148)	(152)
NET PROFIT FOR THE YEAR		**652**	**702**	**610**	**607**
Net Profit attributable to:					
Equity holders of the Bank		**652**	**702**		
Non controlling interest		**-**	**-**		
EARNINGS PER SHARE					
Basic and diluted (HRK)	37	**38.42**	**41.36**		

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

Statement of comprehensive income

For the year ended 31 December 2010 (All amounts are expressed in HRK million)

			GROUP		BANK
	Notes	**2010**	**2009**	**2010**	**2009**
NET PROFIT FOR THE YEAR		**652**	**702**	**610**	**607**
Other comprehensive income					
Net gain on financial investments available for sale		17	33	15	33
Exchange differences on translation of foreign operations		2	(2)	-	-
Other		2	1	2	-
Income tax on other comprehensive income	15	(4)	(7)	(4)	(7)
Total other comprehensive income for the year, net of tax:	16	**17**	**25**	**13**	**26**
Total comprehensive income for the year, net of tax		**669**	**727**	**623**	**633**
Total comprehensive income attributable to:					
Equity holders of the Bank		**669**	**727**	**-**	**-**
Non controlling interest		**-**	**-**	**-**	**-**

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

Statement of financial position

For the year ended 31 December 2010 (All amounts are expressed in HRK million)

		GROUP		BANK	
	Notes	2010	2009	2010	2009
ASSETS					
Cash and balances with central banks	17	6,562	6,311	6,425	6,190
Amounts due from other banks	18	3,285	4,999	3,209	4,941
Reverse repurchase agreements	19	128	231	202	231
Receivables on financial derivative transactions	20	38	53	38	53
Financial assets held for trading	21	52	10	52	-
Financial assets at fair value through profit or loss	21	80	-	80	-
Loans and advances to customers	22	36,398	33,466	35,019	32,448
Financial investments available for sale	23	4,359	3,992	4,270	3,949
Financial investments held to maturity	24	424	316	406	299
Investments in subsidiaries and associates	25	88	74	167	167
Property and equipment	26	699	680	396	376
Intangible assets	27	56	56	44	44
Investment property	26	20	21	18	22
Deferred tax assets	14	95	65	95	64
Other assets	28	99	166	88	157
Total assets		**52,383**	**50,440**	**50,509**	**48,941**
LIABILITIES					
Amounts due to other banks	29	795	540	822	556
Repurchase agreements	19	835	660	835	660
Payables on financial derivative transactions	20	238	82	238	82
Financial liabilities at fair value through profit or loss	21	80	-	80	-
Amounts due to customers	30	31,140	31,365	30,328	30,528
Other borrowed funds	31	12,604	11,661	11,719	11,136
Current tax liabilities	14	67	-	66	-
Deferred tax liabilities	14	1	1	-	-
Other liabilities	32	334	358	318	344
Provisions	33	90	91	86	88
Subordinated debt	34	30	29	-	-
Total liabilities		**46,214**	**44,787**	**44,492**	**43,394**

Statement of financial position (continued)

For the year ended 31 December 2010 (All amounts are expressed in HRK million)

		GROUP		BANK	
	Notes	**2010**	**2009**	**2010**	**2009**
Shareholders' equity					
Share capital	35	1,698	1,698	1,698	1,698
Share premium	35	1,802	1,802	1,802	1,802
Retained earnings		2,440	1,941	2,292	1,835
Other reserves		11	(6)	8	(5)
Other capital reserves	36	217	217	217	217
Equity attributable to equity holders of the Bank		**6,168**	**5,652**	**6,017**	**5,547**
Non controlling interest		1	1	-	-
Total equity		**6,169**	**5,653**	**6,017**	**5,547**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**52,383**	**50,440**	**50,509**	**48,941**

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

Signed on behalf of Erste & Steiermärkische Bank d.d. on 3 March 2011:

President of the Management Board

Petar Radaković

Member of the Management Board

Slađana Jagar

Statement of changes in equity

For the year ended 31 December 2010 (All amounts are expressed in HRK million)

GROUP	Attributable to the equity holders of the Bank							
	Share capital	Share premium	Retained earnings	Other reserves	Statutory and legal reserves	Total	Non controlling interest	Total equity
Balance as at 1 January 2010	**1,698**	**1,802**	**1,941**	**(6)**	**217**	**5,652**	**1**	**5,653**
Total comprehensive income	-	-	652	17	-	669	-	669
Distribution of income for 2009:								
Dividends	-	-	(153)	-	-	(153)	-	(153)
Balance as at 31 December 2010	**1,698**	**1,802**	**2,440**	**11**	**217**	**6,168**	**1**	**6,169**
Balance as at 1 January 2009	**1,698**	**1,802**	**1,437**	**(29)**	**210**	**5,118**	**13**	**5,131**
Total comprehensive income	-	-	702	25	-	727	-	727
Acquisition of non controlling interest	-	-	(2)	-	-	(2)	(12)	(14)
Distribution of income for 2008:								
Transfer	-	-	(5)	(2)	7	-	-	-
Dividends	-	-	(191)	-	-	(191)	-	(191)
Balance as at 31 December 2009	**1,698**	**1,802**	**1,941**	**(6)**	**217**	**5,652**	**1**	**5,653**

BANK	Attributable to the equity holders of the Bank							
	Share capital	Share premium	Retained earnings	Other reserves	Statutory and legal reserves	Total	Non controlling interest	Total equity
Balance as at 1 January 2010	**1,698**	**1,802**	**1,835**	**(5)**	**217**	**5,547**	**-**	**5,547**
Total comprehensive income	-	-	610	13	-	623	-	623
Distribution of income for 2009:								
Dividends	-	-	(153)	-	-	(153)	-	(153)
Balance as at 31 December 2010	**1,698**	**1,802**	**2,292**	**8**	**217**	**6,017**	**-**	**6,017**
Balance as at 1 January 2009	**1,698**	**1,802**	**1,424**	**(29)**	**210**	**5,105**	**-**	**5,105**
Total comprehensive income	-	-	607	26	-	633	-	633
Distribution of income for 2008:								
Transfer	-	-	(5)	(2)	7	-	-	-
Dividends	-	-	(191)	-	-	(191)	-	(191)
Balance as at 31 December 2009	**1,698**	**1,802**	**1,835**	**(5)**	**217**	**5,547**	**-**	**5,547**

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

Statement of cash flow

For the year ended 31 December 2010 (All amounts are expressed in HRK million)

		GROUP			BANK
	Notes	2010	2009	2010	2009
Operating Activities					
Loss from operating activities before changes in operating assets and liabilities	40	(128)	(508)	(101)	(493)
Changes in operating assets and liabilities:					
Obligatory reserves with the Croatian National Bank		159	(489)	197	(437)
Amounts due from other banks		(186)	(89)	(234)	(45)
Reverse repurchase agreements		103	91	29	91
Net decrease in financial assets held for trading		(42)	(5)	(52)	-
Loans and advances to customers, net of write-offs		(3,508)	(3,804)	(3,111)	(2,754)
Other assets		67	(86)	69	(78)
Amounts due to other banks		271	50	283	68
Repurchase agreements		174	182	174	182
Amounts due to customers		737	4,129	402	3,045
Other liabilities		(19)	(17)	(24)	(13)
Cash used in operations		*(2,372)*	*(546)*	*(2,368)*	(434)
Interest paid		(1,411)	(2,135)	(1,351)	(2,095)
Interest received		3,091	3,616	2,915	3,477
Income taxes paid		(121)	(228)	(117)	(227)
NET CASH PROVIDED BY OPERATING ACTIVITIES		**(813)**	**707**	**(921)**	**721**
Investing Activities					
Purchase of property and equipment		(78)	(94)	(60)	(93)
Disposal of property and equipment		3	8	3	55
Purchase of intangible assets		(18)	(28)	(13)	(20)
Purchase of investments available for sale		(88)	(1,431)	(45)	(1,388)
Increase/(decrease) in investments in associates		2	-	-	(113)
Acquisition of non controlling interest		-	(12)	-	-
Acquisition of subsidiaries, net of cash acquired		-	66	-	-
Purchase/redemption of investments held to maturity		(105)	34	(105)	51
Dividends received		5	4	5	4
NET CASH USED IN INVESTING ACTIVITIES		**(279)**	**(1,453)**	**(215)**	**(1,504)**
Financing Activities					
Subordinated borrowings		-	29	-	-
Dividends paid		(153)	(192)	(153)	(192)
NET CASH USED IN FINANCING ACTIVITIES		**(153)**	**(163)**	**(153)**	**(192)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,245)**	**(909)**	**(1,289)**	**(975)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**40**	**7,996**	**8,905**	**7,925**	**8,900**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**40**	**6,751**	**7,996**	**6,636**	**7,925**

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

Notes to the financial statements

Year ended 31 December 2010 (All amounts are expressed in HRK million)

1. GENERAL

History and incorporation

Erste&Steiermärkische Bank d.d. (the 'Bank') was established in 1954 and was entered into the Court Register as a joint stock company on 24 January 1990. The Bank's registered head office is at Jadranski trg 3a, Rijeka, the Republic of Croatia.

Principal activities of the Bank

The Bank is licensed to conduct commercial banking activities in the Republic of Croatia. The Bank's main operations are as follows:

- accepting deposits from the clients and placing of deposits,
- granting loans, issuing guarantees and letters of credit to the individuals, companies, public and other clients,
- treasury operations in the interbank market,
- trust management and investment banking services,
- performing domestic and international payments,
- providing banking services through an extensive branch network in the Republic of Croatia.

Supervisory Board

Herbert Juranek	President
Sava Ivanov Dalbokov	Deputy President as of 1 October 2010
Mag. Franz Kerber	Member (Deputy President until 1 October 2010)
Mag. Reinhard Ortner	Member
Mag. Gerhard Maier	Member until 1 October 2010
Mag. Peter Nemschak	Member
Dr. Kristijan Schellander	Member
Dr. Ernst Gideon Loudon	Member

Management Board

The Bank is represented jointly by two members of the Management Board or by one member of the Management Board together with the procurator.

Petar Radaković	President
Tomislav Vuić	Deputy President
Borislav Centner	Member
Slađana Jagar	Member

Procurators

Zdenko Matak	Procurator as of 30 June 2010
Vladimir Kristijan	Procurator as of 30 June 2010

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

1. GENERAL (CONTINUED)

The shareholding structure of the Bank is as follows:

	2010		2009	
	Number of shares	**Ownership in %**	**Number of shares**	**Ownership in %**
ESB Holding GMBH	16,984,175	100.0%	16,319,956	96.1%
Member of Management Board – Slađana Jagar	-	-	235	0.0%
Other shareholders	-	-	663,984	3.9%
Total	**16,984,175**	**100.0%**	**16,984,175**	**100.0%**

As of 10 September 2010, the Bank's shares are no longer listed on Zagreb Stock Exchange as a public stock company.

Definition of the consolidated group

The Bank is a parent company of the banking group (the 'Group') which includes the following subsidiaries consolidated in the financial statements:

Name of subsidiary	Ownership interest	Principal activity	Audited by	Registered office
Erste DMD d.o.o. za upravljanje dobrovoljnim mirovinskim fondom	100%	Management company for voluntary pension fund	Ernst & Young d.o.o.	Ivana Lučića 2a, Zagreb
Erste nekretnine d.o.o.	100%	Real estate business	Ernst & Young d.o.o.	Ivana Lučića 2a, Zagreb
MBU d.o.o. za informatički inženjering i međubankarske usluge	97.27%	IT engineering and interbank services	Ernst & Young d.o.o.	Andrije Žaje 61, Zagreb
Erste Delta d.o.o.	100%	Real estate business	Ernst & Young d.o.o	Ivana Lučića 2, Zagreb
Erste Bank a.d. Podgorica, Crna Gora	100%	Credit institution	Ernst & Young Montenegro d.o.o, Podgorica	Marka Miljanova 46, Podgorica, Crna Gora

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of presentation

The financial statements are presented for the Group ('consolidated financial statements') and the Bank only ('separate financial statements').

The financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') and International Accounting Standards ('IAS') as published by the International Accounting Standards Board ('IASB'), under the historical cost convention, as modified by the revaluation of appropriate financial assets and liabilities.

The financial statements are presented in millions of Local Currency – Croatian Kuna ('HRK'), unless otherwise indicated.

The financial statements are prepared on an accrual basis of accounting, under the going concern assumption.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available at the statement of financial position date and actual results could differ from those estimates.

The Bank maintains its books of accounts in accordance with the regulations of the Croatian National Bank ('CNB'). The accompanying financial statements are based on the accounting records of the Bank and its subsidiaries, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

2.2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (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 income statement 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 other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non controlling interest represents the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank. Non controlling interest is presented separately in the Group's Income statement and within equity in the Group's Statement of financial position, separately from parent shareholders' equity. Any losses applicable to the non controlling interest in excess of the non controlling interest are allocated against the interests of the non controlling interest even if this results in the non controlling interest having a deficit balance.

Accounting for investments in subsidiaries in the separate financial statements of the Bank

Investments in subsidiaries are accounted at cost in the separate financial statements of the Bank.

2.3. Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as 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. For business combinations from 1 January 2010, acquisition costs incurred are expensed and included in administrative expenses. For business combinations prior to 1 January 2010, acquisition costs were included in cost of business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognized at their fair values at the acquisition date, except for non-current 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*, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized in income statement in the period of acquisition.

Subsequent acquisition of a non controlling interest is not a business combination and before introduction of IFRS 3 Revised there was no specific accounting prescribed in IFRS for such a transaction. Therefore, in periods prior to 1 January 2010, the Group applied the hierarchy in IAS 8 to develop an appropriate accounting policy for such a transaction. The Group has adopted the 'Parent entity extension method' whereby assets and liabilities of the investee are not remeasured to their fair values and the difference between the cost of acquisition and the non controlling interest acquired is accounted for as goodwill. In periods from 1 January 2010, acquisition of non controlling interest is accounted for as an equity transaction.

2.3. Business combinations (continued)

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. As IFRS 3 does not apply to business combinations involving entities under common control, the Group has, in line with IAS 8, adopted an accounting policy whereby such transactions are accounted for using the pooling of interest method.

Application of this method is as follows:

- The assets and liabilities of the combining entities are reflected at their carrying amounts;
- No adjustments are made to reflect fair values, or recognise any new assets or liabilities, that would otherwise be done under the purchase method. The only adjustments that are made are to harmonise accounting policies;
- No 'new' goodwill is recognised as a result of the combination;
- The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within equity;
- The income statement reflects the results of the combining entities for the full year, irrespective of when the combination took place;
- Comparatives are presented as if the entities had always been combined.

2.4. Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized in income statement.

Accounting for investments in associates in the separate financial statements of the Bank

Investments in associates are accounted at cost in the separate financial statements of the Bank.

2.5. Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

2.6. Adoption of new and revised International Financial Reporting Standards

The accounting policies adopted are consistent with those of the previous financial year, except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below.

- IFRS 2 *Share-based Payments*
- IAS 1 *Presentation of Financial Statements*
- IAS 17 *Leases*
- IAS 34 *Interim Financial Reporting*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

2.6. Adoption of new and revised International Financial Reporting Standards (continued)

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below:

IFRS 9 *Financial Instruments*

On 12 November 2009, the IASB issued IFRS 9 *Financial Instruments* as the first step in its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied from 1 January 2013, with early adoption permitted. On 28 October 2010 the IASB issued amendments to IFRS 9 to address the requirements for classifying and measuring financial liabilities. Most of the requirements were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the problem of own credit risk. This completed the first phase of the Board's project to replace IAS 39. In the subsequent phases, the IASB will address impairment methodology and hedge accounting. The completion of this project is expected in 2011. The Group is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Group at the date of adoption, it is not practical to quantify the effect.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

On 26 November 2009, the IASB issued IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* which clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The Interpretation is effective for annual periods beginning on or after 1 July 2010 with earlier application permitted. The Group does not expect IFRIC 19 to have an impact on the financial position or performance of the Group.

Amendments to IAS 24 *Related Party Disclosures (effective for financial years beginning on or after 1 January 2011)*

The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group.

Amendments to IAS 32 *Presentation – Classification of Rights issue (effective for financial years beginning on or after 1 February 2011)*

The amendments amend definition of a financial liability in order to classify rights issue (and certain options or warrants) as equity instruments in cases where such rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IAS 12 *Income Taxes*

Amended IAS 12 includes a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on a non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The amended standard is applicable for annual periods beginning on or after 1 January 2012 with earlier application permitted. The Group does not expect that amended IAS 12 will have an impact on the financial statements of the Group as the Group currently does not have any investment property measured using the fair value model or non-depreciable asset which is measured using the revaluation model.

IFRS 7 *Financial Instruments: Disclosures*

In October 2010, the IASB issued *Disclosures – Transfers of Financial Assets* (Amendments to IFRS 7). Entities are required to apply the amendments for annual periods beginning on or after 1 July 2011. The Group expects IFRS 7 to have an impact on the disclosures in the financial statements. The Group plans to adopt this amendment on its effective date.

Improvements to IFRSs (issued in May 2010)

The IASB issued improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective from annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- IFRS 3 *Business combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

2.7. Leasing

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.

The Group and the Bank as lessee

Assets held under finance leases are recognized as assets of the Group and the Bank 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 charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

2.7. Leasing (continued)

Finance charges are charged to income statement. Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease.

2.8. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuous use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

2.9. 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.

When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Interest income and expenses include interest from derivatives held for economic hedges for closing "Bank book" position, while for derivatives in "Trading book" fair value gains and losses are recognised in income statement line "Net trading income".

2.10. Fee and commission income and expense

Fees and commissions consist mainly of fees on domestic and foreign payments, guarantees, letters of credit, card business and other credit instruments issued by the Group and the Bank. Such fees and commissions are generally recognized as income when due.

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.

2.11. Taxation

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

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's and the Bank's liability for current tax is calculated using tax rates that have been enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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

The Bank and its subsidiaries are subject to various indirect taxes which are included in Other operating expenses.

2.12. Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash, balances with the central banks, current accounts with other banks and term placements with other banks with residual maturity up to 3 months, and treasury bills with residual maturity up to 3 months.

Cash and cash equivalents exclude the obligatory reserves with the central banks as these funds are not available for the Bank's day to day operations.

2.13. Financial assets

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

2.13. Financial assets (continued)

All financial assets and liabilities are recognized and derecognized on a settlement date basis where the purchase or sale of financial asset or liability is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

When a financial asset or financial liability is recognized initially, the Group and the Bank measure it at its 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.

a) Assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss where the financial assets are held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group and the Bank manage 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.

Measurement:
Subsequent to the initial recognition, financial assets at fair value through profit or loss are accounted for and stated at fair value which approximates the price quoted on recognized stock exchanges or acceptable valuation models. The Group and the Bank include realized and unrealized gains and losses in 'Net trading income'. Interest earned on assets at fair value through profit or loss representing coupons on debt securities is accrued on a daily basis and reported within 'Net trading income' in the Income statement.

Dividends on trading securities are recorded when declared and included as a receivable in the statement of financial position line 'Other assets' and in 'Net trading income' in the Income statement.

All purchases and sales of securities held for trading that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognized as spot transactions. Transactions that do not meet the 'regular way' settlement criterion are treated as financial derivatives.

b) Investments held to maturity

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

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

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognized.

c) Assets available for sale

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

This portfolio comprises equity and debt securities. Subsequent to initial recognition, available for sale financial investments are re-measured at fair value based on quoted prices or amounts derived from cash flow models.

In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect specific circumstances of the issuer.

2.13. Financial assets (continued)

For available for sale investments, gains and losses arising from changes in fair value are recognized directly in 'Other comprehensive income', until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in 'Other comprehensive income' is included in the income statement for the period. Impairment losses recognized in income statement for equity investments classified as available for sale are not subsequently reversed through income statement. Impairment losses recognized in income statement for debt instruments classified as available for sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Generally for all equity instruments held in available for sale portfolio in Group indicators of impairment are significant or prolonged decline in fair value below a cost of equity. The definition for significant is the decline of market price below 80% of the acquisition cost. The decline in fair value is prolonged when market price is continuously below acquisition cost during a period of 9 months before the reporting date.

Interest earned whilst holding available for sale securities is accrued on a daily basis using the effective interest rate method and reported as 'Interest income' in the income statement.

Foreign exchange differences related to available for sale equity instruments held in foreign currency are reported together with fair value gains and losses in 'Other comprehensive income' until the financial asset is sold. Foreign exchange differences related to available for sale debt instruments held in foreign currency are reported in the income statement.

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

d) Loans and receivables

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

This portfolio comprises loans provided to customers.

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

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

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

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. Subsequent recoveries are credited to the 'Impairment losses on loans and advances' line in the income statement.

Penalty interest is charged to borrowers when a portion of the loan falls overdue. Penalty interest is accounted for on a cash received basis in the caption 'Interest income'.

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2.14. Financial liabilities

Financial liabilities of the Group and the Bank such as 'Amounts due to other banks', 'Amounts due to customers', 'Other borrowed funds' are stated at amortized cost using the effective interest rate method. Interest expense arising on the issue of certificated debts is included in the income statement line 'Interest expense'.

2.15. Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

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

2.16. Derivative financial instruments

In the normal course of business the Group and the Bank enter into derivative financial instruments to manage currency, liquidity and interest rate risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Group and the Bank include forwards, foreign currency and equity options and futures.

Derivative financial instruments are initially recorded at cost (including transaction costs) and subsequently re-measured at their fair value. Fair values are principally obtained from discounted cash flow models and option pricing models as appropriate. The results of the valuation of derivatives are reported in assets (aggregate of positive fair values) or liabilities (aggregate of negative fair values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise in the income statement line 'Net trading income' for derivatives in "Trading book".

In case of equity options, when the underlying equity instrument is not publicly traded and its fair value can not be measured reliably, the fair value of the options is not determined and such options are measured in the financial statements at cost.

Certain derivative transactions, while providing effective economic hedges under the Group's and the Bank's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives in 'Bank book' with fair value gains and losses reported in the income statement lines 'Net trading income', 'Interest income' and 'Interest expenses'. Interest expense accrued on sell notional amount is included in interest expense. Interest income accrued on bought notional amount is included in interest income. Net trading result includes all remaining effects from foreign currency (FX) changes and changes from market interest rates which influence fair value.

2.17. Sale and repurchase agreements

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 and the Bank retain 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 according to the original classification or the Group and the Bank reclassify 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 'Repurchase agreements'.

Securities purchased under agreements to resell ('reverse repos') at a specified future date are not recognised in the statement of financial position. The consideration paid, is recorded in the statement of financial position line 'Reverse repurchase agreements', reflecting the transaction's economic substance as a loan. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repurchase agreement using the effective interest rate.

2.18. Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. Land and assets in the course of construction are not depreciated.

The estimated economic useful lives are set out below:

	2010	2009
Buildings	40 years	40 years
Computers	4 years	4 years
Furniture and equipment	3-10 years	3-10 years
Motor vehicles	4 years	4 years
Software	4 years	4 years
Other intangible assets	5 years	5 years

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2.18. Tangible and intangible fixed assets (continued)

The carrying amounts of tangible and intangible assets are reviewed at each statement of financial position date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss, the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Investment properties are investments rented to third parties which are accounted for in the same manner as property used in operations of the Group i.e. using the cost model.

2.19. Foreign currency translation

Transactions denominated in foreign currencies are translated into HRK at the prevailing exchange rates on the date of the transaction.

Monetary items denominated in foreign currencies are retranslated into HRK at the appropriate spot rates of exchange prevailing at the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in income statement for the period in 'Net trading income'. Exchange differences arising on the retranslation of non-monetary assets carried at fair value are included in income statement for the period except for exchange differences arising on the retranslation of non-monetary assets available for sale in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

The Group and the Bank have assets and liabilities originated in HRK, which are linked to foreign currency with a one-way currency clause. Due to this clause, the Group and the Bank have an option to revalue the asset by the higher of the foreign exchange rate valid as of the date of maturity, or the foreign exchange rate valid as of the date of origination of the financial instrument. In case of a liability linked to this clause, 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 the forward rates for HRK for periods over 6 months are not available. As such, the Group and the Bank value their assets and liabilities related to this clause by the agreed contract rate valid at the date of the statement of financial position or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher. As at 31 December 2010 one-way currency clause asset is HRK 88 million and liabilities HRK 63 million and as at 31 December 2009 one-way currency clause asset is HRK 124 million and liabilities HRK 86 million.

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

31 December 2010	EUR 1=HRK 7.385173	USD 1=HRK 5.568252	CHF 1=HRK 5.929961
31 December 2009	EUR 1=HRK 7.306199	USD 1=HRK 5.089300	CHF 1=HRK 4.909420

2.20. Off balance sheet commitments

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

2.21. Provisions

Provisions are recognized when the Group and the Bank have a present obligation as a result of a past event and it is probable that the Group and the Bank 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.

2.22. Long-term employee benefits

For defined retirement benefit and jubilees, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Actuarial gains or losses in respect of pension and severance benefit provisions are recognized in full in the period in which they occur. Actuarial gains or losses in provisions for jubilee benefits are recognised in income statement in the period in which they occur.

Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation.

2.23. Fiduciary activities

Assets and income arising thereon, together with related undertakings to return such assets to customers, are excluded from the financial statements when the Group and the Bank act in a fiduciary capacity such as nominee, trustee or agent.

2.24. Critical accounting judgments and key sources of estimation uncertainty

In the application of the accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

While it is possible that in particular periods the Group and the Bank may sustain losses, which are substantial, relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Due to the absence of recently observed market prices for the derivative financial instruments, the management has decided to measure the derivatives using discounted cash flow models. Discount factors used in these models are derived from the smooth interest rates and volatility curves constructed with predefined interpolation methods and market interest rates from Reuters which are valid as at 31 December 2010 for each currency and corresponding maturity dates.

In the ordinary course of business, the Group and the Bank are subject to legal actions and complaints. The management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial situation or the results of future operations of the Group and the Bank. As of 31 December 2010 based on advice of legal counsel, provisions for these risks amounting to HRK 16 million for the Bank, and HRK 18 million for the Group (Note 33). For the rest of the legal cases where the Bank or its subsidiaries act as a defendant, no provisions were created since it is estimated based on the advice of legal counsel, that the Bank's and the subsidiaries' cases will prevail and the probability of an adverse outcome of the litigations is remote.

2.25. Reclassification

Certain reclassifications have been made to the financial statements as at 31 December 2009 and for the year then ended to conform to the presentation as at 31 December 2010 and for the year then ended.

2.26. Regulatory requirements

The Bank is subject to the regulatory requirements of the Croatian National Bank. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and forming allowances to cover credit risk, liquidity risk, interest rate risk and foreign currency risk.

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3. INTEREST INCOME

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Interest on loans and advances to customers	2,675	2,621	2,492	2,485
Interest income on financial investments	182	147	177	146
Interest on derivative financial instruments	145	752	145	752
Interest on amounts due from other banks	22	87	22	86
Interest income on impaired financial assets - loans and advances to customers	51	39	51	39
Interest on balances due from the central bank	24	27	24	27
Interest on reverse repurchase agreements	5	8	5	8
Other interest income	3	7	3	7
Investment property	2	2	2	2
	3,109	**3,690**	**2,921**	**3,552**

4. INTEREST EXPENSE

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Interest on customer deposits	959	1,069	933	1,051
Interest on other borrowed funds	329	920	307	900
Interest on amounts due to other banks	46	126	36	113
Interest on derivative financial instruments	30	63	29	63
Interest on repurchase agreements	4	15	4	15
Interest on subordinated debt	2	1	-	-
Other interest expense	6	2	6	2
	1,376	**2,196**	**1,315**	**2,144**

5. FEE AND COMMISSION INCOME

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Payments and money transfers	223	206	216	201
Bank cards services	144	152	100	110
Credit related fees and commission	51	38	50	38
Investment fund transactions and asset management	15	14	11	15
Insurance business	13	14	13	14
Custodial fees	8	10	8	6
Investment banking business	30	-	30	-
Other fee and commission income	36	81	23	65
	520	**515**	**451**	**449**

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6. FEE AND COMMISSION EXPENSE

	GROUP		BANK	
	2010	2009	2010	2009
Bank cards services	48	54	68	69
Payments and money transfers	45	50	44	49
Credit related fees and commission	3	3	2	3
Custodial fees	2	1	2	1
Other fee and commission expense	3	-	1	-
	101	**108**	**117**	**122**

7. NET TRADING INCOME

	GROUP		BANK	
	2010	2009	2010	2009
Net foreign exchange gain	109	144	110	143
Loss on derivative financial instruments	(1)	(2)	(1)	(2)
Net gain on financial assets at fair value through profit or loss	11	26	11	26
	119	**168**	**120**	**167**

8. OTHER OPERATING INCOME

	GROUP		BANK	
	2010	2009	2010	2009
Income from sale of property and equipment	3	2	3	2
Realized gains on financial investments available for sale	19	3	19	3
Gains on investments in associates	-	-	2	-
Rental income	3	4	2	2
Dividend income	3	3	3	2
Gain on bargain purchase	-	67	-	-
Other	9	5	6	4
	37	**84**	**35**	**13**

9. PERSONNEL EXPENSES

	GROUP		BANK	
	2010	2009	2010	2009
Employee related costs				
- Wages, salaries and compensations	266	246	213	204
- Payroll taxes and contributions	130	125	108	106
- Pension costs	70	69	63	61
Pension provisions	2	2	2	1
	468	**442**	**386**	**372**

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9. PERSONNEL EXPENSES (CONTINUED)

The Group and the Bank do not have pension arrangements separate from the State pension system of Croatia. This system requires that current contributions by the employer be calculated as a percentage of current gross salary payments; these expenses are charged to the profit and loss statement in the period the related compensation is earned by the employee.

The number of employees as full time equivalents of the Group was 2,288 and 2,287 as at 31 December 2010 and 2009, respectively. The number of employees as full time equivalents of the Bank was 1,930 and 1,934 as at 31 December 2010 and 2009, respectively.

10. OTHER OPERATING EXPENSES

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Materials and services	297	287	276	266
Marketing and advertising costs	33	40	29	35
Savings insurance premiums	47	51	45	50
Other taxes and contributions	8	9	7	9
Other	4	3	3	1
	389	**390**	**360**	**361**

11. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Provisions for impairment losses on loans and advances charge for 2010 and 2009, comprises:

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Provision for impairment loss on amounts due from banks	(1)	(1)	(1)	(1)
Provision for impairment loss on loans and advances	585	382	537	344
Provision for impairment loss on other assets	1	3	1	3
	585	**384**	**537**	**346**

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12. PROVISION FOR IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

Provisions for impairment losses on financial investments charge for 2010 and 2009, comprises:

		GROUP		BANK
	2010	**2009**	**2010**	**2009**
Provision for impairment loss on financial investments available for sale - quoted equities	2	11	2	11
	2	**11**	**2**	**11**

13. OTHER PROVISIONS

Other provisions charge for 2010 and 2009 comprises:

		GROUP		BANK
	2010	**2009**	**2010**	**2009**
Provision for litigations	(1)	7	(3)	7
Provision for impairment of guarantees and credit commitments	-	(2)	1	(3)
	(1)	**5**	**(2)**	**4**

14. INCOME TAXES

The Group and the Bank provide for taxes based on the tax accounts maintained and prepared in accordance with the local tax regulations and which differ from International Financial Reporting Standards.

The Bank and subsidiaries are subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2010 and 2009 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Relationship between tax expenses and accounting profit for the years ended 31 December 2010 and 2009 are explained as follows:

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14. INCOME TAXES (CONTINUED)

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Profit before income tax	**807**	**858**	**758**	**759**
Theoretical tax calculated at a tax rate of 20% (2009: 20%)	161	172	152	152
Effect of different tax rates in the Republic Montenegro	(2)	-	-	-
Tax effect of permanent differences	(4)	(16)	(4)	-
Tax effect of temporary differences	33	(48)	34	(45)
Current income tax expense	**188**	**108**	**182**	**107**
Current income tax expense	(188)	(108)	(182)	(107)
Change in deferred tax assets recognized in income statement	33	(48)	34	(45)
Income tax expense reported in the income statement	**(155)**	**(156)**	**(148)**	**(152)**

Deferred tax assets and liabilities are attributable to the following temporary differences:

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Basis for deferred tax assets				
Loans origination fees	219	207	219	207
Tax losses from previous years	2	10	-	-
Unrealized losses on investments available for sale	1	15	1	15
Negative valuation of derivative financial instruments	222	66	222	66
Employment benefits provisions	18	17	18	17
Other temporary differences	15	12	15	12
Total deferred asset	**477**	**327**	**475**	**317**
Basis for deferred tax liabilities				
Unrealized gains on investments available for sale	2	1	-	-
Provisions	1	(1)	-	-
Employment benefits provisions	1	-	-	-
Property and equipment	10	10	-	-
Total deferred liabilities	**14**	**10**	**-**	**-**
Deferred tax asset at the statutory tax rate (20%)	**95**	**65**	**95**	**64**
Deferred tax liabilities at the statutory tax rate (9%)	**1**	**1**	**-**	**-**

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14. INCOME TAXES (CONTINUED)

The movement in deferred tax balances is as follows:

						GROUP
	Deferred tax assets 2010	Deferred tax liability 2010	Income statement 2010	Deferred tax assets 2009	Deferred tax liability 2009	Income statement 2009
Deferred loan origination fees	44	-	3	41	-	1
Unrealized gains from financial investments available for sale	-	-	-	3	-	1
Unrealised gain/(losses) on derivative financial instruments	44	-	31	13	-	(48)
Long term employment provisions	3	-	-	3	-	-
Tax losses	-	-	(2)	2	-	(1)
Property and equipment	-	1	-	-	1	(1)
Other temporary differences	4	-	1	3	-	-
	95	**1**	**33**	**65**	**1**	**(48)**

				BANK
	Deferred tax assets 2010	Income statement 2010	Deferred tax assets 2009	Income statement 2009
Deferred loan origination fees	44	3	41	1
Unrealized gains from financial investments available for sale	-	-	3	2
Unrealised gains/ (losses) on derivative financial instruments	44	31	13	(48)
Long term employment provisions	4	-	4	-
Other temporary differences	3	-	3	-
	95	**34**	**64**	**(45)**

Income tax assets and liabilities consist of the following:

		GROUP		BANK
	2010	**2009**	**2010**	**2009**
Current income tax liabilities	(67)	-	(66)	-
Deferred tax assets	95	65	95	64
Deferred tax liabilities	(1)	(1)	-	-
Net tax assets	**27**	**64**	**29**	**64**

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14. INCOME TAXES (CONTINUED)

Croatian tax legislation and practice has 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 the tax liability which might arise in connection with this would not be material.

15. INCOME TAX EFFECTS RELATING TO OTHER COMPREHENSIVE INCOME

			GROUP			GROUP
			2010			2009
	Amount before tax	Tax expense	Net of tax	Amount before tax	Tax expense	Net of tax
Net gain/(loss) on financial investments available for sale	17	(3)	14	33	(7)	26
Exchange differences on translation of foreign operations	2	-	2	(2)	-	(2)
Other	2	(1)	1	1	-	1
	21	**(4)**	**17**	**32**	**(7)**	**25**

			BANK			BANK
			2010			2009
	Amount before tax	Tax expense	Net of tax	Amount before tax	Tax expense	Net of tax
Net gain/(loss) on financial investments available for sale	15	(3)	12	33	(7)	26
Other	2	(1)	1	-	-	-
	17	**(4)**	**13**	**33**	**(7)**	**26**

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16. COMPONENTS OF OTHER COMPREHENSIVE INCOME

		GROUP
	2010	**2009**
Financial investments available for sale:		
Gains arising during the year	-	42
Less: Reclassification adjustment for gains/(losses) included in the income statement	*17*	*(9)*
	17	33
Exchange differences on translating foreign operations	2	(2)
Other	2	1
Total other comprehensive income	21	32
Income tax relating to components of other comprehensive income	(4)	(7)
Other comprehensive income for the year	**17**	**25**

		BANK
	2010	**2009**
Financial investments available for sale:		
(Losses)/gains arising during the year	(2)	42
Less: Reclassification adjustment for gains/(losses) included in the income statement	*17*	*(9)*
	15	33
Other	2	-
Total other comprehensive income	17	33
Income tax relating to components of other comprehensive income	(4)	(7)
Other comprehensive income for the year	**13**	**26**

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17. CASH AND BALANCES WITH THE CENTRAL BANKS

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Cash on hand	734	553	691	510
Cash on clearing account	2,106	1,836	2,065	1,811
Obligatory reserves with the central banks	3,722	3,922	3,669	3,869
	6,562	**6,311**	**6,425**	**6,190**

As at 31 December 2010 and 2009, obligatory reserves with the Croatian National Bank of HRK 3,669 million and HRK 3,869 million, respectively, represent the minimum reserve deposits which the Bank is required to maintain at all times. As at 31 December 2010 and 2009 obligatory reserve with Central Bank of Montenegro is HRK 53 million (original currency EUR 7 million).

18. AMOUNTS DUE FROM OTHER BANKS

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Current accounts with other banks	108	71	37	19
Term deposits with banks	2,911	4,874	2,911	4,874
Loans and advances with banks	281	70	275	63
Total amounts due from other banks before allowances for impairment	3,300	5,015	3,223	4,956
Less: Allowance for possible placement losses	*(15)*	*(16)*	*(14)*	*(15)*
	3,285	**4,999**	**3,209**	**4,941**

The movement in the allowances for impairment losses on amounts due from other banks is summarized as follows:

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Balance at 1 January	**16**	**17**	**15**	**16**
Release of previously established allowances	(1)	(1)	(1)	(1)
Balance at 31 December	**15**	**16**	**14**	**15**

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19. REVERSE REPURCHASE / REPURCHASE AGREEMENTS

				GROUP
	Cash collateral given on securities borrowed	Reverse repurchase agreements	Cash collateral given on securities borrowed	Reverse repurchase agreements
	2010	**2010**	**2009**	**2009**
Asset				
Due from banks	-	-	25	24
Due from other counterparties	129	128	212	207
	129	**128**	**237**	**231**
	Cash collateral received on securities lent	Repurchase agreements	Cash collateral received on securities lent	Repurchase agreements
	2010	**2010**	**2009**	**2009**
Liabilities				
Due to banks	748	730	656	658
Due to other counterparties	105	105	2	2
	853	**835**	**658**	**660**

				BANK
	Cash collateral given on securities borrowed	Reverse repurchase agreements	Cash collateral given on securities borrowed	Reverse repurchase agreements
	2010	**2010**	**2009**	**2009**
Asset				
Due from banks	75	74	25	24
Due from other counterparties	129	128	212	207
	204	**202**	**237**	**231**
	Cash collateral received on securities lent	Repurchase agreements	Cash collateral received on securities lent	Repurchase agreements
	2010	**2010**	**2009**	**2009**
Liabilities				
Due to banks	748	730	656	658
Due to other counterparties	105	105	2	2
	853	**835**	**658**	**660**

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19. REVERSE REPURCHASE / REPURCHASE AGREEMENTS (CONTINUED)

Reverse repurchase agreements as at 31 December 2010 are secured with debt securities issued by the Croatian Ministry of Finance with a fair value of HRK 129 million and with debt securities issued by the Montenegro Ministry of Finance with a fair value of HRK 75 million. Reverse repurchase agreements as at 31 December 2009 are secured with treasury bills issued by the Croatian Ministry of Finance with a fair value of HRK 237 million.

As at 31 December 2010 and 2009 repurchase agreements are secured with bonds issued by Federal Republic of Germany with a fair value of HRK 370 million and HRK 656 million and with debt securities issued by the Croatian Ministry of Finance with a fair value of HRK 483 million and HRK 2 million, respectively. Cash collaterals received on securities lent are included in 'Financial investments available for sale'.

20. DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP AND BANK			GROUP AND BANK		
	2010			2009		
	Notional Amount	*Fair Value*		Notional Amount	*Fair Value*	
		Assets	Liabilities		Assets	Liabilities
Interest rate instruments:						
Interest rate swaps	-	10	(8)	-	8	(5)
Subtotal - interest rate instruments	*-*	*10*	*(8)*	*-*	*8*	*(5)*
Foreign currency instruments:						
Currency swaps						
Purchase	564	1	-	254	1	-
Sell	566	-	(2)	253	-	(1)
Forwards						
Purchase	8,922	27	-	9,147	43	-
Sell	9,119	-	(228)	9,175	-	(75)
Subtotal – Foreign currency instruments	*19,171*	*28*	*(230)*	*18,829*	*44*	*(76)*
Other instruments:						
Call options for stock index	3	-	-	36	1	-
Put options for stock index	3	-	-	35	-	(1)
Subtotal – Other instruments	*6*	*-*	*-*	*71*	*1*	*(1)*
	19,177	**38**	**(238)**	**18,900**	**53**	**(82)**

The fair value of these transactions reflects the credit risk and other types of economic risks for the Group and the Bank. The fair value of derivative financial instruments is based on valuation techniques where all model inputs are observable in the market.

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

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Financial assets held for trading:				
Treasury bills of Ministry of Finance	52	10	52	-
	52	**10**	**52**	**-**
Financial assets designated at fair value through profit or loss:				
Amounts due from other banks	80	-	80	-
	80	**-**	**80**	**-**

Financial assets and liabilities held for trading are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of those securities is estimated using the present value of future cash flows.

As of 31 December 2010 financial assets held for trading are Treasury bills of the Croatian Ministry of Finance with maturity in 2011, and with interest rate from 2.899% to 3.799%. As of 31 December 2009 financial assets held for trading were Treasury bills of the Croatian Ministry of Finance with maturity in 2010, and with interest rate from 6.20% to 7.80%.

	GROUP AND BANK	GROUP AND BANK
	2010	**2009**
Financial liabilities designated at fair value through profit or loss:		
Amounts due to other Banks	80	-
	80	**-**

22. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers as at 31 December 2010 and 2009 are summarized as follows:

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Companies	16,925	15,153	16,403	14,840
Individuals	18,132	16,816	17,276	16,054
Public sector	3,468	3,048	3,375	3,046
Other institutions	133	77	133	77
Total loans before allowances for impairment	38,658	35,094	37,187	34,017
Less: Allowance for loan impairment	*(2,260)*	*(1,628)*	*(2,168)*	*(1,569)*
	36,398	**33,466**	**35,019**	**32,448**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Loans and advances to customers are made principally within Republic of Croatia and Montenegro.

The movement in the allowances for impairment losses on loans and advances to customers is summarized as follows:

		GROUP		BANK
	2010	**2009**	**2010**	**2009**
Balance at 1 January	**1,628**	**1,253**	**1,569**	**1,253**
Release of previously established allowances	(679)	(314)	(637)	(286)
Additional allowances	1,264	696	1,174	630
Amounts written off	(50)	(36)	(32)	(29)
Additional allowances due to business combination	-	26	-	-
Effect of suspended interest	121	42	121	42
Other	27	-	24	(2)
Interest accrued on impaired loans and advances	(51)	(39)	(51)	(39)
Balance at 31 December	**2,260**	**1,628**	**2,168**	**1,569**

23. FINANCIAL INVESTMENTS AVAILABLE FOR SALE

		GROUP		BANK
	2010	**2009**	**2010**	**2009**
Equity shares and participations:	43	40	43	39
Investments in companies	*21*	*19*	*21*	*19*
Investments in financial institutions	*22*	*21*	*22*	*20*
Debt securities:	4,284	3,921	4,195	3,879
Treasury bills	*1,397*	*2,202*	*1,395*	*2,160*
Listed bonds	*2,856*	*1,689*	*2,769*	*1,689*
Listed commercial bills	*31*	*30*	*31*	*30*
Investment in open funds	32	31	32	31
	4,359	**3,992**	**4,270**	**3,949**

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23. FINANCIAL INVESTMENTS AVAILABLE FOR SALE (CONTINUED)

Debt securities available for sale allocated by the issuer comprise:

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Debt securities available for sale issued by:				
Republic of Croatia	1,959	2,550	1,945	2,508
Companies in Republic of Croatia	194	203	194	203
Other states	2,131	1,168	2,056	1,168
	4,284	**3,921**	**4,195**	**3,879**

Debt securities include bonds issued by the Republic of Croatia and treasury bills issued by the Croatian Ministry of Finance.

Treasury bills of the Croatian Ministry of Finance are HRK and EUR denominated debt securities issued at a discount to nominal. These securities are issued with original maturities of 91, 181, 364 and 728 days.

During 2010, the average interest yields on HRK denominated treasury bills were 2.91% for treasury bills with a maturity of 91 days, 3.86% for treasury bills with a maturity of 181 days, 5.69% for treasury bills with a maturity of 364 days and 8.50% for treasury bills with a maturity of 728 days. The average interest yields on the EUR denominated treasury bills were 5.07% for treasury bills with a maturity of 364 days.

During 2009, the average interest yields on the HRK denominated treasury bills were 6.76% for treasury bills with a maturity of 91 days, 7.58% for treasury bills with a maturity of 181 days, 7.77% for treasury bills with a maturity of 364 days and 8.50% for treasury bills with a maturity of 728 days. The average interest yields on the EUR denominated treasury bills were 7.70% for treasury bills with a maturity of 364 days.

Bonds of the Republic of Croatia are HRK, EUR and USD denominated fixed income debt securities listed at stock exchanges. These bonds have maturities from 2012 to 2020 and bear coupon interest from 4.250% to 6.875% p.a.

Bonds of foreign states (Germany and Austria) are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities in 2012 and bear coupon interest of 5.00% p.a. Bonds of Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities in 2015 and bear coupon interest of 7.875% p.a. Bonds of Republic of Slovakia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities from 2012 to 2015 and bear coupon interest from 0.00% p.a (zero coupon bonds) to 5.00% p.a.

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23. FINANCIAL INVESTMENTS AVAILABLE FOR SALE (CONTINUED)

Financial investments available for sale are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of these securities is estimated using the present value of future cash flows.

24. FINANCIAL INVESTMENTS HELD TO MATURITY

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Fixed income debt securities:				
Listed debt securities – Bonds issued by the Republic of Croatia	356	208	356	208
Unlisted debt securities – Bonds issued by the Republic of Croatia	50	91	50	91
Bonds of Republic of Montenegro	18	17	-	-
	424	**316**	**406**	**299**

Listed bonds issued by the Republic of Croatia are fixed income debt securities denominated in EUR and HRK. These bonds have maturities from 2012 to 2020 and bear coupon interest from 5.500% to 6.875%.

Unlisted bonds issued by the Republic of Croatia are foreign currency denominated bonds issued in 2002 and repayable in twenty semi-annual instalments at interest rates 7.2% p.a. The bonds have maturity in 2011.

The fair value of assets held to maturity is approximately HRK 8.9 million lower than their value as at 31 December 2010.

There was no movement in the allowances for impairment losses on financial assets held to maturity.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

25. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Ownership Interest	Activity	Group's Share of net assets		Investment at cost	
			2010	2009	2010	2009
Associates						
S Immorent Zeta d.o.o.	49.00%	Real estate business	-	-	-	-
Erste vrijednosni papiri d.o.o.	49.00%	Financial markets intermediation	14	14	18	18
Erste Factoring d.o.o.	44.00%	Other credit intermediation	49	38	2	2
Erste d.o.o.	27.88%	Management company for obligatory pension fund	25	22	12	12
S IT Solutions HR d.o.o.	20.00%	IT engineering	-	-	-	-
Total associates:			**88**	**74**	**32**	**32**
Subsidiaries						
Erste nekretnine d.o.o.	100.00%	Real estate business	1	1	1	1
Erste DMD d.o.o.	100.00%	Management company for voluntary pension fund	15	15	15	15
MBU d.o.o.	97.27%	IT engineering and interbank services	33	33	19	19
Erste Delta d.o.o.	100.00%	Real estate business	-	-	-	-
Erste Bank a.d., Podgorica	100.00%	Credit institution	182	168	100	100
Total subsidiaries:			**231**	**217**	**135**	**135**
Total:			**319**	**291**	**167**	**167**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

25. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (CONTINUED)

In March 2010, the Bank completed acquisition of additional 10% part of ownership of Erste nekretnine d.o.o., increasing its ownership to 100%. Cash consideration of HRK 80 thousand was paid to the non controling interest. The carrying value of net assets of Erste nekretnine d.o.o. at this date was HRK 1 million, and the carrying value of the additional interest was HRK 80 thousand.

The following table illustrates summarised financial information of the Group's investment in associates:

		GROUP
	2010	**2009**
Current assets	1,275	1,963
Non current assets	48	67
Current liabilities	(1,200)	(1,940)
Non current liabilities	(35)	(16)
Net asset, carrying amount of associates	**88**	**74**
Share of associates revenue and profit		
Revenue	103	132
Net profit	16	15

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

26. PROPERTY AND EQUIPMENT

						GROUP 2010
	Land and buildings	Computers	Furniture and other equipment	Investment property	Construction in progress	Total
COST						
At 1 January 2010	706	177	204	29	30	1,146
Additions	-	-	-	-	75	75
Transfer	14	7	36	-	(57)	-
Disposals	(6)	(12)	(5)	-	-	(23)
At 31 December 2010	**714**	**172**	**235**	**29**	**48**	**1,198**
ACCUMULATED DEPRECIATION						
At 1 January 2010	152	151	134	8	-	445
Depreciation	16	17	22	1	-	56
Transfer	-	-	-	-	-	-
Disposals	(3)	(12)	(7)	-	-	(22)
At 31 December 2010	**165**	**156**	**149**	**9**	**-**	**479**
NET BOOK VALUE						
31 December 2010	**549**	**16**	**86**	**20**	**48**	**719**
31 December 2009	**554**	**26**	**70**	**21**	**30**	**701**

						GROUP 2009
	Land and buildings	Computers	Furniture and other equipment	Investment property	Construction in progress	Total
COST						
At 1 January 2009	688	191	161	-	34	1,074
New subsidiary	15	8	27	-	-	50
Additions	-	-	-	-	61	61
Transfer	5	9	22	29	(65)	-
Disposals	(2)	(31)	(6)	-	-	(39)
At 31 December 2009	**706**	**177**	**204**	**29**	**30**	**1,146**
ACCUMULATED DEPRECIATION						
At 1 January 2009	143	149	105	-	-	397
New subsidiary	2	4	12	-	-	18
Depreciation	16	24	22	-	-	62
Transfer	(8)	-	-	8	-	-
Disposals	(1)	(26)	(5)	-	-	(32)
At 31 December 2009	**152**	**151**	**134**	**8**	**-**	**445**
NET BOOK VALUE						
31 December 2009	**554**	**26**	**70**	**21**	**30**	**701**
31 December 2008	**545**	**42**	**56**	**-**	**34**	**677**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

26. PROPERTY AND EQUIPMENT (CONTINUED)

						BANK 2010
	Land and buildings	Computers	Furniture and other equipment	Investment property	Construction in progress	Total
COST						
At 1 January 2010	407	163	171	31	29	801
Additions	-	-	-	-	60	60
Transfer	9	4	28	-	(41)	-
Disposals	(3)	(11)	(3)	(4)	-	(21)
At 31 December 2010	**413**	**156**	**196**	**27**	**48**	**840**
ACCUMULATED DEPRECIATION						
At 1 January 2010	132	144	118	9	-	403
Depreciation	8	14	18	1	-	41
Transfer	-	-	-	-	-	-
Disposals	(2)	(10)	(5)	(1)	-	(18)
At 31 December 2010	**138**	**148**	**131**	**9**	**-**	**426**
NET BOOK VALUE						
31 December 2010	**275**	**8**	**65**	**18**	**48**	**414**
31 December 2009	**275**	**19**	**53**	**22**	**29**	**398**

						BANK 2009
	Land and buildings	Computers	Furniture and other equipment	Investment property	Construction in progress	Total
COST						
At 1 January 2009	414	189	158	-	34	795
Additions	-	-	-	-	44	44
Transfer	(5)	4	19	31	(49)	-
Disposals	(2)	(30)	(6)	-	-	(38)
At 31 December 2009	**407**	**163**	**171**	**31**	**29**	**801**
ACCUMULATED DEPRECIATION						
At 1 January 2009	132	148	105	-	-	385
Depreciation	9	21	19	1	-	50
Transfer	(8)	-	-	8	-	-
Disposals	(1)	(25)	(6)	-	-	(32)
At 31 December 2009	**132**	**144**	**118**	**9**	**-**	**403**
NET BOOK VALUE						
31 December 2009	**275**	**19**	**53**	**22**	**29**	**398**
31 December 2008	**282**	**41**	**53**	-	**34**	**410**

As at 31 December 2010, the Group and the Bank had contracted capital commitments of HRK 12 million (HRK 53 million as at 31 December 2009) in respect of current capital investment projects.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

27. INTANGIBLE ASSETS

	GROUP 2010			BANK 2010		
	Intangible assets	Construction in progress	Total	Intangible assets	Construction in progress	Total
COST						
At 1 January 2010	102	12	114	84	12	96
Additions	-	23	23	-	16	16
Transfer	33	(33)	-	26	(26)	-
Disposals	(13)	-	(13)	(5)	-	(5)
At 31 December 2010	**122**	**2**	**124**	**105**	**2**	**107**
ACCUMULATED AMORTIZATION						
At 1 January 2010	58	-	58	52	-	52
Amortization	18	-	18	13	-	13
Disposals	(8)	-	(8)	(2)	-	(2)
At 31 December 2010	**68**	**-**	**68**	**63**	**-**	**63**
NET BOOK VALUE						
31 December 2010	**54**	**2**	**56**	**42**	**2**	**44**
31 December 2009	**44**	**12**	**56**	**32**	**12**	**44**

	GROUP 2009			BANK 2009		
	Intangible assets	Construction in progress	Total	Intangible assets	Construction in progress	Total
COST						
At 1 January 2009	91	2	93	84	2	86
New subsidiary	8	-	8	-	-	-
Additions	-	23	23	-	20	20
Transfer	13	(13)	-	10	(10)	-
Disposals	(10)	-	(10)	(10)	-	(10)
At 31 December 2009	**102**	**12**	**114**	**84**	**12**	**96**
ACCUMULATED AMORTIZATION						
At 1 January 2009	49	-	49	50	-	50
New subsidiary	3	-	3	-	-	-
Amortization	16	-	16	12	-	12
Disposals	(10)	-	(10)	(10)	-	(10)
At 31 December 2009	**58**	**-**	**58**	**52**	**-**	**52**
NET BOOK VALUE						
31 December 2009	**44**	**12**	**56**	**32**	**12**	**44**
31 December 2008	**42**	**2**	**44**	**34**	**2**	**36**

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28. OTHER ASSETS

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Assets acquired in lieu of uncollected receivables	55	49	51	47
Receivables from fees and commissions	37	33	36	33
Checks	2	4	2	4
Prepaid expenses	14	10	10	6
Allowances for income tax	2	61	-	58
Other	2	21	2	21
Total other assets before allowance for impairment	112	178	101	169
Less: Allowance for impairment of other asset	*(13)*	*(12)*	*(13)*	*(12)*
	99	**166**	**88**	**157**

The movement in the allowances for impairment on other assets is summarized as follows:

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Balance at 1 January	**12**	**11**	**12**	**11**
Release of previously established allowances	(3)	(2)	(3)	(2)
Additional allowances	4	5	4	5
Amounts written off	-	(2)	-	(2)
Balance at 31 December	**13**	**12**	**13**	**12**

29. AMOUNTS DUE TO OTHER BANKS

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Demand deposits:	102	86	129	105
In HRK	*69*	*48*	*68*	*48*
In foreign currencies	*33*	*38*	*61*	*57*
Term deposits:	693	454	693	451
In HRK	*216*	*348*	*216*	*349*
In foreign currencies	*477*	*106*	*477*	*102*
	795	**540**	**822**	**556**

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30. AMOUNTS DUE TO CUSTOMERS

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Demand deposits from:	7,271	7,143	6,876	6,851
Individuals	*4,140*	*3,816*	*3,835*	*3,561*
Companies	*2,904*	*3,057*	*2,829*	*3,032*
Public sector	*98*	*152*	*88*	*145*
Other institutions	*129*	*118*	*124*	*113*
Term deposits from:	23,869	24,222	23,452	23,677
Individuals	*17,238*	*15,658*	*16,787*	*15,298*
Companies	*6,379*	*8,286*	*6,440*	*8,128*
Public sector	*149*	*155*	*123*	*133*
Other institutions	*103*	*123*	*102*	*118*
	31,140	**31,365**	**30,328**	**30,528**

31. OTHER BORROWED FUNDS

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Borrowings in HRK – short-term:	352	445	352	445
Domestic borrowings	*352*	*445*	*352*	*445*
Borrowings in HRK – long-term:	8,755	8,523	8,755	8,523
Domestic borrowings	126	*245*	126	*245*
Foreign borrowings	8,629	*8,278*	*8,629*	*8,278*
Total borrowings in HRK	*9,107*	*8,968*	*9,107*	*8,968*
Borrowings in foreign currencies – short-term:	25	74	-	3
Domestic borrowings	-	*3*	-	*3*
Foreign borrowings	*25*	*71*	-	-
Borrowings in foreign currencies – long-term:	3,472	2,619	2,612	2,165
Domestic borrowings	*1,296*	*1,004*	*1,296*	*1,004*
Foreign borrowings	*2,176*	*1,610*	*1,316*	*1,156*
Refinanced borrowings	-	*5*	-	*5*
Total borrowings in foreign currencies	*3,497*	*2,693*	*2,612*	*2,168*
	12,604	**11,661**	**11,719**	**11,136**

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32. OTHER LIABILITIES

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Prepayments received from borrowers	178	188	178	188
Salaries and bonuses payable	88	83	81	76
Amounts due to suppliers	41	38	37	36
Payables to State Agency for deposit insurance	12	13	12	13
Other	15	36	10	31
	334	**358**	**318**	**344**

33. PROVISIONS

	GROUP				BANK			
	Litigations	**Guarantees and credit commitments**	**Long-term employee benefits**	**Total**	**Litigations**	**Guarantees and credit commitments**	**Long-term employee benefits**	**Total**
At 1 January 2009	**12**	**55**	**16**	**83**	**12**	**55**	**16**	**83**
Additional provisions	14	39	3	56	14	37	2	53
Release of previously established allowances	(7)	(41)	-	(48)	(7)	(40)	(1)	(48)
At 1 January 2010	**19**	**53**	**19**	**91**	**19**	**52**	**17**	**88**
Additional provisions	4	42	2	48	2	42	2	46
Release of previously established allowances	(5)	(42)	(2)	(49)	(5)	(41)	(2)	(48)
At 31 December 2010	**18**	**53**	**19**	**90**	**16**	**53**	**17**	**86**

The provision for guarantees and other loan commitments and contingent liabilities primarily relates to commitments from guarantees and credit lines issued by the Bank for which timing of outflow is uncertain.

34. SUBORDINATED DEBT

Erste Bank a.d., Podgorica received in 2008 subordinated debt from Oikocredit, Ecumenical Development Cooperative Society U.A., the Netherlands in the amount of HRK 30 million (original amount EUR 4 million). Maturity of the debt is from 2013 till 2016, with interest rate 6 month EURIBOR plus 2.9% p.a. The loan cannot be repaid in the case of bankruptcy or liquidation of the Borrower until all obligations of the Erste bank a.d., Podgorica towards other depositors and creditors have been met. The loan is included into the second-class capital of Erste Bank a.d., Podgorica after obtaining written approval from Central Bank of Montenegro.

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35. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2010 and 2009 the share capital of the Bank comprises 16,984,175 ordinary shares with a par value of HRK 100 each. All the ordinary shares are ranked equally and bear one vote.

Share premium at 31 December 2010 amounted to HRK 1,802 million.

36. OTHER CAPITAL RESERVES

The Bank's distributable and non-distributable reserves are determined by regulations of the Croatian National Bank. As at 31 December 2010 and 2009, the statutory and legal reserves of the Bank disclose non-distributable reserves of HRK 217 million. Such reserves include the reserve for general banking risk of HRK 126 million as of 31 December 2010 and 2009. The reserve for general banking risk is formed out of annual net profits for the years 2004 to 2006 and was not distributable within the three years following the year in which the reserve was first formed. The reserve becomes distributable if the growth rate of the Bank's assets does not exceed 15% in the three years following the year in which they were initially formed. In 2011, the Management Board plans to propose to the Supervisory Board and the General Assembly to transfer general banking risk reserve to retained earnings which would make them distributable in full.

37. EARNINGS PER ORDINARY SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net profit for the period attributable to ordinary shareholders after deducting preference dividends, if any. A reconciliation of the profit after tax attributable to ordinary shareholders is provided below.

	GROUP	
	2010	**2009**
Net profit for the year	652	702
Profit attributable to ordinary shareholders	652	702
Weighted average number of shares of 100 HRK each (for basic and diluted earnings per share)	16,984,175	16,984,175
Earnings per ordinary share – basic and diluted (in HRK)	**38.42**	**41.36**

38. DIVIDENDS

The dividends are subject to approval by shareholders at the Annual General Assembly which has not been held as of the date when these consolidated financial statements were authorized for issue.

The dividend declared by the Bank for the year 2009 was HRK 9.03 per share (total amount HRK 153 million).

39. ESTIMATED FAIR VALUE 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. If 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 the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing techniques as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. It is the opinion of the management of the Group, that the fair value of the Group's financial assets and liabilities are not materially different from the amounts stated in the statement of financial position as at 31 December 2010 and 2009.

In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used:

(a) Cash and balances with the central banks

The carrying values of cash and balances with the central bank are generally deemed to approximate their fair value.

(b) Investments held to maturity

Fair values of securities carried in the 'Held to maturity' portfolio are calculated based on market quotations. The fair values of held to maturity investments are disclosed in Note 24.

(c) Due from banks

The estimated fair value of amounts due from banks that mature in 180 days or less, approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral.

(d) Loans and advances to customers

The fair value of variable yield loans that regularly re-price, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available. Loans at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total loans and advances to customers approximates the carrying values as at the statement of financial position date.

(e) Amounts due to banks and customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable on demand as at the statement of financial position date. The fair value of term deposits at variable interest rates approximates their carrying values as at the statement of financial position date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.
As the fixed rate long term deposits represent only a fraction of the entire deposit base, the Management believes that their fair value approximates the carrying value as at the statement of financial position date.

39.1. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

The Group uses following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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39.1. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

				GROUP 2010
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Financial assets				
Derivative financial instruments	-	38	-	**38**
Interest rate swaps	*-*	*10*	*-*	***10***
Currency swaps	*-*	*1*	*-*	***1***
Forward foreign exchange contracts	*-*	*27*	*-*	***27***
Financial investments held for trading	-	52	-	**52**
Government debt securities	*-*	*52*	*-*	***52***
Financial investments available for sale	2,758	1,601	-	**4,359**
Quoted investments	*32*	*-*	*-*	***32***
Government debt securities	*557*	*1,400*	*-*	***1,957***
Other debt securities	*2,131*	*196*		***2,327***
Equities	*38*	*-*	*-*	***38***
Unquoted investments	*-*	*5*	*-*	***5***
Total financial assets	**2,758**	**1,691**	**-**	**4,449**
Financial liabilities				
Derivative financial instruments	-	238	-	**238**
Interest rate swaps	*-*	*8*	*-*	***8***
Currency swaps	*-*	*2*	*-*	***2***
Forward foreign exchange contracts	*-*	*228*	*-*	***228***
Equity swap and options	*-*	*-*	*-*	***-***
Total financial liabilities	**-**	**238**	**-**	**238**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

39.1. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

				GROUP 2009
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Financial assets				
Derivative financial instruments	-	53	-	**53**
Interest rate swaps	-	*8*	-	***8***
Currency swaps	-	*1*	-	***1***
Forward foreign exchange contracts	-	*44*	-	***44***
Financial investments held for trading	10	-	-	**10**
Government debt securities	*10*	-	-	***10***
Financial investments available for sale	1,233	2,759	-	**3,992**
Quoted investments	*31*	-	-	***31***
Government debt securities	-	*2,548*	-	***2,548***
Other debt securities	*1,168*	*206*	-	***1,374***
Equities	*34*	-	-	***34***
Unquoted investments	-	*5*	-	***5***
Total financial assets	**1,243**	**2,812**	**-**	**4,055**
Financial liabilities				
Derivative financial instruments	1	81	-	**82**
Interest rate swaps	-	*5*	-	***5***
Currency swaps	-	*1*	-	***1***
Forward foreign exchange contracts	-	*75*	-	***75***
Equity swap and options	*1*	-	-	***1***
Total financial liabilities	**1**	**81**	**-**	**82**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

39.1. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

				BANK 2010
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Financial assets				
Derivative financial instruments	-	38	-	**38**
Interest rate swaps	*-*	*10*	*-*	***10***
Currency swaps	*-*	*1*	*-*	***1***
Forward foreign exchange contracts	*-*	*27*	*-*	***27***
Financial investments held for trading	-	52	-	**52**
Government debt securities	-	52	-	**52**
Financial investments available for sale	2,674	1,596	-	**4,270**
Quoted investments	*32*	*-*	*-*	***32***
Government debt securities	*548*	*1,395*	*-*	***1,943***
Other debt securities	*2,056*	*196*	*-*	***2,252***
Equities	*38*	*-*	*-*	***38***
Unquoted investments	*-*	*5*	*-*	***5***
Total financial assets	**2,674**	**1,686**	**-**	**4,360**
Financial liabilities				
Derivative financial instruments	-	238	-	**238**
Interest rate swaps	*-*	*8*	*-*	***8***
Currency swaps	*-*	*2*	*-*	***2***
Forward foreign exchange contracts	*-*	*228*	*-*	***228***
Equity swap and options	*-*	*-*	*-*	***-***
Total financial liabilities	**-**	**238**	**-**	**238**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

39.1. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

				BANK 2009
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Derivative financial instruments	-	53	-	**53**
Interest rate swaps	-	*8*	-	***8***
Currency swaps	-	*1*	-	***1***
Forward foreign exchange contracts	-	*44*	-	***44***
Financial investments available for sale	1,233	2,716	-	**3,949**
Quoted investments	*31*	-	-	***31***
Government debt securities	-	*2,505*	-	***2,505***
Other debt securities	*1,168*	*206*	-	***1,374***
Equities	*34*	-	-	***34***
Unquoted investments	-	*5*	-	***5***
Total financial assets	**1,233**	**2,769**	**-**	**4,002**
Financial liabilities				
Derivative financial instruments	1	81	-	**82**
Interest rate swaps	-	*5*	-	***5***
Currency swaps	-	*1*	-	***1***
Forward foreign exchange contracts	-	*75*	-	***75***
Equity swap and options	*1*	-	-	***1***
Total financial liabilities	**1**	**81**	**-**	**82**

40. INFORMATION FOR CASH FLOW STATEMENT

		GROUP		BANK
	2010	2009	2010	2009
Operating Activities				
Profit before income tax	807	858	758	759
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization expense	74	78	54	62
Gain on bargain purchase	-	(67)	-	-
Impairment losses on loans and advances	585	384	537	346
Impairment losses on financial investments	2	11	2	11
Net change in valuation of derivatives	171	(264)	171	(263)
Provisions for off balance commitments	(1)	5	(2)	4
Interest expense	1,376	2,196	1,315	2,144
Interest income	(3,121)	(3,690)	(2,931)	(3,552)
Dividend income	(5)	(4)	(5)	(4)
Share of results of associates	(16)	(15)	-	-
Loss from operating activities before changes in operating assets and liabilities	*(128)*	*(508)*	*(101)*	*(493)*

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40. INFORMATION FOR CASH FLOW STATEMENT (CONTINUED)

Analysis of cash and cash equivalents:

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Cash on hand	734	553	691	513
Cash on clearing account	2,065	1,836	2,065	1,811
Current accounts with other banks	109	25	37	19
Placements with banks with maturity up to 3 months	2,877	4,861	2,877	4,861
Treasury bills with maturity up to 3 months	966	721	966	721
	6,751	**7,996**	**6,636**	**7,925**
Change in cash and cash equivalents	**(1,245)**	**(909)**	**(1,289)**	**(975)**

41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the Croatian National Bank. The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Those assets and liabilities that do not have a contractual maturity date are grouped together under 'Maturity undefined' category.

Investments available for sale are classified in accordance with their secondary liquidity characteristics as per remaining maturity.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivatives. The Group does 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 Group 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.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

									GROUP 2010
	Up to 1 month	**1-3 months**	**3-12 months**	**Total less than 12 months**	**1-5 years**	**Over 5 years**	**Total over 12 months**	**Maturity undefined**	**Total**
ASSETS									
Cash and balances with central banks	6,536	-	-	6,536	26	-	26	-	**6,562**
Amounts due from other banks	2,943	20	320	3,283	2	-	2	-	**3,285**
Reverse repurchase agreements	128	-	-	128	-	-	-	-	**128**
Receivables on financial derivative transactions	30	-	-	30	4	4	8	-	**38**
Financial investments held for trading	-	4	48	52	-	-	-	-	**52**
Financial investments at fair value through profit or loss	60	-	20	80	-	-	-	-	**80**
Loans and advances to customers	2,947	2,591	7,400	12,938	12,527	10,933	23,460	-	**36,398**
Financial investments available for sale	75	1,049	448	1,572	2,431	356	2,787	-	**4,359**
Financial investments held to maturity	5	23	44	72	206	146	352	-	**424**
Investments in subsidiaries and associates	-	-	-	-	-	-	-	88	**88**
Property and equipment	-	-	-	-	169	530	699	-	**699**
Intangible assets	-	-	-	-	56	-	56	-	**56**
Investment property	-	-	-	-	1	19	20	-	**20**
Deferred tax assets	-	-	95	95	-	-	-	-	**95**
Other assets	38	1	7	46	53	-	53	-	**99**
Total assets	**12,762**	**3,688**	**8,382**	**24,832**	**15,475**	**11,988**	**27,463**	**88**	**52,383**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	404	379	12	795	-	-	-	-	**795**
Repurchase agreements	710	125	-	835	-	-	-	-	**835**
Payables on financial derivative transactions	231	2	-	233	3	2	5	-	**238**
Financial liabilities at fair value through profit or loss	60	-	20	80	-	-	-	-	**80**
Amounts due to customers	12,700	5,198	10,753	28,651	1,568	921	2,489	-	**31,140**
Other borrowed funds	88	316	2,006	2,410	9,560	634	10,194	-	**12,604**
Current tax liabilities	66	-	1	67	-	-	-	-	**67**
Deferred tax liabilities	-	-	1	1	-	-	-	-	**1**
Other liabilities	269	5	60	334	-	-	-	-	**334**
Provisions	24	5	35	64	23	3	26	-	**90**
Subordinated debt	-	-	-	-	23	7	30	-	**30**
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	6,168	**6,168**
Non controlling interest	-	-	-	-	-	-	-	1	**1**
Total liabilities and shareholders' equity	**14,552**	**6,030**	**12,888**	**33,470**	**11,177**	**1,567**	**12,744**	**6,169**	**52,383**
Net liquidity gap	**(1,790)**	**(2,342)**	**(4,506)**	**(8,638)**	**4,298**	**10,421**	**14,719**	**(6,081)**	**-**

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41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

GROUP 2009	Up to 1 month	1-3 months	3-12 months	Total less than 12 months	1-5 years	Over 5 years	Total over 12 months	Maturity undefined	Total
ASSETS									
Cash and balances with central banks	6,311	-	-	6,311	-	-	-	-	**6,311**
Amounts due from other banks	2,916	2,081	2	4,999	-	-	-	-	**4,999**
Reverse repurchase agreements	127	104	-	231	-	-	-	-	**231**
Receivables on financial derivative transactions	53	-	-	53	-	-	-	-	**53**
Financial investments at fair value through profit or loss	-	1	-	1	9	-	9	-	**10**
Loans and advances to customers	4,894	1,929	5,712	12,535	11,088	9,843	20,931	-	**33,466**
Financial investments available for sale	70	912	1,607	2,589	1,267	136	1,403	-	**3,992**
Financial investments held to maturity	204	41	21	266	50	-	50	-	**316**
Investments in subsidiaries and associates	-	-	-	-	-	-	-	74	**74**
Property and equipment	-	-	47	47	101	532	633	-	**680**
Intangible assets	-	-	12	12	44	-	44	-	**56**
Investment property	-	-	-	-	-	21	21	-	**21**
Deferred tax assets	17	4	16	37	20	8	28	-	**65**
Other assets	95	17	-	112	54	-	54	-	**166**
Total assets	**14,687**	**5,089**	**7,417**	**27,193**	**12,633**	**10,540**	**23,173**	**74**	**50,440**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	411	85	44	540	-	-	-	-	**540**
Repurchase agreements	660	-	-	660	-	-	-	-	**660**
Payables on financial derivative transactions	80	2	-	82	-	-	-	-	**82**
Amounts due to customers	12,343	6,159	9,111	27,613	2,849	903	3,752	-	**31,365**
Other borrowed funds	61	489	1,954	2,504	8,665	492	9,157	-	**11,661**
Deferred tax liabilities	-	-	1	1	-	-	-	-	**1**
Other liabilities	280	19	52	351	7	-	7	-	**358**
Provisions	22	9	27	58	31	2	33	-	**91**
Subordinated debt	-	-	29	29	-	-	-	-	**29**
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	5,652	**5,652**
Non controlling interest	-	-	-	-	-	-	-	1	**1**
Total liabilities and shareholders' equity	**13,857**	**6,763**	**11,218**	**31,838**	**11,552**	**1,397**	**12,949**	**5,653**	**50,440**
Net liquidity gap	**830**	**(1,674)**	**(3,801)**	**(4,645)**	**1,081**	**9,143**	**10,224**	**(5,579)**	**-**

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41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

BANK 2010

	Up to 1 month	1-3 months	3-12 months	Total less than 12 months	1-5 years	Over 5 years	Total over 12 months	Maturity undefined	Total
ASSETS									
Cash and balances with central banks	6,425	-	-	6,425	-	-	-	-	**6,425**
Amounts due from other banks	2,869	20	320	3,209	-	-	-	-	**3,209**
Reverse repurchase agreements	202	-	-	202	-	-	-	-	**202**
Receivables on financial derivative transactions	30	-	-	30	4	4	8	-	**38**
Financial investments held for trading	-	4	48	52	-	-	-	-	**52**
Financial investments at fair value through profit or loss	60	-	20	80	-	-	-	-	**80**
Loans and advances to customers	2,915	2,569	7,244	12,728	11,737	10,554	22,291	-	**35,019**
Financial investments available for sale	75	1,049	448	1,572	2,354	344	2,698	-	**4,270**
Financial investments held to maturity	5	6	44	55	205	146	351	-	**406**
Investments in subsidiaries and associates	-	-	-	-	-	-	-	167	**167**
Property and equipment	-	-	-	-	121	275	396	-	**396**
Intangible assets	-	-	-	-	44	-	44	-	**44**
Investment property	-	-	-	-	-	18	18	-	**18**
Deferred tax assets	-	-	95	95	-	-	-	-	**95**
Other assets	37	-	-	37	51	-	51	-	**88**
Total assets	**12,618**	**3,648**	**8,219**	**24,485**	**14,516**	**11,341**	**25,857**	**167**	**50,509**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	431	379	12	822	-	-	-	-	**822**
Repurchase agreements	710	125	-	835	-	-	-	-	**835**
Payables on financial derivative transactions	231	2	-	233	3	2	5	-	**238**
Financial liabilities at fair value through profit or loss	60	-	20	80	-	-	-	-	**80**
Amounts due to customers	12,366	5,064	10,458	27,888	1,526	914	2,440	-	**30,328**
Other borrowed funds	77	297	1,820	2,194	9,079	446	9,525	-	**11,719**
Current tax liabilities	66	-	-	66	-	-	-	-	**66**
Other liabilities	261	3	54	318	-	-	-	-	**318**
Provisions	23	5	33	61	23	2	25	-	**86**
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	6,017	**6,017**
Total liabilities and shareholders' equity	**14,225**	**5,875**	**12,397**	**32,497**	**10,631**	**1,364**	**11,995**	**6,017**	**50,509**
Net liquidity gap	**(1,607)**	**(2,227)**	**(4,178)**	**(8,012)**	**3,885**	**9,977**	**13,862**	**(5,850)**	**-**

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41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

									BANK 2009
	Up to 1 month	1-3 months	3-12 months	Total less than 12 months	1-5 years	Over 5 years	Total over 12 months	Maturity undefined	Total
ASSETS									
Cash and balances with central banks	6,190	-	-	6,190	-	-	-	-	**6,190**
Amounts due from other banks	2,860	2,081	-	4,941	-	-	-	-	**4,941**
Reverse repurchase agreements	127	104	-	231	-	-	-	-	**231**
Receivables on financial derivative transactions	53	-	-	53	-	-	-	-	**53**
Loans and advances to customers	3,839	1,930	5,715	11,484	11,117	9,847	20,964	-	**32,448**
Financial investments available for sale	70	912	1,564	2,546	1,267	136	1,403	-	**3,949**
Financial investments held to maturity	203	24	21	248	51	-	51	-	**299**
Investments in subsidiaries and associates	-	-	-	-	-	-	-	167	**167**
Property and equipment	-	-	-	-	79	297	376	-	**376**
Intangible assets	-	-	-	-	44	-	44	-	**44**
Investment property	-	-	-	-	22	-	22	-	**22**
Deferred tax assets	18	4	14	36	20	8	28	-	**64**
Other assets	93	15	-	108	49	-	49	-	**157**
Total assets	**13,453**	**5,070**	**7,314**	**25,837**	**12,649**	**10,288**	**22,937**	**167**	**48,941**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	432	80	44	556	-	-	-	-	**556**
Repurchase agreements	660	-	-	660	-	-	-	-	**660**
Payables on financial derivative transactions	80	2	-	82	-	-	-	-	**82**
Amounts due to customers	11,734	6,154	8,925	26,813	2,841	874	3,715	-	**30,528**
Other borrowed funds	50	481	1,885	2,416	8,419	301	8,720	-	**11,136**
Other liabilities	276	17	51	344	-	-	-	-	**344**
Provisions	20	9	27	56	31	1	32	-	**88**
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	5,547	**5,547**
Total liabilities and shareholders' equity	**13,252**	**6,743**	**10,932**	**30,927**	**11,291**	**1,176**	**12,467**	**5,547**	**48,941**
Net liquidity gap	**201**	**(1,673)**	**(3,618)**	**(5,090)**	**1,358**	**9,112**	**10,470**	**(5,380)**	**-**

The maturity analysis is prepared in accordance with the internal Asset Liability Management policy.

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42. RELATED-PARTY TRANSACTIONS

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The parent company (which is also the ultimate parent entity of the entire group) is Erste Group Bank AG, Vienna (EGB).

As at 31 December 2010 and 31 December 2009, balances outstanding with related parties comprised:

						GROUP
			2010			2009
	Amounts due from banks and loans to customers	Receivables from financial derivative transactions	Other receivables	Amounts due from banks and loans to customers	Receivables from financial derivative transactions	Other receivables
Parent company	506	20	-	196	41	-
Entity with significant influence on the Group	-	11	-	-	4	-
Associates	30	-	-	10	-	-
Key management personnel	21	-	-	21	-	-
Other EGB companies	62	1	-	231	-	-
Other	12	-	-	12	-	-
Total assets	**631**	**32**	**-**	**470**	**45**	**-**

						GROUP
			2010			2009
	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables
Parent company	7,840	180	1	8,510	61	1
Entity with significant influence on the Group	3,304	56	-	1,987	9	-
Associates	1,283	-	3	2,356	-	-
Key management personnel	89	-	-	70	-	-
Other EGB companies	1,056	-	7	1,452	-	4
Other	76	-	-	65	-	-
Total liabilities	**13,648**	**236**	**11**	**14,440**	**70**	**5**

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42. RELATED-PARTY TRANSACTIONS (CONTINUED)

			BANK			
			2010			2009
	Amounts due from banks and loans to customers	Receivables from financial derivative transactions	Other receivables	Amounts due from banks and loans to customers	Receivables from financial derivative transactions	Other receivables
Parent company	498	20	-	168	41	-
Entity with significant influence on the Group	-	11	-	-	4	-
Associates	30	-	-	10	-	-
Key management personnel	20	-	-	21	-	-
Other EGB companies	60	1	-	228	-	-
Subsidiaries	77	-	-	1	-	-
Other	12	-	-	12	-	-
Total assets	**697**	**32**	**-**	**440**	**45**	**-**

			BANK			
			2010			2009
	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables
Parent company	7,533	180	1	8,335	61	1
Entity with significant influence on the Group	2,944	56	-	1,704	9	-
Associates	1,283	-	3	2,356	-	-
Key management personnel	88	-	-	70	-	-
Other EGB companies	1,053	-	7	1,400	-	4
Subsidiaries	192	-	3	184	-	1
Other	76	-	-	65	-	-
Total liabilities	**13,169**	**236**	**14**	**14,114**	**70**	**6**

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42. RELATED-PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties comprised:

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Interest income				
Parent company	108	602	108	602
Entity with significant influence on the Group	39	156	39	156
Associates	1	-	1	-
Other EGB companies	4	13	4	13
Other	1	1	1	1
Fee income				
Parent company	28	23	19	23
Associates	7	28	6	28
Other EGB companies	66	51	45	27
Subsidiaries	-	-	2	2
Other operating income				
Parent company	1	-	1	-
Other EGB companies	-	1	-	-
Total income	**255**	**875**	**226**	**852**

	GROUP		BANK	
	2010	**2009**	**2010**	**2009**
Interest expense				
Parent company	214	736	206	722
Entity with significant influence on the Group	81	186	70	176
Associates	55	71	55	71
Other EGB companies	27	34	25	33
Subsidiaries	-	-	5	8
Other	3	3	3	3
Fee expense				
Parent company	5	4	5	4
Subsidiaries	-	-	20	16
Other EGB companies	2	-	2	-
Administrative expenses				
Parent company	1	-	1	-
Associates	39	27	38	27
Other EGB companies	16	22	10	13
Subsidiaries	-	-	26	26
Other	1	1	1	1
Other operating expenses				
Other EGB Group companies	2	11	2	11
Total expenses	**446**	**1,095**	**469**	**1,111**

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42. RELATED-PARTY TRANSACTIONS (CONTINUED)

		GROUP		BANK
	2010	**2009**	**2010**	**2009**
Commitments and contingent liabilities				
Guarantees issued				
Associates	2	4	2	4
Other EGB companies	2	3	2	3
Other	1	1	1	1
Other				
Associates	31	33	31	33
Key management personnel	1	1	1	1
Subsidiaries	-	-	2	2
Other EGB companies	106	127	106	127
	143	**169**	**145**	**171**

As at 31 December 2010, the Group and the Bank had cash deposit as collateral from the parent company of HRK 1,556 million (HRK 1,518 million as at 31 December 2009).

The remuneration of directors and other members of key management were as follows:

		GROUP		BANK
	2010	**2009**	**2010**	**2009**
Wages and salaries	13	14	7	7
Bonuses	5	4	4	2
- thereof pension costs	*1*	*1*	*1*	*1*
	18	**18**	**11**	**9**

43. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 23 December 2010 the Bank entered into a purchase agreement to acquire additional 51% of Erste vrijednosni papiri d.o.o. The share capital of the company Erste vrijednosni papiri d.o.o. amounts to HRK 16 million and includes 51% held by Erste Group Bank AG and 49% held by the Bank. On 26 January 2011, after the approval of the Croatian National Bank, the transaction was completed and cash consideration amounted to HRK 3,060,000.

An extract from financial statements of Erste vrijednosni papiri d.o.o. as at 31 December 2010 in thousand HRK:

	2010
Assets	18,604
Liabilities	10,635
Revenue	4,832
Net loss	(648)

44. RISK MANAGEMENT

44.1. INTRODUCTION

Financial risk is in certain areas managed primarily on the Bank level (particularly related to legal requirements which apply only to the Bank), while in some other areas it is also managed and monitored on a Group wide basis as deemed appropriate by the Management. The disclosures included in this note are clearly marked as the Group or the Bank, based on actual level on which the risk is managed or monitored.

Risk is inherent in the Bank's activities, but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits for certain types of risk exposure. The Bank has a set up risk management system aimed at attaining an optimal trade-off between risk and profit. The risk management system has been established as an ongoing management process of credit, market, liquidity, operational and other risk management which can arise through the Bank's daily business.

Risk management structure

Supervisory board

The Supervisory Board has the responsibility to monitor the overall risk process within the Bank.

Management Board

The Management Board, with Supervisory Board consent if needed, is empowered to determine procedures and is responsible for their enforcement through approving and passing acts which define and regulate the Bank's business.
One of the Management Board members is responsible for the control and monitoring of all the Bank's risks through being responsible for the business activity of the Risk Management Division.

Risk Management Division

The Risk Management Division is entrusted with ensuring the foundations for effective risk management, as well as the management and control of decisions related to the Bank's risk exposure.
The Risk Management Division is responsible for the development of risk strategy and management principles, frameworks, policies and limits, and is liable for the implementation and the maintenance of procedures which enable independent control processes.
Also, responsibilities of the Risk Management Division are the revision of internal acts within its competence, carrying out appropriateness controls and impact analysis, and if deemed necessary, any alignments for the upcoming period.

Asset Liability Management ('ALM') Department

The ALM Department is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk Management processes throughout the Bank are audited regularly by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with the Management Board and also reports its findings and recommendations.

Risk measurement and reporting system

The Bank risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment, as well as to test their validity on a regular basis.
Monitoring and controlling risk is primarily performed based on limits established by the Bank. These limits reflect the market environment and the business strategy of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to aggregate risk exposure across all risk types and activities.
Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks.
The Management Board and the Supervisory Board regularly receive reports on the quality of credit portfolio from different risk aspects ensuring all vital information for the overview of credit risk to which the Bank is exposed. The report includes detailed information on exposures, ratings, concentration and risk profile changes. The Risk Management Division compiles additional reports which provide information necessary for a proactive approach in the risk management of the credit portfolio.

44.1. INTRODUCTION (CONTINUED)

Risk measurement and reporting system (continued)

A daily briefing is given to the relevant members of the Management Board on the utilization of market limits, analysis of Value at Risk ('VaR'), plus any other risk developments. These risk developments are presented in the form of an aggregated report.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposure resulting from changes in interest rates, foreign currencies, equity risks, credit risks and exposures arising from forward transactions.The Bank actively uses collateral to reduce its credit risk.

Risk concentration

Concentration arises when a number of counterparties are engaged in similar business activities or have similar economic features that would influence their ability to meet their contractual obligation if external factors change. Concentration indicates the relative sensitivity of the Bank's performance to developments affecting a particular segment. Risk is managed through avoiding excessive concentration of risk, through specific guidelines to focus on maintaining a diversified portfolio.

44.2. CREDIT RISK

Credit risk is the risk that the Group and the Bank will incur a loss because its customers or counterparties failed to fulfil their contractual obligations.

The credit risk management system encompasses all measures and rules determined by external legal regulations in force, internal acts as well as a proactive approach of harmonization with the guidelines and best practices of the Basel II Accord.

The role of the Risk Management Division is the control through all parts of the credit exposure approval process and further credit portfolio monitoring. This includes overview and assessment of the quality of the credit portfolio and identification and revision of adequate provisions for the loans and losses respectively, per client and for the overall portfolio.

For this purpose, the classification of credit assets into risk classes based on internal ratings of customers is in place, which follows the best business practices of credit risk management.

Internal rating systems consist of eight rating grades for individuals not in default and one grade for customers in default. For all other customers, the internal rating systems consist of thirteen rating grades for customers not in default and one rating grade for those in default. Credit exposure is divided into the following risk classes: low risk, management attention and substandard as performing classes which are, for the purpose of this report, compared with Standard and Poor's ('S&P') rating scale according to corporate Probability of default's ('PD's'), and non-performing risk class respectively.

Risk class – low risk (S&P: AAA-BB): The borrower demonstrates a strong repayment capacity.

Risk class – management attention (S&P: B+): The borrower's financial situation is in effect good, but his repayment ability may be negatively affected by unfavourable economic conditions. New business with clients in this risk class requires adequate structuring of the credit risks, e.g. by way of collateral.

Risk class – substandard (S&P: B and worse): The borrower is vulnerable to negative financial and economic impacts; such loans are managed with special care in the Risk Management Division.

Risk class – non-performing: at least one of the default criteria under Basel II occurred, e.g. total repayment unlikely, interest or principal payment more than 90 days past due, restructuring resulting in a loss to lender, realisation of a loan loss, or opening of bankruptcy proceedings.

The Bank also offers financial instruments which represent a potential obligation such as guarantees and letters of credit. These instruments expose the Bank to similar risks to loans and are mitigated by the same processes and policies.

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44.2. CREDIT RISK (CONTINUED)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown net, before the effect of mitigation through the use of master netting and collateral agreements.

			GROUP		BANK
	Notes	2010	2009	2010	2009
Cash and balances with the central banks (without cash on hand)	17	5,828	5,758	5,734	5,680
Amounts due from other banks	18	3,285	4,999	3,209	4,941
Reverse repurchase agreements	19	128	231	202	231
Receivables on financial derivative transactions	20	38	53	38	53
Financial assets held for trading	21	52	10	52	-
Financial assets at fair value through profit or loss	21	80	-	80	-
Loans and advances to customers	22	36,398	33,466	35,019	32,448
Financial investments available for sale	23	4,359	3,992	4,270	3,949
Financial investments held to maturity	24	424	316	406	299
Investments in subsidiaries and associates	25	88	74	167	167
Other assets (included only fees and other)	28	26	42	25	42
Total assets		**50,706**	**48,941**	**49,202**	**47,810**
Contingent liabilities and commitments		3,550	3,449	3,466	3,376
Total credit risk exposure		**54,256**	**52,390**	**52,668**	**51,186**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

44.2. CREDIT RISK (CONTINUED)

Risk concentration of maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty without exposure to the Republic of Croatia as of 31 December 2010 was HRK 1,010 million (2009: HRK 1,023 million) before and after taking account of collateral or other credit enhancements.

The Group's and the Bank's financial assets can be analysed by the following geographical regions:

		GROUP
	2010	**2009**
Croatia	47,283	45,155
EU Countries	4,703	5,380
Other European countries	2,135	1,672
Latin America	22	27
United States of America	22	22
Other countries	91	134
	54,256	**52,390**

		BANK
	2010	**2009**
Croatia	47,248	45,094
EU Countries	4,694	5,351
Other European countries	591	560
Latin America	22	27
United States of America	22	22
Other countries	91	132
	52,668	**51,186**

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44.2. CREDIT RISK (CONTINUED)

An industry sector analysis of the Group's and the Bank's financial assets is as follows:

		GROUP
	2010	**2009**
Agriculture, forestry and fishing	923	723
Mining	42	46
Manufacturing	3,679	3,407
Energy and water supply	481	172
Construction	4,718	4,707
Trade	4,395	4,323
Hotels and restaurants	1,977	1,970
Transport and storage	867	727
Banking and insurance	9,825	11,541
Real estate and other business activities	950	818
Public administration	7,396	6,453
Education services	80	71
Health and social work	120	123
Other service activities	1,151	991
Individuals	16,262	14,938
Information and communication	269	269
Professional, scientific and technical activities	1,121	1,111
	54,256	**52,390**

		BANK
	2010	**2009**
Agriculture, forestry and fishing	879	673
Mining	37	41
Manufacturing	3,668	3,402
Energy and water supply	410	158
Construction	4,693	4,679
Trade	4,087	4,025
Hotels and restaurants	1,847	1,862
Transport and storage	791	704
Banking and insurance	9,679	11,455
Real estate and other business activities	907	832
Public administration	7,110	6,273
Education services	80	71
Health and social work	120	123
Other service activities	695	577
Individuals	16,254	14,931
Information and communication	290	269
Professional, scientific and technical activities	1,121	1,111
	52,668	**51,186**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

44.2. CREDIT RISK (CONTINUED)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptance of types of collateral and valuation parameters. Monitoring of the market value of collateral is performed on a regular basis. When calculating collateral coverage, the amount of coverage is adjusted through corrective factors defined by the Bank's internal regulations depending on the collateral type. Coverage by collateral disclosed in the financial statements is capped to the amount of relevant exposure.

The types of collateral obtained are mortgages over residential or real estate properties, cash deposits, securities and guarantees issued by the Republic of Croatia or banks.

At 31 December 2010, Group′s and Bank′s estimated value of collaterals that have reduced credit risk exposure are HRK 16,314 million and HRK 15,656 million, respectively (2009: HRK 14,558 million and HRK 14,474 million).

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Bank's credit rating system.

						GROUP 2010
			Not impaired			
	Notes	**Low risk**	**Management attention**	**Substandard**	**Impaired**	**Total**
Amounts due from other banks	18	3,226	62	1	11	3,300
Loans and advances to customers		23,341	9,913	1,660	3,744	38,658
Companies	22	*6,660*	*6,823*	*1,129*	*2,313*	*16,925*
Individuals	22	*13,138*	*3,037*	*531*	*1,426*	*18,132*
Public sector	22	*3,437*	*31*	-	-	*3,468*
Other institutions	22	*106*	*22*	-	*5*	*133*
Financial investments		4,565	183	12	-	4,760
Treasury bills	21,23	*1,449*	-	-	-	*1,449*
Listed debt securities	23,24	*3,048*	*183*	*12*	-	*3,243*
Unlisted debt securities	23,24	*50*	-	-	-	*50*
Bonds of Republic of Montenegro	24	*18*	-	-	-	*18*
		31,132	**10,158**	**1,673**	**3,755**	**46,718**

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44.2. CREDIT RISK (CONTINUED)

Credit quality per class of financial assets (continued)

						GROUP 2009
			Not impaired			
	Notes	Low risk	Management attention	Substandard	Impaired	Total
Amounts due from other banks	18	4,963	40	1	11	5,015
Loans and advances to customers		21,868	9,717	1,559	1,950	35,094
Companies	22	*7,648*	*5,922*	*473*	*1,110*	*15,153*
Individuals	22	*11,144*	*3,752*	*1,083*	*837*	*16,816*
Public sector	22	*3,014*	*33*	*-*	*1*	*3,048*
Other institutions	22	*62*	*10*	*3*	*2*	*77*
Financial investments		4,188	59	-	-	4,247
Treasury bills	21,23	*2,212*	*-*	*-*	*-*	*2,212*
Listed debt securities	23,24	*1,868*	*59*	*-*	*-*	*1,927*
Unlisted debt securities	23,24	*91*	*-*	*-*	*-*	*91*
Bonds of Republic of Montenegro	24	*17*	*-*	*-*	*-*	*17*
		31,019	**9,816**	**1,560**	**1,961**	**44,356**

						BANK 2010
			Not impaired			
	Notes	Low risk	Management attention	Substandard	Impaired	Total
Amounts due from other banks	18	3,153	60	-	10	3,223
Loans and advances to customers		22,278	9,706	1,588	3,615	37,187
Companies	22	*6,382*	*6,674*	*1,082*	*2,265*	*16,403*
Individuals	22	*12,435*	*2,990*	*506*	*1,345*	*17,276*
Public sector	22	*3,355*	*20*	*-*	*-*	*3,375*
Other institutions	22	*106*	*22*	*-*	*5*	*133*
Financial investments		4,458	183	12	-	4,653
Treasury bills	21,23	*1,447*	*-*	*-*	*-*	*1,447*
Listed debt securities	23,24	*2,961*	*183*	*12*	*-*	*3,156*
Unlisted debt securities	23,24	*50*	*-*	*-*	*-*	*50*
		29,889	**9,949**	**1,600**	**3,625**	**45,063**

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44.2. CREDIT RISK (CONTINUED)

Credit quality per class of financial assets (continued)

						BANK 2009
			Not impaired			
	Notes	**Low risk**	**Management attention**	**Substandard**	**Impaired**	**Total**
Amounts due from other banks	18	4,906	39	1	10	4,956
Loans and advances to customers		21,112	9,562	1,454	1,889	34,017
Companies	22	*7,553*	*5,811*	*381*	*1,095*	*14,840*
Individuals	22	*10,484*	*3,709*	*1,070*	*791*	*16,054*
Public sector	22	*3,013*	*32*	*-*	*1*	*3,046*
Other institutions	22	*62*	*10*	*3*	*2*	*77*
Financial investments		4,119	59	-	-	4,178
Treasury bills	21,23	*2,160*	*-*	*-*	*-*	*2,160*
Listed debt securities	23,24	*1,868*	*59*	*-*	*-*	*1,927*
Unlisted debt securities	23,24	*91*	*-*	*-*	*-*	*91*
		30,137	**9,660**	**1,455**	**1,899**	**43,151**

As at 31 December 2010, the Group's and the Bank's total impaired exposures had been secured with collateral of HRK 1,831 million and HRK 1,797 million (HRK 874 million and HRK 854 million as at 31 December 2009).

Aging analysis of past due but not impaired loans per class of financial assets

As at 31 December 2010, the Group's and the Bank's past due but not impaired loans had been secured with collateral of HRK 3,016 million and HRK 2,949 million (HRK 3,232 million and HRK 3,183 million as at 31 December 2009).

					GROUP 2010
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Companies	1,264	1,090	564	32	2,950
Individuals	728	329	42	38	1,137
Public sector	50	4	1	10	65
Other institutions	63	31	2	1	97
	2,105	**1,454**	**609**	**81**	**4,249**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

44.2. CREDIT RISK (CONTINUED)

Aging analysis of past due but not impaired loans per class of financial assets (continued)

					GROUP 2009
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Companies	1,284	1,153	430	225	3,092
Individuals	712	259	11	24	1,006
Public sector	50	6	246	6	308
Other institutions	8	20	1	-	29
	2,054	**1,438**	**688**	**255**	**4,435**

					BANK 2010
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Companies	1,235	1,074	559	32	2,900
Individuals	634	287	26	38	985
Public sector	50	4	1	10	65
Other institutions	60	31	2	1	94
	1,979	**1,396**	**588**	**81**	**4,044**

					BANK 2009
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Companies	1,284	1,153	430	225	3,092
Individuals	580	259	11	24	874
Public sector	50	6	246	6	308
Other institutions	8	20	1	-	29
	1,922	**1,438**	**688**	**255**	**4,303**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

44.2. CREDIT RISK (CONTINUED)

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets. Renegotiated financial assets represent loans that would otherwise be past due or impaired if the terms were not renegotiated.

		GROUP
	2010	2009
Loans and advances to customers		
Companies	116	91
Individuals	61	16
Total renegotiated financial assets	**177**	**107**

The table below shows the carrying amount for renegotiated financial assets.

		BANK
	2010	2009
Loans and advances to customers		
Companies	87	78
Individuals	56	14
Total renegotiated financial assets	**143**	**92**

44.3. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk represents inability to pay obligations when they fall due. The Bank actively manages assets and liabilities, including cash flows as well as concentration, all with the aim of harmonizing the Bank’s money inflow and outflow. In order to achieve this, the Bank monitors and plans liquidity, which will enable the evaluation of future needs for liquid resources, bearing in mind the changes in economic, political, regulatory and other business effecting variables. This type of planning includes the identification of known, expected and potential money outflows and creation of strategies in order to ensure the Bank’s needs for money inflows in respective currencies.

The Bank’s strategy is orientated towards ensuring an adequate liquidity reserve that consists of high liquid, high quality and not pledged assets. In case of unexpected need for liquidity, the Bank takes measures necessary for liquidity management, such as tighter control over loan origination activities, maximising liquid assets, selling/collateralising of securities, withdrawal of credit lines and all other necessary measures.

In order to fulfil all legal restrictions and internal rules, following the principles of safety and stability and considering the realization of the planned profitability of the business, a system of limits measurement and liquidity risk reporting is implemented in the Bank.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

44.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Legal restrictions

Decision on Reserve Requirement

With respect to the Decision on Reserve Requirement imposed by the CNB, the Bank is obliged to calculate and maintain an obligatory reserve for HRK and FX sources of funding. Received deposits and loans, issued debt securities, hybrid and subordinated instruments and other financial liabilities are the base for reserve requirement calculation. Calculation period lasts from the first to the last day of a calendar month. The reserve requirement rate amounts 13%. In the calculation, 75% of total foreign currency obligatory reserve is included into calculated HRK liquidity reserve and is allocated in HRK. The percentage for allocating reserve requirements on special account with the CNB amounts 70% of the total obligatory reserve, while the remaining portion of the amount of 30% may be maintained through average daily balances of other liquid fund balances as defined by the CNB.

Decision on minimal required FX claims

Following the Decision on minimal required foreign currency claims, the Bank is obliged to daily maintain a minimum of 20% of foreign currency and HRK with currency clause liabilities in short-term foreign currency assets.

The table below shows information on minimal foreign currency claims on 31 December 2010 and 31 December 2009:

2010	%	**2009**	%
Realised 31 December	21.87	Realised 31 December	25.81
Average 2010	23.05	Average 2009	28.04
Highest level	26.30	Highest level	33.76
Lowest level	20.82	Lowest level	21.58

Decision on liquidity risk management

From 31 March 2010 CNB′s Decision on liquidity risk management is in force. Decision prescribes that expected cash inflows up to one week and expected cash inflows up to one month must be higher than expected outflows up to one week and up to one month. Calculation is made separately for HRK and separately for foreign currencies. The Bank has fulfilled the prescribed limits and the ratios during 2010 were as follows:

2010	**HRK 1 week**	**HRK 1 month**	**FX 1 week**	**FX 1 month**
Year-end	2.73	1.72	1.64	1.38
Average III-XII 2010	2.46	1.61	2.44	1.78
Highest level	3.43	2.36	3.70	2.81
Lowest level	1.67	1.11	1.10	1.05

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

44.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Internal regulations

During 2010 the Bank has developed and implemented the new liquidity reserves model which prescribes minimum required reserves for Bank's operations and which ensures fulfilment of the new CNB's regulation. Besides minimum reserves, regular reporting on structural ratios of the statement of financial position, concentration indicators, maturity gaps of the statement of financial position, stress tests results and early warning indicators is in place. In the purpose of liquidity management the Bank makes daily, weekly, two-weekly, monthly and six months cash flow projections.

By active daily liquidity management the Bank ensures the fulfilment of prescribed limits and needs for its clients.

Analysis of financial liabilities by remaining contractual maturities

The table below shows the maturity profile of the Group's and the Bank's financial liabilities at 31 December 2010 and 31 December 2009 based on contractual undiscounted repayment obligations.

						GROUP 2010
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS						
Cash and balances with the central banks	6,538	-	-	26	-	**6,564**
Amounts due from other banks	2,944	20	321	2	-	**3,287**
Reverse repurchase agreements	128	-	-	-	-	**128**
Receivables on financial derivative transactions	30	-	-	4	4	**38**
Financial assets held for trading	-	4	49	-	-	**53**
Financial assets at fair value through profit or loss	60	-	21	-	-	**81**
Loans and advances to customers	2,964	2,622	7,795	15,654	16,781	**45,816**
Financial investments available for sale	75	1,056	462	2,774	464	**4,831**
Financial investments held to maturity	5	23	45	235	190	**498**
Other assets	38	1	7	53	-	**99**
Total undiscounted financial assets	**12,782**	**3,726**	**8,700**	**18,748**	**17,439**	**61,395**
FINANCIAL LIABILITIES						
Amounts due to other banks	404	380	12	-	-	**796**
Repurchase agreements	710	125	-	-	-	**835**
Payables on financial derivative transactions	231	2	-	3	2	**238**
Financial liabilities at fair value through profit or loss	60	-	20	-	-	**80**
Amounts due to customers	12,735	5,227	11,021	1,750	1,150	**31,883**
Other borrowed funds	88	317	2,026	10,003	697	**13,131**
Other liabilities	269	5	60	-	-	**334**
Subordinated debt	-	-	1	28	8	**37**
Total undiscounted financial liabilities	**14,497**	**6,056**	**13,140**	**11,784**	**1,857**	**47,334**

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44.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

						GROUP 2009
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
FINANCIAL ASSETS						
Cash and balances with the central banks	6,347	-	-	-	-	**6,347**
Amounts due from other banks	2,920	2,086	2	-	-	**5,008**
Reverse repurchase agreements	127	104	-	-	-	**231**
Receivables on financial derivative transactions	53	-	-	-	-	**53**
Financial assets held for trading	-	1	-	11	-	**12**
Loans and advances to customers	4,927	1,955	6,062	14,259	15,875	**43,078**
Financial investments available for sale	2,972	992	10	52	-	**4,026**
Financial investments held to maturity	205	41	22	61	-	**329**
Other assets	95	17	-	54	-	**166**
Total undiscounted financial assets	**17,646**	**5,196**	**6,096**	**14,437**	**15,875**	**59,250**
FINANCIAL LIABILITIES						
Amounts due to other banks	412	85	45	-	-	**542**
Repurchase agreements	662	-	-	-	-	**662**
Payables on financial derivative transactions	80	2	-	-	-	**82**
Amounts due to customers	12,382	6,197	9,365	3,219	1,154	**32,317**
Other borrowed funds	61	492	2,010	9,826	633	**13,022**
Other liabilities	280	19	47	7	-	**353**
Subordinated debt	-	-	29	-	-	**29**
Total undiscounted financial liabilities	**13,877**	**6,795**	**11,496**	**13,052**	**1,787**	**47,007**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

44.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

						BANK 2010
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS						
Cash and balances with the central banks	6,427	-	-	-	-	**6,427**
Amounts due from other banks	2,870	20	321	-	-	**3,211**
Reverse repurchase agreements	202	-	-	-	-	**202**
Receivables on financial derivative transactions	30	-	-	4	4	**38**
Financial assets held for trading	-	4	49	-	-	**53**
Financial assets at fair value through profit or loss	60	-	21	-	-	**81**
Loans and advances to customers	2,933	2,599	7,631	14,666	16,199	**44,028**
Financial investments available for sale	75	1,056	462	2,686	448	**4,727**
Financial investments held to maturity	5	6	45	234	190	**480**
Other assets	37	-	-	51	-	**88**
Total undiscounted financial assets	**12,639**	**3,685**	**8,529**	**17,641**	**16,841**	**59,335**
FINANCIAL LIABILITIES						
Amounts due to other banks	431	380	12	-	-	**823**
Repurchase agreements	710	125	-	-	-	**835**
Payables on financial derivative transactions	231	2	-	3	2	**238**
Financial liabilities at fair value through profit or loss	60	-	20	-	-	**80**
Amounts due to customers	12,400	5,092	10,718	1,703	1,141	**31,054**
Other borrowed funds	77	298	1,838	9,500	490	**12,203**
Other liabilities	261	3	54	-	-	**318**
Total undiscounted financial liabilities	**14,170**	**5,900**	**12,642**	**11,206**	**1,633**	**45,551**

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44.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

BANK 2009

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS						
Cash and balances with the central banks	6,226	-	-	-	-	**6,226**
Amounts due from other banks	2,863	2,086	-	-	-	**4,949**
Reverse repurchase agreements	127	104	-	-	-	**231**
Receivables on financial derivative transactions	53	-	-	-	-	**53**
Loans and advances to customers	3,865	1,956	6,065	14,296	15,881	**42,063**
Financial investments available for sale	2,972	992	10	-	-	**3,974**
Financial investments held to maturity	205	24	22	62	-	**313**
Other assets	92	15	-	49	-	**156**
Total undiscounted financial assets	**16,403**	**5,177**	**6,097**	**14,407**	**15,881**	**57,965**
FINANCIAL LIABILITIES						
Amounts due to other banks	433	80	45	-	-	**558**
Repurchase agreements	662	-	-	-	-	**662**
Payables on financial derivative transactions	80	2	-	-	-	**82**
Amounts due to customers	11,771	6,192	9,173	3,210	1,117	**31,463**
Other borrowed funds	50	484	1,939	9,547	387	**12,407**
Other liabilities	276	17	46	-	-	**339**
Total undiscounted financial liabilities	**13,272**	**6,775**	**11,203**	**12,757**	**1,504**	**45,511**

Term deposits from individuals can be drawn before maturity, but historical experience shows that it is not very usual. As of 31 December 2010 balance of term deposits for the Group and the Bank from individuals were HRK 16,937 million and HRK 16,495 million, and as of 31 December 2009 were HRK 15,352 million and HRK 14,999 million.

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44.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

The table below shows the remaining maturity of the Group's and the Bank's contractual contingent liabilities and commitments.

						GROUP
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2010						
Contingent liabilities	235	267	729	398	87	1,716
Commitments	885	156	669	122	2	1,834
Total	**1,120**	**423**	**1,398**	**520**	**89**	**3,550**
2009						
Contingent liabilities	167	304	843	317	116	1,747
Commitments	637	209	718	138	-	1,702
Total	**804**	**513**	**1,561**	**455**	**116**	**3,449**

						BANK
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2010						
Contingent liabilities	210	267	729	398	87	1,691
Commitments	826	156	669	122	2	1,775
Total	**1,036**	**423**	**1,398**	**520**	**89**	**3,466**
2009						
Contingent liabilities	166	303	826	317	116	1,728
Commitments	632	202	691	123	-	1,648
Total	**798**	**505**	**1,517**	**440**	**116**	**3,376**

Lease commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on premises and vehicles. These leases have an average life between three and five years with no renewal option included in the contracts.

Future minimum lease payments under non-cancellable operating leases are as follows:

		GROUP		BANK
	2010	2009	2010	2009
Within one year	36	36	53	53
After one but not more than five years	98	100	192	191
More than five years	73	78	72	76
	207	**214**	**317**	**320**

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44.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Operating lease commitments – Group as lessor

The Group has entered into commercial leases on premises and equipment.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

		GROUP		BANK
	2010	**2009**	**2010**	**2009**
Within one year	4	5	4	5
After one but not more than five years	7	11	7	11
More than five years	-	1	-	1
	11	**17**	**11**	**17**

Finance lease

		GROUP 2010		GROUP 2009
	Minimum payments	**Present value of payments**	**Minimum payments**	**Present value of payments**
Within one year	16	13	19	15
After one but not more than five years	22	20	37	33
More than five years	2	2	2	2
Total minimum lease payments	**40**	**35**	**58**	**50**
Less amounts representing finance charge	*(3)*	-	*(3)*	-
Present value of minimum lease payments	**37**	**35**	**55**	**50**

44.4. MARKET RISK

Market risks represent the potential effects which external variables have on the assets, liabilities and off-statement of financial position positions values of the Bank, which are caused by price fluctuations, i.e. financial market fluctuations and as such include:

- Interest rate risk
- Foreign exchange risk
- Securities risk.

Measurement and control of the exposure as well as the limits set up are defined by internal acts, policies and manuals from the Risk Management Department. Control of the exposure to market risks is being performed by the Risk Management Department through its VaR limit system as well as through a sensitivity limits system (PVBP, FX Delta and Stop Loss).

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44.4.1. Market risk – trading

Value at Risk

Value at Risk ('VaR') is the maximum expected loss which is not exceeded during a defined period with a certain probability. For the purpose of the VaR calculation, the Bank is using the one-day, 99% historical VaR method, on 730 days basis. Historical VaR is methodologically simple. For the computation of the VaR with this method, a time series is needed for each market parameter in the portfolio and it is assumed that the past rate changes represent a good approximation for the future changes.

The following risk factors are taken into consideration: interest rate, currency, commodity, price and volatility. Furthermore, the Bank has VaR limits individually for money market, fixed income and foreign currency business as well as for the total trading book.

VaR figures, in total and per risk factor for the Trading Book, are as follows:

2010	Interest rate	Currency	Effect of correlation	Total VaR
year end	4	2	(1)	5
average	6	3	(3)	6
high	10	11	(9)	12
low	2	-	-	2

2009	Interest rate	Currency	Effect of correlation	Total VaR
year end	4	4	(3)	5
average	7	7	(4)	10
high	22	24	(20)	26
low	1	1	-	2

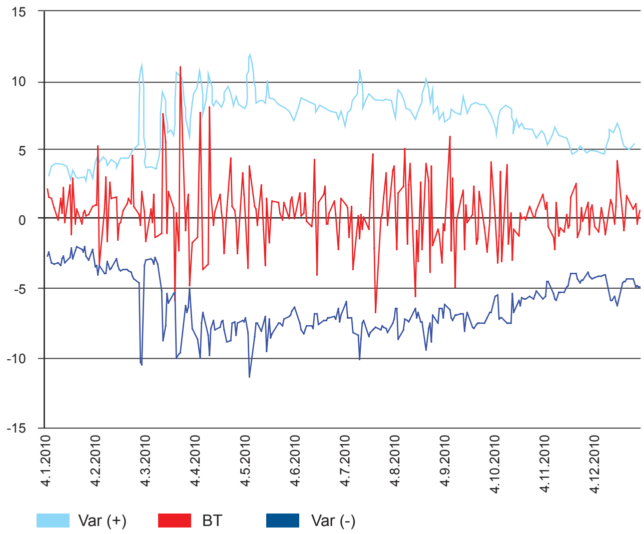
Effect of correlation reflects the fact that the total VaR on a given day will be lower then the sum of VaRs relating to the individual risk factors. Simply adding the VaR figures of the individual risk classes would imply the assumption that the losses in all risk categories occur simultaneously.

Back testing results of VaR calculations show statistically acceptable level of confidence, with one outlier on 250 days basis.

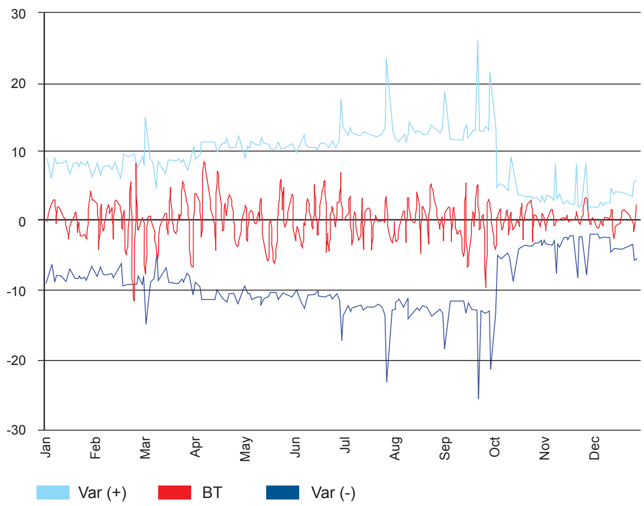
		TOTAL
Date	VaR	BT
23 March 2010	5.5	(6.1)

44.4.1. Market risk – trading (continued)

Comparison of VaR (99%, one-day) and Back testing results for 2010 in million HRK:



Comparison of VaR (99%, one-day) and Back testing results for 2009 in million HRK:



Apart from the aforementioned VaR calculations, the Bank is also using a sensitivity analysis in accordance with its portfolio structure, namely PVBP, FX Delta and Stop Loss.

PVBP (Price Value of a Basis Point) shows the sensitivity that the portfolio has on the change in the interest rate, namely a portfolio value change when the yield curve shifts by 1 basis point. For the purpose of monitoring this type of exposure, the Bank has PVBP limits individually for money market, fixed income and foreign currency business.

FX Delta shows the delta exposure of the total Bank position (spot plus delta position in options) for various currencies. The Bank has FX Delta limits set in place on the total FX position as well as individually for significant currencies.

Stop Loss calculation shows the maximum loss the bank tolerates by individual trading portfolios on monthly and annual basis. In that respect the Bank has in place a monthly and annual Stop loss limits individually for money market, fixed income and foreign currency business.

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44.4.1. Market risk – trading (continued)

Legal restrictions

The key legal ratio related to FX position of the Bank is the Croatian National Bank's Decision on the limitation of the Bank's exposure to foreign exchange risk by which the Bank is liable to adjust its total open FX position (increased by the position in gold) in the way that the position does not exceed 30% of the eligible capital, according to the Croatian National Bank regulations.

During 2010 Croatian National Bank introduced changes in this calculation by requesting banks to specify FX risk resulting from investments into investment funds as a separate "currency".

2010	Without options	With options	2009	Without options	With options
year end	1.32%	2.35%	year end	0.73%	1.31%
average	0.90%	1.27%	average	1.26%	1.62%
high	3.85%	4.87%	high	10.26%	9.61%
low	0.16%	0.31%	low	0.14%	0.16%

44.4.2. Market risk – non trading

Interest rate risk management includes implementation of measures and decisions with the aim of minimizing potential negative influence on the statement of financial position items caused by changes in interest rates (with a short-term horizon). Besides that, the Bank is analyzing the interest rate changes influence on the market value of equity (long-term horizon).

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 interest rate is fixed on a financial instrument, therefore, indicates to what extent it is exposed to the interest rate risk. The tables below provide information on the extent of the Group's and the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in 'non-interest bearing' category.

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44.4.2. Market risk – non trading (continued)

							GROUP 2010
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the central banks	3,680	-	-	-	-	2,882	**6,562**
Amounts due from other banks	2,907	20	320	2	-	36	**3,285**
Reverse repurchase agreements	128	-	-	-	-	-	**128**
Receivables on financial derivative transactions	-	-	-	-	-	38	**38**
Financial assets held for trading	-	4	48	-	-	-	**52**
Financial assets at fair value through profit or loss	60	-	20	-	-	-	**80**
Loans and advances to customers	32,763	1,926	800	618	121	170	**36,398**
Financial investments available for sale	-	978	448	2,248	356	329	**4,359**
Financial investments held to maturity	5	18	44	206	146	5	**424**
Investments in subsidiaries and associates	-	-	-	-	-	88	**88**
Property and equipment	-	-	-	-	-	699	**699**
Intangible assets	-	-	-	-	-	56	**56**
Investment property	-	-	-	-	-	20	**20**
Deferred tax assets	-	-	-	-	-	95	**95**
Other assets	-	-	-	-	-	99	**99**
Total assets	**39,543**	**2,946**	**1,680**	**3,074**	**623**	**4,517**	**52,383**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to other banks	368	379	12	-	-	36	**795**
Repurchase agreements	835	-	-	-	-	-	**835**
Payables on financial derivative transactions	-	-	-	-	-	238	**238**
Financial liabilities at fair value through profit or loss	60	-	20	-	-	-	**80**
Amounts due to customers	25,038	2,008	2,636	153	7	1,298	**31,140**
Other borrowed funds	9,893	750	646	675	461	179	**12,604**
Current tax liabilities	-	-	-	-	-	67	**67**
Deferred tax liabilities	-	-	-	-	-	1	**1**
Other liabilities	-	-	-	-	-	334	**334**
Provisions	-	-	-	-	-	90	**90**
Subordinated debt	-	30	-	-	-	-	**30**
Equity attributable to equity holders of the Bank	-	-	-	-	-	6,168	**6,168**
Non controlling interest	-	-	-	-	-	1	**1**
Total liabilities and shareholders' equity	**36,194**	**3,167**	**3,314**	**828**	**468**	**8,412**	**52,383**
TOTAL INTEREST SENSITIVITY GAP	**3,349**	**(221)**	**(1,634)**	**2,246**	**155**	**(3,895)**	**-**

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44.4.2. Market risk – non trading (continued)

							GROUP 2009
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the central banks	6,311	-	-	-	-	-	**6,311**
Amounts due from other banks	2,920	2,077	-	2	-	-	**4,999**
Reverse repurchase agreements	131	100	-	-	-	-	**231**
Receivables on financial derivative transactions	-	-	-	-	-	53	**53**
Financial assets held for trading	10	-	-	-	-	-	**10**
Loans and advances to customers	31,444	281	780	458	86	417	**33,466**
Financial investments available for sale	93	883	1,416	1,408	153	39	**3,992**
Financial investments held to maturity	26	-	-	290	-	-	**316**
Investments in subsidiaries and associates	-	-	-	-	-	74	**74**
Property and equipment	-	-	-	-	-	680	**680**
Intangible assets	-	-	-	-	-	56	**56**
Investment property	-	-	-	-	-	21	**21**
Deferred tax assets	-	-	-	-	-	65	**65**
Other assets	-	-	-	-	-	166	**166**
Total assets	**40,935**	**3,341**	**2,196**	**2,158**	**239**	**1,571**	**50,440**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to other banks	398	82	26	-	-	34	**540**
Repurchase agreements	660	-	-	-	-	-	**660**
Payables on financial derivative transactions	-	-	-	-	-	82	**82**
Amounts due to customers	26,201	1,254	2,433	300	6	1,171	**31,365**
Other borrowed funds	9,456	800	366	200	625	214	**11,661**
Deferred tax liabilities	-	-	-	-	-	1	**1**
Other liabilities	-	-	-	-	-	358	**358**
Provisions	-	-	-	-	-	91	**91**
Subordinated debt	-	-	-	-	-	29	**29**
Equity attributable to equity holders of the Bank	-	-	-	-	-	5,652	**5,652**
Non controlling interest	-	-	-	-	-	1	**1**
Total liabilities and shareholders' equity	**36,715**	**2,136**	**2,825**	**500**	**631**	**7,633**	**50,440**
TOTAL INTEREST SENSITIVITY GAP	**4,220**	**1,205**	**(629)**	**1,658**	**(392)**	**(6,062)**	**-**

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44.4.2. Market risk – non trading (continued)

							BANK 2010
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
ASSETS							
Cash and balances with the central banks	3,667	-	-	-	-	2,758	**6,425**
Amounts due from other banks	2,845	20	320	-	-	24	**3,209**
Reverse repurchase agreements	202	-	-	-	-	-	**202**
Receivables on financial derivative transactions	-	-	-	-	-	38	**38**
Financial assets held for trading	-	4	48	-	-	-	**52**
Financial assets at fair value through profit or loss	60	-	20	-	-	-	**80**
Loans and advances to customers	32,748	1,135	416	495	76	149	**35,019**
Financial investments available for sale	-	978	448	2,173	344	327	**4,270**
Financial investments held to maturity	5	-	44	206	146	5	**406**
Investments in subsidiaries and associates	-	-	-	-	-	167	**167**
Property, plant and equipment	-	-	-	-	-	396	**396**
Intangible assets	-	-	-	-	-	44	**44**
Investment property	-	-	-	-	-	18	**18**
Deferred tax assets	-	-	-	-	-	95	**95**
Other assets	-	-	-	-	-	88	**88**
Total assets	**39,527**	**2,137**	**1,296**	**2,874**	**566**	**4,109**	**50,509**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to other banks	395	379	12	-	-	36	**822**
Repurchase agreements	835	-	-	-	-	-	**835**
Payables on financial derivative transactions	-	-	-	-	-	238	**238**
Financial liabilities at fair value through profit or loss	60	-	20	-	-	-	**80**
Amounts due to customers	24,766	1,889	2,360	121	5	1,187	**30,328**
Other borrowed funds	9,653	651	285	544	410	176	**11,719**
Current tax liabilities	-	-	-	-	-	66	**66**
Other liabilities	-	-	-	-	-	318	**318**
Provisions	-	-	-	-	-	86	**86**
Equity attributable to equity holders of the Bank	-	-	-	-	-	6,017	**6,017**
Total liabilities and shareholders' equity	**35,709**	**2,919**	**2,677**	**665**	**415**	**8,124**	**50,509**
TOTAL INTEREST SENSITIVITY GAP	**3,818**	**(782)**	**(1,381)**	**2,209**	**151**	**(4,015)**	**-**

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44.4.2. Market risk – non trading (continued)

							BANK 2009
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the central banks	6,190	-	-	-	-	-	**6,190**
Amounts due from other banks	2,864	2,077	-	-	-	-	**4,941**
Reverse repurchase agreements	131	100	-	-	-	-	**231**
Receivables on financial derivative transactions	-	-	-	-	-	53	**53**
Loans and advances to customers	30,426	281	780	458	86	417	**32,448**
Financial investments available for sale	93	883	1,373	1,408	153	39	**3,949**
Financial investments held to maturity	9	-	-	290	-	-	**299**
Investments in subsidiaries and associates	-	-	-	-	-	167	**167**
Property, plant and equipment	-	-	-	-	-	376	**376**
Intangible assets	-	-	-	-	-	44	**44**
Investment property	-	-	-	-	-	22	**22**
Deferred tax assets	-	-	-	-	-	64	**64**
Other assets	-	-	-	-	-	157	**157**
Total assets	**39,713**	**3,341**	**2,153**	**2,156**	**239**	**1,339**	**48,941**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to other banks	417	79	26	-	-	34	**556**
Repurchase agreements	660	-	-	-	-	-	**660**
Payables on financial derivative transactions	-	-	-	-	-	82	**82**
Amounts due to customers	25,562	1,251	2,420	118	6	1,171	**30,528**
Other borrowed funds	9,455	390	299	153	625	214	**11,136**
Other liabilities	-	-	-	-	-	344	**344**
Provisions	-	-	-	-	-	88	**88**
Equity attributable to equity holders of the Bank	-	-	-	-	-	5,547	**5,547**
Total liabilities and shareholders' equity	**36,094**	**1,720**	**2,745**	**271**	**631**	**7,480**	**48,941**
TOTAL INTEREST SENSITIVITY GAP	**3,619**	**1,621**	**(592)**	**1,885**	**(392)**	**(6,141)**	**-**

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44.4.2. Market risk – non trading (continued)

Net interest income simulation refers to the simulation of net interest income of the Bank in the case of parallel and nonparallel shifts in interest rates by +/- 100 and 200 basis points (bp). This simulation is conducted for the total Bank's position and for the all major currencies (EUR, CHF, USD and HRK).

Net interest income simulation for the year 2010 based on data as at 31 December 2010:

	EUR	CHF	HRK	TOTAL
immediate parallel shock plus 200 bp	(13.9)	(37.1)	53.9	(2.9)
immediate parallel shock plus 100 bp	(5.5)	(18.6)	28.4	4.3
immediate parallel shock minus 100 bp	9.4	(2.6)	(27.5)	(20.7)
immediate parallel shock minus 200 bp	-	-	(69.4)	(69.4)

Net interest income simulation for the year 2009 based on data as at 31 December 2009:

	EUR	CHF	HRK	TOTAL
immediate parallel shock plus 200 bp	(38.5)	(39.4)	71.6	(6.3)
immediate parallel shock plus 100 bp	(19.6)	(19.7)	35.4	(3.9)
immediate parallel shock minus 100 bp	3.7	-	(38.2)	(34.5)
immediate parallel shock minus 200 bp	-	-	(92.1)	(92.1)

Position analysis is made for all major currencies, in the way that all assets and liabilities (statement of financial position and off-balance sheet ones) are separated according to the type of interest rates. For this analysis, all assets and liabilities items are separated, depending on the stipulated interest rate, as follows:

- items with money market interest rates,
- items with fixed interest rates,
- items with administrative interest rates.

Bank's market value of equity (MVE) report is the basic report on the Bank's long-term exposure to interest rate risk. It is based on the approximate market value of assets and liabilities, and therefore the approximated market value of equity. In that case, the aim of that analysis is to follow the Basel II limit or the influence of 200 basis points shocks on the market value of equity.

44.4.2. Market risk – non trading (continued)

The structure of 2% shock effects of MVE as at 31 December 2010:

	-200	-100	+100	+200	Total Basel II
HRK	(49)	(24)	23	45	**49**
CHF	(52)	(19)	2	2	**52**
EUR	(84)	(35)	35	67	**84**
USD	(7)	(4)	2	1	**7**
Total	**(192)**	**(82)**	**62**	**115**	**192**
				Equity (Tier I + Tier II) in 000 HRK	5,369,722
				Basel II ratio	3.58%

The structure of 2% shock effects of MVE as at 31 December 2009:

	-200	-100	+100	+200	Total Basel II
HRK	(80)	(39)	36	67	**80**
CHF	(24)	(4)	(3)	(6)	**24**
EUR	(28)	(2)	7	17	**28**
USD	1	1	(3)	(5)	**5**
Total	**(131)**	**(44)**	**37**	**73**	**137**
				Equity (Tier I + Tier II) in 000 HRK	4,922,915
				Basel II ratio	2.78%

The analysis shows that the Bank does not have substantial exposure to interest rate risk and the market value risk is well within the Basel II limit.

44.5. OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

45. CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Croatian National Bank.

During past years, the Bank had complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise value for shareholders.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory capital				
	Actual 2010	**Required capital**	**Actual 2009**	**Required capital**
Tier 1 capital	5,379	2,085	5,243	2,053
Tier 2 capital	-	2,085	-	2,053
Deduction according to Article 2.4 CNB Capital Adequacy Decision	(149)	-	(149)	-
Total Capital	**5,230**	**4,170**	**5,094**	**4,106**
Risk weighted assets	31,027	3,723	40,803	4,080
Position, Foreign Exchange, Settlement and Counterparty Risks	3,722	447	261	26
Total Risks	**34,749**	**4,170**	**41,064**	**4,106**
Tier 1 capital Ratio	15.5%	6.0%	12.8%	5.0%
Total capital Ratio	15.1%	12.0%	12.4%	10.0%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings, capital gains and other reserves.

Minimum capital adequacy ratio as at 31 December 2010 was 12%, while as at 31 December 2009 was 10%. Apart from the increase of the minimum solvency ratio, the new regulations published by CNB in January 2010, require a change of methodology for the calculation of capital adequacy according to Basel II guidelines.

Appendix 1 – Forms according to local requirements

Year ended 31 December 2010 (All amounts are expressed in HRK million)

Pursuant to the Decision of the Croatian National Bank on structure and content of bank's annual financial statements from 19th of May 2008 below we present the required forms for the Group and the Bank for the year ended 31 December 2010 in the form required by the decision. Information about the basis of presentation as well as a summary of accounting policies are given in the notes to the financial statements. Information important for better understanding of certain positions of the statement of financial position, income statement, changes in equity as well as cash flow statement are also included in the notes.

Differences between forms (appendix 1) presented below on pages 107 to 117 and primary financial statements are presented in appendix 2 titled "Differences between financial statements according to IFRS and local requirements".

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

Income statement For the year end 31 December 2010		**GROUP**	
		2010	**2009**
1.	Interest income	3,106	3,686
2.	(Interest expense)	(1,374)	(2,191)
3.	**Net interest income (1-2)**	**1,732**	**1,495**
4.	Fee and commission income	521	515
5.	(Fee and commission expense)	(100)	(108)
6.	**Net fee and commission income (4-5)**	**421**	**407**
7.	Profit/(loss) from investments in subsidiaries, associates and joint ventures	14	15
8.	Profit/(loss) from trading	22	52
9.	Profit/(loss) from embedded derivatives	(1)	(3)
10.	Profit/(loss) from asset not actively traded measured at fair value through profit or loss	-	-
11.	Profit/(loss) from asset available for sale	19	3
12.	Profit/(loss) from asset held to maturity	-	-
13.	Profit/(loss) from hedging	-	-
14.	Income from investments in subsidiaries, associates and joint ventures	-	-
15.	Income from other ownership investments	5	3
16.	Profit/(loss) from foreign currency differences	97	116
17.	Other income	20	81
18.	Other expenses	13	13
19.	General administrative expenses and depreciation	923	898
20.	**Net income from business before value adjustment and loan loss provisions (3+6+7+8+9+10+11+12+13+14+15+16+17-18-19)**	**1,393**	**1,258**
21.	Expense of value adjustment and loss provisions	586	400
22.	**Profit/(loss) before tax (20-21)**	**807**	**858**
23.	Income tax expense	155	156
24.	**Profit/(loss) of the current year (22-23)**	**652**	**702**
25.	Earnings per share	38.42	41.36
	Annex to income statement		
26.	Profit/(loss) of the current year	652	702
27.	Assign equity holders of the Bank	652	702
28.	Non controlling interest	-	-

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

Statement of financial position As at 31 December 2010		**GROUP**	
		2010	**2009**
	Asset		
1.	CASH AND DEPOSITS WITH CB (1.1.+1.2.)	6,560	6,309
1.1.	Cash	734	553
1.2.	Deposits with Central bank	5,826	5,756
2.	DEPOSITS WITH BANKING INSTITUTIONS	3,084	4,928
3.	TREASURY BILLS WITH MINISTRY OF FINANCE AND BILLS OF EXCHANGE WITH CENTRAL BANK	1,522	2,212
4.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
5.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	2,816	1,757
6.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	417	312
7.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS NOT ACTIVELY TRADED, MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
8.	DERIVATIVE FINANCIAL ASSETS	36	49
9.	LOANS TO FINANCIAL INSTITUTIONS	463	179
10.	LOANS TO OTHER CUSTOMERS	35,951	33,113
11.	INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES	88	74
12.	REPOSSESED ASSETS	55	48
13.	TANGIBLE ASSET (MINUS DEPRECIATION)	719	700
14.	INTEREST, FEES AND OTHER ASSETS	672	759
A	**TOTAL ASSETS (1+2+3 up to 14)**	**52,383**	**50,440**
	Liabilities and equity		
1.	BORROWINGS FROM FINANCIAL INSTITUTIONS (1.1.+1.2.)	11,677	10,818
1.1.	Short-term borrowings	1,196	1,106
1.2.	Long-term borrowings	10,481	9,712
2.	DEPOSITS (2.1.+2.2.+2.3.)	31,650	31,332
2.1.	Deposits of giro and current accounts	4,609	4,416
2.2.	Savings deposits	2,798	2,840
2.3.	Term deposits	24,243	24,076
3.	OTHER BORROWINGS (3.1.+3.2.)	1,728	1,635
3.1.	Short-term borrowings	19	70
3.2.	Long-term borrowings	1,709	1,565
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER FINANCIAL LIABILITIES HELD FOR TRADING	236	80
5.	ISSUED DEBT SECURITIES (5.1.+5.2.)	-	-
5.1.	Short-term issued debt instruments	-	-
5.2.	Long-term issued debt instruments	-	-
6.	ISSUED SUBORDINATED INSTRUMENTS	30	29
7.	ISSUED HYBRID INSTRUMENTS	-	-
8.	INTEREST, FEES AND OTHER LIABILITIES	893	893
B	**TOTAL LIABILITIES (1+2+3+4+5+6+7+8)**	**46,214**	**44,787**
	Shareholders' equity		
1.	SHARE CAPITAL	3,500	3,500
2.	PROFIT/(LOSS) OF THE CURRENT YEAR	652	702
3.	RETAINED PROFIT/(LOSS)	1,789	1,240
4.	LEGAL RESERVES	85	85
5.	STATUTORY AND OTHER CAPITAL RESERVES	132	132
6.	UNREALISED PROFIT/(LOSS) FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE	11	(6)
C	**TOTAL EQUITY (1+2+3+4+5+6)**	**6,169**	**5,653**
D	**TOTAL LIABILITIES AND EQUITY (B+C)**	**52,383**	**50,440**
	Statement of financial position appendix		
7.	TOTAL EQUITY	6,169	5,653
8.	Equity attributable to equity holders of the Bank	6,168	5,652
9.	Non controlling interest	1	1

Signed on behalf of Erste&Steiermärkische Bank d.d. on 3 March 2011:

President of the Management Board
Petar Radaković

Member of the Management Board
Slađana Jagar

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

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

GROUP

		Attributable to the equity holders of the Bank							
	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Profit/ (loss) for the period	Unrealised profit/ (loss) from the basis of value adjustment of financial assets available for sale	Non controlling interest	Total capital and reserves
1.	Balance at 1 January	3,500	-	217	1,239	702	(6)	1	**5,653**
2.	Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	**-**
3.	Corrected balance as at 1 January (1+2)	3,500	-	217	1,239	702	(6)	1	**5,653**
4.	Sale of financial assets available for sale	-	-	-	-	-	19	-	**19**
5.	Change of fair value financial asset available for sale	-	-	-	-	-	(2)	-	**(2)**
6.	Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(3)	-	**(3)**
7.	Other profit/(loss) directly recognised in capital and reserves	-	-	-	-	-	3	-	**3**
8.	Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	-	17	-	**17**
9.	Profit/(loss) for the period	-	-	-	-	652	-	-	**652**
10.	Total recognised income and expenses for the period (8+9)	-	-	-	-	652	17	-	**669**
11.	Increase/(decrease) of share capital	-	-	-	-	-	-	-	**-**
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-	**-**
13.	Other changes	-	-	-	-	-	-	-	**-**
14.	Transfer to reserves	-	-	-	549	(549)	-	-	**-**
15.	Dividends paid	-	-	-	-	(153)	-	-	**(153)**
16.	Distribution on income (14+15)	-	-	-	549	(702)	-	-	**(153)**
17.	Balance as at 31 December (3+10+11+12+13+16)	**3,500**	**-**	**217**	**1,788**	**652**	**11**	**1**	6,169

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

Statement of changes in shareholders' equity
For the year end 31 December 2009

GROUP

		Attributable to the equity holders of the Bank							
	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Profit/ (loss) for the period	Unrealised profit/ (loss) from the basis of value adjustment of financial assets available for sale	Non controlling interest	Total capital and reserves
1.	Balance at 1 January	3,500	-	219	645	811	(36)	13	**5,152**
2.	Changes in accounting policies and corrections of mistakes	-	-	(7)	(15)	(4)	5	-	**(21)**
3.	Corrected balance as at 1 January (1+2)	3,500	-	212	630	807	(31)	13	**5,131**
4.	Sale of financial assets available for sale	-	-	-	-	-	3	-	**3**
5.	Change of fair value financial asset available for sale	-	-	-	-	-	31	-	**31**
6.	Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(7)	-	**(7)**
7.	Other profit/(loss) directly recognised in capital and reserves	-	-	-	-	-	(2)	-	**(2)**
8.	Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	-	25	-	**25**
9.	Profit/(loss) for the period	-	-	-	-	702	-	-	**702**
10.	Total recognised income and expenses for the period (8+9)	-	-	-	-	702	25	-	**727**
11.	Increase/(decrease) of share capital	-	-	-	-	-	-	-	**-**
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-	**-**
13.	Other changes	-	-	1	-	(2)	-	(12)	**(13)**
14.	Transfer to reserves	-	-	4	609	(613)	-	-	**-**
15.	Dividends paid	-	-	-	-	(192)	-	-	**(192)**
16.	Distribution on income (14+15)	-	-	4	609	(805)	-	-	**(192)**
17.	Balance as at 31 December (3+10+11+12+13+16)	**3,500**	**-**	**217**	**1,239**	**702**	**(6)**	**1**	**5,653**

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

Cash flow statement Year ended 31 December 2010		**GROUP**	
		2010	**2009**
	OPERATING ACTIVITIES		
1.1.	Profit/(loss) before income tax	807	858
1.2.	Allowances and loss provisions	586	400
1.3.	Depreciation	74	78
1.4.	Net unrealized profit/(loss) from financial assets and liabilities through profit and loss	-	-
1.5.	Profit/(loss) from sale of tangible assets	3	2
1.6.	Other profit/(losses)	(1,845)	(1,576)
1.	Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	(375)	(238)
2.1.	Deposits with Central Bank	199	(489)
2.2.	Treasury bills of Ministry of Finance and CB bills	690	(849)
2.3.	Deposits with banks and loans to financial institutions	(411)	(46)
2.4.	Loans to other customers	(3,414)	(3,673)
2.5.	Securities and other financial instruments held for trading	-	4
2.6.	Securities and other financial instruments available for sale	(780)	-
2.7.	Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8.	Other operating assets	109	(200)
2.	Net increase/(decrease) of operating assets (2.1. to 2.8.)	(3,607)	(5,253)
3.1.	Demand deposits	193	(233)
3.2.	Savings and term deposits	144	2,975
3.3.	Financial derivative liabilities and other liabilities actively traded	169	(263)
3.4.	Other liabilities	1,719	1,536
3.	Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	2,225	4,015
4.	Net cash flow from operating activities before income tax (1+2+3)	(1,757)	(1,476)
5.	(Income tax paid)	121	228
6.	Net inflow/(outflow) of cash from operating activities (4-5)	(1,878)	(1,704)
	INVESTING ACTIVITIES		
7.1.	Receipt from sale/(payment for buying) tangible and intangible assets	(96)	(127)
7.2.	Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	(19)	50
7.3.	Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	(103)	33
7.4.	Dividend income	5	4
7.5.	Other receipts/(payments) from investing activities	-	(554)
7.	Net cash flow from investing activities (7.1. to 7.5.)	(213)	(594)
	FINANCIAL ACTIVITIES		
8.1.	Net increase/(decrease) of borrowings	968	1,552
8.2.	Net increase/(decrease) issued debt securities	-	-
8.3.	Net increase/(decrease) subordinated and hybrid instruments	-	29
8.4.	Receipts from transmitted share capital	-	-
8.5.	(Dividends paid)	(153)	(192)
8.6.	Other receipts/(payments) from financial activities	-	-
8.	Net cash flow from financial activities(8.1. to 8.6.)	815	1,389
9.	Net increase/(decrease) of cash and cash equivalents (6+7+8)	(1,276)	(909)
10.	Effects of change in foreign exchange rates on cash and cash equivalents	-	-
11.	Net increase/(decrease) cash and cash equivalents (9+10)	(1,276)	(909)
12.	Cash and cash equivalents at the beginning of the year	7,996	8,905
13.	Cash and cash equivalents at the end of the year	6,720	7,996

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

Off balance sheet items As at 31 December 2010			**GROUP**
		2010	**2009**
1.	Guarantees	1,555	1,606
2.	Letters of credit	119	107
3.	Bills of exchange	-	1
4.	Undrawn loans and loan commitments	1,835	1,702
5.	Other risk off balance items	41	33
6.	Futures	-	-
7.	Options	184	79
8.	Swap	3,356	2,274
9.	Forwards	18,049	18,322
10.	Other derivatives	-	242

Income statement For the year end 31 December 2010			**BANK**
		2010	**2009**
1.	Interest income	2,918	3,547
2.	(Interest expense)	(1,313)	(2,139)
3.	**Net interest income (1-2)**	**1,605**	**1,408**
4.	Fee and commission income	451	449
5.	(Fee and commission expense)	(117)	(122)
6.	**Net fee and commission income (4-5)**	**334**	**327**
7.	Profit/(loss) from investments in subsidiaries, associates and joint ventures	-	-
8.	Profit/(loss) from trading	22	51
9.	Profit/(loss) from embedded derivatives	(1)	(3)
10.	Profit/(loss) from asset not actively traded, measured at fair value through profit or loss	-	-
11.	Profit/(loss) from asset available for sale	19	3
12.	Profit/(loss) from asset held to maturity	-	-
13.	Profit/(loss) from hedging	-	-
14.	Income from investments in subsidiaries, associates and joint ventures	-	-
15.	Income from other ownership investments	5	3
16.	Profit/(loss) from foreign currency differences	98	115
17.	Other income	17	11
18.	Other expenses	8	10
19.	General administrative expenses and depreciation	796	785
20.	**Net income from business before value adjustment and loan loss provisions (3+6+7+8+9+10+11+12+13+14+15+16+17-18-19)**	**1,295**	**1,120**
21.	Expense of value adjustment and loss provisions	537	361
22.	**Profit/(loss) before tax (20-21)**	**758**	**759**
23.	Income tax expense	148	152
24.	**Profit/(loss) of the current year (22-23)**	**610**	**607**
25.	Earnings per share		

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

Statement of financial position As at 31 December 2010			**BANK**
		2010	**2009**
	Asset		
1.	CASH AND DEPOSITS WITH Central bank (1.1.+1.2.)	6,423	6,188
1.1.	Cash	691	510
1.2.	Deposits with Central bank	5,732	5,678
2.	DEPOSITS WITH BANKING INSTITUTIONS	3,012	4,877
3.	TREASURY BILLS WITH MINISTRY OF FINANCE AND BILLS OF EXCHANGE WITH CENTRAL BANK	1,446	2,160
4.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
5.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	2,804	1,757
6.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	400	295
7.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS NOT ACTIVELY TRADED, MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
8.	DERIVATIVE FINANCIAL ASSETS	36	49
9.	LOANS TO FINANCIAL INSTITUTIONS	532	176
10.	LOANS TO OTHER CUSTOMERS	34,586	32,103
11.	INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES	167	167
12.	REPOSSESED ASSETS	51	47
13.	TANGIBLE ASSET (MINUS DEPRECIATION)	414	398
14.	INTEREST, FEES AND OTHER ASSETS	638	724
A	**TOTAL ASSETS (1+2+3 up to 14)**	**50,509**	**48,941**
	Liabilities and equity		
1.	BORROWINGS FROM FINANCIAL INSTITUTIONS (1.1.+1.2.)	11,208	10,589
1.1.	Short-term borrowings	1,186	1,106
1.2.	Long-term borrowings	10,022	9,483
2.	DEPOSITS (2.1.+2.2.+2.3.)	30,877	30,705
2.1.	Deposits of giro and current accounts	4,240	4,142
2.2.	Savings deposits	2,798	2,840
2.3.	Term deposits	23,839	23,723
3.	OTHER BORROWINGS (3.1.+3.2.)	1,314	1,160
3.1.	Short-term borrowings	4	4
3.2.	Long-term borrowings	1,310	1,156
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER FINANCIAL LIABILITIES HELD FOR TRADING	236	80
5.	ISSUED DEBT SECURITIES (5.1.+5.2.)	-	-
5.1.	Short-term issued debt instruments	-	-
5.2.	Long-term issued debt instruments	-	-
6.	ISSUED SUBORDINATED INSTRUMENTS	-	-
7.	ISSUED HYBRID INSTRUMENTS	-	-
8.	INTEREST, FEES AND OTHER LIABILITIES	857	860
B	**TOTAL LIABILITIES (1+2+3+4+5+6+7+8)**	**44,492**	**43,394**
	Shareholder's equity		
1.	SHARE CAPITAL	3,500	3,500
2.	PROFIT/(LOSS) OF THE CURRENT YEAR	610	607
3.	RETAINED PROFIT/(LOSS)	1,682	1,228
4.	LEGAL RESERVES	85	85
5.	STATUTORY AND OTHER CAPITAL RESERVES	132	132
6.	UNREALISED PROFIT/(LOSS) FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAIABLE FOR SALE	8	(5)
C	**TOTAL EQUITY (1+2+3+4+5+6)**	**6,017**	**5,547**
D	**TOTAL LIABILITIES AND EQUITY (B+C)**	**50,509**	**48,941**
	Statement of financial position appendix		
7.	TOTAL EQUITY		
8.	Equity attributable to equity holders of the Bank		
9.	Non controlling interest		

Signed on behalf of Erste&Steiermärkische Bank d.d. on 3 March 2011:

President of the Management Board
Petar Radaković

Member of the Management Board
Slađana Jagar

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

Statement of changes in shareholders' equity For the year end 31 December 2010									**BANK**
		Attributable to the equity holders of the Bank							
	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Profit/ (loss) for the period	Unrealised profit/ (loss) from the basis of value adjustment of financial assets available for sale	Non controlling interest	Total capital and reserves
1.	Balance at 1 January	3,500	-	217	1,228	607	(5)	-	**5,547**
2.	Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	**-**
3.	Corrected balance as at 1 January (1+2)	3,500	-	217	1,228	607	(5)	-	**5,547**
4.	Sale of financial assets available for sale	-	-	-	-	-	18	-	**18**
5.	Change of fair value financial asset available for sale	-	-	-	-	-	(3)	-	**(3)**
6.	Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(3)	-	**(3)**
7.	Other profit/(loss) directly recognised in capital and reserves	-	-	-	-	-	1	-	**1**
8.	Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	-	13	-	**13**
9.	Profit/(loss) for the period	-	-	-	-	610	-	-	**610**
10.	Total recognised income and expenses for the period (8+9)	-	-	-	-	610	13	-	**623**
11.	Increase/(decrease) of share capital	-	-	-	-	-	-	-	**-**
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-	**-**
13.	Other changes	-	-	-	-	-	-	-	**-**
14.	Transfer to reserves	-	-	-	454	(454)	-	-	**-**
15.	Dividends paid	-	-	-	-	(153)	-	-	**(153)**
16.	Distribution on income (14+15)	-	-	-	454	(607)	-	-	**(153)**
17.	Balance as at 31 December (3+10+11+12+13+16)	**3,500**	**-**	**217**	**1,682**	**610**	**8**	**-**	**6,017**

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

Statement of changes in shareholders' equity
For the year end 31 December 2009

BANK

		Attributable to the equity holders of the Bank							
	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Profit/ (loss) for the period	Unrealised profit/ (loss) from the basis of value adjustment of financial assets available for sale	Non controlling interest	Total capital and reserves
1.	Balance at 1 January	3,500	-	219	634	788	(36)	-	**5,105**
2.	Changes in accounting policies and corrections of mistakes	-	-	(7)	2	-	5	-	**-**
3.	Corrected balance as at 1 January (1+2)	3,500	-	212	636	788	(31)	-	**5,105**
4.	Sale of financial assets available for sale	-	-	-	-	-	3	-	**3**
5.	Change of fair value financial asset available for sale	-	-	-	-	-	30	-	**30**
6.	Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(7)	-	**(7)**
7.	Other profit/(loss) directly recognised in capital and reserves	-	-	-	-	-	-	-	**-**
8.	Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	-	26	-	**26**
9.	Profit/(loss) for the period	-	-	-	-	607	-	-	**607**
10.	Total recognised income and expenses for the period (8+9)	-	-	-	-	607	26	-	**633**
11.	Increase/(decrease) of share capital	-	-	-	-	-	-	-	**-**
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-	**-**
13.	Other changes	-	-	1	-	-	-	-	**1**
14.	Transfer to reserves	-	-	4	592	(596)	-	-	**-**
15.	Dividends paid	-	-	-	-	(192)	-	-	**(192)**
16.	Distribution on income (14+15)	-	-	4	592	(788)	-	-	**(192)**
17.	Balance as at 31 December (3+10+11+12+13+16)	**3,500**	**-**	**217**	**1,228**	**607**	**(5)**	**-**	**5,547**

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

Cash flow statement Year ended 31 December 2010			**BANK**
		2010	**2009**
	OPERATING ACTIVITIES		
1.1.	Profit/(loss) before income tax	758	759
1.2.	Allowances and loss provisions	537	361
1.3.	Depreciation	54	62
1.4.	Net unrealized profit/(loss) from financial assets and liabilities through profit and loss	-	-
1.5.	Profit/(loss) from sale of tangible assets	3	2
1.6.	Other profit/(losses)	(1,616)	(1,449)
1.	Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	(264)	(265)
2.1.	Deposits with Central bank	197	(437)
2.2.	Treasury bills of Ministry of Finance and CB bills	714	(796)
2.3.	Deposits with banks and loans to financial institutions	(457)	317
2.4.	Loans to other customers	(3,023)	(2,954)
2.5.	Securities and other financial instruments held for trading	-	-
2.6.	Securities and other financial instruments available for sale	(772)	(542)
2.7.	Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8.	Other operating assets	115	(181)
2.	Net increase/(decrease) of operating assets (2.1. to 2.8.)	(3,226)	(4,593)
3.1.	Demand deposits	99	(523)
3.2.	Savings and term deposits	94	2,485
3.3.	Financial derivative liabilities and other liabilities actively traded	169	(263)
3.4.	Other liabilities	1,495	1,459
3.	Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	1,857	3,158
4.	Net cash flow from operating activities before income tax (1+2+3)	(1,633)	(1,700)
5.	(Income tax paid)	118	227
6.	Net inflow/(outflow) of cash from operating activities (4-5)	(1,751)	(1,927)
	INVESTING ACTIVITIES		
7.1.	Receipt from sale/(payment for buying) tangible and intangible assets	(73)	(75)
7.2.	Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	(5)	(116)
7.3.	Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	(103)	50
7.4.	Dividend income	5	4
7.5.	Other receipts/(payments) from investing activities	-	-
7.	Net cash flow from investing activities (7.1. to 7.5.)	(176)	(137)
	FINANCIAL ACTIVITIES		
8.1.	Net increase/(decrease) of borrowings	792	1,278
8.2.	Net increase/(decrease) issued debt securities	-	-
8.3.	Net increase/(decrease) subordinated and hybrid instruments	-	-
8.4.	Receipts from transmitted share capital	-	-
8.5.	(Dividends paid)	(153)	(192)
8.6.	Other receipts/(payments) from financial activities	-	-
8.	Net cash flow from financial activities (8.1. to 8.6.)	639	1,086
9.	Net increase/(decrease) of cash and cash equivalents (6+7+8)	(1,288)	(978)
10.	Effects of change in foreign exchange rates on cash and cash equivalents	-	-
11.	Net increase/(decrease) cash and cash equivalents (9+10)	(1,288)	(978)
12.	Cash and cash equivalents at the beginning of the year	7,924	8,902
13.	Cash and cash equivalents at the end of the year	6,636	7,924

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2010 (All amounts are expressed in HRK million)

Off balance sheet items As at 31 December 2010			**BANK**
		2010	**2009**
1.	Guarantees	1,531	1,587
2.	Letters of credit	119	107
3.	Bills of exchange	-	1
4.	Undrawn loans and loan commitments	1,775	1,648
5.	Other risk off balance items	41	33
6.	Futures	-	-
7.	Options	184	71
8.	Swap	3,356	2,274
9.	Forwards	18,041	18,322
10.	Other derivatives	-	242

Appendix 2 – Differences between financial statements according to IFRS and local requirements

Year ended 31 December 2010 (All amounts are expressed in HRK million)

					GROUP
ANNUAL REPORT (AR)	in mln HRK	Form 'Statement of financial position' (CNB)	in mln HRK	DIFFERENCE	EXPLANATION
Cash and balances with central banks	6,562	Cash and deposits with CNB	6,560	2	2 CNB – Interest, fees and other assets
Amounts due from other banks	3,285	Deposits with banking institutions	3,084	201	254 CNB – Loans to financial institutions 27 CNB – Interest, fees and other assets (80) AR – Financial assets at fair value through profit or loss
Reverse repurchase agreements	128			128	74 CNB – Loans to financial institutions 54 CNB – Loans to other customers
Receivables on financial derivative transactions	38	Derivative financial assets	36	2	2 CNB – Interest, fees and other assets
Financial assets held for trading	52	Securities and other financial instruments held for trading	-	52	52 CNB – Treasury bills of Ministry of finance and bills of exchange of CNB
Financial assets at fair value through profit or loss	80			80	80 CNB – Deposits with banking institutions
Loans and advances to customers	36,398	Loans to financial institutions Loans to other customers	463 35,951	(16)	(128) AR – Reverse repurchase agreements (254) AR – Amounts due from other banks 366 CNB – Interest, fees and other assets
Financial investments available for sale	4,359	Treasury bills of Ministry of finance and bills of exchange of CNB Securities and other financial instruments available for sale	1,522 2,816	21	(52) AR – Financial assets held for trading; treasury bills 73 CNB – Interest, fees and other assets
Financial investments held to maturity	424	Securities and other financial instruments held to maturity	417	7	7 CNB – Interest, fees and other assets; interest on HtM
Investments in subsidiaries and associates	88	Investment in associates, subsidiaries and joint ventures	88	-	
Property and equipment	699	Tangible assets (minus depreciation)	719	(20)	(20) AR – Investment property
Investment property	20			20	20 CNB – Tangible assets
Intangible assets	56			56	56 CNB – Repossessed assets, other assets
Deferred tax assets	95			95	95 CNB – Interest, fees and other assets
Other assets	99	Interest, fees and other assets Repossessed assets	672 55	(628)	(95) AR – Deferred tax asset (56) AR – Intangible assets (477) AR – Interest on loans, deposits, securities
TOTAL ASSETS	**52,383**		**52,383**		

					GROUP
ANNUAL REPORT (AR)	**in mln HRK**	**Form 'Statement of financial position' (CNB)**	**in mln HRK**	**DIFFERENCE**	**EXPLANATION**
Amounts due to other banks	795			795	790 CNB – Deposits 5 CNB – Interest, fees and other liabilities
Repurchase agreements	835			835	835 CNB – Borrowings from financial institutions
Payables on financial derivative transactions	238	Derivative financial liabilities and other liabilities held for trading	236	2	2 CNB – Interest, fees and other liabilities
Financial liabilities at fair value through profit or loss	80			80	80 CNB – Deposits
Amounts due to customers	31,140	Deposits	31,650	(510)	(80) AR – Financial liabilities at fair value through profit or loss (790) AR – Amounts due to other banks 360 CNB – Interest, fees and other liabilities
Other borrowed funds	12,604	Other borrowings Borrowings from financial institutions	1,728 11,677	(801)	34 CNB – Interest, fees and other liabilities (835) AR – Repurchase agreements
Current tax liabilities	67			67	67 CNB – Interest, fees and other liabilities
Deferred tax liabilities	1			1	1 CNB – Interest, fees and other liabilities
Other liabilities	334	Interest, fees and other liabilities	893	(559)	(469) AR – Interest on borrowed funds and amounts due to customers and banks (90) AR – Provisions
Provisions	90			90	90 CNB – Interest, fees and other liabilities
Subordinated debt	30	Issued subordinated instruments	30	-	
Total shareholders' equity	6,168		6,169	(1)	(1) Non controlling interest
Non controlling interest	1			1	1 Non controlling interest
TOTAL LIABILITIES AND EQUITY	**52,383**		**52,383**		

BANK

ANNUAL REPORT (AR)	in mln HRK	Form 'Statement of financial position' (CNB)	in mln HRK	DIFFERENCE	EXPLANATION
Cash and balances with central banks	6,425	Cash and deposits with CNB	6,423	2	2 CNB – Interest, fees and other assets
Amounts due from other banks	3,209	Deposits with banking institutions	3,012	197	249 CNB – Loans to financial institutions 28 CNB – Interest, fees and other assets (80) AR – Financial assets at fair value through profit or loss
Reverse repurchase agreements	202			202	147 CNB – Loans to financial institutions 55 CNB – Loans to other customers
Receivables on financial derivative transactions	38	Derivative financial assets	36	2	2 CNB – Interest, fees and other assets
Financial assets held for trading	52	Securities and other financial instruments held for trading	-	52	52 CNB – Treasury bills of Ministry of finance and bills of exchange of CNB
Financial assets at fair value through profit or loss	80			80	80 CNB – Deposits with banking institutions
Loans and advances to customers	35,019	Loans to financial institutions Loans to other customers	532 34,586	(99)	(249) AR – Amounts due from other banks (202) AR – Reverse repurchase agreements 352 CNB – Interest, fees and other assets
Financial investments available for sale	4,270	Treasury bills with Ministry of finance and bills of exchange with CNB Securities and other financial instruments available for sale	1,446 2,804	20	(52) AR – Financial assets held for trading; treasury bills 72 CNB – Interest, fees and other assets
Financial investments held to maturity	406	Securities and other financial instruments held to maturity	400	6	6 CNB – Interest, fees and other assets
Investments in subsidiaries and associates	167	Investment in associates, subsidiaries and joint ventures	167	-	
Property and equipment	396	Tangible assets (minus depreciation)	414	(18)	(18) AR – Investment property
Investment property	18			18	18 CNB – Tangible assets
Intangible assets	44			44	44 CNB – Repossessed assets, other assets
Deferred tax assets	95			95	95 CNB – Interest, fees and other assets
Other assets	88	Interest, fees and other assets Repossessed assets	638 51	(601)	(95) AR – Deferred tax asset (44) AR – Intangible assets (462) AR – Interest on loans, deposits and securities
TOTAL ASSETS	**50,509**		**50,509**		

					BANK
ANNUAL REPORT (AR)	**in mln HRK**	**Form 'Statement of financial position' (CNB)**	**in mln HRK**	**DIFFERENCE**	**EXPLANATION**
Amounts due to other banks	822			822	817 CNB – Deposits 5 CNB – Interest, fees and other liabilities
Repurchase agreements	835			835	835 CNB – Borrowings from financial institutions
Payables on financial derivative transactions	238	Derivative financial liabilities and other liabilities held for trading	236	2	2 CNB – Interest, fees and other liabilities
Financial liabilities at fair value through profit or loss	80			80	80 CNB – Deposits
Amounts due to customers	30,328	Deposits	30,877	(549)	(80) AR – Financial liabilities at fair value through profit or loss (817) AR – Amounts due to other banks 348 CNB – Interest, fees and other liabilities
Other borrowed funds	11,719	Other borrowings Borrowings from financial institutions	1,314 11,208	(803)	32 CNB – Interest, fees and other liabilities (835) AR – Repurchase agreements
Current tax liabilities	66			66	66 CNB – Interest, fees and other liabilities
Other liabilities	318	Interest, fees and other liabilities	857	(539)	(453) AR – Interest on borrowed funds and amounts due to customers and banks (86) AR – Provisions
Provisions	86			86	86 CNB – Interest, fees and other liabilities
Subordinated debt	-	Issued subordinated instruments	-	-	
Total shareholders' equity	6,017		6,017		
TOTAL LIABILITIES AND EQUITY	**50,509**		**50,509**		

GROUP

ANNUAL REPORT (AR)	in mln HRK	Form 'Income statement' (CNB)	in mln HRK	DIFFERENCE	EXPLANATION
Interest income	3,109	Interest income	3,106	3	1 CNB – Interest income on derivative financial instruments 3 CNB – Rental income from investment property (1) CNB – Depreciation of investment property
Interest expense	(1,376)	Interest expense	(1,374)	(2)	(2) CNB – Interest expense on derivative financial instruments
Fee and commission income	520	Fee and commission income	521	(1)	(1) AR – Other operating income
Fee and commission expense	(101)	Fee and commission expense	(100)	(1)	(1) CNB – General administrative expenses and depreciation
Net trading income	119	Profit/(loss) from trading Profit/(loss) from foreign currency differences Profit/(loss) from embedded derivatives	22 97 (1)	1	(1) AR – Interest income on derivative financial instruments 2 AR – Interest expense on derivative financial instruments
Other operating income	37	Other income Profit/(loss) from asset available for sale Income from other ownership investments	20 19 5	(7)	(3) AR – Interest income; rental income from investment property (3) AR – Other operating expenses 1 CNB – Fee and commission income (2) AR – Share of result of associates
Personnel expenses	(468)			(468)	(468) CNB – General administrative expenses and depreciation
Other operating expenses	(389)	General administrative expenses and depreciation Other expenses	(923) (13)	547	3 CNB – Other income 56 AR – Depreciation of tangible fixed assets 18 AR – Amortization of intangible fixed assets 468 AR – Personnel expenses 1 CNB – Fee and commission expense 1 CNB – Depreciation of investment property
Depreciation of tangible fixed assets	(56)			(56)	(56) CNB – General administrative expenses and amortization
Amortization of intangible assets	(18)			(18)	(18) CNB – General administrative expenses and amortization
Provision for loan and investment losses	(586)	Expense of value adjustment and loss provisions	(586)	-	
Share of result of associates	16	Profit/(loss) from investments in subsidiaries, associates and joint ventures	14	2	2 CNB – Income from other ownership investments
Profit before income tax	807	Profit before income tax	807	-	
Income tax expense	(155)	Income tax expense	(155)	-	
NET PROFIT FOR THE PERIOD	652	**NET PROFIT FOR THE PERIOD**	652	-	
		Non controlling interest (in subgroups)			
		NET PROFIT AFTER NON CONTROLLING INTERESTS			

					BANK
ANNUAL REPORT (AR)	**in mln HRK**	**Form 'Income statement' (CNB)**	**in mln HRK**	**DIFFERENCE**	**EXPLANATION**
Interest income	2,921	Interest income	2,918	3	1 CNB – Interest income on derivative financial instruments 3 CNB – Rental income from investment property (1) CNB – General administrative expenses and amortization
Interest expense	(1,315)	Interest expense	(1,313)	(2)	(2) CNB – Interest expense on derivative financial instruments
Fee and commission income	451	Fee and commission income	451	-	
Fee and commission expense	(117)	Fee and commission expense	(117)	-	
Net trading income	120	Profit/(loss) from trading Profit/(loss) from foreign currency differences Profit/(loss) from embedded derivatives	22 98 (1)	1	(1) AR – Interest income on derivative financial instruments 2 AR – Interest expense on derivative financial instruments
Other operating income	35	Other income Profit/(loss) from asset available for sale Income from other ownership investments	17 19 5	(6)	(3) AR – Rental income from investment property (3) AR – Other operating expense
Personnel expenses	(386)			(386)	(386) CNB – General administrative expenses and amortization
Other operating expenses	(360)	General administrative expenses and depreciation Other expenses	(796) (8)	444	3 CNB – Other income 41 AR – Depreciation of tangible fixed assets 13 AR – Amortization of intangible fixed assets 386 AR – Personnel expenses 1 AR – Interest income
Depreciation of tangible fixed assets	(41)			(41)	(41) CNB – General administrative expenses and amortization
Amortization of intangible assets	(13)			(13)	(13) CNB – General administrative expenses and amortization
Provision for loan and investment losses	(537)	Expense of value adjustment and loss provisions	(537)	-	
Share of result of associates	-	Profit/(loss) from investments in subsidiaries, associates and joint ventures	-	-	
Profit before income tax	758	Profit before income tax	758	-	
Income tax expense	(148)	Income tax expense	(148)	-	
NET PROFIT FOR THE PERIOD	610	**NET PROFIT FOR THE PERIOD**	610	-	
		Non controlling interest (in subgroups)			
		NET PROFIT AFTER NON CONTROLLING INTERESTS			