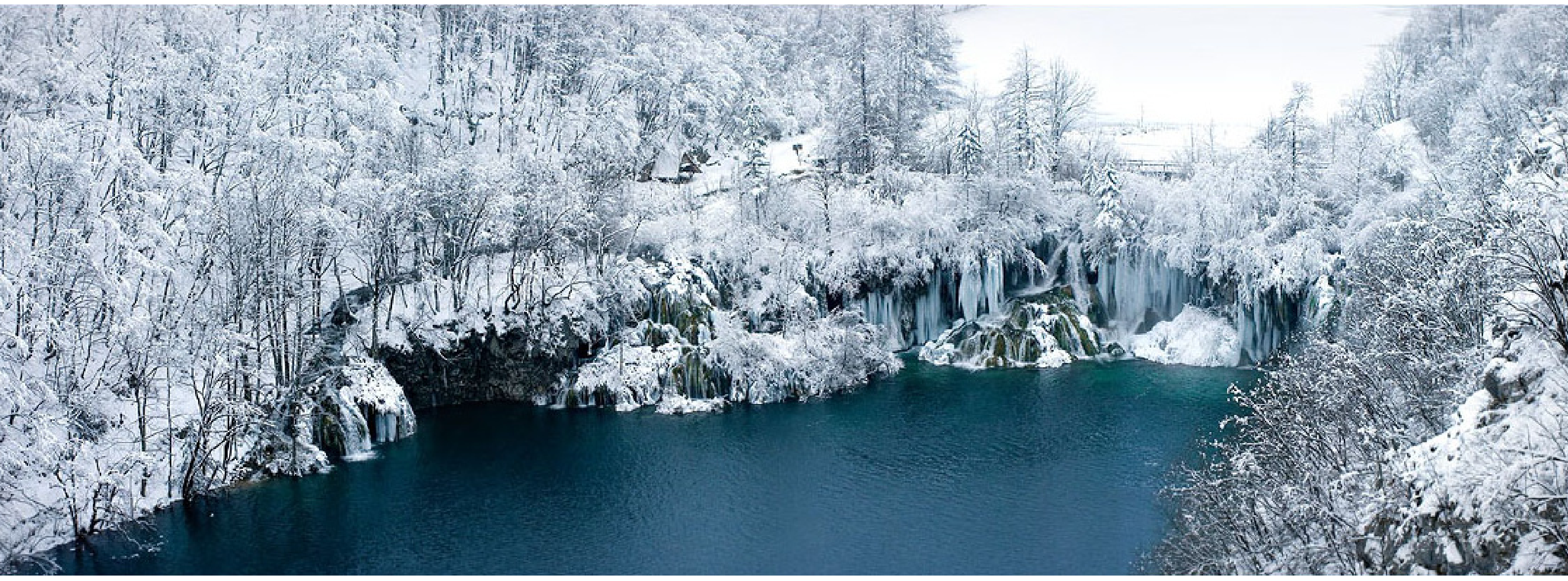
PRIVREDNA BANKA ZAGREB

Annual Report 2008



PBZ, a bank of INTESA SANPAOLO

PBZ

Annual Report 2008

We are the leading Croatian financial services Group engaged in retail and corporate banking, credit cards, investment banking, asset management, private banking, leasing and real estate activities and investment management services. We operate in entire area of Croatia and employ over 4.5 thousand people.
Our mission is to make a permanent and effective use of all resources at our disposal to continuously improve all aspects of our business activities, including human resources, the technology and the business processes.

Who we are and what we do

1,603 thousand
TOTAL CUSTOMERS

638 thousand
CURRENT ACCOUNTS

HRK 52.3 billion
TOTAL CUSTOMER FUNDS*

HRK 1.6 billion
ASSETS UNDER MANAGEMENT

321 thousand
INTERNET BANKING USERS

230
TOTAL BRANCHES

*Comprises customers deposits, assets under management and in custody

Our vision is to be the model company and the center of excellence in creating new values, as well as in providing high-quality service in all of our activities to the benefit of our clients, the community, our stakeholders and employees.

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HRK 46.0 billion
TOTAL CUSTOMER LOANS

HRK 9.5 billion
TOTAL HOUSING LOANS

2,144 thousand
TOTAL CARDS ISSUED

24,101
EFT POS

635
ATM MACHINES

88
DAY AND NIGHT VAULTS

The Plitvice Lakes National Park has always been a unique source of inspiration. A true jewel of nature, due to its rich flora and fauna as well as exquisite geographical and geological particularities, it changes moods and atmosphere with each passing season in a most magical way.
Althought it's spring-time look might be more familiar, the less-known but perhaps more enchanting imagery of lakes underneath snow in winter capture a dignified world of serenity and reflection.

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 2008 expressed in English. This report is also published in Croatian for presentation to shareholders at the Annual General Meeting.

Legal status

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

Abbreviations

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

Exchange rates

The following mid exchange rates set by the CNB ruling on 31 December 2008 have been used to translate balances in foreign currency on that date:

CHF 1 = HRK 4.911107
USD 1 = HRK 5.155504
EUR 1 = HRK 7.324425

Five year summary and financial highlight

(in HRK million)

Group	2008	2007	2006	2005	2004
Income statement and balance sheet					
Total gross revenue	6,001	5,350	4,519	3,936	3,768
Net interest income	2,185	1,918	1,714	1,583	1,517
Net operating income	3,697	3,405	3,039	2,688	2,570
Net profit for the year	1,242	1,141	963	814	735
Total assets	71,227	67,550	61,974	51,810	43,799
Loans and advances to customers	46,032	40,147	36,910	28,640	24,025
Due to customers	44,591	43,099	36,843	32,391	29,917
Shareholders' equity	9,611	8,503	7,625	4,820	4,286
Other data (as per management accounts)					
Return on average equity	14.84%	15.45%	18.79%	21.22%	21.83%
Return on average assets	1.71%	1.73%	1.72%	1.73%	1.72%
Assets per employee	15.7	15.3	14.8	12.4	11.1
Cost income ratio	49.78%	50.51%	50.96%	53.47%	54.17%

Bank	2008	2007	2006	2005	2004
Income statement and balance sheet					
Total gross revenue	4,851	4,263	3,652	3,341	3,138
Net interest income	1,941	1,697	1,535	1,425	1,354
Net operating income	2,774	2,474	2,270	2,149	2,008
Net profit for the year	1,100	932	847	750	678
Total assets	63,740	61,974	55,906	48,553	40,655
Loans and advances to customers	41,715	36,436	33,572	26,687	21,858
Due to customers	40,935	39,875	33,491	30,004	27,405
Shareholders' equity	8,870	7,847	7,114	4,433	3,915
Other data (as per management accounts)					
Return on average equity	13.94%	13.35%	17.28%	20.00%	21.84%
Return on average assets	1.69%	1.56%	1.66%	1.72%	1.74%
Assets per employee	17.1	17.1	16.2	13.7	12.6
Cost income ratio	46.79%	48.90%	48.79%	51.36%	50.59%

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 2008. It was a very solid year for Privredna banka Zagreb and its Group in terms of financial results and market diversification and positioning.
This performance was achieved in a very challenging market condition which started with, what seemed rather contained, sub-prime distress in the Unites States but which led to a full-fledged global crisis in the international economy. At the beginning of the last quarter of 2008 the financial crisis turned into a dramatic new phase. Following the bankruptcies of several world's well-known and established banks, confidence collapsed, crushing equity prices. The increase in demand for liquidity accompanied with deterioration of the credit ratings of governments as well as companies and banks in the world, led to a dramatic rise of CDS rates which put significant pressure on short and long-term interest rates. Second half of the year was characterised by a decline in economic activity throughout the world. Growth was mainly slowed down by weak consumption, which was affected by the erosion in purchasing power due to price increases and to the worsening of financial conditions in general. The crisis has persisted into the early 2009 and continues to weigh on Global economy.
The present crisis has had an impact on Croatian economy as well. In 2008, Croatian economy achieved moderate growth which in the last quarter of the year was almost brought to a stall. Overall 2008 annual growth estimate of the real GDP rate appears to be close to 1.9 percent, which is noticeably lower than official mark for 2007 of 5.5 percent. Moreover, our forecasted growth rate for 2009 points to a negative rate of -2.3 percent.
Croatia has made several key steps forward in negotiations for the European Union membership although a great deal of work still lies ahead. Tough challenges are still to be surpassed, especially in structural reforms and fiscal consolidation. However, positive political and macroeconomic environment created in 2004, when Croatia was given candidate status for accession to the EU, has not vanished. On contrary, it is expected that accession to the Union may take place in 2011 or perhaps 2012, whilst Croatia could enter the euro area in 2013 or 2014.
Notwithstanding global macroeconomic worsening, monetary policy remained mostly restrictive throughout 2008, although somewhat abated near the end of 2008 and in first months of 2009. The credit cap (limit on growth rate of credit related portfolio) which was imposed in January 2007 is still effective. However, at the close of 2008 the Croatian National Bank abolished marginal reserve requirement (aimed at curbing foreign borrowing) and eased obligatory reserve rate to 14 percent in November 2008 and reduced foreign exchange liquidity ratio from 32 percent to 20 percent in February 2009.
Notwithstanding such a difficult and challenging environment, PBZ Group managed to achieve very positive results for 2008. I am truly proud on the strength and resiliency we have proven in such an unfavourable circumstance. We again succeeded in meeting our goals and increasing the value of our shareholders.
Total gross revenue for PBZ Group exceeded HRK 6 billion. Consolidated net operating income amounted to HRK 3.7 billion whilst a net profit recorded HRK 1.25 billion. Our cost/income ratio, a key measure of our efficiency, again decreased and closed below 50 percent, while the ROAE reached 14.8 percent. These are satisfactory figures since they represent a consistently strong performance over the last five years.

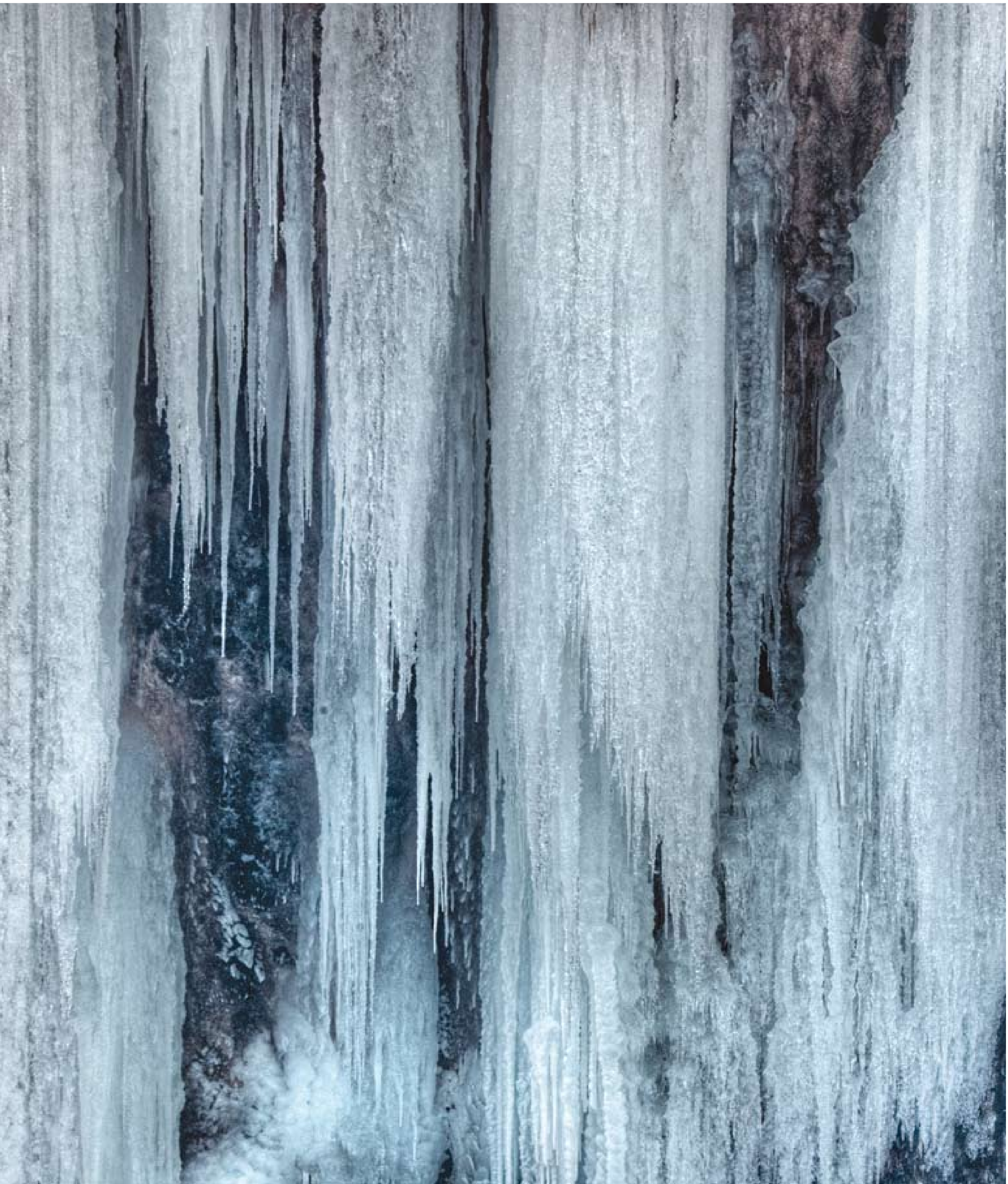
In 2008, PBZ Group has further reinforced its position as one of Croatia's foremost banks in terms of productivity, returns and value creation for its shareholders. We are the second largest group in the country with strong customer base of over 1.6 million, with over 638 thousand current accounts and 230 branches.
Looking ahead, we expect the markets in which we operate to remain stressed for some time. Accordingly, a renewed focus by management and the Board on managing asset quality, enhancing and strengthening the Bank's liquidity and active monitoring of operating costs will be crucial. Our future at Privredna banka Zagreb, as in the entire PBZ Group, depends on developing our business for the benefit of everyone: clients, investors, employees and other stakeholders. We highly regard interests of our shareholders, customers and community we are part of. Our customer service and ability to provide effective and efficient service will help us meet the needs of our retail, SME and large corporate customers.
The management of Privredna banka Zagreb enjoys full confidence of the shareholders. On behalf of the Supervisory Board, I would like to thank them for their strong leadership and outstanding performance. I would also like to express my gratitude and appreciation to all employees of the Group for their commitment and valued contribution. Finally, I want to express my great appreciation of the work of my former and new colleagues on the Supervisory Board, as well as of the Audit Committee members, for their wise counsel and contribution.

Report on the performed supervision in the year 2008.
In 2008 the Supervisory Board of the Bank performed its duties in conformity with the law, the Articles of Association of the Bank as well as the Rules of Procedure of the Supervisory Board of the Bank.
During the year 2008, the Supervisory Board held regular four meetings and twelve meetings by letter in order to make as quickly as possible the decisions on the issues that had to be resolved without delay. For the purpose of preparation of the decisions that fall within its competence and supervision of the implementation of already adopted decisions, the Supervisory Board of the Bank was provided with the assistance of the Audit Committee, which regularly reported on its work at the meetings of the Supervisory Board. In 2008 the Audit Committee held 4 meetings at which it monitored processes under its responsibility.
In conformity with is legal obligation, the Supervisory Board of the Bank has examined the Annual financial statements and consolidated Annual financial statements of the Bank for 2008, the report on the operation of the Bank and its subsidiaries, and draft decision on the allocation of the Bank's profit earned in 2008, that were all submitted to it by the Management Board of the Bank. The Supervisory Board made no remarks on the reports submitted.
In that respect, the Supervisory Board established that the Annual financial statements and consolidated Annual financial statements were prepared in accordance with the balances recorded in the business books and that they fairly disclosed the assets and the financial condition of the Bank and the PBZ Group, as was confirmed also by the external auditor Ernst & Young d.o.o., Zagreb, which audited the financial statements for 2008.
After the Supervisory Board has given its consent regarding the Annual financial statements and consolidated Annual financial statements of the Bank for 2008, the afore-mentioned financial statements are considered as being confirmed by the Management Board and by the Supervisory Board of Privredna banka Zagreb pursuant to the provisions of Art. 300.d of the Companies Act.
The Supervisory Board of the Bank accepted the report of the Management Board on the operation of Privredna banka Zagreb and its subsidiaries and it agreed that the Bank's net profit totalling HRK 1,100,247,443.43, earned in the year ended on 31 December 2008, should be allocated to retained earnings.

Respectfully,

Dr. György Surányi
24 March 2009

Ice Wall, Galovački buk waterfall - detail | Plitvice, January 2008



Management Board report of the Status of the Bank

Dear Shareholders,
I am pleased to present to you the Annual report and financial statements of the Privredna banka Zagreb Group for the year ended 31 December 2008. This report captures the progress we have made so far and outlines the work ahead of us.
2008 was an extremely challenging year for the global economy and for the banking sector as a whole. In retrospect, the first half of 2008 was relatively positive and was based somewhat on the strong but slowing momentum carried on from 2007. However, during the second half of the year, the crisis which evolved out of the ailing U.S. mortgage market spread around the globe and had a profound impact on the world's financial markets. Initial cautiousness, as evidenced in the summer of 2008, turned to pessimism and negative sentiment by the end of the year. This adversely impacted conditions for both credit and liquidity in the financial system throughout the world, which also affected the Croatian banking sector. Driven by the tight liquidity of the local currency and restrictive monetary measures on foreign exchange assets, interest rates on overnight placements were highly volatile during the past few months on the domestic money market.
Contrary to this challenging environment, Privredna banka Zagreb and its subsidiaries achieved very solid business results.
I am particularly proud of the fact that we demonstrated strength and endurance as conditions became more difficult in the fourth quarter of 2008. Together with our strategic partners, Intesa Sanpaolo and the European Bank for Reconstruction and Development, the PBZ Group maintained its strong position and its image of an innovative financial group capable of offering comprehensive, first-class financial services.

Unconsolidated financial results of the Bank
For 2008, PBZ recorded a net profit of HRK 1,100 million, which represents an increase of 18 percent compared to the year before. Return on average equity was 13.94 percent and return on average assets reached very respectable level of 1.69 percent. Earnings per share increased by 18.2 percent, amounting to HRK 57.9 per share.
Net operating income rose 12 percent, which was supported by net interest income, commission and fees from payment services and dividends received from the Bank's subsidiaries as well as other non-related companies. Through carefully managing costs in line with our strategic plan we were able to further improve our cost to income ratio to 46.8 percent, a noticeable decrease from 48.9 percent in 2007.
The total balance sheet of the Bank increased by 5 percent to HRK 63.7 billion. Loans and receivables contributed the most to this increase, by rising more than 14 percent and almost reaching HRK 42 billion. However, the regulatory limited growth of the credit related portfolio as defined by the Croatian National Bank, which to a large extent excluded the broad Government, grew by only 10.3 percent, which was below the credit ceiling imposed by the central bank.
Although the monetary policy of the CNB continued to be restrictive through most of the year, in the last quarter of 2008 some key measures were eased or completely abolished. This led to 42 percent lower balances being held with the Croatian National Bank.
Growth in assets was supported by an increase in customers' deposits, largely retail. Total deposits in 2008 rose by 5.8 percent. If we consider the total structure of the balance sheet, customer deposits account for 64 percent. The total loan to deposit ratio

of the Bank equals 101.9 percent at the end of 2008, which outlines the stability and conservative nature of our business. Shareholders' equity amounts to HRK 8.9 billion, which is an increase of more than HRK 1 billion compared to 2007. Our total capital ratio at the end of the year stands at 15.47 percent, which adds to the good financial standing of the Bank.

Consolidated financial results of the Bank

Our consolidated net profits for 2008 amounted to HRK 1,242 million, an increase of 8.9 percent compared to 2007. The result achieved was influenced by higher interest income and also commission and fees, which grew on larger volumes of transactions, especially payments as well as credit and debit cards. Consolidated net non-interest income reached 41 percent of total operating income, slightly lower than 2007, but still indicating a strong contribution to the overall revenue.

Almost all the financial indicators show remarkable achievements and provide evidence of the good financial performance of the Group. The return on average equity in the consolidated financial statements was 14.8 percent, while earnings per share increased from HRK 60 a share in 2007 to HRK 65.3 a share in 2008.

Assets per employee showed constant growth by reaching a new level of HRK 15.7 million, whereas the cost to income ratio, on the basis of the consolidated financial statements, turned below the 50 percent mark for the first time (49.8 percent).

The balance sheet of the PBZ Group increased by 5.6 percent and surpassed HRK 71.3 billion. This was mainly the result of the growth of the loan portfolio, which rose by 14.6 percent due to increased activity with the Government of Croatia and its agencies, but also steady financing of small and medium enterprises by virtue of loans, factoring and leasing. Shareholders' equity increased by 13 percent to HRK 9.6 billion. Impressive upward trend in value creation continued in 2008 with Economic Value Added (ΔEVA®) of 9.8 percent over the underlying 2007.

These results were achieved in an environment marked by harsh global economic and financial conditions, tight liquidity, elevated risk premiums as well as fierce competition among several banking groups in Croatia. Given these circumstances, I am more than pleased with our performance in 2008.

Our clients, products and services

I am glad to point out that we have been very successful at Privredna banka Zagreb in implementing new organisational changes aimed at improving our market approach. The new organisational structure of the Bank, followed by the appointment of the new Management Board team effective from February 2009, is also based on optimising our product mix and on stronger and more responsive risk management, which is essential for achieving stable and secured growth. The new organisation reflects our overall desire of continuing on as a modern, client-oriented universal financial institution of conservative standing.

Therefore, we must continue to be innovative, constantly strengthening our professional team at all management levels.

Moreover, we have always been the market leader in Croatia in the area of card operations and electronic distribution channels. In that context, PBZ Card has retained the leading position as the card operations company in the country with a combined sum of more than 2.1 million cards issued of the Visa, Maestro and American Express brands. In terms of payment services; the total amount of bank transfers recorded in 2008 surpassed 118 million transactions. This is a truly remarkable achievement, although I strongly believe we can still achieve considerable improvements in that area considering our nation-wide presence.

With more than 1.6 million clients, both corporate and private, the PBZ Group is a modern, universal-type banking group, whose market share, measured by the size of the balance sheet, stands at 18.2 percent. Its market share in retail deposits reached 21.7 percent and 20.6 percent in retail loans. PBZ Group holds the leading position on the credit and debit card market with a market share of 24.7 percent.

I am pleased to report several very encouraging facts, which demonstrate our adequate strategic positioning. With regards to the total number of our retail customers; approximately 50 percent or 710 thousand are up to the age of 42 and the category with the highest concentration of clients is the youngest one - or 449 thousand clients of less than 32 years of age. Furthermore, when analysing the average tenure of the relationship of our retail clients with the Group, the category with the largest number of clients is those between 10 and 20 years, whilst the next largest is 2 to 4 years.

All these facts imply that we have a very loyal group of customers that put their trust and devotion in our hands, but are also young and dynamic and seek a selection of innovative and always available products, with prompt execution. I am satisfied that we have managed to achieve the right balance of security and innovation in all our products which are at the disposal of our customers. We have devoted great attention to enhancing the Bank's technological base through significant investment in previous years in our electronic distribution channels and our branch network. We are looking for these investments to bear fruit in the years to come, especially in raising customer satisfaction and loyalty.

Corporate and social responsibility

We at PBZ Group care about corporate and social responsibility. We care about the needs of the local community we operate in. We continued to make substantial progress in pursuit of our objective of ensuring that the PBZ Group is one of the leading entities in the field of corporate responsibility. For a number of years we have been developing social responsibility programmes and social-awareness projects through providing financial support to a large number of humanitarian and social institutions. We have supported programmes in education and sports as well as numerous cultural institutions. In 2008, we donated over HRK 7.5 million and took on sponsorships amounting to HRK 14.0 million.
In terms of environmental management, as reported last year, PBZ continued with the experimental stage of monitoring electric and thermal energy consumption, paper and clean water consumption as well as waste generation.
On that note, I find it compelling to report that we have made some noticeable savings in waste disposal and we have also increased our investments in environmental protection and management. In that context, we intend to significantly increase awareness of issues of global warming and improve the environmental policies of our society.

Outlook

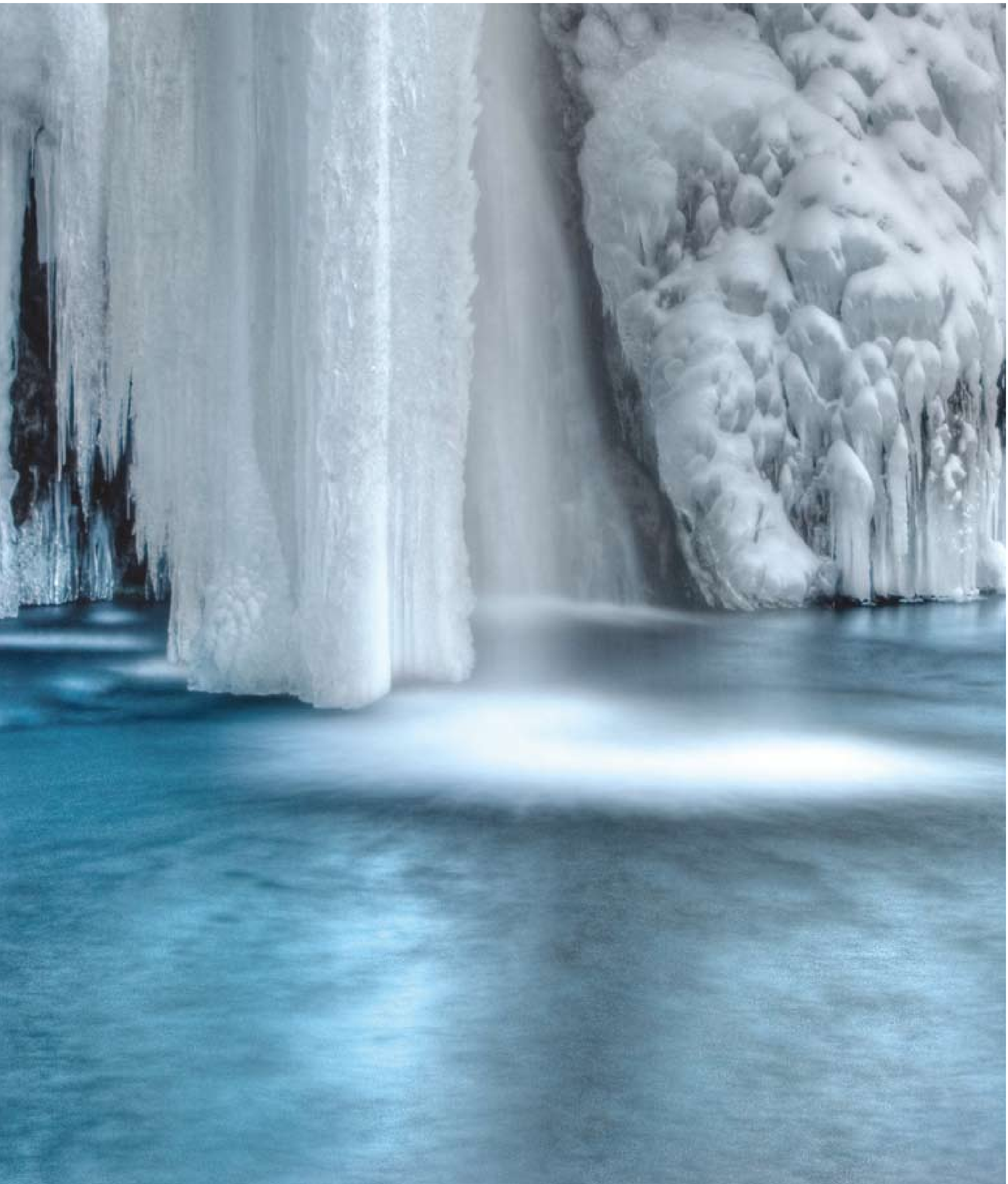
As we look forward, the near-term outlook continues to be very challenging. Conditions remain difficult both in the financial markets and the wider economy, which makes financial planning and forecasting very difficult. Credit, both for individuals and businesses, is likely to be tight and less widely available than before the crisis. The real estate market, which has already experienced a noticeable slow down, will remain difficult. On the financial markets, conditions for both credit and liquidity are still tight, and investors will continue to be cautious and wary. Therefore, the overall environment will likely remain under pressure. Tight risk management and close monitoring of capital and costs will continue to be a priority. In that regard, we find it necessary to adhere to our fundamental values and strong market position. Despite the present uncertainties we are strongly committed to all our customers, shareholders and stakeholders and will make our best effort to continue in our tradition of providing sound financial performance.

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 2008. Also, I would like to thank our distinguished clients and business partners for their professionalism in our contacts and the trust they have placed in us. I would particularly like to express my most sincere gratitude to all the members of the Supervisory Board of the Bank for their most valuable cooperation and support.

Božo Prka, M.S.
President of the Management Board
24 March 2009

Milanovac waterfall - detail | Plitvice, January 2008



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

Privredna banka Zagreb

Below we provide an overview of the 2008 operating results of Privredna banka Zagreb.

In 2008 Privredna banka Zagreb once again recorded an outstanding result. Net profit for the year of HRK 1,100 million surpassed the last year's amount of HRK 932 million by 18.0 percent. Underlying profit before tax rose 16.1 percent to HRK 1,332 million. Net operating income increased 12.1 percent to HRK 2,774 million driven by the increase of HRK 4,783 million in volume of foreign currency loans combined with the growth of increasing participation of non-interest income in the Bank's total revenue.

Net interest income increased by 14.4 percent to HRK 1,941 million due to steady growth and deft balance sheet management. Innovative offerings of non-interest products increased net fee and commission to HRK 385 million. Growth in fees on guarantees, current accounts and other banking service fees of 1.6 percent raised the total fee and commission income by additional HRK 6 million in 2008.

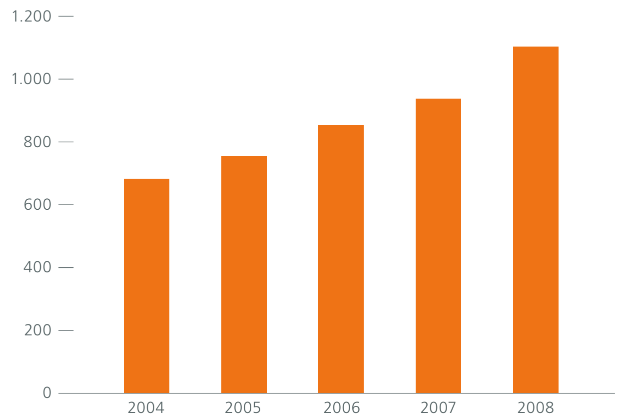
The bank continued an excellent performance through its top edge IT products and expansion of sales network resulting in higher commissions on automated products of 26 percent.

On average, 165 additional people and appraisal program raised the total personnel expenses by 6.2 percent. Security expenses (due to implementation of new law regulations), rent costs, consultancy other general expenses increased total operating expenses by 6.2 percent to HRK 1,180 million.

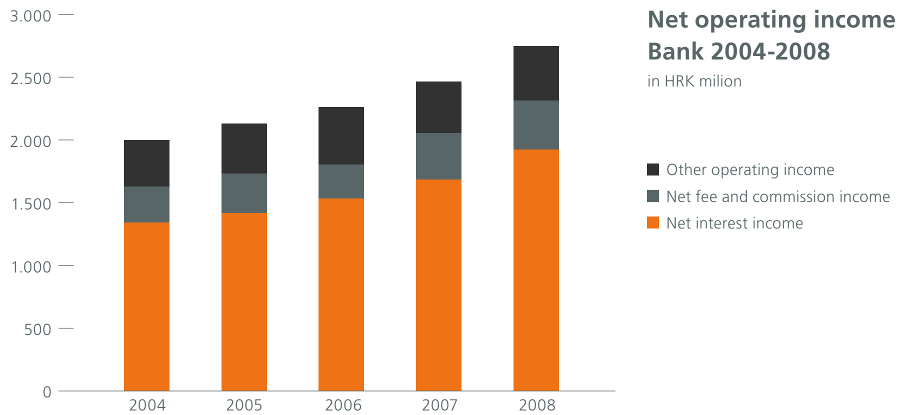
Međimurska banka

In 2008, the net profit of Međimurska banka amounted to HRK 50.9 million and it represents a 13 percent increase compared to the end of 2007.

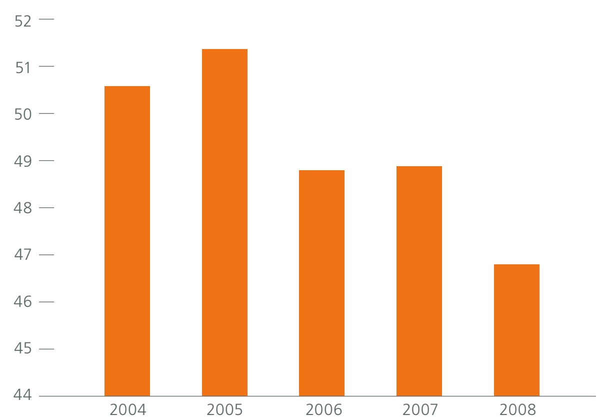
Major revenue drivers were net commission income and profit from trading activities with substantial growth in 2008. Net commission income, boosted by an increase of



Net profit - Bank 2004-2008
in HRK milion



Net operating income - Bank 2004-2008
in HRK milion



Cost income ratio - Bank 2004-2008
in %

commission from credit card activities by 17 percent and commission on operations on current accounts by 13 percent y-o-y, maintained a high level of growth over the past years. Profit from trading activities grew by 24 percent y-o-y. Despite heavy market conditions on financial market, caused by global economic slowdown and crisis especially in the last quarter of 2008, Međimurska banka managed to maintain a strong growth of interest income of 10 percent. However, difficult conditions that arose during the last quarter of 2008 had a strong impact on interest expense causing it to increase by 28 percent with respect to the previous year. Overall growth of net interest income when compared to 2007 was stable at 1 percent. Bank's total assets amount to HRK 2.8 billion as at 31 December 2008, which is a growth of 7 percent compared to the same period of 2007.
In 2008 PBZ initiated a Squeeze-Out Project by which it acquired the remaining 3.34 percent of the share capital of Međimurska banka and became a wholly owner of the bank. The project was completed in Febuary 2009. Međimurska banka will continue to expand its offer of products and services at the north-western region of Croatia in which it operates.

PBZ Card

In 2008, PBZ Card realized a net profit in the amount of HRK 215.8 million. With HRK 633.9 million realized net commission income, PBZ Card is the main contributor to PBZ Group's net commission income after the Bank itself. It is also the main generator of PBZ Card's revenues and it performed very strongly in 2008 increasing by 9 percent y-o-y.
Among the items that contributed the most to commission income are card membership fees, ATM fees, and consumer and cash loan fees. Also, in cooperation with Jumbo Travel Services, PBZ Card realized commission income through participation in sale of tour packages, language courses, charter flights and other travel services.
Personnel and administrative expenses, though increasing by 8 percent in 2008 principally due to larger average number of employees when compared to 2007 and higher amount of newly issued cards, were strictly monitored and did not off-set the strong performance of operating income. The result was a 10 percent increase in net operating profit.
At the end of the year, PBZ Card's total assets amounted to HRK 2.0 billion which represents an increase of 4 percent compared to the year before.
In late 2008, Privredna banka Zagreb together with its ultimate parent bank, Intesa Sanpaolo, initiated a project of spinning-off the card processing business unit into separate company in Croatia. The new company, which will be set up by Intesa Sanpaolo, Privredna banka Zagreb and Banka Koper Slovenia, will be engaged in card processing in entire Intesa Sanpaolo Group. The project is planned to be completed during the second quarter of 2009.

PBZ Leasing

The company oriented towards the leasing market had an excellent year in terms of assets and revenues growth. Its total assets increased by 21 percent driven by growth of its most significant component, financial leasing, that increased by 28 percent in 2008. PBZ Leasing increased its total number of leasing contracts by 13 percent with the most distinctive growth in the equipment and real estate segment. Its strong revenue growth and effective cost control lead to an increase of 44 percent in company's profit before income taxes.
The business activities of PBZ Leasing in 2009 will be focused on ensuring balanced and steady growth of its balance sheet. PBZ Leasing is committed in maintaining its market share and excelling its offer of products and services.

PBZ Nekretnine

In 2008 PBZ Nekretnine extended its activities on the real estate market making more than six thousand appraisal studies. Besides appraisals for retail clients, PBZ Nekretnine realized appraisals for the companies outside PBZ Group. Also, the company intermediated in sale of 159 real estate properties.
PBZ Nekretnine is also engaged in the supervisory processes of PBZ's branches (41 supervisory processes in 2008), as well as supervisory processes on various projects financed by the Bank. Some of larger projects that were supervised during 2008 were the construction of public garage in Dubrovnik and the construction of summer residence projects in southern Croatia. With its 23 employees, PBZ Nekretnine achieved a net profit of HRK 5 million at the end of 2008.
During 2009, PBZ Nekretnine will continue to instigate its activities with the aim of becoming the excellence centre for real estate operations not only within the PBZ Group but in entire country.

PBZ Invest

Last year was definitely the most challenging for PBZ Invest and the funds it manages. The beginning of the year was marked with high expectations caused by the euphoria that resulted from big returns on investments in the last couple of years, increasing number of new investors on the market, and the increasing interest in equity markets that was spinned additionally by some large initial public offerings. Unexpectedly fast and intense fall in stock prices, and therefore in yields of investment funds, caused an equally adverse decline in assets under management additionally impacted by the outflow of funds. Income from the exit fees was increased, however the base for the fee has deteriorated and, more importantly, the pressure on sale of stake in the funds brought up the problem of liquidity on the entire market.
Despite heavy market pressures that drew

down the most important revenue component, net commission income, PBZ Invest managed to boost and increase other sources of revenues by 164 percent with respect to the previous year, effectively decrease costs, and therefore maintain a low cost income ratio of 21.7 percent.
PBZ Invest is well-recognised and highly respectable fund management company in Croatia. Its development strategy for 2009 will be oriented at maintaining its status within investment public in the country as well as attracting new investors.

PBZ Stambena Štedionica

In 2008, PBZ Stambena Štedionica more than doubled its net profit to HRK 7.3 million which represents a 103 percent increase with respect to previous year. The most important component that drove this strong performance was net interest income and its increase of 49 percent y-o-y.
Taking advantage of PBZ's largest branch network and through its own sales channels, PBZ Stambena Štedionica managed to increase the number of its clients to 170.349 by the end of 2008, which is 16 percent higher when compared to the end of 2007. The company's performance was also manifested in the increase of Customer deposits that rose by 11 percent, and its total assets are higher by 12 percent when compared to the same period of last year.
The business activities of PBZ Stambena štedionica throughout 2009 will be oriented at maintaining those depositors whose savings contracts expire and by attracting new clients. The company also expects large number of present customers who meet desired criteria to take housing loans in 2009 as per contract conditions. Finally, the company will be focused at maintaining preferred profitability levels.

PBZ Croatia Osiguranje

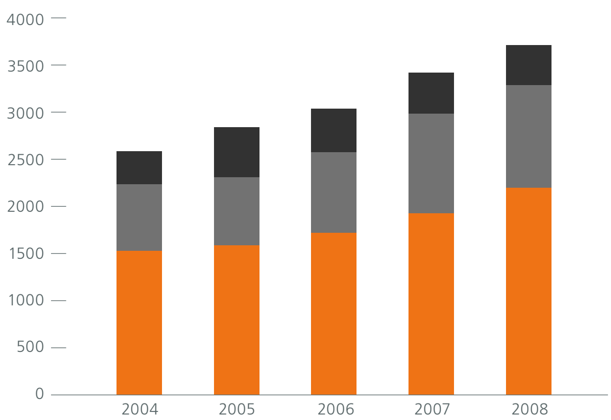
Generally, for PBZ Croatia Osiguranje 2008 was characterized by two main events: increase in market share of the Fund and general financial situation on capital markets. By the end of 2008, PBZ Croatia Osiguranje reached the level of HRK 22.8 million in net profit, which is 26 percent higher than the result in 2007. At the same time, cost income ratio stands at 32.6 percent versus 43,3 percent as at 31 December 2007. During 2008, PBZ Croatia Osiguranje increased its sales activities that resulted in increase in number of members of the fund from 231 thousand in 2007 to 263 thousand in 2008, which represents an increase of 0.19 percent in market share of the fund.
PBZ Croatia Osiguranje is well-recognised and highly respectable pension fund management company in Croatia. Its development strategy for 2009 will be oriented at maintaining its status within general public in the country as well as attracting new members.

Invest Holding Karlovac

Invest Holding Karlovac realised HRK 10.0 million net profit as of December 2008. The company was sold to KABA Nekretnine in December 2008.

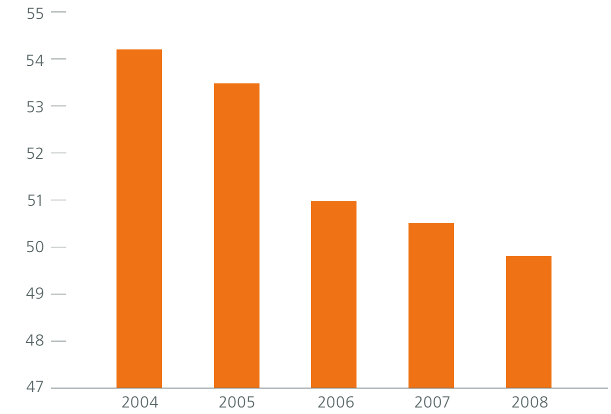
Financial highlights of the PBZ Group

Global economy has suffered a sharp and synchronised downfall in 2008. Banking and financial system has remained fragile throughout the entire 2008, with its peak hitting Croatian financial market in the last quarter. Deposits scarcity brought upon widespread increase in interest rates on deposits (for example, in November interest rates on Zagreb money market were reaching up to 19 percent) while, on the other hand, the rates on interest bearing assets remained stabile making it very challenging for banks to manage profitable margins.
In spite all the challenges and tough market conditions it was exposed to, the Group succeeded in improving its consolidated net operating income by 8.6 percent to HRK 3,697 million in 2008. Two major drivers of income, commissions and interest income grew by 3.8 percent and 16.6 percent respectively. Net interest income amounted to HRK 2,185 million or 13.9 percent up on the figure from the previous year.
Due to innovative customer offerings, net fee and commission income grew by 2.5 percent to HRK 1,097 million. Commercial fees, including cash management and bankcard fees, experienced especially strong growth this past year, with the non-interest income of the Group reaching 41.0 percent of total operating income.
Personnel expenses increased by 6.1 percent. Net salaries grew by 7.2 percent relative to the previous year due the larger headcount of 230 additional employees on average. Increased security standards, expansion of the network, increased costs of newly issued credit cards and lease costs of premises resulted in an 6.3 percent increase in general and administrative expenses. Our branch-optimization program continued throughout the year. In 2008, the Group added three new branches in existing markets and performed significant renovations to a number of others.
Overall, operating expenses rose by 6.3 percent against last year and amounted to HRK 1,678 million reflecting investments to support the growth of the business. Nonetheless, the cost to income ratio improved to 49.8 percent from 50.5 percent in 2007, as the operational cost base over operating remained in line with the plan.
Profit before taxes stood at HRK 1,568 million.
The Group's balance sheet total increased by 5.4 percent relative to 2007 and stood at HRK 71.2 billion. During 2008, total loans and receivables (net of provisions) have increased by 14,7 percent and almost reaching HRK 46 billion. However, the permissible growth of credit related portfolio as defined by the Croatian National Bank, which mostly excludes the broad Government, grew only 10.3 percent, which was below credit ceiling imposed by the central bank. In the first eight months of 2008 customer deposits were expe-



Net operating income - Group 2004-2008
in HRK milion

Other operating income
Net fee and commission income
Net interest income



Cost income - Group 2004-2008
in %

Group results by business segment in HRK million	2008	2007
Banking	2,930	2,623
Card services	715	649
Leasing	182	140
Other financial services	93	113
Non-financial services	29	32
Consolidation adjustments	(252)	(152)
Operating income	3,697	3,405

riencing a very strong growth, however with the beginning of the crisis on financial markets in September 2008 customer deposits started to drop and initial growth has deteriorated to 6.4 percent.
Below we provide an overview of business segments of the Group.
As apparent from the above table, Banking is the main source of the Group's profit (Privredna banka Zagreb and Međimurska banka collectively). Banking segment, on aggregate, continues to make strongest contribution to the consolidated results. Its operating income reached HRK 2,930 billion.
The largest individual contribution of the Group results was accounted for by Privredna banka Zagreb (the Bank). Net profit by the Bank amounted to HRK 1,100 million (2007: HRK 932 million). The associated companies contributed HRK 148 million (2007: HRK 211 million) to the consolidated profit of the Group.

Božo Prka, M.S.
President of the Management Board
24 March 2009

Cascades from Gavanovac lake into Kaluđerovac lake | Plitvice, January 2008

Review of the international and Croatian economy in 2008

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 2008. This should help understand the results from a more objective perspective.

International environment in 2008: significant and long lasting changes shaped the year.

As in March 2009 we still do not see the end of this deep and broad crisis (starting to be visible in summer of 2007), it is too early to have an objective assessment of the economic events in 2008 and their impact on the future. However, at least six events shaped the year (and will impact the future):

First, the meltdown of the financial system in September 2008. Once history will be written, there is no doubt that the collapse of the Lehman brothers in mid-September will definitely be the landmark. Lack of confidence among banks and deleveraging took a new meaning after this event. September was a "black month" for a lot of important financial institutions in the US. Four big investment banks ceased to exist in their past forms, two mortgage insurers as well as the biggest insurance company were de facto nationalized. The world of international finance will never be the same after those events. Confidence, the most important ingredient in the modern world of finance almost disappeared with all negative consequences for the real sector as well.

Second, during 2008 international real sector economy continued to deteriorate. Unfortunately the negative trends in the real sector that affected the global economy in the second part of 2007 continued and even worsened in 2008. World GDP growth continued to slow down, especially in the second part of the year. According to the IMF (WEO Uptade, 28 Jan 2009) world output grew in 2008 by 3.4 percent, substantially less than 5.2 percent in 2007. Furthermore, two "decoupling theories" did not survive the reality tests in 2008. First, the hope that we are faced with financial crisis that might not affect too seriously the real sector became wishful thinking. Second hope that emerging markets will not be affected by the crisis that started in US and developed world has proved to be wrong as well. This is a global and deep crisis.

Third, commodity prices, including energy (especially oil) followed two completely different paths in 2008. Until July 2008 commodity prices were on an upward trend. By mid year oil hit record levels with US $ 148 per barrel, so did food and other commodities. But since then, almost all commodities prices were faced with significant decline. By the end of 2008 most of main commodities groups prices fell roughly to their 2004 levels, wiping out massive transfers to countries that rely on exporting commodities. A significant change in relative prices marked 2008.

Fourth, as a direct result of both fall in GDP growth rates and commodities prices, inflation which was a real threat until mid-2008 for a lot of countries around the world, actually disappeared as a main central bank worry. In 2007 (and first part of 2008) policy makers had to balance the risks of rising inflation and slowdown of growth. Second part of 2008 made their life easier as the depth of recession and its length were the only real worries (with deflation looming in some of them). So, most central banks had to start a significant easing in monetary policy from lowering of interest rates to levels close to zero, injecting unprecedented amounts of liquidity in their systems to playing with unorthodox measures like quantitative easing.

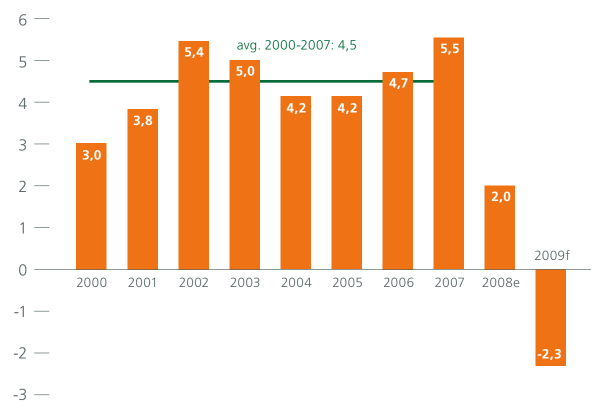
Fifth, almost continuous fall in stock exchange indices around the world has market the year 2008 as well. With a lot of volatility stock exchanges around the world lost significant amounts of their values. Most of the major ones (like Dow Jones, FT100, DAX, etc) lost more than a third of their value during 2008 and continued to deteriorate in early 2009. The impact of those massive losses of value on stock exchanges cannot be fully assessed as yet, but it is clear that a lot of companies lost their capitalization, stock owners saw their wealth shrink and confidence in markets has deteriorated significantly.

Finally, it seems that 2008 will be remembered as the end of pro market ideology. Nationalization of banks, financial institutions, massive fiscal stimulus packages, are all proofs that (at least in the period of this deep and broad crisis) economies have to rely on big governments and increased regulation. Belief in self regulatory mechanisms of institutions proved to be hollow and liberal market ideology seriously shaken. Huge recession and the collapse of modern finance will definitely reshape the world. For the time being we still do not know how will the new one look alike as no clear alternatives have emerged as yet.

In Croatia strong slowdown of growth was observed in Q3 2008...

International environment compounded already existing domestic macroeconomic imbalances. After the 4.3 percent and 3.4 percent growth recorded in Q1 and Q2, respectively, the annual growth rate of 1.6 percent in Q3 2008 was the lowest rate of economic growth since the Q4 quarter of 2000, when it was 0.8 percent. If we consider the changes of the GDP by quarters, Q3 2008 was actually the sixth consecutive quarter in which a slowdown of economic activities in Croatia was recorded, so the question arises whether this was just the impact of the world economic crisis on Croatia or if an economic slowdown, perhaps on a smaller scale, but still a slowdown, would have happened even without the negative external shock? Since personal consumption is the largest generator of economic growth in Croatia, its constant fall over the past six quarters (from a growth rate of 7.6 percent in Q1 2007 to 0.4 percent in Q3 2008) has had a powerful effect on the fall in the overall growth rate. The contribution of personal consumption to GDP growth fell from 5.0 pp in Q1 2007 to only 0.2 pp in Q3 2008. The fall in personal consumption is partially the result of the strong inflationary pressures present from the middle of 2007 right up to autumn 2008, which had a negative effect on the real income of the population. At the same time the slower loans activities of the banks also affected disposable income, as did the negative trends on the capital markets. During the third quarter there was also a slowdown in capital investments to a growth rate of 6.6 percent, from 12.6 percent and 9.8 percent recorded in the previous two quarters. Exports of goods and services slowed to only 1.6 percent whilst imports rose at the rate of 6.5 percent, which kept the contribution of net exports at a negative 2.4 pp. In view of the fact that the high frequency indicators indicate a slowdown, it is to be expected that the last quarter of 2008 will bring negative economic GDP growth, which will bring the total annual growth in 2008 down to around 2.0 percent.

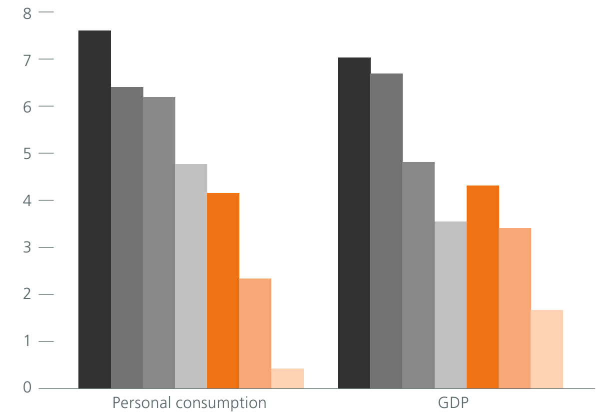
For 2009, on the basis of the figures available at the moment, we expect growth to decline as much as 2.3 percent, with a high level of downside risk (i.e. that the contraction will be even stronger especially in the first half of 2009). In view of the scale of the world financial crisis, especially the trends in our most important trade partners such as Germany and Italy, but also in the entire European Union, it is to be expected that our exports will be further significantly reduced (both goods and services) with at the same time a smaller inflow of foreign investment into



1 | GDP, real growth rates

in %

source: CBS, PBZ (2008, 2009)

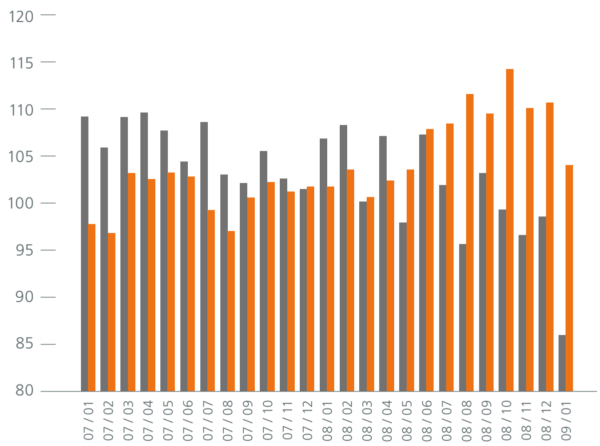


2 | Real growth rates q/q - 4

in %

source: CBS

- I. - III. 07
- IV. - VI. 07
- VII. - IX. 07
- X. - XII. 07
- I. - III. 08
- IV. - VI. 08
- VII. - IX. 08

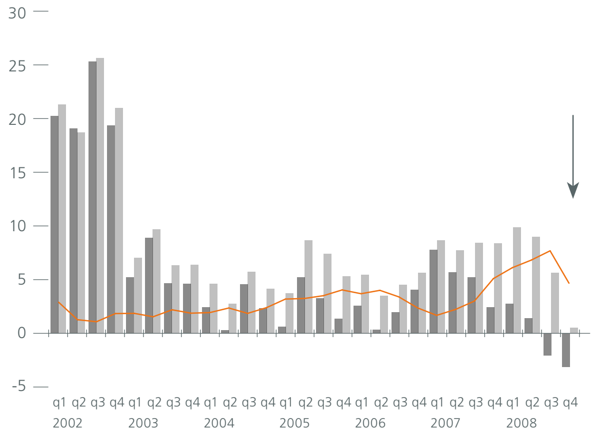


3 | Industrial production and stocks, index t/t-12

in basic points

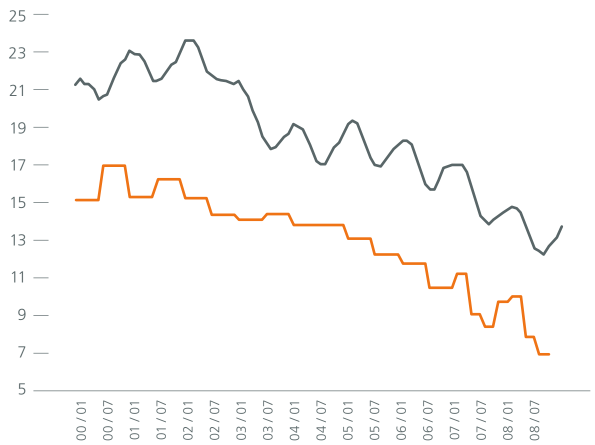
source: CBS

- industrial production
- stocks



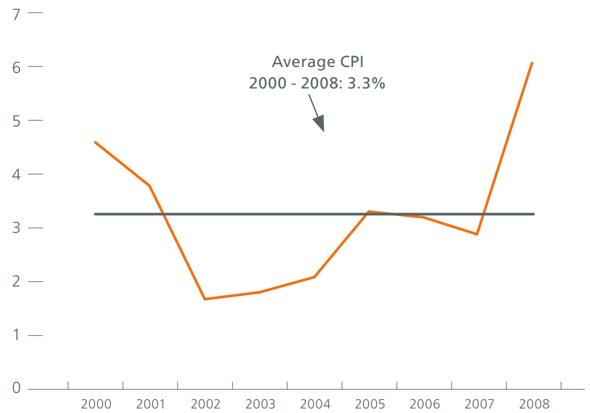
4 | Retail trade, q/q-4
in %
source: CBS

- Real
- Nominal
- CPI

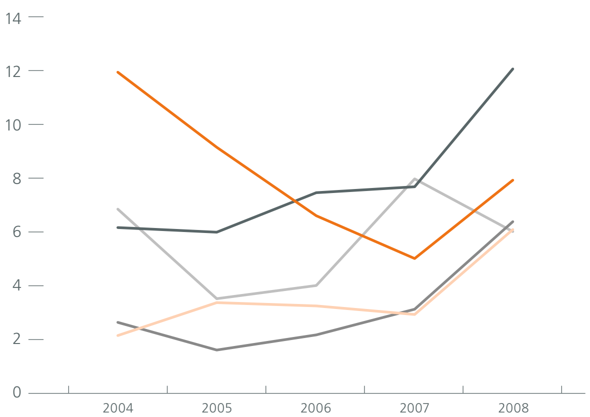


5 | Registered and survey unemployment rate
in %
source: CBS

- registred unemployment rate
- survey unemployment rate



6 | Consumer price index avarage annual change
in %
source: CBS



7 | Croatia and EU member countries: Average annual inflation
in %
source: CBS, Eurostat

- Bulgaria
- Czech Republic
- Hungary
- Romania
- Croatia

Croatia, and significantly more difficult external financing of domestic businesses on the international capital markets. If we take into consideration the increased need of the state for financing this year, in the conditions described, it is hard to expect new borrowing abroad at a reasonable cost (especially in the light of the recent movements in the CDS spreads), there is a strong risk from the private sector being squeezed out by the government.

... with unfavorable indicators for Q4 growth rates.

At the moment of writing (March 2009), GDP Q4 2008 data was still not officially published but the high frequency indicators were not at all encouraging and had shown a very worrying trend in the Croatian economy. Industrial production surged in Q4 by 1.9 percent on an annual basis, while stocks of industrial products in December increased by 10.6 percent. Luckily, the strong growth of 11.3 percent was registered in construction works. Tourist activities (over nights stay) in Q4 weakened in line with their seasonal nature, and compared to Q4 2007 posted only 0.1 percent increase. The weaker inflationary pressures over the last quarter had a positive effect on the trends in real net wages. However, the decrease in inflation and the growth in real wages was not reflected in figures on retail trade which surged by 3.2 percent in Q4 on annual basis. Last quarter of 2008 brought also significant contraction in foreign trade, merchandise exports fell by as much as 5.1 percent and imports by 2.3 percent (both in EUR).

Negative trends continued in 2009 pointing to a recession.

The negative foreign trade developments continued also in January 2009 reflecting both negative economic developments in our main trading partners and weakening domestic demand. Namely, in January 2009 exports surged by as much as 26.5 percent and imports by 32.2 percent (both in EUR) with a positive impact on overall deficit of 37 percent. Due to the working days effect and the most importantly reduced natural gas supply industrial production in January plunged by as much as 14.1 percent on annual basis. At the same time real retail trade declined by 13.7 percent due to the newly introduced work-free Sunday and consumers' increased awareness of the crisis knocking on the door.

During 2008 the upturn on labor market continued.

2008 was the sixth year in a row in which we have witnessed the positive movements on the labor market in Croatia. The number of employed persons rose by 2 percent on average, which resulted in a total of 1,532 thousand persons employed on average, while the number of unemployed persons fell by 10.4 percent, thus lowering the average rate of registered unemployed by 1.7 percentage points (average rate for the year was 13.4 percent). Further to that, the internationally comparable survey unemployment rate determined using the methodology of ILO declined as low as 7 percent in the third quarter of the year, which brought the average survey unemployment rate down to 8.4 percent in 2008 (Eurostat data), over 1 percentage point lower than the year before. Even though significantly improved, unemployment rate still remained relatively high compared with EU member countries, considering that EU27 average was 7 percent and only two member countries, Spain and Slovakia had higher unemployment rate than Croatia in 2008 (11.3 percent and 9.6 percent, respectively).
Rise in employment was followed by an average growth of net salary paid per employee in legal entities by 7 percent year on year in nominal, but only 0.8 percent in real terms. Last year therefore brought the lowest real growth in net salaries for employees in legal entities of the past fifteen years, which in view of the relatively high nominal growth in salaries is primarily the result of the high inflation rate.
Even though 2008 was the year of a significant slowdown of economic activity, what contributed to the rise in employment on average level were strong tourist season and a lack of flexibility of labor market which reacts with a certain leg to the changes in business environment. Knowing that, what can be stated with confidence regarding the year 2009 is that it brings the negative developments on the labor market, with the latest data showing strong rise in unemployment at the beginning of the year. With possible loss of jobs mounting up to 50 thousand persons, drop in tourist arrivals anywhere from 2-20 percent and anecdotal evidence suggesting some of the employers in private sector are reducing not only the number of employees but also the salaries, the rise in unemployment rate and a fall of net salaries in real terms seem inevitable.

Exceptionally high inflation rate in Croatia and in the region in 2008.

One of the factors contributing to slower economic growth in 2008 was exceptionally high inflation rate, generated mostly by global rise in food and oil prices (as we have already described). The average annual rise in prices of 6.1 percent in 2008 was mainly the result of the rise in prices of food, contributing with 3.1 percentage point to the overall inflation rate, then the cost of accommodation and utility services (+1 percentage point) and transport services (+0.5 percentage points). Since these trends were global but affected emerging markets with more intensity (due to higher importance of food in their consumer basket), Croatia, although not the record holder in comparison with European countries, was certainly in the upper half of the list in terms of average annual inflation rate. The peak of inflation was recorded during summer months due to the fact that from September onwards the inflationary pressures subdued as the international (and domestic) demand started to fall in the aftermath of global financial turmoil.
We foresee the year 2009 bringing the continuance of this trend and even appearance of deflation periods in developed markets (Euro area). However, higher prices of services (health e.g.) and utilities (gas), along with the expected weakening of the kuna towards euro (from the average 7.22 in 2008 to about 7.45 this year) and strengthening of US dollar define our estimations that the average inflation rate in 2009 will be in a range of 3.0 to 3.5 percent.

Croatian monetary policy continued to be focused on maintaining stable exchange rate by means of tight kuna liquidity in 2008…

The monetary policy in 2008 continued to be focused on its main interlinked goals, stability of the exchange rate of kuna and stability of the prices. As a way of achieving these goals CNB acted by adopting and applying measures aimed at preventing the deterioration of external imbalances, out of which the most relevant were: credit ceilings, minimum required amount of foreign currency claims, abolishment of marginal reserve decision and reverse repo auctions.
As the year before, bank's business in 2008 was marked by CNB 12 percent credit ceiling regulation, implemented in the form of 1 percent monthly maximum increase. The measure applied during 2008 had the end of the year 2007 as a base for limit calculation. The placements, as defined by this measure, encompass the loans of all the financial institutions owned by banks (in order to avoid the excessive growth of loans of leasing and credit card companies). The decision continues to be in force in 2009 with end 2007 remaining to be the base, which means that the limitation is a bit stiffer than previously thought so that the limit actually amounts to 24 percent for two years.
The changes of regulation with an important impact on bank's operations occurred frequently in 2008. The first one that took place in May was the decrease of the minimum required amount of foreign currency claims from 32 percent to 28.5 percent. The decision was passed in order to allow

for banks to place the foreign currency syndicated loan in amount of 760 million EUR to Republic of Croatia. Second significant decision CNB rendered in October last year was to abolish the decision on marginal reserve requirement so that the entire sum of about 3.7 billion kunas was returned to the banks. Finally, the third important change in regulation, adopted near the end of 2008 and implemented from 10th of December, was the reduction of the required reserve rate from 17 percent to 14 percent whereby the banking system was provided with additional liquidity of around 8.4 billion kunas. The reasoning lying behind the last two decisions was the improvement of kuna liquidity in the system.
In addition to this, day-to-day business of the banks was strongly influenced by tight kuna liquidity which CNB managed through reverse repo auctions. Repo auctions were not held on regular weekly basis through entire year, which brought an additional pressure on kuna interest rates in certain periods of the year.
In sum, 2008 can be described as highly demanding both for the banks and the regulator, but 2009 will unquestionably be even more challenging. Beginning of this year shaped frequent changes in regulation - from increase in rate of foreign currency required reserve held in kunas (from 50 percent to 75 percent) to the changes in the ratio of minimum required amount of foreign currency claims which was slashed twice (in January from 28.5 percent 25 percent, then in February from 25 percent to 20 percent). Hence we believe that only 2009 will turn out to be the year in which the central bank will have to undertake more new and unconventional measures.

...which resulted in decline of narrow money and low increase in broad money.

At the end of 2008 narrow money was 7.3 percent lower in real terms compared with end 2007, which was the first annual drop in real terms seen after year 2004. The broad money, on the other hand, did post an increase in real terms by 1.5 percent, which was, however, the lowest real rate of growth from 2000 onwards. Further to that, as the nominal growth rate of broad money was below the GDP estimated nominal growth rate, 2008 was the first year after 1999 in which the share of broad money to GDP dropped (broad money to GDP is a conventional measure of financial deepening). Obviously this was the result of CNB dampening money supply, as well as the decrease and/ or slower rise in deposits of corporate entities and citizens, as one of the first signals of the economic crisis in sight.

Growth of deposit in 2008 was poor, that of loans solid.

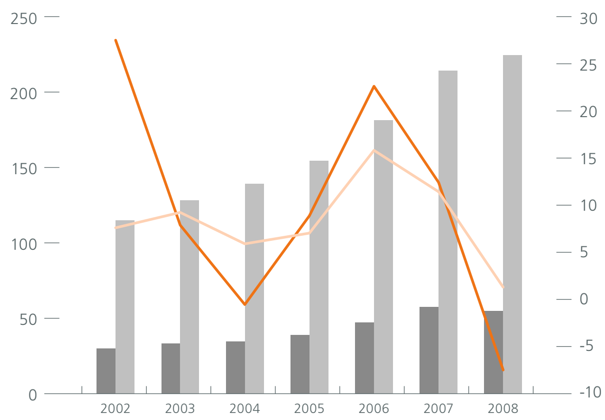
In 2008 the increase in banking assets and deposits was slower than the previous years, due to 12 percent loan growth limit and, particularly in the last quarter of the year, the slowdown of economic activity. However, the growth in loans did not lose pace, just the opposite - it was faster than the year before.
At the end of 2008, banks' assets were nominally higher by 7.6 percent yoy and in real terms by 4.6 percent, which is the lowest real rate of growth in the last decade. Gross bank loans were nominally 14.4 percent higher yoy, whilst bank deposits (without the central government) rose by a thin 3.4 percent. The real growth rates were 11.2 percent for loans and 0.5 percent for deposits, so that the real growth rate of deposits was the lowest since 2000. Gross loans to households grew significantly slower than in the previous years, +8.9 percent yoy in real terms, with housing loans growth rate declining by more than 4 percentage points (real terms), which is altogether the result of various factors such as market saturation, tightening credit eligibility conditions, government crowding out other sectors on the loans market and worsening conditions in the real sector and labor market. The loans to companies fastened to 9.1 percent yoy (real) but the hugest rise was observed for loans to central government and funds. The latter grew by 78.9 percent yoy (real), mostly during the last two months of the year, thus contributing significantly to the overall loan growth rate.
The low nominal and real growth of total deposits on annual level is the result of several factors, of which the most important is the fall in corporate deposits and by other banking institutions. Corporate deposits fell by 8.3 percent in nominal and 10.9 percent in real terms, mainly due to the fall in deposits of privately owned companies, whilst deposits of other banking institutions were nominally 53.6 percent and in real terms almost 55 percent lower as a result of the negative stock market trends that led to decrease in investment funds deposits. Household deposits rose by a high 11.7 percent nominally and 8.6 percent in real terms, which exceeds the rate of growth in 2007. The growth could have been greater if there had not been the withdrawals of deposits in October and November which was the consequence of the global financial crisis that led to a lack of confidence in the domestic banking sector. We also assume that due to rising prices, or falling real income, the households started to spend their savings to maintain their standard of living on constant level (permanent income hypothesis). Despite this, the growth in household deposits was strong and practically the only thing that contributed to the growth of total deposits.
In 2009 we foresee a break in a long-term trend of the higher loan than deposit growth rates, as the (re)financing abroad will be more difficult to obtain and more expensive, which will stimulate the banks to turn to domestic funding.

2008 was a gloomy year for stock market investors…

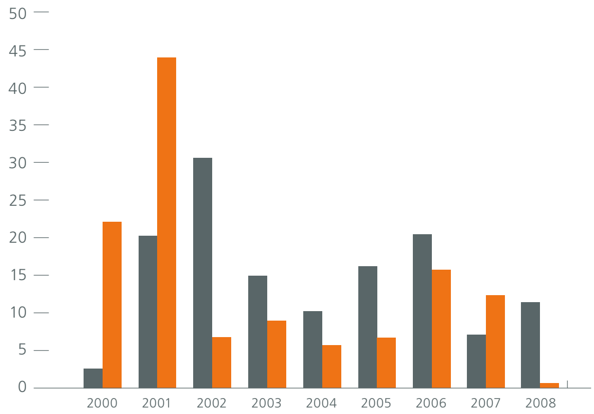
Investors on Zagreb stock exchange will remember the year 2008 as the one that should better be forgotten with share prices in "free fall" since the beginning of the year. We remind that the downward trend started in late 2007 and lasted through the entire 2008 with domestic shares following negative global trends. Weakened markets and pessimism among investors could have not created a ground for the upturn. The outcome was the share index Crobex and bond index Crobis finishing the year at the levels 67 percent and 6 percent, respectively, lower than the year before.

...and very volatile and demanding with regard to kuna liquidity.
The liquidity throughout majority of the last year was experiencing similar cycles, depending on periods of required reserve maintenance and reverse repo auctions. The conditions aggravated during October and November when liquidity tightened and reverse repo auctions were not held regularly, which pushed overnight interest rates close to 20 percent. The reduction of required reserve rate in December improved the situation by the end of the year and interest rates declined to usual levels. In 2009 the liquidity management will stay of utmost importance for banks' business as we assume that the central bank will retain restrictive liquidity policy in order to prevent stronger kuna weakening.

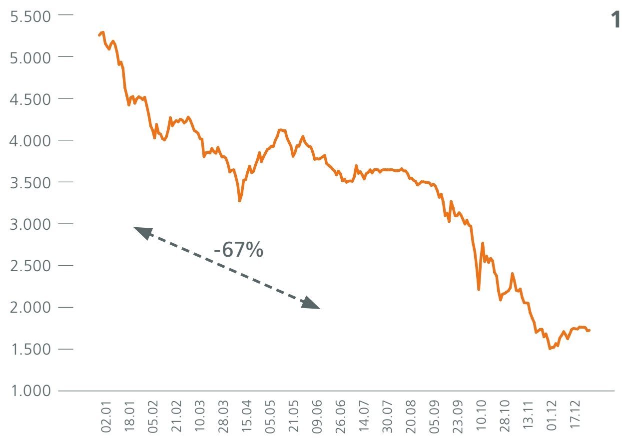
While benchmark rates declined in the last quarter, CDS for Croatia increased significantly in the last part of 2008.
The benchmark rates Euribor and Swiss franc Libor continued to rise during nearly entire last year. The trend reversed in the last two months of 2008 as the central banks of Euro area and Switzerland (ECB and SNB) started to cut heavily key interest rates due to deterioration of conditions in financial and real sector of both the economies. Euro area key refinance interest rate was reduced from October till the end of the year by 175 basis points, down to 2.50 percent. Still, average 3M Euribor in 2008 was higher by 36 basis points than the year before. At the same time SNB reduced targeted 3M Libor range by astonishing 225 basis points down to 0-1 percent. In spite of the decline in benchmark rates, the



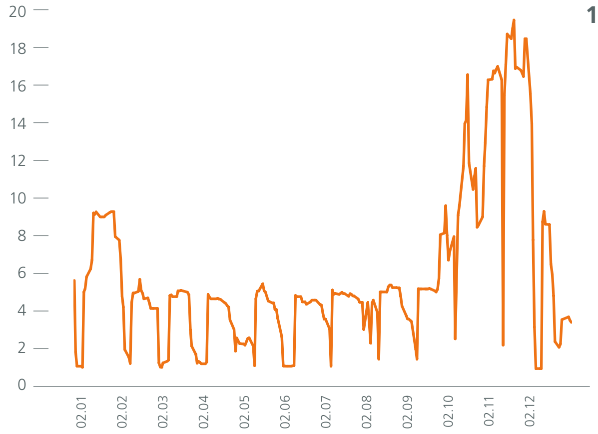
8 | Money and real growth rates
in HRK milion
source: CBS, PBZ calculation



9 | Real growth rates of loans and deposits, yoy
in %
source: CBS, PBZ calculation



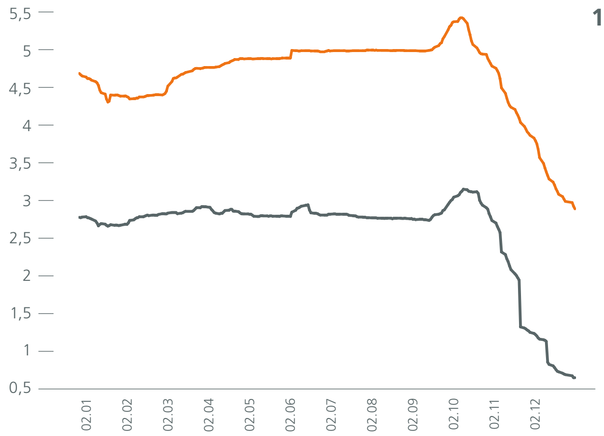
10 | Crobex (2008)
in basic points
source: ZSE, PBZ calculation



11 | ZIBOR (2008)

in basis points

source: Reuters

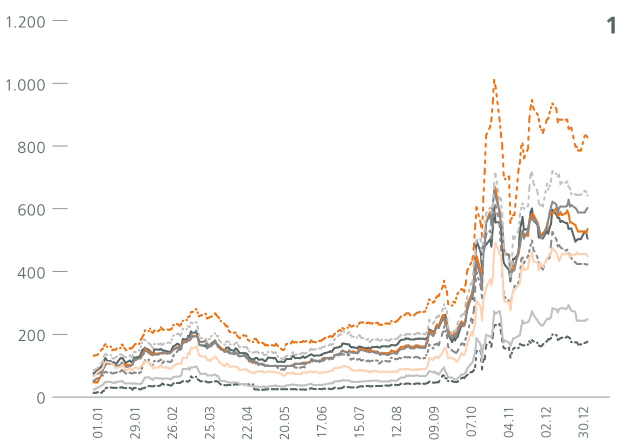


12 | Euribor and CHF Libor, 3M (2008)

in basis points

source: Reuters

3M CHF LIBOR
3M EURIBOR



13 | CDS spreds: EU NMS8 + Croatia (2008)

in basis points

source: Reuters

Bulgaria
Czech Republic
Estonia
Latvia
Lithuania
Hungary
Poland
Romania
Croatia

cost of (re)financing abroad for domestic banks did not decrease, but it grew due to rising global uncertainties - although the sovereign credit rating for Croatia remained unchanged, the perception of country risk, measured by credit default swap (CDS) spread on government bonds increased, just as for all the other emerging but also developed economies. In case of Croatia CDS spread on 5 year government bonds at the end of 2008 was as much as 376 basis points higher than the year before. Since not only financing abroad became more expensive, but also domestic funding due to higher money market interest rates and rise in banks' interest rates on deposits, the overall cost of financing of domestic banks rose. This led to a notable increase in average interest rates on loans. At the end of 2008 the average interest rate on foreign currency and kuna denominated loans was higher by 100 and 139 basis points compared with end 2007, respectively.

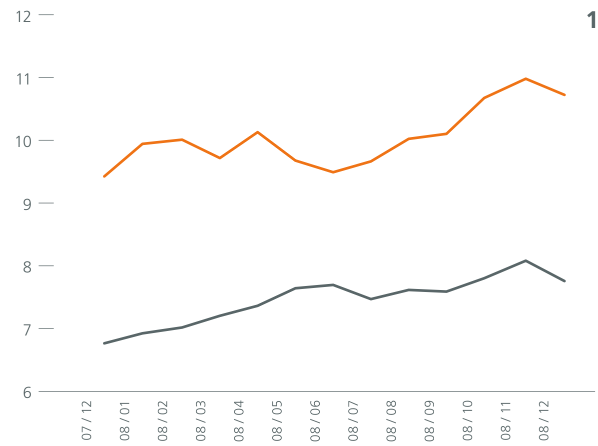
By mid March of the year 2009 further cuts of key interest rates by main central banks have taken place - ECB's by 100 basis points and SNB's by 25 basis points, but the rise in CDS spread for Croatia has also carried on - spread on 5 year government bonds went up by over 70 basis points in comparison with end of 2008. Consequently, the cost of financing on foreign markets continued to rise for domestic banks, but the cost of domestic funds rose as well due to raise in deposit interest rates and kuna money market rates, which generates the pressures on the rise in interest rates on loans in this year.

Total foreign debt went up again.

The growth rate of total gross foreign debt speeded up to 17.4 percent yoy in 2008 (c.f. 13.6 percent yoy in 2007) so that at the end of year the debt stood at 39 billion euros, or around 95 percent percent of estimated GDP, up from 88 percent in 2007. In a view of the global risk aversion and capital shortage, this is posing a strong burden to domestic economy in 2009, since repayments this year are mounting over 10 bn euros and roll-over rates are extremely difficult to assess. Major contributors to rising indebtness in 2008 were companies whose debt grew by 25 percent yoy. The banks also significantly increased their foreign borrowing after abolishment of marginal reserve requirement which led to rise in borrowing by 2 bn euros in the last quarter only, and 13 percent yoy. The only positive development noted in foreign debt dynamics is the slowdown of the growth pace of borrowing abroad for companies in the second half of last year. This may, on the other hand, be a worrying sign that the companies are facing higher obstacles when accessing to investment capital.

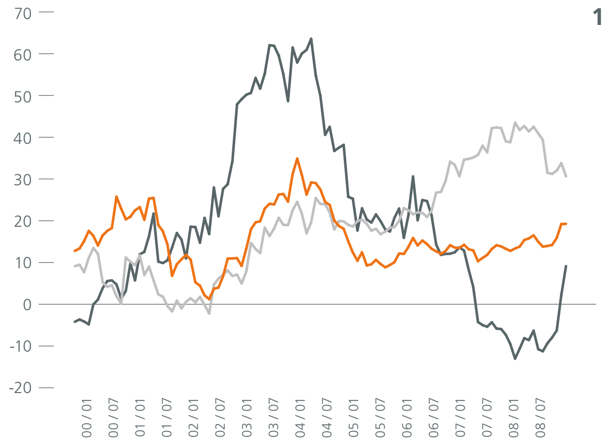
The exchange rate was under appreciation pressures for most of the year.
Strong inflationary pressures present in 2008 coming from rising prices of imported goods were alleviated by CNB allowing for sharper kuna strengthening against Euro, as well as the loss of value of US dollar against Euro. Average nominal exchange rate of kuna towards Euro was down by 1.5 percent at 7.22, while the minimum rate for 2008 was as low as 7.1067. At the same time, problems in US financial sector have shaken the trust of investors in American economy which pressured US dollar. Consequently, dollar lost strength against Euro which was reflected in kuna appreciating against US$ by 8 percent on annual average with the exchange rate falling down to 4.93.
This year, 2009, brings us the situation we have not witnessed for some period, and that is kuna weakening as a result of lower inflows from abroad (export of goods, tourism, borrowing, FDI) combined with high foreign debt repayments due. We expect the average rate to be around 7.45, with central bank defending the currency from falling further than 7.5.

Fall of balance of payments current account surplus in Q3 2008
In the third quarter of 2008 a surplus was



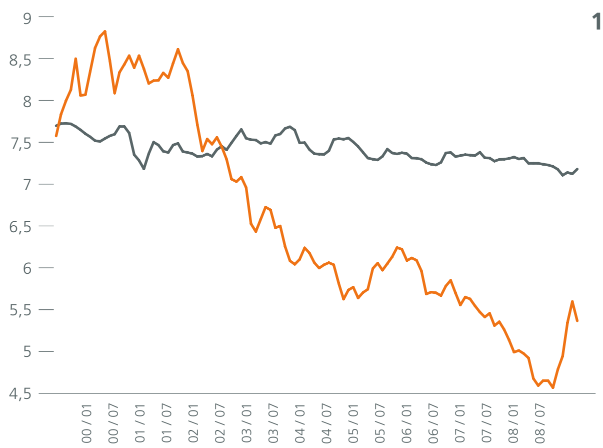
14 | Average interest rate on loans, annual
in %
source: CNB

fcc loans
kuna loans



15 | Gross External Debt annual growth rate
in %
source: CNB, PBZ calculation

Banks
Other sectors
Total



16 | Exchange rate, monthly average
source: CNB

EUR/HRK
USD/HRK

achieved. This is usual on the balance of payments current account, however, this was the third consecutive year when the surplus achieved was smaller than in the previous year, by as much as 10.7 percent, thereby amounting to 1.8 billion euros. This increased the total current account deficit in the last four consecutive quarters to 4.4 billion euros, or 9.4 percent of the GDP (the deficit at the end of Q2 2008 was 9.2 percent of the GDP). If we look more closely at the balance of payments, we can see that the deficit on the goods account in Q3 2008 was 2.7 billion euros or 18.2 percent more than in the same period in 2007. This was the result of the usual expenditure, twice the size of the income achieved by Croatia in world trade. In 2008 higher import levels were certainly also the result of the high prices of oil and food and the strong imports of capital goods, whilst on the exports side there was a noticeable slowdown due to the fall in foreign demand caused by the world financial crisis and the fact that the economies of our most important trade partners already faced the recession. The surplus on the services account of 4.6 billion euros, or 6.4 percent more than in the same period in 2007, was the result of 5.4 billion euros in income from services (7.6 percent more than in Q3 2007) but also 825 million euros expenditure on imported services (14.4 percent more than in Q3 2007). Income from tourism amounted to 4.6 billion euros, or 6.9 percent more than in Q3 2007, which is actually a good result since in the period in question there were only 0.5 percent more tourist arrivals (2.1 percent more nights) than a year before. On the income account there was a deficit of 262 million euros, or 38.5 percent more than in the same period in 2007. Inflows rose by 11.1 percent (to 356 million euros) and outflows by 21.3 percent (to 618 million euros) indicating the taking of dividends or an increase in interest payments, resulting from strong foreign borrowing by domestic companies. At the end of September 2008 the short-term external debt of companies increased by 31.2 percent over September 2007, or by as much as 78 percent in comparison with September 2006. Long term debt increased in the period from September 2007 to September 2008 by a high 87.6 percent. Direct investment in Croatia amounted to only 225 million euros in the third quarter of 2008 (almost 60 percent less than in the same period in 2007), which is the lowest level of investment recorded since Q4 2005. Our estimate is that in 2008 the current account deficit will remain at around 9.4 percent of the GDP, whilst in 2009, in view of the expected strong slowdown in domestic demand, we expect a fall below 7 percent (with the proviso that it is extremely difficult to forecast the deficit on the basis of the data available). The recent revision of GDP data, correction for exhaustiveness and imputed rents, significantly improved BOP CA balance as percentage of GDP, as it is shown on the graph number 17.

Increased Government's domestic borrowing at the year end

Available Ministry of finance data show that the consolidated central government revenues stood at HRK 109.5 billion in the first eleven months of 2008, up 6.2 percent over the same period of 2007. Tax revenue growth was somewhat faster, due to favorable economic developments in 2007 and 2008. VAT revenues went up 9.1 percent due to a steep rise in consumer prices and goods imports while the rise in profit tax revenues of 16.2 percent was largely due to the favorable business performance in 2007. Revenues from social contributions also went up noticeably by 8.8 percent, while total excise revenues decreased by 1.4 percent, mainly due to the decreased revenues from excises on refined petroleum products (-2.8 percent) and stagnating excise on tobacco products. A decrease in revenues from excises on petroleum products was a consequence of a combined effect of both lower demand due to the increased prices during 2008 and base effect of May 2007 cut in excise duty on all types on unleaded petrol. Consolidated central government expenditures stood at HRK 103.8 billion, growing by 6.4 percent year-on-year. Total wage bill grew by 7.2 percent, mostly due to an agreement between unions and the government on the increase in the basis for calculating public service wages, while the increase in expenditures on social benefits, which account for more than 2/5 of total expenditures, was somewhat slower (7.0 percent). At the same time, capital investments stood at HRK 3.5 billion, falling noticeably relative to the same period 2007 when it was almost twice as high. The still favorable revenue outturn and a decrease in government investments in the observed period of 2008 led to a consolidated central government surplus of around 1.5 billion (GFS 1986, cash basis). As the government made considerable revenues from disposal of non-financial (430 million) and financial assets (834 million) and as additional borrowing was almost sufficient to pay the obligations in that period, the government substantially increased its funds held with the CNB and commercial banks. However, an important disclaimer should be taken into consideration: 2008 consolidated central government data does not include Croatian Motorways Company data as it was the case in 2007 data. In 2007 CMC accounted for additional expenditures of HRK 5.2 billion.

Even though, the December data was not available at the time of writing this report, suddenly increased government's domestic borrowing indicated problems with the revenue inflow. The high increase in MOF Tbills outstanding stock started already in November with the first issuance of HRK 2.6 billion two year Tbills. The following three auctions in December added additional HRK 6.7 billion in Tbills while the following six auctions in January-mid March 2009 period added 1.6 billion to the stock. By mid March the stock of outstanding Tbills claimed to HRK 17.3 billion. Besides the Tbills issuance, over December 2008 -January 2009 period government extensively increased its domestic borrowing from commercial banks. Out of the HRK 6.7

billion loan growth in December, 2.3 billion (34 percent) related to central government and funds which started to represent strong crowding out of the private sector. In January 2009 the crowding out became even more pronounced: out of the HRK 4.2 billion loan growth almost 2.6 billion (61 percent) related to central government and funds. Even more, when corrected for public companies, the total public sector "bite" in January accounted for almost 70 percent of loan growth in January.

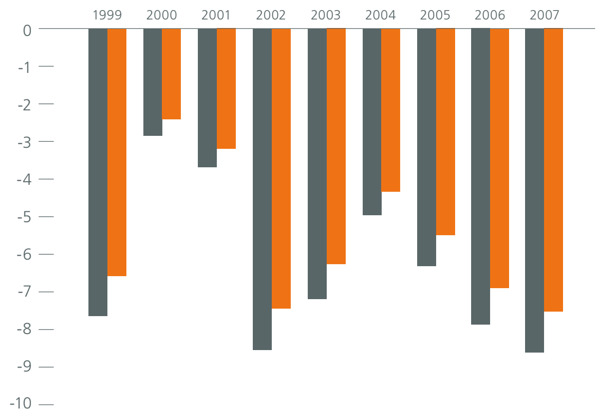
Consolidated central government financing (01.-12. 2008)

in HRK million

source: MoF, authors' calculation

Deficit (-) / Surplus (+)	1.521
Financing	-1.521
Domestic borrowing - net	3.094
Foreign borrowing - net	-1.215
Change in currency and deposits*	-4.665
Disposal of shares and other equity	834
Disposal of non-financial assets	431

2009 budget was adopted with a consolidated general government deficit equivalent to 1.4 percent of GDP. This compares with the likely outturn of 2008 CGG deficit at 1.7 percent of GDP. The 2009 budget includes funds for a 6 percent increase in salaries of civil servants and state employees, which will cost HRK 1.8 billion (this includes also a 2 percent increase in salaries of workers in the education sector as of mid-2009) and financial support to the health sector in lieu of its reform. As the signs of economic downturn became more pronounced it becomes evident that it will be hard to keep the budget deficit within the planned limits. The budget was based on overly optimistic 5.6 percent nominal GDP growth rate which triggered a budget revision in early March. At the moment of writing this report, the budget revision was still in the working stage and therefore fiscal policy was still predominant risk for overall economic stability.



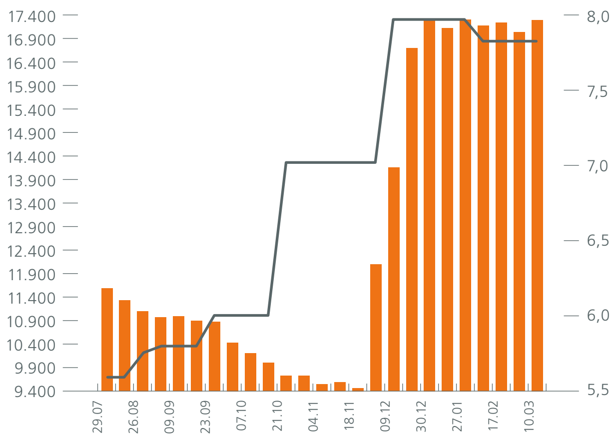
17 | Balance of payments, CA deficit as % of GDP

in %

source: CNB, CBS

% of old GDP

% of new GDP



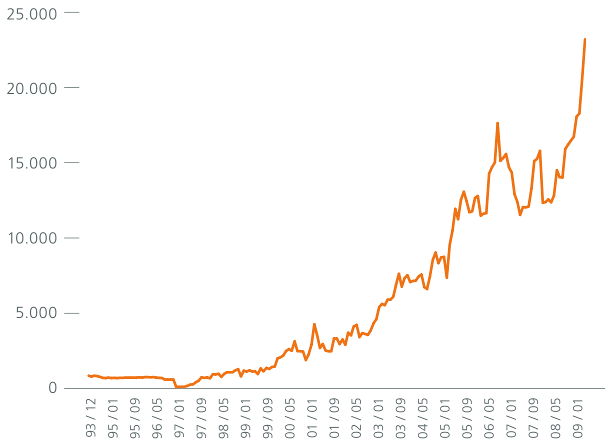
18 | T - bills

in HRK milion and %

source: MoF

1 Y interest rate (in %)

Total outstanding (in HRK milion)



19 | Commercial banks loans to central government

in HRK milion

source: CNB

Milanovac waterfall and Milanovac lake | Plitvice, January 2008

Organisational chart

Supervisory Board
György Surányi,
President of the SB

- Office of the Supervisory Board
- Audit Committee
- Internal Audit Division resp. to MB President

Management Board
Božo Prka,
President of the MB

- Office of the Management Board
- Equity Holdings Management Department
- Human Resources Division
- Legal Affairs Division
- Office for Corporate Communications
- Office for Ec. Research & Strateg. Planning
- Project Management Office
- MB Office for Security
  Draženko Kopljar

Corporate, Treasury & Invest. Banking Group
Ivan Gerovac
- Public Sector (Entities) Division
- Large Companies & Foreign Companies Division
- Financial Institutions & Spec. Financing Division
- Treasury Division
- Investment Banking Division
- Support Division
- Strategic ALM Office

Small & Medium-Size Enterprises (SME) Group
Mario Henjak
- Small &Medium Size Enterprises Division
- Product Development & Branch Coordin. Division

Retail Banking Group
Dinko Lucić
- Retail and SME Groups Office
- Distribution Channel Development & Monitoring Division
- Product Development & Monitoring Division
- Private Banking Division
- Analysis and Client Relationship Development Division
- Product and Service Marketing Division

Risk Management & Control Group
Jonathan C. Locke
- Risk Management Division
- Credit Analysis Division
- Loan Recovery & Restructuring Division
- Compliance Division

IT & Operations Group
Draženko Kopljar
- Business Processes Organization Division
- Operations Division
- Payment Transactions Division
- **ICT Sub-group**
  - Central functions
    ICT Governance Office
    - Application software
      - Application SW Division
      - Application Operations Division
      - VIRT Department
    - Central system infrastructure
      - System Infrastructure Division
      - Telecom & Distributed Systems Division

Account., Taxation, Controlling & General Admin. Group
Gabriele Pace
- Accounting and Taxation Regulation Division
- Accounting Division
- Controling Division
- General Administration Division

Galovački buk waterfall | Plitvice, January 2008

Business description of the Bank

Privredna banka Zagreb d.d. is one of the largest and among the oldest financial institutions in the Republic of Croatia, with a long continuity of banking operations. It was founded in 1962 as a universal bank on the basis and banking tradition of The First Croatian Savings Bank which was initially established in 1846 in Zagreb by the members of the Farming Association of Croatia and Slavonia. During all periods of its history, PBZ supported the largest investment programs in tourism, agriculture, industrialisation, shipbuilding, electrification and road construction. PBZ has become a synonym for economic vitality, continuity and the Croatian identity.
Privredna banka Zagreb today is a modern and dynamic financial institution, which has actively sought and won the role of market leader on the financial markets in Croatia. It is a fully licensed bank with nationwide branch network. With its nationwide network of branches and outlets, as well as a broad group of banking and non-banking subsidiaries, PBZ is one of the universal banks that cover the whole territory of the Republic of Croatia.

Organisational Structure and Business Activities

Nowadays, PBZ is the leading bank in Croatia in terms of subscribed share capital and the second bank in terms of total assets. It has consistently been a leading financial institution on the Croatian market with an established business base and recognised national brand name. Upon successful privatisation in December 1999, PBZ became a member of Gruppo Intesa Sanpaolo - the largest Italian banking group and one of the most significant financial institutions in Europe. With this partnership, supported by the EBRD through its minority shareholding stake, PBZ has retained its business strategy aimed at modern forms of banking and new products, confirming its image of a dynamic and modern European bank, which meets the demands of the market and its clients. The benefits of strategic partnership are clearly visible in the continuously improving financial results of the Bank, as well as of the PBZ Group. Along with the adoption of the business and corporate governance standards set by its parent bank, Privredna banka Zagreb has maintained the strategic development orientation of a modern, client oriented, technically innovative universal financial institution. PBZ is focused on the continued advancement of its economic performance well into the future, as well as solidifying its position as a product leader in offering the most progressive banking products, through the optimal mix of traditional and modern distribution channels. This ensures that PBZ will continue to be able to set standards of the highest quality for product innovations and services offered to both its domestic and international clients. This commitment to quality and advanced banking practices is clearly seen in the fact that Privredna banka Zagreb received the Best Bank in Croatia award from Euromoney in 2001, 2002, 2004, 2007 and 2008. In 2005 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 2002 and 2005. In 2003, 2004, 2005, 2006, 2007 and in 2008, PBZ's quality was confirmed again when it received Global Finance's Award for the Best Bank in Croatia. In 2003, 2004, 2005 and in 2006 PBZ received the domestic prestige awards - the Golden Share Award for the Best Banking Share in the country, and the Golden Kuna Award in 2004 and 2005. 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 3,734 employees and provides a full range of specialized services in the areas of retail, corporate and investment banking services. The business activities of the Bank are organized into 3 principal client-oriented business groups.

Retail Banking Group

With respect to the retail banking segment, PBZ holds a comparative advantage over its competitors given its wide spread branch network in Croatia, consisting of 213 organisational units in 18 regions which cover the entire territory of the country. Moreover, the banking subsidiary in the Group, Međimurska banka covers the Međimurska County and provides an effective presence in that particular region.
In accordance with its business philosophy of focusing on client needs and demands, six years ago the Bank introduced personal bankers and the 0-24 hour self-service banking zones to the branch networks, while increasing the quality of services through continued staff training and undertaking quality control measures such as the "Mystery Shopper" project. These activities are constantly in development with the emphasis being placed on the standardisation of business processes. To illustrate this orientation we would like to mention the package of products (named Innovation) by which the Bank rewards its clients who are owners of several groups of products, giving them discount on certain forms of fees and awarding them an incentive interest rate if they have placed their funds on time deposit with the Kuna Plus savings account. On top of that, PBZ has introduced Private banking, a specially designed service aimed at VIP clients. In addition to restructuring and repositioning the traditional distribution channel of the business network, PBZ also continues to develop and improve the distribution channel of direct banking. It has extended its network of ATMs which accept Maestro, MasterCard, Visa Classic and Visa Electron as well as American Express cards (a total of 635 ATMs have been installed). The number of EFT POSs (points of sale) has increased from 3,500 at the end of 2000 to the present 24,101.
As a leader in modern technologies, PBZ has also expanded its distribution channels and products by applying the most advanced technology in order to implement its PBZ 365 services; PBZ365TEL

telephone banking service and PBZ365SMS service. With Internet banking PBZ365NET (PBZ365-Optima and PBZ365-Lite) and PBZ365WAP services a client can access his/her accounts 24 hours a day from any location in the world. In 2004, PBZ introduced mPay - a system of payment using mobile phones, as the first bank in Croatia offering such a service, with over 111.180 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 3 D Secure technology (Verified by Visa). At present, approximately 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 2008 the Bank launched six 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 a 19.7 percent share of the loan market. In the area of customer deposits, PBZ has significantly increased its deposits to more than HRK 27.8 billion to date, which is 20.6 percent of the Croatian retail deposit market. On a consolidated level, PBZ Group holds almost 22 percent of the overall Croatian retail deposits.
In the card products segment, PBZ, as a card issuer and acceptor, replaced all cheque cards of retail current accounts with the internationally accepted Cirrus Maestro debit card; it offered internationally valid Visa Electron debit card linked to a foreign currency account and issued internationally valid Visa Business Electron debit cards linked to gyro account of private persons, craftsmen and corporates, as well as MasterCard and Visa revolving credit and charge products, and it is the only Bank in Croatia offering Maestro prepaid gift cards. In January 2006 card operations of PBZ were shifted to the new company, PBZ Card (former PBZ American Express), that deals with all card operations of the PBZ Group. Together with PBZ Card, the Bank has issued more than 2.1 million cards to its clients which accounts for 24.7 percent of the domestic card market.
Retail operations in Privredna banka Zagreb comprise the following divisions: the Division for the development of distribution channels and monitoring, the Division for product development and monitoring, the Division for private banking, the Division for analysis and client relationship development, the Division for product and service marketing and the Office for retail and SME groups.

Division for the Distribution Channels Development and Monitoring

This division is responsible for defining, structuring, implementing and monitoring classical and direct distribution channels for the delivery of retail products and services (branch network, ATM and EFT POS network, PBZ 365 services - telephone banking, internet banking, SMS banking, WAP banking, mPay, personal bankers, retail network education). It prepares and coordinates the budget and supervises the achievement of its goals for all distribution channels. It chooses the appropriate distribution channels for end products intended for specific targeted client groups. In association with the Division for product development and the Division for the development of client relationships and marketing, it chooses the right moment for the launch of a new product/service and is responsible for informing the distribution channels of all pursuant marketing activities which may have an effect on them.

Division for Product Development and Monitoring

In cooperation with the Division for the Analysis and Client Relationship Development and the Division for the Development of Distribution Channels and monitoring, this Division monitors the macroeconomic environment, the activities of direct competitors as well as the market position of the Bank in retail operations.
It controls the entire process of defining products for a targeted group of clients, determines the prices of the products and delivers end products to the Division for the development of distribution channels, to which it proposes an appropriate approach and suitable moment for the product launch. In cooperation with the Division for the development of distribution channels and monitoring, it participates in the monitoring of overall profitability (product distribution).

Private Banking Division

The Private Banking Division provides financial services to high net worth individuals and their families in Croatia. Utilising the most suitable products from the marketplace, the Private Banking Division works with its clients to offer both traditional and innovative ways to manage and preserve wealth whilst optimising returns. Specialist advisers of the Division are available to deliver products and services that are tailored to meet the full range of financial needs requested by our VIP clients. These services include asset manage-ment, financial consulting, monitoring and evaluation of the clients' investments, custodian services, special deposit taking, sale of insurance policies, etc. The Division has recently introduced bespoke electronic platform which enables clients to place orders on-line.

Division for Product and Service Marketing

The prime role of the Division for Product and Service Marketing is marketing management for all the products and services for retail clients of the entire PBZ Group. The activities of this Division include the selection and coordination of appropriate marketing campaigns, selection of the most suitable communica-tion channels to the defined market segment and media planning as well as planning and defining marketing messages in the branch network. It continuously monitors and improves the quality of services throughout the branch network. It also prepares proposals for the marketing budget and oversees it throughout the year.

Division for Analysis and Client Relationship Development

The Division for Analysis and Client Relationship Development is responsible for the analysis and development model which includes supervision and implementation of measuring key indicators for performance assessment of the distribution network and products for retail customers.

The activities relating to the analysis and segmentation of the market include: monitoring the profitability of segmented client databases, the analysis of existing products and services intended for individual client segments and their requirements. This Division also engages in the development of models for measuring the quality of client service by executing Mystery shopper activities, structured market researches, monitoring customer complaints and the overall satisfaction of our clients.

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. The Corporate, Treasury and Investment Banking Group consists of the following divisions: Public Sector Division, Large Companies and Foreign Companies Division, Financial institutions and special financing division, Treasury Division, Investment Banking Division and Support Division.

Public Sector (Entities) Division

Public Sector (Entities) Division is responsible for performing transactions with government institutions, local and self-government units, public enterprises and public utility companies, insurance companies, large companies, affiliates and institutions. Recognising and taking into account the requirements of its clients for banking products and services, the Division offers all types and forms of short-term and long-term financing, purchase of receivables, B/E discounting, factoring, letters of guarantees, letters of credit, and renders services involving the opening of business accounts, cash pooling, contracting Internet banking, multi-purpose facilities, providing financial support to export businesses, active participation in the conclusion of deals of its clients abroad, as well as different models of deposit transactions and other innovative solutions adjusted to the requirements of each single client. Apart from the operations mentioned, it is also important to highlight the services in agency business - transactions performed on behalf and for the account of the ordering party, and commission business - deals made in its own name and for the account of the ordering party. We particularly wish to bring into focus our financial advising services, applicable to whatever line of business/branch a legal entity is associated with, and the creation of the best possible solution for the respective entity. In coordination with other units of the Bank, we participate in cross selling of all the PBZ Group products. By managing the overall business relationship between the Bank and the client, through a synergic effect we strive for the creation of new supplementary value for our clients. Appreciating the diversity of its clients' business activities, employees of the Public Sector (Entities) Division, through their individual approach to each client, as well as in team work, provide support to clients in all aspects of their business activities by affording them the use of a wide range of the Bank's services and products, thus developing long-term business relations and partnerships. In every segment of its business activities, operations and service rendering, the Division endeavours to promote the highest quality banking standards, first and foremost in being professionally and flexibly oriented, both to its present, and to its potential clients.

Large Companies and Foreign Companies Division

The Large Companies and Foreign Companies Division is responsible for business transactions with large domestic companies, companies in foreign ownership, as well as with foreign legal entities - non-residents. The Division offers all types of banking products and services rendered in cooperation with other Bank's organisation units - opening business accounts, offering Internet banking accounts, approving loan facilities, purchase of receivables, B/E discounting, issuing of letters of guarantees and opening of letters of credit, cash handling services (organising, transporting, collecting and transferring cash, cash pooling, global cash management), card operations, leasing, retail products and other. Major domestic clients are building companies (building construction and civil engineering), companies engaged in tourism, and large trading companies. To companies engaged in the construction of residential and business premises intended for sale we offer the complete project implementation service - from the control of project documentation and building supervision to the financing of construction and of the sale of real estates to final buyers. In view of the well-developed business network of Privredna banka Zagreb with as many as 213 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 both the international and domestic money markets, capital markets, foreign currency markets and also manages the liquidity of the bank. The PBZ Treasury division is a reliable financial partner and has an active role in trading securities issued by the Ministry of Finance, currency and short-term cash derivatives on the money market. The Treasury division consists of three sections: Securities, Foreign exchange, Money market. The Securities department operates with short, medium and long-term debt and owners' financial instruments. The money market section is involved in short-term securities, domestic and international T-bills, repo arrangements and deposits. In the foreign exchange section the most important segment of the activities is covered by the Corporate desk. It is mainly oriented to corporate clients and fulfilling their needs, wants and demands. The foreign exchange department operates with foreign currencies on spot and forward, options and banknotes. The banknotes segment covers delivering, dispatching, processing and warehousing various shipments of foreign currencies. Privredna banka Zagreb acts on the domestic market as one of the leading banks in this particular banking area. We are the market maker, especially in securities, commercial papers, government, municipal and corporate bonds issued on domestic and foreign markets. Considering the above, we can most proudly conclude that as well as participating domestically, as a priority we are focused and open towards the global markets.

Investment Banking Division

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

As part of the new organizational structure of the Bank, which has been in force since February 2006, 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 pro-active, 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 two divisions:

Small and Medium-size Enterprises (SME) Division

This division is responsible for operations with small-medium enterprises and companies owned by foreign institutions. In order to adequately run these operations the Division has split duties between three teams: Team for Small-Medium Enterprises, International Clients Acquisition Desk and Factoring Desk. In addition to the afore-mentioned duties, the Division also coordinates and supervises operations of the Bank's subsidiaries, PBZ Leasing and Međimurska banka, which are subordinated to and under the control of the Division.

Division for Product Development and Branch Coordination

This Division is responsible for market research, product development primarily oriented towards small and medium enterprises as well as craftsmen, development of payment systems, SME desk management, branch coordination, call centre supervision and SME credit administration.
With the aim of running these operations appropriately the Division is supported by the following teams and departments: Team for branch coordination, Department for product development, Department for distribution channels and Credit administration department.

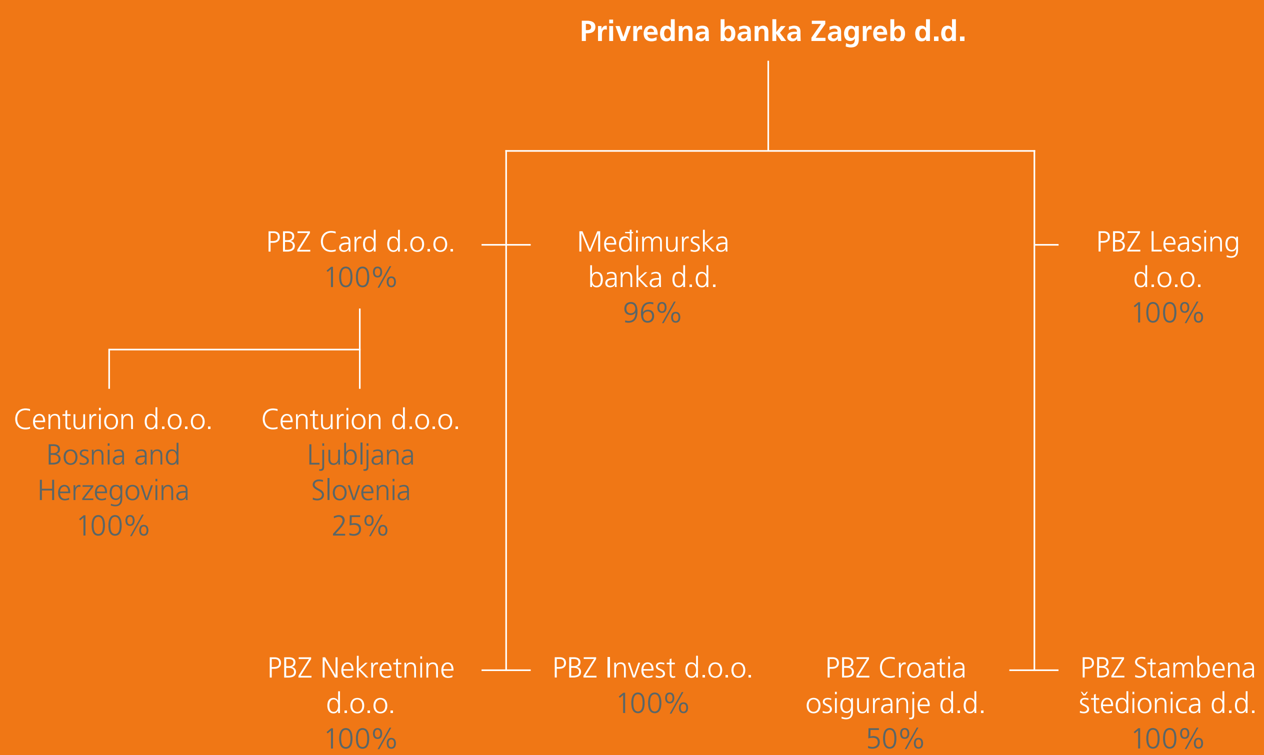
Logistics areas

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

Cascades from Gavanovac lake into Kaluđerovac lake - detail | Plitvice, January 2008

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 4,557 employees and serves over 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 18.2 percent. On 31 December 2008 the Group consisted of Privredna banka Zagreb and 7 subsidiaries and 2 associates. The composition of the Group and a brief description of each subsidiary are set out below.



Međimurska banka

Međimurska banka was established in 1954 under the name of Zadružna banka i štedionica čakovec. Since that time, the bank has experienced many changes both in name and organisational structure. It began operations under its current name in 1978 and became a joint stock company at the end of 1989. During 1996 Međimurska banka was among the first banks in Croatia to obtain the certificate for quality management standards in line with the ISO 9002 quality system. Privredna banka Zagreb acquired a majority stake in Međimurska banka at the end of 2000, making it a member of the PBZ Group and Gruppo Banca Intesa (now Gruppo Intesa Sanpaolo). Currently the bank has 17 branches located in the region of Međimurje. It uses its network to provide services to more than 5 thousand companies and nearly 100 thousand individual clients. While monitoring the global trends in banking, the bank has continuously worked on expanding and updating its products and services. The bank is recognised as a pioneer in electronic banking in the country. Its main activities are concentrated on lending, and several new products have been launched including customer deposits, direct banking, card operations, kuna and foreign currency processing. At the beginning of 1998, the bank introduced an interactive telephone banking service. Only a year later, they were the first in the country to launch the Internet banking system. The bank also significantly increased the number of ATMs and EFT POS units during the year. Međimurska banka successfully completed the implementation and launch of its payment system during the payment system reform in 2002. The bank operates the system independently. It opens and runs business accounts and payment transactions for corporate clients while offering them one-stop shop for banking services in less time and with lower costs. Međimurska banka plans to continue operating in all its different activities with the support of PBZ while maintaining its own legal and business identity that is recognized by the market. During 2008 Privredna banka Zagreb initiated a Squeezed-Out Project by which it should acquire the remaining 3.34 percent of the share capital of Međimurska banka d.d. and become a wholly owner of the bank. The project was completed in Febuary 2009.

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 more than 2.1 million cards issued. 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 will strive to maintain the leading position and to continue 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 Intesa Sanpaolo.
No matter if American Express, MasterCard or Visa cards, the three leading card brands in the world, are used for shopping or for taking advantage of the related benefits and services linked to these cards, PBZ Card makes this possible throughout the world. PBZ Card is providing service to its clients 365 days in a year. American Express is an internationally recognised trademark always associated with exceptional quality. The trademark has been present here on the Croatian market since 1965. PBZ American Express was operating as a subsidiary of Privredna banka Zagreb from 1998. It has grown into the largest company in the country with over 2,1 million issued cards (combined with PBZ) being accepted at approximately 60,000 service establishments countrywide. The company recorded total turnover on all cards in circulation in amount of more than HRK 29 billion.

PBZ Invest

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

PBZ Novčani fond, open-ended investment fund

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

PBZ Bond Fund, open-ended investment fund

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

PBZ Global Fund, open-ended investment fund

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

PBZ Euro novčani fond and PBZ Kunski novčani fond, open-ended investment funds

These funds are open-ended investment funds established in 2002, designed for domestic investors who wish their investments to be pegged to the Euro or Kuna.

PBZ Dollar Fund, open-ended investment fund

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

PBZ Equity Fund, open-ended investment fund

A higher risk fund that offers to its 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 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 almost 60 associates.

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 2008, PBZ Leasing made over 7.6 thousand lease arrangements with customers, which in financial terms reached almost HRK 1.5 billion.

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 2006. 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 262 thousand members and net assets in personal accounts exceeding HRK 3.7 billion which represents a sound base for the long-term stable and profitable operation of the company.

PBZ Stambena štedionica

PBZ Stambena štedionica is the third largest building society on the Croatian financial market. It was founded by Privredna banka Zagreb. Given the large number of our clients interested in housing savings, the company offers them three types of savings: Prima, Basic and Golden savings. At present there are more than 123 thousand savings contracts which amount to nearly HRK 1.5 billion.
Prima and Basic types are aimed at clients whose goal is to make use of a housing loan with exceptionally favourable interest rates. Golden savings are designed for clients whose first intention is long-term saving. These forms of saving are run with a foreign currency clause in euros whilst deposits are insured in accordance with the Banking Law. There is also the possibility of changing the type of savings account whilst saving. Clients have the opportunity to manage their own savings accounts from their own home by means of Internet banking through PBZ365@NET and PBZ365 Optima services.

Invest Holding Karlovac

Invest Holding is a limited liability company incorporated on 11 November 1990. On 22 November 1990 it was registered in the Court Register in Karlovac. The sole founder of the company was Karlovačka banka. On 12 December 1990 Karlovačka banka sold 56.38 percent of its shares in the company to Privredna banka Zagreb.
The company is registered for various activities, however it mainly engages in renting its own premises acquired through the liquidation of Jugoturbina Karlovac.
In December 2008 Privredna banka Zagreb completed sale of its entire stake in Invest Holding Karlovac to KABA Nekretnine.

Milino Lake | Plitvice, January 2008

Overview of Activities in PBZ's Social Responsibility Program

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

Integrity - We pursue our goals with honesty, fairness and responsibility in the full and true respect of the rules and professional ethics and in the spirit of signed agreements.
Excellence - We set ourselves the goal of continuous improvement, farsightedness, anticipating challenges, cultivating extensive creativity aimed at innovation; moreover we recognise and reward merits.
Transparency - We are committed to making transparency the basis of our actions, advertising and contracts in order to allow all our stakeholders to make independent and informed decisions.
Respect for individuals - It is our intention to combine large-scale operations with profound local roots and to be a bank with a broad vision, without losing sight of individuals.
Equity - We are committed to eliminating all forms of discrimination from our conduct and to respect differences in sex, age, race, religion, political and union persuasions, language or disability.
Individual values
The value of each single person is a guide for our modus operandi: we use listening and dialogue as tools for continuously improving our relationships with all our stakeholders.
Responsibility in the use of resources - We aim to use all our resources attentively, promote behaviour based on the best use of resources and the avoidance of waste and ostentation, and we give priority to choices that take sustainability into account.

Presented below is a brief overview of the activities undertaken in the Program during 2008.

1. Education and professional development
Starting from January 2007 PBZ Business School provides continuous managerial training programs for employees with high managerial potential on three levels: young potentials, junior managers, senior managers. In 2008 the second generation started a 3 year program bringing the total number population of PBZ business school participants at the end of 2008 to 425. By having more than 10% of our employees involved in these programs we have made a significant impact in the sense of company identity.

2. Internal communications
The internal communications system is very well developed through various channels: Intranet, e-mail, internal magazine "Moja Banka" and internal newsletter PBZXpress. They obtain all relevant information and interesting details from the life of the Bank, the PBZ Group and Intesa Sanpaolo and in this way contribute to a felling of belonging to the our large international multinational group. Also, all employees are invited to contribute to the content of the internal communication channels. During this year we have enriched our Intranet with some new sections and we started a pilot project of the internal web TV.

3. Care for employees
PBZ STANDARD is an association whose registered scope of activity includes organization of recreational and sports-educational activities for PBZ Group employees. It was established with a view to provide a wide range of recreational activities to Bank employees better health and general conditioning and eventually reducing sick leaves and the absence of employees from their workplaces. The Association has been active for four years and currently has about 2,100 members. Use of organized recreation is allowed also to the immediate family of our employees, meaning their spouses and children. PBZ STANDARD strives to enable recreation through as many sports as possible so as to stimulate Bank employees to socialize with each other and jointly contribute to the achievement of set goals as well as to strengthen their team spirit and make them aware of the fact that it is easier to achieve such goals with joint forces. PBZ STANDARD organizes activities under the name TOWARDS BETTER HEALTH initiative (lectures and workshops on prevention of the most common diseases of modern times). Every second year PBZ pays for general physical health examinations for every employee.

4. Donations and sponsorships
Privredna banka Zagreb endeavours to make a contribution and show its responsibility towards the wider community through sponsorship and donations. The Bank contributes to the development of local communities by actively involving our Regional branch offices in sponsorship and donation programs involving institutions, associations and individuals in Croatia. PBZ endeavours to support and initiate many cultural events and happenings, and contribute to the improvement of the overall quality of life of our community.

4.1. Donations
Donations in 2008

Science and education	718.900 kn
Sport	930.000 kn
Culture	378.000 kn
Social solidarity	4.000.000 kn
Others	1.500.000 kn
Total	**7.526.900 kn**

PBZ is actively involved in a whole series of socially beneficial projects and provides financial supports to a large number of humanitarian and social institutions. PBZ supports education programs, sporting associations and many cultural institutions. The emphasis in PBZ's activities as a donor is on children, socially at risk families and institutions caring for the sick and infirm:

- The donation to the Humanitarian Foundation for the Children of Croatia for the purpose of providing support to 350 children under the care of the Foundation with a monthly amount of HRK 300.00 per child.
- From its very outset in 2003 PBZ has been involved as a co-founder of the major Caritas fundraising campaign "For One thousand Joys". The aim of the campaign is to raise money to help 1000 low income families in Croatia from funds which businesses set aside for Christmas and New Year's parties. As well as donating money every year, PBZ supports the campaign by buying Caritas' Christmas cards.
- Donation to the Center of autism in Split in one of many programs for family aid that we support
- PBZ also actively supports local and regional sporting events and organizations

For several years Privredna banka Zagreb has been donating its used computers (about 500 computers every year), printers and other IT equipment to institutions, children's kindergartens, schools and underprivileged individuals who show a need for this kind of equipment.

4.2. Sponsorships

Sponsorships in 2008

Science and education	465.000 kn
Sport	12.632.000 kn
Culture	550.000 kn
Others	392.000 kn
Total:	**14.039.000 kn**

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

- We are supporting some of major cultural events in Croatia: The Dubrovnik Summer Festival - widely known cultural event, traditional ethnological manifestation "Rapska fjera" and many other local cultural events
- The various cultural programs that PBZ has supported include sponsorship of the Croatian National Theatre in Zagreb, Croatian National Theatre in Varaždin etc.
- Traditionally, we are a sponsor of the ATP Croatian Indoors tournament

5. Projects

PRIVREDNA BANKA ZAGREB is actively involved in a CSR project - the workshops for citizens entitled "How to Balance Income and Expenditure", held in eight Croatian cities for over two years. Banks that had joined the initiative have together developed a programme for conducting free-of-charge interactive workshops on managing personal finances to the general public. Workshops are run by employees from the participating banks and Croatian Banking Association is coordinating the project and provides necessary logistical support. The banks recognized the importance of joint action, seeing as this was the first time that an entire business sector had come together and offered its clients a "solution" outside of its selection of products on sale. The aim of the workshops is, due to the High level of indebtedness and a relatively low level of citizen's financial literacy, to teach them how to make financial decisions, set their short-term and long-term objectives, and balance their means and wishes with regard to their income and expenditure, without offering them or promoting any bank products. The project has attracted over 1,400 participants to date in over two years and provided them with an opportunity to learn how to successfully manage their resources, and has been a success. In the end-of-workshop survey, 80 % of attendants said that the workshop achieved its aim of teaching them how manage their personal finances well or very well, and as many as 98 % assessed the organisation of the workshop as good or very good. Very successful cooperation was also realized with representatives of cities, local self-government and institutions, which provided space for the workshops. Over 80 facilitators from various banks had an opportunity to work together in the community for the

Workshop presenters

first time and to share their knowledge with its members. Media response to the workshops has been outstanding and a large number of reports on the workshops and their results have featured in the media. As for the future of the project, a new workshop is currently being developed, focusing on saving and investment. The new module should be presented to citizens in the following period, which will provide continuity to the workshops project and make it, or rather maintain it as one of the shining examples of corporate social responsibility in banking.

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

The PBZ Bridge project has been running since 2006 - as the first program of student loans with exceptionally favourable terms, which enables students to bridge the period between their studies and employment more easily.
The partner in the project is the Faculty of Electrical Engineering and Computing in Zagreb. For the best students scholarships are provided in cooperation with the Banca Intesa Sanpaolo, and they are given the possibility of attending the Double Degree Program at one of the most prestigious Italian faculties - the Politecnico di Milano.

6. Environmental impact

During building and reconstruction of the Bank's premises we use systems and equipment with low level of power consumption and high level of energy utilization.
All air condition systems use ecological gas (Freon) and power of all systems is reduced using inverter technology. Reduction of paper consumption is reached by implementing the multifunctional devices as well as with bank-wide instructions to print on both sides of the paper.
Paper waste is gathered separately and collected by a contracted company that recycles it. Hazardous waste as cartridges are also separately sorted and collected by a contracted company which does business in compliance with laws and regulations.
Also in process is the project of implementation of interdepartmental envelopes.
During the training of employees for Fire protection and Safety at work one topic is environmental protection. Through this we are building up awareness of employees about environmental issues.
In accordance with the environmental protection and waste disposal regulations, the Bank is ensuring disposal of dangerous and environmental endangering waste, such as Freon gas (in servicing cooling and air conditioning systems), toners, neon light tubes, dangerous chemicals from Scanning and Microfilm Unit and other dangerous waste.
The above mentioned will be regulated with the new Rulebook of safety at work with associated directives which will be recommended to the Management Board for adoption in 2009.

Milino Lake - Waterfall detail | Plitvice, January 2008

Corporate governance

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

Supervisory Board

The Supervisory Board consists of seven members. The Board meets quarterly and oversees the Management Board. The current members of the Bank's Supervisory Board, appointed on the three year term by the Extraordinary General Assembly held on 30 January 2007, are as follows:

György Surányi, president (Intesa Sanpaolo)
Giovanni Boccolini, vicepresident (Intesa Sanpaolo)
Adriano Arietti, member (Intesa Sanpaolo)
Paolo Grandi, member (Intesa Sanpaolo)
Massimo Malagoli, member (Intesa Sanpaolo)
Massimo Pierdicchi, member (Intesa Sanpaolo)
Anne Fossemalle, member (EBRD)

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 Audit Committee may consist of up to seven members, however, there are currently six members appointed by the Supervisory Board on 21 December 2007. The Committee is responsible for monitoring various important processes such as: the financial reporting, internal audit, risk management, compliance with laws, regulations as well as code of conduct in PBZ Group. Finally, the Audit committee acts as an important contact for the external auditor, whose independence it supervises. Members of the Audit Committee are the following:

Giampiero Trevisan, president
Luca Finazzi, member (appointed on 11 November 2008)
Beata Kissné Földi, member
Massimo Pierdicchi, member
Armando Sala, member
Ezio Salvai, member
- - -
Previous member in 2008 was also:
Tünde Barabás, member - mandate expired on 5 May 2008

Management Board

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

Božo Prka,
President of the Management Board
Jonathan Charles Locke,
Vicepresident of the Management Board, responsible for the Risk Management and Control Group - appointed on 8 February 2009
Gabriele Pace,
Chief financial officer, responsible for the Accounting, Taxation, Controlling and General Administration Group
Ivan Gerovac,
responsible for the Corporate, Treasury and Investment Banking Group
Mario Henjak,
responsible for the SME Banking Group
Draženko Kopljar,
responsible for the Information Technology and Operations Group
Dinko Lucić,
responsible for the Retail Banking Group - appointed on 8 February 2009
- - -
Previous members in 2008 were also:
Marco Capellini, vicepresident, responsible for the Risk Management and Control Group - mandate expired on 7 February 2009
Tomislav Lazarić, vicepresident, responsible for the Retail Banking Group - mandate expired on 7 February 2009

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

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 2008, 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 2008) are provided in this Annual report.
Rules on the appointment and recalling of members of the Management Board are laid down in the Bank's Articles of Association.
The number of members of the Management Board of the Bank is determined by decision of the Supervisory Board. Accordingly, the Management Board is composed of seven members. The Supervisory Board brings a decision to nominate candidates for president and members of the Management Board, who need to meet the conditions prescribed by the law governing banking operation and other relevant regulations. After obtaining the prior consent of the central bank, the Supervisory Board appoints the president and members of the Management Board for a 3-year term of office, with the possibility of re-appointment. The Supervisory Board may revoke its decision on the appointment of a member or the president of the Management Board provided that there are substantial grounds therefore pursuant to the law in force.
Authorities of the Management Board are set out in the Bank's Articles of Association, while a special decision was adopted, with the consent of the Supervisory Board, to lay down the distribution of authority among the president, deputy president, and other members of the Management Board of the Bank.
The Shareholders' Meeting adopted a decision authorizing the Management Board of the Bank to acquire treasury shares on an organized securities market until 8 April 2009. The Management Board of the Bank is not authorized to issue new shares of the Bank.
Data on the composition and activities of the Management Board and the Supervisory Board of the Bank and their supporting bodies are presented in the enclosed Annual questionnaire.
Rules for making amendments to the Articles of Association of the Bank are laid down in the Articles of Association. The Decision on the amendments to the Articles of Association is adopted by the General Meeting of the Bank, in accordance with the law and the Articles of Association, by a ¾ majority of the voting share capital represented at the General Meeting on adoption of the decision. Amendments to the Articles of Association are proposed by the Supervisory Board, the Management Board, and the Bank's shareholders. The Supervisory Board is authorized to amend the Articles of Association only if it is a matter of harmonisation of the wording or of establishing the final version of the Articles of Association.
With a view to protecting the interests of all investors, shareholders, customers, employees, and other interested parties, the Bank has set high corporate governance standards.

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

1. Does the Company have its own website on the Internet?

Yes. The Bank's website address is www.pbz.hr

2. Are the semi-annual, annual and quarterly financial statements available to the shareholders?

- At the Company's headquarters?
  Yes.
- On the Company's website?
  Yes. The annual financial statements for 2008 with the external auditors' report are available on the Bank's website. Semi-annual and quarterly reports (TFI-FIN form) for 2008 are published on the Bank's and Zagreb Stock Exchange website.
- In English?
  Yes. The annual financial statements for 2008 with the external auditors' report are prepared and available in English on the Bank's website.

3. Has the Company prepared a calendar of important events?

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

4. Does the company publish a list of shareholders and is the list updated at least twice a month?

The Bank publishes a list of top 10 shareholders (out of 6,018 shareholders on 31 December 2008) in accordance with the Law. The list is updated in the case of changes to those top 10 shareholders.

5. Is there a cross-ownership relationship between the Company and

another Company/other Companies?

No.

6. **Are data on securities issued by the Company and held by the Supervisory Board members or Management Board members presented in the annual financial statements?**

   Yes. The number of Bank shares held by the Management Board and Supervisory Board member as at 31 December 2008 is published in the Annual Report for 2008 while the changes (increase/ decrease in number of shares owned) during the year is published on the Zagreb Stock Exchange website.

7. **Are data on securities issued by the Company and held by Supervisory Board members or Management Board members published on the Company's website and regularly updated (on a 48-hour basis)? If not, why not?**

   No. Data are published on the Zagreb Stock Exchange website within the legally prescribed period and contents.

8. **Does the Company identify and publicly disclose risk factors?**

   Yes. Bank's risk factors are disclosed within the Annual report which is prepared in accordance with the International Financial Reporting Standards.

9. **Has the Company established mechanisms to ensure:**

   - That clarifications in respect of privileged information, its nature and importance, as well as the restrictions on its use, are supplied to persons to whom such information is made available?

     Yes.

   - Supervision of the flow of information and its possible misuse?

     Yes.

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

    Yes.

11. **Are the nominations, including relevant CVs, for all candidates for Supervisory Board member-ship to be elected at the General Meeting, announced on the Company's website? (If no, why not?)**

    No. In 2008 there were no changes to the membership of the Supervisory Board.

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

    Yes.

13. **Did the Company issue new shares?**

    No.

14. **Did the Company acquire or release its own (treasury) shares)?**

    Yes.

    - Did the acquisition or release take place on the open market?

      Yes.

    - Was this in a manner that cannot be described as privileged towards certain shareholders or investors, or groups of shareholders or investors?

      Yes.

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

    Yes.

16. **Did the Company provide proxies for shareholders, who are for some reason prevented from voting at the General Meeting, who are obliged to vote in compliance to the shareholders' instructions, at no extra cost? (If not, why not?)**

    No. There were no such initiatives by the shareholders but the Bank is prepared to provide proxies for the shareholders if such an initiative occurs.

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

    Yes.

18. **Does the Decision on dividend payment or dividend advance stipulate the date when shareholders are to acquire the right to dividend payment and the date of dividend payment or period? (If not, why not?)**

    No. At the General Meeting shareholders adopted the Decision that the Bank's profit earned in 2007 is to be allocated in retained earnings with no dividend payment.

19. **Is the date on which the shareholders acquire the appropriate dividend payment or dividend advance payment at least 10 days after the adoption date of passing the respective Decision? (If not, why not?)**
20. **Is the date of dividend payment or dividend advance payment no less then 12 days before and no more than 30 days after the adoption date of the respective Decision? (If not, why not?)**
21. **Did the period of dividend payment or advance to dividend payment last longer than 10 days? (If yes, why?)**

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

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

Refer to 18.

24. Were the Agenda of the General Meeting, relevant information and documents with explanations relating to the Agenda published on the Company's website, and made available to the shareholders at the Company's headquarters as of date of the first public announcement of the Agenda? (If not, why not?)

Yes. The Decision on calling the Annual General Meeting and proposals of Decisions by the General Meeting, was published in "National Gazette", on the Zagreb Stock Exchange website and the Bank's website. All relevant information and documents were available to the shareholders on the same day when the invitation for the General Meeting was posted at the Bank's headquarters. Calling for the Annual General Meeting was posted on the website of the Zagreb Stock Exchange.

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

Yes.

26. Were any requirements set for participation at the General Meeting and exercising voting rights (irrespective of whether such requirements are prescribed by the law or the Articles of Association) such as announcing one's participation in advance, certifying letters of proxy, and the like? (If yes, why?)

No.

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

Yes.

28. Is it possible for the shareholders to participate and, in particular, to vote at the Company's General Meeting by means of modern communication technology? (If not, why not?)

No. There were no such initiatives by the shareholders.

29. Did the Company's Management Board publish the decisions by the General Meeting, and also information on possible law suits contesting such decisions? (If not, why not?)

Yes. (note: there were no law suits contesting Decisions by the General Meeting)

30. Did the Supervisory Board make a decision on the tentative work plan which includes a schedule of its regular meetings and reports that should be made available to the Supervisory Board members on a regular and timely basis? (If not, why not?)

Yes. The schedule of the Supervisory Board meetings for the current year is defined by the Decision. Reports that are regularly and timely put at the disposal of Supervisory Board members are defined by the individual decisions of the Supervisory Board and by law.

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

Yes.

32. State the names of the Supervisory Board's members.

György Surányi; President
Giovanni Boccolini; Vice president
Adriano Arietti, Member
Anne Fossemalle, Member
Paolo Grandi, Member
Massimo Malagoli, Member
Massimo Pierdicchi, Member

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

György Surányi is a member of the Supervisory Board of the following companies:
Banca Intesa Beograd - Belgrade, Serbia
CIB - Budapest, Hungary
KITE - Nadudvar, Hungary
VUB - Bratislava, Slovakia
- - -
Boccolini Giovanni is a member of the Supervisory Board of the following companies:
Associazione Banca Italiana - Milan, Italy
Banque Sudameris - Paris, France
Central European International Bank Ltd - Budapest, Hungary
Intesa Sanpaolo Holding International - Luxemburg, Luxemburg
Všeobečna Uverova Banka, AS -

Bratislava, Slovakia
ZAO Banca Intesa - Moscow, Russia
- - -
Anne Fossemalle is a member of the Supervisory Board of the following companies:
BRD - Groupe Société Générale SA - Bucharest, Romania
Nova Ljubljanska banka - Ljubljana, Slovenia

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

35. State independent Supervisory Board members?

The Supervisory Board members are elected by the Bank's two major shareholders who own 97 percent of issued shares. Appointment of the owner's representatives insures management in the best interests of the Bank. The Bank will comply with the legal obligations concerning the independent members of the Supervisory Board within the legally prescribed period.

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

Yes.

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

Yes.

38. Is the remuneration of the Supervisory Board members:

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

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

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

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

Supervisory Board members do not own Bank shares.

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

The Bank has commercial transactions with the Supervisory Board members. The Bank has commercial (deposits-loans) transactions with the members of Intesa Sanpaolo Group which has a representative on the Supervisory Board. All transactions are market-based in terms and conditions. In the Annual Report, the Bank discloses a separate note on related party transactions which is prepared in accordance with the International Financial Reporting Standards. The Annual Report is available on the Bank's website.

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

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

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

No.

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

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

If yes,

- Did the Committee estimate the composition, size, membership and work quality of the Supervisory Board and the Management Board members and make a draft of corresponding recommendations for the Supervisory Board? (If not, why not?)
  Yes.

- Did the Committee make an evaluation of the knowledge, skills and experience of the Supervisory Board members and inform the Supervisory Board thereof? (If not, why not?)
  Yes.
- Did the Committee make plans for the Supervisory Board's and Management Board's continuity? (If not, why not?)
  Yes.
- Did the Committee make an analysis of Management Board policy regarding key management employment? (If not, why not?)
  Yes.

45. Did the Supervisory Board establish a Remuneration Committee?

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

If yes,

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

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

Yes.

If yes,

- Are the majority of the committee members independent members of the Supervisory Board? (If no, why?)
  Refer to 34.
- Did the committee monitor the integrity of the Company's financial information, and in particular the correctness and consistency of the accounting methods applied by the Company and the Group of which it is part, including also the criteria for consolidation of financial reports of the companies within its Group? (If not, why not?)
  Yes.
- Did the committee assess the quality of the internal control and risk management systems in place with the objective of ensuring that the main risks to which the Company is exposed (also including compliance risks) are adequately identified and disclosed, and properly managed? (If not, why not?)
  Yes.
- Did the committee undertake measures to ensure the efficiency of the internal audit system, in particular by giving 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 audit function within the Company, did the committee assess the need to establish such a function? (If not, why not?)
  No. The internal audit function is established within the Bank.
- Did the committee make recommendations to the Supervisory Board regarding the selection, appointment, re-appointment or replacement of the external auditors, and also concerning the terms of engagement of the external auditors? (If not, why not?)
  Yes.
- Did the committee monitor the independence and objectivity of the external auditors, in particular as regard the rotation of chartered auditors within the audit firm and

the fees paid by the Company for external audit services? (If not, why not?)
Yes.

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

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

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

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

50. State the names of the Management Board members.
Božo Prka; President,
Jonathan Charles Locke; Vice president,
Ivan Gerovac, Member

Mario Henjak, Member
Draženko Kopljar, Member
Dinko Lucić; Member
Gabriele Pace, Member
- - -
Previous members in 2008 were also:
Marco Capellini; Vice president,
Tomislav Lazarić, Vice president

51. Are there rules of procedure for the Management Board governing the following issues:

- Scope of activities and goals?
  Yes.
- Rules of procedure?
  Yes.
- Rules for resolving conflicts of interest?
  Yes.
- The Management Board secretariat?
  Yes.
- Meetings, adoption of decisions, agenda, preparation and content of the minutes and submission of documents?
  Yes.
- Co-operation with the Supervisory Board? (If not, why not?)
  Yes.

52. Did the company issue a statement of remuneration policy for the Management Board and the Supervisory Board as part of the annual report? (If not, why not?)

No. Although there is no formal statement concerning the Remuneration policy of Management Board and Supervisory Board, the Bank discloses aggregated information about related parties transactions as well as the amount of accrued and paid remunerations to the Bank's management in the Annual report which is prepared in accordance with the International Financial Reporting Standards. The Annual report is available on the Bank's website.

53. If there is a statement of remuneration policy does it contain the following:

- Major changes to the remuneration policy compared to previous year? (If not, why not?)
- Explanation of the relative share and importance of the fixed and variable remuneration components? (If not, why not?)
- Sufficient information on the performance criteria whose fulfilment gives the right to share options, shares or other forms of variable remuneration components? (If not, why not?)
- Sufficient information on the correlation between the remuneration amount and individual performance (If not, why not?)
- Main indicators and reasons for awarding annual bonus payments or benefits other than cash (If not, why not?)
- A brief summary of contracts of service for the members of the Management Board including information on the term of 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?).

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

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

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

57. Does the statement of remunerations for the Management Board members contain the following elements for each member of the Management Board who performed the office during the year to which the statement relates:

- Total amount of monthly salary, irrespective of whether it has actually been paid or not? (If not, why not?)
- Remunerations or benefits received from associated companies? (If not, why not?)
- Remuneration in the form of profit-sharing or bonus schemes and the reasons it was paid? (If not, why not?)
- Any other additional remuneration paid to members of the Management Board for services performed by them beyond their scope of duties as management board members? (If not, why not?)
- Any compensation paid or which should have been paid to a former member of the Management Board upon termination of his/her term of office during the year to which the statement refers, (If not, why not?)
- Total estimated value of non-cash benefits considered as remuneration, not included under the above points (If not, why not?)
- When remuneration is paid in the form of shares or share options or

other forms of remuneration based on share ownership: the number of options or shares awarded by the Company in the year to which the statement refers and requirements that need to be met in order to benefit from such schemes (If not, why not?)
- Number of share options exercised in the year to which the statement refers, and for each option, the number of shares and the price at which it was exercised, or the price of to be awarded to the Management Board members at year-end (If not, why not?)
- Number of options not exercised at the end of the year, the price and date at which they can be exercised, and the main conditions pertaining to the exercise (If not, why not?)
- Each change related to the change of conditions for exercise of the existing options which occurred in the company in the year to which the statement relates (If not, why not?)
- Any loan (including outstanding debt and interest), advance payments or guarantees granted to Management Board members by subsidiaries/affiliated companies subject to consolidation. (If not, why not?)

Refer to 52.

58. Did each member of the Management Board advise the Supervisory Board about all changes tohis/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. Zagreb Stock Exchange and HANFA are notified about each change in ownership structure and the Supervisory Board about disbursement of shares as annual bonus payment.

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

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

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

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

Refer to 59.

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

No.

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

Ivan Gerovac is president of the Supervisory Board in the following company:
Belišće d.d. - Belišće, Croatia
and a member of the Supervisory Board in the following companies:
Našice cement d.d. - Našice, Croatia
Nexe grupa d.d. - Našice, Croatia
- - -
Mario Henjak is vice president of the Supervisory Board in the following company:
PBZ Leasing d.o.o. - Zagreb, Croatia
- - -
Draženko Kopljar is a member of the Supervisory Board in the following company:
Metronet telekomunikacije d.d. - Zagreb, Croatia
- - -
Tomislav Lazarić was a president of the Supervisory Board in the following company:
PBZ Stambena Štedionica d.d. - Varaždin, Croatia
and was a member of the Supervisory Board in the following company:
PBZ Card d.o.o. - Zagreb, Croatia

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

Yes.

64. Is the external auditor of the company:

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

65. Does 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 although in 2008 there were no significant weaknesses in the Bank's internal control system analyses.
- Alternative accounting procedures?
  No, there was no need to consider alternative accounting policies.
- Non-compliance with the Management Board, risk assessment?
  No. There were no disagreements with the Management Board.
- Potential analyses of fraud and/or misuse.
  Yes. The independent auditor informs the Audit Committee of recommendations in internal controls although in 2008 there was no need for that kind of analyses.

66. Did the Company disclose the remuneration paid to the external auditors for audit and other services performed? (If not, why not?)

No. The external auditors only carried out an audit of annual financial statements at a contracted price.

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

Yes.

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

Yes.

69. How many meetings did the Company's Management Board hold with investors?

The Bank has a stable shareholders structure and as a result there was no need for additional meetings with the shareholders (investors) except the regular General Meeting.

70. Did anybody suffer negative consequences because they reported deficiencies to the competent bodies within or outside the Company in applying the relevant regulations or ethical norms within the Company (If yes, why)?

No.

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

Yes.

Statement of responsibilities of the Management Board

Pursuant to the Croatian Accounting Law in force, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with the 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

24 March 2009

Independent auditors’ report

Ernst & Young d.o.o.
Milana Sacha 1, 10 000 Zagreb
Croatia
M.B. 1646281
Tel: +385 1 2480 555
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Independent auditors' report

To the shareholders of Privredna banka Zagreb d.d.:

We have audited the accompanying consolidated and separate financial statements ('the financial statements') of Privredna Banka Zagreb d.d. (the 'Bank') and its subsidiaries (together, the 'Group') which comprise the Consolidated and Separate balance sheet as at 31 December 2008 and the Consolidated and Separate income statement, Consolidated and Separate statement of changes of equity and Consolidated and Separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 64 to 133). The financial statements of the Bank and the Group for the year ended 31 December 2007 were audited by other auditors who have, in their report dated 29 February 2008, expressed an unqualified opinion on those financial statements.

Management Responsibility

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Bank and of the Group as at 31 December 2008 and the results of their operations, cash flows and changes in equity 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 „By-Law"), the Bank's management has prepared forms which are presented on pages 134 to 144, and which contain a balance sheet as at 31 December 2008, profit and loss account, statement of changes in equity and cash flow statement for the year then ended together with notes on the reconciliation of the forms with the primary financial statements of the Bank. This financial information is the responsibility of the Bank's management and is, pursuant to IFRS, not a required part of the financial statements, but is required by the By-Law. This financial information presented in the forms has been properly derived from the primary financial statements which were prepared in accordance with International Financial Reporting Standards as presented on pages 64 to 133 or are based on the underlying accounting records of the Bank and the Group.

Ernst & Young d.o.o.

Ernst & Young d.o.o.
Zagreb, 24 March 2009

Zvonimir Madunić
Certified auditor

Financial statements of the Bank and the Group

Income statement

(in HRK million)	NOTE	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Interest income	2	4,229	3,627	3,796	3,274
Interest expense	2	(2,044)	(1,709)	(1,855)	(1,577)
Net interest income		**2,185**	**1,918**	**1,941**	**1,697**
Fee and commission income	3	1,357	1,307	607	591
Fee and commission expense	3	(260)	(237)	(222)	(212)
Net fee and commission income		**1,097**	**1,070**	**385**	**379**
Other operating income	4	415	417	448	398
Operating income		**3,697**	**3,405**	**2,774**	**2,474**
Provisions	5	(173)	(121)	(98)	(54)
Other operating expenses	6, 7	(1,678)	(1,578)	(1,180)	(1,111)
Depreciation and amortisation of property and equipment and intangible assets	8	(289)	(268)	(164)	(162)
Share of the profit and loss accounted for using the equity method	18	11	8	-	-
Profit before income taxes		**1,568**	**1,446**	**1,332**	**1,147**
Income taxes	9	(320)	(303)	(232)	(215)
Net profit for the year		**1,248**	**1,143**	**1,100**	**932**
Attributable to:					
Equity holders of the parent		1,242	1,141	1,100	932
Minority interest		6	2	-	-
		1,248	**1,143**	**1,100**	**932**
			in HRK		
Basic/diluted earnings per share	46	65.3	60.0		

The accompanying accounting policies and notes on pages 70 to 133 are an integral part of these financial statements.

Balance sheet

	NOTE	GROUP		BANK	
Assets (in HRK million)		31 December 2008	31 December 2007	31 December 2008	31 December 2007
Cash and current accounts with other banks	10	2,973	2,471	2,747	2,356
Balances with the Croatian National Bank	11	4,815	8,194	4,596	7,934
Financial assets at fair value through profit or loss	12	3,507	4,170	3,507	4,182
Derivative financial assets	13	24	33	24	33
Due from banks	14	7,834	7,245	7,385	6,726
Loans and advances to customers	15	46,032	40,147	41,715	36,436
Assets available for sale	16	2,699	1,853	1,330	482
Held to maturity investments	17	1,108	1,288	793	979
Equity investments in subsidiaries and associates	18	56	49	373	363
Intangible assets and goodwill	19	171	171	72	70
Property and equipment	20	1,456	1,431	897	900
Investment property	21	14	15	14	15
Other assets	22	312	336	122	158
Deferred tax assets	9	226	147	165	97
Total assets		**71,227**	**67,550**	**63,740**	**60,731**

Balance sheet / continued

Liabilities (in HRK million)	NOTE	GROUP 31 December 2008	GROUP 31 December 2007	BANK 31 December 2008	BANK 31 December 2007
Due to banks	23	3,648	1,948	3,793	1,946
Due to customers	24	44,591	43,099	40,935	39,875
Derivative financial liabilities	13	202	38	202	38
Other borrowed funds	25	10,920	11,760	9,096	10,244
Debt securities issued	26	-	66	-	-
Other liabilities	27	1,633	1,621	435	415
Accruals and deferred income	28	234	163	74	79
Provisions for risks and charges	29	270	265	244	242
Current tax liabilities	9	118	87	91	45
Total liabilities		**61,616**	**59,047**	**54,870**	**52,884**
Equity attributable to equity holders of the parent					
Share capital	31	1,907	1,907	1,907	1,907
Treasury shares		(76)	(57)	(76)	(57)
Share premium		1,570	1,570	1,570	1,570
Reserves and retained earnings	32	4,958	3,918	4,369	3,495
Profit and loss attributable to equity holders of the parent entity		1,242	1,141	1,100	932
		9,601	8,479	8,870	7,847
Minority interest		10	24	-	-
Total shareholders' equity		**9,611**	**8,503**	**8,870**	**7,847**
Total liabilities and shareholders' equity		**71,227**	**67,550**	**63,740**	**60,731**

The accompanying accounting policies and notes on pages 70 to 133 are an integral part of these financial statements.
These financial statements were signed on behalf of the Management Board on 11 February 2009.

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

Gabriele Pace
Chief financial officer

Cash flow statement

(in HRK million)	GROUP 2008	GROUP 2007	BANK 2008	BANK 2007
Cash flow from operating activities				
Profit before tax	1,568	1,446	1,332	1,147
Provisions for bad and doubtful debts and other provisions	173	121	98	54
(Gains)/losses from sale of property and equipment	(61)	(14)	(33)	6
Depreciation and amortization	289	268	164	162
Unrealised (gains)/losses on securities at fair value through profit or loss	76	(6)	76	(6)
Valuation of derivatives	173	34	173	34
Share of results of associates	(11)	(8)	-	-
Taxes paid	(291)	(263)	(207)	(190)
	1,916	**1,578**	**1,603**	**1,207**
(Increase)/decrease in operating assets				
Balances with Croatian National Bank	3,379	(932)	3,338	(885)
Due from banks	(11)	169	(5)	234
Loans and advances to customers, net of provisions	(6,020)	(3,655)	(5,342)	(2,857)
(Acquisitions)/sales of assets held for trading and assets available for sale	(458)	(1,608)	(348)	(1,440)
Other assets	36	64	34	35
	(3,074)	**(5,962)**	**(2,323)**	**(4,913)**
Increase/(decrease) in operating liabilities				
Due to banks	519	(2,533)	666	(2,557)
Due to customers	2,673	6,745	2,241	6,384
Liabilities held for trading	-	(735)	-	(735)
Other liabilities	11	(139)	(26)	(226)
	3,203	**3,338**	**2,881**	**2,866**
Net cash (used in)/from operating activities	**2,045**	**(1,046)**	**2,161**	**(840)**
Cash flows from investing activities				
Net purchase of property and equipment and intangible assets	(298)	(279)	(147)	(140)
Acquisition, disposal and recapitalisation of subsidiaries and associates	27	(165)	10	(40)
Repayment/(purchase) of assets held to maturity	238	70	186	179
Net cash (used in)/from investing activities	**(33)**	**(374)**	**49**	**(1)**
Cash flows from financing activities				
Dividends paid to equity holders of the parent	-	(190)	-	(190)
Dividends paid to minority interest	-	(2)	-	-
Other borrowed funds	(840)	1,823	(1,148)	1,097
(Redemption)/proceeds from debt securities issued	(66)	(53)	-	-
Net proceeds from sale of treasury shares	(17)	(13)	(17)	(13)
Net cash (used in)/from financing activities	**(923)**	**1,565**	**(1,165)**	**894**
Net increase in cash	**1,089**	**145**	**1,045**	**53**
Cash and cash equivalents at the beginning of the year	9,170	9,047	8,540	8,507
Effect of exchange rate fluctuations on cash held	43	(22)	44	(20)
Cash and cash equivalents at the end of the year	10,302	9,170	9,629	8,540
Supplementary information				
Interest paid	1,523	1,251	1,325	1,115
Interest received	3,543	3,045	3,119	2,692
Dividends received	10	6	206	144

The accompanying accounting policies and notes on pages 70 to 133 are an integral part of these financial statements.

Statement of changes in equity

(in HRK million)	Attributable to equity holders of the parent						
	Share capital	Treasury shares	Share premium	Reserves and retained profits	Total	Minority interests	Total equity
Group							
Balance at 1 January 2007	**1,907**	**(27)**	**1,570**	**4,130**	**7,580**	**45**	**7,625**
Net losses on available for sale financial investments	-	-	-	(39)	(39)	-	(39)
Capital gain on disposal of treasury shares	-	-		17	17	-	17
Total income and expense for the year recognised directly in equity	-	-	-	(22)	(22)	-	(22)
Net profit for the year	-	-	-	1,141	1,141	2	1,143
Total income and expense for the year	-	-	-	1,119	1,119	2	1,121
Equity dividends	-	-	-	(190)	(190)	-	(190)
Net (purchase)/sale of treasury shares	-	(30)	-	-	(30)	-	(30)
Divestment of LT Gospodarska banka	-	-	-	-	-	(21)	(21)
Dividends of subsidiaries	-	-	-	-	-	(2)	(2)
Balance at 31 December 2007	**1,907**	**(57)**	**1,570**	**5,059**	**8,479**	**24**	**8,503**
Net losses on available-for-sale financial investments	-	-	-	(103)	(103)	-	(103)
Capital gain on disposal of treasury shares	-	-		2	2	-	2
Total income and expense for the year recognised directly in equity	-	-	-	(101)	(101)	-	(101)
Net profit for the year	-	-	-	1,242	1,242	6	1,248
Total income and expense for the year	-	-	-	1,141	1,141	6	1,147
(Purchase)/sale of treasury shares	-	(19)	-	-	(19)	-	(19)
Divestment of Invest holding Karlovac d.o.o.	-	-	-	-	-	(20)	(20)
Balance at 31 December 2008	**1,907**	**(76)**	**1,570**	**6,200**	**9,601**	**10**	**9,611**

Statement of changes in equity / continued

(in HRK million)	Attributable to equity holders of the parent: Share capital	Treasury shares	Share premium	Reserves and retained profits	Total	Minority interests	Total equity
Bank							
Balance at 1 January 2007	**1,907**	**(27)**	**1,570**	**3,664**	**7,114**	**-**	**7,114**
Net gains on available for sale financial investments	-	-	-	4	4	-	4
Capital gain on disposal of treasury shares	-	-	-	17	17	-	17
Total income and expense for the year recognised directly in equity	-	-	-	21	21	-	21
Net profit for the year	-	-	-	932	932	-	932
Total income and expense for the year	-	-	-	953	953	-	953
Equity dividends	-	-	-	(190)	(190)	-	(190)
Net (purchase)/sale of treasury shares	-	(30)	-	-	(30)	-	(30)
Balance at 31 December 2007	**1,907**	**(57)**	**1,570**	**4,427**	**7,847**	**-**	**7,847**
Net losses on available for sale financial investments	-	-	-	(60)	(60)	-	(60)
Capital gain on disposal of treasury shares	-	-	-	2	2	-	2
Total income and expense for the year recognised directly in equity	-	-	-	(58)	(58)	-	(58)
Net profit for the year	-	-	-	1,100	1,100	-	1,100
Total income and expense for the year	-	-	-	1,042	1,042	-	1,042
Net (purchase)/sale of treasury shares	-	(19)	-	-	(19)	-	(19)
Balance at 31 December 2008	**1,907**	**(76)**	**1,570**	**5,469**	**8,870**	**-**	**8,870**

There was no distribution of dividends during 2008. The amount of dividends distributed to equity holders during 2007 was 10 HRK per share.
Reserves and retained profits include reserves for general banking risks (refer to note 32).
The accompanying accounting policies and notes on pages 70 to 133 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 the International Financial Reporting Standards as published by the International Accounting Standards Board. The consolidated and Bank only financial statements are prepared under the historical cost convention as modified by the revaluation of available for sale assets and financial assets and financial liabilities at fair value through profit and loss.
The financial statements have been presented in a format generally accepted and internationally recognised by banks and in accordance with International Financial Reporting Standards.

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

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

Business combination

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

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.

Fees 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, is 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 from disposal of fixed assets, dividends earned and other income.
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Foreign currencies

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

Accounting policies

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:

	2008	2007
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 are retiring.
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 balance sheet 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 balance sheet 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 balance sheet 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 balance sheet 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.

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 balance sheet date. 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 Bank and 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 Bank and the Group upon initial recognition designate as available for sale; or (c) those for which the Bank and 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 Bank and the Group will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loans computed at initial recognition. Loan loss allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees.
If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank and 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 directly in equity under the caption "Reserves and retained profits", until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. The Group assesses at each balance sheet 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 significant or prolonged decline in the fair value of the investment below its cost. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. In the case of debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.
Interest earned whilst holding available-for-sale securities is accrued on a daily basis using the effective interest rate method and reported as "Interest income" in the income statement.
Foreign exchange differences related to available-for-sale equity instruments held in foreign currency are reported together with fair value gains and losses in equity until the financial asset is sold. Foreign exchange differences related to available-for-sale debt instruments held in foreign currency are reported in the income statement.
Dividends from securities available for sale are recorded as declared and included as a receivable in the balance sheet line "Other assets" and in "Other operating income" in the income statement. Upon payment of the dividend, the receivable is offset against the cash collected.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Collateral pending sale

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

Sale and repurchase agreements

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

Leases

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

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

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

Property and equipment

Property and equipment is stated at cost less accumulated depreciation less any provision for impairment. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts 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)	2008	2007
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 and goodwill

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.

Accounting policies

Goodwill

According to IFRS 3, Business Combinations, any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired on the date of the acquisition is presented as goodwill and recognized as an asset. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or the group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro-rata to the other assets of the unit on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Investment property

Investment property, which is mainly property held to earn rentals, is measured initially at its cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that the cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. After initial recognition, investment property is stated at cost less accumulated depreciation and any provision for impairment. Investment property is depreciated on a straight-line basis over the useful lives of the assets in accordance with the policy stated under Property and equipment.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation, the start of an operating lease to another party or the end of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the start of owner-occupation or start of development with a view to sale.

Non-current assets held for sale

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

Impairment losses on initial classification as held for sale are included in the income statement, as well as gains and losses on subsequent measurement.

Impairment of non financial assets

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

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet 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 fair value is negative. Gains and losses on foreign exchange derivatives are included in Foreign exchange revaluation in income statement. Gains and losses on derivatives based on securities are recognised within Other operating income in the income statement. All derivatives are classified as held for trading.

Provisions for contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The provision for possible commitments and contingent liability losses is maintained at a level the Group management believes is adequate to absorb probable future losses. The Group

Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Managed funds

The Bank manages a significant amount of assets on behalf of third parties. A fee is charged for this service. These assets are not recorded in the Bank's balance sheet. The details are set out in note 35.

Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transaction, 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 2008. The adoption of these new and revised Standards and Interpretations does not have any effect on equity as at 1 January 2008.

Three Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 11 IFRS 2 - *Group and treasury share transactions*, IFRIC 12 *Service concession arrangements* and IFRIC 14 IAS 19 - *The limit on a defined benefit asset, minimum funding requirements and their interaction*. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

The following reclassifications have been made to the Group 2007 balances to conform to the 2008 presentation in order to more accurately reflect the nature of the underlying balances (amounts in HRK million).

Amount (2007)	*Previously reported*	*As reclassified*
28	Interest expense - banks*	Interest expense - companies
1,181	Due to banks*	Due to customers
53	Other assets - leasehold improvements	Property and equipment

* *Reclassification relates to amounts related to other financial institutions (investment funds)*

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

International Financial Reporting Standards (IFRS)

IFRS 2 Share-based Payments - Vesting Conditions and Cancellations amendments
IFRS 3 Business combinations, revised (2008)
IFRS 8 Operating segments

International Accounting Standards (IAS)

IAS 1 Presentation of financial statements, as revised in 2007
IAS 23 Borrowing costs, as revised in 2007
IAS 27 Consolidated and separate financial statements, as amended in 2008
IAS 32 Financial instruments: Presentation, amendments for Puttable financial instruments and obligations arising on liquidation
IAS 39 Financial instruments: Recognition and measurement, amendment Eligible hedged items

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

Accounting policies

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 13	Customer loyalty programmes
IFRIC 15	Agreement for the construction of real estate
IFRIC 16	Hedges of a net investment

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 for which adoption is not mandatory at the balance sheet date. Where transition provisions in the IFRS standards 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 class 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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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 2008 was HRK 67 million (2007: HRK 67 million). More details are given in note 19.

Notes to the Bank and the Group Financial Statements

2 | Interest income and expense (in HRK million)

	GROUP		BANK	
	2008	2007	2008	2007
Interest income				
Citizens	2,119	1,816	1,933	1,644
Companies	1,055	855	918	751
Bonds and securities	339	299	255	236
Banks	334	334	309	321
Public sector and others	382	323	381	322
	4,299	**3,627**	**3,796**	**3,274**
Interest expense				
Citizens	996	781	902	711
Companies	241	256	234	250
Banks	642	550	555	501
Public sector and others	165	122	164	115
	2,044	**1,709**	**1,855**	**1,577**

HRK 28 million, previously disclosed within Interest expense to banks in 2007 (for the Bank and the Group), was reclassified to Interest expense to companies.

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

	GROUP		BANK	
	2008	2007	2008	2007
Interest income				
Loans and receivables from customers and banks	3,695	3,156	3,349	2,866
Balances with Croatian National Bank	196	192	193	186
Financial assets held for trading	145	146	145	152
Financial assets initially designated at fair value through profit or loss	2	-	2	-
Held to maturity investments	71	82	56	67
Assets available for sale	120	51	51	3
	4,229	**3,627**	**3,796**	**3,274**

Interest income includes income from previously impaired loans of the Group of HRK 124 million (2007: HRK 134 million) and of the Bank of HRK 111 million (2007: HRK 120 million).

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

	GROUP		BANK	
	2008	2007	2008	2007
Fee and commission income				
Fees and commission on credit card services	717	646	96	84
Payment transaction fees and commission	293	283	293	281
Investment management, brokerage and consultancy fees	118	179	58	84
Fees and commission on customer loans	42	54	40	52
Fees and commission on guarantees given	52	40	51	39
Fees and commission on customer services	57	51	53	48
Other fee and commission income	78	54	16	3
	1,357	**1,307**	**607**	**591**
Fee and commission expense				
Payment transaction charges	72	81	70	78
Fees and commission expense on credit card services	128	106	130	113
Bank charges	18	14	12	10
Other fee and commission expense	42	36	10	11
	260	**237**	**222**	**212**

4 | Other operating income (in HRK million)

	GROUP		BANK	
	2008	2007	2008	2007
Foreign exchange trading gain	73	77	65	68
Net gains/(losses) on securities at fair value held for trading	(117)	5	(117)	5
Net gains/(losses) on securities initially designated at fair value	(18)	-	(18)	-
Foreign exchange revaluation	179	142	180	143
Operating lease income	82	69	3	3
Gains/(losses) from disposal of non-current assets held for sale	-	(3)	-	(3)
Realised gains on securities classified as assets available for sale	67	22	62	21
Gains/(losses) from disposal of property and equipment	61	17	33	-
Dividends earned	6	2	206	144
Other income	82	86	34	17
	415	**417**	**448**	**398**

5 | Provisions (in HRK million)

	NOTE	GROUP		BANK	
		2008	2007	2008	2007
Provisions for loans and advances to customers	15	135	59	63	(7)
Provisions for assets available for sale		23	-	23	-
Provisions for legal claims	30	-	13	(2)	12
Provisions for guarantees and commitments	30	15	49	14	49
		173	**121**	**98**	**54**

6 | Other operating expenses (in HRK million)

	NOTE	GROUP		BANK	
		2008	2007	2008	2007
Personnel expenses	7	796	750	629	592
Materials and services		460	447	297	286
Operating leases		46	40	45	39
Deposit insurance premium		75	70	63	59
Indirect and other taxes		25	22	22	20
Other operating expenses		276	249	124	115
		1,678	**1,578**	**1,180**	**1,111**

7 | Personnel expenses (in HRK million)

	GROUP		BANK	
	2008	2007	2008	2007
Net salaries	370	345	293	273
Health insurance costs	87	80	67	63
Taxes and surtaxes due to local authorities	87	83	67	64
Pension insurance costs	110	102	88	81
Other personnel expenses	142	140	114	111
	796	**750**	**629**	**592**

Salaries and other related costs of employees include accrued expenses for bonuses payable to the management and employees of the Bank with the gross amount of HRK 32.0 million (2007: HRK 37.7 million), of which the remuneration of the Bank's Management Board accounts for a gross amount of HRK 5.9 million (2007: HRK 7.0 million).
During the year the average number of employees within the Group was 4,512 (2007: 4,283) of which the Bank accounted for 3,695 employees (2007: 3,531).

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

	GROUP		BANK	
	2008	2007	2008	2007
Depreciation of property and equipment	246	233	134	139
Depreciation of investment property	1	1	1	1
Amortization of intangible assets	42	34	29	22
	289	**268**	**164**	**162**

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 1.3 million (2007: HRK 1.2 million) and the Bank of HRK 0.9 million (2007: HRK 0.9 million).

9 | Taxation

Profit tax is payable at the rate of 20 percent (2007: 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)	2008	2007	2008	2007
Current income tax expense	(387)	(329)	(291)	(229)
Deferred taxes arising in current period	(147)	(121)	(97)	(83)
Deferred taxes reversed during current period	2	2	2	2
Deferred tax assets relating to temporary differences	214	147	156	97
Deferred tax liability relating to temporary difference	(2)	(2)	(2)	(2)
Tax charge per income statement	**(320)**	**(303)**	**(232)**	**(215)**

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

	GROUP		BANK	
(in HRK million)	2008	2007	2008	2007
Accounting profit before taxation	**1,568**	**1,446**	**1,332**	**1,147**
Statutory tax rate	20%	20%	20%	20%
Expected nominal tax	**314**	**289**	**266**	**229**
Tax effects of:				
Non deductible expenses	131	86	119	70
Non taxable income	(58)	(46)	(94)	(70)
Current income tax expense	**387**	**329**	**291**	**229**
Effective tax rate	**24.7%**	**22.8%**	**21.9%**	**20.0%**

9 | Taxation / continued

Movements of deferred tax assets are as follows:

	GROUP		BANK	
(in HRK million)	2008	2007	2008	2007
Deferred tax assets recognised at 1 January	**147**	**121**	**97**	**83**
Deferred taxes arising in the current period	226	147	165	97
Deferred taxes reversed during the current period	(147)	(121)	(97)	(83)
Deferred tax assets recognised at 31 December	**226**	**147**	**165**	**97**
Deferred tax assets consist of:				
Deferred loan origination fees as an adjustment to the effective yield	90	81	69	64
Retirement benefits	4	4	3	3
Impairment of real estate	6	8	6	7
Unrealised losses on negative revaluation of securities and derivatives	70	21	70	21
Other	44	33	8	2
Total credited to income statement	**214**	**147**	**156**	**97**
Unrealised losses on the negative revaluation of securities and derivatives - recognized in equity	12	-	9	-
	226	**147**	**165**	**97**

	GROUP		BANK	
(in HRK million)	2008	2007	2008	2007
Liabilities for current tax	118	87	91	45
	118	**87**	**91**	**45**

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

	GROUP		BANK	
	2008	2007	2008	2007
Current accounts held with the Croatian National bank	1,106	1,121	981	1,087
Cash in hand	1,480	1,132	1,404	1,070
Current accounts and amounts at call with foreign banks	375	186	353	177
Current accounts and amounts at call with domestic banks	6	18	4	16
Other cash items	6	14	5	6
	2,973	**2,471**	**2,747**	**2,356**

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

	GROUP		BANK	
	2008	2007	2008	2007
Obligatory and marginal reserve	4,813	6,866	4,594	6,640
Compulsory bills	-	1,323	-	1,289
Other deposits	2	5	2	5
	4,815	**8,194**	**4,596**	**7,934**

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 2008, the obligatory reserve is calculated as 14 percent of HRK denominated (2007: 17 percent) and 14 percent of foreign currency denominated balances (2007: 17 percent). From that amount the banks should maintain at least 70 percent for the kuna obligatory reserve and 60 percent for the obligatory reserve in foreign currency with the Croatian National Bank. 50 percent of the foreign currency part of the obligatory reserve is maintained in HRK and added to the kuna part of the obligatory reserve.

The balances in HRK maintained with the Croatian National Bank earned annual interest of 0.75 percent for HRK amounts (2007: 0.75 percent). The balances in foreign currencies maintained with the Croatian National Bank bear annual interest of 1.125 to 2.125 percent for EUR amounts (2007: EUR 1.75 to 2 percent) and 0.5 to 1.5 percent to USD amounts (2007: USD 2.25 percent) and these rates are not fixed.

The marginal reserve represents the amount of foreign and related parties' borrowings required to be deposited with the Croatian National Bank. The marginal reserve requirement was 40 percent of the net increase in funds received from non-residents and related parties from June 2004 and an additional 15 percent of the net increase in funds received from non-residents and related parties from November 2005. Marginal reserve balances maintained with the Croatian National Bank bore no interest during 2008 (2007: nil). The Croatian National Bank revoked the application of the Decision on the Marginal Reserve Requirement in October 2008.

As of the year end, the Bank and the Group maintained 70 percent of the HRK obligatory reserve and 60 percent of its foreign currency obligatory reserve (mostly in USD) with the Croatian National Bank. The remaining 30 percent of the HRK obligatory reserve and 40 percent of the foreign currency obligatory reserve were maintained as balance on nostro accounts or deposits with other banks.

In December 2006, the CNB issued a Decision on the Purchase of Compulsory Bills. During 2007 compulsory CNB bills were purchased when the growth of prescribed placements and off balance sheet exposures exceeded 1 percent per month with a purchase rate of 50 percent of the base, being the positive difference between the permissible and actual growth. The compulsory CNB bills were issued at an interest rate of 0.25 percent per annum and with a maturity of 360 days. These bills were repaid in January 2008 by the CNB following the amendment of the Decision.

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

	GROUP		BANK	
	2008	2007	2008	2007
Financial assets held for trading				
Domestic treasury bills	-	1,493	-	1,493
Foreign government bonds	-	439	-	439
Foreign corporate bonds	-	324	-	324
Foreign treasury bills	-	431	-	431
Domestic corporate bonds	88	305	88	317
Equities and shares	37	264	37	264
Domestic government bonds	1,350	839	1,350	839
Accrued interest	66	75	66	75
	1,541	**4,170**	**1,541**	**4,182**
Financial assets initially designated at fair value through profit or loss				
Domestic treasury bills	1,744	-	1,744	-
Domestic corporate bonds	218	-	218	-
Accrued interest	4	-	4	-
	1,966	**-**	**1,966**	**-**
Financial assets at fair value through profit or loss	**3,507**	**4,170**	**3,507**	**4,182**

13 | Derivative financial instruments (in HRK million)

	GROUP		BANK	
ASSETS	2008	2007	2008	2007
Fair values:				
Foreign exchange derivatives	24	32	24	32
Security derivatives	-	1	-	1
	24	33	24	33
Notional amounts:				
Foreign exchange derivatives	9,899	11,837	9,899	11,837
Security derivatives	-	546	-	546
	9,899	**12,383**	**9,899**	**12,383**
LIABILITIES				
Fair values:				
Foreign exchange derivatives	176	33	176	33
Security derivatives	26	5	26	5
	202	**38**	**202**	**38**
Notional amounts:				
Foreign exchange derivatives	10,035	11,841	10,035	11,841
Security derivatives	578	416	578	416
	10,613	**12,257**	**10,613**	**12,257**

13 | Derivative financial assets and liabilities / continued (in HRK million)

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

14 | Due from banks (in HRK million)

		GROUP		BANK
	2008	2007	2008	2007
Term deposits	6,855	6,247	6,463	5,667
Demand deposits	1	2	-	-
Loans to banks	993	1,011	937	1,074
	7,849	**7,260**	**7,400**	**6,741**
Provisions	(15)	(15)	(15)	(15)
	7,834	**7,245**	**7,385**	**6,726**

Term deposits are normally short-term deposits (up to one month) with local and foreign banks bearing an average annual interest rate of 1.2 percent to 5 percent (2007: 2.5 to 7 percent).
The Bank's placements with other banks include HRK 4.3 million (2007: HRK 6.3 million) related to refinanced borrowings due to the Republic of Croatia and HRK 27.8 million (2007: HRK 50.5 million) of refinanced borrowings due to Government agencies. For more details refer to note 25.
The related currency analysis is provided in note 43.

Geographical analysis

		GROUP		BANK
	2008	2007	2008	2007
Italy	2,355	1,514	2,313	1,469
Germany	2,334	828	2,246	733
Republic of Croatia	800	955	762	946
Austria	636	90	623	73
France	331	252	331	252
Great Britain	96	754	52	702
Belgium	60	1,136	-	1,010
Switzerland	32	40	-	-
United States of America	-	7	-	-
Other countries	1,205	1,684	1,073	1,556
	7,849	**7,260**	**7,400**	**6,741**
Provisions	(15)	(15)	(15)	(15)
	7,834	**7,245**	**7,385**	**6,726**

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

	GROUP		BANK	
	2008	2007	2008	2007
a) Analysis by type of customer				
Citizens	26,898	24,357	23,786	21,555
Companies	15,647	13,570	13,866	12,045
Public sector and other	6,062	4,814	6,022	4,809
	48,607	**42,741**	**43,674**	**38,409**
Provisions	(2,023)	(2,005)	(1,520)	(1,551)
Deferred interest and fees recognised as an adjustment to the effective yield	(552)	(589)	(439)	(422)
	46,032	**40,147**	**41,715**	**36,436**
b) Analysis by sector				
Citizens	26,898	24,357	23,786	21,555
Wholesale and retail trade	3,868	3,276	3,275	2,768
Construction	3,586	3,073	3,369	2,893
Transport and communication	1,182	1,168	1,074	1,084
Hotels and restaurants	1,151	1,088	1,096	1,044
Agriculture, forestry and fishing	927	694	853	625
Food and beverages	592	395	559	361
Energy products	518	432	517	432
Oil refining and gas	115	62	115	62
Other	9,770	8,196	9,030	7,585
	48,607	**42,741**	**43,674**	**38,409**
Provisions	(2,023)	(2,005)	(1,520)	(1,551)
Deferred interest and fees recognised as an adjustment to the effective yield	(552)	(589)	(439)	(422)
	46,032	**40,147**	**41,715**	**36,436**

Included within loans and advances to customers are loans under reverse repurchase agreements of HRK 268.2 million (2007: HRK 237.9 million). Such agreements are secured with corporate and government bonds.

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

	Citizens		Companies		Public sector and other		Total
c) Provisions for losses	Individual	Collective	Individual	Collective	Individual	Collective	
Group							
Balance at 1 January 2008	**830**	**364**	**564**	**213**	**34**	**-**	**2,005**
Amounts collected	(132)	(33)	(64)	(1)	(12)	-	**(242)**
Amounts written off	(30)	-	(90)	-	-	-	**(120)**
Foreign exchange (gain)/loss	1	-	2	-	-	-	**3**
Amortisation of discount	(1)	-	(2)	-	(1)	-	**(4)**
Provisions	198	6	142	21	-	14	**381**
Balance at 31 December 2008	**866**	**337**	**552**	**233**	**21**	**14**	**2,023**
Reconciliation with the Income statement line item Provisions for loans and advances to customers							
Provisions	198	6	142	21	-	14	**381**
Amounts collected	(132)	(33)	(64)	(1)	(12)	-	**(242)**
Amortisation of discount	(1)	-	(2)	-	(1)	-	**(4)**
Charge in the income statement	**(65)**	**27**	**(76)**	**(20)**	**13**	**(14)**	**(135)**
Bank							
Balance at 1 January 2008	**504**	**352**	**475**	**186**	**34**	**-**	**1,551**
Amounts collected	(94)	(32)	(51)	-	(12)	-	**(189)**
Amounts written off	(18)	-	(79)	-	-	-	**(97)**
Foreign exchange (gain)/loss	1	-	2	-	-	-	**3**
Amortisation of discount	(1)	-	(2)	-	(1)	-	**(4)**
Provisions	107	-	119	20	-	10	**256**
Balance at 31 December 2008	**499**	**320**	**464**	**206**	**21**	**10**	**1,520**
Reconciliation with the Income statement line item Provisions for loans and advances to customers							
Provisions	107	-	119	20	-	10	**256**
Amounts collected	(94)	(32)	(51)	-	(12)	-	**(189)**
Amortisation of discount	(1)	-	(2)	-	(1)	-	**(4)**
Charge in the income statement	**12**	**(32)**	**66**	**20**	**(13)**	**10**	**63**

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

c) Provisions for losses	Citizens Individual	Citizens Collective	Companies Individual	Companies Collective	Public sector and other Individual	Public sector and other Collective	Total
Group							
Balance at 1 January 2007	**763**	**389**	**697**	**196**	**33**	**-**	**2,078**
Amounts collected	(46)	(9)	(89)	(1)	(4)	-	**(149)**
Amounts written off	(68)	(8)	(58)	-	(3)	-	**(137)**
Foreign exchange (gain)/loss	2	-	2	-	1	-	**5**
Amortisation of discount	(1)	-	(3)	-	(1)	-	**(5)**
Provisions	179	16	15	(6)	9	-	**213**
Balance at 31 December 2007	**829**	**388**	**564**	**189**	**35**	**-**	**2,005**
Reconciliation with the Income statement line item Provisions for loans and advances to customers							
Provisions	179	16	15	(6)	9	-	**213**
Amounts collected	(46)	(9)	(89)	(1)	(4)	-	**(149)**
Amortisation of discount	(1)	-	(3)	-	(1)	-	**(5)**
Charge in the income statement	**132**	**7**	**(77)**	**(7)**	**4**	**-**	**59**
Bank							
Balance at 1 January 2007	**464**	**372**	**619**	**174**	**32**	**-**	**1,661**
Amounts collected	(10)	(8)	(84)	-	(3)	-	**(105)**
Amounts written off	(44)	-	(58)	-	(3)	-	**(105)**
Foreign exchange (gain)/loss	1	-	1	-	-	-	**2**
Amortisation of discount	(1)	-	(3)	-	(1)	-	**(5)**
Provisions	94	12	-	(12)	9	-	**103**
Balance at 31 December 2007	**504**	**376**	**475**	**162**	**34**	**-**	**1,551**
Reconciliation with the Income statement line item Provisions for loans and advances to customers							
Provisions	94	12	-	(12)	9	-	**103**
Amounts collected	(10)	(8)	(84)	-	(3)	-	**(105)**
Amortisation of discount	(1)	-	(3)	-	(1)	-	**(5)**
Charge in the income statement	**83**	**4**	**(87)**	**(12)**	**5**	**-**	**(7)**

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 an acceptable collateral to reduce the level of credit risk.
On 31 December 2008 the aggregate amount of non performing loans and receivables for the Group equalled HRK 669 million and for the Bank HRK 576 million (2007: HRK 736 million and HRK 631 million respectively). Receivables that are 100 percent provided are considered as non performing loans.
During 2008 the Group sold the rights to 100 percent of the cash flows arising on a loan portfolio carried at HRK 277 million (2007: HRK 546 million) to third parties for a payment of HRK 277 million (2007: HRK 546 million), excluding fees paid to the buyers amounting to HRK 1.7 million (2007: HRK 2 million). The Group has determined that substantially all the risks and rewards of the portfolio were transferred. Therefore the Group derecognised the transferred assets from its balance sheet.

(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 warranties 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 Bank and the Group loans and contingencies guaranteed by the Republic of Croatia or repayable from the state budget amount to HRK 2,521 million (2007: HRK 2,413 million).

(e) Refinanced loans

Included in loans and receivables are HRK 29.6 million (2007: HRK 43.5 million) related to refinanced borrowings due to the Republic of Croatia and HRK 89.9 million (2007: HRK 167.2 million) of refinanced borrowings due to the Government Agencies.
For more detail on refinanced loans refer to note 25.

(f) Collaterals repossessed

During the year, the Group took possession of real estates (business premises, houses, flats and land) with a carrying value of HRK 4.7 million and the Bank HRK 1.4 million (2007: HRK 4.8 million and HRK 4.0 million respectively). The collateral repossessed, which the Group is in the process of selling, is disclosed within Other assets (note 22). In general, the Group does not occupy repossessed properties for business use.
During 2008 the Group has sold collateral with a total fair value of HRK 207 million (2007: HRK 100 million).

16 | Assets available for sale (in HRK million)

	GROUP		BANK	
	2008	2007	2008	2007
Balance at 1 January	**1,853**	**1,305**	**482**	**53**
Net purchases	1,022	499	924	338
Reclassified (to)/from other investments	(58)	81	-	81
Fair value adjustments	(118)	(32)	(76)	10
Balance at 31 December	**2,699**	**1,853**	**1,330**	**482**
Debt securities	2,583	1,539	1,227	187
Equity investments	116	314	103	295
Total	**2,699**	**1,853**	**1,330**	**482**

During 2007 HRK 81 million was reclassified from Equity investments in subsidiaries due to the loss of control of LT Gospodarska banka Sarajevo through its merger with UPI bank. Privredna banka Zagreb held 18.95 percent of the share capital of UPI banka and this investment was sold in October 2008. The gain on sale of HRK 26 million was recognised in Other operating income (note 4).

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

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

EQUITY INVESTMENTS	COUNTRY	NATURE OF BUSINESS	2008 holding %	2007 holding %
Quaestus Private Equity Kapital	Croatia	finance	29	29
Alstom Power d.o.o.	Croatia	manufacturing	-	20
UPI banka d.d. Sarajevo	Bosnia and Herzegovina	banking	-	19
Europay Hrvatska d.o.o.	Croatia	card services	15	15
Hrvatski registar obveza po kreditima d.o.o.	Croatia	finance	14	14
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
Veterinarska stanica d.o.o. Čakovec	Croatia	food processing	-	2
Brodogradilište Viktor Lenac	Croatia	manufacturing	2	-
Bioinstitut d.o.o.	Croatia	manufacturing	2	-
MBU d.o.o.	Croatia	finance	1	1
Regionalna razvojna agencija Porin d.o.o.	Croatia	manufacturing	1	1
Središnja depozitarna agencija d.d.	Croatia	finance	1	1
Elan d.d.	Slovenia	manufacturing	1	1
IPK tvornica ulja Čepin	Croatia	manufacturing	1	-

The Group holds 29 percent (2007: 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 2008	GROUP 2007	BANK 2008	BANK 2007
Recapitalisation bonds	487	608	487	608
Rehabilitation bonds	257	320	257	320
Republic of Croatia bonds	261	306	-	-
Replacement bonds	31	28	28	25
Domectic tresury bills	48	-	-	-
Accrued interest	24	26	21	26
	1,108	**1,288**	**793**	**979**

17 | Held to maturity investments / continued (in HRK million)

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 due from 2012 to 2019.
Domestic treasury bills are denominated in EUR, bear an interest rate of 7.95 percent and are due in December 2009.
Recapitalisation bonds and rehabilitation bonds were issued by the State Agency for Bank Rehabilitation and Deposit Insurance (DAB). These bonds are guaranteed by the Republic of Croatia.
Replacement bonds were originally issued by the Ministry of Finance. These kuna denominated bonds mature in 2011, bear an interest rate of 5 percent, and are payable in semi annual instalments.

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

	GROUP		BANK	
	2008	2007	2008	2007
Consolidated subsidiaries	-	-	345	335
Associates accounted for under equity method in Group accounts (cost in Bank accounts)	56	49	28	28
	56	**49**	**373**	**363**
Movements				
Balance at 1 January	**49**	**45**	**363**	**404**
Consolidation effect arising from equity method	11	8	-	-
Payment of additional capital	-	-	20	40
Payment of dividend	(4)	(4)	-	-
Acquired/(disposed of)	-	-	(10)	(81)
Balance at 31 December	**56**	**49**	**373**	**363**

The principal investments in subsidiaries and associates are as follows:

CONSOLIDATED SUBSIDIARIES	COUNTRY	NATURE OF BUSINESS	2008 holding %	2007 holding %
Međimurska banka d.d.	Croatia	banking	97	97
PBZ Card d.o.o.	Croatia	card services	100	100
PBZ Leasing d.o.o.	Croatia	leasing	100	100
PBZ Invest d.o.o.	Croatia	finance	100	100
PBZ Nekretnine d.o.o.	Croatia	real estate	100	100
PBZ Stambena štedionica d.d.	Croatia	building society	100	100
Invest Holding Karlovac d.o.o.	Croatia	finance	-	56
Centurion financijske usluge d.o.o.	Bosnia and Herzegovina	card services	100	100
ASSOCIATES				
PBZ Croatia osiguranje d.d.	Croatia	finance	50	50
Centurion d.o.o.	Slovenia	card services	25	25

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

The equity reserves of consolidated Group companies are as follows:

	2008	2007
Privredna banka Zagreb d.d.	5,469	4,427
Međimurska banka d.d.	164	124
PBZ Card d.o.o.	518	427
PBZ Leasing d.o.o.	43	27
PBZ Invest d.o.o.	42	60
PBZ Nekretnine d.o.o.	20	26
PBZ Stambena štedionica d.d.	(79)	(55)
Invest Holding Karlovac d.o.o.	-	9
Centurion financijske usluge d.o.o.	(3)	(4)
PBZ Croatia osiguranje d.d.	26	18
Total equity reserves of the Group	**6,200**	**5,059**

PBZ Croatia osiguranje d.d. and Centurion financijske usluge d.o.o. are accounted for under the equity method. The following table illustrates summarised financial information of the Group's investment in associates:

	2008	2007
Share of the associates' balance sheet		
Current assets	88	90
Non current assets	9	4
Current liabilities	(14)	(14)
Non current liabilities	(27)	(31)
Net assets, being the carrying amount of the investment	**56**	**49**
Share of the associates' revenue and profit		
Revenue	32	29
Profit	11	8

As of the 2008 year end the Bank sold its entire stake in the subsidiary Invest Holding Karlovac (56.38 percent of the share capital) for HRK 29.5 million and with a resulting profit of HRK 19.5 million (Group: HRK 5.6 million), which is included in other operating income (note 4). The company was not consolidated as at 31 December 2008. In the Income statement of the Group for 2008, Invest Holding contributed a net profit of HRK 10 million (2007: HRK 475 thousand). The balance sheet of Invest Holding as of 31 December 2008 amounted to HRK 43 million, comprised of property and equipment (28 million), cash and cash equivalents (6 million), bank deposits (9 million), short term liabilities (1 million) and equity.

19 | Intangible assets and goodwill (in HRK million)

Group	Goodwill	Software	Other intangible assets	Assets in preparation	Total
Cost or valuation					
Balance at 1 January 2007	**103**	**271**	**1**	**21**	**396**
Additions	-	57	6	28	91
Effect of the disposal LT Gospodarska banka	(36)	(1)	(3)	-	(40)
Disposals and eliminations	-	(1)	-	(46)	(47)
Balance at 31 December 2007	**67**	**326**	**4**	**3**	**400**
Balance at 1 January 2008	**67**	**326**	**4**	**3**	**400**
Additions	-	36	1	5	42
Disposals and eliminations	-	-	-	-	-
Balance at 31 December 2008	**67**	**362**	**5**	**8**	**442**
Amortization					
Balance at 1 January 2007	**-**	**196**	**-**	**-**	**196**
Charge for the year	-	34	-	-	34
Disposals and eliminations	-	(1)	-	-	(1)
Balance at 31 December 2007	**-**	**229**	**-**	**-**	**229**
Balance at 1 January 2008	**-**	**229**	**-**	**-**	**229**
Charge for the year	-	41	1	-	42
Disposals and eliminations	-	-	-	-	-
Balance at 31 December 2008	**-**	**270**	**1**	**-**	**271**
Net book value					
Balance at 31 December 2008	**67**	**92**	**4**	**8**	**171**
Balance at 31 December 2007	**67**	**97**	**4**	**3**	**171**

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

Bank	Software	Assets in preparation	Total
Cost or valuation			
Balance at 1 January 2007	**203**	**18**	**221**
Additions	45	(16)	29
Disposals and eliminations	-	(2)	(2)
Balance at 31 December 2007	**248**	**-**	**248**
Balance at 1 January 2008	**248**	**-**	**248**
Additions	28	3	31
Balance at 31 December 2008	**276**	**3**	**279**
Amortization			
Balance at 1 January 2007	**156**	**-**	**156**
Charge for the year	22	-	22
Balance at 31 December 2007	**178**	**-**	**178**
Balance at 1 January 2008	**178**	**-**	**178**
Charge for the year	29	-	29
Balance at 31 December 2008	**207**	**-**	**207**
Net book value			
Balance at 31 December 2008	**69**	**3**	**72**
Balance at 31 December 2007	**70**	**-**	**70**

As from 1 January 2005, the date of adoption of IFRS 3, goodwill was no longer amortised but is now subject to annual impairment testing. Accumulated amortisation up to that date was eliminated accordingly.
Goodwill acquired through business combinations was allocated to two individual cash generating units for impairment testing - PBZ Card (the American Express part of the business) and Međimurska banka. The recoverable amounts of cash generating units have been determined based on a value in use calculation using cash flow projections based on financial plans covering a five-year period. The discount rate applied to the cash flow projections was 12.84 percent for PBZ Card and 9.79 percent for Međimurska banka, while the cash flows beyond the 5-year period were extrapolated using a no growth assumption (zero percent growth rate).

20 | Property and equipment (in HRK million)

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Leasehold improve-ments	Asset in prepa-ration	Total
Cost or valuation							
Balance at 1 January 2007	**1,026**	**422**	**237**	**530**	**149**	**85**	**2,449**
Additions	81	115	102	42	22	(74)	288
Effect of LT Gospodarska banka disposal	(7)	(4)	(1)	(2)	-	-	(14)
Disposals and eliminations	(16)	(32)	(54)	(63)	(3)	(1)	(169)
Balance at 31 December 2007	**1,084**	**501**	**284**	**507**	**168**	**10**	**2,554**
Balance at 1 January 2008	**1,084**	**501**	**284**	**507**	**168**	**10**	**2,554**
Additions	35	75	125	68	35	2	340
Disposal of Invest Holding Karlovac d.o.o.	(54)	(7)	-	-		-	(61)
Disposals and eliminations	(26)	(22)	(79)	(40)	(3)	-	(170)
Balance at 31 December 2008	**1,039**	**547**	**330**	**535**	**200**	**12**	**2,663**
Depreciation							
Balance at 1 January 2007	**229**	**213**	**87**	**390**	**98**	**-**	**1,017**
Charge for the year	26	77	46	65	19	-	233
Disposals and eliminations	(7)	(20)	(36)	(62)	(2)	-	(127)
Balance at 31 December 2007	**248**	**270**	**97**	**393**	**115**	**-**	**1,123**
Balance at 1 January 2008	**248**	**270**	**97**	**393**	**115**	**-**	**1,123**
Charge for the year	25	84	53	64	20	-	246
Disposal of Invest Holding Karlovac d.o.o.	(26)	(6)	-	-			(32)
Disposals and eliminations	(13)	(23)	(49)	(42)	(3)	-	(130)
Balance at 31 December 2008	**234**	**325**	**101**	**415**	**132**	**-**	**1,207**
Net book value							
Balance at 31 December 2008	**805**	**222**	**229**	**120**	**68**	**12**	**1,456**
Balance at 31 December 2007	**836**	**231**	**187**	**114**	**53**	**10**	**1,431**

Furniture and other equipment and motor vehicles of the Group include assets leased under operating leases with a net book value of HRK 316.9 million (2007: HRK 262.6 million).

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

Bank	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Leasehold improve-ments	Asset in prepa-ration	Total
Cost or valuation							
Balance at 1 January 2007	**753**	**274**	**19**	**311**	**149**	**85**	**1,591**
Additions	72	64	3	31	22	(78)	114
Disposals and eliminations	(13)	(16)	(2)	(54)	(3)	-	(88)
Balance at 31 December 2007	**812**	**322**	**20**	**288**	**168**	**7**	**1,617**
Balance at 1 January 2008	**812**	**322**	**20**	**288**	**168**	**7**	**1,617**
Additions	21	43	4	41	35	(1)	143
Disposals and eliminations	(23)	(14)	(8)	(35)	(3)	-	(83)
Balance at 31 December 2008	**810**	**351**	**16**	**294**	**200**	**6**	**1,677**
Depreciation							
Balance at 1 January 2007	**177**	**156**	**11**	**215**	**98**	**-**	**657**
Charge for the year	20	46	4	50	19	-	139
Disposals and eliminations	(7)	(14)	(2)	(54)	(2)	-	(79)
Balance at 31 December 2007	**190**	**188**	**13**	**211**	**115**	**-**	**717**
Balance at 1 January 2008	**190**	**188**	**13**	**211**	**115**	**-**	**717**
Charge for the year	20	46	3	45	20	-	134
Disposals and eliminations	(12)	(14)	(7)	(35)	(3)	-	(71)
Balance at 31 December 2008	**198**	**220**	**9**	**221**	**132**	**-**	**780**
Net book value							
Balance at 31 December 2008	**612**	**131**	**7**	**73**	**68**	**6**	**897**
Balance at 31 December 2007	**622**	**134**	**7**	**77**	**53**	**7**	**900**

Leasehold improvements previously classified within Other assets have been transferred to Property and equipment.

21 | Investment property (in HRK million)

	GROUP	BANK
Cost or revaluation		
Balance at 1 January 2008	**30**	**30**
Balance at 31 December 2008	**30**	**30**
Depreciation		
Balance at 1 January 2008	**15**	**15**
Charge for the year	1	1
Balance at 31 December 2008	**16**	**16**
Net book value		
Balance at 31 December 2008	**14**	**14**
Balance at 31 December 2007	**15**	**15**

The estimated fair value of investment property held by the Bank as at 31 December 2008 amounted to HRK 24 million (2007: HRK 24 million). The fair value was estimated by PBZ Nekretnine, a wholly owned subsidiary of Privredna banka Zagreb engaged in real estate management.
The property rental income earned by the Bank from its investment property, all of which was leased out under operating leases, amounted to HRK 3 million (2007: HRK 3 million).

22 | Other assets (in HRK million)

	GROUP		BANK	
	2008	2007	2008	2007
Amounts to be debited under processing	110	127	11	27
Amounts receivable from debtors	41	38	2	1
Accrued fees	30	39	29	34
Prepaid expenses	19	16	9	9
Collateral received for non-performing loans	18	43	13	41
Other	94	73	58	46
	312	**336**	**122**	**158**

Leasehold improvements previously classified within Other assets have been transferred to Property and equipment.

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

	GROUP		BANK	
	2008	2007	2008	2007
Term deposits	3,096	1,773	3,241	1,780
Demand deposits	552	175	552	166
	3,648	**1,948**	**3,793**	**1,946**

HRK 1,181 million, previously disclosed within Due to banks for 2007, have been reclassified to Due to customers (Bank and the Group).

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

	GROUP		BANK	
	2008	2007	2008	2007
Term deposits	30,100	28,656	27,262	26,098
Demand deposits	14,491	14,443	13,673	13,777
	44,591	**43,099**	**40,935**	**39,875**
Retail deposits	32,857	29,525	29,496	26,658
Corporate deposits	7,409	9,806	7,182	9,449
Public sector and other	4,325	3,768	4,257	3,768
	44,591	**43,099**	**40,935**	**39,875**

HRK 1,181 million, previously disclosed within Due to banks for 2007, have been reclassified to Due to customers (Bank and the Group).

25 | Other borrowed funds (in HRK million)

	GROUP		BANK	
	2008	2007	2008	2007
Domestic borrowings	3,361	4,114	3,276	4,036
Foreign borrowings	7,345	7,273	5,606	5,835
Refinanced debt	214	373	214	373
	10,920	**11,760**	**9,096**	**10,244**

(a) Domestic and Foreign borrowings

Domestic borrowings

Domestic borrowings of the Group include loans received from the Croatian Bank for Reconstruction and Development (HBOR) of HRK 1.9 billion (2007: HRK 1.4 billion), payables under repurchase agreements with other domestic banks and companies of HRK 179 million (2007: HRK 205 million) as well as other borrowings from other domestic banks.
In accordance with the overall agreement, borrowings from HBOR are used to funds loans to customers for eligible construction and development projects at preferential interest rates.

Foreign borrowings

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

(in HRK million)	Due in 2009	Due in 2010	Due in 2011	Due in 2012	Due after 2013	Total 2008	Total 2007
GROUP							
Fixed rate	5	-	-	-	-	**5**	**1,076**
Floating rate	2,014	1,121	2,339	-	1,866	**7,340**	**6,197**
Total foreign borrowings	**2,019**	**1,121**	**2,339**	**-**	**1,866**	**7,345**	**7,273**

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

These amounts relate to foreign currency borrowings from commercial banks falling due under the New Financing Agreement signed on 20 September 1988. Repayments of principal under this agreement were due to commence in February 1994 with the first of 26 semi-annual instalments. However, negotiations continued regarding the assumption of the liabilities of the former Yugoslavia, and interest payments since 25 May 1992 and capital payments were delayed. During 1996 liabilities of HRK 4,030 million to commercial banks under the New Financing Agreement were transferred from the Bank to the Rehabilitation Agency as part of the Bank's rehabilitation.
On 31 July 1996 the Government of the Republic of Croatia assumed responsibility for 29.5 percent of all rescheduled liabilities of the former Yugoslavia to commercial banks under the New Financing Agreement (London Club), representing the Republic of Croatia's share of the debt of the former Yugoslavia. This liability was settled by the issue of bonds of the Republic of Croatia and the first payment of principal and interest was made on 31 January 1997. Consequently, the Bank's liabilities to commercial banks under the New Financing Agreement were replaced by amounts due to the Republic of Croatia.
The liabilities assumed by the Republic of Croatia were further rescheduled, for a period of 10 to 14 years; they are denominated in USD and carry interest of LIBOR + 13/16 percent. The amounts due to the Republic of Croatia by the Bank were similarly rescheduled and redenominated.

(C) Refinanced debt - Amounts due to Government agencies - Paris Club

Repayments of foreign currency borrowings previously due between 1984 and 1988 were rescheduled and refinanced by the agreement concluded with the Paris Club. Under this agreement repayments of principal were to be made in 24 semi-annual instalments commencing January 1999.
During 1996 further discussions were held with each of the contracting parties and substantially all of the Bank's liabilities were rescheduled under a series of Consolidation Agreements. The Bank expects to recover this amount from the Croatian companies which were the original borrowers of the funds by rescheduling the loans in a manner similar to the arrangements described above.

26 | Debt securities issued

In April 2007 PBZ Card issued commercial bills with a total nominal amount of HRK 80 million. These securities were issued with a maturity of 364 days and carried interest of 5.13 percent.

27 | Other liabilities (in HRK million)

	GROUP		BANK	
	2008	2007	2008	2007
Amounts payable to creditors	1,141	1,144	25	17
Items in the course of payment and other liabilities	361	345	297	284
Salaries and other staff costs	131	132	113	114
	1,633	**1,621**	**435**	**415**

28 | Accruals and deferred income (in HRK million)

	GROUP		BANK	
	2008	2007	2008	2007
Deferred tax liabilities	2	8	2	8
Deferred income	119	42	13	13
Accrued expenses	113	113	59	58
	234	**163**	**74**	**79**

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

	GROUP		BANK	
	2008	2007	2008	2007
a) Analysis				
Provisions for contingent liabilities and commitments	168	154	164	150
Provisions for legal claims	89	99	80	92
Provisions for other risks and charges	13	12	-	-
	270	**265**	**244**	**242**
b) Movements				
Balance at 1 January	**265**	**211**	**242**	**186**
Release of provisions	(10)	(7)	(10)	(4)
Provisions for guarantees and commitments (note 5)	15	49	14	49
Provisions for legal claims (note 5)	-	13	(2)	12
Foreign exchange loss	-	(1)	-	(1)
Balance at 31 December	**270**	**265**	**244**	**242**

30 | Contingent liabilities and commitments

Legal claims

As at 31 December 2008 there were several litigations 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 2008 made by the Group stood at HRK 89 million whilst the Bank provided HRK 80 million as at 31 December 2008 (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 168 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	
	2008	2007	2008	2007
Undrawn lending commitments	11,008	11,686	10,772	11,460
Performance guarantees	2,099	1,745	2,075	1,714
Foreign currency guarantees	518	397	503	384
Foreign currency letters of credit	519	418	512	413
HRK guarantees	375	253	341	226
Other contingent liabilities	36	45	33	38
	14,555	**14,544**	**14,236**	**14,235**

On 31 December 2008 the Group and the Bank had long-term commitments in respect of rent for business premises and equipment lease agreements expiring between 2009 and 2013. 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 2008 are presented below:

	2008	2008	2009	2010	2011	2012	Total
Group							
Premises	47	50	54	58	61	63	333
Equipment	5	5	5	6	6	6	33
	52	**55**	**59**	**64**	**67**	**69**	**366**
Bank							
Premises	46	49	53	57	60	62	327
Equipment	4	4	4	5	5	5	27
	50	**53**	**57**	**62**	**65**	**67**	**354**

31 | Share capital

The total number of authorised registered shares on 31 December 2008 was 19,074,769 (2007: 19,074,769) with a nominal value of HRK 100 per share (2007: HRK 100 per share).
On 17 December 1999, the State Agency for Deposit Insurance and Bank Rehabilitation and Comit Holding International (now Intesa Holding International) through Banca Commerciale Italiana (now Banca Intesa) signed a Share Purchase Agreement in Relation to Privredna banka Zagreb. Through this contract, which came into effect on 28 January 2001, Banca Commerciale Italiana acquired 11,046,005 ordinary shares amounting to 66.3 percent of the total share capital of the Bank. According to this agreement the State Agency for Deposit Insurance and Bank Rehabilitation kept 4,165,002 ordinary shares which accounted for 25 percent (plus two shares) of the total share capital of the Bank (prior to 28 January 2001 the State Agency for Deposit Insurance and Bank Rehabilitation was the majority shareholder holding 15,211,007 ordinary shares which accounted for 91.3 percent of the total share capital of the Bank).
Furthermore, on 22 November 2002, the State Agency for Deposit Insurance and Bank Rehabilitation, Intesa Holding International and the European Bank for Reconstruction and Development signed a three-party Share Purchase Agreement Relating to Privredna banka Zagreb whereby the EBRD acquired 15 percent of the nominal capital whilst Intesa Holding International gained the remaining 10 percent from the State Agency for Deposit Insurance and Bank Rehabilitation.
Following finalisation of the public tender, as required in such circumstances by the Croatian law on the take-over of joint stock companies, Intesa Holding International and the EBRD concluded a contract on 22 January 2003 for the purchase of 965,746 shares by the EBRD from Intesa Holding International.
In November 2006, following a Decision of the Extraordinary General Assembly held on 31 August 2006, Intesa Holding International and the EBRD subscribed to additional capital of the Bank of HRK 1,811,076,750 of which Intesa Holding subscribed to HRK 1,423,143,750 and the EBRD to HRK 387,933,000. The new share capital was registered in the Commercial Court in Zagreb on 16 November 2006. As of 31 December 2006, following the merger of Banca Intesa with Sanpaolo IMI, Intesa Holding International changed its name into Intesa Sanpaolo Holding International.

The ownership structure as at 31 December 2008 was as follows:

	REGISTERED SHARES			
	31 December 2008		31 December 2007	
	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership
Intesa Sanpaolo Holding International	14,609,532	76.6%	14,609,532	76.6%
EBRD	3,981,990	20.9%	3,981,990	20.9%
Minority shareholders	418,574	2.2%	432,648	2.3%
Treasury shares	64,673	0.3%	50,599	0.2%
	19,074,769	**100%**	**19,074,769**	**100%**

On 31 December 2008 president of the Management Board Božo Prka held 361 shares of Privredna banka Zagreb. Members of the Management Board, Ivan Gerovac held 120 shares and Draženko Kopljar held 108 shares.

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

(number of shares)	2008	2007
Balance at 1 January	**50,599**	**43,389**
Increase	38,261	20,000
Decrease	(24,187)	(12,790)
Balance at 31 December	**64,673**	**50,599**

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.
On 8 April 2008, at their General Shareholders Meeting the shareholders of Privredna banka Zagreb approved a bonus payment to the management and employees of PBZ in gross amount of HRK 36,000,000 as a share based bonus payment. In that context, the Bank distributed three separate trenches of treasury shares to the management and employees at the following dates:

on 13 May 2008	11,630 shares	at average price of HRK 1,629.99
on 31 May 2008	11,130 shares	at average price of HRK 1,250.38
on 10 June 2008	1,268 shares	at average price of HRK 1,250.00

During 2008, the Bank purchased a total of 38,261 treasury shares on the open market for its own purposes.
In accordance with the CNB's Decision on the classification of placements and contingent liabilities, banks are obliged to form reserves in shareholders' equity for general banking risks based upon the annual growth of placements. Considering the growth of 28 percent in 2006, compared to 2005, the Bank allocated HRK 366 million of the net profit for 2006 to the reserves for general banking risks. These reserves will become transferable to retained profits or avaiable for distribution to shareholders no sooner than 1 July 2009.
As of 31 December 2008 retained profits (without net profit for the year) of the Group amounted to HRK 4,073 million and of the Bank to HRK 3,738 million (2007: HRK 2,975 million and HRK 2,851 million, respectively). Retained profits are generally available to shareholders, subject to their approval, whilst other reserves within equity cannot be distributed to shareholders. Non distributable reserves amount to HRK 885 million for the Group (2007: HRK 943 million) and HRK 631 million for the Bank (2007: HRK 645 million).

33 | Cash and cash equivalents (in HRK million)

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

	GROUP		BANK	
	2008	2007	2008	2007
Cash and current accounts with other banks (note 10)	2,973	2,471	2,747	2,356
Due from banks with maturity of up to 3 months (note 14 and 45)	7,329	6,699	6,882	6,184
	10,302	**9,170**	**9,629**	**8,540**

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

	GROUP		BANK	
	2008	2007	2008	2007
LIABILITIES				
Local authorities and similar organisations	464	445	463	444
Companies	4	4	4	4
Banks and other institutions	245	249	240	244
	713	**698**	**707**	**692**
LESS: ASSETS	674	676	668	670
	39	**22**	**39**	**22**

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

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 balance sheet. 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 2008 stood at HRK 1,578 million (2007: HRK 6,337 million). Funds under management in the obligatory pension fund managed in a join venture with Croatia osiguranje d.d., a Croatian insurance company, as at 31 December 2008 amounted to HRK 3,736 million (2007: HRK 3,598 million).

35 | Leases

PBZ Leasing d.o.o., a the company wholly-owned by the Bank, has entered as a lessor into both finance and operating lease arrangements of various items of equipment, vessels and vehicles. Net investments in finance leases of HRK 1,185.3 million (2007: HRK 920.8 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 316.9 million (2007: HRK 262.6 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)	**2008**	**2008**	**2007**	**2007**
Next year	332	259	263	196
Between one and five years	763	605	627	482
After five years	450	357	359	275
Total minimum lease payments receivable	**1,545**	**1,221**	**1,249**	**953**
Unearned finance income	(324)	-	(296)	-
Total investment in finance leases	**1,221**	**1,221**	**953**	**953**
Less: Allowance for uncollectible amounts	(36)	(36)	(32)	(32)
Net investment in finance leasee	**1,185**	**1,185**	**921**	**921**

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

(in HRK million)	**2008**	**2007**
Within one year	78	66
After one year but no more than five years	153	130
More than five years	77	63
	308	**259**

36 | Related party transactions (in HRK million)

As of 31 December 2008 Privredna banka Zagreb and its subsidiaries are under the control of Intesa Sanpaolo, which owned 76.59 percent of the share capital at that date and represents the ultimate controlling party of PBZ Group.
Related parties include companies controlled or influenced by the Bank by virtue of its shareholdings and also companies that can influence the Bank by virtue of their shareholdings in the Bank, together with other companies forming part of the Intesa Sanpaolo Group. In addition, companies influenced by the key management personnel of the Bank are also considered to be related parties.
The Bank grants loans to or places deposits with the companies to which it is related. Such loans are made in the ordinary course of business at terms and conditions available to third parties.
The volumes of related party transactions and outstanding balances at the year end were as follows:

	Key management personnel	PBZ Group	Parent Group	Other related companies
GROUP				
DEPOSITS AND LOANS GIVEN				
Loans outstanding at 1 January 2008	**7**	**-**	**19**	**435**
Changes during the year	2	-	(4)	361
Loans outstanding at 31 December 2008	**9**	**-**	**15**	**796**
Interest income	-	-	-	28
DEPOSITS AND LOANS RECEIVED				
Balance at 1 January 2008	**7**	**-**	**1,740**	**56**
Changes during the year	3	-	683	(56)
Balance at 31 December 2008	**10**	**-**	**2,423**	**-**
Interest expense	-	-	90	2
Contingent liabilities and commitments	**1**	**-**	**-**	**145**
Fees and other income	-	-	2	5
Fees and other expense	-	-	2	4

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

	Key management personnel	PBZ Group	Parent Group	Other related companies
BANK				
DEPOSITS AND LOANS GIVEN				
Loans outstanding at 1 January 2008	**7**	**126**	**6**	**435**
Changes during the year	2	(68)	(2)	361
Loans outstanding at 31 December 2008	**9**	**58**	**4**	**796**
Interest income	-	5	-	28
DEPOSITS AND LOANS RECEIVED				
Balance at 1 January 2008	**7**	**339**	**274**	**56**
Changes during the year	3	34	545	(56)
Balance at 31 December 2008	**10**	**373**	**819**	**-**
Interest expense	-	6	11	2
Contingent liabilities and commitments	**1**	**3**	**-**	**145**
Leases expenses	-	7	-	-
Fees and other income	-	52	2	5
Fees and other expense	-	39	2	4

No provisions were recognised in respect of loans given to related parties (2007: nil).

Key management compensation:

	GROUP		BANK	
	2008	2007	2008	2007
Salaries and other short-term benefits	31	29	18	16
Bonus payments	12	11	11	10
	43	**40**	**29**	**26**

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.
Bonus payments include HRK 9 million paid in shares (2007: HRK 8 million) with an average share price of HRK 1,228.44 (2007: HRK 1,960.35).

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.

37 | Financial risk management policies / continued

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 counter parties 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 counter parties of good credit standing, and when appropriate, obtains collateral.

The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. 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 client's name such that a third party can withdraw funds up to the preapproved limit, are covered by collateral, being the goods for which they were issued. Even though the credit risk for this type of product is significantly lower than for direct loans, the Group calculates impairment provisions on the same basis.

Exposure to credit risk has been managed in accordance with the Group's policies. Credit exposures to portfolios and individual group exposures are reviewed on a regular basis against the limits set. Breaches are reported to the appropriate bodies and personnel within the Bank authorised to approve them. Any substantial increases in credit exposure are authorised by the Credit Committee. The Assets Quality Committee monitors changes in the credit-worthiness of credit exposures and reviews any proposed impairment losses. Credit risk assessment is continuously monitored and reported, thus enabling an early identification of impairment in the credit portfolio. The Group has been continually applying prudent methods and models used in the process of credit risk assessment.

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

	NOTE	GROUP		BANK	
(in HRK million)		2008	2007	2008	2007
Cash and current accounts with other banks (excluding cash in hand)	10	1,492	1,339	1,343	1,286
Balances with Croatian National bank	11	4,815	8,194	4,596	7,934
Financial assets at fair value through profit or loss	12	3,507	4,170	3,507	4,182
Derivative financial assets	13	24	33	24	33
Due from banks	14	7,834	7,245	7,385	6,726
Loans and advances to customers	15	46,032	40,147	41,715	36,436
Assets available for sale	16	2,699	1,853	1,330	482
Held to maturity investments	17	1,108	1,288	793	979
Other assets (excluding real estate pledged for non-performing loans)	22	297	293	109	117
Total		**67,808**	**64,562**	**60,802**	**58,175**
Contingent liabilities and commitments	30	14,555	14,544	14,236	14,235
Total credit risk exposure		**82,363**	**79,106**	**75,038**	**72,410**

Where financial instruments are recorded at fair value, the amounts shown above represent the credit risk exposure at the balance sheet 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 2008 was HRK 831 million (2007: HRK 733 million) before taking account of collateral or other credit enhancements.

37 | Financial risk management policies / continued

Credit risk / continued

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 flow generated by the borrower's activity and security instruments/collateral. The main types of collateral obtained are as follows:

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

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

An ageing analysis of past due receivables per class of financial assets is shown below. The exposures below include not just the portion of debt that is overdue but also total receivables outstanding at the balance sheet date.

GROUP 2008 (in HRK million)	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Loans and advances to customers					
Corporate lending	9,775	1,133	223	483	11,614
Housing loans	2,248	409	79	97	2,833
Other retail loans	3,357	833	248	876	5,314
Public sector and other	702	68	2	19	791
	16,082	**2,443**	**552**	**1,475**	**20,552**
Due from banks	125	-	-	32	157
Securities	7	1	-	-	8
Other due receivables	1,570	315	55	1,060	3,000
Total	**17,784**	**2,759**	**607**	**2,567**	**23,717**

GROUP 2007 (in HRK million)					
Corporate lending	8,693	1,133	48	479	10,353
Housing loans	1,738	380	87	59	2,264
Other retail loans	3,172	932	226	500	4,830
Public sector and other	1,015	103	4	12	1,134
	14,618	**2,548**	**365**	**1,050**	**18,581**
Due from banks	150	-	-	120	270
Securities	3	-	-	-	3
Other due receivables	2,180	193	157	1,071	3,601
Total	**16,951**	**2,741**	**522**	**2,241**	**22,455**

37 | Financial risk management policies / continued

Credit risk / continued

BANK 2008 (in HRK million)	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Loans and advances to customers					
Corporate lending	9,100	782	217	404	10,503
Housing loans	2,229	402	78	92	2,801
Other retail loans	3,172	728	200	490	4,590
Public sector and other	699	68	1	19	787
	15,200	**1,980**	**496**	**1,005**	**18,681**
Due from banks	124	-	-	32	156
Securities	7	1	-	-	8
Other due receivables	1,503	299	48	874	2,724
Total	**16,834**	**2,280**	**544**	**1,911**	**21,569**

BANK 2007 (in HRK million)	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Loans and advances to customers					
Corporate lending	8,067	860	37	420	9,384
Housing loans	1,731	375	84	55	2,245
Other retail loans	2,872	761	203	449	4,285
Public sector and other	1,010	103	2	12	1,127
	13,680	**2,099**	**326**	**936**	**17,041**
Due from banks	149	-	-	120	269
Securities	3	-	-	-	3
Other due receivables	2,139	175	155	902	3,371
Total	**15,971**	**2,274**	**481**	**1,958**	**20,684**

The exposure is shown gross, before the effect of mitigation through collateral agreements. Other due receivables include accrued interest on overdue receivables. A portion of this interest, related to substandard and non performing loans, is not recognised in the balance sheet nor credited to the income statement until collected.
As of 31 December 2008 the total amount of the Group's past due receivables that were not individually impaired amonted to at HRK 19,804 million gross (2007: HRK 18,737 million), before the effect of collaterals, while for the Bank it amounted to HRK 18,605 million (2007: HRK 17,735 million). The fair value of collaterals held for past due but not impaired receivables of the Group amount to HRK 23,215 million as at 31 December 2008 (2007: HRK 25,965 million).

37 | Financial risk management policies / continued

Credit risk / continued

Credit risk per class of financial assets
Credit risk by type of financial assets for loans and receivables is monitored using internal classification of the credit risk. The table below provides an aggregated analysis of financial assets for the banking segment of the Group, as the main segment of the consolidated balance sheet, broken down by risk grades as at 31 December 2008. The amounts provided are gross of specific or collective provisions.

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

(in HRK million)			RISK GRADES			
BANKING SEGMENT 2007	A	B1	B2	B3	C	Total
Due from banks	7,253	-	-	-	-	7,253
Loans to customers	37,577	744	566	69	798	39,754
of which Republic of Croatia, Government agencies and municipalities	*3,582*	*4*	-	-	-	*3,586*
of which corporate and SME customers	*11,126*	*638*	*189*	*39*	*338*	*12,330*
of which retail customers	*22,579*	*102*	*377*	*30*	*444*	*23,532*
of which other loans	*290*	-	-	-	*16*	*306*
Held to maturity investments	957	-	-	-	-	957
Assets available for sale	742	-	-	-	-	743
Other receivables	324	-	3	-	30	357
Total	**46,853**	**744**	**569**	**69**	**828**	**49,063**

37 | Financial risk management policies / continued

Credit risk / continued

Credit risk per class of financial assets
Risk grades are defined based on level of specific provision made on certain exposure. The distribution 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 2008 placements of the Bank internally rated as A1 amounted HRK 34,534 million (2007: HRK 28,448 million) and A2 HRK 22,998 million (2007: HRK 25,426 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, controls 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 fulfillment 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 balance sheet 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.

With respect to the Decision of the CNB on minimum foreign currency claims the Bank is obliged to maintain a minimum of 28.50 percent of foreign currency liabilities in short term assets according to the Decision on minimal required FX claims. As at 31 December 2007 the prescribed minimum ratio stood at 32 percent, which was decreased to 28.50 percent in May 2008. The actual figures were as follows:

37 | Financial risk management policies / continued

Liquidity risk / continued

2008	%
"28.5% ratio" (at year end)	30.75
Average	31.00
Maximum	34.61
Minimum	28.54

2007	%
"32% ratio" (at year end)	33.38
Average	33.17
Maximum	36.08
Minimum	32.15

In February 2009 the Croatian National Bank decreased minimum ratio at first to 25 percent and then to 20 percent, within the same month.

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 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
2008 - 2 January	5,261	14,139	224	(1,253)	18,371
2008 - 31 December	2,826	10,314	2,423	(5,671)	9,892
2008 - Average daily	4,597	10,406	2,163	(5,413)	11,753
2008 - Lowest	2,530	5,886	80	(1,939)	6,557
2008 - Highest	7,613	24,774	9,465	(16,532)	25,320

Note: historical simulation used for VaR calculations

(in HRK thousand)	Equity VaR	Interest rate VaR	FX VaR	Effects of correlation	Total
2007 - 2 January	4,463	3,218	835	(3,355)	5,161
2007 - 31 December	5,159	14,192	343	(1,161)	18,533
2007 - Average daily	4,992	7,979	1,843	(5,772)	9,042
2007 - Lowest	3,838	3,130	44	(2,025)	4,987
2007 - Highest	7,645	15,030	5,828	(9,100)	19,403

Note: historical simulation used for VaR calculations

In terms of VaR applications, the market risks measured using the VaR technique are:
- general interest rate in the trading book,
- equity risk in trading book and
- foreign exchange risk on the balance sheet 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 balance sheet 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 2008. 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 income statement, while a positive amount reflects a net potential increase.

Currency	**FX Open position 2008**	**Scenario**		**FX Open position 2007**	**Scenario**	
		10% Move Up	**10% Move Down**		**10% Move Up**	**10% Move Down**
EUR	**(319)**	(32)	32	**(41)**	(4)	4
CHF	**13**	1	(1)	**(11)**	(1)	1
USD	**(43)**	(4)	4	**4**	0.5	(0.5)

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 reprice 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 2008.

(in HRK million)

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

(in HRK million)

Increase in basis points 2007	Change in interest income	Change in interest expenses	Change in net interest income	**Decrease in basis points 2007**	Change in interest income	Change in interest expenses	Change in net interest income
+25	60.1	39.6	20.5	-25	(60.1)	(39.6)	(20.5)
+50	120.9	79.1	41.8	-50	(120.9)	(79.1)	(41.8)

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.

		BANK
(in HRK million)	2008	2007
Tier 1 capital	8,834	7,797
Tier 2 capital	-	206
Deductions	(355)	(434)
Total capital	**8,479**	**7,569**
Risk weighted assets and other risk elements	**54,822**	**43,454**
Tier 1 capital ratio	**16.11%**	**17.94%**
Total capital ratio	**15.47%**	**17.42%**

Regulatory capital

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

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 arms length basis. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Loans and advances to customers and assets held to maturity are measured at amortised cost less impairment. Available for sale instruments are generally measured at fair value with the exception of some equity investments which are more appropriatly 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.

- During 2008 CNB abolished marginal reserve that earned no interest. Therefore the fair value of balances with 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

39 | Fair values of financial assets and liabilities / continued

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 appeared not to be materially different from their carrying values. The fair value of securities held to maturity for the Group is estimated to be at HRK 1,119 million and for the Bank HRK 826 million (with carrying values of HRK 1,106 million and HRK 793 million, respectively);
- For demand deposits and deposits with no defined maturities, fair value is determined to be the amount payable on demand at the balance sheet 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.

The following table shows an analysis of financial instruments recorded at fair value, distinguishing between those for which the fair value is based on quoted market prices and those which involve valuation techniques for which all the model inputs are observable in the market.

GROUP 2008 (in HRK million)	Mark to model	Mark to market	Total
Derivative financial assets	24	-	24
Financial assets held for trading	1,395	79	1,474
Financial assets initially designated at fair value through profit or loss	19	1,943	1,962
Financial instruments available for sale	1,218	1,441	2,659
Financial assets	**2,656**	**3,463**	**6,119**
Derivative financial liabilities	202	-	202
Financial liabilities	**202**	**-**	**202**

GROUP 2007 (in HRK million)	Mark to model	Mark to market	Total
Derivative financial assets	33	-	33
Financial assets held for trading	1,686	2,408	4,094
Financial instruments available for sale	293	1,548	1,841
Financial assets	**2,012**	**3,956**	**5,968**
Derivative financial liabilities	38	-	38
Financial liabilities	**38**	**-**	**38**

The process of fair value measurement uses best-practice model implemented throughout the IntesaSanpaolo Group. The model itself uses yield curves created from interest rate quotations seen on the market. Appropriate yield curve (the one that is associated to the same currency in which the security, whose price is modeled, is denominated) is used in discounting of all security's cash flows in order to determine its present value, i.e. its modeled price. Interest rates taken from the yield curves in 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.

Notes to the Bank and the Group Financial Statements

40 | **Financial information by segment** (in HRK million)

The following tables present information on the income statement and certain assets and liabilities regarding the Group's business segments for the years ended 31 December 2008 and 2007. The segment reporting format is determined to be 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.

GROUP	Banking	Card services	Leasing	Other financial services	Non financial services	Consolidation adjustments	Total
As at 31 December 2008							
Interest income	3,981	85	91	72	-	-	4,229
Interest expense	(1,927)	(9)	(67)	(41)	-	-	(2,044)
Intersegment interest	-	-	1	(1)	-	-	-
Net interest income	2,054	76	25	30	-	-	2,185
Fee and commission income	594	649	6	95	13	-	1,357
Fee and commission expense	(218)	(34)	-	(5)	(3)	-	(260)
Intersegment commission	42	(13)	-	(27)	-	(2)	-
Net fee and commission income	418	602	6	63	10	(2)	1,097
Other operating income	458	37	151	-	19	(250)	415
Operating income	2,930	715	182	93	29	(252)	3,697
Provisions	(106)	(61)	(9)	(1)	-	5	(172)
Other operating expenses	(1,253)	(326)	(89)	(29)	(10)	29	(1,678)
Depreciation and amortisation	(173)	(54)	(61)	(1)	(2)	1	(290)
Share of the profit and loss accounted for using the equity method	-	-	-	11	-	-	11
Income taxes	(245)	(56)	(6)	(11)	(2)	-	(320)
Minority interest	(2)	-	-	-	(4)	-	(6)
Net profit for the year	**1,151**	**218**	**17**	**62**	**11**	**(217)**	**1,242**
Segment assets	66,553	2,014	1,640	1,607	27	(670)	71,171
Equity investments in subsidiaries and associates	54	2	-	-	-	-	56
Total assets	**66,607**	**2,016**	**1,640**	**1,607**	**27**	**(670)**	**71,227**
Segment liabilities	57,303	1,471	1,582	1,513	3	(374)	61,498
Taxes payable	94	12	-	11	1	-	118
Total liabilities	**57,397**	**1,483**	**1,582**	**1,524**	**4**	**(374)**	**61,616**
Property, equipment and intangible assets acquired	120	58	-	-	-	-	178

40 | Financial information by segment / continued (in HRK million)

GROUP As at 31 December 2007	Banking	Card services	Leasing	Other financial services	Non financial services	Consolidation adjustments	Total
Interest income	3,430	74	72	51	-	-	3,627
Interest expense	(1,626)	(7)	(46)	(30)	-	-	(1,709)
Intersegment interest	5	-	(6)	-	-	1	-
Net interest income	1,809	67	20	21	-	1	1,918
Fee and commission income	561	576	5	140	18	-	1,300
Fee and commission expense	(199)	(23)	-	(8)	(6)	-	(236)
Intersegment commission	40	(2)	-	(39)	-	1	-
Net fee and commission income	402	551	5	93	12	1	1,064
Other operating income	412	31	115	(1)	20	(154)	423
Operating income	2,623	649	140	113	32	(152)	3,405
Provisions	(70)	(52)	(7)	(3)	-	11	(121)
Other operating expenses	(1,180)	(303)	(67)	(30)	(10)	12	(1,578)
Depreciation and amortisation	(170)	(45)	(52)	(1)	(2)	2	(268)
Share of the profit and loss accounted for using the equity method	-	(1)	-	9	-	-	8
Income taxes	(227)	(53)	(4)	(15)	(4)	-	(303)
Minority interest	(2)	-	-	-	-	-	(2)
Net profit for the year	**974**	**195**	**10**	**73**	**16**	**(127)**	**1,141**
Segment assets	63,334	1,943	1,350	1,471	68	(665)	67,501
Equity investments in subsidiaries and associates	46	3	-	-	-	-	49
Total assets	**63,380**	**1,946**	**1,350**	**1,471**	**68**	**(665)**	**67,550**
Segment liabilities	55,189	1,486	1,306	1,351	2	(374)	58,960
Taxes payable	49	18	2	15	3	-	87
Total liabilities	**55,238**	**1,504**	**1,308**	**1,366**	**5**	**(374)**	**59,047**
Property, equipment and intangible assets acquired	124	65	-	-	-	-	189

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.

GROUP **As at 31 December 2008**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
Assets						
Cash and current accounts with other banks	395	8	9	4	2,557	**2,973**
Balances with the Croatian National Bank	4,643	-	-	-	172	**4,815**
Financial assets at fair value through profit or loss	162	96	1,672	1,577	-	**3,507**
Derivative financial assets	24	-	-	-	-	**24**
Due from banks	7,325	194	55	100	160	**7,834**
Loans and advances to customers	31,864	945	1,830	8,854	2,539	**46,032**
Assets available for sale	613	127	282	1,472	205	**2,699**
Held to maturity investments	21	-	4	1,080	3	**1,108**
Equity investments in subsidiaries and associates	-	-	-	-	56	**56**
Intangible assets and goodwill	-	-	-	-	171	**171**
Property and equipment	-	-	-	-	1,456	**1,456**
Investment property	-	-	-	-	14	**14**
Other assets	41	-	17	-	254	**312**
Deferred tax assets	-	-	-	-	226	**226**
	45,088	**1,370**	**3,869**	**13,087**	**7,813**	**71,227**
Liabilities						
Due to banks	3,477	-	-	81	90	**3,648**
Due to customers	40,187	348	648	1,791	1,617	**44,591**
Derivative financial liabilities	202	-	-	-	-	**202**
Other borrowed funds	7,253	423	695	2,511	38	**10,920**
Other liabilities	101	-	-	-	1,532	**1,633**
Accruals and deferred income	-	-	-	-	234	**234**
Provisions for risks and charges	-	-	-	-	270	**270**
Liabilities for current tax	-	-	-	-	118	**118**
	51,220	**771**	**1,343**	**4,383**	**3,889**	**61,616**
Interest sensitivity gap	**(6,132)**	**599**	**2,526**	**8,704**	**3,914**	**9,611**

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

BANK As at 31 December 2008	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
Assets						
Cash and current accounts with other banks	358	-	-	-	2,389	**2,747**
Balances with the Croatian National Bank	4,575	-	-	-	21	**4,596**
Financial assets at fair value through profit or loss	162	96	1,672	1,577	-	**3,507**
Derivative financial assets	24	-	-	-	-	**24**
Due from banks	7,120	40	52	97	76	**7,385**
Loans and advances to customers	30,940	854	1,638	7,904	379	**41,715**
Assets available for sale	524	122	265	419	-	**1,330**
Held to maturity investments	21	-	-	772	-	**793**
Equity investments in subsidiaries and associates	-	-	-	-	373	**373**
Intangible assets and goodwill	-	-	-	-	72	**72**
Property and equipment	-	-	-	-	897	**897**
Investment property	-	-	-	-	14	**14**
Other assets	39	-	-	-	83	**122**
Deferred tax assets	-	-	-	-	165	**165**
	43,763	**1,112**	**3,627**	**10,769**	**4,469**	**63,740**
Liabilities						
Due to banks	3,633	-	-	81	79	**3,793**
Due to customers	38,937	308	636	294	760	**40,935**
Derivative financial liabilities	202	-	-	-	-	**202**
Other borrowed funds	7,113	260	478	1,245	-	**9,096**
Other liabilities	92	-	-	-	343	**435**
Accruals and deferred income	-	-	-	-	74	**74**
Provisions for risks and charges	-	-	-	-	244	**244**
Liabilities for current tax	-	-	-	-	91	**91**
	49,977	**568**	**1,114**	**1,620**	**1,591**	**54,870**
Interest sensitivity gap	**(6,214)**	**544**	**2,513**	**9,149**	**2,878**	**8,870**

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

GROUP As at 31 December 2007	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	194	-	-	-	2,277	**2,471**
Balances with the Croatian National Bank	7,140	-	-	-	1,054	**8,194**
Financial assets at fair value through profit or loss	1,039	350	1,424	1,357	-	**4,170**
Derivative financial assets	33	-	-	-	-	**33**
Due from banks	6,727	508	3	-	7	**7,245**
Loans and advances to customers	33,394	321	1,100	3,515	1,817	**40,147**
Assets available for sale	384	51	131	1,265	22	**1,853**
Held to maturity investments	28	1	112	1,147	-	**1,288**
Equity investments in subsidiaries and associates	-	-	-	-	49	**49**
Intangible assets and goodwill	-	-	-	-	171	**171**
Property and equipment	-	-	-	-	1,431	**1,431**
Investment property	-	-	-	-	15	**15**
Other assets	2	-	7	-	327	**336**
Deferred tax assets	-	-	-	-	147	**147**
	48,941	**1,231**	**2,777**	**7,284**	**7,317**	**67,550**
Liabilities						
Due to banks	1,770	-	1	11	166	**1,948**
Due to customers	34,223	615	1,187	957	6,117	**43,099**
Derivative financial liabilities	38	-	-	-	-	**38**
Other borrowed funds	8,966	269	307	2,215	3	**11,760**
Debt securities issued	-	-	66	-	-	**66**
Other liabilities	-	-	-	-	1,621	**1,621**
Accruals and deferred income	-	-	-	-	163	**163**
Provisions for risks and charges	-	-	-	-	265	**265**
Liabilities for current tax	-	-	-	-	87	**87**
	44,997	**884**	**1,561**	**3,183**	**8,422**	**59,047**
Interest sensitivity gap	**3,944**	**347**	**1,216**	**4,101**	**(1,105)**	**8,503**

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

BANK As at 31 December 2007	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	194	-	-	-	2,162	**2,356**
Balances with the Croatian National Bank	6,880	-	-	-	1,054	**7,934**
Financial assets at fair value through profit or loss	1,016	350	1,459	1,357	-	**4,182**
Derivative financial assets	33	-	-	-	-	**33**
Due from banks	6,235	488	-	-	3	**6,726**
Loans and advances to customers	32,067	286	948	2,702	433	**36,436**
Assets available for sale	358	-	-	105	19	**482**
Held to maturity investments	26	-	-	953	-	**979**
Equity investments in subsidiaries and associates	-	-	-	-	363	**363**
Intangible assets and goodwill	-	-	-	-	70	**70**
Property and equipment	-	-	-	-	900	**900**
Investment property	-	-	-	-	15	**15**
Other assets	-	-	-	-	158	**158**
Defferred tax assets	-	-	-	-	97	**97**
	46,809	**1,124**	**2,407**	**5,117**	**5,274**	**60,731**
Liabilities						
Due to banks	1,768	-	1	11	166	**1,946**
Due to customers	32,466	604	664	79	6,062	**39,875**
Derivative financial liabilities	38	-	-	-	-	**38**
Other borrowed funds	8,869	112	293	970	-	**10,244**
Other liabilities	-	-	-	-	415	**415**
Accruals and deferred income	-	-	-	-	79	**79**
Provisions for risks and charges	-	-	-	-	242	**242**
Liabilities for current tax	-	-	-	-	45	**45**
	43,141	**716**	**958**	**1,060**	**7,009**	**52,884**
Interest sensitivity gap	**3,668**	**408**	**1,449**	**4,057**	**(1,735)**	**7,847**

42 | Weighted average interest rates

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

	GROUP	GROUP	BANK	BANK
	Weighted average interest rate	Weighted average interest rate	Weighted average interest rate	Weighted average interest rate
	2008 (%)	2007 (%)	2008 (%)	2007 (%)
Cash reserves	0.85	0.87	0.86	0.86
Balances with the Croatian National Bank	0.89	1.14	0.88	1.13
Securities held for trading	4.85	4.04	5.00	3.92
Due from banks	3.90	4.37	3.95	4.43
Loans and advances to customers	7.44	6.94	7.53	6.91
Public debt due from the Republic of Croatia	5.00	5.00	5.00	5.00
Replacement bonds	5.00	5.00	5.00	5.00
Due to customers	3.20	2.88	3.18	2.85
Other borrowed funds	4.73	4.22	5.08	4.30

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

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 2008	EUR	CHF	USD	Other currencies	HRK	Total
Assets						
Cash and current accounts with other banks	603	57	357	40	1,690	**2,747**
Balances with the Croatian National Bank	21	-	1,390	-	3,185	**4,596**
Financial assets at fair value through profit or loss	1,015	-	9	-	2,483	**3,507**
Derivative financial assets	-	-	-	-	24	**24**
Due from banks	6,580	16	125	272	392	**7,385**
Loans and advances to customers	19,972	5,011	419	4	16,309	**41,715**
Assets available for sale	965	-	50	8	307	**1,330**
Held to maturity investments	765	-	-	-	28	**793**
Equity investments in subsidiaries and associates	-	-	-	-	373	**373**
Intangible assets and goodwill	-	-	-	-	72	**72**
Property and equipment	-	-	-	-	897	**897**
Investment property	-	-	-	-	14	**14**
Other assets	3	-	-	-	119	**122**
Deferred tax assets	-	-	-	-	165	**165**
	29,924	**5,084**	**2,350**	**324**	**26,058**	**63,740**
Liabilities						
Due to banks	988	9	33	11	2,752	**3,793**
Due to customers	23,589	297	2,460	294	14,295	**40,935**
Derivative financial liabilities	-	-	-	-	202	**202**
Other borrowed funds	6,134	739	134	6	2,083	**9,096**
Other liabilities	55	9	20	2	349	**435**
Accruals and deferred income	4	-	-	-	70	**74**
Provisions for risks and charges	2	-	11	-	231	**244**
Liabilities for current tax	-	-	-	-	91	**91**
	30,772	**1,054**	**2,658**	**313**	**20,073**	**54,870**
Net on-balance sheet position	**(848)**	**4,030**	**(308)**	**11**	**5,985**	**8,870**

43 | Currency risk / continued (in HRK million)

GROUP As at 31 December 2007	EUR	CHF	USD	Other currencies	HRK	Total
Assets						
Cash and current accounts with other banks	540	30	52	38	1,811	**2,471**
Balances with the Croatian National Bank	2,911	-	-	-	5,283	**8,194**
Financial instruments at fair value through profit and loss	1,288	-	73	25	2,784	**4,170**
Derivative financial instruments	-	-	-	-	33	**33**
Due from banks	4,675	22	1,800	303	445	**7,245**
Loans and advances to customers	17,687	5,141	342	19	16,958	**40,147**
Assets available for sale	1,134	-	64	127	528	**1,853**
Held to maturity investments	1,260	-	-	-	28	**1,288**
Equity investments in subsidiaries and associates	2	-	-	-	47	**49**
Intangible assets	-	-	-	-	171	**171**
Property and equipment	-	-	-	-	1,431	**1,431**
Investment property	-	-	-	-	15	**15**
Other assets	15	1	2	1	317	**336**
Deferred tax assets	-	-	-	-	147	**147**
	29,512	**5,194**	**2,333**	**513**	**29,998**	**67,550**
Liabilities						
Due to banks	201	16	27	27	1,677	**1,948**
Due to customers	24,738	351	1,989	299	15,722	**43,099**
Derivative financial liabilities	-	-	-	-	38	**38**
Other borrowed funds	8,249	23	221	11	3,256	**11,760**
Debt securities issued	-	-	-	-	66	**66**
Other liabilities	400	10	7	10	1,194	**1,621**
Accruals and deferred income	5	-	-	-	158	**163**
Provisions for risks and charges	10	-	10	2	243	**265**
Liabilities for current tax	-	-	-	-	87	**87**
	33,603	**400**	**2,254**	**349**	**22,441**	**59,047**
Net on-balance sheet position	**(4,091)**	**4,794**	**79**	**164**	**7,557**	**8,503**

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

BANK As at 31 December 2007	EUR	CHF	USD	Other currencies	HRK	Total
Assets						
Cash and current accounts with other banks	430	27	51	34	1,814	**2,356**
Balances with the Croatian National Bank	2,848	-	-	-	5,086	**7,934**
Financial assets at fair value through profit or loss	1,288	-	73	25	2,796	**4,182**
Derivative financial assets	-	-	-	-	33	**33**
Due from banks	4,137	20	1,789	299	481	**6,726**
Loans and advances to customers	15,181	5,090	342	10	15,813	**36,436**
Assets available for sale	19	-	64	127	272	**482**
Held to maturity investments	954	-	-	-	25	**979**
Equity investments in subsidiaries and associates	-	-	-	-	363	**363**
Intangible assets and goodwill	-	-	-	-	70	**70**
Property and equipment	-	-	-	-	900	**900**
Investment property	-	-	-	-	15	**15**
Other assets	13	1	1	-	143	**158**
Deferred tax assets	-	-	-	-	97	**97**
	24,870	**5,138**	**2,320**	**495**	**27,908**	**60,731**
Liabilities						
Due to banks	201	16	27	27	1,675	**1,946**
Due to customers	22,112	313	1,977	292	15,181	**39,875**
Derivative financial liabilities	-	-	-	-	38	**38**
Other borrowed funds	6,697	4	221	11	3,311	**10,244**
Other liabilities	53	10	13	2	337	**415**
Accruals and deferred income	5	-	-	-	74	**79**
Provisions for risks and charges	10	-	10	2	220	**242**
Liabilities for current tax	-	-	-	-	45	**45**
	29,078	**343**	**2,248**	**334**	**20,881**	**52,884**
Net on-balance sheet position	**(4,208)**	**4,795**	**72**	**161**	**7,027**	**7,847**

44 | Liquidity risk (in HRK million)

The tables below summarises the maturity profile of the Group's and the Bank's assets and liabilities at 31 December 2008 and 31 December 2007 based on contractual discounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately but taking into account the notice period. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the tables do not reflect the present value of expected cash flows indicated by the Group's deposit retention history.

GROUP **As at 31 December 2008**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with other banks	2,973	-	-	-	-	**2,973**
Balances with the Croatian National Bank	1,563	806	1,617	694	135	**4,815**
Financial assets at fair value through profit or loss	126	96	1,672	1,003	610	**3,507**
Derivative financial assets	24	-	-	-	-	**24**
Due from banks	7,248	81	91	362	52	**7,834**
Loans and advances to customers	5,166	2,751	7,418	17,931	12,766	**46,032**
Assets available for sale	254	148	414	874	1,009	**2,699**
Held to maturity investments	21	4	48	833	202	**1,108**
Equity investments in subsidiaries and associates	-	-	-	-	56	**56**
Intangible assets and goodwill	-	-	1	29	141	**171**
Property and equipment	2	4	14	131	1,305	**1,456**
Investment property	-	-	-	-	14	**14**
Other assets	239	-	33	4	36	**312**
Deferred tax assets	211	-	2	8	5	**226**
	17,827	**3,890**	**11,310**	**21,869**	**16,331**	**71,227**
Liabilities						
Due to banks	3,566	-	-	1	81	**3,648**
Due to customers	18,584	2,529	11,760	11,597	121	**44,591**
Derivative financial liabilities	202	-	-	-	-	**202**
Other borrowed funds	1,468	298	2,882	5,447	825	**10,920**
Other liabilities	1,607	14	12	-	-	**1,633**
Accruals and deferred income	191	1	9	33	-	**234**
Provisions for risks and charges	99	1	8	9	153	**270**
Current tax liabilities	118	-	-	-	-	**118**
	25,835	**2,843**	**14,671**	**17,087**	**1,180**	**61,616**
Net liquidity gap	**(8,008)**	**1,047**	**(3,361)**	**4,782**	**15,151**	**9,611**

44 | Liquidity risk / continued (in HRK million)

BANK As at 31 December 2008	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with other banks	2,747	-	-	-	-	**2,747**
Balances with the Croatian National Bank	1,474	780	1,568	639	135	**4,596**
Financial assets at fair value through profit or loss	126	96	1,672	1,003	610	**3,507**
Derivative financial assets	24	-	-	-	-	**24**
Due from banks	6,801	81	91	360	52	**7,385**
Loans and advances to customers	3,501	2,593	6,905	16,632	12,084	**41,715**
Assets available for sale	211	122	297	419	281	**1,330**
Held to maturity investments	21	-	-	772	-	**793**
Equity investments in subsidiaries and associates	-	-	-	-	373	**373**
Intangible assets and goodwill	-	-	-	-	72	**72**
Property and equipment	-	-	-	-	897	**897**
Investment property	-	-	-	-	14	**14**
Other assets	122	-	-	-	-	**122**
Deferred tax assets	165	-	-	-	-	**165**
	15,192	**3,672**	**10,533**	**19,825**	**14,518**	**63,740**
Liabilities						
Due to banks	3,712	-	-	1	80	**3,793**
Due to customers	17,347	2,193	10,767	10,543	85	**40,935**
Derivative financial liabilities	202	-	-	-	-	**202**
Other borrowed funds	1,516	283	2,494	3,996	807	**9,096**
Other liabilities	435	-	-	-	-	**435**
Accruals and deferred income	74	-	-	-	-	**74**
Provisions for risks and charges	93	1	2	1	147	**244**
Current tax liabiliites	91	-	-	-	-	**91**
	23,470	**2,447**	**13,263**	**14,541**	**1,119**	**54,870**
Net liquidity gap	**(8,278)**	**1,225**	**(2,730)**	**5,284**	**13,404**	**8,870**

44| Liquidity risk / continued (in HRK million)

GROUP As at 31 December 2007	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with other banks	2,471	-	-	-	-	**2,471**
Balances with the Croatian National Bank	5,357	674	1,182	665	316	**8,194**
Financial assets at fair value through profit or loss	713	350	1,424	595	1,088	**4,170**
Derivative financial assets	33	-	-	-	-	**33**
Due from banks	6,173	526	136	332	78	**7,245**
Loans and advances to customers	5,502	1,562	6,272	14,828	11,983	**40,147**
Assets available for sale	338	26	145	588	756	**1,853**
Held to maturity investments	3	1	112	955	217	**1,288**
Equity investments in subsidiaries and associates	-	-	-	-	49	**49**
Intangible assets and goodwill	-	-	-	29	142	**171**
Property and equipment	-	-	-	302	1,129	**1,431**
Investment property	-	-	-	-	15	**15**
Other assets	276	16	43	1	-	**336**
Deferred tax assets	137	-	1	3	6	**147**
	21,003	**3,155**	**9,315**	**18,298**	**15,779**	**67,550**
Liabilities						
Due to banks	1,835	-	1	1	111	**1,948**
Due to customers	25,707	5,629	9,780	1,257	726	**43,099**
Derivative financial liabilities	38	-	-	-	-	**38**
Other borrowed funds	2,692	330	1,476	6,631	631	**11,760**
Debt securities issued	-	-	66	-	-	**66**
Other liabilities	1,583	5	22	11	-	**1,621**
Accruals and deferred income	120	3	39	1	-	**163**
Provisions for risks and charges	241	5	12	1	6	**265**
Current tax liabilities	87	-	-	-	-	**87**
	32,303	**5,972**	**11,396**	**7,902**	**1,474**	**59,047**
Net liquidity gap	**(11,300)**	**(2,817)**	**(2,081)**	**10,396**	**14,305**	**8,503**

44 | Liquidity risk / continued (in HRK million)

BANK **As at 31 December 2007**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with other banks	2,356	-	-	-	-	**2,356**
Balances with the Croatian National Bank	5,223	643	1,130	622	316	**7,934**
Financial assets at fair value through profit or loss	689	350	1,424	595	1,124	**4,182**
Derivative financial assets	33	-	-	-	-	**33**
Due from banks	5,678	506	133	331	78	**6,726**
Loans and advances to customers	4,065	1,437	5,820	13,838	11,276	**36,436**
Assets available for sale	298	-	-	79	105	**482**
Held to maturity investments	-	-	-	953	26	**979**
Equity investments in subsidiaries and associates	-	-	-	-	363	**363**
Intangible assets and goodwill	-	-	-	-	70	**70**
Property and equipment	-	-	-	-	900	**900**
Investment property	-	-	-	-	15	**15**
Other assets	158	-	-	-	-	**158**
Deferred tax assets	97	-	-	-	-	**97**
	18,597	**2,936**	**8,507**	**16,418**	**14,273**	**60,731**
Liabilities						
Due to banks	1,833	-	1	1	111	**1,946**
Due to customers	24,915	5,359	8,815	104	682	**39,875**
Derivative financial liabilities	38	-	-	-	-	**38**
Other borrowed funds	2,841	309	1,239	5,236	619	**10,244**
Other liabilities	415	-	-	-	-	**415**
Accruals and deferred income	79	-	-	-	-	**79**
Provisions for risks and charges	233	4	5	-	-	**242**
Current tax liabilities	45	-	-	-	-	**45**
	30,399	**5,672**	**10,060**	**5,341**	**1,412**	**52,884**
Net liquidity gap	**(11,802)**	**(2,736)**	**(1,553)**	**11,077**	**12,861**	**7,847**

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

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

	GROUP			BANK		
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
As at 31 December 2008						
Geographic region						
Republic of Croatia	62,864	46,806	13,944	55,883	41,752	13,632
European Union	7,183	12,697	510	6,734	11,034	510
Other countries	1,180	2,113	101	1,123	2,085	94
	71,227	**61,616**	**14,555**	**63,740**	**54,870**	**14,236**
Industry sector						
Citizens	26,039	32,843	6,341	23,347	29,489	6,217
Finance	12,151	6,476	38	11,981	5,036	33
Government	10,288	2,271	920	8,530	2,239	895
Commerce	3,858	1,265	1,129	3,275	1,187	1,087
Tourism	1,168	200	10	1,096	193	9
Agriculture	939	64	45	853	60	44
Other sectors	16,784	18,497	6,072	14,658	16,666	5,951
	71,227	**61,616**	**14,555**	**63,740**	**54,870**	**14,236**
As at 31 December 2007						
Geographic region						
Republic of Croatia	58,719	46,752	14,371	53,203	42,296	14,069
European Union	7,835	10,420	98	6,641	8,725	98
Other countries	996	1,875	75	887	1,863	68
	67,550	**59,047**	**14,544**	**60,731**	**52,884**	**14,235**
Industry sector						
Citizens	23,932	29,359	6,609	21,555	26,658	6,505
Finance	15,227	8,234	19	14,660	6,941	10
Government	6,860	1,757	984	5,171	1,729	959
Commerce	3,276	1,194	1,223	2,768	1,124	1,180
Tourism	1,107	233	27	1,044	225	27
Agriculture	694	64	53	625	61	51
Other sectors	16,454	18,206	5,629	14,908	16,146	5,503
	67,550	**59,047**	**14,544**	**60,731**	**52,884**	**14,235**

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 19,013,635 (2007: 19,030,381).

47 | Subsequent events

We draw your attention to subsequent changes in regulatory framework in Croatia regarding capital requirements (explained in note 38) and regarding liquidity ratios (explained in note 37).

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 prepared in accordance with IFRS and presented on pages 64 to 69. 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 balance sheet, income statement changes in equity as well as the cash flow statement is disclosed in the financial statements of the Bank prepared in accordance with IFRS.

Form "Balance sheet" (in HRK million) **BANK**

	31 December 2008	31 December 2007
Assets		
1. Cash and deposits with the Croatian National Bank	**6,984**	**8,803**
1.1. Cash	1,409	1,076
1.2. Deposits with the Croatian National Bank	5,575	7,727
2. Deposits due from banks	6,818	5,855
3. Ministry of Finance treasury bills and the Croatian National Bank bills of exhange	1,744	2,782
4. Financial instruments held for trading	1,475	2,614
5. Assets available for sale	1,306	479
6. Held to maturity investments	772	953
7. Financial instruments designated at fair value through profit or loss	218	-
8. Derivative financial instruments	24	33
9. Loans to financial institutions	914	1,049
10. Loans to customers	41,525	36,283
11. Equity investments in subsidiaries and associates	373	363
12. Collaterals received in satisfaction of non-performing loans	13	41
13. Property and equipment	897	900
14. Interests, fees and other assets	677	576
A. Total assets	**63,740**	**60,731**

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

	BANK	
	31 December 2008	31 December 2007
Liabilities		
1. Loans to banks	**8,998**	**10,077**
1.1. Short term loans	1,697	2,772
1.2. Long term loans	7,301	7,305
2. Deposits	**44,358**	**41,499**
2.1. Giro and current accounts	8,227	7,897
2.2. Savings deposits	5,939	5,935
2.3. Term deposits	30,192	27,667
3. Other loans	**60**	**130**
3.1. Short term loans	-	37
3.2. Long term loans	60	93
4. Derivative financial instruments	202	38
5. Debt securities issued	-	-
5.1. Short term securities	-	-
5.2. Long term securities	-	-
6. Subordinated instruments issued	-	-
7. Hybrid instruments issued	-	-
8. Interests, fees and other liabilities	1,252	1,140
B. Total liabilities	**54,870**	**52,884**
Equity attributable to equity holders of the parent		
1. Share capital	1,907	1,907
2. Net profit for the year	1,100	932
3. Retained earnings	3,738	2,851
4. Legal reserves	130	130
5. Other reserves	2,032	2,004
6. Unrealised gain/(loss) from revaluation of financial assets available for sale	(37)	23
C. Total shareholders' equity	**8,870**	**7,847**
D. Total liabilities and shareholders' equity	**63,740**	**60,731**

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

Reconciliation between information provided in the Form "Balance sheet" prepared in accordance with the By-law and the Balance sheet presented in the financial statements of the Bank prepared in accordance with IFRS as at 31 December 2008.

Balance sheet reconciliation as at 31 December 2008 (in HRK million)

	Decision of CNB	Annual report	Differences
Assets			
Cash and deposits with the Croatian National Bank	6,984	-	6,984
- cash	1,409	-	1,409
- deposits at the Croatian National Bank	5,575	-	5,575
Cash and current accounts with other banks	-	2,747	(2,747)
Balances with the Croatian National Bank	-	4,596	(4,596)
Deposits due from banks	6,818	-	6,818
Due from banks	-	7,385	(7,385)
Ministry of Finance treasury bills and the Croatian National Bank bills of exhange	1,744	-	1,744
Financial assets at fair value through profit or loss	-	3,507	(3,507)
Financial instruments held for trading	1,475	-	1,475
Assets available for sale	1,306	1,330	(24)
Held to maturity investments	772	793	(21)
Financial instruments designated at fair value through profit and loss	218	-	218
Derivative financial instruments	24	24	-
Loans to financial institutions	914	-	914
Loans to customers	41,525	41,715	(190)
Equity investments in subsidiaries and associates	373	373	-
Collaterals received in satisfaction of non-performing loans	13	-	13
Intangible assets and goodwill	-	72	(72)
Investment property	-	14	(14)
Property and equipment	897	897	-
Other assets	-	122	(122)
Interests, fees and other assets	677	-	677
Deferred tax assets	-	165	(165)
Total assets	**63,740**	**63,740**	**-**

Balance sheet reconciliation as at 31 December 2008 / continued (in HRK million)

	Decision of CNB	Annual report	Differences
Liabilities			
Loans from banks	8,998	-	8,998
- short term loans	1,697	-	1,697
- long term loans	7,301	-	7,301
Other borrowed funds	-	9,096	(9,096)
Deposits	44,358	-	44,358
- giro and current accounts	8,227	-	8,227
- savings deposits	5,939	-	5,939
- term deposits	30,192	-	30,192
Due to banks	-	3,793	(3,793)
Due to customers	-	40,935	(40,935)
Other loans	60	-	60
- long term loans	60	-	60
Derivative financial instruments	202	202	-
Interests, fees and other liabilities	1,252	-	1,252
Accruals and deferred income	-	74	(74)
Provisions for risks and charges	-	244	(244)
Other liabilities	-	435	(435)
Current tax liabilities	-	91	(91)
Total liabilities	**54,870**	**54,870**	**-**
Equity attributable to equity holders of the parent			
Share capital	1,907	1,907	-
Treasury shares	-	(76)	76
Net profit for the year	1,100	1,100	-
Share premium	-	1,570	(1,570)
Retained earnings	3,738	-	3,738
Legal reserves	130	-	130
Other reserves	2,032	-	2,032
Reserves and retained earnings	-	4,369	(4,369)
Unrealised gain/(loss) from available for sale revaluation	(37)	-	(37)
Total shareholders' equity	**8,870**	**8,870**	**-**
Total liabilities and shareholders' equity	**63,740**	**63,740**	**-**

Appendix 1 - Supplementary forms required by local regulation | continued

Balance sheet reconciliation as at 31 December 2008 / continued

The differences between the balance sheet positions disclosed in the Annual report, and those according to the CNB decision 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)

	2008	BANK 2007
1. Interest income	3,796	3,274
2. (Interest expense)	(1,855)	(1,577)
3. Net interest income	**1,941**	**1,697**
4. Fee and commission income	607	591
5. (Fee and commission expense)	(222)	(212)
6. Net fee and commission income	**385**	**379**
7. Gain/(loss) from investments in subsidiaries, associates and joint ventures	20	-
8. Gain/(loss) from trading activities	(117)	5
9. Gain/(loss) from embedded derivatives	-	-
10. Gain/(loss) from assets designated at fair value through profit or loss	(18)	-
11. Gain/(loss) from assets available for sale	62	21
12. Gain/(loss) from assets held to maturity	-	-
13. Gain/(loss) from hedging activities	-	-
14. Income arising from investments accounted by net equity method	-	-
15. Income from other equity investments	-	-
16. Gain/(loss) from foreign exchange rate fluctuations on cash held	245	211
17. Other operating income	256	161
18. (Other operating expenses)	(63)	(59)
19. (General administrative expenses and depreciation)	(1,281)	(1,214)
20. Net Operating income	**1,430**	**1,201**
21. (Provisions)	(98)	(54)
22. Profit before income taxes	**1,332**	**1,147**
23. (Income taxes)	(232)	(215)
24. Net profit for the year	**1,100**	**932**

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

These financial statements were signed on behalf of the Management Board on 11 February 2009.

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

Gabriele Pace
Chief financial officer

Appendix 1 - Supplementary forms required by local regulation | continued

Reconciliation between the information provided in the Form "Income statement " prepared in accordance with the By-law and the Income statement presented in the financial statements of the Bank prepared in accordance with IFRS.

Income statement reconciliation as at 31 December 2008 (in HRK million)

	Decision of CNB	Annual report	Differences
Interest income	3,796	3,796	-
(Interest expense)	(1,855)	(1,855)	-
Net interest income	**1,941**	**1,941**	**-**
Fee and commission income	607	607	-
(Fee and commission expense)	(222)	(222)	-
Net fee and commission income	**385**	**385**	**-**
Gain/(loss) from investments in subsidiaries, associates, joint ventures	20	-	20
Gain/(loss) from trading activities	(117)	-	(117)
Gain/(loss) from assets designated at fair value through profit or loss	(18)	-	(18)
Gain/(loss) from assets available for sale	62	-	62
Gain/(loss) from foreign exchange rates	245	-	245
Other operating income	256	448	(192)
(Other operating expenses)	(63)	(1,180)	1,117
(Depreciation and amortisation of property and equipment and intangible assets)	-	(164)	164
(General administrative expenses and depreciation)	(1,281)	-	(1,281)
Provisions	(98)	(98)	-
Profit before income taxes	**1,332**	**1,332**	**-**
Income taxes	(232)	(232)	-
Net profit for the year	**1,100**	**1,100**	**-**

The differences between the income statement positions disclosed in the Annual report, and those compared to the CNB decision are as follows:

Other operating income from the Annual reports 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)

	BANK 2008	2007
Cash flow from operating activities		
1.1. Profit before tax	1,332	1,147
1.2. Provisions for bad and doubtful debts and other provisions	98	54
1.3. Depreciation and amortization	164	162
1.4. Unrealised (gains)/losses on securities at fair value through profit or loss	76	(6)
1.5. (Gains)/losses from sale of property and equipment	(33)	6
1.6. Other (gains)/losses	(33)	(110)
1. Cash flows from operating activities before changes in operating assets	**1,604**	**1,253**
2.1. Deposits with Croatian National Bank	2,046	406
2.2. Ministry of Finance treasury bills and Croatian National Bank bills of exhange	1,038	(1,608)
2.3. Deposits due from banks and loans to financial institutions	(10)	233
2.4. Loans and advances to customers, net of write-offs	(5,305)	(2,835)
2.5. Financial instruments held for trading	1,081	(759)
2.6. Assets available for sale	(926)	(335)
2.7. Financial instruments designated at fair value through profit and loss	(236)	-
2.8. Other operating assets	(15)	(11)
2. Net (Increase)/decrease in operating assets	**(2,327)**	**(4,909)**
Increase/(decrease) in operating liabilities		
3.1. A vista deposits	330	1,136
3.2. Savings and term deposits	2,529	2,649
3.3. Derivative financial liabilities and other trading liabilities	-	(735)
3.4. Other liabilities	32	(180)
3. Net Increase/(decrease) in operating liabilities	**2,891**	**2,870**
4. Net cash flow from operating activities before income taxes paid	**2,168**	**(786)**
5. (Income taxes paid)	(207)	(190)
6. Net cash inflows/(outflows) from operating activities	**1,961**	**(976)**

Appendix 1 - Supplementary forms required by local regulation | continued

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

		BANK
	2008	**2007**
Cash flow from operating activities		
7.1. Purchase of property and equipment and intangible assets	(147)	(140)
7.2. Sale/(Acquisition) of subsidiaries	10	(40)
7.3. Repayment of assets held to maturity	181	175
7.4. Dividends received	206	144
7.5. Other inflows/(outflows) from investing activities	-	-
7. Net cash flow from investing activities	**250**	**139**
Cash flows from financing activities		
8.1. Net increase/(decrease) in loans received	(1,149)	1,093
8.2. Net increase/(decrease) in issued securities	-	-
8.3. Hybrid and subordinated instruments	-	-
8.4. Additional paid in capital	-	-
8.5. (Dividends paid)	-	(190)
8.6. Other inflows/(outflows) from financing activities	(17)	(13)
8. Net cash flow from financing activities	**(1,166)**	**890**
9. Net increase/(decrease) in cash	**1,045**	**53**
10. Effect of exchange rate fluctuations on cash held	44	(20)
11. Net increase/(decrease) in cash	**1,089**	**33**
12. Cash and cash equivalents at the beginning of the year	8,540	8,507
13. Cash and cash equivalents at the end of the year	9,629	8,540

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	Total equity
BANK							
1. Balance at 1 January 2007	**1,907**	**(27)**	**1,801**	**2,567**	**847**	**19**	**7,114**
2. Changes in accounting policies and errors	-	-	-	-	-	-	-
3. Restated balance at 1 January 2007	**1,907**	**(27)**	**1,801**	**2,567**	**847**	**19**	**7,114**
4. Sale of available-for-sale financial investments	-	-	-	-	-	(18)	(18)
5. Fair value adjustment	-	-	-	-	-	28	28
6. Deferred tax	-	-	-	-	-	(6)	(6)
7. Other gains/(losses) recognised directly in equity	-	-	17	-	-	-	17
8. Total income and expense for the year recognised directly in equity	**-**	**-**	**17**	**-**	**-**	**4**	**21**
9. Net profit for the year	-	-	-	-	932	-	932
10. Total income and expense for the year	**-**	**-**	**17**	**-**	**932**	**4**	**953**
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-
12. (Purchase)/sale of treasury shares	-	(30)	-	-	-	-	(30)
13. Other movements	-	-	-	-	-	-	-
14. Transfer to reserves	-	-	367	290	(657)	-	-
15. Dividends paid	-	-	-	-	(190)	-	(190)
16. Distribution of profit	**-**	**-**	**367**	**290**	**(847)**	**-**	**(190)**
17. Balance at 31 December 2007	**1,907**	**(57)**	**2,185**	**2,857**	**932**	**23**	**7,847**

Appendix 1 - Supplementary forms required by local regulation | continued

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	Total equity
BANK							
1. Balance at 1 January 2008	**1,907**	**(57)**	**2,185**	**2,857**	**932**	**23**	**7,847**
2. Changes in accounting policies and errors	-	-	-	-	-	-	-
3. Restated balance at 1 January 2008	**1,907**	**(57)**	**2,185**	**2,857**	**932**	**23**	**7,847**
4. Sale of available-for-sale financial investments	-	-	-	-	-	(31)	(31)
5. Fair value adjustment	-	-	-	-	-	(44)	(44)
6. Deferred tax	-	-	-	-	-	15	15
7. Other gains/(losses) recognised directly in equity	-	-	2	-	-	-	2
8. Total income and expense for the year recognised directly in equity	**-**	**-**	**2**	**-**	**-**	**(60)**	**(58)**
9. Net profit for the year	-	-	-	-	1,100	-	1,100
10. Total income and expense for the year	**-**	**-**	**2**	**-**	**1,100**	**(60)**	**1,042**
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-
12. (Purchase)/sale of treasury shares	-	(19)	-	-	-	-	(19)
13. Other movements	-	-	-	-	-	-	-
14. Transfer to reserves	-	-	51	881	(932)	-	-
15. Dividends paid	-	-	-	-	-	-	-
16. Distribution of profit	**-**	**-**	**51**	**881**	**(932)**	**-**	**-**
17. Balance at 31 December 2008	**1,907**	**(76)**	**2,238**	**3,738**	**1,100**	**(37)**	**8,870**

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 the 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 the 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	
	2008	**2007**	**2008**	**2007**
Interest income	585	494	526	446
Interest expense	(283)	(233)	(257)	(215)
Net interest income	**302**	**261**	**269**	**231**
Fee and commission income	188	177	84	80
Fee and commission expense	(36)	(32)	(31)	(29)
Net fee and commission income	**152**	**145**	**53**	**51**
Other operating income	57	58	62	55
Operating income	**511**	**464**	**384**	**337**
Provisions	(24)	(16)	(14)	(7)
Other operating expenses	(232)	(215)	(163)	(152)
Depreciation and amortisation of property and equipment and intangible assets	(40)	(37)	(23)	(22)
Share of the profit and loss accounted for using the equity method	2	1	-	-
Profit before income taxes	**217**	**197**	**184**	**156**
Income taxes	(44)	(41)	(32)	(29)
Net profit for the year	**173**	**156**	**152**	**127**
Attributable to:				
Equity holders of the parent	173	156	152	127
Minority interest	-	-	-	-
	173	**156**	**152**	**127**

The income statement items were translated from the measurement currency (HRK) to the Euro at the average exchange rates in 2008 (1 EUR = 7.223178 HRK) and in 2007 (1 EUR = 7.336019 HRK).

Appendix 2 - Supplementary financial statements in EUR (unaudited) | continued

Balance sheet (in EUR million)

	GROUP		BANK	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Assets				
Cash and current accounts with other banks	406	337	375	322
Balances with the Croatian National Bank	657	1,119	627	1,083
Financial assets at fair value through profit or loss	479	569	479	571
Derivative financial assets	3	5	3	5
Due from banks	1,070	989	1,008	918
Loans and advances to customers	6,285	5,481	5,695	4,974
Assets available for sale	368	253	182	66
Held to maturity investments	151	176	108	134
Equity investments in subsidiaries and associates	8	7	51	50
Intangible assets and goodwill	23	23	10	10
Property and equipment	199	188	122	116
Investment property	2	2	2	2
Other assets	43	53	17	29
Deferred tax assets	31	20	23	13
Total assets	**9,725**	**9,222**	**8,702**	**8,293**

The balance sheet items were translated from the measurement currency (HRK) to the Euro at the closing exchange rates as at 31 December 2008 (1 EUR = 7.324425 HRK) and as at 31 December 2007 (1 EUR = 7. 325131 HRK).

Balance sheet / continued (in EUR million)

	GROUP		BANK	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Liabilities				
Due to banks	498	266	518	266
Due to customers	6,088	5,883	5,589	5,443
Derivative financial liabilities	28	5	28	5
Other borrowed funds	1,491	1,605	1,242	1,398
Debt securities issued	-	9	-	-
Other liabilities	223	221	59	57
Accruals and deferred income	32	22	10	11
Provisions for risks and charges	37	36	33	33
Liabilities for current tax	16	12	12	6
Total liabilities	**8,413**	**8,059**	**7,491**	**7,219**
Equity attributable to equity holders of the parent				
Share capital	250	250	250	250
Treasury shares	(10)	(8)	(10)	(8)
Share premium	214	214	214	214
Reserves and retained earnings	687	548	607	491
Profit and loss attributable to equity holders of the parent entity	170	156	150	127
	1,311	1,160	1,211	1,074
Minority interests	1	3	-	-
Total shareholders' equity	**1,312**	**1,163**	**1,211**	**1,074**
Total liabilities and shareholders' equity	**9,725**	**9,222**	**8,702**	**8,293**

The balance sheet items were translated from the measurement currency (HRK) to the Euro at the closing exchange rates as at 31 December 2008 (1 EUR = 7.324425 HRK) and as at 31 December 2007 (1 EUR = 7.325131 HRK).

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