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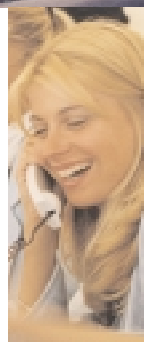
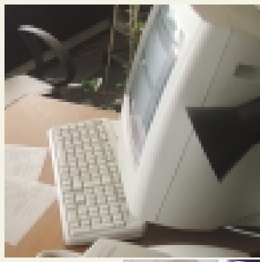
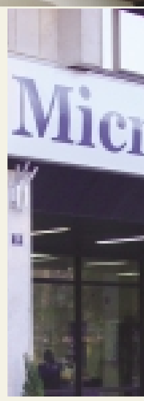


MFB Mission

Our mission is to be the leading provider of credit and general banking services to entrepreneurs and businesses throughout Serbia by providing exceptional customer service and targeted products through a countrywide network. By giving businesses the means to grow we are promoting economic development in Serbia. To the general public, we offer efficient, affordable banking services.

Our aim is to achieve a sustainable return on investment that allows us to expand and develop over the long-term.
We want our bank to be an open, enjoyable and professionally challenging place to work.

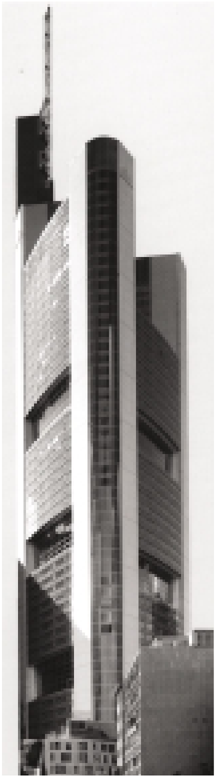




Shareholders of MFB

	Shareholding (%)	Number of shares	Million EUR
Commerzbank AG	16.67	400,000	2.1
EBRD	16.67	400,000	2.1
FMO	16.67	400,000	2.1
IFC	16.67	400,000	2.1
IMI	16.67	400,000	2.1
KfW*	16.67	400,000	2.1
Total	100	2,400,000	12.6

*equity held on behalf of the Federal Ministry for Economic Co-operation and Development



COMMERZBANK

Commerzbank AG was established in 1870 and today is one of the top five banks in Germany. With a strong international network comprising 56 outlets in 43 countries, Commerzbank is a universal bank providing retail, wholesale and investment banking services. It also offers other financial services via a number of subsidiaries, such as leasing, fund management, real estate and equity investment.
www.commerzbank.com

EBRD

The European Bank for Reconstruction and Development (EBRD) was established in 1991. Its mission is to foster the transition to market economies and to promote private and entrepreneurial initiative in those countries of Central and Eastern Europe and the Commonwealth of Independent States (CIS) that are committed to, and are applying the principles of multi-party democracy, pluralism and market economics. *www.ebrd.com*

FMO

The Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden NV (FMO) based in Amsterdam is a key player in the Netherlands' development co-operation activities and supports private sector development in 71 countries. FMO provides finance for projects that meet its three investment criteria: additionality, catalysis and good governance. As such FMO provides finance for professionally managed ventures where 'ordinary' banks would not and where it can mobilise significant additional private sector investment. FMO focuses on providing support to the financial sector and companies in 'low income' and 'low-to-middle-income' countries. *www.fmo.nl*

Shareholders of MFB

International Finance Corporation (IFC) is a member of the World Bank Group and was founded in 1956. Its primary objective is to improve the quality of the lives of people in its developing member countries. Today IFC is the largest multilateral source of loan and equity financing for private-sector projects in the developing world and transition economies. *www.ifc.org*

Internationale Micro Investitionen AG (IMI) was founded in 1998. Its business objective is to promote the provision of financial services to enterprises and low-income strata in developing countries and transition economies around the world. IMI is a modern development-oriented investment company which aims to set new standards in microfinance and to implement a new approach to development policy. To date, IMI has helped to found, develop and manage 17 commercially successful target group-oriented financial institutions in as many countries.
www.imi-ag.com

The KfW Group (Kreditanstalt für Wiederaufbau Group) founded in 1948, provides financial packages designed to stimulate economic, social and ecological development in Germany, Europe and the world over. The financial institution focuses on the promotion of SMEs, the financing of housing construction and modernisation, protection of the environment and the climate, export and project finance and support for developing countries and transition economies. *www.kfw.de*

Worldwide Network of Microfinance Banks

Worldwide Network of Microfinance Banks

MFB is a part of a worldwide network of specialised microfinance banks, which share the same approach to development and the same mission. They are all sustainable institutions that offer financial services to businesses in developing countries and transition economies. Their development is supported by a group of like-minded investors such as IMI, IFC, the EBRD, KfW/DEG, DOEN Foundation, FMO and Commerzbank.

FEFAD Bank, **Albania**
Caja Los Andes, **Bolivia**
Micro Enterprise Bank, **Bosnia**
ProCredit Bank, **Bulgaria**
Financiera Calpia S.A., **El Salvador**
Sociedad Financiera Ecuatorial, **Ecuador**

Microfinance Bank of Georgia, **Georgia**
Sikaman Saving and Loans Company, **Ghana**
Micro Crédit National S.A., **Haiti**
Micro Enterprise Bank, **Kosovo**
Micro Enterprise Credit S.A., **Moldova**
NovoBanco S.A.R.L., **Mozambique**

Financiera Confia, **Nicaragua**
Micro Enterprise Bank, **Philippines**
Miro Bank, **Romania**
Micro Finance Bank, **Serbia**
Micro Finance Bank, **Ukraine**

Information on each of these financial institutions is published regularly on the IMI website, ***www.imi-ag.com***. With the support of technical assistance, the standardisation of best practice processes and procedures, and with the sharing of technologies and skills, this group now represents a powerful network of institutions able to offer exceptional service to its customers around the world.

Financial Synopsis

Financial Synopsis

	2002		2001	
Operational Figures				
Number of Branches	10		3	
Number of Credit Outlets	8		-	
Number of Staff	266		60	
Number of Business Loans Outstanding	4,485		1,212	
Number of Consumer Loans Outstanding	1,387		-	
Portfolio at Risk (arrears > 30 days in %)	0.4		0	
	YUD '000	EUR '000	YUD '000	EUR '000
Income Statement				
Operating Income	360,590	5,862	72,749	1,218
Operating Expenses	(354,492)	(5,763)	(107,441)	1,800
Loss for the year, net	(82,114)	(1,335)	(50,446)	(845)
Balance Sheet				
Gross Loan Portfolio	2,370,975	38,453	529,218	8,863
Loan Loss Provisions	(77,099)	(1,253)	(15,754)	(264)
Deposits from Customers	2,366,676	38,473	2,146,987	36,005
Total Assets	4,217,929	68,567	2,741,317	45,914
Total Equity	642,125	10,438	346,523	5,804
Key Ratios				
(%)				
ROA (Return on average Assets)	(3.15)		(3.22)	
ROE (Return on average Equity)	(25.5)		(12.9)	
Cost/income Ratio	113.6		147.7	
BIS Capital Ratio	24.8		23.46	
Liquidity Ratio	1.18		1.24	
Fixed Assets to Equity	12.8		7.8	

Letter from the Chairman of the Board of Directors

Letter from the Chairman of the Board of Directors

2002, MFB's first full financial year of operation, was characterised by very rapid growth, a trend which has been sustained ever since the bank was founded by its 6 shareholders, Commerzbank, EBRD, FMO, IFC, IMI and KfW, in April 2001.

Growth for a bank can take many forms; and indeed, MFB's growth in 2002 took place on numerous different levels:

- The countrywide network grew to 10 fully fledged branches and 8 credit outlets.
- The business loan portfolio grew to 4,500 outstanding loans with a volume of EUR 34 million outstanding.
- The number of customers served by the bank grew to 55,000.
- The number of employees grew to 266.

These figures reflect MFB's policy of increasing its geographical outreach as quickly as possible in order to provide the micro, small and medium-sized business sector across Serbia with access to dynamic and flexible financing facilities. This strategy of fast growth and rapid branch network expansion is the shareholders' response to the chronic shortage of financial services geared to the needs of small businesses in Serbia.

It is the shareholders' conviction that a sustainable target group-oriented financial institution can make a substantial contribution to the deepening of the financial system and thus to social and economic recovery in Serbia. MFB's achievements therefore go far beyond those which can be measured in purely quantitative terms; its contribution to the country's development is also reflected in various qualitative indicators:

- During 2002 MFB became the "house bank" for many entrepreneurs who now use the full range of banking services, including domestic and international money transfers.
- MFB is taking the lead in complying with international and national standards, and is thus setting an example which is helping to accelerate progress in Serbia's financial system as a whole.
- After a decade in which depositors' faith in the banking system was shaken by insolvent banks refusing to pay out retail savings, many people have now regained their confidence in banks, as is shown by the fact that they are willing to deposit their savings in MFB.

The impressive growth of the young bank was possible thanks to:

- its clients, who have chosen MFB as their bank and who prove every day that Serbia's enterprise sector consists of hardworking, trustworthy people with a professional attitude to business;

Letter from the Chairman of the Board of Directors

- its shareholders, who are deeply committed to MFB's mission and who are convinced that a strategy of growth is the right way to fulfil this mission, despite the high start up costs entailed;
- its staff, who have understood that MFB is no ordinary employer, but an institution which is contributing to the development of their country, and who have made the bank's growth possible through their dedication and dynamism.

As Chairman of the Board of Directors, I would like to express my gratitude to all of the aforementioned parties for their contribution to establishing MFB as a target group-oriented commercial bank and to fostering economic development in Serbia.

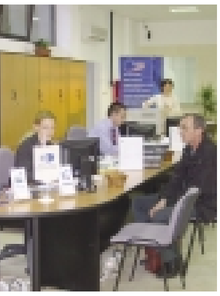
In the name of the shareholders I also would like to take this opportunity to thank the German government and the US Treasury Department (via EDRB) for their support, and for their trust in MFB. The young bank's growth and its rapid expansion would not have been possible without the technical assistance which they have provided for training and for the expansion of the branch network.

The economic environment in Serbia was a challenging one in 2001; but during 2002 the government made credible progress on reforms that will accelerate the democratisation of the country. The National Bank of Serbia also showed that it is willing to take steps to regulate the banking sector in a way that is conducive to reform. The closing of state-owned banks and the abolition of the centralised national payments system are clear signs that, despite the difficulty of carrying out such unpopular measures, Serbia is on the right track towards stabilisation and liberalisation.

Against the background of MFB's successes to date and the favourable developments that have taken place in Serbia, I would like to confirm the commitment of the Board of Directors to MFB as a bank which provides the business sector of Serbia with access to financing, and the other banking services it needs. We believe that in 2003 – by pursuing its mission – MFB will continue to make a valuable contribution to the establishment of a mature financial system in Serbia, to the development of the economy and especially to the growth of the private enterprise sector.

Dr. Klaus Glaubitt,
Chairman of the Board of Directors

The Year in Review



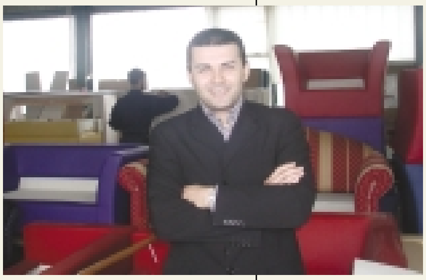
	Branch opened	Outlet opened	New products	No. of loan clients	No. of accounts
2001	Belgrade I Belgrade II Nis Novi Sad I			1,212	15,214
2002					
Jan				1,324	18,747
Feb	Subotica			1,500	23,467
March				1,682	26,173
April	Cacak			1,908	28,292
May				2,107	30,060
June	Novi Pazar			2,353	31,591
July			Transcheq Domestic Debit Card Diners Club Credit Card	2,669	33,428
Aug	Novi Sad II		Micro Express Loans Overdraft	2,938	35,306
Sept	Belgrade III	Pancevo Pirot	Consumer Loans	3,477	38,391
Oct		Becej		6,317	46,216
Nov	Sabac	Kragujevac Prijepolje Novi Pazar	Day & Night Safe	8,010	50,490
Dec		Sombor Kraljevo		9,942	54,894

Management Letter

2002 was MFB's first full financial year since its establishment in April 2001. It was a challenging year, but one in which the bank made very rapid progress from its start-up phase to its present position as an institution that is strong enough to make a real contribution to the development of Serbia's financial and enterprise sectors. The year saw considerable expansion, both in geographical terms and in terms of our range of products and services, enabling MFB to establish itself in the market as one of the leading commercial banks in Serbia.

In addition MFB has established itself as the leading bank for Serbian micro, small and medium-sized enterprises, which represent our core target group. It has been our primary goal to set up a broad network, now consisting of 10 branches and 8 credit outlets, in order to put MFB's tailored products within easy reach of these businesses.

MFB has disbursed 9,000 loans to entrepreneurs during the last two years. The fact that the majority of our borrowers would not have been able to obtain a bank loan from any other financial institution convinces us that we are on the right track, and are bringing about a genuine deepening of the financial sector. The number of outstanding loans to small businesses quadrupled to 4,500; resulting in an outstanding business loan portfolio of EUR 32 million as of December 2002. A team of 60 well trained and highly qualified loan officers has built up this portfolio, which is characterised by its excellent quality (the portfolio at risk for more than 30 days accounts for only 0.4% of the total portfolio).

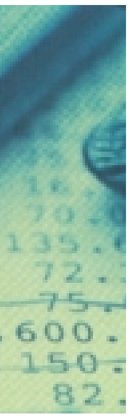


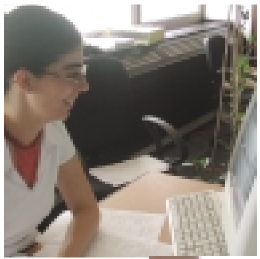
Our bank has also expanded its non-lending services to enterprises as well as its product range for retail clients. For our private retail customers we introduced consumer lending, a domestic debit card, the Diners Club credit card, overdraft facilities and Transcheq; new services for our business clients include micro express loans and night safes. Including all lending-related products, MFB had almost 10,000 loans outstanding as of December 2002, and was also administering 55,000 client accounts, with customer deposits totalling EUR 38 million. These results show

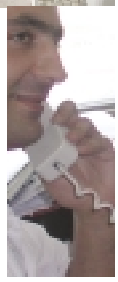
Management Letter

that MFB made substantial progress towards the goal of becoming a fully-fledged bank that caters to all of the complex banking needs of businesses and private individuals.

It is important to note that MFB has also made progress as an organisation; in 2002 we worked intensively to make our operations more efficient. New banking software was implemented, and organisational structures and procedures at Head Office and throughout the bank were adapted in response to changing needs. MFB has taken great care to manage the risks associated with its rapid expansion. Our clients' loan repayment discipline was excellent throughout the year, with repayment rates over 99% at all times. Operational risks were minimised through ongoing efforts to streamline internal procedures.







Our tasks have clearly been made easier by the fact that the environment is stabilising. There were favourable developments in the Serbian banking sector and in Serbia's economy in 2002. In particular the abolition of the payments system, the ZOP, and the successful efforts undertaken by the National Bank of Serbia to establish a regime of effective and not unreasonably intrusive supervision, allowed us to become more efficient.

The start of a process of economic deregulation has helped SMEs to make a strong recovery, which also benefits MFB. We are convinced that small companies are the most promising sector in the Serbian economy, and that is the reason for our continued support for these companies. Every business which gains access to formal banking services through MFB takes a step forward towards integration into the financial system and consequently into the democratic system of the country.
Our commitment to this process is also the explanation for our focus on expansion during the first two years, rather than striving to achieve profitability as quickly as possible. The accumulated loss of 2001 and 2002 is a result of our efforts to concentrate exclusively on catering to the micro, small and medium-sized enterprises, to maximise the number of clients served rather than the volume of business, and to provide our staff with meticulous and intensive training. It represents an investment in a solid institutional base for continued growth and profitability in 2003.

Management Letter

A bank's progress depends on the commitment and the skills of its personnel. The number of employees more than doubled during the last year, reaching 266 by the end of 2002, including roughly 100 lending staff. We, the management, are highly impressed by, and grateful for the efforts of our colleagues, all of whom are young professionals who work for MFB with great enthusiasm and dedication.

The management would also like to take this opportunity to thank all our clients and partners for their trust in MFB and for the strong spirit of co-operation that characterises our business relationships. There can be no doubt that our rapid expansion and our success in 2002 would not have been possible without the invaluable and unwavering support of MFB's shareholders, who have provided loans and technical assistance, ever since the bank was set up.

The positive experience of the past year encourages us to continue to strive for further institutional growth, for a much broader client base, for best practice customer service, and not least of all for profitability. We aim to prove that it is possible to become the "house bank" for micro, small and medium-sized enterprises and at the same time generate an attractive return on investment for the bank's owners.

Christoph Freytag
General Director

Dörte Weidig
Deputy General Director

MFB's Core Business – Lending

The credit technology applied by MFB is precisely tailored to the specific conditions under which micro, small and medium-sized enterprises operate, and is based on the following principles.

- The credit assessment gives due consideration to the specific characteristics of the applicant's business. When applications are filed by relatively large-scale clients, the loan officer not only analyses the firm's balance sheet and profit and loss account, but also performs cash-flow and sensitivity analyses. In cases where the applications involve very small businesses – most of which are not fully formalised – the analysis of the business tends to be less detailed; in such cases, greater emphasis is placed on the borrower's household and his or her social environment when making the credit decision.
- While the assets pledged as loan security are valued by professional appraisers, this aspect of the analysis is given only a secondary priority in terms of decision-making.
- Each loan officer bears full responsibility for the institution's relationship to the client throughout the entire life of the loan, including analysis, disbursement, monitoring and enforcement. This ensures that each client receives full attention and high quality service from a loan officer whom he or she has come to know and trust.
- Credit analysis focuses strongly on the prospective borrower's ability to pay, primarily by making an exact calculation of the cash flows of his or her business. The loan officer obtains the data needed to carry out a comprehensive cash flow analysis first-hand by visiting the loan applicant's business premises.
- A low default rate is vitally important for the sustainability of the bank. In addition to high-quality credit analysis, intensive monitoring by individually responsible loan officers is a key factor influencing repayment performance.

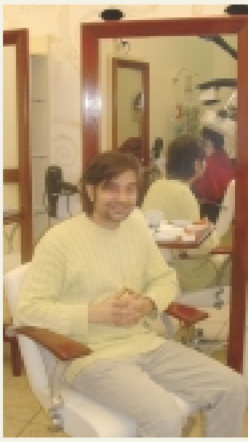
It is often claimed that making individual micro loans is too expensive and too risky, and that even over the medium term it is impossible to cover their costs in small lending operations. Our experience shows that this is not the case. MFB's credit technology enables the bank to issue micro, small and medium loans in a profitable way without burdening the customer with unnecessarily high borrowing and transaction costs.

Client Profiles

Hairdressing Shop

Three generations of my family have been in the hairdressing business since 1938. I am the third generation owner of the “Sovjlanski” hairdressing shop. The shop is in the center of Novi Sad and it is like a second home to me.

I contributed something to the family heritage: with my own funds and a loan from MFB, I modernized the shop with new equipment and redecorated the business premises. I am happy with the results of this investment. With the MFB loan of 7.000 EUR I was able to upgrade the equipment.



I tried to create a specific atmosphere, linking tradition and progress. Before I started with redecoration of the shop I had a precise idea how it should look like. I have designed every detail by myself. I even had the idea how the chairs in the shop should look like and based on that idea and my drawings special chairs were produced. Our existing clients like it, and we also managed to attract a lot of new ones. Also, we now have more working places, which gives us possibilities to grow and expand our staff. Now, in my hairdressing shop we can serve 3 clients at the same time.

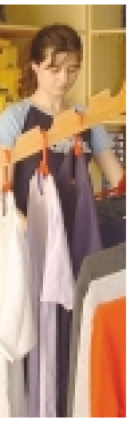
My grandfather and my father were really successful in this business and I am trying to continue that tradition and to be even better. I am trying to keep pace with latest happenings in the hairdressing business and I am developing my skills and knowledge. That’s why I am attending contests in Serbia and foreign countries. Beside newly designed and redecorated working space that is now recognizable and specific I am also trying to make my work recognizable.

Clothes Production

My wife and I came to Novi Sad in 1993 as refugees from Sarajevo. In 1994 I started selling goods that I had purchased in Turkey and Hungary. Two years later I set up a company devoted to manufacturing and selling men's underwear, and I am still in that line of business.

Until I turned to Micro Finance Bank, my business was run from two premises, both rented. The first facility was used for manufacturing and as storage space, while the other was a retail outlet. I also retail my goods through two stalls at open markets.

As the production facility at the existing premises was not ideal, I decided to build my own premises. I bought a site in Veternik, near Novi Sad, but if I had had to rely on my own funds, it would have taken several years to finish the construction work. In order to speed up the process, I decided to apply for a loan from Micro Finance Bank, having heard some favourable references from a few of my friends. In August 2001, after only 5 days, the bank approved a EUR 5,000 loan, which together with my savings was just enough to pay for the necessary construction work on the business premises before the winter came.



The loan was repaid without any problems. The following year I decided to apply for another loan, this time in order to increase my stocks. I received EUR 10,000, part of which I invested in finishing the construction work on my business premises, while using the rest as working capital.

During the last two years my business has been performing better and better. Currently I have two retail outlets at very good locations in Novi Sad and two stalls at open markets. The entire manufacturing operation was relocated to the new premises, which has been beneficial in many respects. I have been able to completely eliminate the cost of renting storage space. And by moving to new premises I gained the space I needed to increase production not only in terms of volume but also in terms of the variety of goods produced.

Two months ago I decided to apply for another loan from Micro Finance Bank, to buy a steam iron, a machine used in the production of garments, which will make the production process more efficient.

How should I characterise my relationship with Micro Finance Bank, except to say that it is very successful, and mutually beneficial. I never dreamed that it would be possible for such a small company as mine to be supported by a real bank.

Client Profiles

Wholesale of Consumer Goods

In 1994 together with my business partner I founded the company “Transcom 94”. Before founding “Transcom 94” I was the owner of 3 grocery stores and my partner was the owner of 4 grocery stores. In 1994 we decided to join forces and started wholesale business. We started business in a small old house in Sabac and now our company covers the region of Sabac and smaller towns like Koceljevo, Bogatic, Obrenovac, Loznica and Ruma and it has more than 600 buyers. Our buyers are mainly groceries and supermarkets since we trade with consumer goods (mainly food products).

In 2002 “Transcom 94” applied for a loan in MFB and we received a loan in the amount of 85.000 EUR for purchase of 2 “Mercedes” trucks and a passenger vehicle. Our business was growing and the purpose of the loan was to improve technical and operational capacity of our company. We were always thinking in the long run and I would like to stress that we are very pleased with cooperation with MFB and that we plan to continue that cooperation for future investment projects.

Client Profiles

Farming

My name is Slavko Radovanovic and I work mainly as a small independent farmer. My family has been involved in agriculture since 1985. We started with only 15 hectares of land and approximately EUR 10,500, which we invested in agricultural production. Since then our output has gradually increased to the current level. We have always reinvested our earnings in the business. We currently farm 35 ha of our own land and 54 ha of rented land. We also own a cattle farm with 40 dairy cows, located in the yard behind our family house. We are engaged in cattle breeding as well as in milk production.

My family already had all the machinery and equipment we needed, but when we enlarged our production facilities, we needed a strong new tractor. I applied for my first loan from Micro Finance Bank in September 2002.

We used this first loan to purchase a Belarus 820 tractor; the maturity was 36 months and the loan amount was EUR 13,700. As my first experience with Micro Finance Bank was successful, I decided to apply for a second loan in order to enlarge my stock of cattle. The total investment plan called for the purchase of 26 heifers, 15 of which were financed with the loan in the amount of 15.000 EUR while the rest were paid for with our own resources.

Both loans helped us to enlarge our facilities. The new tractor enabled us to cultivate land significantly faster and with lower fuel consumption, and also enabled us to start to grow crops as a service to third parties. The second loan enabled us to significantly enlarge the number of cattle on our farm. This was very important for our business and we are grateful for the financial support we have received from Micro Finance Bank.

Furniture Production

In 1995 I founded the company “Drvosan”, which initially provided furniture repair services. We then started producing our own furniture on a small scale, and have since developed into a sizeable furniture manufacturing company.

I set up and developed the business in a village called Ivanca, near Novi Pazar. The production premises and offices were built on land inherited from my father, 2 km from the main asphalt road leading to Ivanca. Although convenient for furniture production in many respects, the location had a downside: in the winter, particularly after heavy snowfalls, the production premises were cut off from the main road until the municipal services cleared the access road. As a result, my company was forced to stop production for days at a time because heavy trucks with supplies could not reach the facilities; also, deliveries to my customers were not possible. Faced with this situation, I approached MFB with a request for a EUR 65,000 loan to buy a bulldozer with connecting devices that could be used for clearing the road to the production premises in winter time and for various other jobs.

The investment proved to be very successful. Not only was my company able to function with no interruptions last winter, but in the spring and summer “Drvosan” rented the bulldozer out to construction companies, thus earning enough additional income to cover the cost of the investment. Moreover, “Drvosan” carried out some heavy groundwork for our own new production premises. Not having to pay rent for a similar machine allowed us to make a substantial saving.

The loan was 100% successful. Not only did I save time and money in winter, but the machine is paying for itself. I wouldn’t want to go back to the times when I did not have one; in fact, I can’t even imagine what it was like.

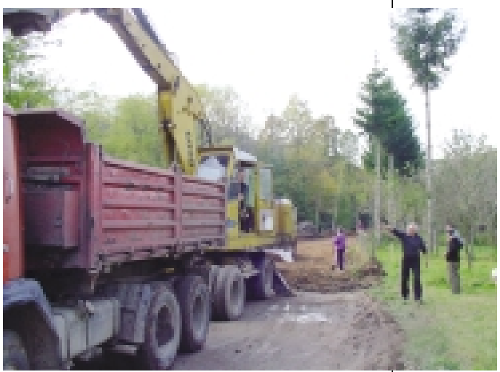
Domestic and International Money Transfers

Nongovernmental Development Agency

Cooperative Housing Foundation (CHF) is an international, non-profit, non-governmental development agency that undertakes long-term activities aimed at bringing about sustainable positive change in the spheres of local community development, housing and finance. Its mission, for more than 50 years, in more than 100 countries, has been, and still is – to build a better world.

CHF International / Serbia is one of many satisfied NGOs that conduct their banking business with MFB. CHF is involved in many activities in Serbia, all of which are financed by the United States Agency for International Development (USAID), and are carried out under one umbrella programme – Community Revitalisation through Democratic Action (CRDA). This programme has four important development components: civil participation (promoting the development of civil society in local communities), construction works (building and repairing roads, sewage systems, schools, bridges), environmental protection (reduction of pollution, efficient planning and use of energy), and business development (job creation, lending to small businesses).

Considering the diversity of its projects, CHF Serbia is in need of quite specific banking services which MFB has successfully tailored and implemented right from the first day of our business relationship. The quality of this relationship is summed up in the following statement by CHF's management:



"It has been over a year since the beginning of our cooperation and we would like to express our gratitude. You have fulfilled all of our requests very promptly and efficiently.

The employees always greet us with a smile, are always willing and ready to help, even in rather complex matters, which is very important for the execution of daily banking transactions.

In the newly arisen situation of transferring payments into business banks, you have shown your exceptional qualities, accuracy, promptness and kindness.

Domestic and International Money Transfers

We thank to all employees in Gospodar Jevremova Branch, especially to Milena Bakic, Magdalena Markovic, Anja Petkovic and Vesna Bogdanovic, who we work with on every day basis.

Furthermore, even during the difficult process of transferring responsibility for national payment services back to banks, you have demonstrated once again your outstanding qualities, punctuality, efficiency and politeness."

CHF International

To: **Micro Finance Bank**
From: Sinisa Danicic
Date: 27 January 2002.
Subject: **pismo**

Poštovana Gospodo!

Prošlo je više od godinu dana od početka naše saradnje i ja želim ovom prilikom da se zahvalim na fer play odnosu. Na sve naše zahteve odgovarali ste brzo i efikasno.

Službenici su uvek raspoloženi, nasmejani i spremni da pomognu i u vrlo složenim situacijama što je vrlo važno za obavljanje svakodnevnih bankarskih transakcija.

I u novonastaloj situacijai prelaska platnog prometa u poslovne banke Vi ste pokazali Vaše izuzetne kvalitete, tačnost, brzinu i ljubaznost.

Zahvaljujemo se svom osoblju filijale u Ulici Gospodar Jevremovoj a posebno Mileni Bakic, Magdaleni Marković, Anji Petković i Vesni Bogdanović s kojima svakodnevno uspešno sarađujemo.

Siniša Daničić

Danicic Sinisa

Community • Habitat • Finance • Jugoslavija • CHF International

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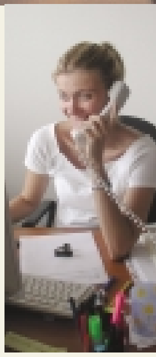
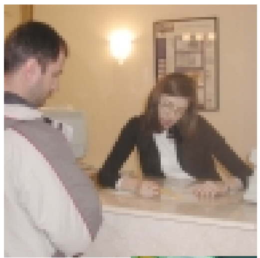
e-mail: office@chfyu.org
www.chfyu.org



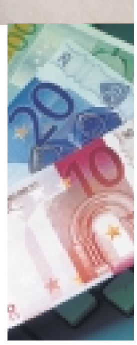
MFB as a Fully Fledged Bank

MFB has set itself the twin objectives of contributing to the development of the Serbian enterprise sector and to the deepening of the Serbian financial system. Neither of these goals can be achieved through lending alone:

1. Enterprises have complex requirements: as well as a supply of financing, they also need a bank that can reliably execute money transfers both within Serbia and to and from other countries; they need deposit facilities so that they can invest any surplus liquidity they may have; they need bank guarantees in order to do international business; etc.



Accordingly, MFB provides companies with account management services, handles their domestic payment transactions, and offers attractive investment opportunities. MFB also offers a wide range of international banking services, such as fast transfers via SWIFT through our correspondent banking network, any type of letter of credit needed for import or export, and bank guarantees.



In its international business MFB benefits from Commerzbank's correspondent network, which provides it with access to more than 6,000 banks worldwide.

2. Private retail customers, by depositing their money at MFB, will – over the long term – provide some of the funds needed to finance the bank's lending operations. They too must therefore be offered suitable products and good service.

In 2002 MFB launched the domestic debit card, YUBA, and the Diners Club credit card. We also offer overdrafts and consumer loans.

Corporate Governance

MFB's overall objective is to become the leading provider of credit and general banking services to entrepreneurs and businesses throughout Serbia. The first two years of operation have shown that MFB is well on the way to achieving that goal. The bank has undergone tremendous growth during that time, and will continue to grow rapidly in the years to come.
Institutional growth on such a scale can only be achieved if the bank's corporate governance is sound and based on the principles of transparency, integrity and accountability. MFB strives to conduct its business according to international best practice banking standards.

MFB's operations are in full compliance with:

- international commercial banking principles,

- all local applicable laws and regulations,

- strict anti-money laundering requirements set by its shareholders,

- high environmental standards for its loan clients.

MFB's governance structure ensures that supervisory and control functions are strictly separated from operational functions: the bank is governed by a Board of Directors, managed by a Management Board and overseen by an Audit Committee.

Regular meetings of the Board of Directors ensure an efficient flow of information which allows the Board members to fulfil their function as the bank's supreme governing body. The management reports to them on major business transactions and general aspects of the bank's development.

An Internal Audit unit has been established, whose function is to conduct regular independent assessments of the internal control system and the adequacy of risk management policies. The Internal Audit reports directly to the Audit Committee, thus ensuring that an independent body is monitoring the management's actions and the bank's operations on behalf of the shareholders.

Risk Management

Since the political, social and economic conditions in Serbia have yet to fully stabilise, the bank adopted a highly prudent risk management policy in the year 2002.

The main sources of risk for the bank are:

- Credit Risk
- Liquidity Risk
- Exchange Rate Risk
- Interest Rate Risk
- Operational Risk

Credit Risk

The bank's main risk position can be found in its lending activity.

MFB's policy is to base its credit decisions on a full financial analysis of the client's business activities. This financial analysis is carried out by one of the bank's loan officers, and considerable attention is given to their training and ongoing skills development. The loan officers are trained in both the theory and the practice of the bank's credit technology. They attend seminars and specific courses, and learn on the job by accompanying more experienced loan officers in the field.

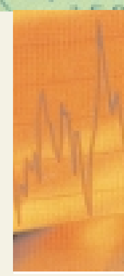
As of December 31, 2002, the bank's total loan portfolio stood at over EUR 38 million. Throughout 2002 the level of arrears remained below 0.4%, proving that our credit technology yields a fair and objective picture of the financial situation of the customer. Moreover, as of year-end, the total volume of loans in arrears was EUR 311,000, while provisions set aside to cover the bank's credit risk totalled EUR 1,253,000, a further indication of MFB's very prudent approach to managing credit risk.

The bank regularly monitors not only the quality of its loan portfolio, but also its diversification. As of December 3, 2002, 52% of the loans granted (in volume terms) were to trading companies, 14% to manufacturers, 13% to agriculture and 21% to service businesses. Of the total outstanding portfolio, private individuals (consumer loans) accounted for 13%, enterprises for 87%. With more than 4,500 business credit clients, the average loan disbursed in 2002 was EUR 8,800. Medium-sized borrowers (defined as clients who received a loan in excess of EUR 50,000) accounted for 17% of the total outstanding volume.

Liquidity Risk

During 2002 the main focus of the bank's treasury department was on providing the bank with enough liquidity to sustain the growth of its loan portfolio. Long-term financing was obtained through the bank's shareholders, and MFB started to search actively for local sources of funds.

Given that the consequences of the restructuring of the banking sector in Serbia were still uncertain and given the bank's desire to protect its reputation in the event of an unusually large demand for cash withdrawals, MFB's policy was to maintain a high level of cash at the branches.



Exchange Rate Risk

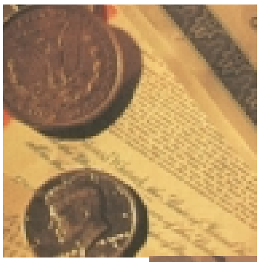
MFB is required to report to the National Bank of Serbia in dinars. This exposes the bank to currency risk due to its holding of assets or liabilities denominated in foreign currencies, mainly US dollars and euros. Currently, the exchange rate between the euro and the dinar is determined via an interbank market whereby the commercial banks buy from or sell to the National Bank of Serbia, which in turn determines the price by a quasi-open market methodology. The dollar/dinar exchange rate is determined by crossing the euro/dinar exchange rate with the euro/dollar exchange rate as determined on the international markets.

MFB has a policy of minimising exposure to exchange rate fluctuations by closing foreign currency positions on a daily basis. Our internal guideline is to keep the net open foreign currency position below 25% of equity at all times.

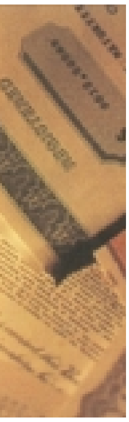
Risk Management

During 2002 the bank's policy was to keep the paid-in capital in hard currency. Since the capital was paid in dollars, the bank maintained a long position in dollars throughout the year in order to protect the shareholders' equity. However, this policy has caused the bank to suffer as a consequence of the continuous depreciation of the dollar against the dinar.

Interest Rate Risk



The bank's exposure to interest rate risk during 2002 mainly originated from the liability side of the balance sheet. The cost of MFB's long-term funds is partly tied to Euribor. On the asset side, the interest rate risk stayed very low throughout the year because the bank did not trade in securities and did not place excess liquidity in long-term deposits tied to a floating interest rate. Moreover, all of the loans issued by the bank have fixed interest rates.



Operational Risk

The bank's exposure to operational risk was further reduced during 2002. In particular, procedures and manuals were written to ensure that our information and technology infrastructure remains functional in all scenarios. Servers have been physically secured, and overall control over the bank's network has been tightened. Given that Serbia is still a high-risk country in many respects, a considerable volume of resources has been channelled into securing our operations. The bank employs a professional security firm to deliver cash to and from the branches, and a round-the-clock guard system is employed at all our premises where cash is stored. All of the new premises built during the year have been equipped with state of the art security systems, and ongoing training is given to employees in positions considered to have the highest risk profile, i.e. cashiers.

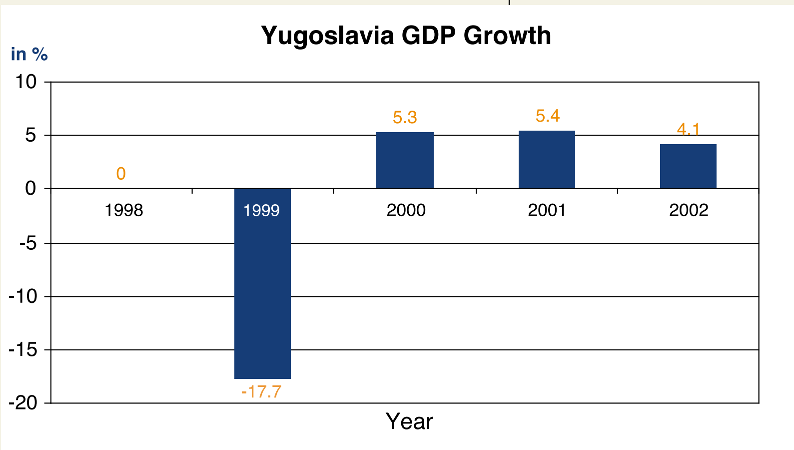
Business Review

Serbia in 2002

After the "lost decade" that ended in 2000, during which economic output fell by over 65%, 2002 was the second year of economic and social recovery. Economic performance has been steadily improving since the war years: inflation slowed down from 115% in 2000 to 39% in 2001. The country's real GDP rebounded after a steep decline of 18% in 1999, growing by an estimated 5.5% in 2001.

Building on the early successes of 2001, Serbia continued its macroeconomic stabilisation in 2002: inflation was reduced significantly to 14%, the dinar was very stable against the euro, and GDP grew by a further 4%.

In particular, micro, small and medium-sized enterprises started to develop well. While most state-owned companies are still stagnating and privatisation is proving to be a lengthy process, many micro, small and medium-sized enterprises are taking over the markets of the "old dinosaurs", and are investing heavily in expansion and modernisation. Nevertheless, the privatisation process was visibly picking up speed towards the end of the year, especially the privatisation of small and medium-sized companies.



In the banking sector, the first substantial structural reforms were carried out in 2002: four of the biggest state banks were closed in January, and a debt-equity swap organised by the National Bank provided the basis for the privatisation of 16 other banks. The National Bank has also implemented efficient bank supervision structures, and it abolished the centralised ZOP payments system at the end of 2002. Despite the weaknesses that remain, the banking sector is showing signs of recovery. Retail customers also seem to be regaining their trust in the banking sector – probably the most tangible indicator for the improvement of the system is the fact that private customer deposits increased to approx. EUR 2,8 billion in December 2002. Encouraging developments also include modified tax legislation, which has led to reduced rates of personal and corporate income tax while improving tax collection substantially.

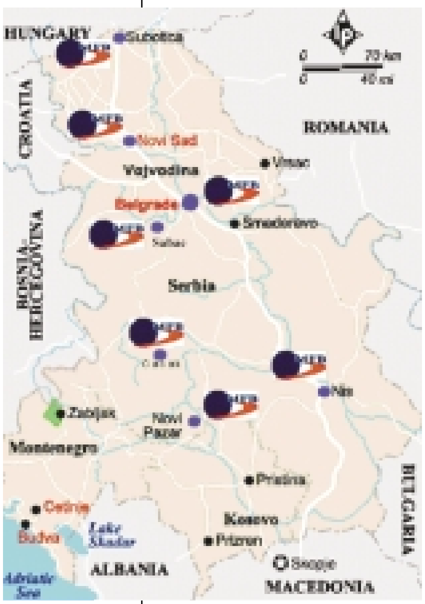
In 2002 Serbia was able to demonstrate to potential foreign investors that it has the political will to implement reforms and that the country is making progress towards stabilisation and economic growth. If these first steps are followed up consistently in 2003, one can be quietly optimistic about Serbia's future development. The continuation of the reform agenda will undoubtedly benefit the MSME sector, and consequently will have a positive impact on MFB too.

Branch Network

Branch Network

A key aspect of MFB's mission is to extend its services to as many clients as possible, which also implies striving for maximum geographical coverage. In line with this overall objective, our primary focus during the first two years of operation has been to expand MFB's branch network. Having opened 10 branches and 8 credit outlets, we are now able to cover all of the major cities in Serbia.

City	Branch (B) or Outlet (O)	Population (thousands)
City of Belgrade (3 branches)	B	1,600
Novi Sad (2 branches)	B	265
Subotica	B	150
Sabac	B	124
Cacak	B	117
Nis	B	248
Novi Pazar (branch + outlet)	B + O	85
Sombor	O	96
Becej	O	43
Panchevo	O	125
Kraljevo	O	126
Kragujevac	O	180
Pirot	O	68
Prijepolje	O	47
Total		3,274
Estimated population served, including surrounding areas		*6,000*
Serbia total		*11,000*



Even more extensive geographical coverage is one of the goals for the next year:

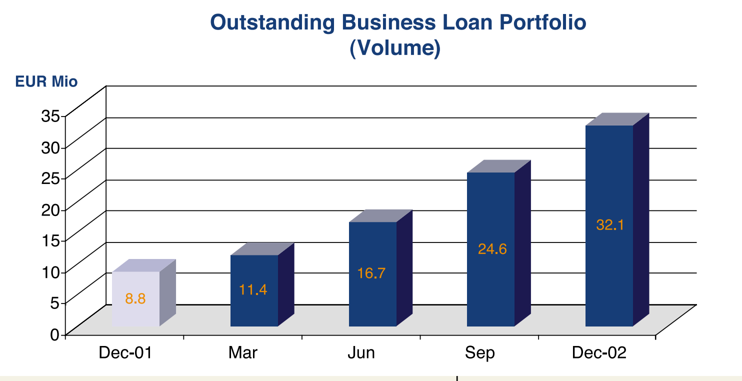
• greater coverage of Serbia with lending products by opening new credit outlets
• greater coverage of Serbia with retail products by upgrading existing credit outlets full branches and opening new branches
• greater coverage of the region by intensifying links to our partner banks in neighbouring countries such as Bosnia and Herzegovina, Macedonia, Bulgaria.

Operational Growth

Lending

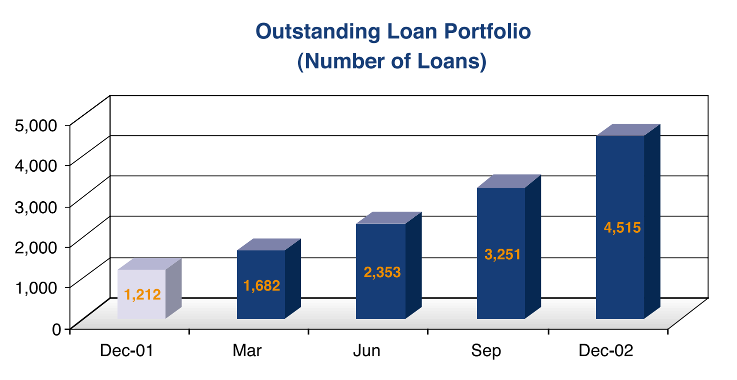
The lending results bear witness to a successful year. With 4,500 business loans outstanding we were able to position MFB as the leading provider of financing to micro, small and medium-sized enterprises. The outstanding business loan portfolio grew to EUR 32 million. The resulting average outstanding balance of EUR 7,000 is further proof of our commitment to the target group. Every borrower matters to us, and every loan is just as important, whether it is for EUR 200 or for EUR 200,000.

The introduction of the Micro Express Loan in September 2002 led to a visible increase in productivity, with more than 700 loans totalling EUR 5 million disbursed per month. This new type of loan was subject to a EUR 5,000 ceiling and was designed to enable micro enterprises to finance working capital. It can be issued within a few days, and the bank does not require applicants to provide extensive documentation. Micro express loans have turned out to be very successful, enabling MFB to access a new segment of the market which still has considerable potential for development over the next few years.



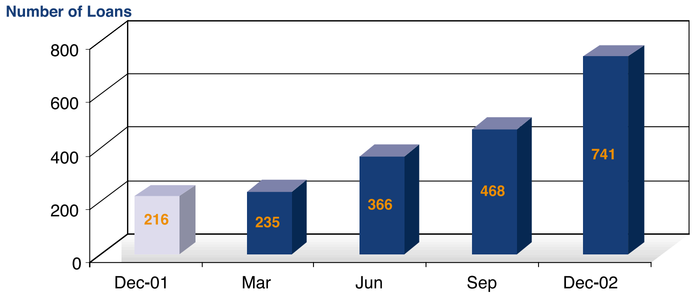
Another market segment with strong potential was tapped when the bank introduced agricultural loans. In March 2002, prompted by the demand for such a product in the Vojvodina – a region dominated by agriculture, where conditions favour many types of agricultural production – MFB started lending to agricultural primary producers. After conducting thorough research into the agricultural market in Serbia, and after field testing the products, MFB's agricultural lending team developed techniques that enable the bank to satisfy farmers' financing needs with loan sizes ranging from EUR 1,000 for livestock to EUR 60,000 for tractors.

In all, MFB disbursed 675 loans totalling EUR 3. 8 million during 2002. When farmers apply for loans, their businesses are subjected to a full financial analysis, and their agricultural production is also analysed. For each loan, MFB conducts a specific

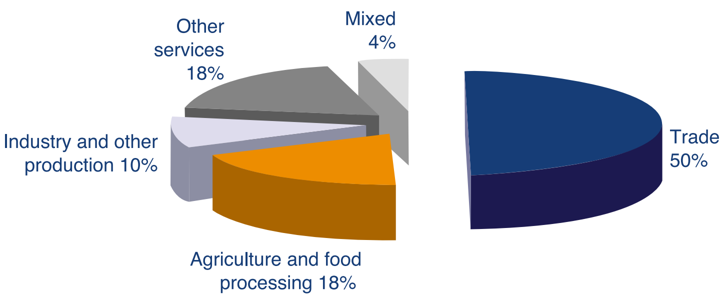


Operational Growth

Business Loan Disbursements Monthly



Loan Portfolio by Sectors

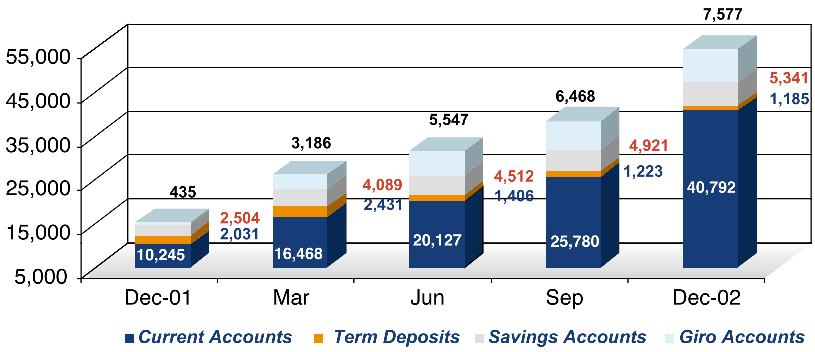


risk assessment (taking account of risks associated with the weather, diseases and market volatility). To date, MFB has trained 25 agricultural loan officers, all of whom have a degree in agricultural sciences. Thanks to these training measures it proved possible to extend the availability of agricultural loans to 7 branches and outlets (Novi Sad I and II, Subotica, Cacak, Becej, Sabac and Sombor).

Non-Lending Products

As small businesses develop, their banking needs increasingly extend beyond loans. More and more of their transactions are conducted on a non-cash basis, and they develop the financial skills to engage in professional liquidity management. MFB is dedicated to providing its target group with a comprehensive range of services that are appropriate to whatever stage of development their businesses have reached.

Number of Accounts



In addition to serving our loan clients, we have also started to market our non-credit products, especially term deposits, to private savers. Last but not least, Serbian and international corporations and NGOs rely on our payment and deposit services. For MFB, the provision of non-credit products is also a means of mobilising an increasing proportion of its loanable funds within Serbia.

Staff Development

Banking is a service industry, where the qualifications and the motivation of the employees are key factors for success. This is especially true of MFB: we are a young and fast growing organisation, and successfully managing that growth presents our staff with substantial challenges.

MFB’s hiring policy is to recruit mostly young people, but also to employ more experienced staff where necessary, thus ensuring that the bank has the optimum mix of enthusiasm and know-how required to provide high quality services. We regard the hiring of university graduates and young professionals as a very important aspect of our commitment to the development of Serbia. We think it is important to give young graduates a chance to pursue a career in their home country, to stop the ‘brain drain’ from which Serbia suffered during the 1990s.

In the course of 2002, MFB hired over 150 trainees, including 72 loan officers and 60 client advisers. With a staff of 266 at the end of 2002, whose average age was 29, MFB has one of the fastest growing and youngest teams in Serbia’s banking system.

MFB has a very strong commitment to training and HR development. This includes an initial period of intensive training in seminars for new recruits, as well as ongoing training measures for more experienced employees. Most of the seminars are internally organised, but MFB increasingly makes use of external seminars, in particular seminars jointly organised by the Association of Yugoslav Banks and Bank Akademie Frankfurt. An integral part of the training measures has been the teaching of foreign language skills, in particular English, in order to integrate key staff members into the international network of microfinance banks. Some of our staff members have also been trained abroad at other microfinance banks.

The bank’s extensive training measures, and especially our loan officer training programme, which generally takes at least 3 months to complete, would not have been possible without the understanding and the support of MFB’s shareholders, who have provided loans and technical assistance, financed in part by the German government and the US Treasury Department.

MFB pursues a policy of filling vacancies through internal promotion rather than external hiring wherever possible. We aim to offer our young local employees the chance to build a career and develop their skills at MFB. After less than two years of operation, MFB has been able to fill all branch manager positions in Belgrade and Novi Sad with local employees, who started out as loan officers or client advisers in 2001.

MICRO FINANCE BANKA A.D., BEOGRAD

Financial Statements
31 December 2002 and 2001
and Independent Auditors' Report

Contens

Contents

To the Shareholders of Micro Finance Banka A.D., Beograd:

To the Shareholders of Micro Finance Banka A.D., Beograd:

We have audited the accompanying balance sheets of Micro Finance Banka A.D., Beograd, (hereinafter: "the Bank") as of 31 December 2002 and 2001, and the statements of income, changes in equity and cash flows for the year ended 31 December 2002 and the period from 9 April through 31 December 2001. These financial statements, set out on pages 33 to 61, 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 year ended 31 December 2002 and the period from 9 April through 31 December 2001 in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw attention to Note 19 to the financial statements. The Bank is required to maintain certain minimum or maximum ratios with respect to the volume of its activities and composition of risk assets in compliance with the requirements of the Yugoslav Law on Banks and Other Financial Institutions and the National Bank of Yugoslavia Regulations. As of 31 December 2002, certain ratios were not within the prescribed limits. The actions if any, which may be taken by the National Bank of Yugoslavia owing to these issues of non-compliance cannot presently be determined.

Deloitte & Touche

Deloitte & Touche
7 February 2003
Belgrade, Serbia

STATEMENTS OF INCOME
For the Year Ended 31 December 2002
and for the Period from 9 April through 31 December 2001
(Thousands of Dinars)

	Notes	1 January - 31 December 2002	9 April - 31 December 2001 Restated
Interest income	4a	313,856	49,978
Interest expense	4b	(72,332)	(16,414)
Net interest income		241,524	33,564
Fee and commission income	5a	139,440	44,775
Fee and commission expense	5b	(26,163)	(10,443)
Net fee and commission income		113,277	34,332
Foreign exchange gains, net		-	4,853
Other operating income		5,789	-
Operating income		360,590	72,749
Foreign exchange losses, net		(48,415)	-
Operating expenses	6	(354,492)	(107,441)
Loss on impairment and uncollectibility	7a	(62,790)	(15,754)
Loss before tax		(105,107)	(50,446)
Income tax	8a	22,993	-
Loss for the year/period, net		(82,114)	(50,446)

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

Approved by,

Christoph Freytag
General Director
(appointed by the General Assembly of
Shareholders on 22 January 2003)

BALANCE SHEET
As of 31 December 2002 and 2001
(Thousands of Dinars)

	Notes	2002	2001 Restated
ASSETS			
Cash and balances with the Central Bank	9	1,419,031	886,585
Placements with other banks	9	376,603	1,303,162
Loans to customers, net	10	2,293,876	513,464
Fixed assets, net	11	82,365	27,072
Deferred income tax assets	8c	22,993	-
Other assets, net	12	23,061	11,034
Total assets		4,217,929	2,741,317
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks	13	307,576	4,772
Deposits from customers	14	2,366,676	2,146,987
Loans from banks and financial institutions	15	872,883	224,054
Other liabilities	16	28,669	18,981
		3,575,804	2,394,794
Shareholders' equity			
Share capital	17	720,000	360,000
Additional paid-in capital		54,685	36,969
Accumulated loss		(132,560)	(50,446)
		642,125	346,523
Total liabilities and equity		4,217,929	2,741,317
OFF-BALANCE SHEET ITEMS	18	100,412	981,425

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

STATEMENTS OF CHANGES IN EQUITY
For the Year Ended 31 December 2002
and for the Period from 9 April through 31 December 2001
(Thousands of Dinars)

	Number of Shares		(Thousands of Dinars)	
	1 January - 31 December 2002	**9 April - 31 December 2001**	**1 January - 31 December 2002**	**9 April - 31 December 2001**
				Restated
SHARE CAPITAL				
Balance, beginning of year/period	1,200,000	-	360,000	-
Shares issued	1,200,000	1,200,000	360,000	360,000
Balance, end of year/period	2,400,000	1,200,000	720,000	360,000
ADDITIONAL PAID-IN CAPITAL				
Balance, beginning of year/period			36,969	-
Shares issued			17,716	36,969
Balance, end of year/period			54,685	36,969
ACCUMULATED LOSS				
Balance, beginning of year, as previously reported			31,406	-
Adjustments:				
Reversal of foreign exchange gains on share capital			(9,052)	-
De-recognition of leasehold improvements previously recognized as intangible assets			28,092	-
Balance, beginning of year/period as restated			50,446	-
Loss for the year/period			82,114	50,446
Balance, end of year/period			132,560	50,446

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

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2002
and for the Period from 9 April through 31 December 2001
(Thousands of Dinars)

	Notes	2002	2001 Restated
Cash flows from operating activities			
Net loss for the year/period		(82,114)	(50,446)
Adjustments to reconcile net loss for the year/period to cash flows from operating activities:			
Non-cash transactions included in net loss for year/period			
Depreciation and amortization		9,065	1,586
Provision for impairment and uncollectibility, net of recoveries		62,790	15,754
Losses on disposal of fixed assets		18	-
Deferred income tax		(22,993)	-
Net increases in operating assets:			
Loans to customers		(1,841,757)	(529,218)
Other assets		(13,472)	(11,034)
Net increases in operating liabilities:			
Deposits from banks and customers		522,493	2,151,759
Other liabilities		9,688	18,981
Net cash used in operating activities		(1,356,282)	1,597,382
Cash flows from investing activities			
Purchases of property and equipment		(64,376)	(28,658)
Net cash used in investing activities		(64,376)	(28,658)
Cash flows from financing activities			
Proceeds from share issuance		377,716	396,969
Net increase in loans from banks and financial institutions		648,829	224,054
Net cash from financing activities		1,026,545	621,023
Net (decrease)/increase in cash and cash equivalents		(394,113)	2,189,747
Cash and cash equivalents, beginning of the year/period		2,189,747	-
Cash and cash equivalents, end of the year/period	9	1,795,634	2,189,747

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

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

1. THE BANK'S ESTABLISHMENT AND OPERATING POLICY

Micro Finance Banka A.D., Beograd (the Bank) was established on 9 April 2002. The Bank began its operations pursuant to the Decision of the National Bank of Yugoslavia dated 5 April 2002.

The Bank is owned by six shareholders: The European Bank for Reconstruction and Development (EBRD), London, The International Finance Corporation (IFC), Washington DC, Commerzbank AG, Frankfurt am Main, Kreditanstalt fuer Wiederaufbau (KfW), Frankfurt am Main, Internationale Micro Investitionen AG (IMI), Frankfurt am Main, and Nederlandse Financierings Maatschappij voor Ontwikkelingslanden N.V. (FMO), The Hague.

The Bank is licensed in the Federal Republic of Yugoslavia to perform both domestic and international payment transfers, credit and deposit activities in the country and abroad, and in accordance with Yugoslav law, is to operate based on principles of liquidity, security of placements and profitability.

As of 31 December 2002, the Bank was comprised of a Head Office in Belgrade and ten branches located in the cities of Belgrade (three branches), Novi Sad (two branches), Nis Novi Pazar, Sabac, Cacak, and Subotica. The Bank's registered office is in Belgrade, at Narodnih Heroja 43. The Bank had 233 employees as of 31 December 2002 (31 December 2001: 60 employees).

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

These financial statements have been prepared in accordance with standards and interpretations approved by the International Accounting Standards Board, which are referred to as Internatonal Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS).

These financial statements originate from the Bank's statutory accounting records maintained in accordance with accounting regulations applicable in the Republic of Serbia, the requirements stipulated by the Law on Banks and Other Financial Institutions and regulations issued by the National Bank of Yugoslavia. Certain accounting principles prescribed for statutory reporting purposes differ from the IFRS. Therefore, adjustments and reclassifications were made to the Bank's statutory accounts to present them in accordance with IFRS. Reconciliations between the Bank's net equity and net income per statutory accounts and these financial statements are presented in Note 20.

The Bank's measuring and reporting currency is the Yugoslav Dinar (YUD).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense Recognition

Interest income and interest expense and other operating income and expenses are accounted for on an accrual basis. Fee and commission receivable are recognized when earned.

Loan origination fees are credited to income when the associated service is performed. According to IAS 18 Revenue and IAS 39 Financial Instruments: Recognition and Measurement, these fees are an integral part of generating an ongoing involvement with the resultant financial instrument and should be deferred and recognized as an adjustment to the effective yield. In the view of the management of the Bank, the impact of non compliance with the requirement of IAS 18 and IAS 39 does not have a material impact on its overall financial position.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 exchange rates prevailing at the balance sheet date.

3.3. Fixed Assets

Fixed assets are carried at historical cost, less accumulated depreciation and amortization.

Depreciation and amortization are calculated on a straight - line basis at the following annual rates (as prescribed by the Yugoslav accounting regulation) in order to write off the assets over their estimated useful lives:

Computers and related equipment	20%
Furniture and equipment	16.5%
Intangible assets	20%

Depreciation of a fixed asset commences at the end of the month when the asset is placed into service.

3.4. Loans Originated by the Bank

Loans originated by the Bank are initially recognized at cost, when cash is advanced to customers. They are subsequently measured at amortized cost using the contractual interest rate.

3.5. Provisions for Loan Impairment

A provision for loan impairment is established when there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted based on the interest rate at inception. The provision for loan impairment also covers losses inherent in the Bank's portfolio as of the balance sheet date. These amounts represent the management's estimate of the probable loan losses, taking into account the current economic climate and credit rating of customers.

If the loan interest or principal is ninety or more days overdue, the loan is classified as non performing and any accrued interest is reversed.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Employment Benefits

In accordance with local regulations, the Bank is obliged to pay contributions to the State Social Security Funds. This obligation involves the payment of contributions on behalf of the employer in an amount calculated by applying specific percentages stipulated under the relevant regulations. The Bank is also legally obligated to withhold contributions from gross payments to employees, on behalf of employees, to the same funds. These contributions, payable on behalf of both the employee and employer are charged to expenses in the period to which they relate, and are included in staff costs.

3.7. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash, balances with the Central bank and placements with other banks.

3.8. Taxes and Contributions

Current Income Tax

Income tax is calculated in accordance with the provisions of the relevant legislation in the Republic of Serbia, based on the profit recognized in the statutory statement of income. The estimated tax on monthly profit is paid in advance, as determined by the tax authorities. Final taxes on profit of 20% are payable based on the annual profit shown in the statutory statement of income. The taxable base reported in the annual income tax returns includes the profit shown in the statutory statement of income, as adjusted for permanent differences that are defined by local tax regulations. Such adjustments mainly consist of adding back certain disallowed expenses, capital expenditures, and investments.

The tax regulations in the Republic of Serbia do not allow any tax losses of the current period to be used to recover taxes paid within a specific carry - back period. However, current year losses may be used to reduce or eliminate taxes to be paid in future periods, for duration of no longer than five years.

Pursuant to the Republic of Serbia Tax Law, at the time of the Bank's establishment, the Bank is exempt from paying income taxes during the first five years of its operations.

Deferred Income Tax

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. Currently enacted tax rates or substantively enacted rates at the balance sheet date are used to determine deferred income tax. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and the tax effects of income tax losses 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 carry forwards can be utilized.

Indirect Taxes and Contributions

Indirect taxes and contributions include various taxes and contributions payable under the local regulations. They are included under "Operating expenses".

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. 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 for which their fair value is materially different from the recorded amounts. Fair value, for this purpose, is defined as the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm s length transaction. The fair value of cash and cash equivalents, deposits and loans originated by the Bank, other receivables, deposits, borrowings and other current liabilities approximates the carrying value, provided that they will mature shortly.

Sufficient market experience, stability and liquidity do not currently exist for the purchase and sale of financial assets or liabilities, for which published market information is not readily available. Accordingly, in such an environment, fair value cannot readily nor reliably be determined. In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present circumstances.

4. INTEREST INCOME AND EXPENSE

a. Interest Income

	Thousands of Dinars	
	Year Ended 31 December 2002	**9 April - 31 December 2001**
Cash and short-term funds	11,478	8,784
Deposits with the Central bank	26,360	7,666
Loans to customers	276,018	33,528
	313,856	49,978

b. Interest Expense

	Thousands of Dinars	
	Year Ended 31 December 2002	9 April - 31 December 2001
Deposits from banks	3,334	-
Deposits from customers	40,538	7,114
Loans from banks and financial institutions	28,430	9,300
Use of the obligatory reserves with the Central bank	30	-
	72,332	16,414

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	
	Year Ended 31 December 2002	9 April - 31 December 2001
Loan origination fees	58,209	13,046
Domestic money transfers	4,562	2,299
International money transfers	68,335	25,753
Other	8,334	3,677
	139,440	44,775

b. Fee and Commission Expense

	Thousands of Dinars	
	Year Ended 31 December 2002	9 April - 31 December 2001
Domestic money transfer-related	13,054	3,444
International money transfer-related	6,190	2,443
Other	6,919	4,556
	26,163	10,443

6. OPERATING EXPENSES

	Thousands of Dinars	
	Year Ended 31 December 2002	9 April - 31 December 2001 Restated
Staff costs	102,209	14,325
Services	34,977	5,218
Rent	49,877	16,063
Materials, energy and utilities	31,828	8,842
Advertising, marketing, and entertainment	20,354	4,760
Office refurbishment	8,980	31,632
Administrative	29,298	12,432
Sales taxes on qualifying interest income	58,558	9,410
Indirect taxes and contributions	8,436	3,159
Depreciation and amortization	9,065	1,586
Other	910	14
	354,492	107,441

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

7. PROVISION FOR IMPAIRMENT AND UNCOLLECTIBILITY

a. Charge for the Year, Net of Recoveries

	Thousands of Dinars Year Ended 31 December 2002	Thousands of Dinars 9 April - 31 December 2001
Loans to customers	61,345	15,754
Other assets	1,410	-
	62,755	15,754
Write - offs	35	-
	62,790	15,754

b. Movements in the Balance of Provision for Loss and Uncollectibility

	Thousands of Dinars Loans to Customers	Thousands of Dinars Other Assets	Thousands of Dinars Total
Balance, beginning of year	15,754	-	15,754
Additions	61,430	1,458	62,888
Recoveries	(85)	(48)	(133)
Balance, end of year	77,099	1,410	78,509

8. INCOME TAX

a. Components of Income Tax

	Thousands of Dinars Year Ended 31 December 2002	Thousands of Dinars 9 April - 31 December 2001
Current income tax	-	-
Deferred income tax	22,993	-
	22,993	-

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

8. INCOME TAX (continued)

b. Reconciliation Between the Statutory Tax Rate and the Effective Tax Rate

The effective tax rate (income tax credit) in the year ended 31 December 2002 is 21.9%. The following is reconciliation between the Republic of Serbia tax rate of 20% and the effective tax rate:

	Year Ended 31 December 2002 %	9 April - 31 December 2001 % Restated
Statutory tax rate	(20.0)	(20.0)
Tax effects of differences between the statutory loss and the IFRS loss,	(4.5)	7.8
Of which: the tax effects of temporary differences- relating to measurement of fixed assets	(0.4)	(2.8)
Non-deductible expenses, a portion of the the provision for impairment and uncollectibility	0.9	-
Non-recognized deferred tax assets	-	15.0
Previously unrecognized deferred tax assets	(7.2)	-
Effects of changes in the enacted tax rate	9.4	-
Effective tax rate	(21.9)	-

The statutory tax rate was changed effective as of 1 January 2003 to 14%. The deferred tax assets are stated based on the newly-enacted rate.

c. Deferred Income Tax Assets

Deferred income tax assets are attributable to the following items:

	Thousands of Dinars 31 December 2002	2001
Fixed assets	1,300	-
Tax loss carry forwards	21,693	-
	22,993	-

9. CASH AND CASH EQUIVALENTS, NOSTROS, BALANCES WITH THE CENTRAL BANK AND PLACEMENTS WITH OTHER BANKS

	Thousands of Dinars 31 December 2002	2001
Cash and balances with the Central Bank		
Cash on hand		
- in Dinars	31,417	2,413
- in foreign currency	164,381	279,997
Giro account	128,638	41,090
Foreign currency cheques in the course of collection	14,731	3,685
Obligatory reserves with the National Bank of Yugoslavia		
- in Dinars	33,541	13,574
- in foreign currency	144,107	-
- in foreign currency with respect to public saving accounts	902,216	545,826
	1,419,031	886,585
Placements with other banks		
Current accounts in foreign currency:		
- with domestic banks	-	242,969
- with foreign banks	14,518	39,170
Time deposits held with foreign banks for up to 7 days	355,933	1,021,023
Cover deposits for letters of credit and guarantees issued	6,152	-
	376,603	1,303,162
Total cash and cash equivalents	1,795,634	2,189,747

Balances with the National Bank of Yugoslavia (NBY) comprise obligatory reserves in dinars and in foreign currencies, which represent a reserve deposit required by the NBY. Such reserves are calculated on the basis of the average balance of deposit and certain other liabilities in the preceding month. The banks are obligated to maintain average monthly balances of obligatory reserves at a level not lower than the amount of reserve as per the most recent calculation.

Foreign currency public savings are deposited in accordance with the NBY regulations requiring banks to maintain a deposit with the NBY at an amount equivalent to 50 percent of the total balance of public savings in foreign currencies, as in effect at the end of the previous month. This deposit earns interest at the prevailing market annual rates applicable to deposited foreign currencies.

10. LOANS TO CUSTOMERS, Net

	Thousands of Dinars 31 December 2002	2001
Loans to enterprises		
- in Dinars	760,793	153,663
- in foreign currency	7,149	-
Loans to individuals in Dinars	1,603,033	375,555
	2,370,975	529,218
Provision for impairment (Note 7b)	(77,099)	(15,754)
	2,293,876	513,464

Loans to individuals and enterprises are granted for periods of up to five years, at monthly interest rates ranging from 0.5 percent to 2.5 percent. Loans to individuals represent loans granted to private entrepreneurs for the purpose of providing financing to small enterprises and agricultural workers, as well as consumer loans.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

10. LOANS TO CUSTOMERS, Net (continued)

Although loans are disbursed in dinars, as required by the applicable legislation, they are index-linked to the Dinar-EUR exchange rate. This practice assures that the client's payment obligations are effectively fixed to a specific euro amount. The Bank grants index linked loans due to the fact that the present legislation in the Republic of Serbia does not permit, apart from a few rare exceptions, the issuance of loans in foreign currency.

As of 31 December 2002 loans in arrears for more 90 days amounted to Dinar 1,158 thousand (31 December 2001-nil).

The Bank does not have significant concentrations in its loan portfolio as of 31 December 2002 and 2001.

11. FIXED ASSETS, Net

Thousands of Dinars
2002

	Equipment and Other Assets	Construction in Progress	Intangible Assets	Total
Cost				
Balance, beginning of year as restated	16,952	9,270	2,436	28,658
Additions	42,273	22,103	-	64,376
Transfers	14,511	(30,621)	16,110	-
Disposals	(18)	-	-	(18)
Balance, end of year	73,718	752	18,546	93,016
Accumulated amortization and depreciation				
Balance, beginning of year as restated	989	-	597	1,586
Charge for the year	6,554	-	2,511	9,065
Balance, end of year	7,543	-	3,108	10,651
Net carrying value				
End of year	66,175	752	15,438	82,365
Beginning of year	15,963	9,270	1,839	27,072

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

12. OTHER ASSETS

	Thousands of Dinars 31 December 2002	2001
Prepaid expenses	15,697	7,445
Other receivables		
- in Dinars	4,787	750
- in foreign currency	3,987	2,839
	24,471	11,034
Provision for uncollectibility	(1,410)	-
	23,061	11,034

13. DEPOSITS FROM BANKS

	Thousands of Dinars 31 December 2002	2001
Demand deposits		
- from domestic banks	-	176
- from foreign banks	-	4,596
Time deposits in foreign currency		
- from domestic banks	184,546	-
- from foreign banks	123,030	-
	307,576	4,772

14. DEPOSITS FROM CUSTOMERS

	Thousands of Dinars 31 December 2002	2001
Demand deposits in Dinars		
- Enterprises	152,598	58,783
- Foreign entities	4,200	987
- Individuals	51,332	11,078
Demand deposits in foreign currency		
- Enterprises	102,270	21,530
- Foreign entities	224,322	223,404
- Individuals	1,243,624	878,314
Time deposits in Dinars		
- Enterprises	501	-
- Individuals	855	160
Time deposits in foreign currency		
- Enterprises	51,912	-
- Foreign entities	-	22,287
- Individuals	535,062	930,444
	2,366,676	2,146,987

15. LOANS FROM BANKS AND FINANCIAL INSTITUTIONS

Liabilities with respect to loans from banks and financial institutions as of 31 December 2002 and 2001 represent loans from the Bank's shareholders granted to finance development of small and medium-sized businesses in the Republic of Serbia:

	Currency	Carrying Value In foreign currency as of 31 December 2002	Thousands of Dinars Carrying Value as of 31 December 2002	Thousands of Dinars Carrying Value as of 31 December 2001	Annual Interest Rate	Maturity
European Bank for Reconstruction and Development (EBRD), London	EUR	6,323,095	388,967	132,473	EURIBOR+ 3.5%	2005-2007*
Kreditanstalt fuer Wiederaufbau (KfW), Frankfurt am Main	EUR	1,227,101	75,485	91,581	6.00%	2002-2006**
Commerzbank AG, Frankfurt am Main	EUR	2,511,679	154,506	-	EURIBOR+ 0.9%	2007
International Finance Corporation, Washington DC	EUR	4,127,840	253,925	-	8.10%	2004-2007***
			872,883	224,054		

* in four, equal semi-annual installments from 10 October 2005
** in ten, equal semi-annual installments from 3 June 2002
*** in eight, equal semi-annual installments from 15 April 2004

16. OTHER LIABILITIES, INCLUDING TAX LIABILITIES

	Thousands of Dinars 31 December 2002	2001
Loan repayments received in advance of due dates	18,399	506
Indirect taxes and contributions payable	2,874	1,398
Unallocated, incoming payment transfers	1,690	5,385
Other liabilities:		
- in Dinars	5,326	2,988
- in foreign currency	380	8,704
	28,669	18,981

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

17. SHARE CAPITAL

The Bank's share capital as of 31 December 2002 was comprised of 2,400,000 ordinary shares nominal value of Dinar 300 each (31 December 2001 - 1,200,000 shares).

The ownership structure of the Bank's share capital as of 31 December 2002 and 2001 was as follows:

Shareholder	Number of Shares		Shareholding	
	2002	2001	2002	2001
European Bank for Reconstruction and Development (EBRD), London	400,000	400,000	1/6	1/3
Commerzbank AG, Frankfurt am Main	400,000	200,000	1/6	1/6
Kreditanstalt fuer Wiederaufbau (KfW), Frankfurt am Main	400,000	200,000	1/6	1/6
Internationale Micro Investitionen AG (IMI), Frankfurt am Main	400,000	200,000	1/6	1/6
Nederlandse Financierings Maatschappij voor Ontwikkelingsladen N.V. (FMO), The Hague	400,000	200,000	1/6	1/6
International Finance Corporation (IFC), Washington DC	400,000	-	1/6	-
	2,400,000	1,200,000	1	1

18. OFF-BALANCE-SHEET ITEMS

	Thousands of Dinars 31 December	
	2002	2001
Payment guarantees in foreign currency	13,970	20,815
Performance bonds		
- in Dinars	6,935	-
- in foreign currency	56,812	-
Letters of credit	2,774	5,322
Total guarantees and other contingencies	80,491	26,137
EUR banknotes effective as of 1 January 2002	-	955,288
Other off-balance-sheet items	19,921	-
Total off-balance-sheet items	100,412	981,425

19. CAPITAL ADEQUACY AND REGULATORY REQUIREMENTS

Capital Adequacy

The National Bank of Yugoslavia requires the Bank to maintain a minimal capital adequacy ratio of 8 %. According to the calculation methodology prescribed by the National Bank of Yugoslavia, the Bank's capital adequacy ratio was 24.8 % as of 31 December 2002 (31 December 2001 - 23.46 percent).

19. CAPITAL ADEQUACY AND REGULATORY REQUIR EMENTS (continued)

Other Regulatory Requirements

The Bank is 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 National Bank of Yugoslavia Regulations. As of 31 December 2002, the following ratios were not within their prescribed limits:

Ratio	Bank's Value	Prescribed Limit
Net foreign currency open position as a percentage of equity	101.4%	maximum 30%
Total exposures to a related party as a percentage of equity	59.6%	maximum 5%

Description of the Ratios:

Net Foreign Currency Open Position as a Percentage of Equity

The applicable NBY regulation requires that the net foreign currency open position should not exceed 30 percent of the equity (book value of shareholdersí equity less the book value of intangible assets, based on the amounts in the Bankís statutory accounts).

Total Exposures to a Related Party as a Percentage of Equity

This ratio is defined by the applicable NBY regulatory requirements as the sum of all exposures to a related party as a percentage of equity. The shareholders owning more than 10% of the Bank's share capital are included under the definition of a related party.

This ratio has been exceeded, since the Bank's placements on time deposit accounts with its shareholder Commerzbank AG, Frankfurt am Main are considered as an exposure, under the rules for the purpose of calculating this ratio.

20. RECONCILIATION BETWEEN IFRS AND THE STATUTORY ACCOUNTS

a. Measurement and Recognition Differences Between the IFRS and the Statutory Accounting Principles

These financial statements have been prepared in accordance with IFRS. The accounting principles in accordance with IFRS differ in some respects from the accounting principles accounting regulations and standards applicable in the Republic of Serbia. The following is a summary of the differences in the accounting principles relevant to the Bankís financial reporting:

Revaluation Reserves and Unrealized Foreign Exchange Differences

In accordance with the accounting regulations applicable in the Republic of Serbia, the Bank performs a revaluation of its fixed assets, amortization and depreciation charge for the year, and all components of equity by the application of officially published retail price indices. The effects of the revaluation of fixed assets and the amortization and depreciation charge for the year, as well as the unrealized foreign exchange gains arising upon the translation of assets and liabilities denominated in foreign currencies, are all credited to the revaluation reserves. The effects of the revaluation of equity and the unrealized foreign exchange losses arising upon the translation of assets and liabilities denominated in foreign currencies are charged against the revaluation reserves.

If a net revaluation gain arises, then the amount of such a gain is credited to the statement of income. If a net revaluation loss occurs, a portion of such a loss, up to the amount of the available net income for the year, is to be charged against the statement of income with a balancing effect to report a nil profit. Any remaining portion of the revaluation of equity is to be reversed. Any amount of revaluation loss remaining after the revaluation of equity is reversed, results from unrealized foreign exchange losses, and such an amount is charged against the statement of income.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

20. RECONCILIATION BETWEEN IFRS AND THE STATUTORY ACCOUNTS (continued)

a. Measurement and Recognition Differences Between IFRS and the Statutory Accounting Principles (continued)

All of the effects of revaluation have been removed from these financial statements prepared in accordance with IFRS, and all of the unrealized foreign exchange gains and losses arising upon the translation of assets and liabilities denominated in foreign currencies have been recognized in the statement of income.

Deferred Income Taxes

In accordance with the Serbian Law on Corporate Taxation, there are no temporary differences arising between the tax bases of assets or liabilities, and accordingly, the accounting regulations applicable in the Republic of Serbia do not require accounting for deferred income taxes. In these financial statements, deferred income taxes are accounted for using the balance sheet liability method as disclosed in Note 3.8.

b. Reconciliation Between the IFRS Net Loss and the Statutory Net Loss

	Thousands of Dinars Years Ended 31 December 2002	2001 Restated
Net loss per IFRS accounts	(82,114)	(50,446)
Leasehold improvements recognized as intangible assets in the 2001 statutory accounts and expensed in the 2002 statutory accounts:		
- valuation/costs	(36,226)	31,632
- depreciation	3,540	(3,540)
Reversal of revaluation loss recognized in the statutory statement of income	(57,790)	-
Unrealized exchange differences recognized in the IFRS statement of Income	66,876	(8,481)
Total differences on loss before tax	(23,600)	19,611
Deferred income tax recognized in the IFRS accounts	(22,993)	-
Total differences on net loss	(46,593)	19,611
Net loss per statutory accounts	(128,707)	(30,835)

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

20. RECONCILIATION BETWEEN IFRS AND THE STATUTORY ACCOUNTS (continued)

c. Reconciliation Between the IFRS Net Equity and the Statutory Net Equity

	Thousands of Dinars 31 December	
	2002	**2001**
Net equity per IFRS accounts	642,125	346,523
Accumulated differences on net loss	(26,982)	19,611
Accumulated effects of the reversal of the revaluation reserves	13,274	15,458
Net equity per statutory accounts	628,417	381,592

21. RELATED PARTY DISCLOSURE

In the normal course of the business, the Bank enters into transactions with its shareholders and other micro finance institutions in Central and Eastern Europe.

The Bank holds current and short-term deposit accounts with Commerzbank, Frankfurt am Main. Balances on these accounts as of 31 December 2002 amounted to Dinar 12,927 thousand and Dinar 355,933 thousand, respectively. Time deposits for up-to 7 days earned annual interest between 1.1% and 1.25% on amounts deposited in USD, and 3.15% on amounts placed in EUR.

The time deposits from foreign banks in the amount of Dinar 123,030 thousand as of 31 December 2002 (Note 13) represents a deposit from Fefad Bank, Tirana (a micro finance institution in Albania) placed over a three-month period at an annual interest rate of 5.725%.

As of 31December 2002, the Bank used loans granted by its shareholders in the amount of Dinar 872,883 thousand. Significant terms of the loans are disclosed in Note 15.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

22. CURRENCY RISK

The following table summarizes the net foreign currency position of the Bankís monetary assets and liabilities as of 31 December 2002:

Thousands of Dinars

	EUR	USD	Other Currencies	Total Foreign Currency	Local Currency	Total
ASSETS						
Cash and balances with the Central Bank	526,963	698,472	-	1,225,435	193,596	1,419,031
Placements with other banks	66,744	309,859	-	376,603	-	376,603
Loans to customers, net	2,293,876	-	-	2,293,876	-	2,293,876
Fixed assets, net	-	-	-	-	82,365	82,365
Deferred income tax assets	-	-	-		22,993	22,993
Other assets, net	2,461	116	-	2,577	20,484	23,061
Total assets	2,890,044	1,008,447	-	3,898,491	319,438	4,217,929
LIABILITIES						
Deposits from banks	307,576	-	-	307,576	-	307,576
Deposits from customers	1,871,522	283,876	1,792	2,157,190	209,486	2,366,676
Loans from banks and financial institutions	872,883	-	-	872,883	-	872,883
Other liabilities	19,627	842	-	20,469	8,200	28,669
Total liabilities	3,071,608	284,718	1,792	3,358,118	217,686	3,575,804
NET BALANCE SHEET POSITION						
as of 31 December 2002	(181,564)	723,729	(1,792)	540,373	101,752	642,125
as of 31 December 2001	103,168	226,405	-	329,573	16,950	346,523

Loans to customers indexed to the Dinar:EUR exchange rate are presented as assets in EUR.

The net long position in USD arises as a result of capital contributions which were paid-in in USD.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

23. 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 Bankís exposure to interest rate risks. Included in the table are the Bankís assets and liabilities stated at carrying amounts, categorized by the earlier of contractual repricing or maturity date.

Thousands of Dinars

	Up-to one month	From 1 to 6 months	From 6 to 12 months	Over one year	Non-interest bearing	Total
ASSETS						
Cash and balances with the Central Bank	909,014	121,808	46,219	2,823	339,167	1,419,031
Placements with other banks	370,451	-	-	-	6,152	376,603
Loans to customers, net	2,293,876	-	-	-	-	2,293,876
Fixed assets, net	-	-	-	-	82,365	82,365
Deferred income tax assets	-	-	-	-	22,993	22,993
Other assets, net	-	-	-	-	23,061	23,061
Total assets	3,573,341	121,808	46,219	2,823	473,738	4,217,929
LIABILITIES						
Deposits from banks	184,546	123,030	-	-		307,576
Deposits from customers	1,682,694	108,585	219,349	16,261	339,787	2,366,676
Loans from banks and financial institutions	-	552,908	9,436	310,539	-	872,883
Other liabilities	-	-	-	-	28,669	28,669
Total liabilities	1,867,240	784,523	228,785	326,800	368,456	3,575,804
INTEREST SENSIVITY GAP						
as of 31 December 2002	1,706,101	(662,715)	(182,566)	(323,977)	105,282	642,125
as of 31 December 2001	551,013	(270,246)	(263,796)	-	329,652	346,623

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

NOTES TO THE FINANCIAL STATEMENTS
31 December 2002 and 2001

24. LIQUIDITY RISK

The table below summarizes assets and liabilities of the Bank into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns and margins. The Bank does not seek to maintain cash resources to meet all of these needs, estimating that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

Thousands of Dinars

	Up-to one month	From 1 to 3 months	From 3 to 12 months	Over one year	Total
ASSETS					
Cash and balances with the Central Bank	1,247,014	54,037	109,882	8,098	1,419,031
Placements with other banks	376,603	-	-	-	376,603
Loans to customers, net	259,407	309,555	1,100,225	624,689	2,293,876
Fixed assets, net	-	-	-	82,365	82,365
Deferred income tax assets	-	-	-	22,993	22,993
Other assets, net	23,061	-	-	-	23,061
Total assets	1,906,085	363,592	1,210,107	738,145	4,217,929
LIABILITIES					
Deposits from banks	184,546	-	123,030	-	307,576
Deposits from customers	2,025,105	133,911	202,014	5,646	2,366,676
Loans from banks and financial institutions	-	-	18,871	854,012	872,883
Other liabilities	28,669	-	-	-	28,669
Total liabilities	2,238,320	133,911	343,915	859,658	3,575,804
NET LIQUIDITY GAP					
as of 31 December 2002	(332,235)	229,681	866,192	(121,513)	642,125
as of 31 December 2001	383,932	(17,364)	89,251	(109,296)	346,523

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

25. 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	31 December 2001
USD	58.9848	67.6702
EUR	61.5152	59.7055

FINANCIALS IN EUR*

STATEMENT OF INCOME

	2002 YUD 000	2001 YUD 000	2002 EUR 000	2001 EUR 000
Interest income	313,856	49,978	5,175	837
Interest expense	(72,332)	(16,414)	(1,193)	(275)
Net interest income	241,524	33,564	3,982	562
Fee and commission income	139,440	44,775	2,299	750
Fee and commission expense	(26,163)	(10,443)	(431)	(175)
Net fee and commission income	113,277	34,332	1,868	575
Foreign exchange gains, net	-	4,853	-	81
Other operating income	5,789	-	95	-
Operating income	360,590	72,749	5,945	1,218
Foreign exchange losses, net	(48,415)	-	(798)	-
Operating expenses	(354,492)	(107,441)	(5,845)	(1,800)
Loss on impairment and uncollectibility	(62,790)	(15,754)	(1,035)	(264)
Loss before tax	(105,107)	(50,446)	(1,733)	(846)
Income tax	22,993	-	379	-
Loss for the year/period, net	(82,114)	(50,446)	(1,354)	(846)

* Financials translated according to I AS 21. 30 rules for Foreign Entiteties

BALANCE SHEET

	2002 YUD 000	2001 YUD 000	2002 EUR 000	2001 EUR 000
ASSETS				
Cash and balances with the Central Bank	1,419,031	886,585	23,068	14,849
Placements with other banks	376,603	1,303,162	6,122	21,826
Loans to customers, net	2,293,876	513,464	37,290	8,600
Fixed assets, net	82,365	27,072	1,339	453
Deferred income tax assets	22,993	-	374	-
Other assets, net	23,061	11,034	375	186
Total assets	4,217,929	2,741,317	68,568	45,914
LIABILITIES AND EQUITY				
Liabilities				
Deposits from banks	307,576	4,772	5,000	80
Deposits from customers	2,366,676	2,146,987	38,473	35,960
Loans from banks and financial institutions	872,883	224,054	14,190	3,753
Other liabilities	28,669	18,981	467	317
	3,575,804	2,394,794	58,130	40,110
Shareholders' equity				
Share capital	720,000	360,000	11,704	6,030
Additional paid-in capital	54,685	36,969	889	619
Accumulated loss	(132,560)	(50,446)	(2,155)	(845)
	642,125	346,523	10,438	5,804
Total liabilities and equity	4,217,929	2,741,317	68,568	45,914
OFF-BALANCE SHEET ITEMS	100,412	981,425	1,632	16,438

EQUITY

	2002 YUD 000	2001 YUD 000	2002 EUR 000	2001 EUR 000
SHARE CAPITAL				
Balance, beginning of year/period	360,000	-	6,071	-
Shares issued	360,000	360,000	5,894	6,071
Balance, end of year/period	720,000	360,000	11,965	6,071
ADDITIONAL PAID-IN CAPITAL				
Balance, beginning of year/period	36,969	-	623	-
Shares issued	17,716	36,969	290	623
Balance, end of year/period	54,685	36,969	913	623
ACCUMULATED LOSS				
Balance, beginning of year	50,446	-	846	-
Loss for the year/period	82,114	50,446	1,354	846
Balance, end of year/period	132,560	50,446	2,200	846
ACCUMULATED TRANSLATION ADJUSTMENTS				
Balance, beginning of year			(44)	-
Translation adjustments			(196)	(44)
Balance, end of year/period			(240)	(44)

STATEMENT OF CASH FLOWS

	2002 YUD 000	2001 YUD 000	2002 EUR 000	2001 EUR 000
Cash flows from operating activities				
Net loss for the year/period	(82,114)	(50,446)	(1,354)	(846)
Adjustments to reconcile net loss for the year/period to cash flows from operating activities:				
Non-cash transactions included in net loss for year/period				
Depreciation and amortization	9,065	1,586	149	27
Provision for impairment and uncollectibility, net of recoveries	62,790	15,754	1,035	264
Losses on disposal of fixed assets	18	-	-	-
Deferred income tax	(22,993)	-	(379)	-
Net increases in operating assets:				
Loans to customers	(1,841,757)	(529,218)	(30,367)	(8,868)
Other assets	(13,472)	(11,034)	(222)	(185)
Net increases in operating liabilities:				
Deposits from banks and customers	522,493	2,151,759	8,615	36,055
Other liabilities	9,688	18,981	160	318
Net cash used in operating activities	(1,356,282)	1,597,382	(22,363)	26,765
Cash flows from investing activities				
Purchases of property and equipment	(64,376)	(28,658)	(1,061)	(480)
Net cash used in investing activities	(64,376)	(28,658)	(1,061)	(480)
Cash flows from financing activities				
Proceeds from share issuance	377,716	396,969	6,184	6,694
Net increase in loans from banks and financial institutions	648,829	224,054	10,698	3,754
Net cash from financing activities	1,026,545	621,023	16,882	10,448
Net (decrease)/increase in cash and cash equivalents	(394,113)	2,189,747	(6,542)	36,733
Translation adjustment			(944)	(57)
Cash and cash equivalents, beginning of the year/period	2,189,747	-	36,676	-
Cash and cash equivalents, end of the year/period	1,795,634	2,189,747	29,190	36,676