

**DELTA BANKA A.D., BEOGRAD**

**Financial Statements  
December 31, 2003  
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 sheet of Delta banka A.D., Beograd, (the "Bank") as of December 31, 2003 and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2003 and the results of its operations, changes in equity and cash flows for the year then ended, in accordance with the accounting regulations prevailing in the Republic of Serbia and the basis for presentation of the financial statements and accounting policies disclosed in Notes 2 and 3 to the financial statements.

Without qualifying our opinion we draw attention to Note 24 to the financial statements. The Bank is required to maintain certain minimum or maximum ratios with respect to its activities and composition of risk assets in compliance with the Law on Banks and Other Financial Institutions, as well as with the National Bank of Serbia Regulations. As of December 31, 2003 the ratio of exposures to a single counterparty amounted to 25.2 percent and exceeded the prescribed maximum allowable level of 25 percent. These exposures pertain to placements to a particular domestic enterprise.

*Deloitte & Touche*

Deloitte & Touche revizija d.o.o.  
Belgrade  
March 6, 2004

**STATEMENT OF INCOME**  
**Year Ended December 31, 2003**  
(Thousands of Dinars)

	<u>Notes</u>	<u>2003</u>	<u>2002</u>
Interest income	3.1,4a	2,851,800	1,908,379
Interest expense	3.1,4b	(474,341)	(296,072)
<b>Net interest income</b>		<u>2,377,459</u>	<u>1,612,307</u>
Fee and commission income	3.1,5a	2,247,561	702,146
Fee and commission expense	3.1,5b	(185,190)	(158,441)
<b>Net fee and commission income</b>		<u>2,062,371</u>	<u>543,705</u>
Net (losses)/gains on the sale of securities		(4,981)	750
Net foreign exchange gains	3.2	312,534	102,380
Dividends and other income from equity investments	3.7	17,467	1,637
Other operating income	6	2,485,384	474,978
Losses on impairment and provisions	3.5,8a	(2,842,773)	(895,792)
Other operating expenses	7	(2,984,426)	(1,505,419)
Gains on the valuation of financial assets and liabilities	3.4	272,797	-
<b>INCOME FROM ORDINARY OPERATIONS</b>		1,695,832	334,546
Extraordinary and non-recurring expenses		-	(220,490)
<b>INCOME BEFORE TAX</b>		1,695,832	114,056
Income taxes	3.10,9	-	(13,768)
<b>NET INCOME</b>		<u>1,695,832</u>	<u>100,288</u>

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

Signed on behalf of Delta banka A.D., Beograd:

Draginja Đurić  
General Director



**BALANCE SHEET**  
**As of December 31, 2003**  
**(Thousands of Dinars)**

	<u>Notes</u>	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>			
Cash and cash equivalents	3.8,10	3,342,500	2,833,951
Deposits with the Central bank and securities available-for-refinancing with the Central bank	11	9,723,379	2,742,074
Interest, fees and commissions receivable	12	159,884	102,532
Placements with other banks	13	8,807,859	7,076,233
Loans and advances to customers	3.4,14	17,455,822	13,469,058
Securities held-to-maturity	3.6,15	593,619	229,320
Equity investments and securities available-for-sale	3.7,16	465,420	269,166
Intangible assets	3.3,17	-	114,325
Property and equipment	3.3,17	2,843,163	2,010,293
Other assets and accruals	18	<u>546,178</u>	<u>66,714</u>
<b>Total Assets</b>		<u><u>43,937,824</u></u>	<u><u>28,913,666</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Amounts owed to other banks	19	3,633,815	1,559,979
Amounts owed to customers	20	33,083,149	22,583,129
Interest, fees and commissions payable		2,715	237
Debt securities issued		1,379	632
Other operating liabilities	21	335,661	131,537
Provisions	23	170,784	439,323
Other liabilities and accruals	22	<u>71,162</u>	<u>95,352</u>
<b>Total Liabilities</b>		37,298,665	24,810,189
<b>Shareholders' Equity</b>	24		
Share capital		3,553,069	2,011,711
Reserves		1,338,825	561,576
Revaluation reserves		-	1,429,902
Retained earnings		<u>1,747,265</u>	<u>100,288</u>
<b>Total Shareholders' Equity</b>		<u>6,639,159</u>	<u>4,103,477</u>
<b>Total Liabilities and Shareholders' Equity</b>		<u><u>43,937,824</u></u>	<u><u>28,913,666</u></u>
<b>OFF-BALANCE-SHEET ITEMS</b>	25	<u>8,647,323</u>	<u>4,739,136</u>

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**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**Year Ended December 31, 2003**  
**(Thousands of Dinars)**

	<u>2003</u>	<u>2002</u>
<b>SHARE CAPITAL</b>		
Balance, beginning of year	2,011,711	2,011,711
Distribution of revaluation reserves	1,147,111	-
Merger of Poljoprivredno investiciona banka A.D., Novi Sad	394,247	-
Balance, end of year	<u>3,553,069</u>	<u>2,011,711</u>
<b>RESERVES</b>		
Balance, beginning of year	561,576	561,576
Distribution of revaluation reserves	282,791	-
Merger of Poljoprivredno investiciona banka A.D., Novi Sad	166,940	-
Transfer of provision for the balance sheet items classified into Category "A"	227,230	-
Transfer of previous year's retained earnings	100,288	-
Balance, end of year	<u>1,338,825</u>	<u>561,576</u>
<b>REVALUATION RESERVES</b>		
Balance, beginning of year	1,429,902	932,133
Revaluation of fixed assets, net	-	195,977
Revaluation of equity investments	-	29,279
Revaluation of placements	-	22,700
Unrealized foreign exchange gains	8,700,874	1,793,366
Revaluation of the depreciation charge	-	5,467
Unrealized foreign exchange losses	(8,898,948)	(1,769,510)
Conversion to International Financial Reporting Standards:		
- Transfer to share capital	(1,147,111)	
- Transfer to reserves	(282,791)	
- Transfer of unrealized foreign exchange gains and losses to Statement of Income	198,074	-
Creditor's loss charged to expenses	-	220,490
Balance, end of year	<u>-</u>	<u>1,429,902</u>
<b>RETAINED EARNINGS</b>		
Balance, beginning of year	100,288	-
Transfer of retained earnings of Poljoprivredno investiciona banka A.D., Novi Sad as of the merger date	51,433	-
Transfer to Reserves	(100,288)	-
Net income for the year	1,695,832	100,288
Balance, end of year	<u>1,747,265</u>	<u>100,288</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>6,639,159</u>	<u>4,103,477</u>

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

**STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2003**  
**(Thousands of Dinars)**

	<b>2003</b>	<b>2002</b>
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>1. Cash receipts from operating activities</b>	<b>5,584,018</b>	<b>2,789,518</b>
Interest receipts	2,705,895	1,857,548
Fee and commission receipts	2,262,748	745,391
Receipts from other operating income	614,506	184,942
Receipts from dividends and equity investments	869	1,637
<b>2. Cash payments from operating activities</b>	<b>(3,686,283)</b>	<b>(1,816,807)</b>
Interest payments	(399,614)	(206,550)
Fee and commission payments	(213,030)	(174,652)
Payments to, and on behalf of employees	(1,002,664)	(403,846)
Taxes, contributions and other duties paid	(646,383)	(396,611)
Payments from other operating expenses	(1,424,592)	(635,148)
<i>Net operating cash flows before changes in placements and deposits</i>	<b>1,897,735</b>	<b>972,711</b>
<b>3. Net decreases in placements and increases in deposits</b>	<b>11,839,160</b>	<b>12,360,636</b>
Decrease in deposits with the NBS and short-term securities available-for-refinancing with the NBS	-	342,076
Increase in placements with customers	842,661	-
Increase in deposits from banks and other financial institutions	1,570,232	1,156,525
Increase in deposits from customers	9,426,267	10,862,035
<b>4. Net increases in placements and decreases in deposits</b>	<b>12,629,122</b>	<b>11,721,533</b>
Increase in loans and placements to banks and other financial institutions	6,900,561	3,471,878
Increase in placements to customers	5,375,915	8,037,534
Increase in securities and other placements available-for-sale	-	212,121
Increase in available-for-sale securities and short-term securities held-to-maturity	352,646	-
<i>Net cash from/(used in) operating activities before income tax</i>	<b>1,107,773</b>	<b>1,611,814</b>
Income taxes paid	(21,109)	(1,748)
Dividends paid	-	(68)
<i>Net cash from/(used in) operating activities</i>	<b>1,086,664</b>	<b>1,609,998</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>1. Cash inflows from investing activities</b>	<b>32,994</b>	<b>981</b>
Proceeds from the sale of long-term securities	-	-
Proceeds from the sale of equity securities	-	515
Proceeds from the disposal of fixed assets and intangible assets	32,994	466
<b>2. Cash outflows from investing activities</b>	<b>(985,993)</b>	<b>(762,647)</b>
Purchases of fixed assets	(985,993)	(762,647)
<i>Net cash from/(used in) investing activities</i>	<b>(952,999)</b>	<b>(761,666)</b>
<b>B. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>1. Cash inflows from financing activities</b>	<b>444,290</b>	<b>-</b>
Proceeds from the issuance of shares	-	-
Proceeds from long-term borrowings	5,895	-
Net proceeds from short-term borrowings	437,670	-
Net proceeds from securities	725	-
<b>2. Cash outflows from financing activities</b>	<b>-</b>	<b>65,549</b>
Repayments of short-term borrowings	-	65,549
<i>Net cash from/(used in) financing activities</i>	<b>444,290</b>	<b>65,549</b>
<b>TOTAL CASH INFLOWS</b>	<b>17,900,462</b>	<b>15,151,135</b>
<b>TOTAL CASH OUTFLOWS</b>	<b>(17,322,507)</b>	<b>(14,368,352)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>577,955</b>	<b>782,783</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>2,611,010</b>	<b>1,810,613</b>
Foreign exchange gains	320,540	86,403
Foreign exchange losses	(167,005)	(68,789)
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>3,342,500</b>	<b>2,611,010</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2003

**1. BANK'S ESTABLISHMENT AND OPERATING POLICY****1.1. Bank's Establishment**

In accordance with the Law on Banks and Other Financial Institutions, on September 19, 1991, the National Bank of Yugoslavia issued an operating license to the entity, M.B. Delta banka D.D., Beograd. On October 16, 1991, the Bank was registered with the Commercial Court of Belgrade and subsequently commenced its operations. On July 10, 1995 the Bank's Assembly adopted the Founding Statutes of Delta banka, a shareholding entity, thereby approving its Articles of Incorporation as set forth under the provisions of the Law on Banks and Other Financial Institutions. Based on its founding statutes, Delta banka A.D., Beograd was formed as a legal entity operating in accordance with the expressed rights and obligations granted to it pursuant to the applicable banking legislation and the Bank's founding acts.

In accordance with the terms set forth in the Bank's Statutes, on September 27, 2003 the Bank's Assembly approved the consummation of a merger of the Bank with the entity, Poljoprivredno investiciona banka A.D., Novi Sad (the "Acquisitee"). Pursuant to the merger agreement, all of the rights and obligations of the Acquisitee as of September 29, 2003 are to be transferred to the Bank. Under this merger agreement, the Acquisitee rescinded its legal status and Delta banka a.d., Belgrade became its legal successor. As of December 24, 2003 the Trade Court of Belgrade enacted Decision numbered Fi. 13405/03 thereby approving the Bank's merger with Poljoprivredno investiciona banka A.D., Novi Sad and duly registering its proportionate increase of share capital in the amount of Dinar 394,247 thousand.

**1.2. Operating Policy**

The Bank is registered in the Republic of Serbia to provide a wide range of banking services related to payment transfers, credit and deposit activities in the country and abroad, and in accordance with the Republic of Serbia Law on Banks and other financial institutions, is to operate based on principles of liquidity, security of placements and profitability.

As of December 31, 2003 the Bank was comprised of a Head office domiciled in Belgrade, at the address of Milentija Popovića 7b, of thirty-one branch offices located throughout the Republic of Serbia, of ninety-five sub-branches and sixteen external teller locations. The Bank had 1,872 employees as of December 31, 2003 (December 31, 2002 – 1,027). The Bank's legal tax identification number is 100001159.

**2. BASIS FOR PRESENTATION OF THE FINANCIAL STATEMENTS**

During the years ended December 31, 2003 and 2002, the Bank maintained its books of account and prepared financial statements in accordance with the accounting regulations prevailing in the Republic of Serbia, and with the banking regulations of the National Bank of Serbia ("NBS"). Pursuant to the Law on Accounting and Auditing (See Official Gazette of FRY no. 71 of December 27, 2002), banks and other financial institutions are required to maintain their books of account and prepare financial statements in accordance with International Financial Reporting Standards (IFRS). As of December 31, 2003 the Bank performed certain reclassifications in its books of account so as to comply with the newly-enacted statutory chart of accounts for banks and other financial institutions (See Official Gazette of the Republic of Serbia no. 133 of December 31, 2003) and made adjustments to its accounts in order to comply with the standards and interpretations approved by the International Accounting Standards Board, which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously known as International Accounting Standards (IAS).

These financial statements are presented in the format prescribed by the "Guidelines on the Prescribed Form and Content of the Financial Statements of Banks and Other Financial Institutions" (See Official Gazette of the Republic of Serbia no. 7 of January 23, 2004).



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

**2. BASIS FOR PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)**

The accounting policies adopted in the preparation and presentation of these financial statements differ from the IFRS requirements in the following, materially significant respect:

- The Bank's management estimates general allowances for impairment of financial instruments in accordance with the relevant NBS Regulations (Note 3.5). Such a policy may result in significant departures from the amounts which would be determined, if the allowances for impairment of financial instruments were estimated based on discounted expected future cash flows using the original effective interest rate, as is required by IAS 39, "Financial Instruments: Recognition and Measurement."
- Loans and other financial instruments originated by the Bank and financial instruments held to maturity are stated in the balance sheet at the principal amounts outstanding from customers, less any allowances for impairment. This policy departs from IAS 39, "Financial Instruments: Recognition and Measurement," which requires the valuation of these types of financial instruments at their amortized cost, using the effective interest rate method.
- In the Republic of Serbia, 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, fair value cannot readily be determined in the absence of an active market, as required by IAS 32, "Financial Instruments: Presentation and Disclosure," and IAS 39, "Financial Instruments: Recognition and Measurement,"
- Given that the NBS requires the filing of stand-alone financial statements, the Bank did not consolidate its financial statements in accordance with IAS 27, "Consolidated Financial Statements and Accounting of Investments in Related Parties".
- Property and equipment as of December 31, 2003 is stated at revalued cost less accumulated depreciation. A revaluation of property and equipment was performed up to December 31, 2002 using the officially published coefficients derived from changes in the consumer price index (Note 3.3). The revalued net book value as of December 31, 2003, in accordance with IFRS 1, "First-Time Adoption of International Financial Reporting Standards," is recognized as a deemed cost. The Bank's management believes that there are no impairment losses on property and equipment representing a difference between the carrying values and the recoverable amounts, as defined under IAS 36, "Impairment of Assets." The depreciation of property and equipment for 2003 is provided for using rates prescribed by the statutory regulations (Note 3.3), while IAS 16 "Property, Plant and Equipment" requires depreciation to be calculated as the systematic allocation of the depreciable amount of an assets over its useful live. During 2004 the Bank's management will engage an independent appraiser to perform an appraisal of the Bank's property and equipment, as well as an estimation of its remaining useful lives.
- In accordance with the "Guidelines on the Prescribed Form and Content of the Financial Statements of Banks and Other Financial Institutions," for purposes of the presentation of its cash flow statement, under cash and cash equivalents, the Bank included cash on hand, and balances on current accounts held with the NBS and other banks. Under IAS 7, "Cash Flow Statements," cash and cash equivalents comprise cash on hand, cheques, demand deposits, and short-term, highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2003

**2. BASIS FOR PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)**

- Comparative information is prepared in accordance with accounting regulations applicable in the Republic of Serbia for the year ended December 31, 2002, and is reclassified to the current year presentation. In accordance with IFRS 1, "First-Time Adoption of International Financial Reporting Standards," retrospective accounting should be applied, wherein comparative information for at least the preceding year should be restated, in order to ensure compliance with the requirements of IAS 1, "Presentation of Financial Statements." If comparative information under IFRS is not presented, then the financial statements for the current year cannot be described as having been "prepared under IFRS."

Due to the possible materially significant effects of the above-described matters, these financial statements for the year ended December 31, 2003 cannot be described as prepared in accordance with International Financial Reporting Standards. The Bank's balance sheet as of December 31, 2003 represents an opening balance sheet, which will be subject to future adjustments, so as to enable for the first-time, the full adoption of IFRS in the year ended December 31, 2005.

In the preparation of these financial statements, the Bank applied accounting policies described in Note 3, which are based on the accounting, banking and tax regulations prevailing in the Republic of Serbia. Comparative information for the year ended December 31, 2002 is presented in accordance with the regulations in effect as of December 31, 2002.

The Bank's financial statements are stated in thousands of dinars. The dinar represents the official currency in the Republic of Serbia.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.1. Income and Expense Recognition**

Interest income and interest expense, including penalty interest and operating income and expenses are accounted for on an accrual basis. Fees and commissions are accrued when earned or due.

Loan origination fees are credited to income when the associated service is performed, in accordance with local tax regulations. According to IAS 18, "Revenue" and IAS 39, "Financial Instruments: Recognition and Measurement," these fees are considered an integral part of generating an ongoing involvement with the resultant financial instrument and thus should be deferred and recognized as an adjustment to the effective interest yield.

**3.2. Foreign Exchange Translation**

Transactions denominated in foreign currencies are translated into dinars at official exchange rates, as determined on the Interbank Market, at the date of each transaction.

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

Foreign exchange gains or losses arising upon the translation of transactions, and the 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 by applying the official exchange rates, as determined on the Interbank Market, prevailing at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.3. Property and Equipment**

Property and equipment as of December 31, 2003 are stated at their revalued cost less accumulated depreciation. The revaluation of property and equipment was performed up to December 31, 2002, in accordance with accounting regulations prevailing at that time, by applying the officially published coefficients derived from the changes in the consumer price index, to the cost and accumulated depreciation. The revalued net book value of property and equipment is considered as their deemed cost in the balance sheet as of 31 December 2003.

Depreciation and amortization are provided for on a straight-line basis to the cost or revalued cost of property, equipment and intangible assets in order to write them off over their useful life. Depreciation and amortization are calculated using the following prescribed rates:

Buildings	1.3%
Computers and IT equipment	20.0%
Furniture and other equipment	7.0 – 12.5%
Intangible assets	20.0%

Depreciation of property, equipment and intangible assets commences at the end of the month during which an asset is placed into use.

**3.4. Loans and Advances Originated by the Bank**

Loans originated by the Bank are stated at the amount of principal outstanding, less allowances for impairment, which are based on an evaluation of specifically-identified exposures and also are to cover losses that are inherent in the Bank's loan portfolio. The Bank's management applies the methodology prescribed by the NBS in its evaluation of the aforementioned risks, as well as the Bank's internal policy disclosed in Note 3.5 related to an allowance for receivables which are more than 60-days overdue.

Loans, which are disbursed in dinars and index-linked to the dinar-EUR exchange rate, are revalued in accordance with the particular covenants of the individual loan agreements. The effects of such revaluation are included under gains on the valuation of financial assets and liabilities.

**3.5. Allowances for Impairment and Provisions for Contingent Liabilities**

The Bank recognizes an allowance for the entire amount of outstanding balances of receivables which are more than 60-days overdue, if, as per management's assessment, these amounts are deemed as not recoverable.

Allowances for impairment and the provision for potential losses on contingent liabilities are determined in accordance with the requirements of the applicable NBS regulation. Loans, other placements, guarantees and other on and off-balance-sheet exposures are classified into categories A, B, V, G and D, in accordance with the evaluation of their collectibility and associated risks, which depends upon the number of days the payments are in arrears, the financial standing of the counterparties, and the quality of the form of security obtained on the exposures. An estimate of the allowances for impairment and the provision for contingent liabilities is calculated by applying the percentages of 2, 5, 25, 50 and 100 onto the amounts of the particular exposures classified into categories A, B, V, G and D, respectively. The Bank applied the same methodology in its financial statements as of December 31, 2002.

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2003

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Allowances for Impairment and Provisions for Contingent Liabilities (Continued)**

The amount of the estimated provision on placements relating to the balance sheet components classified under category "A" is presented as a specific provision under capital, which is to be formed from the provisions made in the previous year. The amount of the estimated allowance for potential losses arising on off-balance-sheet items, has been presented in the balance sheet as a general provision within liabilities. In the previous year, the amount of the estimated allowance for potential losses was presented as a liability.

The provision for contingent liabilities arising on guarantees and other off-balance-sheet items is shown in the balance sheet as a liability.

A write-off of uncollected receivables is performed pursuant to a court order, or on the basis of a resolution of the Shareholders' Assembly or the Bank's General Director.

**3.6. Securities Held-to-Maturity**

Securities held-to-maturity are comprised of restricted foreign currency public savings bonds.

Securities held-to-maturity are stated at cost, less allowances for impairment.

**3.7. Securities Available-for-Sale**

Securities available-for-sale comprise investments in the equity of subsidiaries and in other legal entities, as well as government notes issued by the Republic of Serbia Treasury and treasury bills for which an active market and reliable market values do not presently exist. Available-for-sale securities are stated at cost less allowances for impairment.

**3.8. Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents include cash, cheques in a course of collection and balances on current accounts with the NBS and other banks.

**3.9. Revaluation Reserves**

In accordance with accounting regulations prevailing in 2002, the Bank revalued the following items through the application of the officially published revaluation coefficients: property and equipment and depreciation (Note 3.3), certain loans in dinars (for which their revaluation was negotiated pursuant to the Accounting Law) and investments. The effects of revaluation are credited or charged to the revaluation reserves. Assets and liabilities denominated in foreign currencies are translated into dinars by applying the official rates of exchange prevailing at the balance sheet date. Foreign exchange gains or losses, arising upon such translation, are credited or charged to the revaluation reserves.

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2003

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.10. Income Taxes****Current Income Taxes**

Current income taxes are calculated by applying the statutory rate of 14 percent to the amount of income before taxation, after adjustments for the effects of permanent differences. Subsequently, any tax credits are deducted in order to arrive at the income tax liability amount.

The Republic of Serbia tax regulations do 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 carried forward and used to reduce or eliminate taxes to be paid in future periods for a duration of no longer than ten years.

**Deferred Income Taxes**

Deferred income tax is provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The currently-enacted tax rates or the substantively enacted rates at the balance sheet date are used to determine the deferred income tax. Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and the tax effects of income tax losses and credits are available for carry-forward, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the tax loss/credits of the carryforwards may be utilized.

**3.11. Employment Benefits**

The Bank does not have defined benefit plans or share-based remuneration options as of December 31, 2003. The management believes that the present value of the future obligations to employees with respect to retirement benefits and anniversary awards are not materially significant as of December 31, 2003.

**3.12. Business Combinations**

In 2003 the Bank acquired and subsequently merged with Poljoprivredno investiciona banka A.D., Novi Sad (the "Acquisitee"). The shareholders of the Acquisitee have been given 88,945 new issue ordinary shares of the Bank having a nominal value of Dinar 4,430 per share, which equals the value of their canceled shares previously held in the acquired bank. The acquisition has been accounted for under the purchase method of accounting for business combinations. Due to the lack of a representative market in the country of the Bank's primary operations, the management was unable to assess the fair values of both the newly-issued shares and the identifiable assets and liabilities of the Acquisitee. However, the management believes that the anticipated fair value of the acquired, identifiable assets and liabilities does not significantly differ from their carrying amounts nor from the anticipated fair value of the newly-issued shares. Therefore, the management has recognized such assets and liabilities at their carrying amounts prior to the acquisition, which on a net basis amounted to Dinar 725,547 thousand, and no goodwill as a result of the merger transaction has been recognized.

The revenues and expenses of the Acquisitee, until the date of acquisition, are not included in the Bank's Statement of Income for the year-ended 2003. As of the date of acquisition, net income of the Acquisitee for the period from January 1 through September 28, 2003 in the amount of Dinar 51,433 thousand, has been credited to the retained earnings of the Bank.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**4. INTEREST INCOME AND EXPENSE**

**a) Interest Income**

	<b>Thousands of Dinars</b>	
	<b>Year Ended December 31,</b>	
	<b>2003</b>	<b>2002</b>
Deposits with the central bank	155,267	149,814
Placements with other banks	205,247	156,348
Loans and advances to customers	2,393,446	1,439,374
Securities	97,840	162,843
	<u>2,851,800</u>	<u>1,908,379</u>

**b) Interest Expense**

	<b>Thousands of Dinars</b>	
	<b>Year Ended December 31,</b>	
	<b>2003</b>	<b>2002</b>
Amounts owed to other banks	31,861	13,101
Amounts owed to customers	442,031	282,971
Relations with the central bank	449	-
	<u>474,341</u>	<u>296,072</u>

**5. FEE AND COMMISSION INCOME AND EXPENSE**

**a) Fee and Commission Income**

	<b>Thousands of Dinars</b>	
	<b>Year Ended December 31,</b>	
	<b>2003</b>	<b>2002</b>
Fee and commission income from domestic payments transfers	1,102,034	-
Fee and commission income from other banking services	925,909	617,334
Fees on issued guarantees and other contingent liabilities	153,729	66,149
Other fee and commission income	65,889	18,663
	<u>2,247,561</u>	<u>702,146</u>

**b) Fee and Commission Expense**

	<b>Thousands of Dinars</b>	
	<b>Year Ended December 31,</b>	
	<b>2003</b>	<b>2002</b>
Fee and commission expense arising from domestic payment transfers	107,280	114,746
Fee and commission expense arising from international payment transfers	17,270	29,091
Fee and commission for NBS	58,359	3,467
Other fee and commission expense	2,281	11,137
	<u>185,190</u>	<u>158,441</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**6. OTHER OPERATING INCOME**

	<b>Thousands of Dinars</b>	
	<b>Year Ended December 31,</b>	
	<b>2003</b>	<b>2002</b>
Release of allowances for impairment (Note 8b)	2,448,209	251,759
Release of provisions (Note 23):		
- balance sheet items	-	34,773
- off-balance-sheet items	-	126,894
Gains on the disposal of property and equipment	760	232
Write-off of liabilities	1,441	1,066
Rents	3,231	4,584
Other	31,743	55,670
	<u>2,485,384</u>	<u>474,978</u>

**7. OTHER OPERATING EXPENSES**

	<b>Thousands of Dinars</b>	
	<b>Year Ended December 31,</b>	
	<b>2003</b>	<b>2002</b>
Materials and energy	145,916	62,717
Services	653,819	429,141
General and administrative expenses	229,033	86,051
Losses on the sale of fixed assets	19,937	-
Losses on the sale and write-offs of fixed assets and intangible assets	14,189	2,623
Net salaries	601,292	244,173
Social security costs	254,669	102,392
Other personnel costs	3,023	1,546
Depreciation and amortization	179,362	92,191
Indirect taxes and contributions	808,422	435,875
Write-off of uncollectible receivables	-	40,993
Damages	59,783	-
Other	14,981	7,717
	<u>2,984,426</u>	<u>1,505,419</u>

**8. LOSSES ON IMPAIRMENT AND PROVISIONS**

**a. Charge for the Year**

	<b>Thousands of Dinars</b>	
	<b>Year Ended December 31,</b>	
	<b>2003</b>	<b>2002</b>
Provisions charged during the year:		
- for loans to banks and customers	2,638,336	286,937
- for interest and fees	32,927	-
- for other assets	2,589	59,879
	<u>2,673,852</u>	<u>346,816</u>
Provision for potential losses (Note 23)	168,921	548,976
	<u>2,842,773</u>	<u>895,792</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**8. LOSSES ON IMPAIRMENT AND PROVISIONS (Continued)**

**b. Movements in the Balance of Allowances for Impairment**

	<b>Year Ended December 31, 2003</b>				<b>Total</b>
	<b>Placements with Other Banks and Customers (Notes 13 and 14)</b>	<b>Interest, Fees and Commission Receivable (Note 12)</b>	<b>Securities (Notes 15 and 16)</b>	<b>Other Assets (Note 18)</b>	
Balance, beginning of year	91,674	9,672	49,235	2	150,583
Additions arising on the merger	12,148	7			12,155
Charged during the year (Note 8a)	2,638,336	32,927	-	2,589	2,673,852
Foreign exchange movements	507	8	-	35	550
Release of allowances for impairment (Note 6)	(2,426,006)	(22,051)	-	(152)	(2,448,209)
Write-off	(24,933)	(824)	(49,493)	-	(75,250)
General provision (Note 23)	244,672	4,085	-	-	248,757
Other	-	-	1,293	-	1,293
Balance, end of year	<u>536,398</u>	<u>23,824</u>	<u>1,035</u>	<u>2,474</u>	<u>563,731</u>

**9. INCOME TAX EXPENSE**

**Thousands of Dinars**  
**Year Ended December 31,**  
**2003**

Profit before tax	<u>1,695,832</u>
Income tax calculated at the statutory rate of 14%	237,417
Tax effects of non-deductible expenses	13,036
Tax credits arising on capital expenditure	125,226
Unrecognized deferred tax assets arising on unused tax credit	(125,226)
Deduction for employment	<u>(500,443)</u>
Income taxes in these financial statements	<u>-</u>

As of December 31, 2003 the Bank did not recognize deferred tax assets with respect to unused tax credits which may be carried forward to future fiscal periods (not exceeding a total of years), due to uncertainty over whether the tax credit would be approved by the local tax authorities.



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**10. CASH AND CASH EQUIVALENTS**

	<b>Thousands of Dinars</b>	
	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
Cash on hand:		
- in dinars	327,910	439,056
- in foreign currencies	940,235	244,109
Giro accounts	113,692	778,301
Cheques in the course of collection:		
- in dinars	344,656	177,955
- in foreign currencies	43,833	44,505
Foreign currency accounts with foreign banks	<u>1,572,174</u>	<u>1,150,025</u>
	<u>3,342,500</u>	<u>2,833,951</u>

Foreign currency accounts with foreign banks as of December 31, 2003 include balances held with Banca Monte Dei Paschi di Siena (Dinar 273,654 thousand), Banca San Paolo, Torino (Dinar 208,480 thousand), Barclays Bank, Nicosia (Dinar 168,763 thousand), Dresdner Bank AG Frankfurt (Dinar 143,886 thousand) and American Express Bank, New York (Dinar 118,827 thousand).

**11. DEPOSITS WITH THE CENTRAL BANK AND SECURITIES AVAILABLE-FOR-REFINANCING WITH THE CENTRAL BANK**

	<b>Thousands of Dinars</b>	
	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
Obligatory reserves:		
- in dinars	3,448,996	211,129
- in foreign currencies	2,533,693	1,232,202
Other obligatory deposits with the NBS	49,544	282
Foreign currency public savings	<u>3,691,146</u>	<u>1,298,461</u>
	<u>9,723,379</u>	<u>2,742,074</u>

The obligatory reserves in dinars and foreign currencies represent the minimum deposits set aside in accordance with the NBS Decision on the Obligatory Reserves of Banks to be Held with the NBS. This deposit may be used for liquidity purposes, and the deposit earns interest at an annual rate of 3.15% on balances held in dinars (representing the average rates at year-end December 31, 2003).

The obligatory reserve in foreign currencies represents a deposit required by the NBS and is calculated on the basis of the average amount of deposit-related liabilities in foreign currencies in the one-month period preceding the previous month. As of December 31, 2003 the Bank was in compliance with the aforementioned requirement. During 2003 the average interest rate on the obligatory reserve account amounted to 0.22 percent for USD, 0.46 percent for EUR and 0.01 percent for CHF, while on the other currencies, the National Bank of Serbia do not calculate interest.

Foreign currency public savings are deposited in accordance with the National Bank of Serbia requirements introduced on July 1, 2001. As per these requirements, banks are obligated to maintain a reserve deposit with the NBS at an amount equivalent to 50 percent of the balance of public savings in foreign currencies, as effective at the end of the previous month. These deposits are decreased by the foreign currency amount placed for the contractual purposes, as well as for the uncollected liabilities on foreign currency pensions. The Bank might use these deposits for the purpose of payments of public savings as per citizens' request. This deposit earns interest at the prevailing market annual rates applicable to deposited foreign currencies.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**12. INTEREST, FEES AND COMMISSIONS RECEIVABLE**

	<b>Thousands of Dinars</b>	
	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
Accrued interest:		
- in dinars	151,516	103,897
- in foreign currencies	<u>7,061</u>	<u>2,077</u>
	158,577	105,974
Fee and commission receivable:		
- in dinars	25,131	6,227
- in foreign currencies	<u>-</u>	<u>3</u>
	25,131	6,230
Less: Allowance for impairment of interest and fees	(19,738)	(9,672)
Less: Allowance for impairment of loan losses	<u>(4,086)</u>	<u>-</u>
	<u>(23,824)</u>	<u>(9,672)</u>
	<u>159,884</u>	<u>102,532</u>

**13. PLACEMENTS WITH OTHER BANKS**

	<b>Thousands of Dinars</b>	
	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
Short-term loans to domestic banks and financial institutions in dinars	2,465,915	2,403,718
Long-term loans to foreign banks	46,111	18,202
Time deposits with domestic banks in foreign currencies	478,190	430,606
Time deposits with foreign banks	5,616,954	4,085,179
Cash cover accounts with foreign banks	197,572	138,528
Other financial placements in dinars	<u>8,657</u>	<u>-</u>
	8,813,399	7,076,233
Less: Allowance for impairment	<u>(5,540)</u>	<u>-</u>
	<u>8,807,859</u>	<u>7,076,233</u>

Time deposits with foreign banks as of December 31, 2003 in the amount of Dinar 5,616,954 thousand (FY 2002: Dinar 4,085,179 thousand) are mainly deposited with Dresdner Bank AG, Frankfurt am Main, Cyprus Popular Bank, Nicosia, Barclays Bank Plc International Banking Unit, Nicosia, Raiffeisen Bank, Vienna and Banca Antoniana Popolare, and all have maturities of up to 7 days, earning annual interest rates ranging from 1.9 percent to 2.2 percent.

Short-term loans in dinars are granted to domestic banks for periods of from 1 month to 1 year, at interest rates ranging from 0.5 percent monthly to 9 percent, annually.

As of December 31, 2003 short-term placements in foreign currencies in the amount of Dinar 478,190 thousand represent deposit held with a domestic bank with one-year maturity and earning annual interest rate of 6 percent.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**14. LOANS AND ADVANCES TO CUSTOMERS**

	<b>Thousands of Dinars</b>	
	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
Up to one year:		
- in dinars	12,366,576	11,389,411
- in foreign currencies	1,076,457	435,500
Current maturities:		
- in dinars	547,441	271,937
Long-term loans:		
- in dinars	3,210,987	1,132,059
- in foreign currencies	207,850	129,707
Receivables from customers in dinars arising on acceptances	570,669	202,027
Other placements in foreign currencies	6,700	91
	<u>17,986,680</u>	<u>13,560,732</u>
Less: Allowance for impairment	(291,727)	(91,674)
Less: General provision for loan losses	<u>(239,131)</u>	<u>-</u>
	<u><u>17,455,822</u></u>	<u><u>13,469,058</u></u>

Short-term loans are granted to enterprises for the purposes of import financing, export trade and other activities, and have been extended at six-month to one year maturity periods.

As of December 31, 2003 long-term loans include loans granted to citizens in the amount of Dinar 2,126,458 thousand (FY 2002: Dinar 786,609 thousand) to finance purchases of consumer goods and automobiles. These loans are issued with loan repayment periods of from 1 year to 9 years, at interest rates ranging from 1.25 percent monthly to 7 percent annually. Residential loans are granted for periods of from 10 to 20 years, at annual interest rates ranging from 1 percent to 6 percent. Short-term loans to citizens mainly relate to consumer loans with one-year maturities, extended at monthly interest rates ranging from 1.6 percent to 2 percent.

As of December 31, 2003 receivables arising on acceptances of enterprises and government institutions have 21-day to 6-month maturities, at monthly and annual interest rates of 1.5 percent and 12 percent, respectively.

Loans up to one year in dinars and foreign currencies are extended with loan repayment periods ranging from one month to one year, and are issued at monthly interest rates ranging from 0.50 percent to 1.8 percent.

Loans over one year in dinars and foreign currencies are granted at monthly interest rates ranging from 0.5 percent to 1 percent.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**14. LOANS AND ADVANCES TO CUSTOMERS (Continued)**

**b. Loan Concentration**

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

	<b>Thousands of Dinars</b>	
	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
Industry	6,745,142	5,308,890
Agriculture and food processing	2,341,057	3,588,471
Trade	2,513,325	1,949,997
Private individuals	2,701,910	1,583,801
Telecommunications	1,939,000	-
Other	1,215,388	1,037,899
	<u>17,455,822</u>	<u>13,469,058</u>

**15. SECURITIES HELD-TO-MATURITY**

	<b>Thousands of Dinars</b>	
	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
Up to one year:		
- Deposited foreign currency savings bonds	406,145	70,190
- Commercial papers of enterprises	-	83,483
Over one year:		
- Deposited foreign currency savings bonds	187,474	75,647
	<u>593,619</u>	<u>229,320</u>

**16. EQUITY INVESTMENTS AND SECURITIES AVAILABLE-FOR-SALE**

	<b>Thousands of Dinars</b>	
	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
Equity investment in related enterprises in dinars	266,526	87,047
Equity investment in other banks and other financial institutions in dinars	25,918	26,288
Investments in shares of enterprises and other legal entities:		
- in dinars	33	203,947
- in foreign currencies	93	84
	<u>292,570</u>	<u>317,366</u>
Treasury bills in dinars	1,035	1,035
Government notes issued by the Republic of Serbia Treasury	172,850	-
	<u>173,885</u>	<u>1,035</u>
Less: Allowance for impairment	<u>(1,035)</u>	<u>(49,235)</u>
	<u>465,420</u>	<u>269,166</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**16. EQUITY INVESTMENTS AND SECURITIES AVAILABLE-FOR-SALE (Continued)**

As of December 31, 2003 the Bank's shareholdings in related parties are as follows:

<u>Related Party</u>	<u>Equity Investments</u>	<u>Share in %</u>
Delta lizing (leasing), Beograd	6,529	100.00
Interservis, Novi Sad	174,069	52.32
Delta invest, Beograd	587	50.00
Delta osiguranje (insurance), Beograd	82,615	36.28
Delta broker, Beograd	2,651	34.00
Delta agrar, Kruševac	75	15.00
	<u>266,526</u>	

**17. FIXED ASSETS AND INTANGIBLE ASSETS**

**Thousands of Dinars**  
**December 31, 2003**

	<u>Land and Buildings</u>	<u>Equipment and Other Assets</u>	<u>Construction in Progress</u>	<u>Intangible Assets</u>	<u>Total</u>
<b>Cost or Valuation</b>					
Balance, beginning of year	1,156,491	571,398	523,087	151,287	2,402,263
Additions	75,735	1,584	890,831	-	968,150
Transfers	865,839	491,090	(1,361,896)	4,967	-
Effects of merger with PIB banka	-	757	-	390	1,147
Disposals	(57,214)	(58,260)	-	(30,587)	(146,061)
Transfer of leasehold improvements to other assets	-	126,057	-	(126,057)	-
Balance, end of year	<u>2,040,851</u>	<u>1,132,626</u>	<u>52,022</u>	<u>-</u>	<u>3,225,499</u>
<b>Accumulated Depreciation</b>					
Balance, beginning of year	35,316	205,367	-	36,962	277,645
Effects of merger with PIB banka	-	562	-	293	855
Charge for the year	15,131	162,268	-	1,963	179,362
Disposals	(4,768)	(51,883)	-	(18,875)	(75,526)
Transfer of leasehold improvements to other assets	-	20,343	-	(20,343)	-
Balance, end of year	<u>45,679</u>	<u>336,657</u>	<u>-</u>	<u>-</u>	<u>382,336</u>
<b>Net Book Value</b>					
December 31, 2003	<u>1,995,172</u>	<u>795,969</u>	<u>52,022</u>	<u>-</u>	<u>2,843,163</u>
December 31, 2002	<u>1,121,175</u>	<u>366,031</u>	<u>523,087</u>	<u>114,325</u>	<u>2,124,618</u>

At December 31, 2003 the net book value of buildings assigned as collateral amounted to Dinar 398,926 thousand.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**18. OTHER ASSETS AND ACCRUALS**

	<b>Thousands of Dinars</b>	
	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
Accrued interest:		
- in dinars	15,546	9,484
- in foreign currencies	11,657	6,034
Advances in dinars	1,544	315
Prepaid taxes and contributions	11,808	4,244
Receivables from employees	5,308	4,539
Receivables arising on cash paid from Automatic Teller Machines	10,846	1,249
Amounts receivable from the National Bank of Serbia for the purchase of foreign currencies	170,782	-
Receivables from the users of Maestro Payment Card arising on postponed payments	59,217	-
Other assets	1,825	1,789
Receivables from payment cards:		
- in dinars	114,828	17,724
- in foreign currencies	25,566	12,649
Other prepayments in dinars	6,281	6,990
Other receivables:		
- in dinars	112,264	1,699
- in foreign currencies	1,180	-
	<u>548,652</u>	<u>66,716</u>
Less: Allowance for impairment	<u>(2,474)</u>	<u>(2)</u>
	<u>546,178</u>	<u>66,714</u>

**19. AMOUNTS OWED TO OTHER BANKS**

	<b>Thousands of Dinars</b>	
	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
Demand deposits		
- in dinars	2,833,479	1,473,726
- in foreign currencies	58,082	10,503
Short-term deposits		
- in dinars	237,358	75,750
Short-term loans		
- in dinars	500,000	-
Other financial liabilities	4,896	-
	<u>3,633,815</u>	<u>1,559,979</u>

Demand deposits in dinars and foreign currencies are non-interest-bearing ones.

Short-term loans correspond to loans extended for liquidity purposes from a domestic bank, having a repayment period of 10 days and an effective monthly interest rate of 1.3 percent.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**20. AMOUNTS OWED TO CUSTOMERS**

	<b>Thousands of Dinars</b>	
	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<u>          </u>	<u>          </u>
Demand deposits:		
- in dinars	8,676,779	10,755,707
- in foreign currencies	16,550,973	7,287,836
Short-term deposits:		
- in dinars	2,854,244	2,638,447
- in foreign currencies	4,412,092	1,495,494
Long-term deposits:		
- in dinars	116,259	32,955
- in foreign currencies	466,647	372,690
Long-term loans in foreign currencies	6,155	-
	<u>33,083,149</u>	<u>22,583,129</u>

A breakdown by customer type is provided below:

	<b>Thousands of Dinars</b>	
	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<u>          </u>	<u>          </u>
Public enterprises	4,898,380	4,974,702
Enterprises	20,059,444	13,833,186
Foreign entities	216,044	81,236
Citizens	7,909,281	3,694,005
	<u>33,083,149</u>	<u>22,583,129</u>

The demand deposits in dinars of enterprises, governmental institutions and other legal entities, mainly are comprised of current account balances. These deposits are non-interest bearing ones.

Demand deposits in foreign currencies of enterprises and governmental institutions are non-interest bearing ones.

Short-term deposits of enterprises in dinars and foreign currencies carry annual interest rates in the range of from 0.1% to 13.5%.

Short-term deposits of individuals in foreign currencies carry annual interest rates in the range of from 1% to 1.5%.

Short-term deposits of citizens in foreign currencies carry annual interest rates ranging from 1.7% to 4%.

Long-term deposits of citizens in foreign currencies carry annual interest rates ranging from 3.2% to 4.5%.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**21. OTHER LIABILITIES FROM OPERATIONS**

	Thousands of Dinars	
	December 31,	
	<u>2003</u>	<u>2002</u>
Net salaries	23	-
Liabilities for taxes and contributions	54,190	27,339
Advances received:		
- in dinars	31,569	15,159
- in foreign currencies	137	147
Liabilities in dinars for foreign exchange sales to NBS arising on receipts from the Republic of Montenegro and the Province of Kosovo	12,076	21,038
Liabilities in dinars to customers arising on received cheques	54,764	1,162
Other liabilities in dinars for credit cards	54,830	3,588
Liabilities to Delta Holding member for vouchers	17,430	-
Liabilities for undistributed citizens' payments arising on matured loan installments	-	33,795
Payables to suppliers in dinars	98,838	18,276
Other liabilities:		
- in dinars	9,824	5,722
- in foreign currencies	1,980	3,522
Off-balance-sheet liabilities	-	1,789
	<u>335,661</u>	<u>131,537</u>

**22. OTHER LIABILITIES AND ACCRUALS**

	Thousands of Dinars	
	December 31,	
	<u>2003</u>	<u>2002</u>
Deferred liabilities for accrued interest:		
- in dinars	54,471	88,708
- in foreign currencies	16,691	6,644
	<u>71,162</u>	<u>95,352</u>

**23. PROVISIONS**

	Thousands of Dinars	
	December 31,	
	<u>2003</u>	<u>2002</u>
<i>a) Special Provision</i>		
Balance, beginning of year	439,323	52,014
Merger with Poljoprivredno investiciona banka A.D., Novi Sad	38,527	-
Charged during the year (Note 8a)	168,921	548,976
Release of provision (Note 6)	-	(161,667)
Transfer of provision for off-balance-sheet items to general provision	(170,784)	-
Transferred to general provision for "B, V, G and D" categories of risk-bearing balance sheet items (Note 8b)	(248,757)	-
Transferred to the Bank's reserves for "A" category of the risk-bearing balance sheet	(227,230)	-
<b>Balance, end of year</b>	<u>-</u>	<u>439,323</u>



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

## 23. PROVISIONS (Continued)

	Thousands of Dinars	
	December 31,	
	2003	2002
<i>b) General Provision</i>		
Balance, beginning of year	-	-
Transferred from special provision	170,784	-
<b>Balance, end of year</b>	<u>170,784</u>	<u>-</u>
<b>Total Provisions</b>	<u>170,784</u>	<u>439,323</u>

After the balance sheet date (Note 28), a provision was recognized in the amount of Dinar 120,102 thousand for category "A" of the risk-bearing balance sheet and was correspondingly charged to retained earnings of the current year, in accordance with the Bank's Decision on the distribution of profit.

## 24. SHAREHOLDERS' EQUITY

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

On September 27, 2003 the Bank's Assembly approved the consummation of a merger between the parties of, the Bank and Poljoprivredno investiciona banka A.D., Novi Sad (the "Acquisitree"). Pursuant to the executed merger agreement, all of the rights and obligations of the Acquisitree as of September 28, 2003 were to be transferred to the Bank. Under this merger agreement, the Acquisitree rescinded its legal status and Delta banka A.D., Belgrade became its legal successor. As of December 24, 2003 the Trade Court of Belgrade enacted Decision numbered Fi. 13405/03 thereby approving the Bank's merger with Poljoprivredno investiciona banka A.D., Novi Sad and the subsequent registration of an increase in the Bank's share capital by the amount of Dinar 394,247 thousand.

The Bank's shareholders as of December 31, 2003 and 2002 are as follows (share capital increased for the appropriate amount of revaluation):

<u>Shareholder</u>	December 31, 2003		December 31, 2002	
	Thousands of Dinars	In %	Thousands of Dinars	In %
Hemslade Trading Ltd., Cyprus	3,068,232	86.35	2,914,546	92.27
Delta M, Beograd	264,358	7.44	135,174	4.28
Tigar, Pirot	-	-	109,102	3.45
Delta invest	91,463	2.57	-	-
Delta agrar	19,340	0.54	-	-
Delta fungi	19,340	0.54	-	-
Intertex trade	19,340	0.54	-	-
Delta sport	70,996	2.00	-	-
	<u>3,553,069</u>	<u>100.00</u>	<u>3,158,822</u>	<u>100.00</u>

#### Capital Adequacy and Ratios Prescribed by the Law on Banks and Other Financial Institutions, Articles 26 and 27

The Bank is required to maintain a minimum capital adequacy ratio of 8 percent, as established by the NBS, in agreement with the Basel Accord. As of December 31, 2003 the Bank's capital adequacy ratio was 24.15 percent (December 31, 2002 - 22.32%).

The Bank is also required to maintain certain ratios related to the volume of its activities and composition of risk assets in compliance with the Law on Banks and Other Financial Institutions and with the NBS Requirements. As of December 31, 2003 the Bank had a total exposure to PTT Srbija, Beograd of 25.2% of the Bank's adjusted equity, which exceeded the prescribed allowable maximum exposure level to a single counterparty of 25%.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

## 25. OFF-BALANCE-SHEET ITEMS

	Thousands of Dinars	
	December 31,	
	<u>2003</u>	<u>2002</u>
<i>a) Guarantees, Other Contingent Liabilities and Commitments</i>		
Payment guarantees:		
- in dinars	811,384	919,138
- in foreign currencies	2,906,284	1,236,330
Performance bonds:		
- in dinars	1,703,285	875,837
- in foreign currencies	176,939	345,262
Letters of credit in foreign currencies	977,835	440,212
Acceptances in dinars	361,059	104,657
	<u>6,936,786</u>	<u>3,921,436</u>
<i>b) Other off-balance-sheet items</i>		
Loan commitments	-	235,275
Other off-balance-sheet items	1,881,321	582,425
	<u>1,881,321</u>	<u>817,700</u>
Less: Provisions for potential losses	<u>(170,784)</u>	<u>-</u>
<b>Total Off-balance-sheet items</b>	<u><u>8,647,323</u></u>	<u><u>4,739,136</u></u>

## 26. RISK MANAGEMENT POLICIES

*Credit Risk*

Credit risk represents the risk that the borrower will not be able to fully or partially fulfill his/her payment obligations towards the Bank. It is a business policy of the Bank to ensure the maximum level of protection from risk exposure which might arise in its loan activities and transactions with customers.

The Bank simultaneously manages its credit risk on the level of its individual customers, as well as on the level of its entire loan portfolio. With the aim of lowering its exposure to credit risk, the Bank diligently assesses the creditworthiness of each borrower in accordance with the effective banking regulations, as well as with its own well-defined loan approval procedures. The Loan Approval Department prepares a financial analysis of the financial position of the borrower and his/her employment history, and notes the related potential risks in so far as a loan has already been approved.

The decision regarding the loan approval and corresponding credit risk exposure of the Bank, is concentrated on clearly-defined rules and procedures. The specific conditions existing on each approved loan (i.e., maturity date, interest rate, fee, secured collateral) although individually defined for each borrower, are nevertheless within the overall framework defining the Bank's interest rate and fee policies. Among the afore-described matters, the Bank dedicates particular attention to the quality of collateral that secures the Bank's placements which may include: contractually-agreed authorizations, bills of exchange, mortgages, pledged or consigned assets, bank guarantees, surety agreements (signed by co-guarantors), and the dinar and foreign currency deposits of legal entities or private individuals. In addition to the aforementioned, the Bank manages its exposure to the risk of uncollectability of the principal (actual) amount of the approved loan by including foreign currency or revaluation covenants in its loan agreements with customers.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**28. RISK MANAGEMENT POLICIES (Continued)**

*Liquidity Risk*

The maturities of the Bank's assets and liabilities components, based on the remaining period from the balance sheet date to the contractual maturity date, as of December 31, 2003 are as follows:

	<b>Thousands of Dinars</b>					
	<b>December 31, 2003</b>					
	<u>Less Than One Month</u>	<u>From One to 3 Months</u>	<u>From 3 to 12 Months</u>	<u>From One to 2 Years</u>	<u>Over 2 Years</u>	<u>Total</u>
<b>ASSETS</b>						
Cash and cash equivalents	3,342,500	-	-	-	-	3,342,500
Deposits with the central bank and securities available-for- refinancing with the central bank	9,723,379	-	-	-	-	9,723,379
Interest, fee and commission receivables	159,884	-	-	-	-	159,884
Placements with other banks	7,619,271	306,320	825,853	-	56,415	8,807,859
Loans and advances to customers	2,055,181	4,851,800	7,158,839	1,260,748	2,129,254	17,455,822
Securities held-to-maturity	-	-	406,145	187,115	359	593,619
Equity investments and securities available-for-sale	172,850	-	292,570	-	-	465,420
Property and equipment	-	-	-	-	2,843,163	2,843,163
Other assets and accruals	387,166	57,414	50,799	50,799	-	546,178
<b>Total Assets</b>	<u>23,460,231</u>	<u>5,215,534</u>	<u>8,734,206</u>	<u>1,498,662</u>	<u>5,029,191</u>	<u>43,937,824</u>
<b>LIABILITIES</b>						
Amounts owed to other banks	3,633,815	-	-	-	-	3,633,815
Amounts owed to customers	31,818,401	415,797	211,491	48,399	589,061	33,083,149
Interest, fee and commission payables	2,715	-	-	-	-	2,715
Debt securities issued	-	1,379	-	-	-	1,379
Liabilities from income distributions	-	-	-	-	-	-
Other operating liabilities	335,661	-	-	-	-	335,661
Provisions	3,934	17,198	64,134	-	85,518	170,784
Other liabilities and accruals	71,162	-	-	-	-	71,162
Equity	-	-	-	-	6,639,159	6,639,159
<b>Total Liabilities and Equity</b>	<u>35,865,688</u>	<u>434,374</u>	<u>275,625</u>	<u>48,399</u>	<u>7,313,738</u>	<u>43,937,824</u>
<b>Net Liquidity Gap:</b>						
- As of December 31, 2003	<u>(12,405,457)</u>	<u>4,781,160</u>	<u>8,458,581</u>	<u>1,450,263</u>	<u>(2,284,547)</u>	<u>-</u>
- As of December 31, 2002	<u>(4,753,721)</u>	<u>18,264</u>	<u>5,592,557</u>	<u>-</u>	<u>(857,100)</u>	<u>-</u>

The Bank's liquidity characterized by its ability to settle its liabilities as they become due, depends upon the structure of the Bank's deposits and the compatibility of the cash flows as they relate to receipts and payments of funds. The structure of the Bank's assets and liabilities as classified into their relevant maturities at December 31, 2003 indicates the existence of a significant discrepancy in the period of up-to-three-months maturities. The primary reason for the aforementioned unreconciled amounts lies in the fact that the short-term sources of funds with maturities of up to three months, have been committed for longer periods of time.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**26. RISK MANAGEMENT POLICIES (Continued)**

*Interest Rate Risk*

	<b>Thousands of dinars</b>					
	<b>December 31, 2003</b>					
	<u>Less Than</u> <u>One Month</u>	<u>From One to</u> <u>6 Months</u>	<u>From 6 to 12</u> <u>Months</u>	<u>Over</u> <u>One Year</u>	<u>Non-Interest</u> <u>Bearing</u>	<u>Total</u>
<b>ASSETS</b>						
Cash and cash equivalents	939,874	-	344,656	-	2,057,970	3,342,500
Deposits with the central bank and securities available-for- refinancing with the central bank	9,673,835	-	-	-	49,544	9,723,379
Interest, fee and commission receivables	159,884	-	-	-	-	159,884
Placements with other banks	7,796,331	101,336	910,192	-	-	8,807,859
Loans and advances to customers	10,334,802	1,515,878	4,157,081	1,448,061	-	17,455,822
Securities held-to-maturity	-	-	593,619	-	-	593,619
Equity investments and securities available-for-sale	172,850	-	-	-	292,570	465,420
Property and equipment	-	-	-	-	2,843,163	2,843,163
Other assets and accruals	27,203	-	-	-	518,975	546,178
<b>Total Assets</b>	<u>29,104,779</u>	<u>1,617,214</u>	<u>6,005,548</u>	<u>1,448,061</u>	<u>5,762,222</u>	<u>43,937,824</u>
<b>LIABILITIES</b>						
Amounts owed to other banks	737,358	-	-	-	2,896,457	3,633,815
Amounts owed to customers	5,926,288	1,182,551	166,799	436,888	25,370,623	33,083,149
Interest, fee and commission payables	2,715	-	-	-	-	2,715
Debt securities issued	1,379	-	-	-	-	1,379
Liabilities from income distributions	-	-	-	-	-	-
Other operating liabilities	54,190	-	-	-	281,471	335,661
Provisions	-	-	-	-	170,784	170,784
Other liabilities and accruals	71,162	-	-	-	-	71,162
Equity	-	-	-	-	6,639,159	6,639,159
<b>Total Liabilities and Equity</b>	<u>6,793,092</u>	<u>1,182,551</u>	<u>166,799</u>	<u>436,888</u>	<u>35,358,494</u>	<u>43,937,824</u>
<b>Interest Sensitive Gap:</b>						
<b>As of December 31, 2003</b>	<u>22,311,687</u>	<u>434,663</u>	<u>5,838,749</u>	<u>1,011,173</u>	<u>(29,596,272)</u>	<u>-</u>
<b>As of December 31, 2002</b>	<u>11,243,726</u>	<u>2,054,437</u>	<u>3,664,456</u>	<u>1,216,371</u>	<u>(18,178,990)</u>	<u>-</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

## 26. RISK MANAGEMENT POLICIES (Continued)

*Currency Risk*

The Bank's exposure to currency risk is defined as the risk arising on movements in exchange rates in the instance of changes in foreign currency position as well as of the individual currencies.

In accordance with legal regulations, the Bank is obligated to ensure that its assets denominated in foreign currencies exceed its liabilities denominated in foreign currencies such that the foreign currency risk ratio of the Bank is not higher than 30 of the Bank's total capital as of the end of each working day.

The Bank regularly monitors its foreign currency risk, and its business policy is to maintain a low level of exposure to foreign currency risk and to daily reconcile all of its open positions for all currencies, with the exception of the euro balances. During the fiscal year, the Bank strictly adhered to the reconciliation of its foreign currency risk ratio, by which this ratio was mainly lower than the maximum allowed level.

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

	<b>Thousands of Dinars</b>					
	<b>December 31, 2003</b>					
	EUR	USD	Other Currencies	Total Foreign Currencies	Local Currency	Total
<b>ASSETS</b>						
Cash and cash equivalents	1,172,656	1,033,353	350,233	2,556,242	786,258	3,342,500
Deposits with the central bank and securities available-for-refinancing with the central bank	5,263,602	601,009	409,772	6,274,383	3,448,996	9,723,379
Interest, fee and commission receivables	5,421	1,076	-	6,497	153,387	159,884
Placements with other banks	6,338,206	621	-	6,338,827	2,469,032	8,807,859
Loans and advances to customers	979,483	219,789	2,628	1,201,900	16,253,922	17,455,822
Securities held-to-maturity	593,619	-	-	593,619	-	593,619
Equity investments and securities available-for-sale	93	-	-	93	465,327	465,420
Property and equipment	-	-	-	-	2,843,163	2,843,163
Other assets and accruals	211,894	100	47	212,041	334,137	546,178
<b>Total Assets</b>	<b>14,564,974</b>	<b>1,855,948</b>	<b>762,680</b>	<b>17,183,602</b>	<b>26,754,222</b>	<b>43,937,824</b>
<b>LIABILITIES</b>						
Amounts owed to other banks	59,705	2,746	527	62,978	3,570,837	3,633,815
Amounts owed to customers	18,837,332	1,913,511	685,024	21,435,867	11,647,282	33,083,149
Interest, fee and commission payables	-	-	-	-	2,715	2,715
Debt securities issued	-	-	821	821	558	1,379
Other operating liabilities	1,980	137	-	2,117	333,544	335,661
Provisions	-	-	-	-	170,784	170,784
Other liabilities and accruals	15,433	652	606	16,691	54,471	71,162
Equity	-	-	-	-	6,639,159	6,639,159
<b>Total Liabilities and Equity</b>	<b>18,914,450</b>	<b>1,917,046</b>	<b>686,978</b>	<b>21,518,474</b>	<b>22,419,350</b>	<b>43,937,824</b>
<b>Net Balance Sheet Position:</b>						
- December 31, 2003	<u>(4,349,476)</u>	<u>(61,098)</u>	<u>75,702</u>	<u>(4,334,872)</u>	<u>4,334,872</u>	<u>-</u>
- December 31, 2002	<u>(120,294)</u>	<u>243,782</u>	<u>78,348</u>	<u>201,836</u>	<u>(201,836)</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2003**

**27. RECEIVABLES FROM RELATED PARTIES**

The following table summarizes the total balance sheet and off-balance-sheet exposures to related entities, as well as the income from related parties which exert a significant influence on the Bank's operations, and which are under the Bank's full control.

	<b>Balance Sheet Assets</b>	<b>Balance Sheet Liabilities</b>	<b>Off-Balance Sheet Exposure</b>	<b>Thousands of Dinars Income From Related Parties</b>
Delta M, Beograd	73,333	151,510	216,544	39,539
Dunavka	188,235	788	66,694	43,873
Sunce AD	209,502	1,569	16,075	37,852
Delta Agrar, Kruševac	223,531	1,831	-	12,258
Hemslade Trading, Cyprus	-	-	215,724	2,280
Delta invest, Beograd	154,025	7,239	57,855	9,776
Pekabeta, Beograd	176,011	9,247	29,853	3,081
Delta osiguranje, Beograd	153,655	75,907	163	7,422
Delta funghi	65,501	226	-	5,189
Delta MC	48,952	7,751	11,372	3,959
Delta Rent-a-Car	18,132	36	-	773
Delta sport	-	46,057	10,000	6,603
	<u>1,310,877</u>	<u>302,161</u>	<u>624,280</u>	<u>172,605</u>

**28. POST-BALANCE-SHEET EVENT**

As of February 26, 2004 the Bank's Assembly enacted a decision to distribute FY 2003 undistributed profit, whereby the amount of Dinar 1,747,265 thousand from the Bank's retained earnings were distributed as follows:

	<b>Thousands of Dinars</b>
- Provision for potential losses	120,102
- Share capital	1,627,158
- Bank's reserves	<u>5</u>
	<u>1,747,265</u>

**29. EXCHANGE RATES**

The official exchange rates for the major currencies used in the translation of the balance sheet items denominated in foreign currencies as of December 31, 2003 and 2002, were as follows:

	<b>December 31, 2003</b>	<b>In Dinars December 31, 2002</b>
USD	54.6372	58.9848
EUR	68.3129	61.5152
CHF	43.7847	42.3047