

Dear Shareholders,

In February 1998 the new management took office at PBZ d.d. and made remarkable progress in a number of key areas. Several major events took place: structural reorganisation, downsizing, consolidation of business strengths and potentials, investment in IT and human resources. It was the first year following the rehabilitation program, and despite the "cleaning up" of residues from previous financial years, it has been a profitable one.

The 119 mil kn net income exceeded projections made at the beginning of the year. Operating expenses were reduced from 65.0% in 1997 to 62.3% in 1998. A further reduction of administration costs was budgeted in 1999. We have strengthened our business portfolio through diversification with aim of reducing risk exposure, by placing more emphasis on retail banking and a substantial increase in non-interest income contribution. We also exercised very prudent provisioning against the loans portfolio due to general economic slow-down which started in the last quarter of 1998.

It was a year of innovation with the introduction of new products as a result of increased customer requirement responsiveness and greater awareness of market opportunities in the areas of mortgage loans, consumer loans and loans to small and medium enterprises. We took a more aggressive market approach consolidating on our competitive advantages and the eagerness of our young management. Our attention was focused on those activities which we either have or can acquire, that would give us a leading position in the banking sector in this geographical region.

In December 1998, we acquired American Express franchise for Croatia and other countries of former Yugoslavia. PBZ d.d. set up a separate 100% owned company for this acquisition. As this is a very profitable business, our intention is to keep AMEX's market leading position in Croatia with some 177 000 card users and further 13 000 in neighbouring Slovenia. The estimated stake of AMEX card issued in Croatian credit, charge and delayed debit cards is about 46% with expansion opportunities as activities in this financial segment increase as part of an emerging plastic-money culture.

We sold several investments which did not belong to our core business, netting an income of 33 mil kn.

Restructuring has given us a more focused organisation and new corporate culture with a clear sense of direction and purpose. Our new management has established a new model of banking business, which distinguishes it from other

banks in the Croatian marketplace. Our core activities include retail banking, corporate banking, investment banking, treasury dealings and international banking.

Our mission is to become market leader in the universal banking business by implementing the highest standards in banking culture and services, with an emphasis on market orientation and product innovation and ever-increasing shareholder value.

In addition to the new top management who took office at the start of 1998, a range of middle management was replaced, and capable, highly qualified and market oriented managers, with international experience were brought into the Bank. A greater emphasis was placed on human resources. Some 2 mil kn was spent on staff training and education, with further 6 mil kn budgeted for 1999.

At the same time, PBZ has reduced the total number of employees by 224 to the total of 3,405. The completion of the downsizing is planned in 1999, the year of preparation for privatisation.

The 1998 was also a year of information technology upgrades and substantial investment of resources to meet the year 2000 requirements. All front office operations at our branches were connected on-line, while the back offices are expected to be fully integrated in the near future.

We have continued working with Bank's advisers, Bank of Ireland and Glendale Consulting Limited, on improving the overall management and information system as well as improving on how we go about our business by reshaping our policies and procedures in line with Western counterparts. In 1999 we will continue working with Bank's advisers with the intention of completing the Management Information System and setting up profit centres, accompanied by transfer pricing for better performance management. In preparation for this event the 1999 budget was compiled on a "down-up" basis.

Our ongoing strategy is to keep our customers' deposits safe and secure; to provide quality service at a return which will ensure a sustained growth for PBZ and an acceptable level of profit which would enhance the shareholder value; to create a meaningful working environment for our employees and contribute to the welfare and prosperity of our customers and business partners.

President & CEO
mr. Božo Prka



Challenge.

Investment banking segment

of Privredna banka Zagreb's

operation is expected to remain the

market leadership.

Taking advantage of its position

it will as a domestic specialist

in the forthcoming privatisation

and pensions reform.

Review of operations PBZ d.d.

Principal Activities

PBZ d.d. principal activities are retail banking, corporate banking, investment banking, treasury dealings and international banking. It has a well developed network over the whole country which consists of 15 regional offices and 170 branches and sub-branches. It has 1,3 million customer deposit accounts and 37 000 customer loan accounts. The deposit market share of PBZ d.d. is 12% and steadily on the increase, and 14% of the loan market with substantial room for growth.

Corporate banking division's activities include corporate loans, guarantees and similar instruments, agency activities and corporate and institutional deposit activities. The corporate division services some 16 400 corporate entities. As at December 31, 1998, corporate loans exposure amounted to 12 bln kn, with one third off-balance sheet and loan provisions amounting to 15%.

Investment banking consists of two segments: investment management and corporate finance and refinancing operations. Corporate finance activities were set up in 1998 and encompass three types of activities: mergers and acquisitions, debt and equity capital markets, and research and development. In 1998 PBZ corporate finance launched 400 mil kn commercial bills for PLIVA pharmaceutical company which recently named the best CEE company by Business Central Europe.

Refinancing operations concentrate on bad debt collection and management of PBZ's impaired-value debt and equity portfolio.

Treasury activities include domestic money market operations and FX market operations, maintenance of balance sheet structure, limits and management of daily liquidity requirements. In addition to this, the Treasury trades Government T-bills, Croatian National Bank T-bills and

banknotes and short-term derivatives. It operates under treasury policies and guidelines. The activities of the Treasury are monitored by the ALCO which is delegated sub-committee of the Board responsible for management of Bank's assets and liabilities, as well as for all associated risks.

International Banking Division provides a range of products and services to domestic and foreign clients. It corresponds with some 800 banks throughout the world and has access to more than 10 000 of their subsidiaries and branch sites. The Division is linked to the SWIFT network through which it has processed some 350 000 transactions totalling to USD 3 bln in 1998. The Division also manages over 15 000 foreign currency accounts of domestic clients and further 1 600 non-resident accounts both in domestic and foreign currencies.



Major Events and Acquisitions

In October 1998 new Banking Law was brought which will come into effect in 1999. It prescribes stricter loan risk categorisation, new basis for calculation of capital adequacy, calculation of average weighted risk assets. Further implications of the new legislation will be an increase in obligatory reserves and a tendency for the Bank to encourage a shift towards termed deposits which are not subject to these reserves. Due to already prudent loan provisioning by PBZ d.d. an increase in loan provisioning requirements will not have a substantial impact on the Bank, though tighter loan approval policies will result. Changes in weighted averages and calculation formulae will result in an increased capital adequacy ratio and decreased weighted average risk assets for PBZ d.d.

On December 1, 1998, the Bank acquired the franchise of American Express from Atlas d.d. Dubrovnik, through a newly set-up subsidiary PBZ American Express d.o.o. Prior to the franchise acquisition PBZ d.d. had a 55% equity interest in Atlas. Following the acquisition, the percentage of equity interest remained the same, though Atlas is undergoing major restructuring.

With the investment in American Express, PBZ gained a 46% Croatian market share in the credit, charge and delayed debit card business. This is a very profitable venture which is compatible with Bank's strategic orientation towards retail market.

Analysis of Results

Consolidated net profit for the Group was 90 mil kn. Of this, PBZ d.d. made a profit of 119 mil kn, PBZ American Express d.o.o profit of 271,000 kn, Laguna Banka d.d. profit of 600,000 kn, Riadria Banka d.d. loss share of 19 mil kn and Krapinsko-Zagorska Banka d.d. loss of 8 mil kn, PBZ Invest Holding d.o.o. loss of 4 mil kn. Major factors contributing to losses in Riadria Banka d.d. and Krapinsko-Zagorska Banka d.d. were changes in loan provisions which were brought in line with PBZ d.d. policies.

Total revenue of PBZ d.d. in comparison with 1997 (adjusted for changes in accounting policies) increased by 30.7% Of this, Net Interest Revenue increased by 6.6% and the Net Non-interest Revenue (excluding exchange variation on translation) by 26.8%. The Non-interest Revenue share of total revenue (excluding exchange variation on translation) amounted to 49.8%, compared with 47.3% in 1997.

The Cost/Income ratio of 62.3% was reduced from 65.0% in 1997.

Total assets have increased by 10.3%. Loan portfolio has increased from 40.3% of total assets to 44.9% of which almost half of the increase relates to retail loans. Liquid assets (including T-bills and commercial government bonds) have increased from 15.7% to 17.1%. All assets held for resale have been down-valued to market price. Average weighted risk assets ratio comes to 13.2% at the end of 1998 compared with 11.8% in 1997.

All categories of deposits have increased, though the largest share is attributable to an increase in retail foreign currency deposits. Increase in total deposits as compared to 1997 amounts to 17.7%. Refinanced loans have decreased by 6.2 % as a result of repayments and exchange variation. The General Reserve has increased by 74.6% due to more conservative policies of the Bank.

Return on total weighted average assets increased to 0.72% from 0.15 % in 1997 and return on weighted average shareholders' equity increased to 7.14% from 1.32%. Capital adequacy ratio in 1998 comes to 11.98% compared with 12.14% in 1997.

Profit and Appropriations

Of the 119 mil kn Bank's net profit for the year, 69 mil kn will be appropriated to the Statutory Reserve and 17 mil kn to the Special Reserve in compliance with the Croatian Company Law and PBZ d.d. Articles of Association, and 33 mil kn to Retained Earnings. First dividend pay-out is planned for the year 1999.

Marketing activities

Marketing activities in 1998 concentrated on re-establishing the name of PBZ d.d., on the local market in order to regain customer



ASSETS' STRUCTURE	1998.	1997.
LIQUID ASSETS	2820	2348
LOANS	7435	6044
AMOUNT DUE FROM GOVERNMENT OF CROATIA		
AND THE GOVERNMENT BONDS	4637	4822
OTHER ASSETS	218	264
FIXED ASSETS	1431	1522
TOTAL ASSETS	16541	15000

confidence. Approximately 60% of total marketing costs which totalled 17 mil kn, were spent on institutional campaign which included all types of media. The new management, strategies and products were introduced to the customers and the campaign intensified in the last two months of 1998. Further 15% of total marketing costs were spent on advertising in foreign countries for promotional conferences in London and Vienna.

Marketing campaigning and advertising was conducted at the central level for the total Bank issues and at the branch level for locally-specific issues.

The Bank resorted to independent market research for most of information, though in the areas of "confidentiality" or Bank-specific issues, approximately 7 mln kn of total marketing costs was spent. Market research was also conducted in co-operation with the Bank's advisers, The Bank of Ireland which included customer satisfaction survey, market share research and customer requirement research. In December 1998, the Bank conducted another customer satisfaction research in the credit card area in order to evaluate its position among the competing banks.

All findings of market research were encouraging with PBZ d.d. re-establishing itself among the leading banks in the region.

Several other marketing projects were implemented: opinion box, news bulletin and regular press releases and press conferences. Communications have improved with customers as well as those between management and Bank employees.

In October 1998 the Bank held a numismatic exhibition which attracted wide publicity. Concurrently, a campaign was held promoting the acquisition of American Express, and the joint PBZ-AMEX logo was launched.

Donations and other Charitable Contributions

The Bank participated in social activities through donations and charitable contributions. Some 5.7 mil kn was granted to various institutions of which 45% was donated to humanitarian organisations, 18% to religious institutions, 31% to schools and 6% to sporting organisations.

LIABILITIES' STRUCTURE	1998.	1997.
DEPOSITS	8082	6864
LOANS	5937	5981
OTHER LIABILITIES	719	469
CAPITAL	1803	1686
TOTAL LIABILITIES	16.541	15.000

Employment Policies

The Bank offers equal opportunity employment. It complies with the health and safety regulations and is highly environment-conscious. The Bank seeks to provide a healthy working and social environment for its employees and offers subsidised sport and recreation activities. It also provides assistance to employees and their families in need. PBZ recognises the need for trained, creative and adaptable work force at all levels and substantial resources are directed into continuous training and education.

Employee Involvement

Regular consultations with employees, either direct or through their representatives and unions, on matters concerning major events, reorganisation, downsizing, worker benefit negotiations and other matters which may affect the working environment and conditions. Comprehensive internal communications incorporate meetings, conferences, board announcements and pamphlet publications.

On the issue of downsizing, the employees were offered voluntary retrenchment packages which were prepared in co-operation with the unions, Ministry for Labour and Social Security and the Institute for Unemployment. To December 31, Bank paid out 23 mil kn in retrenchments for 224 employees.

Opportunity.

Throughout all stages of its

development, Privredna banka

Zagreb has been the prime mover

of major investment

programmes in Croatia's

strategic industries (tourism,

agriculture, ship-building)

as well as in infrastructure

development projects

(electrification, road

construction, industrialisation).

The Customers

Corporate lending policy is directed towards improving the quality and profitability of the loan-portfolio with a strong emphasis on diversification, the reduction of exposure to large corporations, and the undertaking of new credits only with "A" rated corporations or guild etched guarantees.

The Customer profile can be segmented into "new" and "old". In the category "new", the Bank focuses on three client characteristics: 1. Attractive domestic and foreign currency depositors with no loan requirements; 2. Customers with sound deposit base and loan requirements that meet the "A" category criteria; 3. Blue chip corporations with proven good credit record, sound business practice and growth prospects, with good collateral and guarantees.

The Bank has thoroughly reviewed the category "old" (the inherited) customers. It obtained Government guarantees for the tourism sector corporations, who amount to 4.5% of the total corporate loan portfolio. With the more risky clients it has done swap deals, cashed in the collateral or refinanced those loans for corporations who were assessed as being able to meet future obligations. Upon the expiration of inherited loans, for the corporations in high risk categories, the Bank has discontinued loan issuance. The non-risk or low risk corporations who meet the lending policy requirements the Bank treats the same way as the new customers.

Corporate Governance

Full registered name of the Bank is: PRIVREDNA BANKA ZAGREB - DIONIČKO DRUŠTVO (abbreviated PBZ d.d., in English PBZ, P.L.C.). The Bank is a going concern and operates in accordance

with the Croatian Company Law and Bank Law and all related statutory regulations.

The Bank is a stand-alone entity, which acts independent of its shareholders in running the business. It answers to the Supervisory Board which meets regularly on a monthly basis.

The Board approves the strategic aims of the Bank. It supervises and monitors the management of the business through regular reporting and various committees, assures that the Bank is a going concern, reports to the shareholders on their stewardship through the Annual Report and Accounts at the Annual General Meeting and appoints Bank's auditors. The Board appoints the senior officers of the Bank, approves amendments to the capital structure, annual and long-term budgets, marketing plans, strategic investments outside the normal trading activity and acquisition of fixed assets in excess of 10% of the net worth of the Bank. It also approves the opening and closing of a branch.

Share Capital

As at December 31, 1998. Privredna banka Zagreb d.d. has a registered nominal and paid up capital of 1.666 bln kn consisting of 16,666,000 ordinary "A" category shares. The Bank has 5,603 shareholders. The Agency for Reconstruction and Development of Banks is a majority shareholder with 91.3% ownership.

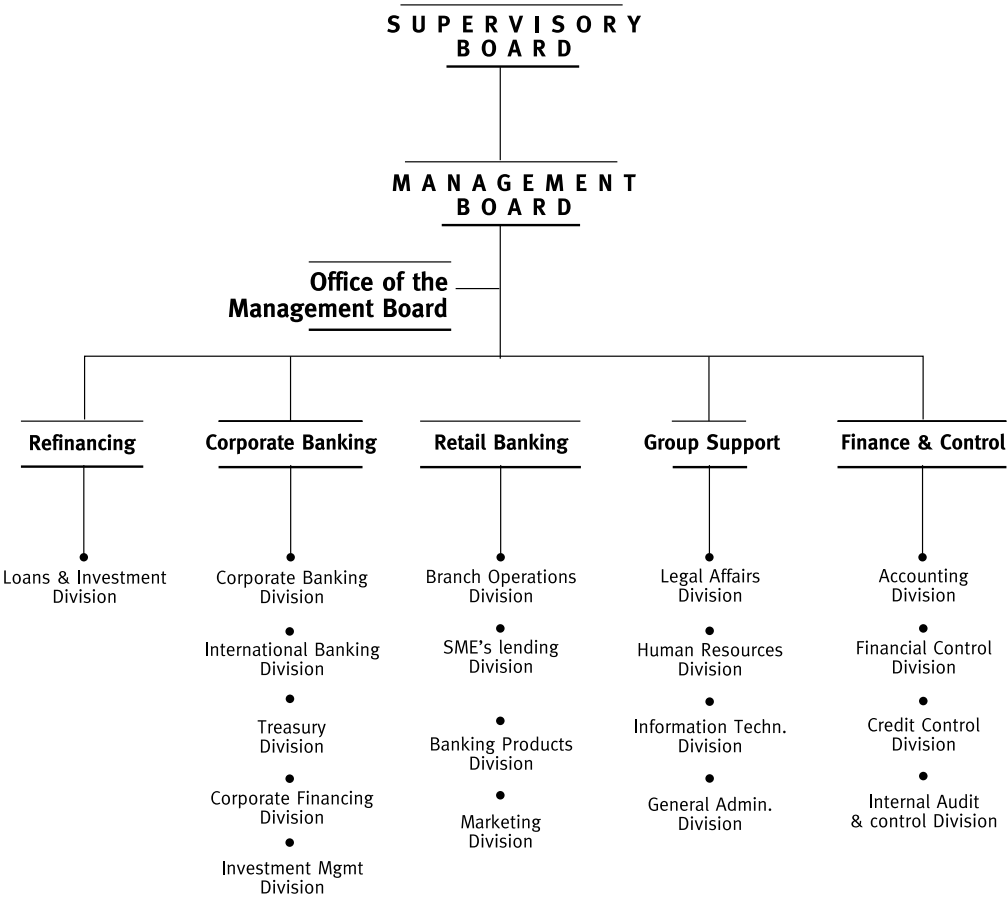
The Future

In furtherance of its rehabilitation, PBZ has implemented the key strategies set out in its Strategic Plan immediately following the appointment of the new Chief Executive and Management Board in early 1998. The strategy of the new management is for the Bank to grow at a pace commensurate with sound principles of risk management and the availability of resources sufficient to ensure that the products and services provided by the Bank are of an increasingly high quality. In line with the management's vision of making PBZ a leading bank in this geographical region, PBZ is gaining recognition as the value driven bank.

It is now a key strategy of the Bank to prepare itself for privatisation and to seek a rating from an international rating agency. A comprehensive review of the branches and of the assimilation of the "daughter banks" into the branch network is also currently under way. This is expected to result in rationalisation of network, increased profitability, improved organisation and reporting structures, and in significant reduction in the number of branch personnel within the first half of 1999.

A start has been made in developing corporate finance business and in promoting the Bank's skills in the field of investment management. The promulgation of new pension legislation opens the possibility of pension fund management, a field in which the Bank intends to become a market leader. All this will help the Bank towards achieving its strategic objective of a 50:50 ratio between non-interest and net interest income.

Organisation



Supervisory Board

Mladen Šunjić, *President*
Slavko Durmiš, *Vice President*
Ivan Vrljić, *Board Member*
Hrvoje Radovanić, *Board Member*
Neven Mimica, *Board Member*

As of January 1, 1999, in compliance with new legislation by which Government officials are restricted from taking positions on supervisory boards, Ivan Vrljić, Hrvoje Radovanić and Neven Mimica have resigned from the Board and Nada Mamić, Suzi Matić -Kovačević and Ivan Mijatović have been elected as new members.

Management Board

Božo Prka
President & CEO



Franjo Filipović
Corporate Banking Group



Ivan Gerovac
*Chief Financial officer
Finance Control Group*

Zvonko Agičić
Retail Banking Group

Nediljko Matić
Group Support

Ivan Krolo
*Refinancing & Investment
Banking Group*

Davor Holjevac
Authorised Member

Office of the Management Board

Vesna Šimunković, *Chief of Staff*
Dr Željko Rohatinski, *Chief Economist*
Zrinka Gligora, *Board Secretary*
Andrea Tomas, *ALCO Secretary*

Refinancing Operations

Dražen Vrbetić, *Loans & Investment Division*
Martin O. Hutchinson, *Corporate Finance Division*
Josip Protega, *Investment Management Division*

Corporate Banking Group

Hrvoje Matezović, *Corporate Banking Division*
Jadranka Primorac, *International Banking Division*
Draženko Pavlinić, *Treasury Division*

Retail Banking Group

Zoran Kopic, *Branch Operations Division*
Igor Fišer, *SMEs Lending Division*
Tomislav Lazarić, *Banking Products Division*
Vedran Kukavica, *Marketing Division*

Financial Control Group

Ivan Jarčević, *Accounting Division*
Frances Barbić, *Financial Control Division*
Ivanka Petrović, *Credit Control Division*
Ana Vrdoljak, *Internal Control & Audit Division*

Group Support

Stjepan Brčić, *Legal Division*
Dr Zoran Šimunić, *IT Division*
Bojana Ćosić, *General Administration Division*
Snježana Sklizović, *Assitant, Personnel Division*

The auditors

Bank's Auditors are PricewaterhouseCoopers, Zagreb.
Registered office: Trg J. F. Kennedyja 6b, Zagreb, Republic of Croatia.

Chief Financial Officer

Ivan Gerovac



Partnership.

Privredna banka Zagreb ranks

first among all banks in Croatia

in terms of equity capital

(over USD **300** million) as per

statistical figures for **1997**.

According to the Croatian

National bank's statistics,

the Bank performs over one

third of all financial

transactions in the Croatian

banking system.

Report of the independent auditors to the Shareholders of Privredna banka Zagreb d.d.

We have audited the accompanying consolidated financial statements of Privredna banka Zagreb d.d. (the Bank) set out on pages 23 to 59. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly in all material respects the financial position of the Bank and the subsidiaries thereof as at 31 December 1998 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers d.o.o.

April 19, 1999

Consolidated income statement

		Year ended 31 December	
	NOTES	1998.	1997.
INTEREST AND SIMILAR INCOME	4	977	1.001
INTEREST AND SIMILAR EXPENSE	4	(488)	(568)
NET INTEREST INCOME		489	433
FEE AND COMMISSION INCOME	5	362	250
FEE AND COMMISSION EXPENSE	5	(68)	(41)
NET FEE AND COMMISSION INCOME		294	209
NET FOREIGN EXCHANGE GAINS/(LOSSES)	6	163	36
OTHER OPERATING INCOME	7	56	74
OPERATING INCOME		1.002	752
BAD AND DOUBTFUL DEBTS EXPENSE (NET)	8	(259)	(188)
OTHER OPERATING EXPENSES	9	(664)	(531)
PROFIT BEFORE TAX		79	33
INCOME TAX EXPENSE	11	-	(2)
NET PROFIT AFTER TAX		79	31
MINORITY INTEREST		11	(3)
NET PROFIT FOR THE YEAR		90	28

IN MILLIONS OF HRK

The following notes form an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December

	NOTES	1998.	1997.
ASSETS			
CASH AND CURRENT ACCOUNTS WITH OTHER BANKS	12	252	473
BALANCES WITH CROATIAN NATIONAL BANK	13	1.242	634
PLACEMENTS WITH OTHER BANKS	14	1.751	1.620
LOANS AND ADVANCES TO CUSTOMERS	15	7.841	6.570
ASSETS HELD FOR RESALE	16	739	870
ACCRUED INTEREST AND OTHER ASSETS	17	476	332
DUE FROM THE REPUBLIC OF CROATIA	18	1.621	1.601
BONDS OF THE REPUBLIC OF CROATIA	19	3.196	3.474
FIXED ASSETS INVESTMENTS	20	40	38
TANGIBLE AND INTANGIBLE FIXED ASSETS	21	742	639
		17.900	16.251
LIABILITIES			
DEPOSITS FROM OTHER BANKS	22	261	222
DEMAND DEPOSITS FROM OTHER CUSTOMERS	23	3.684	3.604
SAVINGS AND TIME DEPOSITS FROM OTHER DEPOSITORS	24	5.104	3.887
REFINANCED DEBT	25	4.277	4.561
OTHER BORROWED FUNDS	26	1.809	1.510
ACCRUED INTEREST PAYABLE	27	112	122
OTHER LIABILITIES	28	321	278
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	29	453	258
		16.021	14.442
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	32	1.666	1.666
TREASURY SHARES		(8)	(2)
RESERVES AND RETAINED PROFITS	33	149	33
		1.807	1.697
MINORITY INTEREST	31	72	112
TOTAL LIABILITIES AND EQUITY		17.900	16.251

IN MILLIONS OF HRK

These consolidated financial statements set out on pages 23 to 59 were approved by the President of the Management Board, Božo Prka, and Member of the Management Board, Ivan Gerovac, on April 19, 1999.

Member of the Management Board
Ivan Gerovac

President of the Management Board
Božo Prka

Consolidated statement of changes in equity

	SHARE CAPITAL	TREASURY SHARES	RESERVES	RETAINED PROFITS	TOTAL
BALANCE AT 1 JANUARY 1997	1.666	-	10	-	1.676
(PURCHASE)/SALE OF TREASURY SHARES	-	(2)	-	-	(2)
PROFIT FOR THE YEAR	-	-	-	28	28
DISPOSAL OF SUBSIDIARY	-	-	(5)	-	(5)
BALANCE AT 31 DECEMBER 1997	1.666	(2)	5	28	1.697
VALUATION OF TANGIBLE ASSETS	-	-	4	-	4
TRANSFER TO RESERVE	-	-	28	(28)	-
(PURCHASE)/SALE OF TREASURY SHARES	-	(6)	22	-	16
PROFIT FOR THE YEAR	-	-	-	90	90
BALANCE AT 31 DECEMBER 1998	1.666	(8)	59	90	1.807

IN MILLIONS OF HRK

The following notes form an integral part of these consolidated financial statements.

Consolidated cash flow statement

	Year ended 31 December	
	1998.	1997.
CASH FLOWS FROM OPERATING ACTIVITIES		
OPERATING PROFIT	79	33
PROVISIONS FOR BAD AND DOUBTFUL DEBTS	259	188
RECEIPTS FROM SALE OF TANGIBLE FIXED ASSETS	(3)	(10)
DEPRECIATION	51	55
TAX PAYMENTS	(3)	(2)
	383	264
(INCREASE) /DECREASE IN OPERATING ASSETS		
BALANCES WITH CROATIAN NATIONAL BANK	(608)	(119)
PLACEMENTS WITH OTHER BANKS (OVER 3 MONTHS)	101	(86)
LOANS AND ADVANCES TO CUSTOMERS	(1.277)	(1.706)
ACCRUED INTEREST AND OTHER ASSETS	(71)	(81)
DUE FROM THE REPUBLIC OF CROATIA	(20)	224
INCREASE / (DECREASE) IN OPERATING LIABILITIES		
DEPOSITS FROM OTHER BANKS	39	(21)
DUE TO OTHER DEPOSITORS	1.297	448
ACCRUED INTEREST PAYABLE AND OTHER LIABILITIES	33	(17)
NET CASH FROM OPERATING ACTIVITIES	(123)	(1.094)
CASH FLOWS FROM INVESTING ACTIVITIES		
PURCHASE OF TANGIBLE FIXED ASSETS	(154)	(31)
PURCHASE OF LONG-TERM INVESTMENTS	(5)	5
PURCHASE OF ASSETS FOR RESALE	(2)	151
BONDS OF THE REPUBLIC OF CROATIA	278	362
NET CASH FROM INVESTING ACTIVITIES	117	487
CASH FLOWS FROM FINANCING ACTIVITIES		
REFINANCED LOANS	(284)	400
OTHER BORROWED FUNDS	299	530
ADJUSTMENT ON CONSOLIDATION	0	(2)
NET CASH FROM FINANCING ACTIVITIES	15	928
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	9	321

IN MILLIONS OF HRK

1. General information

Privredna Banka Zagreb d.d. (the Bank) was incorporated in 1962 in the Republic of Croatia. The amounts shown in these consolidated financial statements are presented in Croatian Kuna (HRK).

2. Rehabilitation of the Bank

On 5 December 1996 the government of Croatia issued a decree ordering the rehabilitation of the Bank by the State Agency for Deposit Insurance and Bank Rehabilitation (Rehabilitation Agency). The decree became effective on 31 July 1996. The effects of the rehabilitation are described in notes 18, 19 and 32 to the consolidated financial statements.

3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of presentation

The consolidated financial statements are prepared in accordance with and comply with International Accounting Standards. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of certain assets and liabilities.

(b) Consolidation

Subsidiary undertakings, which are those companies in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal. All intercompany transactions have been eliminated.

The remaining subsidiaries have not been consolidated on the grounds that their net assets and results are not material in relation to the Group. These are stated in the balance sheet at cost, less any provision for permanent diminution in value.

Details of all subsidiaries are provided in Note 20.

(c) Foreign currencies

Income and expenditure arising in foreign currencies is translated to Croatian Kuna at the official rates of exchange ruling at the transaction date.

Assets and liabilities denominated in foreign currencies are translated at the mid market exchange rate ruling on the last day of the accounting period.

Gains and losses resulting from foreign currency translation are included in the profit and loss account for the year.

(d) Interest and similar income and expense

Interest income and expense are recognised in the income statement on an accrual basis. Interest income is suspended when loans are overdue by more than 60 days and is excluded from interest income until received. Interest income includes accrued discount on bills of exchange and treasury bills as well as on insurance premiums for savings deposits made by citizens

(e) Fee and commission income

Fees and commissions consist mainly of fees received for foreign currency transactions and loans. Fees arising from guarantees given, opening letters of credit and managing funds on behalf of legal entities and citizens are also included.

Loan fees are credited to income upon granting of the applicable loan. "Fee and commission" income is suspended if the related payment is more than 60 overdue.

Commission on foreign currency transactions are recorded as income on receipt.

(f) Investments

I) Bonds of the Republic of Croatia

Rehabilitation bonds and recapitalisation bonds are stated at nominal value.

II) Assets held for resale

Assets held for resale include mainly assets acquired as substitute for outstanding receivables of the Bank.

Assets held for resale are included in the balance sheet on a pooled basis, at a value determined by management.

The management valuation is based on the comparison with values of similar companies in transition countries, offers for purchase and results of operations.

In some cases, the shares held by the Bank give it a controlling or significant influence in affiliated companies. However, because of the Bank's intention to sell these assets, these companies are not treated as subsidiaries or associates, and are consequently not consolidated.

III) Dealing securities

Dealing securities are held primarily for the purpose of trading or resale and are stated at the lower of cost and market value. Any changes in carrying value are reflected in the income statement for the year in which they occur.

IV) Investment securities

Investment securities are mainly those held for yield purposes and are initially stated at cost. Investments in equities are stated at cost less any permanent diminution in value. Dividends are taken to dividend income when received.

Other investments are included in the balance sheet at cost less any amounts written off for permanent diminution in value.

(g) Loans and the provisions for loan impairment

A specific credit risk provision for loan impairment is established to provide for managements estimate of credit losses as soon as the recovery of an exposure is identified as doubtful.

A general provision for loan impairment is established to cover losses that are judged to be present in the lending portfolio at balance sheet date, but which have not been specifically identified as such. This provision is based on an analysis of internal credit gradings allocated to borrowers, refined to reflect the economic climate in the markets in which the Bank operates.

When a loan is deemed uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the income statement if previously written off.

(h) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated in the balance sheet at cost less accumulated depreciation.

Depreciation is provided on the straight line basis at prescribed rates designed to write off cost or valuation of assets over their estimated useful lives.

The approximate annual depreciation rates used are as follows:

	%
Buildings	3.0 - 10.0
Furniture	6.7 - 20.0
Computers	20.0
Motor vehicles	25.0
Equipment and other assets	6.7 - 20.0

Land is not depreciated. Assets in the course of transfer are not depreciated until they are brought into use.

Maintenance and repairs are charged to the profit and loss account when incurred and improvements are capitalised.

(i) 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 placements with other banks.

(j) Provisions for contingent liabilities

Provisions for contingent liabilities were established according to the estimate of the management, under the same criteria as for the loans.

(k) Comparatives and reclassification

Certain items of the consolidated financial statements have been reclassified to enable comparison with the disclosed information for the current year.

Own shares held by the Bank are stated as decrease in the Bank's capital.

4. Interest income and expense

	1998.	1997.
INTEREST INCOME		
ENTERPRISES	332	379
BANKS	170	157
CITIZENS	143	111
REPUBLIC OF CROATIA	332	354
	977	1.001
INTEREST EXPENSE		
ENTERPRISES	64	103
BANKS	140	181
CITIZENS	284	284
	488	568

IN MILLIONS OF HRK

In 1998 the Bank stated gains and losses arising from translation of assets and liabilities in HRK under a currency clause under translation gains and losses (in 1997 under interest income and expense). Had the same accounting policy been applied in 1997, interest income would have been lower by HRK 76 million, and interest expense by HRK 71 million. Net foreign exchange

differences would be higher by HRK 5 million, and the effect on profits would be neutral.

In 1998 the Bank suspended interest income from loans outstanding more than 60 days. Had the same accounting policy been applied in 1997, interest income as well as bad and doubtful debt expense would have been lower by HRK 48 million. The effects on profits would have been neutral.

5. Fee and commission income and expense

	1998.	1997.
INCOME		
ENTERPRISES	225	169
BANKS	17	14
CITIZENS	71	35
PUBLIC SECTOR AND OTHER	49	32
	362	250
EXPENSE		
PAYMENT OPERATION CHARGES	40	18
BANK CHARGES	1	3
COMMISSION TO POST OFFICES FOR CITIZENS' CURRENT ACCOUNTS	20	16
OTHER	7	4
	68	41

IN MILLIONS OF HRK

In 1998 the Bank applied the policy of suspending fee income. Had the same accounting policy been applied in 1997, fee and commission income as well as bad and doubtful debt expense would have been lower by approximately HRK 7 million.

6. Net foreign exchange gains / (losses)

	1998.	1997.
DEALING PROFITS	103	99
TRANSLATION GAINS / (LOSSES)	60	(63)
	163	36

IN MILLIONS OF HRK

In 1998 the Bank stated gains and losses arising from translation of assets and liabilities in HRK under a currency clause under translation gains (in 1997 under interest income and expense). Had the same accounting policy been applied in 1997, net interest income would have been lower by HRK 5 million. Exchange differences would have been higher by the same amount, and the effects on profits would have been neutral.

7. Other operating income

	1998.	1997.
DIVIDEND INCOME	14	4
GAINS FROM DISPOSAL OF FIXED ASSETS	3	10
OTHER	39	60
	56	74

IN MILLIONS OF HRK

8. Bad and doubtful debt expense

	NOTES	1998.	1997.
PLACEMENTS WITH OTHER BANKS (NET)	14	(11)	-
LOANS AND ADVANCES TO CUSTOMERS (NET)	15	11	311
INTEREST AND FEES (NET)	17	(58)	17
CONTINGENT LIABILITIES AND COMMITMENTS	29	195	10
RECOVERY OF AMOUNTS PREVIOUSLY WRITTEN OFF	15	(15)	-
		122	338
ASSETS HELD FOR RESALE	16	134	(150)
LONG-TERM INVESTMENTS		3	-
		259	188

IN MILLIONS OF HRK

9. Other operating expenses

	1998.	1997.
STAFF COSTS (NOTE 10)	328	244
MATERIALS AND SERVICES	163	144
DEPRECIATION	51	55
ADMINISTRATION AND MARKETING COSTS	35	22
TAXES AND CONTRIBUTIONS ON INCOME	7	25
LOSSES ON TRADING IN PUBLIC DEBT	-	5
OTHER	80	36
	664	531

IN MILLIONS OF HRK

10. Staff costs

	1998.	1997.
NET SALARIES	171	124
PENSION INSURANCE COSTS	51	49
HEALTH INSURANCE COSTS	43	27
TAXES AND SURTAXES DUE TO LOCAL AUTHORITIES	42	26
OTHER STAFF RELATED COSTS	21	18
	328	244

IN MILLIONS OF HRK

The average number of persons employed by the Bank during the year was 3,920 (1997: 4,018).

11. Income tax expense

The tax is payable at the rate of 35% (1997: 35%), on adjusted operating income realised in Croatia and abroad.

Deferred income tax assets are recognised as tax loss carried forward only to the extent that realisation of the related tax benefit is probable. The benefit of the tax losses has not been recognised in these financial statements due to uncertainty of their recoverability. The accumulated tax losses amount to HRK 465 million (1997: HRK 692 million).

12. Cash and current accounts with other banks

	1998.	1997.
CASH IN HAND	155	114
ITEMS IN COURSE OF COLLECTION	5	16
CURRENT ACCOUNTS AND AMOUNTS AT CALL WITH DOMESTIC BANKS	16	149
CURRENT ACCOUNTS AND AMOUNTS AT CALL WITH FOREIGN BANKS	72	49
GIRO ACCOUNTS	4	145
	252	473

IN MILLIONS OF HRK

The related currency analysis is provided in Note 40.

13. Balances with Croatian National Bank

	1998.	1997.
OBLIGATORY RESERVE		
- IN HRK	544	533
- IN FOREIGN CURRENCY	195	-
TREASURY BILLS		
- IN HRK	101	90
- IN FOREIGN CURRENCY	401	-
OTHER ASSETS		
- IN HRK	1	-
- IN FOREIGN CURRENCY	-	11
	1.242	634

IN MILLIONS OF HRK

The obligatory reserve required to be deposited with the Croatian National Bank is calculated at 31 December 1998 as 29.5% of all time and demand deposits in HRK (1997: 31.85%), as well as 55% of all foreign currency savings of citizens (frozen savings excluded) with maturity dates below three months. These funds are not available to finance the Bank's day to day operations.

The Bank maintains a sufficient stock of liquid assets to comply fully with Croatian National Bank requirements.

14. Placements with other banks

	1998.	1997.
(A) ANALYSIS BY CURRENCY		
HRK DENOMINATED	286	130
FOREIGN CURRENCY DENOMINATED	1.507	1.543
PROVISIONS	1.793	1.673
PROVISIONS	(42)	(53)
	1.751	1.620

IN MILLIONS OF HRK

Foreign currency placements include an amount of HRK 59 million (1997: HRK 74 million) which have been pledged as security for letters of credit and guarantees provided to customers by other banks.

(B) GEOGRAPHICAL ANALYSIS	1998	1997
REPUBLIC OF CROATIA	550	434
GERMANY	750	400
AUSTRIA	152	440
THE NETHERLANDS	-	119
USA	80	47
ITALY	70	23
OTHER COUNTRIES	191	210
PROVISIONS	1.793	1.673
PROVISIONS	(42)	(53)
	1.751	1.620

IN MILLIONS OF HRK

The related currency analysis is provided in Note 40.

(C) PROVISION FOR LOSSES	1998	1997
BALANCE AT 1 JANUARY	53	53
AMOUNTS COLLECTED	-	(3)
NEW PROVISIONS MADE (NOTE 8)	(11)	3
BALANCE AT 31 DECEMBER	42	53

15. Loans and advances to customers

	1998.	1997.
(A) ANALYSIS BY TYPE OF CUSTOMER		
CITIZENS	2.210	1.272
ENTERPRISES	4.228	3.182
PUBLIC ENTERPRISES	3.150	3.535
LOCAL AUTHORITIES AND PUBLIC INSTITUTIONS	204	695
	9.792	8.684
SPECIFIC PROVISIONS	(1.794)	(1.884)
GENERAL PROVISIONS	(157)	(230)
	7.841	6.570

IN MILLIONS OF HRK

	1998.	1997.
(B) ANALYSIS BY SECTOR		
AGRICULTURE AND FORESTRY	345	622
COMMERCE AND FINANCE	722	446
CONSTRUCTION	561	617
ELECTRICITY AND WATER	1.132	1.143
MANUFACTURING	1.077	638
OIL AND GAS	1.724	1.749
SERVICES	409	650
TRANSPORT, STORAGE AND COMMUNICATION	787	937
CITIZENS	2.173	1.272
OTHER	862	610
	9.792	8.684
SPECIFIC PROVISIONS	(1.794)	(1.884)
GENERAL PROVISIONS	(157)	(230)
	7.841	6.570

IN MILLIONS OF HRK

(C) PROVISION FOR LOSSES				
	1998.		1997.	
	SPECIFIC	GENERAL	SPECIFIC	GENERAL
BALANCE AT 1 JANUARY	1.884	230	1.655	155
AMOUNTS COLLECTED	(174)	-	(378)	-
AMOUNTS WRITTEN OFF	(176)	-	(7)	-
EXCHANGE DIFFERENCES	2	-	-	-
NEW PROVISIONS MADE (NET)	258	(73)	614	75
BALANCE AT 31 DECEMBER	1.794	157	1.884	230
	1.951		2.114	

IN MILLIONS OF HRK



The Bank manages its exposure to credit risk by application of a range 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 Bank obtains acceptable collateral to reduce the level of credit risk.

(d) Guaranteed loans and contingencies

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 of the State has been taken into consideration when determining the level of provisions required against loans to certain legal entities.

The total loans and contingencies guaranteed by the Republic of Croatia or repayable from the state budget amounts to HRK 3,195 million.

Certain loans which are guaranteed by other banks amounting to HRK 105 million (1997: HRK 803 million) have not been specifically provided against.

	1998.	1997.
(e) INTEREST IN SUSPENSE		
BALANCE AT 1 JANUARY	242	185
AMOUNT SUSPENDED, LESS PREVIOUSLY		
SUSPENDED INTEREST COLLECTED	(79)	57
BALANCE AT 31 DECEMBER	163	242
IN MILLIONS OF HRK		

At 31 December the principal amount of non-performing loans and advances which either do not accrue interest or where interest is suspended, was HRK 1,416 million (1997: HRK 1,161 million).

(f) Refinanced loans

Included in loans and advances are HRK 2,877 million (1997: HRK 2,991 million) related to refinanced borrowings due to the Republic of Croatia and HRK 855 million (1997: HRK 877 million) related to refinanced borrowings due to Government Agencies (see Note 25).

16. Assets held for resale

As part of the restructuring programme for the Croatian economy, the Bank has obtained various shareholdings in recognition of the losses arising in the past caused by the inflationary impact on loans granted which, in compliance with existing laws at the time, were not allowed to be revalued for inflation. In addition, the Bank has continued to accept shares in exchange for non-performing loans and has purchased shares with frozen deposits and other consideration. The Bank does not intend to invest in these shares but holds them for resale. They are therefore held at management' valuation, on a pooled basis (Note 3(f) II).

	1998.	1997.
(A) MOVEMENTS		
BALANCE AT 1 JANUARY	870	878
PURCHASED WITH CASH OR OTHER CONSIDERATION	24	3
SHARES RECEIVED IN EXCHANGE FOR		
NON-PERFORMING LOANS	35	-
DISPOSALS	(56)	(161)
(INCREASE)/DECREASE IN PROVISIONS	(134)	150
BALANCE AT 31 DECEMBER	739	870

IN MILLIONS OF HRK

(B) ANALYSIS OF SIGNIFICANT SHAREHOLDINGS

THE BANK HOLDS A CONTROLLING INTEREST, OR HAS SIGNIFICANT INFLUENCE THROUGH ITS SHAREHOLDINGS, IN THE FOLLOWING ENTITIES:

NAME	NATURE OF BUSINESS	INTEREST IN %	
REPUBLIC OF CROATIA		1998.	1997.
AGENCIJA ZA KOMERCIJALNU DJELATNOST D.O.O. ZAGREB	TOURISM AND TRADE	27	29
AGROKOMBINAT JASINJE D.D. SLAVONSKI BROD	AGRICULTURE	22	26
AGROLAGUNA D.D. POREĆ	AGRICULTURE	57	57
ANITA D.D. VRŠAR	TOURISM	49	49
ATLAS D.D. DUBROVNIK	TOURISM	55	35
BELIŠĆE D.D. BELIŠĆE	MANUFACTURING	15	30
DALIT CORP D.D. DARUVAR	MANUFACTURING	75	75
DI SLAVONIJA D.O.O. SLAVONSKI BROD	WOOD PROCESSING	100	100
DIN D.O.O. NOVOSELEC	WOOD PROCESSING	100	100
ĐURO ĐAKOVIĆ PRVA HR. TVOR. TRAJNIH VOZILA	MANUFACTURING	32	32
ELANCOMMERCE D.O.O. ZAGREB	RETAIL TRADE	97	97
ELKA, ZAGREB	MANUFACTURING	28	28
HIDROELEKTRA NISKOGRADNJA D.D. ZAGREB	CONSTRUCTION	60	60
HTP HOTEL ARGENTINA D.D. DUBROVNIK	TOURISM	37	33
HTP PRIMOŠTEN D.D. PRIMOŠTEN	TOURISM	3	51
IK GAJ D.D. SLATINA	WOOD INDUSTRY AND FURNITURE	-	38
IPK KANDIT D.O.O. OSIJEK	FOOD PROCESSING	21	21
J P HRVATSKI RADIO GOSPIĆ	RADIO MEDIA	20	20
JADROPLOV D.D. SPLIT	SHIPPING	63	63
LAGUNA D.D. NOVIGRAD	TOURISM	36	36
NOVI VJESNIK D.D. ZAGREB	PUBLISHING	-	55
PLAVA LAGUNA - LAGUNA POREĆ D.D. POREĆ	TOURISM	33	29
PPK VALPOVO D.D. VALPOVO	AGRICULTURE	29	29
RIZ D.O.O. SLUNJ	MANUFACTURING	100	100
SUNČANI HVAR D.D. HVAR	TOURISM	41	41
SUPETRUS HOTELI D.D. SUPETAR	TOURISM	54	48
TROKUT D.D. NOVSKA	MANUFACTURING	31	33
VIADUKT D.D. ZAGREB	CONSTRUCTION	-	26
REPUBLIC OF SLOVENIA			
ELAN BEGUNJE D.D.	MANUFACTURING	77	77
ITALY			
SIDERFIN, MILANO	TRADE	35	35

17. Accrued interest and other assets

	1998.	1997.
INTEREST RECEIVABLE	297	371
ACCRUED INTEREST NOT YET DUE	401	112
SUNDRY DEBTORS	2	148
PREPAYMENTS	-	8
	700	639
PROVISIONS	(224)	(307)
	476	332

IN MILLIONS OF HRK

Accrued interest in 1998 includes HRK 79 million (1997: HRK 89 million) in respect of interest on government bonds.

Movements in provisions for accrued interest and other assets were as follows:

	1998.	1997.
BALANCE AT 1 JANUARY	307	236
NEW PROVISIONS MADE	79	154
AMOUNTS COLLECTED	(137)	(137)
AMOUNTS WRITTEN OFF	(28)	-
ACCRUED INTEREST	-	54
EXCHANGE DIFFERENCES	3	-
	224	307

IN MILLIONS OF HRK

18. Due from the Republic of Croatia

	1998.	1997.
AMOUNTS DUE IN RESPECT OF CITIZENS'		
FROZEN DEPOSITS	1.408	1.500
INTEREST RECEIVABLE ON CITIZENS' FROZEN DEPOSITS	54	42
TREASURY BILLS	127	55
OTHER	32	4
	1.621	1.601

IN MILLIONS OF HRK

Amounts due from the Republic of Croatia are mainly those in respect of foreign currency deposited by citizens with the former National Bank of Yugoslavia. Following the disintegration of the former Yugoslavia, the Republic of Croatia has 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 which had been deposited with banks not resident in Croatia. The Republic of Croatia has also accepted liability for these amounts. The amount due includes foreign exchange losses arising on the restatement of amounts deposited, converted at the rates ruling at the year-end. As part of the Bank's rehabilitation (see Note 2) the Croatian government recognised additional amounts of HRK 637 million in respect of citizens' frozen deposits.

These amounts that are stated in DEM are repayable in 20 semi-annual instalments which commenced on 1 July 1995. The first instalment was paid in the form of foreign currency bonds which mature in six equal semi-annual instalments commencing on 1 September 1996 at an interest rate of 12%. The second instalment was paid in the form of foreign currency bonds which mature in six equal semi-annual instalments commencing on 1 April 1997 and which pay interest at 8%. These are disclosed as Bonds of the Republic of Croatia (Note 19). Other instalments were paid in cash.

19. Bonds of the Republic of Croatia

	1998.	1997.
REHABILITATION BONDS	1.155	1.372
RECAPITALISATION BONDS	1.460	1.473
RECONSTRUCTION BONDS	23	24
OTHER FOREIGN CURRENCY BONDS	558	605
	3.196	3.474

IN MILLIONS OF HRK

With effect from 31 July 1996, the reconstruction bonds held in the parent bank were exchanged for HRK 1,435 million of rehabilitation bonds issued by the Ministry of Finance. At 31 December 1998 the Bank holds HRK 434 million of German Mark linked bonds (1997: HRK 642 million) at an interest rate of 12% which are repayable in six semi-

annual instalments commencing 1 August 1997; and HRK 721 million (1997: HRK 730 million) of 15 year bonds which pay interest at 7.20% and are repayable in 30 semi-annual instalments commencing 1 August 1997.

During 1998 the Government passed a resolution pursuant to which these bonds are to be stated in German Mark (currency clause).

The recapitalisation bonds were issued by the Rehabilitation Agency for new shares in the Bank. At 31 December 1998 the Bank holds HRK 747 million (1997: HRK 756 million) of 15 year bonds paying interest at 7.20% and repayable in 30 semi-annual instalments commencing 1 August 1997; HRK 412 million (1997: HRK 420 million) of 15 year bonds paying interest at 5% and repayable in 30 semi-annual instalments commenced 1 August 1997; and HRK 301 million (1997: HRK 297 million) of German Mark linked 15 year bonds paying interest at 5% and repayable in 30 semi-annual instalments which commenced 1 August 1997. During 1998 the Government passed a resolution pursuant to which all recapitalisation bonds are to be stated in the German Mark equivalent (currency clause).

20. Fixed assets investments

	SHARES IN SUBSIDIARIES	OTHER INVESTMENTS	TOTAL
AS AT 31 DECEMBER 1998	16	24	40
AS AT 31 DECEMBER 1997	7	31	38

IN MILLIONS OF HRK

The following subsidiaries, which are all incorporated in Croatia except where stated, have been fully consolidated in the financial statements:

NATURE OF BUSINESS		INTEREST IN %	
		1998.	1997.
RIADRIA BANKA D.D. RIJEKA	BANKING	64,08	53
PBZ INVESTHOLDING D.O.O. ZAGREB	FINANCE	100	100
KRAPINSKO ZAGORSKA BANKA, D.D. KRAPINA	BANKING	100	100
LAGUNA BANKA, D.D. POREČ	BANKING	100	63
PBZ HANDEL UND SERVICE GMBH (NJEMAČKA)	FINANCE	100	100
PBZ AMERICAN EXPRESS	CREDIT CARDS	100	-

Unconsolidated subsidiaries, which are included within fixed asset investments, and which are all incorporated in Croatia are:

NATURE OF BUSINESS		INTEREST IN %	
		1998.	1997.
PBZ LEASING	SERVICES	100	-
PBZ KAPITAL	FINANCE	100	-
PBZ INVEST	FINANCE	100	-
INVEST HOLDING KARLOVAC	FINANCE	56	56
ŠKUDA D.D. ZAGREB	REAL ESTATE	83,35	81
PBZ STAN D.D. ZAGREB	REAL ESTATE	-	100

In 1998 PBZ Stan was transformed into a new subsidiary PBZ Leasing.

21. Tangible and intangible fixed assets

	LAND AND BUILDINGS	FURNITURE	MOTOR VEHICLES	COMPUTER EQUIPMENT	OTHER EQUIPMENT	ASSETS IN COURSE OF TRANSFER	TOTAL
COST OR VALUATION							
AT 1 JANUARY 1998	513	102	24	178	46	54	917
OPENING BALANCE CORRECTION	1	(1)	-	-	-	-	-
AT 1 JANUARY 1998	514	101	24	178	46	54	917
ADDITIONS	77	15	11	58	4	11	176
DISPOSALS AND RETIREMENTS	(18)	(10)	(4)	(35)	(1)	-	(68)
AT 31 DECEMBER 1998	573	106	31	201	49	65	1.025
ACCUMULATED DEPRECIATION							
AT 1 JANUARY 1998	88	62	16	93	19	-	278
OPENING BALANCE CORRECTION	-	1	-	(1)	-	-	-
AT 1 JANUARY 1998	88	63	16	92	19	-	278
DEPRECIATION CHARGE	15	6	2	23	5	-	51
DISPOSALS AND RETIREMENTS	(4)	(8)	(3)	(30)	(1)	-	(46)
AT 31 DECEMBER 1998	99	61	15	85	23	-	283
NET BOOK VALUE							
AT 31 DECEMBER 1998	474	45	16	116	26	65	742
AT 31 DECEMBER 1997	426	38	8	86	27	54	639

IN MILLIONS OF HRK

22. Deposits from other banks

	1998.	1997.
DEMAND DEPOSITS	117	111
TIME DEPOSITS	144	100
RESTRICTED FOREIGN CURRENCY DEPOSITS	-	11
	261	222

IN MILLIONS OF HRK

23. Demand deposits from other customers

	1998.	1997.
CITIZENS	2.113	1.842
ENTERPRISES	935	1.086
LOCAL AUTHORITIES AND OTHER ORGANISATIONS	329	234
FOREIGN ENTITIES	98	86
RESTRICTED DEPOSITS	209	356
	3.684	3.604

IN MILLIONS OF HRK

Restricted deposits represent deposits made by enterprises for payment to be made abroad by the Bank on their behalf, for opening letters of credit and for the purchase of foreign currencies.

The related currency analysis is provided in Note 40.

24. Savings and time deposits from other depositors

	1998.	1997.
CITIZENS	3.542	2.914
ENTERPRISES	638	353
LOCAL AUTHORITIES AND OTHER ORGANISATIONS	75	8
FOREIGN CUSTOMERS	533	414
DEPOSITS IN RESPECT OF HOUSING LOANS	316	198
	5.104	3.887

IN MILLIONS OF HRK

Citizens' savings accounts and deposits include frozen foreign currency savings of HRK 728 million (1997: HRK 833 million) see Note 18. The Republic of Croatia has guaranteed the repayment or exchange of these frozen deposits for government bonds. The Bank will permit repayment in HRK to account holders who comply with certain conditions as determined by Croatian law and by the Bank. It will also allow the exchange of frozen deposits for the purchase of shares in newly privatised companies in return for which the obligation of the Government to the Bank is reduced by a similar amount.

The related currency analysis is provided in Note 40.

25. Refinanced debt

	1998.	1997.
(A) ANALYSIS BY SOURCE		
AMOUNTS DUE TO THE REPUBLIC OF CROATIA	3.198	3.327
AMOUNTS DUE TO GOVERNMENT AGENCIES	1.066	1.085
OTHER LIABILITIES	13	149
	4.277	4.561

IN MILLIONS OF HRK

(b) Amounts due to the Republic of Croatia

These 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 assumption of liabilities of the former Yugoslavia, and interest payments since 25 May 1992 and capital payments were delayed.

During 1996 HRK 4,030 million of 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 Croatia assumed responsibility for 29.5% 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 obligations 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 have been further rescheduled, for a period of 10 to 14 years, are denominated in US Dollars and carry an interest at LIBOR + 13/16 %. The amounts due to the Republic of Croatia by the Bank have been 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.

(c) Amounts due to government agencies

Repayments of foreign currency borrowings previously due between 1984 and 1988 were rescheduled and refinanced by a series of agreements concluded with the Paris Club. Under this agreement repayments of principal were to be made in 24 semi-annual instalments commencing January 1998. During 1996 further discussions have been held with each of the contracting parties and substantially all of the Bank's liabilities have been 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 5-12 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**

	1998.	1997.
DOMESTIC BORROWINGS:		
CROATIAN NATIONAL BANK	163	-
CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT	406	389
DOMESTIC COMMERCIAL BANKS	292	101
	861	490
FOREIGN BORROWINGS:		
DEUTSCHE BANK A.G.	561	527
BAYERISCHE LANDESBANK GIROCENTRALE	37	35
OTHER FOREIGN BANKS	343	441
OTHER FOREIGN SOURCES OF FINANCING	7	17
	948	1.020
	1.809	1.510

IN MILLIONS OF HRK

27. Accrued interest payable

	1998.	1997.
INTEREST PAYABLE	27	37
ACCRUED INTEREST NOT YET DUE	85	85
	112	122

IN MILLIONS OF HRK

28. Other liabilities

	1998.	1997.
TAXES	1	2
SALARIES AND OTHER STAFF COSTS	23	19
ITEMS IN TRANSIT	85	39
DUE TO SUPPLIERS AND OTHER LIABILITIES	212	218
	321	278

IN MILLIONS OF HRK

29. Provisions for contingent liabilities and charges

	1998.	1997.
(A) ANALYSIS		
PROVISIONS FOR CONTINGENT		
LIABILITIES AND COMMITMENTS	453	258
	453	258

IN MILLIONS OF HRK

	1998.	1997.
(B) MOVEMENTS IN PROVISIONS		
BALANCE AT 1 JANUARY	258	248
NEW PROVISIONS MADE (NOTE 8)	195	10
BALANCE AT 31 DECEMBER	453	258

IN MILLIONS OF HRK

30. Contingent liabilities and commitments

No provision has been made for legal claims against the Bank. In the opinion of the management, it is unlikely that any significant loss will arise.

Capital commitments

At 31 December 1998 the Bank had no capital commitments.

Credit related contingencies and commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its 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 aggregate amounts of outstanding guarantees, letters of credit and other commitments at the end of the year were:

	1998.	1997.
SHORT-TERM GUARANTEES IN HRK	194	198
FOREIGN CURRENCY LETTERS OF CREDIT	287	406
FOREIGN CURRENCY GUARANTEES	3.411	2.000
ACCEPTANCE ORDERS	-	3
PERFORMANCE BONDS	124	742
GUARANTEED AND ACCEPTED BILLS OF EXCHANGE	3	-
COMMITMENTS	30	-
OTHER	2	-
	4.051	3.349

IN MILLIONS OF HRK

The Bank's irrevocable loan commitments were approximately HRK 62 million (1997: HRK 19 million).

31. Minority interest

	1998.	1997.
BALANCE AT 1 JANUARY	112	113
MINORITY INTEREST IN PROFIT/(LOSSES) OF THE		
SUBSIDIARIES FOR THE YEAR	(11)	3
CONSOLIDATION ADJUSTMENT ON DISPOSAL OF SUBSIDIARY	-	(4)
ACQUISITION OF MINORITY INTEREST	(29)	-
BALANCE AT 31 DECEMBER	72	112

IN MILLIONS OF HRK

32. Share capital

The total number of authorised registered shares at year-end was 16,660 thousand (1997: 16,660 thousand), with a nominal value of HRK 100 per share (1997: HRK 100 per share).

The Rehabilitation Agency subscribed for the Bank 14,630 thousand shares, with a nominal value of HRK 100 each, by having issued recapitalisation bonds of HRK 1,463 million.

As at 31 December 1998, the Rehabilitation Agency held 91.3% (1997: 91.3%) of the share capital. None of individual shareholdings was in excess of 5%.

33. Reserves and retained profit

In accordance with the local legislation, 5% of the net profit of the Bank is required to be transferred to a non-distributable legal reserve until such time as this reserve represents 5% of the share capital of the Bank.

34. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than 90 days maturity:

	1998.	1997.
CASH AND CURRENT ACCOUNTS WITH		
OTHER BANKS (NOTE 12)	252	473
PLACEMENTS WITH OTHER BANKS (NOTE 14)	1.383	1.153
	1.635	1.626

IN MILLIONS OF HRK

35. Funds managed on behalf of third parties

	1998.	1997.
FUNDS MANAGED ON BEHALF OF:		
LOCAL AUTHORITIES AND SIMILAR ORGANISATIONS	608	787
ENTERPRISES	78	174
BANKS AND OTHER INSTITUTIONS	64	35
	750	996
LESS: ASSETS	(750)	(996)
NET LIABILITIES	-	-

IN MILLIONS OF HRK

The bank manages significant funds mainly in the form of loans to various organisations for capital investment. These assets are accounted for separately from those of the Bank. Income and expenses arising from these funds are credited and charged to corresponding sources, and no liability falls on the Bank in connection with these transactions. The Bank is compensated for its services by fees chargeable to the funds.

36. Related party transactions

The bank makes loans to enterprises to which it is related. These include enterprises controlled or influenced by the Bank by virtue of its shareholdings and also enterprises which can influence the Bank of virtue of their shareholdings in the Bank. Such loans are

made in the ordinary course of business. At the year-end the total gross exposure to such enterprises was HRK 1,120 million (1997: HRK 1,027 million).

37. 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. As verifiable market prices are not available for a significant proportion of the Bank's financial assets and liabilities, fair values (for these items) have been based on management assumptions according to the profile of the asset and liability base. Except for citizens' frozen deposits and the related amounts due from the Republic of Croatia, fair values are not significantly different from book values for all asset and liability categories.

The following assumptions have been made.

The fair value of securities is based on market prices with the exception of unquoted equity investments the fair value of which is based on the latest available financial statements of the issuer.

Other loans and advances are mainly held to maturity. Fair value approximates to the book value of loans adjusted for provisions for losses. The fair value of fixed rate loans has been taken as book value because the prevailing market rates are not materially different from the actual loan rates.

It is not practicable to establish a market price for assets held for resale. Fair value is taken to be the cost or transfer value of the assets acquired, adjusted for provisions made. Information about the main characteristics of these assets is given in Note 16.

It is not practicable to determine the fair value of citizens

frozen savings and the related amounts receivable from the Republic of Croatia as the future cash flows are not sufficiently determinable. However, in the opinion of the Bank's management there is no significant difference between the book value and the fair value of the net position. Information about the main characteristics of these balances is given in Note 18.

38. Interest rate risk

Interest rate risk is the sensitivity of the Bank'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 Bank can reduce this risk by matching the repricing of assets and liabilities.

The Bank seeks to achieve a balance between reducing risk to earnings from adverse movements in interest rates and enhancing net interest income through correct anticipation of the direction and extent of interest rate changes.

The table below provides the Bank's interest rate sensitivity position at 31 December 1998 and 1997 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of others.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31. DECEMBER 1998

AS AT 31 DECEMBER 1998	UP TO 1 MONTH	1-3 MONTHS	3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON- INTEREST	BEARING TOTAL
ASSETS						
CASH AND CURRENT ACCOUNTS WITH						
OTHER BANKS	189	9	1	-	53	252
BALANCES WITH CROATIAN NATIONAL BANK	1.242	-	-	-	-	1.242
PLACEMENTS WITH OTHER BANKS	1.324	29	20	378	-	1.751
LOANS AND ADVANCES TO CUSTOMERS	7.373	27	94	344	3	7.841
ASSETS HELD FOR RESALE	-	62	-	-	677	739
ACCRUED INTEREST AND OTHER ASSETS	232	-	-	-	244	476
DUE FROM THE REPUBLIC OF CROATIA	18	-	10	1.567	26	1.621
BONDS OF THE REPUBLIC OF CROATIA	232	-	-	2.941	23	3.196
FIXED ASSET INVESTMENTS	-	-	-	-	40	40
TANGIBLE AND INTANGIBLE FIXED ASSETS	-	-	-	-	742	742
	10.610	127	125	5.230	1.808	17.900
LIABILITIES						
DEPOSITS FROM OTHER BANKS	252	5	-	-	4	261
DEMAND DEPOSITS FROM OTHER CUSTOMERS	3.375	22	79	177	31	3.684
SAVINGS AND TIME DEPOSITS FROM						
OTHER DEPOSITORS	5.091	-	2	11	-	5.104
REFINANCED DEBT	2.961	-	-	1.316	-	4.277
OTHER BORROWED FUNDS	463	6	1	1.339	-	1.809
ACCRUED INTEREST PAYABLE	-	-	-	-	112	112
OTHER LIABILITIES	130	-	-	-	191	321
PROVISIONS FOR CONTINGENT LIABILITIES AND - CHARGES	-	-	-	453	453	12.272
	12.272	33	82	2.843	791	16.021
ON BALANCE SHEET						
INTEREST SENSITIVITY GAP	(1.662)	94	43	2.387	1.017	1.879

IN MILLIONS OF HRK

The table below summarises the effective interest rate by major currencies for monetary financial instruments:

	DEM	USD	CHF	HRK
ASSETS				
CASH AND CURRENT ACCOUNTS WITH OTHER BANKS	-	-	-	2,50
BALANCES WITH CROATIAN NATIONAL BANK	-	-	-	5,90
PLACEMENTS WITH OTHER BANKS	-	-	-	11,04
LOANS AND ADVANCES TO CUSTOMERS	13,75	15,75	13,25	16,00
DUE FROM THE REPUBLIC OF CROATIA	-	-	-	10,00
BONDS OF THE REPUBLIC OF CROATIA	-	-	-	12,00
LIABILITIES				
DEPOSITS FROM OTHER BANKS	-	-	-	9,49
DEMAND DEPOSITS FROM OTHER CUSTOMERS	2,06	2,97	-	2,00
SAVINGS AND TIME DEPOSITS FROM OTHER DEPOSITORS	4,65	5,40	-	5,69
OTHER BORROWED FUNDS	LIBOR + 1%	-	-	7,00

AS AT 31 DECEMBER 1997	UP TO 1 MONTH	1-3 MONTHS	3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON -INTEREST	BEARING TOTAL
ASSETS						
CASH AND CURRENT ACCOUNTS						
WITH OTHER BANKS	473	-	-	-	-	473
BALANCES WITH CROATIAN NATIONAL BANK	634	-	-	-	-	634
PLACEMENTS WITH OTHER BANKS	1.129	24	91	376	-	1.620
LOANS AND ADVANCES TO CUSTOMERS	6.559	-	-	11	-	6.570
ASSETS HELD FOR RESALE	-	-	-	-	870	870
ACCRUED INTEREST AND OTHER ASSETS	-	-	-	-	332	332
DUE FROM THE REPUBLIC OF CROATIA	61	9	203	1.282	46	1.601
BONDS OF THE REPUBLIC OF CROATIA	532	-	1	2.941	-	3.474
FIXED ASSET INVESTMENTS	-	-	-	-	38	38
TANGIBLE AND INTANGIBLE FIXED ASSETS	-	-	-	-	639	639
	9.388	33	295	4.610	1.925	16.251
LIABILITIES						
DEPOSITS FROM OTHER BANKS	222	-	-	-	-	222
DEMAND DEPOSITS FROM OTHER CUSTOMERS	3.604	-	-	-	-	3.604
SAVINGS AND TIME DEPOSITS	-	-	-	-	-	-
FROM OTHER DEPOSITORS	3.887	-	-	-	-	3.887
REFINANCED DEBT	3.073	52	120	1.316	-	4.561
OTHER BORROWED FUNDS	178	-	-	1.332	-	1.510
ACCRUED INTEREST PAYABLE	-	-	-	-	122	122
OTHER LIABILITIES	-	-	-	-	278	278
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	258	258
	10.964	52	120	2.648	658	14.442
ON BALANCE SHEET						
INTEREST SENSITIVITY GAP	(1.576)	(19)	175	1.962	1.267	1.809

IN MILLIONS OF HRK

The table below summarises the effective interest rate by major currencies for monetary financial instruments:

	DEM	USD	CHF	HRK
ASSETS				
CASH AND CURRENT ACCOUNTS WITH OTHER BANKS	-	-	-	2,50
BALANCES WITH CROATIAN NATIONAL BANK	-	-	-	4,50
PLACEMENTS WITH OTHER BANKS	-	-	-	9,11
LOANS AND ADVANCES TO CUSTOMERS	12,00	12,00	12,00	15,00
DUE FROM THE REPUBLIC OF CROATIA	-	-	-	10,00
BONDS OF THE REPUBLIC OF CROATIA	-	-	-	12,00
LIABILITIES				
DEPOSITS FROM OTHER BANKS	-	-	-	9,36
DEMAND DEPOSITS FROM OTHER CUSTOMERS	1,46	2,74	-	2,00
SAVINGS AND TIME DEPOSITS FROM OTHER DEPOSITORS	5,99	6,10	-	7,02
OTHER BORROWED FUNDS	LIBOR + 2%	-	-	7,00

39. Concentration of assets, liabilities and off-balance sheet items

	ASSETS	LIABILITIES 1998	OFF-BALANCE SHEET ITEMS
GEOGRAPHIC REGION			
REPUBLIC OF CROATIA	16.228	13.090	3.508
EUROPEAN ECONOMIC REGION	1.414	1.495	47
OTHER	258	1.436	43
	17.900	16.021	3.598
INDUSTRY SECTOR			
GOVERNMENT	6.405	3.484	93
COMMERCE	557	196	192
PUBLIC ENTERPRISES	3.683	300	1.777
FINANCE	3.423	3.203	87
TOURISM	791	74	173
AGRICULTURE	584	199	300
CITIZENS	1.446	5.231	53
OTHER	1.011	3.334	923
	17.900	16.021	3.598

IN MILLIONS OF HRK



40. Currency risk

Amounts of assets and liabilities held in HRK and in foreign currency at 31 December 1998 are analysed as follows:

	DEM	CHF	USD	OTHER CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND CURRENT ACCOUNTS						
WITH OTHER BANKS	92	9	26	45	80	252
BALANCES WITH CROATIAN NATIONAL BANK	215	-	429	15	583	1.242
PLACEMENTS WITH OTHER BANKS	465	248	506	457	75	1.751
LOANS AND ADVANCES TO CUSTOMERS	879	35	3.124	413	3.390	7.841
ASSETS HELD FOR RESALE	113	-	-	-	626	739
ACCRUED INTEREST AND OTHER ASSETS	27	-	27	2	420	476
DUE FROM THE REPUBLIC OF CROATIA	1.474	-	1	2	144	1.621
BONDS OF THE REPUBLIC OF CROATIA	27	-	531	-	2.638	3.196
FIXED ASSET INVESTMENTS	-	-	-	-	40	40
TANGIBLE AND INTANGIBLE FIXED ASSETS	-	-	-	-	742	742
	3.292	292	4.644	934	8.738	17.900
LIABILITIES						
DEPOSITS FROM OTHER BANKS	172	6	32	33	18	261
DEMAND DEPOSITS FROM OTHER CUSTOMERS	1.579	155	484	263	1.203	3.684
SAVINGS AND TIME DEPOSITS FROM OTHER DEPOSITORS	3.388	263	570	177	706	5.104
REFINANCED DEBT	60	12	3.741	464	0	4.277
OTHER BORROWED FUNDS	1.349	1	17	15	427	1.809
ACCRUED INTEREST PAYABLE	52	1	0	7	52	112
OTHER LIABILITIES	68	-	4	11	238	321
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	1	-	-	-	452	453
	6.669	438	4.848	970	3.096	16.021
NET ASSETS / (LIABILITIES)	(3.377)	(146)	(204)	(36)	5.642	1.879

IN MILLIONS OF HRK

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. At 31 December 1998 the Bank held HRK 2,810 million of loans and advances to customers and HRK 2,615 million of bonds of the Republic of Croatia which are subject to foreign currency clauses.

The mid exchange rates as at 31 December 1998 were as follows:

DEM	3.7397
CHF	4.5676
USD	6.2475

Amounts of assets and liabilities held in HRK and in foreign currency at 31 December 1997 are analysed as follows:

	DEM	CHF	USD	OTHER CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND CURRENT ACCOUNTS						
WITH OTHER BANKS	84	14	119	74	182	473
BALANCES WITH CROATIAN NATIONAL BANK	4	1	4	2	623	634
PLACEMENTS WITH OTHER BANKS	431	138	813	108	130	1.620
LOANS AND ADVANCES TO CUSTOMERS	261	18	3.076	376	2.839	6.570
ASSETS HELD FOR RESALE	106	-	-	-	764	870
ACCRUED INTEREST AND OTHER ASSETS	8	1	27	39	257	332
DUE FROM THE REPUBLIC OF CROATIA	1.535	-	1	1	64	1.601
BONDS OF THE REPUBLIC OF CROATIA	56	-	545	-	2.873	3.474
FIXED ASSET INVESTMENTS	19	3	-	-	16	38
TANGIBLE AND INTANGIBLE FIXED ASSETS	-	-	-	-	639	639
	2.504	175	4.585	600	8.387	16.251
LIABILITIES						
DEPOSITS FROM OTHER BANKS	132	4	54	24	8	222
DEMAND DEPOSITS FROM OTHER CUSTOMERS	1.344	98	556	291	1.315	3.604
SAVINGS AND TIME DEPOSITS FROM OTHER DEPOSITORS	2.536	146	436	216	553	3.887
REFINANCED DEBT	64	12	3.979	506	-	4.561
OTHER BORROWED FUNDS	968	2	25	25	490	1.510
ACCRUED INTEREST PAYABLE	35	3	16	3	65	122
OTHER LIABILITIES	70	1	27	9	171	278
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	74	-	72	42	70	258
	5.223	266	5.165	1.116	2.672	14.442
NET ASSETS / (LIABILITIES)	(2.719)	(91)	(580)	(516)	5.715	1.809

IN MILLIONS OF HRK

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. At 31 December 1997 the Bank held HRK 1,478 million of loans and advances and HRK 939 million of bonds of the Republic of Croatia which are subject to foreign currency clauses.

The mid exchange rates as at 31 December were as follows:

DEM 3.5122

CHF 4.3451

USD 6.2352

41. Liquidity risk

The amounts of assets and liabilities analysed over the remaining period at 31 December 1998 to the contractual maturity date are as follows:

	UP TO 1 MONTH	1-3 MONTHS	3 MONTHS TO 1 YEAR	1-5 YEARS	OVER 5 YEARS	TOTAL
ASSETS						
CASH AND CURRENT ACCOUNTS						
WITH OTHER BANKS	243	9	-	-	-	252
BALANCES WITH CROATIAN NATIONAL BANK	878	364	-	-	-	1.242
PLACEMENTS WITH OTHER BANKS	1.305	78	28	119	221	1.751
LOANS AND ADVANCES TO CUSTOMERS	679	71	704	3.157	3.230	7.841
ASSETS HELD FOR RESALE	-	61	678	-	-	739
ACCRUED INTEREST AND OTHER ASSETS	468	2	-	1	5	476
DUE FROM THE REPUBLIC OF CROATIA	266	13	143	1.065	134	1.621
BONDS OF THE REPUBLIC OF CROATIA	10	197	237	957	1.795	3.196
FIXED ASSET INVESTMENTS	-	-	-	-	40	40
TANGIBLE AND INTANGIBLE FIXED ASSETS	-	-	-	1	741	742
	3.849	795	1.790	5.300	6.166	17.900
LIABILITIES						
DEPOSITS FROM OTHER BANKS	133	10	1	117	-	261
DEMAND DEPOSITS FROM						
OTHER CUSTOMERS	3.276	48	114	194	52	3.684
SAVINGS AND TIME DEPOSITS FROM						
OTHER DEPOSITORS	518	569	1.033	1.681	1.303	5.104
REFINANCED DEBT	55	-	57	1.502	2.663	4.277
OTHER BORROWED FUNDS	457	14	21	560	757	1.809
ACCRUED INTEREST PAYABLE	47	40	25	-	-	112
OTHER LIABILITIES	317	1	1	-	2	321
PROVISIONS FOR CONTINGENT						
LIABILITIES AND CHARGES	38	34	40	124	217	453
	4.841	716	1.292	4.178	4.994	16.021
NET LIQUIDITY GAP	(992)	79	498	1.122	1.172	1.879

IN MILLIONS OF HRK

The amounts of assets and liabilities analysed over the remaining period at 31 December 1997 to the contractual maturity date are as follows:

	UP TO 1 MONTH	1-3 MONTHS	3 MONTHS TO 1 YEAR	1-5 YEARS	OVER 5 YEARS	TOTAL
ASSETS						
CASH AND CURRENT ACCOUNTS WITH OTHER BANKS	473	-	-	-	-	473
BALANCES WITH CROATIAN NATIONAL BANK	634	-	-	-	-	634
PLACEMENTS WITH OTHER BANKS	1.129	24	91	79	297	1.620
LOANS AND ADVANCES TO CUSTOMERS	267	159	335	1.766	4.043	6.570
ASSETS HELD FOR RESALE	-	-	870	-	-	870
ACCRUED INTEREST AND OTHER ASSETS	188	129	15	-	-	332
DUE FROM THE REPUBLIC OF CROATIA	61	14	244	653	629	1.601
BONDS OF THE REPUBLIC OF CROATIA	-	-	1	726	2.747	3.474
FIXED ASSET INVESTMENTS	-	-	-	-	38	38
TANGIBLE AND INTANGIBLE FIXED ASSETS	-	-	-	143	496	639
	2.752	326	1.556	3.367	8.250	16.251
LIABILITIES						
DEPOSITS FROM OTHER BANKS	145	2	-	75	-	222
DEMAND DEPOSITS FROM						
OTHER CUSTOMERS	3.604	-	-	-	-	3.604
SAVINGS AND TIME DEPOSITS FROM						
OTHER DEPOSITORS	64	609	695	1.266	1.253	3.887
REFINANCED DEBT	-	52	192	1.300	3.017	4.561
OTHER BORROWED FUNDS	138	32	63	512	765	1.510
ACCRUED INTEREST PAYABLE	85	27	6	3	1	122
OTHER LIABILITIES	133	145	-	-	-	278
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	3	4	3	-	248	258
	4.172	871	959	3.156	5.284	14.442
NET LIQUIDITY GAP	(1.420)	(545)	597	211	2.966	1.809

IN MILLIONS OF HRK

Unconsolidated income statement*in MILLIONS OF HRK*

	YEAR ENDED 31 DECEMBER	
	1998.	1997.
INTEREST AND SIMILAR INCOME	846	896
INTEREST AND SIMILAR EXPENSE	(444)	(519)
NET INTEREST INCOME	402	377
FEE AND COMMISSION INCOME	308	226
FEE AND COMMISSION EXPENSE	(43)	(35)
NET FEE AND COMMISSION EXPENSE	265	191
NET FOREIGN EXCHANGE GAINS/(LOSSES)	156	22
OTHER OPERATING INCOME	37	68
OPERATING INCOME	860	658
BAD AND DOUBTFUL DEBT EXPENSE (NET)	(205)	(208)
OTHER OPERATING EXPENSES	(536)	(428)
PROFIT BEFORE TAX	119	22
INCOME TAX EXPENSE	-	-
NET PROFIT AFTER TAX	119	22

Unconsolidated Balance Sheet

IN MILLIONS OF HRK	AS AT 31 DECEMBER	
	1998.	1997.
ASSETS		
CASH AND CURRENT ACCOUNTS WITH OTHER BANKS	175	378
BALANCES WITH CROATIAN NATIONAL BANK	1.126	577
PLACEMENTS WITH OTHER BANKS	1.519	1.393
LOANS AND ADVANCES TO CUSTOMERS	7.435	6.044
ASSETS HELD FOR RESALE	677	800
ACCRUED INTEREST AND OTHER ASSETS	218	264
DUE FROM THE REPUBLIC OF CROATIA	1.464	1.376
BONDS OF THE REPUBLIC OF CROATIA	3.173	3.446
FIXED ASSETS INVESTMENTS	283	238
TANGIBLE AND INTANGIBLE FIXED ASSETS	471	484
TOTAL ASSETS	16.541	15.000
LIABILITIES		
DEPOSITS FROM OTHER BANKS	267	218
DEMAND DEPOSITS FROM OTHER CUSTOMERS	3.200	3.162
SAVINGS AND TIME DEPOSITS FROM		
OTHER DEPOSITORS	4.615	3.484
REFINANCED DEBT	4.277	4.561
OTHER BORROWED FUNDS	1.660	1.420
ACCRUED INTEREST PAYABLE	111	103
OTHER LIABILITIES	175	118
PROVISIONS FOR CONTINGENT LIABILITIES		
AND CHARGES	433	248
TOTAL LIABILITIES	14.738	13.314
SHAREHOLDERS' EQUITY		
SHARE CAPITAL	1.666	1.666
TREASURY SHARES	(8)	(2)
RESERVES AND RETAINED PROFITS	145	
TOTAL EQUITY	1.803	1.686
TOTAL LIABILITIES AND EQUITY	16.541	15.000

Branch Network in Croatia



Principal Addresses

Head Office

Račkoga 6, 10001 Zagreb, Croatia
Telefon: (01) 4550822;
Faks: (01) 4610447
Telefaks: 21120
Telegramska kartica:
PRIVREDNA BANKA ZAGREB
Swift: PBZG HR 2X

Regional Branches

20000 Dubrovnik

Put Ive Vojnovića 31
Telefon: (020) 413 667
(020) 413 670
Fax: (020) 432 574

53000 Gospić

Trg Alojzija Stepinca bb
Telefon: (053) 572 200
(053) 572 278
(053) 572 201
Fax: (053) 572 234

21260 Imotski

Trg Matice Hrvatske 1
Telefon: (021) 842 385
(021) 842 386
(021) 842 387
Fax: (021) 841 641

10310 Ivanić Grad

Školska 2
Telefon: (01) 2889 023
(01) 2889 024
(01) 2889 025
Fax: (01) 2889 027

47000 Karlovac

Domobrantska 6
Telefon: (047) 615 699
(047) 615 703
Fax: (047) 615 704

44320 Kutina

Kolodvorska 26
Telefon: (044) 682 771
(044) 682 772
(044) 682 775
Fax: (044) 682 779

20355 Opuzen

Trg kralja Tomislava 15
Telefon: (020) 671 188
Fax: (020) 671 222

31000 Osijek

Kapucinska 25
Telefon: (031) 127 099
(031) 127 799
Fax: (031) 127 785

51000 Rijeka

Put Vele crikve
Telefon: (051) 213 440
(051) 215 025
Fax: (051) 336 027

44000 Sisak

Ulica A. i S. Radića 10
Telefon: (044) 524 286
(044) 521 063
(044) 523 047
Fax: (044) 524 327

35000 Slavonski Brod

Trg pobjede 27
Telefon: (035) 443 455
(035) 442 292
Fax: (035) 442 455

21000 Split

Ulica slobode 7
Telefon: (021) 355 911
(021) 355 747
(021) 355 894
Fax: (021) 40 143

31550 Valpovo

Trg P. Krešimira IV
Telefon: (031) 651 255
Fax: (031) 651 505

42000 Varaždin

Franjevački trg 17
Telefon: (042) 211 219
Fax: (042) 55 240

Subsidiaries

Riadria banka d.d.

51 000 Rijeka
Đure Šporera 3
Telefon: (051) 339 111
(051) 336 550
Fax: 24161

Laguna banka d.d.

52440 Poreč
Prvomajska 49
Telefon: (052) 451 344
Fax: (052) 451 320

Krapinsko-zagorska banka d.d.

41230 Krapina
Magistratska ulica 3
Telefon: (049) 370772
Fax: 370771

Representative Offices

60313 Frankfurt/M

Stiftstraße 14/II
Telefon: (069) 293 027
Fax: (069) 293 062

8001 Zürich

Löwenstraße 22
Telefon: (01) 2115 425
Fax: (01) 2115 424

London W1R 8DJ

Mitre House
177 Regent Street
Telefon: (171) 4373 288
Fax: (171) 2873 705

