

DELTA BANKA A.D., BEOGRAD

**Financial Statements
Years Ended 31 December 2002 and 2001
and Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Delta Banka A.D., Beograd:

We have audited the accompanying balance sheets of Delta Banka A.D., Beograd, (hereinafter: the "Bank") as of 31 December 2002 and 2001, and the related statements of income, changes in equity and cash flows for the years then ended. These financial statements, set out on pages 2 to 22, are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting convention and policies disclosed in Notes 2 and 3 to the financial statements.

Deloitte & Touche
21 March 2003
Belgrade, Republic of Serbia

DELTA BANKA A .D., BEOGRAD

STATEMENTS OF INCOME
Years Ended 31 December 2002 and 2001
(Thousands of dinars)

	Notes	2002	2001
Interest income	3.1, 4a	1,931,079	1,210,289
Interest expense	3.1, 4b	(296,072)	(186,463)
Net interest income		<u>1,635,007</u>	<u>1,023,826</u>
Fee and commission income	3.1, 5a	709,924	460,515
Fee and commission expense	3.1, 5b	(158,441)	(89,494)
Net fee and commission income		<u>551,483</u>	<u>371,021</u>
Dividend income		515	-
Foreign exchange gains, net	3.2	126,236	18,762
Other operating income	6	55,645	43,335
		<u>182,396</u>	<u>62,097</u>
Operating income		2,368,886	1,456,944
Other operating expenses	7	(1,464,426)	(788,830)
Provision for loan losses	3.5, 8	(523,358)	(64,948)
Profit from operations		381,102	603,166
Extraordinary expenses		-	(60,505)
Profit before tax		381,102	542,661
Income tax expense	3.9, 9	(13,768)	-
Net profit for the year		<u><u>367,334</u></u>	<u><u>542,661</u></u>

The accompanying notes form an integral part
of these financial statements.

Approved by:

Draginja Đurić
Director General
2001/1

BALANCE SHEETS
As of 31 December 2002 and 2001
(Thousands of dinars)

	Notes	31 December	
		2002	2001
ASSETS			
Cash and balances with the National Bank	10	4,425,520	3,849,974
Due from, and placements with, other banks	11	8,178,385	5,811,923
Loans and advances to customers, net	12	12,978,382	4,480,621
Securities available for sale, net	13	232,176	182,245
Securities held to maturity	14	145,837	1,423
Property, Equipment and Intangible assets, net	15	1,602,537	969,993
Accrued interest and other assets, net	16	<u>369,362</u>	<u>295,170</u>
 Total assets		 <u><u>27,932,199</u></u>	 <u><u>15,591,349</u></u>
LIABILITIES			
Deposits from other banks	17	1,481,940	334,257
Amounts owed to other depositors	18	22,358,133	11,055,597
Debt securities issued		632	620
Other borrowed funds		-	65,549
Other liabilities, including tax liabilities	19	528,373	1,018,431
Provision for contingent liabilities	20	<u>79,839</u>	<u>947</u>
 Total liabilities		 <u><u>24,448,917</u></u>	 <u><u>12,475,401</u></u>
EQUITY			
Share capital	21	2,011,711	2,011,711
Bank's reserves		561,576	561,576
Retained earnings		<u>909,995</u>	<u>542,661</u>
 Total equity		 <u><u>3,483,282</u></u>	 <u><u>3,115,948</u></u>
 Total liabilities and equity		 <u><u>27,932,199</u></u>	 <u><u>15,591,349</u></u>
 CONTINGENCIES AND COMMITMENTS	 22	 <u><u>4,156,711</u></u>	 <u><u>816,387</u></u>

The accompanying notes form an integral part
of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
 Years Ended 31 December 2002 and 2001
 (Thousands of dinars)

	Share Capital	Bank's Reserves	Retained Earnings	Total
Balance, 1 January 2001	1,636,915	561,314	281,262	2,479,491
Allocation of retained earnings	281,000	262	(281,262)	-
Capital of the acquired bank	93,796	-	-	93,796
Profit for the year	-	-	542,661	542,661
Balance, 31 December 2001	<u>2,011,711</u>	<u>561,576</u>	<u>542,661</u>	<u>3,115,948</u>
Balance, 1 January 2002	2,011,711	561,576	542,661	3,115,948
Profit for the year	-	-	367,334	367,334
Balance, 31 December 2002	<u>2,011,711</u>	<u>561,576</u>	<u>909,995</u>	<u>3,483,282</u>

The accompanying notes form an integral part
of these financial statements.

STATEMENTS OF CASH FLOWS
 Years Ended 31 December 2002 and 2001
 (Thousands of dinars)

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities		
Interest and commission receipts	2,614,034	1,625,522
Interest and commission payments	(412,265)	(261,561)
Other income received	55,645	39,694
Cash payments to employees and suppliers	(1,360,465)	(774,444)
Income taxes paid	<u>(16,900)</u>	<u>(1,506)</u>
<i>Operating profit before changes in operating assets and liabilities</i>	880,049	627,705
Changes in operating assets and liabilities:		
Net increase in loans and advances to banks and customers	(11,008,140)	(2,490,867)
Net increase in other assets	(44,091)	(166,645)
Net increase in deposits from other banks and customers	12,450,219	7,877,146
Net(decrease)/increase in other liabilities	<u>(988,542)</u>	<u>288,026</u>
<i>Net cash from operating activities before extraordinary item</i>	1,289,495	6,135,365
Extraordinary expenses paid	<u>-</u>	<u>(60,505)</u>
<i>Net cash from operating activities</i>	<u>1,289,495</u>	<u>6,074,860</u>
Cash flows from investing activities		
Purchases of property and equipment, net of disposals	(729,078)	(246,053)
Proceeds from sale of property and equipment	4,343	11,084
Net (increase)/decrease in securities	(194,345)	84,477
Dividend receipts	<u>515</u>	<u>-</u>
<i>Net cash used in investing activities</i>	<u>(918,565)</u>	<u>(150,492)</u>
Cash flows from financing activities		
Net (decrease)/increase in borrowed funds and debt securities	<u>(65,537)</u>	<u>65,549</u>
<i>Net cash (used in)/from financing activities</i>	<u>(65,537)</u>	<u>65,549</u>
Effect of exchange rate changes on cash and cash equivalents	<u>126,236</u>	<u>47,593</u>
Net increase in cash and cash equivalents	431,629	6,037,510
Cash and cash equivalents at beginning of year	<u>9,229,095</u>	<u>3,191,585</u>
Cash and cash equivalents at end of year	<u><u>9,660,724</u></u>	<u><u>9,229,095</u></u>
Cash and cash equivalents comprise the following balance sheet amounts:		
	<u>2002</u>	<u>2001</u>
Cash and cash equivalents and balances with the National bank	4,425,520	3,849,974
Due from, and placements with, other banks	<u>5,235,204</u>	<u>5,379,121</u>
	<u><u>9,660,724</u></u>	<u><u>9,229,095</u></u>

The accompanying notes form an integral part
of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

1. BANK'S ESTABLISHMENT AND OPERATING POLICY

Delta Banka A.D., Beograd (hereinafter: the "Bank") is a shareholding company established in 1991 and legally registered in the Federal Republic of Yugoslavia to provide payment transfers, and credit and deposit activities in the country and abroad. Pursuant to Yugoslav law, the Bank is to operate based on principles of liquidity, security of placements and profitability.

On 1 July 2001 the Bank acquired all of the outstanding shares of Tigar banka A.D., Pirot. The shareholders of the acquired bank became the Bank's shareholders thereby increasing the capital of the Bank by Dinar 93,796 thousand. By its decision dated 5 October 2001, the Commercial Court of Belgrade approved this transaction and the Bank's capital increase.

As of 31 December 2002, the Bank's outstanding shares were owned by three shareholders: Hemslade Trading Ltd., Cyprus, Delta M, Beograd and Tigar, Pirot who hold 92.27 percent, 4.28 percent and 3.45 percent of the Bank's outstanding shares, respectively.

As of 31 December 2002, the Bank was comprised of a Head office domiciled in Belgrade and thirty-two branch offices located throughout the country.

The Bank's total number of employees as of 31 December 2002 and 2001 was 1,027 and 429, respectively.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTIONS

2.1. Accounting Convention

The Bank maintains its accounting records and prepares its statutory financial statements in accordance with the Yugoslav accounting standards and regulations, and the provisions of the Law on Banks and other Financial Institutions, and with the National Bank of Yugoslavia Regulations.

The Yugoslav accounting standards and regulations that were applied in the preparation of statutory financial statements depart from International Accounting Standards as specified below:

- The revaluation of non-monetary and certain monetary assets and components of equity was performed by applying the officially published revaluation coefficients that are based on changes in the retail price index. This accounting policy is not in accordance with the requirements of IAS 29, "Financial Reporting in Hyperinflationary Economies."
- The Bank's taxation policy is based on Yugoslav Tax Law and differs from IAS 12, "Income Taxes," in that the Yugoslav tax regulations do not recognize temporary differences. Accordingly, no deferred tax assets nor liabilities have been recognized.
- Due to undeveloped financial and capital markets in the FR of Yugoslavia, the fair value of financial assets and liabilities is not determined in accordance with IAS 32 and IAS 39, "Financial Instruments."
- The impairment of assets is not determined in accordance with IAS 36, "Impairment of Assets."

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002 and 2001

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTIONS (continued)

2.1. Accounting Convention (continued)

In FY 2001, the Bank for the first time presented its financial statements in the format required by International Accounting Standards (IAS), and made the requisite adjustments to its statutory financial statements based on the application of certain of IAS, as the primary accounting basis. Consequently, these financial statements differ from the Bank's statutory financial statements and are presented in conformity with the accounting policies disclosed in Note 3 to the financial statements.

The Bank's functional currency is the Yugoslav Dinar.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense Recognition

Interest income and interest expense, including penalty interest, and other operating income and expenses are accounted for on an accrual basis. Investment income and fee and commission receivables are recognized when earned.

3.2. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at the official Interbank Market rates prevailing at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into dinars by applying the official Interbank Market rates prevailing on the balance sheet date.

Net foreign exchange gains or losses arising upon the translation of transactions, and assets and liabilities denominated in foreign currencies are credited or charged to the Statement of income.

Contingent liabilities denominated in foreign currencies are translated into dinars at the official rates prevailing at the year end.

3.3. Property and Equipment

Property and equipment is stated at cost. Property and equipment acquired before 31 December 2000 was revalued in accordance with Yugoslav accounting regulations. Subsequent revaluations made in accordance with Yugoslav accounting regulations have been reversed for the purpose of presentation of these financial statements.

Depreciation and amortization is calculated on a straight-line basis at the following prescribed annual rates in order to write off the assets over their estimated useful lives:

Buildings	1.3%
Computers and related equipment	20%
Furniture and equipment	7% - 25%
Intangible assets	20%

Depreciation on property and equipment commences on the date upon which such assets are placed into service.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002 and 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Loans

Loans are stated in the balance sheet at the amount of principle outstanding, less any provision for losses.

3.5. Provisions for Loan Losses

The Bank recognizes a full provision against amounts receivable that are more than sixty days overdue, if as per management's assessment, these amounts are deemed not recoverable. The unpaid interest for the current period arising on these receivables is reversed. A provision for loan losses and a provision for contingent liabilities are assessed in accordance with the National Bank of Yugoslavia Regulations. Pursuant to these regulations the credit exposure is to be graded into categories A, B, C, D and E, which are primarily based upon: the number of days the loan payments are overdue, the assessment of the borrower's financial position, and on the quality of any collateral secured. The provision is calculated at 2 percent, 5 percent, 25 percent, 50 percent and 100 percent for categories A, B, C, D and E, respectively.

The provision for loan losses is recognized as an expense, charged against income and is deducted from the carrying amount of loans, interest and fees, securities and other receivables, respectively. The provision for contingent liabilities is charged against income and is shown in the balance sheet as a liability.

3.6. Securities Held To Maturity

Securities held to maturity consist of Federal Government bonds.

Securities are initially recognized at cost and subsequently are re-measured at their amortized cost using the effective interest rate method.

3.7. Securities Available for Sale

Securities available for sale consist of commercial papers and treasury bills of domestic companies, and shares and other equity interests in other banks and enterprises.

Securities available for sale are valued at the lower of cost or market value where a securities market exists.

3.8. Cash and Cash Equivalents

For purposes of the cash flow statement, cash and cash equivalents include cash and nostro accounts which represent the unrestricted deposits and placements with other banks, having one-month maturities, in addition to the unrestricted account balances held with the National Bank of Yugoslavia ("NBY").

3.9. Taxes and Contributions

Income Tax Expense

Income tax expense represents an amount calculated and payable under the Yugoslav Tax Law. Income tax authorities determine the estimated monthly advance of income tax payable.

The income tax rate of 20 percent is payable on the taxable base reported in the tax returns. The taxable base reported in the tax returns includes the profit shown in the statutory statement of income, as adjusted for permanent differences that are defined by the Yugoslav Tax Law. The Yugoslav Tax Law does not recognize temporary differences and accordingly, no deferred tax assets nor liabilities are recognized.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Taxes and Contributions (continued)

Income Tax Expense (continued)

The Yugoslav Tax Law does not allow any tax losses of the current period to be used to recover taxes paid within a specific carryback period. However, any current year losses may be used to decrease taxable profits for future periods- but for a period of no longer than five years.

Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes, employer contributions on salaries, and various other taxes and contributions paid pursuant to republic and municipal regulations. These taxes and contributions are included under "Other operating expenses."

3.10. Fair Value

It is the policy of the Bank to disclose the fair value information of those assets and liabilities for which published market information is readily available, and whose fair value is materially different from their recorded amounts. Sufficient market experience, stability and liquidity do not exist for the purchase and sale of loans and other financial assets or liabilities, for which published market information is not readily nor reliably available. Accordingly, as disclosed in Note 2.1 to the financial statements, fair value cannot readily be determined as required by IAS. Management believes that the reported recoverable amounts are the most valid and useful reporting values under the current market conditions.

4. INTEREST INCOME AND EXPENSE

a) Interest Income

	Thousands of dinars	
	2002	2001
Cash and short-term funds	306,162	207,526
Securities	162,843	164,474
Loans and advances	1,462,074	838,289
	<u>1,931,079</u>	<u>1,210,289</u>

The amount of Dinar 162,843 thousand is mainly comprised of the interest income earned on treasury bills issued by the National Bank of Yugoslavia. These securities bear an interest rate based on the NBY's discount rate and have maturities of up to one year.

b) Interest Expense

	Thousands of dinars	
	2002	2001
Deposits of banks and customers	292,571	178,073
Obligatory reserve	-	3,086
Other borrowed funds	3,501	5,301
Other	-	3
	<u>296,072</u>	<u>186,463</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

5. FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and Commission Income

	Thousands of dinars	
	2002	2001
Fee and commission income from:		
Bank services	604,078	361,716
Issued guarantees and other commitments	66,149	18,125
Credit cards	21,034	-
Other	18,663	80,674
	<u>709,924</u>	<u>460,515</u>

b) Fee and Commission Expense

	Thousands of dinars	
	2002	2001
Fee and commission expense arisen from:		
Domestic payment transfers	114,746	71,594
International payment transfers	29,091	5,755
Brokerage services	10,595	12,023
Other	4,009	122
	<u>158,441</u>	<u>89,494</u>

6. OTHER OPERATING INCOME

	Thousands of dinars	
	2002	2001
Rental income	4,584	884
Capital gains	232	155
Refunded bank charges	38,938	35,851
Write-off of liabilities	1,066	68
Gain on the sale of securities	750	-
Joint project income	1,122	20
Reimbursed expenses	1,049	84
Recovery of amounts previously written off	-	3,641
Other	7,904	2,632
	<u>55,645</u>	<u>43,335</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

7. OTHER OPERATING EXPENSES

	Thousands of dinars	
	2002	2001
Salaries, net	244,173	91,432
Social costs	102,392	41,924
Other personnel expenses	1,546	2,245
Material and services	120,512	14,787
Rent	74,007	31,746
Insurance premiums	5,831	5,751
Sponsorships and donations	94,588	42,291
Advertising, marketing and entertainment	120,050	76,336
Administrative	80,220	76,436
Indirect taxes and contributions	435,875	295,117
Depreciation and amortization (Note 15)	92,191	52,642
Capital losses	2,623	759
Special taxes for earthquakes and defense	-	13,826
Telecommunications	62,638	27,955
Maintenance of property and equipment	20,063	7,450
Other	7,717	8,133
	<u>1,464,426</u>	<u>788,830</u>

It is a policy of the Bank to make donations and to sponsor certain national projects and events. A portion of these donations and sponsorships is tax deductible.

8. PROVISION FOR LOAN LOSSES

Charge/(Release) for the Year

	Thousands of dinars	
	2002	2001
Loans to customers (Note 12)	385,362	63,187
Securities available for sale (Note 13)	54,866	2,183
Accrued interest and other assets (Note 16)	4,238	(1,369)
Contingent liabilities (Note 20)	78,892	947
	<u>523,358</u>	<u>64,948</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

9. INCOME TAX EXPENSE

	Thousands of dinars	
	2002	2001
Statutory profit	114,056	-
Less:		
- Capital gains	(232)	(86)
Add back:		
- Capital losses	232	86
- 10% of statutory reserve for potential losses	-	5,201
- Penalty interest paid on delayed tax payments	34	22
- Expenses in excess of amounts recognized by tax regulations	23,594	12,987
Taxable base	137,684	18,210
Allowance for eligible capital expenditure	-	(21,608)
Tax on profit (20%)	27,537	-
Allowance for eligible capital expenditure	(13,769)	-
Income tax expense	13,768	-

10. CASH AND BALANCES WITH THE NATIONAL BANK

	Thousands of dinars	
	2002	2001
Foreign currency cash on hand	244,109	395,643
Cash on hand and other cash in dinars	439,056	20,862
Giro account	777,820	937,734
Checks in the course of collection:		
- in foreign currencies	44,506	35,483
- in dinars	177,955	10
Balances with the National Bank:		
- Obligatory reserve:		
- in dinars	211,129	1,764,178
- in foreign currencies	1,232,202	-
- Foreign currency public savings' deposits	1,298,461	446,498
- Foreign currency deposits with respect to international payments license	-	205,209
- Other foreign currency deposits	282	44,357
	4,425,520	3,849,974

The obligatory reserves in dinars and in foreign currencies represent deposits required by the National Bank of Yugoslavia, which are calculated based on the average amount of cash held by the Bank and its deposit-related liabilities.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

11. DUE FROM, AND PLACEMENTS WITH, OTHER BANKS

	Thousands of dinars 31 December	
	2002	2001
Foreign currency accounts with foreign banks	1,150,025	456,374
Time deposits with foreign banks, up to 30 days	4,085,179	4,922,747
Other placements with banks up to one year:		
- in dinars	2,355,845	86,499
- in foreign currencies	569,134	339,536
Foreign currency placements over one year	18,202	6,767
	<u>8,178,385</u>	<u>5,811,923</u>

Time deposits in foreign currencies are mainly deposited with several European banks and have maturities of up to 30 days, earning annual interest rates ranging from 0.45 percent to 3.75 percent depending on a currency.

As of 31 December 2002, placements with other banks for up to one year in foreign currencies include the amount of Dinar 430,606 thousand which represents a short-term deposit held with a domestic bank, maturing in November 2003 at an annual interest rate of 6 percent, as well as the amount of Dinar 138,528 thousand representing funds placed with foreign banks to serve as collateral for issued payment guarantees and letters of credit.

12. LOANS AND ADVANCES TO CUSTOMERS, net

	Thousands of dinars 31 December	
	2002	2001
Up to one year:		
- in dinars	11,709,702	3,996,984
- in foreign currencies	435,500	329,945
Over one year:		
- in dinars	1,132,061	247,059
- in foreign currencies	129,706	-
	13,406,969	4,573,988
Less: provision for impairment	(428,587)	(93,367)
	<u>12,978,382</u>	<u>4,480,621</u>

Dinar loans for up to one year are granted to enterprises for the purposes of financing commercial activities in the areas of manufacturing, agriculture and food production, import financing, export trade, and other activities, which are issued with six-month to one year maturity periods.

Loans in dinars over one year include consumer loans granted to citizens in the amount of Dinar 786,609 thousand (FY 2001 – Dinar 187,558 thousand) at annual interest rates ranging from 16.3 percent to 21.3 percent. Consumer loans included in the loans in dinars up to one year were issued at interest rates ranging from 1.6 percent to 2.5 percent monthly.

The loan portfolio includes loans to shareholders (holding 7.73 percent of the Bank's shares) in the amount of Dinar 67,440 thousand. Also, the loan portfolio includes loans to other related parties in the amount of Dinar 693,517 thousand. Some of these loans were provided under specific credit arrangements.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

12. LOANS AND ADVANCES TO CUSTOMERS, net (continued)

The movement in the provision for impairment is as follows:

	Thousands of dinars 31 December	
	2002	2001
Balance, beginning of the year	93,367	54,323
Effects of the acquisition of Tigar banka, Pirot	-	66
Charge for the year (Note 8)	385,362	63,187
Write-off	(49,611)	(25,253)
Foreign exchange fluctuations, net	(531)	1,044
Balance, end of the year	<u>428,587</u>	<u>93,367</u>

The economic sector risk concentrations within the customer loan portfolio were as follows:

	Thousands of dinars 31 December	
	2002	2001
Manufacturing	5,115,488	1,233,533
Agriculture and food processing	3,457,744	1,519,832
Trade	1,878,959	709,024
Telecommunications	-	508,546
Private individuals	1,526,103	241,859
Other	1,000,088	267,827
	<u>12,978,382</u>	<u>4,480,621</u>

The geographic sector risk concentrations within the customer loan portfolio were as follows:

	Thousands of dinars 31 December	
	2002	2001
Republic of Serbia-proper	8,062,265	2,589,663
Province of Vojvodina	4,916,117	1,890,958
	<u>12,978,382</u>	<u>4,480,621</u>

13. SECURITIES AVAILABLE FOR SALE, net

	Thousands of dinars 31 December	
	2002	2001
Treasury bills of domestic banks in dinars	1,000	1,000
Commercial papers of domestic companies in dinars	74,996	5,000
Investments in shares in dinars of:		
- Other banks and financial institutions	19,895	16,768
- Insurance company	52,047	52,047
- Enterprises	130,806	135,132
Shares denominated in foreign currencies		
- Shares in S.W.I.F.T.	84	81
	<u>278,828</u>	<u>210,028</u>
Less: Provision for impairment	(46,652)	(27,783)
	<u>232,176</u>	<u>182,245</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

13. SECURITIES AVAILABLE FOR SALE, net (continued)

The movement in the provision for impairment is as follows:

	Thousands of dinars 31 December	
	2002	2001
Balance, beginning of the year	27,783	26,073
Charge for the year (Note 8)	54,866	2,183
Write-off	(35,997)	(473)
Balance, end of the year	<u>46,652</u>	<u>27,783</u>

14. SECURITIES HELD TO MATURITY

	Thousands of dinars 31 December	
	2002	2001
Up to one year:		
- Bonds in foreign currencies issued by the federal government	70,190	1,423
Over one year:		
- Bonds in foreign currencies issued by the federal government	<u>75,647</u>	<u>-</u>
	<u>145,837</u>	<u>1,423</u>

15. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS, net

	Thousands of dinars 2002				
	Buildings	Equipment	Construction in Progress	Intangible Assets	Total
Cost or Valuation					
Balance, 31 December 2001	539,949	239,281	260,691	57,167	1,097,088
Additions	4,950	940	719,861	3,327	729,078
Transfers	337,744	201,927	(600,949)	61,278	-
Disposals	<u>-</u>	<u>(5,433)</u>	<u>-</u>	<u>(4,184)</u>	<u>(9,617)</u>
Balance, 31 December 2002	<u>882,643</u>	<u>436,715</u>	<u>379,603</u>	<u>117,588</u>	<u>1,816,549</u>
Accumulated Depreciation					
Balance, 31 December 2001	16,805	95,311	-	14,979	127,095
Charge for the year (Note 7)	10,333	65,762	-	16,096	92,191
Disposals	<u>-</u>	<u>(3,336)</u>	<u>-</u>	<u>(1,938)</u>	<u>(5,274)</u>
Balance, 31 December 2002	<u>27,138</u>	<u>157,737</u>	<u>-</u>	<u>29,137</u>	<u>214,012</u>
Net Book Value					
31 December 2002	<u>855,505</u>	<u>278,978</u>	<u>379,603</u>	<u>88,451</u>	<u>1,602,537</u>
31 December 2001	<u>523,144</u>	<u>143,970</u>	<u>260,691</u>	<u>42,188</u>	<u>969,993</u>

Construction in progress is primarily related to the construction of the Bank's office building into which it will move its offices from its currently rented business premises.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

16. ACCRUED INTEREST AND OTHER ASSETS, net

	Thousands of dinars 31 December	
	2002	2001
In dinars:		
- Interest receivable	112,382	66,476
- Accrued interest	9,484	27,279
- Fee and commission receivable	5,815	7,927
- Prepayments	6,990	3,509
- Amounts receivable from the National Bank of Yugoslavia for the purchase of foreign currencies	-	183,925
- Receivables from employees	259	1,838
- Receivables arising from discounted bills of exchange	202,027	-
- Receivables from payment cards	17,724	-
- Prepaid taxes and contributions	4,244	1,112
- Other receivables	3,297	2,324
In foreign currencies:		
- Interest receivable	2,077	2,268
- Accrued interest	6,034	8,165
- Fee and commission receivable	417	684
- Receivables from employees	4,280	4,158
- Receivables from payment cards	12,648	-
- Other receivables	91	253
	<u>387,769</u>	<u>309,918</u>
Less: Provision for impairment	<u>(18,407)</u>	<u>(14,748)</u>
	<u>369,362</u>	<u>295,170</u>

Accrued interest and other assets include receivables from the shareholders in the amount of Dinar 564 thousand (holding 7.73 percent of the Bank's shares), as well as the receivables from other related parties in the amount of Dinar 8,188 thousand.

The movement in the provision for impairment is as follows:

	Thousands of dinars 31 December	
	2002	2001
Balance, beginning of the year	14,748	16,841
Effects of the acquisition of Tigar banka, Pirot	-	113
Charge/(release) for the year (Note 8)	4,238	(1,369)
Write-off	(512)	(984)
Foreign exchange fluctuations, net	(67)	147
Balance, end of the year	<u>18,407</u>	<u>14,748</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

17. DEPOSITS FROM OTHER BANKS

	Thousands of dinars 31 December	
	2002	2001
Demand deposits		
- in dinars:		
- domestic banks	1,427,904	288,108
- in foreign currencies:		
- domestic banks	5	10,940
- foreign banks	3,231	30,209
Short-term deposits in dinars	50,800	5,000
	<u>1,481,940</u>	<u>334,257</u>

18. AMOUNTS OWED TO OTHER DEPOSITORS

	Thousands of dinars 31 December	
	2002	2001
Demand deposits in dinars:		
- Enterprises	6,240,480	3,451,084
- Governmental institutions	3,594,573	2,113,025
- Foreign entities	2,106	2,212
- Public savings' accounts	964,370	62,081
Demand deposits in foreign currencies:		
- Enterprises	5,308,901	3,445,802
- Governmental institutions	313,565	247,896
- Foreign entities	76,834	-
- Public savings' accounts	1,595,803	722,310
Short-term deposits in dinars:		
- Enterprises	1,479,271	399,991
- Governmental institutions	1,143,375	193,939
- Foreign entities	-	-
- Public savings' accounts	40,750	5,243
Short-term deposits in foreign currencies:		
- Enterprises	471,426	3,660
- Foreign entities	2,296	-
- Public savings' accounts	1,021,772	356,542
Long-term deposits in dinars:		
- Enterprises	30,074	16,114
- Governmental institutions	1,227	1,551
- Public savings' accounts	1,654	-
Long-term deposits in foreign currencies:		
- Public savings' accounts	69,656	34,147
	<u>22,358,133</u>	<u>11,055,597</u>

Demand deposits in dinars consist of the giro account balances of enterprises and governmental institutions, as well as other entities whose payments are recorded by the National Bank of Yugoslavia Service for Payment Transfers and Settlements ("ZOP").

Demand deposits in dinars, with the exception of the current and giro accounts of citizens, are non-interest-bearing ones.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

19. OTHER LIABILITIES, INCLUDING TAX LIABILITIES

	Thousands of dinars 31 December	
	2002	2001
Dinar liabilities:		
- Interest payables	237	1,882
- Accrued interest and fees	88,708	50,147
- Trade payables	18,276	6,506
- Advances received	15,159	5,532
- Liabilities for indirect taxes and contributions	27,339	19,006
- Liabilities for the paid loan installments of citizens	33,795	102
- Liabilities to the NBY	21,038	-
- Other liabilities	10,474	6,693
Foreign currency liabilities:		
- Accrued interest and fees	6,645	1,131
- Unallocated foreign currency proceeds	1,236	49,152
- Advances received	148	169
- Liabilities to the NBY	-	15,974
- Liabilities to customers	301,798	862,123
- Other foreign currency liabilities	3,520	14
	<u>528,373</u>	<u>1,018,431</u>

Liabilities to customers in the amount of Dinar 301,798 thousand (FY 2001 – Dinar 862,123 thousand) represent a liability to customers for the purchase of foreign currencies intended for a subsequent payment to foreign partners.

20. PROVISION FOR CONTINGENT LIABILITIES

	Thousands of dinars 31 December	
	2002	2001
Balance, beginning of the year	947	-
Charged for the year (Note 8)	<u>78,892</u>	<u>947</u>
Balance, end of the year	<u>79,839</u>	<u>947</u>

21. SHARE CAPITAL

In accordance with its articles of incorporation, the Bank's capital consists of share capital and its reserves.

The share capital of the Bank was created from the initial investment of its shareholders, as well as from its revaluation reserves until 31 December 2000. The shareholders are entitled to take part in the management of the Bank, as well as in the distribution of profit.

As of 31 December 2002, the majority of the Bank's shares is owned by three shareholders: Hemslade Trading Ltd., Cyprus, Delta M, Beograd, and Tigar, Pirot who hold 92.27 percent, 4.28 percent and 3.45 percent of the Bank's outstanding shares, respectively.

The Bank is required to maintain a minimum capital adequacy ratio of 8 percent, as established by the National Bank of Yugoslavia, based on the Basle Accord. As of 31 December 2002, the Bank's capital adequacy ratio was 22.32 percent (in FY 2001 – 24.81 percent).

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

22. CONTINGENCIES AND COMMITMENTS

	Thousands of dinars	
	31 December	
	2002	2001
Guarantees:		
- in dinars	919,138	144,081
- in foreign currencies	1,236,330	456,144
Performance bonds:		
- in dinars	875,837	-
- in foreign currencies	345,262	-
Letters of credit in foreign currencies	440,212	118,017
Acceptances	104,657	98,145
Undrawn credit facilities	235,275	-
	<u>4,156,711</u>	<u>816,387</u>

Included among contingencies and commitments are the amounts of Dinar 343,685 thousand and Dinar 94,839 thousand corresponding to payment guarantees, performance bonds and letters of credit issued to shareholders owning 100 percent of the Bank's shares and to related parties.

There were no forward foreign exchange commitments as of 31 December 2002.

23. COMPLIANCE WITH LEGAL REQUIREMENTS

The Bank is required to maintain certain minimum or maximum ratios with respect to its activities and composition of risk-weighted assets in compliance with the local banking regulations

As of 31 December 2002, the Bank's time deposits with two foreign banks represented 38.5 percent and 40 percent, respectively, of the Bank's core capital and thus, were higher than the allowed maximum level of 25 percent.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

24. CURRENCY RISK

The following table summarizes the net foreign currency position of the Bank's monetary assets and liabilities:

	Thousands of dinars					
	EUR	USD	Other Currencies	Total Foreign Currencies	Local Currency	Total
As of 31 December 2002						
ASSETS						
Cash and balances with the National bank	2,522,433	66,611	230,516	2,819,560	1,605,960	4,425,520
Securities, net	145,921	-	-	145,921	232,092	378,013
Due from, and placements with, other banks	3,881,203	1,368,507	572,830	5,822,540	2,355,845	8,178,385
Loans to customers, net	477,437	87,769	-	565,206	12,413,176	12,978,382
Other assets, net	25,127	232	98	25,457	343,905	369,362
Property, Equipment and Intangible assets, net	-	-	-	-	1,602,537	1,602,537
Total assets	7,052,121	1,523,119	803,444	9,378,684	18,553,515	27,932,199
LIABILITIES						
Deposits	6,962,333	1,177,633	723,523	8,863,489	14,976,584	23,840,073
Other liabilities and debt securities issued	210,082	101,704	1,573	313,359	215,646	529,005
Provision for contingent liabilities	-	-	-	-	79,839	79,839
Total liabilities	7,172,415	1,279,337	725,096	9,176,848	15,272,069	24,448,917
Net balance sheet position	(120,294)	243,782	78,348	201,836	3,281,446	3,483,282
As of 31 December 2001						
Total assets	5,296,092	677,632	1,208,987	7,182,711	8,459,705	15,642,416
Total liabilities	4,149,346	777,682	853,040	5,780,068	6,746,400	12,526,468
Net balance sheet position	1,146,746	(100,050)	355,947	1,402,643	1,713,305	3,115,948

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

25. INTEREST RATE RISK

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities components at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	Thousands of dinars					
	Up to 30 Days	From 1 to 6 Months	From 6 to 12 Months	From 1 to 2 Years	Non-Interest Bearing	Total
As of 31 December 2002						
ASSETS						
Cash and balances with the National bank	1,666,074	-	1,298,461	-	1,460,985	4,425,520
Securities, net	73,496	-	-	-	304,517	378,013
Due from, and placements with, other banks	6,424,672	27,589	865,226	39,543	821,355	8,178,385
Loans to customers, net	4,757,908	5,267,554	1,723,080	1,229,840	-	12,978,382
Other assets, net	188,199	74,092	41,448	17,265	48,358	369,362
Property, Equipment and Intangible assets, net	-	-	-	-	1,602,537	1,602,537
Total assets	<u>13,110,349</u>	<u>5,369,235</u>	<u>3,928,215</u>	<u>1,286,648</u>	<u>4,237,752</u>	<u>27,932,199</u>
LIABILITIES						
Deposits	1,900,478	3,453,286	284,978	102,611	18,098,720	23,840,073
Other liabilities and debt securities issued	95,590	-	-	-	433,415	529,005
Provision for contingent liabilities	-	-	-	-	79,839	79,839
Total liabilities	<u>1,996,068</u>	<u>3,453,286</u>	<u>284,978</u>	<u>102,611</u>	<u>18,611,974</u>	<u>24,448,917</u>
Interest sensitivity gap	<u>11,114,281</u>	<u>1,915,949</u>	<u>3,643,237</u>	<u>1,184,037</u>	<u>(14,374,222)</u>	<u>3,483,282</u>
As of 31 December 2001						
Total assets	11,437,998	548,527	876,636	-	2,779,255	15,642,416
Total liabilities	<u>1,033,457</u>	<u>59,211</u>	<u>55,344</u>	-	<u>11,378,456</u>	<u>12,526,468</u>
Interest sensitivity gap	<u>10,404,541</u>	<u>489,316</u>	<u>821,292</u>	-	<u>(8,599,201)</u>	<u>3,115,948</u>

The majority of the Bank's interest-bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or its long-term assets and liabilities with repricing opportunities occurring within thirty days, or its long-term assets and corresponding liabilities where repricing is performed simultaneously.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

26. LIQUIDITY RISK

The table below summarizes the Bank's assets and liabilities components as categorized into their relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date.

	Thousands of dinars				
	Less than One Month	From 1 to 3 Months	From 3 to 12 Months	Over One Year	Total
As of 31 December 2002					
ASSETS					
Cash and balances with the					
National bank	3,861,834	161,567	402,119	-	4,425,520
Securities, net	73,496	-	70,190	234,327	378,013
Due from, and placements					
with, other banks	7,246,027	27,589	865,226	39,543	8,178,385
Loans to customers, net	4,757,908	2,289,416	4,701,217	1,229,841	12,978,382
Other assets, net	172,404	105,174	91,784	-	369,362
Property, Equipment and					
Intangible assets, net	-	-	-	1,602,537	1,602,537
Total assets	<u>16,111,669</u>	<u>2,583,746</u>	<u>6,130,536</u>	<u>3,106,248</u>	<u>27,932,199</u>
LIABILITIES					
Deposits	20,564,423	2,609,510	563,529	102,611	23,840,073
Other liabilities and					
debt securities issued	430,040	17,881	80,464	620	529,005
Provision for					
contingent liabilities	-	-	-	79,839	79,839
Total liabilities	<u>20,994,463</u>	<u>2,627,391</u>	<u>643,993</u>	<u>183,070</u>	<u>24,448,917</u>
Net liquidity gap	<u>(4,882,794)</u>	<u>(43,645)</u>	<u>5,486,543</u>	<u>2,923,178</u>	<u>3,483,282</u>
As of 31 December 2001					
Total assets	10,024,443	2,156,680	2,059,212	1,402,081	15,642,416
Total liabilities	<u>10,877,792</u>	<u>560,129</u>	<u>983,091</u>	<u>105,456</u>	<u>12,526,468</u>
Net liquidity gap	<u>(853,349)</u>	<u>1,596,551</u>	<u>1,076,121</u>	<u>1,296,625</u>	<u>3,115,948</u>

Items with indefinite maturities are included in the "over-one-year category".

27. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies at 31 December 2002 and 2001, were as follows:

	In dinars	
	31 December 2002	2001
USD	58.9848	67.6702
EUR	61.5152	59.7055
CHF	42.3047	40.3159