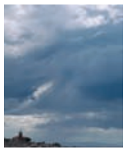
PRIVREDNA BANKA ZAGREB

Annual report 2005

PBZ, a Bank of Gruppo Banca Intesa

Savudrija, built in 1818, is the oldest Adriatic lighthouse and the most north-western lighthouse in Istria and all of Croatia. It is situated on a cape bearing the same name, 30 m from the sea, in the middle of a tourist zone.



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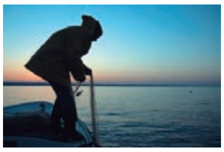
Sv. Ivan lighthouse, built in 1853, is located on the most distant islet of the small archipelago in front of Rovinj. Legend has it that a Venetian doge was navigating in the direction of Rovinj in unfavorable weather conditions. His crew spotted the dangerous cliffs of Sv. Ivan on time and changed their navigation route.



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, 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 2005 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 section 276 of the Companies Act, which requires the Management Board to report to shareholders of the company at the Annual General Meeting.

Abbreviations

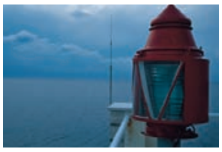
In this Annual Report, Privredna banka Zagreb d.d. is referred to as “the Bank” or “PBZ” or as “Privredna banka Zagreb”, and Privredna banka Zagreb d.d., together with its subsidiary undertakings are referred to collectively as “the Group” or “the Privredna banka Zagreb Group”.
The central bank, the 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 2005 have been used to translate balances in foreign currency on that date:

CHF 1=HRK 4.744388
USD 1=HRK 6.233626
EUR 1=HRK 7.375626

Porer lighthouse was built in 1833 on the islet of the same name, southwest of Istria´s southernmost cape of Kamenjak (where there are 530 specious of flora, of which 20 are orchids, besides one endemic orchid, there are two more endemic plants and several other plants that are endangered on the cape).The islet of Porer is an 80 m cliff, 2.5 km from the mainland and the place of Premantura.



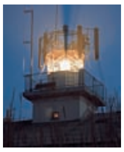
Five year summary and financial highlights

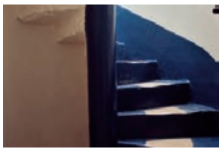
In HRK million

Group	2005	2004	2003	2002	2001
Income statement and balance sheet					
Total gross revenue	3,948	3,768	3,564	3,321	2,800
Net interest income	1,578	1,517	1,492	1,419	1,096
Net operating income	2,696	2,570	2,424	2,264	1,940
Net profit for the year	799	735	695	641	581
Total assets	50,619	43,799	42,441	34,917	31,473
Loans and advances to customers	28,631	24,025	23,387	19,147	13,167
Due to customers	32,378	29,917	27,497	25,905	23,757
Shareholders’ equity	4,812	4,286	3,790	3,280	2,891
Other data					
Return on average equity	17.78%	18.57%	19.65%	24.76%	24.77%
Return on average assets	1.71%	1.72%	1.77%	1.90%	2.16%
Assets per employee	12.1	11.1	11.3	9.5	8.5
Cost income ratio	57.49%	57.00%	56.93%	56.36%	56.96%

Bank	2005	2004	2003	2002	2001
Income statement and balance sheet					
Total gross revenue	3,343	3,138	2,777	2,606	2,230
Net interest income	1,427	1,354	1,268	1,012	754
Net operating income	2,151	2,008	1,767	1,684	1,480
Net profit for the year	752	678	575	530	517
Total assets	47,370	40,655	37,505	30,536	27,600
Loans and advances to customers	26,689	21,858	20,377	16,742	11,245
Due to customers	30,004	27,405	23,791	22,606	20,708
Shareholders’ equity	4,435	3,915	3,355	3,026	2,754
Other data					
Return on average equity	17.90%	18.70%	17.85%	21.52%	24.33%
Return on average assets	1.73%	1.74%	1.66%	1.80%	1.90%
Assets per employee	13.3	12.6	13.1	10.8	9.6
Cost income ratio	54.39%	52.99%	53.37%	53.86%	53.38%

The island Susak, unique in the whole of the Mediterranean, still keeps its secret well hidden. Who, when and how scattered a few million cubic meters of sand on a stone slab not larger than 4 square kilometers? Science has a number of explanations for this geo-morphological phenomenon, but cannot seem to decide which one is correct.





Report from the President of the Supervisory Board

For the past several years Privredna banka Zagreb has been adjusting its services to meet the changing needs of our clients and the financial environment by improving the quality of old traditional products, inventing new ones and strengthening the security of our operations. By doing this we want to achieve our overall business purpose: to help our customers achieve their goals. We hope thereby to create value for them and earn their loyalty. As a result of these efforts, PBZ is today a leading bank on the Croatian market with many satisfied clients.

As the figures show, 2005 was a year in which the PBZ Group continued to make good progress. The Group's profit after tax increased by 8.7 percent to a total of HRK 799 million. The Group's balance sheet reached HRK 50.6 billion. The return on average equity was 17.8 percent. Asset quality remained strong.

PBZ maintained its strong capital position with a capital adequacy ratio of 14.1 percent.

These are outstanding results for which the engagement of the whole Bank was needed. As well as facing Basel II and continued amendments to the International Financial Reporting Standards throughout the year, the Croatian banking industry had to comply with new legislative requirements, and with the restrictive measures of the Central bank's monetary policy. All these initiatives cause considerable strain on resources even for the largest financial institutions. This was accompanied by severe competition to please the customers, which was also reflected in the continued trend of shrinking interest spreads on the domestic market. The strong performance of the Bank in such an environment is even more to be praised.

Building on the profound transformation of the past years, characterised by growth, PBZ became a financially strong bank with a distinct portfolio of business, a strong capital base, a great brand, motivated staff and many loyal customers and clients in Croatia.

The main strategic partners, Gruppo Banca Intesa and the European Bank for Reconstruction and Development look forward to the future with confidence. PBZ will keep on profiting from the strong commitment of Banca Intesa to strengthen its regional presence in Central-Eastern and South East Europe and on the Croatian market.

In addition to the already existing triangle of PBZ, CIB (Hungary) and VUB (Slovakia), in 2005 two new banks joined the Banca Intesa Group's network in the region: Delta Banka, which was renamed shortly after to Banca Intesa Beograd (Serbia and Montenegro) and KMB Bank (Russia). In 2006 the network was enlarged by UPI Bank (Bosnia and Herzegovina).

The 2005 was a year of strong growth in Croatia. After the growth rate of 1.8 percent in the first quarter, GDP growth accelerated to 5.1 percent and 5.2 percent in the second and third quarters respectively. The expected GDP growth rate for 2005 is 4 percent, with inflation remaining low and stable.

The expectations are that the GDP growth will accelerate in 2006, public debt will stabilise and external imbalances will narrow. The government is dedicated to prepare the country fully for accession to the European Union by 2009. The fiscal consolidation and the structural reforms are supported by the growing volume of pre-accession funds from the EU. The shareholders are resoundingly confident about the future of the Croatian economy.

I would like to conclude by offering my sincere thanks to the committed and highly professional workforce of the PBZ Group for their highly valued contributions to these excellent results. I also wish to express my greatest appreciation for the work of the Management Board, and last but not least to thank my colleagues in the Supervisory Board, as well as the Audit Committee, for their wise counsel and contribution.

Respectfully

Dr. György Surányi

20 February 2006

Plocica lighthouse was built in 1887 under Austro-Hungarian Monarchy. It is placed on the island of the same name between the islands of Korcula and Hvar, and the Peljesac peninsula. The island was named after its interesting shape. Flat and low, it resembles a slate protruding out of the sea.

Report from the President of the Management Board

I am pleased to present to you the annual report and financial statements of Privredna banka Zagreb Group for the year ended 31 December 2005. The 2005 business results reflect the outstanding business performance of the PBZ Group on the Croatian market. Together with our strategic partners, Gruppo Banca Intesa and the European Bank for Reconstruction and Development, the PBZ Group maintained its strong position and the image of a conservative financial partner capable of offering comprehensive, first-class financial services in the country.

In the past year, we, again, demonstrated the strength and flexibility of our strategy. A combination of very good returns from previous investments and the continued strong pace of investments during 2005 signifies that we are in a good position to deliver profitable growth in the future.

Financial results

Compared to 2004, the financial results have substantially improved. In 2005, the PBZ Group recorded a net profit of HRK 799 million, which represents an increase of 8.7 percent. Return on average equity was 17.8 percent and return on average assets reached the very respectable level of 1.7 percent.

Earnings per share were increased by 8.8 percent, amounting to HRK 48.1 per share. Cost to income ratio, on the basis of the consolidated financial statements according to International Financial Reporting Standards, matched the level of previous years and stood at 57.5 percent, which shows that we managed costs carefully through the year and in line with our strategic plan.

The credit portfolio has continued to grow as a result of the Group`s intensified activities in retail lending and active support of corporate business activities, especially small and medium enterprises. This growth as well as placements in financial instruments led to the overall increase of the balance sheet of the PBZ Group of more than 15.5 percent.

The asset growth in the Group was supported by expansion of customers' deposits, whose increase in 2005 was largely due to retail deposits. Total deposits in 2005 rose by 8.2 percent. If we consider the total structure of the balance sheet, customer deposits account for 64 percent. With a base of more than 1.3 million clients, both corporate and private, the PBZ Group today is a modern and well-organised financial group whose market share, measured by the size of the balance sheet, stands at 19.2 percent. These results were achieved in an environment marked by strong competition among several banking groups which strengthened their market positions. Moreover, the overall lending environment was under fierce monetary pressure from the Croatian National Bank whose measures were aimed at curbing the growth of monetary aggregates and credits.

Within the Group, the most prominent results were those of Privredna banka Zagreb, which made a net profit of HRK 752 million, representing an increase of 74 million compared to the results for 2004. Such a result was achieved, among other things, due to the better performance of non-interest income, which constitutes one of the strategic objectives of Privredna banka Zagreb.

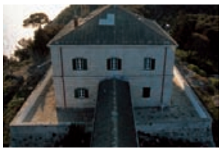
The main contributions to non-interest income came from higher net fees earned on credit card services and payment transaction. Furthermore, being a market leader in foreign exchange trading, with market share of more than 30 percent of total volume traded, PBZ managed to boost FX trading gain by more than 75 percent.

Quality of products and services

I am pleased 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 2006, is also based, among other concepts, on a stronger orientation towards banking with small and medium enterprises, which continue to be one of the main drivers of our growth. The new organisation reflects our overall desire of becoming a modern, client-oriented universal financial institution. Therefore, we must continue to innovate, constantly strengthening our professional team, from high to low management levels.

Moreover, Privredna banka Zagreb has always been the market leader in Croatia in the area of card operations and electronic distribution channels. As of January 2006, we concentrated all card brands under the management of one subsidiary of the PBZ Group. PBZ Card, formerly PBZ American Express, undertook all card operations of the Group, which, we believe, will be expanded to a higher

When the sun sets the sensors turn on the light. Light shows lost sailors the way. It was 1876 when Maria Theresa built lighthouse Sestrice. First they used petroleum and after years electriciy. Today the lighthouse runs automaticlly and is controlled from Split.



level using the long-term experience and innovation of the staff from former PBZ American Express. In that context, PBZ Card has become the leading card operations company in Croatia with combined sum of more than 2 million cards issued of the Visa, Maestro and American Express brands.

In 2005, we also initiated restructuring and modernisation of all supporting functions in the Bank as well as the internal systems of regional branches. Our goal is to create a more efficient and flexible structure of back offices to use fewer resources in this area and to strengthen the front line and thus pay better attention to the needs of our clients.

Having this in mind and being aware of the importance of the human factor in achieving the Bank's strategic goals, we improved the existing human resources management system which is based on continuous education. In 2005, special programs were designed for lower, middle and senior management as well as career planning and monitoring, and performance measurement activities. Although this work is still in progress, overall, I am pleased with the initial results.

We have devoted great attention to enhancing the Bank's technological base. We have invested heavily in infrastructure, risk management and analytical tools, as well as branch based technology. We have continued to expand our business network and renovate existing outlets in accordance with our recognisable visual identity. Therefore, in 2005, we opened or renovated 19 outlets on the Group level. We are looking for these investments to bear fruit in years to come. The best fruit, of course will be raising customer satisfaction and loyalty.

Awards

We are very pleased that our achievements were clearly recognised by the Croatian and international business community, which is reflected in many prestigious awards. For the second consecutive year, we received the Croatian Chamber of Commerce award for the Best Bank in Croatia. Moreover, we were named the Best Bank in Croatia by the world's well-known financial magazines, Euromoney and The Banker. These achievements oblige us to persist in the realisation of our strategic goals in the coming years.

Social responsibility

It is important for us to point out that business success is not only measured in the realisation of financial results but, in today's modern society, this also implies social responsibility and contributions to sustainable development. We have always been very active in this field. For a number of years, Privredna banka Zagreb has been developing a social responsibility programme which has recently been named PBZ Friend. We have been actively involved in many social-awareness projects through financial support of a number of humanitarian and social institutions. We have supported programmes in education and sports as well as numerous cultural institutions. In 2005, we donated 5.8 million kunas and took on sponsorships amounting to approximately 7.9 million kunas. Many other projects are under way in which we intend to invest in education and thus invest in the future of our society.

Conclusion

Finally, I would like to take this opportunity to express my gratitude to 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 hard work in 2005. 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 members of the Supervisory Board of the Bank for their most valuable cooperation and support.

Božo Prka, M.S.
President of the Management Board
20 February 2006

The lighthouse Stončica is placed on the north cape of the island of Vis and was built in the year of 1865. A lot of ancient maritime battles were fought in vicinity. The most important one took place just one year after it was built.

It was the battle among Austrian and Italian fleets.

Review of the Croatian economy in 2005

Following economic growth of 5.1 percent recorded in the second quarter of 2005, the third quarter brought the unexpectedly high growth rate of 5.2 percent, which is the highest recorded growth rate since the end of 2002. We expect a slight slow down of growth in the last quarter (in range of 3.8 to 4 percent), which will result in an annual economic growth rate for 2005 of approximately 4 percent.

The surprisingly high growth rate of the gross domestic product in the third quarter of 2005 came from fixed capital investments (5.8 percent) and exports of goods and services (4.9 percent). Personal consumption grew by 3.8 percent and public consumption by 1 percent, when compared to the same period in 2004. At the same time, imports of goods and services rose by 2.3 percent. Thus, in the total growth of 5.2 percent, final consumption (both personal and public) contributed with 2.1 percent, net foreign consumption 2.0 percent, while gross investments contributed with 1.1 percent.

GDP growth rates 1999-2005

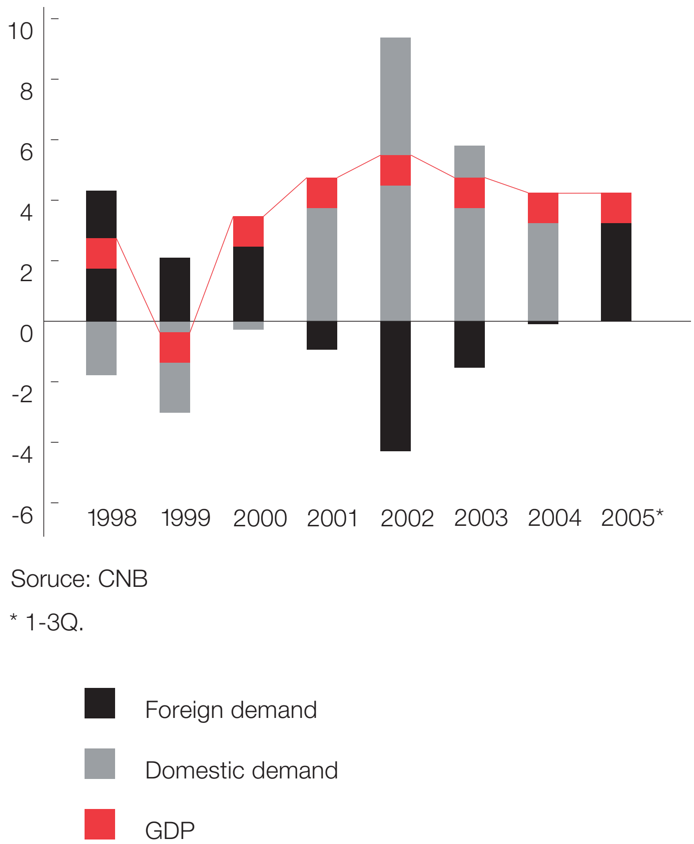
In %

Soruce: CBS

p - projections

Contributions of domestic and foreign demand to GDP growth

In %



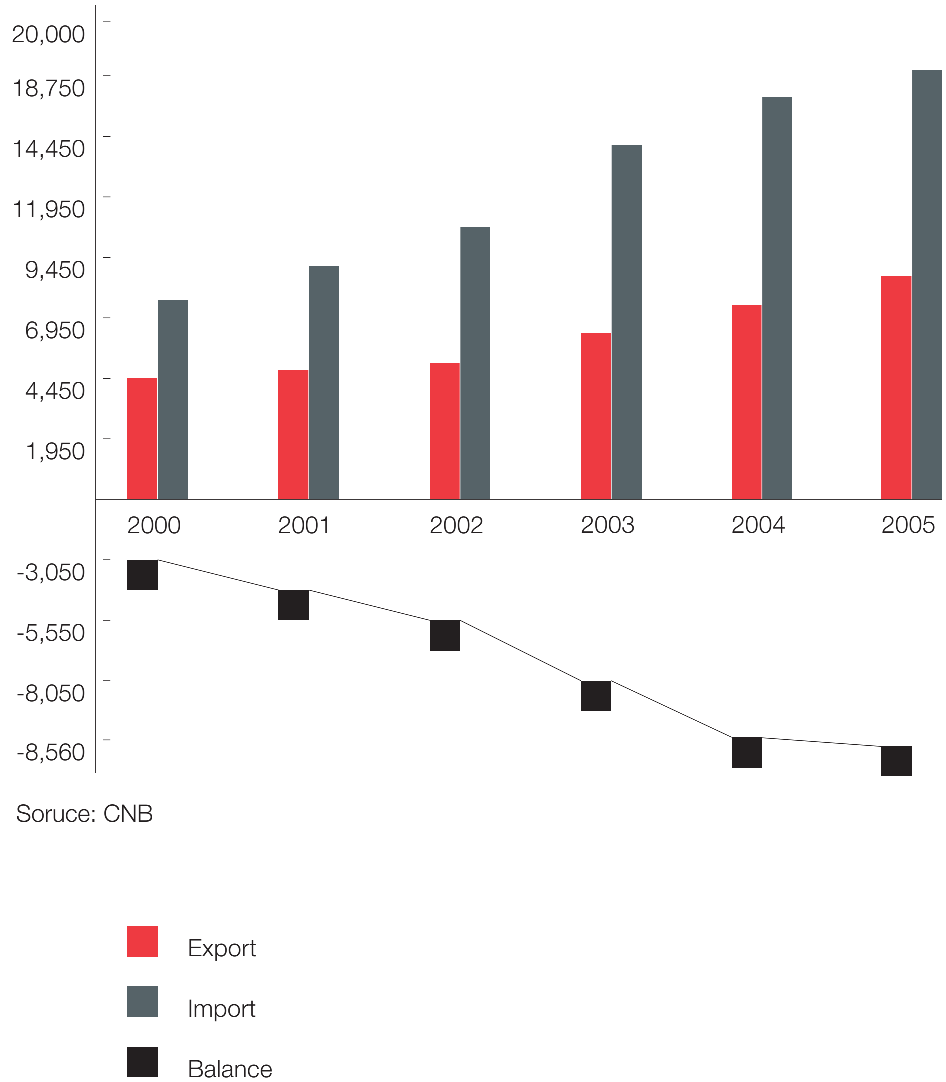
Soruce: CNB

* 1-3Q.

The increase of 13.8 percent on the current account surplus (to EUR 2.3 billion) in the third quarter of 2005 contributed to the decrease of the cumulative annual deficit from 7 percent, recorded at the end of the second quarter, to 5.9 percent. However, the trends of imports and exports in the last quarter of 2005 indicate that the annual current account deficit will be above 6 percent of GDP. Croatian exports in 2005 amounted USD 8.9 billion, 9.8 percent more than a year before, while imports in the same period reached USD 18.5 billion, which is growth of 11.8 percent compared to 2004. The trade deficit in 2005 thus reached USD 9.7 billion, which is USD 1.2 billion or 13.7 percent more than the deficit in 2004. Furthermore, the average 2005 coverage of imports by exports was lower than the year before and fell to 47.5 percent, mostly due to significant growth of imports in October 2005, combined with the decrease of exports in the same month.

Foreign trade

USD million

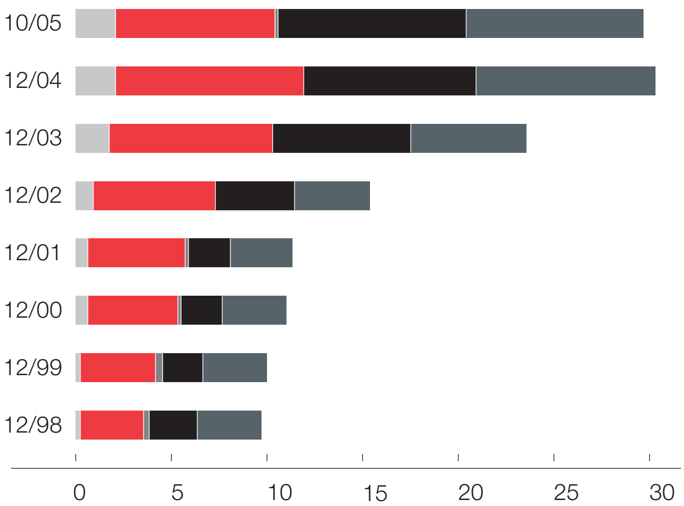


Soruce: CNB

The restrictive monetary policy stance continued in 2005. In February, marginal reserve requirement was increased from 24 to 30 percent. Another rise in marginal reserve to 40 percent took place in May, while the calculated foreign exchange part of the obligatory reserve placed in kunas was increased from 42 to 50 percent. CNB decided to adjust monetary instruments again at the end of 2005 and in the beginning of 2006. The rate of marginal reserve requirement was increased from 40 to 55 percent, while at the same time the obligatory reserve was decreased from 18 to 17 percent and the obligatory reserve placed in kunas increased from 50 to 70 percent.

External debt by debtors

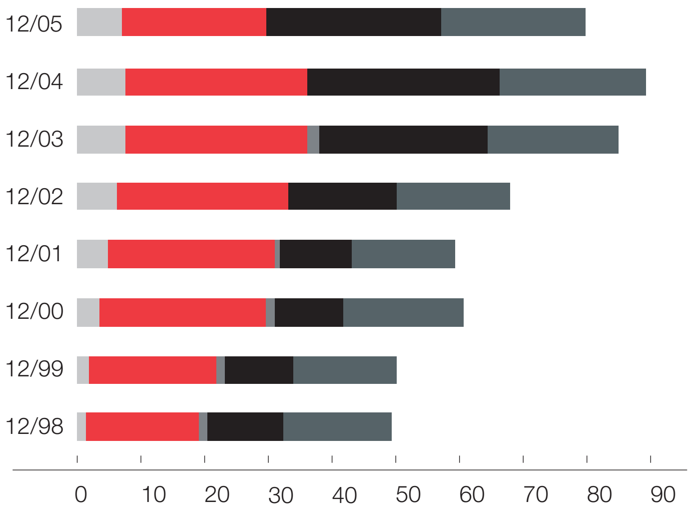
in USD bill.



Soruce: CNB

External debt by debtors in % of GDP

% of GDP



Soruce: CNB

Government

Banks

Other sectors

Croatian National Bank

Direct Investment

Government

Banks

Other sectors

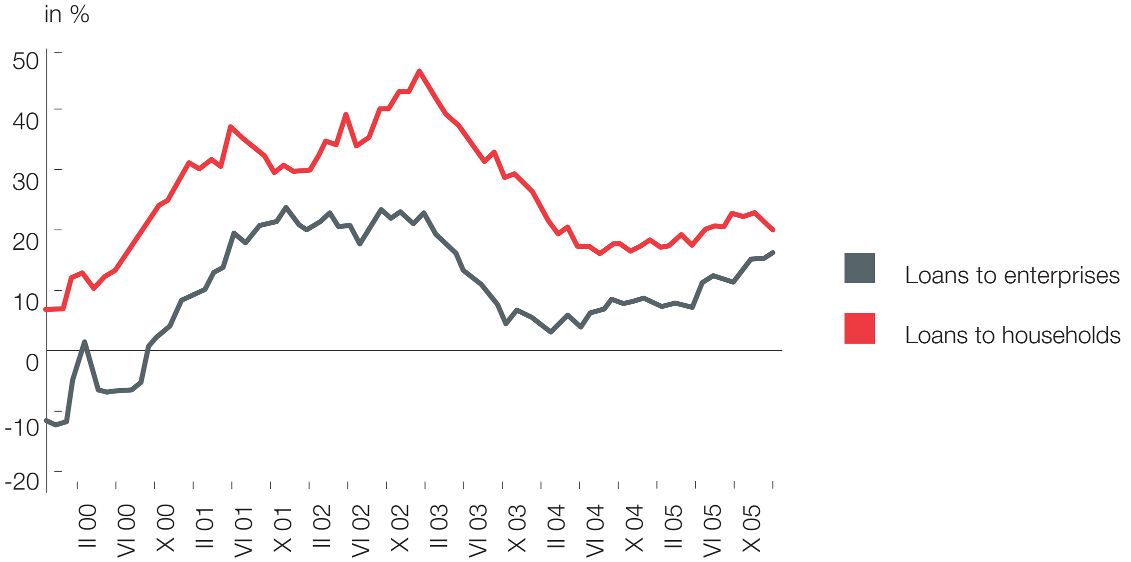
Croatian National Bank

Direct Investment

Total bank placements amounted to HRK 154.9 billion near the end of 2005, which represents an increase of more than 20 percent, or 26.2 billion kuna compared to the end of 2004. Total loans to enterprises and households grew by HRK 22 billion, compared to 2004 and stood at HRK 140.6 billion at the end of December. The growth rate of corporate loans was 16.3 percent, while retail loans grew by 20.3 percent. The trend of faster growth in retail loans was thus continued in 2005.

Total kuna demand and term bank deposits and foreign deposits at the end of 2005 amounted to HRK 114.8 billion, or 10.1 percent more than at the end of 2004. Kuna deposits, both term and demand, rose by 24.5 percent, while foreign exchange deposits grew at the lower rate of 6.1 percent in terms of kuna amounts. This was partly caused by the higher value of kuna at the end of 2005, compared to 2004.

Loans to enterprises and households year-on-year growth rates

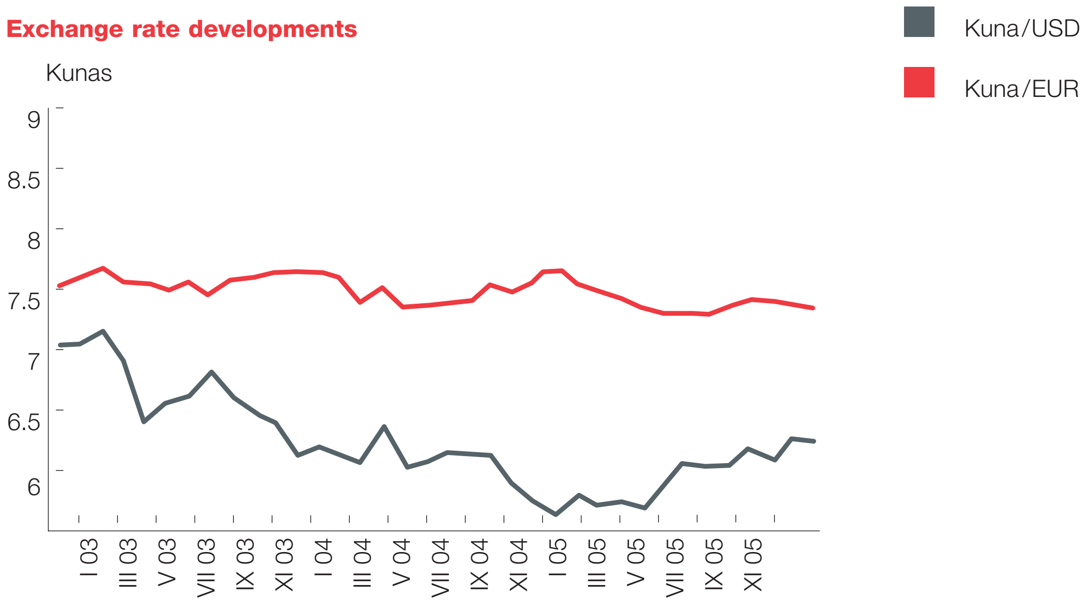


Soruce: CNB

The kuna exchange rate strengthened against the euro during the last year and stood at HRK 7.38 at the year end, or 3.9 percent less then at the end of 2004 when it amounted HRK 7.67 for one euro. At the same time, the strengthening of the dollar against the euro on the world market affected exchange rate of kuna against the dollar. Kuna weakened by 10.6 percent against the dollar due to the fall from HRK 5.64 at the end of 2004 to HRK 6.23 at the end of 2005.

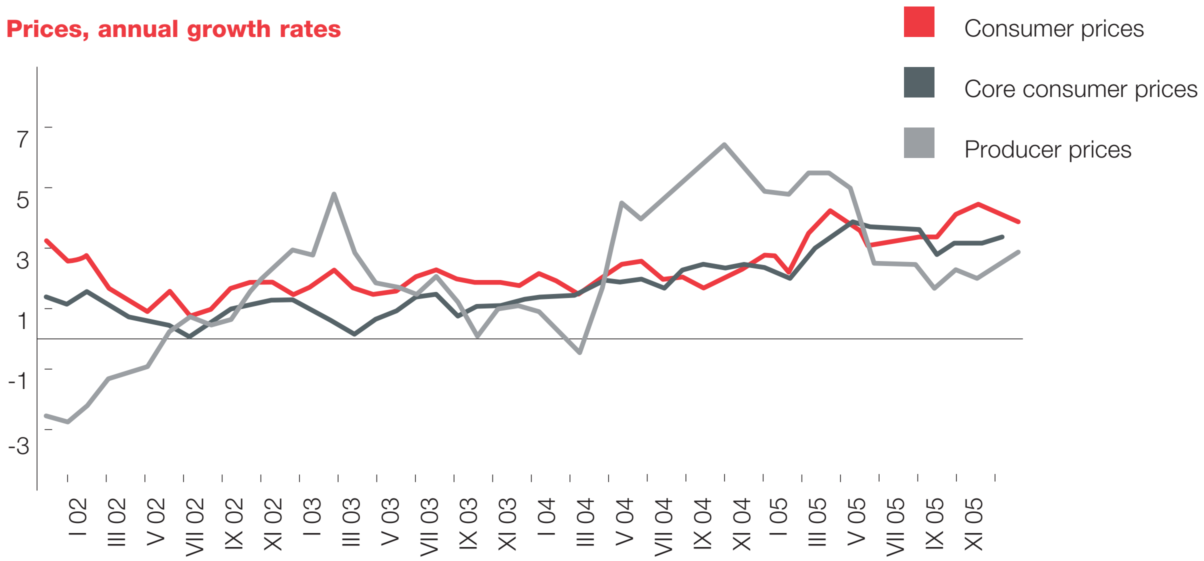
Prices of goods and services for personal consumption, measured by the core consumer price index, were 3.6 percent higher in December 2005 than in the same month of 2004. On the average annual level, this rise amounts to 3.3 percent. During 2005, the inflation rate was mainly influenced by external factors such as the increase in meat and agricultural prices on the Croatian market and oil prices on the world market.

Exchange rate developments



Soruce: CNB

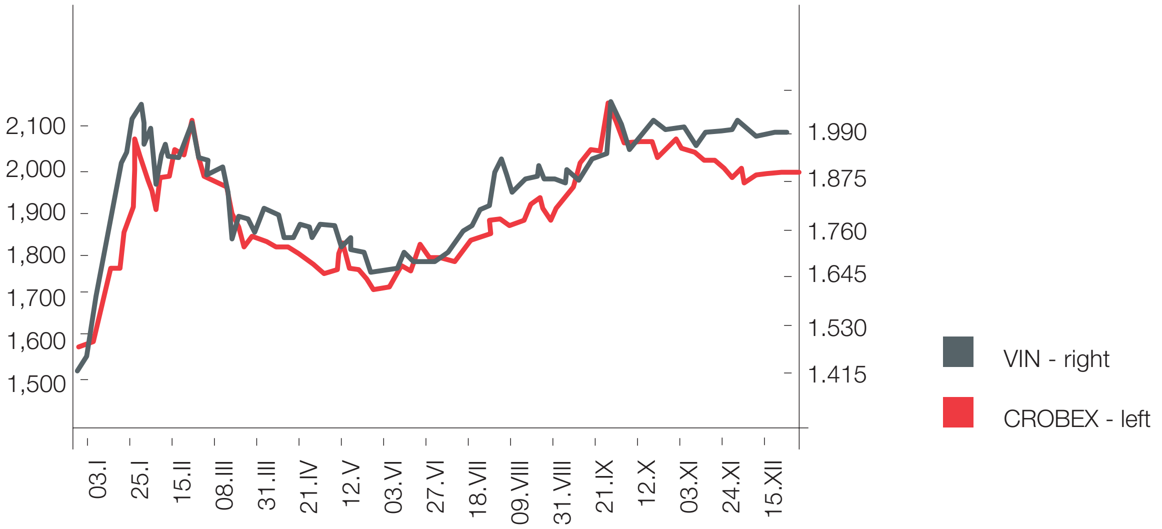
Prices, annual growth rates



Soruce: CBS and CNB

Last year will be remembered as the best year since the establishment of the Zagreb Stock Exchange (ZSE) and the Varaždin Stock Exchange (VSE) in which both markets recorded a huge upturn in share prices and the total volume of trading, compared to 2004. This resulted in steep growths of the indices. The total turnover on the ZSE amounted to HRK 34.2 billion in 2005, which was growth of 44 percent relative to the year before. Share trading rose by 81 percent and bond trading by 40 percent.
The CROBEX index reached the historically highest level of 2,156.97 points on 5 October 2005. However, after excitement diminished from the beginning of negotiations with the EU, share prices decreased slightly and the year closed on 1,997.53 points, which represents annual growth of 28 percent.
Total turnover on the VSE amounted to HRK 2.2 billion, which is an increase of 65 percent as compared to the year before. The VIN index closed at the historically highest level of 2,052.40 points on 6 October 2005, a day after CROBEX reached its record. However, the year concluded at a somewhat lower level of 1,993.50 points, which was still 42 percent above the 2004 figure.

Crobex and Vin Index



Soruce: ZSE, VSE

Macroeconomic indicators

	Year-on-year, eop	Indicator value	Year-on-year	Indicator value
Consumer prices, % ch.	XII / 2005	3.6	I-XII / 2005	3.3
Producer prices, % ch.	XII / 2005	2.7	I-XII / 2005	3.0
Industrial production, % ch.	XII / 2005	3.0	I-XII / 2005	5.1
Retail trade, real, % ch.	XI / 2005	2.0	I-XI / 2005	3.1
Construction, % ch.	XI / 2005	8.0	I-XI / 2005	-1.2
Tourist nights, % ch.	XII / 2005	5.1	I-XII / 2005	7.6
Export of goods, mil. USD	XII / 2005	812.2	I-XII / 2005	8,809.0
Imports of goods, mil. USD	XII / 2005	1,501.2	I-XII / 2005	18,546.5
Current account balance, mil. EUR	Q3 / 2005	2,262.7	Q2 / 2005	-1,129.9
Average net salary, in kunas	XI / 2005	4,595	I-XI / 2005	4,366
Real net salaries, % ch.	XI / 2005	1.7	I-XI / 2005	1.6
Number of unemployed, CES	XII / 2005	307,851	XI / 2005	305,533
Unemployment rate, CES, %	XII / 2005	18.0	XI / 2005	17.8
Unemployment rate, ILO, %	H1 / 2005	13.1	H2 / 2004	13.8
General government debt, bil. kn	XI / 2005	106.4	XII / 2004	96.8
External debt, bil. EUR	XI / 2005	24.8	XII / 2004	22.7
GDP, growth rate, %	Q3 / 2005	5.2	Q2 / 2005	5.1

eop - end of period

Source: CBS, CES, MoF, CNB

The lighthouse Veli Rat was built in 1849 on the southwestern cape of the island of Dugi otok, 35 km west of the city of Zadar. According to legend the thick lighthouse walls contain 100.000 of egg-whites to make them more resistant to wind and sea, protect you from the blazing sun in the summer months.

Organizational chart

Office of the Supervisory Board

Supervisory Board
György Surányi,
President of the Supervisory Board

Internal Audit Division resp. to MB President

Audit Committee

Office of the Management Board

Management Board
mr. Božo Prka,
President of the Management Board

- Subsidiaries Management
- Human Resources Division
- Legal Affairs Division
- Taxation Management Services
- Office for Corporate Communications
- Office for Ec. Research & Strategic Planning
- Project Management Office
- Business Continuity Management Office

Corporate, Treasury & Investment Banking Group
Ivan Gerovac

- Public Sector (Entities) Division
- Large Companies & Foreign Companies Division
- Financial Inst. & 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 Coordination Division

Retail Banking Group
Tomislav Lazarić

- Distribution Channel Development Division
- Product Development Division
- Client Relationship Development and Marketing Division

Risk Managment & Risk Control Group
Giancarlo Miranda

- Risk Management Division
- Credit Analysis Division
- Credit Risk Monitoring and Reporting Division
- Loan Recovery and Restructuring Division
- Compliance Division

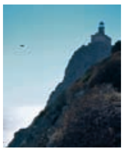
IT and Operations Group
Draženko Kopljar

- Business Processes Organization Division
- Operations Division
- Payment Transactions Division
- Information and Communication Technology Subgroup

Accounting, Financial Control and General Administration Group
Gabriele Pace

- Office of the CFO
- Accounting Division
- Financial Control Division
- General Administration Division

Recent archeological discoveries on Palagruza prove that the island fascinated the Greek hero Diomedes, survivor of the Trojan War and one of the most famous Greek warriors along with Odysseus.



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 an 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 - one of 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 number of awards received by Privredna banka Zagreb in the last few years. These awards include the Best Bank in Croatia from Euromoney in 2001, 2002, 2004 as well in 2005. In 2005 the Euromoney awarded PBZ as The Best Debt House in Croatia. PBZ also received The Bankers' Award for the Croatian Bank of the Year in 2002 and 2005. In 2003, 2004 and 2005, PBZ's quality was confirmed once more when it received Global Finance's Award for the Best Bank in Croatia and by the domestic prestige award Golden Share of the Year for the best banking share in the country and, in 2004 and 2005, the Golden kuna award.

Privredna banka Zagreb currently employs some 3,555 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 206 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, five 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 Premium 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 440 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 12,700.

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 24,600 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 American Express card holders, the Bank launched three very successful tranches of "quick loans" (cash loans) throughout 2002-2005. Overall in the period from 2000 until mid 2005, PBZ established itself as the market leader in retail loans with a 18.59% share of the loan market on the Group level. In the area of savings, PBZ has significantly increased its deposits to more than EUR 2.97 billion to date, which is 20.94% of the Croatian retail deposit market. On a consolidated level, PBZ Group keeps about one-fifth 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. Retail operations in Privredna banka Zagreb comprise the following areas: the Division for the development of distribution channels, the Division for product development and the Division for development of client relationships and marketing.

Division for the Development of Distribution Channels

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 will have an effect on them.

Division for Product Development

In cooperation with the Division for the development of client relationships and marketing and the Division for the development of distribution channels, 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, it participates in the monitoring of overall profitability (product distribution).

Division for the Development of Client Relationships and Marketing

The activities of this Division include the selection and coordination of appropriate marketing campaigns for retail products of the Bank and services. It prepares proposals for the marketing budget and oversees it throughout the year. It is responsible for disclosing business information to the public. It continuously monitors and improves the quality of services throughout the branch network and constantly monitors new and existing products of competing banks. 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.

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.

At the end of 2005, we actively served over 7 thousand clients in the credit financing area. The total number of clients holding current accounts in domestic currency exceeded 42 thousand, which significantly surpassed the number of clients recorded at the end of 2004.

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.

The Bank has been active in the syndicated loans market, both as a participant and arranger, as well as in financing projects supporting the Croatian exports. Significant progress has been made in the relationship between the Bank and clients, primarily through the creation of the Customer Call Centre with the aim of accepting and resolving all queries from corporate clients. We introduced the position of Relationship Manager, responsible for the overall business relationship with clients, as well as for following up on clients' requests both in the Head Office and in the branches. Relationship Managers in branch offices offer complete services to local clients and are supported by Regional Managers.

In February 2006, the Bank established PBZ EuroDesk and thus decided to actively participate in the processes of significant importance to the Croatian economy in general. The task of PBZ EuroDesk is to inform clients on possibilites of using pre-accession assistance funds of the European Union such as Phare, Ispa and Sapard. These programms are financed by the EU in order to assist the applicant countries for the EU accession.

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 as well as Strategic ALM Office.

Public Sector (Entities) Division

This division is responsible for customer relations and sales as well as banking with public sector and state institutions, municipalities and local government units as well as non-residents. Public Sector (Entities) Division also provides agency business services for variety of clients.

Large Companies and Foreign Companies Division

The responsibilities of this division encompass large companies as well as mandatory and commission operations for domestic corporate clients and foreign legal entities.

Multinational Desk, organised under this Division, provides support to the development of business relationships between Croatian and international clients by offering them complete banking services.

Financial Institutions and Special Financing Division

Privredna banka Zagreb, with a highly developed network of corresponding banks, is one of the leading Croatian financial institutions in international banking. Financial institutions and special financing division is responsible for establishing, monitoring and promoting the complete range of business relations with domestic and international banks and financial institutions.

Special financing includes trade and project financing, credit and special arrangements with financial institutions, both domestically and internationally, open lines of credit guaranteed by the state export agency, commodity loans for export and import financing, buyers' loans to promote Croatian exports, arranging and participating in syndicated loans on behalf of the Bank and its clients, and forfeiting and factoring.

In February 2006, the Bank established PBZ EuroDesk and thus decided to actively participate in the processes of significant importance to the Croatian economy in general. The task of PBZ EuroDesk is to inform clients on possibilites of using pre-accession assistance funds of the European Union such as Phare, Ispa and Sapard. PBZ EuroDesk intends to help clients in preparation and in financing projects as well as with other possibilites of cooperation with the European Union through PBZ's network and Banca Intesa's desk in Bruxelles.

Treasury Division

The Treasury Division has continued to be an important and active player on the Croatian market as is clearly reflected by its superior performance. Treasury operations comprise transactions on both domestic and international money markets, foreign currency markets and capital markets in line with ALCO decisions. The treasury actively participates in trading with government and commercial bonds, and securities issued by the Ministry of Finance, CNB bills, as well as currencies and short-term cash derivatives. The Treasury division operates in line with the stipulated procedures, Bank policies and limits set by ALCO (Asset Liability Committee).

The liquidity and trading department engages in the buying and selling of foreign currencies, money market transactions (trading CNB bills and Treasury bills of the Ministry of Finance) and on capital markets (trading government bonds and transactions with long term securities). An important part of the activities is covered by the Corporate Desk, which focuses on operations with clients and helps them in meeting their daily requirements.

Due to changes in foreign currency regulations, the Bank has recorded an increase in operations with corporate customers in the area of forward foreign currency transactions.

Investment Banking Division

The Investment Banking Division of Privredna Banka Zagreb delivers solutions for demanding institutional and private clients through brokerage, margin trading, asset management, private banking and custody services. Recognised as a Croatian leader in investment banking, the Bank offers an in-depth understanding of technology and the market, business operations experience and the ability to access capital markets creatively and effectively. Since great emphasis has been placed on structuring a high quality customer driven service, our clients are guaranteed very reliable and personalised assistance. Through its private banking function, this Division develops innovative, tailor-made solutions for its private clients' assets with the main goal of achieving the best possible results.

The fund management company, PBZ Invest and the pension fund management company, PBZ Croatia osiguranje, set up as separate corporate entities according to the Securities and Investment Funds Law, are constitutive parts of the Investment Banking Division, which is responsible for their supervision.

The Investment banking division also provides international investment banking services on local regional markets. Its key services include mergers and acquisitions, disposal advisory services and project management. Clients are supported in every aspect of a specific project starting from organisation and supervision to the arrangement of finance for completion.

Operating in an era of unprecedented changes, institutional investors face the critical challenge of finding the right partner to deliver efficient custody services. With a young and skilled workforce and the necessary technology, Privredna banka Zagreb is the only partner a client needs at present. We are consistently bringing new and innovative products onto the market, thus giving our clients the flexibility and resources to accomplish all their business goals. As a top rated local custodian we offer numerous standards and value added custody services. Through effective utilization of all of our resources, we develop smart solutions for our clients and we enable them to make the best financial decisions.

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

The Small and Medium-size Enterprises (SME) Group was established in January 2006 as a result of the Bank's determination to become closer to the highest growing segment of the Croatian economy.
With the establishment of the SME Group the Bank created conditions favourable for integration of commercial activities between retail clients and craftsmen as well as small and medium companies. All the clients of the Bank with annual revenue lower than 370 million kuna belong to the SME Group. The main goal of the Group is to organise and develop dozens of SME desks in main branches throughout the country to offer our clients a complete one-stop service which should increase quality and reduce the time and costs needed to provide the service.
Currently, there are 7 SME desks already developed in Zagreb, whilst the development of other desks is under way in main branches of the Bank which deal with a large number of SME clients in Croatia.
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, Financial control 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 Risk 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 Subsidiaries management division, the Human resource division, the Legal affairs and taxation management division, the Corporate communications office, the Economic research and strategic planning office, the Project management office, 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.

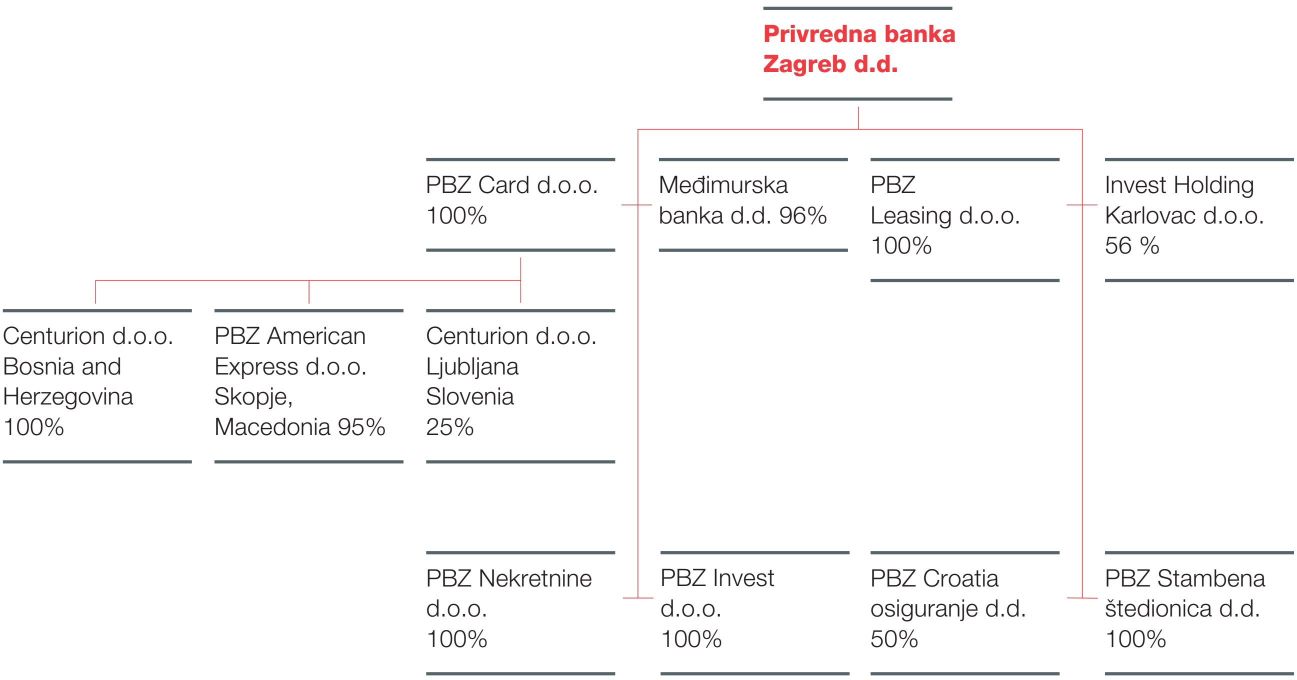
After the Trojan War, Diomedes made his way to the Adriatic where he fought the Ilyrians. It is believed that Diomedes´ final resting place is on the island. Legend has it that, after Ilyrians killed Diomedes´ warriors, Zeus transformed their souls into birds. Ever since, they have been guarding the Trojan hero´s grave.

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 4,170 employees and serves over 1.3 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 19.2 percent.

On 31 December 2005 the Group consisted of Privredna banka Zagreb and 9 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 Intesa.

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 over 150 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. 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.

PBZ Card (formerly PBZ American Express)

In late December 2005 charge, credit and debit card operations of PBZ were integrated with PBZ American Express into the new company, PBZ Card, that will deal 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 around 2 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 Banca Intesa Group companies from 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 Gruppo Banca Intesa.

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 426,000 issued cards being accepted at approximately 45,000 service establishments countrywide. As stated above, the company's name was changed to PBZ Card in December 2005.

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. At the "Golden Share" award ceremony for 2003, PBZ Invest received the award for the best company for investment fund management in Croatia. In recent years, six new funds were established: PBZ Euro novčani fond, PBZ Kunski novčani fond, PBZ Global fond, PBZ Bond fond, PBZ Dollar fond and PBZ Equity fond. 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.

To date, assets under management in the funds run by the company have exceeded HRK 1.6 billion, which is an increase of more than 100 percent as compared to the previous year.

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 stakes in 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 Banca Intesa. 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

The newest fund of PBZ Invest and a higher risk fund offers 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 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 has 80% highly educated 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 an increasingly important activity for the company. It has significantly expanded its operations in leasing real estate, company cars, leasure boats and heavy equipment. The activities are strongly focused on car and boat leases. Until the end of 2005, PBZ Leasing made over 4.5 thousand lease arrangements with customers, which in financial terms exceeded HRK 718 million.

Presently, PBZ Leasing holds 6 percent of the market share in lease arrangements.

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 joint 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 and exceptional volatility on the market, the company's pension fund continued to operate successfully during 2005.

At this point, the fund has over 212 thousand members and net assets in personal accounts exceeding HRK 1.98 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 newest 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 86 thousand savings contracts which amount to more than EUR 749 million.

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 d.d. 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.

Review of activities in PBZ's social responsibility program

I. INTRODUCTION

In the past, the success of a company was measured exclusively by financial factors. The demands of business in the 21^{st} century have forced companies when making business decisions to take not only financial issues into account, but also the social and ecological consequences of their decisions.
The idea and practice of corporate social responsibility relates to a whole range of activities and the relationships built through them. What a company produces, what it buys and sells, what effect it has on the environment, what kind of employment and training policies it has, how it influences the development of its own people, how and how much it invests in the social community and respects human and labour rights - all this together determines the overall influence of that company on society.
Privredna banka Zagreb is a universal bank which offers its clients a wide range of products and services. In its operations it is oriented towards the client, endeavouring to meet their demands and needs, and with teamwork, constant innovations in services and products, and with reliable and stable operations it strives to be recognized as a socially responsible partner to the society.
Privredna banka Zagreb is at the very peak of Croatian banking and is one of the oldest financial institutions in the Republic of Croatia, with a long continuity of banking operations.

Vision

To be a company which is an example and centre of excellence, in the creation of new values, and offering a permanently high standard in all fields of its operations, for the good of its clients, the social community, our shareholders and employees.

Mission

Our mission is at all times to make efficient use of all available sources for sustained progress in our operations, in all segments, from human resources, technology to business procedures.

Privredna banka Zagreb is a modern financial institution aware of its role and overall influence on Croatian society. The corporate values it builds into its everyday operations include in themselves not only business success, but also care for people, the environment, and in general the improvement of the quality of life in the community in which it operates.

The Corporate Values of Privredna banka Zagreb:

- **Commitment to clients**
  In our work we are oriented to our clients and seek to recognise their needs
- **Team work**
  We bring together top quality individuals so that we may achieve exceptional results
- **Innovation and knowledge**
  We invest in knowledge, we promote progress and the creation of new values
- **Reliability and responsibility**
  We do business reliably and responsibly in relation to both our clients and society
- **Ethics and transparency**
  We respect social and ethical standards and we operate transparently towards our clients and the public

We give below a short review of the activities undertaken by Privredna banka Zagreb in the field of social responsibility.

PRIJATELJ

PROGRAM DRUŠTVENE ODGOVORNOSTI
PRIVREDNE BANKE ZAGREB

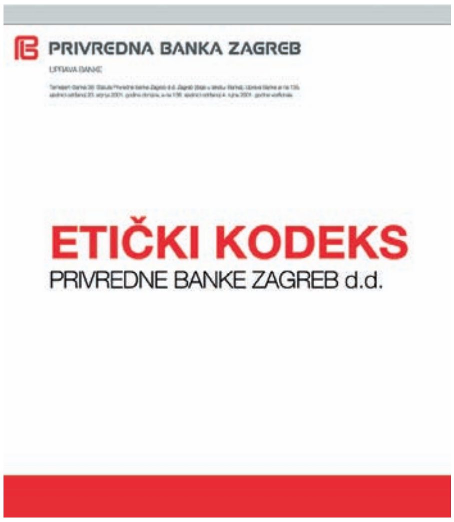
II. PBZ AND ITS ENVIRONMENT

1. The PBZ team

In order to achieve business goals, it is necessary to have satisfied and motivated staff. They are the ones responsible for the development of the company and the key factors in successful business. Therefore, in **Privredna banka Zagreb** activities are systematically developed to promote the motivation of its employees. In line with contemporary business methods, in their everyday work with clients and business partners, employees of PBZ apply the principles of the corporate culture defined in the *Code of Ethics of PBZ Employees.*

1.1. Education and professional development

PBZ works hard on the education and professional development of all its employees. Courses are run continuously in information science, foreign languages, specialized seminars in this country and abroad etc.
The human resources division works at improving the system of assessing success at work, internal and external staff recruitment procedures, and human resources management, in line with the Bank's strategies.
One of its key tasks is organizing, running and analysing the success of staff training and educational programs within the PBZ banking school, the implementation of a system of career planning for high potential resources, and defining policies and procedures for staff training and development.


PRIVREDNA BANKA ZAGREB

ETIČKI KODEKS
PRIVREDNE BANKE ZAGREB d.d.

EDUCATION 2005

	No. attending	No. days
I. Courses	**252**	**602**
In country	210	491
Abroad	42	111
II. Foreign languages	**241**	**3750**
English	212	3286
Italian	29	464
Internal programmes (in house)		
III. IT Education	**569**	**1457**
Basic Knowledge	132	396
Advanced Knowledge	250	500
Business applications	187	561
IV. Trainees	**141**	**564**
Highschool trainees	52	208
Faculty trainees	89	356
V. Business excellence	**1965**	**3201**
Personal bankers	12	60
Relationship managers	286	572
Selling skills	1120	1600
Leadership	320	640
Communications skills	102	102
Other	125	227
TOTAL:	**3168**	**9574**

PBZINTRANET

1.2. Internal communications

The internal communications system is very well developed by means of the Intranet, internal magazine and e-mail communication. Employees have access through Intranet to information from all parts of the Bank, on business results, new products, the success of specific parts of the organization etc. The Intranet system makes communication much easier, and occasional surveys are conducted on important questions and employee satisfaction. The Intranet has been enriched with a large number of new sections, created for the exchange of information between employees (small ads, the weekly analyses, news etc.)
The internal magazine *"Moja banka*" is issued periodically. The editorial team endeavours to present employees with information and interesting details from the life of the Bank, the PBZ Group, Banca Intesa and in this way contribute to a feeling of belonging to the company.

1.3. Motivation

The *PBZ Standard Society* operates within the Bank, organizing sporting and recreation activities and also arranging a variety of benefits for employees (special reductions in stores etc.)
The Bank also approves especially favourable rates to its employees for loans, building society savings, current accounts and cards.
A reward system has been devised for employees aimed at encouraging innovation. Within the project "Success through Innovation" employees can suggest new ideas, devise new products and services, and the best ideas receive a reward. The response from employees has been extremely good, and in the two rounds held so far, more than 400 new ideas were collected. The expert jury awarded the best ideas.

1.4. Safety at work and employees' health care

The Human Resources Division is responsible for implementing measures in the area of safety at work and health care for employees, in line with the Safety at Work Act. The areas covered by the division include:

- Social welfare (offering various forms of care to workers and members of their immediate families)
- Insuring employees with insurance institutions
- Safety at work in the sense of protection of employees' dignity and moral values, providing for social and economic security
- Providing training for work in a safe manner

In line with the Safety at Work Act, a Safety at Work Committee has been founded, and the way members of the committee are appointed, their term of office and the responsibilities of the committee are regulated by a Book of Rules. The role of the committee is also to supervise the application of safety at work regulations, informing employees of the situation regarding safety at work, and implementing policies to prevent injuries and occupational diseases.
Every two years complete medical check ups are organized for employees, with the aim of prevention and early detection of any disorders or diseases.
Every year preventive flu vaccinations are organized for employees and the response depends on the level of employees' interest.

The Human Resources Division receives a variety of inquiries daily relating to the area of labour relations and the law. In order to provide better and quicker communication a separate e-mail address has been provided, where all employees can send their inquiries related to labour law issues.

PBZ as an employer

PBZ has been recognized in a large number of surveys as the best employer of the financial institutions and one of the most desirable employers in Croatia, which gives to the Bank good opportunities to employ highly educated staff of the required profiles in very competitive market conditions.

Over the last two years, PBZ has been running comparative research of the organizational climate and employee satisfaction. On the basis of data on the structure of employees in the entire Bank, a sample was formed of 320 employees who are a representative sample, in terms of sex, age, work experience with PBZ, level of education and type of job and place of work (operations, specialists/experts, line management, executive management level). On the basis of the information received from the survey, the level of satisfaction of the employees is determined for 12 basic dimensions of organizational climate in PBZ. These dimensions are:

1. Organizational level
2. Professional training and learning
3. Relationship to quality
4. Awards
5. Internal communication and information
6. Internal relations
7. Management
8. Belonging to the organization
9. Knowledge of the mission, vision and goals
10. Motivation and commitment
11. Career development
12. Innovation and initiative

As well as these twelve dimensions, the work satisfaction survey also reveals the level of satisfaction of individuals with different aspects of their work: satisfaction with the work itself, with organizational leadership, co-workers, immediate superiors, opportunities for advancement, salary, status in the organization, conditions of work (equipment, premises), opportunities for training, stability of employment and working hours.

2. Transparency

PBZ pays a great deal of attention to direct daily contact with clients, business partners and communication with the public. The Corporate Communications Office systematically informs the media through press conferences, by sending out press releases, organizing interviews and appearing in television or radio programs and replying to questions from journalists.

It is regularly reported on the work of the Bank through annual reports and other special publications (company profile, macroeconomic prognosis, weekly prognosis etc.). For all information relation to the work of PBZ, clients have an e-mail address available and a free phone line on **0800 365-365**. For users of PBZ credit cards, the phone line 4891 333 is open 24 hours a day.

Advertising and public relations

In its communication with the public, PBZ holds to the Code of Ethics of members of the Croatian Association for Public Relations and the highest professional standards of the profession.

All press releases (including archives back to 2002) annual reports (with archives back to 1998) and special publications are available on www.pbz.hr.

The Bank is run on the principle of transparency in reporting to the public whether regarding everyday events in business, or exceptional or crisis situations.

PBZ in its advertisings works on the basis of rules prescribed by the advertising profession in that:

- it respects the current laws
- it advertises truthfully
- it advertises in accordance with the rules of public morals and decency.
- it avoids exaggeration
- it advertises using messages which do not promote unsuitable or irresponsible behaviour in individuals (e.g. smoking, alcohol) etc.

In order to inform its clients accurately and in good time about its products and services through advertising, PBZ uses the following channels of communication: information in branches, promotional printed materials, advertisements, posters, radio ads, TV ads, free phone line, direct mailing, internet web site, ATM screens, etc.

PBZ has not yet had a single case of violation of the regulations prescribed by the advertising profession.

3. Sponsorship and donations

Privredna banka Zagreb is actively involved in a whole series of socially beneficial projects and supports a large number of humanitarian and social institutions financially. PBZ supports education programs, sporting associations, and many cultural institutions. A total of 5.8 million kunas was given in 2005 in donations and 7.9 million in sponsorships.

3.1. Donations

The emphasis in PBZ's activities as a donor is on children, socially at risk families and institutions caring for the sick and infirm.

Donations 2005.

Humanitarian foundations and associations	1.5 million kunas
Health	1.4 million kunas
Sport	1.5 million kunas
Culture and preservation of cultural heritage	1.0 million kunas
Others	0.4 million kunas
Total	**5.8 million kunas**

Student scholarships	1.0 million kunas

As part of the programme "PBZ Prijatelj" (PBZ Friend), in 2005 one million kunas was taken from profits for scholarships for students from financially deprived backgrounds, and these funds will be allocated in the 2006/07 academic year.

We will mention just a few of the projects PBZ has supported:
- In collaboration with the "Ruđer Bošković" Institute, PBZ is supporting a science novice financially with more than 100.000 kunas a year, with the aim of helping young people gain scientific training and professional education and develop science in the Republic of Croatia.
- For many years and with significant financial funding, PBZ has supported the Humanitarian Foundation for Children of Croatia
- PBZ also supported the major humanitarian campaign "Hrabro srce" (Brave Heart) to purchase apparatus and equipment needed for transplanting blood-forming stem cells in children suffering from malignant diseases.
- The Bank took part in the purchase of CT equipment for Zagreb Clinical Hospital worth 1.22 mil kn

There was a whole series of events over the past year in which PBZ was involved, from the well-known "Dajmo da čuju" (Let them hear), many donations to children's hospitals, the Children's Home in Nazorova Street, the Slava Raškaj Centre for Education etc.

For a number of years, Privredna banka Zagreb has been involved in a campaign of donating written-off computers, printers, and other computer equipment to institutions, children's kindergartens, and individuals who have a need for such equipment.

3.2. Sponsorships

Privredna banka Zagreb endeavours to support projects of broad social importance through its sponsorship activities and in this way also promote its own brand.

Sponsorships in 2005

Sport	6 million kn
Culture	465,000 kn
Humanitarian foundations and associations	360,000 kn
Science and Education	243,000 kn
Conferences and business conventions	578,000 kn
Other	254,000 kn
Total	**7.9 mil. kn**

We will mention just some of the institutions and projects, which the Bank has supported, covering the areas of humanitarian campaigns, sport, culture, science etc,

- In 2003 the major Caritas charity campaign began entitled "Za 1000 radosti" (For 1000 joys) in which PBZ was involved as one of the initiators. The aim of the campaign was to collect money to help 1000 deprived families in Croatia, from funds businesses had earmarked for Christmas and New Year's parties. The campaign was successfully continued in 2004 and 2005.
- Privredna banka Zagreb d.d. is a member of the Olympic POOL and is actively involved in financing the preparations of our Olympic sportsmen and women
- In 2005 the Bank sponsored the Croatian Football Federation, the Croatian Canoe Federation, the Croatian Boxing Federation and the Croatian Chess Federation and in this way helps to achieve great results in Croatian sport.
- For many years it has supported the Croatian National Theatre in Zagreb, Gavella Theatre, and many cultural events and festivals: Krapina Festival, Melodies of Istria, the Vinkovci Autumn Festival, the Dubrovnik Summer Festival, the Omiš Klapa Festival, the "Actors in Zagvozd Festival" and many others.
- PBZ has signed a contract on cooperation with the Economic Faculty in Zagreb for sponsorship to equip one of its lecture theatres to world-class standards to offer top quality working conditions for students doing post-graduate studies.

4. Culture

PBZ endeavours in the course of its work to support and initiate many cultural events and happenings, and contribute to the improvement of the quality of life of our community.
Privredna banka Zagreb is one of the founders of the CROATIAN ACADEMY OF ARTS AND SCIENCES FOUNDATION aimed at supporting culture, art, science and education as vital factors in the spiritual, economic, political and overall development of Croatia.

Exhibitions and events

The Bank frequently puts on exhibitions by young artists in its own premises, in order to help them affirm themselves and it also supports a large number of cultural events and projects to protect and restore cultural monuments.
As examples we can mention the donation to the Church of Sv. Jakov (St. James) - for restoration of the oldest church in Dubrovnik, dating from 1222, which is a first class monument of architectural culture, and the donation to the traditional cultural event “Vinkovačke jeseni” (Vinkovci Autumn Festival).

Museum

It is interesting to mention that Privredna banka Zagreb has founded a unique museum dedicated to the history of money. A rich collection of coins, piggy banks from all over the world, old stocks and shares and other historical materials is open to all and expert guides are provided. The most frequent visitors are groups of school children, and so as well as its educational function, the Museum also promotes and popularises saving in the younger generation.

5. Ecology

Aware of the problem of environmental protection, the Bank is systematically developing its employees' ecological awareness in their everyday work through recommendations to save paper, providing facilities for collecting old paper, collecting and dealing with old toners etc.
PBZ also gives attention to Croatia's "burning" ecological problem - clearing mine fields. PBZ has been involved from the very beginning in the humanitarian initiative to collect the funds needed to train dogs to work in clearing mine fields.

As part of its collaboration with HBOR (the Croatian Bank for Reconstruction and Development) an additional Agreement on Business Cooperation has been signed by which we initiated the "Program of Crediting Projects for Environmental Protection, Energy Efficiency and Renewable Sources of Energy"

6. Charity Work

The PBZ Blood Donors Society

Organized campaigns for donating blood have been held in Privredna banka Zagreb for thirty years, and the Voluntary Blood Donors Group was founded 15 years ago. It was recently registered as the PBZ Blood Donors' Society, which now has 150 active members. The Society organizes three rounds of blood donations every year (in February, June and October) when about 300 doses of blood are collected.

Collaboration with AC Milan

A mutual PBZ & AC Milan charity sale was organized of AC Milan football kits, caps and other items. The entire amount raised was met (doubled) by PBZ and about 12,000 euros was donated to the children's home in Nazorova Street, Zagreb.
On that occasion, Daniele Massaro and Michele Ferraris, former stars of AC Milan visited the home and distributed gifts to the children.

7. Loans for socially beneficial programs

Privredna banka Zagreb endeavours in its business operations to support all programs which promote the development of the economy of a region, increase employment or improve the quality of life of the people in the areas where it works. We can mention loans in conjunction with the Croatian Bank for Reconstruction and Development (HBOR) and loans in conjunction with the Ministry of the Economy, Labour and Entrepreneurship and the Minister of the Sea, Tourism, Transport and Communications that have been arranged in certain counties.

Loan programs with HBOR:

- Program of loans for the tourism sector,
- Program of loans to promote the development of small and medium sized enterprises (through business banks),
- Program of loans for development of the islands,
- Program of loans to promote small businesses in areas of special state concern,
- Program of loans for projects for environmental protection, energy efficiency, and renewable sources of energy,
- Program of loans for reconstruction and development of the municipal infrastructure,
- Program of loans for financing restructuring of units of local and regional self-government,
- Program of loans for development of business activities
- Program of loans for financing restructuring of business entities,
- Program of loans for preparations for the tourist season
- Program of loans for preparation of goods for export and export of goods
- Program of loans as incentives for the foundation of small businesses for beginners (through business banks)

Projects in the counties

Products developed in conjunction with the Ministry of the Economy, Labour and Entrepreneurship and the Ministry of the Sea, Transport and Communications have been arranged with specific counties.

The products cover the following projects:

- Entrepreneurs
- Social services
- Homeland War Veterans
- Women in business
- Young entrepreneurs
- New technologies

Tourism

In Privredna banka Zagreb loans to the tourism sector, as a booming branch of industry, have seen constant growth over the past several years. Of its total loans to businesses (legal entities) PBZ (as of 30.09.2005) lent five percent, or nearly one billion kunas to the tourism sector. Privredna banka Zagreb in its range of deposit and credit products, has specially developed products and services for entrepreneurs and private businessmen working in the tourism industry.

In conjunction with the Ministry of the Sea, Tourism, Transport and Development and HBOR, PBZ has offered a series of special entrepreneurial loans as incentives to the development of tourism on the coast and inland, such as loans to support the tourism sector in conjunction with HBOR, to build hotels, apartments and bed and breakfasts, etc. and the programme "Pod stoljetnim krovovima" (Under Ancient Roofs), for the restoration of houses on the coast and original old Croatian houses inland, in line with the original tradition and architecture of the setting.

Loans for young people

There are special lines of credit aimed at young people, aimed at raising their living standards and encouraging social advancement through investment in education.

Privredna banka Zagreb, in conjunction with the CBA Business School has prepared exceptionally favourable conditions for students on post-graduate courses in the Executive MBA program, with the aim of promoting and advancing the careers of young, ambitious business people.

A special offer has been devised - D krediti - housing loans for young people (with no deposit and no guarantor, with a special repayment plan, the most favourable calculation of credit worthiness and other benefits) to make it easier for the younger generation to resolve their living situation.

"Otok znanja" (The Island of Knowledge)

In December 2005 a Contract was signed to transfer 88.86 percent of the shares in Hotel Koločep from the government portfolio to the not-for-profit organization "Otok znanja" (Island of Knowledge). The project was supported by Privredna banka Zagreb from a financial and investment point of view, by issuing guarantees for all investments which the "Otok znanja" (Island of Knowledge) promised in its offer. The project, apart from its high financial value, offers an original idea for the development of the company, but also the entire island as an island of knowledge, and it has been assessed as innovative, socially responsible and a completely new concept in educational tourism.

www.otok-znanja.hr

Special conditions for products

The concept INOVACIJA (Innovation) was devised in the desire to offer PBZ's clients new opportunities and the best terms in their business with the Bank. Inovacija is a packet product by which the Bank rewards its clients who own several groups of products, giving them discount on certain types of fees on products (reducing fees by up to 30%), reductions on interest on loans and giving them an incentive part of the interest rate for funds on time deposit in the Premium savings account.

Taking account of the special needs and potential of certain categories of the population (e.g. students, pensioners) some products have been adapted especially to them.
Students are exempt from fees for running a current account whilst for pensioners this fee is reduced by 1/3.

8. Special measures

We should mention the Decision by the Management Board of the Bank adopting the *Procedure to prevent financing of barred activities.* By this decision the Bank does not approve direct or indirect financing to projects, products or trade in goods, which do not meet the criteria of protection of the environment, nor for purposes, which are against morals in general.

The Bank does not finance the following activities:

- Production or activities which include harmful or exploitive forms of forced labour/work harmful to children,
- Products or trade in products or activities which according to Croatian law or regulations and international conventions and agreements are considered to be unlawful
- Products or trade in arms or military equipment
- Products or trade in alcoholic beverages (excluding beer and wine) and/or tobacco products
- Gambling, casinos or similar activities
- Trade in wild game or products of wild animals regulated by the Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES)
- Production or trade in radioactive materials
- Production or trade in unbonded asbestos fibre or its use
- Felling trees for commercial purposes, or purchase of tree-felling equipment used in primary tropical rain forests
- Production or trade in products containing polychlorinated biphenyls (PCBs)
- Production or trade in pharmaceutical products and/or pesticides/herbicides which are being gradually abolished/withdrawn from use or are banned on an international level

- Production or trade in substances which harm the ozone layer, which are being gradually abolished/withdrawn from use on an international level
- Sea fishing using driftnets longer than 2.5 km.

Privredna banka Zagreb strictly applies all legal provisions relating to money laundering and takes special care to prevent any form of abuse of its products and services.

9. Projects/collaboration

- By the joint initiative of several banks, a Project for Social Responsible Business in Banking has been launched on the subject of:
  Managing Personal Finances. The project is being prepared in conjunction with the UN Development Program (UNDP) in coordination with the Croatian Banking Association (HUB). Privredna banka Zagreb has become actively involved in the preparatory phase of the Pilot Project of Social Responsibility in Banking and the PBZ team is taking an active part in working groups preparing an educational program, the contents of workshops and writing working materials.
  The next phase is to begin implementation of the Pilot Project through educational workshops and evaluation of the Project, and the Pilot Project is expected to end by the end of 2006.
  If the Pilot Project receives a positive assessment, and/or the banks consider this kind of approach to the public to be useful, a Proposal would follow to the Management Boards of the banks for a long-term project running this kind of workshop (and creation of additional presentations/workshops on the subject of credit and savings products, investment etc).
- The United Nations Development Project in Croatia, in conjunction with the Government of the Kingdom of Norway, has launched a project aimed at promoting the concept and practice of social responsibility. PBZ took part in writing the Handbook for Socially Responsible Business - "Časno do pobjede" (Victory with Honour)

The island of Susac, off of navigation routes, is 23 NM south of the island of Hvar and 13 NM west of the island of Lastovo. It is surrounded by endless open sea that makes you feel completely secluded from the rest of the world.

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 23 January 2004, are as follows:

György Surányi
(President of the Supervisory Board, Banca Intesa)
Giovanni Boccolini
(Vicepresident of the Supervisory Board, Banca Intesa)
Adriano Arietti
(Member of the Supervisory Board, Banca Intesa)
Massimo Pierdicchi
(Member of the Supervisory Board, Banca Intesa)
Luigi de Puppi de Puppi
(Member of the Supervisory Board, Banca Intesa)
Massimo Malagoli
(Member of the Supervisory Board, Banca Intesa)
Claudio Viezzoli
(Member of the Supervisory Board, EBRD)

Management Board

The Management Board consists of seven members with each being allocated a specific area of responsibility. The Management Board meets at least twice a month to discuss and determine the operating policies of the Bank. Following the three year term the mandate of the former Management Board expired on 6 February 2006. Accordingly, the new Management Board was appointed on the three year term effective from 7 February 2006. Management Board members:

Božo Prka
President of the Management Board
Giancarlo Miranda
Vicepresident of the Management Board, responsible for the Risk Management and Control Group
Tomislav Lazarić
Vicepresident of the Management Board, responsible for the Retail Banking Group
Gabriele Pace
Chief financial officer, responsible for the Accounting, Financial Control 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

Previous members in 2005 were also:
Draženko Pavlinić
responsible for the Finance Banking Group (mandate expired on 6 February 2006)
Davor Holjevac,
responsible for the Information Technology and Operations Group (mandate expired on 6 Feb. 2006)

In the middle of the southern side of the island of Lastovo, at the entrance to the bay of Skrivena Luka (Hidden Port) lies the lighthouse Struga. The lighthouse was build under Austro-Hungarian Monarchy in 1839.

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

2 March 2006

ERNST & YOUNG

Ernst & Young d.o.o
Milana Sachsa 1
10000 Zagreb
Croatia

To the Board of Directors and the Shareholders of Privredna banka Zagreb d.d.:
We have audited the accompanying consolidated and unconsolidated financial statements of Privredna banka Zagreb d.d. (the Bank) and its subsidiaries (together, the Group) as at 31 December 2005, as set out on pages 62 to 116. The financial statements have been prepared in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board.

Respective responsibilities of the Board and auditors
As described on page 59, these financial statements are the responsibility of the Bank's and Group's Board. Our responsibility is to express an independent opinion on these financial statements based on our audit.

Basis of opinion
We conducted our audit of the financial statements of the Bank and the Group in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion the financial statements present fairly, in all material aspects, the financial position of the Bank and the Group as at 31 December 2005 and of the results of their operations, their cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young d.o.o.

Ernst & Young d.o.o., Zagreb
Republic of Croatia
Zagreb, 15 July 2005
Zagreb, 2 March 2006

Income statement

(in HRK million)

	NOTE	GROUP		BANK	
		2005	2004 Reclassified	2005	2004 Reclassified
Interest income	2	2,609	2,494	2,418	2,267
Interest expense	2	(1,031)	(977)	(991)	(913)
Net interest income		**1,578**	**1,517**	**1,427**	**1,354**
Fee and commission income	3	942	934	524	506
Fee and commission expense	3	(221)	(221)	(201)	(217)
Net fee and commission income		**721**	**713**	**323**	**289**
Other operating income	4	397	340	401	365
Operating income		**2,696**	**2,570**	**2,151**	**2,008**
Provisions	5	(141)	(176)	(56)	(110)
Other operating expenses	6, 7	(1,323)	(1,209)	(1,007)	(896)
Depreciation and amortisation of property and equipment and intangible assets	8	(227)	(256)	(163)	(168)
Share of the profit and loss accounted for using the equity method		6	3	-	-
Profit before income taxes		**1,011**	**932**	**925**	**834**
Income taxes	9	(210)	(196)	(173)	(156)
Net profit for the year		**801**	**736**	**752**	**678**
Attributable to:					
Equity holders of the parent		799	735	752	678
Minority interests		2	1	-	-
		801	**736**	**752**	**678**
			in HRK		**in HRK**
Basic/diluted earnings per share	47	48.1	44.2	45.3	40.7

The accompanying accounting policies and notes are an integral part of this Income statement.

Balance sheet

(in HRK million)

Assets	NOTE	GROUP 2005	GROUP 2004 Reclassified	BANK 2005	BANK 2004 Reclassified
Cash and current accounts with other banks	10	1,949	2,659	1,860	2,534
Balances with Croatian National Bank	11	5,395	4,598	5,184	4,355
Financial assets at fair value through profit and loss	12	4,611	3,571	4,467	3,401
Derivative financial instruments	13	17	32	17	32
Due from banks	14	6,644	5,481	6,400	5,383
Loans and advances to customers	15	28,631	24,025	26,689	21,858
Assets available for sale	16	243	170	24	4
Held to maturity investments	17	1,352	1,674	1,329	1,663
Equity investments in subsidiaries and associates	18	38	33	284	344
Intangible assets and goodwill	19	192	199	121	127
Property and equipment	20	1,197	1,081	768	774
Investment property	21	14	-	14	-
Non-current assets held for sale	22	101	-	94	-
Other assets	23	162	218	59	131
Deferred tax assets	9	73	58	60	49
Total assets		**50,619**	**43,799**	**47,370**	**40,655**
Liabilities					
Due to banks	24	3,273	58	3,911	546
Due to customers	25	32,378	29,917	30,004	27,405
Derivative financial instruments	26	22	30	22	30
Other borrowed funds	27	8,231	7,909	7,978	7,849
Debt securities issued	28	19	20	19	20
Other liabilities	29	1,569	1,248	759	618
Accruals and deferred income	30	112	107	67	80
Provisions for risks and charges	31	203	224	175	192
Total liabilities		**45,807**	**39,513**	**42,935**	**36,740**
Equity attributable to equity holders of the parent					
Share capital	33	1,666	1,666	1,666	1,666
Treasury shares		(20)	(12)	(20)	(12)
Reserves and retained earnings	34	2,345	1,875	2,037	1,583
Profit and loss attributable to equity holders of the parent entity		799	735	752	678
		4,790	4,264	4,435	3,915
Minority interests		22	22	-	-
Total shareholders' equity		**4,812**	**4,286**	**4,435**	**3,915**
Total liabilities and shareholders' equity		**50,619**	**43,799**	**47,370**	**40,655**

The accompanying accounting policies and notes are an integral part of this Balance sheet.
These financial statements were signed on behalf of the Management Board on 20 February 2006.

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

Gabriele Pace
Chief financial officer

Cash flow statement
(in HRK million)

	GROUP		BANK	
	2005	2004 Reclassified	2005	2004 Reclassified
Cash flow from operating activities				
Net profit for the year	799	735	752	678
Provisions for bad and doubtful debts	141	176	56	110
Gains from sale of property and equipment	(17)	(7)	(16)	(6)
Depreciation and amortization	227	256	163	168
Taxes paid	(196)	(204)	(162)	(154)
	954	**956**	**793**	**796**
(Increase)/decrease in operating assets				
Balances with Croatian National Bank	(798)	1,904	(829)	1,396
Due from banks	(152)	(371)	(348)	(104)
Loans and advances to customers	(4,574)	(787)	(4,626)	(1,451)
Acquisitions of assets held for trading and assets available for sale	(1,066)	(1,750)	(1,086)	(1,886)
Other assets	58	(22)	72	(37)
Increase/(decrease) in operating liabilities				
Due to banks	3,215	(2,397)	3,365	(2,172)
Due to customers	2,461	2,234	2,599	3,433
Other liabilities	325	99	127	125
Net cash used in operating activities	**423**	**(134)**	**67**	**100**
Cash flows from investing activities				
Purchase of property and equipment	(486)	(265)	(264)	(168)
Acquisition of long term investment	(1)	-	-	-
Repayment of assets held to maturity	322	399	334	353
Net cash from investing activities	**(165)**	**134**	**70**	**185**
Cash flows from financing activities				
Dividends paid	(271)	(230)	(271)	(230)
Other borrowed funds	322	1,082	129	1,275
Net cash from financing activities	**51**	**852**	**(142)**	**1,045**
Net increase/(decrease) in cash	**309**	**852**	**(5)**	**1,330**
Cash and cash equivalents at the beginning of the year	7,284	6,432	7,362	6,032
Cash and cash equivalents at the end of the year	7,593	7,284	7,357	7,362
Supplementary information				
Interest paid	1,043	1,008	990	917
Interest received	2,244	2,255	2,107	2,025
Dividends paid	271	230	271	230
Dividends received	2	1	106	96

The accompanying accounting policies and notes are an integral part of this Cash flow statement.

Statement of changes in equity

(in HRK million)

	Attributable to equity holders of the parent						
	Share capital	Treasury shares	Reserves and retained profits	Net profit for the year	Total	Minority interests	Total equity
Group							
Balance at 1 January 2004	**1,666**	**(20)**	**1,389**	**695**	**3,730**	**60**	**3,790**
Transfer to reserves	-	-	695	(695)	-	-	-
(Purchase)/sale of treasury shares	-	8	-	-	8	-	8
Dividends paid	-	-	(230)	-	(230)	-	(230)
Capital gain on disposal of treasury shares	-	-	21	-	21	-	21
Net profit for the year	-	-	-	735	735	1	736
Other movements	-	-	-	-	-	(39)	(39)
Balance at 31 December 2004	**1,666**	**(12)**	**1,875**	**735**	**4,264**	**22**	**4,286**
Transfer to reserves	-	-	735	(735)	-	-	-
(Purchase)/sale of treasury shares	-	(8)	-	-	(8)	-	(8)
Dividends paid	-	-	(271)	-	(271)	-	(271)
Capital gain on disposal of treasury shares	-	-	7	-	7	-	7
Net profit for the year	-	-	-	799	799	2	801
Other movements	-	-	(1)	-	(1)	(2)	(3)
Balance at 31 December 2005	**1,666**	**(20)**	**2,345**	**799**	**4,790**	**22**	**4,812**
Bank							
Balance at 1 January 2004	**1,666**	**(20)**	**1,134**	**575**	**3,355**	**-**	**3,355**
Integration of Riadria banka	-	-	83	-	83	-	83
Transfer to reserves	-	-	575	(575)	-	-	-
(Purchase)/sale of treasury shares	-	8	-	-	8	-	8
Dividends paid	-	-	(230)	-	(230)	-	(230)
Capital gain on disposal of treasury shares	-	-	21	-	21	-	21
Net profit for the year	-	-	-	678	678	-	678
Balance at 31 December 2004	**1,666**	**(12)**	**1,583**	**678**	**3,915**	**-**	**3,915**
Integration of Laguna banka	-	-	40	-	40	-	40
Transfer to reserves	-	-	678	(678)	-	-	-
(Purchase)/sale of treasury shares	-	(8)	-	-	(8)	-	(8)
Dividends paid	-	-	(271)	-	(271)	-	(271)
Capital gain on disposal of treasury shares	-	-	7	-	7	-	7
Net profit for the year	-	-	-	752	752	-	752
Balance at 31 December 2005	**1,666**	**(20)**	**2,037**	**752**	**4,435**	**-**	**4,435**

The amount of dividends recognised as distributions to equity holders during 2005 was 16.3 HRK per share, whereas the same amount in 2004 stood at 13.8 HRK per share.
The accompanying accounting policies and notes are an integral part of this Statement of changes in equity.

Accounting policies

1 | Accounting policies

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 othervise.
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 assets available for sale 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 Accounting Standard (IAS) 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and 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 its subsidiary entities.
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.
Investments in associates are accounted for by 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. 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.

Interest and similar income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis. Interest income and loan origination fees, which are considered an integral part of the effective yield of a loan, are recognised using the effective yield method. Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value. Other fees receivable are recognised when earned. Dividend income is recognised when earned.

Fees and commission income

Fees and commission income are 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 generally deferred and recognised as an adjustment to the effective yield on the loan.

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.

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.

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.

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 the gross salary as follows:

	2005	2004
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, if determined in the employment contract or the Regulation on Personal income, 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 the IAS and recorded an accrual in the accompanying 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 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 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 less than 90 days maturity from the date of acquisition including cash and current accounts with other banks, and due from 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 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 is not recognised until the settlement date, changes in value on the underlying asset are recognised.

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

Loans and receivables
Loans originated by the Group by providing funds directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Group and are carried at amortised cost adjusted for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.
All loans and advances are recognised when cash is advanced to borrowers.
A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision 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 based on the effective interest rate at inception.
The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon expected patterns of losses in each loan portfolio component and considering the credit rating of the underlying customers and their repayment history.
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
Financial instruments included in assets available for sale are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available for sale financial assets are measured at fair value. Gains and losses arising from changes in the fair value of assets available for sale are recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in the equity is included in the income statement.

Collateral pending sale
The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of 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 sale and repurchase price is treated as interest and accrued over the life of 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 is based on the duration of lease contracts (see 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.
Expenditures 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 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 apropriate category of property and equipment.
Property and equipment is depreciated on a straight-line basis using useful lives. The useful lives are as follows:

	2005 years	2004 years
Buildings	40	40
Furniture	5	5
Computers	4	4
Motor vehicles	5	4
Equipment and other assets	2 to 10	4 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. The amortization period and the amortization method are reviewed at each reporting period.
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 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 goodwill, an impairment loss is recognised.
Intangible assets are amortised over the periods of 4 years (software) and 5 years (leasehold improvements). 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.

Investment property
Investment property 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 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 using the useful lives of the assets in accordance with the policy stated under Property and equipment.

Accounting policies

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

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 fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivatives are included in net trading income.
Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income.
An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.
Gains arising from changes in the value of derivatives are included in the statement of income as gains less losses from trading securities.
The Group had no hedge accounting in 2005.

Impairment of assets

An assessment is made on each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows including anticipated recoveries from guarantees and collateral, discounted at original effective interest rates, recognised in the income statement. In addition, a provision is made to cover impairments which, although not specifically identified, are deemed to be present in the bank's portfolio of financial assets, based on historical experience.
Property and equipment and intangible assets 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 intangibles carried at cost and treated as a revaluation decrease for assets that 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.

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.

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 36.

Integration of subsidiaries under common control to the Bank

Integration of subsidiaries under common control to the Bank is accounted for using the uniting of interest method. The assets and liabilities of the subsidiary under common control integrated to the Bank are recorded in the Bank only financial statements at the historical cost. Any difference between the total book value of net assets and the consideration given to minority shareholders is accounted for in these consolidated financial statements and Bank only financial statements as an adjustment to the shareholders' equity. Comparative data for the year 2004 in the Bank only financial statements were not restated with respect to the integration of subsidiaries under common control.

Dividend policy

The Bank has a policy of paying dividends to its shareholders based on the audited annual results.

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 a market value of shares at the date of grant. 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

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new and revised standards mandatory for financial years beginning on or after 1 January 2005 and comparative figures have been amended as required. Adoption of revised standards does not have any effect on equity as at 1 January 2005.
The changes in accounting policies result from adoption of the following new or revised standards:

IFRS 2	"Share-Based Payment";
IFRS 3	"Business Combinations", IAS 36 (revised) "Impairment of Assets" and IAS 38 (revised) "Intangible Assets";
IFRS 5	"Non-current Assets Held for Sale and Discontinued Operations";
IAS 1 (revised)	"Presentation of Financial Statements";
IAS 8 (revised)	"Accounting Policies, Changes in Accounting Estimates and Errors";
IAS 10 (revised)	"Events after the Balance Sheet Date";
IAS 16 (revised)	"Property, Plant and Equipment";
IAS 17 (revised)	"Leases";
IAS 24 (revised)	"Related Party Disclosures";
IAS 27 (revised)	"Consolidated and Separate Financial Statements";
IAS 28 (revised)	"Investments in Associates";
IAS 32 (revised)	"Financial Instruments: Presentation and Disclosure";
IAS 33 (revised)	"Earnings per Share";
IAS 39 (revised)	"Financial Instruments: Recognition and Measurement"; and
IAS 40 (revised)	"Investment property".

The following reclassifications have been made to the Group 2004 balances to conform to the 2005 presentation (amounts in HRK million).

Amount	Previously reported	As reclassified / netted off
66	Other operating income	Fee and commission income on credit card services
9	Fees and commission on customer services	Other operating expenses, Materials and services
5	Accrued income receivable	Balances with Croatian National Bank
48	Accrued income receivable	Financial assets at fair value through profit and loss
9	Accrued income receivable	Due from banks
19	Accrued income receivable	Loans and advances to customers
40	Accrued income receivable	Held to maturity investments
2	Other assets	Property and equipment in preparation
189	Assets available for sale	Financial assets at fair value through profit and loss
186	Accrued interest not paid	Due to customers
57	Accrued interest not paid	Other borrowed funds
199	Deferred income	Deferred interests and fees recognised as an adjustment to the effective yield

The Group reclassified HRK 66 million of income from membership fees, registration fees and notices from American express credit card holders from item Other operating income to Fee and commission on credit card services in order to disclose all fees from credit card services in an integral note.
The Group applied revisions of IAS 39 Financial Instruments: Recognition and Measurement; and has reclassified calculated interest not yet earned together with related financial instruments (balances with CNB, placements with banks, loans to customers, held to maturity investments as well as some financial assets at fair value). The same reclassification was made within liabilities with accrued interest not paid.
Following the IAS 39 amendments the Group reclassified certain assets (domestic government bonds as well as domestic equities) that had been previously stated as assets available for sale in the 2004 financial statements to the portfolio of financial assets held at fair value through profit and loss in comparative figures for the 2004. The carrying value of those bonds as at 31 December 2004 amounted to HRK 122 million whereas the respective amount for domestic equities was HRK 26 million.
HRK 2 million of advances for non current assets were reclassified from other assets to property and equipment in preparation in order to be in compliance with IAS 16.
Up front collected loan interests, earlier classified as deferred income, were netted off against deferred fees recognised as an adjustment to the effective yield. As a result, total Group’s assets and liabilities for 2004 decreased by HRK 199 million.

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 4	Amendments to International Financial Reporting Standards IAS 39 *Financial Instruments: Recognition and Measurement* IFRS 4 *Insurance Contracts Financial Guarantee Contracts*
IFRS 7	IFRS 7 *Financial Instruments: Disclosures*

International Accounting Standards (IAS)

IAS 1	Amendments to IAS 1 *Presentation of Financial Statements* Capital Disclosures
IAS 19	Amendment to IAS 19 *Employee Benefits* Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21	Amendment to IAS 21 *The Effects of Changes in Foreign Exchange* Rates Net Investment in a Foreign Operation
IAS 39	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* The Fair Value Option
IAS 39	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39	Amendments to International Financial Reporting Standards IAS 39 *Financial Instruments: Recognition and Measurement* IFRS 4 *Insurance Contracts* Financial Guarantee Contracts

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application.
The Group has not early adopted any IFRS standards where adoption is not mandatory at the balance sheet date. Where transition provisions in IFRS adopted give an entity a choice whether to apply the new standards prospectively or retrospectively (such as IFRS 5) the Group has elected to apply the standard prospectively from the date of transition.

Accounting policies

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.

Esimation 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 2005 was HRK 59 million (2004: HRK 59 million). More details are given in note 19.

2 | Interest income and expense

(in HRK million)

	GROUP 2005	GROUP 2004	BANK 2005	BANK 2004
Interest income				
Citizens	1,371	1,343	1,235	1,189
Companies	521	506	491	482
Bonds and securities	271	233	252	207
Banks	204	204	200	181
Public sector and others	242	208	240	208
	2,609	**2,494**	**2,418**	**2,267**
Interest expense				
Citizens	607	538	556	483
Companies	134	136	127	131
Banks	219	225	238	228
Public sector and others	71	78	70	71
	1,031	**977**	**991**	**913**

3 | Fee and commission income and expense

(in HRK million)

	GROUP 2005	GROUP 2004 Reclassified	BANK 2005	BANK 2004 Reclassified
Fee and commission income				
Fees and commission on credit card services	511	455	152	130
Payment transaction fees and commission	246	238	235	227
Fees and commission on customer loans	32	38	31	36
Fees and commission on guarantees given	34	32	33	31
Fees and commission on customer services	23	18	22	18
Other fee and commission income	96	153	51	64
	942	**934**	**524**	**506**
Fee and commission expense				
Payment transaction charges	109	128	106	123
Fees and commission expense on credit card services	71	54	65	48
Bank charges	16	26	10	20
Commission to post offices for citizens’ current accounts	1	2	1	1
Other fee and commission expense	24	11	19	25
	221	**221**	**201**	**217**

4 | Other operating income

(in HRK million)

	GROUP 2005	GROUP 2004	BANK 2005	BANK 2004
Foreign exchange trading gain	149	101	138	78
Unrealised gains on securities at fair value	75	24	67	19
Operating lease	41	28	-	-
Realised gains on securities classified as assets available for sale	21	8	21	2
Gains from disposal of fixed assets	17	7	16	6
Foreign exchange revaluation	12	78	13	82
Realised gains on securities at fair value	6	37	4	35
Dividends earned	2	1	106	96
Other income	74	56	36	47
	397	**340**	**401**	**365**

5 | Provisions

(in HRK million)

	Note	GROUP 2005	GROUP 2004	BANK 2005	BANK 2004
Provisions for loans and advances to customers	15	147	150	61	79
Provisions for due from banks	14	1	(4)	4	2
Provisions for legal claims	31	(10)	10	(9)	9
Provisions for guarantees and commitments	31	3	20	-	20
		141	**176**	**56**	**110**

6 | Other operating expenses

(in HRK million)

	Note	GROUP 2005	GROUP 2004 Reclassified	BANK 2005	BANK 2004 Reclassified
Personnel expenses	7	616	573	502	453
Materials and services		417	400	298	264
Deposit insurance premium		66	83	60	76
Indirect and other taxes		17	12	10	11
Other operating expenses		207	141	137	92
		1,323	**1,209**	**1,007**	**896**

Other operating expenses include HRK 42 million of termination benefits accrual related to the Bank's internal reorganisation process. The costs estimated to be incurred were recognised in the current period and are expected to be fully utilised during 2006 and 2007. They are discounted at 5 percent discount rate.

7 I Personnel expenses

(in HRK million)

	GROUP		BANK	
	2005	2004	2005	2004
Net salaries	295	271	245	215
Health insurance costs	69	64	57	51
Taxes and surtaxes due to local authorities	64	65	51	48
Pension insurance costs	89	83	73	65
Other personnel expenses	99	90	76	74
	616	**573**	**502**	**453**

Salaries and other related costs of employees include a bonus for the management and employees of the Bank in the gross amount of HRK 28.4 million (2004: HRK 22.9 million), of which the remuneration of the Bank's Management Board accounts for gross amount of HRK 5.2 million (2004: HRK 4.3 million).
During the year the average number of employees within the Group was 4,037 (2004: 3,929) of which the Bank accounted for 3,445 employees (2004: 3,229).

8 I Depreciation and amortization of fixed and intangible assets

(in HRK million)

	GROUP		BANK	
	2005	2004	2005	2004
Depreciation of property and equipment	172	166	115	121
Depreciation of investment property	1	-	1	-
Amortization of intangible assets	54	90	47	47
	227	**256**	**163**	**168**

There is an amount included within depreciation and amortization of fixed and intangible assets related to the impairment of property and equipment and intangible assets of the Group of HRK 6.9 million (2004: HRK 8 million) and the Bank of HRK 4.9 million (2004: HRK 25 thousand).

9 I Taxation

Profit tax is payable at the rate of 20 percent (2004: 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 and the effect could be significant.
Taxation expense comprises:

(in HRK million)

	GROUP		BANK	
	2005	2004	2005	2004
Current income tax expense	(223)	(202)	(183)	(163)
Deferred tax assets utilised during the year	(59)	(52)	(49)	(42)
Deferred tax assets relating to temporary differences	73	58	60	49
Deferred tax liability relating to temporary difference	(1)	-	(1)	-
Tax charge per income statement	**(210)**	**(196)**	**(173)**	**(156)**

9 I Taxation / continued

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

(in HRK million)

	GROUP		BANK	
	2005	2004	2005	2004
Accounting profit before taxation	**1,005**	**929**	**925**	**834**
Statutory tax rate	20%	20%	20%	20%
Expected nominal tax	**201**	**186**	**185**	**167**
Tax effects of:				
Non deductible expenses	50	35	46	34
Non taxable income	(51)	(38)	(48)	(38)
Other	23	19	-	-
Current income tax expense	**223**	**202**	**183**	**163**
Effective tax rate	**22.2%**	**21.7%**	**19.8%**	**19.5%**

Movements of deferred tax assets are as follows:

(in HRK million)

	GROUP		BANK	
	2005	2004	2005	2004
Deferred tax assets recognised at 1 January	**58**	**51**	**49**	**38**
Integration of Riadria banka	-	-	-	4
Integration of Laguna banka	-	-	4	-
Tax (profits)/losses in the year recognised as deferred tax assets	74	59	60	49
Deferred tax (debit)/credit in the income statement	(59)	(52)	(53)	(42)
Deferred tax assets recognised at 31 December	**73**	**58**	**60**	**49**
Deferred tax assets consist of:				
Deferred loan origination fees as an adjustment to the effective yield	51	40	44	36
Retirement benefits	5	3	2	2
Impairment of real estate	6	5	6	5
Unrealised losses on revaluation of securities	5	2	5	1
Other	6	8	3	5
	73	**58**	**60**	**49**

10 I Cash and current accounts with other banks

(in HRK million)

	GROUP 2005	GROUP 2004	BANK 2005	BANK 2004
Current accounts held with central bank	1,011	1,792	980	1,748
Cash in hand	864	739	816	668
Current accounts and amounts at call with foreign banks	49	113	43	106
Current accounts and amounts at call with domestic banks	14	7	12	5
Other cash items	11	8	9	7
	1,949	**2,659**	**1,860**	**2,534**

11 I Balances with Croatian National Bank

(in HRK million)

	GROUP 2005	GROUP 2004 Reclassified	BANK 2005	BANK 2004 Reclassified
Obligatory and marginal reserve	5,392	4,591	5,181	4,350
Other deposits	3	7	3	5
	5,395	**4,598**	**5,184**	**4,355**

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. The obligatory reserve is calculated as 18 percent of HRK denominated (2004: 18 percent) and 18 percent of foreign currency denominated balances (2004: 18 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.

Marginal reserve represents the amount of foreign and related parties' borrowings required to be deposited with the Croatian National Bank.

In December of 2005, the marginal reserve requirement was 40 percent of net increase in funds received from non-residents and related parties from June 2004 and an additional 15 percent of net increase in funds received from non-residents and related parties from November 2005.

The balances maintained with the Croatian National Bank earned annual interest of 0.75 percent for HRK amounts until April 2005, whilst for the rest of the year this rate was reduced to zero (2004: 1.25 percent). The balances in foreign currencies maintained with the Croatian National Bank bore annual interest of 1.6875 percent for USD and 1.125 percent for EUR amounts (2004: 1.5 percent for USD and 1.5 percent for EUR amounts). 50 percent of the foreign currency obligatory reserve should be maintained in HRK. USD and EUR rates are not fixed.

As of the year end, the Bank and the Group maintained 70 percent of its HRK obligatory reserve and 60 percent of its foreign currency obligatory reserve (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.

12 I Financial assets at fair value through profit and loss

(in HRK million)

	GROUP 2005	GROUP 2004 Reclassified	BANK 2005	BANK 2004 Reclassified
Foreign treasury bills	1,017	987	1,017	987
Foreign government bonds	356	646	356	646
Domestic government bonds	1,092	668	960	544
Domestic treasury bills	1,269	362	1,269	362
Foreign corporate bonds	321	340	320	340
Equities and shares	423	358	414	354
Domestic corporate bonds	57	120	57	120
Accrued interest	76	90	74	48
	4,611	**3,571**	**4,467**	**3,401**

12 | Financial assets at fair value through profit and loss / continued

Following the IAS 39 amendments the Group reclassified certain assets (domestic government bonds as well as domestic equities) that had been previously stated as assets available for sale in 2004 financial statements to the portfolio of financial assets at fair value through profit and loss in comparative figures for 2004. The carrying value of those bonds as at 31 December 2004 amounted to HRK 122 million whereas the respective amount for domestic equities stood at HRK 26 million. All other items were classified as held for trading upon initial recognition.

13 | Derivative financial instruments

(in HRK million)		GROUP		BANK
	2005	2004	2005	2004
Fair values:				
Foreign exchange derivatives	15	7	15	7
Security derivatives	1	1	1	1
Other embedded derivatives	1	24	1	24
	17	**32**	**17**	**32**
Notional amounts:				
Foreign exchange derivatives	3,629	1,050	3,629	1,050
Security derivatives	346	134	346	134
Other embedded derivatives	674	988	674	988
	4,649	**2,172**	**4,649**	**2,172**

Foreign exchange derivatives mostly relate to foreign exchange currency deals bought forward. Security derivatives include bonds bought forward. Other embedded derivatives include loans received with one way foreign currency clause.
The notional amounts of certain types of financials instruments provide a basis for comparison with instruments recognised on the 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
	2005	2004 Reclassified	2005	2004 Reclassified
Term deposits	5,605	4,776	5,282	4,698
Demand deposits	2	1	-	-
Loans to banks	1,052	718	1,133	696
	6,659	**5,495**	**6,415**	**5,394**
Provisions	(15)	(14)	(15)	(11)
	6,644	**5,481**	**6,400**	**5,383**

Term deposits are normally short-term deposits (up to one month) with local and foreign banks bearing an average annual interest rate of 2.83 percent to 3.53 percent (2004: 1.8 and 2.4 percent respectively).
The Bank's placements with other banks include HRK 16.0 million (2004: HRK 19.0 million) related to refinanced borrowings due to the Republic of Croatia and HRK 112.0 million (2004: HRK 120.0 million) of refinanced borrowings due to Government agencies. For more details refer to note 27.
The related currency analysis is provided in note 44.

14 | Due from banks / continued

a) Geographical analysis

(in HRK million)

	GROUP 2005	GROUP 2004	BANK 2005	BANK 2004
Germany	1,462	1,124	1,397	1,040
Republic of Croatia	1,257	464	1,364	691
Great Britain	931	483	898	461
France	487	436	487	436
Austria	446	901	423	882
Belgium	446	401	381	365
Italy	325	358	295	312
United States of America	163	152	147	142
Switzerland	54	238	37	214
Other countries	1,088	938	986	851
	6,659	**5,495**	**6,415**	**5,394**
Provisions	(15)	(14)	(15)	(11)
	6,644	**5,481**	**6,400**	**5,383**

b) Provisions for losses

(in HRK million)

	GROUP 2005	GROUP 2004	BANK 2005	BANK 2004
Balance at 1 January	**14**	**18**	**11**	**9**
Provisions	1	(4)	4	2
Balance at 31 December	**15**	**14**	**15**	**11**

15 | Loans and advances to customers

(in HRK million)

	GROUP 2005	GROUP 2004 Reclassified	BANK 2005	BANK 2004 Reclassified
a) Analysis by type of customer				
Citizens	15,688	13,615	13,637	11,382
Companies	10,498	9,273	10,169	8,966
Public sector and other	4,866	3,444	4,861	3,438
	31,052	**26,332**	**28,667**	**23,786**
Provisions	(1,959)	(1,907)	(1,637)	(1,624)
Deferred interest and fees recognised as an adjustment to the effective yield	(462)	(400)	(341)	(304)
	28,631	**24,025**	**26,689**	**21,858**

15 I Loans and advances to customers / continued

(in HRK million)

	GROUP 2005	GROUP 2004 Reclassified	BANK 2005	BANK 2004 Reclassified
b) Analysis by sector				
Citizens	15,688	13,615	13,637	11,382
Wholesale and retail trade	2,721	2,035	2,407	2,029
Transport and communication	1,368	1,057	1,289	1,002
Construction	1,027	882	909	818
Hotels and restaurants	941	952	921	920
Agriculture, forestry and fishing	782	510	736	474
Food and beverages	548	519	528	499
Energy products	489	414	478	393
Oil refining and gas	76	113	76	113
Other	7,412	6,235	7,686	6,156
	31,052	**26,332**	**28,667**	**23,786**
Provisions	(1,959)	(1,907)	(1,637)	(1,624)
Deferred interest and fees recognised as an adjustment to the effective yield	(462)	(400)	(341)	(304)
	28,631	**24,025**	**26,689**	**21,858**

Within Loans and advances to customers were advances related to Government bonds of the Ministry of Finance as well as Pliva corporate bonds purchased under agreements to resell (reverse repo) to other customers whose value at 31 December 2005 stood at HRK 345.1 million (2004: HRK 23.7 million).

(in HRK million)

	GROUP 2005	GROUP 2004	BANK 2005	BANK 2004
c) Provisions for losses				
Balance at 1 January	**1,907**	**1,842**	**1,624**	**1,530**
Amounts collected	(173)	(121)	(148)	(110)
Amounts written off	(86)	(61)	(52)	(40)
Foreign exchange (gain)/loss	(9)	(24)	4	55
Amortisation of the discount	(57)	(67)	(57)	(56)
Provisions	377	338	266	245
Balance at 31 December	**1,959**	**1,907**	**1,637**	**1,624**
Reconciliation with income statement line item Provisions for loans and advances to customers				
Provisions	377	338	266	245
Amounts collected	(173)	(121)	(148)	(110)
Amortisation of the discount	(57)	(67)	(57)	(56)
Charge in the income statement	**147**	**150**	**61**	**79**

15 | Loans and advances to customers / continued

The Group manages its exposure to credit risk by the application of a variety of control measures: regular assessment using agreed credit criteria; diversification of sector risk to avoid undue concentration in type of business or geographic terms. Where necessary, the Group obtains acceptable collateral to reduce the level of credit risk.
On 31 December 2005 the aggregate amount of non performing loans and receivables for the Group equalled HRK 1,129 million and for the Bank HRK 974 million (2004: HRK 1,275 million and HRK 1,089 million respectively).

(d) Loans and contingencies under guarantee

The state budget includes support for certain key industries in the Republic of Croatia. The recovery of such loans is provided from 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 1,610 million (2004: HRK 1,113 million).

(e) Refinanced loans

Included in loans and receivables are HRK 108 million (2004: HRK 130 million) related to refinanced borrowings due to the Republic of Croatia and HRK 335 million (2004: HRK 384 million) of refinanced borrowings due to the Government Agencies. For more detail on refinanced loans refer to note 27.

16 | Assets available for sale

(in HRK million)

	GROUP		BANK	
	2005	2004 Reclassified	2005	2004 Reclassified
Balance at 1 January	**359**	**162**	**30**	**-**
Purchases/(disposals)	(116)	8	(6)	4
Balance at 31 December	**243**	**170**	**24**	**4**

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

EQUITY INVESTMENTS	COUNTRY	NATURE OF BUSINESS	2005 holding %	2004 holding %
Alstom Power d.o.o.	Croatia	manufacturing	20	20
Metronet telekomunikacije d.d.	Croatia	telecommunications	19	-
Hospitalija trgovina d.o.o.	Croatia	trade	15	18
Europay Hrvatska d.o.o.	Croatia	card services	15	14
Tele 2 d.o.o.	Croatia	telecommunications	14	-
Hrvatski registar obveza po kreditima d.o.o.	Croatia	finance	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
MBU d.o.o.	Croatia	finance	7	7
Međimurske novine d.o.o.	Croatia	newspaper	7	7
Varaždinsko tržište vrijednosnica d.d.	Croatia	finance	3	3
Zagrebačka burza d.d.	Croatia	finance	2	2
Veterinarska stanica d.o.o. Čakovec	Croatia	food processing	2	2
Regionalna razvojna agencija Porin d.o.o.	Croatia	manufacturing	1	1
Središnja depozitarna agencija d.d.	Croatia	finance	1	1
Karlovačka banka d.d.	Croatia	banking	1	1
Elan d.d.	Slovenia	manufacturing	1	1
Istarska autocesta d.d.	Croatia	transport	-	1

17 | Held to maturity investments

(in HRK million)

	GROUP 2005	GROUP 2004 Reclassified	BANK 2005	BANK 2004 Reclassified
Recapitalisation bonds	836	975	836	975
Rehabilitation bonds	435	506	435	506
Republic of Croatia bonds	-	127	-	119
Replacement bonds	26	26	23	23
Other Government bills	20	-	-	-
Accrued interest	35	40	35	40
	1,352	**1,674**	**1,329**	**1,663**

Investment securities on 31 December 2005 were split into held to maturity investments and assets available for sale (refer to note 16) based on whether the management had the positive intent and ability to hold certain securities until maturity at that date.
Republic of Croatia bonds relate to citizens' foreign currency deposits with the former National Bank of Yugoslavia (Republic of Croatia bonds). Following the disintegration of the former Yugoslavia, the Republic of Croatia accepted liability for all deposits made before 27 April 1991 as part of its public debt. In 1992 the Bank took over frozen foreign currency deposits from citizens deposited with banks outside Croatia. The Republic of Croatia also accepted liability for these amounts. As part of the Bank's rehabilitation, the Croatian government recognised additional amounts of HRK 637 million in respect of citizens' frozen deposits. These amounts that had been originally stated in DEM, subsequently converted to EUR, were repayable in 20 semi-annual instalments starting from 1995. The last instalment was ultimately received from the Croatian Ministry of Finance in January 2005.
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 originaly issued by the Ministry of finance. These kuna denominated bonds that mature in 2011, bear an interest rate of 5 percent payable semi annually.

18 | Equity investments in subsidiaries and associates

(in HRK million)

	GROUP 2005	GROUP 2004	BANK 2005	BANK 2004
Consolidated subsidiaries	-	-	256	316
Associates accounted for under equity method in Group accounts (cost in Bank accounts)	38	33	28	28
	38	**33**	**284**	**344**
Movements				
Balance at 1 January	**33**	**29**	**344**	**396**
Consolidation effect arising from equity method	6	4	-	-
Payment of dividend	(1)	-	-	-
Acquired/(integrated)	-	-	(60)	(52)
Balance at 31 December	**38**	**33**	**284**	**344**

18 I Equity investments in subsidiaries and associates / continued

The principal investments in subsidiaries and associates are as follows:

CONSOLIDATED SUBSIDIARIES	COUNTRY	NATURE OF BUSINESS	2005 holding %	2004
Međimurska banka d.d.	Croatia	banking	97	97
PBZ Card d.o.o.	Croatia	card services	100	100
PBZ American Express d.o.o.	Macedonia	card services	95	95
PBZ Leasing d.o.o.	Croatia	leasing	100	100
PBZ Kapital d.o.o.	Croatia	finance	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	56
Centurion financijske usluge d.o.o.	Bosnia and Herzegovina	card services	100	-
Privredna banka - Laguna banka d.d.	Croatia	banking	-	100
ASSOCIATES				
PBZ Croatia osiguranje d.d.	Croatia	finance	50	50
Centurion d.o.o. (formerly Atlas American Express d.o.o.)	Slovenia	card services	25	25

PBZ Croatia osiguranje d.d. and Centurion (formerly Atlas American Express d.o.o.) are accounted for under the equity method. The following table illustrates summarised financial information of the Group's investment in associates:

(in HRK million)	2005	2004
Share of the associates' balance sheet		
Current assets	40	32
Non current assets	2	4
Current liabilities	(3)	(2)
Non current liabilities	(1)	(1)
Net assets, being carrying amount of investment	**38**	**33**
Share of the associates' revenue and profit		
Revenue	15	11
Profit	6	3

19 I Intangible assets and goodwill

(in HRK million) **GROUP**	Goodwill	Software	Other intangible assets	Assets in preparation	Total
Cost or revaluation					
Balance at 1 January 2004	**233**	**175**	**105**	**3**	**516**
Additions	-	36	19	7	62
Disposals and eliminations	-	-	(9)	-	(9)
Balance at 31 December 2004	**233**	**211**	**115**	**10**	**569**
Transfer from Property and equipment	-	7	-	-	7
Balance at 31 December 2004 - Reclassified	**233**	**218**	**115**	**10**	**576**
Balance at 1 January 2005	**59**	**218**	**115**	**10**	**402**
Additions	-	25	17	41	83
Disposals and eliminations	-	(1)	(2)	(36)	(39)
Balance at 31 December 2005	**59**	**242**	**130**	**15**	**446**
Amortization					
Balance at 1 January 2004	**135**	**100**	**55**	**-**	**290**
Charge for the year	39	37	14	-	90
Disposals and eliminations	-	-	(5)	-	(5)
Balance at 31 December 2004	**174**	**137**	**64**	**-**	**375**
Transfer from Property and equipment	-	2	-	-	2
Balance at 31 December 2004 - Reclassified	**174**	**139**	**64**	**-**	**377**
Balance at 1 January 2005	**-**	**139**	**64**	**-**	**203**
Charge for the year	-	37	17	-	54
Disposals and eliminations	-	(1)	(2)	-	(3)
Balance at 31 December 2005	**-**	**175**	**79**	**-**	**254**
Net book value					
Balance at 31 December 2005	**59**	**67**	**51**	**15**	**192**
Balance at 31 December 2004 - Reclassified	**59**	**79**	**51**	**10**	**199**

19 I Intangible assets and goodwill / continued

(in HRK million) **BANK**	Goodwill	Software	Other intangible assets	Assets in preparation	Total
Cost or valuation					
Balance at 1 January 2004	**23**	**142**	**89**	**2**	**256**
Effect of integration of Riadria banka	-	1	2	-	3
Additions	-	27	17	6	50
Disposals and eliminations	-	-	(1)	-	(1)
Balance at 31 December 2004	**23**	**170**	**107**	**8**	**308**
Transfer from Property and equipment	-	7	-	-	7
Balance at 31 December 2004 - Reclassified	**23**	**177**	**107**	**8**	**315**
Balance at 1 January 2005	**14**	**177**	**107**	**8**	**306**
Effect of integration of Laguna banka	-	-	5	-	5
Additions	-	19	16	39	74
Disposals and eliminations	-	-	(2)	(35)	(37)
Balance at 31 December 2005	**14**	**196**	**126**	**12**	**348**
Amortization					
Balance at 1 January 2004	**6**	**82**	**50**	**-**	**138**
Effect of integration of Riadria banka	-	1	1	-	2
Charge for the year	3	31	13	-	47
Disposals and eliminations	-	-	(1)	-	(1)
Balance at 31 December 2004	**9**	**114**	**63**	**-**	**186**
Transfer from Property and equipment	-	2	-	-	2
Balance at 31 December 2004 - Reclassified	**9**	**116**	**63**	**-**	**188**
Balance at 1 January 2005	**-**	**116**	**63**	**-**	**179**
Effect of integration of Laguna banka	-	-	3	-	3
Charge for the year	-	30	17	-	47
Disposals and eliminations	-	-	(2)	-	(2)
Balance at 31 December 2005	**-**	**146**	**81**	**-**	**227**
Net book value					
Balance at 31 December 2005	**14**	**50**	**45**	**12**	**121**
Balance at 31 December 2004 - Reclassified	**14**	**61**	**44**	**8**	**127**

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 American Express (PBZ Card) 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 cash flow projections was 8.96 percent for PBZ American Express and 8.35 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)	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Property and equipment in preparation	Total
GROUP						
Cost or valuation						
Balance at 1 January 2004	**827**	**204**	**118**	**486**	**25**	**1,660**
Additions	77	55	71	55	7	265
Disposals and eliminations	(6)	(13)	(17)	(56)	-	(92)
Balance at 31 December 2004	**898**	**246**	**172**	**485**	**32**	**1,833**
Transfer to Intangible assets and goodwill	-	-	-	(7)	-	(7)
Transfer from Other assets	-	-	-	-	2	2
Balance at 31 December 2004 - Reclassified	**898**	**246**	**172**	**478**	**34**	**1,828**
Balance at 1 January 2005	**898**	**246**	**172**	**478**	**34**	**1,828**
Additions	51	54	72	68	241	486
Transfers to Investment property	(27)	-	-	-	-	(27)
Transfers to Non-current assets held for sale	(147)	(7)	-	-	-	(154)
Disposals and eliminations	(78)	(15)	(23)	(22)	(1)	(139)
Balance at 31 December 2005	**697**	**278**	**221**	**524**	**274**	**1,994**
Depreciation						
Balance at 1 January 2004	**231**	**104**	**32**	**283**	**-**	**650**
Charge of the year	18	38	25	85	-	166
Disposals and eliminations	(1)	(9)	(9)	(48)	-	(67)
Balance at 31 December 2004	**248**	**133**	**48**	**320**	**-**	**749**
Transfer to Intangible assets and goodwill	-	-	-	(2)	-	(2)
Balance at 31 December 2004 - Reclassified	**248**	**133**	**48**	**318**	**-**	**747**
Balance at 1 January 2005	**248**	**133**	**48**	**318**	**-**	**747**
Charge of the year	16	44	33	79	-	172
Transfers to Investment property	(12)	-	-	-	-	(12)
Transfers to Non-current assets held for sale	(50)	(5)	-	-	-	(55)
Disposals and eliminations	(5)	(11)	(12)	(27)	-	(55)
Balance at 31 December 2005	**197**	**161**	**69**	**370**	**-**	**797**
Net book value						
Balance at 31 December 2005	**500**	**117**	**152**	**154**	**274**	**1,197**
Balance at 31 December 2004 - Reclassified	**650**	**113**	**124**	**160**	**34**	**1,081**

Furniture and other equipment and Motor vehicles of the Group include assets leased under operating leases with a net book value of total of HRK 173.0 million (2004: HRK 136.0 million).

20 | Property and equipment / continued

(in HRK million)	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Property and equipment in preparation	Total
BANK						
Cost or valuation						
Balance at 1 January 2004	**601**	**159**	**21**	**380**	**19**	**1,180**
Effect of integration of Riadria banka	67	5	1	3	-	76
Additions	64	40	5	52	7	168
Disposals and eliminations	(6)	(6)	(6)	(43)	-	(61)
Balance at 31 December 2004	**726**	**198**	**21**	**392**	**26**	**1,363**
Transfer to Intangible assets and goodwill	-	-	-	(7)	-	(7)
Transfer from Other assets	-	-	-	-	2	2
Balance at 31 December 2004 - Reclassified	**726**	**198**	**21**	**385**	**28**	**1,358**
Balance at 1 January 2005	**726**	**198**	**21**	**385**	**28**	**1,358**
Effect of integration of Laguna banka	29	6	-	2	-	37
Additions	50	34	2	41	137	264
Transfers to Investment property	(27)	-	-	-	-	(27)
Transfers to Non-current assets held for sale	(142)	(7)	-	-	-	(149)
Disposals and eliminations	(78)	(6)	(2)	(18)	-	(104)
Balance at 31 December 2005	**558**	**225**	**21**	**410**	**165**	**1,379**
Depreciation						
Balance at 1 January 2004	**175**	**78**	**13**	**230**	**-**	**496**
Effect of integration of Riadria banka	13	3	-	3	-	19
Charge of the year	15	29	4	73	-	121
Disposals and eliminations	(1)	(6)	(6)	(37)	-	(50)
Balance at 31 December 2004	**202**	**104**	**11**	**269**	**-**	**586**
Transfer to Intangible assets and goodwill	-	-	-	(2)	-	(2)
Balance at 31 December 2004 - Reclassified	**202**	**104**	**11**	**267**	**-**	**584**
Balance at 1 January 2005	**202**	**104**	**11**	**267**	**-**	**584**
Effect of integration of Laguna banka	4	3	-	1	-	8
Charge of the year	13	34	3	65	-	115
Transfers to Investment property	(12)	-	-	-	-	(12)
Transfers to Non-current assets held for sale	(50)	(5)	-	-	-	(55)
Disposals and eliminations	(4)	(5)	(2)	(18)	-	(29)
Balance at 31 December 2005	**153**	**131**	**12**	**315**	**-**	**611**
Net book value						
Balance at 31 December 2005	**405**	**94**	**9**	**95**	**165**	**768**
Balance at 31 December 2004 - Reclassified	**524**	**94**	**10**	**118**	**28**	**774**

21 | Investment property

(in HRK million)	GROUP	BANK
Cost or revaluation		
Balance at 1 January 2005	**-**	**-**
Transferred from Property and equipment	27	27
Balance at 31 December 2005	**27**	**27**
Depreciation		
Balance at 1 January 2005	**-**	**-**
Transferred from Property and equipment	12	12
Charge for the year	1	1
Balance at 31 December 2005	**13**	**13**
Net book value		
Balance at 31 December 2005	**14**	**14**
Balance at 31 December 2004	**-**	**-**

The Bank reclassified certain properties, which were used as investment property from Property and equipment.
The estimated fair value of investment property held by the Bank as at 31 December 2005 amounted to HRK 23 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 3,406 thousand.

22 | Non-current assets held for sale

The Bank's Management Board resolved to dispose of two office buildings together with related fixtures and fittings and signed the contracts with respective buyers. The whole transaction is estimated to be completed in the first quarter of 2006 and therefore the assets were classified as non-current assets held for sale and presented separately in the balance sheet.
The proceeds of the disposal are estimated to exceed the net carrying amount of the relevant assets and, accordingly, no impairment loss was recognised on the classification of these assets as held for sale.
The major classes of assets comprising the non-current assets held for sale are as follows:

(in HRK million)		GROUP		BANK
	2005	2004	2005	2004
Land and buildings	99	-	92	-
Furniture and other equipment	2	-	2	-
	101	**-**	**94**	**-**

23 I Other assets

(in HRK million)

	GROUP 2005	GROUP 2004 Reclassified	BANK 2005	BANK 2004 Reclassified
Amounts due - deriving from foreign currency transactions	-	116	-	75
Fees on payment transactions	24	23	23	21
Amounts receivable from debtors	25	20	3	2
Amounts to be debited under processing	10	12	9	11
Prepaid expenses	14	10	9	7
Other items	89	37	15	15
	162	**218**	**59**	**131**

24 I Due to banks

(in HRK million)

	GROUP 2005	GROUP 2004	BANK 2005	BANK 2004
Term deposits	3,152	44	3,784	372
Demand deposits	121	14	127	174
	3,273	**58**	**3,911**	**546**

25 I Due to customers

(in HRK million)

	GROUP 2005	GROUP 2004 Reclassified	BANK 2005	BANK 2004 Reclassified
Term deposits	20,641	19,358	18,897	17,597
Demand deposits	11,737	10,559	11,107	9,808
	32,378	**29,917**	**30,004**	**27,405**

26 I Derivative financial instruments

(in HRK million)

	GROUP 2005	GROUP 2004	BANK 2005	BANK 2004
Fair values:				
Foreign exchange derivatives	17	5	17	5
Security derivatives	4	1	4	1
Other embedded derivatives	1	24	1	24
	22	**30**	**22**	**30**
Notional amounts:				
Foreign exchange derivatives	3,642	1,048	3,642	1,048
Security derivatives	1,345	489	1,345	489
Other embedded derivatives	436	590	436	590
	5,423	**2,127**	**5,423**	**2,127**

Foreign exchange derivatives mostly relate to foreign exchange currency deals sold forward. Security derivatives include bonds sold forward. Other embedded derivatives include loans received with a one way foreign currency clause.
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.

27 | Other borrowed funds

(in HRK million)

	GROUP		BANK	
	2005	2004 Reclassified	2005	2004 Reclassified
Domestic borrowings	3,063	2,568	3,039	2,507
Foreign borrowings	4,346	4,364	4,117	4,365
Refinanced debt	822	977	822	977
	8,231	**7,909**	**7,978**	**7,849**

(a) 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 HRK 4,030 million liabilities 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 at LIBOR + 13/16 percent. The amounts due to the Republic of Croatia by the Bank were similarly rescheduled and redenominated. The Bank expects to recover the majority of this amount from the Croatian companies who were the original borrowers of the funds.

(b) 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 the series of Consolidation Agreements. The Bank expects to recover this amount from the Croatian companies who were the original borrowers of the funds by rescheduling the loans in a manner similar to the above-described arrangements.

(c) Payables under repurchase agreements

Payables under repurchase agreements of the Bank under other borrowed funds include HRK 1,370 million in relation to Government bonds issued by the Ministry of Finance as well as some foreign government bills pledged under repurchase agreements (2004: HRK 109 million).

28 I Debt securities issued

In April 1999 the Bank issued long-term bonds with a repayment schedule linked to the euro. These bonds were issued with maturity of 7 years and carry interest of 7.5 percent. The amount due at 31 December 2005 stood at HRK 19 million (2004: HRK 20 million).

29 I Other liabilities

(in HRK million)		GROUP		BANK
	2005	2004	2005	2004
Amounts payable to creditors	780	656	33	23
Items in course of payment and other liabilities	591	456	552	483
Salaries and other staff costs	152	110	139	99
Taxes	46	26	35	13
	1,569	**1,248**	**759**	**618**

30 I Accruals and deferred income

(in HRK million)		GROUP		BANK
	2005	2004 Reclassified	2005	2004 Reclassified
Deferred tax liabilities	1	-	1	-
Accrued interest not paid	2	3	1	1
Deferred income	19	10	6	5
Accrued expenses	90	94	59	74
	112	**107**	**67**	**80**

31 I Provisions for risks and charges

(in HRK million)		GROUP		BANK
	2005	2004	2005	2004
a) Analysis				
Provisions for contingent liabilities and commitments	133	130	115	114
Provisions for legal claims	62	93	60	78
Provisions for other risks and charges	8	1	-	-
	203	**224**	**175**	**192**
b) Movements				
Balance at 1 January	**224**	**201**	**192**	**162**
Release of provisions	(13)	(8)	(7)	-
Provisions for guarantees and commitments (note 5)	3	20	-	20
Provisions for legal claims (note 5)	(10)	10	(9)	9
Foreign exchange loss	(1)	1	(1)	1
Balance at 31 December	**203**	**224**	**175**	**192**

32 I Contingent liabilities and commitments

Legal claims

As at 31 December 2005 there were several litigations 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 loss in litigation as at 31 December 2005 made by the Group stood at HRK 62 million whilst the Bank provided HRK 60 million (refer to note 31).

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 133 million is necessary to cover risks due to default of the respective counterparties (refer to note 31).

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

(in HRK million)		GROUP		BANK
	2005	2004	2005	2004
Undrawn lending commitments	6,651	5,276	6,456	5,128
Performance guarantees	1,345	1,134	1,324	1,104
Foreign currency guarantees	333	1,706	319	345
Foreign currency letters of credit	277	256	273	251
HRK guarantees	242	275	227	253
Other contingent liabilities	63	74	52	73
	8,911	**8,721**	**8,651**	**7,154**

On 31 December 2005 the Group and the Bank had long-term commitments in respect of rent for business premises and equipment lease agreements expiring between 2006 and 2010. 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 2005 are presented below:

	2005	2006	2007	2008	2009	2010	Total
Group							
Premises	31	32	33	34	34	35	**199**
Equipment	7	8	9	10	10	11	**55**
	38	**40**	**42**	**44**	**44**	**46**	**254**
Bank							
Premises	29	30	33	34	34	35	**195**
Equipment	7	8	9	10	10	11	**55**
	36	**38**	**42**	**44**	**44**	**46**	**250**

33 | Share capital

The total number of authorised registered shares on 31 December 2005 was 16,660 thousand (2004: 16,660 thousand) with a nominal value of HRK 100 per share (2004: 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 the Share Purchase Agreement in Relation to Privredna banka Zagreb. By 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 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 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 EBRD concluded a contract on 22 January 2003 for the purchase of 965,746 shares by EBRD from Intesa Holding International. The ownership structure as at 31 December 2005 was as follows.

	REGISTERED SHARES	
	Number of shares	Percentage of ownership
Intesa Holding International	12,712,007	76.3%
European Bank for Reconstruction and Development	3,464,746	20.8%
Minority shareholders	435,118	2.6%
Treasury shares	48,129	0.3%
	16,660,000	**100%**

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

(number of shares)	2005	2004
Balance at 1 January	**48,434**	**20,585**
Increase	30,332	100,071
Decrease	(30,637)	(72,222)
Balance at 31 December	**48,129**	**48,434**

34 | 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 4 April 2005, at their General Shareholders Meeting the shareholders of Privredna banka Zagreb made a decision on the distribution of a dividend of HRK 271 million related to 2004 results. At the same meeting, the shareholders approved the allocation of 30,060 treasury shares of the Bank to the employees of PBZ as a share based bonus payment.

During 2005, the Bank purchased a total of 30,332 treasury shares on the open market for own purposes.

35 | Cash and cash equivalents

(in HRK million)		GROUP		BANK
	2005	2004	2005	2004
Cash and current accounts with other banks (note 10)	1,949	2,659	1,860	2,534
Due from banks with maturity of up to 3 months (note 14 and 45)	5,644	4,625	5,497	4,828
	7,593	**7,284**	**7,357**	**7,362**

36 I Managed funds for and on behalf of third parties

(in HRK million)

	GROUP 2005	GROUP 2004	BANK 2005	BANK 2004
LIABILITIES				
Local authorities and similar organisations	495	500	491	494
Companies	4	5	3	4
Banks and other institutions	266	263	261	257
	765	**768**	**755**	**755**
LESS: ASSETS	757	758	747	747
	8	**10**	**8**	**8**

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. 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.

37 I Leases

PBZ Leasing d.o.o., 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 lease in the Group financial statements are included within loans and advances to customers in the total amount of HRK 564.4 million (2004: HRK 359.9 million) (refer to note 15). The amounts related to operating lease arrangements are classified within property and equipment (refer to note 20). The net book value of leased tangible fixed assets was HRK 173.0 million (2004: HRK 136.0 million).
Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are set out below:

(in HRK million)

	Minimum payments 2005	Present value of payments 2005	Minimum payments 2004	Present value of payments 2004
Next year	166	127	123	95
Between one and five years	371	294	264	218
After five years	197	153	70	56
Total minimum lease payments receivable	**734**	**574**	**457**	**369**
Unearned finance income	(160)	-	(88)	-
Total investment in finance lease	**574**	**574**	**369**	**369**
Less: Allowance for uncollectable amounts	(14)	(14)	(9)	(9)
Net investment in finance lease	**560**	**560**	**360**	**360**

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

(in HRK million)	2005	2004
Within one year	46	32
After one year but no more than five years	82	73
More than five years	4	6
	132	**111**

38 | Related party transactions

Privredna banka Zagreb and its subsidiaries are under controlling interest of Banca Intesa, which owned 76.3 percent of the share capital as at 31 December 2005.

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 Group. In addition, companies influenced by the key management personnel of the Bank are also considered to be related parties.

The Bank grants loans to or places deposits with the companies to which it is related. Such loans are made in the ordinary course of business at terms and conditions available to third parties.

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

(in HRK million)	Key management personnel	Associated companies
Group		
LOANS GIVEN		
Loans outstanding at 1 January 2005	**2**	**472**
Changes during the year	-	32
Loans outstanding at 31 December 2005	**2**	**504**
DEPOSITS AND LOANS RECEIVED		
Balance at 1 January 2005	**12**	**2,245**
Changes during the year	5	2,981
Balance at 31 December 2005	**17**	**5,226**
Guarantees issued	-	125
Bank		
LOANS GIVEN		
Loans outstanding at 1 January 2005	**1**	**1,278**
Changes during the year	-	58
Loans outstanding at 31 December 2005	**1**	**1,336**
DEPOSITS AND LOANS RECEIVED		
Balance at 1 January 2005	**11**	**2,779**
Changes during the year	4	2,953
Balance at 31 December 2005	**15**	**5,732**
Guarantees issued	-	267

No provisions were recognised in respect of loans given to related parties (2004: nil).

Key management compensation:

(in HRK million)		**GROUP**		**BANK**
	2005	2004	2005	2004
Salaries and other short-term benefits	26	25	15	14
Share-based payments	6	6	6	6
Termination benefits	-	1	-	-
	32	**32**	**21**	**20**

Key management personnel include Management Board and Supervisory Board members, as well as executive directors directly responsible to the President of the Management Board.

39 I 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 being 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. Methodology and models for managing operational risk have been developed.

Credit risk

The Group is subject to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that 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 32.
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 set limits. Breaches are reported to appropriate bodies and personnel within the Bank authorised to approve it. Any substantial increases in credit exposure are authorised by the Credit Committee. The Assets Quality Committee monitors changes in credit-worthiness of credit exposures and reviews 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 the credit risk assessment. The Group's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Collateral for loans, guarantees, and letters of credit is usually in the form of cash, inventory, listed investments or other property.

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 in compliance with liquidity risk according to regulatory and internal policies for maintenance of liquidity reserves, matching of liabilities and assets, limits control, preferred liquidity ratios and contingency planning procedure. 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 fullfilment of all customer needs.

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 utilisation 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.

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.

39 | Financial risk management policies / 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 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.

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 the customers. Derivative financial instruments used by the Group include foreign exchange swaps and forwards. Derivatives are contracts 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 reputational 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') risk exposure assessment); to support the management decision making process by developing efficient policies for management and mitigation of operational risk at the Group level; adjustment of the pricing/provisioning policy by incorporation of expected losses and allocation of adequate economic/regulatory capital for unexpected losses.

40 | 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 instruments held for trading are measured at fair value. Loans and advances to customers and assets held to maturity are measured at amortised cost less impairment.
The following methods and assumptions have been made in estimating the fair value of financial instruments.

- As at 31 December 2005 kuna component of obligatory reserve with the Croatian National Bank earned no interest. The fair value of balances with the Croatian National Bank for the Group is estimated to be 5,359 million kuna and for the Bank 5,149 million kuna;
- Loans and advances to customers are net of specific and other provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected future cash flows are estimated considering credit risk and any indication of impairment. As the Group has a limited portfolio of loans and advances with fixed rate and longer term maturity, 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 where fair value is based on the latest available financial statements of the issuer;
- For some of investments carried at amortised cost less impairment a quoted market price is not available and fair value is, where possible, estimated using mark to model techniques and, as a result, their estimated fair value appeared not to be materially different from their carrying value. However, the afore-mentioned techniques did not include market liquidity factor on similar instruments. In this context, the fair value of domestic treasury bills is estimated at 1,269 million kuna (for both the Group and the Bank). The fair value of securities held to maturity for the Group is estimated to be at HRK 1,539 million kuna and for the Bank 1,517 million kuna;
- 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 has no quoted market prices and thus fair value cannot be reliably measured.

41 | Financial information by segment

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 2005 and 2004. 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.

(in HRK million)

As at 31 December 2005	Banking	Card services	Leasing	Other financial services	Non financial services	Consolidation adjustments	Group Total
Interest income	2,512	53	41	3	-	-	2,609
Interest expense	(1,017)	-	-	(14)	-	-	(1,031)
Intersegment	16	(8)	(29)	21	-	-	-
Net interest income	1,511	45	12	10	-	-	1,578
Fee and commission income	538	354	1	34	15	-	942
Fee and commission expense	(198)	(10)	(1)	(6)	(6)	-	(221)
Intersegment	8	(5)	8	(2)	-	(9)	-
Net fee and commission income	348	339	8	26	9	(9)	721
Other operating income	413	15	69	2	8	(110)	397
Operating income	2,272	399	89	38	17	(119)	2,696
Provisions, other operating expenses and depreciation and amortisation	(1,308)	(281)	(83)	(25)	(11)	17	(1,691)
Share of the profit and loss accounted for using the equity method	-	-	-	6	-	-	6
Income taxes	(180)	(24)	(2)	(3)	(1)	-	(210)
Minority interests	(1)	-	-	-	(1)	-	(2)
Net profit for the year	**783**	**94**	**4**	**16**	**4**	**(102)**	**799**
Segment assets	49,531	1,288	841	703	49	(1,831)	50,581
Equity investments in subsidiaries and associates	37	1	-	-	-	-	38
Total assets	**49,568**	**1,289**	**841**	**703**	**49**	**(1,831)**	**50,619**
Segment liabilities	44,866	1,015	810	647	4	(1,581)	45,761
Taxes payable	36	6	2	2	-	-	46
Total liabilities	**44,902**	**1,021**	**812**	**649**	**4**	**(1,581)**	**45,807**

41 | Financial information by segment / continued

(in HRK million)

As at 31 December 2004 Reclassified	Banking	Card services	Leasing	Other financial services	Non financial services	Consolidation adjustments	**Group** Total
Interest income	2,399	59	26	10	-	-	2,494
Interest expense	(971)	-	-	(6)	-	-	(977)
Intersegment	29	(3)	(21)	1	-	(6)	-
Net interest income	1,457	56	5	5	-	(6)	1,517
Fee and commission income	529	326	37	33	9	-	934
Fee and commission expense	(213)	(8)	-	-	-	-	(221)
Intersegment	2	(3)	11	-	-	(10)	-
Net fee and commission income	318	315	48	33	9	(10)	713
Other operating income	388	10	14	15	13	(100)	340
Operating income	2,163	381	67	53	22	(116)	2,570
Provisions, other operating expenses and depreciation and amortisation	(1,282)	(272)	(60)	(32)	(17)	22	(1,641)
Share of the profit and loss accounted for using the equity method	-	-	-	3	-	-	3
Income taxes	(167)	(23)	(1)	(4)	(1)	-	(196)
Minority interests	(1)	-	-	-	-	-	(1)
Net profit for the year	**713**	**86**	**6**	**20**	**4**	**(94)**	**735**
Segment assets	43,372	1,132	539	419	49	(1,745)	43,766
Equity investments in subsidiaries and associates	32	1	-	-	-	-	33
Total assets	**43,404**	**1,133**	**539**	**419**	**49**	**(1,745)**	**43,799**
Segment liabilities	39,170	875	513	356	2	(1,429)	39,487
Taxes payable	14	8	1	2	1	-	26
Total liabilities	**39,184**	**883**	**514**	**358**	**3**	**(1,429)**	**39,513**

42 | Interest rate risk

(in HRK million)

Group

As at 31 December 2005	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	63	-	-	-	1,886	**1,949**
Balances with Croatian National Bank	2,162	-	-	-	3,233	**5,395**
Financial assets at fair value through profit and loss	790	793	1,359	1,246	423	**4,611**
Derivative financial instruments	-	-	-	-	17	**17**
Due from banks	6,402	135	105	2	-	**6,644**
Loans and advances to customers	27,402	619	221	389	-	**28,631**
Assets available for sale	55	34	137	14	3	**243**
Held to maturity investments	35	-	20	1,297	-	**1,352**
Equity investments in subsidiaries and associates	-	-	-	-	38	**38**
Intangible assets	-	-	-	-	192	**192**
Property and equipment	-	-	-	-	1,197	**1,197**
Investment property	-	-	-	-	14	**14**
Non current assets held for sale	-	-	-	-	101	**101**
Other assets	-	-	-	-	162	**162**
Deferred tax assets	-	-	-	-	73	**73**
	36,909	**1,581**	**1,842**	**2,948**	**7,339**	**50,619**
Liabilities						
Due to banks	3,048	104	109	12	-	**3,273**
Due to customers	30,845	494	250	750	39	**32,378**
Derivative financial instruments	-	-	-	-	22	**22**
Other borrowed funds	6,553	691	91	896	-	**8,231**
Debt securities issued	-	-	-	19	-	**19**
Other liabilities	-	-	-	-	1,569	**1,569**
Accruals and deferred income	-	-	-	-	112	**112**
Provisions for risks and charges	-	-	-	-	203	**203**
	40,446	**1,289**	**450**	**1,677**	**1,945**	**45,807**
Interest sensitivity gap	**(3,537)**	**292**	**1,392**	**1,271**	**5,394**	**4,812**

42 | Interest rate risk / continued

(in HRK million)

As at 31 December 2005	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Bank Total
Assets						
Cash and current accounts with other banks	55	-	-	-	1,805	**1,860**
Balances with Croatian National Bank	2,097	-	-	-	3,087	**5,184**
Financial assets at fair value through profit and loss	790	793	1,359	1,167	358	**4,467**
Derivative financial instruments	-	-	-	-	17	**17**
Due from banks	6,390	-	10	-	-	**6,400**
Loans and advances to customers	26,123	49	209	308	-	**26,689**
Assets available for sale	24	-	-	-	-	**24**
Held to maturity investments	35	-	-	1,294	-	**1,329**
Equity investments in subsidiaries and associates	-	-	-	-	284	**284**
Intangible assets	-	-	-	-	121	**121**
Property and equipment	-	-	-	-	768	**768**
Investment property	-	-	-	-	14	**14**
Non current assets held for sale	-	-	-	-	94	**94**
Other assets	-	-	-	-	59	**59**
Deferred tax assets	-	-	-	-	60	**60**
	35,514	**842**	**1,578**	**2,769**	**6,667**	**47,370**
Liabilities						
Due to banks	3,686	104	109	12	-	**3,911**
Due to customers	29,225	490	220	69	-	**30,004**
Derivative financial instruments	-	-	-	-	22	**22**
Other borrowed funds	7,246	64	59	609	-	**7,978**
Debt securities issued	-	-	-	19	-	**19**
Other liabilities	-	-	-	-	759	**759**
Accruals and deferred income	-	-	-	-	67	**67**
Provisions for risks and charges	-	-	-	-	175	**175**
	40,157	**658**	**388**	**709**	**1,023**	**42,935**
Interest sensitivity gap	**(4,643)**	**184**	**1,190**	**2,060**	**5,644**	**4,435**

42 I Interest rate risk / continued

(in HRK million)

As at 31 December 2004 - Reclassified	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Group Total
Assets						
Cash and current accounts with other banks	2,659	-	-	-	-	**2,659**
Balances with Croatian National Bank	4,598	-	-	-	-	**4,598**
Financial assets at fair value through profit and loss	1,321	584	745	507	414	**3,571**
Derivative financial instruments	-	-	-	-	32	**32**
Due from banks	5,161	13	300	7	-	**5,481**
Loans and advances to customers	22,907	310	204	604	-	**24,025**
Assets available for sale	22	10	36	96	6	**170**
Held to maturity investments	172	-	1	1,501	-	**1,674**
Equity investments in subsidiaries and associates	-	-	-	-	33	**33**
Intangible assets	-	-	-	-	199	**199**
Property and equipment	-	-	-	-	1,081	**1,081**
Other assets	-	-	-	-	218	**218**
Deferred tax assets	-	-	-	-	58	**58**
	36,840	**917**	**1,286**	**2,715**	**2,041**	**43,799**
Liabilities						
Due to banks	45	-	-	13	-	**58**
Due to customers	28,570	661	469	217	-	**29,917**
Derivative financial instruments	-	-	-	-	30	**30**
Other borrowed funds	7,060	68	439	342	-	**7,909**
Debt securities issued	-	-	-	20	-	**20**
Other liabilities	-	-	-	-	1,248	**1,248**
Accruals and deferred income	-	-	-	-	107	**107**
Provisions for risks and charges	-	-	-	-	224	**224**
	35,675	**729**	**908**	**592**	**1,609**	**39,513**
Interest sensitivity gap	**1,165**	**188**	**378**	**2,123**	**432**	**4,286**

42 | Interest rate risk / continued

(in HRK million)

As at 31 December 2004 - Reclassified	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	**Bank** Total
Assets						
Cash and current accounts with other banks	2,534	-	-	-	-	**2,534**
Balances with Croatian National Bank	4,355	-	-	-	-	**4,355**
Financial assets at fair value through profit and loss	1,151	564	745	587	354	**3,401**
Derivative financial instruments	-	-	-	-	32	**32**
Due from banks	5,381	2	-	-	-	**5,383**
Loans and advances to customers	21,314	32	171	341	-	**21,858**
Assets available for sale	4	-	-	-	-	**4**
Held to maturity investments	165	-	-	1,498	-	**1,663**
Equity investments in subsidiaries and associates	-	-	-	-	344	**344**
Intangible assets	-	-	-	-	127	**127**
Property and equipment	-	-	-	-	774	**774**
Other assets	-	-	-	-	131	**131**
Deferred tax assets	-	-	-	-	49	**49**
	34,904	**598**	**916**	**2,426**	**1,811**	**40,655**
Liabilities						
Due to banks	533	-	-	13	-	**546**
Due to customers	26,407	469	420	109	-	**27,405**
Derivative financial instruments	-	-	-	-	30	**30**
Other borrowed funds	7,121	42	350	336	-	**7,849**
Debt securities issued	-	-	-	20	-	**20**
Other liabilities	-	-	-	-	618	**618**
Accruals and deferred income	-	-	-	-	80	**80**
Provisions for risks and charges	-	-	-	-	192	**192**
	34,061	**511**	**770**	**478**	**920**	**36,740**
Interest sensitivity gap	**843**	**87**	**146**	**1,948**	**891**	**3,915**

43 I Weighted average interest rates

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

	GROUP Weighted average interest rate	GROUP Weighted average interest rate	BANK Weighted average interest rate	BANK Weighted average interest rate
	2005 (%)	2004 (%)	2005 (%)	2004 (%)
Cash reserves	0.25	1.19	0.25	1.19
Balances with the CNB	1.14	1.46	1.14	1.48
Securities held for trading	4.44	4.49	6.07	6.14
Due from banks	2.65	1.96	2.73	1.99
Loans and advances to customers	7.47	8.22	7.48	8.06
Public debt due from the Republic of Croatia	5.00	5.00	5.00	5.00
Replacement bonds	5.00	5.00	5.00	5.00
Due to customers	2.58	2.59	3.69	3.66
Other borrowed funds	2.45	2.91	2.57	2.91

44 | Currency risk

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.

(in HRK million)

As at 31 December 2005	EUR	CHF	USD	Other currencies	HRK	Group Total
Assets						
Cash and current accounts with other banks	277	24	43	80	1,525	**1,949**
Balances with Croatian National Bank	2,159	-	3	-	3,233	**5,395**
Financial assets at fair value through profit and loss	2,451	25	113	95	1,927	**4,611**
Derivative financial instruments	1	-	-	-	16	**17**
Due from banks	3,953	21	2,428	242	-	**6,644**
Loans and advances to customers	18,568	1,352	613	19	8,079	**28,631**
Assets available for sale	10	-	-	-	233	**243**
Held to maturity investments	1,305	-	-	-	47	**1,352**
Equity investments in subsidiaries and associates	-	-	-	1	37	**38**
Intangible assets	-	-	-	-	192	**192**
Property and equipment	-	-	-	-	1,197	**1,197**
Investment property	-	-	-	-	14	**14**
Non current assets held for sale	-	-	-	-	101	**101**
Other assets	4	-	-	1	157	**162**
Deferred tax assets	-	-	-	-	73	**73**
	28,728	**1,422**	**3,200**	**438**	**16,831**	**50,619**
Liabilities						
Due to banks	3,197	12	50	14	-	**3,273**
Due to customers	20,979	386	2,600	265	8,148	**32,378**
Derivative financial instruments	4	-	-	-	18	**22**
Other borrowed funds	5,333	7	547	21	2,323	**8,231**
Debt securities issued	19	-	-	-	-	**19**
Other liabilities	148	7	37	44	1,333	**1,569**
Accruals and deferred income	2	-	-	-	110	**112**
Provisions for risks and charges	17	-	9	-	177	**203**
	29,699	**412**	**3,243**	**344**	**12,109**	**45,807**
Net on balance sheet position	**(971)**	**1,010**	**(43)**	**94**	**4,722**	**4,812**

44 | Currency risk / continued

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.

(in HRK million)

As at 31 December 2005	EUR	CHF	USD	Other currencies	HRK	Bank Total
Assets						
Cash and current accounts with other banks	274	22	42	35	1,487	**1,860**
Balances with Croatian National Bank	2,094	-	3	-	3,087	**5,184**
Financial assets at fair value through profit and loss	2,326	25	113	95	1,908	**4,467**
Derivative financial instruments	1	-	-	-	16	**17**
Due from banks	3,570	-	2,406	237	187	**6,400**
Loans and advances to customers	17,268	1,328	613	19	7,461	**26,689**
Assets available for sale	-	-	-	-	24	**24**
Held to maturity investments	1,305	-	-	-	24	**1,329**
Equity investments in subsidiaries and associates	-	-	-	-	284	**284**
Intangible assets	-	-	-	-	121	**121**
Property and equipment	-	-	-	-	768	**768**
Investment property	-	-	-	-	14	**14**
Non current assets held for sale	-	-	-	-	94	**94**
Other assets	2	-	-	1	56	**59**
Deferred tax assets	-	-	-	-	60	**60**
	26,840	**1,375**	**3,177**	**387**	**15,591**	**47,370**
Liabilities						
Due to banks	3,517	12	50	14	318	**3,911**
Due to customers	19,141	338	2,577	259	7,689	**30,004**
Derivative financial instruments	4	-	-	-	18	**22**
Other borrowed funds	4,640	7	547	21	2,763	**7,978**
Debt securities issued	19	-	-	-	-	**19**
Other liabilities	129	7	34	43	546	**759**
Accruals and deferred income	1	-	-	-	66	**67**
Provisions for risks and charges	17	-	9	-	149	**175**
	27,468	**364**	**3,217**	**337**	**11,549**	**42,935**
Net on balance sheet position	**(628)**	**1,011**	**(40)**	**50**	**4,042**	**4,435**

44 | Currency risk / continued

(in HRK million)

As at 31 December 2004 - Reclassified	EUR	CHF	USD	Other currencies	HRK	**Group** Total
Assets						
Cash and current accounts with other banks	279	20	89	46	2,225	**2,659**
Balances with Croatian National Bank	147	-	1,745	-	2,706	**4,598**
Financial assets at fair value through profit and loss	2,604	26	166	83	692	**3,571**
Derivative financial instruments	1	-	-	-	31	**32**
Due from banks	4,576	286	374	245	-	**5,481**
Loans and advances to customers	14,986	125	688	21	8,205	**24,025**
Assets available for sale	86	-	-	-	84	**170**
Held to maturity investments	1,647	-	-	-	27	**1,674**
Equity investments in subsidiaries and associates	-	-	-	1	32	**33**
Intangible assets	-	-	-	-	199	**199**
Property and equipment	-	-	-	-	1,081	**1,081**
Other assets	62	3	13	5	135	**218**
Deferred tax assets	-	-	-	-	58	**58**
	24,388	**460**	**3,075**	**401**	**15,475**	**43,799**
Liabilities						
Due to banks	-	14	32	12	-	**58**
Due to customers	19,440	431	2,304	268	7,474	**29,917**
Derivative financial instruments	1	-	-	-	29	**30**
Other borrowed funds	5,638	8	630	25	1,608	**7,909**
Debt securities issued	20	-	-	-	-	**20**
Other liabilities	104	2	30	44	1,068	**1,248**
Accruals and deferred income	10	-	-	-	97	**107**
Provisions for risks and charges	38	-	8	-	178	**224**
	25,251	**455**	**3,004**	**349**	**10,454**	**39,513**
Net on balance sheet position	**(863)**	**5**	**71**	**52**	**5,021**	**4,286**

44 | Currency risk / continued

(in HRK million) **As at 31 December 2004** **- Reclassified**	EUR	CHF	USD	Other currencies	HRK	**Bank** Total
Assets						
Cash and current accounts with other banks	258	17	85	39	2,135	**2,534**
Balances with Croatian National Bank	45	-	1,745	-	2,565	**4,355**
Financial assets at fair value through profit and loss	2,488	26	116	83	688	**3,401**
Derivative financial instruments	1	-	-	-	31	**32**
Due from banks	4,511	239	317	241	75	**5,383**
Loans and advances to customers	13,586	117	688	21	7,446	**21,858**
Assets available for sale	-	-	-	-	4	**4**
Held to maturity investments	1,640	-	-	-	23	**1,663**
Equity investments in subsidiaries and associates	-	-	-	-	344	**344**
Intangible assets	-	-	-	-	127	**127**
Property and equipment	-	-	-	-	774	**774**
Other assets	58	2	12	4	55	**131**
Deferred tax assets	-	-	-	-	49	**49**
	22,587	**401**	**2,963**	**388**	**14,316**	**40,655**
Liabilities						
Due to banks	318	14	76	12	126	**546**
Due to customers	17,558	371	2,244	249	6,983	**27,405**
Derivative financial instruments	1	-	-	-	29	**30**
Other borrowed funds	5,101	8	630	25	2,085	**7,849**
Debt securities issued	20	-	-	-	-	**20**
Other liabilities	89	2	30	44	453	**618**
Accruals and deferred income	4	-	-	-	76	**80**
Provisions for risks and charges	38	-	8	-	146	**192**
	23,129	**395**	**2,988**	**330**	**9,898**	**36,740**
Net on balance sheet position	**(542)**	**6**	**(25)**	**58**	**4,418**	**3,915**

45 | Liquidity risk

(in HRK million)

As at 31 December 2005	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Group Total
Assets						
Cash and current accounts with other banks	1,949	-	-	-	-	**1,949**
Balances with Croatian National Bank	5,395	-	-	-	-	**5,395**
Financial assets at fair value through profit and loss	518	795	1,394	729	1,175	**4,611**
Derivative financial instruments	17	-	-	-	-	**17**
Due from banks	5,546	98	251	527	222	**6,644**
Loans and advances to customers	3,501	1,167	5,199	12,462	6,302	**28,631**
Assets available for sale	15	50	137	14	27	**243**
Held to maturity investments	35	-	20	-	1,297	**1,352**
Equity investments in subsidiaries and associates	-	-	-	-	38	**38**
Intangible assets	-	-	-	-	192	**192**
Property and equipment	-	-	-	-	1,197	**1,197**
Investment property	-	-	-	-	14	**14**
Non current assets held for sale	-	94	7	-	-	**101**
Other assets	162	-	-	-	-	**162**
Deferred tax assets	73	-	-	-	-	**73**
	17,211	**2,204**	**7,008**	**13,732**	**10,464**	**50,619**
Liabilities						
Due to banks	3,042	110	109	1	11	**3,273**
Due to customers	16,226	5,304	7,187	3,069	592	**32,378**
Derivative financial instruments	22	-	-	-	-	**22**
Other borrowed funds	1,405	400	1,340	4,217	869	**8,231**
Debt securities issued	-	-	-	-	19	**19**
Other liabilities	1,569	-	-	-	-	**1,569**
Accruals and deferred income	112	-	-	-	-	**112**
Provisions for risks and charges	203	-	-	-	-	**203**
	22,579	**5,814**	**8,636**	**7,287**	**1,491**	**45,807**
Net liquidity gap	**(5,368)**	**(3,610)**	**(1,628)**	**6,445**	**8,973**	**4,812**

45 I Liquidity risk / continued
(in HRK million)

As at 31 December 2005	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Bank Total
Assets						
Cash and current accounts with other banks	1,860	-	-	-	-	**1,860**
Balances with Croatian National Bank	5,184	-	-	-	-	**5,184**
Financial assets at fair value through profit and loss	516	793	1,394	721	1,043	**4,467**
Derivative financial instruments	17	-	-	-	-	**17**
Due from banks	5,493	4	156	526	221	**6,400**
Loans and advances to customers	3,132	1,049	4,897	11,820	5,791	**26,689**
Assets available for sale	-	-	-	-	24	**24**
Held to maturity investments	35	-	-	-	1,294	**1,329**
Equity investments in subsidiaries and associates	-	-	-	-	284	**284**
Intangible assets	-	-	-	-	121	**121**
Property and equipment	-	-	-	-	768	**768**
Investment property	-	-	-	-	14	**14**
Non current assets held for sale	-	94	-	-	-	**94**
Other assets	59	-	-	-	-	**59**
Deferred tax assets	60	-	-	-	-	**60**
	16,356	**1,940**	**6,447**	**13,067**	**9,560**	**47,370**
Liabilities						
Due to banks	3,679	110	110	1	11	**3,911**
Due to customers	15,387	5,060	6,813	2,185	559	**30,004**
Derivative financial instruments	22	-	-	-	-	**22**
Other borrowed funds	2,254	278	1,188	3,436	822	**7,978**
Debt securities issued	-	-	-	-	19	**19**
Other liabilities	759	-	-	-	-	**759**
Accruals and deferred income	67	-	-	-	-	**67**
Provisions for risks and charges	175	-	-	-	-	**175**
	22,343	**5,448**	**8,111**	**5,622**	**1,411**	**42,935**
Net liquidity gap	**(5,987)**	**(3,508)**	**(1,664)**	**7,445**	**8,149**	**4,435**

45 | Liquidity risk / continued

(in HRK million)

As at 31 December 2004 - Reclassified	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Group Total
Assets						
Cash and current accounts with other banks	2,659	-	-	-	-	**2,659**
Balances with Croatian National Bank	4,560	38	-	-	-	**4,598**
Financial assets at fair value through profit and loss	709	702	932	544	684	**3,571**
Derivative financial instruments	32	-	-	-	-	**32**
Due from banks	4,608	17	432	420	4	**5,481**
Loans and advances to customers	5,100	948	3,544	10,206	4,227	**24,025**
Assets available for sale	17	29	87	9	28	**170**
Held to maturity investments	172	-	1	-	1,501	**1,674**
Equity investments in subsidiaries and associates	-	-	-	-	33	**33**
Intangible assets	-	-	-	-	199	**199**
Property and equipment	-	-	-	-	1,081	**1,081**
Other assets	218	-	-	-	-	**218**
Deferred tax assets	58	-	-	-	-	**58**
	18,133	**1,734**	**4,996**	**11,179**	**7,757**	**43,799**
Liabilities						
Due to banks	40	5	-	1	12	**58**
Due to customers	16,202	4,411	6,159	2,708	437	**29,917**
Derivative financial instruments	30	-	-	-	-	**30**
Other borrowed funds	1,334	280	2,014	3,587	694	**7,909**
Debt securities issued	-	-	-	20	-	**20**
Other liabilities	1,248	-	-	-	-	**1,248**
Accruals and deferred income	107	-	-	-	-	**107**
Provisions for risks and charges	224	-	-	-	-	**224**
	19,185	**4,696**	**8,173**	**6,316**	**1,143**	**39,513**
Net liquidity gap	**(1,052)**	**(2,962)**	**(3,177)**	**4,863**	**6,614**	**4,286**

45 I Liquidity risk / continued

(in HRK million)

As at 31 December 2004 - Reclassified	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	**Bank** Total
Assets						
Cash and current accounts with other banks	2,534	-	-	-	-	**2,534**
Balances with Croatian National Bank	4,355	-	-	-	-	**4,355**
Financial assets at fair value through profit and loss	638	623	892	544	704	**3,401**
Derivative financial instruments	32	-	-	-	-	**32**
Due from banks	4,823	5	133	419	3	**5,383**
Loans and advances to customers	4,662	842	3,169	9,547	3,638	**21,858**
Assets available for sale	-	-	-	-	4	**4**
Held to maturity investments	165	-	-	-	1,498	**1,663**
Equity investments in subsidiaries and associates	-	-	-	-	344	**344**
Intangible assets	-	-	-	-	127	**127**
Property and equipment	-	-	-	-	774	**774**
Other assets	131	-	-	-	-	**131**
Deferred tax assets	49	-	-	-	-	**49**
	17,389	**1,470**	**4,194**	**10,510**	**7,092**	**40,655**
Liabilities						
Due to banks	528	5	-	1	12	**546**
Due to customers	15,262	4,079	5,641	2,001	422	**27,405**
Derivative financial instruments	30	-	-	-	-	**30**
Other borrowed funds	2,129	237	1,797	3,013	673	**7,849**
Debt securities issued	-	-	-	20	-	**20**
Other liabilities	618	-	-	-	-	**618**
Accruals and deferred income	80	-	-	-	-	**80**
Provisions for risks and charges	192	-	-	-	-	**192**
	18,839	**4,321**	**7,438**	**5,035**	**1,107**	**36,740**
Net liquidity gap	**(1,450)**	**(2,851)**	**(3,244)**	**5,475**	**5,985**	**3,915**

46 | Concentration of assets and liabilities

(in HRK million)	GROUP			BANK		
As at 31 December 2005	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
Geographic region						
Republic of Croatia	41,722	34,405	8,877	38,829	31,768	8,617
European Union	7,630	9,584	9	7,292	9,349	9
Other countries	1,267	1,818	25	1,249	1,818	25
	50,619	**45,807**	**8,911**	**47,370**	**42,935**	**8,651**
Industry sector						
Government	6,719	1,163	1,169	6,372	1,144	1,144
Commerce	2,691	933	752	2,407	877	715
Finance	12,358	5,316	32	11,584	4,940	16
Tourism	944	190	37	921	187	36
Agriculture	780	64	41	736	59	39
Citizens	14,083	21,973	2,894	13,296	20,168	2,814
Other sectors	13,044	16,168	3,986	12,054	15,560	3,887
	50,619	**45,807**	**8,911**	**47,370**	**42,935**	**8,651**

(in HRK million)	GROUP			BANK		
As at 31 December 2004 - Reclassified	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
Geographic region						
Republic of Croatia	36,141	30,502	8,608	33,327	27,754	7,041
European Union	6,216	6,531	60	5,934	6,515	60
Other countries	1,442	2,480	53	1,394	2,471	53
	43,799	**39,513**	**8,721**	**40,655**	**36,740**	**7,154**
Industry sector						
Government	5,996	1,085	1,089	5,674	1,081	1,089
Commerce	2,035	740	568	2,029	695	530
Finance	10,919	8,368	1,370	9,725	7,960	15
Tourism	952	264	33	920	186	33
Agriculture	510	44	41	474	40	39
Citizens	13,615	19,937	2,078	11,382	17,896	1,987
Other sectors	9,772	9,075	3,542	10,451	8,882	3,461
	43,799	**39,513**	**8,721**	**40,655**	**36,740**	**7,154**

47 | Earnings per share

For the purpose of calculating earnings per share, earnings represent 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 16,611,811 (2004: 16,621,876).

48 | Post balance sheet event

As of 1 January 2006 the credit card operations of Privredna banka Zagreb were transferred to PBZ Card d.o.o., the company engaged in processing and acquiring card operations in the PBZ Group.

Financial effect of this transfer of operations is estimated to be approximately 107 million kuna as the decrease in revenue in the Bank only financial statements for 2006. There will be no effect on the 2006 Group financial statements.

49 I Proforma consolidated income statement and balance sheet of Privredna banka Zagreb and Privredna banka - Laguna banka as at 31 December 2004 (unaudited)

(in HRK million)

Income statement	2004
Interest income	2,308
Interest expense	(925)
Net interest income	**1,383**
Fee and commission income	515
Fee and commission expense	(221)
Net fee and commission income	**294**
Other operating income	373
Operating income	**2,050**
Provisions	(114)
Other operating expenses	(917)
Depreciation and amortization of property and equipment and intangible assets	(171)
Profit before income taxes	**848**
Income taxes	(159)
Net profit for the year	**689**
Attributable to:	
Equity holders of the parent	689
Minority interests	-
	689

Balance sheet	2004
Assets	
Cash and current accounts with other banks	2,560
Balances with Croatian National Bank	4,389
Financial assets at fair value through profit and loss	3,401
Derivative financial instruments	32
Due from banks	5,305
Loans and advances to customers	22,293
Assets available for sale	4
Held to maturity investments	1,663
Equity investments in subsidiaries and associates	284
Intangible assets and goodwill	129
Property and equipment	803
Other assets	134
Deferred tax assets	49
Total assets	**41,046**
Liabilities	
Due to banks	378
Due to customers	27,984
Derivative financial instruments	30
Other borrowed funds	7,849
Debt securities issued	20
Other liabilities	554
Accruals and deferred income	85
Provisions for risks and charges	192
Total liabilities	**37,092**
Shareholders' equity	
Share capital	1,666
Treasury shares	(12)
Reserves and retained earnings	1,611
Profit and loss attributable to equity holders of the parent entity	689
	3,954
Minority interests	-
Total shareholders' equity	**3,954**
Total liabilities and shareholders' equity	**41,046**

Privredna banka - Laguna banka was being integrated to Privredna banka Zagreb on 1 January 2005. Proforma consolidated income statement and balance sheet of Privredna banka Zagreb and Privredna banka - Laguna banka for the year ended 31 December 2004 are disclosed for comparative purposes.

Supplementary financial statements in EUR (unaudited)

Income statement
(in EUR million)

	GROUP 2005	GROUP 2004 Reclassified	BANK 2005	BANK 2004 Reclassified
Interest income	353	333	327	302
Interest expense	(139)	(130)	(134)	(122)
Net interest income	**214**	**203**	**193**	**180**
Fee and commission income	127	125	71	68
Fee and commission expense	(30)	(29)	(27)	(29)
Net fee and commision income	**97**	**96**	**44**	**39**
Other operating income	54	45	54	49
Operating income	**365**	**344**	**291**	**268**
Provisions	(19)	(23)	(8)	(15)
Other operating expenses	(179)	(162)	(136)	(120)
Depreciation and amortisation of property and equipment and intangible assets	(31)	(34)	(22)	(22)
Share of the profit and loss accounted for using the equity method	1	-	-	-
Profit before income taxes	**137**	**125**	**125**	**111**
Income taxes	(28)	(26)	(23)	(21)
Net profit for the year	**109**	**99**	**102**	**90**
Attributable to:				
Equity holders of the parent	109	99	102	90
Minority interests	-	-	-	-
	109	**99**	**102**	**90**

Income statement items were translated from measurement currency (HRK) to euro at the average exchange rates in 2005 (1 EUR = 7.400185 HRK) and in 2004 (1 EUR = 7.495169 HRK).

Supplementary financial statements in EUR (unaudited)

Balance sheet
(in EUR million)

	GROUP 2005	GROUP 2004 Reclassified	BANK 2005	BANK 2004 Reclassified
Assets				
Cash and current accounts with other banks	264	347	252	330
Balances with Croatian National Bank	731	599	703	568
Financial assets at fair value through profit and loss	625	466	606	443
Derivative financial instruments	2	4	2	4
Due from banks	901	714	868	702
Loans and advances to customers	3,882	3,132	3,619	2,849
Assets available for sale	33	22	3	1
Held to maturity investments	183	218	180	217
Equity investments in subsidiaries and associates	5	4	39	45
Intangible assets and goodwill	26	26	16	17
Property and equipment	162	141	104	101
Investment property	2	-	2	-
Non-current assets held for sale	14	-	13	-
Other assets	22	28	8	17
Deferred tax assets	10	8	8	6
Total assets	**6,862**	**5,709**	**6,423**	**5,300**
Liabilities				
Due to banks	444	8	530	71
Due to customers	4,388	3,899	4,068	3,574
Derivative financial instruments	3	4	3	4
Other borrowed funds	1,116	1,031	1,082	1,023
Debt securities issued	3	3	3	3
Other liabilities	213	163	103	81
Accruals and deferred income	15	14	9	10
Provisions for risks and charges	28	29	24	25
Total liabilities	**6,210**	**5,151**	**5,822**	**4,791**
Equity attributable to equity holders of the parent				
Share capital	217	217	217	217
Treasury shares	(3)	(2)	(3)	(2)
Reserves and retained earnings	326	241	285	204
Profit and loss attributable to equity holders of the parent entity	109	99	102	90
	649	**555**	**601**	**509**
Minority interests	3	3	-	-
Total shareholders' equity	**652**	**558**	**601**	**509**
Total liabilities and shareholder's equity	**6,862**	**5,709**	**6,423**	**5,300**

Balance sheet items were translated from measurement currency (HRK) to euro at the closing exchange rates in 2005 (1 EUR = 7.375626 HRK) and in 2004 (1 EUR = 7.671234 HRK).

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