



Annual report 1999



PRIVREDNA BANKA ZAGREB

Annual report 1999

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PRIVREDNA BANKA ZAGREB

Annual report 1999

The Management Board of Privredna banka Zagreb d.d. has pleasure of presenting its Annual report to the shareholders of the Bank. This comprises business description, 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 Group.

Croatian and English version

This document comprises the Annual Report of Privredna banka Zagreb d.d. and Privredna banka Zagreb Group for the year ended 31 December 1999 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 Accounting 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 on 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”.

In this report, the abbreviations “HRK thousands”, “HRK million”, “DEM thousand”, “DEM million”, “USD thousand”, “USD million” and “EUR thousand” or “EUR million” represents thousands and millions of Croatian kunas, German marks, US dollars and Euros respectively.

Exchange rates

The following exchange rates ruling at 31 December 1999 have been used to translate balances in foreign currency at that date:

DEM 1 = HRK 3.926215
CHF 1 = HRK 4.784268
USD 1 = HRK 7.647654
EUR 1 = HRK 7.679009

On behalf of The Management Board of Privredna banka Zagreb d.d. it gives me great pleasure to present to you trading results for Privredna banka Zagreb d.d. and the Group for the financial year 1999. Last year was marked by major changes in our business. In December 1999, The State Agency for Deposit Insurance and Bank Rehabilitation and Banca Commerciale Italiana signed a contract by which Banca Commerciale Italiana through Comit Holding International (wholly owned subsidiary of Banca Commerciale Italiana) bought a controlling interest in the Bank to the amount of 66.3% of its nominal capital. By this transaction, Privredna banka Zagreb d.d. has become a member of a respected banking institution.

In December 1999, Banca Commerciale Italiana merged with Banca Intesa forming Banca Intesa Group, the biggest Italian banking group. According to the information from 1998 total assets of Banca Intesa Group amounts to USD 327 billion. Banca Intesa Group is among ten biggest banking groups in Europe. We are proud to be a member of such an impressive banking corporation.

Changes in the ownership structure have initiated changes in the Supervisory Board of Privredna banka Zagreb d.d. As of January 2000, Enrico Meucci, Leonardo Attanasio, Kenneth Lomas and Adriano Arietti have been nominated as new Supervisory Board members representing Banca Commerciale Italiana. Mladen Šunjić represents the second biggest shareholder, The State Agency for Deposit Insurance and Bank Rehabilitation.

Operating environment

The economic situation in which the Bank operated in 1999, was, in many ways, more unfavourable than in the previous year. Negative economic trends that began in 1998 accelerated in 1999. Last year was marked by negative industrial growth. Restrictive monetary policy and high taxes had a negative impact on the economy and in general liquidity reduction. Economic problems were further exacerbated by the Kosovo crisis, which was reflected in the negative results in the tourism and industry sectors.

Unfavourable economic conditions had a direct impact on the banking sector. Negative trends for a number of small and medium sized banks continued into the 1999. During the year, several Croatian trading



and savings banks were faced with liquidity problems and insolvency, and are facing the prospects of liquidation. This has resulted in loss of customer confidence in the banking sector as a whole.

However, these events did not have a direct negative impact on the business operations of the Bank. Large number of domestic customers recognised the Bank as a stable and reliable financial institution, resulting in an increase in both retail and corporate deposits.

Operating Results

Results from the Group's core business have, in the main, improved on the previous year with an increase in net profit before tax of 120%. Net interest income has also increased and Cost/Income Ratio for the Group has been reduced from 66.3% in 1998 to 62.6% in 1999. In these harsh economic conditions we have pursued our conservative policies in provisioning for risk loan portfolio which has resulted in an increase of loan provisions by 6%.

Aside from the above quantitative improvements, a trend of balance sheet restructuring has continued which will have long term positive effects on the Bank's operations. In December 1999, the transfer of asset loans from the London Club arrangement to Ministry of Finance was made for the amount of HRK 2.8 billion. Thereby the exposure to the state has been reduced.

In addition, retail lending increased during the year by 25 percent or HRK 544 million. In general, the quality of credit portfolio improved as stricter loan approval and risk monitoring policies were implemented.

In January 2000, further HRK 465.7 million worth of investments held for sale have been transferred to The State Agency for Deposit Insurance and Bank Rehabilitation. With this the Bank eliminated non-core activities in line with its strategy.

At year end, customer deposits made up for 59% of the total liabilities and shareholders' equity of the Group compared to 51% in 1998.

New products

Last year shows significant progress in all major business segments. The Bank introduced to the market several new retail and corporate products. Of these, a special mention goes to the successful implementation of credit and debit card operating system. All current account customers have been issued with debit-cards. Parallel to the issue of Cirrus/Maestro debit cards, activities relating to issuing of MasterCard revolving credit cards and Visa bankcards have accelerated. Telephone banking is in its final preparation stages. Over 75 automatic bank teller machines are in operation by March 2000, and the numbers are increasing daily.

Another innovation is the introduction of American Express Business Card and American Express Gold Business Card which offer more conveniences than the classic American Express Company Card. Also, customers can obtain a commercial loan from the Bank to purchase goods through the use of American Express Card.

Redesign of business network is well on the way, as well as the opening of new branches and modernisation of the existing ones. Upon completion of privatisation, the Bank has changed its logo and started a new marketing campaign promoting the image of a new, dynamic and modern financial institution.

Capital Market

The Bank was very active in foreign currency market, money market and the primary and secondary securities market where it has earned the title of a “market leader”. I would specifically like to mention the successful continuation with Pliva on foreign financial market, where we have joined the team of a group of prominent European banks for the issue of Euro-commercial securities for Pliva. The Bank has also established its position among the world’s leading investment banks with the issue of Croatian Government Euro-bonds and in trading with other Croatian government bonds on the secondary market.

During 1999, the Bank presented itself with great success at The Central & Eastern European Issuers & Investors Forum in Vienna, the Financial Forum and Financial and Business Opportunities Exhibition - CroMoney 1999 in Zagreb.

I would also like to point out to something that we are very proud of: the Central European banking and finance magazine has named Privredna banka Zagreb d.d. as the best bank in Croatia in the last ten years. According to the Standard & Poor’s indicators, a prominent ranking agency, Privredna banka Zagreb d.d. has shown the best improvement in Cost/Income ratio in relation to all other Central European banks.

At the American Express Global Network Services (GNS) annual gathering in Pasadena, US, the American Express Card franchise holder PBZ won the American Express world Service Achiever Award. Fifty GNS member countries competed for the title which was awarded for the exceptional customer service quality, which is measured by continuous quality control in Customer Department, telephone information, authorisation, point of sale service, Debt Collection and Refunds.

Plans for the year 2000

The Bank has prepared a strategic medium term plan. Our goal is to become a leading bank on the banking products market, offering the highest banking standards and product innovation. Internally, the development of management processes and support continues at all levels. We aim to enhance the Bank's business network in order to improve our market position and strengthen the deposit base. In order to achieve this, the Bank will continue with product innovation, improvement in marketing activities and existing services.

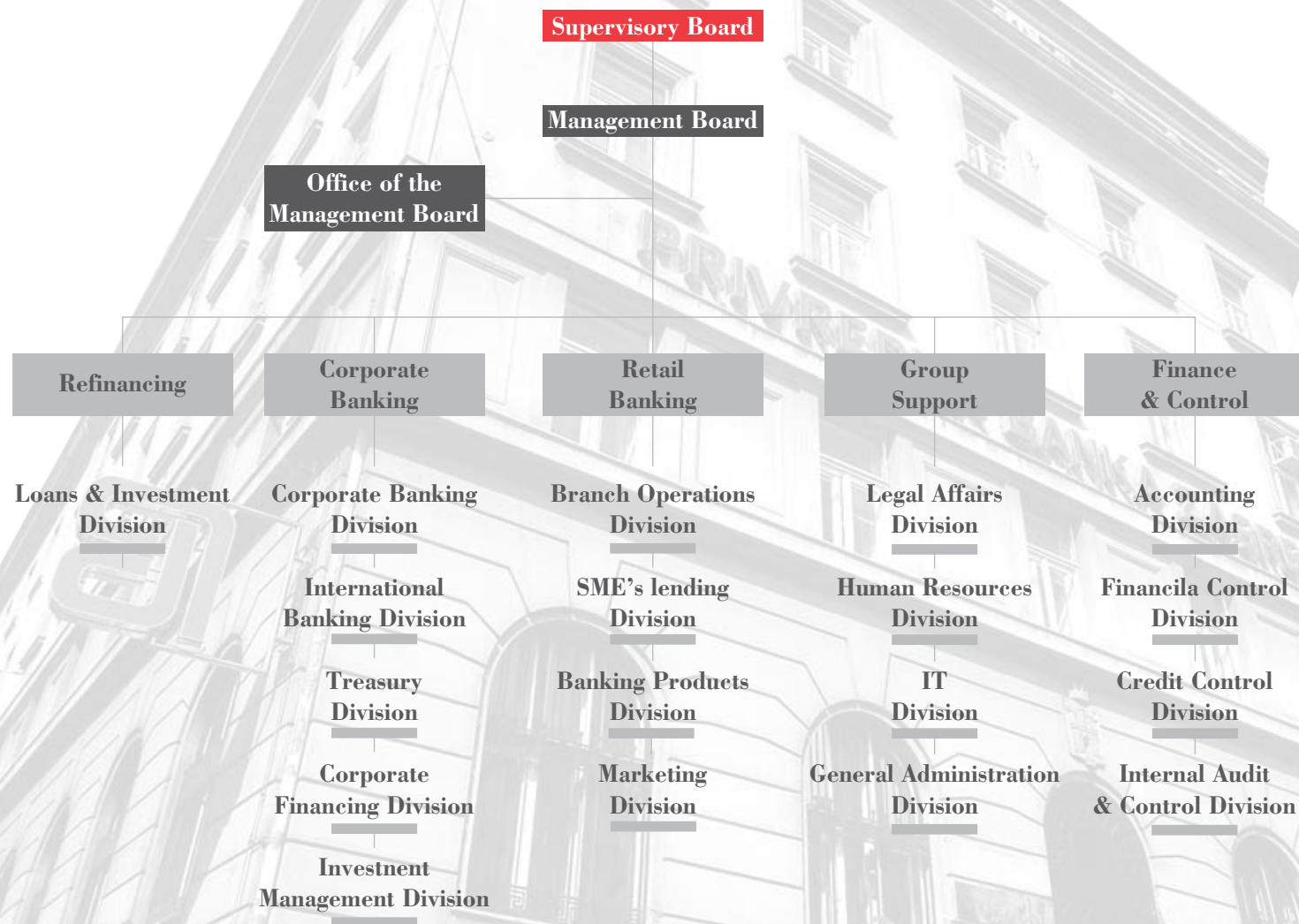
The Bank puts emphasis on human resource management. In order to achieve strategic goals the Bank will provide an adequate training to its employees. In addition, with regard to the improvement of operating activities the Bank will monitor the performance of the employees.

Finally, I take this opportunity to express my gratitude to the management and all the Bank staff for their support and effort in the past year. As well, I would like to thank the shareholders and all those who have contributed to our business success. I also wish to thank the former Supervisory Board Members for their professional support.

31 March 2000

mr. Božo Prka
President of the Management Board





Privredna banka Zagreb d.d. is a fully licensed bank in Croatia. The PBZ Group is a financial group that provides full range of services to its clients in Croatia.

Organisational Structure and Business Activities

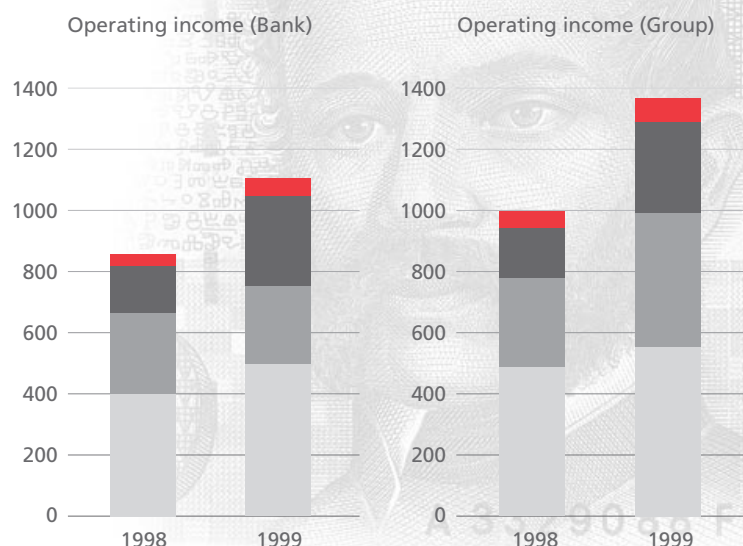
Today, PBZ is the second largest bank in Croatia consisting principally of a Corporate Division maintaining PBZ's close links with major corporations and Retail Banking Division with a nation-wide network of 162 outlets servicing retail and small enterprise clients.

Retail

PBZ currently holds an approximately 18 percent market share in retail products. The Bank's mid-to-long-term strategy includes a number of measures designed to increase its retail market share. The increase in the market share is expected to be achieved primarily at the expense of smaller banks and in the longer term by expanding and improving the range of retail products PBZ already provides.

In order to accomplish its strategic objectives, the Bank has recently reorganised its Retail Division and rationalised the retail branch network. This was designed to increase the operating efficiency of the Bank, as well as allow the Retail Division to focus on expanding its range of products and services. Principal products

currently offered by the Retail Division include HRK and foreign currency demand and term deposits, charge and debit cards, housing and consumer loans, as well as loans to small and medium enterprises and artisans. With respect to the card services, PBZ holds exclusive rights to the American Express franchise in Croatia and neighbouring countries and has entered into agreements with Cirrus/Maestro and EuroCard/MasterCard regarding the issuing of debit and credit cards.



	Bank		Group	
	1998	1999	1998	1999
Net interest income	402	499	489	556
Net fee and commission income	265	258	294	439
Net foreign exchange gains	156	295	163	302
Other operating income	37	60	56	76

(in HRK million)

Corporate Banking

PBZ is one of the key providers of finance to large Croatian companies.

The strategy of the Bank is to capitalise on its long-standing corporate relationships and to provide a wide range of services to its clients. However, as noted in the strategic plan for PBZ, management's current strategy is to spread risk by focusing on smaller companies, win new clients and reduce its exposure to a few large companies.

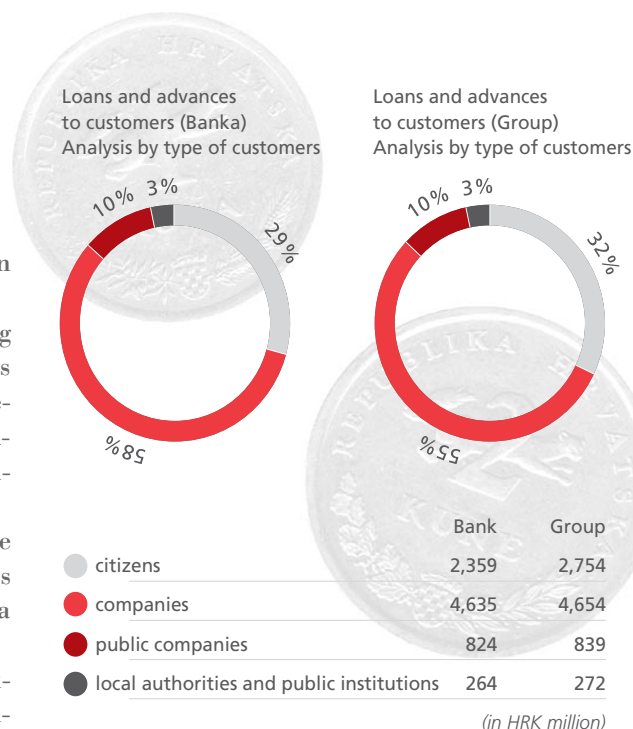
Management has been taking steps to improve the risk profile of the Bank. New credit policies and risk assessment procedures were introduced in 1998 to ensure that new credit granted is of a high quality.

As with the Retail Banking operations, the Corporate Banking operations have undergone a reorganisation to divide it into industry specific departments to allow more efficient service to clients. Other steps include:

- client oriented banking;
- programmes such as Special Loan Schemes, which are designed to lower the risk for both the bank and client by matching cashflows, particularly with respect to currency; and
- the co-operation with other parts of the Bank to achieve incremental business (e.g. loans to employees of major corporate clients, consumer financing for customers of corporate clients).

However, the improvement of quality of loans, with active monitoring of the clients has remained the overriding objective of the reorganisation of the Bank and various changes have occurred to ensure the risks are appropriately managed. Management's attention has been focused on:

- the quality of loans, with active monitoring of the clients and continuous assessment of the collateral and credit risk;
- a conservative provisioning policy;
- the quality of deposits, attracting new depositors such as blue chip companies;
- the continuous education of the Bank's personnel; and
- the introduction of new efficient business processes (partly as a result of the twinning programme with Bank of Ireland and Glendale Consulting Ltd).



ALCO and Treasury operations

PBZ is enhancing its Treasury operations. Management has established an Asset and Liability Committee (“ALCO”) with the responsibility of overseeing all risk assessment of the Bank other than credit risk. The principal objective of current ALCO policy is to improve liquidity rather than maximise profitability.

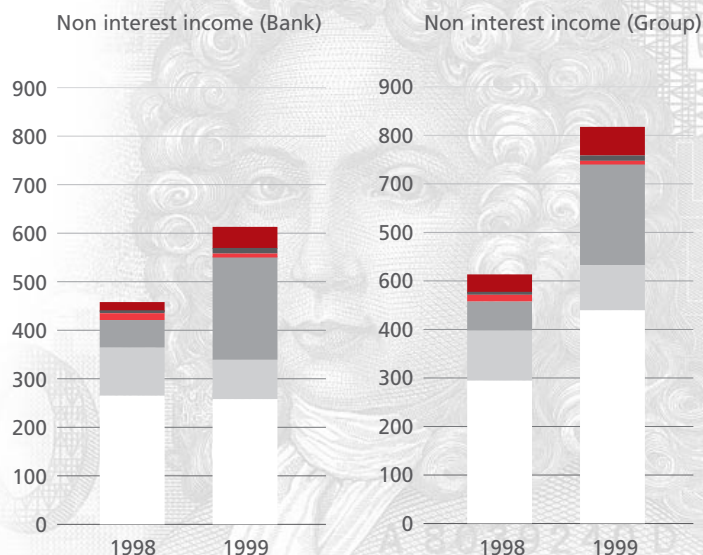
Treasury activities also include foreign exchange trading, money market trading and maintenance of Bank’s clearing system.

Investment Banking

PBZ is developing a strong investment management and investment banking presence in Croatia. PBZ also expanding the investment services offered to clients. Services include custody, project finance, portfolio management and private banking. In addition, through subsidiary operations, PBZ offers brokerage services and fund management.

The Custody department offers services of security safekeeping, security settlement, collection and cash management services.

Project finance offers financial advisory services to corporate clients on feasibility and organisation of capital raising, allocation debt and equity, agent or underwriting services and advisory services on mergers and acquisitions.



	Bank		Group	
	1998	1999	1998	1999
net fee and commission income	265	258	294	439
foreign exchange trading gain	99	81	103	93
foreign exchange gain from revaluation of monetary assets and liabilities	57	214	60	209
dividends received	14	5	14	6
gains from disposal of fixed assets	3	10	3	11
other	20	45	39	59

(in HRK million)

The Investment Management Division is also responsible for the management of two of the subsidiaries of PBZ:

- PBZ Invest d.o.o. carries out investment fund management activities and has established PBZ Money Market Fund;
- PBZ Kapital carries out securities trading on behalf of the clients.

The latest project of the Investment Management Division is the development of a pension fund management company.

International

The International Banking Division provides a wide range of services and products to domestic and foreign clients through four departments: Corresponding Banking, Loans and Guarantees, Payment and Documentary Operations and International Trade Department.

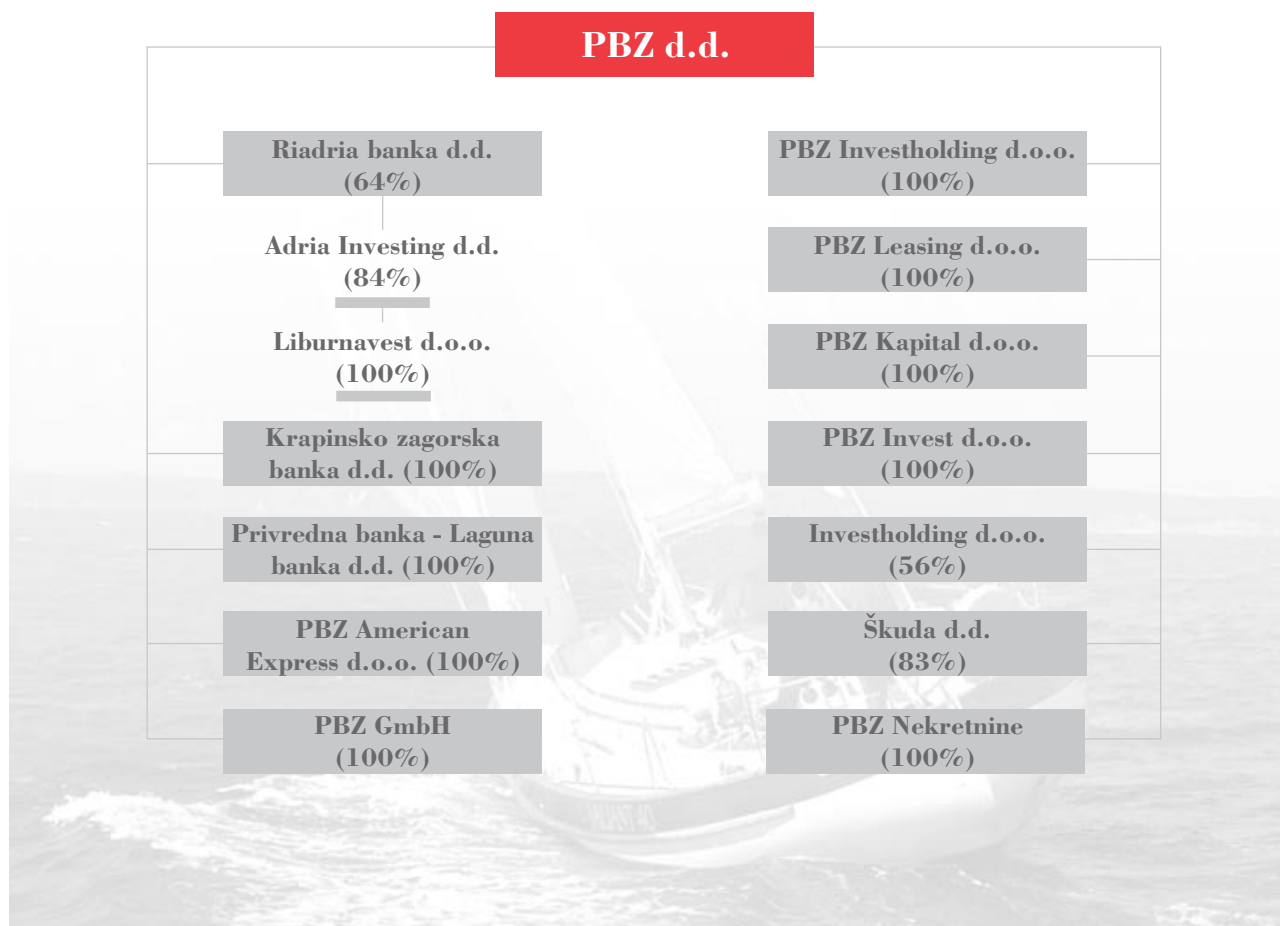
Relations with correspondent banks, developed and fostered through a number of years, result today with the network of 800 parent banks and access to more of 10,000 addresses of their subsidiaries and branches world-wide out of which 65 account relationships.

Loans and Guarantees department arranges various kinds of commercial financing through commercial and commodity loans, project financing and all types of guarantees as well as the syndicated loans.

Payment and Documentary operations are supported by a direct link to the SWIFT network. During 1999 305,000 transactions were processed.

The International Trade Department is responsible for managing 13,749 foreign currency accounts of domestic companies and 2,234 non-resident accounts both in HRK and foreign currencies. International operations are supported by PBZ d.d. Representative Offices in London, Frankfurt and Zurich.

The Group consists of Privredna banka Zagreb d.d. and ten consolidated subsidiaries. However, PBZ GmbH has not been consolidated since it is undergoing liquidation. In addition, Škuda d.d. is not considered by management as material to the Bank as a whole, and therefore not consolidated. The companies included in the Investment portfolio are not considered strategic and consequently are not consolidated regardless of the control PBZ has over these companies or materiality of operations.



Riadria banka d.d.

Riadria banka d.d. (“Riadria”) is fully licensed bank, 64 percent owned by PBZ, headquartered in Rijeka. Riadria has two subsidiaries, Adria Investing d.d. (described below) and Liburnavest d.o.o., a brokerage company.

Riadria is a primarily a retail oriented regional bank but it is also engaged in the corporate banking business segment.

Adria Investing

Adria Investing d.d. (“Adria”) is a real estate holding company 83.55 percent owned by Riadria.

Krapinsko zagorska banka d.d.

Krapinsko zagorska banka d.d. (“Krapinska”) is a fully licensed regional bank. Krapinska is a 100 percent owned, consolidated subsidiary of PBZ and is engaged in retail and corporate banking activities.

Privredna banka - Laguna banka d.d.

Privredna banka - Laguna banka d.d. (“Laguna”) is located in Poreč on the Istrian peninsula on the Adriatic coast. Laguna, established in 1996, is a 100 percent owned, consolidated subsidiary of PBZ and is engaged in retail and commercial banking activities.

PBZ American Express d.o.o.

PBZ American Express d.o.o. (PBZ Amex) is a fully owned and consolidated subsidiary of the Bank. It is engaged in issuing American Express cards and providing credit card services. PBZ Amex holds exclusive American Express franchise for Croatia, Bosnia and Herzegovina, Slovenia and Macedonia.

PBZ Investholding d.o.o.

PBZ IH is a fully owned consolidated subsidiary of PBZ. It was established in 1991 by PBZ to manage equity investments primarily acquired from PBZ which itself acquired via debt/equity swaps.

PBZ Leasing d.o.o.

PBZ Leasing d.o.o. ("PBZ Leasing") provides legal services to third parties, including leasing of cars, boats and flats, etc.

PBZ Kapital d.o.o.

PBZ Kapital d.o.o. has been an authorised and registered securities dealer in Croatia since January 1999 and it provides brokerage services to domestic and foreign retail and institutional investors.

PBZ Invest d.o.o.

PBZ Invest d.o.o. ("PBZ Invest") provides fund management services to third parties. In March 1999 PBZ Invest established the first money market mutual fund in Croatia, the PBZ Money Market Fund. PBZ Invest plans to expand its activities and is expected to raise and manage an equity fund.

Investholding d.o.o.

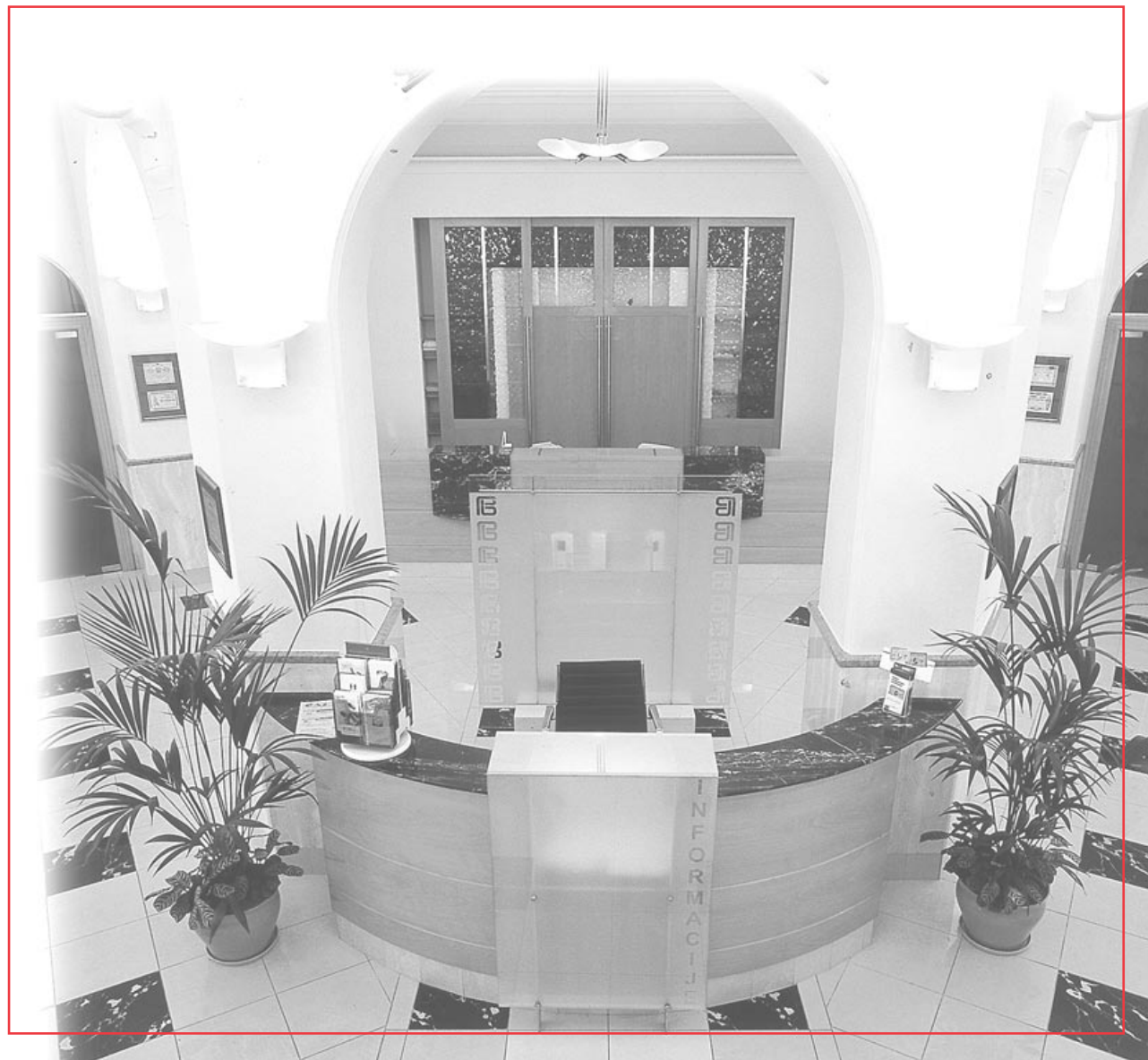
Investholding d.o.o. ("Investholding") is 56 percent owned by PBZ. It was established to serve as legal entity to manage real estate property.

PBZ Nekretnine d.o.o.

PBZ Nekretnine provides real estate valuation services.

Škuda d.d.

Škuda d.d. is engaged in providing financial services and operations in connection with real estate.



In accordance with the Companies Act and its Article of Association, the Bank has a Supervisory Board and a Management Board. Two boards are separate and no individual may be a member of both boards.

Supervisory Board

The Supervisory Board consists of five members who are appointed for a four-year term by shareholders at the Annual General Meeting. The Board meets monthly and instructs the Management Board.

The current members of the Bank's Supervisory Board, appointed on 28 January 2000, are as follows:

Enrico Meucci (President of the Supervisory Board, Banca Commerciale Italiana)

Leonardo Attanasio (Banca Commerciale Italiana)

Kenneth Lomas (Banca Commerciale Italiana)

Adriano Arietti (Banca Commerciale Italiana)

Mladen Šunjić (DAB).

Former members of the Supervisory Board were as follows:

Mladen Šunjić (DAB)

Slavko Durmiš (DAB)

Nada Mamić (Advisor to the Prime Minister of Republic of Croatia)

Ivan Mijatović (Ministry of finance)

Suzi Matić Kovačević (The Office for European Integration of the Republic of Croatia).

Management Board

The Management Board consists of seven members with each being allocated a specific area of responsibility. The Management Board meets at least weekly to discuss and determine the operating policies of the Bank.

Curriculum Vitae of the Management Board members

Božo Prka, President of the Management Board

Born in 1958, graduated in Foreign Trade from the University of Zagreb in 1982. Employed at the Ministry of Finance since 1992, initially as Assistant to the Minister of Finance and then as Deputy Minister of Finance. Appointed Minister of Finance of the Republic of Croatia in 1994. Awarded the title of Minister of Finance of the Year for Central and Eastern Europe by the Central European Magazine in 1996. Appointed President of the Management Board in February 1998.

Božo Prka



Franjo Filipović



Franjo Filipović, responsible for Corporate Banking Division and International Banking Division

Born in 1940, graduated in Economics from the University of Zagreb 1963. Mr Filipović worked in Zagrebačka banka for 31 years where, among other duties, he headed Corporate Banking Division before being appointed member of the Management Board responsible for Corporate Banking Division. Appointed member of the Bank's Management Board in February 1998.

Davor Holjevac, responsible for Accounting Division, Financial Control Division and Internal Control and Audit Division

Born in 1957, graduated in Economics from the University of Zagreb in 1981. He worked as an advisor in the Finance Department of Ljubljanska banka Zagreb. From 1991 he worked in Zagrebačka banka, initially as Finance Director and lately as a member of the Management Board responsible for finance. Joined Management Board of the Bank in November 1998.

Davor Holjevac



Ivan Gerovac, responsible for Treasury Division and Credit Control Division

Born in 1959, graduated in Foreign Trade from the University of Zagreb in 1982. Joined PBZ in 1983. Appointed Investment Banking Division Executive Director in 1991. Appointed Chief Executive for Restructuring Project in 1997. Since February 1998, member of the Management Board responsible for finance and control.



Ivan Krolo



Ivan Krolo, responsible for Loans and Investment Division, Corporate Finance Division and Investment Management Division

Born in 1957, graduated in Foreign Trade from the University of Zagreb in 1982. Joined PBZ in 1986. In 1995, appointed as Investment Banking Division Executive Director. Member of the PBZ Management Board responsible for financing and investment banking since February 1998.

Zvonko Agičić, responsible for Branch Operations Division, Banking Products Division, SMEs Lending Division and Marketing Division

Born in 1954, graduated in Economics from the University of Zagreb in 1983. Joined PBZ in 1983. Appointed assistant to the Investment banking Division Executive Director. Since February 1998 member of Management Board.



Nediljko Matić



Nediljko Matić, responsible for Personnel Division, IT Division, Legal Division and Administration Division

Born in 1953, graduated in Philosophy and Information Technology. Joined PBZ in 1997. In February 1998 was appointed member of the Bank's Management Board.



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Independent Auditor's Report to the Shareholders of Privredna banka Zagreb d.d., Zagreb

We have audited the accompanying non-consolidated and consolidated financial statements of Privredna banka Zagreb d.d., Zagreb (the Bank and the Group) as of 31 December 1999. These financial statements set out on pages 22 to 98 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 financial statements present fairly in all material respects the financial position of the Bank and the Group as of 31 December 1999 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Zagreb, 31 March 2000

PricewaterhouseCoopers d.o.o., Zagreb





	Note	1999 (in HRK million)	1998 (in HRK million)
Interest and similar income	5	1,019	846
Interest and similar expense	5	(520)	(444)
Net interest income		499	402
Fee and commission income	6	306	308
Fee and commission expense	6	(48)	(43)
Net fee and commission income		258	265
Net foreign exchange gains	7	295	156
Other operating income	8	60	37
Operating income		1,112	860
Bad and doubtful debts expense (net)	9	(248)	(205)
Other operating expenses	10	(643)	(536)
Profit before taxation		221	119
Taxation	12	-	-
Net profit after taxation		221	119
Net profit for the year		221	119
		(in HRK)	(in HRK)
Basic earnings per share	44	13.4	7.2
Diluted earnings per share	44	13.4	7.2

	Note	1999 (in HRK million)	1998 (in HRK million)
Interest and similar income	5	1,122	977
Interest and similar expense	5	(566)	(488)
Net interest income		556	489
Fee and commission income	6	497	362
Fee and commission expense	6	(58)	(68)
Net fee and commission income		439	294
Net foreign exchange gains	7	302	163
Other operating income	8	76	56
Operating income		1,373	1,002
Bad and doubtful debts expense (net)	9	(321)	(259)
Other operating expenses	10	(857)	(664)
Profit before taxation		195	79
Taxation	12	(2)	-
Net profit after taxation		193	79
Minority interests	35	5	11
Net profit for the year		198	90
		(in HRK)	(in HRK)
Basic earnings per share	44	12.0	5.4
Diluted earnings per share	44	12.0	5.4



	Note	1999 (in HRK million)	1998 (in HRK million)
Assets			
Cash and current accounts with other banks	13	234	175
Balances with Croatian National Bank	14	2,072	1,126
Placements with other banks	15	1,270	1,408
Debt securities	16	271	22
Loans and advances to customers	17	6,135	7,524
Assets held for resale	18	558	677
Accrued interest and other assets	19	255	218
Due from the Republic of Croatia	20	1,401	1,464
Bonds of the Republic of Croatia	21	2,699	3,173
Long term investments	22	323	283
Tangible and intangible fixed assets	23	518	471
		15,736	16,541
Liabilities			
Deposits from other banks	24	275	267
Demand deposits from other customers	25	3,680	3,200
Savings and time deposits from other depositors	26	5,191	4,615
Refinanced debt	27	2,215	4,277
Other borrowed funds	28	1,538	1,660
Accrued interest payable	29	134	111
Other liabilities and deferred income	30	395	175
Provisions for contingent liabilities and charges	31	283	433
		13,711	14,738
Shareholders' equity			
Share capital	33	1,666	1,666
Treasury shares		(10)	(8)
Reserves and retained profits	34	148	26
Net profit for the year		221	119
		2,025	1,803
Total liabilities and shareholders' equity		15,736	16,541

These financial statements were approved by the Management Board on 31 March 2000.

mr. Božo Prka

President of the Management Board

Davor Holjevac

Member of the Management Board

PRIVREDNA BANKA ZAGREB

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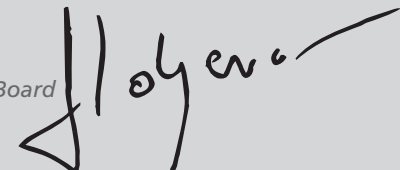
	Note	1999 (in HRK million)	1998 (in HRK million)
Assets			
Cash and current accounts with other banks	13	290	252
Balances with Croatian National Bank	14	2,293	1,242
Placements with other banks	15	1,389	1,640
Debt securities	16	271	22
Loans and advances to customers	17	6,446	7,930
Assets held for resale	18	617	739
Accrued interest and other assets	19	625	476
Due from the Republic of Croatia	20	1,549	1,621
Bonds of the Republic of Croatia	21	2,724	3,196
Long term investments	22	56	40
Tangible and intangible fixed assets	23	928	742
		17,188	17,900
Liabilities			
Deposits from other banks	24	274	261
Demand deposits from other customers	25	4,151	3,684
Savings and time deposits from other depositors	26	5,688	5,104
Refinanced debt	27	2,215	4,277
Other borrowed funds	28	1,617	1,809
Accrued interest payable	29	140	112
Other liabilities and deferred income	30	687	321
Provisions for contingent liabilities and charges	31	291	453
		15,063	16,021
Shareholders' equity			
Share capital	33	1,666	1,666
Treasury shares		(10)	(8)
Reserves and retained profits	34	179	59
Net profit for the year		198	90
		2,033	1,807
Minority interests	35	92	72
Total liabilities and shareholders' equity		17,188	17,900

These financial statements were approved by the Management Board on 31 March 2000.

mr. Božo Prka
President of the Management Board



Davor Holjevac
Member of the Management Board



PRIVREDNA BANKA ZAGREB



Statement of changes in equity

	(in HRK million)				
	Share capital	Treasury shares	Reserves and retained profits	Net profit for the year	Total
Balance at 1 January 1998	1,666	(2)	-	22	1,686
Valuation of tangible fixed assets	-	-	4	-	4
Transfer to reserves	-	-	22	(22)	-
(Purchase)/sale of treasury shares	-	(6)	-	-	(6)
Net profit for the year	-	-	-	119	119
Balance at 31 December 1998	1,666	(8)	26	119	1,803
Valuation of tangible fixed assets	-	-	3	-	3
Transfer to reserves	-	-	119	(119)	-
(Purchase)/sale of treasury shares	-	(2)	-	-	(2)
Net profit for the year	-	-	-	221	221
Balance at 31 December 1999	1,666	(10)	148	221	2,025



Statement of changes in equity

	Share capital	Treasury shares	Reserves and retained profits	(in HRK million) Net profit for the year	Total
Balance at 1 January 1998	1,666	(2)	5	28	1,697
Valuation of tangible fixed assets	-	-	4	-	4
Transfer to reserves	-	-	28	(28)	-
(Purchase)/sale of treasury shares	-	(6)	22	-	16
Net profit for the year	-	-	-	90	90
Balance at 31 December 1998	1,666	(8)	59	90	1,807
Valuation of tangible fixed assets	-	-	3	-	3
Effect of new consolidation	-	-	13	-	13
Restatement of the opening balance	-	-	14	-	14
Transfer to reserves	-	-	90	(90)	-
(Purchase)/sale of treasury shares	-	(2)	-	-	(2)
Net profit for the year	-	-	-	198	198
Balance at 31 December 1999	1,666	(10)	179	198	2,033



	1999 (in HRK million)	1998 (in HRK million)
Cash flow from operating activities		
Operating profit	221	119
Provisions for bad and doubtful debts	248	205
Proceeds from sale of property and equipment	(10)	(3)
Depreciation and amortisation	52	45
	511	366
(Increase)/decrease in operating assets		
Balances with Croatian National Bank	(946)	(549)
Placements with other banks (over 3 months)	51	95
Loans and advances to customers	(1,631)	(1,358)
Accrued interest and other assets	(211)	132
Due from the Republic of Croatia	63	(88)
Debt securities	(246)	22
Increase/(decrease) in operating liabilities		
Deposits from other banks	8	49
Due to other depositors	1,056	1,169
Accrued interest payable and other liabilities	243	65
Net cash from operating activities	(1,102)	(97)
Cash flows from investing activities		
Purchase of property and equipment	(99)	(46)
Acquisitions of long term investments	(2)	(45)
Disposals/(acquisitions) of assets held for resale	13	(24)
Bonds of the Republic of Croatia	474	273
Net cash from investing activities	386	158
Cash flows from financing activities		
Refinanced debt	708	(284)
Other borrowed funds	(122)	240
Net cash from financing activities	586	(44)
Net increase/(decrease) in cash and cash equivalents	(130)	17
Cash and cash equivalents at the beginning of the year	1,347	1,330
Cash and cash equivalents at the end of the year	1,217	1,347

	1999 (in HRK million)	1998 (in HRK million)
Cash flow from operating activities		
Operating profit	198	79
Provisions for bad and doubtful debts	321	259
Proceeds from sale of property and equipment	(11)	(3)
Depreciation and amortisation	83	51
Taxes paid	(2)	(3)
	589	383
(Increase)/decrease in operating assets		
Balances with Croatian National Bank	(1,051)	(608)
Placements with other banks (over 3 months)	(76)	101
Loans and advances to customers	(1,484)	(1,299)
Accrued interest and other assets	(324)	(71)
Due from the Republic of Croatia	72	(20)
Debt securities	(246)	22
Increase/(decrease) in operating liabilities		
Deposits from other banks	13	39
Due to other depositors	1,051	1,297
Accrued interest payable and other liabilities	394	33
Net cash from operating activities	(1,062)	(123)
Cash flows from investing activities		
Purchase of property and equipment	(226)	(154)
Acquisitions of long term investments	(2)	(5)
Disposals/(acquisitions) of assets held for resale	13	(2)
Bonds of the Republic of Croatia	472	278
Net cash from investing activities	257	117
Cash flows from financing activities		
Refinanced debt	708	(284)
Other borrowed funds	(192)	299
Net cash from financing activities	516	15
Net increase/(decrease) in cash and cash equivalents	(289)	9
Cash and cash equivalents at the beginning of the year	1,635	1,626
Cash and cash equivalents at the end of the year	1,346	1,635



1 General information

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

2 Privatisation of the Bank

On December 17, 1999, The State Agency for Deposit Insurance and Bank Rehabilitation ("DAB") and Banca Commerciale Italiana ("BCI") through Comit Holding International (a wholly owned subsidiary of BCI) signed the share purchase agreement which gave right to BCI to acquire 66.3% of the Bank's share capital. The effects of privatisation are described in notes 18 and 33 to these financial statements.

3 Accounting standards and conventions

These financial statements are prepared under the historical cost convention and are in compliance with International Accounting Standards, which are adopted by the Croatian Accounting Law.

Disclosures

The financial statements have been presented in a format generally accepted and internationally recognised by banks and in accordance with International Accounting Standard 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions".

Group 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 (except those subsidiaries which share in the Bank's balance sheet is immaterial and PBZ Handel und Service GmbH Germany, which is undergoing liquidation).

4 Summary of significant accounting policies

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

(a) Interest and similar income and expense

Interest income and expense are recognised in the income statement on an accrual basis. Interest income ceases to be accrued, and all outstanding amounts are reversed, when more than 60 days overdue, unless the specific circumstances suggest that the collectibility of overdue interest is not in doubt. Interest income includes accrued discount on bills of exchange and treasury bills.



(b) Foreign currencies

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

Assets and liabilities denominated in foreign currencies are translated to Croatian Kuna 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.

(c) Sale and repurchase agreements

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

(d) 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, together with commissions from managing funds on behalf of legal entities and individuals and fees for foreign and domestic payment transactions. Fees are credited to income when the associated service is performed.

(e) 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.

(f) Debt securities

Debt securities acquired with the intention to hold to maturity are stated at cost less any provision for permanent diminution in value. Any premium or discount on these securities is amortised to interest income over the period to maturity. Debt securities other than investment securities are carried at fair value.

(g) Bonds of the Republic of Croatia

Rehabilitation bonds and recapitalisation bonds are stated at nominal value.

**(h) Due from the Republic of Croatia**

The public debt from the Republic of Croatia arises from a liability of the former National Bank of Yugoslavia in respect of foreign exchange deposits derived from individuals and deposited with the National Bank of Yugoslavia. The obligation of the former National Bank of Yugoslavia to Croatian commercial banks in respect of these foreign exchange deposits was converted into public debt of the Republic of Croatia. The foreign exchange deposits from individuals relate to amounts deposited before 27 April 1991 and which were frozen in accordance with the Government decree issued in December 1991 and subsequently ratified by law on 3 December 1993 (refer to note 20).

(i) Assets held for resale

Assets held for resale represent interests in number of domestic and foreign companies with the intention to be disposed of. However, majority of these assets was sold to DAB on 17 December 1999 with effect of 28 January 2000. Such assets are stated in the Group's balance sheet at net book value determined at 31 December 1998 since they were sold to DAB at that value. The remaining assets are stated at their fair value at 31 December 1999 (for more details refer to note 18).

(j) Loans and the provisions for loan impairment

A specific credit risk provision for loan impairment is established to provide for management's 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 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.

(k) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated in the balance sheet at cost or revalued amount 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 following annual rates are used:

	(%)
Buildings	3.0 to 10.0
Furniture	6.7 to 20.0
Computers	20.0
Motor vehicles	25.0
Equipment and other assets	6.7 to 20.0
Intangible assets	20.0
Goodwill	6.67

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.

Goodwill stated in consolidated financial statements represents the excess of the cost of an acquisition over the fair value of the net assets acquired which is amortised over period of 15 years at annual rate of 6.67%.

Intangible fixed assets are stated at cost or contracted acquiring amount and mainly comprise software specially made for credit card operations which will be amortised over period of 5 years.

(l) Taxation

The Group is subject to a tax rate of 35 percent in accordance with Section 2 of the Profit Tax Act. The Group currently has carry forward tax losses from prior years. These losses can be carried forward for a total of five years (refer to note 12).

(m) Provisions for contingent liabilities

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

(n) Comparatives and reclassification

Certain items of the 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.

(o) 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. Details are set out in note 37.



Interest income	1999 (in HRK million)	1998 (in HRK million)
Companies	309	257
Banks	138	156
Citizens	237	120
Republic of Croatia	335	313
	1,019	846

Interest expense		
Companies	48	43
Banks	189	149
Citizens	283	252
	520	444

6 Fee and commission income and expense

Fee and commission income	1999 (in HRK million)	1998 (in HRK million)
Companies	187	185
Banks	20	17
Citizens	63	62
Public sector and other	36	44
	306	308

Fee and commission expense		
Payment transaction charges	17	17
Bank charges	2	1
Commission to post offices for citizens' current accounts	17	20
Other	12	5
	48	43



Interest income

	1999 (in HRK million)	1998 (in HRK million)
Companies	319	332
Banks	155	170
Citizens	301	143
Republic of Croatia	347	332
	1,122	977

Interest expense

Companies	54	64
Banks	201	140
Citizens	311	284
	566	488

Fee and commission income

	1999 (in HRK million)	1998 (in HRK million)
Companies	195	225
Banks	26	17
Citizens	239	71
Public sector and other	37	49
	497	362

Fee and commission expense

Payment transaction charges	20	40
Bank charges	6	1
Commission to post offices for citizens' current accounts	19	20
Other	13	7
	58	68

7 Foreign exchange gains (net)

Bank
31 December 1999



	1999 (in HRK million)	1998 (in HRK million)
Foreign exchange trading gain	81	99
Foreign exchange gain from revaluation of monetary assets and liabilities	214	57
	295	156

8 Other operating income

	1999 (in HRK million)	1998 (in HRK million)
Dividends received	5	14
Gains from disposal of fixed assets	10	3
Other	45	20
	60	37

9 Bad and doubtful debts expense

	Note	1999 (in HRK million)	1998 (in HRK million)
Placements with other banks (net)	15	(32)	(15)
Debt securities	16	(3)	(6)
Loans and advances to customers (net)	17	436	(4)
Interest and fees (net)	19	11	(59)
Contingent liabilities and commitments	31	(197)	185
Assets held for resale and long term investments (net)	18	(32)	137
Provisions for legal claims	31	23	-
Provisions for other expenses	31	24	-
General provisions	17	(27)	(33)
Direct write off		45	-
		248	205

7. Foreign exchange gains (net)

Group
31 December 1999



	1999 (in HRK million)	1998 (in HRK million)
Foreign exchange trading gain	93	103
Foreign exchange gain from revaluation of monetary assets and liabilities	209	60
	302	163

8. Other operating income

	1999 (in HRK million)	1998 (in HRK million)
Dividends received	6	14
Gains from disposal of fixed assets	11	3
Other	59	39
	76	56

9. Bad and doubtful debts expense

	Note	1999 (in HRK million)	1998 (in HRK million)
Placements with other banks (net)	15	(32)	(11)
Debt securities	16	(3)	(6)
Loans and advances to customers (net)	17	500	31
Interest and fees (net)	19	14	(58)
Contingent liabilities and commitments	31	(208)	195
Assets held for resale and long term investments (net)	18	(37)	137
Provisions for legal claims	31	23	-
Provisions for other expenses	31	24	-
General provisions	17	(23)	(29)
Direct write off		63	-
		321	259



	1999 (in HRK million)	1998 (in HRK million)
Staff costs (note 11)	310	282
Materials and services	179	143
Depreciation and amortisation	52	45
Administrative and marketing costs	44	31
Taxes and contributions	10	5
Other	48	30
	643	536

	1999 (in HRK million)	1998 (in HRK million)
Net salaries	149	148
Pension insurance costs	51	43
Health insurance costs	43	37
Taxes and surtaxes due to local authorities	39	33
Other staff related costs	28	21
	310	282

Included in salaries and other related costs of employees is the Bank's bonus in gross amount of HRK 4.4 million (1998: HRK 3.3 million). Two thirds of bonus scheme is payable in cash and remainder is payable in the Bank's ordinary shares.

During the year the average number of employees within the Bank accounted for 3,258 employees (1998: 3,448).



	1999 (in HRK million)	1998 (in HRK million)
Staff costs (note 11)	393	328
Materials and services	228	163
Depreciation and amortisation	83	51
Administrative and marketing costs	55	35
Taxes and contributions	38	7
Other	60	80
	857	664

	1999 (in HRK million)	1998 (in HRK million)
Net salaries	188	171
Pension insurance costs	65	51
Health insurance costs	54	43
Taxes and surtaxes due to local authorities	52	42
Other staff related costs	34	21
	393	328

Included in salaries and other related costs of employees is the Bank's bonus in gross amount of HRK 4.4 million (1998: HRK 3.3 million). Two thirds of bonus scheme is payable in cash and remainder is payable in the Bank's ordinary shares).

During the year the average number of employees within the Group accounted for 3,882 employees (1998: 3,920).



The tax is payable at the rate of 35% (1998: 35%), on adjusted operating income earned in Croatia and internationally. 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. Reconciliation between applicable tax rate and average effective tax rate is as follows:

	1999 (in HRK million)	1998 (in HRK million)
Accounting profit	221	119
Dividends received and (gains)/losses on disposal of investments	(61)	121
Charge for capital maintenance	(97)	(31)
Non deductible items	13	12
Taxable profit	76	221
Tax losses brought forward	(517)	(686)
Tax losses carried forward	(441)	(465)

In accordance to effective Profit tax law, the Bank may use tax losses to reduce taxable profits for a period of 5 years. The expiry dates for unused tax losses are as follows:

	1999 (in HRK million)	1998 (in HRK million)
31 December 2001	269	311
31 December 2002	172	154
	441	465

The tax is payable at the rate of 35% (1998: 35%), on adjusted operating income earned in Croatia and internationally. 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. Reconciliation between applicable tax rate and average effective tax rate is as follows:

	1999 (in HRK million)	1998 (in HRK million)
Accounting profit	198	90
Dividends received and (gains)/losses on disposal of investments	(62)	128
Charge for capital maintenance	(120)	(45)
Non deductible items	16	41
Other	-	10
Taxable profit	32	224
Tax losses brought forward	(563)	(709)
Tax losses carried forward	(531)	(485)

In accordance to effective Profit tax law, the Bank and the several subsidiaries within the Group may use tax losses to reduce taxable profits for a period of 5 years. The expiry dates for unused tax losses are as follows:

	1999 (in HRK million)	1998 (in HRK million)
31 December 2000	2	2
31 December 2001	270	313
31 December 2002	185	157
31 December 2003	26	13
31 December 2004	48	-
	531	485



	1999 (in HRK million)	1998 (in HRK million)
Cash in hand	140	90
Items in course of collection	6	3
Current accounts and amounts at call with domestic banks	36	12
Current accounts and amounts at call with foreign banks	50	69
Giro accounts	2	1
	234	175

	1999 (in HRK million)	1998 (in HRK million)
Obligatory reserve		
in HRK	598	438
in foreign currency	750	196
Treasury bills		
in HRK	273	101
in foreign currency	451	391
	2,072	1,126

Obligatory reserve represents the amount required to be deposited with the Croatian National Bank (CNB). The HRK obligatory reserve requirement at 31 December 1999 represented 30.5% of relevant HRK deposits (1998: 29.5%). At least 60% of the total obligatory requirement has to be deposited on a special account with the CNB and the remainder may be held in cash and/or on a giro account. Interest on obligatory reserve is payable on monthly basis and it amounted 5.9% at year end (1998: 5.9%).

The foreign currency obligatory reserve requirement at 31 December 1999 represented 50% of 55% of total foreign currency citizens savings deposits with a maturity of less than 3 months (1998: 20%). Interest on obligatory reserve is payable on monthly basis and it amounted 3.9% at year end (1998: 3.9%).

The Bank processes the obligatory reserve for Laguna banka, Krapinsko zagorska banka (consolidated subsidiaries) and for savings houses Štedionica Brod, Primorska štedionica d.d. Rijeka and Štedionica za razvoj i obnovu. These savings houses are not controlled by the Bank. The obligatory reserve for the above mentioned banks and savings houses is included in the Bank's obligatory reserve and it amounted HRK 16.5 million (1998: HRK 4.7 million).

Treasury bills held at year end represent securities denominated in HRK, EUR and USD and were issued by the CNB with contracted maturity from 35 to 182 days.

Within HRK denominated treasury bills were bills pledged under repurchase agreements with other customers whose value at 31 December 1999 was HRK 9.1 million (1998: nil).

	1999 (in HRK million)	1998 (in HRK million)
Cash in hand	164	155
Items in course of collection	9	5
Current accounts and amounts at call with domestic banks	37	16
Current accounts and amounts at call with foreign banks	71	72
Giro accounts	9	4
	290	252

	1999 (in HRK million)	1998 (in HRK million)
Obligatory reserve		
in HRK	673	544
in foreign currency	840	195
Treasury bills		
in HRK	302	101
in foreign currency	478	401
Other	-	1
	2,293	1,242

Obligatory reserve represents the amount required to be deposited with the Croatian National Bank (CNB). The HRK obligatory reserve requirement at 31 December 1999 represented 30.5% of relevant HRK deposits (1998: 29.5%). At least 60% of the total obligatory requirement has to be deposited on a special account with the CNB and the remainder may be held in cash and/or on a giro account. Interest on obligatory reserve is payable on monthly basis and it amounted 5.9% at year end (1998: 5.9%).

The foreign currency obligatory reserve requirement at 31 December 1999 represented 50% of 55% of total foreign currency citizens savings deposits with a maturity of less than 3 months (1998: 20%). Interest on obligatory reserve is payable on monthly basis and it amounted 3.9% at year end (1998: 3.9%).

Treasury bills held at year end represent securities denominated in HRK, EUR and USD and were issued by the CNB with contracted maturity from 35 to 182 days.

Within HRK denominated treasury bills were bills pledged under repurchase agreements with other customers whose value at 31 December 1999 was HRK 9.1 million (1998: nil).

**(a) Analysis by currency**

	1999 (in HRK million)	1998 (in HRK million)
HRK denominated	52	60
Foreign currency denominated	1,224	1,386
	1,276	1,446
Provisions	(6)	(38)
	1,270	1,408

The majority of placements is kept with first-class international banks and can be readily transformed into cash. Foreign currency denominated placements with other banks include an amount of HRK 34 million (1998: HRK 59 million) which were pledged as security for letters of credit and guarantees provided to customers by other banks.

HRK 111 million related to syndicated loans to companies in 1998 in which the Bank was a member of the syndicate was reclassified from foreign currency placements with other banks to loans and advances to customers.

(b) Geographical analysis

	1999 (in HRK million)	1998 (in HRK million)
Republic of Croatia	369	339
Germany	380	735
Austria	138	152
The Netherlands	37	-
United States of America	27	79
Italy	178	70
Other countries	147	71
	1,276	1,446
Provisions	(6)	(38)
	1,270	1,408

The related currency analysis is provided in note 42.

**(a) Analysis by currency**

	1999 <i>(in HRK million)</i>	1998 <i>(in HRK million)</i>
HRK denominated	49	286
Foreign currency denominated	1,350	1,396
	1,399	1,682
Provisions	(10)	(42)
	1,389	1,640

The majority of placements is kept with first-class international banks and can be readily transformed into cash. Foreign currency denominated placements with other banks include an amount of HRK 34 million (1998: HRK 59 million) which were pledged as security for letters of credit and guarantees provided to customers by other banks.

HRK 111 million related to syndicated loans to companies in 1998 in which the Bank was a member of the syndicate was reclassified from foreign currency placements with other banks to loans and advances to customers.

(b) Geographical analysis

	1999 <i>(in HRK million)</i>	1998 <i>(in HRK million)</i>
Republic of Croatia	364	550
Germany	414	735
Austria	188	152
The Netherlands	37	-
United States of America	71	80
Italy	178	70
Other countries	147	95
	1,399	1,682
Provisions	(10)	(42)
	1,389	1,640

The related currency analysis is provided in note 42.



15

Placements with other banks *(continued)*

(c) Provision for losses

	1999 <i>(in HRK million)</i>	1998 <i>(in HRK million)</i>
Balance at 1 January	38	53
Amounts collected <i>(note 9)</i>	(32)	(15)
Balance at 31 December	6	38

(d) Refinanced loans

Included in the Bank placements with other banks are HRK 57 million (1998: HRK 47 million) related to refinanced borrowings due to the Republic of Croatia and HRK 245 million (1998: HRK 210 million) of refinanced borrowings due to the Government agencies. For more details refer to note 27.



15

Placements with other banks (*continued*)

(c) Provision for losses

	1999 (in HRK million)	1998 (in HRK million)
Balance at 1 January	42	53
Amounts collected (note 9)	(32)	(11)
Balance at 31 December	10	42

(d) Refinanced loans

Included in the Bank placements with other banks are HRK 57 million (1998: HRK 47 million) related to refinanced borrowings due to the Republic of Croatia and HRK 245 million (1998: HRK 210 million) of refinanced borrowings due to the Government agencies. For more details refer to note 27.



	1999 (in HRK million)	1998 (in HRK million)
Euro-commercial papers	75	-
Bonds issued by foreign entities	77	-
US Treasury bills	70	-
Commercial papers	20	22
Bills of Exchange	32	6
	274	28
Provisions	(3)	(6)
	271	22

Commercial papers in amount of HRK 22.4 million and Bills of exchange redeemed in amount of HRK 5.6 million were classified in 1998 in loans and advances to customers. Within bonds issued by foreign entities were bonds pledged under repurchase agreements with investment banks whose value at 31 December 1999 was HRK 61 million (1998: nil).

(a) Movements

	1999 (in HRK million)	1998 (in HRK million)
Balance at 1 January	28	-
Purchased	258	28
Collected	(12)	-
	274	28
Provisions	(3)	(6)
Balance at 31 December	271	22

(b) Movements in provisions

	1999 (in HRK million)	1998 (in HRK million)
Balance at 1 January	6	12
Provisions and collections (note 9)	(3)	(6)
Balance at 31 December	3	6



	1999 (in HRK million)	1998 (in HRK million)
Euro-commercial papers	75	-
Bonds issued by foreign entities	77	-
US Treasury bills	70	-
Commercial papers	20	22
Bills of Exchange	32	6
	274	28
Provisions	(3)	(6)
	271	22

Commercial papers in amount of HRK 22.4 million and Bills of exchange redeemed in amount of HRK 5.6 million were classified in 1998 in loans and advances to customers. Within bonds issued by foreign entities were bonds pledged under repurchase agreements with investment banks whose value at 31 December 1999 was HRK 61 million (1998: nil).

(a) Movements

	1999 (in HRK million)	1998 (in HRK million)
Balance at 1 January	28	-
Purchased	258	28
Collected	(12)	-
	274	28
Provisions	(3)	(6)
Balance at 31 December	271	22

(b) Movements in provisions

	1999 (in HRK million)	1998 (in HRK million)
Balance at 1 January	6	12
Provisions and collections (note 9)	(3)	(6)
Balance at 31 December	3	6

**(a) Analysis by type of customer**

	1999 (in HRK million)	1998 (in HRK million)
Citizens	2,359	1,769
Companies	4,635	4,311
Public companies	824	3,134
Local authorities and public institutions	264	187
	8,082	9,401
Specific provisions	(1,786)	(1,689)
General provisions	(161)	(188)
	6,135	7,524

(b) Analysis by sector

	1999 (in HRK million)	1998 (in HRK million)
Agriculture and forestry	259	313
Commerce and finance	704	698
Construction	264	548
Electricity and water	302	1,132
Manufacturing	1,172	1,061
Oil and gas	405	1,766
Services	504	496
Transport, storage and communication	929	768
Citizens	2,359	1,769
Other	1,184	850
	8,082	9,401
Specific provisions	(1,786)	(1,689)
General provisions	(161)	(188)
	6,135	7,524

HRK 111 million related to syndicated loans to companies in 1998 in which the Bank was a member of the syndicate was reclassified from foreign currency placements with other banks to loans and advances to customers. In addition, HRK 22.4 million of commercial papers and HRK 5.6 million of bills of exchange redeemed (together with provision) for 1998 were reclassified to debt securities.

**(a) Analysis by type of customer**

	1999 (in HRK million)	1998 (in HRK million)
Citizens	2,754	2,210
Companies	4,654	4,311
Public companies	839	3,150
Local authorities and public institutions	272	204
	8,519	9,875
Specific provisions	(1,895)	(1,744)
General provisions	(178)	(201)
	6,446	7,930

(b) Analysis by sector

	1999 (in HRK million)	1998 (in HRK million)
Agriculture and forestry	263	345
Commerce and finance	761	722
Construction	284	561
Electricity and water	302	1,163
Manufacturing	1,275	1,119
Oil and gas	405	1,724
Services	277	409
Transport, storage and communication	956	787
Citizens	2,754	2,173
Other	1,242	872
	8,519	9,875
Specific provisions	(1,895)	(1,744)
General provisions	(178)	(201)
	6,446	7,930

HRK 111 million related to syndicated loans to companies in 1998 in which the Bank was a member of the syndicate was reclassified from foreign currency placements with other banks to loans and advances to customers. In addition, HRK 22.4 million of commercial papers and HRK 5.6 million of bills of exchange redeemed (together with provision) for 1998 were reclassified to debt securities.

**(c) Provision for losses**

	1999 (in HRK million)		1998 (in HRK million)	
	specific	general	specific	general
Balance at 1 January	1,689	188	1,868	221
Amounts collected	(194)	-	(177)	-
Amounts written off	(349)	-	(168)	-
Foreign exchange loss	10	-	5	-
Provisions made	630	(27)	161	(33)
Balance at 31 December	1,786	161	1,689	188
	1,947		1,877	

The Bank manages its exposure to credit risk by 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 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 and guarantee of the Republic of Croatia was taken into consideration when determining the level of provisions required against loans to certain legal entities.

Total Bank loans and contingencies guaranteed by the Republic of Croatia or repayable from the state budget amount to HRK 2,127 million (1998: HRK 3,195 million).

(e) Interest and fee in suspense

	1999 (in HRK million)	1998 (in HRK million)
Balance at 1 January	163	242
Amount suspended	354	26
Collected, previously suspended interest and fees	(126)	(105)
Balance at 31 December	391	163

At 31 December 1999 the principal amount of non-performing loans and advances which either do not accrue interest or where interest is suspended was HRK 1,899 million (1998: HRK 1,416 million).

(c) Provision for losses

	1999. (in HRK million)		1998. (in HRK million))	
	specific	general	specific	general
Balance at 1 January	1,744	201	1,884	230
Amounts collected	(206)	-	(174)	-
Amounts written off	(353)	-	(176)	-
Foreign exchange loss	4	-	2	-
Provisions made	706	(23)	208	(29)
Balance at 31 December	1,895	178	1,744	201
	2,073		1,945	

The Group manages its exposure to credit risk by 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.

(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 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 2,148 million (1998: HRK 3,215 million).

(e) Interest and fee in suspense

	1999 (in HRK million)	1998 (in HRK million)
Balance at 1 January	163	242
Amount suspended	380	26
Collected, previously suspended interest and fees	(134)	(105)
Balance at 31 December	409	163

At 31 December 1999 the principal amount of non-performing loans and advances which either do not accrue interest or where interest is suspended was HRK 1,899 million (1998: HRK 1,416 million).

**(f) Refinanced loans**

Included in loans and advances are HRK 398 million (1998: HRK 2,830 million) related to refinanced borrowings due to the Republic of Croatia and HRK 677 million (1998: HRK 645 million) of refinanced borrowings due to Government Agencies.

As part of the agreement of December 17, 1999, between Ministry of finance of Republic of Croatia and Privredna banka Zagreb, the Bank transferred its right to receivables relating to London club to Ministry of finance of Republic of Croatia in total amount of HRK 2,770 million.

For more detail on refinanced loans refer to note 27.

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Assets held for resale**(a) Movements**

	1999 (in HRK million)	1998 (in HRK million)
Balance at 1 January	677	800
Purchased in cash or other consideration	13	24
Shares received in exchange for non-performing loans	5	34
Disposals	(128)	(48)
(Increase)/decrease in provisions	(9)	(133)
Balance at 31 December	558	677

**(f) Refinanced loans**

Included in loans and advances are HRK 398 million (1998: HRK 2,830 million) related to refinanced borrowings due to the Republic of Croatia and HRK 677 million (1998: HRK 645 million) of refinanced borrowings due to Government Agencies.

As part of the agreement of December 17, 1999, between Ministry of finance of Republic of Croatia and Privredna banka Zagreb, the Bank transferred its right to receivables relating to London club to Ministry of finance of Republic of Croatia in total amount of HRK 2,770 million.

For more detail on refinanced loans refer to note 27.

(a) Movements

	1999 (in HRK million)	1998 (in HRK million)
Balance at 1 January	739	870
Purchased in cash or other consideration	13	24
Consolidation effects	1	-
Shares received in exchange for non-performing loans	6	35
Disposals	(179)	(56)
(Increase)/decrease in provisions	37	(134)
Balance at 31 December	617	739

**(b) Analysis of significant shareholdings**

On December 17, 1999, DAB and the Bank entered into an agreement whereby DAB took over the Group's interests in the following companies:

Description	Nature of Business	Holding %
Republic of Croatia		
AD Plastik d.d.	manufacturing	7.10
Agrokombinat Jasinje d.d. Slavonski Brod	agriculture	21.94
Agrolaguna d.d. Poreč	agriculture	56.59
Agencija za komercijalnu djelatnost d.o.o. Zagreb	tourism and trade	27.10
Anita d.d. Vrsar	tourism	49.20
Croatia Airlines d.d.	air transport	4.80
Croatia banka d.d.	banking	0.20
Đuro Đaković d.d.	manufacturing	32.49
Elka d.d.	manufacturing	28.33
Hidroelektra d.d. Zagreb	construction	60.80
Hrvatski farmer	agriculture	3.00
Hrvatski radio Gospić	radio media	20.00
IPK Kandit d.o.o.	food processing	20.75
Istarska autocesta d.d.	transport	1.60
Jadranski naftovod d.d.	oil	5.80
Jadroplov d.d. Split	shipping	63.21
Kvarner Express d.d.	tourism	2.30
Laguna d.d.	tourism	35.60
MBU d.o.o.	banking	15.60
MIB d.o.o.	banking	100.00
Moslavačko vinogorje d.d.	wine making	6.10
Neptuntours	tourism	100.00
Pazinka d.d.	food processing	0.01
Predionica Lintex d.o.o.	textile	8.80
Primošten d.d.	tourism	3.10
Regeneracija Zabok d.d.	manufacturing	21.10
RIZ d.o.o.	manufacturing	100.00
Sisačka banka d.d.	banking	1.70
Siscia d.d.	textile	34.10
Slatinska banka d.d.	banking	6.80
Slavonska banka d.d.	banking	0.20
Sunčani Hvar d.d.	tourism	41.10
Supetrus hoteli d.d.	tourism	54.40



Description	Nature of business	Holding %
Tisak d.d.	press distribution	43.20
Trokut d.d.	wood processing	11.20
Tvornica za proizvodnju kudeljnog vlakna d.o.o.	textile	8.80
Republic of Slovenia		
Elan Begunje d.d.	manufacturing	77.25
Elan Commerce d.o.o.	trade	85.70
United Kingdom		
Anglo Yugoslav Bank	banking	4.60
France		
Banque Franco Yugoslave	banking	6.50

In line with the aforementioned agreement these assets were sold at net book value dated 31 December 1998 totalling HRK 465.7 million. The sale of assets was subject to completion of the Share Purchase Agreement Relating to Privredna Banka Zagreb d.d. ("the Agreement") between DAB and Banca Commerciale Italiana with regard to the sale of majority interest in the Bank (refer to note 33). As signing of the Agreement was due on 28 January 2000 these assets were held in the balance sheet of the Bank and the Group to that date. These items were removed from the Bank's and the Group's balance sheet upon completion of the Agreement and the receivables payable until 31 December 2004 were recorded. A portion of investments amounting to HRK 2.2 million transferable to DAB is included in long term investments.

At 31 December 1999 the Bank and the Group held controlling interest in the following entities which did not form part of the sale agreement with DAB:

Description	Nature of business	31 December 1999 Holding %	31 December 1998 Holding %
Republic of Croatia			
Aquae Vivae d.d.	tourism	20.00	-
Belišće d.d.	paper industry	14.70	14.70
Podravka d.d.	food processing	1.48	-
Slobodna Dalmacija štedno kreditna služba	finance	6.41	-
Plava Laguna d.d.	tourism	8.81	8.81

In addition to the assets sold to DAB, during 1999 the Bank also sold its interest in these companies: Siderfin Milan; Atlas d.d.; PPK Valpovo d.d.; HTP Hoteli Argentina; Hidroelektra Niskogradnja d.d.; Plava laguna d.d. (50% of the Bank's interest) and Dalit d.d. Certain subsidiaries within the Group sold their interest in NK Croatia d.d., Trokut d.d. and portion of interest in Moslavačko vinogorje d.d.



	1999 (in HRK million)	1998 (in HRK million)
Interest receivable	92	242
Accrued interest not yet due	90	104
Fees	39	51
Customers	9	2
Card related receivables	4	-
Other	67	39
Provisions	(46)	(220)
	255	218

The amount of accrued interest as at 31 December 1999 includes HRK 67 million of interest receivable on re-habilitation and recapitalisation bonds of the Republic of Croatia (1998: HRK 79 million).

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

	1999 (in HRK million)	1998 (in HRK million)
Balance at 1 January	220	306
Provisions made	35	78
Amounts collected	(24)	(137)
Amounts written off	(39)	(29)
Transfer to suspended interest	(137)	-
Foreign exchange (gains)/losses	(9)	2
Balance at 31 December	46	220



	1999 (in HRK million)	1998 (in HRK million)
Interest receivable	102	246
Accrued interest not yet due	93	127
Fees	47	51
Customers	23	-
Card related receivables	344	212
Other	65	64
Provisions	(49)	(224)
	625	476

The amount of accrued interest as at 31 December 1999 includes HRK 67 million of interest receivable on rehabilitation and recapitalisation bonds of the Republic of Croatia (1998: HRK 79 million).

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

	1999 (in HRK million)	1998 (in HRK million)
Balance at 1 January	224	307
Provisions made	41	79
Amounts collected	(27)	(137)
Amounts written off	(42)	(28)
Transfer to suspended interest	(137)	-
Foreign exchange (gains)/losses	(10)	3
Balance at 31 December	49	224



20

Due from the Republic of Croatia

	1999 (in HRK million)	1998 (in HRK million)
Amounts due in respect of citizens' frozen deposits	1,162	1,264
Interest receivable on citizens' frozen deposits	30	50
Treasury bills	192	127
Other	17	23
	1,401	1,464

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. 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 are stated in DEM are repayable in 20 semi-annual instalments, commenced on 1 July 1995.



20

Due from the Republic of Croatia

	1999 <i>(in HRK million)</i>	1998 <i>(in HRK million)</i>
Amounts due in respect of citizens' frozen deposits	1,294	1,408
Interest receivable on citizens' frozen deposits	34	54
Treasury bills	204	127
Other	17	32
	1,549	1,621

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. 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 are stated in DEM are repayable in 20 semi-annual instalments, commenced on 1 July 1995.



	1999 (in HRK million)	1998 (in HRK million)
Rehabilitation bonds	883	1,155
Recapitalisation bonds	1,453	1,460
Other foreign currency bonds	363	558
	2,699	3,173

As at 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. As at 31 December 1999 the Bank held HRK 161 million (1998: HRK 434 million) of DEM linked bonds at annual interest rate of 12% which are repayable in six semi-annual instalments commencing 1 August 1997; and HRK 722 million (1998: HRK 721 million) of 15 year bonds in EUR with annual interest of 7.20% repayable in 30 semi-annual instalments commencing 1 August 1997.

The recapitalisation bonds were issued by DAB for new shares of the Bank. On 31 December 1999 the Bank held HRK 749 million (1998: HRK 747 million) of 15 year bonds with annual interest of 7.20% and repayable in 30 semi-annual instalments commencing 1 August 1997; HRK 405 million (1998: HRK 412 million) of 15 year bonds with annual interest of 5% and repayable in 30 semi-annual instalments, commencing on 1 August 1997; and HRK 299 million (1998: HRK 301 million) of 15 year bonds with annual interest of 5% and repayable in 30 semi-annual instalments commencing 1 August 1997. In late 1999 the Government of the Republic of Croatia passed a resolution pursuant to which all recapitalisation bonds and a portion of rehabilitation bonds are to be denominated in EUR (1998: in DEM countervalue - currency clause).

Within recapitalisation bonds were included bonds pledged under repurchase agreements with other customers whose value at 31 December 1999 was HRK 8 million (1998: nil).



	1999 (in HRK million)	1998 (in HRK million)
Rehabilitation bonds	883	1,155
Recapitalisation bonds	1,453	1,460
Reconstruction bonds	25	23
Other foreign currency bonds	363	558
	2,724	3,196

As at 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. As at 31 December 1999 the Bank held HRK 161 million (1998: HRK 434 million) of DEM linked bonds at annual interest rate of 12% which are repayable in six semi-annual instalments commencing 1 August 1997; and HRK 722 million (1998: HRK 721 million) of 15 year bonds in EUR with annual interest of 7.20% repayable in 30 semi-annual instalments commencing 1 August 1997.

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Within recapitalisation bonds were included bonds pledged under repurchase agreements with other customers whose value at 31 December 1999 was HRK 8 million (1998: nil).



	Holding in Subsidiaries	Other Investments	(in HRK million) Total
Balance at 1 January 1999	251	32	283
Acquired/(disposed) during the year	-	(2)	(2)
Provisions	40	2	42
Balance at 31 December 1999	291	32	323

The principal investments in subsidiaries are as follows:

Consolidated Subsidiaries	Nature of Business	1999 holding %	1998 holding %
Riadria banka d.d.	banking	64.08	64.08
Krapinsko zagorska banka d.d.	banking	100.00	100.00
Laguna banka d.d.	banking	100.00	100.00
PBZ American Express d.o.o.	card services	100.00	100.00
Atlas American Express Slovenia	card services	100.00	100.00
PBZ American Express Macedonia	card services	95.00	-
PBZ Investholding d.o.o.	finance	100.00	100.00
Investholding d.o.o.	finance	56.00	56.00
PBZ Leasing d.o.o.	services	100.00	100.00
PBZ Kapital d.o.o.	finance	100.00	100.00
PBZ Invest d.o.o.	finance	100.00	100.00
Liburnavest	broker	100.00	100.00
Adria Investing	real estate	94.04	83.35
Nonconsolidated Subsidiaries	Nature of Business	1999 holding %	1998 holding %
PBZ Handel und Service GmbH	finance	100.00	100.00
ABB Karlovac	real estate	20.00	20.00
Škuda d.d.	real estate	83.35	83.35

The Management Board believes that the fair value of the investments is not less than the carrying value. On 31 December 1999 the Bank's holding in its own shares presented 0.78% of all issued shares and accordingly was in compliance with the provisions of the Companies Act.



			(in HRK million)
	Holding in Subsidiaries	Other Investments	Total
Balance at 1 January 1999	16	24	40
Reclassification of the opening balance	(8)	8	-
Consolidation effect	14	2	16
Acquired/(disposed) during the year	-	(2)	(2)
Provisions	-	2	2
Balance at 31 December 1999	22	34	56



(in HRK million)

	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets in the course of transfer	Intangible assets	Total
Cost or valuation							
Balance at 1 January 1999	434	86	20	134	49	31	754
Additions	40	11	5	49	(26)	35	114
Disposals and eliminations	(20)	(13)	(4)	(10)	-	(2)	(49)
Balance at 31 December 1999	454	84	21	173	23	64	819
Depreciation							
Balance at 1 January 1999	99	62	15	85	-	22	283
Charge for the year	13	5	2	25	-	7	52
Disposals and eliminations	(6)	(12)	(3)	(11)	-	(2)	(34)
Balance at 31 December 1999	106	55	14	99	-	27	301
Net book value							
Balance at 31 December 1999	348	29	7	74	23	37	518
Balance at 31 December 1998	335	24	5	49	49	9	471



(in HRK million)

	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets in the course of transfer	Goodwill	Intangible assets	Total
Cost or valuation								
Balance at 1 January 1999	573	155	31	201	65	-	-	1,025
Reclassification of the opening balance	45	(24)	(10)	(56)	(15)	54	56	50
Consolidation effect	62	-	-	-	-	-	-	62
Balance after adjustment	680	131	21	145	50	54	56	1,137
Additions	46	23	11	51	(27)	109	37	250
Disposals and eliminations	(23)	(27)	(4)	(10)	-	-	(14)	(78)
Balance at 31 December 1999	703	127	28	186	23	163	79	1,309
Depreciation								
Balance at 1 January 1999	99	84	15	85	-	-	-	283
Reclassification of the opening balance	16	2	1	5	-	-	26	50
Consolidation effect	17	-	-	-	-	-	-	17
Balance after adjustment	132	86	16	90	-	-	26	350
Charge for the year	20	12	3	26	-	10	12	83
Disposals and eliminations	(6)	(26)	(4)	(10)	-	-	(6)	(52)
Balance at 31 December 1999	146	72	15	106	-	10	32	381
Net book value								
Balance at 31 December 1999	557	55	13	80	23	153	47	928
Balance at 31 December 1998	474	71	16	116	65	-	-	742



	1999 (in HRK million)	1998 (in HRK million)
Demand deposits	102	129
Time deposits	173	138
	275	267

	1999 (in HRK million)	1998 (in HRK million)
Citizens	2,022	1,748
Companies	922	824
Local authorities and other organisations	338	324
Foreign individuals	137	93
Restricted deposits	261	211
	3,680	3,200

Restricted deposits represent mainly deposits made by the companies for international payments through the Bank on their behalf, for opening letters of credit and for the purchase of foreign currencies.

	1999. (in HRK million)	1998. (in HRK million)
Citizens	3,807	3,431
Companies	672	605
Local authorities and other organisations	95	59
Foreign individuals	617	520
	5,191	4,615

Citizens' savings accounts and deposits include frozen foreign currency savings of HRK 637 million (1998: HRK 728 million) - refer to note 20. The Republic of Croatia has issued the guarantee for the repayment or exchange of these deposits for the government bonds.

Within savings and time deposits from citizens included is the amount of HRK 327 million for 1999 and HRK 269 million in 1998 which refers to pledged deposits for housing loans.

	1999 (in HRK million)	1998 (in HRK million)
Demand deposits	94	117
Time deposits	180	144
	274	261

	1999 (in HRK million)	1998 (in HRK million)
Citizens	2,385	2,113
Companies	994	935
Local authorities and other organisations	352	329
Foreign individuals	154	98
Restricted deposits	266	209
	4,151	3,684

Restricted deposits represent mainly deposits made by the companies for international payments through the Bank on their behalf, for opening letters of credit and for the purchase of foreign currencies.

	1999 (in HRK million)	1998 (in HRK million)
Citizens	4,180	3,858
Companies	735	638
Local authorities and other organisations	120	75
Foreign individuals	653	533
	5,688	5,104

Citizens' savings accounts and deposits include frozen foreign currency savings of HRK 687 million (1998: HRK 796 million) - refer to note 20. The Republic of Croatia has issued the guarantee for the repayment or exchange of these deposits for the government bonds.

Within savings and time deposits from citizens included is the amount of HRK 377 million for 1999 and HRK 316 million in 1998 which refers to pledged deposits for housing loans.



(a) Analysis by source

	1999 (in HRK million)	1998 (in HRK million)
Amounts due to the Republic of Croatia	1,045	3,198
Amounts due to government agencies	1,155	1,066
Other creditors	15	13
	2,215	4,277

(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 the Republic 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 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 have been further rescheduled, for a period of 10 to 14 years, are denominated in USD 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.

As part of the agreement of December 17, 1999, between Ministry of finance of Republic of Croatia and Privredna banka Zagreb, the Bank transferred its rights to receivables relating to London club to the Ministry of finance of Republic of Croatia in total amount of HRK 2,770 million for the following companies:

Company	(in HRK million)
INA - Industrija nafte d.d.	1,542
Hrvatske šume d.d.	1
Hrvatska elektroprivreda d.d.	921
Hrvatske željeznice d.d.	13
Hrvatska uprava za ceste	293

(a) Analysis by source

	1999 <i>(in HRK million)</i>	1998 <i>(in HRK million)</i>
Amounts due to the Republic of Croatia	1,045	3,198
Amounts due to government agencies	1,155	1,066
Other creditors	15	13
	2,215	4,277

(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 the Republic 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 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 have been further rescheduled, for a period of 10 to 14 years, are denominated in USD 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.

As part of the agreement of December 17, 1999, between Ministry of finance of Republic of Croatia and Privredna banka Zagreb, the Bank transferred its rights to receivables relating to London club to the Ministry of finance of Republic of Croatia in total amount of HRK 2,770 million for the following companies:

Company	<i>(in HRK million)</i>
INA - Industrija nafte d.d.	1,542
Hrvatske šume d.d.	1
Hrvatska elektroprivreda d.d.	921
Hrvatske željeznice d.d.	13
Hrvatska uprava za ceste	293



(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.

28 Other borrowed funds

	1999 (in HRK million)	1998 (in HRK million)
Domestic borrowings	581	729
Foreign borrowings	957	931
	1,538	1,660

In April 1999 the Bank issued long-term bonds the repayment schedule of which is linked to EUR. The bonds are issued with maturity of 7 years and carry an interest of 7.5%. They are stated under domestic borrowings. Pursuant to the national regulations, these bonds represent the Bank's supplementary capital.

The Bank domestic borrowings include HRK 17.6 million in relation to HRK Treasury bills and the bonds of the Republic of Croatia pledged under repurchase agreements. Foreign borrowings include HRK 61 million of the bonds issued by foreign entities pledged under repurchase agreement.

29 Accrued interest payable

	1999 (in HRK million)	1998 (in HRK million)
Accrued interest due	23	26
Accrued interest not yet due	111	85
	134	111

(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.

28

Other borrowed funds

	1999 (in HRK million)	1998 (in HRK million)
Domestic borrowings	558	861
Foreign borrowings	1,059	948
	1,617	1,809

In April 1999 the Bank issued long-term bonds the repayment schedule of which is linked to EUR. The bonds are issued with maturity of 7 years and carry an interest of 7.5%. They are stated under domestic borrowings. Pursuant to the national regulations, these bonds represent the Bank's supplementary capital.

The Group domestic borrowings include HRK 17.6 million in relation to HRK Treasury bills and the bonds of the Republic of Croatia pledged under repurchase agreements. Foreign borrowings include HRK 61 million of the bonds issued by foreign entities pledged under repurchase agreement.

29

Accrued interest payable

	1999 (in HRK million)	1998 (in HRK million)
Accrued interest due	26	27
Accrued interest not yet due	114	85
	140	112



	1999 (in HRK million)	1998 (in HRK million)
Deferred income	105	22
Salaries and other staff costs	31	23
Items in the course of collection and other liabilities	219	112
Creditors	40	18
	395	175

(a) Analysis

	1999 (in HRK million)	1998 (in HRK million)
Provisions for contingent liabilities and commitments	236	433
Provisions for legal claims	23	-
Provisions for other expenses	24	-
	283	433

(b) Movements

	1999 (in HRK million)	1998 (in HRK million)
Balance at 1 January	433	248
Provisions made for contingent liabilities and commitments (note 9)	(197)	185
Provisions for legal claims (note 9)	23	-
Provisions for other expenses (note 9)	24	-
Balance at 31 December	283	433

	1999 (in HRK million)	1998 (in HRK million)
Taxes	3	1
Deferred income	191	22
Salaries and other staff costs	35	23
Items in the course of collection and other liabilities	215	85
Creditors	243	190
	687	321

(a) Analysis

	1999 (in HRK million)	1998 (in HRK million)
Provisions for contingent liabilities and commitments	244	453
Provisions for legal claims	23	-
Provisions for other expenses	24	-
	291	453

(b) Movements

	1999 (in HRK million)	1998 (in HRK million)
Balance at 1 January	453	258
Provisions made for contingent liabilities and commitments (note 9)	(208)	195
Provisions for legal claims (note 9)	23	-
Provisions for other expenses (note 9)	24	-
Foreign exchange loss	(1)	-
Balance at 31 December	291	453



Legal claims

As at 31 December 1999 there was a certain number of litigations outstanding against the Bank. In the opinion of legal experts, there is a possibility that the Bank loses certain cases. For this reason the amount of provisions for potential losses on litigations made by the Bank as at 31 December 1999 was HRK 23 million.

Capital commitments

As at 31 December 1999 there was no capital commitments.

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 Bank 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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank 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 Bank 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 period were:

	1999 (in HRK million)	1998 (in HRK million)
HRK guarantees	168	134
Foreign currency letters of credit	239	285
Foreign currency guarantees	2,163	3,356
Performance guarantees	636	119
Contingent liabilities	492	62
	3,698	3,956



Legal claims

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

	1999 (in HRK million)	1998 (in HRK million)
HRK guarantees	217	194
Foreign currency letters of credit	243	287
Foreign currency guarantees	2,153	3,411
Performance guarantees	640	127
Contingent liabilities	524	94
Acceptance orders	1	-
	3,778	4,113



33

Share capital

Total number of authorised registered shares as at 31 December 1999 was 16,660 thousand (1998: 16,660 thousand) with nominal value of HRK 100 per share (1998: HRK 100 per share).

On December 17, 2000, The State Agency for Deposit Insurance and Bank Rehabilitation and Banca Commerciale Italiana through Comit Holding International (a wholly owned subsidiary of BCI) signed Share Purchase Agreement in Relation to Privredna banka Zagreb. By this contract Banca Commerciale Italiana acquired 11,046,005 ordinary shares amounting to 66.3% of total share capital of the Bank. Share purchase agreement came into effect on 28 January 2000. The Agreement was subject to written approval by Croatian National Bank and Bank of Italy. On same day the Extraordinary General Meeting was held and the new Supervisory Board members were appointed.

According to this agreement The State Agency for Deposit Insurance and Bank Rehabilitation has kept 4,165,002 ordinary shares which accounts for 25% (plus two shares) of total share capital of the Bank (until 28 January 2000 The State Agency for Deposit Insurance and Bank Rehabilitation held 15,211,007 ordinary shares which accounted for 91.3% of total share capital of the Bank).

No other single shareholder holds more than 5% of total share capital of the Bank.



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Reserves and retained profits

In accordance with the local legislation, 5% of the net profit of the Bank is required to be transferred to a non-distributable legal reserves to the extent they equal 5% of the share capital of the Bank.

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Minority interests

	1999 <i>(in HRK million)</i>	1998 <i>(in HRK million)</i>
Balance at 1 January	72	112
Minority interests in profit/(loss)	(5)	(11)
Consolidation adjustments (new consolidation)	25	-
Acquisition of minority interests	-	(29)
Balance at 31 December	92	72



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

	1999 (in HRK million)	1998 (in HRK million)
Cash and current accounts with other banks (note 13)	234	175
Placements with other banks with maturity of up to 3 months (notes 15 and 43)	983	1,172
	1,217	1,347

	1999 (in HRK million)	1998 (in HRK million)
Liabilities		
Local authorities and similar organisations	407	608
Companies	56	78
Banks and other institutions	288	64
	751	750
Less: assets	743	750
Net liabilities	8	-

The Bank 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 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. Net liabilities arise on timing differences in reception and placement of the funds.

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

	1999 (in HRK million)	1998 (in HRK million)
Cash and current accounts with other banks (note 13)	290	252
Placements with other banks with maturity of up to 3 months (notes 15 and 43)	1,056	1,383
	1,346	1,635

	1999 (in HRK million)	1998 (in HRK million)
Liabilities		
Local authorities and similar organisations	407	608
Companies	56	78
Banks and other institutions	291	64
	754	750
Less: assets	746	(750)
Net liabilities	8	-

The Group manages funds for and on behalf of third parties, which are mainly in the form of loans to various organisations for capital investment. These assets are accounted for separately from those of the Group. Income and expenses arising from these funds are credited and charged to 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. Net liabilities arise on timing differences in reception and placement of the funds.



The Bank grants loans to companies to which it is related. These include companies controlled or influenced by the Bank by virtue of its shareholdings and also companies which can influence the Bank of virtue of their shareholdings in the Bank. Such loans are made in the ordinary course of business. As at 31 December 1999 the total gross exposure to such companies amounted to HRK 1,362 million (1998: HRK 1,120 million).

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 18;
- 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 20.

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 1999 and 1998 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of others.

The Group grants loans to companies to which it is related. These include companies controlled or influenced by the Group by virtue of its shareholdings and also companies which can influence the Group of virtue of their shareholdings in the Group. Such loans are made in the ordinary course of business. As at 31 December 1999 the total gross exposure to such companies amounted to HRK 1,362 million (1998: HRK 1,120 million).

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The table below provides the Group's interest rate sensitivity position at 31 December 1999 and 1998 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of others.



As at 31 December 1999	Up to 1 Month	From 1 to 3 Months	From 3 Months to 1 Year	Over 1 Year	(in HRK million) Non-Interest Bearing	Total
Assets						
Cash and current accounts with other banks	234	-	-	-	-	234
Balances with Croatian National Bank	1,699	334	39	-	-	2,072
Placements with other banks	1,270	-	-	-	-	1,270
Debt securities	13	27	231	-	-	271
Loans and advances to customers	4,758	82	270	1,025	-	6,135
Assets held for resale	-	-	-	10	548	558
Accrued interest and other assets	-	-	-	-	255	255
Due from the Republic of Croatia	271	-	101	1,029	-	1,401
Bonds of the Republic of Croatia	3	217	350	2,129	-	2,699
Long term investments	-	-	-	-	323	323
Tangible and intangible fixed assets	-	-	-	-	518	518
	8,248	660	991	4,193	1,644	15,736
Liabilities						
Deposits from other banks	275	-	-	-	-	275
Demand deposits from other customers	3,680	-	-	-	-	3,680
Savings and time deposits from other depositors	2,244	740	871	1,336	-	5,191
Refinanced debt	2,215	-	-	-	-	2,215
Other borrowed funds	318	35	305	880	-	1,538
Accrued interest payable	-	-	-	-	134	134
Other liabilities and deferred income	-	-	-	-	395	395
Provisions for contingent liabilities and charges	-	-	-	-	283	283
	8,732	775	1,176	2,216	812	13,711
Interest sensitivity gap	(484)	(115)	(185)	1,977	832	2,025



As at 31 December 1998	Up to 1 Month	From 1 to 3 Months	From 3 Months to 1 Year	Over 1 Year	(in HRK million) Non-Interest Bearing	Total
Assets						
Cash and current accounts with other banks	234	-	-	-	-	234
Balances with Croatian National Bank	1,126	-	-	-	-	1,126
Placements with other banks	1,178	-	-	230	-	1,408
Debt securities	22	-	-	-	-	22
Loans and advances to customers	7,367	-	-	157	-	7,524
Assets held for resale	-	-	-	-	677	677
Accrued interest and other assets	-	-	-	-	218	218
Due from the Republic of Croatia	-	-	-	1,464	-	1,464
Bonds of the Republic of Croatia	232	-	-	2,941	-	3,173
Long term investments	-	-	-	-	283	283
Tangible and intangible fixed assets	-	-	-	-	471	471
	10,100	-	-	4,792	1,649	16,541
Liabilities						
Deposits from other banks	267	-	-	-	-	267
Demand deposits from other customers	3,200	-	-	-	-	3,200
Savings and time deposits from other depositors	4,615	-	-	-	-	4,615
Refinanced debt	2,961	-	-	1,316	-	4,277
Other borrowed funds	328	-	-	1,332	-	1,660
Accrued interest payable	-	-	-	-	111	111
Other liabilities and deferred income	-	-	-	-	175	175
Provisions for contingent liabilities and charges	-	-	-	-	433	433
	11,371	-	-	2,648	719	14,738
Interest sensitivity gap	(1,271)	-	-	2,144	930	1,803



As at 31 December 1999	Up to 1 Month	From 1 to 3 Months	From 3 Months to 1 Year	Over 1 Year	(in HRK million) Non-Interest Bearing	Total
Assets						
Cash and current accounts with other banks	243	-	-	-	47	290
Balances with Croatian National Bank	1,866	366	40	-	21	2,293
Placements with other banks	1,318	24	5	-	42	1,389
Debt securities	271	-	-	-	-	271
Loans and advances to customers	4,691	100	359	1,294	2	6,446
Assets held for resale	-	-	-	10	607	617
Accrued interest and other assets	-	-	-	-	625	625
Due from the Republic of Croatia	288	6	113	1,142	-	1,549
Bonds of the Republic of Croatia	3	217	350	2,128	26	2,724
Long term investments	-	-	-	-	56	56
Tangible and intangible fixed assets	-	-	-	-	928	928
	8,680	713	867	4,574	2,354	17,188
Liabilities						
Deposits from other banks	274	-	-	-	-	274
Demand deposits from other customers	4,150	-	-	-	1	4,151
Savings and time deposits from other depositors	2,430	817	985	1,433	23	5,688
Refinanced debt	2,215	-	-	-	-	2,215
Other borrowed funds	329	65	328	895	-	1,617
Accrued interest payable	-	-	-	-	140	140
Other liabilities and deferred income	-	-	-	-	687	687
Provisions for contingent liabilities and charges	-	-	-	-	291	291
	9,398	882	1,313	2,328	1,142	15,063
Interest sensitivity gap	(718)	(169)	(446)	2,246	1,212	2,125



As at 31 December 1998	Up to 1 Month	From 1 to 3 Months	From 3 Months to 1 Year	Over 1 Year	(in HRK million) 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	267	-	1,640
Debt securities	22	-	-	-	-	22
Loans and advances to customers	7,351	27	94	455	3	7,930
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
Long term 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 and deferred income	130	-	-	-	191	321
Provisions for contingent liabilities and charges	-	-	-	-	453	453
	12,272	33	82	2,843	791	16,021
Interest sensitivity gap	(1,662)	94	43	2,387	1,017	1,879



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Concentration of assets, liabilities and off balance sheet items

31 December 1999	Assets	Liabilities	(in HRK million) Off Balance Sheet Items
Geographic region			
Republic of Croatia	14,409	10,627	3,049
European economic region	1,029	2,512	156
Others	298	572	-
	15,736	13,711	3,205
Industry sector			
Government	3,043	1,238	36
Commerce	240	93	180
Public companies	753	90	619
Finance	3,659	2,040	28
Tourism	647	100	66
Agriculture	91	98	100
Citizens	2,226	5,830	-
Other	5,077	4,222	2,176
	15,736	13,711	3,205



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Concentration of assets, liabilities and off balance sheet items

31 December 1999	Assets	Liabilities	(u milijunima kuna) Off Balance Sheet Items
Geographic region			
Republic of Croatia	15,737	11,679	3,126
European economic region	1,122	2,754	160
Others	329	630	-
	17,188	15,063	3,286
Industry sector			
Government	3,313	1,361	37
Commerce	261	102	185
Public companies	820	98	634
Finance	3,982	2,228	29
Tourism	706	110	68
Agriculture	99	107	103
Citizens	2,426	6,390	-
Other	5,581	4,667	2,230
	17,188	15,063	3,286



As at 31 December 1999	EURO-IN	CHF	USD	(in HRK million)		
				Other Currencies	HRK	Total
Assets						
Cash and current accounts with other banks	125	11	28	17	53	234
Balances with Croatian National Bank	721	-	480	-	871	2,072
Placements with other banks	151	188	778	148	5	1,270
Debt securities	124	-	107	-	40	271
Loans and advances to customers	4,726	51	1,012	41	305	6,135
Assets held for resale	-	-	-	-	558	558
Accrued interest and other assets	145	-	18	-	92	255
Due from the Republic of Croatia	1,192	-	-	-	209	1,401
Bonds of the Republic of Croatia	2,365	-	334	-	-	2,699
Long term investments	24	-	-	-	299	323
Tangible and intangible fixed assets	-	-	-	-	518	518
	9,573	250	2,757	206	2,950	15,736
Liabilities						
Deposits from other banks	211	5	20	8	31	275
Demand deposits from other customers	1,711	87	396	125	1,361	3,680
Savings and time deposits from other depositors	3,608	203	650	60	670	5,191
Refinanced debt	482	12	1,679	42	-	2,215
Other borrowed funds	1,294	-	6	-	238	1,538
Accrued interest payable	42	5	20	1	66	134
Other liabilities and deferred income	127	7	18	-	243	395
Provisions for contingent liabilities and charges	-	-	-	-	283	283
	7,475	319	2,789	236	2,892	13,711
Net Assets/Liabilities	2,098	(69)	(32)	(30)	58	2,025

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.



As at 31 December 1998	(in HRK million)					
	EURO-IN	CHF	USD	Other Currencies	HRK	Total
Assets						
Cash and current accounts with other banks	101	9	26	17	22	175
Balances with Croatian National Bank	202	-	385	-	539	1,126
Placements with other banks	594	248	405	135	26	1,408
Debt securities	-	-	-	-	22	22
Loans and advances to customers	865	35	3,166	384	3,074	7,524
Assets held for resale	113	-	-	-	564	677
Accrued interest and other assets	8	-	27	2	181	218
Due from the Republic of Croatia	1,324	-	-	-	140	1,464
Bonds of the Republic of Croatia	27	-	531	-	2,615	3,173
Long term investments	-	-	-	-	283	283
Tangible and intangible fixed assets	-	-	-	-	471	471
	3,234	292	4,540	538	7,937	16,541
Liabilities						
Deposits from other banks	205	6	31	11	14	267
Demand deposits from other customers	1,499	141	350	119	1,091	3,200
Savings and time deposits from other depositors	3,268	234	447	85	581	4,615
Refinanced debt	362	12	3,741	162	-	4,277
Other borrowed funds	1,224	1	17	-	418	1,660
Accrued interest payable	58	2	-	1	50	111
Other liabilities and deferred income	74	-	4	-	97	175
Provisions for contingent liabilities and charges	-	-	-	-	433	433
	6,690	396	4,590	378	2,684	14,738
Net Assets/Liabilities	(3,456)	(104)	(50)	160	5,253	1,803

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.



As at 31 December 1999	(in HRK million)					
	EURO-IN	CHF	USD	Other Currencies	HRK	Total
Assets						
Cash and current accounts with other banks	152	14	44	23	57	290
Balances with Croatian National Bank	747	-	570	-	976	2,293
Placements with other banks	205	189	835	160	-	1,389
Debt securities	124	-	107	-	40	271
Loans and advances to customers	5,084	66	1,040	41	215	6,446
Assets held for resale	-	-	-	-	617	617
Accrued interest and other assets	148	1	29	-	447	625
Due from the Republic of Croatia	1,327	-	-	-	222	1,549
Bonds of the Republic of Croatia	2,364	-	334	-	26	2,724
Long term investments	24	-	-	-	32	56
Tangible and intangible fixed assets	-	-	-	-	928	928
	10,175	270	2,959	224	3,560	17,188
Liabilities						
Deposits from other banks	219	5	21	9	20	274
Demand deposits from other customers	1,926	97	500	132	1,496	4,151
Savings and time deposits from other depositors	3,940	214	725	85	724	5,688
Refinanced debt	482	12	1,679	42	-	2,215
Other borrowed funds	1,567	-	48	1	1	1,617
Accrued interest payable	38	4	20	2	76	140
Other liabilities and deferred income	132	6	31	1	517	687
Provisions for contingent liabilities and charges	-	-	-	-	291	291
	8,304	338	3,024	272	3,125	15,063
Net Assets/Liabilities	1,871	(68)	(65)	(48)	435	2,125

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.



As at 31 December 1998	EURO-IN	CHF	USD	(in HRK million)		Total
				Other Currencies	HRK	
Assets						
Cash and current accounts with other banks	119	9	26	18	80	252
Balances with Croatian National Bank	223	-	429	7	583	1,242
Placements with other banks	672	248	452	193	75	1,640
Debt securities	-	-	-	-	22	22
Loans and advances to customers	1,151	35	3,178	198	3,368	7,930
Assets held for resale	113	-	-	-	626	739
Accrued interest and other assets	27	-	27	2	420	476
Due from the Republic of Croatia	1,476	-	1	-	144	1,621
Bonds of the Republic of Croatia	27	-	531	-	2,638	3,196
Long term investments	-	-	-	-	40	40
Tangible and intangible fixed assets	-	-	-	-	742	742
	3,808	292	4,644	418	8,738	17,900
Liabilities						
Deposits from other banks	194	6	32	11	18	261
Demand deposits from other customers	1,714	155	484	128	1,203	3,684
Savings and time deposits from other depositors	3,453	263	570	112	706	5,104
Refinanced debt	362	12	3,741	162	-	4,277
Other borrowed funds	1,364	1	17	-	427	1,809
Accrued interest payable	58	1	-	1	52	112
Other liabilities and deferred income	79	-	4	-	238	321
Provisions for contingent liabilities and charges	1	-	-	-	452	453
	7,225	438	4,848	414	3,096	16,021
Net Assets/Liabilities	(3,417)	(146)	(204)	4	5,642	1,879

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.



As at 31 December 1999	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
<i>(in HRK million)</i>						
Assets						
Cash and current accounts with other banks	234	-	-	-	-	234
Balances with Croatian National Bank	1,699	334	39	-	-	2,072
Placements with other banks	983	-	15	121	151	1,270
Debt securities	13	27	231	-	-	271
Loans and advances to customers	658	293	750	2,723	1,711	6,135
Assets held for resale	465	-	83	10	-	558
Accrued interest and other assets	255	-	-	-	-	255
Due from the Republic of Croatia	271	-	101	1,029	-	1,401
Bonds of the Republic of Croatia	3	217	350	580	1,549	2,699
Long term investments	-	-	-	-	323	323
Tangible and intangible fixed assets	-	-	-	-	518	518
	4,581	871	1,569	4,463	4,252	15,736
Liabilities						
Deposits from other banks	275	-	-	-	-	275
Demand deposits from other customers	3,680	-	-	-	-	3,680
Savings and time deposits from other depositors	1,134	1,043	1,504	1,156	354	5,191
Refinanced debt	69	-	97	714	1,335	2,215
Other borrowed funds	318	35	305	773	107	1,538
Accrued interest payable	134	-	-	-	-	134
Other liabilities and deferred income	395	-	-	-	-	395
Provisions for contingent liabilities and charges	-	-	-	-	283	283
	6,005	1,078	1,906	2,643	2,079	13,711
Net liquidity gap	(1,424)	(207)	(337)	1,820	2,173	2,025



As at 31 December 1998	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
(in HRK million)						
Assets						
Cash and current accounts with other banks	175	-	-	-	-	175
Balances with Croatian National Bank	771	355	-	-	-	1,126
Placements with other banks	1,125	47	7	8	221	1,408
Debt securities	-	22	-	-	-	22
Loans and advances to customers	649	208	547	2,959	3,161	7,524
Assets held for resale	-	-	677	-	-	677
Accrued interest and other assets	218	-	-	-	-	218
Due from the Republic of Croatia	250	10	132	975	97	1,464
Bonds of the Republic of Croatia	10	196	236	950	1,781	3,173
Long term investments	-	-	-	-	283	283
Tangible and intangible fixed assets	-	-	-	-	471	471
	3,198	838	1,599	4,892	6,014	16,541
Liabilities						
Deposits from other banks	149	4	1	113	-	267
Demand deposits from other customers	3,200	-	-	-	-	3,200
Savings and time deposits from other depositors	78	560	1,013	1,667	1,297	4,615
Refinanced debt	55	-	57	1,502	2,663	4,277
Other borrowed funds	405	11	-	496	748	1,660
Accrued interest payable	46	40	25	-	-	111
Other liabilities and deferred income	175	-	-	-	-	175
Provisions for contingent liabilities and charges	35	34	39	125	200	433
	4,143	649	1,135	3,903	4,908	14,738
Net liquidity gap	(945)	189	464	989	1,106	1,803



(in HRK million)

As at 31 December 1999	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with other banks	290	-	-	-	-	290
Balances with Croatian National Bank	1,887	366	40	-	-	2,293
Placements with other banks	1,023	33	33	149	151	1,389
Debt securities	13	27	231	-	-	271
Loans and advances to customers	468	327	882	2,938	1,831	6,446
Assets held for resale	523	1	83	10	-	617
Accrued interest and other assets	622	1	2	-	-	625
Due from the Republic of Croatia	289	7	114	1,080	59	1,549
Bonds of the Republic of Croatia	2	218	351	583	1,570	2,724
Long term investments	-	-	-	-	56	56
Tangible and intangible fixed assets	213	-	-	19	696	928
	5,330	980	1,736	4,779	4,363	17,188
Liabilities						
Deposits from other banks	268	6	-	-	-	274
Demand deposits from other customers	4,151	-	-	-	-	4,151
Savings and time deposits from other depositors	1,222	1,147	1,672	1,227	420	5,688
Refinanced debt	69	-	97	714	1,335	2,215
Other borrowed funds	298	39	329	796	155	1,617
Accrued interest payable	139	1	-	-	-	140
Other liabilities and deferred income	687	-	-	-	-	687
Provisions for contingent liabilities and charges	-	-	-	-	291	291
	6,834	1,193	2,098	2,737	2,201	15,063
Net liquidity gap	(1,504)	(213)	(362)	2,042	2,162	2,125

As at 31 December 1998	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
(in HRK million)						
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	8	221	1,640
Debt securities	22	-	-	-	-	22
Loans and advances to customers	657	71	704	3,268	3,230	7,930
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
Long term 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 and deferred income	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



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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 16,548,052 (1998: 16,532,697). The weighted average number of ordinary shares used for diluted earnings per share was 16,548,735 (1998: 16,532,739). The difference from the figure used for basic earnings per share arises from the dilutive effect of the share options.

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Post balance sheet events

On March 17, 2000, The State Agency for Deposit insurance and Bank rehabilitation signed the agreement with Slovenska razvojna družba d.d. in relation to the sale of the Bank's interest in Elan d.d. In line with the agreement dated December 17, 1999, Elan d.d. was transferred to The State Agency for Deposit Insurance and Bank Rehabilitation and was run by the Bank. The agreement on sale of Elan d.d. was made in amount of HRK 55 million. The Bank had exposure to Elan d.d. and its subsidiaries as at 31 December 1999 which was fully provided for.



PRIVREDNA BANKA ZAGREB

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Profit and loss account

	1999 (in EUR million)	1998 (in EUR million)
Interest and similar income	133	116
Interest and similar expense	(68)	(61)
Net interest income	65	55
Fee and commission income	40	42
Fee and commission expense	(6)	(6)
Net fee and commission income	34	36
Net foreign exchange gains	38	21
Other operating income	8	5
Operating income	145	117
Bad and doubtful debts expense (net)	(32)	(28)
Other operating expenses	(84)	(73)
Profit before taxation	29	16
Taxation	-	-
Net profit after taxation	29	16
Net profit for the year	29	16

Profit and loss account

	1999 (in EUR million)	1998 (in EUR million)
Interest and similar income	146	133
Interest and similar expense	(74)	(67)
Net interest income	72	66
Fee and commission income	65	49
Fee and commission expense	(8)	(9)
Net fee and commission income	57	40
Net foreign exchange gains	39	22
Other operating income	10	8
Operating income	178	136
Bad and doubtful debts expense (net)	(42)	(35)
Other operating expenses	(111)	(91)
Profit before taxation	25	10
Taxation	-	-
Net profit after taxation	25	10
Minority interests	1	2
Net profit for the year	26	12



Balance sheet

	1999 (in EUR million)	1998 (in EUR million)
Assets		
Cash and current accounts with other banks	30	24
Balances with Croatian National Bank	270	154
Placements with other banks	165	192
Debt securities	35	3
Loans and advances to customers	799	1,026
Assets held for resale	73	92
Accrued interest and other assets	33	30
Due from the Republic of Croatia	182	200
Bonds of the Republic of Croatia	352	433
Long term investments	42	39
Tangible and intangible fixed assets	67	64
	2,048	2,257
Liabilities		
Deposits from other banks	36	36
Demand deposits from other customers	479	437
Savings and time deposits from other depositors	676	630
Refinanced debt	288	584
Other borrowed funds	200	226
Accrued interest payable	17	15
Other liabilities and deferred income	51	24
Provisions for contingent liabilities and charges	37	59
	1,784	2,011
Shareholders' equity		
Share capital	217	227
Treasury shares	(1)	(1)
Reserves and retained profits	19	4
Net profit for the year	29	16
	264	246
Total liabilities and shareholders' equity	2,048	2,257

Balance sheet

	1999 (in EUR million)	1998 (in EUR million)
Assets		
Cash and current accounts with other banks	38	34
Balances with Croatian National Bank	299	169
Placements with other banks	181	224
Debt securities	35	3
Loans and advances to customers	839	1,082
Assets held for resale	80	101
Accrued interest and other assets	81	65
Due from the Republic of Croatia	202	221
Bonds of the Republic of Croatia	355	436
Long term investments	7	5
Tangible and intangible fixed assets	121	102
	2,238	2,442
Liabilities		
Deposits from other banks	36	36
Demand deposits from other customers	540	503
Savings and time deposits from other depositors	741	696
Refinanced debt	288	583
Other borrowed funds	211	247
Accrued interest payable	18	15
Other liabilities and deferred income	89	43
Provisions for contingent liabilities and charges	38	62
	1,961	2,185
Shareholders' equity		
Share capital	217	227
Treasury shares	(1)	(1)
Reserves and retained profits	23	8
Net profit for the year	26	12
	265	247
Minority interests	12	10
Total liabilities and shareholders' equity	2,238	2,442