HYPO ALPE ADRIA
S VAMA. UZ VAS. ZA VAS.

Annual Report 2010

Hypo Alpe-Adria-Bank d.d.
Mostar

Bosnia and Herzegovina

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Management Board of the Bank

Jasna Gvožđar
Executive Director

responsible for:
Alternative Channels
Retail
SME

Thomas Karl Tomsich
Executive Director

responsible for:
Risk Controlling
Legal/Compliance & Security
Credit Processing
Credit Risk Management
Rehabilitation
NPL Management

Mirzet Ribić
Deputy Director

responsible for:
Public Finance
Treasury
Corporate Banking
Logistics

Michael Vogt
Director

responsible for:
IT/Operations
Marketing/PR
Financial Controlling
Accounting
Human Resources Management

Management Board Letter 2010

We may with all reason be proud of the results achieved in the year 2010. Regardless of the still strong recession, the GDP took a growing direction in 2010 compared to 2009. The whole BiH economy was strengthened by export, as a result of the increased demand from Europe, whose markets started to recover slowly but safely. Inflation started to increase at the end of last year, therefore the expectations of its high rate in 2011. In addition, the unemployment rate grew from 24.1% in 2009 to 27.2% in 2010 and is expected to grow further in 2011. Our expectation is that the number of workers will be further reduced in the real sector and in government sector.

Considering all the given business circumstances, the year 2010 may be viewed as a testing ground of our Bank's strength and our motivation and courage to go forward and make new steps. We are certainly courageous enough to move forward. We are willing to face the challenges of contemporary economic movements. Our people are of course strong enough to win new victories.

We have worked intensively on strengthening the deposits and we are happy to see that our clients have placed confidence in us.

The growth of non-performing loans was common to all markets, the share of which of 5.9% from 2009 grew to 9.2% in 2010 with a tendency of further growing in 2011.

The most important is that we have succeeded in keeping our position in the banking sector of BiH, but however not at the Group level. We are one of the leading players in BiH per all relevant indicators.

The assets of the Bank amounted at the end of 2010 up to KM 1.9 billon. The assets per capita was KM 3.11 million.

The business network of our Bank is the widest in the entire Group - 5 regional branches, 35 branches and 12 outlets at the end of 2010.

Our uttermost goals is to offer the most quality and the quickest service to our clients, what will indeed not be such a difficult task with the team of Hypo Alpe-Adria-Bank, composed of capable and qualified people, fully willing to work on achieving this goal.

Jasna Gvožđar
Executive Director

Thomas Karl Tomsich
Executive Director

Mirzet Ribić
Deputy Director

Michael Vogt
Director

Overview of economic movements in 2010 and the Projection

The most significant movement in the year 2010 was in the GDP, which developed from -2.9% in 2009 to a positive trend. The evaluation of the Chief Economist of the Hypo Bank BiH is that the GDP will be about 0.7% in 2010.

International markets' demand is still the main source of growth. As a result of the recovered markets in the Western European countries, to which Bosnia and Herzegovina is closely linked, a revived demand for alumina and steel and consequent thereon - increase of their prices, the largest BiH exporters, „Arcelor Mitala" and „Birča" boomed again, so that import – export coverage was at the end of 2010 - 50.5%, compared to 45.8% at the end of 2009. Industrial production increased by 1.6% at the end of 2010 and continued its upwards trend in January and February 2011 (by 6.6% compared to February 2009), driven mainly by processing production, which due to increased demand from international markets grew by 9.9%. The Projection 2011 relies on further development of export as a response to further revival of Western European markets.

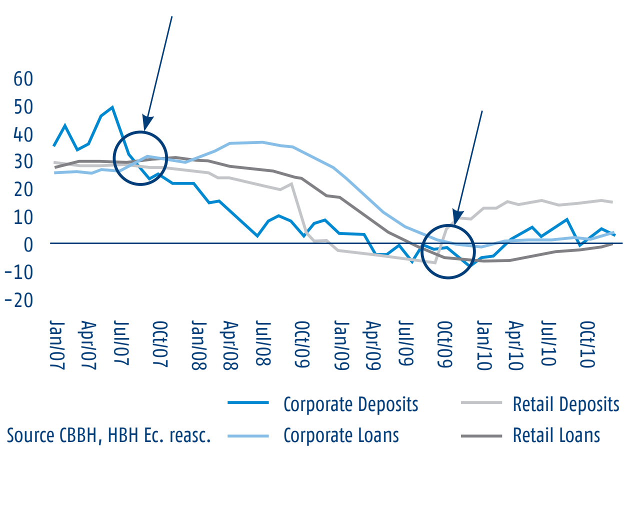
Continuous growth of food price. Inflation rate was 3.1% at the end of 2010, as a consequence of unexpected jump of food and housing price at the rate of 4%, i.e. 2.5%. The jump of prices was certainly caused among other things by the increased price of oil and oil derivates at the world market and harmonization of the EU excise rates for tobacco and tobacco products in BiH. The entities' governments limited margins on basic foodstuffs at the beginning of 2011, which decision however exerted no effect at all, having in consideration that inflation increased by 2.7% in January 2011 and by 3.3% in February 2011 as a result of the increase of the food price by 6%. According to the projection of the Chief Economist of the Hypo Bank, the consumer prices index/inflation will with corrections amount up to 3.5%, as the external and internal factors will not allow the prices to stabilize in the course of this year.

Negative tendencies at the labour market. The available household income has significantly dropped mainly as a result of decrease of the realistic growth rate of net salaries by 1.1% at the level of BH and decrease of cash inflow from abroad, accompanied on the other hand by jump of the unemployment rate from 24.1% in 2009 to 27.2% in 2010, which is expected to further increase in the year 2011, even to 28.5%, if the entities' and the state governments pursue the idea of reducing the currently huge number of civil service employees. In addition, real sector is also expected to cut the number of workers, as a consequence of remnants from the past and the lack of support provided by the state in creation of a better business environment. However, this does not come as a surprise, especially having in mind a poor or even sluggish recovery rate of economy on one hand and on the other, the reduced budget deficit defined by the three-year stand-by arrangement signed with the IMF (-4.5% in 2010, compared to the defined deficit of -3% for 2011).

Request for reduction of mandatory reserve. With the aim of strengthening the liquidity of the real sector, the Central Bank BiH reduced the mandatory reserve rate for short-term deposits of up to one year from 14% to 10%, releasing in that manner additional KM 300 million, which measure, however, has not given the expected result, as the banks' funds exceeding the mandatory reserve still remained very high even after the mentioned release, clearly showing the lack of demand for loans in general. Loan placements of commercial banks to Corporate clients were in 2010 increased by 3% and to Retail clients by 1%.

Changed behaviour of consumers. The effects of the market volatility in global financial movements and effects of loan expansion from about 10 years ago were clearly reflected in behaviour of consumers, who became much more cautious in spending. The citizens' deposits displayed a negative tendency of -6.9% in September 2009, compared to the same period of the previous year, but in December 2010 an increase of 14.6% was visible compared to the end of 2009.

Loans vs. Deposits (YtoY %)



Source CBBH, HBH Ec. reasc.

Continuous growth of non-performing loans. The non-performing loans in the banking sector of BiH and wider in entire region have been on a constant upturn, so that at the end of 2009, they amounted up to 5.9% and even up to 9.2% in September 2010, whereas they are expected to grow further as a result of the credit boom and constant further weakening of local economies, struggling with similar problems, that is a complete lack of willingness of local authorities to start strong structural reforms with the aim of securing financial and external sustainability as a pre-condition for economic self-sustainability. The Chief Economist of the Hypo Bank expects the non-performing loans to reach their peak in the 1Q 2011.

Banking sector outlook. According to the projection of the Chief Economist of the Hypo Bank, the year 2011 shall be a transitional year, in which a main focus shall be on cleansing the balance sheet, resolving the issues with the assets quality and particularly on preparation for the post-crisis development, as those who are well prepared for the post-crisis shall of course have the best effects when coming to the starting-point, that is – profitability and trend of further development and growth. The focus shall furthermore be placed on the strength of the banks' core capital and banks' preparedness to consistently apply local and international accounting standards in credit risk management. The banks, which try to play with the credit risk management, shall place themselves, but also the entire market at which they work in a very unfavourable position.

BiH Credit Rating 2010

If there is no end to the political agony, changes are possible, Bosnia and Herzegovina[1]:

	Foreign currency	Local currency
Governmental bonds rating	B2 / stabile prospects	B2 / stabile prospects
Country rating	Ba3 / stabile prospects	Ba1
Banks deposits rating	B3 / stabile prospects	Ba3

Current rating BiH:

	Moody's Investors Service	Standard & Poor's
Rating	B2 / stabile prospects	B+ / stabile prospects
Date	07. 1. 2010	17. 12. 2010
Activity	confirmed	confirmed

Source: CBBH, Moody's Investors Service, Standard & Poor's

[1] Moody's, January 2010

Securities trading

Sarajevo Stock-exchange (SASE)

The trading at the Sarajevo Stock-exchange in 2010 amounted in total up to KM 108,554,379.41 or 38.38% of the total trading at all stock-exchanges in BiH. The total of 76,337,803 securities were traded with in 18,244 transactions.

Top 10 issuers	Trading	No. of transactions	% exchange-rate change
Bosnalijek d.d. Sarajevo	6,822,830.36 KM	2,293	-13.93%
BH Telecom d.d. Sarajevo	6,084,024.20 KM	2,216	-5.16%
FBiH obveznice ratna potraživanja ser. A	4,545,302.99 KM	798	56.00%
JP Elektroprivreda BIH d.d. Sarajevo	4,281,362.18 KM	828	-5.38%
FBiH obveznice ratna potraživanja ser. B	4,215,242.61 KM	694	66.13%
Vispak d.d. Visoko	3,797,516.86 KM	96	16.54%
ZIF BIG Investiciona grupa d.d. Sarajevo	3,390,020.91 KM	598	-29.18%
Fabrika duhana Sarajevo d.d. Sarajevo	3,255,323.31 KM	1,328	-32.90%
RMU Kamengrad d.d. Sanski Most	3,146,167.83 KM	88	0.31%
FBiH stara devizna štednja serija C	2,865,716.24 KM	464	-

Indices and market capitalisation	Last day of the previous period	Last day of the current period	% change
Market capitalisation	7,158,678,913.80 KM	7,210,603,026.80 KM	0.73%
BIFX	1,839.08	1,520.80	-17.31%
SASX-10	1,053.10	944.07	-10.35%
SASX-30	1,097.17	925.95	-15.61%

Banja Luka Stock-exchange (BLSE)

The trading at the Banja Luka Stock-exchange in 2010 amounted in total up to KM 176,195,081 or 61.62% of the total trading at all stock-exchanges in BiH. The total of 16,735,005 securities were traded with in 10,164 transactions.

Top 10 issuers:

Securities symbol	Issuer	Price on 31/12/10	Average price	No. of transactions	Value (BAM)
BLKB-R-A	BALKAN INVESTMENT BANK AD B. LUKA	10	32.07	3	36,045,232
IEFB-R-A	MF BANKA AD BANJA LUKA	64.00	64.00	2	12,800,000
TRZN-R-A	TRŽNICA AD BANJA LUKA	1.40	1.37	539	7,960,913
RSRS-O-C	REPUBLIKA SRPSKA-izmirenje ratne štete 3	37.00	32.03	3,264	7,131,634
RSRS-O-D	REPUBLIKA SRPSKA-izmirenje ratne štete 4	37.98	31.08	2,980	6,290,374
TLKM-R-A	TELEKOM SRPSKE AD BANJA LUKA	1.38	1.38	1,600	5,570,331
VTNK-R-A	VITINKA AD KOZLUK	4.00	5.05	18	4,117,816
RSDS-O-C	RS-stara devizna štednja 3	80.50	81.44	357	3,736,138
KRIP-R-A	ZIF KRISTAL INVEST FOND AD B. LUKA	6.5	4.87	759	3,117,445
NOVB-R-E	NOVA BANKA AD BANJA LUKA	1	0.92	88	2,793,969
	OTHER				40,593,037

Indices and market capitalisation	Last day of the previous period	Lat day of the current period	% change
Market capitalisation	3,756,543,171KM	3,732,304,036 KM	-0.65%
BIRS	991.84	956.12	-3.60%
FIRS	1,864.62	1,632.46	-12.45%
ERS10	739.12	801.34	8.42%

Insurance

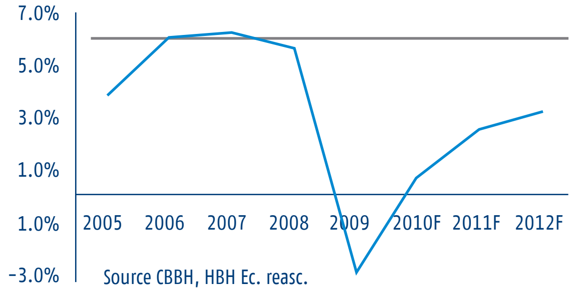
Reports 2010 shall be available in August 2011.

Slow economic recovery in BiH additionally jeopardized by political instability. Even tough the general elections were held in October 2010, governments have not been founded at all levels in BiH yet, except in Republika Srpska.

Promotion of economic stability is to some extent about avoiding economic and financial crisis and turbulences in economic activities, such as high inflation rate and too high volatility at the financial market. It is a well-known fact that political instability tremendously jeopardizes growth, whereas on the other hand, stabile political systems are a genuine catalyst of growth. Political instability is directly related to GDP growth and share of foreign and local investments in the GDP.

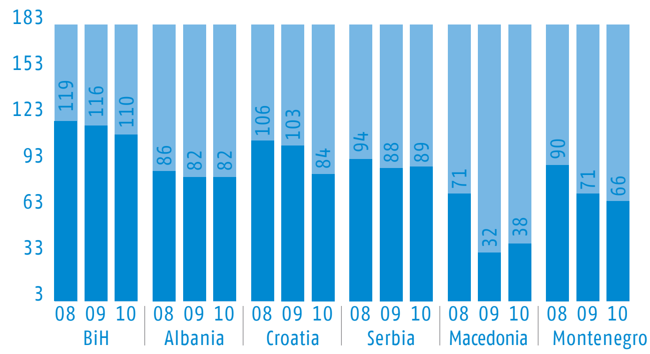
Due to persistent political instability in the country, we have after all corrected the GDP projection for 2011 and 2012 to 2% and 2.8%. Export is expected to remain the main generator of growth, as a result of further recovery of Western European markets and the announced investments in BiH. The local demand shall most probably not be significantly revived in a short period of time, particularly having in mind the changed and more cautious behaviour of consumers. Not even the planned growth is sufficient for a developing country as BiH is to start development and growth to such extent as to be reflected on the citizens' living standards. The acceptable potential growth would be 5.5%, even the rate of 6.5% is being mentioned.

Real GDP Growth BiH,%

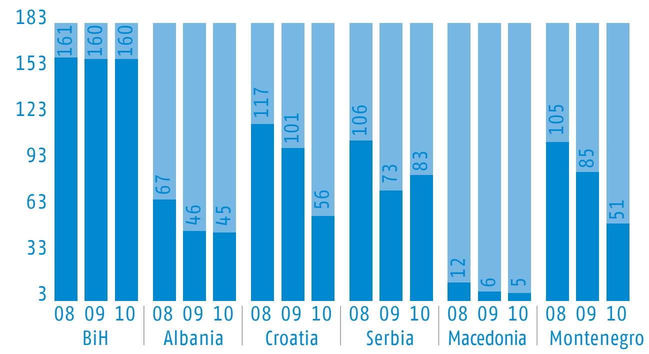


Strong political weaknesses and instability clearly influence the situation in BiH, which might be an additional aggravating element on the BiH way to the EU membership. This thesis is strongly supported by the below-presented World Bank Reports on movement of business terms and ranging of countries-signatories to the EU Association Agreement and on starting new business.

Ease of Doing Business (Rank)



Starting a Business (Rank)



The research was made on 183 countries. The terms of business in BiH have in the time-period 2008 – 2010 slightly improved (BiH got from the 119th to 110th place), whereas the stagnation in starting new business have been strenghtened (from the 161st to the 160th place).

Business Overview of Hypo Alpe-Adria-Bank d.d. in 2010

Corporate and Public

Negative effects of the crisis had a huge influence on real economy sector in 2010 by slowing down the business activities and increasing the unemployment rate, whereas a weakened demand and lower purchasing power of the citizens drastically slowed down the pace of trade and almost entirely stopped the investments, having at the end of the day a negative reflection on the banking sector of the Federation of Bosnia and Herzegovina.

The reduced demand at both local and international markets stopped the inflow of investments and quality financing projects and shifted therefore the focus of the Bank's financing business onto small projects and small and medium-sized companies and private persons, helping in that manner to strengthen the economic situation in the country and encouraging production, but on the other hand, enabling a better risk dispersion in the Bank.

The Corporate best-sellers in 2010 were short-term products, overdraft, factoring and forfeiting, off-the-balance products, Visa Business cards and POS-devices. Notwithstanding the deteriorated market conditions, the Bank succeed in keeping the growing trend of the number of active Corporate clients in 2010, whereas the main focus was on keeping the good well-rated clients and attracting the new ones with the cross-selling potential.

The Bank did not however restrict itself to caring about maintaining the quality loan portfolio, even tough the care was continuous, but put efforts in advanced training of its sales staff, wanting to teach them how to recognize good possibilities of financing and how to identify risky business of the clients. Priority was given also to development and sales of Visa Business Card and extension of the EFT POS network and HypoNet, with the purpose of increasing the commission income. The credit goes to great efforts put by the sales people of the Bank that the Bank managed to keep a good level of payments, what contributed to growth of the income from services. The focus o the liabilities side was on collecting deposits, with the aim of increasing financing out of primary funds.

Considering that the financial crisis has not ended yet and that it has been seriously strucking the real economy, the consequences shall be visible in the current year. Therefore, the economic growth shall be slow and the Bank's business shall be focused primarily on restructuring and monitoring and improvement of the quality of the existing loan portfolio, what shall require a new mode of implementing the business policy of the Bank by channelling the funds primarily towards the Corporate clients and by supporting them in keeping their business in challenging market conditions. The Bank shall direct its activities to strengthening the partnership relation with its clients by satisfying their demands, remaining at the same time a reliable partner to all existing and potential clients.

The Public Finance segment was on 1 June 2010 officially separated as a single organisational unit within Hypo Alpe-Adria-Bank d.d. A Public Account Managers in charge for the respective region were assigned to each of 5 regional branches.

The Bank has about 800 registered Public clients – state and local authorities, public enterprises, non –profit organisations and associations.

The professional staff is always at the service of the clients with professional advice and offer of a whole range of products – classic long- and short-term loans, loans for financing special structured projects, financial frames, guarantees, letters of credit, purchase of receivables and many other products and services.

It has not been just recently that Hypo Alpe-Adria-Bank d.d. started with the Public Finance business. The Bank has, namely, acted as a partner to its Public clients since long ago, cooperating with them on various infrastructural projects, so that it now has short-term loans for regulating liquidity in its portfolio. However, the organisation of this business segment within a separate organisational unit certainly improved the quality of business.

The plan of the Bank in the Public Finance segment is to keep a successful cooperation with the current clients, to attract new clients, improve the quality of services and products of the PF offer, increase cross-selling, develop and reiterate trust between the Bank and its clients, with the aim of establishing and keeping a long-term successful business relation.

The plan on the assets side is to finance significant projects and grant long-term placements, what we can expect to achieve in years of economic growth and development, when valuable infrastructural projects will be started in energy supply sector and roads construction. When it comes to liabilities side, the focus is placed on deposits collection, with the aim of increasing the rate of financing out of primary funds, in which segment the Public clients with the large planned items in their budgets are particularly important.

The focus will furthermore be placed on strengthening the activities of developing and selling the card products, increasing the volume of payments through the accounts and through HypoNet and increasing the commission income.

950 Corporate clients use HypoNet at the moment, whereas 461 are holders of a Visa Business card, 656 VB cards were issued to final users.

If an Agreement is made with the Development Bank of the Council of Europe (CEB) and the European Investment Bank (EIB), the Bank plans to offer to its existing and future clients a wide range of products with a possibility of long-term financing, what will certainly help the Bank to maintain the successful long-term cooperation.

Number of Corporate clients – loan-beneficiaries

2003	516
2004	565
2005	684
2006	888
2007	1,220
2008	1,401
2009	1,329
2010	1,335

Retail

The focus of the Retail segment was in the year 2010 on depositary business, keeping the leading position in the segment, confirming the trust of the clients in the savings-products of the Bank and reaffirming the Bank as the institution which developed its business and won trust of its clients on stabile and innovative business policy in the savings-products. The Bank put special efforts in attracting a large number of not so big savings-deposits by offering to its clients the savings-products, particularly the fixed-term ones, at vary favourable and motivating terms via special campaigns. Furthermore, huge attention was paid also to card business and sales of other commission-bearing products, as defined by the Business Plan. In 2010, more loans were placed to private persons than in the previous year. The Bank introduced a new financing line. Hypo Swift Loans - non-purpose loans with a fixed interest rate, with the repayment term of up to 7 years, which proved to be very attractive to our clients. New loans were placed only in the volume of the collected funds.

The reduction of the assets volume was in accordance with the plan. The loan insurance was extended by an additional quality instrument – risiko insurance policy.

The Retail products range was extended in 2010 by a new savings-product - Hypo Plus Savings – tied savings with the interest rate calculated in advance, which was a real best-seller among all other tied savings-products. The number of the Bank's cards' holders was significantly increased in 2010. The Bank's cards offer was enriched by a new product - Hypo Visa PrePaid Gift card.

The cards usage rate was much higher than in the previous years, the credit for which goes to the award game, organised for the second year in sequence and the bonus scheme, in which points are given whenever the card holder uses the card at a POS-device.

SME

The business with small and medium-sized enterprises has since mid-2010 been run by the SME Department, the establishment of which significantly improved the level of service provided in this segment.

The volume of newly placed loans to SME segment was in the year 2010 still at a reduced level, whereas the market activities of the sales staff were intensified in the second half of the year. Simultaneously, the activities of improving the quality of the loan portfolio were also strengthened, as well as the activities of reducing the non-performing loans and restructuring the clients' loan liabilities. The SME financing products range was in 2010 enriched with a couple of new products. Furthermore, the selling campaign under the title "Chose the right way!" exerted satisfactory results. The financing products offer included mainly short-term loans, overdrafts and mid-term loans in the second part of the year and banking guarantees in documentary business. Efforts were put also in increase of non-interest income generated by providing services of domestic and international payments, card business, Internet- banking and expansion of the EFT POS network.

The Bank had 8,683 SME clients as of 31 December 2010, thereof: 3,931 independent entrepreneurs (craftsmen) and 4,752 companies. The sales staff, i.e. SME Advisors were further trained in 2010 and they have professional advice and education available in their work on everyday basis, so that they may easily respond to new business challenges and achieve always better results.

Investment banking

The Investment Banking Sub-department was in 2010 divided in three offices: Custodian, Depositary and Brokerage (after Hypo Alpe-Adria-Vrijednosnice d.o.o. was merged to the Bank). The staff was reorganised by being shifted to other segments in the Bank and by assigning highly educated staff to this very segment.

The entire year 2010 was full of changes, beginning from moving the premises to changing the organisational scheme and structure, with the aim of reducing costs and increasing profit.

After having obtained the license for performing custodian business in Republika Srpska, Hypo Alpe-Adria-Bank d.d. became a custodian bank able to provide its custodian services in entire Bosnia and Herzegovina.

Custodian Office. The Investment Banking Sub-department traded in 2010 with the securities in the value of more than KM 25 mil. Furthermore, the Sub-department had a significant trading volume at the international securities markets – more than KM 1.5 mil, It established business cooperation with two funds from FBiH and one from RS. The total property value of the funds kept at the custodian account of the Bank amounts up to more than KM 31 mil.
In November 2010, Hypo Alpe-Adria-Bank d.d. obtained a license for performing custodian business in Republika Srpska and was admitted to the membership of the RS Central Securities Register, so that the Bank extended the range of services provided to its clients and created pre-conditions for increasing the number of clients for custodian business in both entities of BiH.

Depositary Office. The depositary business was until 2010 performed through a sub-department, but was in April 2010 reorganised into an office within the Investment Banking Sub-department and started performing depositary bank service to the funds, with its licence obtained in 2009, finally following the competition, which started providing this service as early as in 2001. The Office contracted the performance of depositary business for one open and one closed investment fund, having in that manner acquired necessary know-how and references for performing this type of business at the market. The value of the property of the funds, for which the Bank works as a depositary bank, was at the end of 2010 cca. KM 29 mil, thereof: KM 0.5 mil, of fixed deposits and KM 0.45 mil, of cash funds at the special-purpose account. It was in the year 2010 that the Office acted for the very first time as the payment agent for issuing commercial bills for a very important client of the Bank, by which the process of the first commercial bills issue in BiH was brought to an end.

Hypo Alpe-Adria-Invest d.o.o. Mostar

The Funds Management Company Hypo Alpe-Adria-Invest d.o.o. Mostar manages two investment funds – the closed investment fund Crobih Fond d.d. Mostar and the open investment fund Hypo BH Equity.

The Law on Investments Funds was adopted at the beginning of 2009, so that it was actively and fully implemented in 2010. Furthermore, a whole range of measures and activities were undertaken on supporting the revival of the capital market.

Notwithstanding the difficulties at the capital market and the lack of further privatisation of state-owned companies, the Funds Management Company Hypo Alpe-Adria-Invest d.o.o. Mostar closed the business year 2010 with a positive financial result, the credit for which partially goes to marketability of the securities from the portfolio and alignment of the closed investment fund with the legislature.

Hypo Alpe-Adria-Vrijednosnice d.o.o. Sarajevo

The total turnover of the brokerage-dealer company Hypo Alpe-Adria-Vrijednosnice d.o.o. Sarajevo amounted up to KM 19.93 or to KM 19.97 mil, including the open market transactions, HAAV d.o.o. concluded 138 new contracts on securities brokerage, issued 2,999 and realized 912 orders.

5 open market transactions were made in 2010 (turnover: KM 21,875). The market share of Hypo Alpe-Adria-Vrijednosnice d.o.o. Sarajevo was at the end of the year 9.22% or 9.30% including the open market transactions.

Hypo Alpe-Adria-Vrijednosnice d.o.o. Sarajevo won the third place in the category of shares trading in 2010 in the competition organised by the Stock-exchange of Sarajevo (SASE).

As the brokerage-dealer company was at the beginning of 2011 merged to Hypo Alpe-Adria-Bank d.d., the year 2010 was the last year of its operations and a transitional period indeed, fully marked by activities of bringing the long and complex project of the merge efficiently to its end.

Business Network

At the end of 2010, the Bank had 5 regional branches, 35 branches and 12 outlets.

The premises of the Regional Branch of Tuzla and the Outlet of Tuzla-Centar were reconstructed by extending the premises area by 200 m2 and getting a larger and more clients-friendly space. Furthermore, the premises of the Branch of Ljubuški were also reconstructed and adjusted to standards and corporate design of the Bank, by which pre-conditions were created for implementing the new clients-oriented strategies of the Bank.

The Outlet of Kupres was closed within the process of reorganisation and according to the prepared study, its business activities having been transferred to Branches of Livno and Tomislavgrad.

No new organisational units were opened in 2010, as decided by the Bank's leadership on the basis of the market demands. However, opening of a couple of new branches and reconstruction of some existing ones is planned for the year 2011.

IT/ Operations

Hypo Alpe-Adria-Bank d.d. has a very modern IT system fully aligned with the Hypo Group standards, based on wide use of contemporary information technologies. Internet and modern electronic channels and developed telecommunication infrastructure. The telecommunication links were in 2010 migrated to MPLS service, so that the locations within the Bank's business network are now much better connected when it comes to capacities and security, particularly of the data in the process of transfer. The Bank uses at the moment the ZIS banking application (provided by the vendor 'Zajednički informacijski sistem' d.o.o. Beograd), which is used by other three banks in the Hypo Group. The mother-bank Hypo Alpe-Adria-Bank International AG started in 2008 the BEST project for all Hypo Group members in the region, the start of which project in Hypo Alpe-Adria-Bank d.d. was on 1 December 2009. The project goal is replacement of the currently used ZIS application, along with the integration of external applications wherever possible. The migration to the new banking application is planned in the year 2011. Having the strategy based on the world IT trends and initiatives from the Hypo Group, but taking into account also the specific characteristics of our area and creativity, the new system is expected to bring improvement of the business processes, more efficient realization of business requests, in order to increase competitiveness at the ever more challenging market. One of the goals is also improvement of reporting functionality as a support to decision-making.

In order to support the daily business, the IT Service Management system was introduced with the recognized ITIL standards.

The methodology, standards and tools of managing the business processes were applied in 2010, with the purpose of creating the pre-conditions for the Bank to develop itself as a process-oriented organisation. The application of the Hypo standards and tools in project management resulted in significant improvement in 2010 in the system of controlling and monitoring the entire project portfolio of the Bank.

All important locations in the Federation of BiH are covered by the ATM network of Hypo Alpe-Adria-Bank d.d. with 68 ATMs, thereof 47 installed in the Bank's premises and 21 externally. The ATMs of the Bank accept all VISA and MasterCard cards.

The Bank had the total of 1,511 POS-terminals as of 31 December 2010, acquiring Visa, MasterCard/Maestro, Amex and Diners cards.

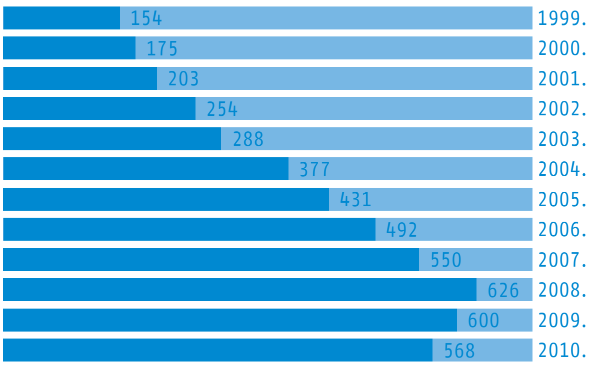
When it comes to the number of issued cards and the size oft he ATMs and POSes network, Hypo Alpe-Adria-Bank d.d. is among the leading banks in BiH.

Taking into account the world trends, the Bank has adopted the strategy that it is only with modern IT technologies and developed electronic channels towards the clients possible to keep the clients and attract the new ones and that the modern IT technology is an extremely important factor in the Bank's development, efficiency and success.

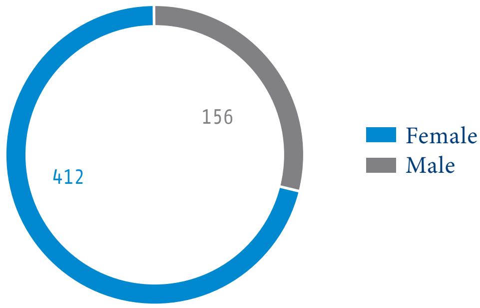
Human resources

Being a part of an international banking group and taking care of all specific characteristics and complexity of the banking business in BiH. Hypo Alpe-Adria-Bank d.d. devotes a lot of attention to human resources management and development, in a wish to create a positive and friendly working atmosphere, as well as a partnership relation with its clients. The Bank had 568 employees at the end of 2010, thereof: 344 or 58% with University degree or two-year post-secondary qualification and 224 or 42% with secondary school degree. The Bank has more female employees, what is a common gender structure of the banking sector. The average age of employees is 37.5.

Number of employees



Gender structure

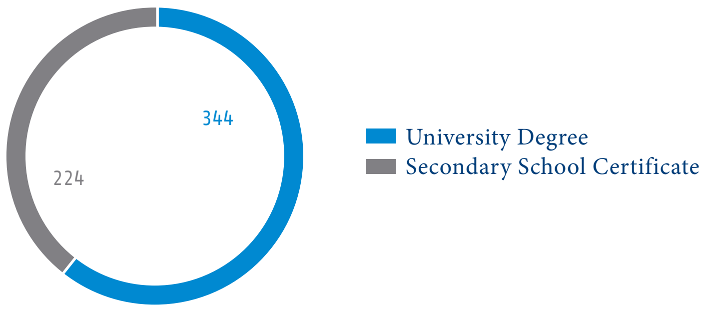


The employees of the Bank were regularly attending training programmes in the country and abroad, with the aim of acquiring new knowledge and skills required for improvement of the Bank's work organization and the current skills of its staff.

The managerial skills were improved within the Hypo Academy, a special training programme for managers in duration of a couple of years, but also in various seminars, the main purpose of which was to achieve the best practices and acquire new know-how to apply in the business processes of the Bank.

Furthermore, special training programmes were organized for particular target groups, as a result of work reorganization and a constant process of adjusting to the market demands, whereby a special focus was on education in various risk types for various target groups of employees involved in the process of financing in all segments.

Qualification structure



Social responsibility

Hypo Alpe Adria-Bank d.d. has for years already been acting as a fully socially responsible institution by financially supporting through various donations numerous associations for the socially endangered and by helping them to integrate into the society. The Bank continued its role of a socially responsible institution in the year 2010 as well by providing aid to various humanitarian projects, as well as to sport, cultural and educational projects, pursuing its socially responsible philosophy.

The donors' project Hypo Pro Futuro at the Group level was certainly the most challenging project, having in mind that it was implemented in seven countries.

Hypo Alpe-Adria-Bank d.d. participated in Hypo Pro Futuro with two valuable actions - donations to the Children's Home "Bjelave" in Sarajevo and to the "Mother's Village" in Međugorje. The motto of the Bank's activities of providing financial support to the socially endangered groups may be summarized in one sentence: "If we do not have a feeling for the world around us and if we are in our life not lead by the good, all our efforts remain fruitless."

Bodies of Hypo Alpe-Adria-Bank d.d.

SUPERVISORY BOARD

until 20 May 2010
Anton Knett, President
Wolfgang Peter, Deputy President
Thomas Morgl, member
Günther Puchtler, member
Christoph Schasché, member
Andreas Dörhöfer, member
Božidar Špan, member

from 20 May 2010
Anton Knett, President
Wolfgang Peter, Deputy President
Thomas Morgl, member
Andreas Dörhöfer, member
Božidar Špan, member

from 22 June 2010
Andreas Dőrhőfer, President
Wolfgang Mősslacher, Deputy President
Patrick Luger, member
Stephan Holzer, member
Meliha Povlakić, member

from 17 September 2010
Rainer Sichert, President
Wolfgang Mősslacher, Deputy President
Patrick Luger, member
Stephan Holzer, member
Meliha Povlakić, member

AUDIT COMMITTEE

until 14 April 2010
Nensi Marin, President
Hans-Dieter Kersting, member
Monika Gotownik, member
Zoran Besak, member
Vesna Pavlović, member

from 14 April 2010
Nensi Marin, President
Hans-Dieter Kersting, member
Danijel Gregorić, member
Zoran Besak, member
Vesna Pavlović, member

MANAGEMENT BOARD

until 1 March 2010
Petar Jurčić, Director
Mirzet Ribić, Deputy Director
Thomas Karl Tomsich, Executive Director
Mirjana Prusina, Executive Director
Jasna Gvožđar, Executive Director

from 1 March 2010
Michael Vogt, Director
Mirzet Ribić, Deputy Director
Thomas Karl Tomsich, Executive Director
Jasna Gvožđar, Executive Director

Organisational structure

Hypo Alpe-Adria-Bank d.d.

Mostar

Unconsolidated financial statements for the year ended 31 December 2010 prepared in accordance with International Financial Reporting Standards as modified by the regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina and Independent Auditors' Report

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Responsibility for the Financial Statements

Pursuant to the Law on Accounting and Audit of Federation of Bosnia and Herzegovina (Official Gazette No. 83/09), 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 modified by the regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina which give a true and fair view of the state of affairs and results of the Bank for that period. IFRS are published by the International Accounting Standards Board (IASB).

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

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

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

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

Signed on behalf of the Management Board

Michael Vogt
Hypo Alpe-Adria-Bank d.d. Mostar
Kneza Branimira 2b
88000 Mostar
Bosnia and Herzegovina
10 March 2011

Deloitte.

Deloitte d.o.o.
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Bosnia and Herzegovina

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www.deloitte.com/ba

To the shareholders of Hypo Alpe-Adria-Bank d.d. Mostar:

Independent Auditor's Report

We have audited the accompanying unconsolidated financial statements of Hypo Alpe-Adria-Bank d.d. Mostar (the "Bank"), set out on pages 4 to 40, which comprise of the unconsolidated balance sheet as at 31 December 2010, and the unconsolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting standards as modified by the regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the unconsolidated financial statements present fairly, in all material respect the financial position of Hypo Alpe-Adria-Bank d.d. Mostar as of 31 December 2010, and of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as modified by the regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina.

Emphases of matter

Impairment of financial assets

Without qualifying our opinion, we draw attention to the Note 4 of these unconsolidated financial statements, which describes that the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as modified by the regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina. These rules require banks to calculate the allowance for impairment of financial assets based on a general provisions and matrix system, which is based on number of days overdue. This is not in accordance with IAS 39: 'Financial Instruments: Recognition and Measurement'. If the Bank had recorded allowances in accordance with International Accounting Standard 39, the allowance for loan losses as of 31 December 2010 would have decreased by KM 157,078 thousand, the retained earnings as of 1 January 2010 would have increased by KM 67,783 thousand and the loss before taxation for the year ended 31 December 2010 would have decreased by KM 89,295 thousand.

Concentration of funding

Without qualifying our opinion, we draw attention to Notes 2 and 25 in these unconsolidated financial statements which refer to the Bank's financing by Hypo Alpe-Adria Bank International AG, Klagenfurt, Austria (the Parent). The Bank is dependent upon the continued funding and other financial support from its Parent, under the currently agreed financial terms. This support includes agreeing not to seek repayment of intercompany deposits made by them to the Bank for a period of at least 12 months from 31 December 2010. Additionally, the Parent has increased the Bank's shareholders' equity by KM 105,000 thousand in 2010.

Consolidated financial statements

Furthermore, without qualifying our opinion, we draw attention to the fact that consolidated financial statements have not yet been published by the Bank at the date of this report. Note 4 to the unconsolidated financial statements explain the method of accounting and other disclosures related to unconsolidated subsidiaries respectively.

Deloitte d.o.o.

Sead Bahtanović, director and authorized auditor

Deloitte d.o.o. Jadranska bb 71000 Sarajevo ID 4200047380000

Sabina Softić, authorized auditor

Sarajevo, Bosnia and Herzegovina

10 March 2011

Unconsolidated income statement

for the year ended 31 December 2010
(all amounts are expressed in thousands of KM)

	Notes	2010	2009
Interest income	7	122,305	159,539
Interest expense	8	(62,349)	(75,850)
Net interest income		**59,956**	**83,689**
Fee and commission income	9	16,758	16,979
Fee and commission expense		(5,596)	(4,366)
Net fee and commission income		**11,162**	**12,613**
Net income on financial operations	10	3,012	3,206
Other operating income	11	5,874	1,226
Operating income		**80,004**	**100,734**
Personnel expenses	12	(19,016)	(19,214)
General and administrative expenses	13	(23,980)	(25,736)
Depreciation and amortization expense	24	(5,270)	(5,693)
Other operating expenses	14	(30)	(4,561)
PROFIT BEFORE IMPAIRMENT LOSSES		**31,708**	**45,530**
Impairment losses	15	(178,182)	(71,757)
Collected written-off receivables		7,690	5,573
LOSS BEFORE INCOME TAX		**(138,784)**	**(20,654)**
Income tax	16	113	1,406
NET LOSS FOR THE YEAR		**(138,671)**	**(19,248)**
Basic loss per share (KM)	37	(287.40)	(42.02)

The accompanying notes form an integral part of this financial statement.

Unconsolidated statement of comprehensive income

for the year ended 31 December 2010
(all amounts are expressed in thousands of KM)

	2010	2009
Loss for the year	**(138,671)**	**(19,248)**
Other comprehensive income		
Exchange differences on translating foreign operations	19	(8)
Available-for-sale financial assets		
Net (loss) \ gain arising on revaluation of available-for-sale financial assets during the year	(149)	405
Total comprehensive loss for the year	**(138,801)**	**(18,851)**

The accompanying notes form an integral part of this financial statement.

Unconsolidated balance sheet

as at 31 December 2010
(all amounts are expressed in thousands of KM)

	Notes	31 December 2010	31 December 2009
ASSETS			
Cash and due from banks	17	146,801	188,060
Obligatory reserve at the Central Bank	18	158,578	170,743
Placements with other banks	19	65,187	95,816
Loans and receivables	20	1,389,886	1,684,247
Financial assets available for sale	21	2,664	2,787
Investments in subsidiaries	22	3,711	3,711
Deferred tax assets	16	2,172	2,059
Other assets	23	6,006	19,623
Property and equipment	24	71,582	66,584
TOTAL ASSETS		**1,846,587**	**2,233,630**
LIABILITIES			
Due to other banks	25	683,941	1,032,431
Due to customers	26	919,343	923,303
Subordinated debt	27	65,000	65,000
Other liabilities	28	26,012	26,627
Provisions	29	4,062	4,239
Total liabilities		**1,698,358**	**2,051,600**
SHAREHOLDERS' EQUITY			
Share capital		193,000	193,000
Reserves		113,148	8,278
Retained losses		(157,919)	(19,248)
Total shareholders' equity		**148,229**	**182,030**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,846,587**	**2,233,630**
FINANCIAL COMMITMENTS AND CONTINGENCIES	29	149,548	179,021

The accompanying notes form an integral part of this financial statement.

Signed on behalf of Hypo Alpe-Adria-Bank d.d. Mostar on 10 March 2011:

Michael Vogt
General Manager

Željka Puljić
Head of Accounting

Unconsolidated statement of cash flows

for the year ended 31 December 2010

(all amounts are expressed in thousands of KM)

	2010	2009
Operating Activities		
Net loss	(138,671)	(19,248)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,270	5,693
Impairment losses and provisions	178,182	71,757
Provision for litigation losses	30	317
Increase of deferred tax assets	(113)	(1,406)
Income from sale of fixed assets	-	(163)
(Loss) / income on disposals from property and equipment	16	(25)
Loss on sale of loan receivables	-	2,688
Provision for restructuring	-	1,556
Cash flow before changes in operating assets and liabilities:	*44,679*	*61,169*
Net decrease in obligatory reserve with the Central Bank	12,165	127,851
Net decrease/(increase) in placements with other banks, before provision	30,906	(57,397)
Net decrease in loans, before provision	116,169	121,190
Net decrease / (increase) in other assets, before provision	13,204	(12,941)
Net decrease in due to other banks	(348,508)	(86,702)
Net decrease in due to customers	(3,960)	(99,468)
Net decrease in other liabilities	(614)	(986)
Cash flows (used in) / from operating activities	*(135,955)*	*52,716*
Income tax paid	-	(1,209)
NET CASH (USED IN) / FROM OPERATING ACTIVITIES	**(135,955)**	**51,507**
Investing Activities		
Purchase of property and equipment	(10,297)	(23,420)
Net increase in assets available for sale	(7)	-
Proceeds from sale of investments	-	80
Proceeds from sale of loans	-	39,442
Proceed from sale of tangible and intangible assets	-	715
NET CASH (USED IN) / FROM INVESTING ACTIVITIES	**(10,304)**	**16,817**
Financing Activities		
Paid-in share capital	-	10,000
Increase in capital reserves	105,000	
Subordinated debt	-	10,000
Decrease in borrowings	-	(817)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**105,000**	**19,183**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(41,259)**	**87,507**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**188,060**	**100,553**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**146,801**	**188,060**

The accompanying notes form an integral part of these financial statements

Statement of changes in shareholders' equity
for the year ended 31 December 2010
(all amounts are expressed in thousands of KM)

	Share capital	Reserves	Investment revaluation reserves	Not covered losses	Total
31 December 2008	**183,000**	**27,586**	**(690)**	**(19,015)**	**190,881**
Capital increase	10,000	-	-	-	10,000
Transfer from/to	-	(19,015)	-	19,015	-
Loss for the year 2009	-	-	-	(19,248)	(19,248)
Other comprehensive income for the year	-	-	397	-	397
Total comprehensive loss	***-***	***-***	***397***	***(19,248)***	***(18,851)***
31 December 2009	193,000	8,571	(293)	(19,248)	182,030
Capital increase	-	105,000	-	-	105,000
Loss for the year 2010	-	-	-	(138,671)	(138,671)
Other comprehensive loss for the year	-	-	(130)	-	(130)
Total comprehensive loss	***-***	***-***	***(130)***	***(138,671)***	***(138,801)***
31 December 2010	**193,000**	**113,571**	**(423)**	**(157,919)**	**148,229**

The accompanying notes form an integral part of this financial statement.

Notes to the unconsolidated financial statements

for the year ended 31 December 2010
(all amounts are expressed in thousands of KM)

1. GENERAL

History and incorporation

Hypo Alpe-Adria-Bank d.d. Mostar (the ''Bank") got the approval from the Banking Agency of Federation of Bosnia and Herzegovina ("FBA") dated 17 January 2000 and the Bank was registered at the County Court in Mostar on 21 January 2000.

The Bank's main office is located in Mostar, Kneza Branimira 2b. The Bank conducts its operations through the headquarters in Mostar, branch offices in Mostar, Sarajevo, Vitez, Tuzla, Bihać and 35 sub-branches and 12 offices in the Federation of Bosnia and Herzegovina.

Principal activities of the Bank:

The Bank's main operations are as follows:

1. accepting deposits from the public and placing of deposits;
2. providing current and term deposit accounts;
3. granting short- and long-term loans and guarantees to the local municipalities, corporate customers, private individuals and other credit institutions dealing with finance lease and foreign exchange transactions;
4. money market activities;
5. performing local and international payments;
6. foreign currency exchange and other banking-related activities;
7. providing banking services through an extensive branch network in the Bosnia and Herzegovina.

Supervisory Board	Until 20 May 2010
Anton Knett	President
Mr. Wolfgang Peter	Vice-president
Mr. Thomas Morgl	Member
Andreas Dörhöfer	Member
Božidar Špan	Member
Dr. Günther Puchtler	Member
Dr. Christoph Schasche	Member

Supervisory Board	From 20 May 2010.
Anton Knett	President
Mr. Wolfgang Peter	Vice-president
Mr. Thomas Morgl	Member
Andreas Dörhöfer	Member
Božidar Špan	Member

Supervisory Board	From 22 June 2010
Andreas Dörhöfer	President
Wolfgang Mőßlacher	Vice-president
Patrick Luger	Member
Stephan Holzer	Member
Meliha Povlakić	Member

Supervisory Board	From 17 September 2010
Rainer Sichert	President
Wolfgang Mőßlacher	Vice-president
Patrick Luger	Member
Stephan Holzer	Member
Meliha Povlakić	Member

1. GENERAL (CONTINUED)

Board of Directors	
Michel Vogt	General Manager (from 1 March 2010)
Petar Jurčić	General Manager (until 1 March 2010)
Mirzet Ribić	Deputy General Manager
Mirjana Prusina	Executive Manager (until 1 March 2010)
Thomas Karl Tomsich	Executive Manager
Jasna Gvoždar	Executive Manager

The global ultimate parent for the Bank, as well as for the Hypo Alpe-Adria-Bank International AG, Klagenfurt is the Government of the Republic of Austria.
The shareholding structure is as follows:

		31 December 2010		31 December 2009
	Paid capital	Ownership %	Paid capital	Ownership %
Hypo Alpe-Adria-Bank International AG, Klagenfurt	192,997	99.999	192,997	99.999
Small shareholders	3	0.001	3	0.001
Total	**193,000**	**100.00**	**193,000**	**100.00**

During 2010 the Hypo Alpe-Adria-Bank International AG, Klagenfurt increased the shareholders' equity of the Bank through an increase in reserves of KM 105 million. For that purpose the Bank did not issue additional shares.

The increase in capital reserves amounting to KM 150 million was based on Bank's Equity plan up to year 2012 which has been adopted by Supervisory board in 2010. The Bank received an approval from Federal Banking Agency for such increase.

Debt and/or equity instruments of the Bank are not traded in a public market and these financial statements are not under the regulative of the Security Commission for the purpose of issuing any class of instruments in a public market. Therefore, the Bank considers that it operates in a single business segment, and a single geographical segment, that is the provision of banking services in Bosnia and Herzegovina.

2. GOING CONCERN

The financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The ability of the Bank to continue as a going concern is dependent upon the continued funding and support from its shareholder Hypo Alpe-Adria-Bank International AG, Klagenfurt, Austria (the Parent) under the currently agreed financial terms. To this extent, the Parent has provided funding to the Bank to support its operations (see Notes 25, 27 and 30). This support includes agreeing not to seek repayment, other than originally contracted, of intercompany deposits made by them to the Bank for a period of at least 12 months from the date of the issuance of a letter of support from the Parent dated 27 January 2011.

Additionally, Hypo Alpe-Adria-Bank International AG increased shareholders' equity by KM 105,000 million in 2010.

3. ADOPTION OF NEW AND REVISED STANDARDS

3.1. Standards and Interpretations effective in the current period

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

- IFRS 1 (revised) "First-time Adoption of IFRS" (effective for annual periods beginning on or after 1 July 2009);
- IFRS 3 (revised) "Business Combinations" (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009);
- Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010);
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009);

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Bank's accounting policies.

3.2 . Standards and Interpretations in issue not yet effective

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010);
- Amendments to IFRS 7 "Financial Instruments: Disclosures"- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011);
- Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010);
- Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011);
- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011);
- IFRIC 19 "Extinguishing Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

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

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

As required by local legislation, the Bank prepares financial statements in accordance with International Financial Reporting Standards (IFRSs) as published by the International Accounting Standards Board and as modified by the regulatory requirements prescribed by the Banking Agency of Federation of Bosnia and Herzegovina (the FBA) with respect to the calculation of provision for impairment of financial instruments. The FBA rules require banks to calculate the allowance for impairment of financial assets based on a general provisions and matrix system, which is based on number of days overdue. This is not in accordance with IAS 39 'Financial Instruments: Recognition and Measurement', which requires assessment at each balance sheet date as to whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss should be measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

If the Bank has recorded allowances in accordance with International Accounting Standard 39, the allowance for loan losses as of 31 December 2010 would have decreased by KM 157,078 thousand, the retained earnings as of 1 January 2010 would have increased by KM 67,783 thousand and the loss before taxation for the year ended 31 December 2010 would have decreased by KM 89,295 thousand.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The financial statements are presented in thousands of convertible mark (KM'000) which is the functional currency of the Bank.

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 as at the balance sheet date and actual results could differ from those estimates.

The Bank has prepared these unconsolidated financial statements as required by Law of Federation of Bosnia and Herzegovina, and its investments in subsidiaries are presented in these financial statements at cost, less provision for impairment, if any. The Bank will also prepare consolidated financial statements, which will be approved by the Management Board. Bank's subsidiaries will be fully consolidated. For a better understanding of the Group as a whole, users should read the consolidated financial statements.

The Bank maintains its books of accounts and prepares financial statements for regulatory purposes in accordance with the regulations of the Federal Banking Agency ('FBA") and Law on Banks of the Federation of Bosnia and Herzegovina.

Equity investments

A subsidiary is an entity which is controlled by the Bank. 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.

Investments in subsidiaries in these financial statements are stated at cost less any impairment in the value of individual investment needed.

Financial information about investments in subsidiaries and associates are as follows:

	Total Assets	Share capital	Net result for 2010	Accumulated gains	Total Equity
Subsidiaries:					
Hypo Alpe-Adria-Invest d.o.o. Mostar	2,672	1,462	530	1,136	2,598
Hypo Alpe-Adria-Vrijednosnice d.o.o. Sarajevo	2,316	1,000	(164)	1,280	2,280

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 charged on deposits is added to the principal where this is foreseen by the agreement. Interest income is suspended when it is considered that recovery of the income is unlikely. Suspended interest is recognized as income when collected.

Fee and commission income and expense

Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for loans and other credit instruments issued by the Bank.

Fees for payment transactions are recognised in the period when services are rendered.

Loan origination fees, after approval and drawdown of loans, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan over its life.

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 profit differs from net profit as reported in the statement of comprehensive income 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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 realised. 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.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis.

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Central Bank ('CBBH') and current accounts with other banks. Cash and cash equivalents excludes the compulsory minimum reserve with the Central Bank as these funds are not available for the Bank's day to day operations. The compulsory minimum reserve with the CBBH is a required reserve to be held by all commercial banks licensed in Bosnia and Herzegovina.

Financial assets and liabilities

Financial assets are recognised and derecognised on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (Continued)

Financial assets are classified into the following specified categories: 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Method of effective interest rate

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for financial instruments: 'available-for-sale' and 'loans and receivables'.

Financial assets available for sale

Listed shares and listed redeemable notes held by the Bank that are traded in an active market are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in previous paragraphs. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available for sale equity instruments are recognised in profit or loss when the Bank's right to receive payments is established.

Impairment of financial assets other than loans

Financial assets, other than those at FVTPL if any, are assessed for indicators of impairment at each reporting period date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers. An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The Bank

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and receivabless (Continued)

prepares financial statements in accordance with IFRS as modified by the regulatory requirements prescribed by the FBA. The FBA rules require banks to calculate the allowance for impairment of financial assets based on a matrix system, which is based on number of days overdue. As addition to this, the Bank takes into the consideration performance of the borrower, any collateral or third party guarantees.

Management assesses the allowance for loan impairment every month in order to maintain an adequate allowance for impaired loans. The allowance for loan impairment is determined by applying prescribed loss percentages to aged loans, grouped by the numbers of days overdue. A loan becomes late as soon as a scheduled instalment is missed. The matrix used is as follows:

- or loans from 0-30 days late provisions are 2% from loan receivable outstanding,
- for loans from 31 - 50 days late provision are 5% from loan receivable outstanding,
- for loans from 51-70 days late provisions are 10% from loan receivable outstanding,
- for loans from 71-90 days late provisions are 15% from loan receivable outstanding,
- for loans from 91-120 days late provisions are 16% from loan receivable outstanding
- for loans from 121-140 days late provisions are 20% from loan receivable outstanding,
- for loans from 141-160 days late provisions are 30% from loan receivable outstanding
- for loans from 161-180 days late provisions are 40% from loan receivable outstanding,
- for loans from 181-210 days late provisions are 41% from loan receivable outstanding
- for loans from 211-230 days late provisions are 45% from loan receivable outstanding,
- for loans from 231-250 days late provisions are 50% from loan receivable outstanding,
- for loans from 251-270 days late provisions are 60% from loan receivable outstanding and
- for loans above 271 days late provisions are 100% from loan receivable outstanding.

Derecognition of financial assets

Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank continues to recognize the financial asset.

Financial liabilities

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

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 Provisions, Contingent Liabilities and Contingent Assets; or
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out at above.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities
Financial liabilities are classified as either financial liabilities"at FVTPL" or "other financial liabilities". The Bank creates one category of financial liabilities, for which basis of accounting is disclosed below.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities
The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expi-re.

Property and equipment
Property and equipment are started at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalised. Gains or losses on the retirement or disposal of property and equipment are included in the statement of income in the period in which they occur.

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable assets and based upon the application of the following annual percentages to historical costs:

	2010	2009.
Buildings	1.3%	1.3%
Office equipment	10-33.3%	10-33.3%
Vehicles	25%	25%
Software and other intangible assets	20%	20%

Impairment
At each reporting period date, the Bank reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

Impairment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

As of 31 December 2010 and 2009, respectively, property and equipment of the Bank were not impaired.

Employee benefits

During its normal operating activities, the Bank pays payroll taxes and contributions on behalf of its employees, as well as meal and vacation allowances according to the local legislation. These expenses are recognized in the income statement in the same period as the related salary costs.

According to the local legislation and internal Employment rulebook, the Bank makes retirement severance payments of minimum three average monthly salaries of the employee in question or three average salaries of the Bank paid in the period of the last three months, depending on what is more favourable to the employee.

Foreign currency translation

Transactions in currencies other than Bosnia and Herzegovina KM are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the balance sheet 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. Profits and losses arising on translation are included in the income statement for the period.

The Bank values its assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina valid at the date of balance sheet. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Bank's balance sheet at the reporting dates were as follows:

31 December 2010	EUR 1 = KM 1.95583	USD 1 = KM 1.472764
31 December 2009	EUR 1 = KM 1.95583	USD 1 = KM 1.364088

Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation. Management Board estimates the provisions based at the best estimate of expenditure to settle the Bank's obligation. The discounted amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into the account the risks and uncertainties surrounding the obligation.

Regulatory requirements

The Bank is subject to the regulatory requirements of the Federal Banking Agency. 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, interest rate and foreign currency position.

5. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATIONS

In the application of the Bank's accounting policies, which are described in note 4, the directors are 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.

6. GLOBAL MARKET CRISIS

The Bank has been impacted by the recent financial crisis and deteriorating economic conditions. Due to the current global crisis in the market and its effects on the local market in Bosnia and Herzegovina, the Bank expects to continue to operate in difficult and uncertain economic environment in 2011, and possibly beyond. The impact of this crisis on the Bank's business operations is currently not possible to fully predict and therefore there is an element of general uncertainty.

So far, the ongoing financial crisis has had an impact on the financial position and performance of the Bank, mainly due to the increased level of provisions for loan losses. The Bank monitors closely the credit, liquidity, interest rate and foreign exchange risks on a regular basis. The capital adequacy of the Bank is expected to remain at a current level, sufficient to continue the banking operations without any additional equity injections. Liquidity is also expected to be satisfactory without requiring new refinancing from the parent company for next 12 months. In case of additional financing needs, the Bank has appropriate arrangements with the parent company with regard to the provision of all necessary support measures.

The difficult economic situation in the country will probably continue to impact the position of certain industries and the abilities of some clients to meet their loan obligations. This may consequently influence the amount of the Bank's provisions for impairment losses in 2011 and other areas that require estimates to be made by management, including the valuation of collateral and of securities. The 2010 financial statements contain significant estimates with respect to impairment charges, collateral valuation and the fair value of securities. Actual results may differ from these estimates. The key priorities of the Management of the Bank in 2011 will be attention to the management of the financial portfolio adjusting to the changing economic environment and maintaining the Bank's position on the market.

7. INTEREST INCOME

	2010	2009
Interest on loans and advances to companies	69,533	94,862
Interest on loans and advances to individuals	51,210	62,460
Interest on balances due from other banks	1,562	2,217
Total	**122,305**	**159,539**

8. INTEREST AND SIMILAR EXPENSE

	2010	2009
Interest on amounts due to other banks	26,350	36,939
Interest on deposits from individuals	19,876	18,952
Interest on deposits from companies	11,829	14,829
Interest on borrowings and subordinated debt	4,284	5,098
Other	10	32
Total	**62,349**	**75,850**

9. FEE AND COMMISSION INCOME

	2010	2009
Fees from other services to individuals	6,491	6,522
Fees from other services to companies	6,270	6,472
Fees from issued guarantees	2,453	2,985
Fees from services to banks	1,544	1,000
Total	**16,758**	**16,979**

10. NET INCOME ON FINANCIAL OPERATIONS

	2010	2009
Foreign exchange gain, net	3,005	3,174
Income from dividends	7	7
Net income from sale of assets available for sale	-	25
Total	**3,012**	**3,206**

11. OTHER OPERATING INCOME

	2010	2009
Income from insurance company	4,749	-
Net income from rent	293	230
Net income from unused accounts - individuals	148	102
Net income from sale of repossessed collaterals	75	78
Net income from sale of fixed assets	-	163
Other income	609	653
Total	**5,874**	**1,226**

12. PERSONNEL EXPENSES

	2010	2009
Gross salaries	17,232	17,604
Other personnel expenses	1,784	1,610
Total	**19,016**	**19,214**

The average number of personnel employed by the Bank during the years ended 31 December 2010 and 2009 were 568 and 600, respectively.

13. GENERAL AND ADMINISTRATIVE EXPENSES

	2010	2009
Membership and other fees	5,750	5,946
Repairs and maintenance	3,653	3,762
Rent	3,167	3,170
Advertising, marketing and sponsorship	2,505	3,299
Consulting and legal fees	2,217	2,540
Utilities expenses	1,897	1,670
Security expenses	1,953	2,131
Consumables	1,012	1,059
Insurance	733	906
Other taxes and contributions	268	405
Entertainment expenses	169	213
Other expenses	656	634
Total	**23,980**	**25,736**

14. OTHER OPERATING EXPENSES

	2010	2009
Litigation losses	30	317
Loss on sold receivables - loans	-	2,688
Provision for restructuring costs (Note 28)	-	1,556
Total	**30**	**4,561**

15. IMPAIRMENT LOSSES

	2010	2009
Loans and advances to customers (Note 20)	178,224	72,568
Guarantees and other credit related commitments (Note 29)	(234)	(1,505)
Other assets (Note 23)	469	409
Placements with other banks (Note 19)	(277)	285
Total	**178,182**	**71,757**

16. INCOME TAX

Tax liability is based on accounting (loss) / income taking into the account non-deductible expenses and non-taxable income. Tax income rate for the years ended 31 December 2010 and 31 December 2009 was 10%.

Total tax recognised in income statement may be presented as follows:

	2010	2009
Current tax	-	-
Adjustment recognized in the current year in relation to the current tax of prior years	(60)	-
Deferred tax	173	1,406
Total tax	**113**	**1,406**

Adjustment between income tax presented in tax balance and accounting income tax is presented as follows:

	2010	2009
Loss before income tax	**(138,784)**	**(20,654)**
Temporary differences	4,266	6,026
Permanent differences	259	937
Taxable loss	**(134,259)**	**(13,691)**
Income tax at the rate of 10%	-	-
Income tax liability	**-**	**-**

In accordance with the Income tax Law, the taxable losses may be carried forward for the next 5 years against the future profits. As of 31 December 2010, the Bank has not recognised a differed tax assets related to losses incurred in 2010.

The movement in deferred tax may be presented as follows:

	31 December 2010	31 December 2009
Balance as at 1 January	**2,059**	**653**
Charge for the year	113	1,406
Balance as at 31 December	**2,172**	**2,059**

17. CASH AND DUE FROM BANKS

	31 December 2010	31 December 2009
Cash on clearing account at the Central Bank	95,397	145,494
Cash on hand	32,601	34,056
Current accounts with other foreign banks	18,739	8,416
Checks	64	94
Total	**146,801**	**188,060**

18. OBLIGATORY RESERVE AT THE CENTRAL BANK

	31 December 2010	31 December 2009
Minimum obligatory reserve with the Central Bank of Bosnia and Herzegovina	158,578	170,743
Total	**158,578**	**170,743**

Minimum obligatory reserve is calculated as 14% at 31 December 2010 and 14% as at 31 December 2009 of the average amount of deposits and borrowed funds in all currencies for each working day.

Interest rate on funds kept up to minimum obligatory reserve decreased from 0.5% to 0.2%. Cash held at the obligatory reserve account with the Central Bank of Bosnia and Herzegovina is not available for daily operations without specific approval from the Central Bank and the Federal Banking Agency.

19. PLACEMENTS WITH BANKS

	31 December 2010	31 December 2009
Short term deposits with banks registered in:		
OECD countries	63,718	82,269
Other countries	1,589	13,895
Total gross deposits due from other banks	*65,307*	*96,164*
Less: Provision for impairment	(120)	(348)
Total	**65,187**	**95,816**

As of 31 December 2010 and 2009, respectfully, the interest rates on placements with banks stated in EUR were 0.10% - 0.70% p.a and 0.10% - 2.40% p.a. and on placements stated in USD were 0.10% - 0.50% and 0.03% - 2.1% p.a.

Movements in provision for impairment may be summarized as follows:

	2010	2009
Balance as of 1 January	348	58
Changes in impairment losses (Note 15)	(277)	285
Foreign exchange gain	49	5
Balance as of 31 December	**120**	**348**

20. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2010	31 December 2009
Short-term loans:		
Current portion of long-term loans	420,539	311,143
Corporate	261,436	313,830
Retail	41,072	49,711
Total short-term loans	*723,047*	*674,684*
Long-term loans:		
Corporate	753,537	811,099
Retail	596,789	632,786
(Current portion of long-term loans)	(420,539)	(311,143)
Total long-term loans	*929,787*	*1,132,742*
Total loans before provision for impairment	1,652,834	1,807,426
Less: Provision for loan impairment	(262,948)	(123,179)
Total	**1,389,886**	**1,684,247**

The Bank's total aggregated credit risk exposure to the one or related party group of customers should not exceed 25% of total regulatory capital in accordance with the Law on Banks, Article 42.

As of 31 December 2010 the Bank breached those limits in respect of three related party groups' exposures. Related party groups have 3%, 0.4% and 0.1%, higher exposures, respectively than the regulated limits as of 31 December 2010.

Loans to customers are made principally within Federation of Bosnia and Herzegovina. Movements in provision for impairment may be summarized as follows:

	2010	2009
Balance as at 1 January	123,179	89,557
Impairment losses (Note 15)	178,224	72,568
Write-offs	(38,455)	(38,946)
Balance as at 31 December	**262,948**	**123,179**

An industry analysis of the portfolio of loans and advances to corporate customers before provision for impairment comprises of:

	31 December 2010	31 December 2009
Trade	420,807	440,306
Construction	247,923	279,202
Tourism, hotels and restaurants	106,616	124,667
Manufacturing companies and industry	81,450	96,756
Other	158,177	183,998
Total	**1,014,973**	**1,124,929**

Total amount of non-performing loans as at 31 December 2010 and 31 December 2009 was 507,991 KM thousand and 203,688 KM thousand, respectively.

20. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Weighted average loan interest rates are summarized as follows:

	31 December 2010	31 December 2009
Corporate	8.81%	8.94%
Retail	9.21%	9.88%

21. FINANCIAL ASSETS AVAILABLE FOR SALE

	31 December 2010	31 December 2009
Cenex Group d.j.l. Sarajevo	1,680	1,680
Visa Inc.	794	914
S.W.I.F.T SCRL	59	58
Uzajamni fond HYPO BH EQUITY	48	50
Kristal Konsalting A.D. Banja Luka	42	42
Fabrika duhana d.d. Sarajevo	16	25
Registry of Securities in the FBiH	25	18
Total	**2,664**	**2,787**

During 2010, the Bank recognized decrease in revaluation reserves related to securities available for sale of KM 130 thousand, net. Total revaluation reserve related to securities available sale amounts to KM (423) thousand as of 31 December 2010.

22. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries as of 31 December 2010 and 2009 are presented at cost.

	31 December 2010	31 December 2009
Hypo Alpe-Adria-Invest d.o.o. Mostar	2,711	2,711
Hypo Alpe-Adria-Vrijednosnice d.o.o. Sarajevo	1,000	1,000
Total	**3,711**	**3,711**

Name	Industry	Domicile	% held
Hypo Alpe-Adria Invest d.o.o.	Financial services	Bosnia and Herzegovina	100
Hypo Alpe-Adria Vrijednosnice d.o.o.	Financial services	Bosnia and Herzegovina	100

23. OTHER ASSETS

	31 December 2010	31 December 2009
Card operations	2,124	2,375
Prepaid income tax	1,783	1,528
Repossessed collaterals held for sale	825	636
Advances to suppliers	561	587
Receivables for sold assets	515	49
Office supplies	358	343
Fee and commissions receivable	73	58
Receivables for sold loans	-	13,604
Other assets	1,186	1,644
Total other assets	*7,425*	*20,824*
Less: Provision for impairment	(1,419)	(1,201)
Total	**6,006**	**19,623**

Movements in provision for impairment may be summarized as follows:

	2010	2009
Balance as of 1 January	1,201	826
Impairment losses (Note 15)	469	409
Write-offs	(251)	(34)
Balance as of 31 December	**1,419**	**1,201**

24. PROPERTY AND EQUIPMENT

	Land and buildings	Office equipment and vehicles	Construction in progress	Leasehold improvements	Software and other intangibles	Total
Cost value						
31 December 2008	**27,018**	**25,236**	**7,802**	**2,611**	**4,772**	**67,439**
Additions	275	-	22,990	155	-	23,420
Transfers from/to	21,717	2,533	(24,949)	128	571	-
Disposals	(187)	(2,727)	(7)	(1,111)	(10)	(4,042)
31 December 2009	**48,823**	**25,042**	**5,836**	**1,783**	**5,333**	**86,817**
Depreciation						
31 December 2008	**1,796**	**12,369**	**-**	**1,364**	**2,452**	**17,981**
Depreciation in 2009	563	3,700	-	455	975	5,693
Disposals	(14)	(2,676)	-	(741)	(10)	(3,441)
31 December 2009	**2,345**	**13,393**	**-**	**1,078**	**3,417**	**20,233**
Net book value: 31 December 2009	**46,478**	**11,649**	**5,836**	**705**	**1,916**	**66,584**

24. PROPERTY AND EQUIPMENT (CONTINUED)

	Land and buildings	Office equipment and vehicles	Construction in progress	Leasehold improvements	Software and other intangibles	Total
Cost value						
31 December 2009	**48,823**	**25,042**	**5,836**	**1,783**	**5,333**	**86,817**
Additions	34	-	10,260	3	-	10,297
Transfers from/to	393	960	(2,017)	343	321	-
Disposals	-	(2,635)	-	(11)	(163)	(2,809)
31 December 2010	**49,250**	**23,367**	**14,079**	**2,118**	**5,491**	**94,305**
Depreciation						
31 December 2009	**2,345**	**13,393**	**-**	**1,078**	**3,417**	**20,233**
Depreciation in 2010	637	3,285	-	334	1,014	5,270
Disposals	-	(2,606)	-	(11)	(163)	(2,780)
31 December 2010	**2,982**	**14,072**	**-**	**1,401**	**4,268**	**22,723**
Net book value: 31 December 2010	**46,268**	**9,295**	**14,079**	**717**	**1,223**	**71,582**

25. DUE TO OTHER BANKS

	31 December 2010	31 December 2009
Short-term deposits:		
In KM	1,381	1,372
In foreign currencies	1,137	1,044
Subtotal	*2,518*	*2,416*
Long-term deposits:		
In KM	13,900	13,900
In foreign currencies	598,822	947,432
Subtotal	*612,722*	*961,332*
Total deposits from banks	*615,240*	*963,748*
Long term loan from foreign bank	68,701	68,683
Total	**683,941**	**1,032,431**

Long term deposits as of 31 December 2010 and 2009, respectively, may be presented as follows:

	31 December 2010	31 December 2009
Hypo Alpe-Adria Bank International AG, Klagenfurt (term deposits for a period over 5 years)	568,384	755,865
Hypo Alpe-Adria Bank International AG, Klagenfurt (term deposits for a period from 3 to 5 years)	28,965	76,275
Hercegovačka banka d.d. Mostar (in provisional administration)	13,900	13,900
KIB Banka d.d. Velika Kladuša	1,473	1,364
Hypo Alpe-Adria Bank International AG, Klagenfurt (term deposits for a period from 1 to 3 years)	-	113,928
Total	**612,722**	**961,332**

Interest rates on long-term deposits from other banks ranged from EURIBOR+0.9% to EURIBOR+3.04% in 2010 and from EURIBOR+0.38% to EURIBOR+2.72% during 2009.

25. DUE TO OTHER BANKS (CONTINUED)

Long term deposits relate to deposits from Parent Company, Hypo Alpe-Adria Bank International AG, Klagenfurt, with the maturity for the period from one to three years, from three to five years and over five years.

Short-term deposits include one deposit from Parent company of KM 1,376 thousand as of 31 December 2010.

26. DUE TO CUSTOMERS

	31 December 2010	31 December 2009
Demand deposits from		
Individuals:		
In KM	75,343	73,758
In foreign currencies	91,478	91,463
Subtotal	*166,821*	*165,221*
Companies:		
In KM	156,754	178,319
In foreign currencies	31,246	26,659
Subtotal	*188,000*	*204,978*
Total demand deposits	**354,821**	**370,199**
Term deposits from		
Individuals:		
In KM	80,214	63,201
In foreign currencies	328,942	286,853
Subtotal	*409,156*	*350,054*
Companies:		
In KM	53,306	116,080
In foreign currencies	102,060	86,970
Subtotal	*155,366*	*203,050*
Total term deposits	**564,522**	**553,104**
Total	**919,343**	**923,303**

Interest rates for long-term deposits were in the range from 4.37% to 5.42% per annum and from 3.64% to 6.92% per annum as of 31 December 2010 and 2009, respectively.

27. SUBORDINATED DEBT

	31 December 2010	31 December 2009
Hypo Alpe-Adria Bank International AG, Klagenfurt	65,000	65,000
Total	**65,000**	**65,000**

27. SUBORDINATED DEBT (CONTINUED)

The subordinated debt from Hypo Alpe – Adria Bank International AG Klagenfurt as of 31 December 2010 is comprised of three long term deposits in total value of KM 65,000 million (EUR 33,234 thousand). As stated in contract, funds are deposited permanently from the day of payment, without repayment obligation.

Amount of KM 10 million (EUR 5,113 thousand) was deposited in July 2009. Interest rate is calculated based on 6 month EURIBOR + 10%.

Amount of KM 10 million (EUR 5,113 thousand) was deposited in June 2008. Interest rate is calculated based on 6 month EURIBOR + 6%.

Amount of KM 25 million (EUR 12,782 thousand) was deposited in September 2007. Interest rate is calculated based on 6 month EURIBOR + 2.63%.

Amount of KM 20 million (EUR 10,226 thousand) was deposited in July 2007. Interest rate is calculated based on 6 month EURIBOR + 2.63%.

As per approval from Federal Banking Agency, subordinated debt may be used as additional capital for regulatory purposes.

28. OTHER LIABILITIES

	31 December 2010	31 December 2009
Payments in transit	10,498	13,092
Accrued expenses	5,562	3,176
Provision for restructuring	1,067	1,556
Liabilities to employees for salaries	1,361	1,373
Other liabilities to employees	1,270	1,253
Liabilities for card operations	1,231	1,231
Accrued bonuses	969	932
Liabilities to vendors	460	761
Membership and other fees	952	645
Other tax liabilities	834	533
Provision for litigation losses	30	317
Exercised guarantees	150	216
Difference in managed funds (Note 32)	20	25
Other liabilities	1,608	1,517
Total	**26,012**	**26,627**

The amount of other liabilities to employees includes provisions for compensations to employees, which include provisions for annual vacation and severance payments amounting to KM 1,270 thousand (2009: KM 1,253 thousand).

Movement of provisions can be summarized as follows:

Balance as at 31 December 2008	**1,435**
Release of provisions	(182)
Balance as at 31 December 2009	**1,253**
Increase of provisions	17
Balance as at 31 December 2010	**1,270**

29. FINANCIAL COMMITMENTS AND CONTINGENCIES

	31 December 2010	31 December 2009
Payment guarantees	39,130	42,608
Unused loan facilities	97,490	119,369
Letters of credit	2,590	1,892
Performance guarantees	10,338	15,152
Total	**149,548**	**179,021**
Provision for credit commitments and contingencies	4,062	4,239

Movements in provision for financial commitments and contingencies may be summarized as follows:

	2010	2009
Balance as of 1 January	4,239	5,744
Changes in provisions (Note 15)	(234)	(1,505)
Foreign exchange effects	57	-
Balance as of 31 December	**4,062**	**4,239**

30. RELATED-PARTY TRANSACTIONS

Related parties, as defined by IAS 24, are those counter parties that represent:

- enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
- key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

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

30. RELATED-PARTY TRANSACTIONS (CONTINUED)

	31 December 2010	31 December 2009
Receivables		
Placements with the parent company	11,055	32,242
Placements with other related parties	4,252	16,277
Receivables from subsidiaries	6	1
Receivables from other related parties	233	288
Receivables for sold loan	-	13,604
Other receivables	1	16
Total	**15,547**	**62,428**
Payables		
Deposits from the parent company	598,818	946,219
Subordinated debt from parent company	65,000	65,000
Deposits from other banks members of the Group	1,049	1,026
Deposits from other related parties	3,259	55,366
Deposits from subsidiaries	4,262	3,611
Other liabilities to the parent company	351	347
Other liabilities to other related parties	367	307
Total	**673,106**	**1,071,876**

	2010	2009
Income		
Interest income from the parent company	21	58
Interest income from other related parties	21	110
Other income from subsidiaries	61	4
Fee income from the parent company	14	15
Fee income from other related parties	100	115
Total	**217**	**302**
Expense		
Interest expense to the parent company	29,082	39,276
Interest expense to subsidiaries	102	115
Interest expense to other related parties	3,208	2,995
Administrative expenses to other related parties	1,745	1,577
Administrative expenses to the parent company	1,086	814
Other expenses to other related parties	7,622	2,621
Commission fee to other related parties	207	248
Commission fee to the parent company	3,107	1,672
Total	**46,159**	**49,318**

All of the transactions stated above have been made under arm's-length commercial banking conditions.

30. RELATED-PARTY TRANSACTIONS (CONTINUED)

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

	2010	2009
Compensations for the Management and Supervisory Board	442	316
Taxes and contributions on compensations	265	232
Bonuses and other compensations	-	60
Taxes on bonuses and other compensations	-	48
Total	**707**	**656**

31. ESTIMATED FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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, the fair value is based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank'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. Therefore, the calculated fair market estimates may not be realisable in a current sale of the financial instrument.

It is the opinion of the Management of the Bank that the fair value of the Bank financial assets and liabilities are not materially different from the amounts stated in the balance sheets as at 31 December 2010 and 31 December 2009. In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used.

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flows analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Analyses of financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 as follows:

Level 1 – fair value measurements for those derived from quoted prices in active market;

Level 2 – fair value measurements for those derived from inputs other then quoted prices included in level 1;

Level 3 – fair value measurements for those derived from valuation techniques that are not based on observable market data.

As of 31 December 2010 and 2009, the Bank's financial instruments related to Level 1 such as available-for-sale assets amounting to KM 2,664 thousand and KM 2,787 thousand, respectively. The Bank has no level 2 and 3 financial instruments as of 31 December 2010 and 2009, respectively.

For loans and receivables, as described in Note 4, the Bank assessed indicators for impairment by applying the loss percentages to aged loans, grouped by the number of days overdue as defined by FBA.

32. MANAGED FUNDS

The Bank manages assets on behalf of third parties. These assets are recorded separately from the Bank's assets. For its services, the Bank charges a fee amounting to 1% of the total amount contributed.

	31 December 2010	31 December 2009
Assets		
State institutions	824	966
Total	**824**	**966**
Liabilities		
Loans to citizens	20	66
Legal entities	824	925
Total	**844**	**991**
Differences (Note 28)	**20**	**25**

The Bank has not issued any guarantees related to managed funds.

33. INTEREST RATE RISK

The Bank is exposed to interest rate risk at the both fixed and floating interest rates. There are two main aspects of influence of interest rates concerning bank's exposure to above mentioned risk: income effect with primary focus on influence of change in interest rate to short term income and economic effect with primary focus in measuring of net cash flows of the bank, meaning influence to economic value. This risk is managed by the Group by maintaining an appropriate mix between fixed and floating rates.

Derivatives of interest rate risk

- Reprising risk. This risk is presented due to different periods of maturity (for fixed interest rates) and different periods of reprising and due to changes of interest rates (for variable interest rates) to interest sensitive positions of assets, liabilities and off balance evidence of the bank.
- Yield curve risk. Inconsistency with so called reprising can cause changes in trends and forms of yield curve. Interest yield curve represents graphic presentation of ratio of maturity time one kind of financial instrument and yield of that instrument. Yield curve risk rise with unexpected changes in yield curve and it has unfavorable influence on bank's income or above mentioned economic value.
- Basis risk. This risk is presented due to imperfections of market, meaning it comes from differences in periodicity, size or direction of changes of different interest bases which are based on different positions of assets, liabilities and off balance with similar pricing characteristics.
- Option risk. Option risk is presented by option that is embedded in some assets, liabilities and off balance of the bank.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank's:

33. INTEREST RATE RISK (CONTINUED)

Interest rate sensitivity analysis (Continued)

- Profit for the year ended 31 December 2010 would decrease/increase by KM 12,343 thousand (2009: decrease/increase by KM 4,997 thousand). This is mainly attributable to the Bank's exposure to interest rates on its variable rate for borrowings.

34. FOREIGN CURRENCY BALANCE SHEET AND FOREIGN CURRENCY RISK

The Bank undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts. The carrying amounts of the Bank's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2010	2009	2010	2009
EUR	48,102	32,532	810,729	1,043,172
USD	42,041	47,348	41,561	47,151
CHF	7,951	41,481	369,513	417,428
Other currencies	5,183	4,353	4,291	4,183

Sensitivity analysis on foreign currencies

The Bank is mainly exposed to EUR, USD and CHF. The local currency KM is pegged to EUR fixed rate, therefore no risk related to the portfolio denominated in EUR has been identified.

The following table details the Bank's sensitivity to a 10% increase and decrease in KM against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Bank where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

A positive number below indicates an increase in profit and other equity where KM strengthens 10% against the relevant currency. For a 10% weakening of KM against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	USD Effect		CHF Effect	
	2010	2009	2010	2009
Effects of 10%, increase / (decrease)	4	8	16	131

34. FOREIGN CURRENCY BALANCE SHEET AND FOREIGN CURRENCY RISK (CONTINUED)

Sensitivity analysis on foreign currencies (Continued)

	KM	EUR	USD	CHF	Other currencies	Total
ASSETS						
Cash and due from banks	113,474	18,912	2,934	7,950	3,531	146,801
Obligatory reserve	158,578	-	-	-	-	158,578
Placements with other banks	-	25,376	38,280	-	1,531	65,187
Loans and receivables	1,387,800	2,086	-	-	-	1,389,886
Assets available for sale	1,811	59	794	-	-	2,664
Other financial assets	4,182	1,669	33	1	121	6,006
Total financial Assets (1)	**1,665,845**	**48,102**	**42,041**	**7,951**	**5,183**	**1,769,122**
LIABILITIES						
Due to other banks	15,281	301,890	1,473	365,297	-	683,941
Due to customers	365,601	506,346	40,057	3,151	4,188	919,343
Subordinated debt	65,000	-	-	-	-	65,000
Other financial liabilities	22,320	2,493	31	1,065	103	26,012
Total financial Liabilities (2)	**468,202**	**810,729**	**41,561**	**369,513**	**4,291**	**1,694,296**
Balance gap as at 31 December 2010, net (1) - (2)	**1,197,643**	**(762,627)**	**480**	**(361,562)**	**892**	**74,826**
Total assets as of 31 December 2009 (3)	2,035,562	32,532	47,348	41,481	4,353	2,161,276
Total liabilities as of 31 December 2009 (4)	535,427	1,043,172	47,151	417,428	4,183	2,047,361
Balance gap as at 31 December 2009, net (3) – (4)	**1,500,135**	**(1,010,640)**	**197**	**(375,947)**	**170**	**113,915**

35. LIQUIDITY RISK

The ultimate responsibility for liquidity risk management lies with the Management Board, which has created an adequate framework for the management of liquidity risk to be used for the management of long-, mid- and short-term needs for the management of the Bank's liquidity. The Bank manages this type of risk by maintaining adequate reserves, loans from other banks and other sources of financing, by constantly monitoring the projected and actual cash flows and by comparing maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Bank's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The table includes both interest and principal cash flows.

35. LIQUIDITY RISK (CONTINUED)

Liquidity and interest risk tables (Continued)

	Weighted average effective interest rate %	Less than 1 month KM	1-3 months KM	3 months to one year KM	1 to 5 years KM	+5 years KM	Total KM
2010							
Non-interest bearing	-	26,030	-	-	-	-	**26,030**
Variable interest rate instruments	1.97	43,427	26,112	109,236	531,033	172,304	**882,112**
Fixed interest rate instruments	4.53	33,218	73,009	335,628	177,861	170,749	**790,465**
		102,675	**99,121**	**444,864**	**708,894**	**343,053**	**1,698,607**
2009							
Non-interest bearing	-	34,951	-	-	-	-	**34,951**
Variable interest rate instruments	3.58	46,704	33,948	198,430	936,527	361,812	**1,577,421**
Fixed interest rate instruments	4.78	52,076	44,196	265,994	74,392	1,000	**437,658**
		133,731	**78,144**	**464,424**	**1,010,919**	**362,812**	**2,050,030**

The following tables detail the Bank's remaining contractual maturity for its undiscounted financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Bank anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month KM	1-3 months KM	3 months to one year KM	1 to 5 years KM	+5 years KM	Total KM
2010							
Non-interest bearing	-	10,156	-	-	-	-	**10,156**
Variable interest rate instruments	5.87	362,563	66,130	194,713	495,113	381,282	**1,499,801**
Fixed interest rate instruments	7.10	197,559	3,652	16,366	39,669	14,642	**271,888**
		570,278	**69,782**	**211,079**	**534,782**	**395,924**	**1,781,845**
2009							
Non-interest bearing	-	66,974	-	-	-	-	**66,974**
Variable interest rate instruments	7.04	457,669	77,084	255,023	582,211	484,694	**1,856,681**
Fixed interest rate instruments	3.25	209,488	5,559	21,762	58,087	15,582	**310,478**
		734,131	**82,643**	**276,785**	**640,298**	**500,276**	**2,234,133**

35. LIQUIDITY RISK (CONTINUED)

Liquidity and interest risk tables (Continued)

The Bank has access to sources of financing with total unused amount of KM 6,729 thousand at the balance sheet date. The Bank expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The Bank expects to maintain its debt to capital ratio. Solvency indicators were as follows:

	31 December 2010	31 December 2009
Debt (i)	1,603,284	1,955,734
Equity (ii)	213,229	247,032
%	**7.52**	**7.92**

Debt (i) is defined as due to banks and due to customers presented in detail in notes 25 and 26. Capital (ii) includes total capital, Bank's reserves and subordinated debt.

The adequacy of capital and its use is monitored by the Board of Directors using techniques based on the Decisions of the Banking Agency of the Federation of Bosnia and Herzegovina (''the Regulator"). Information is supplied to the Regulator on a quarterly basis. The Regulator places the following demands on all banks:

1. Minimum ownership capital of KM 15 million.
2. Maintaining capital adequacy (''Basel Indicator") at the legally required minimum of 12%. As of 31 December 2010 the adequacy of the Bank's capital amounts to 13% (2009: 13.7%).

36. CREDIT RISK

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Bank prepares financial statements in accordance with IFRS as modified by the regulatory requirements prescribed by the Banking Agency of FBiH. The FBA rules require banks to calculate the allowance for impairment of financial assets based on matrix system, which is namely based on number of days overdue.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. The lending limits are annually reviewed and approved by Assets and Liabilities Committee.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Bank's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The Bank does not have any significant credit risk exposure to any single counterparty. The Bank defines counterparties as having similar characteristics if they are related entities.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Bank's maximum exposure to credit risk without taking account of the value of any collateral obtained.

36. CREDIT RISK (CONTINUED)

Financial Assets

	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Provisions for loses	Total net carrying amount
31 December 2010					
Cash and balances with other banks	305,379	305,379	-	-	305,379
Placements with Banks	65,164	-	65,307	(120)	65,187
Loans and advances to customers	1,652,834	807,774	845,060	(262,948)	1,389,886
Financial assets available for sale	2,664	2,664	-	-	2,664
Total	**2,026,041**	**1,115,817**	**910,367**	**(263,068)**	**1,763,116**
31 December 2009					
Cash and balances with other banks	358,803	358,803	-	-	358,803
Placements with Banks	96,164	-	96,164	(348)	95,816
Loans and advances to customers	1,807,426	1,213,014	594,412	(123,179)	1,684,247
Financial assets available for sale	2,787	2,787	-	-	2,787
Total	**2,265,180**	**1,574,604**	**690,576**	**(123,527)**	**2,141,653**

Loan exposure and collaterals

The Bank estimates the fair value of collateral based on recoverable amount of collateral in case that collateral needs to be liquidated under the current market conditions. Different types of collateral bear different level of risks for the Bank.

	Maximum loan exposure		Fair value of collateral	
Description	Net exposure	Liabilities/issued guarantees	Allowed sale/ new collateral	Not allowed sale/ new collateral
31 December 2010				
Cash and balances with other banks	305,379	-	-	-
Placements with Banks	65,187	-	-	-
Loans and advances to customers	1,389,886	149,548	1,250,204	-
Financial assets available for sale	2,664	-	-	-
31 December 2009				
Cash and balances with other banks	358,803	-	-	-
Placements with Banks	95,816	-	-	-
Loans and advances to customers	1,684,247	179,021	1,346,673	
Financial assets available for sale	2,787	-	-	-

37. BASIC LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss attributable to ordinary shareholders by weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares. For the purpose of calculating basic earnings per share, preferred shares are considered as ordinary shares as they do not bear preferential dividend right.

37. BASIC LOSS PER SHARE (CONTINUED)

	2010	2009
Loss attributable to ordinary shareholders (KM '000)	(138,671)	(19,248)
Weighted average number of regular shares outstanding	482,500	458,048
Basic loss per share (KM)	**(287.40)**	**(42.02)**

Diluted earnings per share are not presented, as the Bank has not issued dilutive or ant dilutive equity instruments.

38. EVENTS AFTER THE BALANCE SHEET DATE

The Bank decided to merge with the 100% owned subsidiary Hypo Alpe-Adria-Vrijednosnice d.o.o. Sarajevo. As of 1st February 2011, Hypo Alpe-Adria-Vrijednosnice d.o.o. Sarajevo has been merged with the Bank and consequently all assets and liabilities have been transferred to the Bank as of respective date.

39. APPROVAL OF THE FINANCIAL STATEMENTS

These separate financial statements were approved by the Management Board on 10 March 2011.

Signed on behalf of the Management Board:

Michael Vogt
General Manager

Željka Puljić
Head of Accounting

Bank Central

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This annual report has been prepared with great care and the information it contains has been checked. The possible occurrence of rounding errors, typesetting and printing errors, and errors in expression can however not be precluded. The English language report is a translation.