# PRIVREDNA BANKA ZAGREB

## Annual Report | 2009

PBZ, a bank of INTESA SANPAOLO

PBZ

# Annual Report 2009

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# Who we are and what we do

We are the leading Croatian financial services Group engaged in retail and corporate banking, credit cards, investment banking, asset management, private banking, leasing and real estate activities and investment management services.
We operate in entire area of Croatia and employ over 4 thousand people.
Our mission is to make a permanent and effective use of all resources at our disposal to continuously improve all aspects of our business activities, including human resources, the technology and the business processes.
Our vision is to be the model company and the center of excellence in creating new values, as well as in providing high-quality service in all of our activities to the benefit of our clients, the community, our stakeholders and employees.

* Comprises customers deposits, assets under management and in custody

1,538 thousand
TOTAL CUSTOMERS

HRK 47.4 billion
TOTAL CUSTOMER LOANS

697 thousand
CURRENT ACCOUNTS

HRK 9.6 billion
TOTAL HOUSING LOANS

HRK 54.0 billion
TOTAL CUSTOMER FUNDS*

2,182 thousand
TOTAL CARDS ISSUED

HRK 2.1 billion
ASSETS UNDER MANAGEMENT

24,078
EFT POS

274 thousand
INTERNET BANKING USERS

639
ATM MACHINES

224
TOTAL BRANCHES

91
DAY AND NIGHT VAULTS

# Introduction

The Management Board of Privredna Bank Zagreb d.d. has the pleasure of presenting its Annual report to the shareholders of the Bank. This comprises summary financial information, management reviews, the audited financial statements and accompanying audit report, supplementary forms required by local regulation and unaudited supplementary statements in EUR. Audited financial statements are presented for the Bank and the Group.

## Croatian and English version

This document comprises the Annual Report of Privredna Bank Zagreb d.d. for the year ended 31 December 2009 expressed in English. This report is also published in Croatian for presentation to shareholders at the Annual General Meeting.

## Legal status

The Annual Report includes the annual financial statements prepared in accordance with International Financial Reporting Standards and audited in accordance with International Standards on Auditing.
The Annual Report is prepared in accordance with the provisions of the Companies Act and the Accounting Law, which require the Management Board to report to shareholders of the company at the Annual General Meeting.

## Abbreviations

In this Annual Report, Privredna Bank Zagreb d.d. is referred to as "the Bank" or "PBZ" or as "Privredna Bank Zagreb", and Privredna Bank Zagreb d.d., together with its subsidiary undertakings are referred to collectively as "the Group" or "the Privredna Bank Zagreb Group".
The central bank, the Croatian National Bank, is referred to as "the CNB". The European Bank for Reconstruction and Development is referred to as "EBRD".
In this report, the abbreviations "HRK thousand", "HRK million", "USD thousand", "USD million" and "EUR thousand" or "EUR million" represent thousands and millions of Croatian kunas, US dollars and Euros respectively.

## Exchange rates

The following mid exchange rates set by the CNB ruling on 31 December 2009 have been used to translate balances in foreign currency on that date:

| | | |
|---|---|---|
| CHF 1 | = | HRK 4.909420 |
| USD 1 | = | HRK 5.089300 |
| EUR 1 | = | HRK 7.306199 |

# Five year summary and financial highlights

(in HRK milion)

| Group | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Income statement and statement of financial position** | | | | | |
| Total gross revenue | 5,881 | 6,001 | 5,350 | 4,519 | 3,936 |
| Net interest income | 2,060 | 2,185 | 1,918 | 1,714 | 1,583 |
| Net operating income | 3,599 | 3,697 | 3,405 | 3,039 | 2,688 |
| Net profit for the year | 960 | 1,242 | 1,141 | 963 | 814 |
| Total assets | 71,541 | 71,227 | 67,550 | 61,974 | 51,810 |
| Loans and advances to customers | 47,373 | 46,032 | 40,147 | 36,910 | 28,640 |
| Due to customers | 45,049 | 44,591 | 43,099 | 36,843 | 32,391 |
| Shareholders' equity | 10,600 | 9,611 | 8,503 | 7,625 | 4,820 |
| | | | | | |
| **Other data (as per management accounts)** | | | | | |
| Return on average equity | 10.09% | 14.84% | 15.45% | 18.79% | 21.22% |
| Return on average assets | 1.29% | 1.71% | 1.73% | 1.72% | 1.73% |
| Assets per employee | 17.2 | 15.7 | 15.3 | 14.8 | 12.4 |
| Cost income ratio | 47.18% | 49.78% | 50.51% | 50.96% | 53.47% |

| Bank | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Income statement and statement of financial position** | | | | | |
| Total gross revenue | 4,913 | 4,851 | 4,263 | 3,652 | 3,341 |
| Net interest income | 1,799 | 1,941 | 1,697 | 1,535 | 1,425 |
| Net operating income | 2,792 | 2,774 | 2,474 | 2,270 | 2,149 |
| Net profit for the year | 927 | 1,100 | 932 | 847 | 750 |
| Total assets | 64,519 | 63,740 | 61,974 | 55,906 | 48,553 |
| Loans and advances to customers | 42,289 | 41,715 | 36,436 | 33,572 | 26,687 |
| Due to customers | 41,903 | 40,935 | 39,875 | 33,491 | 30,004 |
| Shareholders' equity | 9,802 | 8,870 | 7,847 | 7,114 | 4,433 |
| | | | | | |
| **Other data (as per management accounts)** | | | | | |
| Return on average equity | 10.45% | 13.94% | 13.35% | 17.28% | 20.00% |
| Return on average assets | 1.41% | 1.69% | 1.56% | 1.66% | 1.72% |
| Assets per employee | 18.1 | 17.1 | 17.1 | 16.2 | 13.7 |
| Cost income ratio | 44.49% | 46.79% | 48.90% | 48.79% | 51.36% |

# Report from the President of the Supervisory Board

On behalf of the Supervisory Board of Privredna banka Zagreb, it is my honour to present the business results of the Bank and the Group for 2009. It was a very solid year for Privredna banka Zagreb and its Group in terms of financial results, market positioning and strengthening the capital base. This performance was achieved in very challenging market condition which was under extreme stress in late 2008 and early 2009, accompanied with acute shortages of liquidity in that period. In the later part of 2009, the issue with tight liquidity abated but the credit worthiness of a number of debtors deteriorated.
These events exerted significant pressure on interest margins and led to increased provisions for loan losses throughout the industry. Quality of assets and risk management in general became the top priorities for banks and other financial institutions.
Adverse conditions on the credit and liquidity markets, accompanied by the negative sentiment of global financial system from 2008, led to a deep global downturn and recession in 2009. Past year was characterised by a decline in economic activity throughout the world. Growth was mainly negative, especially in the first part of the year, which was caused by weak consumption and the erosion of purchasing power.
The second part of the year witnessed acceleration in global production and trade. This was largely the result of unprecedented fiscal and monetary stimulus of the most significant and advanced economies.
The present crisis has had a heavy impact on the Croatian economy as well. In the first 3 quarters of 2009, the Croatian economy achieved negative growth of -6.2 percent, due to a significant slowdown in personal consumption and investments.
Overall 2009 the annual growth estimate of the real GDP rate appears to be close to -5.8 percent. Moreover, our forecasted growth rate for 2010 points to a negative rate of -0.5 percent.

Notwithstanding such a difficult and challenging environment, the PBZ Group managed to achieve very positive results for 2009. I am truly proud on the strength and resiliency we have proven in such an unfavourable circumstances. We again succeeded in meeting our goals and increasing the value of our shareholders.
Total gross revenue for the PBZ Group reached almost HRK 5.9 billion which is just slightly below the mark recorded in 2008. Consolidated net operating income amounted to HRK 3.6 billion whilst net profit was HRK 960 million. Our cost/income ratio, a key measure of our efficiency, again decreased and closed well below 50 percent, while the ROAE reached 10.1 percent. These are satisfactory figures since they represent a consistently strong performance over the past five years.
In 2009, the PBZ Group further reinforced its position as one of Croatia's foremost banks in terms of productivity, returns and value creation for its shareholders. We are the second largest group in the country, with a strong customer base of nearly 1.6 million, over 697 thousand current accounts and 224 branches.
Looking ahead, we expect the markets in which we operate to be characterised by the slow growth of loans and deposits, but with a rise in non-performing loans. Accordingly, a renewed focus by the management and the Board on managing asset quality, enhancing and strengthening the Bank's liquidity and active monitoring of operating costs, will be crucial. Our future at Privredna banka Zagreb, as well as the entire PBZ Group, depends on developing our business for the benefit of everyone: clients, investors, employees and other stakeholders. We are certain that we have taken all the necessary measures to maintain value creation for our shareholder but also to take care of the needs of other stakeholders. We are convinced that the strength of our platform, combined with the right business model, enables PBZ to face the future with confidence.

First, on behalf of the Supervisory Board let me extend my gratitude and appreciation to all employees of the Group for their commitment and valued contribution. The management of Privredna banka Zagreb enjoys full confidence of the shareholders. On behalf of the Supervisory Board, I would like to thank them for their strong leadership and outstanding performance. Finally, I want to express my great appreciation of the work of my former and new colleagues on the Supervisory Board, as well as of the Audit Committee members, for their wise counsel and contribution.

**Report on the performed supervision in the year 2009**

In 2009 the Supervisory Board of the Bank performed its duties in conformity with the law, the Articles of Association of the Bank as well as the Rules of Procedure of the Supervisory Board of the Bank.

During 2009, the Supervisory Board held 4 regular meetings and 11 meetings by letter in order to make decisions as quickly as possible on the issues that had to be resolved without delay. In order to prepare for the decisions that fall within its competence and supervision of the implementation of already adopted decisions, the Supervisory Board of the Bank was provided with the assistance of the Audit Committee, which regularly reported on its work at the meetings of the Supervisory Board. In 2009 the Audit Committee held 5 meetings at which it monitored processes under its responsibility.

In conformity with its legal obligation, the Supervisory Board of the Bank has examined the Annual financial statements and consolidated annual financial statements of the Bank for 2009, the report on the operations of the Bank and its subsidiaries, and the draft decision on the allocation of the Bank's profit earned in 2009, that were all submitted to it by the Management Board of the Bank. The Supervisory Board had no comments to make on the reports submitted.

In that respect, the Supervisory Board established that the annual financial statements and consolidated annual financial statements were prepared in accordance with the balances recorded in the business books and that they fairly disclosed the assets and the financial condition of the Bank and the PBZ Group, as was confirmed also by the external auditor Ernst & Young d.o.o., Zagreb, which audited the financial statements for 2009.

Since the Supervisory Board has given its consent regarding the annual financial statements and consolidated annual financial statements of the Bank for 2009, thee financial statements are considered to have been confirmed by the Management Board and by the Supervisory Board of Privredna banka Zagreb pursuant to the provisions of Art. 300.d of the Companies Act.

The Supervisory Board of the Bank accepted the report of the Management Board on the operation of Privredna banka Zagreb and its subsidiaries and it agreed that HRK 323,171,632.00 of the Bank's net profit totalling HRK 926,579,910.54, earned in the year ending on 31 December 2009, should be distributed by a pay-out of dividends whilst the remainder should be allocated to retained earnings.

Respectfully,

30 March 2010
Dr. György Surányi

# Management Board report of the Status of the Bank



**Dear shareholders,**

It was a very challenging and difficult year. In environment of global economic weakness, distressed financial and banking sectors as well as economic contraction throughout the world, including Croatia, Privredna banka Zagreb stood out in 2009 for its strength and capacity to overcome challenges.

We can be proud of results achieved in past year. I believe that in 2009 endurance of banking business models were put to the test. Only those banks with a long-term vision, sound business models and reliable strategic partners, such as Intesa Sanpaolo and the EBRD, coped with the pressure and secured continuity.

In that context, dear shareholders, I am proud of our results in 2009, which will be remembered as one of the toughest in modern banking history, at least in our region of Central and Eastern Europe.

## Unconsolidated financial results of the Bank

In 2009, PBZ recorded a net profit of HRK 927 million, which represents a decrease of 15.7 percent compared to the previous year.

The decline in net profit, as well as in some other key performance indicators for profitability, was caused by the harsh economic developments in Croatia. The fall in personal consumption and investment preceded by the abrupt and noticeable slowing down of credit activity led to a recession and negative GDP growth rate in Croatia. Such an unfavourable business environment, accompanied by tight liquidity in the first quarter of 2009 contributed to a 7.3 percent decrease in net interest income compared to 2008.

Although our operating income reached the level of the year before, recording a small increase of only 0.6 percent, the steep rise in loan loss provisions adversely impacted the bottom line. The increase in non-performing loans, as well as restructured loans, was persistent and steady throughout the year. PBZ approached this issue conservatively and recognised provisions suitably based on the best banking practices and in accordance with the International Financial Reporting Standards. We are certain that our loan portfolio is adequately valued.

Other items of the income statement are equal to the previous levels or even show some improvements. Our net fee and commission income slightly outdid the level of 2008 due to be tter containment of fee and commission expense. Other operating income was notably higher due to net gains from debt securities and foreign exchange positions. In addition to the income side of the ledger, our operating expenses were well-contained and kept in check. Through carefully managing costs, in line with our strategic plan, we were able to improve our cost to income ratio to 44.5 percent, a noticeable decrease from 46.8 percent in 2008.

Return on average equity was 10.5 percent and return on average assets reached the very reasonable level of 1.4 percent.
The total balance sheet of the Bank increased moderately by 1.2 percent to HRK 64.5 billion. This was not surprising given the lack of investments and significant slowdown in credit lending in general in Croatia. The structure of our balance sheet provides evidence of repositioning and optimisation. The emphasis was on strengthening liquidity and identifying specific financial instruments for which market conditions in the first semester of 2009 no longer permitted active management. In that context, the Bank reclassified selected bonds and commercial papers amounting to HRK 2.1 billion, from fair value measurement portfolios to loans and receivables, measured at amortised costs.
Mostly due to this reclassification, the Bank's loans and receivables portfolio registered an increase of 1.4 percent and thus reached HRK 42.3 billion.
Moderate growth in assets was supported by an equal increase in customer deposits, largely retail. Total deposits in 2009 rose by 2.4 percent. If we consider the total structure of the balance sheet, customer deposits account for 65 percent.
The total loan to deposit ratio of the Bank equalled 100.9 percent at the end of 2009, which underlines the stability and conservative nature of our business.
Shareholders' equity amounted to HRK 9.8 billion, which is an increase of almost HRK 1 billion compared to 2008. Our total capital ratio at the end of the year stood at 16.2 percent, which enhances the good financial standing of the Bank.

## Consolidated financial results of the Bank

Our consolidated net profit for 2009 amounted to HRK 960 million, a decrease of 23.1 percent compared to 2008. The result achieved was the result of lower net interest income of 5.7 percent and lower net fee and commission income of 5.3 percent due to lower volumes of transactions related to payments as well as credit and debit cards. However, consolidated net non-interest income as proportion of total operating income showed a noticeable improvement, reaching 42.8 percent as opposed to 41 percent in 2008.
Almost all the financial indicators show lower but still solid achievements in terms of the financial performance of the Group. The return on average equity in the consolidated financial statements was 10.1 percent, while earnings per share decreased from HRK 65.3 a share in 2008 to HRK 50.5 a share in 2009. Assets per employee showed constant growth by reaching the new level of HRK 17.2 million, whereas the cost to income ratio, on the basis of the consolidated financial statements, was again below the 50 percent mark (47.2 percent).
As in the case of Bank-only financial statements, the Group also recorded higher amounts of loan loss provisions. This increase in provisions was evidenced in all our business segments and is a direct reflection of the current status of economic developments in the country.
The balance sheet of the PBZ Group remained virtually unchanged at HRK 71.5 billion. This was mainly the result of the stagnant loan portfolio, which nominally rose by 2.9 percent due to reclassification of debt securities from fair value measurement portfolios to loans and receivables. In real terms and net of provisions, the Group's loan book would have declined had there been no effect from the reclassification of debt securities from other portfolios.
PBZ Group recorded a slight increase in term deposits from customers, of 1.03 percent, notably retail, whilst deposits from banks and other borrowed funds marginally decreased due to normal repayments of funds received and lower rates on bank deposits.
Shareholders' equity increased by 10.4 percent to HRK 10.6 billion. We find our capital case adequate to sustain all banking risks and to provide an excellent base for future expected growth.
These results were achieved in an environment marked by harsh global economic and financial conditions, tight liquidity at the beginning of the year, elevated risk premiums and default rates as well as fierce competition between several banking groups in Croatia. Given these circumstances, I am more than pleased with our performance in 2009.

## Corporate and social responsibility

We at PBZ Group care about corporate and social responsibility. We care about the needs of the local community we operate in. We have continued to make substantial progress in the pursuit of our objective of ensuring that the PBZ Group is one of the leading entities in the field of corporate responsibility. For a number of years we have been developing social responsibility programmes and social-awareness projects by providing financial support to a large number of humanitarian and social institutions. We have supported programmes in education and sports as well as numerous cultural institutions. In 2009, we donated over HRK 6.4 million and took on sponsorships amounting to HRK 9.8 million.

In terms of environmental management, as reported in previous years, PBZ continued with the experimental stage of monitoring electric and thermal energy consumption, paper and clean water consumption as well as waste generation. In this context, I am compelled to report that we have made some noticeable savings in energy and gas consumption as well as waste disposal in general. Moreover, the PBZ Group continued to reduce paper consumption and we noticed higher usage of recycled paper. Overall, we are tending to increase our investment in environmental protection and management. In that context, we intend significantly to increase awareness of the issues surrounding global warming and improve the environmental policies of our society.

## Outlook

As we look forward, the near-term outlook continues to be very challenging. The macroeconomic scenario for 2010 foresees a trend of gradual improvement in the world's advanced economies due to significant stimulus packages introduced in most countries. This may contribute to some progressive and positive effects for the banking industry in general. However, we anticipate that the Croatian economy will still be under pressure during 2010, with a further but much less pronounced contraction of -0.5 percent, which may change due to unforeseen and unexpected events.

In that respect, the year ahead will also be a difficult one for banks in Croatia. We truly recognise as inevitable that we are and will continue to be affected by the crisis. Nevertheless, we are well placed to continue to generate solid results and achieve a good return during the difficult period ahead. Our prospects in the years to come are clearly better than for the market in general.

We have all the necessary management drivers to continue generating good results and increase our market share in various segments in the coming years through: sufficient liquidity, excellent cost containment and management of loan-loss recoveries. During the year, the PBZ Group will continue on the same course of action, aimed at maintaining sustainable growth and developing long-term relationships with customers.

On that note, I cannot stress enough the importance of having a strong balance sheet in the current environment. Only banks with strong capital are able to maintain market confidence and continue to operate normally. Having this in mind, I am proud of our strategic decisions of several years ago, when we acted with foresight, accumulating our capital base and monitoring carefully the quality of our assets. PBZ today is one of Croatia's best capitalised banks with a good level of profitability and of capital accumulation. We intend to continue providing support to our clients and maintain suitable financial performance in years to come.

## Conclusion

Finally, I would like to take this opportunity to express my gratitude to all my colleagues on the Management Board and all employees of the PBZ Group for their performance and dedication in 2009. Also, I would like to thank our distinguished clients and business partners for their loyalty and the trust they have placed in us. I would particularly like to express my most sincere gratitude to all the members of the Supervisory Board of the Bank for their most valuable cooperation and support.

Božo Prka, M.S.
President of the Management Board

30 March 2010

# Management Board report of the Status of the Bank's subsidiaries and financial highlights of the Group

Pursuant to the Capital Market Act, Article 407 and Rules of the Zagreb Stock Exchange approved by the Croatian Agency for Supervision of Financial Services, the Management Board states that best to its knowledge the Report of the Status of the Group and the Bank for 2009 contains true view of operations, risks and financial results as well as financial positions of Privredna banka Zagreb and its subsidiaries.

**Privredna banka Zagreb**

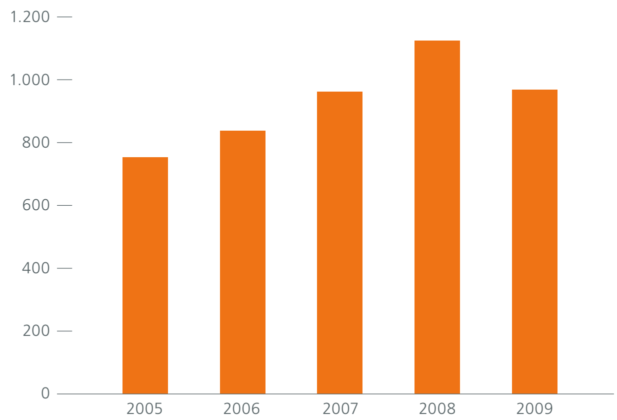
In an environment characterised by downturn in the economy, Privredna banka Zagreb recorded solid business result. The Bank realised net profit for the year of HRK 927 million which represents a decrease of 15.7 percent compared to the previous year.

In spite difficult market condition, PBZ's management strategy, combining good revenue drive and cost containment, enabled the Bank to record HRK 2,792 million in operating income, slightly above the year before.

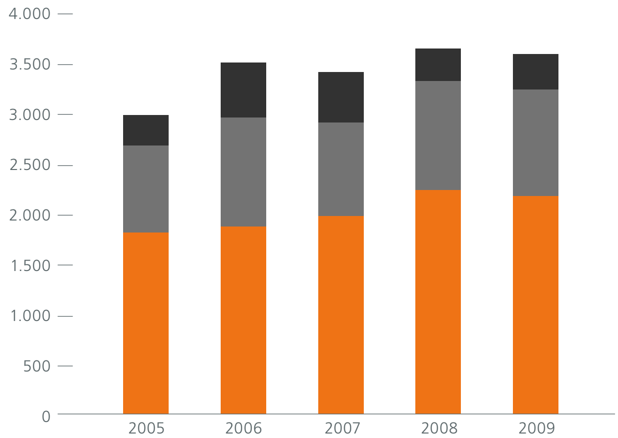
The aforementioned macro-economic conditions and liquidity pressures manifested in the Croatian economy affected in notable increase of provisions for risks and charges. Provisions amounted to HRK 353 million, which represents a HRK 255 million higher provisions then the year before. This result stems from the application of the precautionary principle in evaluating Bank's loan portfolio and conservative methodology of recognising provisions for losses.

Profit before taxes stood at HRK 1,100 million.

As of 31 December 2009 Bank recorded a 1.2 percent increase in total assets, amounting to HRK 64,519 million. Loans and advances to customers with 66 percent, due from banks with 16 percent and balances with the CNB, cash and current accounts with other banks with 12 percent share are the main items of the Bank's assets. Reaching HRK 13,035 million, cash and cash equivalents rose by 3,406 million, or 35.4 percent and strengthened the liquidity position of the Bank.

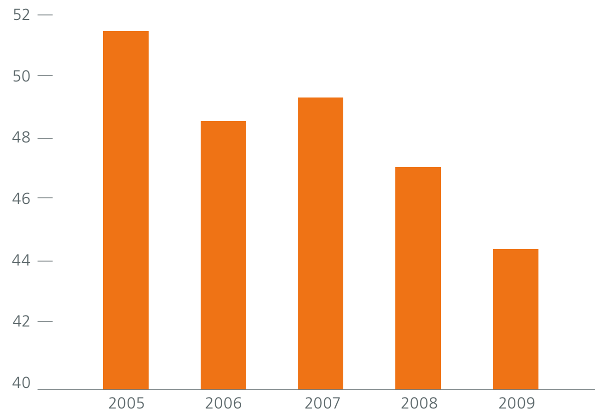



**Net profit - Bank 2005-2009**
in HRK milion




**Net operating income - Bank 2005-2009**
in HRK milion

Other operating income
Net fee and commission income
Net interest income




**Cost income ratio - Bank 2005-2009**
in %

Total liabilities were HRK 54,717 million at the end of 2009. Customers deposits with 65 percent, other borrowed funds with 14 percent and due to banks with 5 percent share are the main items of the Bank's liabilities. Customer deposits amounted to HRK 41,903 million which represents an increase of HRK 968 million, or 2.4 percent compared to the previous year.

### Međimurska banka

In 2009, Međimurska banka earned net profit in amount of HRK 47.3 million which is 7.2 percent less than previous year with R.O.E. of 14.6 percent. Including the effects of changes in revaluation reserves, comprehensive income amounted to 53.7 million HRK which is an increase of 33.7 percent compared to 2008. Due to economic contraction and the lack of liquidity reduced net commission income by 9.2 percent. Increase in unemployment rate resulted in lower volume of transactions in Retail banking and thus reduced net commission income from credit cards by 7.2 percent. Total operating costs followed declining trends of revenues and therefore decreased by 6.5 percent. Personnel expenses decreased by 2.3 percent and with strict control measures operating costs of Međimurska banka achieved cost / income ratio of 50.9 percent.

Total net assets realised in 2009 amounted to HRK 2,823 million, which is a 0.7 percent decrease compared to the year before, had a small effect on the bank's market share in total assets in the Croatian banking system. In approving the new loans the bank put special attention to the risk assessment and recoverability. Net interest margin declined to 3.3 percent, compared to the previous year's 3.8 percent. Deposits decreased by 2.9 percent compared to 2008 mostly due to lower balances on client current accounts. However, time deposits increased by 28.8 million HRK or 2.1 percent showing confidence of the clients in the bank which makes good basis for further investment and overall quality of the service.
In 2008 PBZ initiated a Squeeze-Out Project by which it acquired the remaining 3.34 percent of the share capital of Međimurska banka and became the only shareholder of the bank. The project was completed in February 2009.
Međimurska banka firmly holds the position of a leader in Međimurje County despite strong competition. The network is widely diversified throughout the County and due to continuous improvement in quality of service, the bank managed to achive good business relationships the clients and stakeholders.

### PBZ Card

In 2009, PBZ Card realized a net profit in the amount of HRK 149 million recording decline of 31.1 percent. The decline in net profit was caused by the harsh economic developments in Croatia. Lower volumes of card transactions together persistent and steady increase of loan loss provisions throughout the year contributed to the lower profit for the year.

Net interest income in 2009 was HRK 53 million, an increase of HRK 10 million, or 21.7 percent from 2008 due to higher interest rates. With HRK 610 million realized net commission income, PBZ Card remains the principal contributor to PBZ Group's net commission income. Among the items that contributed the most to commission income are card membership fees, commission on use of ATMs and fees on consumer and cash loans. Also, in co-operation with Jumbo Travel Services, PBZ Card realized commission income through participation in sale of tour packages, language courses, charter flights and other travel services.
Personnel, other general and administrative expenses decreased by 18.8 percent in 2009 due to effective cost containment in services, primarily in advertising and in human resource management.
This led to a good performance of net operating income which amounted to HRK 342 million exceeded last year results by 2.2 percent.
At the end of the year, PBZ Card's total assets amounted to nearly HRK 1.9 billion which is a decrease of 6.8 percent compared to the year before due to transfer of processing unit into a newly establish company.
In late 2008, Privredna banka Zagreb together with its ultimate parent bank, Intesa Sanpaolo, initiated a demerger project of the card processing business unit of PBZ Card which was then transferred into separate company in Croatia. The new company, Intesa Sanpaolo Card Zagreb, established in April 2009, is engaged in card processing and in charge of those operations for entire Intesa Sanpaolo Group.

### PBZ Leasing

PBZ Leasing is the Croatian based company established for offering leasing products to the clients. The company had a good year in terms of asset optimisation and the revenue growth. The business activities of PBZ Leasing in 2009 were

focused on ensuring balanced and steady growth of its statement of financial position. PBZ Leasing is committed to maintaining market share and excelling its offer of products and services.
The company's net profit for the year amounted to nearly HRK 19 million, which is a 19.5 percent increase compared to the previous year. This growth was mainly driven by higher revenues from operating leasing, lower interest expense and excellent cost control measures.
PBZ Leasing increased its total assets by 1.8 percent, reaching HRK 1,660 million. This moderate increase was accomplished along with enhancing the liquidity position of the company.

**PBZ Nekretnine**

PBZ Nekretnine in 2009 was deeply affected by economic developments in Croatia and especially in real estate market. In spite that, PBZ Nekretnine continued its activities on the real estate market making more than 4.3 thousand appraisals. Beside appraisals for retail clients, PBZ Nekretnine made appraisals for the companies outside the PBZ Group. With its 23 employees, PBZ Nekretnine achieved a net profit of HRK 0.4 million at the end of 2009.
During 2010, PBZ Nekretnine will continue to instigate its activities with the aim of becoming the excellence centre for real estate operations not only within the PBZ Group but in entire country.

**PBZ Invest**

2008 and the first half of 2009 was by far the most challenging period for PBZ Invest and the funds it managed. Prolonged and intense fall in stock prices adversely affected the yields of investment funds in 2008 and in the first quarter of 2009. The rest of 2009 showed gradual recovery in market confidence which resulted with return of customers and increase in assets under management.
Despite heavy market pressures that drew down the most important revenue component, net commission income, PBZ Invest managed to find other sources of revenues and effectively decrease costs. PBZ Invest net profit for the year reached more then HRK 6 million showing evidence of rebound, but well below the pre-crisis levels.
PBZ Invest is well-recognised and highly respectable fund management company in Croatia. Its development strategy for 2010 will be oriented at maintaining its status within investment public in the country as well as attracting new investors.

**PBZ Stambena Štedionica**

In 2009, PBZ Stambena Štedionica once again was able to almost double its net profit to HRK 13 million, which represents an 81 percent increase with respect to previous year. The most important component that drove this strong performance was net interest income and gains from disposal of AFS financial assets.
Taking advantage of PBZ's largest branch network and through its own sales channels, PBZ Stambena Štedionica managed to increase the number of its clients by nearly 2.5 thousands at the end of 2009. As at 31 December 2009, PBZ Stambena Štedionica reached HRK 1.432 million in total assets.
The business activities of PBZ Stambena štedionica throughout 2010 will continue be oriented at maintaining those depositors whose savings contracts expire and by attracting new clients. The company also expects large number of present customers who meet desired criteria to take housing loans in 2010 as per contract conditions. Finally, the company will be focused at maintaining preferred profitability levels.

**PBZ Croatia Osiguranje**

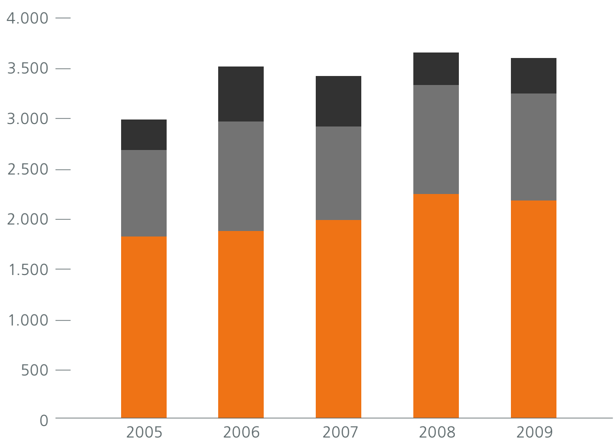
During 2009, despite the significant risk and volatility, PBZ Croatia Osiguranje achieved a respectable growth in net profit reaching the level of nearly HRK 24 million, which is 4.7 percent higher than the result in 2008. At the same time, cost income ratio stands at 33.7 percent versus 32.6 percent as at 31 December 2008. During 2009, PBZ Croatia Osiguranje increased the number of members of the fund from 263 thousand in 2008 to 270 thousand in 2009, which is an increase of 2.7 percent.
PBZ Croatia Osiguranje is well-recognised and highly respectable pension fund management company in Croatia. Its development strategy for 2010 will be oriented at maintaining its status within general public in the country as well as attracting new members.

**Intesa Sanpaolo Card Zagreb**

The company started its operations in April 2009 and ended the year with HRK 44 million in total revenues. However, given the fact that ISP Card is still in a start up mode it, therefore, ended with net loss for the year of total HRK 9 million. The company is still engaged in development and optimisation of its operations from which it plans to build future revenue streams. Total assets as at 31 December 2009 were HRK 209 million.

**Financial highlights of the PBZ Group**

In 2009 global economy was still under intense pressure which started in 2008. This adverse market condition had negative implications to the banking and financial system in general. In such market environment, PBZ Group earned net profit in the amount of HRK 960 million, which is a decline of 23.1 percent compared to the year before.




**Net operating income - Group 2005-2009**
in HRK milion

- Other operating income
- Net fee and commission income
- Net interest income

Below we provide an overview of business segments of the PBZ Group prepared by core business of the Group members.
As apparent from the above table, Banking is the main source of the Group's profit (Privredna banka Zagreb and Međimurska banka collectively). Banking segment, on aggregate, continues to make strongest contribution to the consolidated results. Its operating income reached HRK 2,932 million.

Božo Prka, M.S.
President of the Management Board
30 March 2010

| **Group results by business segment** in HRK million | 2009 | 2008 |
|---|---|---|
| Banking | 2,932 | 2,930 |
| Card services | 691 | 715 |
| Leasing | 145 | 182 |
| Other financial services | 49 | 93 |
| Non-financial services | 10 | 29 |
| Consolidation adjustments | (228) | (252) |
| **Operating income** | **3,599** | **3,697** |

# Review of the international and Croatian economy in 2009

Primary goal of this part of the PBZ annual report is to give to shareholders/readers an assessment of international and domestic macroeconomic environment in which PBZ and the Group operated during 2009. This should help understand the results from a more objective perspective.

**International and domestic environment in 2009**

The year 2009 will be remembered as the deepest global downturn in recent economic history. According to IMF data[1] world trade volume fell by 12.3% in that year. World output fell by 0.8%, which may not seem as much, but in advanced economies the number is 3.2% decline and the Euro area alone (of most interest to Croatia) by almost 4%. However, growth dynamics throughout the year was uneven. First part of the year was marked with deep recession which was a continuation of the trend from 2008. Global production as well as trade rebounded in the second part of the year. This rebound was a direct result of unprecedented policy stimulus that took place, both monetary and fiscal. We should remember global panic and doomsday scenarios after the collapse of the Lehman Brothers in Sept 2008. Luckily, worst fears of investors have not materialized in 2009. Today we can say that the biggest government response in history worked. Both fiscal and monetary stimuli are not without costs. Fiscal expansion has created not only huge (double digit) fiscal deficits in a lot of advanced economies (like UK, Spain, Ireland and even US) but new risks of sovereign defaults in the future. One can expect a significant increase in net supply of public sector debt (in the world) which would translate into crowding out of the private sector and higher interest rates on sovereign debt. Aggressive monetary policies were needed as well. US Fed, for example more than doubled its statement of financial position (so did Bank of England), which is a living proof of how expansionary its policy was (with not only historically low interest rates, but very aggressive quantitative easing as well). With record low interest rates (and huge amounts of new liquidity) questions of exit policies and fears of global inflation are on the agenda quite often.

The worst seems to be over, but the rebound of the world economy will most probably be relatively slow and uneven throughout the world. For the time being the rebound depends very much on stimulus which will have to be withdrawn at one point. And unemployment rates (at about 9% for OECD economies) are forecasted to remain high for some time. We should point out that 2009 was not a usual cyclical downturn meaning that once we are out of recession things will be back to normal (like the period 2006-2007) situation in the world. The period before the crisis was not a sustained equilibrium and the world economy needs deep structural changes. We are still waiting for the new regulatory framework for financial institutions. In spite of this, deleveraging of financial institutions will take time (hopefully it will proceed in an orderly way, but still too early to tell), some relative prices have changed for good meaning that some sectors cannot expect the same growth rates as before, etc. In short we should expect a new world, with not only regional multi-speed growth (Asia and emerging economies growing much faster than advanced ones) but intersectoral allocation shifts as well (especially in the auto industry and construction).

What about economic environment for banks in Croatia? 2009 was a very dynamic year for domestic banks. Not only has international environment changed significantly but the results of the international financial and real sector crisis had its full impact on Croatia's economy, affecting all aspects including banks. Croatian National Bank was very active in 2009. By changing the regulatory environment for banks it tried to deal with changing international and domestic environment. CNB was managing domestic foreign exchange and kuna liquidity to keep the exchange rate stable (as its main goal). During 2009 with changes in regulation, CNB was helping the Government to finance its liabilities both domestically and abroad. Unfortunately, the Government did not adjust its spending to the new crisis environment on time, thus a crowding out of the private sector took place in Croatia in 2009.

The main changes in banking regulation at the end of 2008 and 2009 were:

- in October 2008 CNB abolished the marginal reserve requirement for banks (at that time at 55% for all foreign borrowing), as its goal to curb excessive foreign exchange inflows was no longer relevant,
- in December 2008 CNB lowered the reserve requirement rate from 17% to 14%,
- In January 2009, as a consequence of the measure in December 2008, CNB wanted to withdraw excess kuna liquidity from the market and raised the percentage of foreign currency reserve requirement that is set aside in kuna from 50% to 75%. This, at the same time, served as a measure against growing depreciation pressures at that time,
- In February 2009 CNB first reduced the rate of foreign currency claims from 28.5% to 25% releasing foreign exchange liquidity with the aim of banks lending to the Government. This rate was later reduced to only 20%, with the same goal,
- In February 2009 the maximum permitted open foreign exchange position was increased from 20% to 30% of the regulatory capital with the aim to facilitate the management of the released foreign exchange liquidity,
- In December 2009 the CNB abolished its decision on the purchase of compulsory CNB bills (de facto limiting credit growth

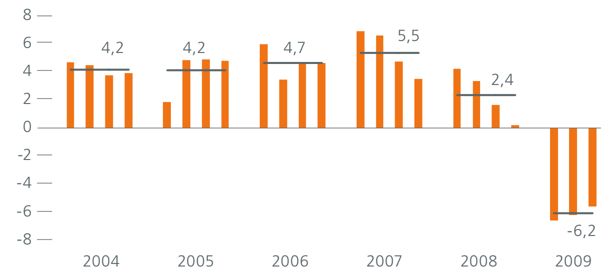
[1] *WEO update, January 26, 2010, from www.imf.org*

of banks to 12% annually) as this measure was not necessary any more,
- throughout the year the CNB was active in both selling and buying foreign exchange from the banks managing the stability of the exchange rate and
- second most important instrument in 2009 (after foreign exchange interventions) was regular use of reverse repo auctions at the fixed rate of 6% and with allotments of the bank bids.

Obviously neither international environment, nor domestic developments were favourable for banks in 2009 in Croatia.

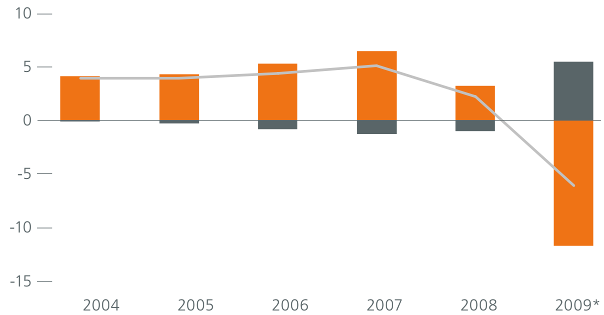
## Real sector hard landing in 2009

Unfavourable international and domestic environment heavily worsened already existing domestic macroeconomic imbalances throughout 2009. First three quarters resulted with GDP meltdown of -6.2% due to the so far unseen crash in personal consumption and investments. Since personal consumption is the largest generator of economic growth in Croatia, its collapse observed during the 2009 has had a powerful effect on the fall in the overall growth rate. The fall in personal consumption is the result of the several unfavourable trends emerging over 2008 and accelerating in 2009. First of all, a spill over from 2008 inflationary pressures decreased the real income and changed consumer behaviour in early 2009. Second, more pronounced signs of economic recession influenced consumer confidence: negative developments on the capital markets, suppressed retail credit activity of domestic banks followed with increased interest rates, negative labour market trends i.e. increased unemployment, decreased wages through the newly imposed "crisis" tax and increased VAT rate mounted on top of each other sinking the personal consumption. Evident lack of adequate Government response to accelerating economic downturn and mid-year political instability provoked by former prime minister's




**Gross domestic product, constant prices (2000 referent year)**
in %
source: CBS

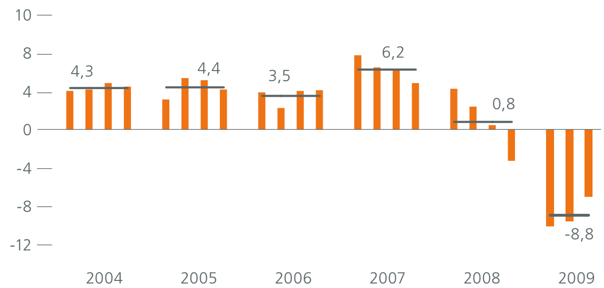
q/q-4
Annual growth rate




**Contributions of domestic and foreign demand to GDP growth**
in %
source: CBS

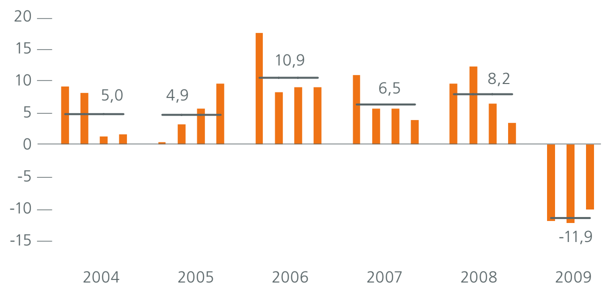
Foreign demand
Domestic demand
GDP

*q1-3 of 2009*



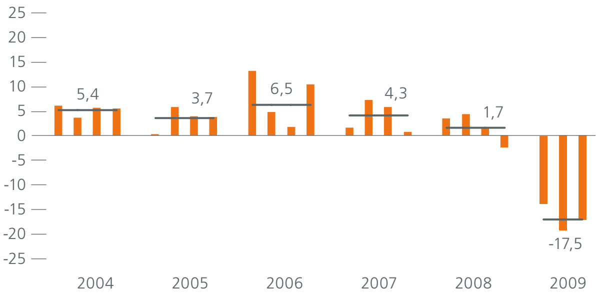

**Personal consumption, constant prices (2000 referent year)**
in %
source: CBS

q/q-4
Annual growth rate




**Gross fixed capital formation, constant prices (2000 referent year)**
in %
source: CBS

q/q-4
Annual growth rate



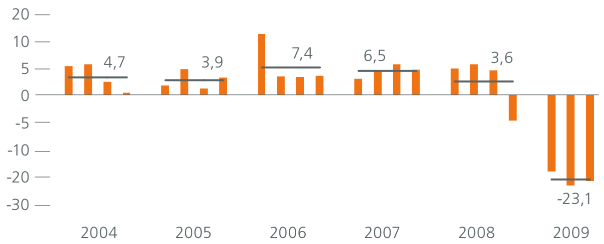

**Exports of goods and services, constant prices (2000 referent year)**

in %

source: CBS

q/q-4

Annual growth rate



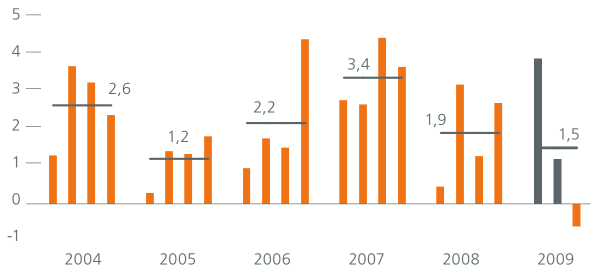

**Imports of goods and services, constant prices (2000 referent year)**

in %

source: CBS

q/q-4

Annual growth rate



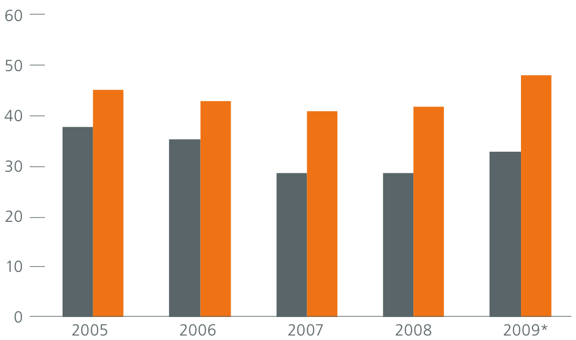

**Government consumption, constant prices (2000 referent year)**

in %

source: CBS

q/q-4

Annual growth rate




**Central government debt, % of GDP**

Source: MoF

in %

CG debt

CG debt including guarantees

*October 2009*

resignation additionally worsened consumers' confidence and expectations. All the above resulted in 8.8% decline in personal consumption in the first three quarters and slashed annual retail trade activity by 15.3%.

During the first three quarters of 2009 capital investments declined at double digit rate of 11.9% compared to the same period 2008. As expected, with the first signs of crisis entrepreneurs started to postpone or cancel investments in new machinery or buildings, similar as the households retreat them selves from the real estate markets. Construction works declined by 6.0% in the first eleven months of 2009.

Suppressed domestic and international demand influenced both merchandise exports and imports which declined by 21.6% and 26.9% (both in EUR terms), respectively. However, faster decline in much higher imports contributed to improvement in foreign trade balance and deficit narrowed by almost one third compared to 2008.

Exports of services (tourism) recorded a 16.4% contraction in the first three quarters of 2009 mainly due the much lower tourists' spending than in 2008 since the foreign tourists' arrivals decreased by only 0.9%. Due to the above mentioned improvement in trade balance overall balance of payment's deficit decreased from 9.2% of GDP in 2008 to 6.2% end Q3 2009. Contrary to previous years net foreign demand contributed positively to the overall GDP in 2009.

Government consumption was the only GDP item accounting for an increase in first three quarters of the year. However, government budget was heavily hit by the economic crisis and consumption contraction. A 6.0% decline in overall budget revenues was not adequately followed with restrictive fiscal policy and expenditures increased by 6.1% creating a budget cash deficit of around 3.5% of GDP in the first eleven months of 2009. In order to finance the gap and repay its due public debt obligations, Ministry of Finance entered heavily into domestic financial market causing

massive crowding out of private sector, but also tackled foreign markets with bond issuance. Compared to end 2008 end October 2009 public debt increased by 4.2 percentage points to 32.9% of GDP (48.2% including government guarantees). The last year brought a serious downturn on labour market so that on average the number of those employed was 3% lower in comparison with 2008 and the average unemployment rate rose to 14.9%, which is a rise of 1.5 percentage points in relation to 2008. After a historically lowest unemployment rate from April to November 2008, the unemployment in Croatia in 2009 became again one of the strongest problems affecting the domestic economy. Croatia was not a lonely case, as the rising unemployment became on of the top themes throughout Europe and world.
The wage dynamics did not follow the path we might have expected, as the private sector mainly reacted to the lower volume of business by letting employees go, and less by cutting wages. This development was probably also the result of the introduction of the crisis tax, whereby net wages were already reduced. Last year growth of wages was, according to our estimate, only slightly above zero whilst this year it is very likely that there will be a nominal and a real fall in wages.
We expect that employment will continue to fall in 2010. Alongside the low GDP growth we see in the mid-term, the labour market will need years to recover.

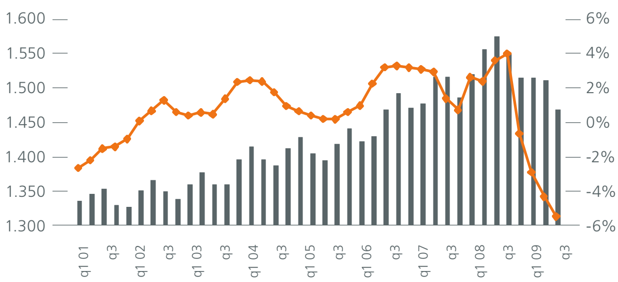
## Financial sector under a burden of rising NPLs

The recession in real sector was reflected strong on financial systems. At the end of 2009, consolidated assets of banks were nominally higher by 3% yoy (+1% in real terms), which were the lowest growth rates in the last 10 years. The overall deposits were in stagnation (in real terms, even a fall), while the rise in total loans by 2% (only 0.4% in real terms) was achieved mainly because of increased government borrowing. The "crowding out effect" can

### State budget revenues, expendituires and financing (mill HRK)

| | I-XI.2008 | I-XI.2009 | | I-XI.2008 | I-XI.2009 |
|---|---|---|---|---|---|
| **Total revenues** | **106,277** | **99,884** | | | |
| - revenues | 106,015 | 99,612 | **Money and deposits** | **3,865** | **5,061** |
| - sales of non-financial assets | 262 | 272 | **Domestic** | **2,367** | **8,300** |
| | | | - borrowing | 4,692 | 10,931 |
| **Total expenditures** | **103,916** | **110,273** | - repayment | 2,325 | 2,631 |
| - expenditures | 101,260 | 106,481 | **Foreign** | **-1,529** | **7,141** |
| - acquisition of non-financial assets | 2,345 | 1,906 | - borrowing | 1,277 | 13,834 |
| - acquisition of financial assets | 375 | 273 | - repayment | 2,807 | 6,693 |
| - net lending | -63 | 1,613 | **Sales of shares** | **667** | **8** |
| **Total surplus/deficit** | **2,361** | **-10,389** | **Total financing** | **-2,361** | **10,389** |

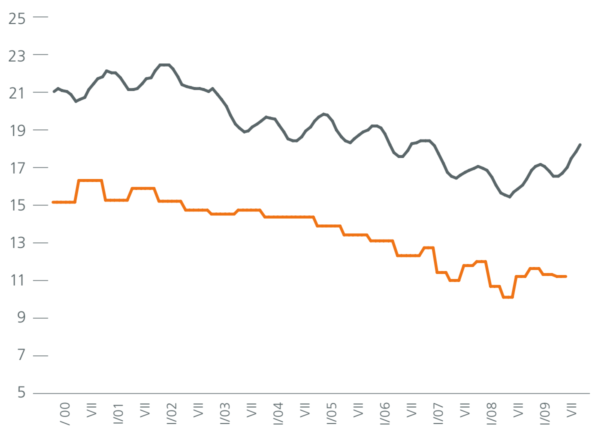
*Source: MoF, author's calculation*




### Employment, quarterly

in % and HRK 000
source: CBS, PBZ calculation

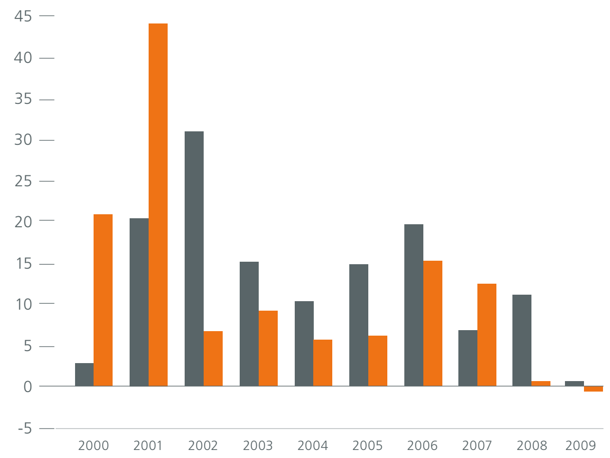
Average, in 000 - left
Annual change - right




### Registered and survey unemployment rate

in %
source: CBS

registred unemployment rate
survey unemployment rate



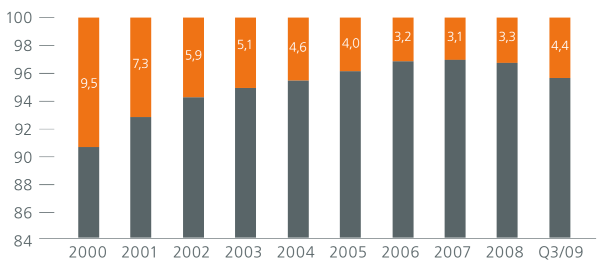

**Real % change of loans and deposits, yoy**

in %

source: CNB, PBZ calculation

Loans - real

Deposits - real



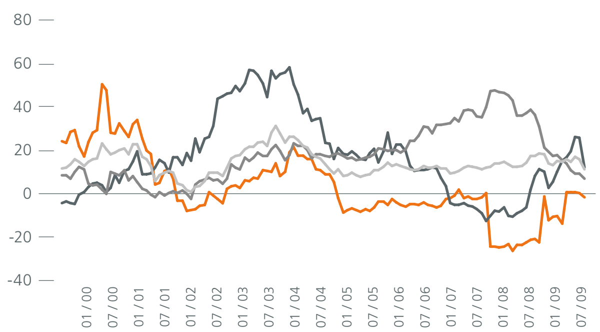

**Classification of placements and contingent liabilities**

in %

source: CNB

A placements and contigent liabilities

B and C placements and contigent liabilities




**Gross External Debt, yoy % change**

in %

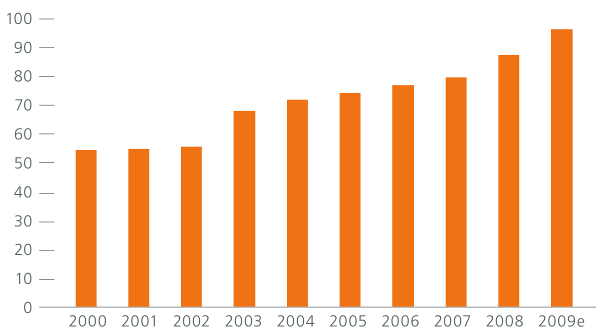
source: CNB

Banks

Other sectors

Total

State




**Gross External Debt (% of GDP)**

in %

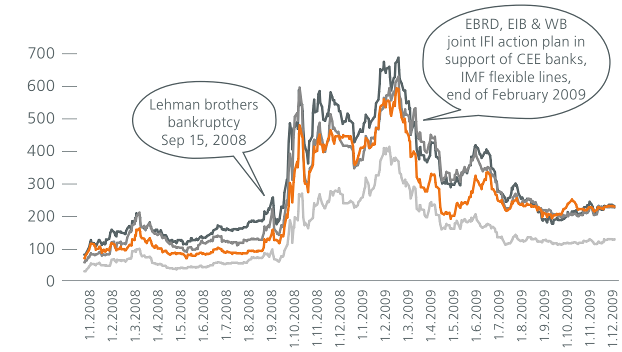
source: CNB, PBZ estimate

be seen through annual growth figures: loans to central government and funds grew by 35% yoy and the growth in absolute terms (HRK 7.2 bn) was higher than the growth of total loans (HRK 5.7 bn). The households, as a result of negative developments on labour market and introduction of crisis tax, cut their spending, which is seen through fall in loans that financed consumption (car loans, credit card loans, overdrafts). Loans to citizens at end 2009 were lower by 3% compared with end 2008. The loans to corporate sector grew by only 2% yoy - although the government borrowed strongly and CNB abolished 12% limit as late as at beginning of December, it did not affect the corporate loans dynamics as it did the weaker demand of the companies and rising risk aversion of banks.
The deposits in banks grew by only 0.5% in nominal terms, i.e. in real terms they fell by 1.4%. Low rate of growth of total deposits on annual level is the consequence of the fall in corporate deposits by 9%. Although the foreign currency savings deposits of corporate sector increased on annual level, kuna sight and saving deposits fell strongly due to worsened liquidity of the sector. Household deposits rose by moderate 4% nominally, but seen at the level of currencies, only foreign currency deposits did record an increase, while kuna deposits posted a double digit fall rates. This is the outcome of kuna weakening during the year, especially in Q1.
A weakened economic activity of corporate sector and a decline in incomes of households resulted in a speedy rise in non-performing loans. The share of placements (on and off-balance sheet) classified as B and C grew from 3.3% at end 2008 to 4.4% in Q3 2009. Thus the value adjustment costs of banks in 2009 tripled compared with 2008 and reduced the profits of banks by 25%.
In 2010 we see a slow loan and deposit growth rates and the continued rise in non-performing loans. As banks were reluctant to book losses immediately on all the loans of questionable quality and some

of the loans were therefore restructured during past year, the banks will be forced to recognize those as bad loans (B and C) during this year.
Just as the borrowing on domestic market, the pace of borrowing from abroad dramatically slowed down. At end October gross foreign debt was higher by 6% compared with end 2008 and almost the entire growth derived from companies' borrowing. We estimate that at the end of year the debt stood 93% of GDP and in 2010 we see a further rise toward the level of 100% of GDP.
Another thing that strongly contributed to the slow rise or decline in borrowing of private sector were the interest rates on loans. Although during 2009 the benchmark rates 3M Euribor and Swiss franc Libor fell below 1 and 0.5%, respectively, and credit default swap spreads declined for the entire region and in case of 5Y domestic government bonds by over 200 basis points during the year, the costs of financing for domestic banks increased again due to higher interest rates paid on domestic deposits, primarily the savings deposits of citizens. In December 2009 the average interest rate on foreign currency and kuna denominated loans was higher by 55 and 41 basis points compared with December 2008, respectively.

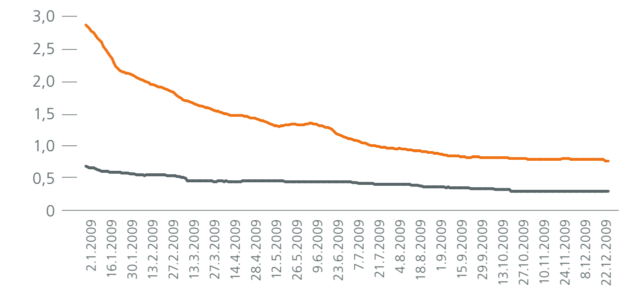
## Inflationary pressures weak

In 2009 the average inflation rate, after a steep rise in 2008 due to global increase in food and oil prices, returned close to or even below, it's long-term historical average around 3%. In spite of VAT hike from 22 to 23% and introduction of excise tax on mobile telephony, the average inflation rate in 2009 declined to 2.4% due to a high base in previous year (base effect) and recession, i.e. fall in personal consumption which forced retailers and service providers to lower or keep the prices unchanged.
The negative trends on labour market and stagnation/ decline of real wages should again limit the inflationary pressures in 2010 in spite of gas and electricity prices hike. As



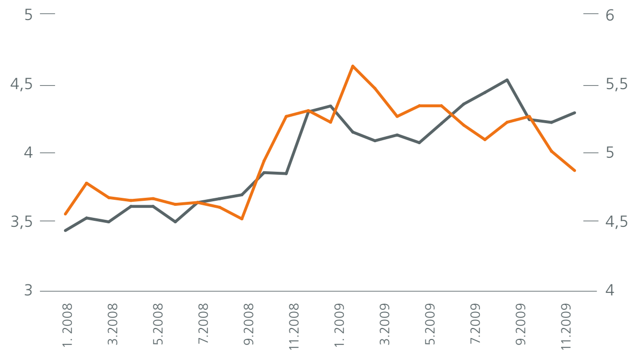

**CDS spreds: Countries in transition**
in basis points
source: Bloomberg

- Bulgaria
- Hungary
- Poland
- Croatia



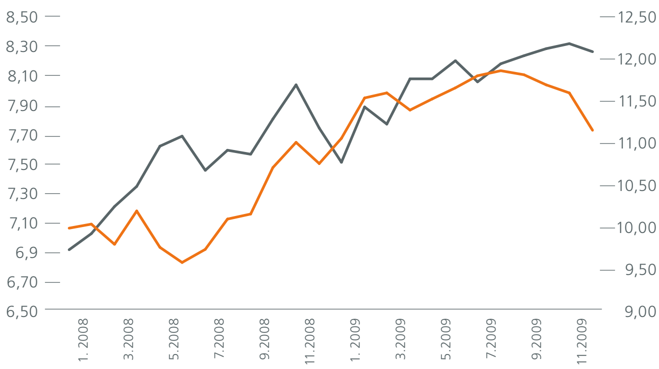
**3M Euribor and CHF Libor**
in basis points
source: www.euribor.org, Bloomberg

- 3M CHF LIBOR
- 3M EURIBOR



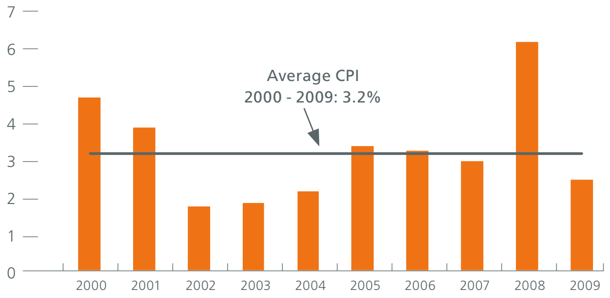
**Average Annual Interest Rate on Retail Term Deposits**
in %
source: CNB

- short-term EUR deposits-left
- short-term HRK deposits-right



**Average interest rate on Loans, annual**
in %
source: CNB

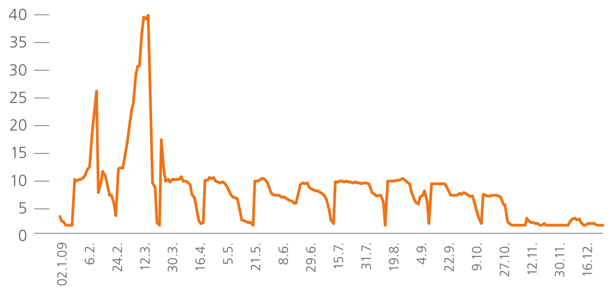
- fcc loans-left
- kuna loans-right




**Consumer Price Index Average yoy % ch.**

in %

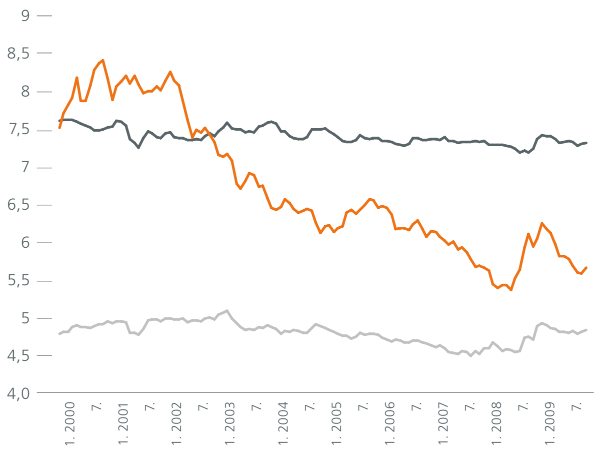
source: CBS



**ZIBOR O/N**

in basis points

source: Reuters



**Exchange rate, monthly average**

source: CNB

EUR/HRK
USD/HRK
CHF/HRK

we expect the average exchange rate of kuna towards euro to remain stabile and global commodity prices are expected to rise, but at a modest rate, the inflationary pressures should remain subdued.

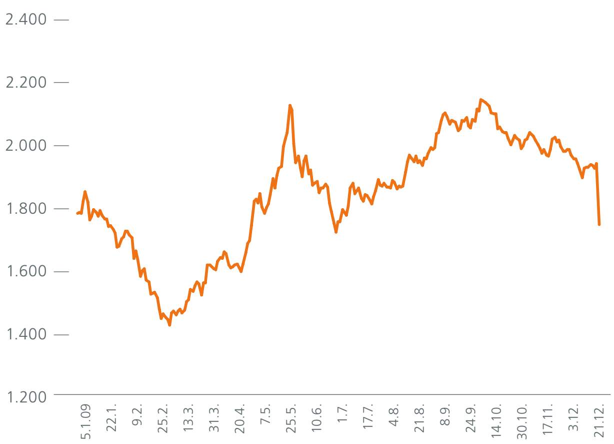
## CNB focused on preventing stronger kuna depreciation

The major concern of the monetary authorities in 2009 was the stability of the exchange rate of kuna. The depreciation pressures on kuna were the strongest in first four months of the year, due to large foreign debt repayments combined with lower inflows from abroad, when kuna slipped over the level of 7.4 HRK per euro and came even close to the level of 7.5 kunas per euro. To limit the wakening of kuna, CNB kept liquidity tight by releasing only limited amount of kuna at reverse repo auctions and introducing several changes in regulatory measures. On average, in past year the exchange rate EUR/ HRK grew by a slight 1.6% yoy at 7.34. US dollar strengthened against Euro which was reflected in kuna depreciating against US$ by 7% on annual average with the exchange rate rising to 5.28. Kuna also weakened against Swiss franc by 7% annually and the average rate amounted to 4.86.

Money market rates in 2009 were mostly stabile, except during the period when CNB dealt with the rising depreciation pressures, which pushed the o/n rates at historically high levels. The liquidity in rest of the year was satisfactory so that the money market rates followed the usual pattern in line with the cycles of required reserve maintenance. From mid October till the end of the year the strong slowdown in economic activity in an environment of sufficient or even abundant liquidity of the market pushed the interest rates at record-low levels. In 2010 the liquidity management might become more relaxed than in the last two years as at the beginning of February CNB cut the required reserve rate from 14 to 13% and unofficially announced a further 2 p.p. cut.

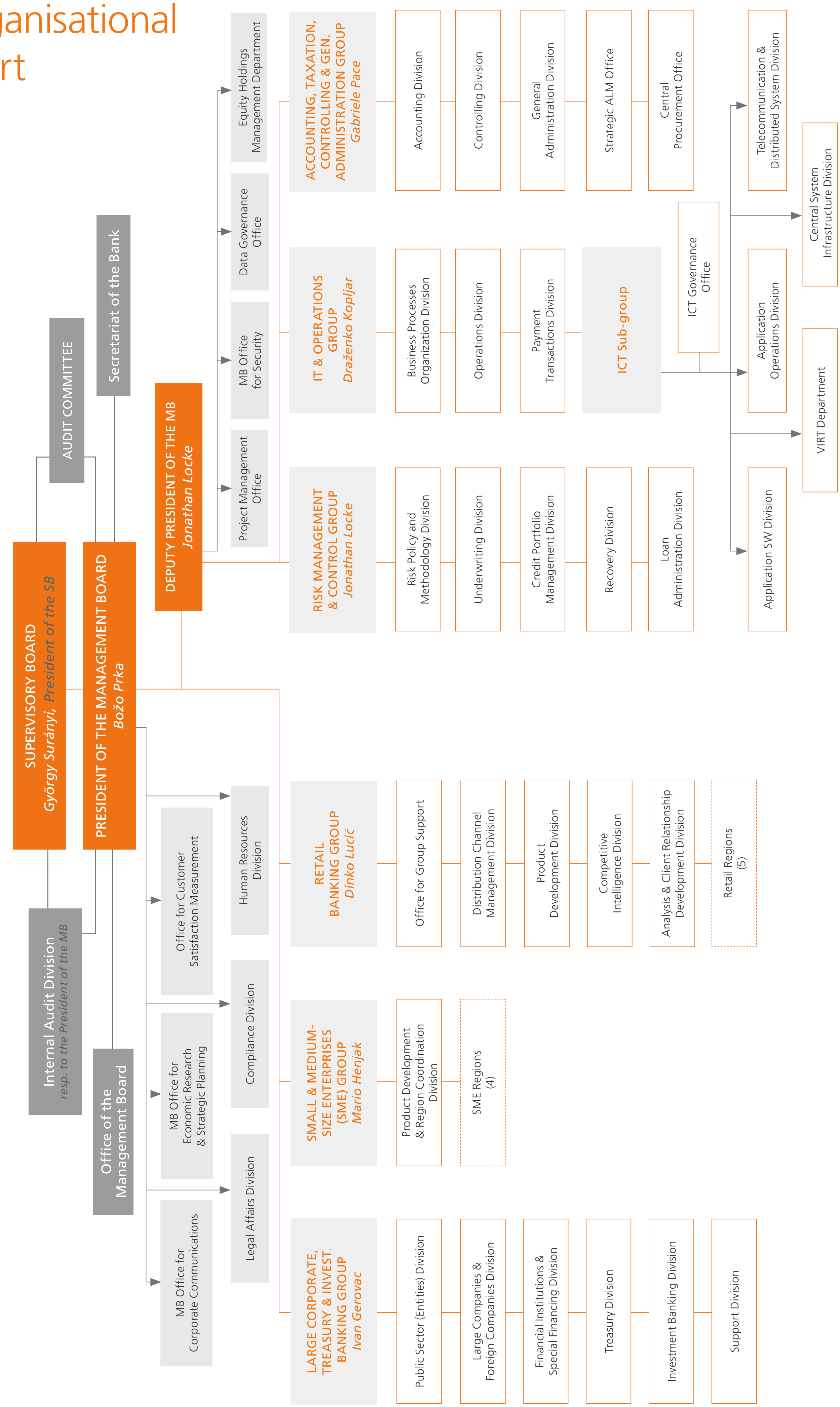
## Recovery of stock market

After a shocking fall in 2008, the share prices continued to fall in the first two months of the year 2009, but at a much slower pace. The beginning of March marked the reversal of that path mainly due to, again as in 2008, the change in global trends. However, the growth was rather modest in comparison with a steep fall from the previous period, and the share index Crobex finished the year at the level 16% higher than the year before.




**Crobex**
in basic points
source: ZSE

# Organisational chart



# Business description of the Bank

Privredna banka Zagreb d.d. is one of the largest and among the oldest financial institutions in the Republic of Croatia, with a long continuity of banking operations. It was founded in 1962 as a universal bank on the basis and banking tradition of The First Croatian Savings Bank which was initially established in 1846 in Zagreb by the members of the Farming Association of Croatia and Slavonia.

During all periods of its history, PBZ supported the largest investment programs in tourism, agriculture, industrialisation, shipbuilding, electrification and road construction. PBZ has become a synonym for economic vitality, continuity and the Croatian identity.

Privredna banka Zagreb today is a modern and dynamic financial institution, which has actively sought and won the role of market leader on the financial markets in Croatia. It is a fully licensed bank with nationwide branch network. With its nationwide network of branches and outlets, as well as a broad group of banking and non-banking subsidiaries, PBZ is one of the universal banks that cover the whole territory of the Republic of Croatia.

**Organisational Structure and Business Activities**

Nowadays, PBZ is the leading bank in Croatia in terms of subscribed share capital and the second bank in terms of total assets. It has consistently been a leading financial institution on the Croatian market with an established business base and recognised national brand name.

Upon successful privatisation in December 1999, PBZ became a member of Gruppo Intesa Sanpaolo - the largest Italian banking group and one of the most significant financial institutions in Europe. With this partnership, supported by the EBRD through its minority shareholding stake, PBZ has retained its business strategy aimed at modern forms of banking and new products, confirming its image of a dynamic and modern European bank, which meets the demands of the market and its clients.

The benefits of strategic partnership are clearly visible in the continuously improving financial results of the Bank, as well as of the PBZ Group.

Along with the adoption of the business and corporate governance standards set by its parent bank, Privredna banka Zagreb has maintained the strategic development orientation of a modern, client oriented, technically innovative universal financial institution. PBZ is focused on the continued advancement of its economic performance well into the future, as well as solidifying its position as a product leader in offering the most progressive banking products, through the optimal mix of traditional and modern distribution channels. This ensures that PBZ will continue to be able to set standards of the highest quality for product innovations and services offered to both its domestic and international clients. This commitment to quality and advanced banking practices is clearly seen in the fact that Privredna banka Zagreb received the Best Bank in Croatia award from Euromoney in 2001, 2002, 2004, 2005, 2007, 2008 and 2009. During 2006 PBZ received The Best Debt House in Croatia award by Euromoney. PBZ also received The Banker's Award for the Croatian Bank of the Year 2005. In 2003, 2004, 2005, 2006, 2007, 2008 and in 2009, PBZ's quality was confirmed again when it received Global Finance's Award for the Best Bank in Croatia. In 2003, 2004, 2005 and in 2006 PBZ received the domestic prestige awards - the Golden Share Award for the Best Banking Share in the country, and the Golden Kuna Award in 2004, 2005 and 2010 for the previous year. Additional acknowledgements Bank received from Central European, Finance Central Europe, Adria Zeitung and others.

In addition, Privredna banka was listed among the world's top 500 financial brands for 2007 by Global 500 Financial Brands Index. This report, initially published in 2006, was the first publicly available table analysing the financial value of the world's leading banking brands.

Privredna banka Zagreb currently employs some 3,560 employees and provides a full range of specialized services in the areas of retail, corporate and investment banking services. The business activities of the Bank are organized into 3 principal client-oriented business groups.

## Retail Banking Group

With respect to the retail banking segment, PBZ holds a comparative advantage over its competitors given its wide spread branch network in Croatia, consisting of 207 organisational units in 5 regions which cover the entire territory of the country. Moreover, the banking subsidiary in the Group, Međimurska banka covers the Međimurska County and provides an effective presence in that particular region.

In accordance with its business philosophy of focusing on client needs and demands, seven years ago the Bank introduced personal bankers and the 0-24 hour self-service banking zones to the branch networks, while increasing the quality of services through continued staff training and undertaking quality control measures such as the "Mystery Shopper" project. These activities are constantly in development with the emphasis being placed on the standardisation of business processes. To illustrate this orientation we would like to mention the package of products (named Innovation) by which the Bank rewards its clients who are owners of several groups of products, giving them discount on certain forms of fees and awarding them an incentive interest rate if they have placed their funds on time deposit with the Kuna Plus savings account. On top of that, PBZ has introduced Private banking, a specially designed service aimed at VIP clients. In addition to restructuring and repositioning the traditional distribution channel of the business network, PBZ also continues to develop and improve the distribution channel of direct banking. It has extended its network of ATMs which accept Maestro, MasterCard, Visa Classic and Visa Electron

as well as American Express cards (a total of 639 ATMs have been installed). The number of EFT POSs (points of sale) has increased from 3,500 at the end of 2000 to the present 24,078.
As a leader in modern technologies, PBZ has also expanded its distribution channels and products by applying the most advanced technology in order to implement its PBZ 365 services; PBZ365TEL telephone banking service and PBZ365SMS service. With Internet banking PBZ365NET and PBZ365WAP services a client can access his/her accounts 24 hours a day from any location in the world. In 2004, PBZ introduced mPay - a system of payment using mobile phones, as the first bank in Croatia offering such a service, with over 118.113 clients today. These achievements have firmly established PBZ as the market leader in electronic banking as well as the technological leader on the financial market in the country. PBZ is the first bank in Croatia which has implemented secure e-commerce based on 3D Secure technology (Verified by Visa). At present, approximately more then half of all transactions with retail customers are executed through electronic channels.
The Bank is constantly modifying and supplementing its wide range of retail products and services. Thus, it has introduced several types of new loans on the basis of credit scoring. Besides the consumer and cash loans for PBZ Card card-holders, from 2002 to 2009 the Bank launched seven very successful tranches of so called quick loans (cash loans at demand to customers with sound credit scoring). Overall in the period from 2000 until present time, PBZ established itself as the market leader in retail loans with an 18.7 percent share of the loan market. In the area of retail deposits, PBZ has increased its deposits to more than HRK 31.1 billion to date, which is 20.5 percent of the Croatian retail deposit market. On a consolidated level, PBZ Group holds almost 20 percent of the overall Croatian retail deposits.
In the card products segment, PBZ, as a card issuer and acceptor, replaced all cheque cards of retail current accounts with the internationally accepted Cirrus Maestro debit card; it offered internationally valid Visa Electron debit card linked to a foreign currency account and issued internationally valid Visa Business Electron debit cards linked to gyro account of private persons, craftsmen and corporates, as well as MasterCard and Visa revolving credit and charge products, and it is the only Bank in Croatia offering Maestro prepaid gift cards. Together with PBZ Card, the Bank has issued nearly than 2.2 million cards to its clients which accounts for 24.3 percent of the domestic card market.
Retail operations in Privredna banka Zagreb comprise the following divisions: the Office for Group Support, Distribution Channel Management Division, Product Development Division, Competitive Intelligence Division, Analysis and Client Relationship Development Division and 5 Retail Regions.

## Distribution Channel Management Division

This Division is responsible for defining, structuring, implementing and monitoring different distribution channels of the Bank for the delivery of retail products and services (branch network, ATM and EFT POS network, PBZ 365 services - telephone banking, Internet banking, SMS banking, WAP banking, mPay, personal bankers, sales agents). It prepares and coordinates budget-related activities before the Retail Banking Group for the purpose of both classical and direct distribution channels. In the field of retail sales operations, it coordinates all activities between the Regions/Centres, Customer Call Centre and other sale participants. In cooperation with the Product Development Division and the Competitive Intelligence Division, it distributes modified and new products and services through the Bank's existing and new distribution channels and it is responsible for informing and updating all distribution channels.

## Product Development Division

This Division is responsible for developing the products and services for clients of the Bank in the field of retail operations and monitoring their implementation in sales. It sets guidelines for developing products based on clients' needs and determined goals of the Bank, and carries out a permanent analysis and monitoring of client demands as well as competitive deposit and credit products. Drawing on conducted analyses, it develops and implements new products and modifies existing products, and it also ensures the technological support of deposit and credit products.
Its area of activity also includes cooperation with other members of PBZ Group (PBZ Card, PBZ Invest and PBZ Stambena štedionica) in the field of developing deposit and credit products, as well as cooperation with strategic partners in the field of bank insurance.

## Analysis and Client Relationship Development Division

This Division is responsible for analysing and developing models of supervision and implementation of measurement of key indicators used for assessment of the distribution network and retail products.
Activities related to the analysis and client relationship development entail monitoring the profitability of segmented client data bases, analysing existing products and services intended for certain client segments and their requirements, developing models of measurement of client service quality through Mystery shopping, structured market research, monitoring clients' complaints and general level of our clients' satisfaction to predict various events in client relations with the Bank, the development of support for better relationship management with clients and calculation of key indicators of success in managing relations between the client and the Bank.
This Division expands its activities to other members of PBZ Group with the purpose

of analysing and developing CRM activities related to the clients of Group members and other organisational parts.

### Competitive Intelligence Division

The activities of this Division include monitoring competitive marketing campaigns as well as defining and implementing the overall marketing approach to products and services aimed at retail and corporate (SME) operations, both for the Bank and other members of PBZ Group. This Division is also responsible for carrying out marketing campaigns for products and services of the Bank and Group members, in accordance with prescribed marketing standards of Intesa Sanpaolo.

Its other operation segments include direct marketing, positioning of products and services, product brand management and event planning and management. The Division also takes part in arranging and updating all internal and external communication channels such as the Bank and Group web site, multimedia channels and promotional programmes in accordance with current marketing needs and activities.

## Large Corporate, Treasury and Investment Banking Group

Privredna banka Zagreb is one of the leading Croatian banks when it comes to corporate banking. With a wide range of products and services offered to its corporate clients both locally and internationally it is hard to find a major company in Croatia today that does not bank with Privredna banka Zagreb. Supported by powerful electronic distribution channels, our network of well-organised branches is the key driving force in serving our clients effectively. We strive to create additional value by providing integrated financial solutions to meet the individual requirements of our clients.

PBZ has thoroughly developed a platform for supporting classic cash and non-cash transactions for corporate clients within the Bank's network. Due to its wide network of correspondent banks, Privredna banka Zagreb offers its clients fast and affordable services in the area of international payments. Also, PBZ has significantly changed the process of handling domestic payments. The Bank directly participates in the Croatian RTGS system (HSVP) and in the national clearing system (NKS) and thus has the ability to process any payment through the most appropriate channel. Improved with the new functionality, Internet banking for corporate clients - PBZ COM@NET service - is available for both domestic and international payments.

In terms of finance banking, Privredna banka Zagreb is a dominant participant on the Croatian market. PBZ has originated many contemporary products and has largely initiated the development of the financial market in the country. Consequently, PBZ, with its active role in the foreign exchange market, money market and primary and secondary capital market, has earned the title of market leader. We are determined to be recognized as the best financial services company in the region. We have achieved this recognition from our clients through our ability to deliver the best quality in everything we do.

Following the adoption of the new organisation of Privredna banka Zagreb, the Corporate Banking Group and the Finance Banking Group created the Corporate, Treasury and Investment Banking Group with particular emphasis on banking with large companies, financial institutions and the Government institutions and agencies.

Large Corporate, Treasury and Investment Banking Group consist of the following divisions: Public Sector Division, Large Companies and Foreign Companies Division, Financial Institutions and Special Financing Division, Treasury Division, Investment Banking Division and Support Division.

### Public Sector (Entities) Division

Public Sector (Entities) Division is responsible for performing transactions with government institutions, local and self-government units, public enterprises and public utility companies, insurance companies, large companies, affiliates and institutions. Recognising and taking into account the requirements of its clients for banking products and services, the Division offers all types and forms of short-term and long-term financing, purchase of receivables, B/E discounting, factoring, letters of guarantees, letters of credit, and renders services involving the opening of business accounts, cash pooling, contracting Internet banking, multi-purpose facilities, providing financial support to export businesses, active participation in the conclusion of deals of its clients abroad, as well as different models of deposit transactions and other innovative solutions adjusted to the requirements of each single client. Apart from the operations mentioned, it is also important to highlight the services in agency business - transactions performed on behalf and for the account of the ordering party, and commission business - deals made in its own name and for the account of the ordering party.

We particularly wish to bring into focus our financial advising services, applicable to whatever line of business/branch a legal entity is associated with, and the creation of the best possible solution for the respective entity.

In coordination with other units of the Bank, we participate in cross selling of all the PBZ Group products. By managing the overall business relationship between the Bank and the client, through a synergic effect we strive for the creation of new supplementary value for our clients.

Appreciating the diversity of its clients' business activities, employees of the Public Sector (Entities) Division, through their individual approach to each client, as well as in team work, provide support to clients in all aspects of their business activities by affording them the use of a wide range

of the Bank's services and products, thus developing long-term business relations and partnerships.
In every segment of its business activities, operations and service rendering, the Division endeavours to promote the highest quality banking standards, first and foremost in being professionally and flexibly oriented, both to its present, and to its potential clients.

## Large Companies and Foreign Companies Division

The Large Companies and Foreign Companies Division are responsible for business transactions with large domestic companies, companies in foreign ownership, as well as with foreign legal entities - non-residents.
The Division offers all types of banking products and services rendered in cooperation with other Bank's organisation units - opening business accounts, offering Internet banking accounts, approving loan facilities, purchase of receivables, B/E discounting, issuing of letters of guarantees and opening of letters of credit, cash handling services (organising, transporting, collecting and transferring cash, cash pooling, global cash management), card operations, leasing, retail products and other.
Major domestic clients are building companies (building construction and civil engineering), companies engaged in tourism, and large trading companies.
To companies engaged in the construction of residential and business premises intended for sale we offer the complete project implementation service - from the control of project documentation and building supervision to the financing of construction and of the sale of real estates to final buyers.
In view of the well-developed business network of Privredna banka Zagreb with as many as 207 branches and branch offices, we have successfully organised the complete conduct and management of cash transactions for some of our clients, who are also some of the largest chain stores, and companies engaged in tourism.
The International Desk forms part of the Division, and is in charge of performing transactions with domestic companies in foreign ownership and of coordinating activities of Privredna banka Zagreb and its parent bank - Intesa Sanpaolo. All banking and advisory services are provided by the International Desk to Intesa Sanpaolo Group clients present on the Croatian market, as well as to other companies in foreign ownership. Apart from conducting business relations, this unit also assists foreign investors in the process of setting up a new company in Croatia, provides advisory services and general information on business terms and conditions in Croatia, contacts clients and puts them in touch with institutions exigent in the performance of regular business activities.
The non resident department is responsible for establishing and developing co-operation with foreign entities (foreign companies and private individuals engaged in business activities, foreign diplomatic and consular representative offices and representative offices of foreign legal entities, foreign associations, foundations and other non-profit organisations, international missions). Co-operation includes opening and managing of accounts, depositing funds, providing the clients with all necessary information required for conducting business in Croatia, which requires the constant monitoring of all national currency regulations (close co-operation with CNB and Ministry of Finance-Foreign Exchange Inspectorate in money laundry prevention issues).

## Financial Institutions and Special Financing Division

The key responsibilities of this Division are establishing, monitoring and promoting the complete range of business relations with domestic and international banks and financial institutions. In order to provide better services to PBZ clients and fully utilize its internal synergies, the Documentary Business (i.e. Guarantees and Documentary Credits) became part of the Financial Institutions and Special Financing Division in 2006.
As part of the special financing services, this Division offers all the Bank's clients tailor made financing solutions including trade and project financing, credit and special arrangements with financial institutions (both domestic and international) as well as with supranational organizations (e.g. EBRD, etc.), buyer's credits for the promotion of Croatian exports, open lines of credit guaranteed by state export agencies, commodity loans for export and import financing. One of the most notable financial services provided by this Division has been arranging and participating in syndicated loan facilities on behalf of the Bank and its clients (PBZ is the market leader in Croatia in arranging syndicated loans). Through this Division PBZ is an active participant in the secondary loan market and forfeiting transactions.
The PBZ's Group funding has also been a part of this Division's responsibilities.

## Treasury Division

The PBZ Treasury Division is an important and among the top players on the Croatian market with a broad spectrum of financial solutions for large corporate and institutional investors. The treasury division offers a comprehensive range of services, involving transactions on the international and domestic money markets, capital markets, foreign currency markets and also manages the liquidity of the bank. The PBZ Treasury division is a reliable financial partner and has an active role in trading securities issued by the Ministry of Finance, currency and short-term cash derivatives on the money market.
The Treasury division consists of three sections: Securities, Foreign exchange, Money market. The Securities department operates with short, medium and long-term debt and owners' financial instruments. The money market section is involved in short-term securities, domestic and international T-bills, repo arrangements and deposits.
In the foreign exchange section the most

important segment of the activities is covered by the Corporate desk. It is mainly oriented to corporate clients and fulfilling their needs, wants and demands.
The foreign exchange department operates with foreign currencies on spot and forward, options and banknotes. The banknotes segment covers delivering, dispatching, processing and warehousing various shipments of foreign currencies. Privredna banka Zagreb acts on the domestic market as one of the leading banks in this particular banking area. We are the market maker, especially in securities, commercial papers, government, municipal and corporate bonds issued on domestic and foreign markets. Considering the above, we can most proudly conclude that as well as participating domestically, as a priority we are focused and open towards the global markets.

## Investment Banking Division

As a leader in the Croatian investment banking industry, the Bank's Investment Banking Division provides institutional and private clients with a wide spectrum of investment banking products and services through capital market activities, financial advisory and structured finance services, research, as well as asset management, brokerage and custody services. In cooperation with Intesa Sanpaolo and its affiliates in Hungary (CIB), Slovakia (VUB), Bosnia & Herzegovina (Upi banka) and Serbia (Banca Intesa Beograd), services to our clients are extended across South Eastern Europe.
With an outstanding reputation for innovative financial solutions, the Bank has been consistently recognized as the leading Underwriter and Arranger of debt issues in the Republic of Croatia. The Bank specializes in originating, underwriting and sales of a comprehensive range of debt securities, such as corporate commercial papers, Eurobonds, corporate bonds, government bonds and municipal bonds. Through capital market activities, we provide financial solutions to a variety of debt issuers, including government entities, municipalities, corporate clients and institutional investors on the Croatian capital markets.
Within its structured finance activities, the Bank offers its clients services involving the origination and execution of securitization processes and project finance transactions. These encompass, among others, preparation of financial forecasts for planned projects; identification of structured transactions risks and proposals for risk reduction measures; due diligence processes and execution of securities issues for structured transaction purposes.
In the process of Croatia's transition to a market economy, encompassing numerous privatisations and company restructurings, the Bank introduced a series of financial advisory services to meet the requirements of the investment market. Our financial advisory services include: mergers and acquisitions; corporate restructuring and divestments; employee stock ownership programs; MBO's, LBO's and other transaction-based projects. We provide valuable insights into how companies can grow and enhance their shareholder value. Aligned with our industry capability and strong network base, we understand the dynamics of the marketplaces in which our clients operate as well as the intricacies of deal structuring and negotiations. We have represented clients in numerous industries, including oil and gas, IT, pharmaceuticals, food processing, confectionery, tourism, banking, retail, paper and paper products, sporting goods and others.
The Bank's research capacities are an indispensable information source to our investment banking operations. Through company valuations, financial analyses, credit potential analyses, company profiles and industry research reports, our clients are supplied with valuable information required for their investment banking decisions.
Through asset management services, the Bank provides clients with customized strategic investment solutions in a range of traditional and alternative asset classes. Our offer includes: advisory services; asset allocation; cash management; investment management in equities and fixed income; real estate and other alternative areas.
While maintaining an ongoing trustworthy relationship with our clients, assessing their investment objectives and respecting their risk tolerances, we strive to ensure that each client achieves competitive returns and maximum value added on assets invested.
In addition to the purchase and sale of securities on domestic and foreign stock exchanges, the Bank's brokerage services consist of providing detailed information on trading activities, supply and demand readily available through electronic trading systems, prompt reporting of securities transactions and margin loans.
As the leader on the Croatian market, the Bank provides high quality custody services to institutional clients from all over the world who have faced the critical challenge of finding the right partner to deliver efficient local custody services with in-depth expertise in local market practice. The Bank is proud to emphasize that it is a sub-custodian for five of the world's largest and well-known global custodians. At the same time, by establishing and continuously developing its own custody network, the Bank offers domestic institutional and private clients access to local and foreign markets. As a depository bank for top Croatian investment funds, we ensure that investors' assets are protected, managed and valued according to regulatory requirements and acknowledged accounting standards.
Our dedicated staff in the Investment Banking Division, focused know-how and experience, combined with the ability to access local and regional markets effectively, provides our clients with top quality products and services and the assurance required in successfully accomplishing all their business goals.

## Support Division

This division offers full business support to all organisational units of the Corporate, Treasury and Investment Banking Group.

In order to improve communication and relations with clients, the Support division has established an Information Centre where clients can obtain all relevant information pertaining to the products and services of the Corporate, Treasury and Investment Banking Group.

# Small and Medium-size Enterprises (SME) Group

As part of the organizational structure of the Bank, the Small and Medium-size Enterprises Group was formed, so instead of the previous sector within the Corporate Banking Group, this segment of its operations has been raised to the highest organizational level.
A new form of business was introduced in 2006 with small and medium sized enterprises based on Credit Scoring and today the Bank has a number of products based on Credit Scoring. Credit Scoring enables flexibility and ensures proactive, direct approach to clients.
Project factoring was also introduced in 2006. Today the factoring desk is a modern and flexible part of the organization, with highly educated and motivated staff. Thanks to support from Intesa Sanpaolo Mediofac-toring, and the training and know how passed on, PBZ can now deal in international factoring, and PBZ is the only bank in Croatia to receive an international license in this field.
The "cluster" project was launched in 2007. In this way we have a special line of credit for sub-contractors of companies producing high quality and original Croatian products. It is planned to create similar lines for other products with confirmed Croatian quality, which are able to compete on the European market.
Currently, there are 57 SME desks already developed throughout PBZ's branch network. The development of the SME desk project for financial transactions has grown from a project into a permanent organizational structure.
RM online - new front line software application has recently been introduced to facilitate the work of our relationship managers. Through the use of this application, we will significantly reduce the paper work involved in the process today.
The SME Group consists of one division and 4 SME Region centres:

### Product Development and Region Coordination Division

This Division is responsible for market research, product development primarily oriented towards small and medium enterprises as well as craftsmen, development of payment systems, SME desk management, Region coordination, call centre supervision and SME credit administration.
With the aim of running these operations adequately the Division is supported by the following departments: Product Development Department, Distribution Channels Development Department, Call Centar SME and Factoring Department.

### SME - Region

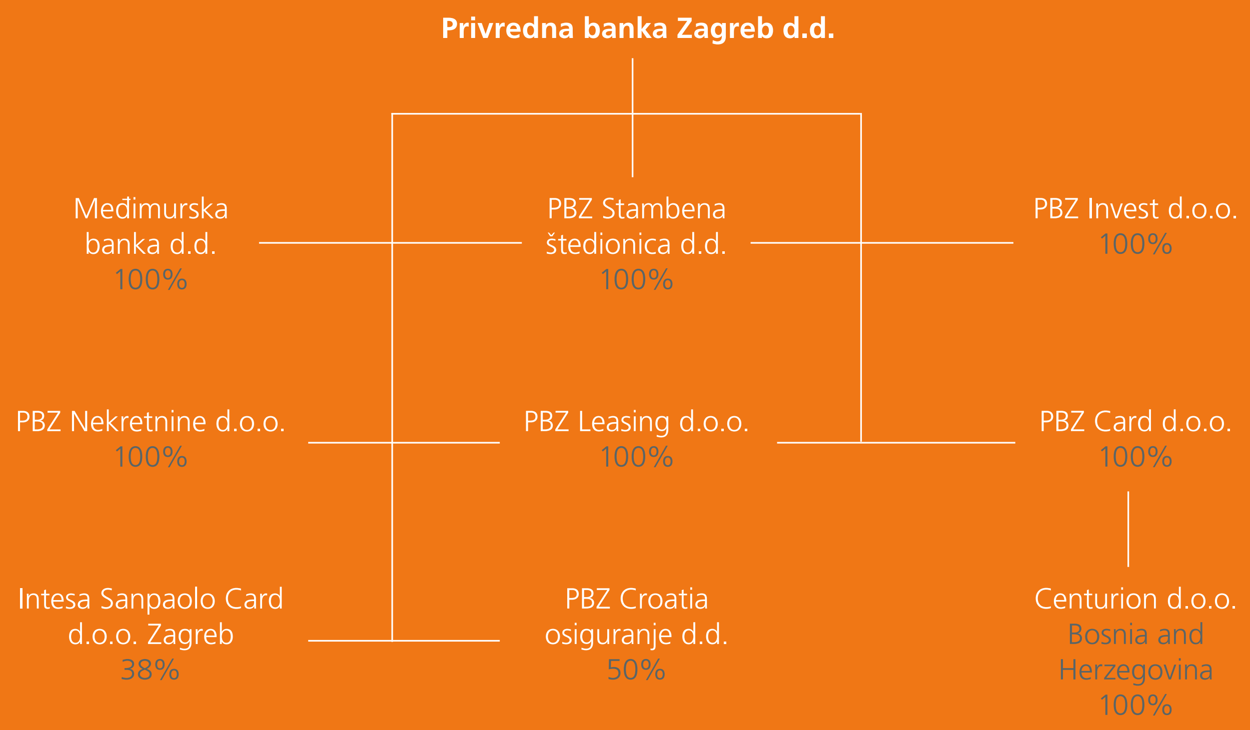
SME Group is also present in the Bank's network. Its presence is grouped in 4 regional centres which are: Central Croatia, Dalmatia, Istra-Rijeka-Lika and Slavonia. Activities and responsibilities of SME Region centres include offering and sales of Bank's products to clients, consulting SME clients in matters of financing and cooperation with other Divisions of the Bank and subsidiaries. We also provide financing, guarantees, letters of credit, bills, factoring, deposit collection and payment services and other services.

# Logistics areas

Business areas focusing on client requirements can only fully exploit their potential if they are provided with a reliable and efficient infrastructure.
The Accounting, Taxation, Controlling and General Administration Group, led by the Chief Financial Officer, provide skilful and in-depth support with regard to all financial monitoring and reporting matters, financial planning and budgeting as well as administrative assistance to the business groups.
The IT and Operations Group represents a key part of the organisation that serves the entire Bank by providing IT and communications assistance, supporting distribution channels and feeding the system with financial information.
Risk management and control is a crucial part of our commitment to providing consistent, high-quality returns for our shareholders. It is our belief that delivery of superior shareholder returns greatly depends on achieving the appropriate balance between risk and return. In this context, we established the Risk Management and Control Group to protect the Bank from the risk of severe loss as a result of unlikely events arising from any of the material risks we face and to limit the scope of materially adverse implications to shareholder returns. Within the same Group there is a Recovery Division established with the goal of helping clients, who are unable to meet their financial obligations, to accomplish economic recovery through restructuring.
Office of the Management Board, Secretariat of the Bank, Human Resource Division, Legal Affairs Division, Compliance Division, Management Board Office for Corporate Communications, Management Board Office for Economic Research and Strategic Planning, Office for Customer Satisfaction Measurement, Project Management Office, Management Board Office for Security and the Office for Corporate Governance of PBZ Group Subsidiaries and Equity Holdings as well as the Supervisory Board offices are integral elements of the overall logistics and support of the business groups and the management.

# The Group

The Privredna banka Zagreb Group is a Croatian based financial services group which provides a full range of retail and corporate banking services to customers in Croatia. The Group employs some 4,169 employees and serves over 1.5 million both private and corporate clients in the country. PBZ Group today is a well-organized institution whose market share in the overall banking system stands at 17.9 percent.
On 31 December 2009 the Group consisted of Privredna banka Zagreb and 7 subsidiaries and 2 associates.
The composition of the Group and a brief description of each subsidiary are set out below.



**Međimurska banka**

Međimurska banka was established in 1954 under the name of Zadružna banka i štedionica Čakovec. Since that time, the bank has experienced many changes both in name and organisational structure. It began operations under its current name in 1978 and became a joint stock company at the end of 1989. During 1996 Međimurska banka was among the first banks in Croatia to obtain the certificate for quality management standards in line with the ISO 9002 quality system. Privredna banka Zagreb acquired a majority stake in Međimurska banka at the end of 2000, making it a member of the PBZ Group and Gruppo Banca Intesa (now Gruppo Intesa Sanpaolo).

Currently the bank has 17 branches located in the region of Međimurje. It uses its network to provide services to more than 5 thousand companies and nearly 100 thousand individual clients. While monitoring the global trends in banking, the bank has continuously worked on expanding and updating its products and services. The bank is recognised as a pioneer in electronic banking in the country. Its main activities are concentrated on lending, and several new products have been launched including customer deposits, direct banking, card operations, kuna and foreign currency processing. At the beginning of 1998, the bank introduced an interactive telephone banking service. Only a year later, they were the first in the country to launch the Internet banking system. The bank also significantly increased the number of ATMs and EFT POS units during the year.

Međimurska banka successfully completed the implementation and launch of its payment system during the payment system reform in 2002. The bank operates the system independently. It opens and runs business accounts and payment transactions for corporate clients while offering them one-stop shop for banking services in less time and with lower costs.

Međimurska banka plans to continue operating in all its different activities with the support of PBZ while maintaining its own legal and business identity that is recognized by the market.

In February 2009 Privredna banka Zagreb finished a Squeezed-Out Project and acquired the remaining 3.34 percent of the share capital of Međimurska banka d.d. PBZ is now a wholly owner of the bank.

**PBZ Card**

In late December 2005 charge, credit and debit card operations of PBZ were integrated with PBZ American Express into the new company, PBZ Card, which deals with all card operations of the PBZ Group. By combining all card brands - American Express, MasterCard and Visa, the largest card institution in the region has been established with nearly 2.2 million cards issued today. The new company has established a joint IT platform for processing American Express, MasterCard and Visa products in Croatia and also for companies in Gruppo Intesa Sanpaolo that reside in several foreign markets.

The aim of PBZ Card is to be the leader in the launch of innovative products and development of new technologies in the region. The company strives to maintain the leading position and continues its market penetration that will further increase PBZ's market share in card operations. PBZ Card aims to be a centre of excellence and market leader in card processing for all brands not just in the PBZ Group but also in Gruppo Intesa Sanpaolo.

No matter if American Express, MasterCard or Visa cards, the three leading card brands in the world, are used for shopping or for taking advantage of the related benefits and services linked to these cards, PBZ Card makes this possible throughout the world. PBZ Card is providing service to its clients 365 days in a year.

American Express is an internationally recognised trademark always associated with exceptional quality. The trademark has been present here on the Croatian market since 1965. PBZ American Express was operating as a subsidiary of Privredna banka Zagreb from 1998. It has grown into the largest company in the country with over 2.2 million issued cards (combined with PBZ) being accepted at approximately 60,000 service establishments countrywide. The company recorded total turnover on all cards in circulation in amount of more than HRK 41 billion.

During 2009 PBZ Card demerged and subsequently transferred its processing unit to newly established company Intesa Sanpaolo Card d.o.o. Zagreb (for more on ISP Card Zagreb refer to page 36).

**PBZ Stambena štedionica**

PBZ Stambena štedionica is the third largest building society on the Croatian financial market. It was founded by Privredna banka Zagreb. Given the large number of our clients interested in housing savings, the company offers them three types of savings: Prima, Basic and Golden savings. At present there are more than 124 thousand savings contracts which amount to nearly HRK 1.2 billion.

Prima and Basic types are aimed at clients whose goal is to make use of a housing loan with exceptionally favourable interest rates. Golden savings are designed for clients whose first intention is long-term saving. These forms of saving are run with a foreign currency clause in euros whilst deposits are insured in accordance with the Banking Law. There is also the possibility of changing the type of savings account whilst saving. Clients have the opportunity to manage their own savings accounts from their own home by means of Internet banking through PBZ365@NET services.

## PBZ Invest

PBZ Invest is a subsidiary of Privredna banka Zagreb specialising in the establishment and management of investment funds.
The company was established in 1998 and is fully owned by Privredna banka Zagreb. PBZ Invest is an active member of the Financial Brokerage Association within the Croatian Employers' Association, as well as a member of the Group of investment fund management companies within the Croatian Chamber of Commerce.
Investment funds are state-of-the-art financial instruments managed by specialist managers that enable investors to earn a competitive return on money invested. PBZ Invest is confident that there is a good future for investment funds on the Croatian financial market. The company intends to offer its clients a wide range of investment funds, thus meeting the needs of investors with a variety of preferences and investment goals, ranging from conservative clients who prefer safety and liquidity of investment to those who are not averse to risk and want to see their investment grow over a long-term period.
With that in mind, PBZ Invest commenced with its first fund in 1999 - PBZ Novčani fond, an open-ended investment fund. In recent years, seven new funds were established: PBZ Euro novčani fund, PBZ Global fund, PBZ Bond fund, PBZ Dollar fund, PBZ Equity fund and PBZ I-Stock fund. In cooperation with PBZ, during 2005, PBZ Invest launched two tranches of a structured product - PBZ Protecto. The product is a combination of investment funds and classic savings with a Bank, with guarantee for invested money.

### PBZ Novčani fond, open-ended investment fund

PBZ Novčani fond is an open-ended investment fund with a strictly conservative investment philosophy, focusing on low risk investments and high liquidity. The goal of the fund is to offer all its investors a low-risk investment, an uninterrupted and unconditional liquidity option, return on investment that is competitive by market standards and protection from adverse movements in the kuna exchange rate (investment with a currency clause option). Purchasing units of the Fund enables investors to earn higher returns on their investment than would be in a case with the usual savings account.

### PBZ Bond Fund, open-ended investment fund

The investment fund was developed in association with Intesa Sanpaolo. The goal of the Fund is to enable both private and institutional investors to earn income by investing in first-class global bonds, issued by foreign governments, local governments and the most stable global corporations, denominated in stable global currencies.

### PBZ Global Fund, open-ended investment fund

The Fund's operations consist of attracting cash assets by public bidding of its shares and investment of assets thus collected in safe and profitable instruments, offered on both domestic and foreign financial markets.
Given the strategy and the choice of instruments, the Fund is chosen by investors who want to invest their assets for a period of two to five years.

### PBZ Euro novčani fund, open-ended investment funds

PBZ Euro novčani fund is an open-ended investment fund established in 2002, designed for domestic and foreign investors who wish their investments to be pegged to the Euro.

### PBZ Dollar Fund, open-ended investment fund

This money market fund was launched in May 2005 as the first domestic Money Market Mutual Fund denominated in USD. Assets are invested into low risk short-term Government securities, primarily issued by USA and securities denominated in USD issued by member countries of the EU and OECD. It is suitable for conservative investors who are more inclined to invest in dollars.

### PBZ Equity Fund, open-ended investment fund

A higher risk fund that offers to its investor's possibility of investing specifically in domestic and foreign shares. This fund is appropriate for individual investors interested in high return at significant risk.

### PBZ I-Stock Fund, open-ended investment fund

The newest fund of PBZ Invest is oriented to eastern equity and fixed capital markets. It offers its investors possibility of investing specifically in emerging economies of near and far east.

## PBZ Leasing

PBZ Leasing is wholly owned by Privredna banka Zagreb. It was founded in 1991 under the name of PBZ Stan. In the beginning it dealt with property appraisals and restructuring of the public housing fund. During 1995, the company commenced granting car purchase loans by placing funds of Privredna banka Zagreb.
In the past several years, leasing has become core business activity of the company. Through both finance and operating leases, the company engaged in financing of real estates, vehicles, leisure boats, heavy machinery and equipment. By the end of 2009, PBZ Leasing made over 6.5 thousand lease arrangements with customers, which in financial terms reached almost HRK 1.3 billion.

## PBZ Nekretnine

PBZ Nekretnine is a wholly owned subsidiary of Privredna banka Zagreb which engages in property transaction services, construction management and real estate valuation. Privredna banka Zagreb established PBZ Nekretnine with the goal of providing its clients with a complete range of services relating to property and investment in business projects. PBZ Nekretnine offers apartments, houses, business premises, construction sites and other properties for sale.
The activities of PBZ Nekretnine involve property transactions, property transaction services, property renting, construction, planning, construction supervision, construction evaluation, appraisal of property value, preparation of feasibility studies for investments, as well as legal supervision of works.
PBZ Nekretnine has a professional team capable of answering all its clients' complex requests. The company provides all kinds of services related to the activities mentioned, no matter how specific and complicated the clients' demands are. PBZ Nekretnine employs highly trained employees, five of which are court experts in the field of construction.
The company has been operating successfully within the Group since it was founded at the beginning of 1999. For the needs of its clients, PBZ Nekretnine has developed a network of associates and at the moment collaborates with over 70 associates.

## PBZ Croatia osiguranje

PBZ Croatia osiguranje is a joint stock company for compulsory pension fund management. The company was incorporated on 26 July 2001 in accordance with the new changes in Croatian pension legislation and it is a mutual project of both Privredna banka Zagreb d.d. and Croatia osiguranje d.d. with ownership in the company of 50 percent belonging to each shareholder.
The principal activities of PBZ Croatia osiguranje include establishing and management of the compulsory pension fund.
After the process of the initial stages of gathering members, PBZ Croatia osiguranje fund became one of the three largest compulsory funds in the country. Despite fierce competition on the market, the company's pension fund continued to operate successfully during 2009. In the successful management of its funds, PBZ Croatia osiguranje relies on its positive experience to date in managing investment funds and association with Gruppo Intesa Sanpaolo asset management.
At this point, the fund has over to 270 thousand members and net assets in personal accounts exceeding HRK 4.9 billion which represents a sound base for the long-term stable and profitable operation of the company.

## Intesa Sanpaolo Card d.o.o. Zagreb

Intesa Sanpaolo Card was established in April 2009 by Intesa Sanpaolo Holding International S.A., Privredna banka Zagreb and Banka Koper. As of 31 December 2009 PBZ held 37.64 percent share of ownership, which was result of the demerger of processing unit in PBZ Card and direct capital investments.
The foundation of the company is based on complementary strengths of the two strongest cards businesses within the Intesa Sanpaolo Group, Banka Koper and Privredna banka Zagreb, and their transition from local companies into a fully international organization. Both centres of excellence were recognized based on long experience in card business in home markets (Croatia and Slovenia) which are, by many parameters, more advanced than some of the West-European markets. Both centres have the best practice not only at the level of Intesa Sanpaolo Group but also at the level of the entire Central-Eastern Europe.
Intesa Sanpaolo Card delivers a wide range of services to meet business needs of its clients. All services and solutions are tailored to meet regional, local market or individual clients' requirements.

# Overview of Activities in PBZ's Social Responsibility Program

Appendix to the Annual Report

**Introduction**

Privredna banka Zagreb has continuously been at the peak of the Croatian banking sector ever since it was founded. Today, as a member of one of the leading banking groups in Europe - Intesa Sanpaolo, we are a dynamic and modern European bank, which follows the demands of the market and our clients. Our joint strategy of growth and development aims at creating solid and sustainable values in an economic, financial, social and ecological sense founded on the confidence of all our partners.

Presented below is a brief overview of the activities undertaken in the Program during 2009.

**1. Education and professional development**

We have continued the strategic development project PBZ Business School. In 2009 a new generation counting 102 employees started their education in two programs: General management program & Operational/Sales management program. At the same time, in November 2009, the 1st generation with a total number of 184 employees completed their 3 year education program with the PBZ Business school.

In 2009 we have continued with specific AML training programs focussing on Front office employees. A total number of 550 participants (15 % of the bank's staff) participated in classroom training.

Besides classical training in the classroom, different channels for rising awareness & knowledge related to AML legislation were introduced. Intranet education solutions, newsletter, HelpDesk, etc., are reachable for all Banks' employees.

A specific certified development program for affluent personal bankers in Retail banking was developed and launched due to the results of a client satisfaction survey within the project "Listening 100%". A total number of 120 bankers for affluent clients participated in a 4 module program consisting of both soft skills and financial competency training.

**2. Internal communications**

The internal communications system is very well developed through various channels: Intranet, e-mail, an internal magazine "Moja Banka" and the internal newsletter PBZXpress. They obtain all relevant information and interesting details from the life of the Bank, the PBZ Group and Intesa Sanpaolo and in this way contribute to a felling of belonging to our large international multinational group. Target audiences are all employees of the bank.

During this year we have enriched our Intranet with some new functionalities: expanding the functionality of the internal phone directory and the ability to access various educational materials - video presentations or CD ROM format.

**3. Care for employees**

PBZ STANDARD is an association whose registered scope of activity includes organization of recreational and sports-educational activities for PBZ Group employees. It was established with a view to provide a wide range of recreational activities to Bank employees to better their health and general conditioning and eventually reducing sick leaves and the absence of employees from their workplaces.

The Association has been active for four years and currently has about 2,100 members. Use of organized recreation is allowed also to the immediate family of our employees, meaning their spouses and children.

PBZ STANDARD strives to enable recreation through as many sports as possible so as to stimulate Bank employees to socialize with each other and jointly contribute to the achievement of set goals as well as to strengthen their team spirit and make them aware of the fact that it is easier to achieve such goals with joint forces.

PBZ STANDARD organizes activities under the name TOWARDS BETTER HEALTH initiative (lectures and workshops on prevention of the most common diseases of modern times). Every second year PBZ pays for general physical health examinations for every employee.

**4. Donations and sponsorships**

Privredna banka Zagreb endeavours to make a contribution and show its responsibility towards the wider community through sponsorship and donations. The Bank contributes to the development of local communities by actively involving our Regional branch offices in sponsorship and donation programs involving institutions, associations and individuals in Croatia.

PBZ endeavours to support and initiate many cultural events and happenings, and contribute to the improvement of the overall quality of life of our community.

**4.1. Donations**

Donations in 2009

| | |
|---|---|
| Science and education | 756.000 kn |
| Sport | 1.012.000 kn |
| Culture | 375.000 kn |
| Social solidarity | 3.756.000 kn |
| Others | 507.000 kn |
| **Total** | **6.406.000 kn** |

PBZ is actively involved in a whole series of socially beneficial projects and provides financial supports to a large number of humanitarian and social institutions. We would like to highlight some of the 2009 donations:

- Red Cross - help to the earthquake victims in Haiti
- Caritas fundraising campaign "For One thousand Joys". The aim of the campaign is to raise money to help 1000 low income families in Croatia. From its very outset in 2003 PBZ has been involved in the major Caritas fundraising campaign "For One thousand Joys". The aim of the campaign was to raise money to help 1000 low income families in Croatia from funds which businesses set aside for Christmas and New Year's

parties. As well as donating money, PBZ supports the campaign by buying Caritas' Christmas cards. This year, under the name "Let there be light" the funds were raised for families were one or both parents has lost their jobs.

- The donation to the Humanitarian Foundation for the Children of Croatia - The donation to the Humanitarian Foundation for the Children of Croatia for the purpose of providing support to 350 children under the care of the Foundation with a monthly amount of HRK 300.00 per child.
- The donation to the National Foundation for Supporting the Pupil and Student Standard of Living: The Foundation is awarding the national grants to talented students and giving support to the special programs witch contribute to the living and cultural standard of students. The key role is in financing the best and most successful Croatian students, but it will also support the students whose university degree will enable them to apply for high-demand jobs and thus provide fresh impetus to the economic growth of the Republic of Croatia.
- Restoration of cultural monuments and heritage:
  1. Donations for the restoration of St. Rochus (sv. Rok) parish church which is a zero category monument of cultural heritage - restoration of the exceptional wooden altar
  2. Thanks to PBZ, the Italian cultural institute and Generali osiguranje, the famous KING violin by Giuseppe Guarneri, kept at the Croatian Academy, has been professionally and thoroughly restored and presented to the public.
- Donation to the Fund "I hear, I believe, I see" - for a project to give blind people and the disabled, who cannot read by themselves, access to literature, through sound recordings and digitalization of printed books.
- The public institution "Kopački rit nature park" - donation for the purchase of technically appropriate equipment, thermal cameras, which will make it possible to supervise the Nature Park more effectively, to prevent poaching and illegal fishing.
- Rebro Teaching Hospital - ear nose and throat clinic and head and neck surgery - donation for the purchase of contemporary diagnostic and therapeutic endoscope to make minimal invasive surgery possible in the area of the patients' head and neck, and thereby shorten the time patients have to stay in hospital.
- Županja health center - donation for equipping the Centre for dialysis
- Association of parents for children with the most severe physical handicaps and child with special needs - "anđeli - angels" - donation for equipment for a re/habilitation centre for children with the most severe forms of physical handicap, who are not integrated in any way, whether in kindergarten or school.
- Donation to the Society "Croatica" - a Society for promotion of Croatian culture and science CROATICA is preparing a national monograph in five volumes entitled "The History of the Croatian Language". The project is extremely important for the culture of the RoC as it covers the historical development of the Croatian language from the Middle Ages right up to the 21st century. Work on the monograph has brought together the most eminent experts who deal with the development of the Croatian language from various points of view.
- Zagreb archdiocese caritas- donation for the project "Houses for Rest and Recreation": Rovinj, Nerezine, Kalje aimed at providing quality conditions for organized stays throughout the year, for people who are spiritually, emotionally and physically in need.
- Croatian catholic university - donation for final work and furnishing of the premises of the former military barracks for the needs of the University.

## 4.2. Sponsorships

Sponsorships in 2009

| | |
|---|---|
| Science and education | 521.000 kn |
| Sport | 7.349.000 kn |
| Culture | 1.434.000 kn |
| Social solidarity | 73.000 kn |
| Others | 382.000 kn |
| **Total:** | **9.759.000 kn** |

Through its sponsorship policy, as well as promoting its own brand name, PBZ also seeks to support and encourage a large number of projects in the fields of culture, sport and science, and in that way contribute to the development of Croatian society.
Some of the sponsorship activites in these fields in 2009 were:

- As a member of the Croatian Olympic POOL, PBZ earmarks funds every year to finance the Croatian Olympic Committee and in that way provides for the quality preparation of our Olympic sportsmen and women
- The Bank and PBZ Card sponsored the ATP Croatian Indoors tournament (PBZ Indoors) for the 5th time
- PBZ supported various cultural institutions and cultural programs in 2009, such as the Croatian National Theatre in Zagreb, the Croatian National Theatre in Varaždin, the Modern Gallery, the traditional ethnological manifestation "Rapska fjera" and many other local cultural events
- The Bank is a sponsor of the Faculty of Economics in Zagreb, supporting the project of equipment purchasing to offer top quality working conditions for postgraduate students
- Kutjevo - sponsorship of a charity event aimed at collecting money for widening, refurbishing and up-dating the Intensive Care Ward of the Pediatrics Clinic of Osijek Teaching Hospital. Since the ward is the regional centre for treating children

in life-threatening situations from the age of one month to eighteen years for the entire area of Eastern Slavonia, the conditions for treating very seriously ill children are inadequate and do not come up to the growing medical, pedagogic and psychological needs of hospital treatment.

- Sponsorship of a charity gala concert to collect money for the Debra Association - Butterfly Children, who suffer from the rare and incurable disease hereditary bullous epidermolysis. The funds will form initial capital to build an international rehabilitation centre.

## 5. Projects

PRIVREDNA BANKA ZAGREB is actively involved in a CSR project - the workshops for citizens entitled "How to Balance Income and Expenditure", held in eight Croatian cities for over three years. Banks that had joined the initiative have together developed a programme for conducting free-of-charge interactive workshops on managing personal finances to the general public. Workshops are run by employees from the participating banks and Croatian Banking Association is coordinating the project and provides necessary logistical support. The banks recognized the importance of joint action, seeing as this was the first time that an entire business sector had come together and offered its clients a "solution" outside of its selection of products on sale. The aim of the workshops is, due to the high level of indebtedness and a relatively low level of citizen's financial literacy, to teach them how to make financial decisions, set their short-term and long-term objectives, and balance their means and wishes with regard to their income and expenditure, without offering them or promoting any bank products.
As a result of the successes of the workshops, we have produced the e-learning material which is available for general public free of charge (CD or free download from the web site of the CBA)

PBZ for many years has supported an international exchange program of students aged from 15 to 18 years organized by the AFS (Associated Field Service). This reputable international, voluntary and non-profit organization deals with the exchange of students. PBZ sponsors two scholarships for a one-year program abroad.

The PBZ Bridge project has been running since 2006 - as the first program of student loans with exceptionally favourable terms, which enables students to bridge the period between their studies and employment more easily.
The partner in the project is the Faculty of Electrical Engineering and Computing in Zagreb.

In November 2009, we have launched a joint humanitarian campaign by the Pontifical Mission Societies and PBZ named - Perform a miracle - and save a child's life! The goal of this campaign is to collect funds to help children in the Democratic Republic of Congo, in particular for: the Center for Malnourished Children at the General Hospital in Ifendula Luhwinya and centers for therapeutic nutrition which operate within Caritas of the Archdiocese of Bukavu in DR Congo. The start of this campaign was marked by an initial donation by PBZ of 100,000 kunas to help children in DR Congo and the Bank will continue to collect funds through its branch network. In the 50 largest branches of PBZ, in a spot marked with a campaign poster there is a collection box from the Pontifical Mission Societies, and flyers with a payment slip. Apart from the Bank, other companies from the PBZ Group will also be involved in the campaign. We have also promoted the campaign internality (via e-mail, Intranet and House organs) in order to engage the employees of the PBZ Group.
The whole project is fully transparent and all the details, as well as the amount of the funds collected, can be monitored on our web site http://sirimodobrotu.pbz.hr/

## 6. Environmental impact

During building and reconstruction of the Bank's premises we use systems and equipment with low level of power consumption and high level of energy utilization.
All air condition systems use ecological gas (Freon) and power of all systems is reduced using inverter technology.
Reduction of paper consumption is reached by implementing the multifunctional devices as well as with bank-wide instructions to print on both sides of the paper.
Paper waste is gathered separately and collected by a contracted company that recycles it. Hazardous waste as cartridges are also separately sorted and collected by a contracted company which does business in compliance with laws and regulations.
Also in process is the project of implementation of interdepartmental envelopes.

# Corporate governance

In accordance with the Companies Law, Credit Institutions Act and its Article of Association, the Bank has a Supervisory Board and a Management Board. The two boards are separate and no individual may be a member of both boards. The duties and responsibilities of members of both boards are regulated by the Companies Law, Credit Institutions Act and Article of Association.

**Supervisory Board**

The Supervisory Board consists of six members. The Board meets quarterly and oversees the Management Board. The members of the Bank's Supervisory Board are appointed on the three year mandate. Members of the Supervisory Board are the following:

György Surányi, (President of the Supervisory Board, Intesa Sanpaolo)
Paolo Grandi, (Vicepresident of the Supervisory Board, Intesa Sanpaolo - appointed on 8 April 2009)
Beata Kissné Földi, (Member of the Supervisory Board, Intesa)
Massimo Malagoli, (Member of the Supervisory Board, Intesa Sanpaolo)
Massimo Pierdicchi, (Member of the Supervisory Board, Intesa Sanpaolo)
Anne Fossemalle, (Member of the Supervisory Board, EBRD)
Previous members in 2009 were also:
Giovanni Boccolini, (Vicepresident of the Supervisory Board - mandate expired 7 April 2009)
Adriano Arietti, (Member of the Supervisory Board - mandate expired 7 April 2009)
Rosario Strano, (Member of the Supervisory Board, Intesa Sanpaolo - resigned 27 January 2010)

**Audit Committee**

Pursuant to the Articles of Association of Privredna banka Zagreb, the Supervisory Board on its 15th meeting held at 10 December 2002 established the Audit Committee and adopted the Audit Committee Charter.
The Committee contributes to the work of Supervisory Board by monitoring various important processes such as the financial reporting, effectiveness of internal audit, risk management and compliance with laws. Among above mentioned during 2009 Audit Committee discussed the annual work plans and reports (quarterly, semi-annual and annual) of control functions and significant issues relating to this area and oversee the auditing of annual financial statements and consolidated and gave the recommendation of the assembly of shareholders on the selection of audit companies.
The Audit Committee may have at least three and a maximum of seven members. Members of the Audit Committee are the following:

Giampiero Trevisan, (President of the Audit Committee - mandate expired 11 December 2009)
Luca Finazzi, (Member of the Audit Committee)
Beata Kissné Földi, (Member of the Audit Committee)
Ezio Salvai, (Member of the Audit Committee)
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Previous members in 2009 were also:
Massimo Pierdicchi, (Member of the Audit Committee - mandate expired 14 March 2009)
Armando Sala, (Member of the Audit Committee - mandate expired 21 July 2009)

**Executive Committee**

Pursuant to the Articles of Association of Privredna banka Zagreb, the Supervisory Board on its 15th meeting held at 10 December 2002 established the Executive Committee.
The Executive Committee has three members (chairman and two members of the Supervisory Board of the Bank) and gives consent to the Decisions of the competent bodies of the Bank. Committee contributed to the Supervisory Board by rapid and effective resolution of issues that are mostly related to the Bank's exposure to credit risk for retail and corporate clients and organizational changes in the Bank.
Members of the Executive Committee are the following:

György Surányi (President of the Executive Committee)
Massimo Pierdicchi (Member of the Executive Committee)
Beata Kissné Földi (Member of the Executive Committee - appointed on 22 July 2009)
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Previous member in 2009 was also:
Paolo Grandi (Vicepresident of the Executive Committee - mandate expired 21 July 2009)

**Management Board**

The Management Board consists of seven members with each being allocated a specific area of responsi-bility. The Management Board meets at least twice a month to discuss and determine the operating policies of the Bank.
Following the three year term the mandate of the former Management Board expired on 7 February 2009. Accordingly, the new Management Board was appointed on the three year term effective from 8 February 2009.

**Management Board members**

Božo Prka, President of the Management Board
Jonathan Charles Locke, Vicepresident of the Management Board, responsible for the Risk Management and Control Group, coordination with the Information Technology and Operations Group and coordination with Accounting, Taxation, Controlling and General Administration Group - appointed on 8 February 2009
Gabriele Pace, Chief financial officer, responsible for the Accounting, Taxation, Controlling and General Administration Group
Ivan Gerovac, Member of the Management Board responsible for the Corporate, Treasury and Investment Banking Group

# Statement on the implementation of the Code of Corporate Governance at Privredna banka Zagreb

Mario Henjak, Member of the Management Board responsible for the SME Banking Group
Draženko Kopljar, Member of the Management Board responsible for the Information Technology and Operations Group
Dinko Lucić, Member of the Management Board responsible for the Retail Banking Group - appointed on 8 February 2009
Previous members in 2009 were also:
Marco Capellini, Vicepresident of the Management Board, responsible for the Risk Management and Control Group - mandate expired on 7 February 2009
Tomislav Lazarić, Vicepresident of the Management Board, responsible for the Retail Banking Group - mandate expired on 7 February 2009

Pursuant to the provisions of Article 272.p of the Companies Act, the Management Board of Privredna banka Zagreb d.d. hereby declares that the Bank voluntarily implements the Code of Corporate Governance prepared jointly by the Croatian Agency for Supervision of Financial Services and the Zagreb Stock Exchange.
The Annual questionnaire for the business year 2009, which makes a constituent part of this Statement (available also on the Bank's web site), reveals the Bank's corporate governance status and practices in view of the recommendations given in the Code of Corporate Governance, and provides explanations of certain departures. Namely, the Bank's corporate governance is not based solely on full satisfaction of regulatory requirements, but also on ingrained corporate culture and personal integrity of its management and employees.
General features of the conduct of internal supervision and risk management in terms of financial reporting are described in this Annual report, as well as data on the Bank's shareholders (as at 31 December 2009) are provided in this Annual report.
Rules on the appointment and recalling of members of the Management Board are laid down in the Bank's Articles of Association.
The number of members of the Management Board of the Bank is determined by decision of the Supervisory Board. Accordingly, the Management Board is composed of seven members. The Supervisory Board brings a decision to nominate candidates for president and members of the Management Board, who need to meet the conditions prescribed by the law governing banking operation and other relevant regulations. After obtaining the prior consent of the central bank, the Supervisory Board appoints the president and members of the Management Board for a 3-year term of office, with the possibility of re-appointment. The Supervisory Board may revoke its decision on the appointment of a member or the president of the Management Board provided that there are substantial grounds therefore pursuant to the law in force.
Authorities of the Management Board are set out in the Bank's Articles of Association, while a special decision was adopted, with the consent of the Supervisory Board, to lay down the distribution of authority among the president, deputy president, and other members of the Management Board of the Bank.
The Shareholders' Meeting adopted a decision authorizing the Management Board of the Bank to acquire treasury shares on an organized securities market until 7 October 2010. The Management Board of the Bank is not authorized to issue new shares of the Bank.
Data on the composition and activities of the Management Board and the Supervisory Board of the Bank and their supporting bodies are presented in the enclosed Annual questionnaire.
Rules for making amendments to the Articles of Association of the Bank are laid down in the Articles of Association. The Decision on the amendments to the Articles of Association is adopted by the General Meeting of the Bank, in accordance with the law and the Articles of Association, by a ¾ majority of the voting share capital represented at the General Meeting on adoption of the decision. Amendments to the Articles of Association are proposed by the Supervisory Board, the Management Board, and the Bank's shareholders. The Supervisory Board is authorized to amend the Articles of Association only if it is a matter of harmonisation of the wording or of establishing the final version of the Articles of Association.
With a view to protecting the interests of all investors, shareholders, customers, employees, and other interested parties, the Bank has set high corporate governance standards.

All questions contained in this Questionnaire relate to the period of one year for which annual financial statements are prepared.

1. **Does the Company have its own website on the Internet?**
Yes. The Bank's website address is www.pbz.hr

2. **Are the semi-annual, annual and quarterly financial statements available to the shareholders?**
   - At the Company's headquarters?
   Yes.
   - On the Company's website?
   Yes. The annual financial statements for 2009 with the external auditors' report are available on the Bank's website. Semi-annual and quarterly reports (TFI-KI form) for 2009 are published on the Bank's and Zagreb Stock Exchange website.
   - In English?
   Yes. The annual financial statements for 2009 with the external auditors' report are prepared and available in English on the Bank's website.

3. **Has the Company prepared a calendar of important events?**
   - Has the calendar of important events been published on the Company's website?
   - Has the calendar of important events been updated regularly and in good time?
   Yes, the Bank has published a calendar of important events on its website and it is updated with each change.

4. **Does the company publish a list of shareholders and is the list updated at least twice a month?**
The Bank publishes a list of top 10 shareholders (out of 6,456 shareholders on 31 December 2009) in accordance with the Law. The list is updated in the case of changes to those top 10 shareholders.

5. **Is there a cross-ownership relationship between the Company and another Company / other Companies?**
No.

6. **Are data on securities issued by the Company and held by the Supervisory Board members or Management Board members presented in the annual financial statements?**
Yes. The number of Bank shares held by the Management Board and Supervisory Board member as at 31 December 2009 is published in the Annual Report for 2009 while the changes (increase/ decrease in number of shares owned) during the year is published on the Zagreb Stock Exchange website.

7. **Are data on securities issued by the Company and held by Supervisory Board members or Management Board members published on the Company's website and regularly updated (on a 48-hour basis)? If not, why not?**
No. Data are published on the Zagreb Stock Exchange website within the legally prescribed period and contents.

8. **Does the Company identify and publicly disclose risk factors?**
Yes. Bank's risk factors are disclosed within the Annual report which is prepared in accordance with the International Financial Reporting Standards.

9. **Has the Company established mechanisms to ensure:**
   - That clarifications in respect of privileged information, its nature and importance, as well as the restrictions on its use, are supplied to persons to whom such informati on is made available?
   Yes.
   - Supervision of the flow of information and its possible misuse?
   Yes.

10. **Does each share of the Company carry the right of one vote?**
Yes.

11. **Are the nominations, including relevant CVs, for all candidates for Supervisory Board member-ship to be elected at the General Meeting, announced on the Company's website? (If no, why not?)**
Yes. The Bank always discloses proposed decisions to both General and Extraordinary meetings of shareholders. These materials also include proposals for changes in the membership of the Supervisory Board and are posted on the Bank's Internet site. However, proposed decisions do not include relevant CVs of the candidates due to stable ownership structure and infrequent changes in the membership of the Supervisory Board.

12. **Does the Company treat all shareholders in the same manner?**
Yes.

13. **Did the Company issue new shares?**
No.

14. **Did the Company acquire or release its own (treasury) shares)?**
No. During 2009 Bank did not acquire or release its own shares.

15. **Is the process of proxy issue for the General Meeting simplified and free of strict formal requirements?**
Yes.

16. **Did the Company provide proxies for shareholders, who are for some reason prevented from voting at the General Meeting, who are obliged to vote in compliance to the shareholders' instructions, at no extra cost? (If not, why not?)**
No. There were no such initiatives by the shareholders but the Bank is prepared to provide proxies for the shareholders if such an initiative occurs.

**17. Did the Management Board of the Company, up on convocation of the General Meeting, determine the date when the status in the share register would be established for the purpose of granting voting rights at the General Meeting of the Company in the manner that the date falls no more than seven days before the General Meeting? (If no, why not?)**
Yes.

**18. Does the Decision on dividend payment or dividend advance stipulate the date when shareholders are to acquire the right to dividend payment and the date of dividend payment or period? (If not, why not?)**
No. At the General Meeting shareholders adopted the Decision that the Bank's profit earned in 2008 was to entirely allocate to retained earnings and thus no dividend payment was made.

**19. Is the date on which the shareholders acquire the appropriate dividend payment or dividend advance payment at least 10 days after the adoption date of passing the respective Decision? (If not, why not?)**

**20. Is the date of dividend payment or dividend advance payment no less then 12 days before and no more than 30 days after the adoption date of the respective Decision? (If not, why not?)**

**21. Did the period of dividend payment or advance to dividend payment last longer than 10 days? (If yes, why?)**

**22. Did certain shareholders enjoy privileged treatment during dividend payments or advance dividend payments? (If yes, why?)**

**23. Was the Decision on dividend payment or advance dividend payment laying down the above mentioned dates announced and submitted to the Stock Exchange at least 2 days after its adoption?**
Refer to 18.

**24. Were the Agenda of the General Meeting, relevant information and documents with explanations relating to the Agenda published on the Company's website, and made available to the shareholders at the Company's headquarters as of date of the first public announcement of the Agenda? (If not, why not?)**
Yes. The Decision on calling the Annual General Meeting and proposals of Decisions by the General Meeting, was published in "National Gazette", on the Zagreb Stock Exchange website and the Bank's website. All relevant information and documents were available to the shareholders on the same day when the invitation for the General Meeting was posted at the Bank's headquarters. Calling for the Annual General Meeting was posted on the website of the Zagreb Stock Exchange.

**25. Were the Agenda of the General Meeting, relevant information and documents also published on the Company's website in English? (If not, why not?)**
Yes.

**26. Were any requirements set for participation at the General Meeting and exercising voting rights (irrespective of whether such requirements are prescribed by the law or the Articles of Association) such as announcing one's participation in advance, certifying letters of proxy, and the like? (If yes, why?)**
No.

**27. Apart from the contents prescribed by the law, does the report submitted by the Supervisory Board to the General Meeting contain an assessment of the Company's overall business performance, the performance of its Management Board and a separate commentary on its co-operation with the Management Board? (If not, why not?)**
Yes.

**28. Is it possible for the shareholders to participate and, in particular, to vote at the Company's General Meeting by means of modern communication technology? (If not, why not?)**
No. There were no such initiatives by the shareholders.

**29. Did the Company's Management Board publish the decisions by the General Meeting, and also information on possible law suits contesting such decisions? (If not, why not?)**
Yes. (note: there were no law suits contesting Decisions by the General Meeting).

**30. Did the Supervisory Board make a decision on the tentative work plan which includes a schedule of its regular meetings and reports that should be made available to the Supervisory Board members on a regular and timely basis? (If not, why not?)**
Yes. The schedule of the Supervisory Board meetings for the current year was determined. Reports that are regularly and timely put at the disposal of Supervisory Board members are defined by the individual decisions of the Supervisory Board and by law.

**31. Did the Supervisory Board adopt Rules of Procedure? (If not, why not?)**
Yes.

**32. State the names of the Supervisory Board's members.**
György Surányi, President;

Paolo Grandi, Vice president;
Massimo Malagoli, Member;
Massimo Pierdicchi, Member;
Beata Kissné Földi, Member:
Anne Fossemalle, Member.

**33. For each Supervisory Board member, state the names of the companies of which he/she is a member of the Supervisory Board or the Management Board. If any of these companies is to be considered a competitor to your Company, indicate it.**

György Surányi is a member of the Supervisory Board of the following companies:
Banca Intesa Beograd - Belgrade, Serbia
CIB - Budapest, Hungary
KITE - Nadudvar, Hungary
VUB - Bratislava, Slovakia
- - -
Anne Fossemalle is a member of the Supervisory Board of the following companies:
BRD - Groupe Société Générale SA - Bucharest, Romania
Nova Ljubljanska banka - Ljubljana, Slovenia

**34. Is the Company's Supervisory Board mostly composed of independent members? (If not, why not?)**

No. During 2010 Bank will conduct the election process for independent member within law prescribed deadline.

**35. State independent Supervisory Board members?**

Refer to 34.

**36. Is there a long-term succession plan in place in the Company? (If not, why not?)**

Yes.

**37. Is the remuneration of the Supervisory Board members entirety or partly determined according to their contribution to the Company's performance? (If not, why not?)**

Yes.

**38. Is the remuneration of the Supervisory Board members:**

- Determined by the Decision of the General Meeting?
  Yes.
- Determined in the Articles of Association of the Company?
  Yes.
- Determined in some other manner? (If yes, in which?)
  No.

**39. Are detailed data on all types of remuneration and other receipts paid by the Company and its related persons to each member of the Company's Supervisory Board, including the structure of such remuneration, publicly announced? (If no, why not?) (If yes, where?)**

Yes: Data on all remunerations are published in the decisions of the General Meeting. Also, total remunerations paid to the members of the Supervisory Board, Management Board, key management employees and Bank's related persons are disclosed in the Annual Report which is prepared in accordance with the International Financial Reporting Standards. The Annual report is available on the Bank's web site.

**40. Is each Supervisory Board member required to report to the Company on all changes in respect of his/her Company's share ownership on the following business day after such change has occurred? (If not, why not?)**

This requirement is not set because Supervisory Board members do not own Bank shares.

**41. State all the transactions involving Supervisory Board members or their related/associated persons, on the one hand, and the Company or its related/associated persons, on the other hand.**

The Bank has not performed specific commercial transactions with the Supervisory Board members. The Bank has commercial (deposits-loans) transactions with the members of Intesa Sanpaolo Group which has a representative on the Supervisory Board. All transactions are market-based in terms and conditions. In the Annual Report, the Bank discloses a separate note on related party transactions which is prepared in accordance with the International Financial Reporting Standards. The Annual Report is available on the Bank's website.

**42. Were all the transactions involving Supervisory Board members or their related/associated persons, on the one hand, and the Company or its related/associated persons, on the other hand:**

- Concluded on the basis of market conditions (especially as regard to deadlines, interests rates, guarantees and similar)? (If not, why and which?)
- Clearly stated in the Company's reports? (If not, why and which?)
- Confirmed by the assessment of experts, independent in respect to the participants in the respective transactions? (If not, why and which?)
  Refer to 41.

**43. Are there contracts and agreements between the Supervisory Board members and the Company?**

No.

**44. Did the Supervisory Board establish an Appointment Committee? (If not, why not?)**

Yes, the Executive Committee is responsible for appointments and dismissals of Management Board members.
If yes,

- Did the Committee estimate the composition, size, membership and work quality of the Supervisory Board and the Management Board members and make a draft of corresponding recommendations for the Supervisory Board? (If not, why not?)
  Yes.
- Did the Committee make an evaluation of the knowledge, skills and experience of the Supervisory Board members and inform the Supervisory Board thereof? (If not, why not?)
  Yes.
- Did the Committee make plans for the Supervisory Board's and Management Board's continuity? (If not, why not?)
  Yes.
- Did the Committee make an analysis of Management Board policy regarding key management employment? (If not, why not?)
  No. Management Board Policy regarding the employment is considered by Supervisory Board as part of a strategy for human resource management.

**45. Did the Supervisory Board establish a Remuneration Committee?**

Yes. The Executive Committee participates in the calculation of salaries for the Bank's Management Board members, which includes the fixed annual salary and the variable part (bonus).
If yes,

- Are the majority of Committee members independent members of the Supervisory Board? (If not, why not?)
  Refer to 34.
- Did the remuneration committee propose a remuneration policy to the Supervisory Board for management board members which has to include all types of remuneration, and in particular: the fixed component, the variable component depending on business performance, as well as the pension scheme and severance pay? (If not, why not?)
  Yes.
- With regard to the variable remuneration component determined by business performance, does the remuneration committee's proposal contain recommendations as to the objective performance assessment criteria? (If not, why not?)
  Yes.
- Did the remuneration committee propose remuneration for individual members of the management board to the Supervisory Board in accordance with the Company's remuneration policy and assessment of their individual performance? (If not, why not?)
  Yes.
- Did the committee propose to the Supervisory Board the appropriate format and content for contract of service for the Management Board members? (If not, why not?)
  No. This was not within the competence of the Executive Committee.
- Did the remuneration committee monitor the amount and structure of remuneration for key managers and give the Management Board recommendations in that regard? If not, why not?)
  Yes.
- Did the remuneration committee review a general policy of incentives for management board members, when those include share options or other arrangements based on share acquisition? Did it propose adequate solutions to the Supervisory Board and review the relevant information released in the annual report prior to publication? (If not, why not?)
  Yes.

**46. Did the Supervisory Board establish an Audit Committee? (If not, why not?)**

Yes.
If yes,

- Are the majority of the committee members independent members of the Supervisory Board? (If no, why?)
  Refer to 34.
- Did the committee monitor the integrity of the Company's financial information, and in particular the correctness and consistency of the accounting methods applied by the Company and the Group of which it is part, including also the criteria for consolidation of financial reports of the companies within its Group? (If not, why not?)
  Yes.
- Did the committee assess the quality of the internal control and risk management systems in place with the objective of ensuring that the main risks to which the Company is exposed (also including compliance risks) are adequately identified and disclosed, and properly managed? (If not, why not?)
  Yes.
- Did the committee undertake measures to ensure the efficiency of the internal audit system, in particular by giving r ecommendations concerning the selection, appointment, re-appointment and dismissal of the head of internal audit and also concerning the resources available to him/her, and by assessing action

taken by the management following the findings and recommendations of the internal audit? (If not why?)
Yes.

- If there is no internal audits function within the Company, did the committee assess the need to establish such a function?
(If not, why not?)
No. The internal audit function is established within the Bank.
- Did the committee make recommendations to the Supervisory Board regarding the selection, appointment, re-appointment or replacement of the external auditors, and also concerning the terms of engagement of the external auditors? (If not, why not?)
Yes.
- Did the committee monitor the independence and objectivity of the external auditors, in particular as regard the rotation of chartered auditors within the audit firm and the fees paid by the Company for external audit services? (If not, why not?)
Yes.
- Did the committee monitor the nature and amount of services other than audits provided to the Company by the external auditors or their related persons? (If not, why not?)
Yes.
- Did the committee prepare rules regarding the services which may not be provided by external auditors or their related persons, services which may only be provided subject to ex-ante approval of the committee, and services which may be provided even without the committee's ex-ante approval? (If not, why not?)
No, such rules are regulated by law.
- Did the committee consider the efficiency of the external audit and the action undertaken by key management following the external auditor's recommendations? (If not, why not?)
Yes.
- Did the committee examine the circumstances leading to the dismissal of the external auditor and give appropriate recommendations to the Supervisory Board (if the external auditors were dismissed)? (If not, why not?)
No. Such an event did not occur.
- Does the committee have open and restriction-free communication with the Management Board and the Supervisory Board? (If not, why not?)
Yes.
- To whom is the committee accountable?
The Audit Committee is accountable to the Bank's Supervisory Board.
- Does the committee have open and restriction-free communication with the internal and external auditors? (If not, why not?)
Yes.
- Did the Management Board submit to the Audit Committee:
- Timely and periodic information on financial statements and related documents prior to their public release (If not, why not?)
Yes.
- Information on changes in accounting principles and criteria (If not, why not?)
Yes.
- Accounting procedures adopted and applicable to the majority of transactions (If not, why not?)
Yes.
- Information on all major differences between book and face values by individual items (If not, why not?)
No. Such differences did not occur.
- Its entire correspondence with the internal audit department and external auditors (If not, why not?)
Yes.
- Did the Management Board advise the Audit Committee on methods used in accounting for major and non-standard transactions and business events when they can be accounted for in different ways? (If not, why not?)
Yes.
- Did the Audit Committee discuss with the independent auditor the issues related to:
- Changes to the existing accounting principles and criteria, (If not, why not?)
Yes.
- Changes in the application of regulations (If not, why not?)
Yes.
- Important estimates and conclusions in preparing financial statements (If not, why not?)
Yes.
- Risk assessment methods and results (If not, why not?)
Yes.
- High-risk areas of business (If not, why not?)
Yes.
- Major deficiencies and significant weaknesses found in internal control system (If not, why)
Yes.
- Impact of external factors (economic, legal and industrial) on financial statements and audit proced-ures? (If not, why not?)
Yes.
- Did the Audit Committee provide high quality information by subsidiaries and affiliated companies, as also third parties (such as professional advisors)? (If not, why not?)
Yes.

**47. Was the documentation relevant for the work of the Supervisory Board submitted on time to all members? (If not, why not?)**
Yes.

**48. Were all decisions made at the Supervisory Board's meetings recorded in the minutes, together with voting results, also stating how individual member voted? (If not, why not?)**
Yes.

**49. Did the Supervisory Board prepare an assessment of its work in the preceding period including the assessment of its contribution and the competence of individual Supervisory Board members, as well as the activities of the committees and achievements compared to the target goals of the Company?**
Yes.

**50. State the names of the Management Board members.**
Božo Prka, President;
Jonathan Charles Locke, Vice president;
Gabriele Pace, Member;
Ivan Gerovac, Member;
Mario Henjak, Member;
Draženko Kopljar, Member;
Dinko Lucić, Member.

**51. Are there rules of procedure for the Management Board governing the following issues:**
- Scope of activities and goals?
  Yes.
- Rules of procedure?
  Yes.
- Rules for resolving conflicts of interest?
  Yes.
- The Management Board secretariat?
  Yes.
- Meetings, adoption of decisions, agenda, preparation and content of the minutes and submission of documents?
  Yes.
- Co-operation with the Supervisory Board?
  Yes.

**52. Did the company issue a statement of remuneration policy for the Management Board and the Supervisory Board as part of the annual report? (If not, why not?)**
No. Although there is no formal statement concerning the Remuneration policy of Management Board and Supervisory Board, the Bank discloses aggregated information about related parties transactions as well as the amount of accrued and paid remunerations to the Bank's management in the Annual report which is prepared in accordance with the International Financial Reporting Standards. The Annual report is available on the Bank's website.

**53. If there is a statement of remuneration policy does it contain the following:**
- Major changes to the remuneration policy compared to previous year? (If not, why not?)
- Explanation of the relative share and importance of the fixed and variable remuneration components? (If not, why not?)
- Sufficient information on the performance criteria whose fulfilment gives the right to share options, shares or other forms of variable remuneration components? (If not, why not?)
- Sufficient information on the correlation between the remuneration amount and individual performance (If not, why not?)
- Main indicators and reasons for awarding annual bonus payments or benefits other than cash (If not, why not?)
- A brief summary of contracts of service for the members of the Management Board including information on the term of con tracts, notice periods and severance pay. Any form of remuneration for the members of the management and Supervisory Boards involving share options or other rights to share acquisition, or if their remuneration is otherwise based on the Company's share price, has to be approved by the General Meeting before it becomes effective. The approval refers to the remuneration principles in general, and not to individual remuneration for the members of the management and Supervisory Boards. (If not, why not?).

**54. Is the statement of remuneration policy permanently available on the Company's website? (If not, why not?)**

**55. Is detailed information on all types of remuneration and compensation paid to individual Management Board member disclosed in the Company's annual report? (If not, why not?)**

**56. Are all types of remuneration to the Management Board and the Supervisory Board members, including share options and other benefits clearly disclosed in the Company's annual report and broken down by item and person? (If not, why not?)**

**57. Does the statement of remunerations for the Management Board members contain the following elements for each member of the Management Board who performed the office during the year to which the statement relates:**
- Total amount of monthly salary, irrespective of whether it has actually been paid or not? (If not, why not?)
- Remunerations or benefits received from associated companies? (If not, why not?)
- Remuneration in the form of profit-sharing or bonus schemes and the reasons it was paid? (If not, why not?)
- Any other additional remuneration

paid to members of the Management Board for services performed by them beyond their scope of duties as management board members? (If not, why not?)

- Any compensation paid or which should have been paid to a former member of the Management Board upon termination of his/her term of office during the year to which the statement refers, (If not, why not?)
- Total estimated value of non-cash benefits considered as remuneration, not included under the above points (If not, why not?)
- When remuneration is paid in the form of shares or share options or other forms of remuneration based on share ownership: the number of options or shares awarded by the Company in the year to which the statement refers and requirements that need to be met in order to benefit from such schemes (If not, why not?)
- Number of share options exercised in the year to which the statement refers, and for each option, the number of shares and the price at which it was exercised, or the price of to be awarded to the Management Board members at year-end (If not, why not?)
- Number of options not exercised at the end of the year, the price and date at which they can be exercised, and the main conditions pertaining to the exercise (If not, why not?)
- Each change related to the change of conditions for exercise of the existing options which occurred in the company in the year to which the statement relates (If not, why not?)
- Any loan (including outstanding debt and interest), advance payments or guarantees granted to Management Board members by subsidiaries/ affiliated companies subject to consolidation. (If not, why not?)

Refer to 52.

**58. Did each member of the Management Board advise the Supervisory Board about all changes to his/her ownership of the Company's shares no later than next working day after the change occurred, with the Company's obligation to disclosure such changes as soon as possible? (If not, why not?)**

No. There were no such changes during the year.

**59. State all transaction which involved members of the Management Board or their related persons, on the one hand, and the Company or its related persons/entities on the other hand.**

The Bank has had no specific commercial transactions with the Management Board members. The Bank has commercial (deposits-loans) transactions with the related companies through membership on the Supervisory Board of the Bank's Management Board members and key management employees. All transactions with these companies are market-based. The Bank discloses a note on related parties' transactions in the Annual Report which is prepared in accordance with the International Financial Reporting Standards. The Annual Report is available on the Bank's web site.

**60. Were all transactions involving members of the Management Board or their related persons on the one hand, and the Company or its related persons, on the other hand:**

- On a market basis (especially with regard to terms, interests, guarantees and similar)? (If not, why not and which?)
- Clearly stated in the Company's reports? (If not, why not and which?)
- Approved by the independent assessment of experts who are independent in relation to parties in the transaction concerned? (If not, why not and which?)

Refer to 59.

**61. Do the members of the Management Board hold a significant share in other companies which might be considered as the Company's competition? (If yes, which and how many?)**

No.

**62. Are the members of the Management Board also members of the Supervisory Boards of other companies? (If yes, state the names of these members of the Management Board, the companies in which they are the members of the Supervisory Boards, and their position in those Supervisory Boards).**

Božo Prka *is a member of the Supervisory Board in the following company*:
Intesa Sanpaolo Card d.o.o. Zagreb - Zagreb, Croatia

- - -

Ivan Gerovac *is a member of the Supervisory Board in the following company:*
Belišće d.d. - Belišće, Croatia

- - -

Mario Henjak *is vice president of the Supervisory Board in the following company:*
PBZ Leasing d.o.o. - Zagreb, Croatia

- - -

Draženko Kopljar *is a member of the Supervisory Board in the following companies:*
PBZ Card d.o.o. - Zagreb, Croatia
Metronet telekomunikacije d.d. - Zagreb, Croatia

- - -

Dinko Lucić *is a president of the Supervisory Board in the following company:*

PBZ Stambena Štedionica d.d. - Varaždin, Croatia
*a vice president of the Supervisory Board in the following company:*
PBZ Card d.o.o. - Zagreb, Croatia
*and a member of the Supervisory Board in the following company:*
Intesa Sanpaolo Card d.o.o. Zagreb - Zagreb, Croatia

**63. Does the Company have an external auditor (If not, why not?)**
Yes.

**64. Is the external auditor of the company:**

- Connected with the Company in terms of ownership or interest? (If yes, state in which manner)
  No.
- Does it provide other services to the Company, either by itself or through its associated companies? (If yes, state which and how much it costs the company)
  No.

**65. Do the external auditors directly inform the Company on the following (If not, why?):**

- Discussion on the main accounting policy?
  Yes.
- Major weaknesses and deficiencies of the internal control system?
  Yes. The independent auditor informs the Audit Committee of the main characteristics of financial statement audit and their recommendations. During the year there were no significant weaknesses in the Bank's internal control system.
- Alternative accounting procedures?
  No, there was no need to consider alternative accounting policies.
- Non-compliance with the Management Board, risk assessment?
  No. There were no disagreements with the Management Board.
- Potential analyses of fraud and/or misuse.
  Yes. The independent auditor informs the Audit Committee of recommendations in internal controls although in 2009 there was no need for that kind of analyses.

**66. Did the Company disclose the remuneration paid to the external auditors for audit and other services performed? (If not, why not?)**
No. The external auditors only carried out an audit of annual financial statements at a contracted price.

**67. Does the Company have an internal auditor function and internal control system? (If not, why not?)**
Yes.

**68. Can investors request in writing and obtain in good time all relevant information from the Management Board or from a person within the Company responsible for investor relations (If no, why not)?**
Yes.

**69. How many meetings did the Company's Management Board hold with investors?**
The Bank has a stable shareholders structure and as a result there was no need for additional meetings with the shareholders (investors) except the General Meeting.

**70. Did anybody suffer negative consequences because they reported deficiencies to the competent bodies within or outside the Company in applying the relevant regulations or ethical norms within the Company (If yes, why)?**
No.

**71. Do all members of the Management Board and Supervisory Board agree that, to the best of their knowledge, the answers given in this questionnaire are completely true? (If not, which members of the Management Board and the Supervisory Board disagree, and why?)**
Yes.

# Statement of responsibilities of the Management Board

Pursuant to the Croatian Accounting Law in force, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the financial position and results of the Bank and the Group for that period.
The Management Board has a reasonable expectation that the Bank and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

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

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

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

Signed on behalf of the Management Board

Božo Prka, M.S.
Privredna banka Zagreb d.d.
Račkoga 6
10000 Zagreb
Republic of Croatia

30 March 2010

# Independent auditors' report

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## Independent auditors' report

### To the Shareholders of Privredna Banka Zagreb d.d.

We have audited the accompanying consolidated and separate financial statements ('the financial statements') of Privredna Banka Zagreb d.d. (the 'Bank') and its subsidiaries (together, the 'Group') which comprise the Consolidated and Separate statement of financial position as at 31 December 2009, the Consolidated and Separate income statement, the Consolidated and Separate statement of comprehensive income, the Consolidated and Separate statement of changes in equity and the Consolidated and Separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 68 to 143).

### Management Responsibility

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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


A member firm of Ernst & Young Global Limited

## Opinion

In our opinion, the separate and consolidated financial statements present fairly, in all material aspects, the financial position of the Bank and of the Group as at 31 December 2009 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Other Legal and Regulatory Requirements

In accordance with the By-law on the structure and content of the annual financial statements (National Gazette no 62/08) (hereinafter „the By-Law"), the Bank's management has prepared forms which are presented on pages 144 to 156, and which contain a balance sheet as at 31 December 2009, profit and loss account, statement of changes in equity and cash flow statement for the year then ended together with notes on the reconciliation of the forms with the primary financial statements of the Bank. This financial information is the responsibility of the Bank's management and is, pursuant to IFRS, not a required part of the financial statements, but is required by the Bylaw. This financial information presented in the forms has been properly derived from the primary financial statements which were prepared in accordance with International Financial Reporting Standards as presented on pages 68 to 143 or are based on the underlying accounting records of the Bank and the Group.

Ernst & Young d.o.o.

Ernst & Young d.o.o.
**Zagreb, 30 March 2010**

# Financial statements of the Bank and the Group

## Income statement

| (in HRK million) | NOTE | GROUP 2009 | GROUP 2008 | BANK 2009 | BANK 2008 |
|---|---|---|---|---|---|
| Interest income | 2 | 4,117 | 4,229 | 3,718 | 3,796 |
| Interest expense | 2 | (2,057) | (2,044) | (1,919) | (1,855) |
| **Net interest income** | | **2,060** | **2,185** | **1,799** | **1,941** |
| Fee and commission income | 3 | 1,264 | 1,357 | 590 | 607 |
| Fee and commission expense | 3 | (225) | (260) | (202) | (222) |
| **Net fee and commission income** | | **1,039** | **1,097** | **388** | **385** |
| Other operating income | 4 | 500 | 415 | 605 | 448 |
| **Operating income** | | **3,599** | **3,697** | **2,792** | **2,774** |
| Provisions | 5 | (555) | (173) | (353) | (98) |
| Other operating expenses | 6, 7 | (1,565) | (1,678) | (1,166) | (1,180) |
| Depreciation and amortisation of property and equipment and intangible assets | 8 | (291) | (289) | (173) | (164) |
| Share of the profit and loss accounted for using the equity method | 18 | 8 | 11 | - | - |
| **Profit before income taxes** | | **1,196** | **1,568** | **1,100** | **1,332** |
| Income taxes | 9 | (236) | (320) | (173) | (232) |
| **Net profit for the year** | | **960** | **1,248** | **927** | **1,100** |
| | | | | | |
| Attributable to: | | | | | |
| Equity holders of the parent | | 960 | 1,242 | 927 | 1,100 |
| Minority interest | | - | 6 | - | - |
| | | **960** | **1,248** | **927** | **1,100** |
| | | | | | |
| | | | **in HRK** | | |
| Basic/diluted earnings per share | 45 | 50.5 | 65.3 | | |

The accompanying accounting policies and notes on pages 75 to 143 are an integral part of these financial statements.

# Statement of comprehensive income

| (in HRK million) | GROUP 2009 | GROUP 2008 | BANK 2009 | BANK 2008 |
|---|---|---|---|---|
| **Profit for the year** | **960** | **1,242** | **927** | **1,100** |
| | | | | |
| **Other comprehensive income** | | | | |
| Net gain/(loss) on available-for-sale financial assets arising during the year | 18 | (98) | 12 | (44) |
| *Less: Reclassification adjustments for (gains)/ losses included in the income statement* | 13 | (23) | (5) | (31) |
| | **31** | **(121)** | **7** | **(75)** |
| Income tax relating to components of other comprehensive income | (2) | 18 | (2) | 15 |
| Other gain recognized on demerger of processing unit in PBZ Card | 10 | - | - | - |
| Capital gain on disposal of treasury shares | - | 2 | - | 2 |
| **Other comprehensive income for the year, net of tax** | **39** | **(101)** | **5** | **(58)** |
| **Total comprehensive income for the year, net of tax** | **999** | **1,141** | **932** | **1,042** |
| | | | | |
| Attributable to: | | | | |
| Equity holders of the parent | 999 | 1,141 | 932 | 1,042 |
| Minority interest | - | 6 | - | - |
| | **999** | **1,147** | **932** | **1,042** |

# Statement of financial position

| | NOTE | GROUP | | BANK | |
|---|---|---|---|---|---|
| **Assets** (in HRK million) | | 31 December 2009 | 31 December 2008 | 31 December 2009 | 31 December 2008 |
| Cash and current accounts with other banks | 10 | 3,105 | 2,973 | 2,803 | 2,747 |
| Balances with the Croatian National Bank | 11 | 4,886 | 4,815 | 4,669 | 4,596 |
| Financial assets at fair value through profit or loss | 12 | 1,298 | 3,507 | 1,298 | 3,507 |
| Derivative financial assets | 13 | 4 | 24 | 4 | 24 |
| Due from banks | 14 | 10,769 | 7,834 | 10,511 | 7,385 |
| Loans and advances to customers | 15 | 47,373 | 46,032 | 42,289 | 41,715 |
| Assets available for sale | 16 | 1,000 | 2,699 | 711 | 1,330 |
| Held to maturity investments | 17 | 892 | 1,108 | 590 | 793 |
| Equity investments in subsidiaries and associates | 18 | 130 | 56 | 392 | 373 |
| Intangible assets and goodwill | 19 | 150 | 171 | 69 | 72 |
| Property and equipment | 20 | 1,306 | 1,456 | 836 | 897 |
| Investment property | 21 | 12 | 14 | 11 | 14 |
| Other assets | 22 | 403 | 312 | 207 | 122 |
| Deferred tax assets | 9 | 213 | 226 | 129 | 165 |
| **Total assets** | | **71,541** | **71,227** | **64,519** | **63,740** |

# Statement of financial position / continued

| **Liabilities** (in HRK million) | NOTE | GROUP 31 December 2009 | GROUP 31 December 2008 | BANK 31 December 2009 | BANK 31 December 2008 |
|---|---|---|---|---|---|
| Due to banks | 23 | 3,225 | 3,648 | 3,318 | 3,793 |
| Due to customers | 24 | 45,049 | 44,591 | 41,903 | 40,935 |
| Derivative financial liabilities | 13 | 13 | 202 | 13 | 202 |
| Other borrowed funds | 25 | 10,681 | 10,920 | 8,829 | 9,096 |
| Other liabilities | 26 | 1,553 | 1,633 | 388 | 435 |
| Accruals and deferred income | 27 | 195 | 234 | 80 | 74 |
| Provisions for risks and charges | 28 | 211 | 270 | 186 | 244 |
| Current tax liabilities | 9 | 14 | 118 | - | 91 |
| **Total liabilities** | | **60,941** | **61,616** | **54,717** | **54,870** |
| **Equity attributable to equity holders of the parent** | | | | | |
| Share capital | 30 | 1,907 | 1,907 | 1,907 | 1,907 |
| Treasury shares | | (76) | (76) | (76) | (76) |
| Share premium | | 1,570 | 1,570 | 1,570 | 1,570 |
| Reserves and retained earnings | 31 | 6,239 | 4,958 | 5,474 | 4,369 |
| Profit and loss attributable to equity holders of the parent entity | | 960 | 1,242 | 927 | 1,100 |
| | | **10,600** | **9,601** | **9,802** | **8,870** |
| Minority interest | | - | 10 | - | - |
| **Total shareholders' equity** | | **10,600** | **9,611** | **9,802** | **8,870** |
| | | | | | |
| **Total liabilities and shareholders' equity** | | **71,541** | **71,227** | **64,519** | **63,740** |

The accompanying accounting policies and notes on pages 75 to 143 are an integral part of these financial statements.

These financial statements were signed on behalf of the Management Board on 23 February 2010.

Božo Prka, M.S.
President of the Management Board

Gabriele Pace
Chief financial officer

# Statement of cash flows

| | GROUP | | BANK | |
|---|---|---|---|---|
| (in HRK million) | 2009 | 2008 | 2009 | 2008 |
| **Cash flow from operating activities** | | | | |
| Profit before tax | 1,196 | 1,568 | 1,100 | 1,332 |
| Provisions for bad and doubtful debts and other provisions | 555 | 173 | 353 | 98 |
| (Gains)/losses from sale of property and equipment | (14) | (61) | (10) | (33) |
| Depreciation and amortization | 291 | 289 | 173 | 164 |
| Unrealised (gains)/losses on securities at fair value through profit or loss | 6 | 76 | 6 | 76 |
| Valuation of derivatives | (169) | 173 | (169) | 173 |
| Share of results of associates | (8) | (11) | - | - |
| Taxes paid | (338) | (291) | (251) | (207) |
| | **1,519** | **1,916** | **1,202** | **1,603** |
| **(Increase)/decrease in operating assets** | | | | |
| Balances with Croatian National Bank | (71) | 3,379 | (73) | 3,338 |
| Due from banks | 209 | (11) | 207 | (5) |
| Loans and advances to customers, net of provisions | 1,372 | (6,020) | 1,136 | (5,342) |
| (Acquisitions)/sales of assets held for trading and assets available for sale | 599 | (458) | 718 | (348) |
| Other assets | (81) | 36 | (79) | 34 |
| | **2,028** | **(3,074)** | **1,909** | **(2,323)** |
| **Increase/(decrease) in operating liabilities** | | | | |
| Due to banks | (423) | 519 | (475) | 666 |
| Due to customers | 458 | 2,673 | 968 | 2,241 |
| Other liabilities | (93) | 11 | (30) | (26) |
| | **(58)** | **3,203** | **463** | **2,881** |
| **Net cash from operating activities** | **3,489** | **2,045** | **3,574** | **2,161** |

# Statement of cash flows / continued

| (in HRK million) | GROUP 2009 | GROUP 2008 | BANK 2009 | BANK 2008 |
|---|---|---|---|---|
| **Cash flows from investing activities** | | | | |
| Net purchase of property and equipment and intangible assets | (171) | (298) | (102) | (147) |
| Acquisition, disposal and recapitalisation of subsidiaries and associates | (19) | 27 | (19) | 10 |
| Repayment of assets held to maturity | 216 | 238 | 203 | 186 |
| **Net cash (used in)/from investing activities** | **26** | **(33)** | **82** | **49** |
| **Cash flows from financing activities** | | | | |
| Other borrowed funds | (239) | (840) | (267) | (1,148) |
| (Redemption)/proceeds from debt securities issued | - | (66) | - | - |
| Net proceeds from sale of treasury shares | - | (17) | - | (17) |
| **Net cash (used in) financing activities** | **(239)** | **(923)** | **(267)** | **(1,165)** |
| **Net increase in cash** | **3,276** | **1,089** | **3,389** | **1,045** |
| Cash and cash equivalents at the beginning of the year | 10,302 | 9,170 | 9,629 | 8,540 |
| Effect of exchange rate fluctuations on cash held | 17 | 43 | 17 | 44 |
| Cash and cash equivalents at the end of the year | 13,595 | 10,302 | 13,035 | 9,629 |

| | | | | |
|---|---|---|---|---|
| **Supplementary information** | | | | |
| Interest paid | 1,499 | 1,523 | 1,345 | 1,325 |
| Interest received | 3,426 | 3,543 | 3,033 | 3,119 |
| Dividends received | 5 | 10 | 205 | 206 |

The accompanying accounting policies and notes on pages 75 to 143 are an integral part of these financial statements.

# Statement of changes in equity

| (in HRK million) | Attributable to equity holders of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Treasury shares | Share premium | Reserves and retained profits | Total | Minority interests | Total equity |
| **Group** | | | | | | | |
| **Balance at 1 January 2008** | **1,907** | **(57)** | **1,570** | **5,059** | **8,479** | **24** | **8,503** |
| Total comprehensive income for the year | - | - | - | 1,141 | 1,141 | 6 | **1,147** |
| Purchase of treasury shares | - | (19) | - | - | (19) | - | **(19)** |
| Divestment of IH Karlovac | - | - | - | - | - | (20) | **(20)** |
| **Balance at 31 December 2008** | **1,907** | **(76)** | **1,570** | **6,200** | **9,601** | **10** | **9,611** |
| Total comprehensive income for the year | - | - | - | 999 | 999 | - | **999** |
| Squeeze out of minority shareholders in Međimurska banka d.d. | - | - | - | - | - | (10) | **(10)** |
| **Balance at 31 December 2009** | **1,907** | **(76)** | **1,570** | **7,199** | **10,600** | **-** | **10,600** |
| **Bank** | | | | | | | |
| **Balance at 1 January 2008** | **1,907** | **(57)** | **1,570** | **4,427** | **7,847** | **-** | **7,847** |
| Total comprehensive income for the year | - | - | - | 1,042 | 1,042 | - | **1,042** |
| Purchase of treasury shares | - | (19) | - | - | (19) | - | **(19)** |
| **Balance at 31 December 2008** | **1,907** | **(76)** | **1,570** | **5,469** | **8,870** | **-** | **8,870** |
| Total comprehensive income for the year | - | - | - | 932 | 932 | - | **932** |
| **Balance at 31 December 2009** | **1,907** | **(76)** | **1,570** | **6,401** | **9,802** | **-** | **9,802** |

There was no distribution of dividends during 2009 and 2008.
Reserves and retained profits include reserves for general banking risks (refer to note 31).

The accompanying accounting policies and notes on pages 75 to 143 are an integral part of these financial statements.

# Accounting policies

## 1 | Accounting policies

Privredna banka Zagreb is a joint stock company incorporated and domiciled in the Republic of Croatia. The registered office is Račkoga 6, Zagreb. The Bank is the parent of Privredna banka Zagreb Group, which has operations in the Republic of Croatia. The Group provides a full range of retail and corporate banking services, as well as treasury, investment banking asset management and leasing services.
A summary of the Group's principal accounting policies is set out below.

### Basis of accounting

The Bank and the Group maintain their accounting records in Croatian Kuna and in accordance with Croatian law and the accounting principles and practices observed by financial enterprises in Croatia.

### Basis of preparation

The financial statements of the Bank and the Group are prepared in million of Croatian Kuna and all values have been rounded to the nearest million, unless stated otherwise.
These consolidated and Bank only financial statements are prepared in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board. The consolidated and Bank only financial statements are prepared under the historical cost convention as modified by the revaluation of available for sale assets and financial assets and financial liabilities at fair value through profit and loss.
The financial statements have been presented in a format generally accepted and internationally recognised by banks and in accordance with International Financial Reporting Standards.

### Basis of consolidated (Privredna banka Zagreb Group) and Bank only financial statements

Financial statements are presented for the Bank and the Group. The Group financial statements comprise the consolidated financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Investments in subsidiaries are accounted for at cost in the financial statements of the Bank.
Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.
Minority interests in the net assets (excluding goodwill) of the consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.
Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and at cost in the Bank's financial statements. These are undertakings over which the Group generally has between 20 percent and 50 percent of the voting rights, and over which the Group has significant influence, but which it does not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.
Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associated undertakings includes goodwill. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking. Where necessary, the accounting policies used by the associate have been changed to ensure consistency with the policies adopted by the Group.

### Business combination

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.
Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

# Accounting policies

### Interest and similar income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
Loan origination fees, for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income. Savings deposits origination fees are also recognized as an adjustment to the effective yield of the deposit and adjust interest expense.
The effective interest method is a method of calculating the amortised 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 and 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 to the net carrying amount of the financial asset.
When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Other fees receivable are recognised when earned. Dividend income is recognised when earned.
Interest income includes coupon interest on financial instruments at fair value through profit or loss.
Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

### Fee and commission income

Fee and commission income is comprised mainly of fees receivable from enterprises for loans and guarantees granted and other services provided by the Bank and the Group, together with commissions from managing funds on behalf of legal entities and individuals and fees for foreign and domestic payment transactions.
Fees and commissions are generally recognised on an accrual basis. Loan origination fees for loans which are likely to be drawn down, are deferred and recognised as an adjustment to the effective yield on the loan.
Fee income arising from providing various services, such as investment management, are recognised as revenue as the services are provided. Fees or components of fees that are linked to a certain perform-ance are recognised after fulfilling the corresponding criteria.

### Operating income

Operating income includes net interest income, net fee and commission income, foreign exchange trading gains, unrealised gains on securities at fair value, realised gains on securities classified as assets available for sale, foreign exchange revaluation gains and losses, gains from disposal of fixed assets, dividends earned and other income.
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

### Foreign currencies

Income and expenditure arising from transactions in foreign currencies are translated to Croatian Kuna at the official rates of exchange on the transaction date. Assets and liabilities denominated in foreign currencies are translated to Croatian Kuna at the mid market exchange rate of the CNB on the last day of the accounting period. Gains and losses resulting from foreign currency translation are included in the income statement for the year.
The Group has receivables and liabilities originated in HRK, which are linked to foreign currencies with a one-way currency clause. Due to this clause, the Group has an option to revalue the asset by the higher of the foreign exchange rate valid as of the date of repayments of the receivables by the debtors, or the foreign exchange rate valid as of the date of origination of the financial instrument. In case of a liability linked to this clause, the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia, the fair value of this option cannot be calculated as forward rates for the HRK for periods over 9 months are generally not available. As such the Group revalues its receivables and liabilities linked to this clause by the agreed reference rate valid at the date of the statement of financial position or foreign exchange rate agreed through the option (rate valid at origination), whichever is higher.

### Personnel expenses

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to date of the statement of financial position.

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

| | 2009 | 2008 |
|---|---|---|
| Contributions for Pension Funds | 20.00% | 20.00% |
| Contributions for State Health Care Fund | 15.00% | 15.00% |
| Contributions for Unemployment Fund | 1.70% | 1.70% |
| Injuries at work | 0.50% | 0.50% |

The Group is also obliged to withhold contributions from the gross pay on behalf of the employee for the same funds. The contributions on behalf of employees and on behalf of the employer are charged to expenses in the period to which they relate (refer to note 7).

### Retirement allowances
Under the Labour Code, and as determined in the employment contract or the labour bylaws, the Group and the Bank are obliged to pay a retirement allowance of HRK 8 thousand to individuals who retire.
IAS 19, Employee benefits requires post-retirement benefits and other long-term benefits to be recorded on an accrual basis. The Group and the Bank assessed their liabilities for long-term benefits in accordance with IAS 19 and recorded a provision in the financial statements.
The obligation and costs of pension benefits are determined using a projected unit credit method, which considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Certain actuarial assumptions were made by the Management in this assessment.

### Taxation
Corporation tax payable is provided on taxable profits for the year at the current rate. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.
Deferred tax assets and liabilities are recognised regardless of when the temporary timing difference is likely to reverse. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. On each statement of financial position date, the Bank re-assesses unrecognised deferred tax assets and the appropriateness of the carrying amount of the tax assets.
The Bank is subject to a tax rate of 20 percent in accordance with the Profit Tax Law.

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

### Financial instruments
Financial assets and financial liabilities recorded on the statement of financial position include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term loans and leasing, deposits and investments. The accounting principles for these items are disclosed in the respective accounting policies.
The Bank recognises financial assets and liabilities on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument.
Financial assets and liabilities held by the Group are categorised into portfolios in accordance with the Group's intent on the acquisition and pursuant to the Group's investment strategy. Financial assets and liabilities are classified as "At fair value through profit or loss", "Held to maturity", "Assets available for sale" or as "Loans and receivables". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements as described below.
Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.
Regular way transactions with financial instruments are accounted for at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset or liability is not recognised until the settlement date, changes in fair value of the underlying asset or liability are recognised starting from the trade date.

# Accounting policies

When a financial asset or financial liability is recognised initially, the Group measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs which are directly attributable to the acquisition or issue of the financial asset or financial liability.

**Financial instruments at fair value through profit or loss**

Financial instruments included in this portfolio are carried at fair value and represent financial instruments, which were either acquired for generating a profit from short-term fluctuations in price or a dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists, which are classified as held for trading, or are initially designated as at fair value through profit or loss.

Financial assets classified in this category which are not for trading are designated by management on initial recognition when the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Instruments in this portfolio are initially recognised at fair value. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the date of the statement of financial position. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. All related realised and unrealised gains and losses are included in the income statement. Interest earned whilst holding these instruments is reported as interest income. Dividends earned are included in dividend income.

**Held to maturity investments**

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

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

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

**Loans and receivables**

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

This portfolio comprises loans provided to customers.

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

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

If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Group include the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them

for impairment. Assets that are individually assessed for impairment, and for which an impairment loss is or continues to be recognized, are not included in the collective assessment of impairment.
For the purposes of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process which considers asset type, counter party type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group.
When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the income statement.

### Assets available for sale
Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. This portfolio comprises equity and debt securities. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect specific circumstances of the issuer.
Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.
For available-for-sale assets, gains and losses arising from changes in fair value are recognised in other comprehensive income until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income is included in the profit or loss for the period. The Group assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. In the case of debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.
Interest earned whilst holding available-for-sale securities is accrued on a daily basis using the effective interest rate method and reported as "Interest income" in the income statement.
Foreign exchange differences related to available-for-sale equity instruments held in foreign currency are reported together with fair value gains and losses in equity until the financial asset is sold. Foreign exchange differences related to available-for-sale debt instruments held in foreign currency are reported in the income statement.
Dividends from securities available for sale are recorded as declared and included as a receivable in the statement of financial position line "Other assets" and in "Other operating income" in the income statement. Upon payment of the dividend, the receivable is offset against the cash collected.

### Derecognition of financial assets
The Group derecognises 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### Collateral pending sale
The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the cost of the related loans and advances and the current fair value of such assets. Gains or losses on disposal are recognised in the income statement.

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

# Accounting policies

**Leases**
*Finance - Group as lessor*
When assets are leased under finance lease arrangements, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Initial direct costs are recognised as expenses in the income statement in the period when incurred.

*Operating - Group as lessor*
Assets leased under operating lease arrangements are included in tangible assets in the statement of financial position. They are depreciated over their expected useful lives which are based on the duration of the lease contracts (refer to the tangible fixed assets accounting policy). Initial direct costs incurred specifically to earn revenues from an operating lease are recognised as an expense in the income statement in the period in which they are incurred.

*Operating - Group as lessee*
Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating lease arrangements. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included in other operating expenses.

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

| (in years) | 2009 | 2008 |
|---|---|---|
| Buildings | 40 | 40 |
| Furniture | 5 | 5 |
| Computers | 4 | 4 |
| Motor vehicles | 5 | 5 |
| Equipment and other assets | 2 to 10 | 2 to 10 |

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

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

### Goodwill

According to IFRS 3, Business Combinations, any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired on the date of the acquisition is presented as goodwill and recognized as an asset. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.
Impairment is determined by assessing the recoverable amount of the cash-generating unit (or the group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro-rata to the other assets of the unit on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

### Investment property

Investment property, which is mainly property held to earn rentals, is measured initially at its cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that the cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. After initial recognition, investment property is stated at cost less accumulated depreciation and any provision for impairment. Investment property is depreciated on a straight-line basis over the useful lives of the assets in accordance with the policy stated under Property and equipment.
Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.
Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation, the start of an operating lease to another party or the end of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the start of owner-occupation or start of development with a view to sale.

### Non-current assets held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. A non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs of sale and is no longer depreciated.
Impairment losses on initial classification as held for sale are included in the income statement, as well as gains and losses on subsequent measurement.

### Impairment of non financial assets

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

### Derivative financial instruments

Derivative financial instruments are initially recognised in the statement of financial position in accordance with the policy for initial recognition of financial instruments and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and options pricing models as appropriate.
All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses on foreign exchange derivatives are included in Foreign exchange revaluation in the income statement. Gains and losses on derivatives based on securities are recognised within Other operating income in the income statement. All derivatives are classified as held for trading.

### Provisions for contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The provision for possible commitments and contingent liability losses is maintained at a level the Group management believes is adequate to absorb probable future losses. The Group Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

### Managed funds

The Bank manages a significant amount of assets on behalf of third parties. A fee is charged for this service. These assets are not recorded in the Bank's statement of financial position. The details are set out in note 33.

### Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined as the market value of shares at the date of granting. The cost of equity-settled transactions is recognised over the period in which the performance and/or service conditions are fulfilled.

### Changes in accounting policies

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2009. The adoption of these new and revised Standards and Interpretations does not have any effect on equity as at 1 January 2009.

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

### International Financial Reporting Standards (IFRS)

IFRS 2 Share-based Payment: Vesting Conditions and Cancellations, effective 1 January 2009
IFRS 7 Financial Instruments: Disclosures, effective 1 January 2009
IFRS 8 Operating Segments, effective 1 January 2009

### International Accounting Standards (IAS)

IAS 1 Presentation of Financial Statements, effective 1 January 2009
IAS 23 Borrowing Costs (Revised), effective 1 January 2009
IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation, effective 1 January 2009

### International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement, effective for periods ending on or after 30 June 2009
IFRIC 13 Customer Loyalty Programmes, effective 1 July 2008
IFRIC 15 Agreement for the construction of real estate, effective 1 January 2009
IFRIC 16 Hedges of a Net Investment in a Foreign Operation, effective 1 October 2008
Improvements to IFRSs (May 2008)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

### IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 38. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 43.

### IFRS 8 Operating Segments

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are not the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 39.

### IAS 1 Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

### International Financial Reporting Standards (IFRS)

| | |
|---|---|
| IFRS 2 | Share-based Payment: Group Cash-settled Share-based Payment Transactions, effective 1 January 2010 |
| IFRS 3 | Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended), effective 1 July 2009 including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39 |
| IFRS 9 | Financial Instruments, effective 1 January 2013 |

### International Accounting Standards (IAS)

| | |
|---|---|
| IAS 27 | Consolidated and Separate Financial Statements, effective 1 July 2009 |
| IAS 39 | Financial Instruments: Recognition and Measurement - Eligible Hedged Items, effective 1 July 2009 |
| | Improvements to IFRSs (April 2009) |

In April 2009 the International Accounting Standards Board made certain amendments to existing standards as part of its annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Group's 2010 financial statements. The Group does not expect these amendments to have any significant impact on the financial statements.

### International Financial Reporting Interpretations Committee (IFRIC)

| | |
|---|---|
| IFRIC 17 | Distributions of Non-cash Assets to Owners, effective 1 July 2010 |
| IFRIC 18 | Transfers of Assets from Customers, effective 1 July 2009 |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments, effective 1 July 2010 |

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application.

The Group has not early adopted any IFRS standards where adoption is not mandatory at the date of the statement of financial position. Where transition provisions in standard adopted give an entity a choice whether to apply the new standards prospectively or retrospectively, the Group has elected to apply the standard prospectively from the date of transition.

### Significant accounting judgements and estimates

*Judgements*

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

*Operating Lease Commitments - Group as Lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of properties which are leased out on operating leases.

*Held to maturity investments*

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

*Estimation uncertainty*

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

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

*Impairment of Goodwill*
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was HRK 72 million (2008: HRK 68 million). More details are given in note 19.

*Reclassification of financial instruments*
The Group identified that the market conditions for Croatian government bonds no longer demon-strated active trading during the first half of 2009. In general, the fixed income market in Croatia was adversely impacted by the global turmoil which was evidenced by a standstill in trading interrupted only by occasional forced transactions. In such circumstances the Group could not actively trade with these instruments. Under these conditions there were no elements observed based on which we could reliably determine the fair value. In that context, in April and May 2009 PBZ Group decided to reclassify the aforementioned financial instruments from the portfolio of financial instruments at fair value through profit and loss and available for sale portfolio to the loans and receivables portfolio. Overall, the Group has the intention and ability to hold the reclassified financial instruments for the foreseeable future. For more details refer to note 38.

# Notes to the Bank and the Group Financial Statements

## 2 | Interest income and expense (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Interest income** | | | | |
| Citizens | 2,161 | 2,194 | 1,975 | 2,008 |
| Companies | 1,049 | 1,055 | 934 | 918 |
| Bonds and securities | 442 | 339 | 353 | 255 |
| Banks | 127 | 334 | 120 | 309 |
| Public sector and others | 338 | 307 | 336 | 306 |
| | **4,117** | **4,229** | **3,718** | **3,796** |
| **Interest expense** | | | | |
| Citizens | 1,195 | 997 | 1,098 | 904 |
| Companies | 173 | 184 | 172 | 177 |
| Banks | 522 | 642 | 483 | 555 |
| Public sector and others | 167 | 221 | 166 | 219 |
| | **2,057** | **2,044** | **1,919** | **1,855** |

Interest income earned on financial assets, analysed by category of asset, is as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Interest income** | | | | |
| Loans and receivables from customers and banks | 3,525 | 3,695 | 3,213 | 3,349 |
| Balances with Croatian National Bank | 156 | 196 | 154 | 193 |
| Financial assets held for trading | 51 | 145 | 51 | 145 |
| Financial assets initially designated at fair value through profit or loss | 138 | 2 | 138 | 2 |
| Held to maturity investments | 58 | 71 | 41 | 56 |
| Assets available for sale | 53 | 120 | 20 | 51 |
| Loans and receivables portfolio | 136 | - | 101 | - |
| | **4,117** | **4,229** | **3,718** | **3,796** |

Interest income includes income from previously impaired loans of the Group of HRK 117 million (2008: HRK 124 million) and of the Bank of HRK 108 million (2008: HRK 111 million).

## 3 | Fee and commission income and expense (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Fee and commission income** | | | | |
| Fees and commission on credit card services | 710 | 717 | 98 | 96 |
| Payment transaction fees and commission | 275 | 293 | 286 | 293 |
| Investment management, brokerage and consultancy fees | 49 | 118 | 31 | 58 |
| Fees and commission on customer loans | 59 | 42 | 57 | 40 |
| Fees and commission on guarantees given | 55 | 52 | 54 | 51 |
| Fees and commission on customer services | 48 | 57 | 45 | 53 |
| Other fee and commission income | 68 | 78 | 19 | 16 |
| | **1,264** | **1,357** | **590** | **607** |
| **Fee and commission expense** | | | | |
| Payment transaction charges | 60 | 72 | 58 | 70 |
| Fees and commission expense on credit card services | 132 | 128 | 130 | 130 |
| Bank charges | 8 | 18 | 8 | 12 |
| Other fee and commission expense | 25 | 42 | 6 | 10 |
| | **225** | **260** | **202** | **222** |

## 4 | Other operating income (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Foreign exchange trading gain | 182 | 73 | 173 | 65 |
| Foreign exchange revaluation | 122 | 179 | 122 | 180 |
| Net gains/(losses) on securities at fair value held for trading | 4 | (117) | 4 | (117) |
| Net gains/(losses) on securities initially designated at fair value not for trading | 33 | (18) | 33 | (18) |
| Realised gains on securities classified as assets available for sale | 9 | 67 | 12 | 62 |
| Gains/(losses) from disposal of property, equipment and intangibles | 14 | 61 | 10 | 33 |
| Operating lease income | 77 | 82 | 2 | 3 |
| Dividends earned | 5 | 6 | 205 | 206 |
| Other income | 54 | 82 | 44 | 34 |
| | **500** | **415** | **605** | **448** |

## 5 | **Provisions** (in HRK million)

| | NOTE | GROUP | | BANK | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| Provisions for loans and advances to customers | 15 | 608 | 135 | 406 | 63 |
| Provisions for assets available for sale | | - | 23 | - | 23 |
| Provisions for legal claims | 28 | (16) | - | (16) | (2) |
| Provisions for guarantees and commitments | 28 | (37) | 15 | (37) | 14 |
| | | **555** | **173** | **353** | **98** |

## 6 | **Other operating expenses** (in HRK million)

| | NOTE | GROUP | | BANK | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| Personnel expenses | 7 | 773 | 796 | 627 | 629 |
| Materials and services | | 434 | 460 | 291 | 297 |
| Operating leases | | 40 | 46 | 48 | 45 |
| Deposit insurance premium | | 96 | 75 | 85 | 63 |
| Indirect and other taxes | | 25 | 25 | 21 | 22 |
| Other operating expenses | | 197 | 276 | 94 | 124 |
| | | **1,565** | **1,678** | **1,166** | **1,180** |

## 7 | **Personnel expenses** (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Net salaries | 413 | 370 | 312 | 293 |
| Health insurance costs | 90 | 87 | 73 | 67 |
| Taxes and surtaxes due to local authorities | 101 | 87 | 83 | 67 |
| Pension insurance costs | 113 | 110 | 89 | 88 |
| Other personnel expenses | 56 | 142 | 70 | 114 |
| | **773** | **796** | **627** | **629** |

Salaries and other related costs of employees include accrued expenses for bonuses payable to the management and employees of the Bank with a gross amount of HRK 27.7 million (2008: HRK 32.0 million), of which the remuneration of the Bank's Management Board in expected to be a gross amount of HRK 5.1 million (2008: HRK 5.9 million).
During the year the average number of employees within the Group was 4,318 (2008: 4,326) of which the Bank accounted for 3,790 employees (2008: 3,842).

## 8 | Depreciation and amortization of property, equipment and intangible assets (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Depreciation of property and equipment | 248 | 246 | 140 | 134 |
| Depreciation of investment property | 1 | 1 | 1 | 1 |
| Amortization of intangible assets | 42 | 42 | 32 | 29 |
| | **291** | **289** | **173** | **164** |

There is an amount included within depreciation and amortization of property, equipment and intangible assets related to the impairment and write off of property, equipment and intangible assets of the Group of HRK 0.5 million (2008: HRK 1.3 million) and of the Bank of HRK 0.5 million (2008: HRK 0.9 million).

## 9 | Taxation

Profit tax is payable at the rate of 20 percent (2008: 20 percent) on adjusted operating income.
Generally, tax declarations remain open and subject to inspection for at least a three-year period. The management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant authorities could take differing positions with regard to interpretative issues.
Taxation expense comprises:

| | GROUP | | BANK | |
|---|---|---|---|---|
| (in HRK million) | 2009 | 2008 | 2009 | 2008 |
| Current income tax expense | (227) | (387) | (139) | (291) |
| Deferred tax assets utilised in current period | (214) | (147) | (156) | (97) |
| Deferred tax liability reversed during current period | 2 | 2 | 2 | 2 |
| Deferred tax assets relating to temporary differences | 205 | 214 | 122 | 156 |
| Deferred tax liability relating to temporary difference | (2) | (2) | (2) | (2) |
| **Tax charge per income statement** | **(236)** | **(320)** | **(173)** | **(232)** |

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

| | GROUP | | BANK | |
|---|---|---|---|---|
| (in HRK million) | 2009 | 2008 | 2009 | 2008 |
| **Accounting profit before taxation** | **1,196** | **1,568** | **1,100** | **1,332** |
| Statutory tax rate | 20% | 20% | 20% | 20% |
| **Expected nominal tax** | **239** | **314** | **220** | **266** |
| | | | | |
| *Tax effects of:* | | | | |
| Non deductible expenses | 85 | 131 | 47 | 119 |
| Non taxable income | (97) | (58) | (128) | (94) |
| **Current income tax expense** | **227** | **387** | **139** | **291** |
| **Effective tax rate** | **18.7%** | **24.7%** | **12.6%** | **21.9%** |

## 9 | Taxation / continued

Movements of deferred tax assets are as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| (in HRK million) | 2009 | 2008 | 2009 | 2008 |
| **Deferred tax assets recognised at 1 January** | **226** | **147** | **165** | **97** |
| Deferred taxes arising in the current period | 213 | 226 | 129 | 165 |
| Deferred taxes utilised during the current period | (226) | (147) | (165) | (97) |
| **Deferred tax assets recognised at 31 December** | **213** | **226** | **129** | **165** |
| | | | | |
| *Deferred tax assets consist of:* | | | | |
| Deferred loan origination fees as an adjustment to the effective yield | 85 | 90 | 62 | 69 |
| Retirement benefits | 3 | 4 | 3 | 3 |
| Impairment of real estate | 7 | 6 | 6 | 6 |
| Unrealised losses on negative revaluation of securities and derivatives | 38 | 70 | 38 | 70 |
| Other | 72 | 44 | 13 | 8 |
| Total credited to income statement | **205** | **214** | **122** | **156** |
| Unrealised losses on the negative revaluation of securities and derivatives - recognized in equity | 8 | 12 | 7 | 9 |
| | **213** | **226** | **129** | **165** |

| | GROUP | | BANK | |
|---|---|---|---|---|
| (in HRK million) | 2009 | 2008 | 2009 | 2008 |
| Liabilities for current tax | 14 | 118 | - | 91 |
| | **14** | **118** | **-** | **91** |

## 10 | Cash and current accounts with other banks (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Current accounts held with the Croatian National bank | 1,995 | 1,106 | 1,799 | 981 |
| Cash in hand | 1,039 | 1,480 | 960 | 1,404 |
| Current accounts and amounts at call with foreign banks | 54 | 375 | 32 | 353 |
| Current accounts and amounts at call with domestic banks | 12 | 6 | 7 | 4 |
| Other cash items | 5 | 6 | 5 | 5 |
| | **3,105** | **2,973** | **2,803** | **2,747** |

## 11 | Balances with the Croatian National Bank (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Obligatory reserve | 4,883 | 4,813 | 4,666 | 4,594 |
| Other deposits | 3 | 2 | 3 | 2 |
| | **4,886** | **4,815** | **4,669** | **4,596** |

The obligatory reserve represents the amount of liquid assets required to be deposited with the Croatian National Bank. At the end of each month the obligatory reserve is calculated on certain balances of attracted funds for the previous month. As of 31 December 2009, the obligatory reserve is calculated as 14 percent of HRK denominated (2008: 14 percent) and 14 percent of foreign currency denominated balances (2008: 14 percent). From that amount the banks should maintain at least 70 percent of the kuna obligatory reserve and 60 percent of the obligatory reserve in foreign currency with the Croatian National Bank. 75 percent of the foreign currency part of the obligatory reserve is maintained in HRK and added to the kuna part of the obligatory reserve. In February 2010 CNB decreased the obligatory reserve from 14 percent to 13 percent.
The balances in HRK maintained with the Croatian National Bank earned annual interest of 0.75 percent for HRK amounts (2008: 0.75 percent). The balances in foreign currencies maintained with the Croatian National Bank bear no annual interest (2008: EUR 1.125 to 2.125 percent; USD 0.5 to 1.5 percent).
As of the year end, the Bank and the other members of Group which are subject to banking regulations maintained 70 percent of the HRK obligatory reserve and 60 percent of the foreign currency obligatory reserve (mostly in USD) with the Croatian National Bank. The remaining 30 percent of the HRK obligatory reserve and 40 percent of the foreign currency obligatory reserve were maintained as balances on nostro accounts or deposits with other banks.

## 12 | Financial assets at fair value through profit or loss (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Financial assets held for trading** | | | | |
| Domestic corporate bonds | - | 88 | - | 88 |
| Domestic government bonds | - | 1,350 | - | 1,350 |
| Equities and shares | 29 | 37 | 29 | 37 |
| Accrued interest | - | 66 | - | 66 |
| | **29** | **1,541** | **29** | **1,541** |
| **Financial assets initially designated at fair value through profit or loss** | | | | |
| Domestic treasury bills | 778 | 1,744 | 778 | 1,744 |
| Domestic commercial bills | 41 | 69 | 41 | 69 |
| Domestic corporate bonds | 315 | 126 | 315 | 126 |
| Domestic government bonds | 97 | 23 | 97 | 23 |
| Accrued interest | 38 | 4 | 38 | 4 |
| | **1,269** | **1,966** | **1,269** | **1,966** |
| **Financial assets at fair value through profit or loss** | **1,298** | **3,507** | **1,298** | **3,507** |

## 13 | Derivative financial instruments (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| ASSETS | 2009 | 2008 | 2009 | 2008 |
| *Fair values:* | | | | |
| Foreign exchange derivatives | 3 | 24 | 3 | 24 |
| Security derivatives | - | - | - | - |
| Other embedded derivatives | 1 | - | 1 | - |
| | **4** | **24** | **4** | **24** |
| *Notional amounts:* | | | | |
| Foreign exchange derivatives | 4,067 | 9,899 | 4,067 | 9,899 |
| Security derivatives | - | - | - | - |
| Other embedded derivatives | 268 | 250 | 268 | 250 |
| | **4,335** | **10,149** | **4,335** | **10,149** |
| LIABILITIES | | | | |
| *Fair values:* | | | | |
| Foreign exchange derivatives | 13 | 176 | 13 | 176 |
| Security derivatives | - | 26 | - | 26 |
| | **13** | **202** | **13** | **202** |
| *Notional amounts:* | | | | |
| Foreign exchange derivatives | 4,076 | 10,035 | 4,076 | 10,035 |
| Security derivatives | - | 578 | - | 578 |
| Other embedded derivatives | 168 | 232 | 168 | 232 |
| | **4,244** | **10,845** | **4,244** | **10,845** |

Foreign exchange derivatives mostly relate to foreign exchange currency deals bought and sold forward. Security derivatives include bonds bought forward. Other embedded derivatives include loans placed and received with one way foreign currency clause.
The notional amounts of certain types of financials instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks.

## 14 | **Due from banks** (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Term deposits | 9,360 | 6,855 | 9,067 | 6,463 |
| Demand deposits | 1 | 1 | - | - |
| Debt securities | 7 | - | 7 | - |
| Loans to banks | 1,410 | 993 | 1,446 | 937 |
| | **10,778** | **7,849** | **10,520** | **7,400** |
| Provisions | (9) | (15) | (9) | (15) |
| | **10,769** | **7,834** | **10,511** | **7,385** |

Term deposits are normally short-term deposits (up to one month) with local and foreign banks bearing an average annual interest rate of 0.05 percent to 7 percent (2008: 1.2 to 5 percent).
The Bank's placements with other banks include HRK 2.1 million (2008: HRK 4.3 million) related to refinanced borrowings due to the Republic of Croatia and HRK 0.1 million (2008: HRK 27.8 million) related to refinanced borrowings due to Government agencies. For more details refer to note 25.
The related currency analysis is provided in note 42.

*Geographical analysis*

| (in HRK million) | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Italy | 1,923 | 2,355 | 1,900 | 2,313 |
| Germany | 1,845 | 2,334 | 1,823 | 2,246 |
| Republic of Croatia | 1,342 | 800 | 1,372 | 762 |
| Belgium | 840 | 60 | 767 | - |
| France | 816 | 331 | 816 | 331 |
| Great Britain | 659 | 96 | 626 | 52 |
| Austria | 596 | 636 | 585 | 623 |
| Switzerland | 161 | 32 | 146 | - |
| United States of America | 104 | - | 104 | - |
| Other countries | 2,492 | 1,205 | 2,381 | 1,073 |
| | **10,778** | **7,849** | **10,520** | **7,400** |
| Provisions | (9) | (15) | (9) | (15) |
| | **10,769** | **7,834** | **10,511** | **7,385** |

## 15 | Loans and advances to customers (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| *a) Analysis by type of customer* | | | | |
| Citizens | 25,992 | 27,824 | 22,852 | 24,713 |
| Companies | 14,609 | 15,647 | 13,080 | 13,866 |
| Public sector and other | 6,501 | 5,136 | 6,443 | 5,095 |
| Debt securities | 3,391 | - | 2,189 | - |
| | **50,493** | **48,607** | **44,564** | **43,674** |
| Provisions | (2,595) | (2,023) | (1,903) | (1,520) |
| Deferred interest and fees recognised as an adjustment to the effective yield | (525) | (552) | (372) | (439) |
| | **47,373** | **46,032** | **42,289** | **41,715** |
| *b) Analysis by sector* | | | | |
| Citizens | 25,992 | 27,824 | 22,852 | 24,713 |
| Public administration and defence, compulsory social security | 7,143 | 2,867 | 5,898 | 2,828 |
| Construction | 3,592 | 3,586 | 3,389 | 3,369 |
| Wholesale and retail trade | 3,123 | 3,868 | 2,592 | 3,275 |
| Real estate, renting and business services | 1,914 | 928 | 1,878 | 882 |
| Transport and communication | 1,341 | 1,182 | 1,265 | 1,074 |
| Hotels and restaurants | 832 | 1,151 | 785 | 1,096 |
| Agriculture, forestry and fishing | 763 | 927 | 701 | 853 |
| Food and beverages | 535 | 592 | 443 | 559 |
| Energy products | 721 | 518 | 721 | 517 |
| Oil refining and gas | 149 | 115 | 149 | 115 |
| Other | 4,388 | 5,049 | 3,891 | 4,393 |
| | **50,493** | **48,607** | **44,564** | **43,674** |
| Provisions | (2,595) | (2,023) | (1,903) | (1,520) |
| Deferred interest and fees recognised as an adjustment to the effective yield | (525) | (552) | (372) | (439) |
| | **47,373** | **46,032** | **42,289** | **41,715** |

Included within loans and advances to customers are loans under reverse repurchase agreements of HRK 844.9 million (2008: HRK 268.2 million). Such agreements are secured with corporate and government bonds.

## 15 | Loans and advances to customers / continued (in HRK million)

| | Citizens | | Companies | | Public sector and other | | Total |
|---|---|---|---|---|---|---|---|
| *c) Provisions for losses* | Individual | Collective | Individual | Collective | Individual | Collective | |
| **Group** | | | | | | | |
| **Balance at 1 January 2009** | **918** | **337** | **491** | **233** | **30** | **14** | **2,023** |
| Amounts collected | (706) | (6) | (184) | (29) | (12) | (1) | **(938)** |
| Amounts written off | (6) | - | (26) | (7) | - | - | **(39)** |
| Foreign exchange (gain)/loss | 1 | - | - | - | - | - | **1** |
| Amortisation of discount | (1) | - | (6) | - | - | - | **(7)** |
| Provisions | 1,067 | 11 | 417 | 19 | 42 | (1) | **1,555** |
| **Balance at 31 December 2009** | **1,273** | **342** | **692** | **216** | **60** | **12** | **2,595** |
| *Reconciliation with the Income statement line item Provisions for loans and advances to customers* | | | | | | | |
| Provisions | 1,067 | 11 | 417 | 19 | 42 | (1) | **1,555** |
| Amounts collected | (706) | (6) | (184) | (29) | (12) | (1) | **(938)** |
| Amortisation of discount | (2) | - | (7) | - | - | - | **(9)** |
| **Charge in the income statement** | **359** | **5** | **226** | **(10)** | **30** | **(2)** | **608** |
| | | | | | | | |
| **Bank** | | | | | | | |
| **Balance at 1 January 2009** | **551** | **320** | **403** | **206** | **30** | **10** | **1,520** |
| Amounts collected | (642) | (4) | (175) | (27) | (12) | - | **(860)** |
| Amounts written off | (4) | - | (22) | - | - | - | **(26)** |
| Foreign exchange (gain)/loss | 1 | - | - | - | - | - | **1** |
| Amortisation of discount | (1) | - | (6) | - | - | - | **(7)** |
| Provisions | 839 | 7 | 372 | 15 | 42 | - | **1,275** |
| **Balance at 31 December 2009** | **744** | **323** | **572** | **194** | **60** | **10** | **1,903** |
| *Reconciliation with the Income statement line item Provisions for loans and advances to customers* | | | | | | | |
| Provisions | 839 | 7 | 372 | 15 | 42 | - | **1,275** |
| Amounts collected | (642) | (4) | (175) | (27) | (12) | - | **(860)** |
| Amortisation of discount | (2) | - | (7) | - | - | - | **(9)** |
| **Charge in the income statement** | **195** | **3** | **190** | **(12)** | **30** | **-** | **406** |

## 15 | Loans and advances to customers / continued (in HRK million)

| *c) Provisions for losses* | Citizens Individual | Citizens Collective | Companies Individual | Companies Collective | Public sector and other Individual | Public sector and other Collective | Total |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **Balance at 1 January 2008** | **845** | **364** | **549** | **212** | **35** | **-** | **2,005** |
| Amounts collected | (557) | (33) | (146) | (6) | (20) | - | **(762)** |
| Amounts written off | (27) | - | (91) | - | - | - | **(118)** |
| Foreign exchange (gain)/loss | 2 | - | 1 | - | - | - | **3** |
| Amortisation of discount | (1) | - | (3) | - | - | - | **(4)** |
| Provisions | 656 | 6 | 181 | 27 | 15 | 14 | **899** |
| **Balance at 31 December 2008** | **918** | **337** | **491** | **233** | **30** | **14** | **2,023** |
| *Reconciliation with the Income statement line item Provisions for loans and advances to customers* | | | | | | | |
| Provisions | 657 | 6 | 182 | 27 | 15 | 14 | **901** |
| Amounts collected | (557) | (33) | (146) | (6) | (20) | - | **(762)** |
| Amortisation of discount | (1) | - | (3) | - | - | - | **(4)** |
| **Charge in the income statement** | **99** | **(27)** | **33** | **21** | **(5)** | **14** | **135** |
| **Bank** | | | | | | | |
| **Balance at 1 January 2008** | **519** | **352** | **460** | **185** | **35** | **-** | **1,551** |
| Amounts collected | (519) | (32) | (133) | (5) | (20) | - | **(709)** |
| Amounts written off | (15) | | (80) | | | | **(95)** |
| Foreign exchange (gain)/loss | 2 | | 1 | | | | **3** |
| Amortisation of discount | (1) | - | (3) | - | - | - | **(4)** |
| Provisions | 565 | - | 158 | 26 | 15 | 10 | **774** |
| **Balance at 31 December 2008** | **551** | **320** | **403** | **206** | **30** | **10** | **1,520** |
| *Reconciliation with the Income statement line item Provisions for loans and advances to customers* | | | | | | | |
| Provisions | 565 | - | 158 | 26 | 15 | 10 | **774** |
| Amounts collected | (519) | (32) | (133) | (5) | (20) | - | **(709)** |
| Amortisation of discount | (1) | - | (3) | - | - | - | **(4)** |
| **Charge in the income statement** | **45** | **(32)** | **22** | **21** | **(5)** | **10** | **61** |

## 15 | Loans and advances to customers / continued

The Group manages its exposure to credit risk through the application of a variety of control measures: regular assessment using agreed credit criteria and diversification of sector risk to avoid undue concentration in type of business or geographic terms. Where necessary, the Group obtains acceptable collateral to reduce the level of credit risk.
On 31 December 2009 the aggregate amount of non performing loans and receivables (before provisions) for the Group equalled HRK 4,291 million and for the Bank HRK 3,348 million (2008: HRK 2,228 million and HRK 2,064 million respectively).
The fair value of collateral that the Group holds relating to loans individually determined to be impaired as of 31 December 2009 amounts to 5,645 million. During 2009 the Group sold the rights to 100 percent of the cash flows arising on a syndicated loan portfolio carried at HRK 219 million (2008: HRK 277 million) to third parties for a payment of HRK 219 million (2008: HRK 277 million), excluding fees paid to the buyers amounting to HRK 3.3 million (2008: HRK 1.7 million).
The Group has determined that substantially all the risks and rewards of the portfolio were transferred. Therefore the Group derecognised the transferred assets from its statement of financial position.

### (d) Loans and contingencies under guarantee

The state budget includes support for certain key industries in the Republic of Croatia. The repayment of such loans is provided for by the state budget. In addition, the Republic of Croatia issues guarantees for certain loans and contingent liabilities.
The support and guarantee of the Republic of Croatia was taken into consideration when determining the level of provisions required against loans to certain legal entities.
Total Group loans and contingencies guaranteed by the Republic of Croatia or repayable from the state budget amount to HRK 3,278 million (2008: HRK 2,521 million).

### (e) Refinanced loans

Included in loans and receivables are HRK 14.6 million (2008: HRK 29.6 million) related to refinanced borrowings due to the Republic of Croatia and HRK 2.29 million (2008: HRK 89.9 million) related to refinanced borrowings due to Government Agencies.
For more detail on refinanced loans refer to note 25.

### (f) Collateral repossessed

During the year, the Group took possession of real estate (business premises, houses, flats and land) with a carrying value of HRK 8.3 million and the Bank HRK 7.7 million (2008: HRK 4.7 million and HRK 1.4 million respectively). The collateral repossessed, which the Group is in the process of selling, is disclosed within Other assets (note 22). In general, the Group does not occupy repossessed properties for business use.
During 2009 the Group has sold collateral with a total fair value of HRK 9 million (2008: HRK 207 million).

## 16| Assets available for sale (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Quoted investments** | | | | |
| Government debt securities | 80 | 1,520 | 80 | 348 |
| Corporate debt securities | 40 | 419 | 40 | 419 |
| Municipal debt securities | - | 38 | - | 38 |
| Treasury bills | 508 | 397 | 508 | 397 |
| Equities | 30 | 46 | 25 | 39 |
| | **658** | **2,420** | **653** | **1,241** |
| **Unquoted investments** | | | | |
| Treasury bills | 280 | 164 | - | - |
| Equities | 57 | 70 | 53 | 65 |
| | **337** | **234** | **53** | **65** |
| | | | | |
| Accrued interest | 5 | 45 | 5 | 24 |
| **Total** | **1,000** | **2,699** | **711** | **1,330** |

## 16 | Assets available for sale / continued (in HRK million)

The Group identified that the market conditions for Croatian government and bonds of Croatian corporate issuers no longer demonstrated active trading during the first half of 2009. In general, the fixed income market in Croatia was adversely impacted by the global turmoil which was evidenced by a standstill in trading interrupted only by occasional forced transactions. In such circumstances the Group could not actively trade with these instruments.
Furthermore, as these securities were initially recognised within the available for sale category of financial instruments, the revaluation effects had an impact on equity, and the volatility of the fair value increased the level of unpredictability for management of compliance with regulatory requirements for the Bank.
As the Group has the ability and intention to hold these assets for the foreseeable future and these assets satisfy the definition of "loans and receivables" at the date of the transfer, The Group decided to reclassify the portfolio of Croatian government and bonds of Croatian corporate issuers from the available for sale portfolio to the loans and receivables portfolio.

PBZ Stambena štedionica reclassified domestic government bonds with a book value of HRK 58 million to the Held to maturity portfolio as of 31 December 2008 (refer to note 17). It is expected that the Group will collect all the cash flows related to these bonds (coupon and principal upon maturity in 2012). The reason for the reclassification was the significant decline in market price which affects the amount of regulatory capital of PBZ Stambena štedionica if the securities are being classified as available for sale and revalued through equity.

The following table sets out equity investments considered as available for sale.

| EQUITY INVESTMENTS | COUNTRY holding % | NATURE OF BUSINESS | 2009 | 2008 |
|---|---|---|---|---|
| Quaestus Private Equity Kapital | Croatia | finance | 29 | 29 |
| Europay Hrvatska d.o.o. | Croatia | card services | 15 | 15 |
| Hrvatski registar obveza po kreditima d.o.o. | Croatia | finance | 15 | 15 |
| Tehnološko inovacijski centar d.o.o. | Croatia | manufacturing | 11 | 11 |
| Agromeđimurje d.d. | Croatia | agriculture | 11 | 11 |
| Tržište novca i kratkoročnih vrijednosnica d.d. | Croatia | finance | 8 | 8 |
| Međimurske novine d.o.o. | Croatia | newspaper | 7 | 7 |
| Zagrebačka burza d.d. | Croatia | finance | 3 | 3 |
| Brodogradilište Viktor Lenac | Croatia | manufacturing | 2 | 2 |
| Bioinstitut d.o.o. | Croatia | manufacturing | 2 | 2 |
| MBU d.o.o. | Croatia | finance | 1 | 1 |
| Regionalna razvojna agencija Porin d.o.o. | Croatia | manufacturing | 1 | 1 |
| Središnje klirinško depozitarno društvo d.d. | Croatia | finance | 1 | 1 |
| Elan d.d. | Slovenia | manufacturing | 1 | 1 |
| IPK tvornica ulja Čepin | Croatia | manufacturing | 1 | 1 |

The Group holds 29 percent (2008: 29 percent) of the ordinary share capital of Quaestus Private Equity Kapital, a private equity investment fund. The directors of the Group do not consider that the Group is able to exercise significant influence over Quaestus Private Equity Kapital because they do not have the ability to participate in any way in the day to day operations of the company.

## 17 | Held to maturity investments (in HRK million)

| | GROUP 2009 | GROUP 2008 | BANK 2009 | BANK 2008 |
|---|---|---|---|---|
| Recapitalisation bonds | 357 | 487 | 357 | 487 |
| Rehabilitation bonds | 190 | 257 | 190 | 257 |
| Republic of Croatia bonds | 257 | 261 | - | - |
| Replacement bonds | 30 | 31 | 27 | 28 |
| Domestic treasury and commercial bills | 39 | 48 | - | - |
| Accrued interest | 19 | 24 | 16 | 21 |
| | **892** | **1,108** | **590** | **793** |

Republic of Croatia bonds relate to bonds issued by the Ministry of Finance of the Republic of Croatia purchased by PBZ Stambena štedionica. They are denominated in EUR, bear interest rates from 4.25 percent to 6.875 percent and are due from 2012 to 2019.
Domestic treasury bills are denominated in EUR, bear an interest rate of 7.80 percent and are due in June 2010.
Recapitalisation bonds and rehabilitation bonds were issued by the State Agency for Bank Rehabilitation and Deposit Insurance (DAB). These bonds are guaranteed by the Republic of Croatia.
Replacement bonds were originally issued by the Ministry of Finance. These kuna denominated bonds mature in 2011, bear an interest rate of 5 percent, and are payable in semi annual instalments.

## 18 | Equity investments in subsidiaries and associates (in HRK million)

| | GROUP 2009 | GROUP 2008 | BANK 2009 | BANK 2008 |
|---|---|---|---|---|
| Consolidated subsidiaries | - | - | 354 | 345 |
| Associates accounted for under the equity method in the Group accounts (cost in the Bank's accounts) | 130 | 56 | 38 | 28 |
| | **130** | **56** | **392** | **373** |
| *Movements* | | | | |
| **Balance at 1 January** | **56** | **49** | **373** | **363** |
| Consolidation effect arising from equity method | 19 | 11 | - | - |
| Payment of additional capital | 1 | - | 1 | 20 |
| Payment of dividend | (7) | (4) | - | - |
| Acquired/(disposed of) | 61 | - | 18 | (10) |
| **Balance at 31 December** | **130** | **56** | **392** | **373** |

## 18 | Equity investments in subsidiaries and associates / continued (in HRK million)

The principal investments in subsidiaries and associates are as follows:

| CONSOLIDATED SUBSIDIARIES | COUNTRY | NATURE OF BUSINESS | 2009 holding % | 2008 |
|---|---|---|---|---|
| Međimurska banka d.d. | Croatia | banking | 100 | 97 |
| PBZ Card d.o.o. | Croatia | card services | 100 | 100 |
| PBZ Leasing d.o.o. | Croatia | leasing | 100 | 100 |
| PBZ Invest d.o.o. | Croatia | finance | 100 | 100 |
| PBZ Nekretnine d.o.o. | Croatia | real estate | 100 | 100 |
| PBZ Stambena štedionica d.d. | Croatia | building society | 100 | 100 |
| Centurion financijske usluge d.o.o. | Bosnia and Herzegovina | card services | 100 | 100 |
| **ASSOCIATES** | | | | |
| PBZ Croatia osiguranje d.d. | Croatia | finance | 50 | 50 |
| Intesa Sanpaolo Card Zagreb d.o.o. | Croatia | card services | 37 | - |

In 2009 Privredna banka Zagreb sold its entire stake (25 percent of the share capital) in the associate Intesa Sanpaolo Card d.o.o. Ljubljana (former Centurion d.o.o. Ljubljana) to Intesa Sanpaolo Card Zagreb d.o.o.

The equity reserves of consolidated Group companies and associates are as follows:

| | 2009 | 2008 |
|---|---|---|
| Privredna banka Zagreb d.d. | 6,401 | 5,469 |
| Međimurska banka d.d. | 217 | 164 |
| PBZ Card d.o.o. | 454 | 518 |
| PBZ Leasing d.o.o. | 58 | 43 |
| PBZ Invest d.o.o. | 11 | 42 |
| PBZ Nekretnine d.o.o. | 19 | 20 |
| PBZ Stambena štedionica d.d. | (49) | (79) |
| Centurion financijske usluge d.o.o. | (4) | (3) |
| PBZ Croatia osiguranje d.d. | 27 | 26 |
| Intesa Sanpaolo Card d.o.o. Zagreb | 65 | - |
| **Total equity reserves of the Group** | **7,199** | **6,200** |

## 18| Equity investments in subsidiaries and associates / continued (in HRK million)

PBZ Croatia osiguranje d.d. and Intesa Sanpaolo Card d.o.o. Zagreb (2008: PBZ Croatia osiguranje d.d. and Centurion financijske usluge d.o.o.) are accounted for using the equity method. The following table illustrates summarised financial information of the Group's investment in associates:

| | 2009 | 2008 |
|---|---|---|
| **Share of the associates' statement of financial position** | | |
| Current assets | 104 | 88 |
| Non current assets | 37 | 9 |
| Current liabilities | (6) | (14) |
| Non current liabilities | (5) | (27) |
| **Net assets, being the carrying amount of the investment** | **130** | **56** |
| | | |
| **Share of the associates' revenue and profit** | | |
| Revenue | 41 | 32 |
| Profit | 8 | 11 |

## 19 | Intangible assets and goodwill (in HRK million)

| Group | Goodwill | Software | Other intangible assets | Assets in preparation | Total |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| **Balance at 1 January 2008** | **68** | **325** | **6** | **-** | **399** |
| Additions | - | - | - | 42 | 42 |
| Disposals and eliminations | - | 1 | - | - | 1 |
| Transfer in use | - | 35 | 1 | (36) | - |
| **Balance at 31 December 2008** | **68** | **361** | **7** | **6** | **442** |
| **Balance at 1 January 2009** | **68** | **361** | **7** | **6** | **442** |
| Additions | 4 | - | - | - | 4 |
| Disposals and eliminations | - | (102) | (2) | (1) | (105) |
| Transfer in use | - | 34 | 1 | (35) | - |
| **Balance at 31 December 2009** | **72** | **293** | **6** | **6** | **377** |
| | | | | | |
| **Amortization** | | | | | |
| **Balance at 1 January 2008** | **-** | **229** | **-** | **-** | **229** |
| Charge for the year | - | 41 | 1 | - | 42 |
| Disposals and eliminations | - | - | - | - | - |
| **Balance at 31 December 2008** | **-** | **270** | **1** | **-** | **271** |
| **Balance at 1 January 2009** | **-** | **270** | **1** | **-** | **271** |
| Charge for the year | - | 41 | 1 | - | 42 |
| Disposals and eliminations | - | (85) | (1) | - | (86) |
| **Balance at 31 December 2009** | **-** | **226** | **1** | **-** | **227** |
| | | | | | |
| Net book value | | | | | |
| **Balance at 31 December 2009** | **72** | **67** | **5** | **6** | **150** |
| **Balance at 31 December 2008** | **68** | **91** | **6** | **6** | **171** |

An increase in goodwill of HRK 4 million is associated with the acquisition of the remaining shares of Međimurska banka d.d. from minority shareholders during 2009.

## 19 | Intangible assets and goodwill / continued (in HRK million)

| Bank | Software | Assets in preparation | Total |
|---|---|---|---|
| **Cost or valuation** | | | |
| **Balance at 1 January 2008** | **248** | **-** | **248** |
| Additions | - | 31 | 31 |
| Transfer in use | 28 | (28) | - |
| **Balance at 31 December 2008** | **276** | **3** | **279** |
| **Balance at 1 January 2009** | **276** | **3** | **279** |
| Additions | - | 29 | 29 |
| Disposals and eliminations | (38) | - | (38) |
| Transfer in use | 26 | (26) | - |
| **Balance at 31 December 2009** | **264** | **6** | **270** |
| | | | |
| **Amortization** | | | |
| **Balance at 1 January 2008** | **178** | **-** | **178** |
| Charge for the year | 29 | - | 29 |
| **Balance at 31 December 2008** | **207** | **-** | **207** |
| **Balance at 1 January 2009** | **207** | **-** | **207** |
| Charge for the year | 32 | - | 32 |
| Disposals and eliminations | (38) | - | (38) |
| **Balance at 31 December 2009** | **201** | **-** | **201** |
| | | | |
| Net book value | | | |
| **Balance at 31 December 2009** | **63** | **6** | **69** |
| **Balance at 31 December 2008** | **69** | **3** | **72** |

As from 1 January 2005, the date of adoption of IFRS 3, goodwill was no longer amortised but is now subject to annual impairment testing. Accumulated amortisation up to that date was eliminated accordingly.
Goodwill acquired through business combinations was allocated to two individual cash generating units for impairment testing - PBZ Card (the American Express part of the business) and Međimurska banka. The recoverable amounts of cash generating units have been determined based on a value in use calculation using cash flow projections based on financial plans covering a five-year period. The discount rate applied to the cash flow projections was 11.63 percent for PBZ Card and 8.59 percent for Međimurska banka, while the cash flows beyond the 5-year period were extrapolated using a no growth assumption (zero percent growth rate).

# Notes to the Bank and the Group Financial Statements

## 20 | Property and equipment (in HRK million)

| Group | Land and buildings | Furniture and other equipment | Motor vehicles | Computer equipment | Leasehold improve-ments | Asset in prepa-ration | Total |
|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | |
| **Balance at 1 January 2008** | **1,083** | **482** | **304** | **507** | **169** | **11** | **2,556** |
| Additions | - | - | - | - | - | 347 | **347** |
| Disposal of Invest Holding Karlovac d.o.o. | (54) | (7) | - | - | - | - | **(61)** |
| Disposals and write-offs | (25) | (20) | (87) | (41) | (3) | - | **(176)** |
| Transfer in use | 35 | 72 | 132 | 72 | 36 | (347) | **-** |
| **Balance at 31 December 2008** | **1,039** | **527** | **349** | **538** | **202** | **11** | **2,666** |
| **Balance at 1 January 2009** | **1,039** | **527** | **349** | **538** | **202** | **11** | **2,666** |
| Additions | - | - | - | - | - | 187 | **187** |
| Disposals and write-offs | (5) | (156) | (84) | (24) | (2) | - | **(271)** |
| Transfer in use | 17 | 38 | 75 | 39 | 18 | (187) | **-** |
| Transfer to investment property | (2) | - | - | - | - | - | **(2)** |
| **Balance at 31 December 2009** | **1,049** | **409** | **340** | **553** | **218** | **11** | **2,580** |
| | | | | | | | |
| **Depreciation** | | | | | | | |
| **Balance at 1 January 2008** | **248** | **266** | **104** | **390** | **116** | **-** | **1,124** |
| Charge for the year | 25 | 82 | 57 | 61 | 21 | - | **246** |
| Disposal of Invest Holding Karlovac d.o.o. | (26) | (6) | - | - | - | - | **(32)** |
| Disposals and write-offs | (13) | (18) | (52) | (41) | (4) | - | **(128)** |
| **Balance at 31 December 2008** | **234** | **324** | **109** | **410** | **133** | **-** | **1,210** |
| **Balance at 1 January 2009** | **234** | **324** | **109** | **410** | **133** | **-** | **1,210** |
| Charge for the year | 23 | 78 | 63 | 60 | 24 | - | **248** |
| Disposals and write-offs | (1) | (119) | (49) | (11) | (2) | - | **(182)** |
| Transfer to investment property | (2) | - | - | - | - | - | **(2)** |
| **Balance at 31 December 2009** | **254** | **283** | **123** | **459** | **155** | **-** | **1,274** |
| | | | | | | | |
| **Net book value** | | | | | | | |
| **Balance at 31 December 2009** | **795** | **126** | **217** | **94** | **63** | **11** | **1,306** |
| **Balance at 31 December 2008** | **805** | **203** | **240** | **128** | **69** | **11** | **1,456** |

Furniture and other equipment and motor vehicles of the Group include assets leased under operating leases with a net book value of HRK 323.5 million (2008: HRK 329.7 million).

## 20| Property and equipment / continued (in HRK million)

| Bank | Land and buildings | Furniture and other equipment | Motor vehicles | Computer equipment | Leasehold improve-ments | Asset in prepa-ration | Total |
|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | |
| **Balance at 1 January 2008** | **812** | **322** | **20** | **288** | **168** | **7** | **1,617** |
| Additions | - | - | - | - | - | 143 | **143** |
| Disposals and write-offs | (23) | (14) | (8) | (35) | (3) | - | **(83)** |
| Transfer in use | 21 | 43 | 4 | 41 | 35 | (144) | **-** |
| **Balance at 31 December 2008** | **810** | **351** | **16** | **294** | **200** | **6** | **1,677** |
| **Balance at 1 January 2009** | **810** | **351** | **16** | **294** | **200** | **6** | **1,677** |
| Additions | - | - | - | - | - | 83 | **83** |
| Disposals and write-offs | (3) | (8) | (4) | (22) | (2) | - | **(39)** |
| Transfer in use | 8 | 27 | - | 31 | 18 | (84) | **-** |
| **Balance at 31 December 2009** | **815** | **370** | **12** | **303** | **216** | **5** | **1,721** |
| | | | | | | | |
| **Depreciation** | | | | | | | |
| **Balance at 1 January 2008** | **190** | **188** | **13** | **211** | **115** | **-** | **717** |
| Charge for the year | 20 | 46 | 3 | 45 | 20 | - | **134** |
| Disposals and write-offs | (12) | (14) | (7) | (35) | (3) | - | **(71)** |
| **Balance at 31 December 2008** | **198** | **220** | **9** | **221** | **132** | **-** | **780** |
| **Balance at 1 January 2009** | **198** | **220** | **9** | **221** | **132** | **-** | **780** |
| Charge for the year | 20 | 47 | 2 | 47 | 24 | - | **140** |
| Disposals and write-offs | (1) | (7) | (4) | (21) | (2) | | **(35)** |
| **Balance at 31 December 2009** | **217** | **260** | **7** | **247** | **154** | **-** | **885** |
| | | | | | | | |
| **Net book value** | | | | | | | |
| **Balance at 31 December 2009** | **598** | **110** | **5** | **56** | **62** | **5** | **836** |
| **Balance at 31 December 2008** | **612** | **131** | **7** | **73** | **68** | **6** | **897** |

## 21 | Investment property (in HRK million)

| | GROUP | BANK |
|---|---|---|
| **Cost or revaluation** | | |
| **Balance at 1 January 2009** | **30** | **30** |
| Charge for the year | (3) | (4) |
| Transfer of property and equipment | 2 | - |
| **Balance at 31 December 2009** | **29** | **26** |
| **Depreciation** | | |
| **Balance at 1 January 2009** | **16** | **16** |
| Charge for the year | 1 | 1 |
| Disposals and write-offs | (2) | (2) |
| Transfer of property and equipment | 2 | - |
| **Balance at 31 December 2009** | **17** | **15** |
| **Net book value** | | |
| **Balance at 31 December 2009** | **12** | **11** |
| **Balance at 31 December 2008** | **14** | **14** |

The estimated fair value of investment property held by the Group as at 31 December 2009 amounted to HRK 19 million (2008: HRK 24 million). The fair value was estimated by PBZ Nekretnine, a wholly owned subsidiary of Privredna banka Zagreb engaged in real estate management.
The property rental income earned by the Group from its investment property, all of which was leased out under operating leases, amounted to HRK 2.4 million (2008: HRK 3 million).

## 22 | Other assets (in HRK million)

| | | GROUP | | BANK |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Amounts to be debited under processing | 127 | 110 | 10 | 11 |
| Amounts receivable from debtors | 48 | 41 | 1 | 2 |
| Amounts receivable from tax institutions | 123 | 12 | 113 | - |
| Accrued fees | 31 | 30 | 31 | 29 |
| Prepaid expenses | 20 | 19 | 13 | 9 |
| Collateral received for non-performing loans | 24 | 18 | 19 | 13 |
| Other | 30 | 82 | 20 | 58 |
| | **403** | **312** | **207** | **122** |

## 23 | **Due to banks** (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Term deposits | 3,046 | 3,096 | 3,094 | 3,241 |
| Demand deposits | 179 | 552 | 224 | 552 |
| | **3,225** | **3,648** | **3,318** | **3,793** |

## 24 | **Due to customers** (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Term deposits | 32,355 | 30,100 | 29,922 | 27,262 |
| Demand deposits | 12,694 | 14,491 | 11,981 | 13,673 |
| | **45,049** | **44,591** | **41,903** | **40,935** |
| | | | | |
| Retail deposits | 34,102 | 32,823 | 31,103 | 29,509 |
| Corporate deposits | 7,058 | 7,296 | 6,692 | 6,928 |
| Public sector and other | 3,889 | 4,472 | 4,108 | 4,498 |
| | **45,049** | **44,591** | **41,903** | **40,935** |

## 25 | **Other borrowed funds** (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Domestic borrowings | 2,976 | 3,361 | 2,878 | 3,276 |
| Foreign borrowings | 7,673 | 7,345 | 5,919 | 5,606 |
| Refinanced debt | 32 | 214 | 32 | 214 |
| | **10,681** | **10,920** | **8,829** | **9,096** |

### (a) Domestic and Foreign borrowings

*Domestic borrowings*

Domestic borrowings of the Group include loans received from the Croatian Bank for Reconstruction and Development (HBOR) of HRK 2.0 billion (2008: HRK 1.9 billion), payables under repurchase agreements with HBOR of HRK 498 million (2008: HRK 179 million with other domestic banks and companies) as well as other borrowings from other domestic banks. In accordance with the overall agreement, borrowings from HBOR are used to funds loans to customers for eligible construction and development projects at preferential interest rates.

*Foreign borrowings*

Foreign borrowings of the Group include long-term loans received from foreign banks denominated mostly in EUR and with both fixed and floating interest rates. The following table is a summary of the Group's foreign borrowings by remaining maturities.

## 25 | Other borrowed funds / continued (in HRK million)

### (a) Domestic and Foreign borrowings / continued

| (in HRK million) | Due in 2010 | Due in 2011 | Due in 2012 | Due in 2013 | Due after 2014 | Total 2009 | Total 2008 |
|---|---|---|---|---|---|---|---|
| **GROUP** | | | | | | | |
| Fixed rate | - | - | - | - | - | - | 5 |
| Floating rate | 1,596 | 2,478 | 466 | 742 | 2,391 | 7,673 | 7,340 |
| **Total foreign borrowings** | **1,596** | **2,478** | **466** | **742** | **2,391** | **7,673** | **7,345** |

### (b) Refinanced debt - Amounts due to the Republic of Croatia - London Club

These amounts relate to foreign currency borrowings from commercial banks falling due under the New Financing Agreement signed on 20 September 1988. Repayments of principal under this agreement were due to commence in February 1994 with the first of 26 semi-annual instalments. However, negotiations continued regarding the assumption of the liabilities of the former Yugoslavia, and interest payments since 25 May 1992 and capital payments were delayed. During 1996 liabilities of HRK 4,030 million to commercial banks under the New Financing Agreement were transferred from the Bank to the Rehabilitation Agency as part of the Bank's rehabilitation.

On 31 July 1996 the Government of the Republic of Croatia assumed responsibility for 29.5 percent of all rescheduled liabilities of the former Yugoslavia to commercial banks under the New Financing Agreement (London Club), representing the Republic of Croatia's share of the debt of the former Yugoslavia. This liability was settled by the issue of bonds of the Republic of Croatia and the first payment of principal and interest was made on 31 January 1997. Consequently, the Bank's liabilities to commercial banks under the New Financing Agreement were replaced by amounts due to the Republic of Croatia.

The liabilities assumed by the Republic of Croatia were further rescheduled, for a period of 10 to 14 years; they are denominated in USD and carry interest of LIBOR + 13/16 percent. The amounts due to the Republic of Croatia by the Bank were similarly rescheduled and redenominated.

## 26 | Other liabilities (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Amounts payable to creditors | 1,117 | 1,141 | 23 | 25 |
| Items in the course of payment and other liabilities | 332 | 361 | 272 | 297 |
| Salaries and other staff costs | 104 | 131 | 93 | 113 |
| | **1,553** | **1,633** | **388** | **435** |

## 27 | Accruals and deferred income (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Deferred tax liabilities | 2 | 2 | 2 | 2 |
| Deferred income | 80 | 119 | 14 | 13 |
| Accrued expenses | 113 | 113 | 64 | 59 |
| | **195** | **234** | **80** | **74** |

## 28 | Provisions for risks and charges (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| *a) Analysis* | | | | |
| Provisions for contingent liabilities and commitments | 130 | 168 | 127 | 164 |
| Provisions for legal claims | 72 | 89 | 59 | 80 |
| Provisions for other risks and charges | 9 | 13 | - | - |
| | **211** | **270** | **186** | **244** |
| *b) Movements* | | | | |
| **Balance at 1 January** | **270** | **265** | **244** | **242** |
| Release of provisions | (6) | (10) | (5) | (10) |
| Provisions for guarantees and commitments (note 5) | (37) | 15 | (37) | 14 |
| Provisions for legal claims (note 5) | (16) | - | (16) | (2) |
| **Balance at 31 December** | **211** | **270** | **186** | **244** |

## 29 | Contingent liabilities and commitments

### Legal claims

As at 31 December 2009 there were several litigation cases outstanding against the Group. In the opinion of legal experts, there is a probability that the Group may lose certain cases. For this reason the level of provisions for potential losses related to litigation as at 31 December 2009 made by the Group stood at HRK 72 million whilst the Bank provided HRK 59 million as at 31 December 2009 (refer to note 28).

### Credit related contingencies and commitments

The primary purpose of these instruments is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The Group assessed that a provision of HRK 130 million is necessary to cover risks due to default of the respective counterparties (refer to note 28).

The aggregate amounts of outstanding guarantees, letters of credit and other commitments at the end of the period were:

| | GROUP | | BANK | |
|---|---|---|---|---|
| (in HRK million) | 2009 | 2008 | 2009 | 2008 |
| Undrawn lending commitments | 9,284 | 11,008 | 9,107 | 10,772 |
| Performance guarantees | 1,881 | 2,099 | 1,855 | 2,075 |
| Foreign currency guarantees | 435 | 518 | 421 | 503 |
| Foreign currency letters of credit | 282 | 519 | 282 | 512 |
| HRK guarantees | 462 | 375 | 438 | 341 |
| Other contingent liabilities | 25 | 36 | 21 | 33 |
| | **12,369** | **14,555** | **12,124** | **14,236** |

## 29 | Contingent liabilities and commitments / continued

### Credit related contingencies and commitments / continued

On 31 December 2009 the Group and the Bank had long-term commitments in respect of rent for business premises and equipment lease agreements expiring between 2010 and 2014. The Management Board is confident that the future net revenues and funding will be sufficient to cover this commitment. The future minimum commitments for each of the next five years along with comparative numbers for 2009 are presented below:

| (in HRK million) | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| Premises | 50 | 55 | 58 | 61 | 64 | 66 | 354 |
| | **50** | **55** | **58** | **61** | **64** | **66** | **354** |
| **Bank** | | | | | | | |
| Premises | 49 | 54 | 57 | 60 | 63 | 65 | 348 |
| Equipment | 4 | 5 | 5 | 5 | 5 | 5 | 29 |
| | **53** | **59** | **62** | **65** | **68** | **70** | **377** |

## 30 | Share capital

The total number of authorised registered shares on 31 December 2009 was 19,074,769 (2008: 19,074,769) with a nominal value of HRK 100 per share (2008: HRK 100 per share).

On 17 December 1999, the State Agency for Deposit Insurance and Bank Rehabilitation and Comit Holding International (now Intesa Holding International) through Banca Commerciale Italiana (now Banca Intesa) signed a Share Purchase Agreement in Relation to Privredna banka Zagreb. Through this contract, which came into effect on 28 January 2001, Banca Commerciale Italiana acquired 11,046,005 ordinary shares amounting to 66.3 percent of the total share capital of the Bank. According to this agreement the State Agency for Deposit Insurance and Bank Rehabilitation kept 4,165,002 ordinary shares which accounted for 25 percent (plus two shares) of the total share capital of the Bank (prior to 28 January 2001 the State Agency for Deposit Insurance and Bank Rehabilitation was the majority shareholder holding 15,211,007 ordinary shares which accounted for 91.3 percent of the total share capital of the Bank).

Furthermore, on 22 November 2002, the State Agency for Deposit Insurance and Bank Rehabilitation, Intesa Holding International and the European Bank for Reconstruction and Development signed a three-party Share Purchase Agreement Relating to Privredna banka Zagreb whereby the EBRD acquired 15 percent of the nominal capital whilst Intesa Holding International gained the remaining 10 percent from the State Agency for Deposit Insurance and Bank Rehabilitation.

Following finalisation of the public tender, as required in such circumstances by the Croatian law on the take-over of joint stock companies, Intesa Holding International and the EBRD concluded a contract on 22 January 2003 for the purchase of 965,746 shares by the EBRD from Intesa Holding International.

In November 2006, following a Decision of the Extraordinary General Assembly held on 31 August 2006, Intesa Holding International and the EBRD subscribed to additional capital of the Bank of HRK 1,811,076,750 of which Intesa Holding subscribed to HRK 1,423,143,750 and the EBRD to HRK 387,933,000. The new share capital was registered in the Commercial Court in Zagreb on 16 November 2006. As of 31 December 2006, following the merger of Banca Intesa with Sanpaolo IMI, Intesa Holding International changed its name into Intesa Sanpaolo Holding International.

## 30| Share capital / continued

The ownership structure as at 31 December 2009 was as follows:

| REGISTERED SHARES | | | | |
|---|---|---|---|---|
| | 31 December 2009 | | 31 December 2008 | |
| | Number of shares | Percentage of ownership | Number of shares | Percentage of ownership |
| Intesa Sanpaolo Holding International | 14,609,532 | 76.6% | 14,609,532 | 76.6% |
| EBRD | 3,981,990 | 20.9% | 3,981,990 | 20.9% |
| Minority shareholders | 418,574 | 2.2% | 418,574 | 2.2% |
| Treasury shares | 64,673 | 0.3% | 64,673 | 0.3% |
| | **19,074.769** | **100%** | **19,074,769** | **100%** |

On 31 December 2009, the President of the Management Board Božo Prka held 361 shares of Privredna banka Zagreb. Members of the Management Board, Ivan Gerovac held 120 shares and Draženko Kopljar held 108 shares.

During the year the movement of treasury shares was as follows.

| (number of shares) | 2009 | 2008 |
|---|---|---|
| **Balance at 1 January** | **64,673** | **50,599** |
| Increase | - | 38,261 |
| Decrease | - | (24,187) |
| **Balance at 31 December** | **64,673** | **64,673** |

## 31| Reserves and retained earnings

In accordance with local legislation, 5 percent of the net profit of the Bank is required to be transferred to non-distributable legal reserves to equal 5 percent of the share capital of the Bank.
During 2009, the Bank did not purchase any treasury shares on the open market for its own purposes.
At its meeting held on 23 February 2010, the Management Board of the Bank proposed a dividend of HRK 17.0 per share. The total amount to be distributed to the shareholders amounts to HRK 323.2 million. The Supervisory Board gave its consent to the proposal, which should be approved on the following General Assembly meeting.
As of 31 December 2009 retained profits (without net profit for 2009) of the Group amounted to HRK 5,603 million and of the Bank to HRK 4,839 million (2008: HRK 4,419 million and HRK 3,738 million, respectively). Retained profits are generally available to shareholders, subject to their approval, whilst other reserves within equity cannot be distributed to shareholders. Non distributable reserves amount to HRK 636 million for the Group (2008: HRK 533 million) and HRK 635 million for the Bank (2008: HRK 631 million).

## 32| Cash and cash equivalents (in HRK million)

The table below shows an analysis of cash and cash equivalents for the purposes of the cash flow statement.

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Cash and current accounts with other banks (note 10) | 3,105 | 2,973 | 2,803 | 2,747 |
| Due from banks with maturity of up to 3 months (note 14) | 10,490 | 7,329 | 10,232 | 6,882 |
| | **13,595** | **10,302** | **13,035** | **9,629** |

## 33 | Managed funds for and on behalf of third parties (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| LIABILITIES | | | | |
| Local authorities and similar organisations | 472 | 464 | 471 | 463 |
| Companies | 3 | 4 | 3 | 4 |
| Banks and other institutions | 245 | 245 | 241 | 240 |
| | **720** | **713** | **715** | **707** |
| LESS: ASSETS | 671 | 674 | 666 | 668 |
| | **49** | **39** | **49** | **39** |

The Group manages funds for and on behalf of third parties, which are mainly in the form of loans to various organisations for capital investment. These assets are accounted for separately from those of the Group and kept off the statement of financial position. Income and expenses arising from these funds are credited and charged to the corresponding sources and no liability falls on the Group in connection with these transactions. The Group is compensated for its services by fees chargeable to the funds.
Moreover, the Group also manages funds of its clients in terms of mutual investment funds and an obligatory pension fund. In that context, funds under management in mutual investment funds as at 31 December 2009 stood at HRK 2,058 million (2008: HRK 1,578 million). Funds under management in the obligatory pension fund managed in a joint venture with Croatia osiguranje d.d., a Croatian insurance company, as amounted to HRK 4,870 million as 31 December 2009 (2008: HRK 3,736 million).

## 34 | Leases

PBZ Leasing d.o.o., a company wholly-owned by the Bank, has entered as a lessor into both finance and operating lease arrangements of various items of equipment, vessels and vehicles. Net investments in finance leases of HRK 1,001.6 million (2008: HRK 1,185.3 million) (refer to note 15) in the Group financial statements are included within loans and advances to customers. The amounts related to operating lease arrangements are classified within property and equipment (refer to note 20). The net book value of leased property and equipment was HRK 323.5 million (2008: HRK 329.7 million).

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are set out below:

| | Minimum payments | Present value of payments | Minimum payments | Present value of payments |
|---|---|---|---|---|
| (in HRK million) | **2009** | **2009** | **2008** | **2008** |
| Next year | 285 | 231 | 332 | 259 |
| Between one and five years | 619 | 500 | 763 | 605 |
| After five years | 411 | 336 | 450 | 357 |
| Total minimum lease payments receivable | **1,315** | **1,067** | **1,545** | **1,221** |
| Unearned finance income | (248) | - | (324) | - |
| Total investment in finance leases | **1,067** | **1,067** | **1,221** | **1,221** |
| Less: Allowance for uncollectible amounts | (65) | (65) | (36) | (36) |
| Net investment in finance lease | **1,002** | **1,002** | **1,185** | **1,185** |

## 34 | Leases / continued

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

| (in HRK million) | 2009 | 2008 |
|---|---|---|
| Within one year | 74 | 78 |
| After one year but no more than five years | 127 | 153 |
| More than five years | 74 | 77 |
| | **275** | **308** |

## 35 | Related party transactions (in HRK million)

As of 31 December 2009 Privredna banka Zagreb and its subsidiaries are under the control of Intesa Sanpaolo, which owned 76.59 percent of the share capital at that date and represents the ultimate controlling party of PBZ Group.
Related parties include companies controlled or influenced by the Bank by virtue of its shareholdings and also companies that can influence the Bank by virtue of their shareholdings in the Bank, together with other companies forming part of the Intesa Sanpaolo Group. In addition, companies influenced by the key management personnel of the Bank are also considered to be related parties.
The Bank grants loans to or places deposits with the companies to which it is related. Such loans are made in the ordinary course of business at terms and conditions available to third parties.

The volumes of related party transactions and outstanding balances at the year end were as follows:

| | Key management personnel | Parent Group | Other related companies |
|---|---|---|---|
| **GROUP** | | | |
| DEPOSITS AND LOANS GIVEN | | | |
| Loans outstanding at 1 January 2009 | **11** | **15** | **796** |
| Changes during the year | - | (12) | (796) |
| Loans outstanding at 31 December 2009 | **11** | **3** | **-** |
| Interest income | - | - | - |
| | | | |
| DEPOSITS AND LOANS RECEIVED | | | |
| Balance at 1 January 2009 | **19** | **2,423** | **-** |
| Changes during the year | 6 | 176 | - |
| Balance at 31 December 2009 | **25** | **2,599** | **-** |
| Interest expense | - | 154 | - |
| | | | |
| Contingent liabilities and commitments | **2** | **8** | **-** |
| | | | |
| Fees and other income | - | 17 | - |
| Fees and other expense | 4 | 9 | - |

## 35 | Related party transactions / continued (in HRK million)

| | Key management personnel | PBZ Group | Parent Group | Other related companies |
|---|---|---|---|---|
| **BANK** | | | | |
| DEPOSITS AND LOANS GIVEN | | | | |
| Loans outstanding at 1 January 2009 | **11** | **58** | **4** | **796** |
| Changes during the year | - | 129 | (3) | (796) |
| Loans outstanding at 31 December 2009 | **11** | **187** | **1** | **-** |
| Interest income | 1 | 7 | - | - |
| | | | | |
| DEPOSITS AND LOANS RECEIVED | | | | |
| Balance at 1 January 2009 | **15** | **373** | **819** | **-** |
| Changes during the year | 6 | 159 | 179 | - |
| Balance at 31 December 2009 | **21** | **532** | **998** | **-** |
| Interest expense | - | 21 | 119 | - |
| | | | | |
| Contingent liabilities and commitments | **2** | **34** | **8** | **-** |
| Lease expense | - | 3 | - | - |
| Fees and other income | - | 39 | 17 | - |
| Fees and other expense | - | 36 | 9 | - |

No provisions were recognised in respect of loans given to related parties (2008: nil).

## 35 | Related party transactions / continued (in HRK million)

Key management compensation:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Salaries and other short-term benefits | 38 | 37 | 27 | 24 |
| Bonus payments | 27 | 16 | 21 | 15 |
| Pension insurance costs | 3 | 3 | 3 | 2 |
| | **68** | **56** | **51** | **41** |

Key management personnel include Management Board and Supervisory Board members, as well as senior executive directors or executive directors responsible for areas of strategic relevance.
All bonuses in 2009 were paid in cash. Bonus payments for 2008 include HRK 13 million paid in shares with an average share price of HRK 1,228.44.

## 36 | Financial risk management policies

This section provides details of the Group's exposure to risk and describes the methods used by the management to control risk. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and equity price risk.
An integrated system of risk management is established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group. The limits are set according to the amount of regulatory capital and apply to all types of risk. A methodology and models for managing operational risk have been developed.

### Credit risk

The Group is subject to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deals with counterparties of good credit standing, and when appropriate, obtains collateral.
The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. In addition, the Group is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued - refer to note 29.
Commitments to lend, including those based on guarantees issued by the Group that are contingent upon customers maintaining specific standards (including the solvency position of customers not worsening) represent liabilities that can be revoked. Irrevocable liabilities are based on undrawn but approved loans and approved overdrafts because these liabilities are the result of terms determined by loan contracts.
Guarantees and approved letters of credit that commit the Group to make payments on behalf of customers in the event of a specific act carry the same credit risk as loans. Standby letters of credit, which represent written guarantees of the Group in a client's name such that a third party can withdraw funds up to the preapproved limit, are covered by collateral, being the goods for which they were issued. Even though the credit risk for this type of product is significantly lower than for direct loans, the Group calculates impairment provisions on the same basis.
Exposure to credit risk has been managed in accordance with the Group's policies. Credit exposures to portfolios and individual group exposures are reviewed on a regular basis against the limits set. Breaches are reported to the appropriate bodies and personnel within the Bank authorised to approve them. Any substantial increases in credit exposure are authorised by the Credit Committee. The Assets Quality Committee monitors changes in the credit-worthiness of credit exposures and reviews any proposed impairment losses. Credit risk assessment is continuously monitored and reported, thus enabling an early identification of impairment in the credit portfolio. The Group has been continually applying prudent methods and models used in the process of credit risk assessment.

## 36 | Financial risk management policies / continued

### Credit risk / continued

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

| | NOTE | GROUP | | BANK | |
|---|---|---|---|---|---|
| (in HRK million) | | 2009 | 2008 | 2009 | 2008 |
| Cash and current accounts with other banks (excluding cash in hand) | 10 | 2,066 | 1,493 | 1,843 | 1,343 |
| Balances with Croatian National bank | 11 | 4,886 | 4,815 | 4,669 | 4,596 |
| Financial assets at fair value through profit or loss | 12 | 1,298 | 3,507 | 1,298 | 3,507 |
| Derivative financial assets | 13 | 4 | 24 | 4 | 24 |
| Due from banks | 14 | 10,769 | 7,834 | 10,511 | 7,385 |
| Loans and advances to customers | 15 | 47,373 | 46,032 | 42,289 | 41,715 |
| Assets available for sale | 16 | 1,000 | 2,699 | 711 | 1,330 |
| Held to maturity investments | 17 | 892 | 1,108 | 590 | 793 |
| Other assets (excluding real estate pledged for non-performing loans) | 22 | 412 | 294 | 221 | 109 |
| **Total** | | **68,700** | **67,806** | **62,136** | **60,802** |
| Contingent liabilities and commitments | 29 | 12,398 | 14,555 | 12,124 | 14,236 |
| **Total credit risk exposure** | | **81,098** | **82,361** | **74,260** | **75,038** |

Where financial instruments are recorded at fair value, the amounts shown above represent the credit risk exposure at the statement of financial position date but not the maximum risk exposure that could arise in the future as a result of changes in fair values.

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty (excluding the Republic of Croatia and the Croatian National Bank) as of 31 December 2009 was HRK 939 million (2008: HRK 831 million) before taking account of collateral or other credit enhancements.

The Group's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. As a rule, the Group approves a facility if there are two independent and viable repayment sources - cash flows generated by the borrower's activity and security instruments/collateral. The main types of collateral obtained are as follows:

- cash deposit for which the agreement stipulates that the Bank shall have the right to use the cash deposit for debt recovery and that the depositor may not use this deposit until the final settlement of all obliga-tions under the approved facility,
- guarantee of the Government of the Republic of Croatia,
- pledge of securities issued by the Republic of Croatia or the Croatian National Bank,
- irrevocable guarantee or super guarantee issued by a domestic or foreign bank with adequate credit rating with the conditions of "payable on first demand" or "without objections" or similar,
- credit insurance policy issued by the Croatian Bank for Reconstruction and Development,
- credit insurance policy issued by an appropriate insurance company in accordance with the internal regula-tions of the Bank,
- pledge of units in investment funds managed by PBZ Invest,
- mortgage/lien/fiduciary transfer of ownership of property, movable property or securities of other issuers.

## 36 | Financial risk management policies / continued

### Credit risk / continued

In general, a quality security instrument is an instrument with characteristics that provide a reasonable estimate of the Bank's ability to recover its dues secured by that instrument (in case of its activation), through market or court mechanisms, within a reasonable period of time. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. In 2007 the Bank initiated collateral management project aimed at improving allocation of collateral to individual exposures. The project focuses on developing a new platform for collateral management and monitoring. This project, currently in final phase, will enable the Bank to modernise and improve collateral revaluation process and will optimise its capital adequacy.

An ageing analysis of past due receivables per class of financial assets is shown below. The exposures below include not just the portion of debt that is overdue but also the non due portion of the loan for which overdue amounts exist at the statement of financial position date.

| **GROUP 2009** (in HRK million) | Less than 10 days | 11 to 30 days | 31 to 90 days | 91 to 180 days | More than 180 days | Total |
|---|---|---|---|---|---|---|
| **Loans and advances to customers** | | | | | | |
| Corporate lending | 8,706 | 155 | 1,044 | 213 | 726 | 10,844 |
| Housing loans | 2,347 | 139 | 573 | 101 | 159 | 3,319 |
| Other retail loans | 4,020 | 150 | 862 | 285 | 1,120 | 6,437 |
| Public sector and other | 543 | - | 177 | 2 | 193 | 915 |
| | **15,616** | **444** | **2,656** | **601** | **2,198** | **21,515** |
| Due from banks | 74 | 250 | - | - | 4 | 328 |
| Securities | 2 | - | 18 | - | - | 20 |
| Other due receivables | 623 | 14 | 249 | 18 | 1,169 | 2,073 |
| **Total** | **16,315** | **708** | **2,923** | **619** | **3,371** | **23,936** |

| **GROUP 2008** (in HRK million) | Less than 10 days | 11 to 30 days | 31 to 90 days | 91 to 180 days | More than 180 days | Total |
|---|---|---|---|---|---|---|
| **Loans and advances to customers** | | | | | | |
| Corporate lending | 9,604 | 171 | 1,133 | 223 | 483 | 11,614 |
| Housing loans | 2,122 | 126 | 409 | 79 | 97 | 2,833 |
| Other retail loans | 3,237 | 120 | 833 | 248 | 876 | 5,314 |
| Public sector and other | 702 | - | 68 | 2 | 19 | 791 |
| | **15,665** | **417** | **2,443** | **552** | **1,475** | **20,552** |
| Due from banks | 28 | 97 | - | - | 32 | 157 |
| Securities | 5 | 2 | 1 | - | - | 8 |
| Other due receivables | 1,536 | 34 | 315 | 55 | 1,060 | 3,000 |
| **Total** | **17,234** | **550** | **2,759** | **607** | **2,567** | **23,717** |

## 36 | Financial risk management policies / continued

### Credit risk / continued

| BANK 2009 (in HRK million) | Less than 10 days | 11 to 30 days | 31 to 90 days | 91 to 180 days | More than 180 days | Total |
|---|---|---|---|---|---|---|
| **Loans and advances to customers** | | | | | | |
| Corporate lending | 8,271 | 150 | 971 | 171 | 586 | 10,149 |
| Housing loans | 2,329 | 139 | 564 | 98 | 153 | 3,283 |
| Other retail loans | 2,604 | 150 | 743 | 208 | 652 | 4,357 |
| Public sector and other | 541 | (0) | 177 | 2 | 192 | 912 |
| | **13,745** | **439** | **2,455** | **479** | **1,583** | **18,701** |
| Due from banks | 73 | - | - | - | 4 | 77 |
| Securities | 2 | - | 18 | - | - | 20 |
| Other due receivables | 619 | 14 | 248 | 17 | 972 | 1,870 |
| **Total** | **14,439** | **453** | **2,721** | **496** | **2,559** | **20,668** |

| BANK 2008 (in HRK million) | Less than 10 days | 11 to 30 days | 31 to 90 days | 91 to 180 days | More than 180 days | Total |
|---|---|---|---|---|---|---|
| **Loans and advances to customers** | | | | | | |
| Corporate lending | 8,938 | 162 | 782 | 217 | 404 | 10,503 |
| Housing loans | 2,103 | 126 | 402 | 78 | 92 | 2,801 |
| Other retail loans | 3,000 | 172 | 728 | 200 | 490 | 4,590 |
| Public sector and other | 699 | - | 68 | 1 | 19 | 787 |
| | **14,740** | **460** | **1,980** | **496** | **1,005** | **18,681** |
| Due from banks | 124 | - | - | - | 32 | 156 |
| Securities | 5 | 2 | 1 | - | - | 8 |
| Other due receivables | 1,470 | 33 | 299 | 48 | 874 | 2,724 |
| **Total** | **16,339** | **495** | **2,280** | **544** | **1,911** | **21,569** |

Loans and advances to customers shown in above presented tables in the first bucket (less than 10 days) include those loans and advances that are only past due by a few days. Generally, delinquencies up to 30 days are of a technical nature and are frequently of low value that represents an insignificant part of the aggregate outstanding amount of the borrower. The management of the Bank believes that these exposures are fully recoverable.
The exposure is shown gross, before the effect of mitigation through collateral agreements. Other due receivables include accrued interest on overdue receivables. A portion of this interest, related to substandard and non performing loans, is not recognised in the statement of financial position nor credited to the income statement until collected.
As of 31 December 2009 the total amount of the Group's past due receivables that were not individually impaired amounted to HRK 17,751 million gross (2008: HRK 19,804 million), before the effect of collateral, while for the Bank it amounted to HRK 16,602 million (2008: HRK 18,605 million).

## 36 | Financial risk management policies / continued

### Credit risk / continued

*Credit risk per class of financial assets*
Credit risk by type of financial assets for loans and receivables is monitored using internal classifications for the credit risk. The table below provides an aggregated analysis of financial assets for the banking activities of the Group, as the main segment of the consolidated statement of financial position, broken down by risk grades as at 31 December 2009. The amounts provided are gross of specific or collective provisions.

| (in HRK million) | RISK GRADES | | | | | |
|---|---|---|---|---|---|---|
| **BANKING 2009** | **A** | **B1** | **B2** | **B3** | **C** | **Total** |
| Due from banks | 10,886 | - | - | - | - | **10,886** |
| Loans to customers | 42,394 | 1,355 | 952 | 305 | 726 | **45,732** |
| *of which Republic of Croatia, Government agencies and municipalities* | *8,343* | - | - | - | - | *8,343* |
| *of which corporate and SME customers* | *11,307* | *1,127* | *427* | *161* | *263* | *13,285* |
| *of which retail customers* | *22,462* | *211* | *515* | *143* | *457* | *23,788* |
| *of which other loans* | *282* | *17* | *10* | *1* | *6* | *316* |
| Held to maturity investments | 578 | - | - | - | - | **578** |
| Assets available for sale | 1,251 | - | - | 18 | - | **1,269** |
| Other receivables | 334 | - | 3 | 18 | 16 | **371** |
| **Total** | **55,443** | **1,355** | **955** | **341** | **742** | **58,836** |

| (in HRK million) | RISK GRADES | | | | | |
|---|---|---|---|---|---|---|
| **BANKING 2008** | **A** | **B1** | **B2** | **B3** | **C** | **Total** |
| Due from banks | 8,449 | - | - | - | - | **8,449** |
| Loans to customers | 42,721 | 887 | 568 | 100 | 677 | **44,953** |
| *of which Republic of Croatia, Government agencies and municipalities* | *4,826* | *3* | - | - | - | *4,829* |
| *of which corporate and SME customers* | *12,769* | *746* | *194* | *71* | *249* | *14,029* |
| *of which retail customers* | *24,849* | *121* | *374* | *29* | *412* | *25,785* |
| *of which other loans* | *277* | *17* | - | - | *16* | *310* |
| Held to maturity investments | 776 | - | - | - | - | **776** |
| Assets available for sale | 1,862 | - | - | 32 | - | **1,894** |
| Other receivables | 327 | - | 3 | 1 | 19 | **350** |
| **Total** | **54,135** | **887** | **571** | **133** | **696** | **56,422** |

## 36 | Financial risk management policies / continued

### Credit risk / continued

*Credit risk per class of financial assets*
The level of provisioning per risk grade is as follows:

| Grade | Provisions |
|---|---|
| A | no specific provision |
| B1 | 1% - 30% |
| B2 | 31% - 70% |
| B3 | 71% -99% |
| C | 100% |

*Credit quality of financial assets that are neither past due nor impaired*
All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The risk ratings are assessed and updated regularly. In terms of performing loans and receivables classified in internal A category (neither past due nor impaired), the Group applies two different sub-categories; A1 and A2. The A1 internal sub-category relates to loans and receivables secured entirely by highly liquid collateral such as cash deposits or other guarantees from highly respectable parties or institutions. The A2 sub-category relates to exposures for which the Group holds collateral against loans and receivables to customers in the form of mortgages over property, other registered securities over assets, and guarantees. As at 31 December 2009 placements of the Bank internally rated as A1 amounted to HRK 4,232 million (2008: HRK 34,534 million) and A2 HRK 37,993 million (2008: HRK 22,998 million).
As of 31 December 2009 the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is HRK 471 million for the Group and HRK 405 million for the Bank.

### Liquidity risk
Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at the appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.
The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings, subordinated liabilities including deposits, borrowings and share capital. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management.
The Group adjusts its business activities to manage liquidity risk according to regulatory and internal policies for the maintenance of liquidity reserves, matching of liabilities and assets, control of limits, preferred liquidity ratios and contingency planning procedures. Needs for short-term liquidity are planned every month for a period of one month and controlled and maintained daily. The treasury manages liquidity reserves daily, ensuring also the fulfilment of all customer needs.

The Group uses the following basic models for measurement of liquidity risk:
- stressed short term mismatches;
- maturity transformation rules;
- cumulative maturity mismatches of the Group's statement of financial position by currencies;
- scenario analysis
- funding and other structural indicators;
- cash flow projections.

For the purpose of the Group's liquidity risk exposure reporting, three main types of signals are defined:
- Hard limit - breach of a prescribed limit demands action according to the Liquidity risk management policy;
- Threshold of attention - breach of a threshold acts as an early warning signal, demanding additional attention and action if decided by responsible persons;
- Information on various measures and indicators - serving as information to the relevant decision-making bodies.

## 36 | Financial risk management policies / continued

### Liquidity risk / continued

With respect to the Decision of the CNB on minimum foreign currency claims the Bank is obliged to maintain a minimum of 20 percent of foreign currency liabilities in short term assets according to the Decision on minimal required foreign currency claims. As at 31 December 2008 the prescribed minimum ratio stood at 28.5 percent. In February 2009 the Croatian National Bank decreased the minimum ratio at first to 25 percent and then to 20 percent, within the same month. The actual figures were as follows:

| 2009 | % | 2008 | % |
|---|---|---|---|
| "20% ratio" (at year end) | 29.90 | "28.5% ratio" (at year end) | 30.75 |
| Average | 23.22 | Average | 31.00 |
| Maximum | 29.91 | Maximum | 34.61 |
| Minimum | 20.53 | Minimum | 28.05 |

### Market risk

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognised at fair value, and all changes in market conditions directly affect net trading income. The Group manages its use of trading instruments in response to changing market conditions. The limits are defined following the needs and strategy of the Group and in accordance with senior management risk policy indications.

Exposure to market risk is formally managed in accordance with risk limits approved by senior management and revised at least annually in terms of positional (nominal) exposure, VaR, PV01 and stop loss limits. The exposure figures and limit utilisations are delivered daily to the senior management and the lower management levels in the Treasury Division, which enables informed decision-making at all management and operational levels.

PBZ follows advanced market risk measurement and management principles promoted by Intesa Sanpaolo Group which are prescribed by Group-wide general policy guidelines and operative procedural standards. Starting from 2004, the Bank has fully integrated advanced techniques for risk measurement into the day-to-day risk management process (introduction of VaR - parametric approach as an official limit methodology starting from June 2004 with K+ support) which served as a basis for top management reporting on the Bank's market risk exposure. In addition to this, starting from 1 January 2007, PBZ started to use historical simulation (as the Group standard VaR methodology) and RiskWatch (as a Group wide VaR calculation engine), followed by all other supporting activities (pricing, back-testing, stress testing), which ensured full compliance with Intesa Sanpaolo Group standards.

The Bank's internal market risk management framework defines strict and clear procedures ensuring high quality and advanced systems for market risk measurement process. The major elements of the market risk management framework include:

- VaR Methodology and Backtesting,
- Fair Value Measurement,
- Risk Identification and Measurement Process,
- Stress testing,
- Internal Trading Book Regulation,
- Risk Management Organisation,
- PBZ Limits for Market Risk Exposures,
- General Policy guidelines for Investments into AFS Portfolio,
- Procedure for monitoring and measurement of counterparty and delivery risk exposure.

These measures, combined with regular control and reporting process, present a high quality and reliable system for the measurement of market risk.

The VaR that the Bank measures is an estimate, using a confidence level of 99 percent, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99 percent confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

## 36 | Financial risk management policies / continued

### Market risk / continued

| (in HRK thousand) | Equity VaR | Interest rate VaR | FX VaR | Effects of correlation | Total |
|---|---|---|---|---|---|
| 2009 - 2 January | 2,809 | 10,182 | 2,796 | (6,440) | 9,347 |
| 2009 - 31 December | 841 | 98 | 3,205 | (1,127) | 3,017 |
| 2009 - Average daily | 1,792 | 3,358 | 4,460 | (2,002) | 7,608 |
| 2009 - Lowest | 838 | 81 | 223 | (136) | 1,006 |
| 2009 - Highest | 3,104 | 10,182 | 14,459 | 1,685 | 29,430 |

Note: historical simulation used for VaR calculations

| (in HRK thousand) | Equity VaR | Interest rate VaR | FX VaR | Effects of correlation | Total |
|---|---|---|---|---|---|
| 2008 - 2 January | 5,261 | 14,139 | 224 | (1,253) | 18,371 |
| 2008 - 31 December | 2,826 | 10,314 | 2,423 | (5,671) | 9,892 |
| 2008 - Average daily | 4,597 | 10,406 | 2,163 | (5,413) | 11,753 |
| 2008 - Lowest | 2,530 | 5,886 | 80 | (1,939) | 6,557 |
| 2008 - Highest | 7,613 | 24,774 | 9,465 | (16,532) | 25,320 |

Note: historical simulation used for VaR calculations

In terms of VaR applications, the market risks measured using the VaR techniques are:
- general interest rate in the trading book,
- equity risk in trading book and
- foreign exchange risk on the statement of financial position level (both trading and banking book).

In practice the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation.

### Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The foreign exchange risk exposure is monitored on the overall statement of financial position level in terms of foreign exchange open position as prescribed by the regulatory provisions and additionally through the internal limits based on the advanced market risk models (FX VaR) on a daily basis.
The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2009. The analysis calculates the effect of a reasonably possible movement of the currency against the kuna, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in the income statement, while a positive amount reflects a net potential increase.

| Currency | FX Open position 2009 | Scenario | | FX Open position 2008 | Scenario | |
|---|---|---|---|---|---|---|
| | | 10% Move Up | 10% Move Down | | 10% Move Up | 10% Move Down |
| EUR | **443** | 44 | (44) | **(319)** | (32) | 32 |
| CHF | **12** | 1 | (1) | **13** | 1 | (1) |
| USD | **(18)** | (2) | 2 | **(43)** | (4) | 4 |

## 36 | Financial risk management policies / continued

### Market risk / continued

#### Interest rate risk

Interest rate risk is the sensitivity of the Group's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprices in a given period generate interest rate risk. The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, the Group is also exposed to basis risk, which is the difference in the repricing characteristics of the various floating rate indices. Asset-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate exchanges. Exposure to interest rate risk is monitored and measured using repricing gap analysis, net interest income and the economic value of equity. Risk management activities are aimed at optimising net interest income and the economic value of equity, given market interest rate levels consistent with the Group's business strategies.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2009.

(in HRK million)

| Increase in basis points 2009 | Change in interest income | Change in interest expenses | Change in net interest income | Decrease in basis points 2009 | Change in interest income | Change in interest expenses | Change in net interest income |
|---|---|---|---|---|---|---|---|
| +25 | 86.8 | 73.8 | 13.0 | -25 | (86.8) | (73.8) | (13.0) |
| +50 | 173.7 | 147.6 | 26.1 | -50 | (173.7) | (147.6) | (26.1) |

(in HRK million)

| Increase in basis points 2008 | Change in interest income | Change in interest expenses | Change in net interest income | Decrease in basis points 2008 | Change in interest income | Change in interest expenses | Change in net interest income |
|---|---|---|---|---|---|---|---|
| +25 | 66.7 | 46.9 | 19.8 | -25 | (66.7) | (46.9) | (19.8) |
| +50 | 133.4 | 93.8 | 39.6 | -50 | (133.4) | (93.8) | (39.6) |

#### Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment. The primary exposure to equity prices arises from equity securities held for trading and available for sale.

#### Derivative financial instruments

The Group enters into derivative financial instruments primarily to satisfy the needs and requirements of customers. Derivative financial instruments used by the Group include foreign exchange swaps and forwards. Derivatives are contracts which are individually negotiated over-the-counter.

#### Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk. In order to efficiently measure and manage operational risk exposure at the Group level, the Bank is developing an internal model for operational risk exposure management in line with the Basel II prescribed framework. The main goals of the internal model are to implement techniques enabling detailed insight into the profile of the Bank's risk exposure such as (quantitative ('ex-post') and qualitative ('ex-ante') assessment of risk exposure); to support the management decision making process by developing efficient policies for the management and mitigation of operational risk at the Group level and adjustment of the pricing/provisioning policy by incorporation of expected losses and allocation of adequate economic/regulatory capital for unexpected losses.

## 37 | Capital

The Bank maintains an actively managed capital base to cover risks in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Croatian National Bank in supervising the Bank. During the past year, the Bank complied in full with all its externally imposed capital requirements.

### Capital management

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

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

### Regulatory capital

| | BANK | |
|---|---|---|
| (in HRK million) | 2009 | 2008 |
| Tier 1 capital | 9,441 | 8,834 |
| Tier 2 capital | - | - |
| Deductions | (361) | (355) |
| Total capital | **9,080** | **8,479** |
| | | |
| Risk weighted assets and other risk elements | **52,285** | **54,822** |
| | | |
| Tier 1 capital ratio | **18.06%** | **16.11%** |
| Total capital ratio | **17.37%** | **15.47%** |

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, capital gains and other reserves. The other component of regulatory capital is Tier 2 capital, which included provision for collective impairment up to 0.5 percent of total risk weighted assets in 2007, while during 2008 the percentage was gradually decreased to zero.
The minimum capital ratio set by the Croatian National Bank in 2008 was 10 percent. However, on 1 January 2009 the new Law on credit institutions became effective, which also initiated changes in the respective by-laws. In terms of capital requirements, the changes in the regulatory framework adhere to Basel II provisions of minimum capital requirements and supervisory review process. A number of newly introduced by-laws will become effective as of 31 March 2010. The key change relates to the minimum regulatory ratio on capital adequacy which will increase to 12 percent. PBZ does not expect any adverse change in this ratio nor does it foresee a need for a capital increase.

## 38 | Fair values of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms length basis. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Loans and advances to customers and assets held to maturity are measured at amortised cost less impairment. Available for sale instruments are generally measured at fair value with the exception of some equity investments which are more appropriately kept at cost less impairment given the lack of quoted market prices in an active market or whose fair value cannot be reliably measured.

## 38 | Fair values of financial assets and liabilities / continued

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

- During 2008 the CNB abolished the marginal reserve that earned no interest. Therefore the fair value of balances with the CNB is not significantly different from the carrying value;
- Loans and advances to customers are net of specific and other provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected future cash flows are estimated considering credit risk and any indication of impairment. As the Group has a limited portfolio of loans and advances with fixed rates and longer term maturities, the fair value of loans and advances is not significantly different from their carrying value;
- The fair value of securities is based on market prices, with the exception of unquoted equity investments for which the fair value is based on the latest available financial statements of the issuer;
- For some of the investments carried at amortised cost less impairment, a quoted market price is not available and the fair value is, where possible, estimated using mark to model techniques and, as a result, their estimated fair values are not materially different from their carrying values. The fair value of securities held to maturity for the Group is estimated to be at HRK 902 million (2008: HRK 1,119 million) and for the Bank HRK 619 million (2008: HRK 826 million) (with carrying values of HRK 895 million (2008: HRK 1,106 million) and HRK 590 million (2008: HRK 793 million), respectively).
- For demand deposits and deposits with no defined maturities, fair value is determined to be the amount payable on demand at the statement of financial position date.
- Most of the Group's long-term debt borrowings bear floating interest rates which are linked to market and reprice regularly. As such the management believes that the book value of the long term borrowings approximates their fair value.

In the opinion of the Management Board of the Bank there are no significant differences between the book values and the fair values of assets and liabilities.

### Determination of fair value and fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| **GROUP 2009** (in HRK million) | Level 1 | Level 2 | Total |
|---|---|---|---|
| Derivative financial assets | - | 4 | 4 |
| Financial assets held for trading | 29 | - | 29 |
| Financial assets initially designated at fair value through profit or loss | - | 1,231 | 1,231 |
| Financial instruments available for sale | 641 | 299 | 940 |
| **Financial assets** | **670** | **1,534** | **2,204** |
| | | | |
| Derivative financial liabilities | - | 13 | 13 |
| **Financial liabilities** | **-** | **13** | **13** |

## 38 | Fair values of financial assets and liabilities / continued

### Determination of fair value and fair value hierarchy / continued

The process of fair value measurement uses a best-practice model implemented throughout the IntesaSanpaolo Group.
The model itself uses yield curves created from interest rate quotations seen on the market. An appropriate yield curve (the one that is associated with the same currency in which the security, whose price is modelled, is denominated) is used in discounting of all the security's cash flows in order to determine its present value, i.e. its modelled price. Interest rates taken from the yield curves for this present value discounting are modified (i.e. increased) depending on the overall credit quality of the issuer; thus capturing credit risk and various other counterparty related risks.
During 2009 there were no significant transfers of financial assets from level 1 to level 2 or from level 2 to level 1.
As mentioned briefly in other sections of this report, PBZ Group identified certain specific financial instruments (Croatian Government bonds and commercial papers) for which market conditions no longer demonstrated active trading but rather inactive or involuntary liquidations or distressed sales. In general, the fixed income market in Croatia was adversely impacted by the world's crisis which was evidenced by almost a complete stall in trading interrupted only by occasional forced transactions. In such circumstances there were no elements observed for which we could determine fair value.
In that context, such securities had been measured at fair value by independent broker quotations from the market in previous periods. When those quotations became mostly non-existent, as the occasional transactions that took place were clearly forced due to liquidity problems of the sellers, and the related prices at which transactions were executed did not represent fair values from the market, the Group decided to apply an internal model to the valuation of such instruments.

The internal model was based on the following principles:
- Valuation of debt securities denominated in EUR was based on EUR yield curve;
- Given the lack of a long-term HRK yield curve, due to the non-active state of the domestic market and well as an overall lack of price quotations and other market inputs from which the yield curve for kuna could have been derived, the Group decided to use the EUR yield curve for building the model for the valuation of securities subject to reclassification. We found this appropriate given the large degree of acceptance of the euro and euro dominated instruments in the country;
- While determining the fair value of debt securities subject to reclassification based on the EUR yield curve, the Group added an average CDS rate (credit default swap) quoted for the Republic of Croatia related to the respective maturities of securities. In this regard, the price of any Croatian debt security was increased by the appropriate and valid country risk;
- While determining the fair value of corporate papers, the Group additionally used the spreads associated with the credit risk of the issuer, which was added to the curve generated for valuation of the Croatian Government bonds, which was in accordance with internally prescribed methodologies.

### Reclassification of financial assets

2009 was characterised by a substantial deterioration in global market conditions, including a severe shortage of liquidity and credit availability. These conditions have led to a reduction in the level of market activity for many assets and the inability to sell other than at substantially lower prices.
Following the amendments to IAS 39 and IFRS 7 *Reclassification of Financial Assets* (effective from 1 July 2008) and as a result of the contraction in the market for many classes of assets, the Group has undertaken a review of assets that are classified as held-for-trading and available for sale, in order to determine whether this classification remains appropriate. Where it was determined that the market for an asset is no longer active, and that the Group no longer intends to trade, management have reviewed the instrument to determine whether it is appropriate to reclassify it to 'Loans and Receivables'. This reclassification has only been performed where the Group, at the reclassification date, has the clear intention and ability to hold the financial asset for the foreseeable future or until maturity.
In that context, in April and May 2009 the Group decided to reclassify Croatian Government bonds and commercial papers from the portfolio of financial instruments at fair value through profit and loss (held for trading) and the available for sale portfolio to the loans and receivables portfolio. The Group has the intention and ability to hold the reclassified financial instruments for the foreseeable future. The reclassification was performed based on values derived using the model as described above.
The following tables show the carrying amount and fair value of financial assets reclassified from 'Held-for-Trading' and from "Available-for-Sale" to the 'Loans and Receivables' category, as at the date of reclassification and as at the reporting date.
All transfers occurred on 30 April 2009. There were no reclassifications in the prior period.

## 38| Fair values of financial assets and liabilities / continued

### Reclassification of financial assets / continued

| (in HRK million) | GROUP | | BANK | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets reclassified from held for trading as at the date of reclassification | 1,903 | 1,903 | 1,903 | 1,903 |
| Financial assets reclassified from available for sale as at the date of reclassification | 1,418 | 1,418 | 213 | 213 |
| Financial assets reclassified from held for trading as at 31 December 2009 | 1,919 | 2,040 | 1,919 | 2,040 |
| Financial assets reclassified from available for sale as at 31 December 2009 | 1,407 | 1,486 | 215 | 227 |

The following table shows fair value gains and losses recognised in the income statement or other comprehensive income on assets reclassified to the Loans and receivables category, up until the date of transfer in 2009 and for the entire year of 2008. It also shows the undiscounted amount of cash flows expected to be recovered from and the expected effective interest rate applied to the reclassified assets as assessed at the date of reclassification.

| (in HRK million) | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Fair value losses recognised in net Other operating income | (54) | (58) | (54) | (58) |
| Fair value losses recognised in Other comprehensive income | (26) | (50) | (20) | (4) |
| | | | | |
| Expected undiscounted cash recoveries, as assessed at the date of reclassification | 4,502 | - | 2,931 | - |
| | Per cent | | Per cent | |
| Anticipated average EIR over the remaining life of the assets | 7.02 | | 7.02 | |

The following table shows the total fair value gains or losses and net interest income that would have been recognised during the period subsequent to reclassification if the Group had not reclassified financial assets from 'Held-for-Trading' and "Available-for-Sale" to the 'Loans and Receivables' category. This disclosure is provided for information purposes only and does not reflect what has actually been recorded in the financial statements of the Group.

| (in HRK million) | GROUP | BANK |
|---|---|---|
| Fair value gains and losses which would otherwise have been recognised after reclassification in net Other operating income | 137 | 137 |
| Fair value gains and losses which would otherwise have been recognised after reclassification in Other comprehensive income | 68 | 14 |

The net profit actually recorded on assets reclassified to Loans and receivables subsequent to 30 April 2009 amounts to HRK 33 million for the Group and HRK 18 million for the Bank (excluding coupon), and is recognised as interest income.

## 39 | Financial information by segment (in HRK million)

The following tables present information on the income statement and certain assets and liabilities regarding the Group's business segments for the year ended 31 December 2009. Given the change of the methodology for the presentation of segment reporting in 2009, it was determined that it was not practicable to disclose comparative financial information for 2008.
The segment reporting format is determined to be based on business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced.
The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing strategic segment units that offer different products and serve different markets. Since the Group operates predominantly in Croatia, there are no secondary (geographical) segments. Intersegment income and expenses are based on current market prices.
For management purposes, the Bank is organised into 3 operating segments based on products and services accompanied with a central supporting structure. This segmentation follows the organisational structure as reflected in internal management reporting systems, which are the basis for assessing the financial performance of the business segments and for allocating resources to the business segments.

*Retail banking:* Individual customers' savings and deposits, current accounts and overdrafts, all types of consumer loans, credit cards facilities and other facilities to individual customers

*Corporate banking:* Loans and other credit facilities as well as deposit and current accounts for corporate and institutional customers including medium-term funding, public sector, government agencies and municipalities as well as small and medium sized enterprises

*Finance banking:* Treasury operations as well as investment banking services including corporate finance, merger and acquisition services and trading

*Central structure:* All other residual activities

Furthermore, the management of the Bank monitors performance of its subsidiaries on an individual basis. However, for the purpose of presentation of the operating segments, with the exception of PBZ Card, subsidiaries have been grouped into one segment. In that context, the following tables present overall financial information by segment for the Bank and the PBZ Group.

| **As at 31 December 2009** (in HRK million) | PBZ Corporate | PBZ Retail | PBZ Finance | Central Structure | Reconciliation to financial statements | Financial statements |
|---|---|---|---|---|---|---|
| Net interest income | 705 | 917 | (40) | 224 | (7) | 1,799 |
| Net commission income | 237 | 131 | 20 | - | - | 388 |
| Net profit from trading and other operating income | 54 | 171 | 221 | 22 | 137 | 605 |
| **Operating margin** | **996** | **1,219** | **201** | **246** | **130** | **2,792** |
| Operating costs | (339) | (749) | (96) | - | (155) | (1,339) |
| **Operating profit** | **657** | **470** | **105** | **246** | **(25)** | **1,453** |
| Impairments | (197) | (181) | (6) | 12 | 19 | (353) |
| **Profit before taxes** | **460** | **289** | **99** | **258** | **(6)** | **1,100** |
| Income taxes | - | - | - | (179) | 6 | (173) |
| **Profit after taxes** | **460** | **289** | **99** | **79** | **-** | **927** |
| Capital expenditure | 4 | 19 | - | 84 | - | 107 |
| Segment assets | **20,476** | **22,820** | **21,581** | **3,174** | **(3,532)** | **64,519** |
| Segment liabilities | **19,150** | **31,265** | **5,039** | **3,721** | **(4,458)** | **54,717** |

## 39| Financial information by segment / continued

| As at 31 December 2009 | PBZ Corporate | PBZ Retail | PBZ Finance | Central Structure | PBZ Card | Other subsidiaries | Reconciliation to financial statements | Financial statements |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 705 | 917 | (40) | 224 | 54 | 180 | 20 | 2,060 |
| Net commission income | 237 | 131 | 20 | - | 610 | 61 | (20) | 1,039 |
| Net profit from trading and other operating income | 54 | 171 | 221 | 22 | (81) | 87 | 34 | 508 |
| **Operating margin** | **996** | **1,219** | **201** | **246** | **583** | **328** | **(34)** | **3,607** |
| Operating costs | (339) | (749) | (96) | - | (241) | (180) | (251) | (1,856) |
| **Operating profit** | **657** | **470** | **105** | **246** | **342** | **148** | **(217)** | **1,751** |
| Impairments | (197) | (181) | (6) | 12 | (153) | (40) | 10 | (555) |
| **Profit before taxes** | **460** | **289** | **99** | **258** | **189** | **108** | **(207)** | **1,196** |
| Income taxes | - | - | - | (179) | (40) | (22) | 5 | (236) |
| **Profit after taxes** | **460** | **289** | **99** | **79** | **149** | **86** | **(202)** | **960** |
| Capital expenditure | 4 | 19 | - | 84 | 19 | 8 | - | 134 |
| Segment assets | 20,476 | 22,820 | 21,581 | 3,174 | 2,463 | 6,424 | (5,527) | 71,411 |
| Investments in associates | - | 72 | 58 | - | - | - | - | 130 |
| Total assets | **20,476** | **22,892** | **21,639** | **3,174** | **2,463** | **6,424** | **(5,527)** | **71,541** |
| Segment liabilities | **19,150** | **31,265** | **5,039** | **3,721** | **1,999** | **5,873** | **(6,106)** | **60,941** |

Items of the income statement in presented tables on segment information for the Bank and the Group are generally in format and of classification criteria suited for the management reporting purpose. Therefore, disclosed segments have been reconciled to the financial statements prepared in accordance with the International Financial Reporting Standards. This reconciliation also includes consolidation adjustments in the Group segment report. Segment assets and segment liabilities for management reporting purpose are stated gross of provisions and other allowances unlike the disclosure criteria in the financial statements where assets and liabilities are presented net of provisions, deferred fees and other tax and non-tax allowances. In that context, reconciliation to the financial statements have reflected such nettings.

## 40 | **Interest rate risk** (in HRK million)

The following tables present the Group's and the Bank's assets and liabilities analysed according to repricing periods determined as the earlier of the remaining contractual maturity and the contractual repricing.

| GROUP<br>As at 31 December 2009 | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | Over 1 year | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and current accounts with other banks | 1,826 | - | - | - | 1,279 | **3,105** |
| Balances with the Croatian National Bank | 4,883 | - | - | - | 3 | **4,886** |
| Financial assets at fair value through profit or loss | 6 | 12 | 819 | 394 | 67 | **1,298** |
| Derivative financial assets | - | - | - | - | 4 | **4** |
| Due from banks | 10,392 | 229 | 83 | 16 | 49 | **10,769** |
| Loans and advances to customers | 10,274 | 8,128 | 6,875 | 20,398 | 1,698 | **47,373** |
| Assets available for sale | 30 | 528 | 305 | 45 | 92 | **1,000** |
| Held to maturity investments | - | 109 | 146 | 622 | 15 | **892** |
| Equity investments in subsidiaries and associates | - | - | - | - | 130 | **130** |
| Intangible assets and goodwill | - | - | - | - | 150 | **150** |
| Property and equipment | 131 | 192 | - | - | 983 | **1,306** |
| Investment property | - | - | - | - | 12 | **12** |
| Other assets | 51 | 17 | - | - | 335 | **403** |
| Deferred tax assets | - | - | - | - | 213 | **213** |
| | **27,593** | **9,215** | **8,228** | **21,475** | **5,030** | **71,541** |
| **Liabilities** | | | | | | |
| Due to banks | 3,133 | 18 | - | 72 | 2 | **3,225** |
| Due to customers | 21,682 | 6,508 | 12,790 | 3,526 | 543 | **45,049** |
| Derivative financial liabilities | - | - | - | - | 13 | **13** |
| Other borrowed funds | 4,602 | 3,681 | 1,211 | 1,163 | 24 | **10,681** |
| Other liabilities | 1 | - | - | - | 1,552 | **1,553** |
| Accruals and deferred income | - | - | - | - | 195 | **195** |
| Provisions for risks and charges | - | - | - | - | 211 | **211** |
| Liabilities for current tax | - | - | - | - | 14 | **14** |
| | **29,418** | **10,207** | **14,001** | **4,761** | **2,554** | **60,941** |
| **Interest sensitivity gap** | **(1,825)** | **(992)** | **(5,773)** | **16,714** | **2,476** | **10,600** |

**40| Interest rate risk / continued** (in HRK million)

| BANK<br>As at 31 December 2009 | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | Over 1 year | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and current accounts with other banks | 1,799 | - | - | - | 1,004 | **2,803** |
| Balances with the Croatian National Bank | 4,667 | - | - | - | 2 | **4,669** |
| Financial assets at fair value through profit or loss | 6 | 12 | 820 | 393 | 67 | **1,298** |
| Derivative financial assets | - | - | - | - | 4 | **4** |
| Due from banks | 10,152 | 214 | 83 | 16 | 46 | **10,511** |
| Loans and advances to customers | 8,931 | 7,213 | 6,851 | 19,126 | 168 | **42,289** |
| Assets available for sale | 5 | 507 | 71 | 45 | 83 | **711** |
| Held to maturity investments | - | 109 | 113 | 353 | 15 | **590** |
| Equity investments in subsidiaries and associates | - | - | - | - | 392 | **392** |
| Intangible assets and goodwill | - | - | - | - | 69 | **69** |
| Property and equipment | - | - | - | - | 836 | **836** |
| Investment property | - | - | - | - | 11 | **11** |
| Other assets | - | - | - | - | 207 | **207** |
| Deferred tax assets | - | - | - | - | 129 | **129** |
| | **25,560** | **8,055** | **7,938** | **19,933** | **3,033** | **64,519** |
| **Liabilities** | | | | | | |
| Due to banks | 3,227 | 18 | - | 72 | 1 | **3,318** |
| Due to customers | 20,200 | 6,431 | 12,478 | 2,308 | 486 | **41,903** |
| Derivative financial liabilities | - | - | - | - | 13 | **13** |
| Other borrowed funds | 4,562 | 2,085 | 1,034 | 1,124 | 24 | **8,829** |
| Other liabilities | - | - | - | - | 388 | **388** |
| Accruals and deferred income | - | - | - | - | 80 | **80** |
| Provisions for risks and charges | - | - | - | - | 186 | **186** |
| Liabilities for current tax | - | - | - | - | - | **-** |
| | **27,989** | **8,534** | **13,512** | **3,504** | **1,178** | **54,717** |
| **Interest sensitivity gap** | **(2,429)** | **(479)** | **(5,574)** | **16,429** | **1,855** | **9,802** |

# Notes to the Bank and the Group Financial Statements

**40 | Interest rate risk / continued** (in HRK million)

| **GROUP** **As at 31 December 2008** | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | Over 1 year | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and current accounts with other banks | 1,019 | 8 | 9 | 4 | 1,933 | **2,973** |
| Balances with the Croatian National Bank | 4,661 | - | - | - | 154 | **4,815** |
| Financial assets at fair value through profit or loss | 157 | 88 | 1,657 | 1,565 | 40 | **3,507** |
| Derivative financial assets | - | - | - | - | 24 | **24** |
| Due from banks | 6,943 | 211 | 99 | 407 | 174 | **7,834** |
| Loans and advances to customers | 7,496 | 6,969 | 4,538 | 24,643 | 2,386 | **46,032** |
| Assets available for sale | 243 | 171 | 424 | 1,632 | 229 | **2,699** |
| Held to maturity investments | - | 96 | 132 | 856 | 24 | **1,108** |
| Equity investments in subsidiaries and associates | - | - | - | - | 56 | **56** |
| Intangible assets and goodwill | - | - | - | - | 171 | **171** |
| Property and equipment | - | - | - | - | 1,456 | **1,456** |
| Investment property | - | - | - | - | 14 | **14** |
| Other assets | 2 | - | 17 | - | 293 | **312** |
| Deferred tax assets | - | - | - | - | 226 | **226** |
| | **20,521** | **7,543** | **6,876** | **29,107** | **7,180** | **71,227** |
| **Liabilities** | | | | | | |
| Due to banks | 3,551 | - | - | 84 | 13 | **3,648** |
| Due to customers | 22,436 | 6,093 | 10,100 | 4,554 | 1,408 | **44,591** |
| Derivative financial liabilities | - | - | - | - | 202 | **202** |
| Other borrowed funds | 5,166 | 2,390 | 748 | 2,529 | 87 | **10,920** |
| Other liabilities | 9 | - | - | - | 1,624 | **1,633** |
| Accruals and deferred income | - | - | - | - | 234 | **234** |
| Provisions for risks and charges | - | - | - | - | 270 | **270** |
| Liabilities for current tax | - | - | - | - | 118 | **118** |
| | **31,162** | **8,483** | **10,848** | **7,167** | **3,956** | **61,616** |
| **Interest sensitivity gap** | **(10,641)** | **(940)** | **(3,972)** | **21,940** | **3,224** | **9,611** |

## 40 | Interest rate risk / continued (in HRK million)

| BANK<br>As at 31 December 2008 | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | Over 1 year | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and current accounts with other banks | 981 | - | - | - | 1,766 | **2,747** |
| Balances with the Croatian National Bank | 4,594 | - | - | - | 2 | **4,596** |
| Financial assets at fair value through profit or loss | 157 | 88 | 1,657 | 1,565 | 40 | **3,507** |
| Derivative financial assets | - | - | - | - | 24 | **24** |
| Due from banks | 6,738 | 57 | 96 | 404 | 90 | **7,385** |
| Loans and advances to customers | 6,572 | 6,878 | 4,345 | 23,693 | 227 | **41,715** |
| Assets available for sale | 153 | 167 | 407 | 579 | 24 | **1,330** |
| Held to maturity investments | - | 96 | 128 | 548 | 21 | **793** |
| Equity investments in subsidiaries and associates | - | - | - | - | 373 | **373** |
| Intangible assets and goodwill | - | - | - | - | 72 | **72** |
| Property and equipment | - | - | - | - | 897 | **897** |
| Investment property | - | - | - | - | 14 | **14** |
| Other assets | - | - | - | - | 122 | **122** |
| Deferred tax assets | - | - | - | - | 165 | **165** |
| | **19,195** | **7,286** | **6,633** | **26,789** | **3,837** | **63,740** |
| **Liabilities** | | | | | | |
| Due to banks | 3,707 | - | - | 84 | 2 | **3,793** |
| Due to customers | 21,186 | 6,052 | 10,088 | 3,057 | 552 | **40,935** |
| Derivative financial liabilities | - | - | - | - | 202 | **202** |
| Other borrowed funds | 5,026 | 2,227 | 531 | 1,263 | 49 | **9,096** |
| Other liabilities | - | - | - | - | 435 | **435** |
| Accruals and deferred income | - | - | - | - | 74 | **74** |
| Provisions for risks and charges | - | - | - | - | 244 | **244** |
| Liabilities for current tax | - | - | - | - | 91 | **91** |
| | **29,919** | **8,279** | **10,619** | **4,404** | **1,649** | **54,870** |
| **Interest sensitivity gap** | **(10,724)** | **(993)** | **(3,986)** | **22,385** | **2,188** | **8,870** |

## 41 | Weighted average interest rates

The weighted average interest rates at the year-end are as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | Weighted average interest rate (%) | Weighted average interest rate (%) | Weighted average interest rate (%) | Weighted average interest rate (%) |
| Cash reserves | 0.75 | 0.85 | 0.75 | 0.86 |
| Balances with the Croatian National Bank | 0.64 | 0.89 | 0.64 | 0.88 |
| Securities held for trading | 6.99 | 4.85 | 6.86 | 5.00 |
| Due from banks | 1.22 | 3.92 | 1.22 | 3.95 |
| Loans and advances to customers | 6.92 | 7.44 | 7.06 | 7.53 |
| Public debt due from the Republic of Croatia | 5.00 | 5.00 | 5.00 | 5.00 |
| Replacement bonds | 5.00 | 5.00 | 5.00 | 5.00 |
| Due to customers | 3.50 | 3.20 | 3.55 | 3.18 |
| Other borrowed funds | 3.72 | 4.74 | 4.03 | 5.08 |

## 42 | Currency risk (in HRK million)

The Group manages its exposure to currency risk through a variety of measures including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies, and foreign currency deals bought and sold forward.

| GROUP<br>As at 31 December 2009 | EUR | CHF | USD | Other currencies | HRK | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and current accounts with other banks | 337 | 29 | 46 | 32 | 2,661 | **3,105** |
| Balances with the Croatian National Bank | 41 | - | 878 | - | 3,967 | **4,886** |
| Financial assets at fair value through profit or loss | 947 | - | - | - | 351 | **1,298** |
| Derivative financial assets | - | - | - | - | 4 | **4** |
| Due from banks | 9,804 | 10 | 380 | 311 | 264 | **10,769** |
| Loans and advances to customers | 27,126 | 4,505 | 385 | 15 | 15,342 | **47,373** |
| Assets available for sale | 799 | - | 14 | - | 187 | **1,000** |
| Held to maturity investments | 861 | - | - | - | 31 | **892** |
| Equity investments in subsidiaries and associates | - | - | - | - | 130 | **130** |
| Intangible assets and goodwill | - | - | - | - | 150 | **150** |
| Property and equipment | 316 | - | - | - | 990 | **1,306** |
| Investment property | - | - | - | - | 12 | **12** |
| Other assets | 5 | - | 2 | - | 396 | **403** |
| Deferred tax assets | - | - | - | - | 213 | **213** |
| | **40,236** | **4,544** | **1,705** | **358** | **24,698** | **71,541** |
| **Liabilities** | | | | | | |
| Due to banks | 1,154 | 5 | 42 | 22 | 2,002 | **3,225** |
| Due to customers | 30,565 | 310 | 1,807 | 306 | 12,061 | **45,049** |
| Derivative financial liabilities | - | - | - | - | 13 | **13** |
| Other borrowed funds | 6,439 | 2,567 | 58 | 6 | 1,611 | **10,681** |
| Other liabilities | 115 | 7 | 17 | 9 | 1,405 | **1,553** |
| Accruals and deferred income | 12 | - | - | 1 | 182 | **195** |
| Provisions for risks and charges | 4 | - | 11 | - | 196 | **211** |
| Liabilities for current tax | 1 | - | - | - | 13 | **14** |
| | **38,290** | **2,889** | **1,935** | **344** | **17,483** | **60,941** |
| **Net position before effect of derivatives** | **1,946** | **1,655** | **(230)** | **14** | **7,215** | **10,600** |

## 42 | Currency risk / continued (in HRK million)

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

| BANK<br>As at 31 December 2009 | EUR | CHF | USD | Other currencies | HRK | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and current accounts with other banks | 300 | 24 | 35 | 27 | 2,417 | **2,803** |
| Balances with the Croatian National Bank | 6 | - | 878 | - | 3,785 | **4,669** |
| Financial assets at fair value through profit or loss | 947 | - | - | - | 351 | **1,298** |
| Derivative financial assets | - | - | - | - | 4 | **4** |
| Due from banks | 9,393 | 9 | 380 | 308 | 421 | **10,511** |
| Loans and advances to customers | 23,302 | 4,465 | 385 | - | 14,137 | **42,289** |
| Assets available for sale | 634 | - | 14 | - | 63 | **711** |
| Held to maturity investments | 562 | - | - | - | 28 | **590** |
| Equity investments in subsidiaries and associates | - | - | - | - | 392 | **392** |
| Intangible assets and goodwill | - | - | - | - | 69 | **69** |
| Property and equipment | - | - | - | - | 836 | **836** |
| Investment property | - | - | - | - | 11 | **11** |
| Other assets | 3 | - | - | - | 204 | **207** |
| Deferred tax assets | - | - | - | - | 129 | **129** |
| | **35,147** | **4,498** | **1,692** | **335** | **22,847** | **64,519** |
| **Liabilities** | | | | | | |
| Due to banks | 1,154 | 5 | 42 | 22 | 2,095 | **3,318** |
| Due to customers | 27,886 | 275 | 1,796 | 301 | 11,645 | **41,903** |
| Derivative financial liabilities | - | - | - | - | 13 | **13** |
| Other borrowed funds | 4,492 | 2,558 | 58 | - | 1,721 | **8,829** |
| Other liabilities | 96 | 7 | 17 | 2 | 266 | **388** |
| Accruals and deferred income | 4 | - | - | - | 76 | **80** |
| Provisions for risks and charges | 4 | - | 11 | - | 171 | **186** |
| Liabilities for current tax | - | - | - | - | - | **-** |
| | **33,636** | **2,845** | **1,924** | **325** | **15,987** | **54,717** |
| **Net position before effect of derivatives** | **1,511** | **1,653** | **(232)** | **10** | **6,860** | **9,802** |

## 42 | Currency risk / continued (in HRK million)

| GROUP<br>As at 31 December 2008 | EUR | CHF | USD | Other currencies | HRK | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and current accounts with other banks | 641 | 65 | 366 | 43 | 1,858 | **2,973** |
| Balances with the Croatian National Bank | 88 | - | 1,390 | - | 3,337 | **4,815** |
| Financial assets at fair value through profit or loss | 1,015 | - | 9 | - | 2,483 | **3,507** |
| Derivative financial assets | - | - | - | - | 24 | **24** |
| Due from banks | 7,149 | 16 | 127 | 275 | 267 | **7,834** |
| Loans and advances to customers | 22,974 | 5,060 | 420 | 18 | 17,560 | **46,032** |
| Assets available for sale | 2,090 | - | 50 | 8 | 551 | **2,699** |
| Held to maturity investments | 1,077 | - | - | - | 31 | **1,108** |
| Equity investments in subsidiaries and associates | 2 | - | - | - | 54 | **56** |
| Intangible assets and goodwill | - | - | - | - | 171 | **171** |
| Property and equipment | - | - | - | - | 1,456 | **1,456** |
| Investment property | - | - | - | - | 14 | **14** |
| Other assets | 6 | - | 2 | - | 304 | **312** |
| Deferred tax assets | - | - | - | - | 226 | **226** |
| | **35,042** | **5,141** | **2,364** | **344** | **28,336** | **71,227** |
| **Liabilities** | | | | | | |
| Due to banks | 988 | 9 | 33 | 11 | 2,607 | **3,648** |
| Due to customers | 26,474 | 337 | 2,472 | 299 | 15,009 | **44,591** |
| Derivative financial liabilities | - | - | - | - | 202 | **202** |
| Other borrowed funds | 7,931 | 755 | 134 | 8 | 2,092 | **10,920** |
| Other liabilities | 415 | 9 | 14 | 8 | 1,187 | **1,633** |
| Accruals and deferred income | 4 | - | - | 1 | 229 | **234** |
| Provisions for risks and charges | 2 | - | 11 | - | 257 | **270** |
| Liabilities for current tax | - | - | - | - | 118 | **118** |
| | **35,814** | **1,110** | **2,664** | **327** | **21,701** | **61,616** |
| **Net position before effect of derivatives** | **(772)** | **4,031** | **(300)** | **17** | **6,635** | **9,611** |

**42** | **Currency risk / continued** (in HRK million)

| **BANK As at 31 December 2007** | EUR | CHF | USD | Other currencies | HRK | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and current accounts with other banks | 603 | 57 | 357 | 40 | 1,690 | **2,747** |
| Balances with the Croatian National Bank | 21 | - | 1,390 | - | 3,185 | **4,596** |
| Financial assets at fair value through profit or loss | 1,015 | - | 9 | - | 2,483 | **3,507** |
| Derivative financial assets | - | - | - | - | 24 | **24** |
| Due from banks | 6,580 | 16 | 125 | 272 | 392 | **7,385** |
| Loans and advances to customers | 19,972 | 5,011 | 419 | 4 | 16,309 | **41,715** |
| Assets available for sale | 965 | - | 50 | 8 | 307 | **1,330** |
| Held to maturity investments | 765 | - | - | - | 28 | **793** |
| Equity investments in subsidiaries and associates | - | - | - | - | 373 | **373** |
| Intangible assets and goodwill | - | - | - | - | 72 | **72** |
| Property and equipment | - | - | - | - | 897 | **897** |
| Investment property | - | - | - | - | 14 | **14** |
| Other assets | 3 | - | - | - | 119 | **122** |
| Deferred tax assets | - | - | - | - | 165 | **165** |
| | **29,924** | **5,084** | **2,350** | **324** | **26,058** | **63,740** |
| **Liabilities** | | | | | | |
| Due to banks | 988 | 9 | 33 | 11 | 2,752 | **3,793** |
| Due to customers | 23,589 | 297 | 2,460 | 294 | 14,295 | **40,935** |
| Derivative financial liabilities | - | - | - | - | 202 | **202** |
| Other borrowed funds | 6,134 | 739 | 134 | 6 | 2,083 | **9,096** |
| Other liabilities | 55 | 9 | 20 | 2 | 349 | **435** |
| Accruals and deferred income | 4 | - | - | - | 70 | **74** |
| Provisions for risks and charges | 2 | - | 11 | - | 231 | **244** |
| Liabilities for current tax | - | - | - | - | 91 | **91** |
| | **30,772** | **1,054** | **2,658** | **313** | **20,073** | **54,870** |
| **Net position before effect of derivatives** | **(848)** | **4,030** | **(308)** | **11** | **5,985** | **8,870** |

## 43 | Liquidity risk (in HRK million)

### Maturity analysis of assets and liabilities

The tables below show an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled at 31 December 2009.

The Group and the Bank made certain assumptions in producing maturity analyses set out below. These assumptions, applied for due to customers and to some extent for non-performing loans were based on statistical behaviour model of past experience. Other items of the Group and the Bank in general are mostly at contractual maturities. Non-performing loans were modified further to past experiences and future expected recoveries, whereas due to customers, both on demand and term, are based on statistical behaviour model of past experience.

| GROUP<br>As at 31 December 2009 | Less than 12 months | Over 12 months | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash and current accounts with other banks | 3,105 | - | **3,105** |
| Balances with the Croatian National Bank | 179 | 4,707 | **4,886** |
| Financial assets at fair value through profit or loss | 890 | 408 | **1,298** |
| Derivative financial assets | 4 | - | **4** |
| Due from banks | 10,768 | 1 | **10,769** |
| Loans and advances to customers | 15,951 | 31,422 | **47,373** |
| Assets available for sale | 823 | 177 | **1,000** |
| Held to maturity investments | 279 | 613 | **892** |
| Equity investments in subsidiaries and associates | - | 130 | **130** |
| Intangible assets and goodwill | 1 | 149 | **150** |
| Property and equipment | 118 | 1,188 | **1,306** |
| Investment property | - | 12 | **12** |
| Other assets | 191 | 212 | **403** |
| Deferred tax assets | 80 | 133 | **213** |
| | **32,389** | **39,152** | **71,541** |
| **Liabilities** | | | |
| Due to banks | 3,225 | - | **3,225** |
| Due to customers | 14,728 | 30,321 | **45,049** |
| Derivative financial liabilities | 13 | - | **13** |
| Other borrowed funds | 3,409 | 7,272 | **10,681** |
| Other liabilities | 1,165 | 388 | **1,553** |
| Accruals and deferred income | 115 | 80 | **195** |
| Provisions for risks and charges | 16 | 195 | **211** |
| Current tax liabilities | 14 | - | **14** |
| | **22,685** | **38,256** | **60,941** |
| **Net expected maturity gap** | **9,704** | **896** | **10,600** |

## 43 | Liquidity risk / continued (in HRK million)

### Maturity analysis of assets and liabilities / continued

| BANK<br>As at 31 December 2009 | Less than 12 months | Over 12 months | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash and current accounts with other banks | 2,803 | - | **2,803** |
| Balances with the Croatian National Bank | - | 4,669 | **4,669** |
| Financial assets at fair value through profit or loss | 890 | 408 | **1,298** |
| Derivative financial assets | 4 | - | **4** |
| Due from banks | 10,511 | - | **10,511** |
| Loans and advances to customers | 13,673 | 28,616 | **42,289** |
| Assets available for sale | 543 | 168 | **711** |
| Held to maturity investments | 237 | 353 | **590** |
| Equity investments in subsidiaries and associates | - | 392 | **392** |
| Intangible assets and goodwill | - | 69 | **69** |
| Property and equipment | - | 836 | **836** |
| Investment property | - | 11 | **11** |
| Other assets | - | 207 | **207** |
| Deferred tax assets | - | 129 | **129** |
| | **28,661** | **35,858** | **64,519** |
| **Liabilities** | | | |
| Due to banks | 3,318 | - | **3,318** |
| Due to customers | 11,881 | 30,022 | **41,903** |
| Derivative financial liabilities | 13 | - | **13** |
| Other borrowed funds | 2,566 | 6,263 | **8,829** |
| Other liabilities | - | 388 | **388** |
| Accruals and deferred income | - | 80 | **80** |
| Provisions for risks and charges | - | 186 | **186** |
| Current tax liabilities | - | - | **-** |
| | **17,778** | **36,939** | **54,717** |
| **Net expected maturity gap** | **10,883** | **(1,081)** | **9,802** |

## 43 | Liquidity risk / continued (in HRK million)

**Analysis of financial liabilities by remaining contractual maturities**

The tables below show the maturity profile of the Group's and Bank's financial liabilities as at 31 December based on their contractual undiscounted repayment obligations.

| GROUP<br>As at 31 December 2009 | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Due to banks | 3,014 | 128 | 12 | - | 72 | **3,226** |
| Due to customers | 20,249 | 7,245 | 15,032 | 3,045 | 204 | **45,776** |
| Derivative financial liabilities | 9 | 4 | - | - | - | **13** |
| Other borrowed funds | 898 | 537 | 2,279 | 7,282 | 610 | **11,605** |
| Other liabilities | 1,561 | 2 | 4 | - | - | **1,567** |
| **Total undiscounted financial liabilities** | **25,731** | **7,916** | **17,327** | **10,327** | **886** | **62,187** |
| | | | | | | |
| Off-balance sheet liabilities and commitments | | | | | | |
| Contingent liabilities | 908 | 617 | 1,147 | 352 | 65 | **3,089** |
| Commitments | 9,309 | - | - | - | - | **9,309** |
| **Total undiscounted off-balance sheet liabilities and commitments** | **10,217** | **617** | **1,147** | **352** | **65** | **12,398** |
| | | | | | | |
| **As at 31 December 2008** | | | | | | |
| **Liabilities** | | | | | | |
| Due to banks | 3,566 | - | - | 1 | 81 | **3,648** |
| Due to customers | 18,584 | 2,542 | 11,995 | 12,896 | 140 | **46,158** |
| Derivative financial liabilities | 202 | - | - | - | - | **202** |
| Other borrowed funds | 1,468 | 408 | 3,156 | 6,034 | 1,020 | **12,086** |
| Other liabilities | 1,725 | 14 | 12 | - | - | **1,751** |
| **Total undiscounted financial liabilities** | **25,545** | **2,964** | **15,163** | **18,931** | **1,241** | **63,845** |
| | | | | | | |
| **Off-balance sheet liabilities and commitments** | | | | | | |
| Contingent liabilities | 1,043 | 745 | 1,143 | 464 | 148 | **3,543** |
| Commitments | 11,012 | - | - | - | - | **11,012** |
| **Total undiscounted off-balance sheet liabilities and commitments** | **12,055** | **745** | **1,143** | **464** | **148** | **14,555** |

**43 | Liquidity risk / continued** (in HRK million)

**Analysis of financial liabilities by remaining contractual maturities/ continued**

| **BANK**<br>**As at 31 December 2009** | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Due to banks | 3,108 | 128 | 11 | - | 72 | **3,319** |
| Due to customers | 19,298 | 6,611 | 13,744 | 2,740 | 177 | **42,570** |
| Derivative financial liabilities | 9 | 4 | - | - | - | **13** |
| Other borrowed funds | 935 | 513 | 1,386 | 6,258 | 601 | **9,693** |
| Other liabilities | 386 | 2 | - | - | - | **388** |
| **Total undiscounted financial liabilities** | **23,736** | **7,258** | **15,141** | **8,998** | **849** | **55,982** |
| | | | | | | |
| **Off-balance sheet liabilities and commitments** | | | | | | |
| Contingent liabilities | 904 | 608 | 1,111 | 338 | 56 | **3,017** |
| Commitments | 9,107 | - | - | - | - | **9,107** |
| **Total undiscounted off-balance sheet liabilities and commitments** | **10,011** | **608** | **1,111** | **338** | **56** | **12,124** |
| | | | | | | |
| As at 31 December 2008 | | | | | | |
| Liabilities | | | | | | |
| Due to banks | 3,712 | - | - | 1 | 80 | **3,793** |
| Due to customers | 17,347 | 2,205 | 10,981 | 11,716 | 99 | **42,348** |
| Derivative financial liabilities | 202 | - | - | - | - | **202** |
| Other borrowed funds | 1,516 | 377 | 2,725 | 4,495 | 1,012 | **10,125** |
| Other liabilities | 526 | - | - | - | - | **526** |
| **Total undiscounted financial liabilities** | **23,303** | **2,582** | **13,705** | **16,212** | **1,190** | **56,993** |
| | | | | | | |
| **Off-balance sheet liabilities and commitments** | | | | | | |
| Contingent liabilities | 1,030 | 731 | 1,109 | 449 | 144 | **3,463** |
| Commitments | 10,773 | - | - | - | - | **10,773** |
| **Total undiscounted off-balance sheet liabilities and commitments** | **11,803** | **731** | **1,109** | **449** | **144** | **14,236** |

## 44 | Concentration of assets and liabilities (in HRK million)

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The Bank's and the Group's assets and liabilities can be analysed by the following geographical regions and industry sector:

| | GROUP | | | BANK | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Off balance sheet items | Assets | Liabilities | Off balance sheet items |
| **As at 31 December 2009** | | | | | | |
| **Geographic region** | | | | | | |
| Republic of Croatia | 59,960 | 47,462 | 11,768 | 53,363 | 43,033 | 11,529 |
| European Union | 9,742 | 12,954 | 517 | 9,347 | 11,177 | 517 |
| Other countries | 1,839 | 525 | 84 | 1,809 | 507 | 78 |
| | **71,541** | **60,941** | **12,369** | **64,519** | **54,717** | **12,124** |
| **Industry sector** | | | | | | |
| Citizens | 25,409 | 34,112 | 6,157 | 22,852 | 31,104 | 6,040 |
| Finance | 15,465 | 13,450 | 50 | 15,180 | 12,115 | 45 |
| Government | 9,653 | 1,493 | 255 | 7,752 | 1,469 | 225 |
| Commerce | 3,158 | 1,078 | 876 | 2,592 | 991 | 848 |
| Tourism | 852 | 182 | 9 | 785 | 164 | 8 |
| Agriculture | 767 | 61 | 42 | 701 | 53 | 42 |
| Other sectors | 16,237 | 10,565 | 4,980 | 14,657 | 8,821 | 4,916 |
| | **71,541** | **60,941** | **12,369** | **64,519** | **54,717** | **12,124** |
| **As at 31 December 2008** | | | | | | |
| **Geographic region** | | | | | | |
| Republic of Croatia | 62,864 | 46,806 | 13,944 | 55,883 | 41,752 | 13,632 |
| European Union | 7,183 | 12,697 | 510 | 6,734 | 11,034 | 510 |
| Other countries | 1,180 | 2,113 | 101 | 1,123 | 2,084 | 94 |
| | **71,227** | **61,616** | **14,555** | **63,740** | **54,870** | **14,236** |
| **Industry sector** | | | | | | |
| Citizens | 27,405 | 32,863 | 6,341 | 24,713 | 29,509 | 6,217 |
| Finance | 12,151 | 14,115 | 38 | 11,981 | 12,675 | 33 |
| Government | 9,084 | 2,357 | 920 | 7,327 | 2,325 | 895 |
| Commerce | 3,858 | 1,265 | 1,129 | 3,275 | 1,187 | 1,087 |
| Tourism | 1,168 | 200 | 10 | 1,096 | 193 | 9 |
| Agriculture | 939 | 64 | 45 | 853 | 60 | 44 |
| Other sectors | 16,622 | 10,752 | 6,072 | 14,495 | 8,921 | 5,951 |
| | **71,227** | **61,616** | **14,555** | **63,740** | **54,870** | **14,236** |

## 45 | Earnings per share

For the purpose of calculating earnings per share, earnings represent the net profit after tax. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used for basic earnings per share was 19,000,096 (2008: 19,013,635). There is no potential dilution effect from any instruments and hence the basic earnings per share equals is the same as the diluted earnings per share.

## 46 | Subsequent events

We draw your attention to subsequent changes in the regulatory framework in Croatia regarding capital requirements (explained in note 38) and regarding liquidity ratios (explained in note 36).

# Appendix 1 - Supplementary forms required by local regulation

Pursuant to the by-law on the structure and content of annual financial statements (NG62/08) issued by the Croatian National Bank (the "By-law"), the Bank has prepared the forms required by the by-law, which are presented on the following pages along with a description of differences between the forms prepared in accordance with the By-law and the primary statements presented in the financial statements of the Bank and Group prepared in accordance with IFRS and presented on pages 68 to 74. Information about the basis of preparation of the financial statements as well as a summary of significant accounting policies and information important for a better understanding of certain positions of the statement of financial position, the income statement, the statement changes in equity as well as the statement of cash flows is disclosed in the financial statements of the Bank and Group prepared in accordance with IFRS.

| **Form "Balance sheet"** (in HRK million) | | **GROUP** | | **BANK** |
|---|---|---|---|---|
| | 31 December 2009 | 31 December 2008 | 31 December 2009 | 31 December 2008 |
| **Assets** | | | | |
| 1. Cash and deposits with the Croatian National Bank | **7,924** | **7,407** | **7,430** | **6,984** |
| 1.1. Cash | 1,044 | 1,486 | 964 | 1,409 |
| 1.2. Deposits with the Croatian National Bank | 6,880 | 5,921 | 6,466 | 5,575 |
| 2. Deposits due from banks | 9,426 | 7,234 | 9,106 | 6,818 |
| 3. Ministry of Finance treasury bills and the Croatian National Bank bills of exchange | 1,067 | 1,908 | 778 | 1,744 |
| 4. Financial instruments held for trading | 29 | 1,474 | 29 | 1,475 |
| 5. Assets available for sale | 715 | 2,490 | 706 | 1,306 |
| 6. Held to maturity investments | 864 | 1,081 | 575 | 772 |
| 7. Financial instruments designated at fair value through profit or loss | 453 | 218 | 453 | 218 |
| 8. Derivative financial instruments | 4 | 24 | 4 | 24 |
| 9. Loans to financial institutions | 1,405 | 971 | 1,439 | 914 |
| 10. Loans to customers | 47,090 | 45,842 | 42,031 | 41,525 |
| 11. Equity investments in subsidiaries and associates | 130 | 56 | 392 | 373 |
| 12. Collateral received in satisfaction of non-performing loans | 24 | 18 | 19 | 13 |
| 13. Property and equipment | 1,306 | 1,456 | 836 | 897 |
| 14. Interest, fees and other assets | 1,104 | 1,048 | 721 | 677 |
| **A. Total assets** | **71,541** | **71,227** | **64,519** | **63,740** |

**Form "Balance sheet" / continued** (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 31 December 2009 | 31 December 2008 | 31 December 2009 | 31 December 2008 |
| **Liabilities** | | | | |
| 1. Loans to banks | **10,629** | **10,757** | **8,776** | **8,998** |
| 1.1. Short term loans | 1,664 | 1,880 | 1,477 | 1,697 |
| 1.2. Long term loans | 8,965 | 8,877 | 7,299 | 7,301 |
| 2. Deposits | **47,776** | **47,326** | **44,734** | **44,358** |
| 2.1. Giro and current accounts | 6,519 | 8,179 | 6,463 | 8,227 |
| 2.2. Savings deposits | 6,082 | 6,277 | 5,698 | 5,939 |
| 2.3. Term deposits | 35,175 | 32,870 | 32,573 | 30,192 |
| 3. Other loans | **29** | **123** | **29** | **60** |
| 3.1. Short term loans | - | 63 | - | - |
| 3.2. Long term loans | 29 | 60 | 29 | 60 |
| 4. Derivative financial instruments | 13 | 202 | 13 | 202 |
| 5. Debt securities issued | - | - | - | - |
| 5.1. Short term securities | - | - | - | - |
| 5.2. Long term securities | - | - | - | - |
| 6. Subordinated instruments issued | - | - | - | - |
| 7. Hybrid instruments issued | - | - | - | - |
| 8. Interest, fees and other liabilities | 2,494 | 3,208 | 1,165 | 1,252 |
| **B. Total liabilities** | **60,941** | **61,616** | **54,717** | **54,870** |
| **Equity attributable to equity holders of the parent** | | | | |
| 1. Share capital | 1,907 | 1,907 | 1,907 | 1,907 |
| 2. Net profit for the year | 960 | 1,242 | 927 | 1,100 |
| 3. Retained earnings | 5,603 | 4,419 | 4,839 | 3,738 |
| 4. Legal reserves | 135 | 134 | 130 | 130 |
| 5. Other reserves | 2,100 | 2,043 | 2,031 | 2,032 |
| 6. Unrealised gain/(loss) from revaluation of financial assets available for sale | (105) | (134) | (32) | (37) |
| **C. Total shareholders' equity** | **10,600** | **9,611** | **9,802** | **8,870** |
| **D. Total liabilities and shareholders' equity** | **71,541** | **71,227** | **64,519** | **63,740** |

The balance sheet form is prepared in accordance with the CNB Decision on the structure and content of annual financial statements for banks.

# Appendix 1 - Supplementary forms required by local regulation | continued

Below is a reconciliation between information provided in the Form "Balance sheet" prepared in accordance with the By-law of the Bank and the Group and the Statement of financial position presented in the financial statements of the Bank and the Group prepared in accordance with IFRS as at 31 December 2009.

**Balance sheet reconciliation as at 31 December 2009** (in HRK million)

| | | GROUP | | | BANK | |
|---|---|---|---|---|---|---|
| | per the By-law | per IFRS | Differences | per the By-law | per IFRS | Differences |
| **Assets** | | | | | | |
| Cash and deposits with the Croatian National Bank | 7,924 | | **7,924** | 7,430 | - | **7,430** |
| -cash | 1,044 | | **1,044** | 964 | - | **964** |
| -deposits at the Croatian National Bank | 6,880 | | **6,880** | 6,466 | - | **6,466** |
| Cash and current accounts with other banks | | 3,105 | **(3,105)** | - | 2,803 | **(2,803)** |
| Balances with the Croatian National Bank | | 4,886 | **(4,886)** | - | 4,669 | **(4,669)** |
| Deposits due from banks | 9,426 | | **9,426** | 9,106 | - | **9,106** |
| Due from banks | | 10,769 | **(10,769)** | - | 10,511 | **(10,511)** |
| Ministry of Finance treasury bills and the Croatian National Bank bills of exchange | 1,067 | | **1,067** | 778 | - | **778** |
| Financial assets at fair value through profit or loss | | 1,298 | **(1,298)** | - | 1,298 | **(1,298)** |
| Financial instruments held for trading | 29 | | **29** | 29 | - | **29** |
| Assets available for sale | 715 | 1,000 | **(285)** | 706 | 711 | **(5)** |
| Held to maturity investments | 864 | 892 | **(28)** | 575 | 590 | **(15)** |
| Financial instruments designated at fair value through profit and loss | 453 | | **453** | 453 | - | **453** |
| Derivative financial instruments | 4 | 4 | - | 4 | 4 | **-** |
| Loans to financial institutions | 1,405 | | **1,405** | 1,439 | - | **1,439** |
| Loans to customers | 47,090 | 47,373 | **(283)** | 42,031 | 42,289 | **(258)** |
| Equity investments in subsidiaries and associates | 130 | 130 | **-** | 392 | 392 | **-** |
| Collaterals received in satisfaction of non-performing loans | 24 | | **24** | 19 | - | **19** |
| Intangible assets and goodwill | | 150 | **(150)** | - | 69 | **(69)** |
| Investment property | | 12 | **(12)** | - | 11 | **(11)** |
| Property and equipment | 1,306 | 1,306 | **-** | 836 | 836 | **-** |
| Other assets | | 403 | **(403)** | - | 207 | **(207)** |
| Interest, fees and other assets | 1,104 | | **1,104** | 721 | - | **721** |
| Deferred tax assets | | 213 | **(213)** | - | 129 | **(129)** |
| **Total assets** | **71,541** | **71,541** | **-** | **64,519** | **64,519** | **-** |

**Balance sheet reconciliation as at 31 December 2009 / continued** (in HRK million)

| | GROUP | | | BANK | | |
|---|---|---|---|---|---|---|
| | per the By-law | per IFRS | Differences | per the By-law | per IFRS | Differences |
| Loans from banks | 10,629 | - | **10,629** | 8,776 | - | **8,776** |
| -short term loans | 1,664 | - | **1,664** | 1,477 | - | **1,477** |
| -long term loans | 8,965 | - | **8,965** | 7,299 | - | **7,299** |
| Other borrowed funds | - | 10,681 | **(10,681)** | - | 8,829 | **(8,829)** |
| Deposits | 47,776 | - | **47,776** | 44,734 | - | **44,734** |
| -giro and current accounts | 6,519 | - | **6,519** | 6,463 | - | **6,463** |
| -savings deposits | 6,082 | - | **6,082** | 5,698 | - | **5,698** |
| -term deposits | 35,175 | - | **35,175** | 32,573 | - | **32,573** |
| Due to banks | - | 3,225 | **(3,225)** | - | 3,318 | **(3,318)** |
| Due to customers | - | 45,049 | **(45,049)** | - | 41,903 | **(41,903)** |
| Other loans | 29 | - | **29** | 29 | - | **29** |
| -short term loans | - | - | **-** | - | - | **-** |
| -long term loans | 29 | - | **29** | 29 | - | **29** |
| Derivative financial instruments | 13 | 13 | **-** | 13 | 13 | **-** |
| Interest, fees and other liabilities | 2,494 | - | **2,494** | 1,165 | - | **1,165** |
| Accruals and deferred income | - | 195 | **(195)** | - | 80 | **(80)** |
| Provisions for risks and charges | - | 211 | **(211)** | - | 186 | **(186)** |
| Other liabilities | - | 1,553 | **(1,553)** | - | 388 | **(388)** |
| Current tax liabilities | - | 14 | **(14)** | - | - | **-** |
| **Total liabilities** | **60,941** | **60,941** | **-** | **54,717** | **54,717** | **-** |
| **Equity attributable to equity holders of the parent** | | | | | | |
| Share capital | 1,907 | 1,907 | **-** | 1,907 | 1,907 | **-** |
| Treasury shares | - | (76) | **76** | - | (76) | **76** |
| Net profit for the year | 960 | 960 | **-** | 927 | 927 | **-** |
| Share premium | - | 1,570 | **(1,570)** | - | 1,570 | **(1,570)** |
| Retained earnings | 5,603 | - | **5,603** | 4,839 | - | **4,839** |
| Legal reserves | 135 | - | **135** | 130 | - | **130** |
| Other reserves | 2,100 | - | **2,100** | 2,031 | - | **2,031** |
| Reserves and retained earnings | - | 6,239 | **(6,239)** | - | 5,474 | **(5,474)** |
| Unrealised gain/(loss) from available for sale revaluation | (105) | - | **(105)** | (32) | - | **(32)** |
| **Total shareholders' equity** | **10,600** | **10,600** | **-** | **9,802** | **9,802** | **-** |
| **Total liabilities and shareholders' equity** | **71,541** | **71,541** | **-** | **64,519** | **64,519** | **-** |

**Balance sheet reconciliation as at 31 December 2009 / continued**

The differences between the captions and amounts reported in the statement of financial position disclosed in the Annual report, and those reported as per the By-law are as follows:

**Assets**

Cash and Deposits with the Croatian National Bank are disclosed as separate positions according to CNB standards, while in the Annual report, they are included in Cash and current accounts with other banks and Balances with the Croatian National Bank.

Deposits due from banks and Loans to financial institutions are disclosed within Due from banks in the Annual financial statements, as well as in Cash and current accounts with other banks, current accounts and amounts at call with foreign and domestic banks.

Ministry of Finance treasury bills and CNB's bills of exchange are separately disclosed according to the CNB standard, but in the Annual report these securities are part of Balances with the CNB (for compulsory bills) or Financial assets at fair value through profit or loss.

Financial instruments carried at fair value and Financial instruments designated at fair value through profit and loss are disclosed together on the face of the Annual report's balance sheet as Financial assets at fair value through profit or loss and separated in the notes to the financial statements.

Collateral received in satisfaction of non-performing loans is a category on the face of the balance sheet in accordance with CNB standards, whilst a component of Other assets in the Annual report.

Interest, fees and other assets include Intangible assets, Investment property and Deferred tax assets from the Annual report. In addition, this position includes all interest receivables, which are distributed between the respective portfolios in the Annual report.

**Liabilities**

Loans from financial institutions and Other loans, separately disclosed in accordance with the CNB standards, are part of Other borrowed funds in the Annual report.

Deposits include all placements disclosed as Due to banks and Due to customers in the Annual financial statements.

Interest, fees and other liabilities include Other liabilities, Accruals and deferred income, Provisions for risks and charges and Current tax liabilities from the Annual report, together with all interest liabilities distributed between the respective portfolios in the Annual report.

**Equity**

Retained earnings, Legal reserves, Unrealised gain/(loss) from revaluation of financial assets available for sale and part of Other reserves are disclosed together in the Annual report within Reserves and retained earnings. On the other hand, Share premium and Treasury shares are positions in the Annual report which are part of Other reserves in accordance with the CNB standards of reporting.

| **Form "Income statement"** (in HRK million) | **GROUP** | | **BANK** | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| 1. Interest income | 4,114 | 4,219 | 3,716 | 3,785 |
| 2. (Interest expense) | (2,055) | (2,042) | (1,918) | (1,852) |
| **3. Net interest income** | **2,059** | **2,177** | **1,798** | **1,933** |
| 4. Fee and commission income | 1,264 | 1,357 | 590 | 607 |
| 5. (Fee and commission expense) | (225) | (260) | (202) | (222) |
| **6. Net fee and commission income** | **1,039** | **1,097** | **388** | **385** |
| 7. Gain/(loss) from investments in subsidiaries, associates and joint ventures | 8 | 11 | - | - |
| 8. Gain/(loss) from trading activities | 4 | (116) | 4 | (117) |
| 9. Gain/(loss) from embedded derivatives | 1 | 8 | 1 | 8 |
| 10. Gain/(loss) from assets designated at fair value through profit or loss | 33 | (18) | 33 | (18) |
| 11. Gain/(loss) from assets available for sale | 9 | 67 | 12 | 62 |
| 12. Gain/(loss) from assets held to maturity | - | - | - | - |
| 13. Gain/(loss) from hedging activities | - | - | - | - |
| 14. Income arising from investments accounted by net equity method | - | - | - | - |
| 15. Income from other equity investments | 5 | 6 | 205 | 206 |
| 16. Gain/(loss) from foreign exchange rate fluctuations on cash held | 303 | 252 | 295 | 245 |
| 17. Other operating income | 145 | 224 | 55 | 70 |
| 18. (Other operating expenses) | (332) | (386) | (227) | (232) |
| 19. (General administrative expenses and depreciation) | (1,523) | (1,581) | (1,111) | (1,112) |
| **20. Net Operating income** | **1,751** | **1,741** | **1,453** | **1,430** |
| 21. (Provisions) | (555) | (173) | (353) | (98) |
| **22. Profit before income taxes** | **1,196** | **1,568** | **1,100** | **1,332** |
| 23. (Income taxes) | (236) | (320) | (173) | (232) |
| **24. Net profit for the year** | **960** | **1,248** | **927** | **1,100** |

The income statement form is prepared in accordance with the CNB Decision on the structure and content of annual financial statements for banks.
These financial statements were signed on behalf of the Management Board on 23 February 2010.

Božo Prka, M.S.
President of the Management Board

Gabriele Pace
Chief financial officer

# Appendix 1 - Supplementary forms required by local regulation | continued

Below is a reconciliation between the information provided in the Form "Income statement " prepared in accordance with the By-law of the Bank and the Group and the Income statement presented in the financial statements of the Bank and the Group prepared in accordance with IFRS.

**Income statement reconciliation as at 31 December 2009** (in HRK million)

| | GROUP | | | BANK | | |
|---|---|---|---|---|---|---|
| | per the By-law | per IFRS | Differences | per the By-law | per IFRS | Differences |
| Interest income | 4,114 | 4,117 | **(3)** | 3,716 | 3,718 | **(2)** |
| (Interest expense) | (2,055) | (2,057) | **2** | (1,918) | (1,919) | **1** |
| **Net interest income** | 2,059 | 2,060 | **(1)** | 1,798 | 1,799 | **(1)** |
| Fee and commission income | 1,264 | 1,264 | **-** | 590 | 590 | **-** |
| (Fee and commission expense) | (225) | (225) | **-** | (202) | (202) | **-** |
| **Net fee and commission income** | 1,039 | 1,039 | **-** | 388 | 388 | **-** |
| Gain/(loss) from investments in subsidiaries, associates, joint ventures | 8 | 8 | **-** | - | - | **-** |
| Gain/(loss) from trading activities | 4 | - | **4** | 4 | - | **4** |
| Gain/(loss) from embedded derivatives | 1 | - | **1** | 1 | - | **1** |
| Gain/(loss) from assets designated at fair value through profit or loss | 33 | - | **33** | 33 | - | **33** |
| Gain/(loss) from assets available for sale | 9 | - | **9** | 12 | - | **12** |
| Income from other equity investments | 5 | - | **5** | 205 | - | **205** |
| Gain/(loss) from foreign exchange rates | 303 | - | **303** | 295 | - | **295** |
| Other operating income | 145 | 500 | **(355)** | 55 | 605 | **(550)** |
| (Other operating expenses) | (332) | (1,565) | **1,233** | (227) | (1,166) | **939** |
| (Depreciation and amortisation of property and equipment and intangible assets) | - | (291) | **291** | - | (173) | **173** |
| (General administrative expenses and depreciation) | (1,523) | - | **(1,523)** | (1,111) | - | **(1,111)** |
| (Provisions) | (555) | (555) | **-** | (353) | (353) | **-** |
| **Profit before income taxes** | 1,196 | 1,196 | **-** | 1,100 | 1,100 | **-** |
| (Income taxes) | (236) | (236) | **-** | (173) | (173) | **-** |
| **Net profit for the year** | **960** | **960** | **-** | **927** | **927** | **-** |

The differences between the income statement positions disclosed in the Annual report, and those compared to the CNB decision are as follows:
Income and expenses from loans placed and received with one way currency clause are disclosed under interests in the Annual report, while separated to Gain/(loss) from embedded derivatives in the reports according to the CNB decision.
Other operating income from the Annual report is broken down to the following categories within the CNB income statement: Gain/(loss) from investments in subsidiaries, associates and joint ventures, Gain/(loss) from trading activities, Gain/(loss) from assets designated as financial instruments through profit or loss, Gain/(loss) from financial assets available for sale, Gain/(loss) from foreign exchange differences and Other operating income.
Depreciation and amortisation is disclosed separately in the Annual report, whilst according to the CNB decision, these are disclosed within General administrative expenses and depreciation. This position also includes Other operating expenses from the Annual report, except for deposit insurance premiums that are disclosed as Other operating expenses in both Income statements.

**Form "Cash flow statement"** (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Cash flow from operating activities** | | | | |
| 1.1. Profit before tax | 1,196 | 1,248 | 1,100 | 1,332 |
| 1.2. Provisions for bad and doubtful debts and other provisions | 555 | 173 | 353 | 98 |
| 1.3. Depreciation and amortization | 292 | 289 | 173 | 164 |
| 1.4. Unrealised (gains)/losses on securities at fair value through profit or loss | 6 | 76 | 6 | 76 |
| 1.5. (Gains)/losses from sale of property and equipment | (14) | (61) | (10) | (33) |
| 1.6. Other (gains)/losses | (182) | 167 | (374) | (33) |
| **1. Cash flows from operating activities before changes in operating assets** | **1,853** | **1,893** | **1,248** | **1,604** |
| 2.1. Deposits with Croatian National Bank | (71) | 2,088 | (73) | 2,046 |
| 2.2. Ministry of Finance treasury bills and Croatian National Bank bills of exchange | 841 | 939 | 966 | 1,038 |
| 2.3. Deposits due from banks and loans to financial institutions | 202 | 33 | 204 | (10) |
| 2.4. Loans and advances to customers, net of write-offs | 1,464 | (5,896) | 1,203 | (5,305) |
| 2.5. Financial instruments held for trading | (477) | 1,071 | (477) | 1,081 |
| 2.6. Assets available for sale | 376 | (810) | 400 | (926) |
| 2.7. Financial instruments designated at fair value through profit and loss | (222) | (236) | (222) | (236) |
| 2.8. Other operating assets | (111) | (83) | (98) | (15) |
| **2. Net (increase)/decrease in operating assets** | **2,002** | **(2,893)** | **1,903** | **(2,327)** |
| **Increase/(decrease) in operating liabilities** | | | | |
| 3.1. A vista deposits | (1,660) | 105 | (1,764) | 330 |
| 3.2. Savings and term deposits | 2,111 | 2,754 | 2,140 | 2,529 |
| 3.3. Derivative financial liabilities and other trading liabilities | - | - | - | - |
| 3.4. Other liabilities | (528) | 521 | 71 | 32 |
| **3. Net increase/(decrease) in operating liabilities** | **(77)** | **3,380** | **446** | **2,891** |
| **4. Net cash flow from operating activities before income taxes paid** | **3,778** | **2,380** | **3,597** | **2,168** |
| 5. (Income taxes paid) | (338) | (291) | (251) | (207) |
| **6. Net cash inflows/(outflows) from operating activities** | **3,440** | **2,089** | **3,346** | **1,961** |

# Appendix 1 - Supplementary forms required by local regulation | continued

**Form "Cash flow statement" / continued** (in HRK million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Cash flows from investing activities** | | | | |
| 7.1. Purchase of property and equipment and intangible assets | (146) | (266) | (89) | (147) |
| 7.2. Sale/(Acquisition) of subsidiaries | (19) | 27 | (19) | 10 |
| 7.3. Repayment of assets held to maturity | 219 | 160 | 198 | 181 |
| 7.4. Dividends received | 5 | 6 | 205 | 206 |
| 7.5. Other inflows/(outflows) from investing activities | - | - | - | - |
| **7. Net cash flow from investing activities** | **59** | **(73)** | **295** | **250** |
| **Cash flows from financing activities** | | | | |
| 8.1. Net increase/(decrease) in loans received | (223) | (842) | (252) | (1,149) |
| 8.2. Net increase/(decrease) in issued securities | - | (67) | - | - |
| 8.3. Hybrid and subordinated instruments | - | - | - | - |
| 8.4. Additional paid in capital | - | - | - | - |
| 8.5. (Dividends paid) | - | - | - | - |
| 8.6. Other inflows/(outflows) from financing activities | - | (17) | - | (17) |
| **8. Net cash flow from financing activities** | **(223)** | **(926)** | **(252)** | **(1,166)** |
| **9. Net increase/(decrease) in cash** | **3,276** | **1,089** | **3,389** | **1,045** |
| 10. Effect of exchange rate fluctuations on cash held | 17 | 43 | 17 | 44 |
| **11. Net increase/(decrease) in cash** | **3,293** | **1,132** | **3,406** | **1,089** |
| 12. Cash and cash equivalents at the beginning of the year | 10,302 | 9,170 | 9,629 | 8,540 |
| 13. Cash and cash equivalents at the end of the year | 13,595 | 10,302 | 13,035 | 9,629 |

The cash flow form is prepared in accordance with the CNB Decision on the structure and content of annual financial statements for banks.
Dividends received are treated as cash flow from Operating activities in the Annual financial statements.

**Form "Statement of changes in equity"** (in HRK million)

| | Share capital | Treasury shares | Legal, statutory and other reserves | Retained earnings | Profit for the year | Unrealised gain/(loss) on AFS financial instruments | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **1. Balance at 1 January 2008** | **1,907** | **(57)** | **2,543** | **2,976** | **1,141** | **(31)** | **24** | **8,503** |
| 2. Changes in accounting policies and errors | - | - | - | - | - | - | - | **-** |
| **3. Restated balance at 1 January 2008** | **1,907** | **(57)** | **2,543** | **2,976** | **1,141** | **(31)** | **24** | **8,503** |
| 4. Sale of available-for-sale financial investments | - | - | - | - | - | 52 | - | **52** |
| 5. Fair value adjustment | - | - | - | - | - | (142) | - | **(142)** |
| 6. Deferred tax | - | - | - | - | - | (13) | - | **(13)** |
| 7. Other gains/(losses) recognised directly in equity | - | - | 2 | - | - | - | - | **2** |
| **8. Total income and expense for the year recognised directly in equity** | **-** | **-** | **2** | **-** | **-** | **(103)** | **-** | **(101)** |
| 9. Net profit for the year | - | - | - | - | 1,242 | - | 6 | **1,248** |
| **10. Total income and expense for the year** | **-** | **-** | **2** | **-** | **1,242** | **(103)** | **6** | **1,147** |
| 11. Increase/(decrease) of share capital | - | - | - | - | - | - | - | **-** |
| 12. (Purchase)/sale of treasury shares | - | (19) | - | - | - | - | - | **(19)** |
| 13. Other movements | - | - | - | - | - | - | (20) | **(20)** |
| 14. Transfer to reserves | - | - | 44 | 1,097 | (1,141) | - | - | **-** |
| 15. Dividends paid | - | - | - | - | - | - | - | **-** |
| **16. Distribution of profit** | **-** | **-** | **44** | **1,097** | **(1,141)** | **-** | **-** | **-** |
| **17. Balance at 31 December 2008** | **1,907** | **(76)** | **2,589** | **4,073** | **1,242** | **(134)** | **10** | **9,611** |

# Appendix 1 - Supplementary forms required by local regulation | continued

**Form "Statement of changes in equity" / continued** (in HRK million)

| | Share capital | Treasury shares | Legal, statutory and other reserves | Retained earnings | Profit for the year | Unrealised gain/(loss) on AFS financial instruments | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **1. Balance at 1 January 2009** | **1,907** | **(76)** | **2,589** | **4,073** | **1,242** | **(134)** | **10** | **9,611** |
| 2. Changes in accounting policies and errors | - | - | - | - | - | - | - | - |
| **3. Restated balance at 1 January 2009** | **1,907** | **(76)** | **2,589** | **4,073** | **1,242** | **(134)** | **10** | **9,611** |
| 4. Sale of available-for-sale financial investments | - | - | - | - | - | 9 | - | **9** |
| 5. Fair value adjustment | - | - | - | - | - | 22 | - | **22** |
| 6. Deferred tax | - | - | - | - | - | (2) | - | **(2)** |
| 7. Other gains/(losses) recognised directly in equity | - | - | 10 | - | - | - | - | **10** |
| **8. Total income and expense for the year recognised directly in equity** | **-** | **-** | **10** | **-** | **-** | **29** | **-** | **39** |
| 9. Net profit for the year | - | - | - | - | 960 | - | - | **960** |
| **10. Total income and expense for the year** | **-** | **-** | **10** | **-** | **960** | **29** | **-** | **999** |
| 11. Increase/(decrease) of share capital | - | - | - | - | - | - | - | **-** |
| 12. (Purchase)/sale of treasury shares | - | - | - | - | - | - | - | **-** |
| 13. Other movements | - | - | (288) | 288 | - | - | (10) | **(10)** |
| 14. Transfer to reserves | - | - | - | 1,242 | (1,242) | - | - | **-** |
| 15. Dividends paid | - | - | - | - | - | - | - | **-** |
| **16. Distribution of profit** | **-** | **-** | **-** | **1,242** | **(1,242)** | **-** | **-** | **-** |
| **17. Balance at 31 December 2009** | **1,907** | **(76)** | **2,311** | **5,603** | **960** | **(105)** | **-** | **10,600** |

**Form "Statement of changes in equity " / continued** (in HRK million)

| | Share capital | Treasury shares | Legal, statutory and other reserves | Retained earnings | Profit for the year | Unrealised gain/(loss) on AFS financial instruments | Total equity |
|---|---|---|---|---|---|---|---|
| **Bank** | | | | | | | |
| **1. Balance at 1 January 2008** | **1,907** | **(57)** | **2,185** | **2,857** | **932** | **23** | **7,847** |
| 2. Changes in accounting policies and errors | - | - | - | - | - | - | **-** |
| **3. Restated balance at 1 January 2008** | **1,907** | **(57)** | **2,185** | **2,857** | **932** | **23** | **7,847** |
| 4. Sale of available-for-sale financial investments | - | - | - | - | - | (31) | **(31)** |
| 5. Fair value adjustment | - | - | - | - | - | (44) | **(44)** |
| 6. Deferred tax | - | - | - | - | - | 15 | **15** |
| 7. Other gains/(losses) recognised directly in equity | - | - | 2 | - | - | - | **2** |
| **8. Total income and expense for the year recognised directly in equity** | **-** | **-** | **2** | **-** | **-** | **(60)** | **(58)** |
| 9. Net profit for the year | - | - | - | - | 1,100 | - | **1,100** |
| **10. Total income and expense for the year** | **-** | **-** | **2** | **-** | **1,100** | **(60)** | **1,042** |
| 11. Increase/(decrease) of share capital | - | - | - | - | - | - | **-** |
| 12. (Purchase)/sale of treasury shares | - | (19) | - | - | - | - | **(19)** |
| 13. Other movements | - | - | - | - | - | - | **-** |
| 14. Transfer to reserves | - | - | 50 | 882 | (932) | - | **-** |
| 15. Dividends paid | - | - | - | - | - | - | **-** |
| **16. Distribution of profit** | **-** | **-** | **50** | **882** | **(932)** | **-** | **-** |
| **17. Balance at 31 December 2008** | **1,907** | **(76)** | **2,237** | **3,739** | **1,100** | **(37)** | **8,870** |

# Appendix 1 - Supplementary forms required by local regulation | continued

**Form "Statement of changes in equity " / continued** (in HRK million)

| | Share capital | Treasury shares | Legal, statutory and other reserves | Retained earnings | Profit for the year | Unrealised gain/(loss) on AFS financial instruments | Total equity |
|---|---|---|---|---|---|---|---|
| **Bank** | | | | | | | |
| **1. Balance at 1 January 2009** | **1,907** | **(76)** | **2,237** | **3,739** | **1,100** | **(37)** | **8,870** |
| 2. Changes in accounting policies and errors | - | - | - | - | - | - | - |
| **3. Restated balance at 1 January 2009** | **1,907** | **(76)** | **2,237** | **3,739** | **1,100** | **(37)** | **8,870** |
| 4. Sale of available-for-sale financial investments | - | - | - | - | - | 12 | **12** |
| 5. Fair value adjustment | - | - | - | - | - | (5) | **(5)** |
| 6. Deferred tax | - | - | - | - | - | (2) | **(2)** |
| 7. Other gains/(losses) recognised directly in equity | - | - | - | - | - | - | **-** |
| **8. Total income and expense for the year recognised directly in equity** | **-** | **-** | **-** | **-** | **-** | **5** | **5** |
| 9. Net profit for the year | - | - | - | - | 927 | - | 927 |
| **10. Total income and expense for the year** | **-** | **-** | **-** | **-** | **927** | **5** | **932** |
| 11. Increase/(decrease) of share capital | - | - | - | - | - | - | **-** |
| 12. (Purchase)/sale of treasury shares | - | - | - | - | - | - | **-** |
| 13. Other movements | - | - | - | - | - | - | **-** |
| 14. Transfer to reserves | - | - | - | 1,100 | (1,100) | - | **-** |
| 15. Dividends paid | - | - | - | - | - | - | **-** |
| **16. Distribution of profit** | **-** | **-** | **-** | **1,100** | **(1,100)** | **-** | **-** |
| **17. Balance at 31 December 2009** | **1,907** | **(76)** | **2,237** | **4,839** | **927** | **(32)** | **9,802** |

The statement of changes in equity form is prepared in accordance with the CNB Decision on the structure and content of annual financial statements for banks.
Reserves and retained profits in the Annual report also include Net profit for the year and Unrealised gain/(loss) from revaluation of financial assets available for sale, separately disclosed in accordance with CNB standards.
Legal, statutory and other reserves include the Share premium account.

# Appendix 2 - Supplementary financial statements in EUR (unaudited)

**Income statement** (in EUR million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Interest income | 561 | 585 | 507 | 526 |
| Interest expense | (280) | (283) | (261) | (257) |
| **Net interest income** | **281** | **302** | **246** | **269** |
| Fee and commission income | 172 | 188 | 80 | 84 |
| Fee and commission expense | (31) | (36) | (28) | (31) |
| **Net fee and commission income** | **141** | **152** | **52** | **53** |
| Other operating income | 68 | 57 | 82 | 62 |
| **Operating income** | **490** | **511** | **380** | **384** |
| Provisions | (76) | (24) | (48) | (14) |
| Other operating expenses | (212) | (232) | (158) | (163) |
| Depreciation and amortisation of property and equipment and intangible assets | (40) | (40) | (24) | (23) |
| Share of the profit and loss accounted for using the equity method | 1 | 2 | - | - |
| **Profit before income taxes** | **163** | **217** | **150** | **184** |
| Income taxes | (32) | (44) | (24) | (32) |
| **Net profit for the year** | **131** | **173** | **126** | **152** |
| | | | | |
| Attributable to: | | | | |
| Equity holders of the parent | 131 | 173 | 126 | 152 |
| Minority interest | - | - | - | - |
| | **131** | **173** | **126** | **152** |

The income statement items were translated from the measurement currency (HRK) to the Euro at the average exchange rate in 2009 (1 EUR = 7.339554 HRK) and in 2008 (1 EUR = 7.223178 HRK).

# Appendix 2 - Supplementary financial statements in EUR (unaudited)

**Statement of financial position** (in EUR million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 31 December 2009 | 31 December 2008 | 31 December 2009 | 31 December 2008 |
| **Assets** | | | | |
| Cash and current accounts with other banks | 424 | 406 | 384 | 375 |
| Balances with the Croatian National Bank | 669 | 657 | 639 | 627 |
| Financial assets at fair value through profit or loss | 178 | 479 | 178 | 479 |
| Derivative financial assets | 1 | 3 | 1 | 3 |
| Due from banks | 1,473 | 1,070 | 1,439 | 1,008 |
| Loans and advances to customers | 6,483 | 6,285 | 5,787 | 5,695 |
| Assets available for sale | 137 | 368 | 97 | 182 |
| Held to maturity investments | 122 | 151 | 81 | 108 |
| Equity investments in subsidiaries and associates | 18 | 8 | 54 | 51 |
| Intangible assets and goodwill | 21 | 23 | 9 | 10 |
| Property and equipment | 179 | 199 | 114 | 122 |
| Investment property | 2 | 2 | 2 | 2 |
| Other assets | 55 | 43 | 28 | 17 |
| Deferred tax assets | 29 | 31 | 18 | 23 |
| **Total assets** | **9,792** | **9,725** | **8,831** | **8,702** |

**Statement of financial position / continued** (in EUR million)

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 31 December 2009 | 31 December 2008 | 31 December 2009 | 31 December 2008 |
| **Liabilities** | | | | |
| Due to banks | 441 | 498 | 454 | 518 |
| Due to customers | 6,165 | 6,088 | 5,736 | 5,589 |
| Derivative financial liabilities | 2 | 28 | 2 | 28 |
| Other borrowed funds | 1,462 | 1,491 | 1,208 | 1,242 |
| Other liabilities | 213 | 223 | 53 | 59 |
| Accruals and deferred income | 27 | 32 | 11 | 10 |
| Provisions for risks and charges | 29 | 37 | 25 | 33 |
| Liabilities for current tax | 2 | 16 | - | 12 |
| **Total liabilities** | **8,341** | **8,413** | **7,489** | **7,491** |
| **Equity attributable to equity holders of the parent** | | | | |
| Share capital | 250 | 250 | 250 | 250 |
| Treasury shares | (10) | (10) | (10) | (10) |
| Share premium | 215 | 214 | 215 | 214 |
| Reserves and retained earnings | 865 | 687 | 760 | 607 |
| Profit and loss attributable to equity holders of the parent entity | 131 | 170 | 127 | 150 |
| | 1,451 | 1,311 | 1,341 | 1,211 |
| Minority interests | - | 1 | - | - |
| **Total shareholders' equity** | **1,451** | **1,312** | **1,341** | **1,211** |
| | | | | |
| **Total liabilities and shareholders' equity** | **9,792** | **9,725** | **8,831** | **8,702** |

The items of the statement of financial position were translated from the measurement currency (HRK) to the Euro at the closing exchange rates as at 31 December 2009 (1 EUR = 7.306199 HRK) and as at 31 December 2008 (1 EUR = 7.324425 HRK).

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