

Letter from the Chairman of the Board of Directors

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In April 2001, the Micro Finance Bank of Yugoslavia (MFB) opened its doors to the public as the first bank to be licensed in the Federal Republic of Yugoslavia after the political changes of October 2000. In view of the economically and politically fragile environment at that time, setting up a bank was an enormous challenge. Hence, MFB is up to now one of the very few licensed commercial bank meeting the urgent demand for financial services from the small enterprise sector and the broad population of Yugoslavia. The bank is supplying much needed credit, deposit and payment services to the resurgent private sector.

In spite of the demanding environment, MFB can look back to an extraordinarily successful first Financial Year. Within the first nine months of operation we have established four branches, two in Belgrade and one each in Nis and Novi Sad. The opening of three further branches is under preparation, thus considerably increasing the bank's outreach.

Until December 31st, 2001 more than 1.200 loans were disbursed with a volume of 8,9 Mio EUR. The bank is one of the main providers of financing for small enterprises in the country and is continuously expanding its portfolio.

Deposits have grown rapidly. By the end of 2001, 14,700 customer accounts have been opened and the volume of customer deposits has reached almost 35 Mio EUR – a clear sign of the high degree of trust placed in the bank by the population of Yugoslavia.

These figures are strong signals that MFB's offer of popular banking, with a focus on simple, reliable services at a fair price, is very much demanded by Yugoslav companies and the population. The fundamental principle of the bank is: "serving the small clients while achieving commercial viability". By focusing on micro and small enterprises MFB safeguards its mission as the bank of small entrepreneurs and the ordinary people on a sustainable basis. We are convinced that the banking activities of MFB are an important contribution to the economic and social recovery of Yugoslavia, which has gone through very



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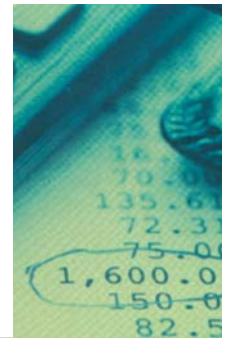
difficult times. In the years ahead we want to strengthen our position as Your bank, meeting Your needs - not only at present but also in the future.

This vision of MFB as a sustainable target group-oriented financial institution is shared by the international financial institutions and investment companies that initiated the bank, including Commerzbank AG, the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC), Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), Internationale Micro Investitionen (IMI) and Kreditanstalt für Wiederaufbau (KfW). This cooperation between development finance institutions and private investors makes the founding of the bank an outstanding example of effective international co-ordination and of a successful public-private partnership.

The impressive results of the first nine months of operations are primarily due to the management and staff of the bank who have continuously improved their level of skills and experience. The staff has achieved outstanding work, bringing commitment and dedication to the establishment of the bank and to servicing its clients. Only their very hard work has made possible the growth and success of MFB. It is this will and determination of most Yugoslavs to rebuild their country which creates genuine optimism for the future, both for the country and for our bank.



Dr. Klaus Glaubitt,
Chairman of the Board of Directors



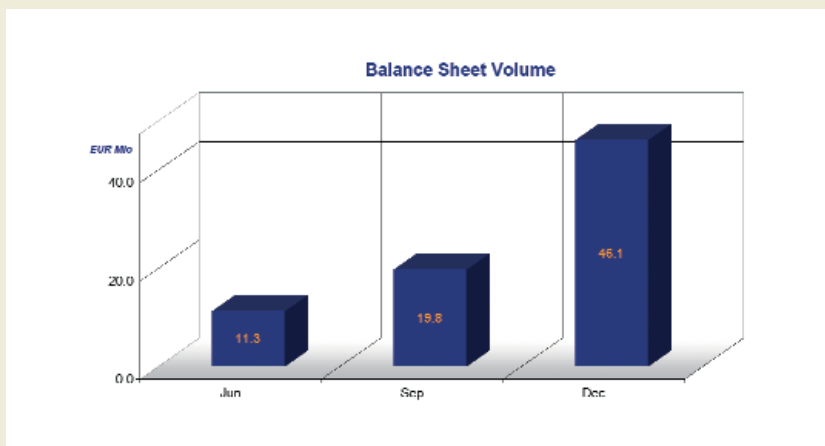
Letter from the Management

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The Financial Year 2001, including the first 9 months of operations for MFB, has been an extremely challenging, but also highly successful period for our bank. MFB started its operation in April 2001, after a very short preparation period of less than 6 months. By the end of 2001, we have reached several very important goals.

MFB is now an established part of the Yugoslav banking sector, with 4 branches in Belgrade (2 branches), Nis and Novi Sad. Our credit division administers a quickly growing credit portfolio of 1.200 loans for 8.8 Mio EUR and includes almost 30 loan officers. MFB has over 10.000 clients, who have deposited more than 35 Mio EUR with us. Our internal operations are stable and can support the high growth speed of the bank. As per December 2001, MFB has a balance sheet volume of 46.4 Mio EUR, and an accumulated loss of 0.5 Mio EUR.

However, 2001 has also shown us that the Yugoslav banking market is still an extremely difficult one. Yugoslav banking suffers from extremely restrictive regulation and huge reporting requirements. This results in high handling costs and makes establishing of a new banking operation extremely difficult and time consuming. The weak and slow legal and court system add difficulties in the lending business. The difficult banking environment has slowed down our



Client portraits

“Domino Line”

“Domino Line” is small, but popular furniture and gift shop in the center of Belgrade. Owners and managers, sisters Dragana Zeljkovic and Stanislava Kolouh, founded shop to offer imports, but also to promote creative goods made by local designers and small producers. Since its foundation in 1998, the sisters' shop has done very well and profits from the increasing purchase power of Yugoslavia's new middle class.

“Buying has always been difficult for us, because we had little money and could order only small quantities. With two loans from MFB for 5.000 EUR, we could buy more and get a better price. MFB has really made our business easier”.



Letter from the Management

progress and will continue to do so, unless radical reforms and liberalisation make the retail banking more attractive.

Nonetheless: our operational figures for 2001 show the strong demand for our services, and the huge market potential for retail banking in Yugoslavia. Even now, the majority of private people and even small companies do not use commercial banks services, mainly due to bad image of banks in general. As the political and economic situation continues to improve, we expect the market for banking services to grow strongly in the years ahead. With its concept of "popular banking", MFB will be one of the banks most benefiting from this trend.

We, the management, would also like to express our gratitude to our employees. Banking in the difficult Yugoslav environment is a challenge at the best of times. Managing, on top of this, our meteoric growth, would not be possible without huge dedication and enthusiasm of our employees. It is great to see that many of them have already become impressive professionals and regard MFB as "their" bank. Beyond all the figures, this is what we have to achieve to secure the long-term future of MFB.

Klaus Mueller



Alexander Saveliev



Ralf Reitemeier



Shareholders of MFB

Shareholders of MFB

2 Mio USD	European Bank for Reconstruction and Development (EBRD), London
1 Mio USD	Commerzbank AG, Frankfurt
1 Mio USD	Nederlandse Financierings Maatschappij voor Ontwikkelingslanden N.V. (FMO), The Hague
1 Mio USD	Internationale Micro Investitionen AG (IMI), Frankfurt
1 Mio USD	Kreditanstalt fuer Wiederaufbau (KfW), Frankfurt

EBRD



The EBRD, established in 1991, promotes development of the private sector in transition countries of Eastern Europe. Through its investments, the EBRD encourages private sector activity, the strengthening of financial sectors and legal systems, as well as the development of infrastructure to support the private sector. The EBRD is one of the biggest investors in Eastern Europe and is particularly active in Yugoslavia, since the fall of Milosevic regime. At the end of 2001, the EBRD has signed loan agreements for a total of 229 Mio EUR, mainly in the sectors of power, transport and banking.

Commerzbank AG



Commerzbank is one of the leading European commercial banks, with a balance sheet volume of over 500 billion EUR and global correspondence bank network. Commerzbank regards countries of South-Eastern Europe very important for its international business and has therefore, decided to invest in the equity of MFB. With its tremendous experience in all aspects of retail and corporate banking, Commerzbank is a very important source of competence and support for MFB.

KfW



KfW is the leading German promotional bank for the economic development in Germany as well as in developing and transition countries. With balance sheet total of more than 280 billion EUR, KfW counts among the largest banks in

Client portraits

“EM-PRO”

Dusan Savic, a graduated electrical engineer, founded “EM-PRO” in 1990. “EM-PRO” is producer of micro and general use switches. Together with his daughter Verica, also an electrical engineer, Dusan manages his business and exports his products to Bosnia and Herzegovina, Macedonia, Iran and even South Korea.

“EM-PRO” already took two loans from MFB for 10.000 EUR each. *“The first loan I took was for working capital to increase our export, because we had new demands for our products from a number of countries”, says Mr. Savic. “Then I took an investment loan to improve and develop our production and business in general. This helped us gain the International ISO standard 9002. Being an export oriented company, this is extremely important thing for us”.*



Shareholders of MFB

Europe. In Serbia, KfW acts as the financial agent of the German government and other donors. Up to now, more than 100 Mio EUR have been committed to Serbia, mainly in the areas of coal mining, energy production, district heating, water and sanitation as well as the financial sector, where KfW and its subsidiary DEG support banks and enterprises with equity capital and long term credits.

FMO **FMO**

FMO, majority owned by the Dutch government, provides long-term financing directly and via local financial institutions to the private sector in over 70 developing countries. FMO's aim is to be a pioneer, financing projects that would otherwise not get finance from existing suppliers of credit. All companies financed, must comply with high ethical and corporate governance standards. FMO has an investment portfolio of over 250 Mio EUR in Eastern Europe and Central Asia.

IMI **IMI**

IMI, founded in 1998, is a development-oriented investment company. IMI takes equity stakes in banks and financial institutions in developing and transition economies. The company already invested over 8 Mio EUR in 14 countries.

Through its sister company, Internationale Project Consult GmbH (IPC), IMI provides management services to MFB. IMI's main shareholders include DOEN, a Dutch foundation supporting developing countries, DEG, the German development finance bank and the IFC, the private sector arm of the World Bank Group.

Client portraits

"Kum"

The Vukovic family from Novi Sad opened their bakery "Kum" in 1997. Initially, "Kum" operated in rented business premises, but soon transferred to new premises bought by the owners. "Kum" is developing quickly: its products (bread, pastries) are today sold in its own shop, and also wholesale to 60 groceries and 3 schools.

MFB granted a loan of 25.000 EUR to "Kum", which was used to improve the road in front of the new business premises, paint the facade of the house and increase Kum's working capital. "Kum" has since taken on several new employees and expanded its activities.





The Economy

For Yugoslavia and its economy, 2001 was the first year of reforms after the "lost decade" under the Milosevic regime. While the political, economic and social situation is still very difficult, the new Yugoslav and Serbian governments, as well as the National Bank managed to achieve several very important first successes on their reform agenda.

Cornerstone of the reforms was adoption of the new law on privatisation by the Serbian parliament in June 2001. The law specifies, that at least 70 % of shares in state and socially owned companies selected for privatisation, will be sold to Yugoslav or foreign private investors, with the rest going to the employees. By the end of 2001, privatisation of 3 large cement companies has been successfully finished, representing a major breakthrough in the privatisation process. More sectors are to follow in 2002.

The weak banking sector was subject to stringent consolidation measures by the National Bank, which closed down over 30 banks, including four big insolvent state owned banks in January 2002. However, the financial sector is still suffering from incredibly bureaucratic rules, which make it unattractive for companies and the population. Fundamental liberalisation of banking rules are needed for Yugoslav banks to fully regain the confidence of the population. Nonetheless, the arrival of four foreign banks, among them MFB, in 2001 has been a good start for banks to re-establish positive image with the population.

The macro-economic environment has stabilised tremendously in 2001. The exchange rate of the Dinar to the DEM has been stable around 30; inflation has come down to approx. 45 % in 2001, with a further fall expected for 2002.

In 2001, Yugoslav economy and the country itself stabilised, which is a huge success after 10 years of chaos. However, liberalisation is now needed on all levels to sustain the success. Above all, this concerns banking, taxes and the use of foreign currency.



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MFB's Employees

MFB's Employees

MFB's business approach demands a lot from our employees: we place high importance on customer service, flexibility and professionalism. We strongly believe that our bank is only as strong as our employees. Banking is and remains a "people's business".

MFB's personnel policy is to have a mix of experienced and "new-comer" personnel. We have a need for both established bankers as well as university-graduates who learn banking "the MFB way" - from the scratch in our bank. That is not always easy, but we are convinced that in the long run, we will succeed only if we have simply the best people.

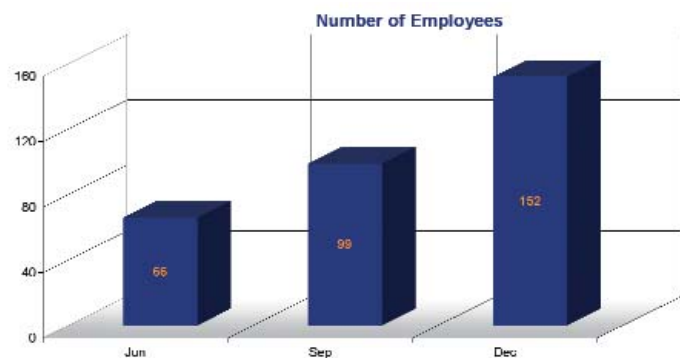


At MFB, we invest heavily in the permanent education and training of our employees. Our first generation employees were trained in Germany, Bosnia and Russia. Local management and international experts frequently deliver seminars on various subjects. We also offer language courses to our employees in English and German.

We are very impressed by both the education level and the commitment of our (mostly young) Yugoslav colleagues. Their eagerness to learn, improve and develop is our most important assurance that we will also learn and improve as a bank and contribute to the positive development of Yugoslav banking.

A fast growing organisation offers tremendous chances to its members. In future, our branch managers and department heads will all come from the ranks of our local colleagues. Therefore, management and staff development will become one of the key challenges for our bank in the years ahead. This will include very intensive personnel work, to ensure we have the right number and calibre of future managers. Most of all, we will need to turn specialists into all-round bankers.

We offer a lot to our employees – but we also demand a lot. Work in MFB, a fast expanding organisation, permanently poses new challenges and tasks to our employees, and we depend on them thinking as "entrepreneurs", not just workers – taking initiatives and working independently. It is true – our employees are our most important assets. And the quality of our assets decides upon the success of our work.





Credit Division

The core business of MFB is credits to Yugoslav micro and small businesses. In the past, these small companies had practically no access to credits from local banks. MFB's mission is to fill the gap and support development of small companies, which already are the most active sector of the Yugoslav economy and have enormous future development potential.

Business Credits: MFB defines two market segments – micro loans (up to 15.000 EUR) and small loans (up to 125.000 EUR). 75 % of all loans are micro loans, which are usually for working capital needs with an average amount of 3.500 EUR for a maturity of 12 months. Small loans are more often for investment purposes and average around 20.000 EUR for a maturity of 15 months.

From the start of operations in April, MFB's business lending started to expand extremely quickly. By December 2001, the outstanding portfolio had grown steadily to 8.8 Mio EUR, including over 1.200 business loans. The portfolio is well spread over all branches in Belgrade, Nis and Novi Sad, as we see very strong and steady demand for credits in all locations of MFB.

At the end of December, MFB's Credit Division includes 29 loan officers, plus additional 5 loan officer trainees. Within only 9 operative months since April, MFB has built up a strong lending team of dedicated young professionals. Despite the difficult and extremely bureaucratic local environment, our loan officers have reached a good level of work productivity. In December, the average loan officer disbursed 7.5 loans monthly and managed a personal portfolio of 42 loans for 304.000 EUR.



Portfolio Quality: the business loans portfolio performed very well in 2001. Until December, our clients properly served 100 % of all credits. However, despite positive first indications, MFB continues to follow a conservative credit and provisioning policy, on

Client portraits

“PG Shoes”

The father of Predrag Jovicic, owner and manager of “PG Shoes”, started producing and repairing shoes for women and children back in 1956. Over the years, father and son managed to expand their activities to volume production of 300 shoe pairs daily.

MFB supported “PG Shoes” through a working capital loan of 23.000 EUR for the modernisation of the production premises and additional material. “We are even employing Italian designers now”, says the proud owner. “MFB's loan helped us tremendously; our market improves and we can now offer the right products, thanks to our experience and MFB's capital injection.”





account of the difficult legal framework of Yugoslav banking. The key to good portfolio performance is thorough analysis process by the loan officers. In addition, intensive monitoring, i.e. a regular contact between the loan officer and the client, is established after the credit disbursement.

Training: most of MFB's loan officers joined our bank with little or no bank experience. Intensive and ongoing training for our young employees is, therefore, of key importance for the quality of our bank's credit work. Our training measures include a 3 week initial seminar, covering theoretical aspects of lending, plus regular weekend seminars on specific topics, such as environmental issues in lending or legal problems in collaterals. We will continue to invest heavily in training, convinced that our work can only be successful with educated and motivated employees.

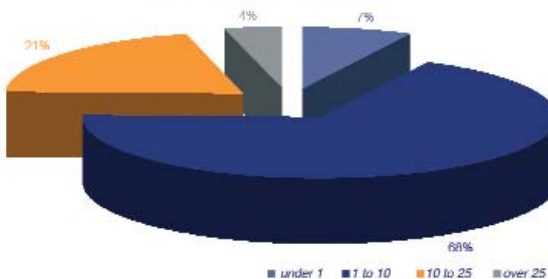
Business Loan Portfolio
(Volume by Sectors)



For 2002, we will focus on further development of our credit business regionally, with more locations in branches and credit offices. We see very strong demand for loans, especially

from smaller cities outside the big centres and we would like to take advantage of that. In addition, MFB will start to develop product innovations in lending. Possible areas are agriculture credits, housing credits and overdraft facilities.

Outstanding Loan Portfolio by Loan Size as per December 31st (TEUR)



Client portraits

“Agrosel”

In over eight years in business, “Agrosel”, a furniture producer from Belgrade, has learnt to survive even the most difficult periods. “As a small company, we were never interesting for banks”, recounts owner Zoran Milovanovic. Nevertheless, the growing business needed capital for new funds, and Zoran tried the new bank he had heard about.

The trial was successful. “Agrosel” took a loan of 11.000 EUR and became MFB's 1.000th loan customer. The funds allowed company to broaden product portfolio. “At “Agrosel”, we think long term, and partnership with a good bank is important for us. We hope MFB's loan was only the first step in this partnership.”





Customer Services Division

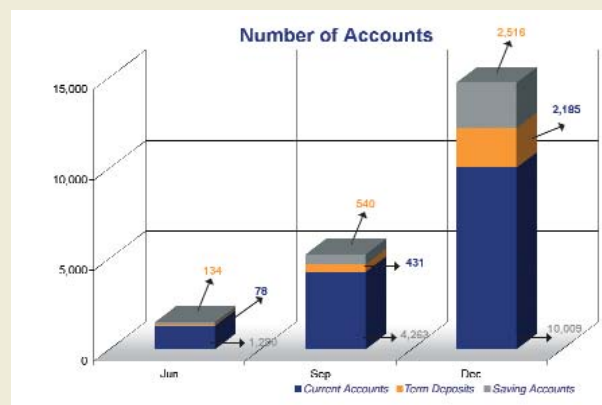
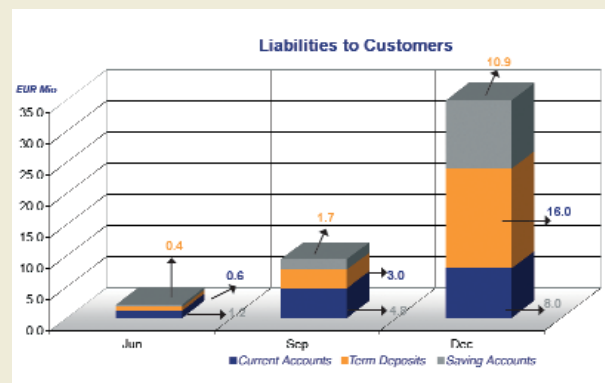
MFB's mission is to serve a large group of retail customers, not only with loans, but also with general banking services. For this reason, our Customer Services operations are of extremely high importance for us, in charge of attracting deposits and money transfer business of retail and corporate customers.

MFB pursued an active policy in general banking from the very start. We offer a basic range of deposit and transaction banking products, to satisfy the core banking needs of our clients. MFB managed to develop a sizeable client base – by the end of 2001, we have over 10.000 clients, who keep a total of 35 Mio EUR on MFB's current, term deposit or savings accounts. That is a remarkable development in the country where vast majority of the population still does not use banks.

One of our key advantages in this business is our effort to provide high service quality. It is a new concept for most Yugoslav customers that bank employees are trying their best to serve customers and make banking easy, despite the unavoidable bureaucracy. We want to provide highest quality service and to invest in development of long-term customer relationships.

The introduction of EUR cash in January 2002 was one of the central issues in Customer Services in the second half of 2001. MFB took its educational role in this process very seriously. We produced brochures and provided intensive training to our employees. In addition, we conducted frequent interviews with media journalists to increase the level of knowledge about the EUR issue among the population. MFB was rewarded by a strong and permanently growing inflow of customers, depositing their (mostly DEM) funds (often the first time after many years) in the anticipation of exchange to EUR.

In 2002, the main challenge for MFB's Customer Services business will be further development of the product portfolio, to keep in touch with the growing needs of our customers. Introduction of a new IT system is a cornerstone in this regard, allowing us to build on a new technical platform. New products will include, among other things, longer-term deposits, insurance products and cash machines.



Branch Network

Branch Network

MFB intends to be *"the people's bank"*, open for all customers, regardless of their size. We believe that an efficient banking sector, reaching as many people as possible, is a key condition for economic recovery in Yugoslavia.

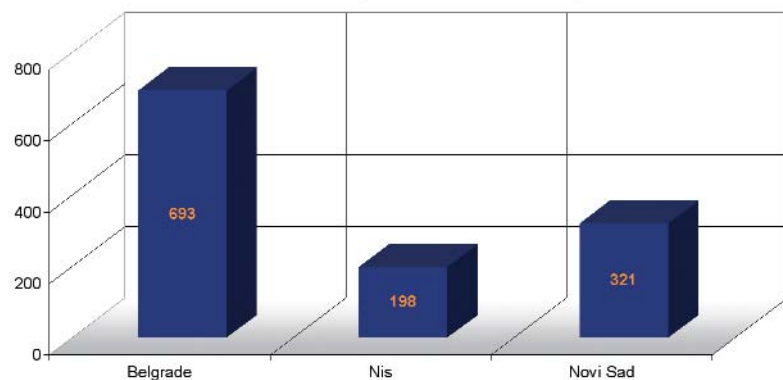
MFB's mission includes rapid development of a countrywide branch network. By the end of 2001, MFB's network included Belgrade (2 branches), Nis and Novi Sad. We plan more branches in 2002, including Subotica, Cacak and Novi Pazar. In the medium term, our plan is to be present in all major cities of Serbia with branches or credit offices.

MFB's main building in Gospodar Jevremova St. 9 also hosts our bank's main branch. The Belgrade 1 branch has been growing extremely fast, serving over 7.000 clients by December 2001. The branch has also developed a deposit base of 21 Mio EUR and loan portfolio of 670 loans for 5.1 Mio EUR. With over 50 employees, Belgrade 1 branch is the biggest operation of MFB.

The Nis branch started operations in April 2001. Since then, our branch has developed a steadily growing portfolio of 200 loans for 0,8 Mio EUR. The branch is also very active in general banking business, in particular international money transfers. For MFB, Southern Serbia is an important location, due to the high number of production companies active in the region.

Since its opening on July 2001, MFB's Novi Sad branch has developed extremely successfully. Novi Sad is the centre of the Vojvodina region, the economically most active part of Yugoslavia. Within only 6 months, the branch's loan portfolio grew to 320 loans for a total 2,8 Mio EUR.

Business Loan Portfolio by Branches
(Numbers, Dec. 2001)



The Micro Finance Network

The Micro Finance Network

The micro finance concept is successful not only in Yugoslavia, but in many other emerging markets, particularly in Eastern Europe. MFB is a part of network of banks with very similar business policies and shareholders. The mission of all micro finance banks is to provide loans and general banking services to small companies in a competent and reliable way. These are the key partner banks of MFB:

Micro Enterprise Bank (Bosnia and Herzegovina):



MEB, founded in 1997, is today one of the leading corporate banks in Bosnia and Herzegovina. MEB has a countrywide network of 6 branches, including the Republika Srpska. MEB manages a balance sheet volume of 36 Mio EUR, including business loans of 20 Mio EUR in 4.400 loans. Building on its experience with micro and small lending, MEB has started in 2001 to expand its activities into medium sized corporate lending.

Procredit Bank (Bulgaria):



Procredit Bank was founded June 2001 and already operates a large network of 7 branches throughout Bulgaria. The bank is developing very rapidly and already plans further expansions of its activities. By the end of 2001, Procredit Bank had disbursed 950 loans for a total of 5.5 Mio EUR. Procredit is the first internationally owned bank in Bulgaria with a strong commitment to lending to small and medium sized companies, and expects to grow fast, supported by the overall quick recovery of the Bulgarian economy.

FEFAD Bank (Albania):



FEFAD started its lending operations as a foundation in 1995, before converting to a full commercial bank in 1999. In a competitive environment, with many foreign banks, FEFAD is today Albania's 4th largest bank, with 67 Mio EUR in its balance sheet volume. FEFAD is one of the most active lenders in Albania,

Client portraits

Beauty Salon "Andrea"

Suzana Miljkovic opened her own beauty shop "Andrea" in a business centre in Nis, in June 2000. The beauty salon provides all kinds of cosmetic services for her customers. After a year of successful work, the number of customers started to grow in 2001, and Suzana had the chance to expand her business.

In November 2001, Suzana applied for a loan at MFB. "I needed funds for investments and to take on new employees - to offer new services in my salon", explains Suzana. MFB granted her a loan for 1.500 EUR, which she used to buy a new electric facial care machine and to increase her payroll to five employees. "The loan was exactly what I needed to use a great market opportunity for my company", she says.



The Micro Finance Network

operating a growing portfolio of today 18 Mio EUR in over 3.700 loans. FEFAD's branch network includes 6 locations throughout Albania.



Micro Enterprise Bank (Kosovo):



MEB Kosovo started its operations in January 2000 and today runs a network of 7 branches. MEB quickly established itself as the leading financial institution in Kosovo – its balance sheet today amounts to 300 Mio EUR, including customer deposits of 250 Mio EUR and 2.000 loans for a total volume of over 10 Mio EUR. The example of MEB demonstrates that the micro finance concept works in spite of very difficult circumstances, such as in Kosovo, where the legal and banking environment is still extremely unstable and in its early stages of development.



Microenterprise Credit Romania:

MCR was founded as a finance company in 1999, and is expected to convert into a full commercial bank in 2002. MCR is one of very few active lenders to small companies in Romania, operating in 4 branches. By the end of 2001, MCR has built up a loans portfolio of 4.8 Mio EUR, including over 700 loans. Further growth of activities is planned, as small companies in Romania have started to increase their investment activities.

Client portraits

“Belko”

“Belko” is a producer of slaked lime, needed by construction companies for making facades. Established in 1991, “Belko” is today a successful lime supplier, with four production sites, including one in Bosnia and Herzegovina. The biggest part of its output is sold in Vojvodina, the economically most active Northern part of Serbia.

MFB supported Belko's expansion through a 40.000 EUR fixed asset loan. The loan allowed “Belko” to renovate its production facilities and buy additional trucks for delivery of goods to customers door-to-door. The improved fixed asset stock helps “Belko” to expand activities in the beginning construction boom in Serbia.



M Management Report

Management Report

Balance Sheet

Overall Development: In its first year of operations since April, MFB quickly expanded its activities. The bank's volume of business increased, as new locations and products were added. The overall theme of the year was the establishment of a market position and stable operations with a basic product portfolio in the very difficult local banking environment.

Assets: By December, MFB's balance sheet volume had grown to 46.4 Mio EUR. This growth was mainly driven by a strong development of liquid assets to 36.7 Mio EUR – a reaction to the massive inflow of customer deposits in the second half of the Financial Year.

Liquid assets mainly include deposits of 16.0 Mio EUR with Commerzbank and 9.4 Mio EUR with the National Bank of Yugoslavia (to fulfil the 50 % minimum reserve on foreign currency deposits).

Additionally, the quickly growing loan portfolio, which stood at 8.6 Mio EUR net at year-end, also made a substantial contribution to asset growth. This includes gross business loans of 8.9 Mio EUR, corrected for loan loss provisions (LLP) of 0.3 Mio EUR. By the end of the Financial Year, no single loan was in arrears, i.e. MFB's repayment rate was 100.0 %. Nonetheless, our business policy is to make a general LLP of 3.0 % for all outstanding loans not in arrears.

Liabilities: Due to the strong inflow of private customer deposits, MFB's liability structure is already dominated by debt-funds, despite the fact that the bank has been in business for less than a year.

In connection with MFB's position as one of very few reliable banks in a weak financial sector and the introduction of EUR cash, customer liabilities played an important role for MFB's funding. As of December, therefore, customer funds had increased to 36.0 Mio EUR. This included 9.1 Mio EUR on current accounts, 16.0 Mio EUR on time deposits and 10.9 Mio EUR on savings deposits. We see

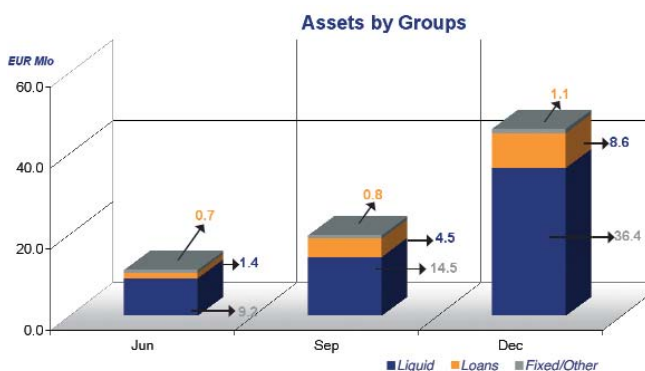


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Management Report

the strong and steady inflow of customer funds as a very encouraging sign of MFB's quick acceptance as a reliable partner of its customers.

MFB also took on long term debt refinancing from international lenders. A loan contract of 6 Mio USD was signed with the EBRD in April 2001, 2 Mio USD have been drawn by the year end. Kreditanstalt fuer Wiederaufbau (KfW) signed a contract for 1.5 Mio EUR with MFB in July, which is fully drawn. An additional contract for 4 Mio USD is expected to be signed with the IFC in 2002. All these loan contracts are for long term maturities beyond 4 years.



Regional Development:

MFB's strategy foresees a very aggressive regional expansion throughout Serbia, in order to offer especially our lending services outside the capital Belgrade, where they are usually very badly required by companies, which had zero access to affordable banking services for years.

For this reason, MFB started its operations in Belgrade and Nis at the same moment in April 2001. The third branch in Novi Sad was already opened in July and a new branch in Belgrade was added in November 2001. All branches developed very positively and managed to establish a steady lending business and stable operations within a very short period of time.

IT Systems: MFB, focused on retail banking, regards powerful IT systems as a key precondition for its profitability and future growth. In order to improve our systems, MFB will implement completely new banking software in the second quarter of 2002, aiming to put the bank on a good technological base to be able to operate efficiently, despite the difficult local reporting and documentation requirements. We also see the new system as a condition for the future introduction of new, more sophisticated services, such as credit cards and ATMs.

Client portraits

"Castra"

Mr. Zoran Zeljkovic founded "Castra" d.o.o. on the basis of many years of work in the cosmetics industry in Europe. Today, "Castra" is a small local producer of cosmetics, such as shower gel or hand creams, with its products sold in many of the major supermarket chains throughout Yugoslavia.

The bottling process was always a limiting factor in Castra's production. With a loan of 15.000 EUR from MFB, "Castra" bought a bottling machine. This helped the company to increase its output and start a process of strategic expansion.

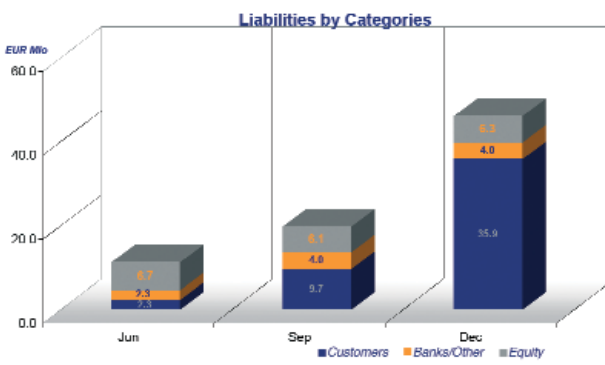


M Management Report

Income Statement

Income: MFB's income sources included both increasing interest income (amounting to 49 % of total income) and fee income (44 %). This reflects the fact that MFB's loans portfolio is still in early stages of development, meaning that interest income is reaching higher levels only gradually over time. Simultaneously, fee income (mainly from international money transfers) increased to a high level very quickly and particularly the first few months were strongly dominated by fee as opposed to interest income.

Expense: MFB's expenses are dominated by high administration cost, reflecting the high need for personnel fulfilling numerous reporting and administrative requirements set by the local legislation, particularly from the side of the National Bank and the tax authorities. Total administration costs amounted to 1.3 Mio EUR, which includes personnel and rent costs as the biggest cost positions.



Interest expense amounted to a total 275.000 EUR, reflecting the low average refinancing cost of approx. 2.5 %. The increase in LLP was another important cost factor with 264.000 EUR, due to the general provisioning policy of 3 % of the outstanding loan amount at disbursement.

Profitability: MFB's profitability has suffered from the high start-up costs for its banking operations, as well as the high administration cost in the difficult local environment. The result is a total loss of 515.000 EUR for the Financial Year. However, the bank's profitability improved markedly in the final months, mainly thanks to improving interest income.

Client portraits

"Jeka"

"Jeka" is a family owned producer of socks. Founded in 1993, the company is managed by Snezana Grocic, whose parents own the company. "Jeka" took a strategic decision early on to use modern technology and to ensure high product quality. This means a permanent need for new investments.

In 2001, "Jeka" took a loan from MFB for 12.000 EUR, to finance new production machine, which allows production of high quality cotton socks. "Applying for loan was the right thing for us. We can now offer a new product, and we even won a prize for excellent product quality at the Belgrade fashion fair", recounts Snezana Grocic.





Outlook

In its Financial Year 2001, MFB established itself on the Serbian banking market – we developed four locations, stable operations and MFB's recognition as a good bank in the local market.

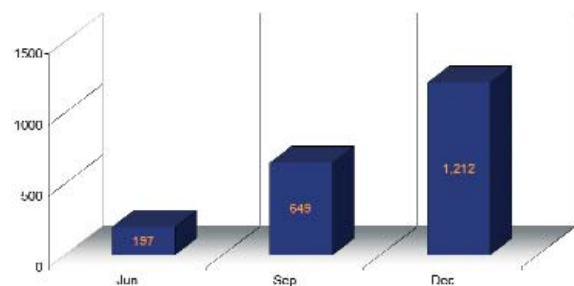
The year 2002, the first full operational year of MFB, will be characterized by a strong expansion and improved professionalism of MFB's activities. MFB will open new branches, add new products to its portfolio and improve its internal procedures.

Our regional expansion in 2002 includes new branches in Subotica, Cacak, Novi Pazar and possibly also Belgrade. MFB intends to build up a countrywide branch network as quickly as possible, in order to reach clients all over Serbia. Our experience has shown that demand for loans is remarkably strong in medium and smaller towns, emphasising the need of continuous aggressive expansion into regions.

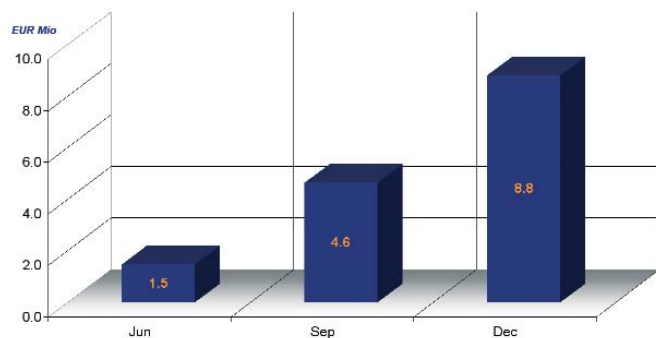
Product expansion will be the second key aspect of MFB's 2002 strategy. Up to now, we have offered only basic credit, deposit and transaction products. In 2002, we will expand our portfolio with new lending products and expanded maturities. Longer term deposit products and more sophisticated transaction products (such as credit or debit cards) will be considered as well. The Serbian banking market will be characterized by an extremely high speed of product innovation, as the financial sector re-integrates into Europe.

Internal improvements remain imperative for MFB and constitute the third key task for 2002. So far we have only established the basics of a banking operation. We have to become far more efficient and professional, in order to secure our bank and remain competitive in future. The core aspect of this will be the implementation of new banking software, tailor-

Outstanding Loan Portfolio
(Number of Loans)

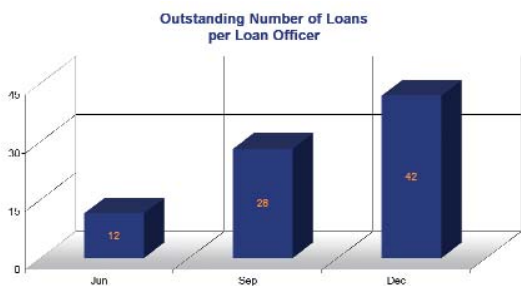


Outstanding Loan Portfolio



Outlook

made for the Serbian environment. Further, a considerable range of other measures, aimed at improving internal control and efficiency, will also be implemented, with the goal of preparing our bank for the future.



Serbia is still a very difficult banking market. The legal, supervisory and regulatory environment still burdens our bank with huge and costly requirements, which reduces our efficiency and makes our services unduly expensive for many potential clients. Regulatory and operational risks are high, and only the very first reform steps have been taken. Also, the country risk is still

high, due to the fragile political situation. We should therefore not forget that MFB is operating in a difficult environment, so that setbacks in our development can never be ruled out.

Despite the risks - we are confident that MFB will become adult in 2002, after the foundations have been laid in 2001. The strong demand for our services, our excellent image on the market, as well as the high quality of our employees make us feel very optimistic for the future of our growing bank.



Client portraits

“Yunip”

“Yunip”, founded back in 1976, is a producer of plastic parts (such as shelves, hangers etc.) for large international companies. The company is owned by the family of Mr. Dusan Stojanovic, who also manages the company.

“Even though we were a well-established company, we could not get any financial support from banks so far. I was a sceptic at first, but MFB turned out to be really concerned with supporting our business. With the help of a 25.000 EUR loan, we got additional working capital, which allowed us to get four new international clients. The loan brought our business a big step ahead.”



List of Correspondent Accounts

List of Correspondent Accounts

Correspondent Accounts with Commerzbank AG, Frankfurt:

400876806100EUR
400876806100USD

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