PRIVREDNA BANKA ZAGREB

Annual Report 2011

PBZ, a bank of INTESA SANPAOLO

PBZ

Annual Report 2011

Moderna galerija Zagreb - Exhibition: Šime Vulas Retrospective, Way of the Cross, 1976.

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Who we are and what we do

We are the leading Croatian financial services group engaged in retail and corporate banking, credit cards, investment banking, asset management, private banking, leasing and real estate activities and investment management services. We operate in the entire area of Croatia and employ over 4 thousand people.
Our mission is to permanently and effectively 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 provision of high-quality service in all of our activities to the benefit of our clients, of the community, of our stakeholders and employees.

1,588 thousand
TOTAL CUSTOMERS

HRK 53.6 billion
TOTAL CUSTOMER LOANS

705 thousand
CURRENT ACCOUNTS

HRK 10.7 billion
TOTAL HOUSING LOANS

HRK 65.6 billion
TOTAL CUSTOMER FUNDS*

2,260 thousand
TOTAL CARDS ISSUED

HRK 2 billion
ASSETS UNDER MANAGEMENT

27,272
EFT POS

333 thousand
INTERNET BANKING USERS

655
ATM MACHINES

217
TOTAL BRANCHES

92
DAY AND NIGHT VAULTS

** Comprises customers deposits, assets under management and assets in custody*

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 2011 in English language. This report is also published in Croatian language 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 2011 have been used to translate balances in foreign currency on that date:

CHF 1 = HRK 6.194817
USD 1 = HRK 5.819940
EUR 1 = HRK 7.530420

Five year summary and financial highlights

(in HRK milion)	2011	2010	2009	2008	2007
Group					
Income statement and statement of financial position					
Total gross revenue	5,569	5,356	5,888	6,001	5,350
Net interest income	2,480	2,200	2,060	2,185	1,918
Net operating income	3,874	3,555	3,607	3,697	3,405
Net profit for the year	1,268	1,022	960	1,242	1,141
Total assets	74,154	74,409	71,541	71,227	67,550
Loans and advances to customers	51,398	49,418	47,356	46,032	40,147
Due to customers	47,431	47,054	45,049	44,591	43,099
Shareholders' equity	12,322	11,334	10,600	9,611	8,503
Other data (as per management accounts)					
Return on average equity	10.86%	9.38%	10.09%	14.84%	15.45%
Return on average assets	1.61%	1.35%	1.29%	1.71%	1.73%
Assets per employee	17.9	18.3	17.2	15.7	15.3
Cost income ratio	44.00%	47.45%	47.18%	49.78%	50.51%

	2011	2010	2009	2008	2007
Bank					
Income statement and statement of financial position					
Total gross revenue	4,591	4,365	4,921	4,851	4,263
Net interest income	2,268	1,962	1,799	1,941	1,697
Net operating income	3,146	2,789	2,800	2,774	2,474
Net profit for the year	1,136	860	927	1,100	932
Total assets	67,481	67,352	64,519	63,740	61,974
Loans and advances to customers	46,691	44,585	42,271	41,715	36,436
Due to customers	44,081	43,602	41,903	40,935	39,875
Shareholders' equity	11,194	10,346	9,802	8,870	7,847
Other data (as per management accounts)					
Return on average equity	10.65%	8.61%	10.45%	13.94%	13.35%
Return on average assets	1.61%	1.28%	1.41%	1.69%	1.56%
Assets per employee	19.0	19.4	18.1	17.1	17.1
Cost income ratio	41.96%	46.02%	44.49%	46.79%	48.90%

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 2011. It was a good year for Privredna banka Zagreb and its Group in terms of market positioning and the financial results. This performance is the consequence of having a well-grounded and thoughtful strategy, and executing it well. This strategy has been appropriately aligned with our parent bank Intesa Sanpaolo and our strategic partner the European Bank for Reconstruction and Development.
During the second half of 2011, conditions in the global economy were more difficult than at any other time since the onset of the global financial crisis in 2008. The outlook in the euro area deteriorated sharply. Consequently, financial markets experienced highly volatile conditions as investors retreated from riskier assets and turned their attention to relatively more conservative assets such as bonds and specific collateralised obligations. Nevertheless, high volatility on the market reflected the fear over exposure to certain euro area economies, access to stable liquidity sources and capital adequacy of the banking industry in general.
Inevitably, the Croatian economy was negatively affected by these conditions as it has not yet recovered from the first wave of the crisis which occurred in late 2008. This impact has persisted in all successive years and continues to weigh on the domestic economy. As a result, our forecasts suggest that the Croatian economy, in real terms, have registered a year of zero growth and unfortunately expect another weak output in 2012 with 1 percent decline of GDP due to the worsening external factors and suppressed domestic demand. The average inflation rate in 2011 was 2.3 percent , although the inflationary pressures from demand side were rather weak mostly due to weak consumption.
Moreover, in an attempt to consolidate the public finances, the newly elected Croatian Government already commenced with the structural changes in the economy announced last year, which included a number of fiscal measures. In order to reduce the employment cost, evidenced in lower health and pension contributions, and to devoid the corporate sector from other indirect fiscal charges, new VAT rates were introduced. General VAT rate was increased from 23 percent to 25 percent, which has applied from 1 March 2012.
On a positive side, in the last quarter of 2011, Croatia completed the negotiations with the European Union and will become a full member of the association on 1 July 2013. This is indeed a reward and praise for all the long-standing efforts of all Croatian Governments since 2004 when the country was given a candidate status for the membership.
Notwithstanding the harsh macroeconomic conditions in the country, monetary policy remained mostly unchanged throughout 2011. The only notable change made by the Croatian National Bank was evidenced twice through the tightening of the obligatory reserve rate from 13 per cent to 15 per cent. This monetary measure, together with external adverse factors, has led to tighter liquidity in the banking system.
Nevertheless, 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 long-term funding, and its shareholders' equity.
Irrespective of the challenging environment, the PBZ Group managed to achieve excellent results in 2011. We can be truly proud on the strength and resiliency we have proven in such circumstances. We have succeeded in meeting our goals and increasing the value of our bank.
Total gross revenue for the PBZ Group exceeded HRK 5.5 billion. Consolidated net operating income amounted to HRK 3.9 billion, whereas net profit recorded HRK 1.27 billion. Our cost/income ratio, a key measure of our efficiency, closed once again below 50 per cent, while the ROAE reached 10.86 per cent. These are satisfactory figures since they represent a

satisfactory figures since they represent a consistently strong performance over the last five years.
In 2011, 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 a strong customer base of over 1.5 million, with over 698 thousand current accounts and 220 branches.
Looking ahead, the present condition of the global economy and the weak domestic demand coupled with weaker foreign direct investments, suggest the environment in 2012 in Croatia will still be challenging as in recent years. Therefore, a continued focus by management and the Board on managing asset quality, maintaining sufficient liquidity as well as an active monitoring of operating costs will be crucial.
We have the ability to overcome near-term challenges. Furthermore, we are well positioned to earn the benefits from present and future trends in growing integration of the Croatian market into the global financial markets. Given our business model, strengthened by the alliance with Intesa Sanpaolo and the EBRD, these trends present significant growth opportunity for us.
On behalf of the Supervisory Board, I would like to thank to the Management 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 2011

In 2011 the Supervisory Board of the Bank performed its duties in conformity with the law, the Bank's Articles of Association, as well as the Rules of Procedure of the Supervisory Board of the Bank.
During 2011, the Supervisory Board held four regular meetings and eight meetings by letter in order to make the decisions on the issues that had to be resolved without delay as quickly as possible. In order to prepare the decisions that fall within its competence and supervise the implementation of the previously 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 2011 the Audit Committee held four meetings at which it discussed the processes within its competence.
In accordance with its legal responsibility, the Supervisory Board of the Bank has examined the Annual Financial Statements and Consolidated Annual Financial Statements of the Bank for 2011, the Report on the Operation of the Bank and its Subsidiaries, and Draft Decision on the Allocation of the Bank's Profit Earned in 2011, that were all submitted by the Management Board of the Bank. The Supervisory Board made no remarks on the submitted reports.
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 impartially disclosed the assets and the financial status of the Bank and the PBZ Group, as was also confirmed by the external auditor Ernst & Young d.o.o., Zagreb, that has audited the financial statements for 2011.
Since the Supervisory Board has given its consent regarding the Annual Financial Statements and Consolidated Annual Financial Statements of the Bank for 2011, the said financial statements are considered to have been confirmed by the Management Board and by the Supervisory Board of Privredna banka Zagreb, pursuant to the provisions of Art. 300.d of the Companies Act.
The Supervisory Board of the Bank accepted the report of the Management Board on the operation of Privredna banka Zagreb and its subsidiaries and it agreed that HRK 568,401,870.40 of the Bank's net profit totalling HRK 1,136,335,824.38, earned in the year that ended on 31 December 2011, should be distributed by a pay-out of dividends (or HRK 29.90 per share) whereas the reminder should be allocated to retained earnings.

Yours faithfully

26 March 2012
Dr. György Surányi

Moderna galerija Zagreb - Exhibition: Ljubo Babić Anthology, Exhibition Layout

Management Board report of the Status of the Bank

Dear shareholders,
I am pleased to present to you with the Annual Report and Financial Statements of Privredna banka Zagreb for the year that ended on 31 December 2011.
When 2011 began, we had hoped that the macroeconomic and financial environment in the region and in Croatia would show gradual improvement compared to previous years. As it turned out, 2011 was yet another year of rising challenges for the financial sector and the economy in general. As the outlook in the euro area deteriorated sharply in the second half of 2011, the Croatian economy grew increasingly affected by the weakness in the European Union and the region. According to the preliminary estimates, the growth of the domestic economy was stagnant, registering zero growth.
In this challenging environment, Privredna banka Zagreb and its subsidiaries managed to achieve excellent business results. I am particularly proud of the fact that we demonstrated strength and endurance as conditions became more difficult in the second half of the year.
Together with our strategic partners, Intesa Sanpaolo and the European Bank for Reconstruction and Development, the PBZ Group kept a strong position in the lending and deposit market while focusing on the quality of products and services to our clients.

Consolidated financial results of the Bank
Our consolidated net profits for 2011 amounted to HRK 1,268 million, an increase of 24.1 per cent compared to 2010. This remarkable result was achieved by the right mix of slightly higher interest income (due to somewhat larger interest-bearing assets in 2011) and lower interest expense as a result of a more efficient funding management. We benefited from the strategic decisions we took in response to the onset of the crisis that had commenced in 2008. We have thus been constantly balancing our earnings mix, by putting emphasis on core banking operations, while strengthening our capital and securing stable liquidity resources that have helped us reduce our cost of funding. This strategy has proven to be sound and profitable.
Non-interest income has also recorded positive results. Net fee and commission income was higher by 2 per cent on increased volumes from card operations and on domestic retail payments. Bank assurance segment also took off both compared to 2010 and to our operating plan.
In addition to this, good cost containment accompanied with adequate credit risk mitigation contributed to an increase of net profit after taxes. As a consequence, earnings per share of the Group rose from HRK 53.8 in 2010 to HRK 66.7.
The Group's return on average equity in 2011 was 10.86 per cent, while return on average assets was 1.61 per cent, with both indicators at the similar levels as the year before. Assets per employee remained stable, whereas the cost to income ratio, according to the consolidated financial statements, remained significantly below the 50 per cent threshold (44 per cent).

The balance sheet of the PBZ Group is basically at the same level as in 2010, amounting to HRK 74.2 billion. Loans and advances to customers are the main component of our balance sheet, which rose by 4.1 per cent mostly due to appreciation of foreign currencies against the kuna and to a smaller extent due to new advances to corporate and retail clients. Our loan portfolio is well diversified and almost equally spread between retail clients on the one hand and corporate and public entities on the other. Non-performing loans, although nominally higher than in 2010, have been adequately provided and monitored. Great customer service also means standing by our customers during tough times. Our comprehensive programmes, designed to help customers affected by the financial crisis, have now assisted nearly 9,400 customers in their 3 years of existence.
The growth of the balance sheet was mainly financed by the customers' deposits, mostly retail and SME. The capital and liquidity positions are very satisfactory. Shareholders' equity increased by 8.7 per cent to HRK 12.3 billion, whereas Tier Total capital ratio stands at 21.6 per cent, which provides stable and substantial cushion for future activities.
The Group's capital management policies and practices, among other tools, are based on an internal capital adequacy assessment process (ICAAP). In this process, the Group regularly identifies its risks and determines the amount of free available capital in stress scenarios. I am pleased to report that PBZ Group is one of the leading, well capitalised banking groups in the country, with more than sufficient capital buffer compared to internal capital requirement in a stress scenario.

Unconsolidated financial results of the Bank

In 2011, PBZ Bank recorded a net profit of HRK 1,136 million. Net interest income was the main driver of the said profit increase, rising mainly due to a good containment of cost of funding. Nevertheless, our achievement over the past year demonstrates the strength of our retail-focused business mix, as well as the unique client-driven model of our large corporate and SME banking. This strategy, combined with an efficient interest expense management, allowed us to outperform despite flat economic growth and tightened regulatory framework.
On the cost side of the income statement, our operating expenses and other costs registered a moderate increase that was largely under control. Due to carefully managed costs in line with our strategic plan, we were able to maintain our cost to income ratio well below 50 per cent (44 per cent).
The total balance sheet of the Bank increased by mere 0.2 per cent and it reached HRK 67.5 billion. Loans and advances to customers contributed the most to this increase, rising by more than 4.7 per cent and thus surpassing HRK 46.7 billion. In terms of lending activity in 2011, key areas with the largest volumes were public sector, large corporate and retail segments. Growth in assets was supported by an increase in customers' deposits, largely retail. Total deposits in 2011 rose by 1.1 per cent. If we consider the total structure of the balance sheet, customer deposits account for 65.3 per cent. The total loan to deposit ratio of the Bank equals 106 per cent at the end of 2011, which outlines the stability and conservative nature of our operations.

Briefly on the Bank's subsidiaries

All subsidiaries or associates of the PBZ Bank in 2011 also recorded positive financial results. In that view, Međimurska banka achieved a net profit of HRK 32.5 million, PBZ Card HRK 221 million, PBZ Leasing HRK 16.2 million, PBZ Stambena štedionica HRK 9.5 million, PBZ Invest HRK 8.5 million, PBZ Nekretnine HRK 92 thousand, whereas PBZ Croatia osiguranje, our pension fund management company, earned a net profit of HRK 29.1 million. ISP Card, an associated company established in 2009, ended the year in a positive note with the net profit of HRK 10.2 million.

Outlook

The second half of 2011 was marked by increasing concerns and unrest in the financial markets. The European debt crisis that had started in southern Europe escalated and affected all other EU countries. It is, therefore, quite likely that the uncertainty will continue in 2012 while the foundation for any full-fledged economic recovery appears weak. With these difficult external developments, we also expect a challenging economic environment in Croatia, currently marked by a stagnant industrial production and suppressed domestic demand. The short-term economic outlook is highly dependent on decisive solutions of the new Croatian Government, which pledged to pursue its widely announced policy of structural reforms and fiscal consolidation.

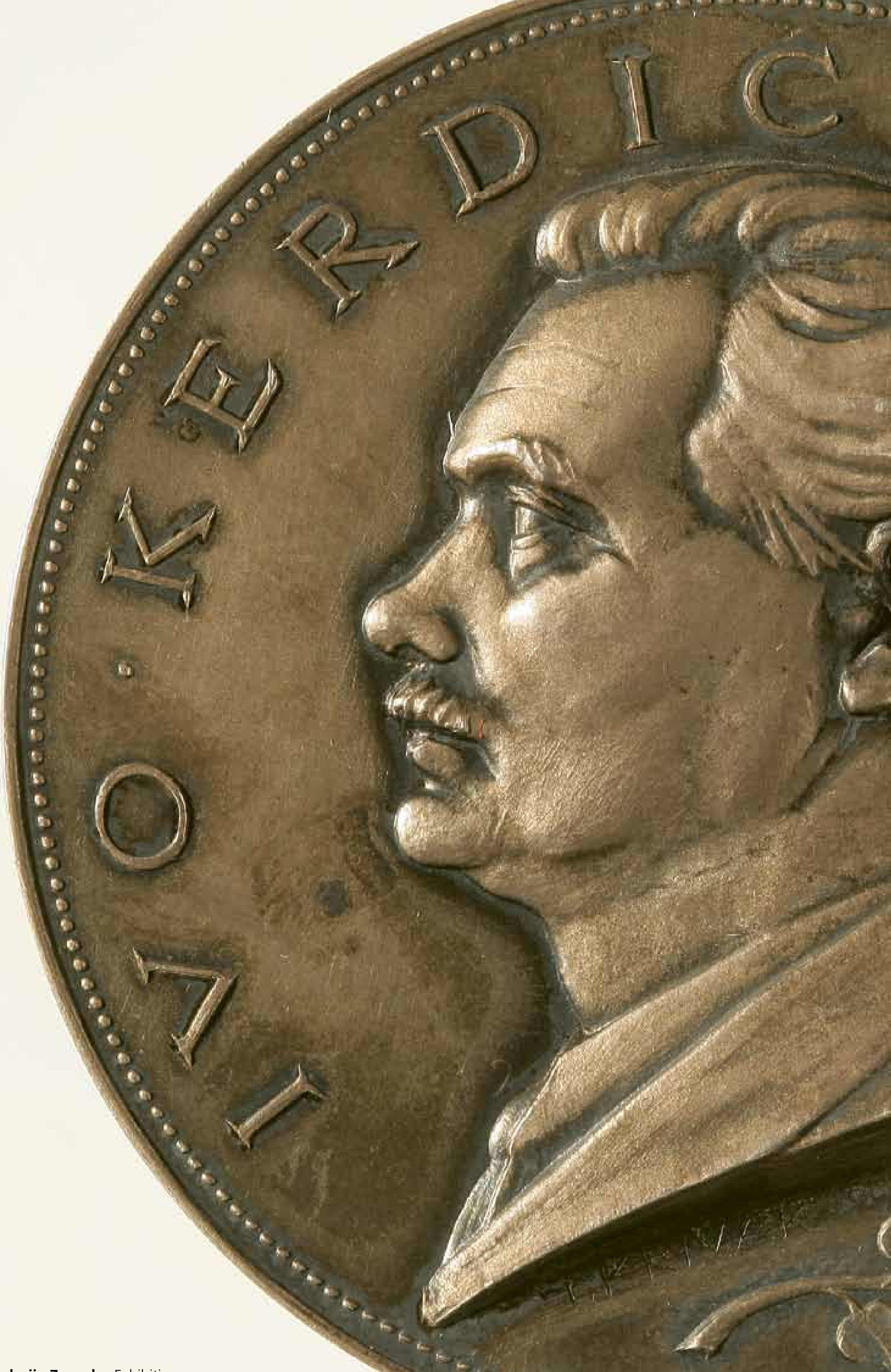
The focus of the PBZ Group in 2012 will be to stay close to our customers and clients; effectively manage our risks; and maintain strategic momentum by capitalising on our sound balance sheet while adhering to core banking activities at favourable prices. That is where we will be focusing our energy throughout 2012 and together with the right diversification, I am confident we will once again achieve sound financial results. With the goal of further consolidating its banking operations by maintaining nationwide presence, the Management Board of Privredna banka Zagreb proposed and the Supervisory Board approved in February 2012 an integration of Međimurska banka d.d., Čakovec into PBZ with effective date on 30 November 2012. We intend to strengthen our position in northern Croatia by providing further investments and helping our clients to achieve their business goals. We will continue paying particular attention to this part of the country by establishing a new regional branch headquartered in Čakovec.

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 2011. Also, I would like to thank all 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.

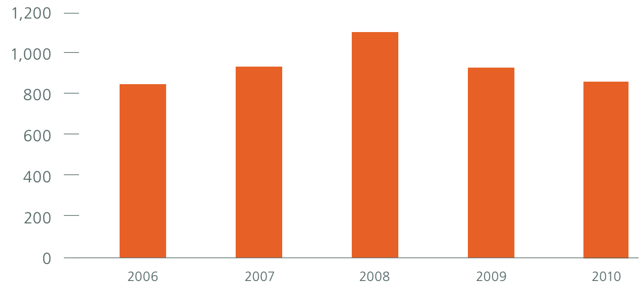
Božo Prka, M.S.
President of the Management Board

26 March 2012

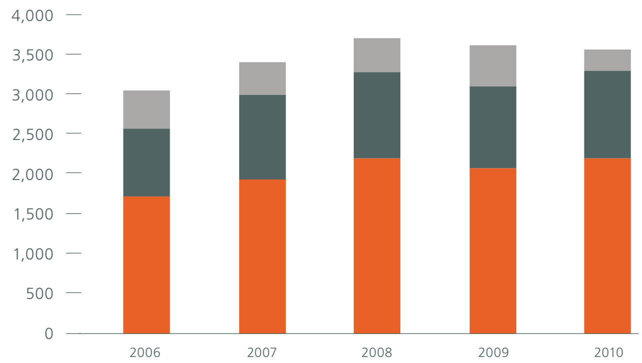


Moderna galerija Zagreb - Exhibition:
Ivo Kerdić, Selfportrait, 1941.

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

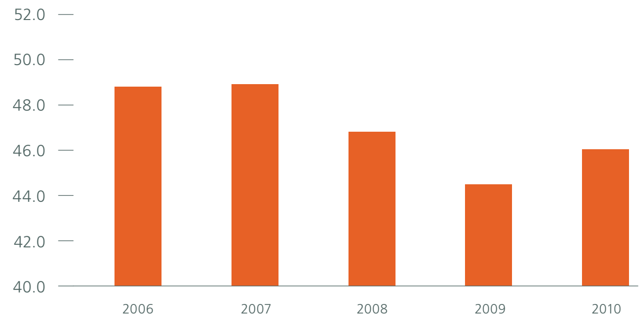


Net profit for the year - Bank
in HRK million



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

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 2011 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 2011 Privredna banka Zagreb recorded respectable 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 1,376 million, while net profit for the year of HRK 1,136 million represents a growth of 31.2 percent compared to the previous year. This result comes from a moderate growth of loan portfolio, especially to corporate clients, lower financing costs, adequate risk management and cost consumption.

The Bank realised a gross revenue of HRK 4,591 million, which includes HRK 3,599 million of interest income, HRK 624 million of fees and commissions and HRK 368 million of other operating income. During 2011 the Bank managed to record a net interest income of 2,268 representing a 16 percent increase compared to the previous year without increasing active interest rate due to strong reduction in cost of funding.

Due to innovative offerings of non-interest related products and efficient business processes net fee and commission income reached the level of HRK 510 million, in line with 2010.

In spite difficult market condition, PBZ's management strategy, combining good revenue drive and cost containment, enabled the Bank to record HRK 3,146 million in operating income, 12.8 percent above the year before. Moreover, PBZ in 2011 adequately managed the risks it is exposed to, in particular to the credit risk which allows it to anticipate all essential changes in the portfolio and consequently make appropriate provisions for the coverage of losses. Throughout the year the Bank set aside HRK 353 million for impairments and loss provisions.

Other operating expenses amounted to HRK 1,276 million, slightly above 2010.

Cost income ratio was 41.96 percent, below 50 percent threshold.

For 2011 the Bank recorded a 0.2 percent increase in total assets, which at year-end amounted to HRK 67 billion. Loans and advances to customers represent the most significant component of the financial position with 69 percent of the total balance. Other important items include due from banks with 11 percent of the total assets, as well as balances with the CNB with 10 percent share of the total assets. At the year end, PBZ held HRK 8,788 million of cash and cash equivalents, which indicates a robust liquidity position of the Bank.

Total liabilities were HRK 56 billion at the end of 2011. Customers' deposits represent the main source of funding with 65 percent of the total liability, whereas other borrowed funds represent 12 percent of the total liability of the Bank. Total shareholders' equity at the end of 2011 stood at HRK 11 billion, 17 percent above previous year.

Međimurska banka

Međimurska banka shares the burden of gravity of the economic situation in the regional framework of Međimurje and partly Varaždin County. Despite of increased caution in taking risks and a significant increase in costs arising from the impairment of financial assets, the Bank's profit after tax for 2011 amounted to HRK 33 million, which represents a 13 percent decrease compared to the previous year. Earnings per share amounted to HRK 101.5. Return on equity in 2011 reached 9.7 percent and the return on assets reached 1.1 percent.

Due to our clients' confidence and the consequent growth of deposit base by 3 percent or HRK 78 million, the decline of the total balance sheet was moderate, 3 percent or HRK 79 million. With regard to the total increase of deposits, the amount of HRK 69 million refers to the increase of time deposits. Loan growth of 1 percent was recorded in the corporate segment and it was used to finance working capital and to maintain liquidity for manufacturing clients. Following the decreasing trend in net loans, interest income was reduced by 5 percent. The decrease in interest expense of 10 percent was influenced by the return of loan funding and reduced interest rates on deposit funding. Net interest margin continued its downward trend and amounted to 3 percent at the end of the year. Net non-interest income grew by 3 percent compared to 2010, mostly in payments, while the customers' caution in spending caused a decline in revenue from card transactions.

Finally, after many years of successful business collaboration and membership in the PBZ Group, Međimurska banka and Privredna banka Zagreb have launched the merger of Međimurska banka into Privredna banka Zagreb. This will strengthen the position and importance of the PBZ Group in Međimurje County, and thus enable further substantial investments in banking products and services in order to become more efficient, competitive and excellent in providing services to customers. We believe that the merger into PBZ that has a wide range of products and services will have a positive effect on the overall business with customers and the wider local community where we operate.

PBZ Card

PBZ Card is the national leader in providing charge and credit card services to retail clients, small businesses and corporations, along with a merchant services business which includes signing merchants to accept cards. The company also continues to offer a full range of travel services, including airfares, hotels, cruises and full vacation packages. In recent years, the company has focused its efforts on increasing the use of cards for everyday spending and also continued its mission to achieve that cards are accepted even in industries where cash is the predominant form of payment. Also, a merchant satisfaction is a key goal of merchant services business. The company focuses on understanding and addressing factors that influence merchant satisfaction, including developing and executing innovative programmes that increase card usage; using technology resources and expanding the range of services that help them meet their business goals.

The company's results for 2011 continued to reflect strong spending growth and during the year, card member spending volumes grew despite a challenging economic environment and comparison to a relatively strong performance in the year before. Net operating margin for 2011 reached 449 million, 2 percent increase compared to 2010. Main contributors to these results were fees charged to merchants, revenue earned from annual card membership fees and travel commissions and fees.

Total operating costs reached 157 million, which is in line with the previous year. In addition to funding and operating costs, other major expense categories are related to marketing and reward programmes that add new cardmembers and promote cardmember loyalty and spending. Net profit for the year amounted to HRK 221 million, which makes the company second most profitable segment of the PBZ Group. Total assets in 2011 amounted to 2 billion, which represents a 4 percent increase compared to 2010.

The results above met or exceeded the company's targets and PBZ Card will continue its business model which focuses on generating revenues primarily by stimulating spending by cards and investing in greater value-added services for merchants and cardmembers.

PBZ Leasing

PBZ Leasing is the leading Croatian company engaged in lease transactions with clients. The Company had a good year, especially considering the economic developments that have significantly influenced the Croatian leasing industry. Its net profit for the year amounted to HRK 16 million, which is a 26 percent decrease compared to the previous year. This result was mainly driven by lower interest spread which was affected by higher financing costs, decrease in volume of financial leasing portfolio and lower rental income from operating leasing portfolio. Total portfolio of the Company comprises of assets in operating leases of HRK 241 million and receivables from finance leases of HRK 825 million at end of 2011.

The business activities of PBZ Leasing in 2012 will be focused on ensuring balanced and steady growth of its balance sheet. PBZ Leasing is committed to maintain its market share and improve its range of products and services.

PBZ Nekretnine

PBZ Nekretnine in 2011 continues to be affected by the economic developments in Croatia, especially in the real estate market. Nevertheless, PBZ Nekretnine maintained its presence on the real estate market by realising more than 5.2 thousand appraisals, which is 7 percent more than the year before.

During 2012, 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 the whole country.

PBZ Invest

PBZ Invest is a well-recognised and highly respectable fund management company in Croatia.

PBZ Invest's net profit for the year reached more than HRK 8 million showing evidence of recovery, but well below the pre-crisis levels. Total amount of assets invested through investment funds under the Company's management reached HRK 2 billion. Furthermore, total number of clients increased by 1 percent, reaching 38.6 thousand clients.

Its development strategy for 2012 will be oriented at maintaining its status within investment public in the country as well as attracting new investors. Outlook for 2012 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 the PBZ Group. Finally, it is important to stress that PBZ Invest participates in the "Regional Hub" project of Intesa Sanpaolo aimed at international partnership of investment fund management companies within the ISP Group in the region.

PBZ Stambena štedionica

In 2011 net profit of PBZ Stambena štedionica reached HRK 10 million, which represents a HRK 7 million decrease compared to the year before. Components that drove this decline of net profit include lower net interest income resulting from higher interest expenses and higher provisions reserved.

By means of the PBZ's large branch network and through its own sales channels, PBZ Stambena štedionica reached more than 115 thousand clients at the end of 2011.

On 31 December 2011, PBZ Stambena štedionica reached HRK 1.803 million in total assets.

The business activities of PBZ Stambena štedionica throughout 2012 will continue to be oriented at keeping those depositors whose savings contracts are about to expire and by attracting new clients. The company also expects a large number of present customers who meet the set criteria to take housing loans in 2012, in accordance with the terms of contract. Finally, the company will be focused at maintaining targeted profitability levels.

PBZ Croatia osiguranje

PBZ Croatia osiguranje continues to achieve positive financial results. In 2011 the company reached a respectable growth in net profit of HRK 29 million, which is 11 percent higher than the result in 2010. At the same time, cost income ratio stands at 26.2 percent which is lower comparing to 2010 due to new cost by REGOS. Main generators of this growth were higher net profit from fund management accountable for HRK 2 million and operating income accountable for nearly HRK 4 million.

Total assets on 31 December 2011 reached HRK 142 million, which represents a 5 percent growth.

In 2011, PBZ Croatia osiguranje increased the number of its fund members from 278 thousand in 2010 to nearly 286 thousand in 2011, 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 2012 will be oriented at maintaining its status within the general public in the country as well as attracting new members.

Intesa Sanpaolo Card Zagreb

On a consolidated level, Intesa Sanpaolo Card Zagreb recorded profit before income taxes of HRK 12 million, while net profit for the year amounted to HRK 10 million.

Total assets on 31 December 2011 reached HRK 292 million.

Financial highlights of the PBZ Group

On a consolidated level Group recorded profit before income taxes of HRK 1,581 million, while net profit for the year amounted to HRK 1,268 million which represents an increase of 24 percent compared to the previous year.

By presenting more detailed figures, we may emphasise that in 2011 PBZ Group recorded an interest income amounting to HRK 3,935 million, which compared to 2010 represents a 4 percent growth. At the same time, the Group reported lower interest expenses amounting to HRK 132 million, or 8 percent less compared to the year before. This is a result of efficient management of financing costs by anticipating the possibility of lower financing costs and timely refinancing of its obligations with the parent bank. Given all of the above, PBZ Group recorded a net interest income of HRK 2,480 million, which shows an annual growth of 13 percent.

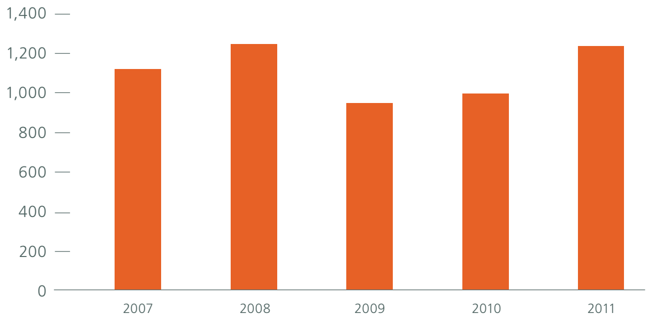
As for the non-interest operating income, PBZ Group recorded a net fee and commission income of HRK 1,112 million, which constitutes a 2 percent growth compared to the figures from 2010. Such a result of the Group is due to the higher income earned from credit card operations, payment transactions and fees charged for the use of the internet, phone and mobile banking.

PBZ Group adequately manages the risks it is exposed to, in particular the credit risk which allows it to anticipate all essential changes in the portfolio and consequently make appropriate provisions for the coverage of losses. Throughout the year the Group set aside HRK 369 million for impairments and loss provisions.

Other operating expenses of the PBZ Group have recorded a 5 percent increase compared to the last year's figures. During the last several years, the Group increased its efforts in efficient cost containment and rationalisation of business processes at all levels. The result of such activities is manifested in the adequate operating expenses to operating income ratio, which stood at 44 percent in 2011.

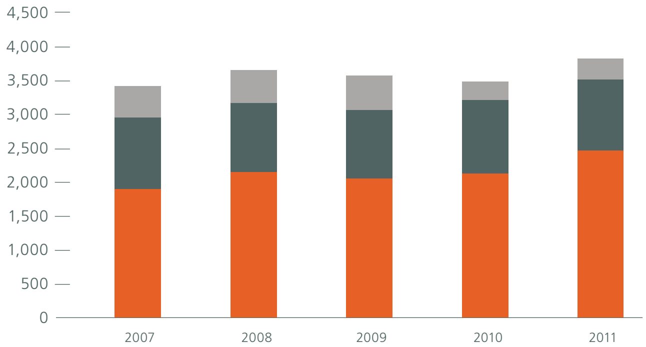
At the end of the reporting period, the balance sheet of the PBZ Group amounted to HRK 74 billion. Loans and advanced to customers account for 69 percent of the

Net profit for the year - Group
in HRK million



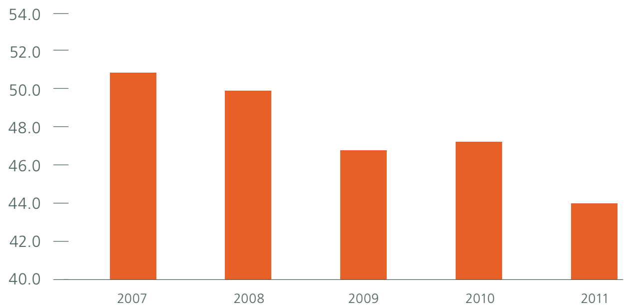
Net operating income - Group
in HRK million

- 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)	2011	2010
Banking	3,269	2,915
Card services	637	610
Leasing	111	140
Other financial services	51	54
Non-financial services	8	14
Consolidation adjustments	(202)	(178)
Operating income	**3,874**	**3,555**

Group's assets. At the end of 2011, loans and advances to customers stood at HRK 51 billion, which accounts for a growth of HRK 2 billion, or 4 percent compared to the last year's figures. Such a moderate growth was realised without an increase in the interest rates earned. The share of the balance with the Croatian National Bank accounts for 9 percent of the Group's total assets, followed by the cash and current accounts with other banks with a share of 4 percent. On the liabilities side, the total shareholders' equity has recorded a growth of 9 percent reaching a total of HRK 12 billion. The deposits to customers of PBZ Group account for 64 percent of the total liabilities and are followed by the shareholders' equity with a share of 17 percent as well as the other borrowed funds with a share of 13 percent.
Below we provide an overview of business segments of the PBZ Group presented per core lines of business of the Group members.
As apparent from the bellow table, Banking segment is the main source of the Group's profit (Privredna banka Zagreb and Međimurska banka collectively). Banking segment, on aggregate, continues to be a strongest contributor to the consolidated results. It's operating income reached HRK 3,269 million. The major individual contribution to results of the Group was realised by Privredna banka Zagreb. Net profit of the Bank amounted to HRK 1,136 million (2010: HRK 860 million). Subsidiaries and associates contributed by HRK 305 million (2010: HRK 306 million) to the consolidated profit of the Group.

Božo Prka, M.S.

26 March 2012
President of the Management Board

Moderna galerija Zagreb - Exhibition:
Ljubo Babić Anthology, Seaside Landscape

Review of the international and Croatian economy in 2011

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 2011. This should help understand the results from a more objective perspective.

There is no doubt that, if economic developments were considered, many would simply like to forget 2011. Not only in Croatia, but also in the world, and especially in the euro area countries. The environment was extremely unfavourable for the Croatian economy. This was primarily so because our main trading and economic partner, i.e. the economic zone we aspire to join - the euro area, has experienced a number of very notable shocks. The (public) debt crisis continued to be a major problem, with a year-round speculations about the disintegration of the euro area (with immense consequences for the whole societies), the Greek bankruptcy, and in short - about the negative outlook for that economic and monetary union. According to the available information in early 2012, the worst scenario has been avoided, but the very fact that both the markets and the media were very pessimistic had a negative impact on our economy, and consequently on the operations of banks. Namely, the external climate has had a negative impact on Croatia through the following transmission channels:

1. trade - there has been a decline in demand for our export products (compared with the one that would have existed had the euro area grown at "normal rates"),
2. capital - since the beginning of the crisis, foreign investments and borrowing from abroad have decreased significantly. The Croatian economic growth in the last decade could be largely attributed to external borrowing i.e. direct foreign investments that fell short this time,
3. contagion - due to changes in perception of risk across the region, risk premiums on investments and borrowing in Croatia have increased significantly (by about 300 basis points in 2011), even though the official credit rating has not changed. This implies a much more expensive refinancing of the total external debt, which, as we remember, has exceeded 100 percent of GDP. Therefore, it is not surprising, in economic terms, that such conditions failed to yield any growth, and that such a business environment was not favourable for the operation of banks.

The year was not favourable for the economy and banks not even in terms of politics and reforms. The largest part of the year was spent in anticipation of parliamentary elections. Structural reforms, including the once announced by the previous Government, were either delayed or significantly diluted. In other words, we have not seen the eagerly anticipated trend changes.

An unquestionably positive fact is that the negotiations with the EU were finally completed, and that Croatia will become a full member of the association by mid 2013. In addition, one should not forget that 2011 was in fact the third year of crisis (after a significant fall in GDP in 2009 and a smaller decline in 2010). It goes without saying that this has very much exhausted both retail and corporate clients, and in terms of banking, the year was marked by a very low demand for loans, particularly in the retail sector. Rising unemployment and even more so uncertainty about future income have led to a normal reaction of people who are now saving more and spending less, which also had a clear impact on the developments in the banking industry.
Finally, it is important to note that macroeconomic stability was preserved in 2011, and that meant a very low inflation and a stable exchange rate of the kuna against the euro. Naturally, macro stability is not everything, but (to paraphrase the former German minister of economy) without stability - everything is nothing. It remains for us to hope that next year will see much faster structural reforms and creating the necessary conditions to accelerate economic growth, which is a prerequisite for positive trends not only in banks, but also in the whole economic system and therefore the society as a whole.

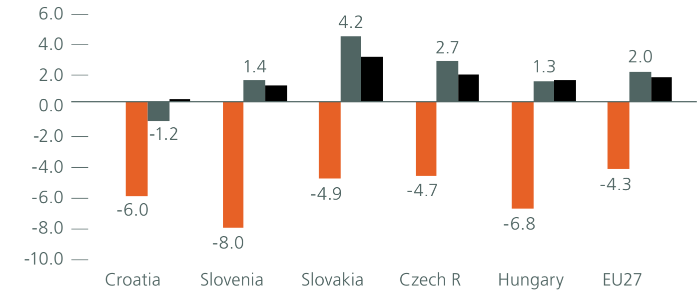
2011 - a year of failed recovery

After nearly 6 percent of decline in economic activity in 2009, and 1.2 percent drop in 2010, last year - 2011 - was marked by the absence of the expected economic recovery. Although the gross domestic product recorded a marginal 0.2 percent growth, it cannot be considered a recovery if we take into consideration the developments related to other indicators such as industrial production which decreased by 1.2 percent or unemployment rate that climbed up to 18.7 percent by the end of the year.

Unlike most countries in Central and Eastern Europe, Croatia in 2011 therefore failed to achieve any significant progress in the field of economy and it remained at the unpleasant 7 percent lower real GDP in comparison with 2008.

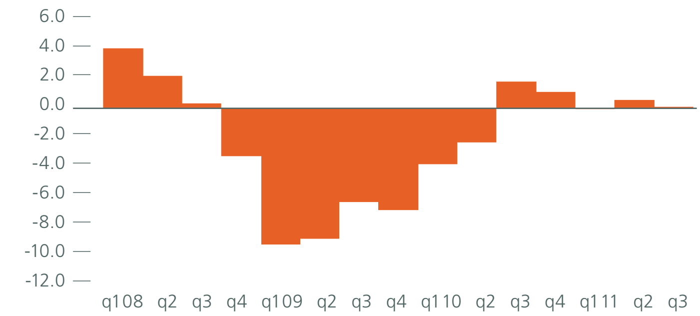
The absence of economic recovery is primarily a result of extremely poor domestic demand that has had a negative impact on the overall GDP growth, while net foreign demand secured those few, unfortunately too low, tenths of percentages in growth. Throughout the year, domestic demand has been recording very anaemic rates of growth, insufficient for any noteworthy recovery given the decline recorded during the two previous years. Personal consumption remains under a deep impact of negative trends in the labour market and low consumer expectations in terms of short-term future developments. A repressed personal consumption is well illustrated by the fact that the real growth in retail trade in 2011 amounted to only 1.0 percent and that retail trade still remains at a level that is about 16 percent lower than in 2008.

GDP, real growth rates
in %
source: CBS

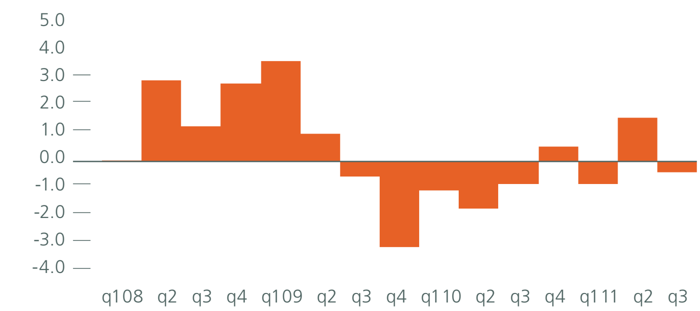


GDP, real growth rates
source: Eurostat, CBS
in %

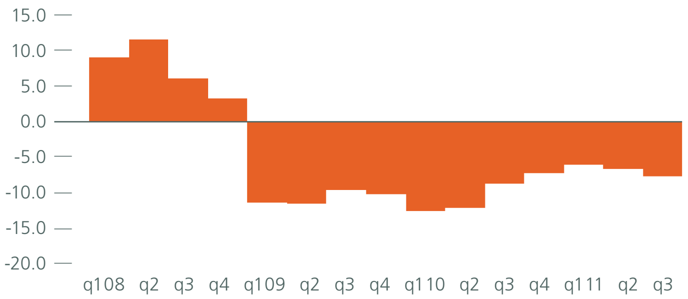
2009
2010
2011



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

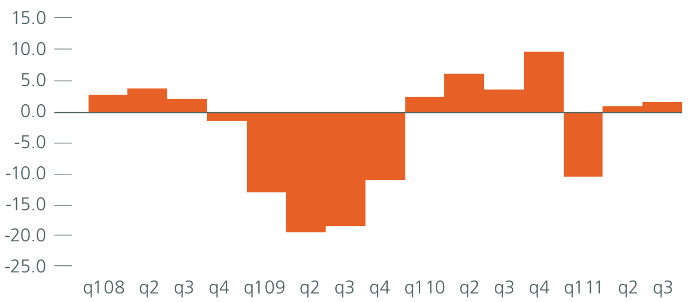


Government consumption, constant prices (2000 referent year), % yoy
source: CBS



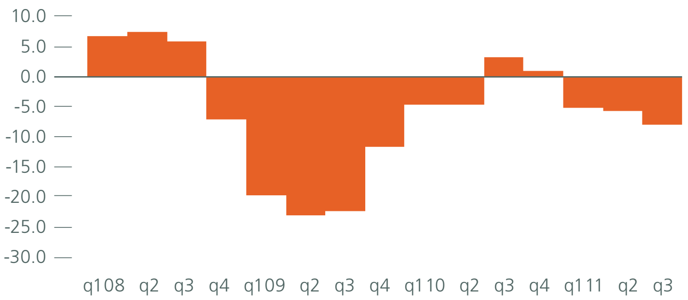
Gross fixed capital formation, constant prices (2000 referent year), % yoy

source: CBS



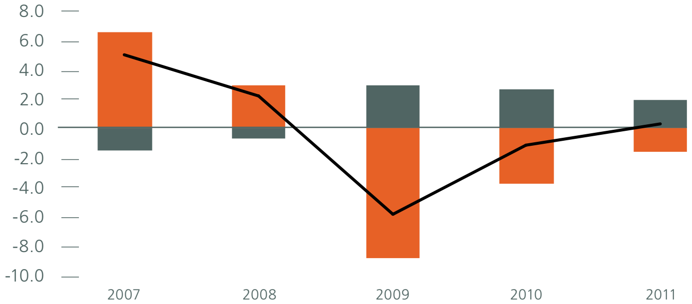
Exports of goods and services, constant prices (2000 referent year), % yoy

source: CBS



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

source: CBS



Contributions of domestic and foreign demand to GDP growth

source: CBS

Net foreign demand
Domestic demand
GDP

At the same time, maintaining public spending at virtually the same levels (with minimal, cosmetic savings) led to a growing deficit that reached 5 percent of GDP at the consolidated general government level. Decreased tax revenues were largely made up for by new loans, which is why public debt rose from 29.2 percent (42.1 percent including guarantees and HBOR debt) in late 2008 to 43.9 percent (i.e. 61.2 percent) of GDP at the end of September 2011.

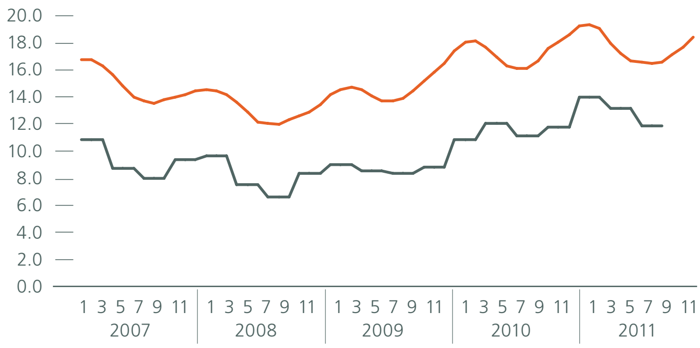
The negative expectations of consumers and businesses for the most part did not change for the better during 2011, and therefore it is not surprising that investment activity has been almost completely suspended. Construction work index in 2011 recorded an average drop of 8.5 percent in comparison with 2010, and as much as 28.2 percent in comparison with 2008. The quiet real estate market, a large number of built and unsold apartments, stagnation of retail housing loans and lack of business investments into industrial facilities are just some of the burdens on the construction and total investment activities and it will be difficult to solve these issues in the next few years.

Extremely low domestic and a somewhat more dynamic foreign demand have been the key determinants of developments in trade flows in 2011, just like the year before. Partly due to a base (somewhat more pronounced recovery of exports in 2010), but also thanks to an evident slowdown of growth in the EU and lack of export-oriented products, exports of goods and services in the first three quarters recorded a negative growth rate. However, since imports simultaneously continued recording a decline, the positive impact of net foreign demand (+2.0 percentage points) continued to make a decisive impact on the overall growth rate movement in the first three quarters of 2011.

Situation in the labour market continued to deteriorate, with the active population on average decreasing by 2 percent year on year, employment rate by 2.5 percent, while unemployment rate rose to 17.9 percent (2010: 17.6 percent). The drop in employment was entirely the result of job cuts in the private sector, given the fact that the number of employees in the public sector slightly increased.

In such circumstances, there was no pressure on salary growth, which is why gross salaries fell by 1 percent. At the same time, net salaries in real terms rose by 1.6 percent year on year, but that was only due to base effect ("crisis tax" was fully abolished in October 2010) and amendments to the Income Tax Act. This year we expect a decline in average net salaries in real terms resulting from continued negative developments in the real sector and increased inflationary pressures.

The increase in producer prices, weaker kuna and higher costs of commodities in global markets (according to the HWWI index, overall prices as well as food prices have risen an average of nearly 30 percent year on year) stimulated the strengthening of inflationary pressures in 2011 in comparison with 2010, which is why the average inflation rate reached 2.3 percent. In 2012 we expect those pressures to grow even stronger due to increasing food and fuel prices, depreciation of kuna and introduction of increased VAT rate, whereas low demand and decreased real incomes will act as counterbalance.



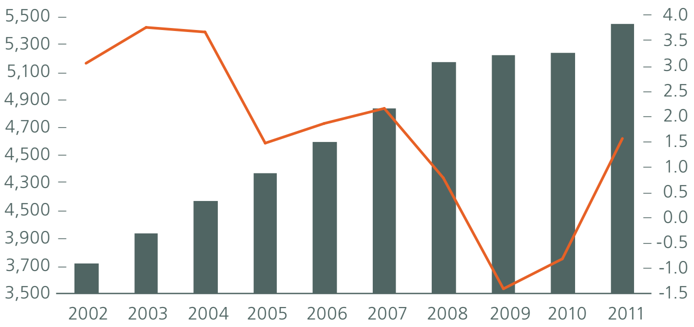
Survey and registered unemployment rate

in %

source: CBS

Survey rate

Registered rate



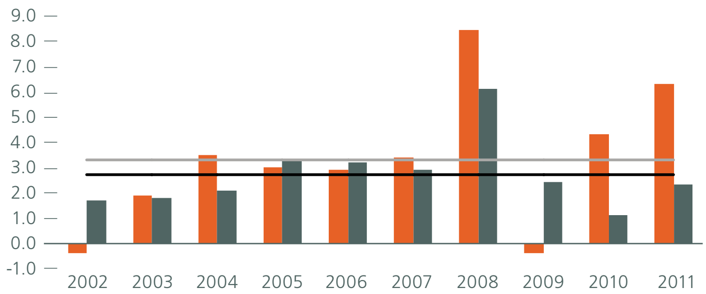
Wages, real annual rate of change

in %

source: CBS, PBZ

Average net wage, HRK

Net wage, real % change



Prices, average annual rate of change

in %

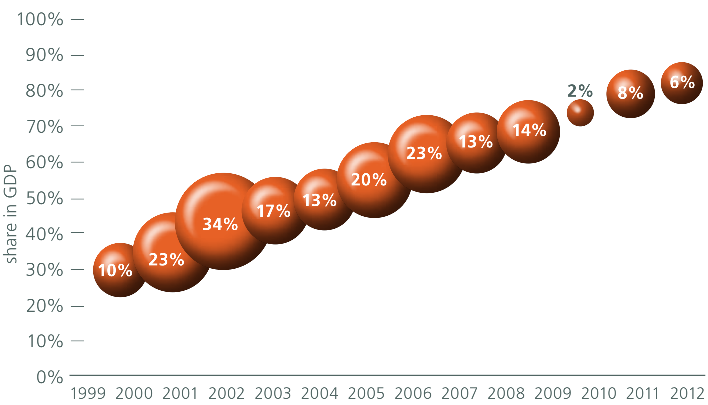
source: CBS, PBZ

PPI, domestic market

CPI

PPI, domestic market 10Y average

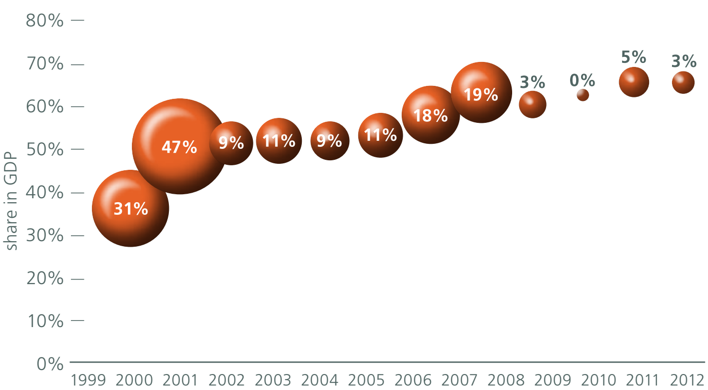
CPI, 10Y average



Loans, annual rate of change and share in GDP

in %

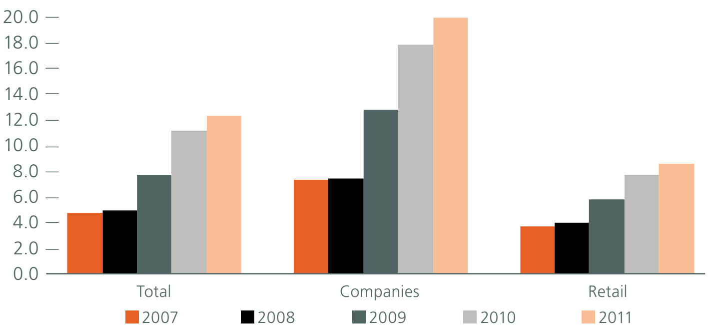
source: CNB, CBS, PBZ calculation



Deposits, annual rate of change and share in GDP

in %

source: CNB, CBS, PBZ calculation



Share of NPLs in total loans

in %

source: CNB

The banking system recorded low rates of growth

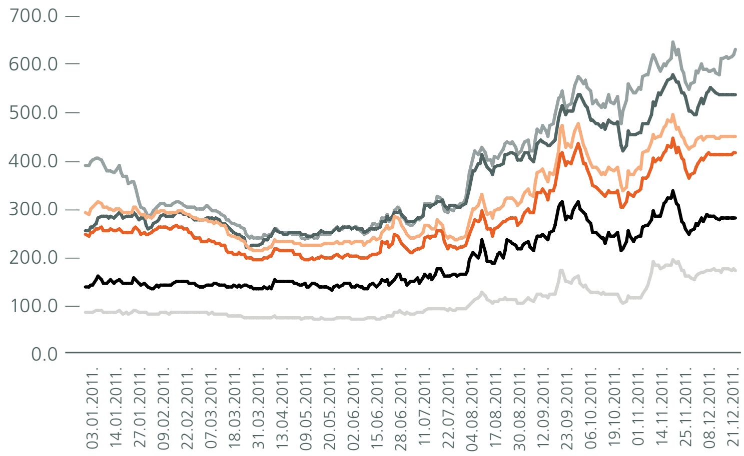
Gross loans at the end of 2011 were higher by 6 percent compared with the end of 2010, and about 64 percent of total loan growth is the result of growth in corporate lending. The latter is a significant improvement over the year before, when the share of these loans was around 45 percent, as a result of a dramatically lower share of retail loan growth in total loan growth that fell from 23 percent in 2010 to 7 percent in 2011. Retail demand has dried up due to increased unemployment, whereas corporate demand has strengthened due to refinancing of foreign liabilities and reduced availability of foreign capital. Corporate loans have therefore increased by 10 percent year on year, and retail loans recorded an annual growth rate lower than 1 percent, which is a de facto decrease if we take into account exchange rate movements.

Total deposits at banks, in comparison with the loan dynamics, show a significantly lower growth of only 3 percent year on year, which is a result of decreased corporate deposits by 3 percent due to lower liquidity. Retail deposits at the end of the year were up by less than 5 percent compared with late 2010, which is consistent with the salary increase following the abolition of the crisis tax and introducing legislation changes and kuna depreciation (77 percent of retail deposits is in foreign currency).

Continued weak economic activity, tightening of the labour market conditions and depreciation of kuna against the euro and the franc have all led to an increase in the share of bad loans in banks' balance sheets. The share of loans classified in categories B and C increased from 11.2 percent in late 2010 to 12.4 percent in late 2011, with the retail share reaching 8.6 percent and corporate share 20.1 percent. Consequently, the costs of provisioning have burdened the banks' profits and even though they have managed, according to preliminary data of the CNB, to achieve a 10 percent increase in net profits year on year by cutting interests payable and operating costs, the increase can mostly be attributed to good results of the several major banks.

Despite the growth of spread on CDS, low benchmark interest rates (3M Euribor, Libor on Swiss franc and Zibor) coupled with a lower demand led to a drop interests receivable which have averaged at 7.3 percent on loans with a currency clause (-75 b.p. year on year), and 9.7 percent (-70 b.p.) on kuna loans.

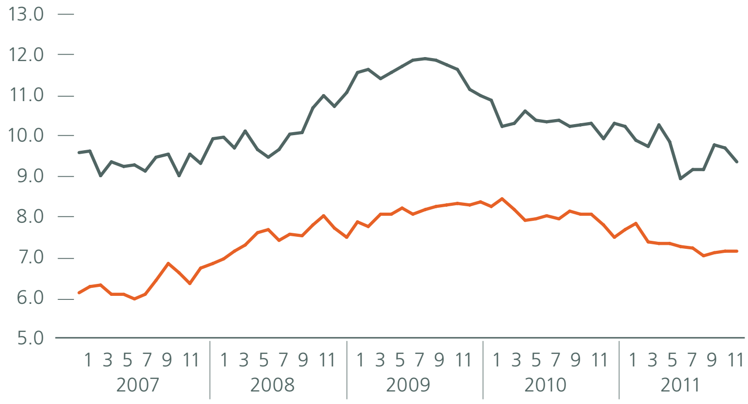
In the climate of low nominal GDP growth rate, in 2012 we expect growth rates of loans and deposits to decrease in comparison with the previous year; consequently, we expect the loans to GDP ratio to remain around 85 percent and the deposits to GDP ratio around 65 percent.



5Y CDS spread, basis points

source: Bloomberg

- Hungary
- Croatia
- Romania
- Bulgaria
- Poland
- Czech R.

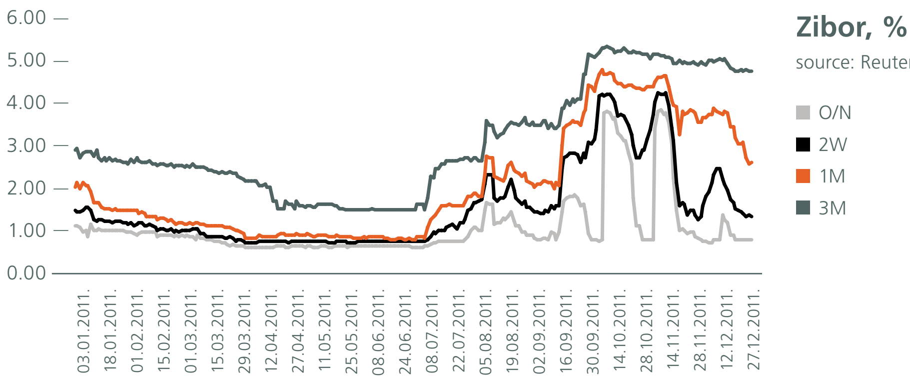


Interest rates on loans, new business, monthly average

in %

source: CBS

- HRK
- HRK with fcc



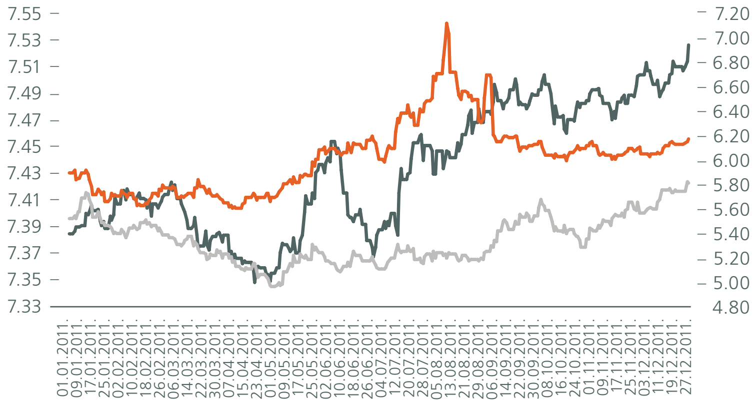
Zibor, %

source: Reuters

A weaker kuna

As a result of reduced inflows from exports, borrowing and foreign investments, as well as increased demand owing to high amounts of foreign debt due (especially in the corporate sector), in 2011 the kuna depreciated by 2 percent against the euro, and its average mid-exchange rate at the year level stood at 7.43 kunas to the euro. At the same time, the kuna has on average lost the striking 14 percent of its value against the Swiss franc, which is a result of depreciation of the euro against the franc in the global foreign exchange markets due to a debt crisis in the euro area. The average exchange rate therefore reached 6.04 kunas to the franc. In line with the EUR/USD exchange rate, the kuna appreciated by 3 percent against the US dollar and its exchange rate went down to reach 5.34 kunas to the dollar.

Interest rates in the money market stayed low in the better part of the year, and the interest rate on overnight loans, which is a maturity with the highest trading volume, amounted to approximately 1 percent, just as in 2010. Interest rates have seen a stronger growth only in the last quarter due to an October decision to increase the reserve requirement rate from 13 to 14 percent, whereby the central bank tried to defend the kuna exchange rate by narrowing liquidity.

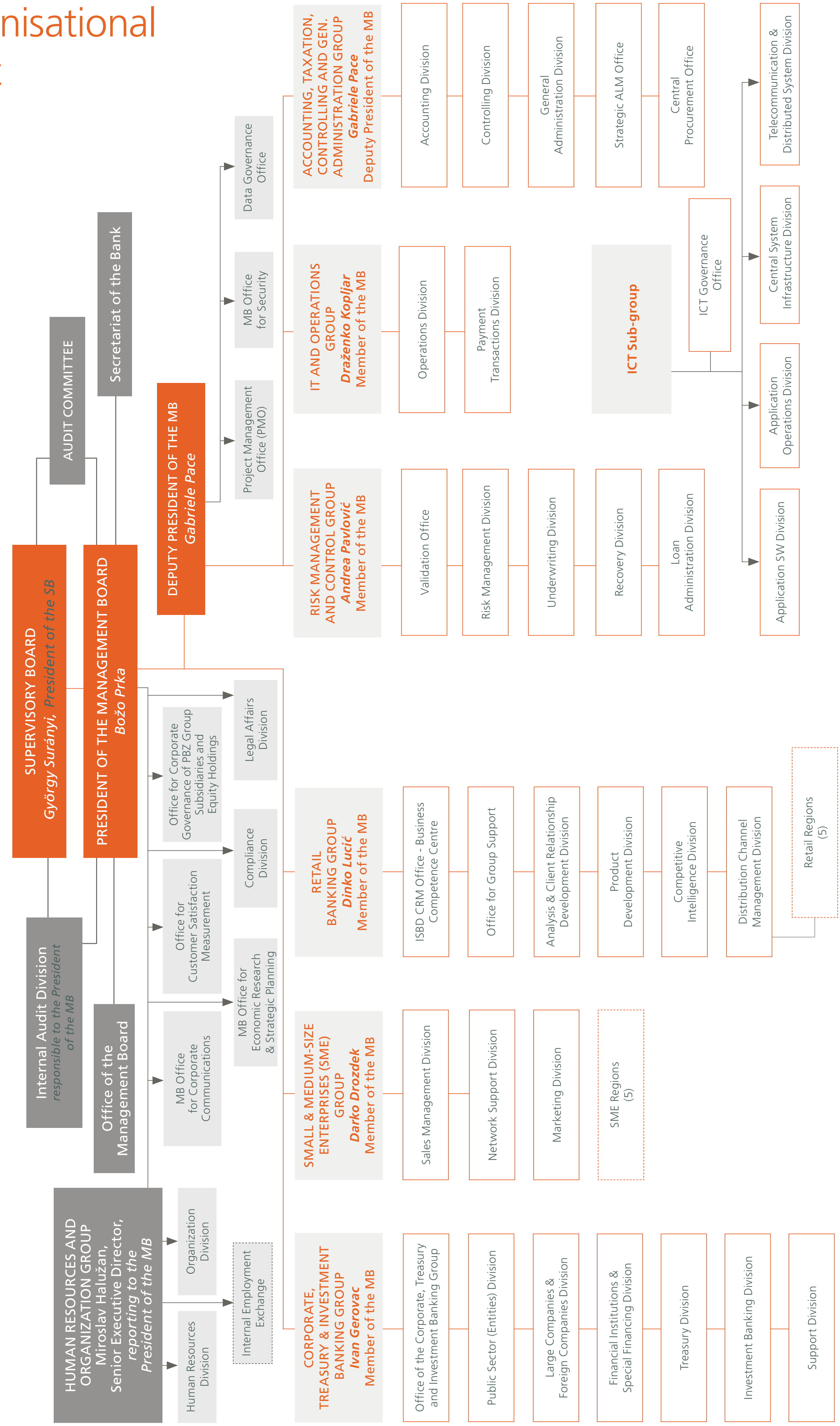


HRK middle exchange rate

source: CNB

HNK Zagreb - Ballet: Air

Organisational chart



Moderna galerija Zagreb - Exhibition:
Šime Vulas Retrospective, Peasant Revolt, 1970.

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 it's economic performance well into the future, as well as strengthening 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 and 2011. Additionally, PBZ's quality was confirmed by Global Finance's magazine in 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010 and 2011 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 3,548 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 201 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 it's business philosophy of focusing on client needs and demands, nine 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 under 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 655 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 27,272.

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 her/his accounts 24 hours a day from any location in the world. In 2004, PBZ introduced mPBZ - a system of payment using mobile phones, as the first bank in Croatia offering such a service, with over 127,261 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 2011 the Bank launched ten 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 19.2 percent share of the loan market. In the area of retail deposits, PBZ has increased its deposits to more than HRK 33.7 billion to date, which is 19.7 percent of the Croatian retail deposit market. On a consolidated level, PBZ Group holds 20.9 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 corporate clients, as well as MasterCard and Visa revolving credit and charge products, and it is the only Bank in Croatia offering Maestro prepaid gift cards. Together with PBZ Card, the Bank has issued nearly 2.3 million cards to its clients which accounts for 24.1 percent of the domestic card market.

Retail operations in Privredna banka Zagreb comprise the following divisions: ISBD CRM Office - Business Competence Centre, 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, mPBZ, 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.

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.

It's 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.

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.

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 coo-

peration 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 estate 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, and 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 57 SME desks already developed throughout PBZ's branch network. The development of the SME desk project for financial transactions has grown from a project into a permanent organizational structure.
RM online - new front line software application has recently been introduced to facilitate the work of our relationship managers. Through the use of this application, we will significantly reduce the paper work involved in the process today.
The SME Group consists of Sales Management Division, Network Support Division, Marketing Division and 5 SME Regions.

Sales Management Division
The key responsibilities of this Division are business monitoring on a regional and segment level, sale support, initiating the development of new products and services, improving business processes and sale promotion of various products. Additionally, within this Division is Factoring Department whose role is organising and sale of factoring products.

Network Support Division
This Division is responsible for providing administrative support to the SME network, development and maintenance of business applications and processes, support in development of new products and services developed with other SME Divisions and assisting SME customers in using products and services of the Bank. With the aim of running these operations adequately the Division is supported by the following Departments: Product Development Department and Customers Contact Service.

Marketing Division
The role of the Marketing Division is to establish an integrated management of business relationships with SME clients by supporting SME development processes within the SME domain. Division is responsible for monitoring of revenues, expenses and profitability of certain business units, budgeting and calculating key profitability indicators. Also, within it's domain are Customer Relationship Management, campaign management and all SME communication with customers.

SME - Region
SME Group is also present in the Bank's network. Its presence is grouped in 5 regional centres which are: Zagreb, 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 Deputy President of the Management Board, 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, Office for Corporate Governance of PBZ Group Subsidiaries and Equity Holdings, Project Management Office, Management Board Office for Security 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.

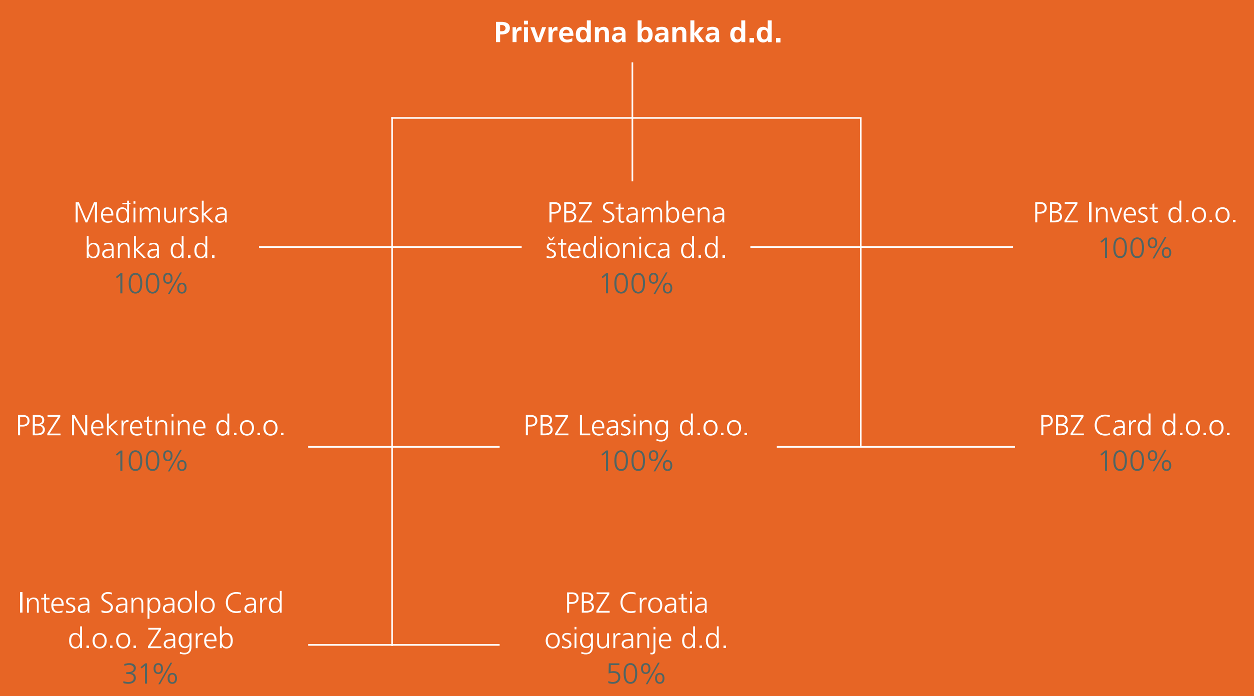

HNK Zagreb - Ballet: Air

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 4,152 employees and serves nearly 1.6 million both private and corporate clients in the country. PBZ Group today is a well-organized institution whose market share in the overall banking system stands at 17.3 percent.

On 31 December 2011 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). In 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. Currently the bank has 16 branches located in the region of Međimurje. It uses its network to provide services to nearly 5.2 thousand companies and 93.9 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.

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.

PBZ Card

In late December 2005 charge, credit and debit card operations of PBZ were integrated with PBZ American Express into the new company, PBZ Card, which deals with all card operations of the PBZ Group. By combining all card brands - American Express, MasterCard and Visa, the largest card institution in the region has been established with nearly 2.3 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 nearly 2.3 million issued cards (combined with PBZ) being accepted at approximately 60 thousand 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 we have nearly 115 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 of 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 2011, PBZ Leasing made over 5.9 thousand lease arrangements with customers, which in financial terms reached almost HRK 1.1 billion.

PBZ Nekretnine

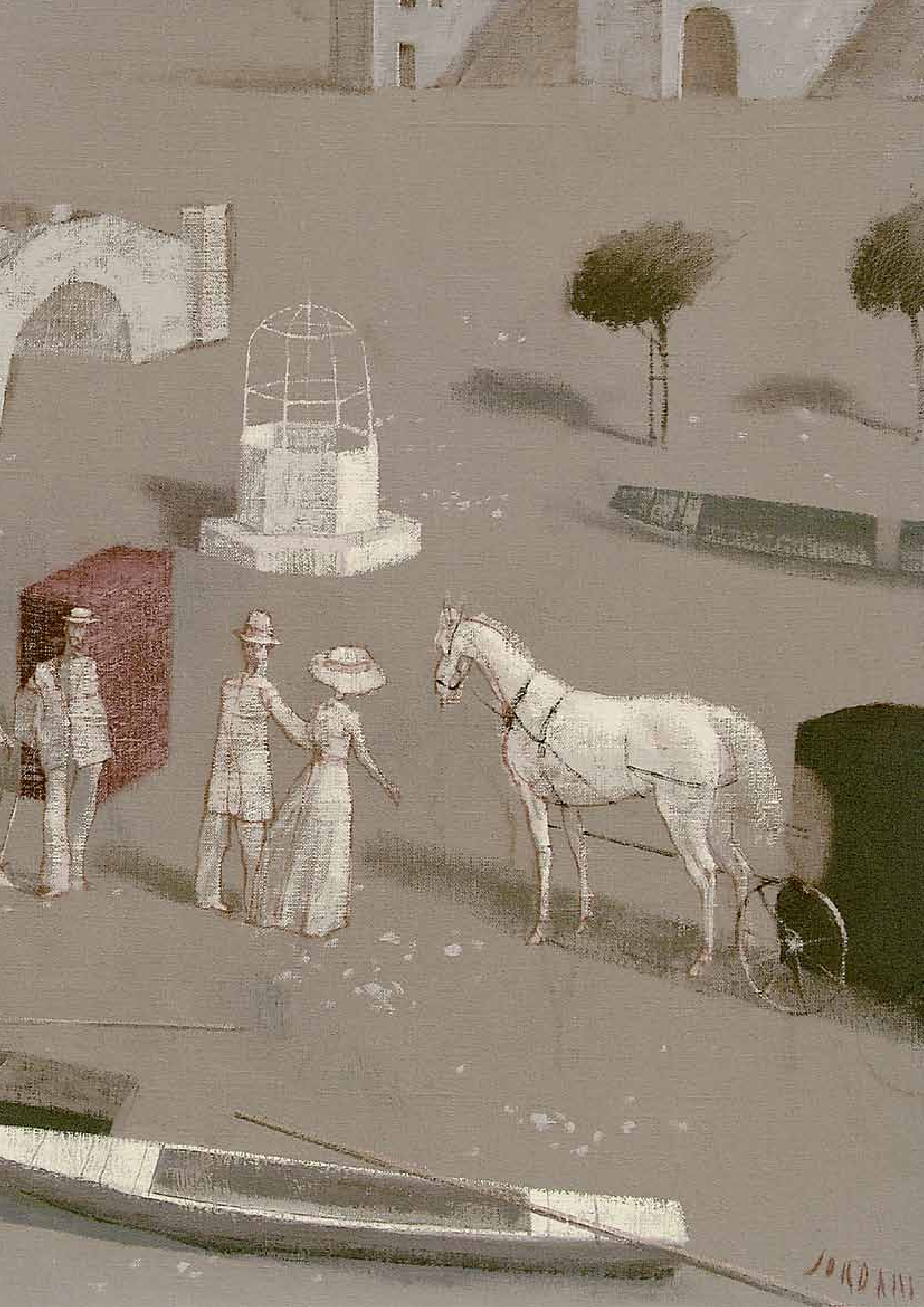
PBZ Nekretnine is a wholly owned subsidiary of Privredna banka Zagreb which engages in property transaction services, construction management and real estate valuation. Privredna banka Zagreb established PBZ Nekretnine with the goal of providing its clients with a complete range of services relating 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 2011. 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 286 thousand members and net assets in personal accounts exceeding HRK 6.9 billion which represents a sound base for the long-term stable and profitable operation of the company.

Intesa Sanpaolo Card d.o.o. Zagreb

Intesa Sanpaolo Card was established in April 2009 by Intesa Sanpaolo Holding International S.A., Privredna banka Zagreb and Banka Koper. As of 31 December 2011 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 the activities within the Corporate Social Responsibility programme of PBZ

Appendix to the Annual Report

Introduction

Ever since its establishment Privredna banka Zagreb has been at the very top of the Croatian banking sector and for a series of years has been playing a significant role and producing impact on our society's economic and social development. Nowadays, being a member of a large international banking group - Intesa Sanpaolo, we stand for a dynamic and modern European bank that keeps its finger on the pulse of the market and its customers. Boosting trust and improving the relationship with all parts of society that interact with the Bank represents the condition of a continuous improvement of our business. With our actions we aim to meet the needs and rise up to the expectations of all participants, from caring for the needs of our customers, employees, developing the local communities in which we are a part of, caring for the environment to creating new value for shareholders. Below is an overview of some of the more significant activities carried out in 2011.

1. Education and professional growth

- we entered into cooperation with institutions of higher education both in the country and abroad in order to promote, co-create and implement learning programmes pertaining to finance and banking (here we would particularly like to single out our cooperation with 'Libertas' Business College)
- we organised student placements within the Bank and members of PBZ Group; a total of 28 students from various faculties and colleges carried out their internships within PBZ Group
- we have been continuously investing in the development of corporate knowledge through or project titled PBZ business colleges - in 2011 we enrolled the 5th generation of attendants (350 attendants per year)
- we introduced the new *on line library* service - finance, IT and management related

2. Care for employees

- the process of centralising the human resources function at the level of PBZ Group was completed. This process has standardised all the HR activities and established a single HR platform at the level of PBZ Group (its advantages are: standardization of the business processes and operating methods at the level of PBZ Group; easier coordination, faster decision-making and more efficient control of staff functions)
- the process of improvement and upgrading of our eHR portal - eHR portal was set up for the employees of all members of the Group, e-printing of approved holiday request forms has been enabled, process of entry and verification of holiday schedules has been rendered automatic, the panel of education and records of daily working hours have been upgraded, and ultimately the HR documentation pertaining to all employees of PBZ Group was scanned
- in order to continuously monitor the potential and development needs of the employees of PBZ Group, we have been systematically running additional assessment programmes, and employees can now obtain feedback as to their potential and growth possibilities; accordingly, in 2011 internal job rotation was stepped up and key positions were filled in internally;
- in 2011 we also conducted a satisfaction poll in order to determine the key areas of employee satisfaction/dissatisfaction; based on the results further activities are taken in order to improve the results in the next period
- In the scope of our regular socio-economic activities, we gave financial aids to struggling employees and their families, children of the deceased employees, we agreed to give scholarships to two parentless children; purchase of school books was subsidized for the employees with children of school age; as part of ongoing cooperation, we arranged with our colleagues from Intesa Sanpaolo that children be sent to the Children's village Follonica Italy for a summer vacation; we also worked intensely on the foundation of Vinkovec rehabilitation camp
- As part of our employee healthcare programme, we organised regular full check-ups for both our employees and interns, control check-ups for the employees who suffer from the ailments of the skeletal system with physical therapy as part of the treatment and preventive flu vaccination.
- employees of Međimurska banka were included as members of the association, PBZ Standard, which organises recreation activities for employees; the range of sports has been expanded to the subsidiaries outside of Zagreb and the number of members increased to approx. 2,255
- the monthly bulletin PBZ Express, issued for the purpose of keeping employees up to date with novelties, also organised a humanitarian campaign called „Let's donate together" in which employees were involved in the campaign of collecting toys for the parentless children living in the Children's home Lipik (over 200 packages were received)

Award 'Key difference' - PBZ is the winner of the award „Key difference" in the category of gender equality, which aims to identify and promote employees that have implemented diversity into their work environment and have done so in a quality fashion. This is the first time this award has been given in the Republic of Croatia by the Office for Human Rights of the Government of the Republic of Croatia together with the Association for helping and educating victims of mobbing as their partner, and the Institute for Labour Market Development. The entire project was financed by the European Commission. There were 29 applications received, as well as additional 21 applications in the category of gender equality with the Bank as the winner in the mentioned category.

4. New communication channels and products

- Facebook profile - in order to enable as direct as possible and as intense as possible communication, we created a profile on the social network intended for all our customers as well as for the public with novelties from the Bank and PBZ Group about our new products and activities in terms of corporate social responsibility.

Pratite nas na Facebooku!

- Our range of products now also includes *PBZ Energo loans* for financing the purchase and construction of a residential property of a higher energy class A, A+ and B, and for improving the energy efficiency of an existing facility.

5. Donations and sponsorships

Privredna banka Zagreb aims to contribute and show its responsibility towards the larger community by sponsoring events and giving donations. In 2011 almost HRK 20 million in total was appropriated for sponsorships and donations, by which we supported many cultural and other events, sports events, science and education, numerous associations and individuals. By its long standing participation in the social life through donations and sponsorships, PBZ aims to contribute to the development and in general to a better quality of life in the Republic of Croatia.

5.1. Donations

Donations in 2011

Science and education	HRK 1,913,000
Sports	HRK 2,881,000
Culture	HRK 1,203,000
Social solidarity	HRK 4,228,800
Other	HRK 1,306,000
Total	**HRK 11,531,800**

PBZ actively participates in a series of socially useful projects and supports financially a great number of humanitarian and social institutions. Among the donations given in 2011 we would like to single out the following ones:

- Caritas campaign titled "For a thousand joys". The purpose of the campaign is to raise funds for 1000 Croatian families with low income. For the ninth year in a row we were part of the great Caritas campaign raising funds for the foundation "For a thousand joys". In addition to donating money, PBZ also financially supports the campaign by purchasing a Caritas Christmas card. This year, the funds were used for supporting families with both parents- bread winners unemployed
- Donation to the Foundation for humanitarian demining of Croatia „Mine free Croatia" - worth HRK 700,000 for clearing mines in central Vukavar-Srijem County area, Municipality of Stari Jankovci
- Donation to the University in Dubrovnik for procurement of equipment and devices necessary for the implementation of university studies and carrying out of scientific research. Procurement of a mechanical engineering simulator is one the priorities of this aspiring University, as without it there cannot be quality teaching that meets the requirements of practical maritime university studies.

A series of donations were given for scholarships to students and pupils:

- Cooperation with Krapina-Zagorje County - six scholarships were given to gifted students that come from low income families and four scholarships to students of medicine, which happens to be a deficit profession in the County.
- Donation to the National Foundation for the support of Pupil and Student Standard: the Foundation gives government scholarships to gifted students and supports special programmes that contribute to better living and cultural standard of students. The key role of the Foundation is to financially support the best and the most successful Croatian students, but also to support those students whose university degree will allow them to apply for quite demanding jobs and thus give a new boost to the economic development of the Republic of Croatia.
- Donation within the campaign "Step into life" that provides scholarships to young people who turned eighteen, are just out of an orphanage and foster families and want university education

Substantial funds were donated to raise the level of healthcare in numerous health institutions throughout the Republic of Croatia. Some of them are:

- Hospital of Pula - funds were donated for the procurement of medical equipment necessary for high-quality services in minimally invasive surgery
- General Hospital Pakrac - funds were donated for the procurement of an electrosurgical platform necessary for quality treatment and patient safety
- County Hospital Čakovec - funds were donated for the procurement of an ultrasound used in examinations of blood vessels and soft tissues which, by applying various probes during emergency check-ups, raises the work quality of radiologists, physicians specialising in internal medicine and surgeons,

5.2. Sponsorships

Sponsorships in 2011

Science and education	HRK 954,000
Sports	HRK 5,544,000
Culture	HRK 1,079,000
Other	HRK 878,000
Total:	**HRK 8,455,000**

With its sponsorship policy as well as the promotion of its brand, PBZ aims to provide financial support and incentive to a great number of projects pertaining to culture, sports and science and thus contribute to the development of the Croatian society. In 2011 we would like to put an emphasis on cultural sponsorships by supporting various cultural events and institutions:

- Cooperation with the Museum for Arts and Crafts - PBZ happened to be the main patron of a large cultural project, Art déco and art exhibition in Croatia between two wars. The works were showcased in the Museum of Arts and Crafts in an area of 1200m^2 with 750 items on display - ranging from sculpture, paintings, photography, architecture, metal, fashion and accessories, glass, ceramics to furniture. Art déco was showed in the works of fine and applied arts, and the culture of living in the 1920s and 1930s periods. The exhibition lasted seven months with a total of 76,552 visitors (7,105 from abroad).

- Cooperation with the Modern Gallery Zagreb with its permanent exhibition of the top works of the Croatian artists of the 19th, 20th and the 21st century. All those works represent master pieces of landscape art, figurative art and abstract art as well as of portrait and animalistic sculpting. Being the main patron of the Modern Gallery, over the past years PBZ helped purchase new master pieces, painting and sculptures alike
- Various cultural programmes and institutions PBZ supports include sponsoring the Croatian National Theatre in Zagreb which celebrated their 150th anniversary in 2011, the Croatian National Theatre in Varaždin, the traditional ethno event called „Rapska fjera“, the Kastav Summer Festival and many others.
- The support of several years to one of the most renowned cultural events in Croatia - **Sinjska alka**, a tournament being organised for almost as long as three centuries, respecting the old customs. It has been taking place without interruption ever since 1715, and this unique spectacle has been recognised by Unesco as cultural world heritage.

6. Impact on the environment

In 2011 we adopted the Environmental Policy with a view to clearly defining and emphasising our points on this exceptionally important and ever-present issue and in order to set up an official framework for further activities within PBZ Group.
We have continuously been keeping track of our energy consumption and with various activities aim to reduce the consumption, while raising awareness of our employees on the importance of caring for the environment. On a regular basis we have been sending our employees personalised e-mails so as to remind them about mandatory shutting down of their PCs after office hours, turning off their-conditioning and heating over the weekend, separating used paper from other waste for recycling purposes.
We have even introduced a special column in PBZ Express bulletin called Zeleni kutak for employees, where we deal with the environmental topics and aim to raise awareness about this problem.
Double sided copying of documents, which we introduced as our standard setting, reusable envelopes and other activities in that direction have resulted in a substantial decrease in the consumption of paper, which is clearly shown in the below table:

PAPER CONSUMPTION

2008	579,854 kg
2009	518,849 kg
2010	503,525 kg
2011	445,471 kg

In 2011 we also introduced recycled envelopes and have been trying to replace the old envelopes whenever possible.
A pilot project was launched for the purpose of reducing the emission of CO_2. With that in mind we procured an electric scooter for our Business Centre Dubrovnik in order to minimize the use of cars for short-distance trips and consequently the emission of CO_2. We plan to acquire a couple of more for the needs of our coastal business centres.

Sinjska alka 2011


Eco scooter

HNK Zagreb - Ballet: Air

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. Above mentioned acts regulate the duties and responsibilities of members of the Management Board and the Supervisory Board. The two boards are separate and no individual may be a member of both boards.

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) - mandate from 31 January 2010

Ivan Šramko, (Deputy President of the Supervisory Board, Intesa Sanpaolo) - mandate from 29 March 2011

Massimo Pierdicchi, (Member of the Supervisory Board, Intesa Sanpaolo) - mandate from 31 January 2010

Beata Kissné Földi, (Member of the Supervisory Board, Intesa Sanpaolo) - mandate from 8 April 2009

Giampiero Trevisan, (Member of the Supervisory Board, Intesa Sanpaolo) - mandate from 1 March 2010

Nóra Kocsis, (Member of the Supervisory Board, EBRD) - mandate from 2 July 2010

Branko Jeren, (Member of the Supervisory Board, independent - mandate from 19 April 2010)

Previous members of the Supervisory Board in 2011 were also:

Massimo Malagoli, (Member of the Supervisory Board, Intesa Sanpaolo) - mandate by 28 March 2011

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 2011 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 unconsolidated and consolidated financial statements 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 in 2011 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)

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 as a auxiliary body and adopted the rules of procedure for the board.

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 in 2011 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)

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

Management Board

The Management Board conducts business operations of the Bank. Board consists of seven 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.

Members of the Management Board are the following:

Božo Prka, President of the Management Board - mandate from 8 February 2009

Gabriele Pace, Deputy President of the Management Board - mandate from 17 July 2010

Darko Drozdek, Member of the Management Board responsible for the SME Banking Group - mandate from 21 October 2010

Ivan Gerovac, Member of the Management Board responsible for the Corporate, Treasury and Investment Banking Group - mandate from 8 February 2009

Draženko Kopljar, Member of the Management Board responsible for the Information Technology and Operations Group - mandate from 8 February 2009

Dinko Lucić, Member of the Management Board responsible for the Retail Banking Group - mandate from 8 February 2009

Andrea Pavlović, Member of the Management Board responsible for the Risk Management and Control Group - mandate from 12 May 2010

Previous members of the Management Board in 2011 were also:

Jonathan Charles Locke, Deputy President of the Management Board - mandate by 7 September 2011

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* 2011, 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 2011) are provided in this Annual report.

Rules on the appointment and recalling of members of the Management Board are laid down in the Bank's Articles of Association.

The number of members of the Management Board of the Bank is determined by decision of the Supervisory Board. Accordingly, the Management Board is composed of seven members. The Supervisory Board brings a decision to nominate candidates for president and members of the Management Board, who need to meet the conditions prescribed by the law governing banking operation and other relevant regulations. After obtaining the prior consent of the central bank, the Supervisory Board appoints the president and members of the Management Board for a 3-year term of office, with the possibility of reappointment. 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.

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 2011 with the external auditors' report are available on the Bank's website. Semi-annual and quarterly reports (TFI-KI form) for 2011 are published on the Bank's and Zagreb Stock Exchange website.
   - In English?
     Yes. The annual financial statements for 2011 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 2011 is published in the Annual Report for 2011. There were no changes (increase/decrease in number of shares owned) during 2011 by Supervisory Board and Management Board members.

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 with relevant CVs of the candidates and are posted on the Bank's website.

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 2011 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 prepared 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, but from the day of gaining the right to claim for the payment of dividends, in accordance with the provisions of the Companies Act.

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?)
No.

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;
Ivan Šramko, Deputy President;
Massimo Pierdicchi, 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 President of the Supervisory Board of the following companies:*
CIB - Budapest, Hungary
Banca Intesa Beograd - Belgrade, Serbia
VUB - Bratislava, Slovakia

Ivan Šramko *is a Deputy President of the Supervisory Board of the following companies:*
Intesa Sanpaolo Bank - Sarajevo, Bosnia and Herzegovina
Banka Koper - Koper, Slovenia
and a member of the Supervisory Board of the following companies:
Banca Intesa Beograd - Belgrade, Serbia

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 Herzegovina
Banca C.R. Firenze - Bucharest, Romania

Beata Kissné Földi *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 Herzegovina

Nóra Kocsis *is a member of the Supervisory Board of the following companies:*
Intesa Sanpaolo Bank Albania - Tirana, Albania
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 as an auxiliary body participates in 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 as an auxiliary body 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?)
  No. 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?)
  No. 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 procedures? (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;
Gabriele Pace, Deputy President;
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 President of the Supervisory Board in the following company:*
Unijapapir d.d. - Zagreb, Croatia
and 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. - Zagreb, Croatia
a Deputy 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 Deputy President of the Supervisory Board in the following company:*
PBZ Invest d.o.o. - Zagreb, Croatia
and a member of the Supervisory Board in the following company:
PBZ Stambena štedionica d.d. - Zagreb, Croatia

Darko Drozdek *is a President of the Supervisory Board in the following company:*
Luka Ploče d.d. - Ploče, 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.
- Risk assessment, and
  Yes
- 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.


Gornja Bistra

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

26 March 2012

Independent auditors' report

Ernst & Young d.o.o.
Milana Sachsa 1, 10 000 Zagreb
Hrvatska - Croatia
OIB: 58960122779

Tel: +385 1 2480 555
Fax: +385 1 2480 556
www.ey.com/hr

Banka / Bank:
Erste & Steiermärkische Bank d.d.
Račun / Account: 2402006-1100280716
IBAN: HR3324020061100280716
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 2011, 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 information (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 2011 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 2011, 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.

Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited financial statements which were prepared in accordance with International Financial Reporting Standards as presented on pages 68 to 147 and are based on underlying accounting records of the Bank and the Group.

Ernst & Young d.o.o.

Zagreb, 26 March 2012

Financial statements of the Bank and the Group

Income statement

(in HRK million)	NOTE	GROUP 2011	GROUP 2010	BANK 2011	BANK 2010
Interest income	2	3,935	3,787	3,599	3,426
Interest expense	2	(1,455)	(1,587)	(1,331)	(1,464)
Net interest income		**2,480**	**2,200**	**2,268**	**1,962**
Fee and commission income	3	1,352	1,304	624	622
Fee and commission expense	3	(240)	(214)	(114)	(112)
Net fee and commission income		**1,112**	**1,090**	**510**	**510**
Other operating income	4	282	265	368	317
Operating income		**3,874**	**3,555**	**3,146**	**2,789**
Provisions and impairment losses	5	(369)	(404)	(353)	(388)
Other operating expenses	6, 7	(1,729)	(1,648)	(1,276)	(1,211)
Depreciation and amortisation of property and equipment and intangible assets	8	(213)	(237)	(141)	(156)
Share of profit and loss from associates	18	18	8	-	-
Profit before income taxes		**1,581**	**1,274**	**1,376**	**1,034**
Income taxes	9	(313)	(252)	(240)	(174)
Net profit for the year		**1,268**	**1,022**	**1,136**	**860**
Attributable to:					
Equity holders of the parent		1,268	1,022	1,136	860
		1,268	**1,022**	**1,136**	**860**
		in HRK			
Basic/diluted earnings per share	46	66.7	53.8		

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)	2011	2010	2011	2010
Profit for the year	**1,268**	**1,022**	**1,136**	**860**
Other comprehensive income				
Net (loss)/gain on available-for-sale financial assets arising during the year	(19)	4	(14)	7
Less: Reclassification adjustments for impairment losses included in the income statement	46	21	30	1
	27	**25**	**16**	**8**
Income tax relating to components of other comprehensive income	(6)	10	(3)	(1)
Other comprehensive income for the year, net of tax	**21**	**35**	**13**	**7**
Total comprehensive income for the year, net of tax:	**1,289**	**1,057**	**1,149**	**867**
Attributable to:				
Equity holders of the parent	1,289	1,057	1,149	867
	1,289	**1,057**	**1,149**	**867**

Statement of financial position

Assets (in HRK million)	NOTE	GROUP 31 December 2011	GROUP 31 December 2010	BANK 31 December 2011	BANK 31 December 2010
Cash and current accounts with other banks	10	2,647	2,273	2,465	2,092
Balances with the Croatian National Bank	11	6,989	7,612	6,757	7,371
Financial assets at fair value through profit or loss	12	2,497	2,806	2,497	2,806
Derivative financial assets	13	11	2	11	2
Due from banks	14	7,036	8,027	7,231	7,732
Loans and advances to customers	15	51,398	49,418	46,691	44,585
Assets available for sale	16	985	1,483	189	793
Held to maturity investments	17	391	647	124	381
Investments in subsidiaries and associates	18	135	128	389	392
Intangible assets and goodwill	19	157	146	83	67
Property and equipment	20	1,204	1,226	683	783
Investment property	21	12	13	9	10
Non-current assets held for sale	22	30	-	30	-
Other assets	23	491	408	204	197
Deferred tax assets	9	171	220	118	141
Total assets		**74,154**	**74,409**	**67,481**	**67,352**

Statement of financial position / continued

	NOTE	GROUP		BANK	
Liabilities (in HRK million)		31 December 2011	31 December 2010	31 December 2011	31 December 2010
Due to banks	24	2,994	4,151	3,423	4,196
Due to customers	25	47,431	47,054	44,081	43,602
Derivative financial liabilities	13	9	86	9	86
Other borrowed funds	26	9,311	9,889	7,990	8,431
Other liabilities	27	1,633	1,464	461	408
Accruals and deferred income	28	194	206	74	77
Provisions for risks and charges	29	191	214	186	206
Current tax liabilities	9	69	11	63	-
Total liabilities		**61,832**	**63,075**	**56,287**	**57,006**
Equity attributable to equity holders of the parent					
Share capital	31	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	32	7,653	6,911	6,657	6,085
Profit and loss attributable to equity holders of the parent entity		1,268	1,022	1,136	860
Total shareholders' equity		**12,322**	**11,334**	**11,194**	**10,346**
Total liabilities and shareholders' equity		**74,154**	**74,409**	**67,481**	**67,352**

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 2012.

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

Gabriele Pace
Deputy President of the Management Board

Statement of cash flows

(in HRK million)	GROUP 2011	GROUP 2010	BANK 2011	BANK 2010
Cash flow from operating activities				
Profit before tax	1,581	1,274	1,376	1,034
Provisions for bad and doubtful debts and other provisions	369	404	353	388
(Gains) from sale of property and equipment	(17)	(5)	(15)	(2)
Depreciation and amortization	213	238	139	156
Unrealised losses on securities at fair value through profit or loss	1	13	1	13
Valuation of derivatives	(86)	75	(86)	75
Share of results of associates	(18)	(8)	-	-
Taxes paid	(288)	(206)	(188)	(97)
	1,755	**1,785**	**1,580**	**1,567**
(Increase) in operating assets				
Balances with Croatian National Bank	623	(2,726)	614	(2,702)
Due from banks	(94)	(124)	(382)	(275)
Loans and advances to customers, net of provisions	(2,309)	(2,444)	(2,414)	(2,678)
Sales/(acquisitions) of assets held for trading and assets available for sale	838	(1,989)	920	(1,607)
Other assets	(102)	49	(33)	65
	(1,044)	**(7,234)**	**(1,295)**	**(7,197)**
(Decrease)/increase in operating liabilities				
Due to banks	(1,157)	(286)	(773)	878
Due to customers	377	3,216	479	1,699
Other liabilities	166	(132)	25	(65)
	(614)	**2,798**	**(269)**	**2,512**
Net cash from operating activities	**97**	**(2,651)**	**16**	**(3,118)**

Statement of cash flows / continued

(in HRK million)	GROUP 2011	GROUP 2010	BANK 2011	BANK 2010
Cash flows from investing activities				
Net purchase of property and equipment and intangible assets	(187)	(150)	(43)	(98)
Acquisition, disposal and recapitalisation of subsidiaries and associates	3	10	3	-
Repayment of assets held to maturity	256	245	257	209
Net cash from investing activities	**72**	**105**	**217**	**111**
Cash flows from financing activities				
Dividends paid to equity holders of the parent	(301)	(323)	(301)	(323)
Other borrowed funds	(578)	(792)	(441)	(398)
Net cash (used in) financing activities	**(879)**	**(1,115)**	**(742)**	**(721)**
Net increase in cash	**(710)**	**(3,661)**	**(509)**	**(3,728)**
Cash and cash equivalents at the beginning of the year (note 33)	**9,948**	**13,595**	**9,321**	**13,035**
Effect of exchange rate fluctuations on cash held	(24)	14	(24)	14
Cash and cash equivalents at the end of the year (note 33)	**9,214**	**9,948**	**8,788**	**9,321**
Supplementary information				
Interest paid	1,820	3,067	1,674	2,928
Interest received	1,508	2,536	1,226	2,184
Dividends received	4	5	179	164

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 2010	**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**
Total comprehensive income for the year	-	-	-	21	1,268	1,289	-	**1,289**
Dividends paid	-	-	-	-	(301)	(301)	-	**(301)**
Other movements	-	-	-	2	(2)	-	-	-
Balance at 31 December 2011	**1,907**	**(76)**	**1,570**	**327**	**8,594**	**12,322**	**-**	**12,322**

(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 2010	**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**
Total comprehensive income for the year	-	-	-	13	1,136	1,149	**1,149**
Dividends paid	-	-	-	-	(301)	(301)	**(301)**
Balance at 31 December 2011	**1,907**	**(76)**	**1,570**	**289**	**7,504**	**11,194**	**11,194**

The amount of dividends distributed to equity holders during 2011 is 15.85 HRK (2010: 17 HRK) per share.
Refer to note 32 for other reserves description.
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 or 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 (disclosed as embedded derivatives in note 13). 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:

	2011	2010
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.

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of the new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective assessment, calculated using the loan's original EIR.

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 income statement 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. The thresholds identified in order to quantify the terms "significant" and "prolonged" are as follows: a decline in fair value of over 30 percent compared to the initial carrying amount; or a decline in fair value below initial carrying amount for a period of more than 24 months. Impairment losses recognized in income statement for equity investments classified as available-for-sale are not subsequently reversed in income statement. 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 other comprehensive income until the financial asset is sold. Foreign exchange differences related to available-for-sale debt instruments held in foreign currency are reported in the income statement.

Dividends 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, such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

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)	2011	2010
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.

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.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting primarily of letters of credit, guarantees and acceptances. Financial guarantee contract liabilities are measured initially at their fair values, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortization recognized in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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 2011. The adoption of these new and revised Standards and Interpretations does not have any effect on equity as at 1 January 2011.

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2011:

International Accounting Standards (IAS)

IAS 24 Related Party Disclosures (amendment), effective 1 January 2011
IAS 32 Financial Instruments: Presentation (amendment), effective 1 February 2010

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)

The adoption of these interpretations has not led to any changes in the Group's financial position or performance.

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 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements, effective 1 July 2011
IFRS 9 Financial Instruments: Classification and Measurement, effective 1 January 2015
IFRS 10 Consolidated Financial Statements, effective 1 January 2013
IFRS 11 Joint Arrangements, effective 1 January 2013
IFRS 12 Disclosure of Involvement with Other Entities, effective 1 January 2013
IFRS 13 Fair Value Measurement, effective 1 January 2013

International Accounting Standards (IAS)

IAS 1	Financial Statement Presentation - Presentation of Items of Other Comprehensive Income, effective 1 July 2012
IAS 12	Income Taxes - Recovery of Underlying Assets, effective 1 January 2012
IAS 19	Employee Benefits (Amendment), effective 1 January 2013
IAS 27	Separate Financial Statements (as revised in 2011), effective 1 January 2013
IAS 28	Investments in Associates and Joint Ventures (as revised in 2011), effective 1 January 2013

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 2012 financial statements. The Group does not expect these amendments to have any significant impact on the financial statements. However, implementation of IFRS 9 (in 2015), 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.

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 2011 was HRK 69 million (2010: HRK 72 million). More details are given in note 19.

Accounting policies

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 39.

Notes to the Bank and the Group Financial Statements

2 | Interest income and expense (in HRK million)

	GROUP		BANK	
	2011	2010	2011	2010
Interest income				
Citizens	2,108	2,086	1,958	1,930
Companies	991	1,024	888	910
Bonds and securities	386	385	291	292
Public sector and other institutions	373	215	374	215
Banks	77	77	88	79
	3,935	**3,787**	**3,599**	**3,426**
Interest expense				
Citizens	1,059	1,214	976	1,125
Banks	258	217	223	189
Public sector and other institutions	77	77	78	79
Companies	61	79	54	71
	1,455	**1,587**	**1,331**	**1,464**

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

	GROUP		BANK	
	2011	2010	2011	2010
Interest income				
Loans and receivables from customers and banks	3,549	3,373	3,301	3,100
Interest income from securities classified as Loans and Receivables	194	196	141	144
Financial assets initially designated at fair value through profit or loss	106	90	106	90
Assets available for sale	32	30	9	8
Held to maturity investments	28	41	16	29
Financial assets held for trading	20	21	20	21
Balances with Croatian National Bank	6	36	6	34
	3,935	**3,787**	**3,599**	**3,426**

Interest income includes income from previously impaired loans of the Group of HRK 262 million (2010: HRK 176 million) and of the Bank of HRK 221 million (2010: HRK 165 million).

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

	GROUP		BANK	
	2011	2010	2011	2010
Fee and commission income				
Fees and commission on credit card services	757	711	89	90
Payment transaction fees and commission	287	280	287	283
Investment management, brokerage and consultancy fees	68	80	46	57
Fees and commission on customer loans	56	65	55	63
Fees and commission on customer services	71	57	68	54
Fees and commission on guarantees given	46	51	45	50
Other fee and commission income	67	60	34	25
	1,352	**1,304**	**624**	**622**
Fee and commission expense				
Fees and commission expense on credit card services	156	127	54	50
Payment transaction charges	47	51	46	49
Bank charges	12	12	9	8
Other fee and commission expense	25	24	5	5
	240	**214**	**114**	**112**

4 | Other operating income (in HRK million)

	GROUP		BANK	
	2011	2010	2011	2010
Foreign exchange trading gain	107	129	101	122
Operating lease income	70	76	2	2
Foreign exchange revaluation	38	11	42	11
Gains from disposal of property, equipment and intangibles	17	5	15	3
Net gains/(losses) on securities at fair value held for trading	(1)	6	(1)	6
Net gains/(losses) on securities initially designated at fair value through profit or loss	2	(23)	2	(23)
Realised gains on securities classified as assets available for sale	6	18	3	15
Dividends earned	4	5	179	164
Other income	39	38	25	17
	282	**265**	**368**	**317**

5 | Provisions and impairment losses (in HRK million)

	NOTE	GROUP		BANK	
		2011	2010	2011	2010
Impairment of loans and advances to customers	15	316	349	296	330
Impairment of loans and advances to banks		14	22	13	22
Impairment of assets available for sale		30	13	30	13
Provisions for legal claims	29	8	8	8	11
Provisions for guarantees and commitments	29	1	12	6	12
		369	**404**	**353**	**388**

6 | Other operating expenses (in HRK million)

	NOTE	GROUP		BANK	
		2011	2010	2011	2010
Personnel expenses	7	770	742	655	627
Materials and services		467	449	326	310
Deposit insurance premium		92	84	84	75
Operating leases		68	50	64	63
Indirect and other taxes		21	24	18	20
Other operating expenses		311	299	129	116
		1,729	**1,648**	**1,276**	**1,211**

7 | Personnel expenses (in HRK million)

	GROUP		BANK	
	2011	2010	2011	2010
Net salaries	393	375	329	313
Pension insurance costs	108	104	92	88
Taxes and surtaxes due to local authorities	95	92	80	77
Health insurance costs	89	86	75	72
Other personnel expenses	85	85	79	77
	770	**742**	**655**	**627**

Salaries and other related costs of employees include accrued expenses for bonuses payable to the members of the Management Board, key management employees and all other employees of the Bank in a gross amount of HRK 42.3 million (2010: HRK 41.7 million), of which the remuneration to the Bank's Management Board members together with key management employees is expected to be in a gross amount of HRK 16.3 million (2010: HRK 19 million).
During the year the average number of employees within the Group was 3,933 (2010: 3,937) of which the Bank accounted for 3,353 employees (2010: 3,355).

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

	GROUP		BANK	
	2011	2010	2011	2010
Depreciation of property and equipment	171	199	102	122
Amortization of intangible assets	41	37	38	33
Depreciation of investment property	1	1	1	1
	213	**237**	**141**	**156**

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 3.8 million (2010: HRK 0.3 million) and of the Bank of HRK 0.3 million (2010: HRK 0.3 million).

9 | Taxation

Profit tax is payable at the rate of 20 percent (2010: 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)	2011	2010	2011	2010
Current income tax expense	(270)	(249)	(221)	(188)
Deferred taxes assets utilised in current period	*(179)*	*(184)*	*(135)*	*(122)*
Deferred tax liability reversed during current period	*21*	*2*	*1*	*2*
Deferred tax assets relating to temporary differences	*115*	*180*	*115*	*135*
Deferred tax liability relating to temporary differences	*-*	*(1)*	*-*	*(1)*
Deferred tax movements in income statement	(43)	(3)	(19)	14
Tax charge per income statement	**(313)**	**(252)**	**(240)**	**(174)**
Deferred tax movements in other comprehensive income	(6)	10	(3)	(1)

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

	GROUP		BANK	
(in HRK million)	2011	2010	2011	2010
Accounting profit before taxation	**1,581**	**1,274**	**1,376**	**1,034**
Statutory tax rate	20%	20%	20%	20%
Expected nominal tax	**316**	**255**	**275**	**207**
Tax effects of:				
Non deductible expenses	41	59	38	56
Non taxable income	(87)	(65)	(92)	(75)
Current income tax expense	**270**	**249**	**221**	**188**
Effective tax rate	**17.1%**	**19.5%**	**16.1%**	**18.2%**

9 | Taxation / continued

Movements of deferred tax assets are as follows:

(in HRK million)	GROUP 2011	GROUP 2010	BANK 2011	BANK 2010
Deferred tax assets recognised at 1 January	**220**	**213**	**141**	**129**
Deferred taxes arising in the current period	171	220	119	141
Deferred taxes utilised during the current period	(220)	(213)	(141)	(129)
Deferred tax assets recognised at 31 December	**171**	**220**	**119**	**141**
Deferred tax assets consist of:				
Deferred loan origination fees as an adjustment to the effective yield	62	69	56	62
Unrealised losses on negative revaluation of securities and derivatives	49	59	49	59
Tax disallowable bad debt provision	36	57	-	-
Impairment of real estate	6	6	6	6
Other	7	11	4	8
Total credited to income statement	**160**	**202**	**115**	**135**
Unrealised losses on the negative revaluation of securities and derivatives - recognized in equity	11	18	3	6
	171	**220**	**118**	**141**

(in HRK million)	GROUP 2011	GROUP 2010	BANK 2011	BANK 2010
Liabilities for current tax	69	11	63	-
	69	**11**	**63**	**-**

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

	GROUP 2011	GROUP 2010	BANK 2011	BANK 2010
Cash in hand	1,324	1,147	1,241	1,075
Current accounts held with the Croatian National Bank	1,204	1,043	1,120	954
Current accounts and amounts at call with foreign banks	97	72	88	54
Current accounts and amounts at call with domestic banks	19	8	13	6
Other cash items	3	3	3	3
	2,647	**2,273**	**2,465**	**2,092**

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

	GROUP		BANK	
	2011	2010	2011	2010
Obligatory reserve	5,179	4,782	4,957	4,570
Other deposits	1,810	2,830	1,800	2,801
	6,989	**7,612**	**6,757**	**7,371**

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 2011, the obligatory reserve is calculated as 14 percent of HRK denominated (2010: 13 percent) and 14 percent of foreign currency denominated balances (2010: 13 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 and in foreign currencies maintained with the Croatian National Bank bear no annual interest (2010: 0.25 percent for balances maintained in HRK, nul for balances maintained in foreign currencies).

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	
	2011	2010	2011	2010
Financial assets held for trading				
Equities and shares	27	30	27	30
	27	**30**	**27**	**30**
Financial assets initially designated at fair value through profit or loss				
Domestic treasury bills	2,037	2,360	2,037	2,360
Domestic corporate bonds	276	278	276	278
Domestic government bonds	82	92	82	92
Domestic commercial bills	23	10	23	10
Accrued interest	52	36	52	36
	2,470	**2,776**	**2,470**	**2,776**
Financial assets at fair value through profit or loss	**2,497**	**2,806**	**2,497**	**2,806**

13 | Derivative financial instruments (in HRK million)

	GROUP		BANK	
Assets	2011	2010	2011	2010
Fair values:				
Foreign exchange derivatives	11	2	11	2
	11	**2**	**11**	**2**
Notional amounts:				
Foreign exchange derivatives	3,818	5,640	3,818	5,640
Other embedded derivatives	81	123	81	123
	3,899	**5,763**	**3,899**	**5,763**
Liabilities				
Fair values:				
Foreign exchange derivatives	9	86	9	86
	9	**86**	**9**	**86**
Notional amounts:				
Foreign exchange derivatives	3,811	5,724	3,811	5,724
Other embedded derivatives	60	102	60	102
	3,871	**5,826**	**3,871**	**5,826**

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)

a) Analysis by type of product

	GROUP		BANK	
	2011	2010	2011	2010
Term deposits	6,155	6,928	5,884	6,503
Loans to banks	920	1,122	1,386	1,252
Debt securities	3	20	3	20
	7,078	**8,070**	**7,273**	**7,775**
Provisions	(42)	(43)	(42)	(43)
	7,036	**8,027**	**7,231**	**7,732**

Term deposits are normally short-term deposits (up to one month) with local and foreign banks bearing an average annual interest rate of 1.7 percent to 3.5 percent (2010: 0.7 to 2.2 percent).
The related currency analysis is provided in note 43.

b) Geographical analysis

	GROUP		BANK	
	2011	2010	2011	2010
Italy	2,793	2,445	2,756	2,398
Republic of Croatia	1,001	1,103	1,439	1,200
Germany	931	1,399	908	1,322
France	759	722	759	722
Belgium	414	600	373	519
Austria	376	472	362	462
Great Britain	208	403	178	370
Switzerland	17	172	-	148
United States of America	-	4	-	4
Other countries	579	750	498	630
	7,078	**8,070**	**7,273**	**7,775**
Provisions	(42)	(43)	(42)	(43)
	7,036	**8,027**	**7,231**	**7,732**

Included within due from banks are loans under reverse repurchase agreements of HRK 530.7 million (2010: HRK 417.8 million). Such agreements are secured with corporate and government bonds.

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

	GROUP		BANK	
a) Analysis by type of customer	2011	2010	2011	2010
Citizens	27,897	27,212	24,574	23,941
Companies	16,897	18,060	15,840	16,800
Public sector and other institutions	6,963	4,167	6,968	4,273
Debt securities	3,422	3,455	2,163	2,165
	55,179	**52,894**	**49,545**	**47,179**
Provisions	(3,225)	(2,917)	(2,515)	(2,225)
Deferred interest and fees recognised as an adjustment to the effective yield	(556)	(559)	(339)	(369)
	51,398	**49,418**	**46,691**	**44,585**
b) Analysis by sector				
Citizens	27,897	27,212	24,574	23,941
Public administration and defence, compulsory social security	5,936	6,113	5,883	5,852
Construction	4,381	3,784	4,256	3,628
Wholesale and retail trade	3,381	3,270	2,958	2,796
Real estate, renting and business services	2,510	2,489	2,465	2,298
Transport and communication	1,305	1,322	1,243	1,246
Agriculture, forestry and fishing	1,259	1,100	1,214	1,050
Energy products	970	543	963	541
Hotels and restaurants	772	803	729	755
Food and beverages	632	474	616	438
Oil refining and gas	36	273	36	273
Other	6,100	5,511	4,608	4,361
	55,179	**52,894**	**49,545**	**47,179**
Provisions	(3,225)	(2,917)	(2,515)	(2,225)
Deferred interest and fees recognised as an adjustment to the effective yield	(556)	(559)	(339)	(369)
	51,398	**49,418**	**46,691**	**44,585**

Included within loans and advances to customers are loans under reverse repurchase agreements of HRK 5.3 million (2010: HRK 7.9 million). Such agreements are secured with 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 2011	**1,447**	**345**	**861**	**228**	**34**	**2**	**2,917**
Amounts collected/reversed	(733)	(214)	(288)	(35)	(23)	(1)	**(1,294)**
Amounts written off	(8)	-	(39)	(3)	-	-	**(50)**
Foreign exchange loss	15	18	9	-	-	-	**42**
Provisions charged	854	28	524	153	24	27	**1,610**
Balance at 31 December 2011	**1,575**	**177**	**1,067**	**343**	**35**	**28**	**3,225**
Reconciliation with the Income statement line item Provisions for loans and advances to customers							
Provisions charged	854	28	524	153	24	27	**1,610**
Amounts collected/reversed	(733)	(214)	(288)	(35)	(23)	(1)	**(1,294)**
Charge in the income statement	**121**	**(186)**	**236**	**118**	**1**	**26**	**316**
Group							
Balance at 1 January 2010	**1,273**	**342**	**692**	**216**	**33**	**12**	**2,568**
Amounts collected/reversed	(776)	(21)	(279)	(9)	(18)	(10)	**(1,113)**
Amounts written off	(11)	-	(41)	(2)	-	-	**(54)**
Foreign exchange loss	14	-	5	-	-	-	**19**
Transfer of interest value adjustment from off-balance accounts	20	-	15	-	-	-	**35**
Provisions charged	927	24	469	23	19	-	**1,462**
Balance at 31 December 2010	**1,447**	**345**	**861**	**228**	**34**	**2**	**2,917**
Reconciliation with the Income statement line item Provisions for loans and advances to customers							
Provisions charged	927	24	469	23	19	-	**1,462**
Amounts collected/reversed	(776)	(21)	(279)	(9)	(18)	(10)	**(1,113)**
Charge in the income statement	**151**	**3**	**190**	**14**	**1**	**(10)**	**349**

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

c) Provisions for losses	Citizens		Companies		Public sector and other institutions		Total
	Individual	Collective	Individual	Collective	Individual	Collective	
Bank							
Balance at 1 January 2011	**940**	**327**	**713**	**212**	**33**	**-**	**2,225**
Amounts collected/reversed	(663)	(213)	(274)	(31)	(23)	-	**(1,204)**
Amounts written off	(2)	-	(26)	-	-	-	**(28)**
Foreign exchange loss	14	-	8	-	-	-	**22**
Provisions charged	782	23	498	147	24	26	**1,500**
Balance at 31 December 2011	**1,071**	**137**	**919**	**328**	**34**	**26**	**2,515**
Reconciliation with the Income statement line item Provisions for loans and advances to customers							
Provisions charged	782	23	498	147	24	26	**1,500**
Amounts collected/reversed	(663)	(213)	(274)	(31)	(23)	-	**(1,204)**
Charge in the income statement	**119**	**(190)**	**224**	**116**	**1**	**26**	**296**
Bank							
Balance at 1 January 2010	**744**	**323**	**572**	**194**	**32**	**10**	**1,875**
Amounts collected/reversed	(711)	(19)	(277)	(5)	(18)	(10)	**(1,040)**
Amounts written off	(1)	-	(31)	-	-	-	**(32)**
Foreign exchange loss	15	-	2	-	-	-	**17**
Transfer of interest value adjustment from off-balance accounts	20	-	15	-	-	-	**35**
Provisions charged	873	23	432	23	19	-	**1,370**
Balance at 31 December 2010	**940**	**327**	**713**	**212**	**33**	**-**	**2,225**
Reconciliation with the Income statement line item Provisions for loans and advances to customers							
Provisions charged	873	23	432	23	19	-	**1,370**
Amounts collected/reversed	(711)	(19)	(277)	(5)	(18)	(10)	**(1,040)**
Charge in the income statement	**162**	**4**	**155**	**18**	**1**	**(10)**	**330**

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 2011 the aggregate amount of nonperforming loans and receivables (before provisions) for the Group equalled HRK 5,690 million and for the Bank HRK 4,791 million (2010: HRK 5,185 million and HRK 4,266 million respectively). The fair value of collateral that the Group holds relating to loans individually determined to be impaired as of 31 December 2011 amounts to 7,785 million.
During 2011 the Group sold the rights to 100 percent of the cash flows arising on a syndicated loan portfolio carried at HRK 56 million (2010: HRK 141 million) to third parties for a payment of HRK 56 million (2010: HRK 141 million), excluding fees paid to the buyers (2010: null). 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 4,293 million (2010: HRK 4,240 million).

(e) Refinanced loans

Included in loans and receivables are HRK 2.5 million (2010: HRK 2.4 million) related to refinanced borrowings due to Government Agencies. In 2010, refinanced borrowings due to the Republic of Croatia of HRK 14.6 million were repaid.
For more detail on refinanced loans refer to note 26.

(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 5.6 million and the Bank HRK 3 million (2010: HRK 5.2 million and HRK 2.9 million respectively). The collateral repossessed, which the Group is in the process of selling, is disclosed within Other assets (note 23). In general, the Group does not occupy repossessed properties for business use.
During 2011 the Group has sold collateral with a total fair value of HRK 3 million (2010: HRK 3 million).

(g) Collateral given

The carrying amount of securities sold under agreements to repurchase at 31 December 2011 was HRK 1,001 million (2010: HRK 1,375 million). Those securities are classified in the loans and receivables portfolio and financial assets initially designated at fair value through profit or loss portfolio (note 26).

16 | Assets available for sale (in HRK million)

	GROUP		BANK	
	2011	2010	2011	2010
Quoted investments				
Government debt securities	131	100	76	100
Equities	33	33	27	25
Corporate debt securities	40	23	22	23
Treasury bills	-	587	-	587
Money market funds	78	124	-	-
	282	**867**	**125**	**735**
Unquoted investments				
Treasury bills	637	556	-	-
Equities	62	55	61	54
	699	**611**	**61**	**54**
Accrued interest	4	5	3	4
	985	**1,483**	**189**	**793**

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 with adverse effect on the level of regulatory capital of PBZ Stambena štedionica.

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

EQUITY INVESTMENTS	COUNTRY	NATURE OF BUSINESS	2011 holding %	2010 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 (2010: 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	
	2011	2010	2011	2010
Republic of Croatia bonds	263	259	-	-
Recapitalisation bonds	78	224	78	224
Rehabilitation bonds	42	119	42	119
Replacement bonds	-	31	-	28
Accrued interest	8	14	4	10
	391	**647**	**124**	**381**

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.

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 and they matured in August 2011. These kuna denominated bonds, bearded an interest rate of 5 percent and were payable in semi annual instalments.

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

	GROUP		BANK	
	2011	2010	2011	2010
Consolidated subsidiaries	-	-	351	354
Associates accounted for under the equity method in the Group accounts (cost in the Bank's accounts)	135	128	38	38
	135	**128**	**389**	**392**
Movements				
Balance at 1 January	**128**	**130**	**392**	**392**
Consolidation effect arising from equity method	18	8	-	-
Payment of dividend	(11)	(10)	-	-
Acquired/(disposed of)	-	-	(3)	-
Balance at 31 December	**135**	**128**	**389**	**392**

18 | Investments in subsidiaries and associates / continued

The principal investments in subsidiaries and associates are as follows:

CONSOLIDATED SUBSIDIARIES	COUNTRY	NATURE OF BUSINESS	2011 holding %	2010 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
ASSOCIATES				
PBZ Croatia osiguranje d.d.	Croatia	finance	50	50
Intesa Sanpaolo Card Zagreb d.o.o.	Croatia	card services	31	31

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

	2011	2010
Privredna banka Zagreb d.d.	7,793	6,945
Međimurska banka d.d.	214	216
PBZ Card d.o.o.	695	589
PBZ Leasing d.o.o.	67	64
PBZ Invest d.o.o.	17	14
PBZ Nekretnine d.o.o.	22	22
PBZ Stambena štedionica d.d.	15	(7)
PBZ Croatia osiguranje d.d.	38	34
Intesa Sanpaolo Card d.o.o. Zagreb	60	56
Total equity reserves of the Group	**8,921**	**7,933**

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

PBZ Croatia osiguranje d.d. and Intesa Sanpaolo Card d.o.o. Zagreb (2010: 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:

	2011	2010
Share of the associates' statement of financial position		
Current assets	113	154
Non current assets	49	41
Current liabilities	(21)	(61)
Non current liabilities	(6)	(6)
Net assets, being the carrying amount of the investment	**135**	**128**
Share of the associates' revenues, expenses and profit		
Revenue	113	65
Expenses	(95)	(57)
Profit	**18**	**8**

19 | Intangible assets and goodwill (in HRK million)

Group	Goodwill	Software	Other intangible assets	Assets in preparation	Total
Acquisition cost					
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**
Additions	-	-	-	53	**53**
Goodwill impairment charge	(3)	-	-	-	**(3)**
Disposals and eliminations	-	(1)	-	-	**(1)**
Transfer in use	-	47	-	(47)	**-**
Balance at 31 December 2011	**69**	**370**	**5**	**9**	**453**
Amortization					
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**
Charge for the year	-	37	1	-	**38**
Balance at 31 December 2011	**-**	**293**	**3**	**-**	**296**
Net book value					
Balance at 31 December 2010	**72**	**68**	**3**	**3**	**146**
Balance at 31 December 2011	**69**	**77**	**2**	**9**	**157**

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

Bank	Software	Assets in preparation	Total
Acquisition cost			
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**
Additions	-	50	**50**
Transfer in use	44	(44)	**-**
Balance at 31 December 2011	**338**	**9**	**347**
Amortization			
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**
Charge for the year	34	-	**34**
Balance at 31 December 2011	**264**	**-**	**264**
Net book value			
Balance at 31 December 2010	**64**	**3**	**67**
Balance at 31 December 2011	**74**	**9**	**83**

Goodwill acquired through business combinations was allocated to two individual cash generating units for impairment testing - PBZ Card (the American Express part of the business) and Međimurska banka. The recoverable amounts of cash generating units have been determined based on a value in use calculation using cash flow projections based on financial plans covering a five-year period. The discount rate applied to the cash flow projections was 12.90 percent for PBZ Card and 13.64 percent for Međimurska banka, while the cash flows beyond the 5-year period were extrapolated using a no growth assumption (zero percent growth rate). As a result of this analysis, management has recognised an impairment charge of HRK 3.3 million against goodwill allocated to Međimurska banka previously carried at HRK 17.5 million, which is recorded within Depreciation and amortisation of property and equipment and intangible assets in the income statement.

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
Acquisition cost							
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**
Additions	-	-	-	1	-	249	**250**
Transfer to non-current assets held for sale	(54)	(3)	-	-	-	-	**(57)**
Disposals and write-offs	(18)	(11)	(114)	(28)	(1)	-	**(172)**
Transfer in use	19	26	78	21	6	(150)	**-**
Balance at 31 December 2011	**1,027**	**441**	**271**	**559**	**231**	**106**	**2,635**
Depreciation							
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)**
Balance at 31 December 2010	**278**	**334**	**131**	**468**	**177**	**-**	**1,388**
Charge for the year	26	40	49	36	20	-	**171**
Transfer to non-current assets held for sale	(25)	(3)	-	-	-	-	**(28)**
Disposals and write-offs	(2)	(10)	(59)	(28)	(1)	-	**(100)**
Balance at 31 December 2011	**277**	**361**	**121**	**476**	**196**	**-**	**1,431**
Net book value							
Balance at 31 December 2010	**802**	**95**	**176**	**97**	**49**	**7**	**1,226**
Balance at 31 December 2011	**750**	**80**	**150**	**83**	**35**	**106**	**1,204**

Furniture and other equipment and motor vehicles of the Group include assets leased under operating leases with a net book value of HRK 271.7 million (2010: HRK 292.3 million).

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

Bank	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Leasehold improve-ments	Asset in prepa-ration	Total
Acquisition cost							
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**
Additions	-	-	-	-	-	38	**38**
Transfer to non-current assets held for sale	(54)	(3)	-	-	-	-	**(57)**
Disposals and write-offs	(9)	(8)	(2)	(19)	(1)	-	**(39)**
Transfer in use	9	12	-	17	6	(44)	**-**
Balance at 31 December 2011	**772**	**377**	**9**	**318**	**229**	**2**	**1,707**
Depreciation							
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**
Charge for the year	20	31	2	30	19	-	**102**
Transfer to non-current assets held for sale	(25)	(3)	-	-	-	-	**(28)**
Disposals and write-offs	(2)	(8)	(2)	(19)	(1)	-	**(32)**
Balance at 31 December 2011	**229**	**324**	**6**	**272**	**193**	**-**	**1,024**
Net book value							
Balance at 31 December 2010	**590**	**72**	**5**	**59**	**49**	**8**	**783**
Balance at 31 December 2011	**543**	**53**	**3**	**46**	**36**	**2**	**683**

21 | Investment property (in HRK million)

	GROUP	BANK
Acquisition cost		
Balance at 1 January 2011	**31**	**26**
Change for the year	-	-
Balance at 31 December 2011	**31**	**26**
Depreciation		
Balance at 1 January 2011	**18**	**16**
Charge for the year	1	1
Balance at 31 December 2011	**19**	**17**
Net book value		
Balance at 31 December 2010	**13**	**10**
Balance at 31 December 2011	**12**	**9**

The estimated fair value of investment property held by the Group as at 31 December 2011 amounted to HRK 27 million (2010: HRK 19 million). The fair value was estimated by PBZ Nekretnine, a wholly owned subsidiary of Privredna banka Zagreb engaged in real estate management and by the independent appraiser.
The property rental income earned by the Group from its investment property, all of which was leased out under operating leases, amounted to HRK 2.4 million (2010: HRK 2.2 million).

22 | Non current asset held for sale

The Bank's Management Board resolved to dispose of two office buildings together with related fixtures and fittings and signed the contracts with respective buyers. The transaction is estimated to be completed in the first half of 2012 and therefore the assets were classified as non-current assets held for sale and presented separately in the balance sheet.
The proceeds of the disposal are estimated to exceed the net carrying amount of the relevant assets and, accordingly, no impairment loss was recognised on the classification of these assets as held for sale.

The major classes of assets comprising the non-current assets held for sale are as follows:

	GROUP		BANK	
(in HRK million)	2011	2010	2011	2010
Land and buildings	29	-	29	-
Furniture and other equipment	1	-	1	-
	30	**-**	**30**	**-**

23| Other assets (in HRK million)

	GROUP		BANK	
	2011	2010	2011	2010
Amounts receivable from card business	184	144	28	50
Amounts receivable from debtors	55	51	1	1
Amounts receivable from tax institutions	35	47	-	23
Collateral received for non-performing loans	34	29	24	21
Accrued fees	32	32	42	36
Prepaid expenses	20	25	13	14
Advance payments	26	29	25	23
Amounts to be debited under processing	9	8	5	5
Other	96	43	66	24
	491	**408**	**204**	**197**

24| Due to banks (in HRK million)

	GROUP		BANK	
	2011	2010	2011	2010
Term deposits	2,665	3,744	3,079	3,776
Demand deposits	329	407	344	420
	2,994	**4,151**	**3,423**	**4,196**

25| Due to customers (in HRK million)

	GROUP		BANK	
	2011	2010	2011	2010
Term deposits	32,420	32,422	30,021	29,936
Demand deposits	15,011	14,632	14,060	13,666
	47,431	47,054	44,081	43,602
Retail deposits	36,813	35,745	33,674	32,725
Corporate deposits	5,975	7,296	5,798	6,880
Public sector and other institutions	4,643	4,013	4,609	3,997
	47,431	**47,054**	**44,081**	**43,602**

26 | Other borrowed funds (in HRK million)

	GROUP		BANK	
	2011	2010	2011	2010
Borrowings in domestic currency	2,444	2,844	2,363	2,756
Borrowings in foreign currency	6,864	7,043	5,624	5,673
Refinanced debt	3	2	3	2
	9,311	**9,889**	**7,990**	**8,431**

a) Borrowings in domestic currency
Borrowings in domestic currency of the Group include loans received from the Croatian Bank for Reconstruction and Development (HBOR) of HRK 1.2 billion (2010: HRK 1.5 million), payables under repurchase agreements with HBOR of HRK 839 million (2010: HRK 1 billion) as well as other borrowings from other domestic and foreign 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.

b) Borrowings in foreign currency
Borrowings in foreign currency of the Group include short-term and long-term loans received from domestic non-financial institutions and foreign banks denominated mostly in EUR and with floating interest rates. The following table is a summary of the Group's borrowings in foreign currency by remaining maturities.

(in HRK million)	Due in 2012	Due in 2013	Due in 2014	Due in 2015	Due after 2015	Total 2011	Total 2010
GROUP							
Floating rate	840	293	3,335	66	2,330	6,864	7,043
Total borrowings in foreign currency	**840**	**293**	**3,335**	**66**	**2,330**	**6,864**	**7,043**

27 | Other liabilities (in HRK million)

	GROUP		BANK	
	2011	2010	2011	2010
Amounts payable to creditors	1,154	1,039	49	53
Items in the course of payment and other liabilities	350	306	305	255
Salaries and other staff costs	129	119	107	100
	1,633	**1,464**	**461**	**408**

28 | Accruals and deferred income (in HRK million)

	GROUP		BANK	
	2011	2010	2011	2010
Accrued expenses	110	127	59	62
Deferred income	84	76	15	14
Deferred tax liabilities	-	3	-	1
	194	**206**	**74**	**77**

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

	NOTE	GROUP		BANK	
		2011	2010	2011	2010
a) Analysis					
Provisions for contingent liabilities and commitments		146	142	145	139
Provisions for legal claims		34	57	30	52
Provisions for other risks and charges		11	15	11	15
		191	**214**	**186**	**206**
b) Movements					
Balance at 1 January		**214**	**213**	**206**	**195**
Utilisation of provisions for risks and charges		(32)	(19)	(34)	(12)
Provisions for guarantees and commitments	5	1	12	6	12
Provisions for legal claims	5	8	8	8	11
Balance at 31 December		**191**	**214**	**186**	**206**

30 | Contingent liabilities and commitments

Legal claims

As at 31 December 2011 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 2011 made by the Group stood at HRK 34 million (2010: HRK 57 million) whilst the Bank provided HRK 30 million (2010: HRK 52) (refer to note 29).

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 146 million is necessary to cover risks due to default of the respective counterparties (refer to note 29).

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

	GROUP		BANK	
(in HRK million)	2011	2010	2011	2010
Undrawn lending commitments	9,668	9,082	9,422	8,888
Performance guarantees	1,842	1,918	1,819	1,897
HRK guarantees	483	511	452	488
Foreign currency guarantees	334	337	331	332
Foreign currency letters of credit	310	221	310	220
Factoring and forfaiting	27	12	27	12
Other contingent liabilities	20	22	20	22
	12,684	**12,103**	**12,381**	**11,859**

30 | Contingent liabilities and commitments / continued

On 31 December 2011 the Group and the Bank had long-term commitments in respect of rent for business premises and equipment lease agreements expiring between 2012 and 2016. 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 2011 are presented below:

(in HRK million)	2011	2012	2013	2014	2015	2016	Total
Group							
Premises	53	62	62	63	64	65	**369**
	53	**62**	**62**	**63**	**64**	**65**	**369**
Bank							
Premises	52	61	61	62	63	64	**363**
Equipment	4	4	4	4	4	4	**24**
	56	**65**	**65**	**66**	**67**	**68**	**387**

31 | Share capital

The total number of authorised registered shares on 31 December 2011 was 19,074,769 (2010: 19,074,769) with a nominal value of HRK 100 per share (2010: 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.

31| Share capital / continued

The ownership structure as at 31 December 2011 was as follows:

	REGISTERED SHARES			
	31 December 2011		31 December 2010	
	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 2011, the President of the Management Board Mr Božo Prka held 361 shares of Privredna banka Zagreb. Members of the Management Board, Mr Ivan Gerovac held 120 shares and Mr Draženko Kopljar held 108 shares.

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

(number of shares)	2011	2010
Balance at 1 January	**64,673**	**64.673**
Increase	-	-
Decrease	-	-
Balance at 31 December	**64,673**	**64.673**

32| 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 2011, the Bank did not purchase any treasury shares on the open market for its own purposes.
At its meeting held on 8 February 2012, the Management Board of the Bank proposed a dividend of HRK 29.90 per share. The total amount to be distributed to the shareholders amounts to HRK 568.4 million. The Supervisory Board gave its consent to the proposal, which should be approved on the following General Assembly meeting.
As of 31 December 2011 retained profits (without net profit for 2011) of the Group amounted to HRK 7,326 million and of the Bank to HRK 6,368 million (2010: HRK 6,606 million and HRK 5,809 million, respectively). Retained profits are generally available to shareholders, subject to their approval, whilst other reserves within equity cannot be distributed to shareholders. Other reserves relate to non distributable reserves in the total amount of HRK 327 million for the Group (2010: HRK 305 million) and HRK 289 million for the Bank (2010: HRK 276 million).

33| Cash and cash equivalents

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

	NOTE	GROUP		BANK	
(in HRK million)		2011	2010	2011	2010
Cash and current accounts with other banks	10	2,647	2,273	2,465	2,092
Due from banks with maturity of up to 3 months	14	6,567	7,675	6,323	7,229
		9,214	**9,948**	**8,788**	**9,321**

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

	GROUP		BANK	
	2011	2010	2011	2010
Liabilities				
Local authorities and similar organisations	402	484	401	483
Companies	2	3	2	3
Banks and other institutions	210	244	206	239
	614	**731**	**609**	**725**
Less: Assets	553	677	548	671
	61	**54**	**61**	**54**

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 2011 stood at HRK 1,980 million (2010: HRK 2,575 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 6,851 million as 31 December 2011 (2010: HRK 6,145 million).

35 | 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 749.9 million (2010: HRK 859.2 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 271.7 million (2010: HRK 292.3 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)	**2011**	**2011**	**2010**	**2010**
Next year	256	214	284	234
Between one and five years	502	396	549	437
After five years	322	268	379	311
Total minimum lease payments receivable	**1,080**	**878**	**1,212**	**982**
Unearned finance income	(202)	-	(230)	-
Total investment in finance leases	**878**	**878**	**982**	**982**
Less: Allowance for uncollectible amounts	(87)	(87)	(82)	(82)
Net investment in finance lease	**791**	**791**	**900**	**900**

35| Leases / continued

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

(in HRK million)	**2011**	**2010**
Within one year	64	68
After one year but no more than five years	116	115
More than five years	59	68
	239	**251**

36| Related party transactions

As of 31 December 2011 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:

(in HRK million)	Key management personnel	Parent company - Intesa Sanpaolo	Associates	Parent Group companies
Group				
Deposits and loans given				
Loans outstanding at 1 January 2011	**13**	**404**	**-**	**15**
Changes during the year	3	1	-	194
Loans outstanding at 31 December 2011	**16**	**405**	**-**	**209**
Interest income	1	13	-	1
Deposits and loans received				
Balance at 1 January 2011	**36**	**1,382**	**67**	**5,754**
Changes during the year	2	(1,270)	(6)	(53)
Balance at 31 December 2011	**38**	**112**	**61**	**5,701**
Interest expense	(1)	(23)	(2)	(140)
Contingent liabilities and commitments	**2**	**1**	**20**	**15**
Fees and other income	-	-	12	10
Fees and other expense	(6)	(1)	(39)	(2)

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

	Key management personnel	PBZ Group entities	Parent company-Intesa Sanpaolo	Associates	Parent Group companies
Bank					
Deposits and loans given					
Loans outstanding at 1 January 2011	**13**	**370**	**404**	**-**	**-**
Changes during the year	1	316	1	-	14
Loans outstanding at 31 December 2011	**14**	**686**	**405**	**-**	**14**
Interest income	1	24	13	-	1
Deposits and loans received					
Balance at 1 January 2011	**31**	**238**	**1,382**	**67**	**4,385**
Changes during the year	(1)	412	(1,270)	(6)	81
Balance at 31 December 2011	**30**	**650**	**112**	**61**	**4,466**
Interest expense	(1)	(9)	(23)	(2)	(102)
Contingent liabilities and commitments	2	121	1	20	15
Lease expense	-	(13)	-	-	-
Fees and other income	-	214	-	12	10
Fees and other expense	-	(50)	(1)	(39)	(2)

No provisions were recognised in respect of loans given to related parties (2010: nil).

Annual key management remuneration:

		GROUP		**BANK**
	2011	2010	2011	2010
Personnel compensation (gross)	59	65	42	49
Pension insurance costs	5	5	3	3
	64	**70**	**45**	**52**

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. Therefore, total number of key management personnel of the Group for 2011 was 38 (2010: 39) and the Bank 26 (2010: 27).
All bonuses in 2011 and 2010 were paid in cash.

37 | 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 30.
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 clients' 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.
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)		2011	2010	2011	2010
Cash and current accounts with other banks (excluding cash in hand)	10	1,323	1,126	1,224	1,017
Balances with Croatian National bank	11	6,989	7,612	6,757	7,371
Financial assets at fair value through profit or loss	12	2,497	2,806	2,497	2,806
Derivative financial assets	13	11	2	11	2
Due from banks	14	7,036	8,027	7,231	7,732
Loans and advances to customers	15	51,398	49,418	46,691	44,585
Assets available for sale	16	985	1,483	189	793
Held to maturity investments	17	391	647	124	381
Other assets (excluding real estate pledged for non-performing loans)	23	457	379	180	176
Total		**71,087**	**71,500**	**64,904**	**64,863**
Contingent liabilities and commitments	30	12,684	12,103	12,381	11,859
Total credit risk exposure		**83,771**	**83,603**	**77,285**	**76,722**

37 | Financial risk management policies / continued

Credit risk / continued

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 2011 was HRK 1,983 million (2010: HRK 1,776 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 regula-tions of the Bank,
- pledge of units in investment funds managed by PBZ Invest,
- mortgage/lien/fiduciary transfer of ownership of property, movable property or securities of other issuers.

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.

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

Group 2011 (in HRK million)	Less than 10 days	11 to 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Loans and advances to customers						
Corporate lending	9,722	318	860	212	1,363	**12,475**
Housing loans	2,271	207	639	179	403	**3,699**
Other retail loans	3,949	319	667	272	1,560	**6,767**
Public sector and other	838	1	43	59	17	**958**
	16,780	**845**	**2,209**	**722**	**3,343**	**23,899**
Due from banks	335	-	-	-	8	**343**
Securities	6	-	-	-	-	**6**
Other due receivables	844	9	66	34	1,488	**2,441**
Total	**17,965**	**854**	**2,275**	**756**	**4,839**	**26,689**

37 | Financial risk management policies / continued

Credit risk / continued

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**

Bank 2011 (in HRK million)	Less than 10 days	11 to 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Loans and advances to customers						
Corporate lending	9,514	86	817	186	1,182	**11,785**
Housing loans	2,228	190	630	177	393	**3,618**
Other retail loans	2,554	171	607	230	927	**4,489**
Public sector and other institutions	824	1	42	59	17	**943**
	15,120	**448**	**2,096**	**652**	**2,519**	**20,835**
Due from banks	139	-	-	-	8	**147**
Securities	6	-	-	-	-	**6**
Other due receivables	842	5	65	33	1,320	**2,265**
Total	**16,107**	**453**	**2,161**	**685**	**3,847**	**23,253**

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**

37 | Financial risk management policies / continued

Credit risk / continued

Loans and advances to customers shown in the above tables in the first bucket (less than 10 days) include loans and advances that are past due by a few days. Generally, delinquencies up to 30 days are of a technical nature and are frequently of low value and represent 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 presented 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 2011 the total amount of the Group's past due receivables that were not individually impaired amounted to HRK 18,072 million gross (2010: HRK 17,982 million), before the effect of collateral, while for the Bank it amounted to HRK 17,229 million (2010: HRK 16,019 million).

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 2011. The amounts provided are gross of specific or collective provisions.

(in HRK million)	RISK GRADES					
Banking segment 2011	**A**	**B1**	**B2**	**B3**	**C**	**Total**
Due from banks	7,366	-	-	-	8	**7,374**
Loans to customers	43,992	1,550	2,040	223	948	**48,753**
of which Republic of Croatia, Government agencies and municipalities	*6,885*	*3*	-	-	-	***6,888***
of which corporate and SME customers	*13,051*	*1,120*	*1,113*	*120*	*329*	***15,733***
of which retail customers	*23,303*	*427*	*909*	*103*	*618*	***25,360***
of which other loans	*753*	-	*18*	-	*1*	***772***
Held to maturity investments	42	-	-	-	-	**42**
Assets available for sale	973	-	-	-	2	**975**
Other receivables	549	6	19	31	47	**652**
Total	**52,922**	**1,556**	**2,059**	**254**	**1,005**	**57,796**

(in HRK million)	RISK GRADES					
Banking segment 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**

37| Financial risk management policies / continued

Credit risk / continued

Credit risk per class of financial assets / continued
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 2011 placements of the Bank internally rated as A1 amounted to HRK 4,206 million (2010: HRK 4,378 million) and A2 HRK 39.369 million (2010: HRK 37.145 million).

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.

37 | 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 17 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 further to 20 percent, within the same month. Finally, in March 2011 Croatian National Bank set a minimum ratio at 17 percent. The actual figures were as follows:

2011	%	2010	%
"17% ratio" (at year end)	19.55	"20% ratio" (at year end)	22.28
Average	18.61	Average	21.41
Maximum	21.92	Maximum	27.70
Minimum	17.44	Minimum	20.40

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.

37 | Financial risk management policies / continued

Market risk / continued

(in HRK thousand)	Equity VaR	Interest rate VaR	FX VaR	Effects of correlation	Total
2011 - 3 January	667	128	661	(655)	**801**
2011 - 30 December	582	4,343	2,448	(2,355)	**5,018**
2011 - Average daily	837	1,147	1,785	(1,266)	**2,503**
2011 - Lowest	397	42	116	58	**613**
2011 - Highest	1,408	5,465	4,541	(5,193)	**6,221**

Note: historical simulation used for VaR calculations

(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 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 2011. 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 2011	Scenario		FX Open position 2010	Scenario	
		10% Move Up	10% Move Down		10% Move Up	10% Move Down
EUR	**531**	53	(53)	**315**	31	(31)
CHF	**(81)**	(8)	8	**13**	1	(1)
USD	**1**	-	-	**5**	1	(1)

37 | 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 2011	Change in interest income	Change in interest expenses	Change in net interest income	**Decrease in basis points 2011**	Change in interest income	Change in interest expenses	Change in net interest income
+25	94.7	77.0	17.7	-25	(94.7)	(77.0)	(17.7)
+50	189.4	153.9	35.4	-50	(189.4)	(153.9)	(35.4)

(in HRK million)

Increase in basis points 2010	Change in interest income	Change in interest expenses	Change in net interest income	**Decrease in basis points 2010**	Change in interest income	Change in interest expenses	Change in net interest income
+25	93.2	85.4	7.9	-25	(93.2)	(85.4)	(7.9)
+50	186.5	170.8	15.7	-50	(186.5)	(170.8)	(15.7)

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.

38 | 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)	2011	2010
Tier 1 capital	10,593	10,005
Tier 2 capital	-	-
Deductions	(371)	(371)
Total capital	**10,222**	**9,634**
Risk weighted assets and other risk elements	**47,424**	**48,094**
Tier 1 capital ratio	**22.34%**	**20.80%**
Total capital ratio	**21.55%**	**20.03%**

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 minimum regulatory ratio on capital adequacy is 12 percent at the end of both observed periods.

39 | 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 arm's 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. The following methods and assumptions have been made in estimating the fair value of financial instruments.

39 | Fair values of financial assets and liabilities / continued

- 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 381 million (2010: HRK 636 million) and for the Bank HRK 124 million (2010: HRK 391 million) (with carrying values of HRK 394 million (2010: HRK 637 million) and HRK 124 million (2010: HRK 381 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)			2011			2010
	Level 1	Level 2	Total	Level 1	Level 2	Total
Derivative financial assets	-	11	**11**	-	2	**2**
Financial assets held for trading	27	-	**27**	30	-	**30**
Financial assets initially designated at fair value through profit or loss	-	2,418	**2,418**	-	2,740	**2,740**
Financial instruments available for sale	243	685	**928**	848	579	**1,427**
Financial assets	**270**	**3,114**	**3,384**	**878**	**3,321**	**4,199**
Derivative financial liabilities	-	9	**9**	-	86	**86**
Financial liabilities	**-**	**9**	**9**	**-**	**86**	**86**

39 | 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 2011 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.

39 | 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 held for trading as at 31 December 2009	1,919	2,040	1,919	2,040
Financial assets reclassified from held for trading as at 31 December 2010	1,909	1,944	1,909	1,944
Financial assets reclassified from held for trading as at 31 December 2011	1,940	1,929	1,940	1,929
Financial assets reclassified from available for sale as at the date of reclassification	1,418	1,418	213	213
Financial assets reclassified from available for sale as at 31 December 2009	1,407	1,486	215	227
Financial assets reclassified from available for sale as at 31 December 2010	1,425	1,489	215	229
Financial assets reclassified from available for sale as at 31 December 2011	1,353	1,365	182	185

The following table presents 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.

39 | Fair values of financial assets and liabilities / continued

Reclassification of financial assets / continued

(in HRK million)	GROUP		BANK	
	2011	2010	2011	2010
Fair value gains and losses which would otherwise have been recognised after reclassification in net Other operating income	(13)	(45)	(13)	(45)
Fair value gains and losses which would otherwise have been recognised after reclassification in Other comprehensive income	(54)	68	(4)	2

The net profit actually recorded on assets reclassified to Loans and receivables (excluding coupon) in 2011 amounts to HRK 23 million for the Group (2010, subsequent to 30 April: HRK 31 million) and HRK 34 million for the Bank (2010, subsequent to 30 April: HRK 34 million), and is recognised as interest income.

40 | 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.

GROUP

For the year ended 31 December 2011 (in HRK million)	PBZ Corporate	PBZ Retail	PBZ Finance	Central Structure	PBZ Card	Other subsidiaries	Reconciliation to financial statements	Financial statements
Net interest income	846	1,147	115	160	66	139	7	**2,480**
Net commission income	234	249	30	(3)	549	68	(15)	**1,112**
Net profit from trading and other operating income	36	123	37	11	(166)	95	164	**300**
Operating margin	**1,116**	**1,519**	**182**	**168**	**449**	**302**	**156**	**3,892**
Operating costs	(361)	(796)	(96)	-	(157)	(168)	(364)	**(1,942)**
Operating profit	**755**	**723**	**86**	**168**	**292**	**134**	**(208)**	**1,950**
Impairments	(384)	96	(72)	4	(14)	(32)	33	**(369)**
Profit before taxes	**371**	**819**	**14**	**172**	**278**	**102**	**(175)**	**1,581**
Income taxes	-	-	-	(240)	(57)	(16)	-	**(313)**
Profit after taxes	**371**	**819**	**14**	**(68)**	**221**	**86**	**(175)**	**1,268**
Capital expenditure	4	39	-	464	8	6	-	**521**
Segment assets	22,283	24,019	21,912	3,235	2,576	6,732	(6,738)	**74,019**
Investments in associates	-	69	66	-	-	-	-	**135**
Total assets	**22,283**	**24,088**	**21,978**	**3,235**	**2,576**	**6,732**	**(6,738)**	**74,154**
Segment liabilities	**19,211**	**33,138**	**5,917**	**2,813**	**1,868**	**6,102**	**(7,217)**	**61,832**

40 | Financial information by segment / continued

Various methodological changes have affected segment reporting in 2011 compared to 2010. In this respect, for the table below, 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.

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	(15)	549	47	(581)	-	-	-	**-**
Operating margin (as adjusted)	**1,061**	**1,449**	**182**	**(42)**	**435**	**324**	**154**	**3,563**
Operating costs	(334)	(794)	(93)	-	(157)	(177)	(330)	**(1,885)**
Operating profit	**727**	**655**	**89**	**(42)**	**278**	**147**	**(176)**	**1,678**
Impairments	(216)	(162)	(12)	(8)	(1)	(31)	26	**(404)**
Profit before taxes	**511**	**493**	**77**	**(50)**	**277**	**116**	**(150)**	**1,274**
Income taxes	-			(174)	(56)	(22)	-	**(252)**
Profit after taxes	**511**	**493**	**77**	**(224)**	**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**

40 | Financial information by segment / continued

Bank

For the year ended 31 December 2011 (in HRK million)	PBZ Corporate	PBZ Retail	PBZ Finance	Central Structure	Reconciliation to financial statements	Financial statements
Net interest income	846	1,147	115	160	-	**2,268**
Net commission income	234	249	30	(3)	-	**510**
Net profit from trading and other operating income	36	123	37	11	161	**368**
Operating margin	**1,116**	**1,519**	**182**	**168**	**161**	**3,146**
Operating costs	(361)	(796)	(96)	-	(164)	**(1,417)**
Operating profit	**755**	**723**	**86**	**168**	**(3)**	**1,729**
Impairments	(384)	96	(72)	4	3	**(353)**
Profit before taxes	**371**	**819**	**14**	**172**	**-**	**1,376**
Income taxes	-	-	-	(240)	-	**(240)**
Profit after taxes	**371**	**819**	**14**	**(68)**	**-**	**1,136**
Capital expenditure	4	39	-	464	-	**507**
Segment assets	**24,134**	**25,599**	**19,924**	**2,243**	**(4,419)**	**67,481**
Segment liabilities	**20,190**	**36,065**	**5,065**	**523**	**(5,556)**	**56,287**

40 | Financial information by segment / continued

Various methodological changes have affected segment reporting in 2011 compared to 2010. In this respect, for the table below, 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.

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	(15)	549	47	(581)	-	**-**
Operating margin (as adjusted)	**1,061**	**1,449**	**182**	**(42)**	**139**	**2,789**
Operating costs	(334)	(794)	(93)	-	(146)	**(1,367)**
Operating profit	**727**	**655**	**89**	**(42)**	**(7)**	**1,422**
Impairments	(216)	(162)	(12)	(8)	10	**(388)**
Profit before taxes	**511**	**493**	**77**	**(50)**	**3**	**1,034**
Income taxes	-	-	-	(174)	-	**(174)**
Profit after taxes	**511**	**493**	**77**	**(224)**	**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**

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.

41 | 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 2011	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	1,135	-	-	-	1,512	**2,647**
Balances with the Croatian National Bank	2,947	-	4,032	-	10	**6,989**
Financial assets at fair value through profit or loss	-	1,243	824	352	78	**2,497**
Derivative financial assets	-	-	-	-	11	**11**
Due from banks	6,031	54	295	638	18	**7,036**
Loans and advances to customers	20,546	14,297	6,997	7,689	1,869	**51,398**
Assets available for sale	89	128	430	246	92	**985**
Held to maturity investments	-	124	60	205	2	**391**
Investments in subsidiaries and associates	-	-	-	-	135	**135**
Intangible assets and goodwill	-	-	-	-	157	**157**
Property and equipment	109	163	-	-	932	**1,204**
Investment property	-	-	-	-	12	**12**
Non-current assets held for sale	-	-	-	-	30	**30**
Other assets	23	5	21	-	442	**491**
Deferred tax assets	-	-	-	-	171	**171**
	30,880	**16,014**	**12,659**	**9,130**	**5,471**	**74,154**
Liabilities						
Due to banks	2,866	69	-	52	7	**2,994**
Due to customers	24,167	1,955	18,793	2,055	461	**47,431**
Derivative financial liabilities	-	-	-	-	9	**9**
Other borrowed funds	1,184	1,448	489	6,157	33	**9,311**
Other liabilities	1	-	-	-	1,632	**1,633**
Accruals and deferred income	-	-	-	-	194	**194**
Provisions for risks and charges	-	-	-	-	191	**191**
Liabilities for current tax	-	-	-	-	69	**69**
	28,218	**3,472**	**19,282**	**8,264**	**2,596**	**61,832**
Interest sensitivity gap	**2,662**	**12,542**	**(6,623)**	**866**	**2,875**	**12,322**

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

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	7,239	249	163	352	24	**8,027**
Loans and advances to customers	20,039	13,273	4,884	9,446	1,776	**49,418**
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**

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

Bank As at 31 December 2011	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	1,120	-	-	-	1,345	**2,465**
Balances with the Croatian National Bank	2,716	-	4,032	-	9	**6,757**
Financial assets at fair value through profit or loss	-	1,243	824	352	78	**2,497**
Derivative financial assets	-	-	-	-	11	**11**
Due from banks	6,259	34	295	623	20	**7,231**
Loans and advances to customers	19,374	13,549	6,769	6,818	181	**46,691**
Assets available for sale	-	-	-	98	91	**189**
Held to maturity investments	-	120	-	-	4	**124**
Investments in subsidiaries and associates	-	-	-	-	389	**389**
Intangible assets and goodwill	-	-	-	-	83	**83**
Property and equipment	-	-	-	-	683	**683**
Investment property	-	-	-	-	9	**9**
Non-current assets held for sale	-	-	-	-	30	**30**
Other assets	-	-	-	-	204	**204**
Deferred tax assets	-	-	-	-	118	**118**
	29,469	**14,946**	**11,920**	**7,891**	**3,255**	**67,481**
Liabilities						
Due to banks	2,995	368	-	52	8	**3,423**
Due to customers	21,898	2,075	18,369	1,315	424	**44,081**
Derivative financial liabilities	-	-	-	-	9	**9**
Other borrowed funds	1,152	205	471	6,129	33	**7,990**
Other liabilities	-	-	-	-	461	**461**
Accruals and deferred income	-	-	-	-	74	**74**
Provisions for risks and charges	-	-	-	-	186	**186**
Liabilities for current tax	-	-	-	-	63	**63**
	26,045	**2,648**	**18,840**	**7,496**	**1,258**	**56,287**
Interest sensitivity gap	**3,424**	**12,298**	**(6,920)**	**395**	**1,997**	**11,194**

41 | 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	6,986	216	163	352	15	**7,732**
Loans and advances to customers	19,038	12,374	4,865	8,163	145	**44,585**
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**

42 | Weighted average interest rates

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

		GROUP		BANK
	2011	2010	2011	2010
	Weighted average interest rate (%)	Weighted average interest rate (%)	Weighted average interest rate (%)	Weighted average interest rate (%)
Cash reserves	0.02	0.74	0.02	0.75
Balances with the Croatian National Bank	0.05	0.76	0.05	0.77
Securities held for trading	3.53	5.00	3.50	4.96
Due from banks	0.81	0.45	0.86	0.47
Loans and advances to customers	6.64	6.76	6.84	6.95
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	2.58	3.03	2.57	3.03
Other borrowed funds	2.08	1.88	2.02	1.96

43| **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 2011	EUR	CHF	USD	Other currencies	HRK	Total
Assets						
Cash and current accounts with other banks	370	136	56	67	2,018	**2,647**
Balances with the Croatian National Bank	958	-	-	-	6,031	**6,989**
Financial assets at fair value through profit or loss	640	-	-	-	1,857	**2,497**
Derivative financial assets	-	-	-	-	11	**11**
Due from banks	3,810	26	2,117	461	622	**7,036**
Loans and advances to customers	31,817	4,309	270	-	15,002	**51,398**
Assets available for sale	367	-	12	-	606	**985**
Held to maturity investments	391	-	-	-	-	**391**
Investments in subsidiaries and associates	-	-	-	-	135	**135**
Intangible assets and goodwill	-	-	-	-	157	**157**
Property and equipment	269	-	-	-	935	**1,204**
Investment property	-	-	-	-	12	**12**
Non-current assets held for sale	-	-	-	-	30	**30**
Other assets	38	2	2	1	448	**491**
Deferred tax assets	-	-	-	-	171	**171**
	38,660	**4,473**	**2,457**	**529**	**28,035**	**74,154**
Liabilities						
Due to banks	580	44	26	25	2,319	**2,994**
Due to customers	30,094	646	2,941	494	13,256	**47,431**
Derivative financial liabilities	-	-	-	-	9	**9**
Other borrowed funds	3,944	4,010	3	-	1,354	**9,311**
Other liabilities	796	5	35	2	795	**1,633**
Accruals and deferred income	4	-	-	-	190	**194**
Provisions for risks and charges	13	-	12	1	165	**191**
Liabilities for current tax	1	-	-	-	68	**69**
	35,432	**4,705**	**3,017**	**522**	**18,156**	**61,832**
Net position before effect of derivatives	**3,228**	**(232)**	**(560)**	**7**	**9,879**	**12,322**
Effect of derivatives	(3,070)	130	569	(10)	-	**(2,381)**
Net position	**158**	**(102)**	**9**	**(3)**	**9,879**	**9,941**

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

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	725	**8,027**
Loans and advances to customers	31,005	4,772	292	1	13,348	**49,418**
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**
Effect of derivatives	(2,448)	(2,174)	154	(10)	-	**(4,478)**
Net position	**(303)**	**(31)**	**10**	**2**	**7,178**	**6,856**

43| 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 2011**	EUR	CHF	USD	Other currencies	HRK	Total
Assets						
Cash and current accounts with other banks	332	128	52	61	1,892	**2,465**
Balances with the Croatian National Bank	925	-	-	-	5,832	**6,757**
Financial assets at fair value through profit or loss	640	-	-	-	1,857	**2,497**
Derivative financial assets	-	-	-	-	11	**11**
Due from banks	3,887	-	2,109	458	777	**7,231**
Loans and advances to customers	28,839	4,280	270	-	13,302	**46,691**
Assets available for sale	78	-	12	-	99	**189**
Held to maturity investments	124	-	-	-	-	**124**
Investments in subsidiaries and associates	-	-	-	-	389	**389**
Intangible assets and goodwill	-	-	-	-	83	**83**
Property and equipment	-	-	-	-	683	**683**
Investment property	-	-	-	-	9	**9**
Non-current assets held for sale	-	-	-	-	30	**30**
Other assets	35	2	1	1	165	**204**
Deferred tax assets	-	-	-	-	118	**118**
	34,860	**4,410**	**2,444**	**520**	**25,247**	**67,481**
Liabilities						
Due to banks	976	44	26	25	2,352	**3,423**
Due to customers	27,547	584	2,929	486	12,535	**44,081**
Derivative financial liabilities	-	-	-	-	9	**9**
Other borrowed funds	2,669	4,010	3	-	1,308	**7,990**
Other liabilities	54	5	25	2	375	**461**
Accruals and deferred income	3	-	-	-	71	**74**
Provisions for risks and charges	13	-	12	1	160	**186**
Liabilities for current tax	-	-	-	-	63	**63**
	31,262	**4,643**	**2,995**	**514**	**16,873**	**56,287**
Net position before effect of derivatives	**3,598**	**(233)**	**(551)**	**6**	**8,374**	**11,194**
Effect of derivatives	(3,382)	130	559	(11)	-	**(2,704)**
Net position	**216**	**(103)**	**8**	**(5)**	**8,374**	**8,490**

43 | Currency risk / continued (in HRK million)

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	863	**7,732**
Loans and advances to customers	26,533	4,735	292	1	13,024	**44,585**
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**
Effect of derivatives	(1,032)	(2,175)	159	(10)	-	**(3,058)**
Net position	**137**	**(30)**	**9**	**-**	**7,172**	**7,288**

44| 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 2011.

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 2011	Less than 12 months	Over 12 months	Total
Assets			
Cash and current accounts with other banks	2,647	-	**2,647**
Balances with the Croatian National Bank	1,851	5,138	**6,989**
Financial assets at fair value through profit or loss	2,145	352	**2,497**
Derivative financial assets	11	-	**11**
Due from banks	6,281	755	**7,036**
Loans and advances to customers	16,608	34,790	**51,398**
Assets available for sale	744	241	**985**
Held to maturity investments	186	205	**391**
Investments in subsidiaries and associates	-	135	**135**
Intangible assets and goodwill	-	157	**157**
Property and equipment	81	1,123	**1,204**
Investment property	-	12	**12**
Non-current assets held for sale	-	30	**30**
Other assets	459	32	**491**
Deferred tax assets	163	8	**171**
	31,176	**42,978**	**74,154**
Liabilities			
Due to banks	2,942	52	**2,994**
Due to customers	11,954	35,477	**47,431**
Derivative financial liabilities	9	-	**9**
Other borrowed funds	2,013	7,298	**9,311**
Other liabilities	1,633	-	**1,633**
Accruals and deferred income	181	13	**194**
Provisions for risks and charges	38	153	**191**
Current tax liabilities	69	-	**69**
	18,839	**42,993**	**61,832**
Net expected maturity gap	**12,337**	**(15)**	**12,322**

44 | Liquidity risk / continued (in HRK million)

Maturity analysis of assets and liabilities / continued

Group 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	8,027	-	**8,027**
Loans and advances to customers	15,213	34,205	**49,418**
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**

44 | Liquidity risk / continued (in HRK million)

Maturity analysis of assets and liabilities / continued

Bank As at 31 December 2011	Less than 12 months	Over 12 months	Total
Assets			
Cash and current accounts with other banks	2,465	-	**2,465**
Balances with the Croatian National Bank	1,800	4,957	**6,757**
Financial assets at fair value through profit or loss	2,145	352	**2,497**
Derivative financial assets	11	-	**11**
Due from banks	6,490	741	**7,231**
Loans and advances to customers	14,133	32,558	**46,691**
Assets available for sale	91	98	**189**
Held to maturity investments	124	-	**124**
Investments in subsidiaries and associates	-	389	**389**
Intangible assets and goodwill	-	83	**83**
Property and equipment	-	683	**683**
Investment property	-	9	**9**
Non-current assets held for sale	-	30	**30**
Other assets	172	32	**204**
Deferred tax assets	118	-	**118**
	27,549	**39,932**	**67,481**
Liabilities			
Due to banks	3,371	52	**3,423**
Due to customers	11,317	32,764	**44,081**
Derivative financial liabilities	9	-	**9**
Other borrowed funds	1,832	6,158	**7,990**
Other liabilities	461	-	**461**
Accruals and deferred income	61	13	**74**
Provisions for risks and charges	61	125	**186**
Liabilities for current tax	63	-	63
	17,175	**39,112**	**56,287**
Net expected maturity gap	**10,374**	**820**	**11,194**

44 | 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	7,732	-	**7,732**
Loans and advances to customers	13,110	31,475	**44,585**
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**

44| 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 2011	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	2,567	376	-	43	9	**2,995**
Due to customers	20,426	7,115	16,114	4,266	107	**48,028**
Derivative financial liabilities	4	1	4	-	-	**9**
Other borrowed funds	504	244	1,433	5,160	2,755	**10,096**
Other liabilities	1,623	4	5	3	-	**1,635**
Total undiscounted financial liabilities	**25,124**	**7,740**	**17,556**	**9,472**	**2,871**	**62,763**
Off-balance sheet liabilities and commitments						
Contingent liabilities	928	596	1,011	429	54	**3,018**
Commitments	9,666	-	-	-	-	**9,666**
Total undiscounted off-balance sheet liabilities and commitments	**10,594**	**596**	**1,011**	**429**	**54**	**12,684**
As at 31 December 2010						
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	905	657	1,068	336	55	**3,021**
Commitments	9,082	-	-	-	-	**9,082**
Total undiscounted off-balance sheet liabilities and commitments	**9,987**	**657**	**1,068**	**336**	**55**	**12,103**

44 | Liquidity risk / continued (in HRK million)

Analysis of financial liabilities by remaining contractual maturities / continued

Bank As at 31 December 2011	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	2,996	376	-	43	9	**3,424**
Due to customers	19,466	6,764	15,106	3,198	89	**44,623**
Derivative financial liabilities	4	1	4	-	-	**9**
Other borrowed funds	1,158	232	573	3,976	2,738	**8,677**
Other liabilities	461	-	-	-	-	**461**
Total undiscounted financial liabilities	**24,085**	**7,373**	**15,683**	**7,217**	**2,836**	**57,194**
Off-balance sheet liabilities and commitments						
Contingent liabilities	870	596	1,010	429	54	**2,959**
Commitments	9,422	-	-	-	-	**9,422**
Total undiscounted off-balance sheet liabilities and commitments	**10,292**	**596**	**1,010**	**429**	**54**	**12,381**
As at 31 December 2010						
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	898	653	1,042	323	55	**2,971**
Commitments	8,888	-	-	-	-	**8,888**
Total undiscounted off-balance sheet liabilities and commitments	**9,786**	**653**	**1,042**	**323**	**55**	**11,859**

45 | Concentration of assets and liabilities

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:

45| Concentration of assets and liabilities / continued (in HRK million)

	GROUP			BANK		
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
As at 31 December 2011						
Geographic region						
Republic of Croatia	69,737	49,386	12,071	63,319	43,892	11,769
European Union	3,926	10,004	481	3,694	9,958	481
Other countries	491	2,442	132	468	2,437	131
	74,154	**61,832**	**12,684**	**67,481**	**56,287**	**12,381**
Industry sector						
Citizens	27,897	36,813	5,718	24,574	33,674	5,568
Finance	14,025	12,303	159	13,988	11,410	155
Government	11,047	2,706	664	8,925	2,693	634
Commerce	3,381	947	709	2,958	867	683
Tourism	772	185	78	729	172	78
Agriculture	1,259	84	79	1,214	79	79
Other sectors	15,773	8,794	5,277	15,093	7,392	5,184
	74,154	**61,832**	**12,684**	**67,481**	**56,287**	**12,381**
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**

46| 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 (2010: 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.

47| Events after the reporting period

As of 22 February 2012 the Bank signed legal merger contract with its wholly owned subsidiary Međimurska banka. The contract will be submitted for approval of General assemblies of the Bank and Međimurska banka upon obtaining all of the regulatory approvals. Targeted effective date of legal merger is 30 November 2012.

Appendix 1 - Supplementary forms required by local regulation

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

Form "Balance sheet" (in HRK million)	GROUP		BANK	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Assets				
1. Cash and deposits with the Croatian National Bank	9,520	9,806	9,121	9,400
1.1. Cash	1,327	1,150	1,244	1,078
1.2. Deposits with the Croatian National Bank	8,193	8,656	7,877	8,322
2. Deposits due from banks	6,271	7,008	5,984	6,563
3. Ministry of Finance treasury bills and the Croatian National Bank bills of exchange	2,675	2,881	2,038	2,360
4. Financial instruments held for trading	27	30	27	30
5. Assets available for sale	344	956	186	788
6. Held to maturity investments	384	633	120	371
7. Financial instruments designated at fair value through profit or loss	380	380	380	380
8. Derivative financial instruments	11	2	11	2
9. Loans to financial institutions	877	1,097	1,330	1,224
10. Loans to customers	51,084	49,130	46,402	44,322
11. Investments in subsidiaries and associates	135	128	389	392
12. Collateral received in satisfaction of non-performing loans	34	29	24	21
13. Property and equipment	1,204	1,226	683	783
14. Interest, fees and other assets	1,208	1,103	786	716
A. Total assets	**74,154**	**74,409**	**67,481**	**67,352**

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

	GROUP		BANK	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Liabilities				
1. Loans to banks	9,273	9,857	7,957	8,405
1.1. Short term loans	1,298	1,749	1,298	1,746
1.2. Long term loans	7,975	8,108	6,659	6,659
2. Deposits	49,998	50,770	47,074	47,368
2.1. Giro and current accounts	8,688	7,996	8,351	7,659
2.2. Savings deposits	6,647	7,041	6,050	6,424
2.3. Term deposits	34,663	35,733	32,673	33,285
3. Other loans	-	-	-	-
3.1. Short term loans	-	-	-	-
3.2. Long term loans	-	-	-	-
4. Derivative financial instruments	9	86	9	86
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	2,552	2,362	1,247	1,147
B. Total liabilities	**61,832**	**63,075**	**56,287**	**57,006**
Equity attributable to equity holders of the parent				
Share capital	1,907	1,907	1,907	1,907
Net profit for the year	1,268	1,022	1,136	860
Retained earnings	7,326	6,606	6,368	5,809
Legal reserves	136	135	130	130
Other reserves	1,733	1,733	1,665	1,665
Unrealised gain/(loss) from revaluation of financial assets available for sale	(48)	(69)	(12)	(25)
C. Total shareholders' equity	**12,322**	**11,334**	**11,194**	**10,346**
D. Total liabilities and shareholders' equity	**74,154**	**74,409**	**67,481**	**67,352**

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 2011.

Balance sheet reconciliation as at 31 December 2011 (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	9,520	-	9,520	9,121	-	9,121
Cash	1,327	-	1,327	1,244	-	1,244
Deposits at the Croatian National Bank	8,193	-	8,193	7,877	-	7,877
Cash and current accounts with other banks	-	2,647	(2,647)	-	2,465	(2,465)
Balances with the Croatian National Bank	-	6,989	(6,989)	-	6,757	(6,757)
Deposits due from banks	6,271	-	6,271	5,984	-	5,984
Due from banks	-	7,036	(7,036)	-	7,231	(7,231)
Ministry of Finance treasury bills and the Croatian National Bank bills of exchange	2,675	-	2,675	2,038	-	2,038
Financial assets at fair value through profit or loss	-	2,497	(2,497)	-	2,497	(2,497)
Financial instruments held for trading	27	-	27	27	-	27
Assets available for sale	344	985	(641)	186	189	(3)
Held to maturity investments	384	391	(7)	120	124	(4)
Financial instruments designated at fair value through profit and loss	380	-	380	380	-	380
Derivative financial instruments	11	11	-	11	11	-
Loans to financial institutions	877	-	877	1,330	-	1,330
Loans to customers	51,084	51,398	(314)	46,402	46,691	(289)
Investments in subsidiaries and associates	135	135	-	389	389	-
Collaterals received in satisfaction of non-performing loans	34	-	34	24	-	24
Intangible assets and goodwill	-	157	(157)	-	83	(83)
Non-current assets held for sale	-	30	(30)	-	30	(30)
Investment property	-	12	(12)	-	9	(9)
Property and equipment	1,204	1,204	-	683	683	-
Other assets	-	491	(491)	-	204	(204)
Interest, fees and other assets	1,208	-	1,208	786	-	786
Deferred tax assets	-	171	(171)	-	118	(118)
Total assets	**74,154**	**74,154**	**-**	**67,481**	**67,481**	**-**

Balance sheet reconciliation as at 31 December 2011 / continued (in HRK million)

	GROUP			BANK		
Liabilities	per the By-law	per IFRS	Differences	per the By-law	per IFRS	Differences
Loans from banks	9,273	-	9,273	7,957	-	7,957
short term loans	1,298	-	1,298	1,298	-	1,298
long term loans	7,975	-	7,975	6,659	-	6,659
Other borrowed funds	-	9,311	(9,311)	-	7,990	(7,990)
Deposits	49,998	-	49,998	47,074	-	47,074
giro and current accounts	8,688	-	8,688	8,351	-	8,351
savings deposits	6,647	-	6,647	6,050	-	6,050
term deposits	34,663	-	34,663	32,673	-	32,673
Due to banks	-	2,994	(2,994)	-	3,423	(3,423)
Due to customers	-	47,431	(47,431)	-	44,081	(44,081)
Other loans	-	-	-	-	-	-
short term loans	-	-	-	-	-	-
long term loans	-	-	-	-	-	-
Derivative financial instruments	9	9	-	9	9	-
Interest, fees and other liabilities	2,552	-	2,552	1,247	-	1,247
Accruals and deferred income	-	194	(194)	-	74	(74)
Provisions for risks and charges	-	191	(191)	-	186	(186)
Other liabilities	-	1,633	(1,633)	-	461	(461)
Current tax liabilities	-	69	(69)	-	63	(63)
Total liabilities	**61,832**	**61,832**	**-**	**56,287**	**56,287**	**-**
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	1,268	1,268	-	1,136	1,136	-
Share premium	-	1,570	(1,570)	-	1,570	(1,570)
Retained earnings	7,326	-	7,326	6,368	-	6,368
Legal reserves	136	-	136	130	-	130
Other reserves	1,733	-	1,733	1,665	-	1,665
Reserves and retained earnings	-	7,653	(7,653)	-	6,657	(6,657)
Unrealised gain/(loss) from available for sale revaluation	(48)	-	(48)	(12)	-	(12)
Total shareholders' equity	12,322	12,322	-	11,194	11,194	-
Total liabilities and shareholders' equity	**74,154**	**74,154**	**-**	**67,481**	**67,481**	**-**

Appendix 1 - Supplementary forms required by local regulation | continued

Balance sheet reconciliation as at 31 December 2011 / 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**	
	2011	2010	2011	2010
1. Interest income	3,934	3,788	3,599	3,427
2. (Interest expense)	(1,454)	(1,588)	(1,330)	(1,465)
3. Net interest income	**2,480**	**2,200**	**2,269**	**1,962**
4. Fee and commission income	1,352	1,304	624	622
5. (Fee and commission expense)	(240)	(214)	(114)	(112)
6. Net fee and commission income	**1,112**	**1,090**	**510**	**510**
7. Gain/(loss) from investments in subsidiaries, associates and joint ventures	18	8	-	-
8. Gain/(loss) from trading activities	(2)	6	(2)	6
9. Gain/(loss) from embedded derivatives	-	-	-	-
10. Gain/(loss) from assets designated at fair value through profit or loss	2	(23)	2	(23)
11. Gain/(loss) from assets available for sale	6	18	3	15
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	4	5	179	164
16. Gain/(loss) from foreign exchange rate fluctuations on cash held	145	140	143	133
17. Other operating income	126	120	42	23
18. (Other operating expenses)	(471)	(435)	(278)	(255)
19. (General administrative expenses and depreciation)	(1,470)	(1,452)	(1,139)	(1,113)
20. Net Operating income	**1,950**	**1,678**	**1,729**	**1,422**
21. (Provisions)	(369)	(404)	(353)	(388)
22. Profit before income taxes	**1,581**	**1,274**	**1,376**	**1,034**
23. (Income taxes)	(313)	(252)	(240)	(174)
24. Net profit for the year	**1,268**	**1,022**	**1,136**	**860**

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 2012.

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

Gabriele Pace
Deputy President of the Management Board

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 2011 (in HRK million)

	GROUP			BANK		
	per the By-law	per IFRS	Differences	per the By-law	per IFRS	Differences
Interest income	3,934	3,935	(1)	3,599	3,599	-
(Interest expense)	(1,454)	(1,455)	1	(1,330)	(1,331)	1
Net interest income	**2,480**	**2,480**	**-**	**2,269**	**2,268**	**1**
Fee and commission income	1,352	1,352	-	624	624	-
(Fee and commission expense)	(240)	(240)	-	(114)	(114)	-
Net fee and commission income	**1,112**	**1,112**	**-**	**510**	**510**	**-**
Gain/(loss) from investments in subsidiaries, associates, joint ventures	18	18	-	-	-	-
Gain/(loss) from trading activities	(2)	-	(2)	(2)	-	(2)
Gain/(loss) from embedded derivatives	-	-	-	-	-	-
Gain/(loss) from assets designated at fair value through profit or loss	2	-	2	2	-	2
Gain/(loss) from assets available for sale	6	-	6	3	-	3
Gain/(loss) from assets held to maturity	-	-	-	-	-	-
Income from other equity investments	4	-	4	179	-	179
Gain/(loss) from foreign exchange rates	145	-	145	143	-	143
Other operating income	126	282	(156)	42	368	(326)
(Other operating expenses)	(471)	(1,729)	1,258	(278)	(1,276)	(998)
(Depreciation and amortisation of property and equipment and intangible assets)	-	(213)	213	-	(141)	141
(General administrative expenses and depreciation)	(1,470)	-	(1,470)	(1,139)	-	(1,139)
(Provisions)	(369)	(369)	-	(353)	(353)	-
Profit before income taxes	**1,581**	**1,581**	**-**	**1,376**	**1,376**	**-**
(Income taxes)	(313)	(313)	-	(240)	(240)	-
Net profit for the year	**1,268**	**1,268**	**-**	**1,136**	**1,136**	**-**

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	
	2011	2010	2011	2010
Cash flow from operating activities				
1.1. Profit before tax	1,581	1,274	1,376	1,034
1.2. Provisions for bad and doubtful debts and other provisions	369	391	353	388
1.3. Depreciation and amortization	213	237	141	156
1.4. Unrealised (gains)/losses on securities at fair value through profit or loss	1	13	1	13
1.5. (Gains)/losses from sale of property and equipment	(17)	(5)	(15)	(2)
1.6. Other (gains)/losses	(91)	70	(266)	(89)
1. Cash flows from operating activities before changes in operating assets	**2,056**	**1,980**	**1,590**	**1,500**
2.1. Deposits with Croatian National Bank	624	(2,727)	611	(2,702)
2.2. Ministry of Finance treasury bills and Croatian National Bank bills of exchange	206	(1,815)	322	(1,582)
2.3. Deposits due from banks and loans to financial institutions	(132)	(124)	(418)	(276)
2.4. Loans and advances to customers, net of write-offs	(2,246)	(2,423)	(2,350)	(2,657)
2.5. Financial instruments held for trading	(1)	-	(1)	-
2.6. Assets available for sale	615	(227)	559	(87)
2.7. Financial instruments designated at fair value through profit and loss	3	58	3	58
2.8. Other operating assets	(195)	20	74	31
2. Net (increase)/decrease in operating assets	**(1,126)**	**(7,238)**	**(1,200)**	**(7,215)**
Increase/(decrease) in operating liabilities				
3.1. A vista deposits	692	2,168	318	1,881
3.2. Savings and term deposits	(1,464)	825	(611)	753
3.3. Derivative financial liabilities and other trading liabilities	-	-	-	-
3.4. Other liabilities	189	(1,629)	(111)	(125)
3. Net increase/(decrease) in operating liabilities	**(583)**	**1,364**	**(404)**	**2,509**
4. Net cash flow from operating activities before income taxes paid	**347**	**(3,894)**	**(14)**	**(3,206)**
5. (Income taxes paid)	(288)	(206)	(188)	(97)
6. Net cash inflows/(outflows) from operating activities	**59**	**(4,100)**	**(202)**	**(3,303)**

Appendix 1 - Supplementary forms required by local regulation | continued

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

	GROUP		BANK	
	2011	2010	2011	2010
Cash flows from investing activities				
7.1. Purchase of property and equipment and intangible assets	(136)	(122)	10	(69)
7.2. Sale/(Acquisition) of subsidiaries	-	-	3	-
7.3. Repayment of assets held to maturity	248	231	250	204
7.4. Dividends received	4	5	179	164
7.5. Other inflows/(outflows) from investing activities	-	-	-	-
7. Net cash flow from investing activities	**116**	**114**	**442**	**299**
Cash flows from financing activities				
8.1. Net increase/(decrease) in loans received	(584)	648	(448)	(401)
8.2. Net increase/(decrease) in issued securities	-	-	-	-
8.3. Hybrid and subordinated instruments	-	-	-	-
8.4. Additional paid in capital	-	-	-	-
8.5. (Dividends paid)	(301)	(323)	(301)	(323)
8.6. Other inflows/(outflows) from financing activities	-	-	-	-
8. Net cash flow from financing activities	**(885)**	**325**	**(749)**	**(724)**
9. Net increase/(decrease) in cash	**(710)**	**(3,661)**	**(509)**	**(3,728)**
10. Effect of exchange rate fluctuations on cash held	(24)	14	(24)	14
11. Net increase/(decrease) in cash	**(734)**	**(3,647)**	**(533)**	**(3,714)**
12. Cash and cash equivalents at the beginning of the year	**9,948**	**13,595**	**9,321**	**13,035**
13. Cash and cash equivalents at the end of the year	**9,214**	**9,948**	**8,788**	**9,321**

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-controlling interest	Total equity
Group								
1. Balance at 1 January 2011	**1,907**	**(76)**	**1,944**	**6,606**	**1,022**	**(69)**	**-**	**11,334**
2. Changes in accounting policies and errors	-	-	-	-	-	-	-	**-**
3. Restated balance at 1 January 2011	**1,907**	**(76)**	**1,944**	**6,606**	**1,022**	**(69)**	**-**	**11,334**
4. Sale of available-for-sale financial investments	-	-	-	-	-	(6)	-	**(6)**
5. Fair value adjustment	-	-	-	-	-	29	-	**29**
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	**-**	**-**	**-**	**-**	**-**	**21**	**-**	**21**
9. Net profit for the year	-	-	-	-	1,268	-	-	**1,268**
10. Total income and expense for the year	**-**	**-**	**-**	**-**	**1,268**	**21**	**-**	**1,289**
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-	**-**
12.(Purchase)/sale of treasury shares	-	-	-	-	-	-	-	**-**
13.Other movements	-	-	-	-	-	-	-	**-**
14. Transfer to reserves	-	-	1	720	(721)	-	-	**-**
15. Dividends paid	-	-	-	-	(301)	-	-	**(301)**
16. Distribution of profit	**-**	**-**	**1**	**720**	**(1,022)**	**-**	**-**	**(301)**
17. Balance at 31 December 2011	**1,907**	**(76)**	**1,945**	**7,326**	**1,268**	**(48)**	**-**	**12,322**

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-con-trolling 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 2011	**1,907**	**(76)**	**1,871**	**5,809**	**860**	**(25)**	**10,346**
2. Changes in accounting policies and errors	-	-	-	-	-	-	**-**
3. Restated balance at 1 January 2011	**1,907**	**(76)**	**1,871**	**5,809**	**860**	**(25)**	**10,346**
4. Sale of available-for-sale financial investments	-	-	-	-	-	(3)	**(3)**
5. Fair value adjustment	-	-	-	-	-	19	**19**
6. Deferred tax	-	-	-	-	-	(3)	**(3)**
7. Other gains/(losses) recognised directly in equity	-	-	-	-	-	-	-
8. Total income and expense for the year recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**13**	**13**
9. Net profit for the year	**-**	**-**	**-**	**-**	**1,136**	**-**	**1,136**
10. Total income and expense for the year	-	-	-	-	1,136	13	**1,149**
11. Increase/(decrease) of share capital	-	-	-	-	-	-	**-**
12. (Purchase)/sale of treasury shares	-	-	-	-	-	-	**-**
13. Other movements	-	-	-	-	-	-	**-**
14. Transfer to reserves	-	-	-	559	(559)	-	**-**
15. Dividends paid	-	-	-	-	(301)	-	**(301)**
16. Distribution of profit	**-**	**-**	**-**	**559**	**(860)**	**-**	**(301)**
17. Balance at 31 December 2011	**1,907**	**(76)**	**1,871**	**6,368**	**1,136**	**(12)**	**11,194**

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	
	2011	2010	2011	2010
Interest income	529	520	484	470
Interest expense	(196)	(218)	(179)	(201)
Net interest income	**333**	**302**	**305**	**269**
Fee and commission income	182	179	84	85
Fee and commission expense	(32)	(29)	(15)	(15)
Net fee and commission income	**150**	**150**	**69**	**70**
Other operating income	38	36	49	44
Operating income	**521**	**488**	**423**	**383**
Provisions	(50)	(55)	(47)	(53)
Other operating expenses	(232)	(226)	(172)	(167)
Depreciation and amortisation of property and equipment and intangible assets	(29)	(33)	(19)	(21)
Share of profit and loss from associates	2	1	-	-
Profit before income taxes	**212**	**175**	**185**	**142**
Income taxes	(42)	(35)	(32)	(24)
Net profit for the year	**170**	**140**	**153**	**118**
Attributable to:				
Equity holders of the parent	170	140	153	118
	170	**140**	**153**	**118**

The income statement items were translated from the measurement currency (HRK) to the Euro at the average exchange rate in 2011 (1 EUR = 7.441192 HRK) and in 2010 (1 EUR = 7.285692 HRK).

Appendix 2 - Supplementary financial statements in EUR (unaudited)

Statement of financial position (in EUR million)

	GROUP		BANK	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Assets				
Cash and current accounts with other banks	352	308	327	283
Balances with the Croatian National Bank	928	1,031	897	998
Financial assets at fair value through profit or loss	332	380	332	380
Derivative financial assets	1	-	1	-
Due from banks	934	1,087	960	1,047
Loans and advances to customers	6,825	6,692	6,200	6,037
Assets available for sale	131	201	25	107
Held to maturity investments	52	88	16	52
Investments in subsidiaries and associates	18	17	52	53
Intangible assets and goodwill	21	20	11	9
Property and equipment	160	166	91	106
Investment property	2	2	1	1
Non-current assets held for sale	4	-	4	-
Other assets	64	54	27	28
Deferred tax assets	23	29	17	19
Total assets	**9,847**	**10,075**	**8,961**	**9,120**

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 2011 (1 EUR = 7.53042 HRK) and as at 31 December 2010 (1 EUR = 7.385173 HRK).

Statement of financial position / continued (in EUR million)

	GROUP		BANK	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Liabilities				
Due to banks	398	562	455	569
Due to customers	6,299	6,370	5,853	5,904
Derivative financial liabilities	1	12	1	12
Other borrowed funds	1,236	1,339	1,061	1,142
Other liabilities	217	199	61	54
Accruals and deferred income	26	28	10	10
Provisions for risks and charges	25	29	25	28
Liabilities for current tax	9	1	8	-
Total liabilities	**8,211**	**8,540**	**7,474**	**7,719**
Equity attributable to equity holders of the parent				
Share capital	250	250	250	250
Treasury shares	(10)	(10)	(10)	(10)
Share premium	208	213	208	213
Reserves and retained earnings	1,014	942	882	830
Profit and loss attributable to equity holders of the parent entity	170	140	153	118
Total shareholders' equity	**1,632**	**1,535**	**1,483**	**1,401**
Total liabilities and shareholders' equity	**9,843**	**10,075**	**8,957**	**9,120**

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 2011 (1 EUR = 7.53042 HRK) and as at 31 December 2010 (1 EUR = 7.385173 HRK).

Publisher **Privredna banka Zagreb d.d.** • Design & Production **Euro RSCG Zagreb, a member of Unex Group**
Photography **HNK Zagreb, HNK Varaždin, Moderna galerija Zagreb, Muzeji Hrvatskog zagorja**
• Printing **Intergrafika** • Edition **400**

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