Annual Report 2004

PRIVREDNA BANKA ZAGREB

PBZ , a Bank of Gruppo Banca Intesa

PAINTED TOP SHELL
(CALLIOSTOMA ZIZYPHINUS)

AT 33 M,
ISLAND OF ŽIRJE, ISLET OF HRBOŠNJAK

PRIVREDNA BANKA ZAGREB

Annual Report 2004

PBZ, a Bank of Gruppo Banca Intesa

Cardinal Fish
(Apogon imberbis)

10 cm; at 11 m,
Island of Mljet, Soline

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Beadlet Anemone
(Actinia equina)

6 cm, at 50 cm,
Island of Mljet, Kulier

Introduction

The Management Board of Privredna banka Zagreb d.d. has 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 2004 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”, “the Privredna banka Zagreb Group”.
The central bank, the Croatian National Bank, is referred to as “the CNB”. The State Agency for Deposit Insurance and Bank Rehabilitation is referred to as “DAB”. The European Bank for Reconstruction and Development is referred to as "EBRD".
In this report, the abbreviations “HRK thousands”, “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 2004 have been used to translate balances in foreign currency on that date:

CHF 1 = HRK 4.971314
USD 1 = HRK 5.636883
EUR 1 = HRK 7.671234

Spirographe
(Sabella spallanzani)

25 cm; at 22 m,
Selce, Lučica Bay

Five year summary and financial highlights

In HRK million

Group	2004	2003	2002	2001	2000
Income statement and balance sheet					
Total gross revenue	3,777	3,564	3,321	2,800	2,277
Net interest income	1,517	1,492	1,419	1,096	915
Net operating income	2,579	2,424	2,264	1,940	1,575
Net profit for the year	735	695	641	581	406
Total assets	43,998	42,441	34,917	31,473	22,309
Loans and advances to customers	24,205	23,387	19,147	13,167	9,878
Due to customers	29,731	27,497	25,905	23,757	15,194
Shareholders' equity	4,286	3,790	3,280	2,891	2,440
Other data					
Return on average equity	18.56%	19.65%	24.76%	24.77%	17.74%
Return on average assets	1.72%	1.77%	1.90%	2.16%	2.00%
Assets per employee	11.2	11.3	9.5	8.5	6.2
Cost income ratio	57.15%	56.93%	56.36%	56.96%	58.52%

Bank	2004	2003	2002	2001	2000
Income statement and balance sheet					
Total gross revenue	3,147	2,777	2,606	2,230	1,909
Net interest income	1,354	1,268	1,012	754	687
Net operating income	2,017	1,767	1,684	1,480	1,275
Net profit for the year	678	575	530	517	379
Total assets	40,779	37,505	30,536	27,600	20,574
Loans and advances to customers	21,963	20,377	16,742	11,245	9,164
Due to customers	27,224	23,791	22,606	20,708	14,261
Shareholders' equity	3,915	3,355	3,026	2,754	2,391
Other data					
Return on average equity	18.70%	17.85%	21.52%	24.33%	17.53%
Return on average assets	1.74%	1.66%	1.80%	1.90%	1.82%
Assets per employee	12.4	13.1	10.8	9.6	6.9
Cost income ratio	53.20%	53.37%	53.86%	53.38%	52.67%

Axinella cannabina

90 cm; at 25 m,
Island of Mljet, Islet of Pomeštak

Report from the President of the Supervisory Board

Privredna banka Zagreb (PBZ) Group had a successful 2004, achieving another good annual performance. PBZ is an increasingly confident bank with a strong track record of decent and sustained performance, strongly positioned across the Croatian financial markets.
The year 2004 was PBZ's fifth consecutive prosperous year under the strategic partnership of Gruppo Banca Intesa. Partnership with the European Bank for Reconstruction and Development (EBRD) since 2002 has proved to be also very fruitful. PBZ is fortunate to have two very strong global partners that are fully committed to the Central-Eastern and South East European region and the Croatian market. In the future Banca Intesa plans to strengthen its regional presence even more by adding a Serbian partner to the already existing triangle of PBZ, CIB (Hungary) and VUB (Slovakia).
The economic picture of the country shows a stable macroeconomic framework, but a challenging banking environment. The government is dedicated to preparing the country fully for accession in the European Union by 2007. As a result of the consolidation of public finances, following 6.3 percent in 2003, the general government deficit was reduced to 4.5 percent of the GDP. The increase of the external debt itself and in terms of the GDP has slowed down, and current account deficit in relation to the GDP for 2004 is expected at the level of 5.5 percent. The annual GDP growth rate in 2004 is predicted to be around 3.7 percent. Despite increasing oil prices, the impressive price stability of the recent years continued in 2004 with the expected year-end consumer price index of 2.1 percent. Recognising the economic achievements and advancements in the EU integration process, Standard & Poor's has recently upgraded the long-term foreign currency credit rating of Croatia from BBB- to BBB. The shareholders are resoundingly confident about the future of the Croatian economy.
Regardless of the fact that the growth of external imbalances slowed down during the year, new measures have been revealed to the banking industry as indirect tools for reducing the external debt of the country. This has been accompanied by severe competition to please the customers, which is also reflected in the continued trend of falling interest spreads on the domestic market.
However, its good performance in previous years strengthened PBZ's position in the market, and the Bank nevertheless succeeded in maintaining its solid performance. The operating results of the Group exceeded HRK 2.5 billion for the first time whilst a net profit recorded HRK 735 million. Our cost/income ratio, a key measure of our efficiency, stands at

57.2 percent, while the ROAE is 18.6 percent, which is above the industry average of 18 percent. These are pleasing figures since they represent a consistently strong performance over the last five years. The strength and diversity of the Group we are building give us continued scope for growth, and create many strategic options.
The markets have also recognised the sustained business success in the past few years, which we greatly appreciated. During 2004 our share price has more than doubled, well outperforming the stock exchange index. This also reflects the fact that the stock market players are puting their trust in us for fulfilling and achieving our targets.
Overall, we made much progress across the organisation, and this positions PBZ strongly for the future. We are well capitalised. We have a distinctive set of businesses. We have a high quality and experienced management team and loyal and dedicated staff, whose expertise and hard work will take our Company forward. The results go first and foremost to them, and I am extremely grateful for their efforts in helping us achieve another successful year.
I strongly believe in the ability of the PBZ Group to meet its challenges in the years ahead, to play a major role in the Croatian economy, and to provide great benefits to its customers, as well as great opportunities to its employees and shareholders.
At the end I want to express my greatest appreciation of the work of my colleagues in the Supervisory Board, as well as of the Audit Committee members, for their wise counsel and contribution.

Respectfully,

Dr. György Surányi

14 February 2005

Red Comb-star
(Astropecten aranciacus)

23 cm; at 15 m,
Novi Vinodolski, Lišanj Hotel

Report from the President of the Management Board

It is a great honour and pleasure for me to present to you, on behalf of the Management Board of Privredna banka Zagreb, the financial results of the Privredna banka Zagreb Group for 2004.
Last year was the fifth year of the Bank's operation as a member of Gruppo Banca Intesa. By following the fundamental guidelines of our strategic plan and in cooperation with our strategic partners, Gruppo Banca Intesa and the European Bank for Reconstruction and Development, the PBZ Group achieved outstanding business results, had a record rate of growth of savings deposits, and maintained a leading position as the most innovative bank in Croatia in terms of new technologies.

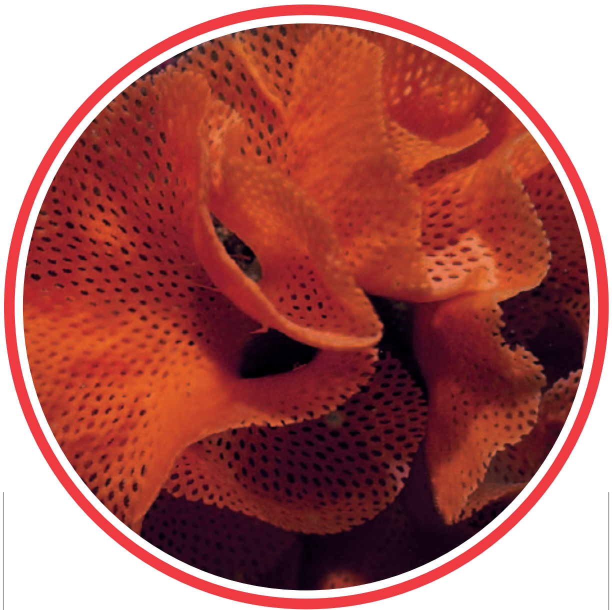
Financial results

In 2004 the Privredna banka Zagreb Group earned a net profit of HRK 735 million, which represents an increase of 5.8 percent. These results were achieved in an environment marked by strong competition and constant pressure on interest rates. Other performance indicators also show continuous upward trends, providing evidence of improvements in profitability and productivity. The return on average equity at the level of the Group was 18.6 percent. The consolidated return on average assets reached a very respectable level of 1.7 percent.
Earnings per share were increased by 5.7 percent, amounting to HRK 44.2 per share. Cost to income ratio, on a consolidated level according to International Financial Reporting Standards, was consistent with previous years and it stood at 57.2 percent, which is in line with the best ratios in cost monitoring in Central and Eastern Europe.
The balance sheet of the PBZ Group grew by 3.7 percent, so that, on a consolidated level, it almost reached the amount of HRK 44 billion. The most significant contribution to this growth of the balance sheet came from the increase of the loan portfolio in both corporate and retail banking areas, as well as from investments in securities. The growth of the loan portfolio was accompanied by a conservative loan approval policy and improved measures and procedures for risk monitoring, which, in addition to higher volumes of loans, resulted in the improved quality and structure of the portfolio, which now shows greater diversification.
The asset growth in the Group was financed by reliance on a strong deposit base, whose increase in 2004 was largely due to retail deposits. Total deposits in 2004 rose by 8.1 percent. If we consider the total structure of the balance sheet, customer deposits account for 67.5 percent. With a base of

more than 1.3 million clients, both corporate and private, the PBZ Group today represents a modern and well-organised bank whose market share, measured by the size of the balance sheet, stands at 19.4 percent.
Within the Group, the most prominent results were those of Privredna banka Zagreb, which made a net profit of HRK 678 million, representing an increase by 103 million compared to the result for 2003. Such a result was achieved, among other things, due to a better performance of non-interest income, which constitutes one of the strategic objectives of Privredna banka Zagreb

Quality of products and services

On top of improved financial performance, considerable progress has been made in terms of the increased quality of operations and services offered.
Privredna banka Zagreb is the market leader in Croatia in the area of card operations and electronic distribution channels. By offering a variety of charge, debit, credit and affinity cards, we maintained our position as the leading card institution in Croatia. In 2004 PBZ American Express introduced the most prestigious card product in the country - the Platinum Card. This product has been designed for individuals of excellent business and social standing.
The ATM and EFT POS network is being continuously expanded so that, at the end of 2004, there were 384 ATMs and 11,331 EFT POS terminals in operation.
In order to get closer to our clients, the Privredna banka Zagreb Group continued to expand its business network and renovate existing outlets in accordance with our recognisable visual identity. Therefore, during 2004, we opened or renovated 21 outlets.
The Bank also retained a prominent role on the capital markets and in corporate banking. Being actively engaged in the launching of new products and relying on a well formulated strategy, PBZ has become an important institution in terms of public sector financing, and a leader in the area of loan syndications and handling of security issues.



Sertella septentrionalis

16 cm; at 25 m,
Islands of Brijuni, Svjetionik

In the area of risk management, the Bank developed a centralised model for identification, measurement, control and management of all basic types of banking risks; market risk, currency risk, operational risk and credit risk.
Activities in this area are aimed at intensive preparations for the introduction of Basel II, as well as the development of new internal concepts related to economic capital, which will bring about changes in performance measurement and will make possible more efficient support to other aspects of the process of making business decisions.
At the beginning of 2004 we successfully integrated Riadria banka, and in January 2005 we integrated Privredna banka Laguna banka, thereby consolidating our business network regionally in line with our strategic plan.
Further, we continue to invest in new distribution channels and to develop human resources, which includes education and training in order to improve our knowledge and capabilities, which are a guarantee of efficient and sound operation of the Bank and the Group.
It is important to point out that also in 2004, for the second consecutive year, we received the Croatian Chamber of Commerce award for the Best Bank in Croatia. Our results and accomplishments oblige us to persist in realisation our strategic goals in the coming years.

Dividend

In view of the results achieved as well as our reasonable capital adequacy, the Management Board of Privredna banka Zagreb will propose, at the forthcoming Annual General Meeting, payment of a dividend of HRK 16.3 per share to shareholders of the Bank. The remaining portion of the profit will be allocated to reserves and retained earnings for the purpose of increasing our capital, which will ensure continued stable growth of the Bank.
Finally, I would like to take this opportunity to express my gratitude to my colleagues, members of the Management Board and all employees of the Privredna banka Zagreb Group for their excellent performance and hard work in 2004. Also, I would like to thank our distinguished clients and business partners for their professionalism in mutual contacts and 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
14 February 2005

Octopus

1,5 m; at 10 m,
Split, Island of Veliki Drvenik

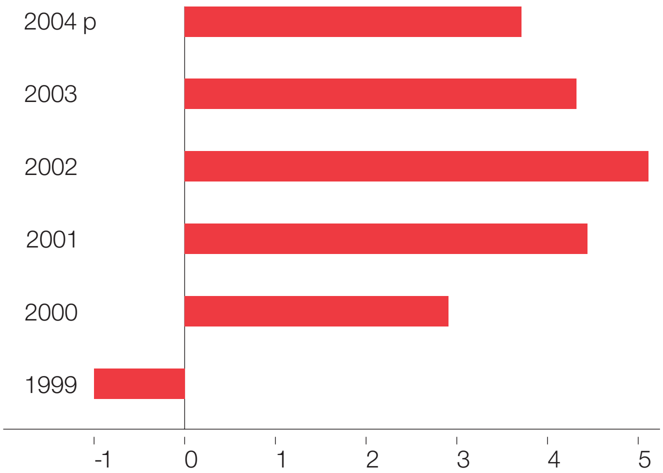
Review of the Croatian economy in 2004

After economic growth of 5.2 percent recorded in 2002, both years 2003 and 2004 indicated a slowdown in economic activity. And while 2003 recorded a 4.3 percent growth, projections for the last year envisage a further slowdown to 3.7 percent economic growth.

Contrary to the preceding period, the most significant contribution to the growth in 2004 was given by personal consumption, and not by fixed capital investments. In the first three quarters of 2004, personal consumption grew by 3.9 percent, however, compared to the previous year the trend recorded a noticeable slowdown. The most significant slowdown was recorded by fixed capital investments, which from two-digit growth in 2003 decreased to 0.5 percent growth recorded in the third quarter of 2004. However, the most encouraging sign was noticed in exports of goods and services which in the first and the third quarter recorded higher growth rates than the imports.

GDP growth rates 1999-2004

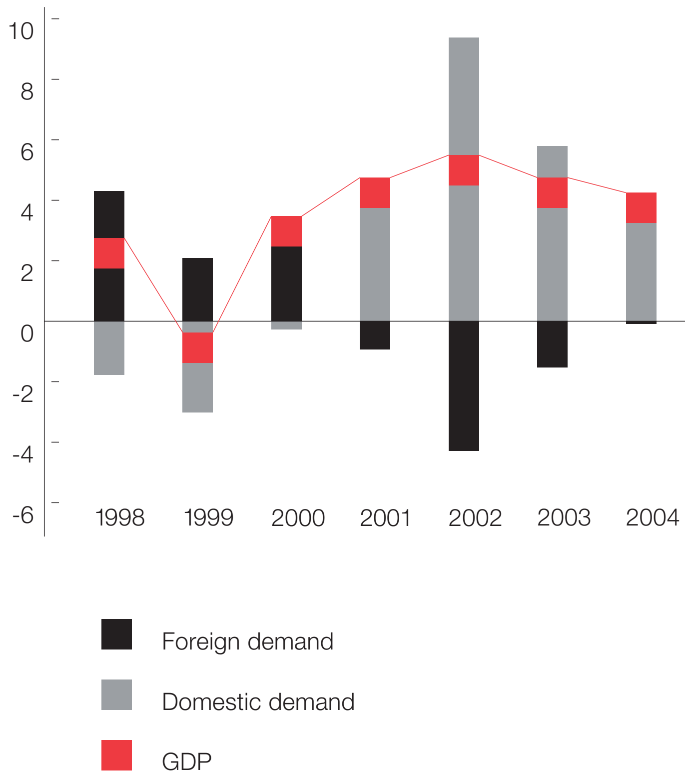
In %



Source: Croatian Bureau of Statistics, p-projection

Contributions of domestic and foreign demand to GDP growth

In percentage points



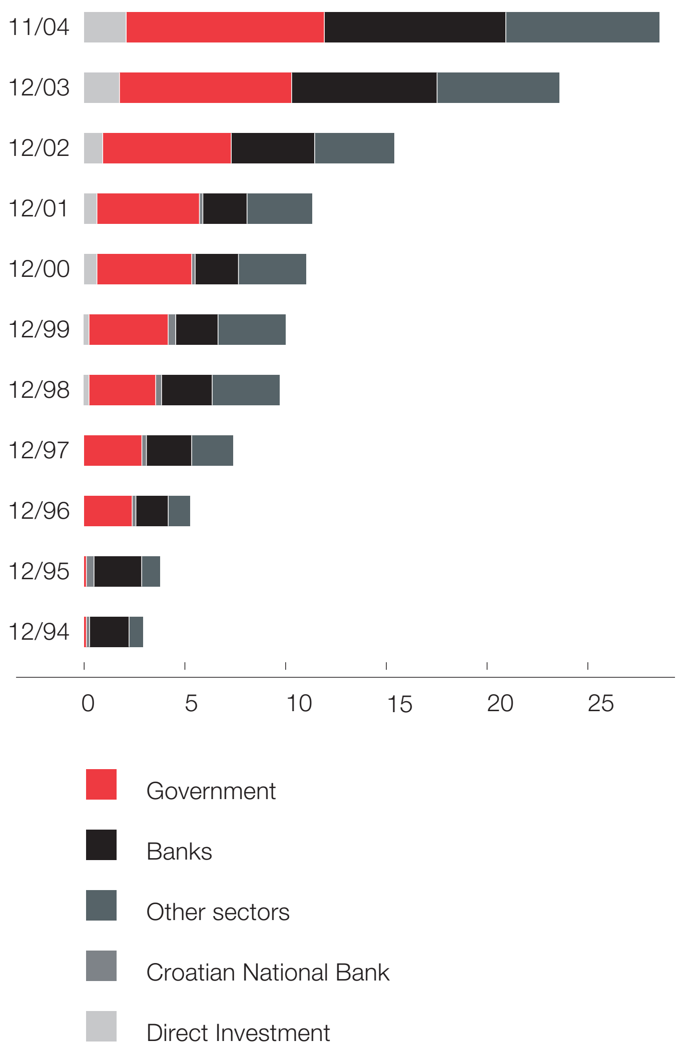
The positive foreign trade developments contributed to the overall improvement in the trade balance, lowering the current account deficit from 7.3 percent of the GDP in 2003 to around 5.5 percent in 2004. Croatian foreign trade deficit in 2004 amounted to USD 8.56 billion (HRK 51.62 billion) what represented a 6.7 percent (or USD 538.3 million) higher trade deficit than in 2003. It is noticeable that the trade deficit grew much slower than in 2003 when recorded growth rate was close to 38 percent or USD 2.2 billion. During the last year, eight out of twelve months were marked by faster growth in merchandise exports than in imports. On annual basis merchandise exports grew by 29.7 percent while imports grew by 16.7 percent.

Foreign trade

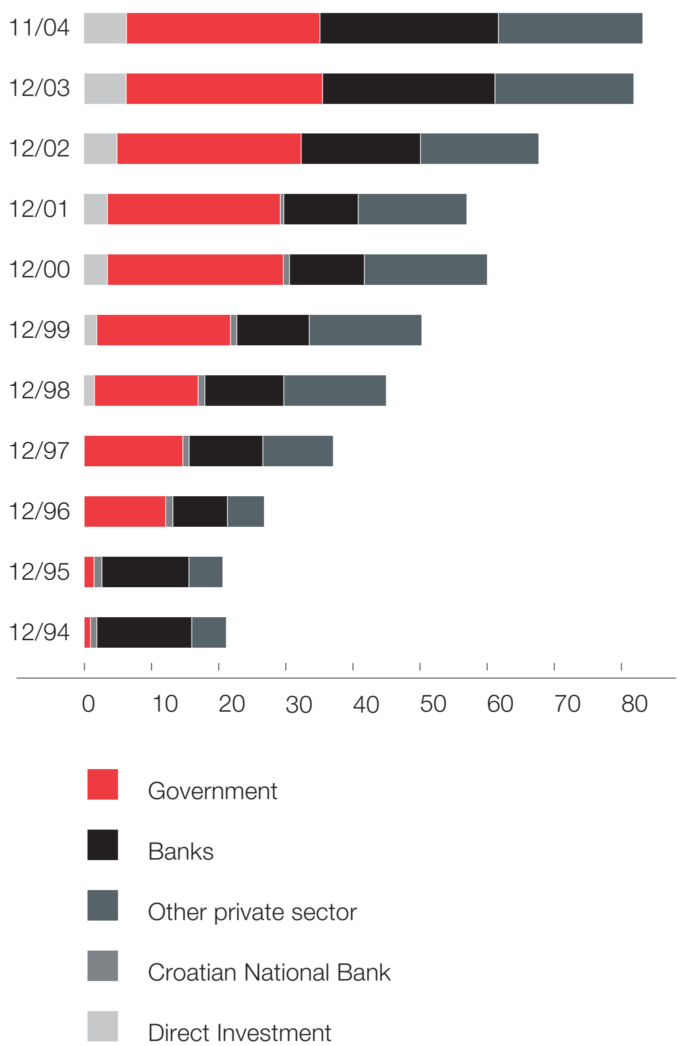
USD million

A restrictive monetary policy stance continued from 2003 into 2004 and several decisions in the area of monetary policy came into force in early 2004. Among monetary policy instruments that marked year 2003, the decision on the subscription of obligatory CNB bills was no longer in force, in contrast to the decision on the minimum foreign curency claims required. A new decision, which came into force in February 2004, increased the minimum amount of calculated reserves kept in a special account with the CNB, from previous 40 percent to a minimum of 60 percent kuna reserve requirements and foreign currency deposits and 100 percent of foreign currency liabilities and foreign currency deposits of related persons. Instigated by figures showing the total external debt grow by some EUR 1.93 billion in the first five months of 2004, the CNB passed a decision in mid-July on the introduction of a 24-percent marginal reserve requirement (on net increase in bank foreign liabilities relative to their balance in June 2004), which brings no interest on the allocated funds. Restrictions imposed by the CNB contributed to the slower growth of external debt but also of credit lending, especially retail loans.

External debt by debtors
in USD bill.



External debt by debtors in % of GDP
% of GDP

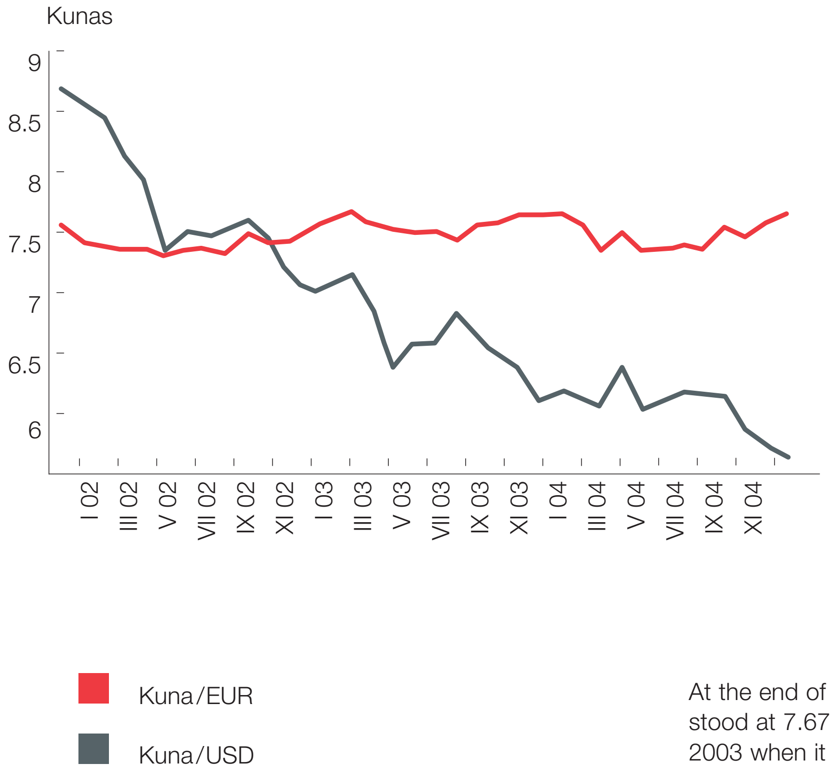


Loans to enterprises and households year-on-year growth rates

Total bank placements to the non-banking sector amounted to HRK 124.8 billion at the end of November 2004, or 11.8 percent more than at the end of 2003, in the same period 2003 the growth rate was 13.8 percent. Total loans to enterprises and households stood at HRK 52.9 billion and HRK 63.5 billion respectively at the end of November 2004. The growth rate of corporate loans was 7 percent, while retail loans grew by 15.4 percent. In the same month of 2003, these growth rates were 4.1 percent and 26.1 percent respectively.

Total bank deposits at the end of November 2004 amounted to HRK 128.2 billion, of which foreign deposits equalled HRK 81 billion. In terms of kuna amounts, foreign exchange deposits increased by 6.6 percent or HRK 5 billion in comparison to the end of 2003, whilst in euros that increase was at 7.3 percent or EUR 723 million. At the same time, kuna deposits, both term and demand, rose by 31.3 percent, ie. HRK 5.7 billion.

Exchange rate developments

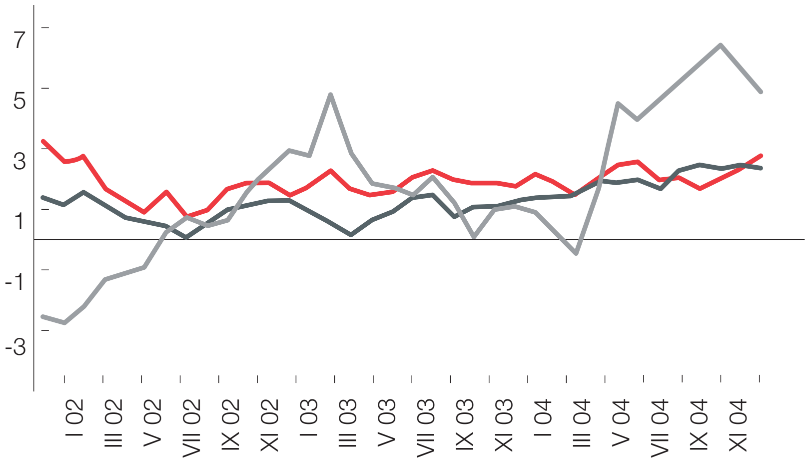


At the end of 2004, the exchange rate of kuna against EUR stood at 7.67 kunas or 0.3 percent more than at the end of 2003 when it stood at HRK 7.65/EUR. The kuna exchange rate strengthened against the USD by a total of 7.9 percent in 2004, or from HRK 6.12 USD at the end of December 2003, to HRK 5.64/USD at the end of December 2004.

During 2004, inflation rate was mainly influenced by external factors such as the large increase in oil prices on the World market. Oil price developments were mostly reflected in producers' process of industrial products. Their growth became accelerated in April 2004, rising to 6.3 percent in October at the annual level, and then stabilized at 4.8 percent in December. As changes in consumer prices were less pronounced, the inflation rate stood at 2.7 percent in December.

Last year will be remembered as the year of a huge upturn in trading on the capital markets, observed by the total volume of trading, the number of transactions and the increase in both share indices, especially an upsurge on the VIN index, which was also referred to as the fastest growing index in the region in 2004. The total turnover on the Zagreb Stock Exchange (ZSE) amounted to HRK 23.7 billion in 2004, which was growth of 71.6 percent relative to the year before. In line with the rising prices of most shares, the CROBEX index rose by 33 percent over the year, reaching 1,565.81 points on 31 December 2004. Last year was also one of the most successful years for the Varaždin Stock Exchange (VSE), with the total turnover amounting to HRK 1.4 billion, which is an increase of 93.1 percent compared with 2003.

Prices, annual growth rates

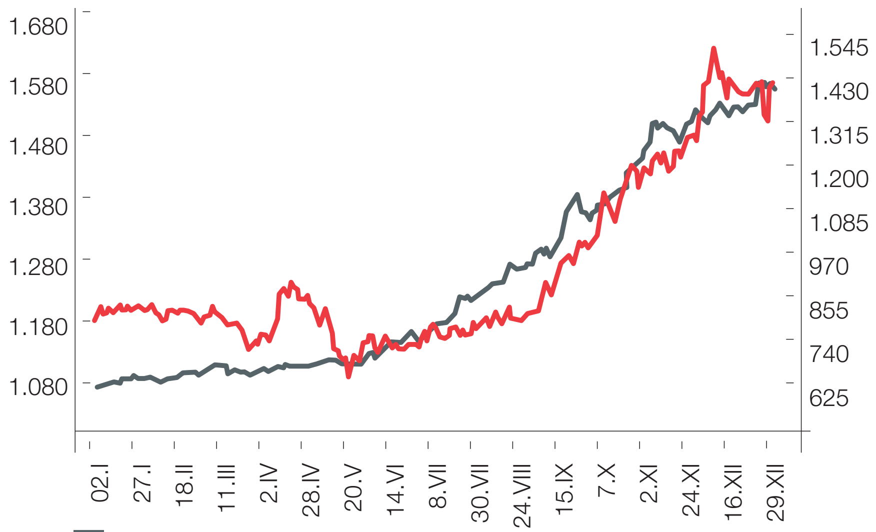


Consumer prices

Core consumer prices

Producer prices

Crobex and Vin Index



VIN - right

CROBEX - left

Macroeconomic indicators

	Year-on-year, eop	Indicator value	Year-on-year	Indicator value
Consumer prices, % ch.	XII / 2004	2.7	I-XII / 2004	2.1
Producer prices, % ch.	XII / 2004	4.8	I-XII / 2004	3.5
Industrial production, % ch.	XII / 2004	9.7	I-XII / 2004	3.7
Retail trade, real, % ch.	XI / 2004	4.5	I-XI / 2004	2.7
Construction, % ch.	XI / 2004	-1.7	I-XI / 2004	2.2
Tourist nights, % ch.	XII / 2004	-2.6	I-XII / 2004	2.5
Export of goods, mil. USD	XI / 2004	742.1	I-XI / 2004	7,248.8
Imports of goods, mil. USD	XI / 2004	1,505.3	I-XI / 2004	15,027.3
Current account balance, mil. USD	2003	-2,098.6	2002	-1,921.0
Current account balance, mil. USD	Q2 / 2004	-1,268.6	Q1 / 2004	-1,488.8
Average net salary, in kunas	XI / 2004	4,352	I-XI / 2004	4,160
Real net salaries, % ch.	XI / 2004	4.9	I-XI / 2004	3.8
Number of unemployed, CES	XII / 2004	317,577		
Unemployment rate, CES, %	XI / 2004	18.4		
Unemployment rate, ILO, %	H1 / 2004	13,8	H2 / 2003	14.4
Public sector debt, bil. kn.	X / 2004	109.9		
External debt, bil. USD	XI / 2004	28.5		
BDP, growth rate, %	Q3 / 2004	3.6	Q2 / 2004	3.8

eop - end of period; avg - average
Source: CBS, CES, Mof, CNB

Little Red Starfish
(Echinaster sepositus)

1 cm each; at 11 m,
Island of Glavat

Organisational Chart

- Office of the Supervisory Board
- **Supervisory Board**
  - Internal Audit Division
    Giancarlo Miranda
  - Audit Committee
- Office of the Management Board
- **Management Board**
  mr. Božo Prka, President of the Management Board
  - Subsidiaries Management
    Ivan Krolo
  - HR, Legal Affairs & Taxation Mngmt
    Nediljko Matić
  - Money Laund. Prevention Unit
    Nediljko Matić
  - Office for Corporate Communications
  - Office for Econ. Research & Strat.Planning
  - Project Management Office
  - Credit Committee
  - ALCO
  - Asset Quality Monitoring Committee
  - Change Mgmt. and Compl. Committee
  - IT Steering Committee
  - Real Estate Committee
  - **Retail Banking Group**
    Tomislav Lazarić
    - Distribution Channel Development Division
    - Product Development Division
    - Client Relationship Development and Marketing
    - Regional Branches (Retail Banking)
  - **Corporate Banking Group**
    Ivan Gerovac
    - Office of Corporate Banking Group
    - Large & Multinational Corporations Division
    - Large Med.-Size Enterprises and Coordination of Branches & Subs. Banks
    - Financial Inst. & Spec. Financing Division
    - Support Division
    - Regional Branches (Corporate Banking)
  - **Finance Group**
    Draženko Pavlinić
    - Middle Office of the Finance Group
    - Treasury Division
    - Investment banking Division
      - PBZ Invest
      - PBZ Croatia Osiguranje
  - **Risk Managment & Risk Control Group**
    Giancarlo Miranda
    - Risk Management Division
    - Credit Analysis Division
    - Credit Risk Monitoring and Reporting Division
    - Loan Recovery and Reconstructing Division
      Ivan Krolo
  - **IT and Operations**
    Davor Holjevac
    - Organisation and Work Technology Division
    - Operations Division
    - Payment Transactions Division
    - Information and Communication Technology Subgroup ICT
    - ICT Governance Office
      Dr. Zoran Šimunić
      - Application SW Division
      - Electronic Channels Division
      - Central Data Processing Division
      - Telecommunication and Customer Support Division
  - **Accounting, Financial Control and General Administration**
    Gabriele Pace
    - Office of the CFO
    - Accounting Division
    - Financial Control Division
    - General Administration Division

Sea Horse
(Hippocampus ramulosus)

10 cm; at 10 m,
Island of Krk, Glavotok, Lučica

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 universal bank on the basis and the 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, industrialization, 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 the nationwide branch network. With its nationwide network of branches and outlets, as well as with a broad group of banking and non-banking subsidiaries, PBZ is one of the unified 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 - the leading Italian banking group and one of the ten largest European banking groups. 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.
Along with the adoption of 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 channel. This ensures that PBZ will continue to be able to set standards of the highest quality for product innovations and services offered both to 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 as well as in 2002 and 2004. PBZ also received The Bankers' Award for the Croatian Bank of the year in 2002. In 2003 and in 2004, PBZ's quality was confirmed once more by receiving 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 Golden kuna.
Privredna banka Zagreb employs some 3,229 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 the wide spread branch network in Croatia, consisting of 191 organisational units in 17 regions which cover the entire territory of the country. Moreover, two banking subsidiaries in the Group, Privredna banka Laguna banka (which covers the tourism oriented Istarska County) and Međimurska banka provide an effective presence in these regions.

In accordance with its business philosophy of focusing on client needs and demands, four 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 recently 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 the network of ATMs which accept Maestro, MasterCard, Visa Classic and Visa Electron as well as American Express cards (a total of 384 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 11,331.

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. PBZ has introduced Internet banking through its PBZ365NET (PBZ365-Optima and PBZ365-Lite) and PBZ365WAP services. In 2004, PBZ introduced mPay - a system of payment using mobile phones, as the first bank in Croatia offering such a service. These achievements have firmly established PBZ as the market leader in electronic banking as well as the technological leader on the financial market of the country. At present, approximately half of all transactions with retail customers are executed through electronic channels.

The Bank has also modified and supplemented its wide range of retail products and services. Regardless of the fact that they were introduced a few years ago, consumer and cash loans for PBZ American Express card holders on the basis of credit scoring still produce successful results on the market. Similar effects have been experienced with very popular "quick loans" (cash loans) that are granted to clients of the Bank based on their credit scoring. Overall in the period from 2000 until mid 2004, PBZ established itself as the market leader in retail loans with a 20.5% share of the loan market on the Group level. In the area of savings, PBZ has significantly increased its deposits to more than EUR 2.7 billion to date, which is 22.7% of the Croatian retail deposit market.

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 Visa Electron internationally valid debit card linked to foreign currency account and issued Visa Business Electron internationally valid debit cards linked to giro account of private persons, craftsmen and corporates, as well as MasterCard and Visa revolving credit and charge products, and is the only Bank in Croatia offering Maestro prepaid gift cards. In 2003, PBZ American Express introduced the first smart (chip) retail card in Croatia - Blue from American Express. Currently, PBZ has a card portfolio exceeding 1.3 million, of which there are 932,856 Maestro cards, 229,277 Visa electron cards connected with FX accounts, 132,664 Visa Business Electron cards connected to personal giro accounts, as well as 49,000 MasterCard and Visa Classic products (revolving and charge). As a pioneer in many segments PBZ American Express issued co-branded revolving cards with Konzum, the supermarket chain, Croatian Airlines, the national air carrier, and T-Mobile Hrvatska, and PBZ issued MasterCard affinity card with the Croatian Football Association.

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 achievements 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 Division is responsible for defining and clustering the client base and designating a special approach to each particular segment. Apart from centralized marketing activities the Division also performs marketing and sales activities in the field through agents. 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 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 2004, we actively served over 7 thousand clients in the credit financing area, which is a 15 percent increase compared to the end of 2003. This number mainly comprises small and medium companies, which utilise a variety of our well-suited products. 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 2003.

PBZ thoroughly developed a platform for supporting classic cash and non-cash transactions for corporate clients within the Bank's network. The Bank also launched new products - VISA Business Electron debit card and PBZ Info Services intended for business account holders. Due to its wide network of correspondent banks, Privredna banka Zagreb offers its clients fast and affordable services in the area of international payments. 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, the Internet banking for corporate clients - PBZ COM@NET service - is available for both domestic and international payments. Number of users rose by almost 90 percent whilst the total number of transactions increased by 75 percent in comparison to 2003.

Recently, the Bank has started rendering cash handling services (payments and disbursements) to corporate clients directly at the tellers. 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.

As a member of the Gruppo Banca Intesa, PBZ has established cooperation with numerous companies from Italy. In order to further improve this kind of cooperation, we have formed the Italian Desk, acting as a liaison for clients doing business in Croatia and Italy and supporting their presence on both markets. Significant progress was 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.

The Corporate Banking Group consists of the following divisions: Large and multinational corporations division, Small and medium enterprises, subsidiaries and branch coordination division, Financial institutions and special financing division and Support division.

Large and multinational corporations division

The responsibilities of this division encompass large companies, state institutions and local government units, multinational corporations (with the exception of Italian-owned multinationals) as well as mandatory and commission operations for domestic corporate clients and foreign legal entities..

Small and medium enterprises, subsidiaries and branch coordination division

This division is responsible for operations with small and medium enterprises, as well as for coordinating the Bank's branches and subsidiaries in their work with SMEs and coordination with Italian multinational companies and the subsidiaries of Italian companies.

The Italian Desk is part of this division and it provides support to the development of business relationships between Croatian and Italian clients by offering them complete banking services to Italian clients.

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 scope 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.

Support division

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

Finance Banking Group

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.

Treasury division

The Treasury division has continued to be an important and active player on the Croatian market as it 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.

Corporate finance division

The Corporate finance division provides a wide spectrum of investment banking products and services geared towards companies, government entities, municipalities and financial institutions. We act for equity and debt issues on the domestic capital markets in the fundamental roles of issue agent, manager, arranger, dealer and underwriter in a comprehensive range of associated activities that include corporate commercial papers, medium-term note programmes, eurobonds, corporate bonds, government bonds, initial public offerings, etc.

PBZ is the leading underwriter and arranger of sovereign debt issues in Croatia. We managed sovereign debt issues and were involved in the government eurobond issues together totalling over EUR 2.3 billion. Furthermore, PBZ pioneered the development of the domestic corporate debt markets and has been an active participant in the corporate short-term paper and bond markets since their inception. Over the past two years, we successfully arranged over EUR 300 million of corporate debt securities for a number of leading companies in the country.

With the process of Croatia's transition to a market economy, encompassing numerous privatisations and company restructurings, PBZ has introduced a series of financial advisory services in order to facilitate the requirements of the investment market. Our financial advisory services, provided to domestic and foreign clients, are focused on the areas such as mergers and acquisitions, corporate restructuring and divestments, employee stock ownership programs, project management, preparations for and sales of companies, MBO's, LBO's and other transaction-based projects, thereby enabling us to draw Western European investors' focus on investment opportunities in South-Eastern Europe.

We have represented clients in several industries, including pharmaceutical, food processing, confectionery, tourism, banking, retail, paper and paper products, sporting goods and others. Our dedicated staff, focused know-how and in-depth knowledge of local and regional developments all contribute to unparalleled client service. With proven expertise as the leader in the Croatian investment banking industry and an outstanding reputation for innovative solutions, we are well prepared to lead our clients through the complexities of corporate finance business deals.

Investment Management Division

The Investment management 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 of 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.

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 indebt 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 the 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.

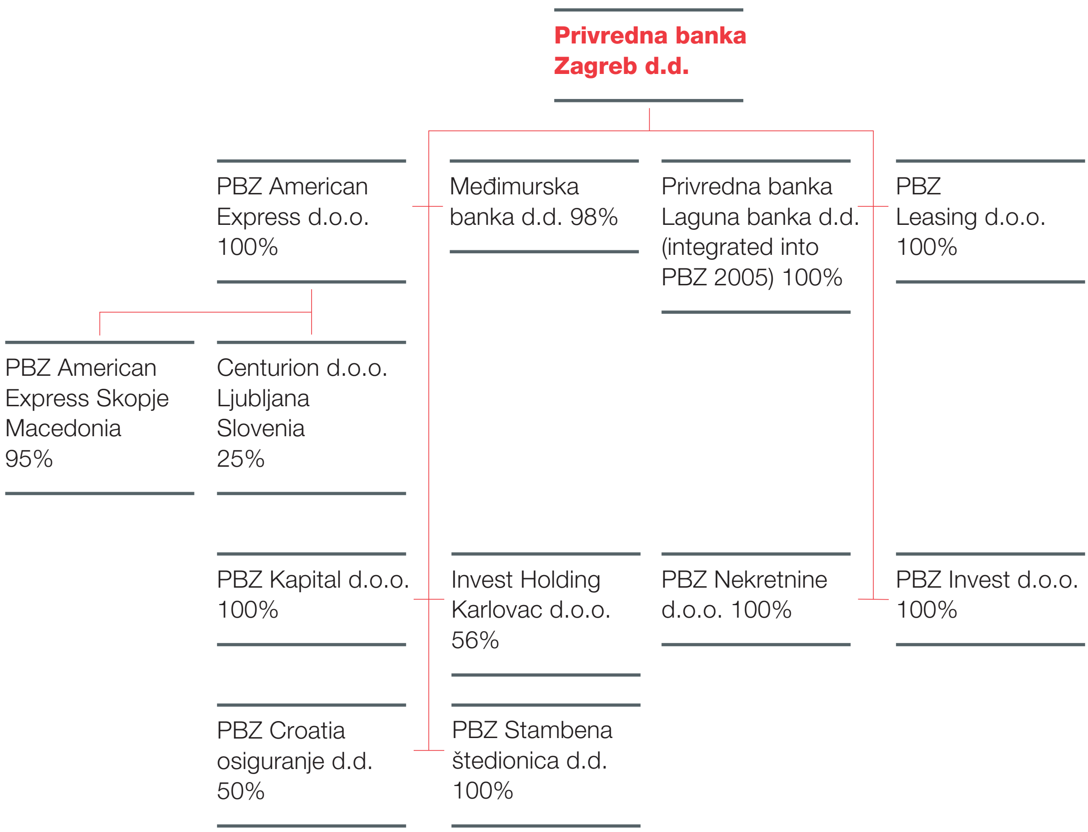
Bispira mariae

18 cm; at 10 m,
Island of Ugljan, Preko, Cape St. Petar

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 3,929 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 20 percent.

On 31 December 2004 the Group consisted of Privredna banka Zagreb and 11 subsidiaries and 1 associate. In line with its current strategic plan, Privredna banka Zagreb effectively integrated Privredna banka Laguna banka d.d. on 1 January 2005 (refer to Privredna banka Laguna banka and note 48).
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 shopping for banking services in less time and with lower costs. This is a new and dynamic product which has significantly boosted the non-interest income of the bank.

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.

Privredna banka Laguna banka

Laguna banka was founded on 31 May 1996 in the premises of a former PBZ branch. At the beginning of 1998 PBZ acquired 100 percent ownership of the bank which was afterwards renamed as Privredna Banka Laguna banka.

Effectivelly as of 1 January 2005 Privredna banka Zagreb fully integrated Privredna banka Laguana banka d.d. upon obtaining a legally valid resolution from the Commercial court in Zagreb. A new PBZ branch in Poreč now includes 11 outlets, more than 37 thousand clients and more than 42 thousand accounts opened.

PBZ American Express

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 has been operating as a subsidiary of Privredna banka Zagreb from 1998. It has grown into the largest company in the country with over 400,000 issued cards being accepted at approximately 41,726 service establishments countrywide.

The American Express portfolio has always included the standard personal American Express green card intended for daily consumer purchases. The card may be issued with or without a current account held at PBZ or at a number of other local banks. In 2003, the company introduced a new Blue American Express card, which is adapted to the new, technologically advanced era. It is well suited for customers who require flexibility and safety in on-line shopping as well as at every point of sale location. PBZ American Express is the first company to introduce a chip card on the domestic market, as well as the first Smart card in this part of the world to support EMV protocol including the ID Keeper program. The electronic chip in this revolutionary card product guarantees security while using the card at service establishments equipped with POS machines, ATMs and on the internet.

In 2004 PBZ American Express offered two co-branded products with two Croatian prominent companies: Croatia Airlines and T-mobile. Both products were also issued with an electronic chip, which was intended to offer very special benefits for cardholders such as free miles and phone rate discounts. In addition, in the last quarter of 2004, PBZ American Express introduced the most prestigious card in the country - the Platinum Card. This product has been designed for individuals of excellent business and social status. The superior service associated with the product is what makes it so special. It provides 24 hour basic free of charge support to the users.

PBZ American Express also offers two types of Business cards: the Green card intended for use by corporate employees wishing to simplify the invoicing of travel and other expenses; the Gold business card is intended for professionals in management who want to enjoy superior service while travelling.
The Affinity card, easily recognisable by its design, was introduced in 2000 for groups of people sharing common interests. There were issues of these cards for members of the Rotary Club, the Chamber of Dentists, the Association of Nurses and for tennis enthusiasts.
American Express cardholders enjoy the benefits of the Membership Rewards Program, which rewards usage and timely repayment with attractive gift offers at over 160 points of sale locations country-wide.
At PBZ American Express continued effort has gone into improving services and increasing product range along with providing a greater number of locations in force to maintain its leadership role in the Croatian card market. PBZ American Express has received numerous domestic and international awards for the quality of its services.

PBZ Invest

PBZ Invest is a subsidiary of Privredna banka Zagreb specialising in the establishment and management of investment funds. The company was established in 1998 and is fully owned by Privredna banka Zagreb. PBZ Invest is an active member of the Financial Brokerage Association within the Croatian Employers Association, as well as a member of the Group of investment fund management companies within the Croatian Chamber of Commerce.
Investment funds are state-of-the-art financial instruments managed by specialised 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 various 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 value 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 the recent years, four new funds were established: PBZ Euro novčani fond, PBZ Kunski novčani fond, PBZ Global fond and PBZ International bond fond. To date, assets under management in the funds run by the company have exceeded HRK 700 million, which represents an increase of approximately 7.7 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. At the "Golden Share" award ceremony for 2002, PBZ Money Market fund received the award for the best money market fund in Croatia and the award for the overall best investment fund in Croatia. At the "Golden Share" award ceremony for 2003 it again received the award for the best money market fund.

PBZ International 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 foreign 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. At the "Golden Share" award ceremony for 2003, PBZ Global fund received the award for the best balanced fund in Croatia for the third time and also the award for the overall best investment fund in Croatia.

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

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

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.

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 to grant 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 estates, company cars, sailboats and heavy equipment. During 2004, PBZ Leasing made over 3.5 thousand lease arrangements with customers, which in financial terms exceeded HRK 480 million.
Presently, PBZ Leasing holds 5 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. In 2002, the company gained the largest return on investment of all the compulsory pension funds in Croatia. Despite fierce competition and exceptional volatility on the market, the company's pension fund continued to operate successfully during 2004. As a result, the net asset value per unit rose significantly in the past year.

At this point, the fund has over 195 thousand members and net assets in personal accounts exceeding HRK 1.42 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. Up to this point there are more than 62 thousand savings contracts which amount to more than EUR 563 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. 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. The initial activity of the company has shown that there is strong interest from our clients in these types of products.

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.

Warty Crab
(Eriphia verrucosa)

10 cm; at 5 m,
Islands of Brijuni, Islet of Vrsar

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.

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
Gabriele Pace
Chief financial officer, responsible for the Accounting, Financial control and General administration Group (appointed 15 July 2004)
Ivan Gerovac
responsible for the Corporate Banking Group
Draženko Pavlinić,
responsible for the Finance Banking Group
Tomislav Lazarić
responsible for the Retail Banking Group
Davor Holjevac
responsible for the Information Technology and Operations Group

Antonello Dessanti
Chief financial officer (mandate expired on 15 July 2004)

Columbella rustica

1 cm; at 1 m,
Islan of Mljet, Islet of Pomeštak

Statement of responsibilities of the Management Board

Pursuant to the Croatian Accounting Law (National Gazette 90/92), 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 (National Gazette 90/92). 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

14 February 2005

ERNST & YOUNG

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 2004, as set out on pages 46 to 93. The financial statements have been prepared in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board, as required by the Croatian Accounting Law.

Respective responsibilities of the Board and auditors
As described on page 43, 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 2004 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, as required by the Croatian Accounting Law.

Ernst & Young d.o.o.

Ernst & Young d.o.o., Zagreb

Republic of Croatia
Zagreb, 19 May 2004
Zagreb, 14 February 2005

Income statement

(in HRK million)

	Note	Group		Bank	
		2004	2003	2004	2003
Interest income	2	2,494	2,401	2,267	2,073
Interest expense	2	(977)	(909)	(913)	(805)
Net interest income		**1,517**	**1,492**	**1,354**	**1,268**
Fee and commission income	3	877	777	515	452
Fee and commission expense	3	(221)	(231)	(217)	(205)
Net fee and commission income		**656**	**546**	**298**	**247**
Other operating income	4	406	386	365	252
Operating income		**2,579**	**2,424**	**2,017**	**1,767**
Provisions	5	(176)	(168)	(110)	(112)
Other operating expenses	6, 7	(1,218)	(1,156)	(905)	(797)
Depreciation and amortization of property and equipment and intangible assets	8	(256)	(224)	(168)	(146)
Profit before income taxes		**929**	**876**	**834**	**712**
Income arising from investments accounted by net equity method		3	4	-	-
Income taxes	9	(196)	(178)	(156)	(137)
Net profit for the year		**736**	**702**	**678**	**575**
Attributable to:					
Equity holders of the parent		735	695	678	575
Minority interests		1	7	-	-
		736	**702**	**678**	**575**
			in HRK		**in HRK**
Basic earnings per share	47	44.2	41.8	40.7	34.7

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

Balance sheet

(in HRK million)

	Note	Group		Bank	
Assets		2004	2003	2004	2003
Cash and current accounts with other banks	10	2,659	2,577	2,534	2,377
Balances with Croatian National Bank	11	4,592	6,496	4,350	5,746
Assets held for trading	12	3,331	1,778	3,327	1,441
Derivative financial instruments	13	32	38	32	38
Due from banks	14	5,473	4,332	5,375	4,098
Loans and advances to customers	15	24,205	23,387	21,963	20,377
Assets available for sale	16	359	162	30	-
Held to maturity investments	17	1,634	2,033	1,623	1,976
Equity investments in subsidiaries and associates	18	33	29	344	396
Intangible assets and goodwill	19	194	226	122	118
Property and equipment	20	1,084	1,010	777	684
Other assets	21	210	176	126	86
Accrued income receivable and prepaid expenses	22	134	146	127	130
Deferred tax assets	9	58	51	49	38
Total assets		**43,998**	**42,441**	**40,779**	**37,505**
Liabilities					
Due to banks	23	58	2,455	546	2,718
Due to customers	24	29,731	27,497	27,224	23,791
Derivative financial instruments	25	30	9	30	9
Other borrowed funds	26	7,852	6,763	7,795	6,520
Other due in securities	27	20	20	20	20
Other liabilities	28	1,248	1,182	617	534
Accruals and deferred income	29	549	524	440	396
Allowances for risks and charges	30	224	201	192	162
Total liabilities		**39,712**	**38,651**	**36,864**	**34,150**
Equity attributable to equity holders of the parent					
Share capital	32	1,666	1,666	1,666	1,666
Treasury shares		(12)	(20)	(12)	(20)
Reserves and retained earnings	33	1,875	1,389	1,583	1,134
Net profit for the year		735	695	678	575
		4,264	3,730	3,915	3,355
Minority interests	34	22	60	-	-
Total shareholders' equity		**4,286**	**3,790**	**3,915**	**3,355**
Total liabilities and shareholders' equity		**43,998**	**42,441**	**40,779**	**37,505**

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 14 February 2005.

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

Gabriele Pace
Chief financial officer

Cash flow statement
(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Cash flow from operating activities				
Operating profit	735	695	678	575
Provisions	176	168	110	112
Proceeds from sale of property and equipment	(7)	(4)	(6)	(4)
Depreciation and amortization	256	224	168	146
Taxes paid	(204)	(188)	(154)	(156)
	956	**895**	**796**	**673**
Increase/(decrease) in operating assets				
Balances with Croatian National Bank	1,904	(2,778)	1,396	(2,726)
Due from banks	(371)	(43)	(104)	(97)
Loans and advances to customers	(783)	(4,359)	(1,503)	(3,782)
Disposals/(acquisitions) of assets held for trading and assets available for sale	(1,750)	1,375	(1,886)	1,408
Accrued income and other assets	(22)	89	(37)	128
Increase/(decrease) in operating liabilities				
Due to banks	(2,397)	1,084	(2,172)	1,332
Due to customers	2,234	2,364	3,433	1,927
Other liabilities	99	9	125	(41)
Net cash used in operating activities	**(130)**	**(1,364)**	**48**	**(1,178)**
Cash flows from investing activities				
Purchase of property and equipment	(265)	(375)	(168)	(224)
Acquisition of long term investment	(4)	98	52	10
Repayment of assets held to maturity	399	322	353	255
Net cash from investing activities	**130**	**45**	**237**	**41**
Cash flows from financing activities				
Dividends paid	(230)	(212)	(230)	(212)
Other borrowed funds	1,082	3,679	1,275	3,505
Net cash from financing activities	**852**	**3,467**	**1,045**	**3,293**
Net increase/(decrease) in cash	**852**	**2,148**	**1,330**	**2,156**
Cash and cash equivalents at the beginning of the year	6,432	4,284	6,032	3,876
Cash and cash equivalents at the end of the year	7,284	6,432	7,362	6,032
Supplementary information				
Interest paid	1,008	912	917	798
Interest received	2,255	2,072	2,025	1,791
Dividends paid	230	212	230	212
Dividends received	1	2	96	42

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

Statement of changes in equity
(in HRK million)

	Share capital	Treasury shares	Reserves and retained profits	Net profit for the year	Total
Group					
Balance at 1 January 2003	**1,666**	**(12)**	**985**	**641**	**3,280**
Adjustment of the opening balance	-	(4)	(28)	-	(32)
Transfer to reserves	-	-	641	(641)	-
(Purchase)/sale of treasury shares	-	(4)	-	-	(4)
Dividends paid	-	-	(212)	-	(212)
Capital gain on disposal of treasury shares	-	-	3	-	3
Net profit for the year	-	-	-	695	695
Balance at 31 December 2003	**1,666**	**(20)**	**1,389**	**695**	**3,730**
Transfer to reserves	-	-	695	(695)	-
(Purchase)/sale of treasury shares	-	8	-	-	8
Dividends paid	-	-	(230)	-	(230)
Capital gain on disposal of treasury shares	-	-	21	-	21
Net profit for the year	-	-	-	735	735
Balance at 31 December 2004	**1,666**	**(12)**	**1,875**	**735**	**4,264**
Bank					
Balance at 1 January 2003	**1,666**	**(12)**	**842**	**530**	**3,026**
Adjustment of the opening balance	-	(4)	(28)	-	(32)
Transfer to reserves	-	-	530	(530)	-
(Purchase)/sale of treasury shares	-	(4)	-	-	(4)
Dividends paid	-	-	(212)	-	(212)
Capital gain on disposal of treasury shares	-	-	2	-	2
Net profit for the year	-	-	-	575	575
Balance at 31 December 2003	**1,666**	**(20)**	**1,134**	**575**	**3,355**
Integration of Riadria banka	-	-	83	-	83
Transfer to reserves	-	-	575	(575)	-
(Purchase)/sale of treasury shares	-	8	-	-	8
Dividends paid	-	-	(230)	-	(230)
Capital gain on disposal of treasury shares	-	-	21	-	21
Net profit for the year	-	-	-	678	678
Balance at 31 December 2004	**1,666**	**(12)**	**1,583**	**678**	**3,915**

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

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 held for trading. 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 Group companies, within Bank only financial statements, are those in which the Bank - directly or indirectly - holds a majority of the voting rights, or those that are in any case subject to the company's dominant influence. These investments are accounted for at cost decreased by an impairment provision.

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 (net of accumulated amortisation). 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.

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 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 State Pension Fund and the State Health 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:

	2004	2003
Contributions for State Pension Fund	15.00%	15.00%
Contributions for State Health Fund	15.00%	15.00%
Contributions for Unemployment Fund	1.70%	1.70%
Injuries at work	0.47%	0.47%

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 (Revised 2002) 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 post retirement 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. A few Group members currently have carry forward tax losses from prior years. These losses can be carried forward for a maximum of five years starting from the year when the loss was incurred (refer to note 9).

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.

Assets held for trading
Financial instruments included in this portfolio are held-for-trading 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 cost (which includes transaction costs) and subsequently remeasured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in the

unrealised gains/(losses) on securities held for trading and assets available for sale. Interest earned whilst holding these instruments is reported as interest income. Dividends earned are included in dividend income.

Assets available for sale
Financial instruments included in assets available for sale relate to debt and equity securities. These instruments are initially recognised at cost and subsequently stated at fair value. Gains and losses arising from changes in the fair value of assets available for sale are recognised in the income statement as gains less losses from these securities in the period that the change occurs.

Held to maturity investments
Financial instruments included in this portfolio are hold-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 hold-to-maturity financial instruments is reported as interest income.

Originated 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 historical 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 impairments. Subsequent recoveries are credited to 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 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 into 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 proper property and equipment.

Property and equipment is depreciated on a straight-line basis using useful lives. The useful lives are as follows:

	2004	2003
	years	years
Buildings	10 to 40	10 to 40
Furniture	5	5
Computers	4	4
Motor vehicles	4	4
Equipment and other assets	4 to 10	4 to 10

Land is not depreciated.

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 IAS 22 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 as at the date of the acquisition is presented as goodwill and recognized as an asset. Any excess, as at the date of the exchange transaction, of the acquirer's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition is recognised as negative goodwill.
Goodwill accounted for in the accompanying financial statements is amortised over period of 7.5 years at annual rate of 13.33 percent in the books of PBZ American Express and in Privredna banka Zagreb of 10 years at annual rate of 10 percent.
Intangible assets are amortised over a period of 5 years.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) 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 2004.

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, plant 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 income for items of property, plant 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.

Dividend policy

The Bank has a policy to pay dividend to its shareholders based on audited annual results.

Comparatives and reclassification

The following reclassifications have been made to the Group 2003 balances to conform to the 2004 presentation (amounts in HRK million).

Amount	Previously reported	As reclassified	Comment
171	Due from banks	Cash and current acounts with other banks	To disclose all cash items in an integral note
1,768	Balances with Croatian National Bank	Cash and current acounts with other banks	To disclose all cash items in an integral note
38	Other assets	Derivative financial instruments - assets	To disclose derivative financial instruments in a separate note
9	Other liabilities	Derivative financial instruments - liabilities	To disclose derivative financial instruments in a separate note
6,763	Due to banks and due to customers	Other borrowed funds	To disclose all borrowings in an integral note

Notes to the Bank and the Group Financial Statements

2 | Interest income and expense

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Interest income				
Citizens	1,343	1,268	1,189	1,077
Companies	506	572	482	530
Bonds and securities	233	284	207	263
Banks	204	192	181	119
Public sector and others	208	85	208	84
	2,494	**2,401**	**2,267**	**2,073**
Interest expense				
Citizens	538	514	483	428
Companies	136	162	131	152
Banks	225	195	228	193
Public sector and others	78	38	71	32
	977	**909**	**913**	**805**

3 | Fee and commission income and expense

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Fee and commission income				
Fees and commission on credit card services	389	366	130	123
Payment transaction fees and commission	238	203	227	174
Fees and commission on customer loans	38	66	36	40
Fees and commission on guarantees given	32	31	31	30
Fees and commission on customer services	27	25	27	22
Other fee and commission income	153	86	64	63
	877	**777**	**515**	**452**
Fee and commission expense				
Payment transaction charges	128	157	123	137
Bank charges	26	28	20	13
Commission to post offices for citizens' current accounts	2	3	1	2
Other fee and commission expense	65	43	73	53
	221	**231**	**217**	**205**

4 | Other operating income

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Foreign exchange trading gain	101	91	78	90
Foreign exchange revaluation	78	80	82	46
Realised gains on securities held for trading and assets available for sale	45	54	37	54
Gains from disposal of fixed assets	7	4	6	4
Dividends earned	1	2	96	42
Unrealised gains/(losses) on securities held for trading and assets available for sale	24	(11)	19	(19)
Other income	150	166	47	35
	406	**386**	**365**	**252**

5 | Provisions

(in HRK million)

		Group		Bank	
	Note	2004	2003	2004	2003
Provisions for loans and advances to customers	15	150	182	79	129
Provisions for due from banks	14	(4)	3	2	(1)
Provisions for legal claims	30	10	3	9	4
Provisions for guarantees and commitments	30	20	(20)	20	(20)
		176	**168**	**110**	**112**

6 | Other operating expenses

(in HRK million)

		Group		Bank	
	Note	2004	2003	2004	2003
Personnel expenses	7	573	544	453	406
Materials and services		409	379	273	231
Deposit insurance premium		83	76	76	69
Indirect and other taxes		12	10	11	8
Other operating expenses		141	147	92	83
		1,218	**1,156**	**905**	**797**

7 | Personnel expenses

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Net salaries	271	257	215	187
Health insurance costs	64	60	51	44
Taxes and surtaxes due to local authorities	65	61	48	43
Pension insurance costs	83	81	65	57
Other personal expenses	90	85	74	75
	573	**544**	**453**	**406**

Included in salaries and other related costs of employees is the bonus for the management and employees of the Bank in gross amount of HRK 22.9 million (2003: HRK 22.7 million). In addition, the same item includes the remuneration of the Bank's Management Board in the gross amount of HRK 4.3 million (2003: HRK 3.9 million).
During the year the average number of employees within the Group was 3,929 (2003: 3,766) of which the Bank accounted for 3,229 employees (2003: 2,866).

8 | Depreciation and amortization of fixed and intangible assets

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Depreciation of property and equipment	166	140	121	102
Amortization of intangible assets and goodwill	90	84	47	44
	256	**224**	**168**	**146**

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 and goodwill of the Group of HRK 8 million (2003: HRK 28 million) and the Bank of HRK 25 thousand (2003: HRK 26 million).

9 | Taxation

Profit tax is payable at the rate of 20 percent (2003: 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	
	2004	2003	2004	2003
Current income tax expense	(202)	(204)	(163)	(154)
Deferred tax assets utilised during the year	(52)	(25)	(42)	(21)
Deferred tax assets relating to temporary differences	58	51	49	38
	(196)	**(178)**	**(156)**	**(137)**

9 | Taxation/continued

The reconciliation between accounting profit and taxable profit is set out below:
(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Accounting profit before taxation	**929**	**876**	**834**	**712**
Statutory tax rate	20%	20%	20%	20%
Expected nominal tax	**186**	**175**	**167**	**142**
Tax effects of:				
Non deductible expenses	35	41	34	34
Non taxable income	(38)	(22)	(38)	(22)
Other	19	12	-	-
Tax losses brought forward	-	(2)	-	-
Tax expense	**202**	**204**	**163**	**154**
Effective tax rate	**21.7%**	**23.3%**	**19.5%**	**21.6%**

Movements of deferred tax assets are as follows:
(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Deferred tax asset recognised at 1 January	**51**	**25**	**38**	**21**
Integration of Riadria banka	-	-	4	-
Tax (profits)/losses in the year recognised as deferred tax assets	59	51	49	38
Deferred tax (debit)/credit in the income statement	(52)	(25)	(42)	(21)
Deferred tax asset recognised at 31 December	**58**	**51**	**49**	**38**
Deferred tax asset consists of:				
Deferred loan origination fees as an adjustment to the effective yield	40	34	36	28
Retirement benefits	3	3	2	1
Impairment of real estates	5	5	5	5
Unrealised losses on revaluation of securities	2	1	1	1
Other	8	8	5	3
	58	**51**	**49**	**38**

9 | Taxation/continued

In accordance with the effective law on tax profit, Investholding Karlovac may use tax losses to reduce taxable profits for a period of 5 years. The benefit of the tax losses has not been recognised in these financial statements due to the uncertainty of their recoverability. The expiry dates for unused tax losses are as follows:

(in HRK million)		Group		Bank
	2004	2003	2004	2003
31 December 2006	3	4	-	-
31 December 2007	4	4	-	-
	7	**8**	**-**	**-**

10 | Cash and current accounts with other banks

(in HRK million)		Group		Bank
	2004	2003	2004	2003
Current accounts held with central bank	1,792	1,768	1,748	1,681
Cash in hand	739	636	668	546
Current accounts and amounts at call with foreign banks	113	167	106	146
Current accounts and amounts at call with domestic banks	7	4	5	3
Other cash items	8	2	7	1
	2,659	**2,577**	**2,534**	**2,377**

11 | Balances with Croatian National Bank

(in HRK million)		Group		Bank
	2004	2003	2004	2003
Obligatory reserve	4,590	3,296	4,349	2,771
Treasury bills	-	3,104	-	2,885
Other deposits	2	96	1	90
	4,592	**6,496**	**4,350**	**5,746**

Obligatory reserve represents the amount of liquid assets required to be deposited with Croatian National Bank. At the end of each month 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 (2003: 19 percent) and 18 percent of foreign currency denominated balances (2003: 19 percent). From that amount the banks should maintain at least 40 percent with the Croatian National Bank.
The balances maintained with the Croatian National Bank bear annual interest of 1.25 percent for HRK amounts (2003: 1.25 percent), 1.5 percent for USD and 1.5 percent for EUR amounts (2003: 1.0 percent for USD and 2.03 percent for EUR amounts). 42 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 72 percent of its HRK obligatory reserve and 60 percent of its foreign currency obligatory reserve (in USD) with the Croatian National Bank. The remaining 28 percent of HRK obligatory reserve and 40 percent of foreign currency obligatory reserve were maintained as balance on nostro accounts or deposits with other banks.

12 | Assets held for trading

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Foreign treasury bills	987	19	987	19
Foreign government bonds	646	10	646	10
Domestic government bonds	544	785	544	662
Domestic treasury bills	362	430	362	222
Foreign corporate bonds	340	-	340	-
Equities and shares	332	298	328	295
Domestic corporate bonds	120	164	120	164
Commercial papers	-	72	-	69
	3,331	**1,778**	**3,327**	**1,441**

13 | Derivative financial instruments

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Fair values:				
Foreign exchange derivatives	7	15	7	15
Security derivatives	1	1	1	1
Other embedded derivatives	24	22	24	22
	32	**38**	**32**	**38**
Notional amounts:				
Foreign exchange derivatives	1,050	1,331	1,050	1,331
Security derivatives	134	42	134	42
Other embedded derivatives	988	1,092	988	1,092
	2,172	**2,465**	**2,172**	**2,465**

Foreign exchange derivatives mostly relate to foreign exchange currency deals bought forward. Security derivatives include bonds bought forward. Other embedded derivatives include loans granted 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	
	2004	2003	2004	2003
Term deposits	4,773	3,723	4,695	3,485
Loans to banks	714	627	691	622
	5,487	**4,350**	**5,386**	**4,107**
Provisions	(14)	(18)	(11)	(9)
	5,473	**4,332**	**5,375**	**4,098**

14 | Due from banks / continued

Term deposits are normally short-term deposits (up to one month) with local and foreign banks bearing an average annual interest rate of 1.8 percent to 2.4 percent (2003: 2.3 and 2.7 percent respectively).
Included in the Bank placements with other banks are HRK 19.0 million (2003: HRK 26.2 million) related to refinanced borrowings due to the Republic of Croatia and HRK 120.0 million (2003: HRK 146.5 million) of refinanced borrowings due to Government agencies. For more details refer to note 26. The related currency analysis is provided in note 44.

a) Geographical analysis
(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Germany	1,124	559	1,040	488
Austria	901	621	882	544
Great Britain	483	129	461	105
Republic of Croatia	464	361	691	462
France	436	1	436	1
Belgium	401	136	365	60
Italy	358	1,670	312	1,626
Switzerland	238	185	214	178
United States of America	152	268	142	260
Other countries	930	420	843	383
	5,487	**4,350**	**5,386**	**4,107**
Provisions	(14)	(18)	(11)	(9)
	5,473	**4,332**	**5,375**	**4,098**

b) Provisions for losses
(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Balance at 1 January	**18**	**15**	**9**	**10**
Provisions	(4)	3	2	(1)
Balance at 31 December	**14**	**18**	**11**	**9**

15 | Loans and advances to customers

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
a) Analysis by type of customer				
Citizens	13,615	13,423	11,382	10,694
Companies	9,264	9,295	8,957	8,690
Public sector and other	3,434	2,678	3,428	2,667
	26,313	**25,396**	**23,767**	**22,051**
Provisions	(1,907)	(1,842)	(1,624)	(1,530)
Deferred fees recognised as an adjustment to the effective yield	(201)	(167)	(180)	(144)
	24,205	**23,387**	**21,963**	**20,377**

15 | Loans and advances to customers / continued

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
b) Analysis by sector				
Citizens	13,615	13,423	11,382	10,694
Wholesale and retail trade	2,035	2,567	2,029	2,233
Transport and communication	1,057	576	1,002	516
Hotels and restaurants	952	756	920	667
Construction	882	699	818	629
Food and beverages	519	671	499	647
Agriculture, forestry and fishing	510	560	474	519
Energy products	414	394	393	364
Oil refining and gas	113	78	113	78
Other	6,216	5,672	6,137	5,704
	26,313	**25,396**	**23,767**	**22,051**
Provisions	(1,907)	(1,842)	(1,624)	(1,530)
Deferred fees recognised as an adjustment to the effective yield	(201)	(167)	(180)	(144)
	24,205	**23,387**	**21,963**	**20,377**

Within Loans and advances to customers were advances related to Treasury bills of the Ministry of Finance as well as Podravka and Adris Grupa corporate bonds purchased under agreements to resell (reverse repo) to other customers whose value at 31 December 2004 stood at HRK 23.7 million (2003: HRK 8 million).

	Group		Bank	
	2004	2003	2004	2003
c) Provisions for losses				
Balance at 1 January	**1,842**	**2,091**	**1,530**	**1,814**
Amounts collected	(121)	(319)	(110)	(258)
Amounts written off	(61)	(408)	(40)	(390)
Foreign exchange (gain)/loss	(24)	(23)	55	(23)
Amortisation of the discount (*)	(67)	-	(56)	-
Provisions	338	501	245	387
Balance at 31 December	**1,907**	**1,842**	**1,624**	**1,530**

(*) not available in 2003.

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 2004 the aggregate amount of non performing loans and receivables for the Group equalled HRK 815 million and for the Bank HRK 695 million (2003: HRK 1,084 million and HRK 950 million respectively).

15 | Loans and advances to customers / continued

(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 Group loans and contingencies guaranteed by the Republic of Croatia or repayable from the state budget amount to HRK 1,494 million (2003: HRK 2,472 million).

Total Bank loans and contingencies guaranteed by the Republic of Croatia or repayable from the state budget amount to HRK 1,494 million (2003: HRK 2,425 million).

(e) Refinanced loans

Included in loans and receivables are HRK 130 million (2003: HRK 177 million) related to refinanced borrowings due to the Republic of Croatia and HRK 384 million (2003: HRK 442 million) of refinanced borrowings due to the Government Agencies. For more detail on refinanced loans refer to note 26.

16 | Assets available for sale

(in HRK million)		**Group**		**Bank**
	2004	2003	2004	2003
Balance at 1 January	**162**	**27**	**-**	**-**
Integration of Riadria banka	-	-	26	-
Purchases/(disposals)	197	135	4	-
Balance at 31 December	**359**	**162**	**30**	**-**

Following the integration of Riadria banka effective 1 January 2004, Privredna banka Zagreb received shares in Belišće d.d. from Riadria banka. Prior to the integration these shares in Riadria banka were stated at the cost of acquisition in the amount of HRK 25,668 thousand on the grounds that the fair value could not be reliably measured. As a market for these shares was considered by the management of the Bank as not active, Privredna banka Zagreb continued with the same practise in recognising these shares at the cost and not at the market price. The following table sets out equity investments considered available for sale.

Equity Investments	**Country**	**Nature of business**	**Holding%**	
			2004	2003
Alstom Power d.o.o.	Croatia	manufacturing	20	20
Hospitalija trgovina d.o.o.	Croatia	trade	18	-
Belišće d.d.	Croatia	manufacturing	15	15
Europay Hrvatska d.o.o.	Croatia	card services	14	14
Agromeđimurje d.d.	Croatia	agriculture	11	11
Tehnološko inovacijski centar d.o.o.	Croatia	manufacturing	11	11
Tržište novca i kratkoročnih vrijednosnica d.d.	Croatia	finance	8	7
Međimurske novine d.o.o.	Croatia	newspaper	7	7
MBU d.o.o.	Croatia	finance	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
Karlovačka banka d.d.	Croatia	banking	1	1
Središnja depozitarna agencija d.d.	Croatia	finance	1	1
Istarska autocesta d.d.	Croatia	transport	1	1
Elan d.d.	Slovenia	manufacturing	1	1
Regionalna razvojna agencija Porin d.o.o.	Croatia	manufacturing	1	6
Adriadiesel d.d.	Croatia	manufacturing	1	4
Televizija Čakovec d.o.o.	Croatia	TV media	-	10

17 | Held to maturity investments

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Recapitalisation bonds	975	1,053	975	1,053
Rehabilitation bonds	506	554	506	554
Republic of Croatia bonds	127	401	119	339
Replacement bonds	26	25	23	-
Other corporate bonds	-	-	-	30
	1,634	**2,033**	**1,623**	**1,976**

Investment securities on 31 December 2004 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.
Within held to maturity investments there are funds that mainly 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. During 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 were originally stated in DEM, now converted to EUR, are repayable in 20 semi-annual instalments, which commenced on 1 July 1995.
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.
The Government declared a replacement of the Restructuring bonds with the Replacement bonds in April 2000 commencing from July 2001. The bonds bear an interest rate of 5 percent payable semi annually, while the principal matures in 2011 and is denominated in HRK.

18 | Equity investments in subsidiaries and associates

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Consolidated subsidiaries	-	-	316	367
Associates accounted for under equity method	33	28	28	28
Non-consolidated subsidiaries	-	1	-	1
	33	**29**	**344**	**396**
a) Movements				
Balance at 1 January	**29**	**127**	**396**	**406**
Acquired/(disposed)	4	(98)	(52)	(10)
Balance at 31 December	**33**	**29**	**344**	**396**

In 2003 PBZ Export Handel Service GmbH Germany was classified as a non-consolidated subsidiary. The company was liquidated in 2004.

18 | Equity investments in subsidiaries and associates / continued

The principal investments in subsidiaries and associates are as follows:

Consolidated Subsidiaries	Country	Nature of business	Holding% 2004	2003
Privredna banka Laguna banka d.d.	Croatia	banking	100	100
Međimurska banka d.d.	Croatia	banking	97	97
PBZ American Express 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 d.o.o. (formerly Atlas American Express d.o.o.)	Slovenia	card services	-	100
Riadria banka d.d.	Croatia	banking	-	85

Associates

Associates	Country	Nature of business	2004	2003
PBZ Croatia osiguranje d.d.	Croatia	finance	50	50
Centurion d.o.o. (formerly Atlas American Express d.o.o.)	Slovenia	card services	25	-

PBZ Croatia osiguranje d.d. and Centurion (formerly Atlas American Express d.o.o.) are accounted for under the equity method.

19 | Intangible assets and goodwill

(in HRK million)

	Goodwill/ Negative goodwill	Software	Other intangible assets	Assets in preparation	Total
Group					
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**
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**
Net book value					
Balance at 31 December 2004	**59**	**74**	**51**	**10**	**194**
Balance at 31 December 2003	**98**	**75**	**50**	**3**	**226**
Bank					
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**
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**
Net book value					
Balance at 31 December 2004	**14**	**56**	**44**	**8**	**122**
Balance at 31 December 2003	**17**	**60**	**39**	**2**	**118**

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**	**1,883**
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**
Net book value						
Balance at 31 December 2004	**650**	**113**	**124**	**165**	**32**	**1,084**
Balance at 31 December 2003	**596**	**100**	**86**	**203**	**25**	**1,010**
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**
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**
Net book value						
Balance at 31 December 2004	**524**	**94**	**10**	**123**	**26**	**777**
Balance at 31 December 2003	**426**	**81**	**8**	**150**	**19**	**684**

Items Furniture and other equipment and Motor vehicles of the Group comprise assets leased under operating leases with net book value of total HRK 136.0 million (2003: HRK 83.2 million).

21 | Other assets

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Amounts due - deriving from foreign currency transactions	116	56	75	18
Fees on payment transactions	23	24	21	21
Amounts receivable from debtors	20	13	2	1
Amounts to be debited under processing	12	4	11	4
Other	39	79	17	42
	210	**176**	**126**	**86**

22 | Accrued income receivable and prepaid expenses

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Accrued income receivable	124	126	120	116
Prepaid expenses	10	20	7	14
	134	**146**	**127**	**130**

The amount of accrued interest as at 31 December 2004 includes HRK 40 million of interest receivable on rehabilitation and recapitalisation bonds of the Republic of Croatia (2003: HRK 44 million).

23 | Due to banks

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Term deposits	44	2,323	372	2,548
Demand deposits	14	132	174	170
	58	**2,455**	**546**	**2,718**

24 | Due to customers

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Term deposits	19,172	17,201	17,416	14,968
Demand deposits	10,559	10,296	9,808	8,823
	29,731	**27,497**	**27,224**	**23,791**

Due to customers for the Group include frozen foreign currency savings in the amount of HRK 19 million (2003: HRK 59 million). Due to customers for the Bank include frozen foreign currency savings in the amount of HRK 14 million (2003: HRK 54 million). The Republic of Croatia has issued guarantees for the repayment or exchange of these deposits for government bonds (Republic of Croatia bonds - refer to note 17).

25 | Derivative financial instruments

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Fair values:				
Foreign exchange derivatives	5	1	5	1
Security derivatives	1	1	1	1
Other embedded derivatives	24	7	24	7
	30	**9**	**30**	**9**
Notional amounts:				
Foreign exchange derivatives	1,048	1,420	1,048	1,420
Security derivatives	489	342	489	342
Other embedded derivatives	590	541	590	541
	2,127	**2,303**	**2,127**	**2,303**

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 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.

26 | Other borrowed funds

(in HRK million)

	Group		Bank	
	2004	2003	2004	2003
Domestic borrowings	2,564	2,724	2,507	2,481
Foreign borrowings	4,311	2,816	4,311	2,816
Refinanced debt	977	1,223	977	1,223
	7,852	**6,763**	**7,795**	**6,520**

(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 are 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 an interest at LIBOR + 13/16 percent. The amounts due to the Republic of Croatia by the Bank were similarly rescheduled and redenominated, resulting in an overall increase in the gross liability of approximately HRK 625 million. 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 a series of Consolidation Agreements, resulting in an overall increase in the gross liability of approximately HRK 230 million. The Bank expects to recover this amount from the Croatian companies who were the original borrowers of the funds by rescheduling the loans similar to the above-described arrangements. Refinanced borrowings are for terms of 5 to 12 years, with semi-annual repayments commencing 31 July 1996. The interest on borrowings is determined at rates specific to each lending country.

26 | Other borrowed funds / continued

(c) Payables under repurchase agreements

Payables under repurchase agreements of the Bank under other borrowed funds include HRK 109 million in relation to Ministry of Finance Treasury bills pledged under repurchase agreements (2003: HRK 132 million).

27 | Other due in securities

In April 1999 the Bank issued long-term bonds with the repayment schedule linked to the euro. These bonds were issued with maturity of 7 years and carry an interest of 7.5 percent. The amount at 31 December 2004 stood at HRK 20 million (2003: HRK 20 million).

28 | Other liabilities

(in HRK million)

		Group		Bank
	2004	2003	2004	2003
Amounts payable to creditors	656	563	23	8
Items in course of collection and other liabilities	456	443	482	404
Salaries and other staff costs	110	102	99	91
Taxes	26	74	13	31
	1,248	**1,182**	**617**	**534**

29 | Accruals and deferred income

(in HRK million)

		Group		Bank
	2004	2003	2004	2003
Accrued interest not paid	244	229	237	199
Deferred income	209	217	129	135
Accrued expenses	96	78	74	62
	549	**524**	**440**	**396**

30 | Allowances for risks and charges

(in HRK million)

		Group		Bank
	2004	2003	2004	2003
a) Analysis				
Provisions for contingent liabilities and commitments	130	112	114	91
Provisions for legal claims	93	85	78	71
Provisions for other risks and charges	1	4	-	-
	224	**201**	**192**	**162**
b) Movements				
Balance at 1 January	**201**	**263**	**162**	**226**
Utilisation/(release) of provisions	(8)	(50)	-	(50)
Provisions for guarantees and commitments (note 5)	20	(20)	20	(20)
Provisions for legal claims (note 5)	10	3	9	4
Foreign exchange loss	1	5	1	2
Balance at 31 December	**224**	**201**	**192**	**162**

31 | Contingent liabilities and commitments

Legal claims

As at 31 December 2004 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 2004 made by the Group stood at HRK 93 million whilst the Bank provided HRK 78 million (refer to note 30).

Credit related contingencies and commitments

The primary purpose of these instruments is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The Group assessed that a provision of HRK 130 million is necessary to cover risks due to default of the respective counterparties (refer to note 30).

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

(in HRK million)	Group		Bank	
	2004	2003	2004	2003
Undrawn lending commitments	5,276	3,901	5,128	3,673
Performance guarantees	1,134	1,277	1,104	1,243
Foreign currency guarantees	1,706	374	345	356
Foreign currency letters of credit	256	207	251	196
HRK guarantees	275	381	253	343
Other contingent liabilities	74	-	73	-
	8,721	**6,140**	**7,154**	**5,811**

On 31 December 2004 the Group and the Bank had long-term commitments in respect of rent for business premises and equipment lease agreements expiring between 2005 and 2009. 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 2004 are presented below:

	2004	2005	2006	2007	2008	2009	Total
Group							
Premises	23	31	32	33	34	34	**187**
Equipment	6	7	8	9	10	10	**50**
	29	**38**	**40**	**42**	**44**	**44**	**237**
Bank							
Premises	21	29	30	33	34	34	**181**
Equipment	6	7	8	9	10	10	**50**
	27	**36**	**38**	**42**	**44**	**44**	**231**

32 | Share capital

The total number of authorised registered shares on 31 December 2004 was 16,660 thousand (2003: 16,660 thousand) with a nominal value of HRK 100 per share (2003: 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 that held 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 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 take-over of the 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 2004 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	434,813	2.6%
Treasury shares	48,434	0.3%
	16,660,000	**100%**

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

	(number of shares)	
	2004	2003
Balance at 1 January	**20,585**	**124,149**
Increase	100,071	85,411
Decrease	(72,222)	(188,975)
Balance at 31 December	**48,434**	**20,585**

33 | 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 5 April 2004, at their General Shareholders Meeting the shareholders of Privredna banka Zagreb took a decision on the distribution of a dividend of HRK 230 million related to 2003 results. At the same meeting, the shareholders approved the allocation of 72,222 treasury shares of the Bank to the employees of PBZ as a share based bonus payment.
During 2004, the Bank purchased the total of 100,071 treasury shares on the open market for own purposes.

34 | Minority interests

(in HRK million)

	2004	2003
Balance at 1 January	**60**	**50**
Minority interests in profit/(loss)	(1)	(7)
Consolidation adjustment	(37)	17
Balance at 31 December	**22**	**60**

35 | Cash and cash equivalents

(in HRK million)

		Group		**Bank**
	2004	2003	2004	2003
Cash and current accounts with other banks (note 10)	2,659	2,577	2,534	2,377
Due from banks with maturity of up to 3 months (note 14 and 45)	4,625	3,855	4,828	3,655
	7,284	**6,432**	**7,362**	**6,032**

36 | Managed funds for and on behalf of third parties

(in HRK million)

		Group		**Bank**
	2004	2003	2004	2003
LIABILITIES				
Local authorities and similar organisations	500	522	494	521
Companies	5	10	4	10
Banks and other institutions	263	264	257	255
	768	**796**	**755**	**786**
LESS: ASSETS	758	754	747	753
	10	**42**	**8**	**33**

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 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 | 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 equipment, vessels and vehicles. Net investments in finance lease in the Group financial statements are included within loans and advances to customers in total amount of HRK 359.9 million (2003: HRK 177.5 million) (refer to note 15). The amounts related to the operating lease arrangements are classified within property and equipment (refer to note 20). Net book value of leased tangible fixed assets was HRK 130.0 million (2003: HRK 83.2 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**	**Present value of payments**	**Minimum payments**	**Present value of payments**
	2004	2004	2003	2003
Next year	123	95	64	48
Between one and five years	264	218	152	129
After five years	70	56	9	8
Total minimum lease payments receivable	**457**	**369**	**225**	**185**
Unearned finance income	(88)	-	(40)	-
Total investment in finance lease	**369**	**369**	**185**	**185**
Less: Allowance for uncollectable amounts(9)	(9)	(7)	(7)	
Net investment in finance lease	**360**	**360**	**178**	**178**

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

(in HRK million)	2004	2003
Within one year	37	22
After one year but no more than five years	90	75
More than five years	12	-
	139	**97**

38 | Related party transactions

The Bank grants loans to or places deposits with the companies to which it is related. These 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. Such loans are made in the ordinary course of business at terms and conditions available to third parties. As at 31 December 2004 the total gross exposure to related parties, including the Management Board members, amounted to HRK 901 million (2003: HRK 1,178 million).

39 | 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.

39 | Financial risk management policies / continued

Credit risk

The Group is subject to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that counter parties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deals with counter parties of good credit standing, and when appropriate, obtains collateral.

The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. In addition, the Group is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued - refer to note 31.

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 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. 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 the 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 utilization are delivered daily to the senior management and the lower management levels in the Treasury Division, which enables informed decision-making process 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.

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 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.

39 | Financial risk management policies / continued

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 for satisfying 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 in the profile of risk exposure of the Bank such as (quantitative ('ex-post') and qualitative (ex-ante') risk exposure assessment); to support 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.

- 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;
- 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 income statement and certain assets and liabilities regarding the Group's business segment for the years ended 31 December 2004 and 2003. 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 2004	Banking	Card services	Leasing	Other financial services	Non financial services	Consolidation adjustments	Group Total
Interest income	2,444	66	26	13	-	(55)	2,494
Interest expense	(987)	(10)	(21)	(8)	-	49	(977)
Net interest income	1,457	56	5	5	-	(6)	1,517
Fee and commission income	553	260	49	33	9	(27)	877
Fee and commission expense	(226)	(11)	(1)	-	-	17	(221)
Net fee and commission income	327	249	48	33	9	(10)	656
Other operating income	388	76	14	15	13	(100)	406
Operating income	2,172	381	67	53	22	(116)	2,579
Provisions, other operating expenses and depreciation and amortization	(1,291)	(272)	(60)	(32)	(17)	2	(1,650)
Income arising from investments accounted by net 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	43,571	1,132	539	419	49	(1,745)	43,965
Equity investments in subsidiaries and associates	32	1	-	-	-	-	33
Total assets	**43,603**	**1,133**	**539**	**419**	**49**	**(1,745)**	**43,998**
Segment liabilities	39,369	875	513	356	2	**(1,429)**	39,686
Taxes payable	14	8	1	2	1	-	26
Total liabilities	**39,383**	**883**	**514**	**358**	**3**	**(1,429)**	**39,712**

41 | Financial information by segment / continued

(in HRK million)

Group

As at 31 December 2003	Banking	Card services	Leasing	Other financial services	Non financial services	Consolidation adjustments	Total
Interest income	2,358	64	15	7	1	(44)	2,401
Interest expense	(921)	(14)	(12)	(6)	-	44	(909)
Net interest income	1,437	50	3	1	1	-	1,492
Fee and commission income	520	259	-	28	11	(41)	777
Fee and commission expense	(235)	(18)	-	(8)	-	30	(231)
Net fee and commission income	285	241	-	20	11	(11)	546
Other operating income	302	72	59	3	11	(61)	386
Operating income	2,024	363	62	24	23	(72)	2,424
Provisions, other operating expenses and depreciation and amortization	(1,225)	(260)	(47)	(17)	(15)	16	(1,548)
Income arising from investments accounted by net equity method	-	-	-	4	-	-	4
Income taxes	(154)	(18)	(3)	(2)	(1)	-	(178)
Minority interests	(7)	-	-	-	-	-	(7)
Net profit for the year	**638**	**85**	**12**	**9**	**7**	**(56)**	**695**
Segment assets	42,005	1,032	297	149	51	(1,122)	42,412
Equity investments in subsidiaries and associates	29	-	-	-	-	-	29
Total assets	**42,034**	**1,032**	**297**	**149**	**51**	**(1,122)**	**42,441**
Segment liabilities	38,142	852	277	105	3	**(748)**	38,631
Taxes payable	16	4	-	-	-	-	20
Total liabilities	**38,158**	**856**	**277**	**105**	**3**	**(748)**	**38,651**

42 | Interest rate risk

(in HRK million)

Group

As at 31 December 2004	Up to 1 month	From 1 to 3 months	From 3 to 1 year months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and current accounts with other banks	2,659	-	-	-	-	**2,659**
Balances with Croatian National Bank	4,592	-	-	-	-	**4,592**
Assets held for trading	1,081	584	745	921	-	**3,331**
Derivative financial instruments	-	-	-	-	32	**32**
Due from banks	5,153	13	300	2	5	**5,473**
Loans and advances to customers	23,087	310	204	604	-	**24,205**
Assets available for sale	52	29	86	186	6	**359**
Held to maturity investments	132	-	1	1,501	-	**1,634**
Equity investments in subsidiaries and associates	-	-	-	-	33	**33**
Intangible assets and gooodwill	-	-	-	-	194	**194**
Property and equipment	-	-	-	-	1,084	**1,084**
Other assets	-	-	-	-	210	**210**
Accrued income receivable and prepaid expenses	-	-	-	-	134	**134**
Deferred tax assets	-	-	-	-	58	**58**
	36,756	**936**	**1,336**	**3,214**	**1,756**	**43,998**
Liabilities						
Due to banks	45	-	-	13	-	**58**
Due to customers	28,384	661	469	217	-	**29,731**
Derivative financial instruments	-	-	-	-	30	**30**
Other borrowed funds	7,003	68	439	342	-	**7,852**
Other due in securities	-	-	-	20	-	**20**
Other liabilities	-	-	-	-	1,248	**1,248**
Accruals and deferred income	-	-	-	-	549	**549**
Allowances for risks and charges	-	-	-	-	224	**224**
	35,432	**729**	**908**	**592**	**2,051**	**39,712**
Interest sensitivity gap	**1,324**	**207**	**428**	**2,622**	**(295)**	**4,286**

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

Bank

As at 31 December 2004	Up to 1 month	From 1 to 3 months	From 3 to 1 year months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and current accounts with other banks	2,534	-	-	-	-	**2,534**
Balances with Croatian National Bank	4,350	-	-	-	-	**4,350**
Assets held for trading	1,077	564	745	941	-	**3,327**
Derivative financial instruments	-	-	-	-	32	**32**
Due from banks	5,373	2	-	-	-	**5,375**
Loans and advances to customers	21,419	32	171	341	-	**21,963**
Assets available for sale	30	-	-	-	-	**30**
Held to maturity investments	125	-	-	1,498	-	**1,623**
Equity investments in subsidiaries and associates	-	-	-	-	344	**344**
Intangible assets and goodwill	-	-	-	-	122	**122**
Property and equipment	-	-	-	-	777	**777**
Other assets	-	-	-	-	126	**126**
Accrued income receivable and prepaid expenses	-	-	-	-	127	**127**
Deferred tax assets	-	-	-	-	49	**49**
	34,908	**598**	**916**	**2,780**	**1,577**	**40,779**
Liabilities						
Due to banks	533	-	-	13	-	**546**
Due to customers	26,226	469	420	109	-	**27,224**
Derivative financial instruments	-	-	-	-	30	**30**
Other borrowed funds	7,067	42	350	336	-	**7,795**
Other due in securities	-	-	-	20	-	**20**
Other liabilities	-	-	-	-	617	**617**
Accruals and deferred income	-	-	-	-	440	**440**
Allowances for risks and charges	-	-	-	-	192	**192**
	33,826	**511**	**770**	**478**	**1,279**	**36,864**
Interest sensitivity gap	**(1,082)**	**87**	**146**	**2,302**	**298**	**3,915**

42 | Interest rate risk / continued

(in HRK million)

Group

As at 31 December 2003	Up to 1 month	From 1 to 3 months	From 3 to 1 year months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and current accounts with other banks	2,577	-	-	-	-	**2,577**
Balances with Croatian National Bank	5,047	1,271	-	-	178	**6,496**
Assets held for trading	858	36	273	403	208	**1,778**
Derivative financial instruments	-	-	-	-	38	**38**
Due from banks	4,014	300	-	-	18	**4,332**
Loans and advances to customers	21,213	236	870	1,068	-	**23,387**
Assets available for sale	-	20	12	98	32	**162**
Held to maturity investments	10	15	351	1,630	27	**2,033**
Equity investments in subsidiaries and associates	-	-	-	-	29	**29**
Intangible assets and goodwill	-	-	-	-	226	**226**
Property and equipment	-	-	-	-	1,010	**1,010**
Other assets	-	-	-	-	176	**176**
Accrued income receivable and prepaid expenses	-	-	-	-	146	**146**
Deferred tax assets	-	-	-	-	51	**51**
	33,719	**1,878**	**1,506**	**3,199**	**2,139**	**42,441**
Liabilities						
Due to banks	2,107	2	275	71	-	**2,455**
Due to customers	25,925	477	681	414	-	**27,497**
Derivative financial instruments	-	-	-	-	9	**9**
Other borrowed funds	5,871	19	688	185	-	**6,763**
Other due in securities	-	-	-	20	-	**20**
Other liabilities	-	-	-	-	1,182	**1,182**
Accruals and deferred income	-	-	-	-	524	**524**
Allowances for risks and charges	-	-	-	-	201	**201**
	33,903	**498**	**1,644**	**690**	**1,916**	**38,651**
Interest sensitivity gap	**(184)**	**1,380**	**(138)**	**2,509**	**223**	**3,790**

42 | Interest rate risk / continued

(in HRK million)

Bank

As at 31 December 2003	Up to 1 month	From 1 to 3 months	From 3 to 1 year months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and current accounts with other banks	2,377	-	-	-	-	**2,377**
Balances with Croatian National Bank	4,577	1,169	-	-	-	**5,746**
Assets held for trading	791	36	213	401	-	**1,441**
Derivative financial instruments	-	-	-	-	38	**38**
Due from banks	4,080	18	-	-	-	**4,098**
Loans and advances to customers	19,890	4	264	219	-	**20,377**
Assets available for sale	-	-	-	-	-	**-**
Held to maturity investments	31	-	338	1,607	-	**1,976**
Equity investments in subsidiaries and associates	-	-	-	-	396	**396**
Intangible assets and goodwill	-	-	-	-	118	**118**
Property and equipment	-	-	-	-	684	**684**
Other assets	-	-	-	-	86	**86**
Accrued income receivable and prepaid expenses	-	-	-	-	130	**130**
Deferred tax assets	-	-	-	-	38	**38**
	31,746	**1,227**	**815**	**2,227**	**1,490**	**37,505**
Liabilities						
Due to banks	2,344	2	304	68	-	**2,718**
Due to customers	23,714	38	30	9	-	**23,791**
Derivative financial instruments	-	-	-	-	9	**9**
Other borrowed funds	5,731	6	639	144	-	**6,520**
Other due in securities	-	-	-	20	-	**20**
Other liabilities	-	-	-	-	534	**534**
Accruals and deferred income	-	-	-	-	396	**396**
Allowances for risks and charges	-	-	-	-	162	**162**
	31,789	**46**	**973**	**241**	**1,101**	**34,150**
Interest sensitivity gap	**(43)**	**1,181**	**(158)**	**1,986**	**389**	**3,355**

43 | Weighted average interest rates

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

	GROUP	GROUP	BANK	BANK
	Weighted average interest	Weighted average interest	Weighted average interest	Weighted average interest
	2004 (%)	2003 (%)	2004 (%)	2003 (%)
Cash reserves	1.19	1.16	1.19	1.17
Balances with the CNB	1.46	1.79	1.48	1.78
Securities held for trading	4.49	4.59	6.14	4.88
Due from banks	1.96	1.53	1.99	1.85
Loans and advances to customers	8.22	8.32	8.06	8.09
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	2.59	2.58	3.66	2.58
Other borrowed funds	2.91	3.35	2.91	3.38

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) **Group**

As at 31 December 2004	EUR	CHF	USD	Other currencies	HRK	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	-	2,700	**4,592**
Assets held for trading	2,440	26	116	83	666	**3,331**
Derivative financial instruments	1	-	-	-	31	**32**
Due from banks	4,568	286	374	245	-	**5,473**
Loans and advances to customers	14,976	125	688	21	8,395	**24,205**
Assets available for sale	166	-	-	-	193	**359**
Held to maturity investments	1,607	-	-	-	27	**1,634**
Equity investments in subsidiaries and associates	-	-	-	1	32	**33**
Intangible assets and goodwill	-	-	-	-	194	**194**
Property and equipment	-	-	-	-	1,084	**1,084**
Other assets	62	3	13	5	127	**210**
Accrued income receivable and prepaid expenses	99	1	7	1	26	**134**
Deferred tax assets	-	-	-	-	58	**58**
	24,345	**461**	**3,032**	**402**	**15,758**	**43,998**
Liabilities						
Due to banks	-	14	32	12	-	**58**
Due to customers	19,254	431	2,304	268	7,474	**29,731**
Derivative financial instruments	1	-	-	-	29	**30**
Other borrowed funds	5,581	8	630	25	1,608	**7,852**
Other due in securities	20	-	-	-	-	**20**
Other liabilities	104	2	30	44	1,068	**1,248**
Accruals and deferred income	208	2	18	2	319	**549**
Allowances for risks and charges	38	-	8	-	178	**224**
	25,206	**457**	**3,022**	**351**	**10,676**	**39,712**
Net on balance sheet position	**(861)**	**4**	**10**	**51**	**5,082**	**4,286**

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) **Bank**

As at 31 December 2004	EUR	CHF	USD	Other currencies	HRK	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	-	2,560	**4,350**
Assets held for trading	2,440	26	116	83	662	**3,327**
Derivative financial instruments	1	-	-	-	31	**32**
Due from banks	4,503	239	317	241	75	**5,375**
Loans and advances to customers	13,576	117	688	21	7,561	**21,963**
Assets available for sale	-	-	-	-	30	**30**
Held to maturity investments	1,600	-	-	-	23	**1,623**
Equity investments in subsidiaries and associates	-	-	-	-	344	**344**
Intangible assets and goodwill	-	-	-	-	122	**122**
Property and equipment	-	-	-	-	777	**777**
Other assets	58	2	12	4	50	**126**
Accrued income receivable and prepaid expenses	95	1	7	1	23	**127**
Deferred tax assets	-	-	-	-	49	**49**
	22,576	**402**	**2,970**	**389**	**14,442**	**40,779**
Liabilities						
Due to banks	318	14	76	12	126	**546**
Due to customers	17,398	371	2,244	249	6,962	**27,224**
Derivative financial instruments	1	-	-	-	29	**30**
Other borrowed funds	5,047	8	630	25	2,085	**7,795**
Other due in securities	20	-	-	-	-	**20**
Other liabilities	89	2	30	44	452	**617**
Accruals and deferred income	202	2	18	2	216	**440**
Allowances for risks and charges	38	-	8	-	146	**192**
	23,113	**397**	**3,006**	**332**	**10,016**	**36,864**
Net on balance sheet position	**(537)**	**5**	**(36)**	**57**	**4,426**	**3,915**

44 | Currency risk / continued

(in HRK million)

As at 31 December 2003	EUR	CHF	USD	Other currencies	HRK	Group Total
Assets						
Cash and current accounts with other banks	740	34	537	27	1,239	**2,577**
Balances with Croatian National Bank	1,565	-	1,729	-	3,202	**6,496**
Assets held for trading	588	-	384	38	768	**1,778**
Derivative financial instruments	-	-	-	-	38	**38**
Due from banks	2,701	366	932	333	-	**4,332**
Loans and advances to customers	14,378	69	759	78	8,103	**23,387**
Assets available for sale	99	-	-	-	63	**162**
Held to maturity investments	2,033	-	-	-	-	**2,033**
Equity investments in subsidiaries and associates	1	-	-	-	28	**29**
Intangible assets and goodwill	-	-	-	-	226	**226**
Property and equipment	-	-	-	-	1,010	**1,010**
Other assets	34	4	2	1	135	**176**
Accrued income receivable and prepaid expenses	97	-	13	-	36	**146**
Deferred tax assets	-	-	-	-	51	**51**
	22,236	**473**	**4,356**	**477**	**14,899**	**42,441**
Liabilities						
Due to banks	1,060	7	380	12	996	**2,455**
Due to customers	16,838	479	2,805	345	7,030	**27,497**
Derivative financial instruments	-	-	-	-	9	**9**
Other borrowed funds	3,060	32	1,006	40	2,625	**6,763**
Other due in securities	20	-	-	-	-	**20**
Other liabilities	128	1	34	81	938	**1,182**
Accruals and deferred income	162	4	28	2	328	**524**
Allowances for risks and charges	13	-	9	-	179	**201**
	21,281	**523**	**4,262**	**480**	**12,105**	**38,651**
Net on balance sheet position	**955**	**(50)**	**94**	**(3)**	**2,794**	**3,790**

44 | Currency risk / continued

(in HRK million) **Bank**

As at 31 December 2003	EUR	CHF	USD	Other currencies	HRK	Total
Assets						
Cash and current accounts with other banks	640	28	526	22	1,161	**2,377**
Balances with Croatian National Bank	1,262	-	1,618	-	2,866	**5,746**
Assets held for trading	464	-	385	38	554	**1,441**
Derivative financial instruments	-	-	-	-	38	**38**
Due from banks	2,656	310	759	294	79	**4,098**
Loans and advances to customers	12,517	69	726	25	7,040	**20,377**
Assets available for sale	-	-	-	-	-	**-**
Held to maturity investments	1,976	-	-	-	-	**1,976**
Equity investments in subsidiaries and associates	1	-	-	-	395	**396**
Intangible assets and goodwill	-	-	-	-	118	**118**
Property and equipment	-	-	-	-	684	**684**
Other assets	32	4	2	-	48	**86**
Accrued income receivable and prepaid expenses	90	-	13	1	26	**130**
Deferred tax assets	-	-	-	-	38	**38**
	19,638	**411**	**4,029**	**380**	**13,047**	**37,505**
Liabilities						
Due to banks	1,114	8	420	7	1,169	**2,718**
Due to customers	14,527	370	2,498	283	6,113	**23,791**
Derivative financial instruments	-	-	-	-	9	**9**
Other borrowed funds	2,830	30	969	24	2,667	**6,520**
Other due in securities	20	-	-	-	-	**20**
Other liabilities	108	1	33	45	347	**534**
Accruals and deferred income	147	4	25	2	218	**396**
Allowances for risks and charges	12	-	9	-	141	**162**
	18,758	**413**	**3,954**	**361**	**10,664**	**34,150**
Net on balance sheet position	**880**	**(2)**	**75**	**19**	**2,383**	**3,355**

45 | Liquidity risk

(in HRK million) **Group**

As at 31 December 2004	Up to 1 month	From 1 to 3 months	From 3 to 1 year months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with other banks	2,659	-	-	-	-	**2,659**
Balances with Croatian National Bank	4,554	38	-	-	-	**4,592**
Assets held for trading	569	642	892	544	684	**3,331**
Derivative financial instruments	32	-	-	-	-	**32**
Due from banks	4,608	17	424	420	4	**5,473**
Loans and advances to customers	5,280	948	3,544	10,206	4,227	**24,205**
Assets available for sale	66	29	87	9	168	**359**
Held to maturity investments	132	-	1	-	1,501	**1,634**
Equity investments in subsidiaries and associates	-	-	-	-	33	**33**
Intangible assets and goodwill	-	-	-	-	194	**194**
Property and equipment	-	-	-	-	1,084	**1,084**
Other assets	210	-	-	-	-	**210**
Accrued income receivable and prepaid expenses	134	-	-	-	-	**134**
Deferred tax assets	58	-	-	-	-	**58**
	18,302	**1,674**	**4,948**	**11,179**	**7,895**	**43,998**
Liabilities						
Due to banks	40	5	-	1	12	**58**
Due to customers	16,016	4,411	6,159	2,708	437	**29,731**
Derivative financial instruments	30	-	-	-	-	**30**
Other borrowed funds	1,277	280	2,014	3,587	694	**7,852**
Other due in securities	-	-	-	-	20	**20**
Other liabilities	1,248	-	-	-	-	**1,248**
Accruals and deferred income	549	-	-	-	-	**549**
Allowances for risks and charges	224	-	-	-	-	**224**
	19,384	**4,696**	**8,173**	**6,296**	**1,163**	**39,712**
Net liquidity gap	**(1,082)**	**(3,022)**	**(3,225)**	**4,883**	**6,732**	**4,286**

45 | Liquidity risk / continued

(in HRK million)

Bank

As at 31 December 2004	Up to 1 month	From 1 to 3 months	From 3 to 1 year months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with other banks	2,534	-	-	-	-	**2,534**
Balances with Croatian National Bank	4,350	-	-	-	-	**4,350**
Assets held for trading	564	623	892	544	704	**3,327**
Derivative financial instruments	32	-	-	-	-	**32**
Due from banks	4,823	5	125	419	3	**5,375**
Loans and advances to customers	4,767	842	3,169	9,547	3,638	**21,963**
Assets available for sale	-	-	-	-	30	**30**
Held to maturity investments	125	-	-	-	1,498	**1,623**
Equity investments in subsidiaries and associates	-	-	-	-	344	**344**
Intangible assets and goodwill	-	-	-	-	122	**122**
Property and equipment	-	-	-	-	777	**777**
Other assets	126	-	-	-	-	**126**
Accrued income receivable and prepaid expenses	127	-	-	-	-	**127**
Deferred tax assets	49	-	-	-	-	**49**
	17,497	**1,470**	**4,186**	**10,510**	**7,116**	**40,779**
Liabilities						
Due to banks	528	5	-	1	12	**546**
Due to customers	15,081	4,079	5,641	2,001	422	**27,224**
Derivative financial instruments	30	-	-	-	-	**30**
Other borrowed funds	2,075	237	1,797	3,013	673	**7,795**
Other due in securities	-	-	-	-	20	**20**
Other liabilities	617	-	-	-	-	**617**
Accruals and deferred income	440	-	-	-	-	**440**
Allowances for risks and charges	192	-	-	-	-	**192**
	18,963	**4,321**	**7,438**	**5,015**	**1,127**	**36,864**
Net liquidity gap	**(1,466)**	**(2,851)**	**(3,252)**	**5,495**	**5,989**	**3,915**

45 | Liquidity risk / continued

(in HRK million) **Group**

As at 31 December 2003	Up to 1 month	From 1 to 3 months	From 3 to 1 year months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with other banks	2,577	-	-	-	-	**2,577**
Balances with Croatian National Bank	5,201	1,290	5	-	-	**6,496**
Assets held for trading	511	36	374	300	557	**1,778**
Derivative financial instruments	-	-	-	-	38	**38**
Due from banks	3,571	329	81	314	37	**4,332**
Loans and advances to customers	4,413	1,527	3,645	9,313	4,489	**23,387**
Assets available for sale	154	-	-	-	8	**162**
Held to maturity investments	16	15	361	32	1,609	**2,033**
Equity investments in subsidiaries and associates	-	-	-	-	29	**29**
Intangible assets and goodwill	-	-	-	-	226	**226**
Property and equipment	-	-	-	-	1,010	**1,010**
Other assets	176	-	-	-	-	**176**
Accrued income receivable and prepaid expenses	146	-	-	-	-	**146**
Deferred tax assets	51	-	-	-	-	**51**
	16,816	**3,197**	**4,466**	**9,959**	**8,003**	**42,441**
Liabilities						
Due to banks	1,142	6	291	914	102	**2,455**
Due to customers	11,319	2,077	7,300	5,298	1,503	**27,497**
Derivative financial instruments	-	-	-	-	9	**9**
Other borrowed funds	3,096	77	923	2,376	291	**6,763**
Other due in securities	-	-	-	-	20	**20**
Other liabilities	945	15 0	39	30	18	**1,182**
Accruals and deferred income	524	-	-	-	-	**524**
Allowances for risks and charges	201	-	-	-	-	**201**
	17,227	**2,310**	**8,553**	**8,618**	**1,943**	**38,651**
Net liquidity gap	**(411)**	**887**	**(4,087)**	**1,341**	**6,060**	**3,790**

45 | Liquidity risk / continued

(in HRK million)

Bank

As at 31 December 2003	Up to 1 month	From 1 to 3 months	From 3 to 1 year months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with other banks	2,377	-	-	-	-	**2,377**
Balances with Croatian National Bank	4,578	1,168	-	-	-	**5,746**
Assets held for trading	436	36	213	300	456	**1,441**
Derivative financial instruments	-	-	-	-	38	**38**
Due from banks	3,629	41	76	315	37	**4,098**
Loans and advances to customers	3,945	1,191	3,082	7,929	4,230	**20,377**
Assets available for sale	-	-	-	-	-	**-**
Held to maturity investments	30	-	339	-	1,607	**1,976**
Equity investments in subsidiaries and associates	-	-	-	-	396	**396**
Intangible assets and goodwill	-	-	-	-	118	**118**
Property and equipment	-	-	-	-	684	**684**
Other assets	86	-	-	-	-	**86**
Accrued income receivable and prepaid expenses	130	-	-	-	-	**130**
Deferred tax assets	38	-	-	-	-	**38**
	15,249	**2,436**	**3,710**	**8,544**	**7,566**	**37,505**
Liabilities						
Due to banks	1,277	7	322	1,000	112	**2,718**
Due to customers	10,009	1,326	6,335	4,888	1,233	**23,791**
Derivative financial instruments	-	-	-	-	9	**9**
Other borrowed funds	3,019	60	893	2,270	278	**6,520**
Other due in securities	-	-	-	-	20	**20**
Other liabilities	516	-	-	-	18	**534**
Accruals and deferred income	396	-	-	-	-	**396**
Allowances for risks and charges	162	-	-	-	-	**162**
	15,379	**1,393**	**7,550**	**8,158**	**1,670**	**34,150**
Net liquidity gap	**(130)**	**1,043**	**(3,840)**	**386**	**5,896**	**3,355**

46 | Concentration of assets and liabilities

(in HRK million)

As at 31 December 2004	GROUP Assets	GROUP Liabilities	GROUP Off balance sheet items	BANK Assets	BANK Liabilities	BANK Off balance sheet items
Geographic region						
Republic of Croatia	36,340	30,701	8,608	33,451	27,878	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
	43,998	**39,712**	**8,721**	**40,779**	**36,864**	**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	9,971	9,274	3,542	10,575	9,006	3,461
	43,998	**39,712**	**8,721**	**40,779**	**36,864**	**7,154**

As at 31 December 2003	GROUP Assets	GROUP Liabilities	GROUP Off balance sheet items	BANK Assets	BANK Liabilities	BANK Off balance sheet items
Geographic region						
Republic of Croatia	38,806	32,881	5,600	34,300	28,462	3,929
European economic region	3,496	5,351	38	3,130	5,295	32
Other countries	139	419	502	75	393	1,850
	42,441	**38,651**	**6,140**	**37,505**	**34,150**	**5,811**
Industry sector						
Government	3,176	1,240	457	2,616	1,070	457
Commerce	2,480	924	451	2,255	752	401
Finance	13,528	4,168	1,983	12,474	4,035	83
Tourism	748	393	54	667	288	50
Agriculture	552	69	22	518	65	21
Citizens	13,423	17,843	1,972	10,694	14,762	1,802
Other sectors	8,534	14,014	1,201	8,281	13,178	2,997
	42,441	**38,651**	**6,140**	**37,505**	**34,150**	**5,811**

47 | Earnings per share

For the purposes 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 16,621,876 (2003: 16,595,853).

48 | Post balance sheet event

In accordance with the contract on integration signed on 19 May 2004 between Privredna banka Zagreb d.d. and Privredna banka Laguna banka d.d. and following legally valid resolution from the Commercial Court in Zagreb, Croatia, Privredna banka Laguna banka d.d. was effectively integrated into Privredna banka Zagreb d.d. as of 1 January 2005.

49 | Proforma consolidated income statement and balance sheet of Privredna banka Zagreb and Riadria banka as at 31 December 2003 (unaudited)

Income statement	2003
Interest income	2,191
Interest expense	(848)
Net interest income	**1,343**
Fee and commission income	484
Fee and commission expense	(225)
Net fee and commission income	**259**
Other operating income	282
Operating income	**1,884**
Provisions	(118)
Other operating expenses	(858)
Depreciation and amortization of property and equipment and intangible assets	(150)
Profit before income taxes	**758**
Income arising from investments accounted by net equity method	-
Income taxes	(144)
Net profit for the year	**614**
Attributable to:	
Equity holders of the parent	608
Minority interests	6
	614

Balance sheet	2003
Assets	
Cash and current accounts with other banks	2,418
Balances with Croatian National Bank	6,052
Assets held for trading	1,500
Derivative financial instruments	38
Due from banks	4,378
Loans and advances to customers	21,479
Assets available for sale	26
Held to maturity investments	2,003
Equity investments in subsidiaries and associates	274
Intangible assets and goodwill	117
Property and equipment	757
Other assets	69
Accrued income receivable and prepaid expenses	134
Deferred tax assets	42
Total assets	**39,287**
Liabilities	
Due to banks	2,705
Due to customers	25,438
Derivative financial instruments	9
Other borrowed funds	6,528
Other due in securities	20
Other liabilities	526
Accruals and deferred income	418
Allowances for risk and charges	170
Total liabilities	**35,814**
Equity attributable to equity holders of the parent	
Share capital	1,666
Treasury shares	(21)
Reserves and retained earnings	1,183
Net profit for the year	608
	3,436
Minority interests	37
Total shareholders' equity	**3,473**
Total liabilities and shareholders' equity	**39,287**

Supplementary financial statements in EUR (unaudited)

Income statement
(in EUR million)

	Group		Bank	
	2004	2003	2004	2003
Interest income	325	314	295	271
Interest expense	(127)	(119)	(119)	(105)
Net interest income	**198**	**195**	**176**	**166**
Fee and commission income	114	102	67	59
Fee and commission expense	(29)	(30)	(28)	(27)
Net commission income	**85**	**72**	**39**	**32**
Other operating income	53	50	47	33
Operating income	**336**	**317**	**262**	**231**
Provisions	(23)	(22)	(14)	(15)
Other operating expenses	(159)	(151)	(118)	(104)
Depreciation and amortization of property and equipment and intangible assets	(33)	(30)	(22)	(19)
Profit before income taxes	**121**	**114**	**108**	**93**
Income arising from investments accounted by net equity method	-	1	-	-
Income taxes	(25)	(23)	(20)	(18)
Net profit for the year	**96**	**92**	**88**	**75**
Attributable to:				
Equity holders of the parent	96	91	88	75
Minority interests	-	1	-	-
	96	**92**	**88**	**75**

Supplementary financial statements in EUR (unaudited)

Balance sheet
(in EUR million)

	Group		Bank	
	2004	2003	2004	2003
Assets				
Cash and current accounts with other banks	347	336	330	310
Balances with Croatian National Bank	599	846	567	749
Assets held for trading	434	232	434	188
Derivative financial instruments	4	5	4	5
Due from banks	713	565	701	534
Loans and advances to customers	3,156	3,048	2,863	2,656
Assets available for sale	47	21	4	-
Held to maturity investments	213	265	212	258
Equity investments in subsidiaries and associates	4	4	45	52
Intangible assets and goodwill	25	29	16	15
Property and equipment	141	132	101	89
Other assets	27	23	16	11
Accrued income receivable and prepaid expenses	17	19	17	17
Deferred tax assets	8	7	6	5
Total assets	**5,735**	**5,532**	**5,316**	**4,889**
Liabilities				
Due to banks	8	320	71	354
Due to customers	3,875	3,584	3,549	3,101
Derivative financial instruments	4	1	4	1
Other borrowed funds	1,023	882	1,016	850
Other due in securities	3	3	3	3
Other liabilities	163	154	81	70
Accruals and deferred income	72	68	57	52
Allowances for risks and charges	29	26	25	21
Total liabilities	**5,177**	**5,038**	**4,806**	**4,452**
Equity attributable to equity holders of the parent				
Share capital	217	217	217	217
Treasury shares	(2)	(3)	(2)	(3)
Reserves and retained earnings	244	180	207	148
Net profit for the year	96	92	88	75
	555	**486**	**510**	**437**
Minority interests	3	8	-	-
Total shareholders' equity	**558**	**494**	**510**	**437**
Total liabilities and shareholder's equity	**5,735**	**5,532**	**5,316**	**4,889**

Publisher **Privredna banka Zagreb d.d**. • Design & Production **BBDO Zagreb**
• Photography **Miro Andrić** • Printing **Kersch offset** • Edition **800**