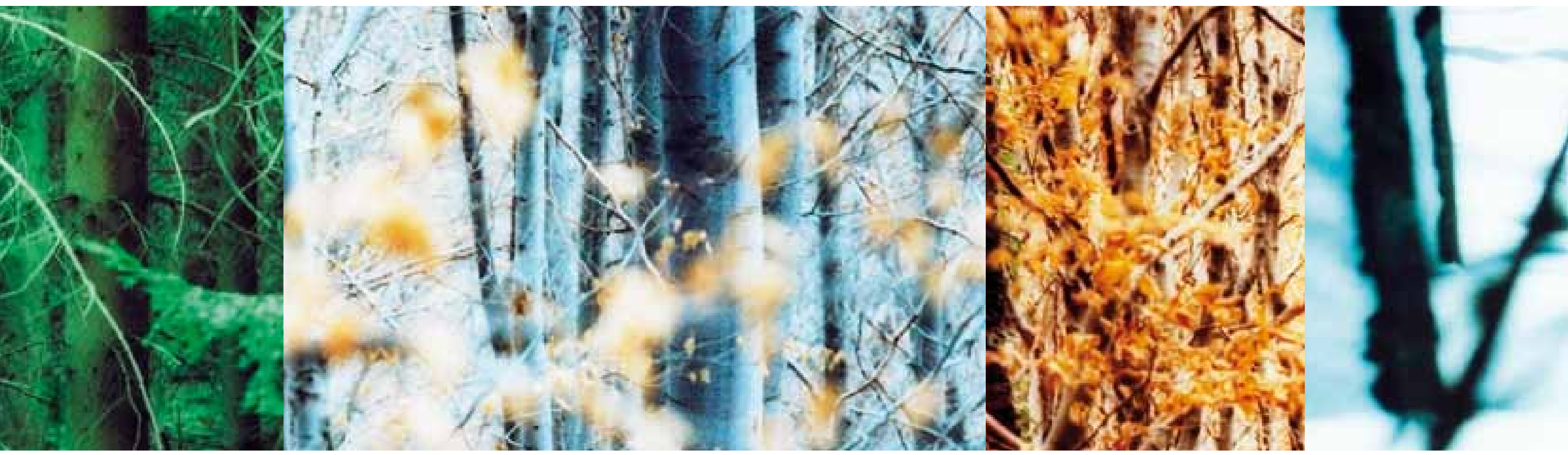
PRIVREDNA BANKA ZAGREB

Annual Report | 2010



PBZ, a bank of INTESA SANPAOLO

PBZ

Annual Report 2010

Table of contents

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 centre 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

1,554 thousand
TOTAL CUSTOMERS

HRK 51.3 billion
TOTAL CUSTOMER LOANS

698 thousand
CURRENT ACCOUNTS

HRK 10.4 billion
TOTAL HOUSING LOANS

HRK 63.8 billion
TOTAL CUSTOMER FUNDS*

2,222 thousand
TOTAL CARDS ISSUED

HRK 2.6 billion
ASSETS UNDER MANAGEMENT

23,797
EFT POS

296 thousand
INTERNET BANKING USERS

643
ATM MACHINES

220
TOTAL BRANCHES

94
DAY AND NIGHT VAULTS

Introduction

The Management Board of Privredna banka 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 banka Zagreb d.d. for the year ended 31 December 2010 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 banka Zagreb d.d. is referred to as "the Bank" or "PBZ" or as "Privredna banka Zagreb", and Privredna banka Zagreb d.d., together with its subsidiary undertakings are referred to collectively as "the Group" or "the Privredna banka 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 2010 have been used to translate balances in foreign currency on that date:

CHF 1 = HRK 5.929961
USD 1 = HRK 5.568252
EUR 1 = HRK 7.385173

Five year summary and financial highlights

(in HRK milion)

Group	2010	2009	2008	2007	2006
Income statement and statement of financial position					
Total gross revenue	5,356	5,888	6,001	5,350	4,519
Net interest income	2,200	2,060	2,185	1,918	1,714
Net operating income	3,555	3,607	3,697	3,405	3,039
Net profit for the year	1,022	960	1,242	1,141	963
Total assets	74,409	71,541	71,227	67,550	61,974
Loans and advances to customers	49,403	47,356	46,032	40,147	36,910
Due to customers	47,054	45,049	44,591	43,099	36,843
Shareholders' equity	11,334	10,600	9,611	8,503	7,625
Other data (as per management accounts)					
Return on average equity	9.38%	10.09%	14.84%	15.45%	18.79%
Return on average assets	1.35%	1.29%	1.71%	1.73%	1.72%
Assets per employee	18.3	17.2	15.7	15.3	14.8
Cost income ratio	47.45%	47.18%	49.78%	50.51%	50.96%

Bank	2010	2009	2008	2007	2006
Income statement and statement of financial position					
Total gross revenue	4,365	4,921	4,851	4,263	3,652
Net interest income	1,962	1,799	1,941	1,697	1,535
Net operating income	2,789	2,800	2,774	2,474	2,270
Net profit for the year	860	927	1,100	932	847
Total assets	67,352	64,519	63,740	61,974	55,906
Loans and advances to customers	44,563	42,271	41,715	36,436	33,572
Due to customers	43,602	41,903	40,935	39,875	33,491
Shareholders' equity	10,346	9,802	8,870	7,847	7,114
Other data (as per management accounts)					
Return on average equity	8.61%	10.45%	13.94%	13.35%	17.28%
Return on average assets	1.28%	1.41%	1.69%	1.56%	1.66%
Assets per employee	19.4	18.1	17.1	17.1	16.2
Cost income ratio	46.02%	44.49%	46.79%	48.90%	48.79%

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 2010. It was a solid year for Privredna banka Zagreb and its Group in terms of financial results. We demonstrated that we have a sustainable business which shows responsibility to shareholders, employees, customers and society at large.
On the global front, following turbulent periods in 2008 and 2009 resulting in deep contractions in the world economy, 2010 saw a lowering of uncertainty and progressively more stabilised markets and investment climate. As a consequence, global GDP increased by 5.0 percent (as estimated by the International Monetary Fund) and the world trading volume returned to normal levels. However, the recent crisis left a strong impact on the Croatian economy which experienced the negative growth for the second consecutive year. GDP is estimated to have shrunk by 1.4 percent during 2010, which represents a slowing of contraction since 2009 when GDP contracted by 5.8 percent. Forecast growth for 2011 is a modest 1.4 percent. Growth was mainly negative due to a weak consumption, which was affected by the erosion in purchasing power given the price increases and to the worsening of financial conditions in general. Furthermore, construction industry, second important contributor to the GDP registered decline whilst retail trade and industrial production have stalled. On the positive side, trade export, although still lower than import, has increased by 18.2 percent compared to 2009, whereas tourist activity, observed through a number of overnight stays, showed a growth of 3.2 percent.
Notwithstanding the harsh macroeconomic conditions in the country, monetary policy remained mostly unchanged throughout 2010. The only notable change made by the Croatian National Bank was evidenced by further easing of the obligatory reserve rate from 14 percent to 13 percent whereas foreign exchange liquidity ratio continued to be fixed at 20 percent.
Moreover, as of March 2010, credit institutions in Croatia are stipulated to meet additional prescribed liquidity ratios calculated based on expected inflows and outflows of liquid funds as per different maturity buckets for domestic as well as for foreign currencies. I am pleased to announce that PBZ, together with Međimurska banka and PBZ Stambena štedionica has been well over minimum liquidity coefficient since the implementation of this regulatory measure.
In that context, I am compelled to say that the PBZ Group maintains a comfortable structural liquidity position, owing to its wide and stable customer deposit base, an appropriate sources of the long-term funding, and its shareholders' equity.
Irrespective of the challenging environment, the PBZ Group managed to achieve positive results in 2010. We can be truly proud on the strength and resiliency we have proven in such circumstances. We succeeded in meeting our goals and increasing the value of our bank.
Total gross revenue for PBZ Group exceeded HRK 5.3 billion. Consolidated net operating income amounted to HRK 3.6 billion whilst a net profit recorded HRK 1.02 billion. Our cost/income ratio, a key measure of our efficiency, again closed below 50 percent, while the ROAE reached 9.38 percent. These are satisfactory figures since they represent a consistently strong performance over the last five years.
In 2010, the PBZ Group has 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 strong customer base of over 1.5 million, with over 698 thousand current accounts and 220 branches.
As I have been reporting in my past annual letters within this Report concerning the developments and progresses achieved in relation to the Croatian accession to the European Union, the recent news indicate that Croatia may possibly conclude membership negotiations during 2011.
This would certainly allow a full accession

as soon as all the EU countries ratify the agreement on accession with Croatia. Such an outcome would indeed be a reward and praise for all the long-lasting efforts of the Croatian Governments since 2004 when the country was given a candidate status for the membership.
Looking ahead, the further growth of the global economy and the likely recovery of the domestic macroeconomic conditions suggest the environment in 2011 in Croatia to be more favourable than in 2010, albeit everything points to a longer time needed to reach a pace of growth similar to that before the crisis. Therefore, we expect the markets in which we operate to remain cautious for some time. Accordingly, a continued focus by management and the Board on managing asset quality, enhancing and strengthening the Bank's liquidity as well as an active monitoring of operating costs will be crucial.
Our future at Privredna banka Zagreb, as in the entire PBZ Group, depends on developing our business for the benefit of everyone: clients, investors, employees and other stakeholders. We highly regard interests of our shareholders, customers and community we are part of. Our customer service and ability to provide effective and efficient service will help us meet the needs of our retail, SME and large corporate customers.
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. I would also like to express my gratitude and appreciation to all employees of the Group for their commitment and valued contribution. 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 2010

In 2010 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 the year 2010, the Supervisory Board held regular four meetings and ten meetings by letter in order to make as quickly as possible the decisions on the issues that had to be resolved without delay. For the purpose of preparation of 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 Executive Committee and the Audit Committee, which regularly reported on their work at the meetings of the Supervisory Board. In 2010 the Audit Committee held 4 meetings at which it monitored processes under its responsibility.
In conformity with is legal obligation, the Supervisory Board of the Bank has examined the Annual financial statements and consolidated Annual financial statements of the Bank for 2010, the report on the operation of the Bank and its subsidiaries, and draft decision on the allocation of the Bank's profit earned in 2010, that were all submitted to it by the Management Board of the Bank. The Supervisory Board made no remarks on the reports submitted.
In that respect, the Supervisory Board established that the Annual financial statements and the 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 2010.
Since the Supervisory Board has given its consent regarding the Annual financial statements and consolidated Annual financial statements of the Bank for 2010, the afore-mentioned financial statements are considered as being 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 301,310,000.00 of the Bank's net profit totalling HRK 859,589,263.98, earned in the year ended on 31 December 2010, should be distributed by a pay-out of dividends (or HRK 15.85 per share) whereas the reminder should be allocated to retained earnings.

Respectfully,

18 March 2011
Dr. György Surányi

Management Board report of the Status of the Bank

Dear shareholders,

I am pleased to present to you the Annual report and financial statements of the Privredna banka Zagreb for the year ended 31 December 2010. This report outlines the achievements of the Bank and the PBZ Group in 2010, the challenges we faced during the year as well as outlook for the future.

2010 was another difficult year for the Croatian economy and this has continued to impact not just the banking industry in the country, but also our customers and our clients. Despite somewhat relaxed monetary requirements as well as certain stimulus programmes introduced by the Croatian Government, consumer and business confidence generally continued to decline throughout the year. While general conditions improved internationally - such as the overall growth of the world GDP as well as pick up in cross-border trade and investment, especially in the EU countries - the resulting impact on the Croatian economy is still being felt.

In this challenging environment, Privredna banka Zagreb and its subsidiaries achieved sound results. I am particularly proud of the fact that we demonstrated strength and endurance as conditions continued to be tough during the year. Together with our strategic partners, Intesa Sanpaolo and the European Bank for Reconstruction and Development, the PBZ Group maintained its strong position and its image of an innovative financial group capable of offering comprehensive, first-class financial services.

Consolidated financial results of the Bank

Our consolidated net profits for 2010 amounted to HRK 1,022 million, an increase of 6.5 percent compared to 2009. The result achieved was influenced by higher net interest income and also net commission and fees, which grew on somewhat larger volumes of transactions, especially payments as well as credit and debit cards, but also due to higher income from investment management and consultancy fees. In addition to this, good cost containment accompanied with lower cost of funding contributed to an increase of net profit after tax. As a consequence, earnings per share of the Group rose to HRK 53.8 from HRK 50.5 in 2009.

The Group return on average equity in 2010 was 9.38 percent, while return on average assets was 1.35 percent, both indicators at levels similar to prior year. Assets per employee showed constant growth by reaching HRK 18.3 million, whereas the cost to income ratio, on the basis of the consolidated financial statements, remained below the 50 percent threshold (47.5 percent).

The balance sheet of the PBZ Group increased by 4 percent and amounted to HRK 74.4 billion. This reflects growth of the loan portfolio, which rose by 4.3 percent due to steady financing of small and medium-sized companies by virtue of loans, factoring and leasing as well as retail clients by extending new quantities of housing loans. Our loan portfolio is well diversified and almost equally spread between retail clients on one side and corporate and public entities on the other.

The growth of the balance sheet was mainly financed by the customers' deposits, mostly retail. In that context, I am pleased to report gains in market shares of total customers' deposits and particularly deposits of our faithful retail clients.
Shareholders' equity increased by 6.9 percent to HRK 11.3 billion, which provides stable and substantial cushion for future activities.
These results were achieved in an environment marked by difficult macroeconomic and financial conditions. In these circumstances, I am more than pleased with our performance in 2010.

Unconsolidated financial results of the Bank

In 2010, PBZ Bank recorded a net profit of HRK 860 million. Both net interest income and net commission income produced increases compared to 2009 but were at similar levels to those recorded in 2008. Net interest income increased mainly due to a good containment of cost of funding, i.e. interest expense, whereas net commission was up due to higher income from investment management and consultancy fees, credit related and other customer fees as well as notable reduction of expenses in payment services.
On the cost side of the income statement, our operating expenses and other costs were also well contained. Through carefully managing costs in line with our strategic plan we were able to maintain our cost to income ratio well below 50 percent (46.02 percent).
The total balance sheet of the Bank increased by 4.4 percent to HRK 67.4 billion. Loans and receivables contributed the most to this increase, rising more than 5.4 percent and thus surpassed HRK 44.5 billion. In this regard, key area of our focus was small and medium-sized businesses to whom we placed more than HRK 3.3 billion in 2010.

Growth in assets was supported by an increase in customers' deposits, largely retail. Total deposits in 2010 rose by 4.5 percent. If we consider the total structure of the balance sheet, customer deposits account for 64.7 percent. The total loan to deposit ratio of the Bank equals 102.2 percent at the end of 2010, which outlines the stability and conservative nature of our business. Shareholders' equity amounts to HRK 10.3 billion, which is an increase of more than HRK 540 million compared to 2009. Our total capital ratio at the end of the year stands at 18.87 percent and demonstrates the good financial standing of the Bank.

Briefly on the Bank's subsidiaries

Almost all subsidiaries or associates of the PBZ Bank in 2010 also recorded sound financial results. In that view, Međimurska banka achieved a net profit of HRK 37.2 million, PBZ Card 220.7 million, PBZ Leasing HRK 21.8 million, PBZ Stambena štedionica HRK 15.2 million, PBZ Invest HRK 8 million, PBZ Nekretnine 3.6 million, whereas PBZ Croatia osiguranje, our pension fund management company, earned a net profit of HRK 26.2 million. ISP Card, an associated company established in 2009, ended the year with a net loss of HRK 16.3 million due to continuous investment in its network and development of the business operations.

Outlook

Whilst the long-term prospects of Croatian economy remain solid, the outlook for 2011 persist to be challenging. Conditions remain difficult both in the financial markets and the wider economy, which makes financial planning and forecasting difficult. The economic slowdown of last two years impacted all business segments we operate in. As a consequence, we strengthened our capital position, maintained liquidity and ensured that we kept sound asset quality. For 2011 we have four priorities: staying close to customers and clients, managing our risks, adequate cost containment and maintaining strategic position on the market.

We see further synergies in sharing relationship management and sector expertise across our business segments; retail, large corporate and public institutions, small and medium-sized businesses, and finance. Successful implementation of this strategy may increase revenue growth potential in years ahead.

Conclusion

Finally, I would like to take this opportunity to express my gratitude to all my colleagues, the new and former members of the Management Board and all employees of the Privredna banka Zagreb Group for their excellent performance and dedication in 2010. Also, I would like to thank our distinguished clients and business partners for their loyalty and 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 guidance and support.

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

18 March 2011

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 2010 contains true view of operations, risks and financial results as well as financial positions of Privredna banka Zagreb and its subsidiaries.

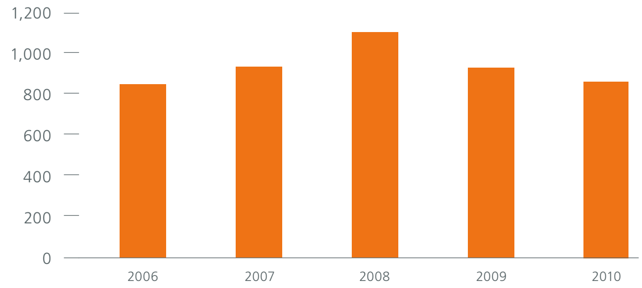
Privredna banka Zagreb

In the economy that was characterised by second consecutive year of economic crisis Privredna banka Zagreb recorded solid business results. Below we provide an overview of these results together with results achieved by Bank's subsidiaries.

We recorded profit before taxes of HRK 1,034 million, while net profit for the year of HRK 860 million represents a decrease of 7.2 percent compared to the previous year. Main reason of the reduced profit comes from lower dividend income from the subsidiaries during the year, which was lower by HRK 50 million compared to 2009. The Bank realised a gross revenue of HRK 4,365 million, which includes HRK 3,426 million of interest income, HRK 622 million of fees and commissions and HRK 317 million of other operating income.

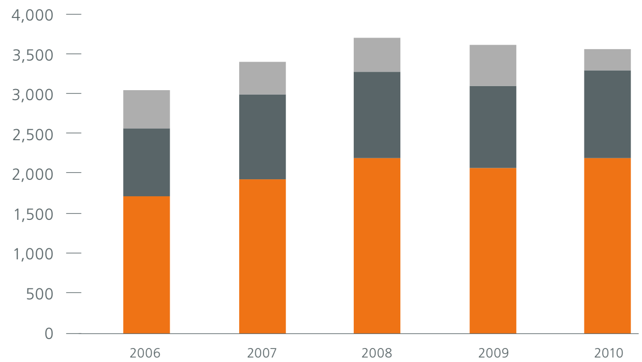
Net interest income was higher than in a year before (HRK 1,962 million in 2010 vs. HRK 1,799 million in 2009) due to stronger reduction in cost of funding. In 2010 the Bank recorded HRK 1,494 million of interest expenses which represents a 23.7 percent drop compared to the previous year.

Innovative offerings of non-interest related products and efficient business processes increased the net fee and commission income by HRK 116 million compared to 2009, reaching the level of HRK 510 million. Growth in fees on customers' loans and other banking services raised the fee and commission income by HRK 14 million in 2010. Additionally, investment management, brokerage and consultancy fees increased by HRK 18 million, which indicates somewhat positive developments on the capital markets. Fee and commission



Net profit for the year - Bank

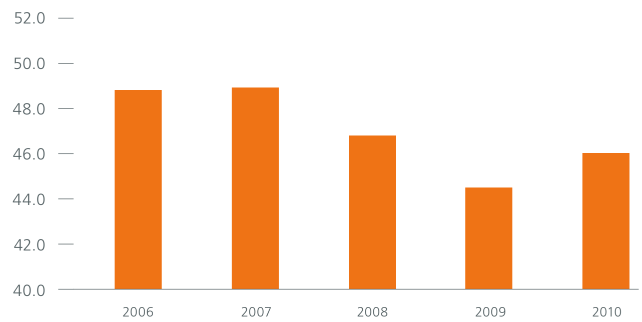
in HRK million



Net operating income - Bank

in HRK million

Other operating income
Net fee and commission income
Net interest income



Cost income ratio - Bank

in %

Cost income ratio

expenses were HRK 112 million for the year end.
In spite difficult market condition, PBZ's management strategy, combining good revenue drive and cost containment, enabled the Bank to record HRK 2,789 million in operating income, just slightly below the year before. Moreover, macro-economic conditions and liquidity pressures evidenced in the Croatian economy led to an increase of provisions for risks and charges. Provision charge amounted to HRK 388 million, which represents a 7.5 percent increase than in 2009. This result stems from the application of the precautionary principle in evaluating Bank's loan portfolio and conservative methodology of recognising provisions for losses.
Other operating expenses amounted to HRK 1,211 million, slightly above 2009. Cost income ratio was 46.02 percent, and constantly below 50 percent threshold.
For 2010 the Bank recorded a 4.4 percent increase in total assets, which at year-end amounted to HRK 67,352 million. Loans and advances to customers represent the most significant component of the financial position with 66.2 percent of the total balance. Other important items include due from banks with 11.5 percent of the total assets, as well as balances with the CNB, cash and current accounts with other banks with 10.9 percent share of the total assets. At the year end, PBZ held HRK 9,321 million of cash and cash equivalents, which indicates a robust liquidity position of the Bank.
Total liabilities were HRK 57,006 million at the end of 2010. Customers' deposits represent the main source of funding with 76.5 percent of the total liability, whereas other borrowed funds represent 14.7 percent of the total liability of the Bank. Customer deposits increased during 2010 by HRK 1.7 billion to a total amount of HRK 43.7 billion.

Međimurska banka

Međimurska banka earned a net profit of HRK 37.2 million, which is a 21 percent decline compared to the previous year.
Decrease in net profit was a result of lower net interest income by 14 percent that was driven by lower volumes of loans and receivables to customers. However, Međimurska banka still shows a pattern of solid profitability and sound competitiveness in the north of Croatia where it operates. Return on equity in 2010 was 11.2 percent, while return on assets grew to 1.3 percent. Cost income ratio of 56.2 percent shows good cost containment.
Total net assets increased by 3.3 percent or 94.2 million, amounting to HRK 2,916.7 million. Despite the decrease in average interest rates on deposits, they increased by 5.7 percent, of which the retail sector grew by 4.2 percent and corporate sector by 3.1 percent. This indicates the confidence of clients to the bank's efforts to preserve the safety and value of their capital. Market share of assets in the Croatian banking system rose by 0.1 percentage points compared to the previous year and equalled 0.75 percent.
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 achieve good business relationships the clients and stakeholders. Outlook for Međimurska banka appears solid. The bank is well capitalised and liquid and thus stable to deal with the challenges. Moreover, the bank intends to maintain its prominent role in the region and provide reliable service to its clients.

PBZ Card

One year after the demerger of the processing unit from the Company and the establishment of Intesa Sanpaolo Card in the country, PBZ Card focused entirely on the domestic market. In that regard, the Company's attention was to maintain its market share of card issuing and acquiring business, excel customer care and strengthen the asset quality.
Given the circumstances, PBZ Card achieved remarkable results in 2010. Total operating income was just short below 2009 (HRK 675.2 million in 2010 vs. HRK 684.1 million in 2009). Main contributor was still fee and commission income on card acquiring, which totalled HRK 521 million. Although this income was lower by 2.2 percent than in 2009, it still shows healthy performance and good realisation of synergy with other retail operations of Privredna banka Zagreb. Net profit for the year was HRK 220.7 million, which makes the Company second most profitable segment of the PBZ Group.
Total assets in 2010 amounted to 2 billion, which represents a 4.6 increase compared to 2009. The Company is well capitalised and on excellent footing. Its variety of card brands and products makes it versatile, well diversified and capable of surpassing all the challenges in years to come. Current outlook remains sound although persistent economic challenges of the country may impact the financial performance. Nevertheless, PBZ Card applies prudent market approach, vigilant risk management and appropriate cost containment, which ensures continuation of good results.

PBZ Leasing

PBZ Leasing is the leading Croatian company engaged in lease transactions with clients. The Company had a good year in terms of asset optimisation and the revenue growth. Its net profit for the year amounted to nearly HRK 22 million, which is a 15.8 percent increase compared to the previous year. This growth was mainly driven by higher revenues from operating leases, lower interest expense and excellent cost control measures.
Total portfolio of the Company comprises of assets in operating leases of HRK 288.8 million and receivables from finance leases HRK 900.4 million at year end 2010.
The business activities of PBZ Leasing in 2011 will be focused on ensuring balanced and steady growth of its balance sheet. PBZ Leasing is committed in maintaining its market share and excelling its offer of products and services.

PBZ Nekretnine

PBZ Nekretnine in 2010 was still affected by economic developments in Croatia, especially in real estate market. Nevertheless, PBZ Nekretnine maintained its presence on the real estate market by realising more than 4.9 thousand appraisals which was 16.7 percent higher than the prior year. PBZ Nekretnine achieved a significant increase of net profit that amounted to HRK 3.6 million at the end of 2010 due to one off event linked to disposal of asset previously intended for sale.

During 2011, PBZ Nekretnine will continue to promote its activities with the aim of becoming the centre of excellence for real estate operations not only within the PBZ Group but in entire country.

PBZ Invest

PBZ Invest is well-recognised and highly respectable fund management company in Croatia. Last year brought much better investment environment compared to 2009, although it was still accompanied with volatility that impacted investment sentiment during the summer and near the year end 2010.

PBZ Invest's net profit for the year reached more than HRK 8 million showing evidence of rebound, but well below the pre-crisis levels. Total amount of assets invested through investment funds under the Company's management reached more than HRK 2.5 billion, which is the increase of 27.7 percent. Main driver of this growth of assets in investment funds was PBZ Novčani Fund and PBZ Euro Novčani Fund, all money market funds, which points to still cautious sentiment of the investors. Furthermore, total number of clients increased by 23 percent to 8.8 thousand clients. As a consequence, the market share of PBZ Invest grew by 2.1 percent and reached 19.7 percent of the overall market.

Its development strategy for 2011 will be oriented at maintaining its status within investment public in the country as well as attracting new investors. Outlook for 2011 still appears challenging and thus difficult to forecast precisely. However, the Company expects to retain all the funds under its management, maintain appropriate liquidity level and further exploit synergies within PBZ Group. Finally, it is important to stress that PBZ Invest will participate in the project "Regional Hub" of Intesa Sanpaolo aimed at international partnership of investment fund management companies within the ISP Group in the region.

PBZ Stambena Štedionica

In 2010 net profit of PBZ Stambena Štedionica reached HRK 15 million, which represents a 15.4 percent increase with respect to previous year. Components that drove this strong growth of net profit were higher net interest income due to lower interest rates and higher net commission income due to expense containment.

Taking advantage of PBZ's largest branch network and through its own sales channels, PBZ Stambena Štedionica has more than 120 thousands clients at the end of 2010.

As at 31 December 2010, PBZ Stambena Štedionica reached HRK 1.442 million in total assets.

The business activities of PBZ Stambena Štedionica throughout 2011 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 2011 as per contract conditions. Finally, the company will be focused at maintaining preferred profitability levels.

PBZ Croatia Osiguranje

PBZ Croatia Osiguranje continues to achieve a positive financial result. In 2010 company reached a respectable growth in net profit of HRK 26 million, which is 9.5 percent higher than the result in 2009. At the same time, cost income ratio stands at 33.4 percent which is in line with 2009.

During 2010, PBZ Croatia Osiguranje increased its number of members of the fund from 270 thousand in 2009 to 278 thousand in 2010, which is an increase of 3 percent.

PBZ Croatia Osiguranje is well-recognised and highly respectable pension fund management company in Croatia. Its development strategy for 2011 will be oriented at maintaining its status within general public in the country as well as attracting new members.

Intesa Sanpaolo Card Zagreb

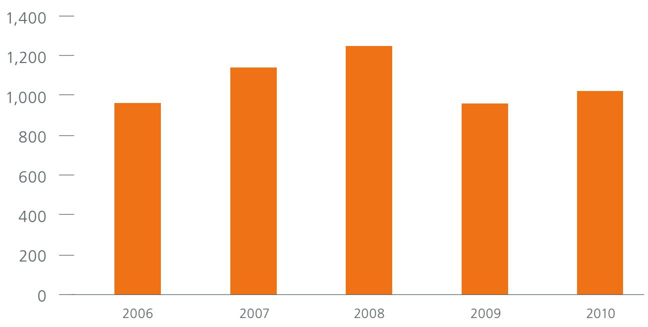
In 2010 Intesa Sanpaolo Card Zagreb on a consolidated level earned HRK 198 million in total revenues. However, given the fact that ISP Card is still in a start up mode it, therefore, ended with net loss for the year of total HRK 16.3 million. The company is still engaged in development and optimisation of its operations from which it plans to build future revenue streams. Total assets as at 31 December 2010 were HRK 409 million.

Financial highlights of the PBZ Group

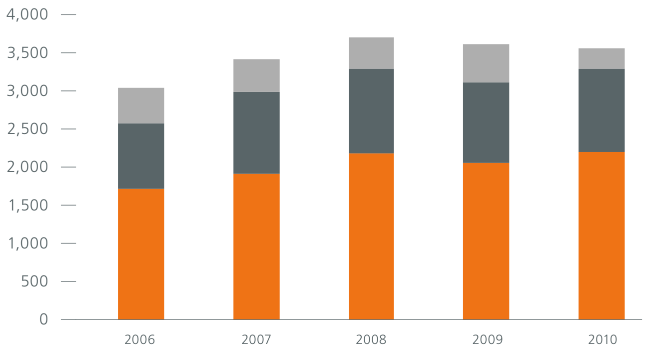
On a consolidated level PBZ recorded income before taxes of HRK 1,274 million, while net profit for the year of HRK 1,022 million represents an increase of 6.5 percent compared to the previous year. Group's gross revenues stand at HRK 5,356 million and refer to HRK 3,787 million interest revenues, HRK 1,304 million fees and commission revenues and HRK 265 other operating revenues.

Net interest income increased from HRK 2,060 million in 2009 to HRK 2,200 million in 2010 due to a decrease of interest expense. Driver of this growth was as aforementioned a strong drop of interest rates on deposits compared to the level of rates on interest bearing liabilities in 2009.

Net fee and commission income reached HRK 1,090 million which represents a 4.3 percent increase compared to 2009 due to the growth realised on investment management, brokerage and consultancy fees, payment fees and other banking service fees. Additionally, the Group was able to make significant cost reductions on fee and commission expenses.

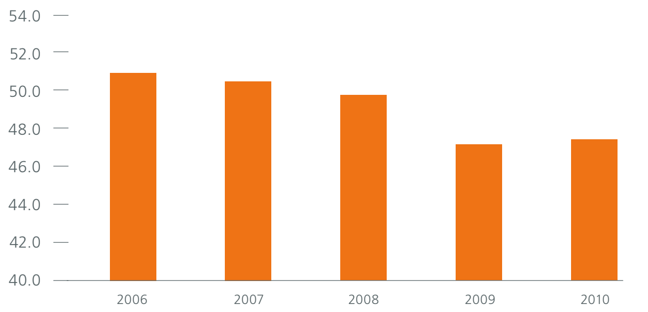


Net profit for the year - Group
in HRK million



Net operating income - Group
in HRK million

Other operating income
Net fee and commission income
Net interest income



Cost income ratio - Group
in %

Cost income ratio

Group results by business segment in HRK million	2010	2009
Banking	2,915	2,940
Card services	610	691
Leasing	140	145
Other financial services	54	48
Non-financial services	14	10
Consolidation adjustments	-178	-227
Operating income	**3,555**	**3,607**

Net operating income of PBZ Group in 2010 reached HRK 3,555 million, slightly below 2009.
Additionally, aforementioned macro-economic conditions and general liquidity pressures persistent in the Croatian economy affected the Group's provisions for risks and charges. Provision charge for the year amounted to HRK 404 million, which is HRK 159 million lower than 2009 but still significantly high compared to pre-crisis years. This result stems from the application of the precautionary principle in evaluating Group's loan portfolio and conservative methodology of recognising provisions for losses.
Other operating expenses amounted to HRK 1,648 million, 5.3 percent higher than previous year. Cost income ratio was 47.45 percent and persistently lower than 50 percent threshold.
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 2,915 million. The largest individual contribution of the Group results was accounted for by Privredna banka Zagreb. Net profit by the Bank amounted to HRK 860 million (2009: HRK 927 million). Subsidiaries and associated companies contributed HRK 306 million (2009: HRK 235 million) to the consolidated profit of the Group.

Božo Prka, M.S.
President of the Management Board
18 March 2011

Review of the international and Croatian economy in 2010

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 2010. This should help understand the results from a more objective perspective.

2010 was the year of recovery of the world economy and of continuing fall of the Croatian economy

In 2010 there was a significant recovery of the world economy. As a result of the crisis that culminated in September 2008 (with the bankruptcy of Lehman Brothers Investment Bank), in 2009 there was a decline of the world GDP (by 0.6%), but even more notable was the drop of world trading volume by as much as 10.7%. In 2010 those trends have significantly changed. Firstly, GDP increased by 5.0% (as estimated by the International Monetary Fund), and world trading volume rose by 12.0%[1]. Since the world economy growth rates in both 2011 and 2012 are expected to exceed 4%, it is safe to say that the crisis at the global level is behind us.

However, economic policy makers are not in for a carefree time. Specifically, the previous period was characterised by an unprecedented number of government interventions, involving everything from the financial sector to subsidies to certain industries. This was all made possible by extremely expansionary monetary and fiscal policies especially in the U.S., but also in the UK, euro area and many other developed countries. Such state interventions justifiably raise the question of creating new bubbles and inflationary pressures in the future. On the other hand, the recovery is still not such that it would enable carefree withdrawal of those incentives without risking falling into another recession, a double dip. Therefore, it will be necessary to manage the risks in the future very carefully and find a way to timely withdraw all surplus liquidity and reduce fiscal deficits and public debt without generating future inflation (as measured by consumer prices or the prices of various asset classes, which we usually called bubbles) or endangering recovery.

Another interesting feature of 2010 was the difference in growth rates of developed countries (where growth was estimated at 3%) and developing countries, i.e. emerging markets where the expected growth exceeds 7%. It is estimated that China will record double-digit growth rates, and India only slightly lower rates. It is reasonable to say that the recovery at the global level is taking place at two different paces.

At the global level, 2010 was characterised by at least three other phenomena:

- Firstly, once again (after 2008) there was a rise in oil prices and other raw materials. This trend was interrupted in 2008 due to financial crisis and recession. However, in 2010 the prices of commodities went up once again, not only due to the recovery of world economy, but also because of reduced supply of some raw materials due to adverse weather conditions and increased political risks in the region with sig-nificant oil production (Middle East). These phenomena, together with the already mentioned surplus liquidity, could prove very risky, especially because it is difficult to distinguish the cyclical component of growth from the potentially long-term trend of demand growth, in particular of energy.
- Secondly, after ten years of euro being in existence, for the first time its future was brought into question. The public debt and banking crisis in several of the so-called euro periphery countries (it started with Greece, but it quickly spread over to Ireland, and the market also questions the ability of Portugal and Spain to timely pay their debts, both public and private, in the coming period) has led to a major differ-entiation in the euro area and revealed that the concept of a common currency for several countries - the euro - was actually unprepared for such situations. Therefore, even though temporary mechanisms aimed at assisting the countries in crisis were created, investors keep including the risk of euro area collapse in their calculations (small, but greater than zero), which increases the cost of new borrowings in those countries. There is no doubt that the analysis of public debt sustainability will keep many economists really busy for a long time, and that Europe will have to deal with the solvency of their banks for a while longer.
- Thirdly, even though numerous countries and international groups have invested tremendous efforts in the past three years into designing new financial regulations (which would make it impossible for this crisis to happen again, which is the goal behind Basel III), there are still no complete solutions that would guaran-tee it. It became evident that the complex financial systems also bring together very complex issues with no easy solutions. It is therefore reasonable to expect that there will be many additional efforts towards new financial regulations in the coming period, which also means possible changes in regulations at the global and also EU level, with clear implications for us. There remains the old problem that the largest financial institutions in the world are global (or multinational), while the control over them is limited to national borders of a single country. Although much has been done to improve coordination of national regulatory and supervisory agencies, the problem has not been solved.

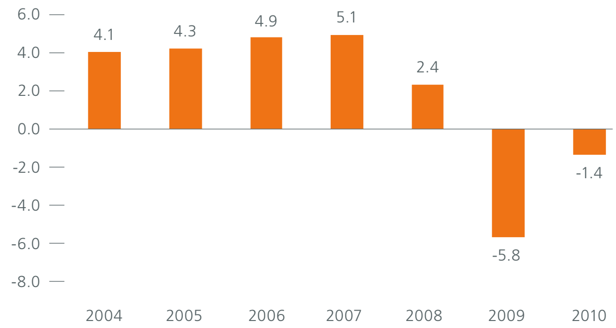
We have already mentioned that the growth at the global level is taking place at two different paces. Unfortunately, there should be a third category for our economy in terms of global assessments. Specifically, in 2010 we registered a new decline in GDP by approximately 1.4 percent and in 2011 we predict a very modest 1.4 percent growth. As always, forecast uncertainty is high, but unfortunately we do not see any opportunities that could accelerate this growth during 2011. On the contrary, if some risks present on a global scale at the beginning of the year become materialised (riots in the Middle East, increasing prices of oil and other raw materials), it is possible

[1] *Data on world GDP and trade by World Economic Outlook - update, January 2011, www.imf.org*

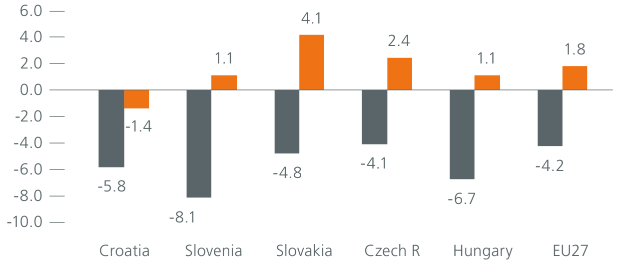
it would lead to a drop in both foreign and domestic demand due to a rising inflation with negative implications for our already modest growth forecast.

In addition to being the second consecutive year of GDP drop, in the economic, financial and banking history of our country, 2010 might be remembered as the year of:

- continued increase of unemployment and continued decline of some sectors such as construction industry along with the de facto stagnation in industrial production and retail trade.
- a very modest growth of the loan portfolio of commercial banks (in the retail portfolio, it was in part triggered by a 20 percent appreciation of the Swiss franc), despite the abolition of limits on the growth of loans to banks (in late 2009), with retail deposits growing at slightly higher rates.
- continued growth of non-performing banking loans (the so-called B and C categories). Nevertheless, banks remained highly capitalised and the banking system as a whole very stable, surviving the crisis very well. While a number of developed countries had to use their taxpayers' money to help ailing banks in their countries, the opposite happened in Croatia. Banks secured additional lending to help government finance.
- very high liquidity of banks, which is why there was no need for repo operations (the last repo operation took place in October 2009), and interest rates on the money market remained relatively stable and low. Banks' lending interest rates did not record any significant trends of change in 2010.
- remarkable stability of the HRK to EUR exchange rate, so that the Croatian National Bank had to intervene on the market only two times in the entire year (both times in June, when a purchase of euros was made due to appreciation pressures).
- very little change in the monetary regulation. In February, the required reserve ratio for banks was lowered

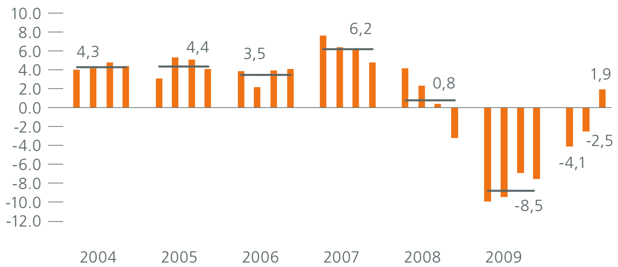


GDP, real growth rates
in %
source: CBS



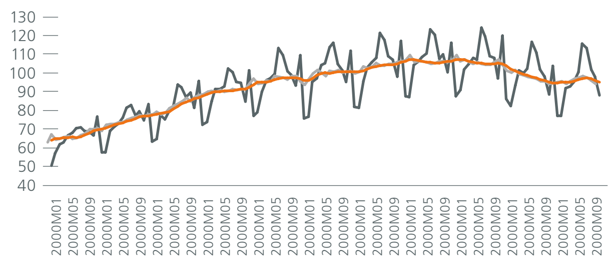
GDP, real growth rates
source: Eurostat, DZS
in %

■ 2009.
■ 2010.



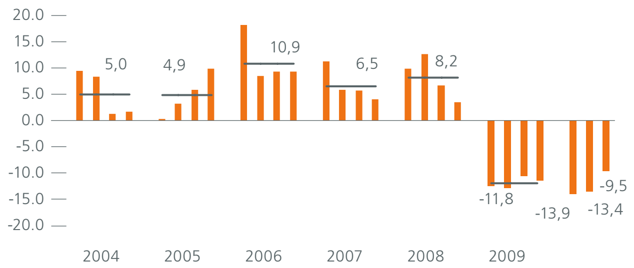
Personal consumption, constant prices (2000 referent year)
source: CBS
in %

■ q/q-4
■ Annual growth rate



Retail trade, except of motor vehicles and motorcycles; 2005=100
source: Eurostat

■ Gross data
■ Seasonally adjusted data
■ Trend cycle



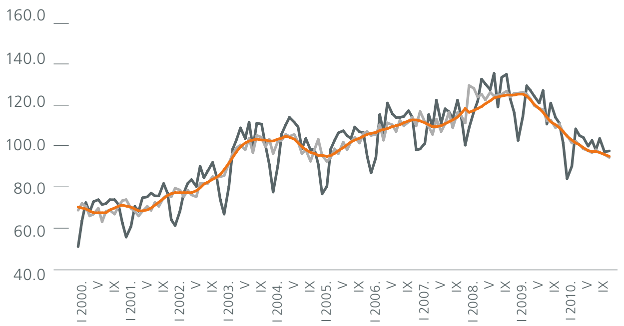
Gross fixed capital formation, constant prices (2000 referent year

source: CBS

in %

q/q-4

Annual growth rate



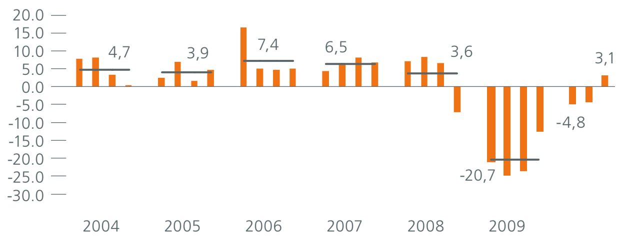
Construction works, 2005=100

source: CBS

Original index

SA

TC



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

source: CBS

in %

q/q-4

Annual growth rate

from 14% down by one index point in order to release the liquidity of banks, which would stimu-late lending activity towards companies (i.e. in support of the Croatian Government and Croatian Bank for Reconstruction and Development's programme to stimulate lending activity and economic recovery). In addition, the Croatian National Bank has reduced the interest payable (i. e. fees they pay to banks for the funds that banks keep at the CNB) and prescribed the open foreign exchange position at 30% of the regu-latory capital (since March 2010).

In summary, 2010 will probably be remembered as the year in which we missed the opportunity to carry out significant structural reforms in the country. Besides the efforts to complete negotiations with the EU, there were unfortunately no other major reforms. Crisis is a period when one can do a lot of things for one's long-term prosperity and raising the potential growth rate over the medium term. Hopefully, the coming period (especially the one after the scheduled parliamentary elections in late 2011) will bring about the acceleration of reforms, and accession to the EU will take place at the expected pace.

The second (long) year of economic crisis

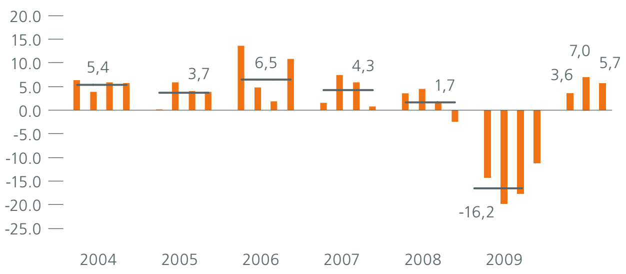
After a nearly 6 percent decline in economic activity in 2009, the second consecutive year of economic crisis has brought a new 1.4 percent reduction of the gross domestic product. Croatia in 2010, unlike most countries in Central and Eastern Europe, failed to stop the negative economic developments and further deterioration of business operations spilled over into almost all economic sectors in the country.

The most significant component of the gross domestic product and a basis for economic growth in previous periods in Croatia - personal consumption - recorded a positive rate of growth in the third quarter of 2010 for the first time after seven consecutive negative quarters. Taking into account the strong seasonal impact that the third quarter has on the movement of economic indicators because of the tourist season and a new slowdown of positive trends recorded in retail trade, we believe that the end of the year brought once again a slight decline in personal consumption. For the most part of the year, developments in retail trade have been under the negative impact of developments in the labour market and increasing unemployment, as well as a negative impact on household consumption of the application of the so-called crisis tax on salaries, and also things such as the strengthening of the Swiss franc, which has further reduced the disposable income of households with debts in that currency.

The main features of 2010 were negative expectations of consumers and businesses, and therefore it is not surprising that investment activity has been almost completely suspended. Based on available data at the time of writing, it appears that investment activity reached the bottom in the first half of 2010, but some more notable positive developments are still not in sight.

Extremely low domestic and somewhat awakened foreign demand has been key determinants of developments in trade flows in 2010. Partly due to a low base in 2009, but also thanks to increased foreign demand and a good tourist season, exports of goods and services in the first three quarters recorded more than solid growth rates. Unfortunately, they were also mere than insufficient to characterise the economic recovery in the country with increased export orientation and the likely falling trend in the period ahead of us, given the limited export capacity. However, since imports simultaneously continued to record decline and only a brief period of slight growth in the third quarter, the positive impact of net foreign demand that continued in 2010 has made a decisive impact on the overall growth rate developments.

And while the economy and people were trying to adapt to negative economic trends, the public sector mainly relied on



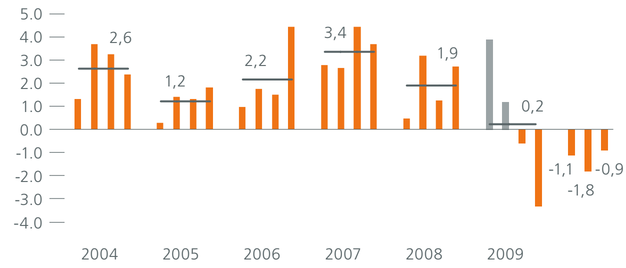
Exports of goods and services, constant prices (2000 referent year)

source: CBS

in %

q/q-4

Annual growth rate



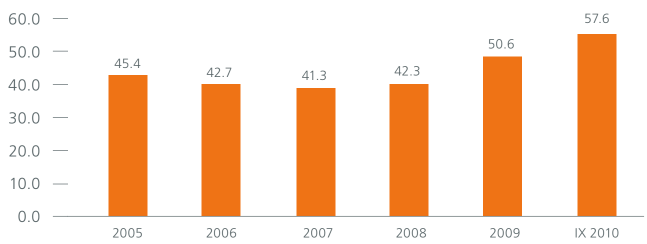
Government consumption, constant prices (2000 referent year)

source: CBS

in %

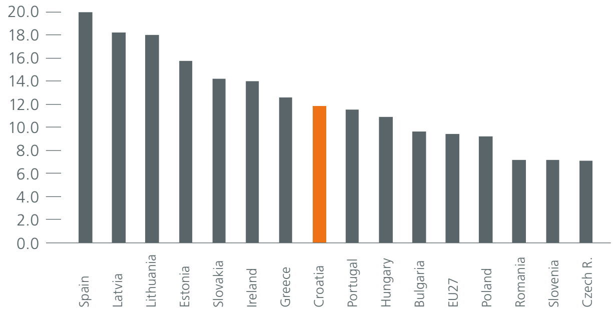
q/q-4

Annual growth rate



General government debt (% of GDP, incl. HBOR and guarantees

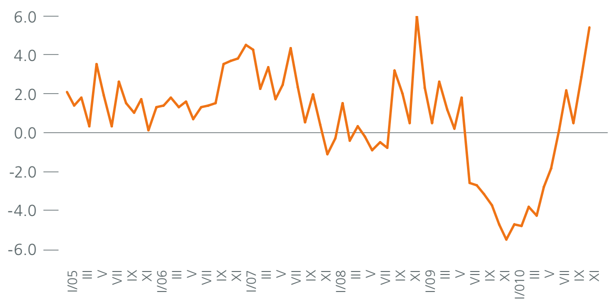
Source: MOF



Survey Unemployment Rate, Q3 2010, 15-64 years, selected countries

in %

source: Eurostat

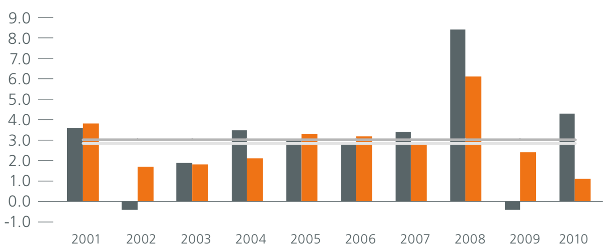


Net Wages, real rate of change, yoy*

in %

source: CBS, PBZ

*adjusted for solidarity tax



Prices, average annual rate of change

in %

source: CBS

PPI

CPI

PPI, 10Y average

CPI, 10Y average

cosmetic adjustments and reaching out for additional sources of revenue i.e. new loans. Continued fall in revenues and inadequate adjustment of expenses have led to the growth of budget deficit to 4.6% of GDP (our estimate is almost 7% at the general government level, including HAC, CBRD and debt to pensioners), while the public debt reached the level of almost 60% of GDP (with state guarantees).

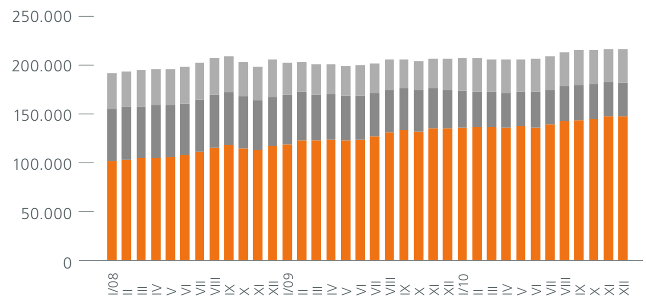
Negative trends in the labour market, which started in 2009, have escalated in the past year, when employment was down by an average of 5.3% year on year and the average (registered) unemployment rate surged to 17.6%. These developments were the result of the labour market slack that reacted to the reduced volume of economic activity with a time lag, which is why that sharp drop in GDP in 2009 was reflected on the labour market only in 2010, which has further contributed to by continued recessionary trends. In late 2010 the registered unemploy-ment rate approached the level of 19% (so called survey rate in the first three quarters was 11.7% on average), and within a period of two years the active workforce has decreased by almost 5%. Compared with the transition countries of the European Union and the periphery countries of the euro area that were seriously affected by the crisis, survey unemployment rate in Croatia in the third quarter of 2010 may not seem disturbingly high (it is 8 b. p. lower than the rate in Spain and 6 b. p. lower than the rate in Latvia or Lithuania), but its relatively moderate level is a consequence of an economically and socially devastating and in the long run unsustainable low activity rate of the workforce.

Last year, net salaries (taking account of the crisis tax) fell by 0.5% in real terms (estimate) year on year, and their movement, on top of the recession, was also affected by two legislative changes that reduced the intensity of the fall of salaries: abolition of the 2% crisis tax rate starting with lower level salaries for July and the 4% rate with higher level salaries for

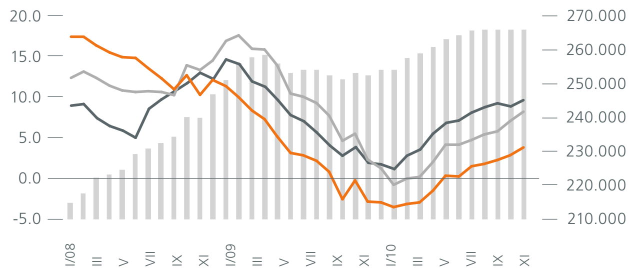
October, as well as amendments to the Income Tax Act that entered into force in July and introduced changes in tax rates and tax brackets. This year we expect the base effect that would lead to year on year salary increases to be reduced by increased inflationary pressures and high unemployment, and we estimate that 2011 will bring another real wage cut.
The prolonged recession and weak domestic demand were the main factors that limited the price growth in 2010. Despite the increase in prices of petrol, fuels and utilities, as well as a significant price increase in manufacturing expenses (+4.3% year on year), the strengthening of the kuna and a drop in food prices due to a lower purchasing power of households have led to a price growth of only 1.1% on average, compared to the year before.
This year will bring the reawakening of the trend of rising prices of food and fuels on global markets, which together with the spillover of a part of increased manufacturing cost should boost inflationary pressures, which are even more pronounced due to a low base last year. However, the depressing situation on the labour market and lower real incomes should represent a barrier to any significant price increases, which is why we expect the average inflation rate to be at the average level of many previous years (i.e. around 3%).

Recovery of lending to enterprises, increased tendency towards retail savings

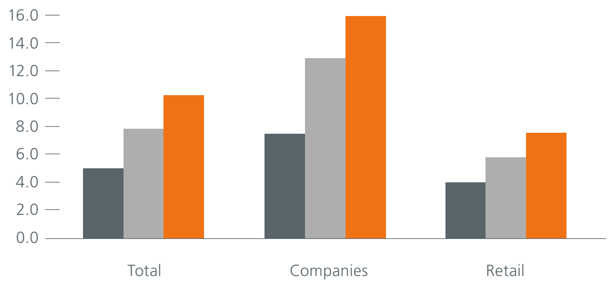
Last year brought about a notable recovery in lending to private sector, a somewhat stronger growth in consolidated bank assets as compared with 2009, and a moderate growth in deposits due to reluctance of people to spend and their increased tendency to save. Total deposits in late 2010 were therefore 4.8% higher year on year, with retail deposits recording an 8.1% growth rate, and corporate deposits 1.6%. After a drop in kuna deposits in 2009, in 2010 there was their gradual recovery, and the highest rate of growth was once again



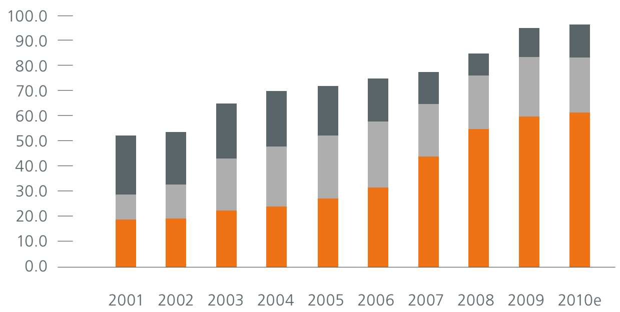
Bank Deposits, HRK mill.
source: CNB



Banking Loans, yoy rate of change and amount
in % and HRK
source: CNB



Share of NPLs in Total Loans
in %
source: CNB



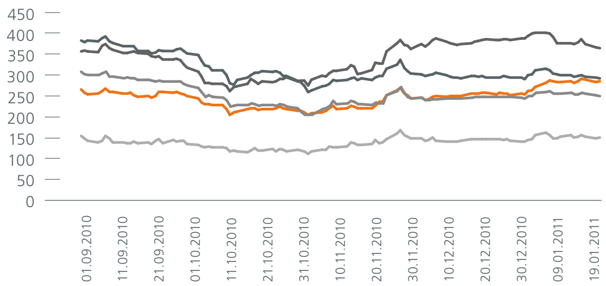
Composition of Gross External Debt by Sectors (% of GDP)*

in %

source: CNB, PBZ calculation

- Government
- Banks
- Other

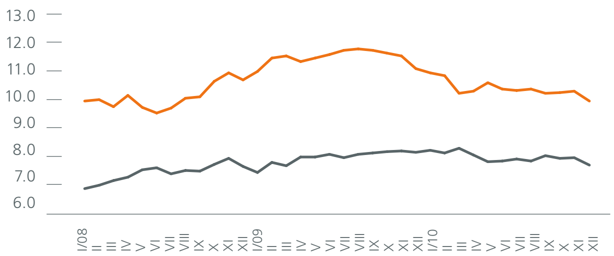
*round tripping excluded



CDS Spread, 5Y, bps

source: Bloomberg

- Croatia
- Bulgaria
- Hungary
- Romania
- Poland



Interest Rates on Newly Approved Loans, monthly average

in %

source: CNB

- HRK with fcc
- HRK

recorded by foreign currency deposits thanks to increased retail savings.

Total loans in 2010 increased by 8.2%, with the growth attributed the most to increased lending to enterprises, which accounts for nearly 50% of growth in total loans. Loans to enterprises increased by 9.6% year on year, with the largest portion of loans made by banks directly, and only a small portion was realised within the Model A in collaboration with the Croatian Bank for Reconstruction and Development. Retail loans grew by 3.8%; however, their actual rate is negative, revolving around negative 1% change, while the nominal figure is largely a result of the strengthening of the Swiss franc, which is bound to about 40% of housing loans and about a quarter of total retail loans. The latter is also evident from the fact that credit card loans in 2010 decreased by 12.5%, and car loans by 18%, which reveals the fact that household continued to reduce their personal consumption for the second year in a row.

The quality of banks' loan portfolio continued to deteriorate in 2010 due to a reduced volume of economic activity that led to problems with liquidity of companies, especially small and medium enterprises, and lower income of households. The share of loans classified in categories B and C increased from 7.8% in late 2009 to 10.2% in the third quarter of 2010, with the retail share reaching 7.5% and corporate share 15.9% (it is estimated that the SME share goes around 20%).

The deteriorating quality of loans has led to a significant growth in expenses for bank value adjustments, but according to preliminary data from the CNB banks managed to increase their net profit by almost 18% year on year by consolidating their income and other expenses.

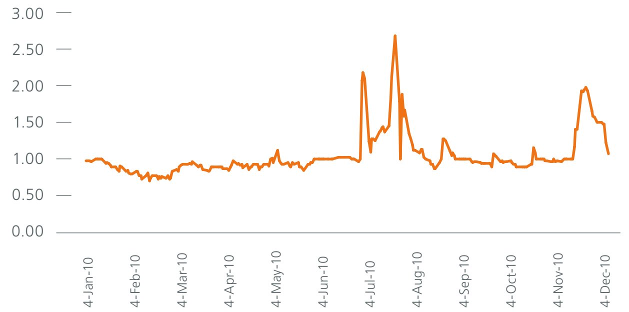
In 2011 we expect a slightly more dynamic growth in loans and deposits and stabilisation of the growth of non-performing loans.

Simultaneously with the growth of domestic bank loans to enterprises, their borrowing abroad has significantly slowed down, which is why the largest contribution to the growth of external debt in 2010 came from increased government borrowings. In October, the gross external debt was only 0.1% higher than in late 2009, and we estimate that its share in GDP in 2010 increased by about 1 percentage point, amounting to 96%. A negative impact on loan growth rates was also a result of high lending interest rates, which despite a stable spread on CDS and low reference interest rates (three-month Euribor and Libor tied to the Swiss franc) were around 8% on loans with a foreign currency clause and just above 10% on kuna loans, which is a result of increased borrower-related risks.

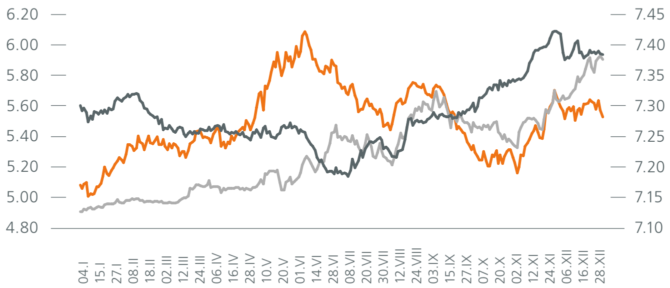
The kuna was stable

Exchange rate of the kuna against the euro in 2010, with the usual seasonal fluctuations, was stable and on average it stood at 7.29 kunas to the euro, which is about 1% lower than the year before. Unlike exchange rate of the kuna to the euro, the strengthening of the Swiss franc against the euro due to a growing lack of investors' confidence in the sustainability of public finances of periphery countries of the euro area has led to a strong depreciation of the kuna against the franc, which is why that exchange rate was 20.8% higher than at the end of the year 2009. The strengthening of the franc has created problems to borrowers who are repaying their loans tied to the franc, which is also one of the causes of increase in bad loans, especially in terms of housing loans. The U.S. dollar has appreciated moderately against the kuna and is strengthened by an average of 4.1% year on year, with exchange rate rising to 5.50 kunas to the dollar.

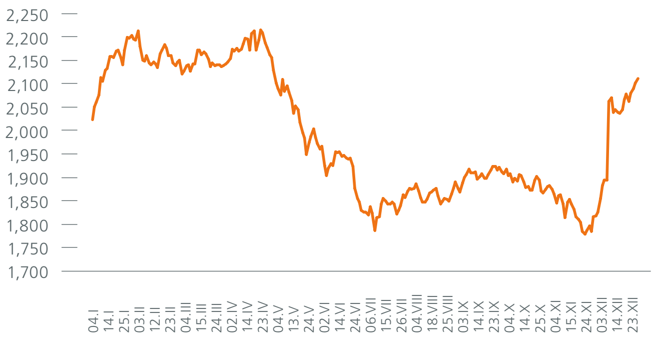
Weak economic activity in conditions of an extremely good liquidity of banks has resulted in low and stable interest rates on the money market. Interest rate on overnight loans on the interbank market amounted to an average of 1%.



Zibor O/N
in %
source: Reuters



HRK Middle Exchange Rate
source: CNB

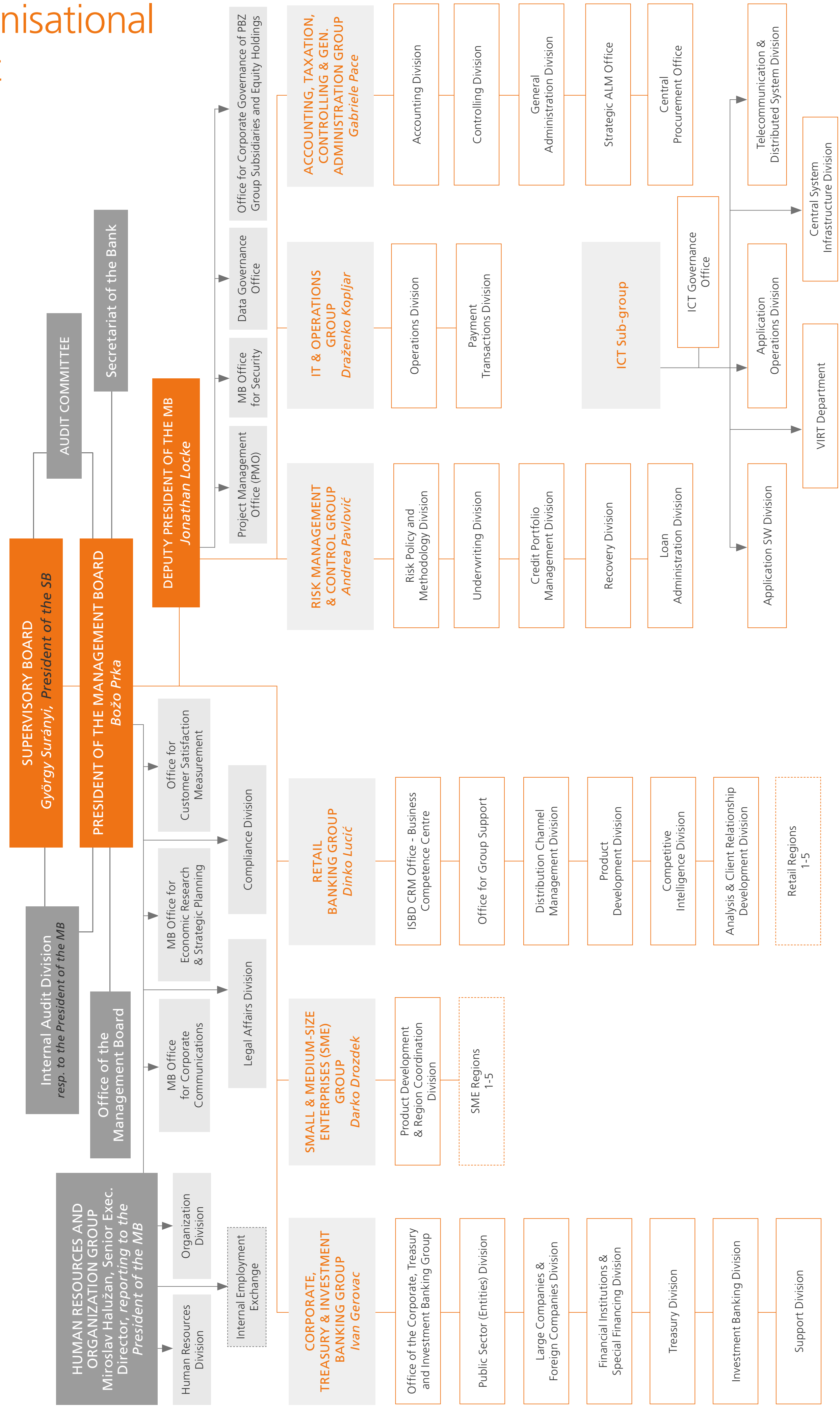


CROBEX
source: SZE

The stock exchange woke up only late in the year

Negative trends on the Zagreb Stock Exchange have continued throughout 2010, which in the absence of any significant news that would stimulate investors was characterised by the stagnation of stocks and the Crobex stock index for the better part of the year. The growth of share values and return of optimism to the stock market was recorded only in December, resulting from a public bid made by MOL to buy INA shares from small shareholders. Late in the year, the Crobex reached 2,110 points, which is 5.3% more year on year.

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 non-controlling 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 in 2005. Additionally, PBZ's quality was confirmed by Global Finance's magazine in 2003, 2004, 2005, 2006, 2007, 2008, 2009 and 2010 when it received 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. Bank also received acknowledgement 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 3,473 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 three 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 204 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, eight 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 deposits. 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 643 ATM's have been installed). The number of EFT POS's (points of sale) has increased from 3,500 at the end of 2000 to the present 23,797.

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; PBZ365NET Internet banking service, PBZ365TEL telephone banking service, mPBZ mobile banking service and PBZ365SMS service. With Internet banking PBZ365 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 124,071 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, more than 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 2010 the Bank launched eight 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 18.9 percent share of the loan market. In the area of retail deposits, PBZ has increased its deposits to more than HRK 32.7 billion to date, which is 20.1 percent of the Croatian retail deposit market. On a consolidated level, PBZ Group holds 21.3 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 over 2.2 million cards to its clients which accounts for 24.2 percent of the domestic card market.

Retail operations in Privredna banka Zagreb comprise the following divisions: 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 - Internet banking, telephone banking, mobile banking, SMS banking, WAP banking, mPay, personal bankers and sale agents). It prepares and coordinates budget-related activities in front of 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 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.

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.
Corporate, Treasury and Investment Banking Group consist of the following divisions: Office of the Corporate, Treasury and Investment Banking Group, Public Sector (Entities) 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 204 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 departments: Liquidity Department, Trading Department and Sales Department. Liquidity Department negotiate and enters into agreements with depository banks and other depository financial institutions. It deals with currency swaps with banks and other financial institutions, buys and sells securities and repurchase agreements and lends securities from the clients. Additionally, its obligation is to monitor currency liquidity through the Bank's prescribed measures of the Croatian National Bank. Sales 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. Trading 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.

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 (ISP BiH) 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 59 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 Co-ordination Division

This Division is responsible for market research, product development primarily oriented towards small and medium size 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

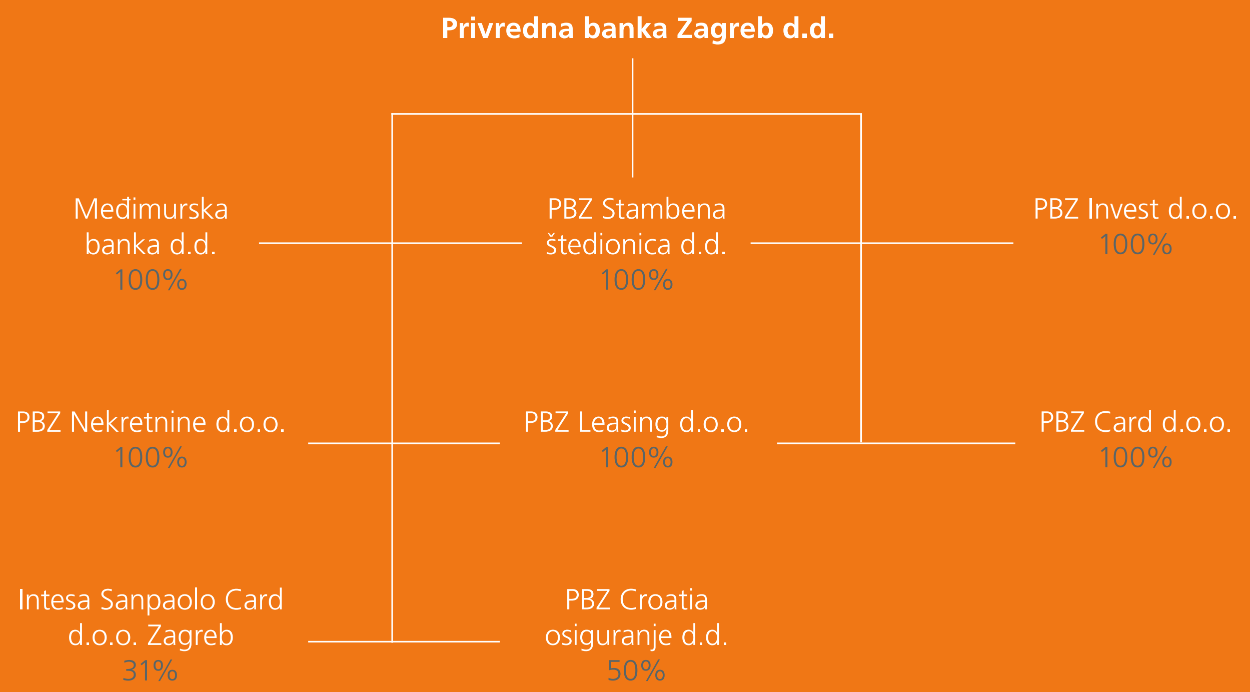
SME Group is also present in the Bank's network. Its presence is grouped in 4 regional centres which are: Central Croatia, Dalmatia, Istra-Rijeka-Lika and Slavonia. Activities and responsibilities of SME Region centres include offering and sales of Bank's products to clients, consulting SME clients in 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.
Internal Audit Division, Office of the Management Board, Secretariat of the Bank, Human Resource and Organization Group , 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, Office for Corporate Governance of PBZ Group Subsidiaries and Equity Holdings and Data Governance Office 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 4,074 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 18.1 percent.
On 31 December 2010 the Group consisted of Privredna banka Zagreb and 6 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 16 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 ATM's 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. and became 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 over 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 45 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 45).

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 120 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 euro 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 offers 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 fund, an open-ended investment fund.
In next several years, six 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 Fund, open-ended investment fund

PBZ Novčani Fund 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

Higher risk fund that offers to its investors' 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 2010, PBZ Leasing made over 6.1 thousand lease arrangements with customers, which in financial terms reached almost HRK 1.2 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 2010. 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 278 thousand members and net assets in personal accounts exceeding HRK 6.1 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 2010 PBZ held 31.2 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 a major international banking group - 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 are some of our activities in 2010.

1. Education and professional development

We have continued the strategic development project PBZ Business School.
In 2010 a new generation counting 124 employees started their education in two programs: General management program & Operational/Sales management program.
At the same time, in November 2010, the 2nd generation with a total number of 144 employees completed their 3 year education program with the PBZ Business school.
In 2010 we have continued with specific AML training programs focussing on Front office employees. Besides classical training in the classroom, different channels for raising awareness & knowledge related to AML legislation were introduced. Intranet education solutions, newsletter, Help-Desk, etc., are reachable for all the Banks' employees. As the result of theses activities 1225 out of 1783 employees past the e-learning exam and got AML certificate during 2010.
A specific program subject to client orientation (commercial skills workshops) has been completed in December 2010 for 59 relationship managers (SME group). In addition 40 SME employees were involved in a special workshop "Debt Restructuring".

2. Retail innovations

- PBZ INFO - we have launched a Newsletter to all retail clients with news from the bank, new products and our CSR activities
- mPBZ - a new service allowing you to pay bills and undertake all financial transactions even more quickly, simply and cheaply. **mPBZ** gives secure access over mobile phones to information related to products and services in PBZ, 7 days a week, 24 hours a day, from wherever you are in the world. We have also just launched the new Iphone application that can be entered via QR Code.

3. Care for employees

- We have started the implementation of a unique HR platform and complete **centralisation** of all HR functions of PBZ Subsidiaries under PBZ HR Division (benefits: standardization of business processes and the working methods at the PBZ Group level; easier coordination, faster decision making and more efficient control of HR functions)
- further upgrading and improvement of eHR portal (scanning of all PBZ Group's employees personnel documents; electronic delivery of earning slips and leave of absence resolutions, implementation of all relevant education data, production of management portal as a base for easier and more objective decision making etc.)
- further develop of the Human Capitol Monitor system for PBZ Group that will allow more objective evaluation of effectiveness and productivity and more objective and transparent career planning

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 2010

Science and education	576.000 kn
Sport	1.265.000 kn
Culture	1.764.000 kn
Social solidarity	3.665.000 kn
Others	4.024.000 kn
Total	**11.294.000 kn**

PBZ is actively involved in a whole series of socially beneficial projects and provides financial support to a large number of humanitarian and social institutions. We would like to highlight some of the 2010 donations:

- Caritas fundraising campaign "For One thousand Joys". The aim of the campaign is to raise money to help 1000 low income families in Croatia. For the eight consecutive year, 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 slogan "The family is the essence", the aim is to support families affected by the loss of one or more members.
- Donation to Croatian Demining Foundation - 700.000 HRK, that amount will be used to cover the costs of humani-

tarian demining of a mine-suspected area located in the central part of Vukovar-Syrmia County, in Stari Jankovci Municipality,south of Slakovci. As a consequence of the Homeland War, in the present-day Croatia there are 830 km2 of mine-suspected areas which spread across 12 counties contaminated with mines and unexploded ordnances. Mines in Croatia cause a whole range of economic, environmental and safety issues, given that large agricultural areas, forests and parts of river banks remain inaccessible because of minefields or suspicion of mine presence. By taking part in financing humanitarian demining, we wish to give additional contribution to the quality and safety of life in Croatia with no mines.

Plenty of donations are intended for awarding scholarships for pupils and students:

- 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 which contribute to enhanicg the living and cultural standards 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-demanding jobs and thus provide fresh impetus to the economic growth of the Republic of Croatia.
- "Step into life" - provides scholarships for young people who after coming of age leave orphanages and foster families wanting to obtain a college degree. With these donations, PBZ provides four scholarships awarded for five years.
- Within the project "Solidarity for Vukovar" we granted donations to 20 students from the city of Vukovar, 10 pupils and students who are on low income in the area of Krapinsko-Zagorska County, and within the project of "IT career - opportunities for disabled persons" - one student will be supported during a three-year study.
- We would also like to emphasize donations awarded in the area of "restoration of cultural monuments and heritage: Donations for the restoration of St. Rochus (sv. Rok) parish church which is a zero category monument of cultural heritage, a donation to a sanctuary Our Holy Mother of Trsat for the restoration of a library of historical value and the Franciscan treasury.

4.2. Sponsorships

Sponsorships in 2010	
Science and education	357.000 kn
Sport	6.446.000 kn
Culture	1.307.000 kn
Social solidarity	31.000 kn
Others	554.000 kn
Total:	**8.695.000 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 activities in these fields in 2010 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, traditionally, sponsored the ATP Croatian Indoors tournament (PBZ Indoors)
- We would like to point out a significant sponsorship agreement - to support one of the most famous cultural events in Croatia - **Sinjska alka**. The Iron-ring of Sinj is a knight's tournament that has been going on for almost 3 centuries, using the same old customs. It has run without pause since 1715. This is a unique spectacle to be recognized by Unesco as a World heritage.
- The various cultural programs and institutions that PBZ has supported include sponsorship of the Croatian National Theatre in Zagreb, The Modern Gallery, Croatian National Theatre in Varaždin, traditional ehnological manifestation "Rapska fjera" and many others.

5. Projects

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.

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. We have also promoted the campaign internality (via e-mail, Intranet and House organs) in order to engage the employees of the PBZ Group.
Up to date, more than 500.000 kunas was collected and transferred to the Mission and the full report from the field is available on our web site http://sirimodobrotu.pbz.hr/.

PODUZETNICI I BANKE

ZAJEDNO NA PUTU DO USPJEHA

"Entrepreneurs and Banks - Together Towards Success", is the name of workshops for entrepreneurs, a mutual project of Croatian National Association of Entrepreneurs (HUP) and Croatian Banking Associations (HUB) whose aim is to facilitate the communication as well as to educate and inform participants about establishing business contact with bank, especially credit financing.
Workshops are intended for employees and owners of small and medium size enterprises (SME), those with scarce experience or with no experience at all in doing business with banks, as well as for entrepreneurs - beginners.

By donating its employees' time for workshop preparation, Privredna Banka Zagreb (PBZ), as a member of Croatian Banking Association (HUB), participated actively in a working group together with male and female colleagues from 11 other Croatian banks and project members during 2010. Consequently to all aforementioned, preparation and implementation of workshops for entrepreneurs, as a way of aiding them with the financial literacy, is an additional activity in Privredna Banka Zagreb's segment of socially responsible banking.

6. Environmental impact

In PBZ we have been continuously monitoring energy consumption, and by launching different activities we are trying to reduce energy consumption and raise the consciousness of employees about the importance of protecting the environment (shutting down PCs after work, switching off air conditioners and heating on weekends, separating waste paper from other waste for recycling purposes).
Also in the last three years, we have introduced an obligation to copy documents on both pages, which resulted in the significant reduction in paper consumption and at the end of the last year we started using reusable envelopes.

PAPER CONSUMPTION

2008.	**579.854 kg**
2009.	**518.849 kg**
2010.	**503.525 kg**

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 seven 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)
Massimo Pierdicchi, (Vicepresident of the Supervisory Board, Intesa Sanpaolo)
Massimo Malagoli, (Member of the Supervisory Board, Intesa Sanpaolo)
Beata Kissné Földi, (Member of the Supervisory Board, Intesa Sanpaolo)
Giampiero Trevisan, (Member of the Supervisory Board, Intesa Sanpaolo - appointed on 1 March 2010)
Nóra Kocsis, (Member of the Supervisory Board, EBRD - appointed on 2 July 2010)
Branko Jeren, (Member of the Supervisory Board, independent - appointed on 19 April 2010)
Previous members in 2010 were also:
Rosario Strano, (Member of the Supervisory Board, Intesa Sanpaolo - resigned 27 January 2010)
Paolo Grandi, (Member of the Supervisory Board, Intesa Sanpaolo - mandate expired 28 February 2010)
Anne Fossemalle, (Member of the Supervisory Board, EBRD - mandate expired 1 July 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 2010 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 members.
Members of the Audit Committee are the following:
Giovanni Bergamini, (President of the Audit Committee)
Beata Kissné Földi, (Member of the Audit Committee)
Guido Gioncada, (Member of the Audit Committee)
Previous members in 2010 were also:
Ezio Salvai, (Member of the Audit Committee - mandate expired 30 June 2010)
Luca Finazzi, (Member of the Audit Committee - mandate expired 30 June 2010)

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)

Management Board

The Management Board consists of eight members and on tree-year mandate each is allocated a specific area of responsibility. The Management Board meets at least twice a month to discuss and determine the operating policies of the Bank.

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

Management Board members
Božo Prka, President of the Management Board
Jonathan Charles Locke, Vicepresident of the Management Board, responsible for the Equity Holdings Management Office, the Project Management Office, the Office for Security, the Data Governance Office, as well as coordinating the work of the Risk Management and Control Group, Information Technology and Operations Group and the Accounting, Taxation, Controlling and General Administration Group
Gabriele Pace, Chief financial officer, responsible for the Accounting, Taxation, Controlling and General Administration Group
Darko Drozdek, Member of the Management Board responsible for the SME Banking Group - appointed on 21 October 2010
Ivan Gerovac, Member of the Management Board responsible for the Corporate, Treasury and Investment 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
Andrea Pavlović, Member of the Management Board responsible for the Risk Management and Control Group - appointed on 12 May 2010
Previous members in 2010 were also:
Mario Henjak, Member of the Management Board responsible for the SME Banking Group - mandate expired on 31 August 2010

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 2010, 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 2010) 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 eight 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?**
   Yes. The Bank's website address is www.pbz.hr

2. **Are the annual, semi-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 2010 with the external auditors' report are available on the Bank's website. Semi-annual and quarterly reports (TFI-KI form) for 2010 are published on the Bank's and Zagreb Stock Exchange website.
   - In English?
     Yes. The annual financial statements for 2010 with the external auditors' report are prepared and available in English on the Bank's website. Semi-annual and quarterly reports are also available on Bank's website.

3. **Has the Company prepared a calendar of important events? (If not, why not?) If yes,**
   - Has the calendar of important events been published on the Company's website? (If not, why not?)
   - Has the calendar of important events been updated regularly and in good time? (If not, why not?)
     Yes, the Bank has published a calendar of important events on its website and it is updated with each change.

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

5. **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 of 31 December 2010 is published in the Annual Report for 2010. There were no changes (increase/ decrease in number of shares owned) during 2010.

6. **Are data on financial instruments 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 24-hour basis)? If not, why not?**
   No. Data are published on the Zagreb Stock Exchange website within the legally prescribed period and contents.

7. **Does the Company identify and publicly disclose risk factors? (If not, why not?)**
   Yes. Bank's risk factors are disclosed within the Annual report which is prepared in accordance with the International Financial Reporting Standards.

8. **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 information is made available? (If not, why not?)
     Yes.
   - Supervision of the flow of information and its possible misuse? (If not, why not?)
     Yes.

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

10. **Are the nominations, including relevant CVs, for all candidates for Supervisory Board or Management Board membership to be elected or appointed at the General Meeting, announced on the Company's website? (If not, 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 website. 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. In 2010 most of Supervisory members were re-elected, in line with Articles of Association.

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

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

13. **Did the Company acquire or release its own (treasury) shares?**
    No. During 2010 Bank did not acquire or release its own shares.

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

15. **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 prepa-

red to provide proxies for the shareholders if such an initiative occurs.

16. 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 six days before the General Meeting? (If not, why not?)
Yes.

17. 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?)
Yes.

18. Is the date on which the shareholders acquire the appropriate dividend payment or dividend advance payment at most 30 days after the adoption date of passing the respective Decision? (If not, why not?)
Yes.

19. Is the decision on payment of dividend or advance which is determined by the aforementioned dates announced and submitted to the stock exchange no later than 2 days after the adoption?
Yes.

20. Did certain shareholders enjoy privileged treatment during dividend payments or advance dividend payments? (If yes, why yes?)
No.

21. 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.

22. 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.

23. 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 yes?)
Yes.

24. 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.

25. 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.

26. 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)

27. 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.

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

29. State the names of the Supervisory Board's members.
György Surányi, President;
Massimo Pierdicchi, Vice president;
Massimo Malagoli, Member;
Beata Kissné Földi, Member;
Giampiero Trevisan, Member;
Nóra Kocsis, Member;
Branko Jeren, Member.

30. 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
VUB - Bratislava, Slovakia

Massimo Pierdicchi *is a member of the Supervisory Board of the following*

companies:
Banca Intesa Beograd - Belgrade, Serbia
Intesa Sanpaolo Bank Albania - Tirana, Albania
Intesa Sanpaolo Bank - Sarajevo, Bosnia and Hercegovina
Banca C.R. Firenze - Bucharest, Romania

Massimo Malagoli *is a member of the Supervisory Board of the following companies:*
CIB - Budapest, Hungary
VUB - Bratislava, Slovakia
Intesa Sanpaolo Bank Albania - Tirana, Albania
Intesa Sanpaolo Card d.o.o. Zagreb - Zagreb, Croatia
Intesa Sanpaolo Card d.o.o. Ljubljana - Ljubljana, Slovenia

Beata Kissné Földi *is a member of the Supervisory Board of the following companies:*
Banca Intesa Beograd - Belgrade, Serbia
Intesa Sanpaolo Bank - Sarajevo, Bosnia and Herzegovina

Nóra Kocsis *is a member of the Supervisory Board of the following companies:*
Intesa Sanpaolo Bank - Sarajevo, Bosnia and Herzegovina
Volksbank A.D. - Belgrade, Serbia

Giampiero Trevisan *is a member of the Supervisory Board of the following companies:*
CIB - Budapest, Hungary
Intesa Sanpaolo Bank - Bucharest, Romania
Banca Intesa - Moscow, Russia

31. Is the Company's Supervisory Board mostly composed of independent members? (If not, why not?)
No. During 2010 Bank appointed an independent member of the Supervisory Board as required by provisions of Credit Institutions Act.

32. State independent Supervisory Board members?
Branko Jeren.

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

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

35. 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, although most of the members of the Supervisory Board do not receive any kind of the remuneration.
- Determined in some other manner? (If yes, in which?)
  No.

36. 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 not, 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 website.

37. 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.

38. 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.

39. 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 not and which?)
- Clearly stated in the Company's reports? (If not, why not 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 38.

40. Are there contracts and agreements between the Supervisory

Board members and the Company?
No.

41. 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.

42. 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 31.
- 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.

43. 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 31.
- 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 recommendations 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.

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

45. 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.

46. 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.

47. State the names of the Management Board members.
Božo Prka, President;
Jonathan Charles Locke, Vice president;
Gabriele Pace, Member;
Darko Drozdek, Member;
Ivan Gerovac, Member;
Draženko Kopljar, Member;
Dinko Lucić, Member;
Andrea Pavlović, Member.

48. 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.

49. 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.

50. 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 contracts, 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?).

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

52. 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?)

53. 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?)

54. 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 49.

55. 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.

56. 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.

57. 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 56.

58. 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, where and how many?)

No.

59. 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

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
Intesa Sanpaolo Card d.o.o. Ljubljana - Ljubljana, Slovenia

Andrea Pavlović is a member of the Super-

visory Board in the following company:
PBZ Stambena Štedionica d.d. - Zagreb, Croatia
PBZ Invest d.o.o. - Zagreb, Croatia

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

61. 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.

62. 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. The independent auditor also (in line with ISA 240) obtains an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. The auditor also makes inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.

63. 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.

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

65. 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 not, why not)?
Yes.

66. 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.

67. 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.

68. 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 Management Board members and/or Supervisory Board members disagree, 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

18 March 2011

Independent auditors' report

ERNST & YOUNG

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Račun / Account: 2402006-1100280716
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SWIFT: ESBCHR22

Independent auditors' report

To the Shareholders of Privredna Banka Zagreb d.d.

Report on the financial statements

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 2010, 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 147).

Management Responsibility

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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.

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 2010 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 148 to 160, and which contain a balance sheet as at 31 December 2010, profit and loss account, statement of changes in equity and cash flow statement for the year then ended together with notes on the reconciliation of the forms with the primary financial statements of the Bank and the Group. This financial information is the responsibility of the Bank's management and is, pursuant to IFRS, not a required part of the financial statements, but is required by the By-law. 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 147 or are based on the underlying accounting records of the Bank and the Group.

Ernst & Young d.o.o.
Zagreb, 18 March 2011

Financial statements of the Bank and the Group

Income statement

(in HRK million)	NOTE	GROUP 2010	GROUP 2009	BANK 2010	BANK 2009
Interest income	2	3,787	4,117	3,426	3,718
Interest expense	2	(1,587)	(2,057)	(1,464)	(1,919)
Net interest income		**2,200**	**2,060**	**1,962**	**1,799**
Fee and commission income	3	1,304	1,269	622	596
Fee and commission expense	3	(214)	(224)	(112)	(202)
Net fee and commission income		**1,090**	**1,045**	**510**	**394**
Other operating income	4	265	502	317	607
Operating income		**3,555**	**3,607**	**2,789**	**2,800**
Provisions	5	(404)	(563)	(388)	(361)
Other operating expenses	6, 7	(1,648)	(1,565)	(1,211)	(1,166)
Depreciation and amortisation of property and equipment and intangible assets	8	(237)	(291)	(156)	(173)
Share of profit and loss from associates	18	8	8	-	-
Profit before income taxes		**1,274**	**1,196**	**1,034**	**1,100**
Income taxes	9	(252)	(236)	(174)	(173)
Net profit for the year		**1,022**	**960**	**860**	**927**
Attributable to:					
Equity holders of the parent		1,022	960	860	927
		1,022	**960**	**860**	**927**
	in HRK				
Basic/diluted earnings per share	45	53.8	50.5		

The accompanying accounting policies and notes on pages 75 to 147 are an integral part of these financial statements.

Statement of comprehensive income

	GROUP		BANK	
(in HRK million)	2010	2009	2010	2009
Profit for the year	**1,022**	**960**	**860**	**927**
Other comprehensive income				
Net gain/(loss) on available-for-sale financial assets arising during the year	4	18	7	12
Less: Reclassification adjustments for (gains)/ losses included in the income statement	21	13	1	(5)
	25	**31**	**8**	**7**
Income tax relating to components of other comprehensive income	10	(2)	(1)	(2)
Other gain recognized on demerger of processing unit in PBZ Card	-	10	-	-
Other comprehensive income for the year, net of tax	**35**	**39**	**7**	**5**
Total comprehensive income for the year, net of tax:	**1,057**	**999**	**867**	**932**
Attributable to:				
Equity holders of the parent	1,057	999	867	932
	1,057	**999**	**867**	**932**

Statement of financial position

Assets (in HRK million)	NOTE	GROUP 31 December 2010	GROUP 31 December 2009	BANK 31 December 2010	BANK 31 December 2009
Cash and current accounts with other banks	10	2,273	3,105	2,092	2,803
Balances with the Croatian National Bank	11	7,612	4,886	7,371	4,669
Financial assets at fair value through profit or loss	12	2,806	1,298	2,806	1,298
Derivative financial assets	13	2	4	2	4
Due from banks	14	8,049	10,732	7,754	10,474
Loans and advances to customers	15	49,396	47,356	44,563	42,271
Assets available for sale	16	1,483	1,000	793	711
Held to maturity investments	17	647	892	381	590
Investments in subsidiaries and associates	18	128	130	392	392
Intangible assets and goodwill	19	146	150	67	69
Property and equipment	20	1,226	1,306	783	836
Investment property	21	13	12	10	11
Other assets	22	408	457	197	262
Deferred tax assets	9	220	213	141	129
Total assets		**74,409**	**71,541**	**67,352**	**64,519**

Statement of financial position / continued

Liabilities (in HRK million)	NOTE	GROUP 31 December 2010	GROUP 31 December 2009	BANK 31 December 2010	BANK 31 December 2009
Due to banks	23	4,151	3,225	4,196	3,318
Due to customers	24	47,054	45,049	43,602	41,903
Derivative financial liabilities	13	86	13	86	13
Other borrowed funds	25	9,889	10,681	8,431	8,829
Other liabilities	26	1,464	1,551	408	379
Accruals and deferred income	27	206	195	77	80
Provisions for risks and charges	28	214	213	206	195
Current tax liabilities	9	11	14	-	-
Total liabilities		**63,075**	**60,941**	**57,006**	**54,717**
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	6,911	6,239	6,085	5,474
Profit and loss attributable to equity holders of the parent entity		1,022	960	860	927
Total shareholders' equity		**11,334**	**10,600**	**10,346**	**9,802**
Total liabilities and shareholders' equity		**74,409**	**71,541**	**67,352**	**64,519**

The accompanying accounting policies and notes on pages 75 to 147 are an integral part of these financial statements.

These financial statements were signed on behalf of the Management Board on 8 February 2011.

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

Gabriele Pace
Chief financial officer

Statement of cash flows

(in HRK million)	GROUP 2010	GROUP 2009	BANK 2010	BANK 2009
Cash flow from operating activities				
Profit before tax	1,274	1,196	1,034	1,100
Provisions for bad and doubtful debts and other provisions	404	555	388	353
(Gains)/losses from sale of property and equipment	(5)	(14)	(2)	(10)
Depreciation and amortization	238	291	156	173
Unrealised (gains)/losses on securities at fair value through profit or loss	13	6	13	6
Valuation of derivatives	75	(169)	75	(169)
Share of results of associates	(8)	(8)	-	-
Taxes paid	(206)	(338)	(97)	(251)
	1,785	**1,519**	**1,567**	**1,202**
(Increase)/decrease in operating assets				
Balances with Croatian National Bank	(2,726)	(71)	(2,702)	(73)
Due from banks	(146)	209	(297)	207
Loans and advances to customers, net of provisions	(2,422)	1,372	(2,656)	1,136
(Acquisitions)/sales of assets held for trading and assets available for sale	(1,989)	599	(1,607)	718
Other assets	49	(81)	65	(79)
	(7,234)	**2,028**	**(7,197)**	**1,909**
Increase/(decrease) in operating liabilities				
Due to banks	(286)	(423)	878	(475)
Due to customers	3,216	458	1,699	968
Other liabilities	(132)	(93)	(65)	(30)
	2,798	**(58)**	**2,512**	**463**
Net cash from operating activities	**(2,651)**	**3,489**	**(3,118)**	**3,574**

Statement of cash flows / continued

(in HRK million)	GROUP 2010	GROUP 2009	BANK 2010	BANK 2009
Cash flows from investing activities				
Net purchase of property and equipment and intangible assets	(150)	(171)	(98)	(102)
Acquisition, disposal and recapitalisation of subsidiaries and associates	10	(19)	-	(19)
Repayment of assets held to maturity	245	216	209	203
Net cash (used in)/from investing activities	**105**	**26**	**111**	**82**
Cash flows from financing activities				
Dividends paid to equity holders of the parent	(323)	-	(323)	-
Other borrowed funds	(792)	(239)	(398)	(267)
Net cash (used in) financing activities	**(1,115)**	**(239)**	**(721)**	**(267)**
Net increase in cash	**(3,661)**	**3,276**	**(3,728)**	**3,389**
Cash and cash equivalents at the beginning of the year	13,595	10,302	13,035	9,629
Effect of exchange rate fluctuations on cash held	14	17	14	17
Cash and cash equivalents at the end of the year	9,948	13,595	9,321	13,035
Supplementary information				
Interest paid	3,067	1,499	2,928	1,345
Interest received	2,536	3,426	2,184	3,033
Dividends received	5	5	164	205

The accompanying accounting policies and notes on pages 75 to 147 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	Other reserves	Retained profits	Total	Non-controling interests	Total eqiuty
Group								
Balance at 1 January 2009	**1,907**	**(76)**	**1,570**	**597**	**5,603**	**9,601**	**10**	**9,611**
Total comprehensive income for the year	-	-	-	39	960	999	-	**999**
Squeeze out of non-controlling shareholders in Međimurska banka d.d.	-	-	-	-	-	-	(10)	**(10)**
Balance at 31 December 2009	**1,907**	**(76)**	**1,570**	**636**	**6,563**	**10,600**	**-**	**10,600**
Total comprehensive income for the year	-	-	-	35	1,022	1,057	-	**1,057**
Dividends paid	-	-	-	-	(323)	(323)	-	**(323)**
Other movements	-	-	-	(367)	367	-	-	**-**
Balance at 31 December 2010	**1,907**	**(76)**	**1,570**	**304**	**7,629**	**11,334**	**-**	**11,334**

(in HRK million)	Attributable to equity holders of the parent: Share capital	Treasury shares	Share premium	Other reserves	Retained profits	Total	Total equity
Bank							
Balance at 1 January 2009	**1,907**	**(76)**	**1,570**	**630**	**4,839**	**8,870**	**8,870**
Total comprehensive income for the year	-	-	-	5	927	932	932
Balance at 31 December 2009	**1,907**	**(76)**	**1,570**	**635**	**5,766**	**9,802**	**9,802**
Total comprehensive income for the year	-	-	-	7	860	867	867
Dividends paid	-	-	-	-	(323)	(323)	(323)
Other movements	-	-	-	(366)	366	-	-
Balance at 31 December 2010	**1,907**	**(76)**	**1,570**	**276**	**6,669**	**10,346**	**10,346**

The amount of dividends distributed to equity holders during 2010 is 17 HRK per share. There was no distribution of dividends during 2009.
Other reserves include reserves for general banking risks (refer to note 31).

The accompanying accounting policies and notes on pages 75 to 147 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.
Non-controlling interests in the net assets (excluding goodwill) of the consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling 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. Any losses applicable to the non controlling interest in excess of the non controlling interest are allocated against the interests of the non controlling interest even if this results in the non controlling interest having a deficit balance.
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. For business combinations from 1 January 2010, acquisition costs incurred are expensed and included in administrative expenses. For business combinations prior to 1 January 2010, acquisition costs were included in cost of business combination.
The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are 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.

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 performance 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:

	2010	2009
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.

Accounting policies

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.

Leases

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment whether the fulfilment of the arrangement is dependent on the use of specific asset or assets and the arrangement conveys a right to use the asset.

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 in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

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)	2010	2009
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 fair value less cost to sell and its value in use.

Accounting policies

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 2010. The adoption of these new and revised Standards and Interpretations does not have any effect on equity as at 1 January 2010.

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010:

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 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39

International Accounting Standards (IAS)

IAS 39	Financial Instruments: Recognition and Measurement - Eligible Hedged Items, effective 1 July 2009

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 17	Distributions of Non-cash Assets to Owners, effective 1 July 2009
Improvements to IFRSs (May 2008)	
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
Improvements to IFRSs (April 2009)	
IFRS 2	Share-based Payments
IAS 1	Presentation of Financial Statements
IAS 17	Leases
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRIC 9	Reassessment of Embedded Derivatives

The adoption of these interpretations has not led to any changes in the Group's accounting policies.

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 9 Financial Instruments: Classification and Measurement, effective 1 January 2013

International Accounting Standards (IAS)

IAS 24 Related Party Disclosures (Amendment), effective 1 January 2011
IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (Amendment), effective 1 February 2010

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 2011 financial statements. The Group does not expect these amendments to have any significant impact on the financial statements. However, implementation of IFRS 9 (in 2013), that deals with classification and measurement of financial instruments is expected to impact the financial statements. Given the fact that the impact of adoption depends on the assets held by the Group at the date of adoption, it is not practical to quantify the effect.

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 14 Prepayments of a minimum funding requirement (Amendment), effective 1 January 2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, effective 1 July 2010
Improvements to IFRSs (May 2010):
IFRS 3 Business combinations
IFRS 7 Financial Instruments: Disclosures
IAS 1 Presentation of Financial Statements
IFRIC 13 Customer Loyalty Programmes

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 2010 was HRK 72 million (2009: HRK 72 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 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. 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	
	2010	2009	2010	2009
Interest income				
Citizens	2,086	2,236	1,930	1,975
Companies	1,024	971	910	934
Bonds and securities	385	445	292	353
Banks	77	127	79	120
Public sector and other institutions	215	338	215	336
	3,787	**4,117**	**3,426**	**3,718**
Interest expense				
Citizens	1,214	1,195	1,125	1,098
Companies	79	173	71	172
Banks	217	522	189	483
Public sector and other institutions	77	167	79	166
	1,587	**2,057**	**1,464**	**1,919**

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

	GROUP		BANK	
	2010	2009	2010	2009
Interest income				
Loans and receivables from customers and banks	3,375	3,525	3,100	3,213
Balances with Croatian National Bank	36	156	34	154
Financial assets held for trading	21	51	21	51
Financial assets initially designated at fair value through profit or loss	90	138	90	138
Held to maturity investments	41	58	29	41
Assets available for sale	28	53	8	20
Interest income from securities classified as Loans and Receivables	196	136	144	101
	3,787	**4,117**	**3,426**	**3,718**

Interest income includes income from previously impaired loans of the Group of HRK 151 million (2009: HRK 117 million) and of the Bank of HRK 118 million (2009: HRK 108 million).

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

	GROUP		BANK	
	2010	2009	2010	2009
Fee and commission income				
Fees and commission on credit card services	711	708	90	96
Payment transaction fees and commission	280	273	283	283
Investment management, brokerage and consultancy fees	80	56	57	39
Fees and commission on customer loans	65	60	63	58
Fees and commission on guarantees given	51	55	50	54
Fees and commission on customer services	57	48	54	45
Other fee and commission income	60	69	25	21
	1,304	**1,269**	**622**	**596**
Fee and commission expense				
Payment transaction charges	51	60	49	58
Fees and commission expense on credit card services	127	132	50	130
Bank charges	12	10	8	9
Other fee and commission expense	24	22	5	5
	214	**224**	**112**	**202**

4 | Other operating income (in HRK million)

	GROUP		BANK	
	2010	2009	2010	2009
Foreign exchange trading gain	129	182	122	173
Foreign exchange revaluation	11	123	11	123
Net gains/(losses) on securities at fair value held for trading	6	4	6	4
Net gains/(losses) on securities initially designated at fair value through profit or loss	(23)	33	(23)	33
Realised gains on securities classified as assets available for sale	18	9	15	12
Gains/(losses) from disposal of property, equipment and intangibles	5	14	3	10
Operating lease income	76	77	2	2
Dividends earned	5	5	164	205
Other income	38	55	17	45
	265	**502**	**317**	**607**

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

	NOTE	GROUP 2010	GROUP 2009	BANK 2010	BANK 2009
Provisions for loans and advances to customers	15	371	610	352	408
Provisions for assets available for sale		13	1	13	1
Provisions for legal claims	28	8	(10)	11	(10)
Provisions for guarantees and commitments	28	12	(38)	12	(38)
		404	**563**	**388**	**361**

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

	NOTE	GROUP 2010	GROUP 2009	BANK 2010	BANK 2009
Personnel expenses	7	742	768	627	627
Materials and services		449	430	310	281
Operating leases		50	49	63	57
Deposit insurance premium		84	96	75	85
Indirect and other taxes		24	25	20	21
Other operating expenses		299	197	116	95
		1,648	**1,565**	**1,211**	**1,166**

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

	GROUP 2010	GROUP 2009	BANK 2010	BANK 2009
Net salaries	375	384	313	312
Health insurance costs	86	90	72	73
Taxes and surtaxes due to local authorities	92	101	77	83
Pension insurance costs	104	109	88	89
Other personnel expenses	85	84	77	70
	742	**768**	**627**	**627**

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 41.7 million (2009: HRK 27.7 million), of which the remuneration of the Bank's Management Board in expected to be a gross amount of HRK 13.8 million (2009: HRK 12.9 million).
During the year the average number of employees within the Group was 3,937 (2009: 4,218) of which the Bank accounted for 3,355 employees (2009: 3,511).

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

	GROUP 2010	GROUP 2009	BANK 2010	BANK 2009
Depreciation of property and equipment	199	248	122	140
Depreciation of investment property	1	1	1	1
Amortization of intangible assets	37	42	33	32
	237	**291**	**156**	**173**

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 0.3 million (2009: HRK 0.5 million) and of the Bank of HRK 0.3 million (2009: HRK 0.5 million).

9 | Taxation

Profit tax is payable at the rate of 20 percent (2009: 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)	2010	2009	2010	2009
Current income tax expense	(246)	(227)	(188)	(139)
Deferred taxes assets utilised in current period	(187)	(214)	(122)	(156)
Deferred tax liability reversed during current period	2	2	2	2
Deferred tax assets relating to temporary differences	180	205	135	122
Deferred tax liability relating to temporary differences	(1)	(2)	(1)	(2)
Tax charge per income statement	**(252)**	**(236)**	**(174)**	**(173)**

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

	GROUP		BANK	
(in HRK million)	2010	2009	2010	2009
Accounting profit before taxation	**1,274**	**1,196**	**1,034**	**1,100**
Statutory tax rate	20%	20%	20%	20%
Expected nominal tax	**255**	**239**	**207**	**220**
Tax effects of:				
Non deductible expenses	59	85	56	47
Non taxable income	(68)	(97)	(75)	(128)
Current income tax expense	**246**	**227**	**188**	**139**
Effective tax rate	**19.3%**	**18.7%**	**18.2%**	**12.6%**

9 | Taxation / continued

Movements of deferred tax assets are as follows:

	GROUP		BANK	
(in HRK million)	2010	2009	2010	2009
Deferred tax assets recognised at 1 January	**213**	**226**	**129**	**165**
Deferred taxes arising in the current period	220	213	141	129
Deferred taxes utilised during the current period	(213)	(226)	(129)	(165)
Deferred tax assets recognised at 31 December	**220**	**213**	**141**	**129**
Deferred tax assets consist of:				
Deferred loan origination fees as an adjustment to the effective yield	69	85	62	62
Retirement benefits	-	3	-	3
Impairment of real estate	6	7	6	6
Unrealised losses on negative revaluation of securities and derivatives	59	38	59	38
Other	68	72	8	13
Total credited to income statement	**202**	**205**	**135**	**122**
Unrealised losses on the negative revaluation of securities and derivatives - recognized in equity	18	8	6	7
	220	**213**	**141**	**129**

	GROUP		BANK	
(in HRK million)	2010	2009	2010	2009
Liabilities for current tax	11	14	-	-
	11	**14**	**-**	**-**

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

	GROUP		BANK	
	2010	2009	2010	2009
Current accounts held with the Croatian National Bank	1,043	1,995	954	1,799
Cash in hand	1,147	1,039	1,075	960
Current accounts and amounts at call with foreign banks	72	54	54	32
Current accounts and amounts at call with domestic banks	8	12	6	7
Other cash items	3	5	3	5
	2,273	**3,105**	**2,092**	**2,803**

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

	GROUP		BANK	
	2010	2009	2010	2009
Obligatory reserve	4,782	4,883	4,570	4,669
Other deposits	2,830	3	2,801	-
	7,612	**4,886**	**7,371**	**4,669**

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 2010, the obligatory reserve is calculated as 13 percent of HRK denominated (2009: 14 percent) and 13 percent of foreign currency denominated balances (2009: 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.

The balances in HRK maintained with the Croatian National Bank earned annual interest of 0.25 percent for HRK amounts (2009: 0.75 percent). The balances in foreign currencies maintained with the Croatian National Bank bear no annual interest (2009: nul).

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 (all in EUR) 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	
	2010	2009	2010	2009
Financial assets held for trading				
Equities and shares	30	29	30	29
	30	**29**	**30**	**29**
Financial assets initially designated at fair value through profit or loss				
Domestic treasury bills	2,360	778	2,360	778
Domestic commercial bills	10	41	10	41
Domestic corporate bonds	278	315	278	315
Domestic government bonds	92	97	92	97
Accrued interest	36	38	36	38
	2,776	**1,269**	**2,776**	**1,269**
Financial assets at fair value through profit or loss	**2,806**	**1,298**	**2,806**	**1,298**

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

	GROUP		BANK	
ASSETS	2010	2009	2010	2009
Fair values:				
Foreign exchange derivatives	2	3	2	3
Other embedded derivatives	-	1	-	1
	2	**4**	**2**	**4**
Notional amounts:				
Foreign exchange derivatives	5,640	4,067	5,640	4,067
Other embedded derivatives	123	268	123	268
	5,763	**4,335**	**5,763**	**4,335**
LIABILITIES				
Fair values:				
Foreign exchange derivatives	86	13	86	13
	86	**13**	**86**	**13**
Notional amounts:				
Foreign exchange derivatives	5,724	4,076	5,724	4,076
Other embedded derivatives	102	168	102	168
	5,826	**4,244**	**5,826**	**4,244**

Foreign exchange derivatives mostly relate to foreign exchange currency deals bought and sold forward. Other embedded derivatives include loans placed and received with one way foreign currency clause.
The notional amounts of certain types of financial 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	
	2010	2009	2010	2009
Term deposits	6.928	9.360	6.503	9.067
Demand deposits	-	1	-	-
Debt securities	20	22	20	22
Loans to banks	1.122	1.370	1.252	1.405
	8.070	**10.753**	**7.775**	**10.494**
Provisions	(21)	(21)	(21)	(20)
	8.049	**10.732**	**7.754**	**10.474**

Term deposits are normally short-term deposits (up to one month) with local and foreign banks bearing an average annual interest rate of 0.7 percent to 2.2 percent (2009: 0.5 to 7.2 percent).
The Bank's placements with other banks include HRK 0.1 million (2009: HRK 0.1 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	
	2010	2009	2010	2009
Italy	2,445	1,923	2,398	1,900
Germany	1,399	1,845	1,322	1,823
Republic of Croatia	1,103	1,333	1,200	1,363
Belgium	600	840	519	767
France	722	816	722	816
Great Britain	403	659	370	625
Austria	472	596	462	585
Switzerland	172	161	148	146
United States of America	4	104	4	104
Other countries	750	2,476	630	2,365
	8,070	**10,753**	**7,775**	**10,494**
Provisions	(21)	(21)	(21)	(20)
	8,049	**10,732**	**7,754**	**10,474**

Included within due from banks are loans under reverse repurchase agreements of HRK 417.8 million (2009: HRK 832.5 million). Such agreements are secured with corporate and government bonds.

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

	GROUP		BANK	
	2010	2009	2010	2009
a) Analysis by type of customer				
Citizens	27,212	26,107	23,941	22,852
Companies	18,060	14,452	16,800	13,048
Public sector and other institutions	4,167	6,495	4,273	6,443
Debt securities	3,455	3,395	2,165	2,175
	52,894	**50,449**	**47,179**	**44,518**
Provisions	(2,939)	(2,568)	(2,247)	(1,875)
Deferred interest and fees recognised as an adjustment to the effective yield	(559)	(525)	(369)	(372)
	49,396	**47,356**	**44,563**	**42,271**
b) Analysis by sector				
Citizens	27,212	26,107	23,941	22,852
Public administration and defence, compulsory social security	6,113	7,146	5,852	5,898
Construction	3,784	3,591	3,628	3,388
Wholesale and retail trade	3,270	3,118	2,796	2,587
Real estate, renting and business services	2,489	1,914	2,298	1,878
Transport and communication	1,322	1,340	1,246	1,264
Hotels and restaurants	803	832	755	785
Agriculture, forestry and fishing	1,100	763	1,050	701
Food and beverages	474	535	438	443
Energy products	543	721	541	721
Oil refining and gas	273	149	273	149
Other	5,511	4,232	4,361	3,852
	52,894	**50,448**	**47,179**	**44,518**
Provisions	(2,939)	(2,567)	(2,247)	(1,875)
Deferred interest and fees recognised as an adjustment to the effective yield	(559)	(525)	(369)	(372)
	49,396	**47,356**	**44,563**	**42,271**

Included within loans and advances to customers are loans under reverse repurchase agreements of HRK 7.9 million (2009: HRK 12.4 million). Such agreements are secured with corporate and government bonds.

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 institutions Individual	Public sector and other institutions Collective	Total
Group							
Balance at 1 January 2010	1,273	342	692	216	33	12	**2,568**
Amounts collected	(776)	(21)	(279)	(9)	(18)	-	**(1,103)**
Amounts written off	(11)	-	(41)	(2)	-	-	**(54)**
Foreign exchange (gain)/loss	14	-	5	-	-	-	**19**
Transfer of interest value adjustment from off-balance accounts	20	-	15	-	-	-	**35**
Provisions	927	24	469	35	19	-	**1,474**
Balance at 31 December 2010	**1,447**	**345**	**861**	**240**	**34**	**12**	**2,939**
Reconciliation with the Income statement line item Provisions for loans and advances to customers							
Provisions	927	24	469	35	19	-	**1,474**
Amounts collected	(776)	(21)	(279)	(9)	(18)	-	**(1,103)**
Charge in the income statement	**151**	**3**	**190**	**26**	**1**	**-**	**371**
Bank							
Balance at 1 January 2010	**744**	**323**	**572**	**194**	**32**	**10**	**1,875**
Amounts collected	(711)	(19)	(277)	(5)	(18)	-	**(1,030)**
Amounts written off	(1)	-	(31)	-	-	-	**(32)**
Foreign exchange (gain)/loss	15	-	2	-	-	-	**17**
Transfer of interest value adjustment from off-balance accounts	20	-	15	-	-	-	**35**
Provisions	873	23	432	35	19	-	**1,382**
Balance at 31 December 2010	**940**	**327**	**713**	**224**	**33**	**10**	**2,247**
Reconciliation with the Income statement line item Provisions for loans and advances to customers							
Provisions	873	23	432	35	19	-	**1,382**
Amounts collected	(711)	(19)	(277)	(5)	(18)	-	**(1,030)**
Charge in the income statement	**162**	**4**	**155**	**30**	**1**	**-**	**352**

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

	Citizens		Companies		Public sector and other institutions		Total
c) Provisions for losses	Individual	Collective	Individual	Collective	Individual	Collective	
Group							
Balance at 1 January 2009	**918**	**337**	**491**	**233**	**3**	**14**	**1,996**
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**	**33**	**12**	**2,568**
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	(1)	-	(6)	-	-	-	**(7)**
Charge in the income statement	**360**	**5**	**227**	**(10)**	**30**	**(2)**	**610**
Bank							
Balance at 1 January 2009	**551**	**320**	**403**	**206**	**2**	**10**	**1,492**
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**	**32**	**10**	**1,875**
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	(1)	-	(6)	-	-	-	**(7)**
Charge in the income statement	**196**	**3**	**191**	**(12)**	**30**	**-**	**408**

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 2010 the aggregate amount of nonperforming loans and receivables (before provisions) for the Group equalled HRK 5,185 million and for the Bank HRK 4,266 million (2009: HRK 4,291 million and HRK 3,348 million respectively). The fair value of collateral that the Group holds relating to loans individually determined to be impaired as of 31 December 2010 amounts to 6.887 million.
During 2010 the Group sold the rights to 100 percent of the cash flows arising on a syndicated loan portfolio carried at HRK 141 million (2009: HRK 219 million) to third parties for a payment of HRK 141 million (2009: HRK 219 million), without fees paid to the buyers (2009: HRK 3.3 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 4,240 million (2009: HRK 3,278 million).

(e) Refinanced loans

Included in loans and receivables are HRK 2.4 million (2009: HRK 2.3 million) related to refinanced borrowings due to Government Agencies. Refinanced borrowings due to the Republic of Croatia of HRK 14.6 million in 2009 fell due and were repaid during 2010.
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 5.2 million and the Bank HRK 2.9 million (2009: HRK 8.3 million and HRK 7.7 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 2010 the Group has sold collateral with a total fair value of HRK 3 million (2009: HRK 10 million).

(g) Collateral given

The carrying amount of securities sold under agreements to repurchase at 31 December 2010 was HRK 1,375 million (2009: HRK 581 million). Those securities are classified in the loans and receivables portfolio (note 25).

16| Assets available for sale (in HRK million)

	GROUP		BANK	
	2010	2009	2010	2009
Quoted investments				
Government debt securities	100	80	100	80
Corporate debt securities	23	40	23	40
Treasury bills	587	508	587	508
Money market funds	124	-	-	-
Equities	33	30	25	25
	867	**658**	**735**	**653**
Unquoted investments				
Treasury bills	556	280	-	-
Equities	55	57	54	53
	611	**337**	**54**	**53**
Accrued interest	5	5	4	5
Total	**1,483**	**1,000**	**793**	**711**

16 | Assets available for sale / continued

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	NATURE OF BUSINESS	2010 holding %	2009 holding %
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 (2009: 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		BANK	
	2010	2009	2010	2009
Recapitalisation bonds	224	357	224	357
Rehabilitation bonds	119	190	119	190
Republic of Croatia bonds	259	257	-	-
Replacement bonds	31	30	28	27
Domestic treasury and commercial bills	-	39	-	-
Accrued interest	14	19	10	16
	647	**892**	**381**	**590**

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 held in 2009 were denominated in EUR, held an interest rate of 7.80 percent and were redeemed 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 August 2011, bear an interest rate of 5 percent, and are payable in semi annual instalments.

18 | Investments in subsidiaries and associates (in HRK million)

	GROUP		BANK	
	2010	2009	2010	2009
Consolidated subsidiaries	-	-	354	354
Associates accounted for under the equity method in the Group accounts (cost in the Bank's accounts)	128	130	38	38
	128	**130**	**392**	**392**
Movements				
Balance at 1 January	**130**	**56**	**392**	**373**
Consolidation effect arising from equity method	8	19	-	-
Payment of additional capital	-	1	-	1
Payment of dividend	(10)	(7)	-	-
Acquired/(disposed of)	-	61	-	18
Balance at 31 December	**128**	**130**	**392**	**392**

18 | Investments in subsidiaries and associates / continued

The principal investments in subsidiaries and associates are as follows:

CONSOLIDATED SUBSIDIARIES	COUNTRY	NATURE OF BUSINESS	2010 holding %	2009 holding %
Međimurska banka d.d.	Croatia	banking	100	100
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
ASSOCIATES				
PBZ Croatia osiguranje d.d.	Croatia	finance	50	50
Intesa Sanpaolo Card Zagreb d.o.o.	Croatia	card services	31	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:

	2010	**2009**
Privredna banka Zagreb d.d.	6,945	6,401
Međimurska banka d.d.	216	217
PBZ Card d.o.o.	589	454
PBZ Leasing d.o.o.	64	58
PBZ Invest d.o.o.	14	11
PBZ Nekretnine d.o.o.	22	19
PBZ Stambena štedionica d.d.	(7)	(49)
Centurion financijske usluge d.o.o.	-	(4)
PBZ Croatia osiguranje d.d.	34	27
Intesa Sanpaolo Card d.o.o. Zagreb	56	65
Total equity reserves of the Group	**7,933**	**7,199**

18 | Investments in subsidiaries and associates / continued (in HRK million)

PBZ Croatia osiguranje d.d. and Intesa Sanpaolo Card d.o.o. Zagreb (2009: PBZ Croatia osiguranje d.d. and Intesa Sanpaolo Card d.o.o. Zagreb.) are accounted for using the equity method. The following table illustrates summarised financial information of the Group's investment in associates:

	2010	2009
Share of the associates' statement of financial position		
Current assets	154	104
Non current assets	41	37
Current liabilities	(61)	(6)
Non current liabilities	(6)	(5)
Net assets, being the carrying amount of the investment	**128**	**130**
Share of the associates' revenues, expenses and profit		
Revenue	65	41
Expenses	(57)	(33)
Profit	8	8

19 | Intangible assets and goodwill (in HRK million)

Group	Goodwill	Software	Other intangible assets	Assets in preparation	Total
Cost of valuation					
Balance at 1 January 2009	**68**	**361**	**7**	**6**	**442**
Additions	4	-	-	36	40
Disposals and eliminations	-	(102)	(2)	(1)	(105)
Transfer in use	-	34	1	(35)	-
Balance at 31 December 2009	**72**	**293**	**6**	**6**	**377**
Balance at 1 January 2010	**72**	**293**	**6**	**6**	**377**
Additions	-	1	-	32	**33**
Disposals and eliminations	-	(5)	(1)	-	**(6)**
Transfer in use	-	35	-	(35)	**-**
Balance at 31 December 2010	**72**	**324**	**5**	**3**	**404**
Amortization					
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**
Balance at 1 January 2010	**-**	**226**	**1**	**-**	**227**
Charge for the year	-	36	1	-	37
Disposals and eliminations	-	(6)	-	-	(6)
Balance at 31 December 2010	**-**	**256**	**2**	**-**	**258**
Net book value					
Balance at 31 December 2010	**72**	**68**	**3**	**3**	**146**
Balance at 31 December 2009	**72**	**67**	**5**	**6**	**150**

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

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

Bank	Software	Assets in preparation	Total
Cost of valuation			
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**
Balance at 1 January 2010	**264**	**6**	**270**
Additions	-	31	**31**
Disposals and eliminations	(4)	-	**(4)**
Transfer in use	34	(34)	**-**
Balance at 31 December 2010	**294**	**3**	**297**
Amortization			
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**
Balance at 1 January 2010	**201**	**-**	**201**
Charge for the year	33	-	33
Disposals and eliminations	(4)	-	(4)
Balance at 31 December 2010	**230**	**-**	**230**
Net book value			
Balance at 31 December 2010	**64**	**3**	**67**
Balance at 31 December 2009	**63**	**6**	**69**

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 flows projections was 12.18 percent for PBZ Card and 9.32 percent for Međimurska banka, while the cash flows beyond the 5-year period were extrapolated using a no growth assumption (zero percent growth rate).

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 of valuation							
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**
Balance at 1 January 2010	**1,049**	**409**	**340**	**553**	**218**	**11**	**2,580**
Additions	-	-	-	-	-	187	**187**
Disposals and write-offs	(9)	(10)	(91)	(28)	(1)	(12)	**(151)**
Transfer in use	42	30	58	40	9	(179)	**-**
Transfer to investment property	(2)	-	-	-	-	-	**(2)**
Balance at 31 December 2010	**1,080**	**429**	**307**	**565**	**226**	**7**	**2,614**
Depreciation							
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**
Balance at 1 January 2010	**254**	**283**	**123**	**459**	**155**	**-**	**1,274**
Charge for the year	24	57	57	38	23	-	**199**
Disposals and write-offs	-	(6)	(49)	(29)	(1)	-	**(85)**
Transfer to investment property							
Balance at 31 December 2010	**278**	**334**	**131**	**468**	**177**	**-**	**1,388**
Net book value							
Balance at 31 December 2010	**802**	**95**	**176**	**97**	**49**	**7**	**1,226**
Balance at 31 December 2009	**795**	**126**	**217**	**94**	**63**	**11**	**1,306**

Furniture and other equipment and motor vehicles of the Group include assets leased under operating leases with a net book value of HRK 292.3 million (2009: HRK 323.5 million).

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

Bank	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Leasehold improvements	Asset in preparation	Total
Cost of valuation							
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**
Balance at 1 January 2010	**815**	**370**	**12**	**303**	**216**	**5**	**1,721**
Additions	-	-	-	-	-	71	**71**
Disposals and write-offs	(1)	(5)	(3)	(17)	(1)	-	**(27)**
Transfer in use	12	11	2	34	9	(68)	**-**
Balance at 31 December 2010	**826**	**376**	**11**	**320**	**224**	**8**	**1,765**
Depreciation							
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**
Balance at 1 January 2010	**217**	**260**	**7**	**247**	**154**	**-**	**885**
Charge for the year	19	48	2	31	22	-	**122**
Disposals and write-offs	-	(4)	(3)	(17)	(1)	-	**(25)**
Balance at 31 December 2010	**236**	**304**	**6**	**261**	**175**	**-**	**982**
Net book value							
Balance at 31 December 2010	**590**	**72**	**5**	**59**	**49**	**8**	**783**
Balance at 31 December 2009	**598**	**110**	**5**	**56**	**62**	**5**	**836**

21 | Investment property (in HRK million)

	GROUP	BANK
Cost of revaluation		
Balance at 1 January 2010	**29**	**26**
Charge for the year	-	-
Transfer of property and equipment	2	-
Balance at 31 December 2010	**31**	**26**
Depreciation		
Balance at 1 January 2010	**17**	**15**
Charge for the year	1	1
Disposals and write-offs	-	-
Transfer of property and equipment	-	-
Balance at 31 December 2010	**18**	**16**
Net book value		
Balance at 31 December 2010	**13**	**10**
Balance at 31 December 2009	**12**	**11**

The estimated fair value of investment property held by the Group as at 31 December 2010 amounted to HRK 19 million (2009: HRK 19 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 2.2 million (2009: HRK 2.4 million).

22 | Other assets (in HRK million)

	GROUP		BANK	
	2010	2009	2010	2009
Amounts to be debited under processing	100	127	5	10
Amounts receivable from debtors	51	48	1	1
Amounts receivable from tax institutions	47	123	23	113
Accrued fees	32	31	36	31
Prepaid expenses	25	20	14	13
Collateral received for non-performing loans	29	24	21	19
Amounts receivable from card business	52	50	50	48
Advance payments	29	7	23	7
Other	43	27	24	20
	408	**457**	**197**	**262**

23 | Due to banks (in HRK million)

	GROUP		BANK	
	2010	2009	2010	2009
Term deposits	3,744	3,046	3,776	3,094
Demand deposits	407	179	420	224
	4,151	**3,225**	**4,196**	**3,318**

24 | Due to customers (in HRK million)

	GROUP		BANK	
	2010	2009	2010	2009
Term deposits	32,422	32,355	29,936	29,922
Demand deposits	14,632	12,694	13,666	11,981
	47,054	**45,049**	**43,602**	**41,903**
Retail deposits	35,745	34,102	32,725	31,103
Corporate deposits	7,296	7,058	6,880	6,692
Public sector and other institutions	4,013	3,889	3,997	4,108
	47,054	**45,049**	**43,602**	**41,903**

25 | Other borrowed funds (in HRK million)

	GROUP		BANK	
	2010	2009	2010	2009
Domestic borrowings	2,844	2,976	2,756	2,878
Foreign borrowings	7,043	7,673	5,673	5,919
Refinanced debt	2	32	2	32
	9,889	**10,681**	**8,431**	**8,829**

(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 1.5 billion (2009: HRK 2.0 billion), payables under repurchase agreements with HBOR of HRK 1 billion (2009: HRK 498 million) 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 2011	Due in 2012	Due in 2013	Due in 2014	Due after 2015	Total 2010	Total 2009
GROUP							
Fixed rate	-	-	-	-	-	-	-
Floating rate	2,537	471	966	1,985	56	6,016	7,673
Total foreign borrowings	**2,537**	**471**	**966**	**1,985**	**56**	**6,016**	**7,673**

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

Amounts in 2009 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. These amounts were redeemed in 2010.

26 | Other liabilities (in HRK million)

	GROUP		BANK	
	2010	2009	2010	2009
Amounts payable to creditors	1,039	1,117	53	23
Items in the course of payment and other liabilities	306	330	255	271
Salaries and other staff costs	119	104	100	85
	1,464	**1,551**	**408**	**379**

27 | Accruals and deferred income (in HRK million)

	GROUP		BANK	
	2010	2009	2010	2009
Deferred tax liabilities	3	2	1	2
Deferred income	76	80	14	14
Accrued expenses	127	113	62	64
	206	**195**	**77**	**80**

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

	GROUP		BANK	
	2010	2009	2010	2009
a) Analysis				
Provisions for contingent liabilities and commitments	142	130	139	127
Provisions for legal claims	57	71	52	59
Provisions for other risks and charges	15	12	15	9
	214	**213**	**206**	**195**
b) Movements				
Balance at 1 January	**213**	**270**	**195**	**244**
Utilisation of provisions for risks and charges	(19)	(9)	(12)	(1)
Provisions for guarantees and commitments (note 5)	12	(38)	12	(38)
Provisions for legal claims (note 5)	8	(10)	11	(10)
Balance at 31 December	**214**	**213**	**206**	**195**

29 | Contingent liabilities and commitments

Legal claims

As at 31 December 2010 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 2010 made by the Group stood at HRK 57 million (2009: HRK 71 million) whilst the Bank provided HRK 52 million (2009: HRK 59) (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 142 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)	2010	2009	2010	2009
Undrawn lending commitments	9,082	9,284	8,888	9,107
Factoring and fortaiting	12	-	12	-
Performance guarantees	1,918	1,881	1,897	1,855
Foreign currency guarantees	337	435	332	421
Foreign currency letters of credit	221	282	220	282
HRK guarantees	511	462	488	438
Other contingent liabilities	22	25	22	21
	12,103	**12,369**	**11,859**	**12,124**

29 | Contingent liabilities and commitments / continued

Credit related contingencies and commitments / continued

On 31 December 2010 the Group and the Bank had long-term commitments in respect of rent for business premises and equipment lease agreements expiring between 2011 and 2015. 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 2010 are presented below:

(in HRK million)	2010	2010	2011	2012	2013	2014	Total
Group							
Premises	51	52	54	55	57	57	326
	51	**52**	**54**	**55**	**57**	**57**	**326**
Bank							
Premises	50	51	53	54	56	56	320
Equipment	5	5	5	5	5	5	30
	55	**56**	**58**	**59**	**61**	**61**	**350**

30 | Share capital

The total number of authorised registered shares on 31 December 2010 was 19,074,769 (2009: 19,074,769) with a nominal value of HRK 100 per share (2009: 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.

The ownership structure as at 31 December 2010 was as follows:

30| Share capital / continued

The ownership structure as at 31 December 2010 was as follows:

REGISTERED SHARES				
	31 December 2010		31 December 2009	
	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%
Non-controlling 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 2010, 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)	2010	2009
Balance at 1 January	**64.673**	**64,673**
Increase	-	-
Decrease	-	-
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 2010, the Bank did not purchase any treasury shares on the open market for its own purposes.
At its meeting held on 8 February 2011, the Management Board of the Bank proposed a dividend of HRK 15.85 per share. The total amount to be distributed to the shareholders amounts to HRK 301.3 million. The Supervisory Board gave its consent to the proposal, which should be approved on the following General Assembly meeting.
As of 31 December 2010 retained profits (without net profit for 2010) of the Group amounted to HRK 6,606 million and of the Bank to HRK 5,809 million (2009: HRK 5,603 million and HRK 4,839 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 305 million for the Group (2009: HRK 636 million) and HRK 276 million for the Bank (2009: HRK 635 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	
	2010	2009	2010	2009
Cash and current accounts with other banks (note 10)	2,273	3,105	2,092	2,803
Due from banks with maturity of up to 3 months (note 14)	7,675	10,490	7,229	10,232
	9,948	**13,595**	**9,321**	**13,035**

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

	GROUP		BANK	
	2010	2009	2010	2009
LIABILITIES				
Local authorities and similar organisations	484	472	483	471
Companies	3	3	3	3
Banks and other institutions	244	245	239	241
	731	**720**	**725**	**715**
LESS: ASSETS	677	671	671	666
	54	**49**	**54**	**49**

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 2010 stood at HRK 2,575 million (2009: HRK 2,058 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 6,145 million as 31 December 2010 (2009: HRK 4,870 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 vehicles, vessels, real estates and equipment. Net investments in finance leases of HRK 859.2 million (2009: HRK 1,001.6 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 292.3 million (2009: HRK 323.5 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)	**2010**	**2010**	**2009**	**2009**
Next year	284	234	324	270
Between one and five years	549	437	619	500
After five years	379	311	411	336
Total minimum lease payments receivable	**1,212**	**982**	**1,354**	**1,106**
Unearned finance income	(230)	-	(248)	-
Total investment in finance leases	**982**	**982**	**1,106**	**1,106**
Less: Allowance for uncollectible amounts	(82)	(82)	(65)	(65)
Net investment in finance lease	**900**	**900**	**1,041**	**1,041**

34| Leases / continued

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

(in HRK million)	2010	2009
Within one year	68	74
After one year but no more than five years	115	127
More than five years	68	74
	251	**275**

35| Related party transactions (in HRK million)

As of 31 December 2010 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 company	Associates	Parent Group companies
GROUP				
DEPOSITS AND LOANS GIVEN				
Loans outstanding at 1 January 2010	**11**	**-**	**-**	**253**
Changes during the year	2	404	-	(238)
Loans outstanding at 31 December 2010	**13**	**404**	**-**	**15**
Interest income	1	2	3	1
DEPOSITS AND LOANS RECEIVED				
Balance at 1 January 2010	**25**	**888**	**150**	**1,635**
Changes during the year	11	494	(83)	(253)
Balance at 31 December 2010	**36**	**1,382**	**67**	**1,382**
Interest expense	(1)	(8)	(2)	(24)
Contingent liabilities and commitments	2	1	3	15
Fees and other income	-	1	1	5
Fees and other expense	(5)	(2)	(33)	(1)

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

	Key management personnel	PBZ Group	Parent company	Associates	Parent Group companies
BANK					
DEPOSITS AND LOANS GIVEN					
Loans outstanding at 1 January 2010	**11**	**187**	**-**	**-**	**1**
Changes during the year	2	183	404	-	(1)
Loans outstanding at 31 December 2010	**13**	**370**	**404**	**-**	**-**
Interest income	1	9	2	3	-
DEPOSITS AND LOANS RECEIVED					
Balance at 1 January 2010	**21**	**487**	**888**	**150**	**4**
Changes during the year	10	(249)	494	(83)	9
Balance at 31 December 2010	**31**	**238**	**1,382**	**67**	**13**
Interest expense	(1)	(4)	(8)	(2)	-
Contingent liabilities and commitments	**2**	**2**	**1**	**3**	**15**
Lease expense	-	(11)	-	-	-
Fees and other income	-	214	1	1	5
Fees and other expense	(1)	(34)	(2)	(33)	(1)

No provisions were recognised in respect of loans given to related parties (2009: nil).

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

Key management compensation:

	GROUP		BANK	
	2010	2009	2010	2009
Salaries and other short-term benefits	41	38	31	27
Bonus payments	23	27	19	21
Pension insurance costs	5	3	3	3
	69	**68**	**53**	**51**

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 2010 and 2009 were paid in cash.

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, obtain 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)		2010	2009	2010	2009
Cash and current accounts with other banks (excluding cash in hand)	10	1,126	2,066	1,017	1,843
Balances with Croatian National bank	11	7,612	4,886	7,371	4,669
Financial assets at fair value through profit or loss	12	2,806	1,298	2,806	1,298
Derivative financial assets	13	2	4	2	4
Due from banks	14	8,049	10,732	7,754	10,474
Loans and advances to customers	15	49,396	47,356	44,563	42,271
Assets available for sale	16	1,483	1,000	793	711
Held to maturity investments	17	647	892	381	590
Other assets (excluding real estate pledged for non-performing loans)	22	379	433	176	243
Total		**71,500**	**68,667**	**64,863**	**62,103**
Contingent liabilities and commitments	29	12,103	12,369	11,859	12,124
Total credit risk exposure		**83,603**	**81,036**	**76,722**	**74,227**

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 2010 was HRK 1,776 million (2009: HRK 939 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 obligations 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 regulations 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 2010 (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	8,527	373	922	290	1,039	11,151
Housing loans	2,330	201	689	167	325	3,712
Other retail loans	4,183	309	726	266	1,415	6,899
Public sector and other institutions	586	-	76	2	70	734
	15,626	**883**	**2,413**	**725**	**2,849**	**22,496**
Due from banks	214	-	-	1	4	219
Securities	-	-	-	-	-	-
Other due receivables	932	6	80	21	1,408	2,447
Total	**16,772**	**889**	**2,493**	**747**	**4,261**	**25,162**

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 institutions	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**

36 | Financial risk management policies / continued

Credit risk / continued

BANK 2010 (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	8,335	163	873	260	877	10,508
Housing loans	2,288	191	678	162	318	3,637
Other retail loans	2,854	162	631	211	824	4,682
Public sector and other institutions	566	-	76	2	70	714
	14,043	**516**	**2,258**	**635**	**2,089**	**19,541**
Due from banks	208	-	-	1	4	213
Securities	-	-	-	-	-	-
Other due receivables	926	5	79	20	1,224	2,254
Total	**15,177**	**521**	**2,337**	**656**	**3,317**	**22,008**

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 institutions	541	-	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**

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 2010 the total amount of the Group's past due receivables that were not individually impaired amounted to HRK 17,982 million gross (2009: HRK 17,751 million), before the effect of collateral, while for the Bank it amounted to HRK 16,019 million (2009: HRK 16,602 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 2010. The amounts provided are gross of specific or collective provisions.

(in HRK million)			RISK GRADES			
BANKING 2010	**A**	**B1**	**B2**	**B3**	**C**	**Total**
Due from banks	8,285	-	11	-	4	**8,300**
Loans to customers	43,808	2,208	1,152	291	822	**48,281**
of which Republic of Croatia, Government agencies and municipalities	*4,211*	-	-	-	-	***4,211***
of which corporate and SME customers	*16,207*	*1,760*	*377*	*130*	*341*	***18,815***
of which retail customers	*22,917*	*431*	*775*	*160*	*479*	***24,762***
of which other loans	*473*	*17*	-	*1*	*2*	***493***
Held to maturity investments	150	-	-	-	-	**150**
Assets available for sale	963	-	-	-	-	**963**
Other receivables	586	13	16	38	43	**696**
Total	**53,792**	**2,221**	**1,179**	**329**	**869**	**58,390**

(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**

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 2010 placements of the Bank internally rated as A1 amounted to HRK 4,378 million (2009: HRK 4,232 million) and A2 HRK 37.145 million (2009: HRK 37,993 million).
As of 31 December 2010 the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is HRK 569 million (2009: HRK 471 million) for the Group and HRK 526 million (2009: 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:

2010	%	2009	%
"20% ratio" (at year end)	22.28	"20% ratio" (at year end)	29.90
Average	21.41	Average	23.22
Maximum	27.70	Maximum	29.91
Minimum	20.40	Minimum	20.53

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
2010 - 4 January	866	82	2,087	(1,051)	1,984
2010 - 31 December	681	113	1,462	(854)	1,402
2010 - Average daily	712	119	1,974	(719)	2,086
2010 - Lowest	606	12	67	(144)	541
2010 - Highest	1,111	333	4,644	(1,458)	4,630

Note: historical simulation used for VaR calculations

(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 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 2010. 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.

(in HRK million)

Currency	FX Open position 2010	Scenario 10% Move Up	Scenario 10% Move Down	FX Open position 2009	Scenario 10% Move Up	Scenario 10% Move Down
EUR	**315**	31	(31)	**443**	44	(44)
CHF	**13**	1	(1)	**12**	1	(1)
USD	**5**	1	(1)	**(18)**	(2)	2

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 2010.

(in HRK million)

Increase in basis points 2010	Change in			Decrease in basis points 2010	Change in		
	interest income	interest expenses	net interest income		interest income	interest expenses	net interest income
+25	12.6	11.5	1.1	-25	93.2	85.4	7.9
+50	25.2	23.1	2.1	-50	186.5	170.8	15.7

(in HRK million)

Increase in basis points 2009	Change in			Decrease in basis points 2009	Change in		
	interest income	interest expenses	net interest income		interest income	interest expenses	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)

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)	2010	2009
Tier 1 capital	10,012	9,441
Tier 2 capital	-	-
Deductions	(371)	(361)
Total capital	**9,641**	**9,080**
Risk weighted assets and other risk elements	**48,094**	**52,285**
Tier 1 capital ratio	**20.82%**	**18.06%**
Total capital ratio	**20.05%**	**17.37%**

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 become effective as of 31 March 2010. The key change relates to the minimum regulatory ratio on capital adequacy which increased to 12 percent.

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 636 million (2009: HRK 902 million) and for the Bank HRK 391 million (2009: HRK 619 million) (with carrying values of HRK 637 million (2009: HRK 895 million) and HRK 381 million (2009: HRK 590 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 (in HRK million)			2010			2009
	Level 1	Level 2	Total	Level 1	Level 2	Total
Derivative financial assets	-	2	2	-	4	4
Financial assets held for trading	30	-	30	29	-	29
Financial assets initially designated at fair value through profit or loss	-	2,740	2,740	-	1,231	1,231
Financial instruments available for sale	848	579	1,427	641	299	940
Financial assets	**878**	**3,321**	**4,199**	**670**	**1,534**	**2,204**
Derivative financial liabilities	-	86	86	-	13	13
Financial liabilities	**-**	**86**	**86**	**-**	**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 Intesa Sanpaolo 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 other reclassifications prior or after 30 April 2009.

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
Financial assets reclassified from held for trading as at 31 December 2010	1,909	1,944	1,909	1,944
Financial assets reclassified from available for sale as at 31 December 2010	1,425	1,489	215	229

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)	(26)	(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	
	2010	2009	2010	2009
Fair value gains and losses which would otherwise have been recognised after reclassification in net Other operating income	(45)	137	(45)	137
Fair value gains and losses which would otherwise have been recognised after reclassification in Other comprehensive income	68	68	2	14

The net profit actually recorded on assets reclassified to Loans and receivables (excluding coupon) in 2010 amounts to HRK 31 million for the Group (2009, subsequent to 30 April: HRK 33 million) and HRK 34 million for the Bank (2009, subsequent to 30 April: HRK 18 million), and is recognised as interest income.

39 | Financial information by segment

The following tables' present information on the income statement and certain assets and liabilities regarding the Group's business segments.
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 for the Bank and the PBZ Group by segment.

BANK

For the year ended 31 December 2010 (in HRK million)	PBZ Corporate	PBZ Retail	PBZ Finance	Central Structure	Reconciliation to financial statements	Financial statements
Net interest income	784	583	67	528	-	**1,962**
Net commission income	245	228	37	-	-	**510**
Net profit from trading and other operating income	47	89	31	11	139	**317**
Operating margin (as reported)	**1,076**	**900**	**135**	**539**	**139**	**2,789**
Methodology adjustment	21	197	-	(218)	-	**-**
Operating margin (as adjusted)	**1,097**	**1,097**	**135**	**321**	**139**	**2,789**
Operating costs	(334)	(794)	(93)	-	(146)	**(1,367)**
Operating profit	**763**	**303**	**42**	**321**	**(7)**	**1,422**
Impairments	(216)	(162)	(12)	(8)	10	**(388)**
Profit before taxes	**547**	**141**	**30**	**313**	**3**	**1,034**
Income taxes	-	-	-	(174)	-	**(174)**
Profit after taxes	**547**	**141**	**30**	**139**	**3**	**860**
Capital expenditure	4	17	-	151	-	172
Segment assets	**22,283**	**24,019**	**21,912**	**3,235**	**(4,097)**	**67,352**
Segment liabilities	**19,211**	**33,138**	**5,917**	**2,813**	**(4,073)**	**57,006**

Various methodological changes have affected segment reporting in 2010. In this respect the Management considered appropriate to disclose the value of these changes in the line "methodology adjustment", which includes cost of funding regulatory assets classified under operating segments.

39 | Financial information by segment / continued

BANK

For the year ended 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	-	6	394
Net profit from trading and other operating income	54	171	221	22	139	607
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	11	(361)
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

GROUP

For the year ended 31 December 2010 (in HRK million)	PBZ Corporate	PBZ Retail	PBZ Finance	Central Structure	PBZ Card	Other subsidiaries	Reconciliation to financial statements	Financial statements
Net interest income	784	583	67	528	63	158	17	2,200
Net commission income	245	228	37	-	531	66	(17)	1,090
Net profit from trading and other operating income	47	89	31	11	(159)	100	154	273
Operating margin (as reported)	**1,076**	**900**	**135**	**539**	**435**	**324**	**154**	**3,563**
Methodology adjustment	21	197	-	(218)	-	-	-	-
Operating margin (as adjusted)	**1,097**	**1,097**	**135**	**321**	**435**	**324**	**154**	**3,563**
Operating costs	(334)	(794)	(93)	-	(157)	(177)	(330)	(1,885)
Operating profit	**763**	**303**	**42**	**321**	**278**	**147**	**(176)**	**1,678**
Impairments	(216)	(162)	(12)	(8)	(1)	(31)	26	(404)
Profit before taxes	**547**	**141**	**30**	**313**	**277**	**116**	**(150)**	**1,274**
Income taxes	-	-	-	(174)	(56)	(22)	-	(252)
Profit after taxes	**547**	**141**	**30**	**139**	**221**	**94**	**(150)**	**1,022**
Capital expenditure	4	17	-	151	21	10	-	203
Segment assets	22,283	24,019	21,912	3,235	2,504	6,289	(5,961)	**74,281**
Investments in associates	-	66	62	-	-	-	-	**128**
Total assets	**22,283**	**24,085**	**21,974**	**3,235**	**2,504**	**6,289**	**(5,961)**	**74,409**
Segment liabilities	**19,150**	**31,265**	**5,039**	**3,721**	**1,898**	**5,702**	**(3,700)**	**63,075**

Various methodological changes have affected segment reporting in 2010. In this respect the Management considered appropriate to disclose the value of these changes in the line "methodology adjustment", which includes cost of funding regulatory assets classified under operating segments.

39 | Financial information by segment / continued

GROUP

For the year ended 31 December 2009 (in HRK million)	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	(14)	1,039
Net profit from trading and other operating income	54	171	221	22	(81)	87	28	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)	2	(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 has 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. A significant amount of the Group's and the Bank's assets and liabilities are contracted with a discretionary right to reprice, although this right is infrequently used. All such instruments are included in the shortest time frame available (up to 1 month).

GROUP As at 31 December 2010	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
Assets						
Cash and current accounts with other banks	972	-	-	-	1,301	**2,273**
Balances with the Croatian National Bank	3,876	-	3,733	-	3	**7,612**
Financial assets at fair value through profit or loss	-	482	2,047	212	65	**2,806**
Derivative financial assets	-	-	-	-	2	**2**
Due from banks	7,261	249	163	352	24	**8,049**
Loans and advances to customers	20,017	13,273	4,884	9,446	1,776	**49,396**
Assets available for sale	492	406	339	162	84	**1,483**
Held to maturity investments	-	-	32	605	10	**647**
Investments in subsidiaries and associates	-	-	-	-	128	**128**
Intangible assets and goodwill	-	-	-	-	146	**146**
Property and equipment	116	173	-	-	937	**1,226**
Investment property	-	-	-	-	13	**13**
Other assets	7	-	16	-	385	**408**
Deferred tax assets	-	-	-	-	220	**220**
	32,741	**14,583**	**11,214**	**10,777**	**5,094**	**74,409**
Liabilities						
Due to banks	3,459	615	15	61	1	**4,151**
Due to customers	23,394	2,958	18,164	2,059	479	**47,054**
Derivative financial liabilities	-	-	-	-	86	**86**
Other borrowed funds	1,215	2,013	2,079	4,555	27	**9,889**
Other liabilities	1	-	-	-	1,463	**1,464**
Accruals and deferred income	-	-	-	-	206	**206**
Provisions for risks and charges	-	-	-	-	214	**214**
Liabilities for current tax	-	-	-	-	11	**11**
	28,069	**5,586**	**20,258**	**6,675**	**2,487**	**63,075**
Interest sensitivity gap	**4,672**	**8,997**	**(9,044)**	**4,102**	**2,607**	**11,334**

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

BANK As at 31 December 2010	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
Assets						
Cash and current accounts with other banks	954	-	-	-	1,138	**2,092**
Balances with the Croatian National Bank	3,635	-	3,733	-	3	**7,371**
Financial assets at fair value through profit or loss	-	482	2,047	212	65	**2,806**
Derivative financial assets	-	-	-	-	2	**2**
Due from banks	7,008	216	163	352	15	**7,754**
Loans and advances to customers	19,016	12,374	4,865	8,163	145	**44,563**
Assets available for sale	368	219	5	118	83	**793**
Held to maturity investments	-	-	28	343	10	**381**
Investments in subsidiaries and associates	-	-	-	-	392	**392**
Intangible assets and goodwill	-	-	-	-	67	**67**
Property and equipment	-	-	-	-	783	**783**
Investment property	-	-	-	-	10	**10**
Other assets	-	-	-	-	197	**197**
Deferred tax assets	-	-	-	-	141	**141**
	30,981	**13,291**	**10,841**	**9,188**	**3,051**	**67,352**
Liabilities						
Due to banks	3,504	615	15	61	1	**4,196**
Due to customers	21,139	2,884	17,788	1,359	432	**43,602**
Derivative financial liabilities	-	-	-	-	86	**86**
Other borrowed funds	1,549	294	2,056	4,506	26	**8,431**
Other liabilities	-	-	-	-	408	**408**
Accruals and deferred income	-	-	-	-	77	**77**
Provisions for risks and charges	-	-	-	-	206	**206**
	26,192	**3,793**	**19,859**	**5,926**	**1,236**	**57,006**
Interest sensitivity gap	**4,789**	**9,498**	**(9,018)**	**3,262**	**1,815**	**10,346**

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

GROUP 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	12	**10,732**
Loans and advances to customers	10,274	8,128	6,875	20,398	1,681	**47,356**
Assets available for sale	30	528	305	45	92	**1,000**
Held to maturity investments	-	109	146	622	15	**892**
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	-	-	389	**457**
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	-	-	-	1,550	**1,551**
Accruals and deferred income	-	-	-	-	195	**195**
Provisions for risks and charges	-	-	-	-	213	**213**
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 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	9	**10,474**
Loans and advances to customers	8,931	7,213	6,851	19,126	150	**42,271**
Assets available for sale	5	507	71	45	83	**711**
Held to maturity investments	-	109	113	353	15	**590**
Investments in subsidiaries and associates	-	-	-	-	392	**392**
Intangible assets and goodwill	-	-	-	-	69	**69**
Property and equipment	-	-	-	-	836	**836**
Investment property	-	-	-	-	11	**11**
Other assets	-	-	-	-	262	**262**
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	-	-	-	-	379	**379**
Accruals and deferred income	-	-	-	-	80	**80**
Provisions for risks and charges	-	-	-	-	195	**195**
	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**

41 | Weighted average interest rates

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

		GROUP		BANK
	2010	2009	2010	2009
	Weighted average interest rate (%)	Weighted average interest rate (%)	Weighted average interest rate (%)	Weighted average interest rate (%)
Cash reserves	0.74	0.75	0.75	0.75
Balances with the Croatian National Bank	0.76	0.64	0.77	0.64
Securities held for trading	5.00	6.99	4.96	6.86
Due from banks	0.45	1.22	0.47	1.22
Loans and advances to customers	6.76	6.92	6.95	7.06
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	3.03	3.50	3.03	3.55
Other borrowed funds	1.88	3.72	1.96	4.03

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 As at 31 December 2010	EUR	CHF	USD	Other currencies	HRK	Total
Assets						
Cash and current accounts with other banks	299	50	48	46	1,830	**2,273**
Balances with the Croatian National Bank	869	-	-	-	6,743	**7,612**
Financial assets at fair value through profit or loss	2,322	-	-	-	484	**2,806**
Derivative financial assets	-	-	-	-	2	**2**
Due from banks	4,797	4	2,087	414	747	**8,049**
Loans and advances to customers	31,005	4,772	292	1	13,326	**49,396**
Assets available for sale	969	-	14	-	500	**1,483**
Held to maturity investments	615	-	-	-	32	**647**
Investments in subsidiaries and associates	-	-	-	-	128	**128**
Intangible assets and goodwill	-	-	-	-	146	**146**
Property and equipment	288	-	-	-	938	**1,226**
Investment property	-	-	-	-	13	**13**
Other assets	9	-	3	-	396	**408**
Deferred tax assets	-	-	-	-	220	**220**
	41,173	**4,826**	**2,444**	**461**	**25,505**	**74,409**
Liabilities						
Due to banks	1,549	20	126	43	2,413	**4,151**
Due to customers	30,640	451	2,430	404	13,129	**47,054**
Derivative financial liabilities	-	-	-	-	86	**86**
Other borrowed funds	6,342	2,204	2	-	1,341	**9,889**
Other liabilities	484	8	14	2	956	**1,464**
Accruals and deferred income	6	-	-	-	200	**206**
Provisions for risks and charges	6	-	16	-	192	**214**
Liabilities for current tax	1	-	-	-	10	**11**
	39,028	**2,683**	**2,588**	**449**	**18,327**	**63,075**
Net position before effect of derivatives	**2,145**	**2,143**	**(144)**	**12**	**7,178**	**11,334**

Notes to the Bank and the Group Financial Statements

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 **As at 31 December 2010**	EUR	CHF	USD	Other currencies	HRK	Total
Assets						
Cash and current accounts with other banks	267	39	45	41	1,700	**2,092**
Balances with the Croatian National Bank	835	-	-	-	6,536	**7,371**
Financial assets at fair value through profit or loss	2,322	-	-	-	484	**2,806**
Derivative financial assets	-	-	-	-	2	**2**
Due from banks	4,374	4	2,079	412	885	**7,754**
Loans and advances to customers	26,533	4,735	292	1	13,002	**44,563**
Assets available for sale	656	-	14	-	123	**793**
Held to maturity investments	352	-	-	-	29	**381**
Investments in subsidiaries and associates	-	-	-	-	392	**392**
Intangible assets and goodwill	-	-	-	-	67	**67**
Property and equipment	-	-	-	-	783	**783**
Investment property	-	-	-	-	10	**10**
Other assets	6	-	2	-	189	**197**
Deferred tax assets	-	-	-	-	141	**141**
	35,345	**4,778**	**2,432**	**454**	**24,343**	**67,352**
Liabilities						
Due to banks	1,549	20	126	43	2,458	**4,196**
Due to customers	27,941	405	2,419	399	12,438	**43,602**
Derivative financial liabilities	-	-	-	-	86	**86**
Other borrowed funds	4,570	2,200	2	-	1,659	**8,431**
Other liabilities	106	8	19	2	273	**408**
Accruals and deferred income	4	-	-	-	73	**77**
Provisions for risks and charges	6	-	16	-	184	**206**
	34,176	**2,633**	**2,582**	**444**	**17,171**	**57,006**
Net position before effect of derivatives	**1,169**	**2,145**	**(150)**	**10**	**7,172**	**10,346**

42 | Currency risk / continued (in HRK million)

GROUP 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	227	**10,732**
Loans and advances to customers	27,126	4,505	385	15	15,325	**47,356**
Assets available for sale	799	-	14	-	187	**1,000**
Held to maturity investments	861	-	-	-	31	**892**
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	-	450	**457**
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	1,403	**1,551**
Accruals and deferred income	12	-	-	1	182	**195**
Provisions for risks and charges	4	-	11	-	198	**213**
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)

BANK 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	384	**10,474**
Loans and advances to customers	23,302	4,465	385	-	14,119	**42,271**
Assets available for sale	634	-	14	-	63	**711**
Held to maturity investments	562	-	-	-	28	**590**
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	-	-	-	259	**262**
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	257	**379**
Accruals and deferred income	4	-	-	-	76	**80**
Provisions for risks and charges	4	-	11	-	180	**195**
	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**

43 | Liquidity risk

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 2010.
The Group and the Bank made certain assumptions in producing maturity analyses set out below. These assumptions, applied for loans and advances to customers were mostly based on contractual maturities, whilst overdraft, revolving or other facilities without precise amortisation plans were assumed to be recoverable within 12 months. Moreover, expected maturities for due to customers and to some extent non-performing loans were based on statistical behaviour model of past experience. All other items of the Group and the Bank in general were mostly at contractual maturities. Non-performing loans were modified further to past experiences and future expected recoveries.

GROUP (in HRK million)

As at 31 December 2010	Less than 12 months	Over 12 months	Total
Assets			
Cash and current accounts with other banks	2,273	-	**2,273**
Balances with the Croatian National Bank	3,037	4,575	**7,612**
Financial assets at fair value through profit or loss	2,602	204	**2,806**
Derivative financial assets	2	-	**2**
Due from banks	8,049	-	**8,049**
Loans and advances to customers	15,191	34,205	**49,396**
Assets available for sale	1,262	221	**1,483**
Held to maturity investments	267	380	**647**
Investments in subsidiaries and associates	-	128	**128**
Intangible assets and goodwill	2	144	**146**
Property and equipment	88	1,138	**1,226**
Investment property	-	13	**13**
Other assets	203	205	**408**
Deferred tax assets	64	156	**220**
	33,040	**41,369**	**74,409**
Liabilities			
Due to banks	4,151	-	**4,151**
Due to customers	15,653	31,401	**47,054**
Derivative financial liabilities	86	-	**86**
Other borrowed funds	4,634	5,255	**9,889**
Other liabilities	1,051	413	**1,464**
Accruals and deferred income	126	80	**206**
Provisions for risks and charges	4	210	**214**
Current tax liabilities	11	-	**11**
	25,716	**37,359**	**63,075**
Net expected maturity gap	**7,324**	**4,010**	**11,334**

43 | Liquidity risk / continued (in HRK million)

Maturity analysis of assets and liabilities / continued

BANK As at 31 December 2010	Less than 12 months	Over 12 months	Total
Assets			
Cash and current accounts with other banks	2,092	-	**2,092**
Balances with the Croatian National Bank	2,831	4,540	**7,371**
Financial assets at fair value through profit or loss	2,602	204	**2,806**
Derivative financial assets	2	-	**2**
Due from banks	7,754	-	**7,754**
Loans and advances to customers	13,088	31,475	**44,563**
Assets available for sale	616	177	**793**
Held to maturity investments	263	118	**381**
Investments in subsidiaries and associates	-	392	**392**
Intangible assets and goodwill	-	67	**67**
Property and equipment	-	783	**783**
Investment property	-	10	**10**
Other assets	-	197	**197**
Deferred tax assets	-	141	**141**
	29,248	**38,104**	**67,352**
Liabilities			
Due to banks	4,196	-	**4,196**
Due to customers	13,254	30,348	**43,602**
Derivative financial liabilities	86	-	**86**
Other borrowed funds	3,906	4,525	**8,431**
Other liabilities	-	408	**408**
Accruals and deferred income	-	77	**77**
Provisions for risks and charges	-	206	**206**
	21,442	**35,564**	**57,006**
Net expected maturity gap	**7,806**	**2,540**	**10,346**

43 | Liquidity risk / continued (in HRK million)

Maturity analysis of assets and liabilities / continued

GROUP 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	10,731	1	**10,732**
Loans and advances to customers	15,934	31,422	**47,356**
Assets available for sale	823	177	**1,000**
Held to maturity investments	279	613	**892**
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	245	212	**457**
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	1,163	388	**1,551**
Accruals and deferred income	115	80	**195**
Provisions for risks and charges	18	195	**213**
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 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	10,474	-	**10,474**
Loans and advances to customers	13,655	28,616	**42,271**
Assets available for sale	543	168	**711**
Held to maturity investments	237	353	**590**
Investments in subsidiaries and associates	-	392	**392**
Intangible assets and goodwill	-	69	**69**
Property and equipment	-	836	**836**
Investment property	-	11	**11**
Other assets	-	262	**262**
Deferred tax assets	-	129	**129**
	28,606	**35,913**	**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	-	379	**379**
Accruals and deferred income	-	80	**80**
Provisions for risks and charges	-	195	**195**
	17,778	**36,939**	**54,717**
Net expected maturity gap	**10,828**	**(1,026)**	**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 As at 31 December 2010	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	3,459	618	15	52	25	**4,169**
Due to customers	20,822	7,931	14,680	4,306	115	**47,854**
Derivative financial liabilities	85	1	-	-	-	**86**
Other borrowed funds	1,188	498	3,091	4,780	905	**10,462**
Other liabilities	1,443	4	6	-	-	**1,453**
Total undiscounted financial liabilities	**26,997**	**9,052**	**17,792**	**9,138**	**1,045**	**64,024**
Off-balance sheet liabilities and commitments						
Contingent liabilities	1,150	887	1,858	1,115	5,386	**10,396**
Commitments	3,007	50	69	38	1	**3,165**
Total undiscounted off-balance sheet liabilities and commitments	**4,157**	**937**	**1,927**	**1,153**	**5,387**	**13,561**
As at 31 December 2009						
Liabilities						
Due to banks	3,014	128	12	-	72	**3,226**
Due to customers	20,249	7,245	15,032	3,045	204	**45,775**
Derivative financial liabilities	9	4	-	-	-	**13**
Other borrowed funds	898	537	2,279	7,282	610	**11,606**
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**

43 | Liquidity risk / continued (in HRK million)

Analysis of financial liabilities by remaining contractual maturities/ continued

BANK As at 31 December 2010	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	3,504	618	15	52	9	**4,198**
Due to customers	19,603	7,577	13,785	3,154	91	**44,210**
Derivative financial liabilities	85	1	-	-	-	**86**
Other borrowed funds	1,543	317	2,144	3,912	894	**8,810**
Other liabilities	407	-	-	-	-	**407**
Total undiscounted financial liabilities	**25,142**	**8,513**	**15,944**	**7,118**	**994**	**57,711**
Off-balance sheet liabilities and commitments						
Contingent liabilities	1,025	691	1,279	506	5,386	**8,887**
Commitments	2,972	-	-	-	-	**2,972**
Total undiscounted off-balance sheet liabilities and commitments	**3,997**	**691**	**1,279**	**506**	**5,386**	**11,859**
As at 31 December 2009						
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**	**850**	**55,983**
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**

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 2010						
Geographic region						
Republic of Croatia	64,894	49,150	11,342	58,248	44,488	11,099
European Union	7,351	13,368	567	6,983	11,965	567
Other countries	2,164	557	194	2,121	553	193
	74,409	**63,075**	**12,103**	**67,352**	**57,006**	**11,859**
Industry sector						
Citizens	26,494	35,948	5,200	23,941	32,725	5,099
Finance	15,691	13,846	44	15,125	12,625	42
Government	6,188	2,231	457	4,010	2,223	427
Commerce	3,279	1,092	838	2,796	1,001	819
Tourism	811	122	34	755	109	34
Agriculture	1,102	69	35	1,050	64	35
Other sectors	20,844	9,767	5,495	19,675	8,259	5,403
	74,409	**63,075**	**12,103**	**67,352**	**57,006**	**11,859**
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**

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 19,010,096 (2009: 19,010,096). There is no potential dilution effect from any instruments and hence the basic earnings per share equals are the same as the diluted earnings per share.

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 58 to 65. 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 2010	31 December 2009	31 December 2010	31 December 2009
Assets				
1. Cash and deposits with the Croatian National Bank	9,806	7,924	9,400	7,430
1.1. Cash	1,150	1,044	1,078	964
1.2. Deposits with the Croatian National Bank	8,656	6,880	8,322	6,466
2. Deposits due from banks	7,008	9,426	6,563	9,106
3. Ministry of Finance treasury bills and the Croatian National Bank bills of exchange	2,881	1,067	2,360	778
4. Financial instruments held for trading	30	29	30	29
5. Assets available for sale	956	715	788	706
6. Held to maturity investments	633	864	371	575
7. Financial instruments designated at fair value through profit or loss	380	453	380	453
8. Derivative financial instruments	2	4	2	4
9. Loans to financial institutions	1,119	1,367	1,246	1,402
10. Loans to customers	49,108	47,087	44,300	42,029
11. Investments in subsidiaries and associates	128	130	392	392
12. Collateral received in satisfaction of non-performing loans	29	24	21	19
13. Property and equipment	1,226	1,306	783	836
14. Interest, fees and other assets	1,103	1,145	716	760
A. Total assets	**74,409**	**71,541**	**67,352**	**64,519**

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

	GROUP		BANK	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Liabilities				
1. Loans to banks	9,857	9,180	8,405	8,776
1.1. Short term loans	1,749	1,477	1,746	1,477
1.2. Long term loans	8,108	7,703	6,659	7,299
2. Deposits	50,770	47,777	47,368	44,734
2.1. Giro and current accounts	7,996	6,805	7,659	6,463
2.2. Savings deposits	7,041	6,064	6,424	5,698
2.3. Term deposits	35,733	34,908	33,285	32,573
3. Other loans	-	29	-	29
3.1. Short term loans	-	-	-	-
3.2. Long term loans	-	29	-	29
4. Derivative financial instruments	86	13	86	13
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	2,362	3,942	1,147	1,164
B. Total liabilities	**63,075**	**60,941**	**57,006**	**54,716**
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	1,022	960	860	927
3. Retained earnings	6,606	5,603	5,809	4,839
4. Legal reserves	135	135	130	130
5. Other reserves	1,733	2,100	1,665	2,031
6. Unrealised gain/(loss) from revaluation of financial assets available for sale	(69)	(105)	(25)	(31)
C. Total shareholders' equity	**11,334**	**10,600**	**10,346**	**9,803**
D. Total liabilities and shareholders' equity	**74,409**	**71,541**	**67,352**	**64,519**

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 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 2010.

Balance sheet reconciliation as at 31 December 2010 (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	9,806	-	**9,806**	9,400	-	**9,400**
- cash	1,150	-	**1,150**	1,078	-	**1,078**
- deposits at the Croatian National Bank	8,656	-	**8,656**	8,322	-	**8,322**
Cash and current accounts with other banks	-	2,273	**(2,273)**	-	2,092	**(2,092)**
Balances with the Croatian National Bank	-	7,612	**(7,612)**	-	7,371	**(7,371)**
Deposits due from banks	7,008	-	**7,008**	6,563	-	**6,563**
Due from banks	-	8,049	**(8,049)**	-	7,754	**(7,754)**
Ministry of Finance treasury bills and the Croatian National Bank bills of exchange	2,881	-	**2,881**	2,360	-	**2,360**
Financial assets at fair value through profit or loss	-	2,806	**(2,806)**	-	2,806	**(2,806)**
Financial instruments held for trading	30	-	**30**	30	-	**30**
Assets available for sale	956	1,483	**(527)**	788	793	**(5)**
Held to maturity investments	633	647	**(14)**	371	381	**(10)**
Financial instruments designated at fair value through profit and loss	380	-	**380**	380	-	**380**
Derivative financial instruments	2	2	**-**	2	2	**-**
Loans to financial institutions	1,119	-	**1,119**	1,246	-	**1,246**
Loans to customers	49,108	49,396	**(288)**	44,300	44,563	**(263)**
Investments in subsidiaries and associates	128	128	**-**	392	392	**-**
Collaterals received in satisfaction of non-performing loans	29	-	**29**	21	-	**21**
Intangible assets and goodwill	-	146	**(146)**	-	67	**(67)**
Investment property	-	13	**(13)**	-	10	**(10)**
Property and equipment	1,226	1,226	**-**	783	783	**-**
Other assets	-	408	**(408)**	-	197	**(197)**
Interest, fees and other assets	1,103	-	**1,103**	716	-	**716**
Deferred tax assets	-	220	**(220)**	-	141	**(141)**
Total assets	**74,409**	**74,409**	**-**	**67,352**	**67,352**	**-**

Balance sheet reconciliation as at 31 December 2010 / continued (in HRK million)

	GROUP			BANK		
	per the By-law	per IFRS	Differences	per the By-law	per IFRS	Differences
Loans from banks	9,857	-	**9,857**	8,405	-	**8,405**
- short term loans	1,749	-	**1,749**	1,746	-	**1,746**
- long term loans	8,108	-	**8,108**	6,659	-	**6,659**
Other borrowed funds	-	9,889	**(9,889)**	-	8,431	**(8,431)**
Deposits	50,770	-	**50,770**	47,368	-	**47,368**
- giro and current accounts	7,996	-	**7,966**	7,659	-	**7,659**
- savings deposits	7,041	-	**7,041**	6,424	-	**6,424**
- term deposits	35,733	-	**35,733**	33,285	-	**33,285**
Due to banks	-	4,151	**(4,151)**	-	4,196	**(4,196)**
Due to customers	-	47,054	**(47,054)**	-	43,602	**(43,602)**
Other loans	-	-	**-**	-	-	**-**
- short term loans	-	-	**-**	-	-	**-**
- long term loans	-	-	**-**	-	-	**-**
Derivative financial instruments	86	86	**-**	86	86	**-**
Interest, fees and other liabilities	2,362	-	**2,362**	1,147	-	**1,147**
Accruals and deferred income	-	206	**(206)**	-	77	**(77)**
Provisions for risks and charges	-	214	**(214)**	-	206	**(206)**
Other liabilities	-	1,464	**(1,464)**	-	408	**(408)**
Current tax liabilities	-	11	**(11)**	-	-	**-**
Total liabilities	**63,075**	**63,075**	**-**	**57,006**	**57,006**	**-**
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	1,022	1,022	**-**	860	860	**-**
Share premium	-	1,570	**(1,570)**	-	1,570	**(1,570)**
Retained earnings	6,606	-	**6,606**	5,809	-	**5,809**
Legal reserves	135	-	**135**	130	-	**130**
Other reserves	1,733	-	**1,733**	1,665	-	**1,665**
Reserves and retained earnings	-	6,911	**(6,911)**	-	6,085	**(6,085)**
Unrealised gain/(loss) from available for sale revaluation	(69)	-	**(69)**	(25)	-	**(25)**
Total shareholders' equity	**11,334**	**11,334**	**-**	**10,346**	**10,346**	**-**
Total liabilities and shareholders' equity	**74,409**	**74,409**	**-**	**67,352**	**67,352**	**-**

Appendix 1 - Supplementary forms required by local regulation | continued

Balance sheet reconciliation as at 31 December 2010 / 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**	
	2010	2009	2010	2009
1. Interest income	3,788	4,117	3,427	3,719
2. (Interest expense)	(1,588)	(2,059)	(1,465)	(1,920)
3. Net interest income	**2,200**	**2,058**	**1,962**	**1,799**
4. Fee and commission income	1,304	1,269	622	596
5. (Fee and commission expense)	(214)	(224)	(112)	(203)
6. Net fee and commission income	**1,090**	**1,045**	**510**	**393**
7. Gain/(loss) from investments in subsidiaries, associates and joint ventures	8	9	-	-
8. Gain/(loss) from trading activities	6	4	6	4
9. Gain/(loss) from embedded derivatives	-	1	-	1
10. Gain/(loss) from assets designated at fair value through profit or loss	(23)	33	(23)	33
11. Gain/(loss) from assets available for sale	18	9	15	12
12. Gain/(loss) from assets held to maturity	1	-	-	-
13. Gain/(loss) from hedging activities	-	-	-	-
14. Share of profit and loss from associates				
15. Income from other equity investments	5	5	164	205
16. Gain/(loss) from foreign exchange rate fluctuations on cash held	140	305	133	296
17. Other operating income	120	145	23	57
18. (Other operating expenses)	(435)	(342)	(255)	(236)
19. (General administrative expenses and depreciation)	(1,452)	(1,514)	(1,113)	(1,103)
20. Net Operating income	**1,678**	**1,758**	**1,422**	**1,461**
21. (Provisions)	(404)	(563)	(388)	(361)
22. Profit before income taxes	**1,274**	**1,195**	**1,034**	**1,100**
23. (Income taxes)	(252)	(235)	(174)	(173)
24. Net profit for the year	**1,022**	**960**	**860**	**927**

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 8 February 2011.

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 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 2010 (in HRK million)

	GROUP			BANK		
	per the By-law	per IFRS	Differences	per the By-law	per IFRS	Differences
Interest income	3,788	3,787	**1**	3,427	3,426	**1**
(Interest expense)	(1,588)	(1,587)	**(1)**	(1,465)	(1,464)	**(1)**
Net interest income	**2,200**	**2,200**	**-**	**1,962**	**1,962**	**-**
Fee and commission income	1,304	1,304	**-**	622	622	**-**
(Fee and commission expense)	(214)	(214)	**-**	(112)	(112)	**-**
Net fee and commission income	**1,090**	**1,090**	**-**	**510**	**510**	**-**
Gain/(loss) from investments in subsidiaries, associates, joint ventures	8	8	**-**	-	-	**-**
Gain/(loss) from trading activities	6	-	**6**	6	-	**6**
Gain/(loss) from embedded derivatives	-	-	**-**	-	-	**-**
Gain/(loss) from assets designated at fair value through profit or loss	(23)	-	**(23)**	(23)	-	**(23)**
Gain/(loss) from assets available for sale	18	-	**18**	15	-	**15**
Gain/(loss) from assets held to maturity	1	-	**1**	-	-	**-**
Income from other equity investments	5	-	**5**	164	-	**164**
Gain/(loss) from foreign exchange rates	140	-	**140**	133	-	**133**
Other operating income	120	265	**(145)**	23	317	**(294)**
(Other operating expenses)	(435)	(1,648)	**1,213**	(255)	(1,211)	**956**
(Depreciation and amortisation of property and equipment and intangible assets)	-	(237)	**237**	-	(156)	**156**
(General administrative expenses and depreciation)	(1,452)	-	**(1,452)**	(1,113)	-	**(1,113)**
(Provisions)	(404)	(404)	**-**	(388)	(388)	**-**
Profit before income taxes	**1,274**	**1,274**	**-**	**1,034**	**1,034**	**-**
(Income taxes)	(252)	(252)	**-**	(174)	(174)	**-**
Net profit for the year	**1,022**	**1,022**	**-**	**860**	**860**	**-**

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 interest 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	
	2010	2009	2010	2009
Cash flow from operating activities				
1.1. Profit before tax	1,274	1,195	1,034	1,100
1.2. Provisions for bad and doubtful debts and other provisions	391	563	388	361
1.3. Depreciation and amortization	237	292	156	173
1.4. Unrealised (gains)/losses on securities at fair value through profit or loss	13	6	13	6
1.5. (Gains)/losses from sale of property and equipment	(5)	(14)	(2)	(10)
1.6. Other (gains)/losses	70	(189)	(89)	(382)
1. Cash flows from operating activities before changes in operating assets	**1,980**	**1,853**	**1,500**	**1,248**
2.1. Deposits with Croatian National Bank	(2,727)	(71)	(2,702)	(73)
2.2. Ministry of Finance treasury bills and Croatian National Bank bills of exchange	(1,815)	841	(1,582)	966
2.3. Deposits due from banks and loans to financial institutions	(145)	202	(298)	204
2.4. Loans and advances to customers. net of write-offs	(2,402)	1,464	(2,635)	1,203
2.5. Financial instruments held for trading	-	(477)	-	(477)
2.6. Assets available for sale	(227)	376	(87)	400
2.7. Financial instruments designated at fair value through profit and loss	58	(222)	58	(222)
2.8. Other operating assets	20	(111)	31	(98)
2. Net (increase)/decrease in operating assets	**(7,238)**	**2,002**	**(7,215)**	**1,903**
Increase/(decrease) in operating liabilities				
3.1. A vista deposits	2,168	(1,660)	1,881	(1,764)
3.2. Savings and term deposits	825	2,111	753	2,139
3.3. Derivative financial liabilities and other trading liabilities	-	-	-	-
3.4. Other liabilities	(1,629)	(528)	(125)	71
3. Net increase/(decrease) in operating liabilities	**1,364**	**(77)**	**2,509**	**446**
4. Net cash flow from operating activities before income taxes paid	**(3,894)**	**3,778**	**(3,206)**	**3,597**
5. (Income taxes paid)	(206)	(338)	(97)	(251)
6. Net cash inflows/(outflows) from operating activities	**(4,100)**	**3,440**	**(3,303)**	**3,346**

Appendix 1 - Supplementary forms required by local regulation | continued

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

	GROUP		BANK	
	2010	2009	2010	2009
Cash flows from investing activities				
7.1. Purchase of property and equipment and intangible assets	(122)	(146)	(69)	(89)
7.2. Sale/(Acquisition) of subsidiaries	-	(19)	-	(19)
7.3. Repayment of assets held to maturity	231	219	204	198
7.4. Dividends received	5	5	164	205
7.5. Other inflows/(outflows) from investing activities	-	-	-	-
7. Net cash flow from investing activities	**114**	**59**	**299**	**295**
Cash flows from financing activities				
8.1. Net increase/(decrease) in loans received	648	(223)	(401)	(252)
8.2. Net increase/(decrease) in issued securities	-	-	-	-
8.3. Hybrid and subordinated instruments	-	-	-	-
8.4. Additional paid in capital	-	-	-	-
8.5. (Dividends paid)	(323)	-	(323)	-
8.6. Other inflows/(outflows) from financing activities	-	-	-	-
8. Net cash flow from financing activities	**325**	**(223)**	**(724)**	**(252)**
9. Net increase/(decrease) in cash	**(3,661)**	**3,276**	**(3,728)**	**3,389**
10. Effect of exchange rate fluctuations on cash held	14	17	14	17
11. Net increase/(decrease) in cash	**(3,647)**	**3,293**	**(3,714)**	**3,406**
12. Cash and cash equivalents at the beginning of the year	13,595	10,302	13,035	9,629
13. Cash and cash equivalents at the end of the year	9,948	13,595	9,321	13,035

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	Non-con-trolling interest	Total equity
Group								
1. Balance at 1 January 2009	**1,907**	**(76)**	**2,301**	**4,361**	**1,242**	**(134)**	**10**	**9,611**
2. Changes in accounting policies and errors	-	-	-	-	-	-	-	**-**
3. Restated balance at 1 January 2009	**1,907**	**(76)**	**2,301**	**4,361**	**1,242**	**(134)**	**10**	**9,611**
4. Sale of available-for-sale financial investments	-	-	-	-	-	(9)	-	**(9)**
5. Fair value adjustment	-	-	-	-	-	40	-	**40**
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	-	-	-	-	-	-	(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**

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	Non-controlling interest	Total equity
Group								
1. Balance at 1 January 2010	**1,907**	**(76)**	**2,311**	**5,603**	**960**	**(105)**	**-**	**10,600**
2. Changes in accounting policies and errors	-	-	-	-	-	-	-	**-**
3. Restated balance at 1 January 2010	**1,907**	**(76)**	**2,311**	**5,603**	**960**	**(105)**	**-**	**10,600**
4. Sale of available-for-sale financial investments	-	-	-	-	-	(18)	-	**(18)**
5. Fair value adjustment	-	-	-	-	-	45	-	**45**
6. Deferred tax	-	-	-	-	-	9	-	**9**
7. Other gains/(losses) recognised directly in equity	-	-	-	-	-	-	-	**-**
8. Total income and expense for the year recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**36**	**-**	**36**
9. Net profit for the year	-	-	-	-	1,022	-	-	**1,022**
10. Total income and expense for the year	**-**	**-**	**-**	**-**	**1,022**	**36**	**-**	**1,058**
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-	**-**
12. (Purchase)/sale of treasury shares	-	-	-	-	-	-	-	**-**
13. Other movements	-	-	-	-	-	-	-	**-**
14. Transfer to reserves	-	-	(367)	1,003	(637)	-	-	**(1)**
15. Dividends paid	-	-	-	-	(323)	-	-	**(323)**
16. Distribution of profit	**-**	**-**	**(367)**	**1,003**	**(960)**	**-**	**-**	**(324)**
17. Balance at 31 December 2010	**1,907**	**(76)**	**1,944**	**6,606**	**1,022**	**(69)**	**-**	**11,334**

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	-	-	-	-	-	19	**19**
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**

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 2010	**1,907**	**(76)**	**2,237**	**4,839**	**927**	**(32)**	**9,802**
2. Changes in accounting policies and errors	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3. Restated balance at 1 January 2010	1,907	(76)	2,237	4,839	927	(32)	**9,802**
4. Sale of available-for-sale financial investments	-	-	-	-	-	(15)	**(15)**
5. Fair value adjustment	-	-	-	-	-	23	**23**
6. Deferred tax	-	-	-	-	-	(1)	**(1)**
7. Other gains/(losses) recognised directly in equity	-	-	-	-	-	-	**-**
8. Total income and expense for the year recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**7**	**7**
9. Net profit for the year	-	-	-	-	860	-	**860**
10. Total income and expense for the year	**-**	**-**	**-**	**-**	**860**	**7**	**867**
11. Increase/(decrease) of share capital	-	-	-	-	-	-	**-**
12. (Purchase)/sale of treasury shares	-	-	-	-	-	-	**-**
13. Other movements	-	-	(366)	366	-	-	**-**
14. Transfer to reserves	-	-	-	604	(604)	-	**-**
15. Dividends paid	-	-	-	-	(323)	-	**(323)**
16. Distribution of profit	**-**	**-**	**-**	**604**	**(927)**	**-**	**(323)**
17. Balance at 31 December 2010	**1,907**	**(76)**	**1,871**	**5,809**	**860**	**(25)**	**10,346**

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	
	2010	2009	2010	2009
Interest income	520	561	470	507
Interest expense	(218)	(280)	(201)	(261)
Net interest income	**302**	**281**	**269**	**246**
Fee and commission income	179	172	85	81
Fee and commission expense	(29)	(31)	(15)	(28)
Net fee and commission income	**150**	**141**	**70**	**53**
Other operating income	36	68	44	83
Operating income	**488**	**490**	**383**	**382**
Provisions	(55)	(76)	(53)	(49)
Other operating expenses	(226)	(212)	(167)	(159)
Depreciation and amortisation of property and equipment and intangible assets	(33)	(40)	(21)	(24)
Share of profit and loss from associates	1	1	-	-
Profit before income taxes	**175**	**163**	**142**	**150**
Income taxes	(35)	(32)	(24)	(24)
Net profit for the year	**140**	**131**	**118**	**126**
Attributable to:				
Equity holders of the parent	140	131	118	126
	140	**131**	**118**	**126**

The income statement items were translated from the measurement currency (HRK) to the Euro at the average exchange rate in 2010 (1 EUR = 7.285692 HRK) and in 2009 (1 EUR = 7.339554 HRK).

Appendix 2 - Supplementary financial statements in EUR (unaudited)

Statement of financial position (in EUR million)

	GROUP		BANK	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Assets				
Cash and current accounts with other banks	308	424	283	384
Balances with the Croatian National Bank	1,031	669	998	639
Financial assets at fair value through profit or loss	380	178	380	178
Derivative financial assets	-	1	-	1
Due from banks	1,090	1,469	1,050	1,434
Loans and advances to customers	6,689	6,481	6,034	5,785
Assets available for sale	201	137	107	97
Held to maturity investments	88	122	52	81
Investments in subsidiaries and associates	17	18	53	54
Intangible assets and goodwill	20	21	9	9
Property and equipment	166	179	106	114
Investment property	2	2	1	2
Other assets	54	62	28	35
Deferred tax assets	29	29	19	18
Total assets	**10,075**	**9,792**	**9,120**	**8,831**

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 2010 (1 EUR = 7.385173 HRK) and as at 31 December 2009 (1 EUR = 7.306199 HRK).

Statement of financial position / continued (in EUR million)

	GROUP		BANK	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Liabilities				
Due to banks	562	441	569	454
Due to customers	6,370	6,166	5,904	5,736
Derivative financial liabilities	12	2	12	2
Other borrowed funds	1,339	1,462	1,142	1,208
Other liabilities	199	212	54	53
Accruals and deferred income	28	27	10	11
Provisions for risks and charges	29	29	28	26
Liabilities for current tax	1	2	-	-
Total liabilities	**8,540**	**8,341**	**7,719**	**7,490**
Equity attributable to equity holders of the parent				
Share capital	250	250	250	250
Treasury shares	(10)	(10)	(10)	(10)
Share premium	213	215	213	215
Reserves and retained earnings	942	865	830	760
Profit and loss attributable to equity holders of the parent entity	140	131	118	126
Total shareholders' equity	**1,535**	**1,451**	**1,401**	**1,341**
Total liabilities and shareholders' equity	**10,075**	**9,792**	**9,120**	**8,831**

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 2010 (1 EUR = 7.385173 HRK) and as at 31 December 2009 (1 EUR = 7.306199 HRK).

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