NATIONAL BANK OF SERBIA
BANKING SUPERVISION DEPARTMENT

ANNUAL REPORT 2002

I. BANKING SECTOR

1. Number of Banks

After the banking sector had extensively been restructured in 2001 and early 2002, with quite a few banks closed for operation including some of the country's largest financial institutions, and with several newly founded banks, most of which were partially or fully owned by foreign banks, in the course of 2002 there were no considerable changes in terms of the total number of banks. The differences compared to the beginning of the year actually reflected the transformation in ownership of a group of banks which had formerly been mostly socially-owned, and the transformation of the Post Office Savings Bank into a bank of universal type, as well as the appearance of another foreign bank in the market which had acquired the majority holdings in one of the previously established domestic banks.

In early 2002 the National Bank of Serbia revoked operating licenses of the following banks: Beobanka AD Beograd, Beogradska banka AD Beograd, Investbanka AD Beograd, and Jugobanka AD Beograd. Their aggregate balance sheets at the time absorbed 57% of the total balance sheet amount of the banking sector.

The most important activities associated with the restructuring of ownership in the banking industry involved the implementation of the provisions of the laws which had resolved the long-existing problem faced by the banking sector – the fact that over 50% of balance sheet totals reported by major banks were immobilized on the basis of frozen household foreign currency savings and rescheduled long-term foreign exchange external loans. By the conversion of claims related to the Paris Club and London Club creditors, and to frozen household foreign currency savings, the Republic of Serbia acquired the ownership of 18 banks of which:

The Law on the Settlement of the Public Debt of the Federal Republic of Yugoslavia Under Household Foreign Currency Savings and the Law Governing the Relations between the Federal Republic of Yugoslavia and Legal Entities and Banks within the Territory of the Federal Republic of Yugoslavia Being the Original Debtors or Guarantors toward the Paris Club and London Club Creditors.

- In eight banks the Republic of Serbia has majority holdings;
- In five banks the Republic of Serbia has minority holdings;

- Three banks are in the process of rehabilitation;

- Two banks, which had been in the process of rehabilitation, merged with Niška banka a.d. Niš, also in rehabilitation.

These activities were aimed at speeding up the process of privatization in the banking and real sector; consequently, the ownership by the Republic of Serbia is of a provisional nature, and the shares of banks acquired in this manner will be offered for sale in the coming period.

For the purpose of providing funds to settle the obligations toward the London Club and Paris Club creditors, the member republics are required to start selling the shares in banks within six months after the ownership of shares in such banks has been transferred to them by the FRY.

The Post Office Savings Bank was transformed into a bank in compliance with the provisions of the amended and supplemented Law on Banks and Other Financial Organizations whereby this institution is no more treated as a special form of a financial organization.

At the end of 2002 the total number of banks was 50 (including two in the north of Kosovo) of which:

Jugobanka AD Kosovska Mitrovica had not provided adequate information and it was, therefore, impossible to include them into the overall data for the banking sector. All information below refer to 49 banks.

- 6 banks under majority control of foreign banks;

- 6 banks in majority ownership of other foreign entities;

- 15 banks with predominantly private capital;

- 8 banks with majority holdings by socially-owned companies;

- 11 banks in the process of privatization, with provisional majority holdings owned by the Republic of Serbia, thereof three banks in the process of rehabilitation;

- 4 banks with considerable state-owned holdings.

The year of 2002 saw continued trends reflecting a declining number of banks controlled by socially-owned legal entities and an increasing number of banks belonging to larger banking groups controlled by international banks.

2. Grouping of Banks

Pursuant to the Decision on Detailed Requirements in Implementing Articles 26 and 27 of the Law on Banks and Other Financial Organizations and the Decision on Criteria for Classification of On-Balance-Sheet Assets and Off-Balance-Sheet Items According to the Level of Recoverability and Level of Specific Provisions of Banks and Other Financial Organizations, and according to the required reports presented by banks to the National Bank of Serbia, for the year ended December 31, 2002, i.e. for the period January 1 – December 31, 2002, the aggregate data were prepared for the banking sector (49 banks). The data served as the basis for the overall review of the financial position of the banking sector as a whole, as well as the specific aspects of particular banking groups within the sector.

In 2002 the National Bank of Serbia issued new regulations within the efforts for enhancing its supervisory function ("FRY Official Gazette" No. 39/2002 and 52/2002).

Banks were grouped according to their balance sheet totals, i.e.:

- Banks with balance sheet exceeding 10 billion dinars
- Banks with balance sheet ranging from 5 to 10 billion dinars
- Banks with balance sheet ranging from 1 to 5 billion dinars
- Banks with balance sheet below 1 billion dinars.

3. Balance Sheet and Off-Balance Sheet Items

As shown by the aggregate data from reclassified balance sheets as of December 31, 2002, the **total balance sheet amount** of all banks reached 316,578 million dinars.

The reported information for 2002 contain no data for Jugobanka AD Kosovska Mitrovica, and the information for 2001.годину include no data for four large banks whose operating licenses were revoked in early 2002.

In million dinars

	31 Dec. 2002	31 Dec. 2001
TOTAL BALANCE SHEET AMOUNT	**316,578**	**291,460**

Compared to December 31, 2001 balance sheet totals reported by the banking sector increased by approximately 25 billion dinars, or 8.6%. This was the result of transferred liabilities/claims toward the FRY based on frozen foreign currency savings from balance sheets of banks amounting to approximately 70 billion dinars, and increased balance sheet totals by approximately 95 billion dinars or 33%.

Three banks with the highest balance sheets accounted for 35.7% of the total balance sheet amount of the banking sector.

The structure shows that the majority of banks (over 50%) belonged to the group with the balance sheet ranging from 1,000 to 5,000 million dinars.

The three leading banks in terms of the size of the balance sheet shared with 35.7%, and the five leading banks with 46.6%; comparative data for eight Central and East European countries (in 2001) showed that the same ratio had ranged from 43.7% in Poland to 58.4% in the Czech Republic, or from 51.0% in Poland to 68.9% in Slovenia with the leading five banks.

In million dinars

	31 Dec. 2002		31 Dec. 2001	
BALANCE SHEET	NUMBER OF BANKS	BALANCE SHEET	NUMBER OF BANKS	BALANCE SHEET
Above 10,000	7	168,929	6	153,441
From 5,000 to 10,000	10	79,089	10	75,940
From 1,000 to 5,000	26	65,032	23	55,331
Below 1,000	6	3,528	10	6,748

The smallest banks were halved, both in terms of their number and balance sheet totals.

As indicated by the aggregate data for the banking sector reported as of December 31, 2002, **off-balance sheet items** amounted to the total of 203,329 million dinars.

The ratio of balance sheet assets to GDP was 31.4%. Comparative data for eight Central and East European countries indicate that the highest ratio was reported by the Czech Republic (121.3%) and the lowest by Romania (31.2%).

In million dinars

	31 Dec. 2002	31 Dec. 2001
TOTAL OFF-BALANCE SHEET ITEMS	203,329	88,719

Relative to December 31, 2001 the total off-balance sheet items reported by the banking sector increased by approximately 115 billion dinars or 129%.

This was the result of transferred liabilities/claims toward the FRY based on frozen foreign currency savings from balance sheets of banks to their off-balance sheet positions amounting to approximately 70 billion dinars, and approximately 28 billion dinars in off-balance sheet items reported by one bank which took over the savings from the banks whose NBS licenses had been revoked; consequently, off-balance sheet items increased by 18 billion dinars in real terms.

As shown by the structure of banks, over 50% of the total off-balance sheet items are absorbed by the 7 largest banks.

In million dinars

	31 Dec. 2002	
BALANCE SHEET	NUMBER OF BANKS	OFF-BALANCE SHEET
Above 10,000	**7**	**115,931**
From 5,000 to 10,000	**10**	**33,183**
From 1,000 to 5,000	**26**	**52,954**
Below 1,000	**6**	**1,261**

Nearly 50% of to the total off-balance sheet items related to the bonds issued pursuant to the Law on the Settlement of the Public Debt of the FRY Under Household Foreign Currency Savings (as reported by the banks which operated in 2002 and those whose obligations arising from frozen currency savings were taken over by the National Savings Bank Beograd).

The banks with the highest total off-balance sheet amount as of Dec. 31, 2002 were three banks with the off-balance sheet totals accounting for 52.2% of the aggregate off-balance sheet items reported by the banking sector.

4. Equity

According to the aggregate data for the year ended December 31, 2002, the total equity of the banking sector amounted to 63,587 million dinars.

In million dinars

	31 Dec. 2002	31 Dec. 2001
TOTAL EQUITY	**63,587**	**46,186**

The loss reported by banks in 2002 exceeded by 16.9 billion dinars the level recorded in 2001.

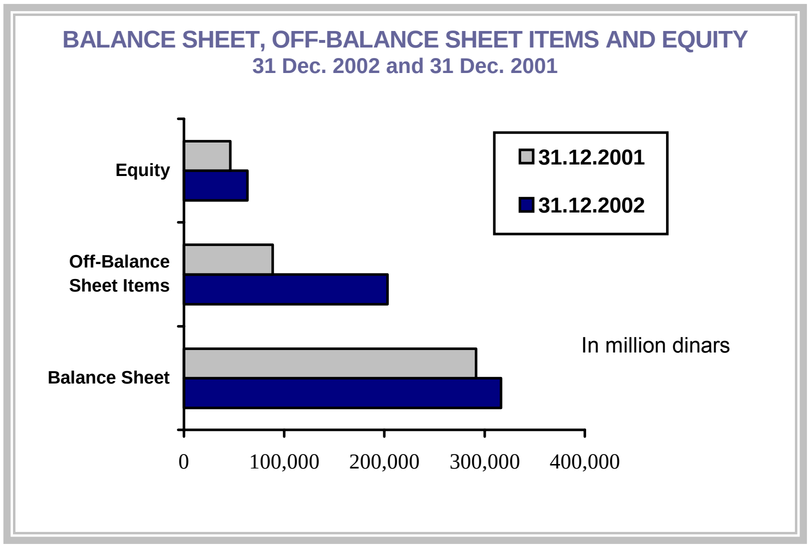
Compared to December 31, 2001 the equity of the banking sector increased by approximately 17 billion dinars or 37.7%. This resulted mainly from the conversion of 15% of the FRY liabilities based on frozen foreign currency savings (9.5 billion dinars) and liabilities related to the Paris Club and London Club creditors (24.4 billion dinars) into the share capital.

The structure indicates that 7 largest banks absorbed almost 50% of equity reported by the banking sector.

In million dinars

	31 Dec. 2002	
BALANCE SHEET	NUMBER OF BANKS	EQUITY
Above 10,000	**7**	**30,089**
From 5,000 to 10,000	**10**	**13,707**
From 1,000 to 5,000	**26**	**17,681**
Below 1,000	**6**	**2,110**

Within the aggregate equity reported by the country's banking sector, five banks with the highest amount of equity as of December 31, 2002 accounted for 43.1%.



Foreign banks relied more on the deposit potential, as opposed to the domestic, mostly private banks which relied more on their own sources, i.e. capital.

The leading banks in terms of equity were still those privately owned. Private banks accounted for 23.6% and 39.7% of the aggregate balance sheet amount and total equity respectively.

After the liabilities based on frozen foreign currency savings and claims related to the Paris Club and London Club creditors were converted into the bank shares, the state ownership is of a provisional nature.

The equity reported by smaller banks, with balance sheets below DIN 5 billion, had a relatively higher share compared to larger banks.

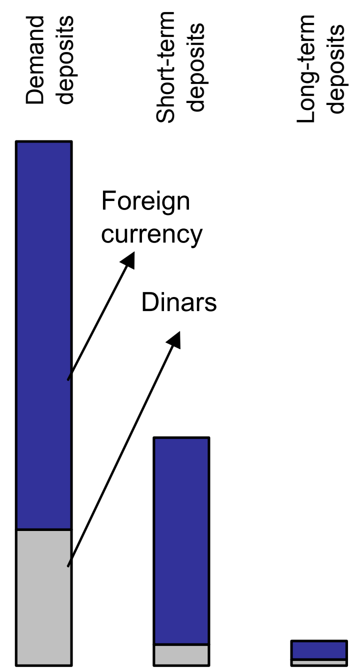
Despite the fact that the banking sector included 49 banks (reviewed in this report), the largest 7 banks absorbed 48.5% of the total balance sheet amount, 57.0% of the total off-balance sheet items, and 47.3% of the overall equity reported by the banking sector. The three largest banks in the group accounted for one third of the total balance sheet amount, one fourth of the total off-balance sheet items, and one fifth of the overall equity reported by the banking sector.

The table below contains the balance sheet amounts and equity of banks divided in terms of their ownership structure.

In million dinars

	Balance Sheet	%	Equity	%
Domestic banks	231,128	73.0	51,247	80.6
- State-owned (provisional)	112,708	35.6	15,490	24.4
- State-owned (significant holdings)	25,579	8.1	5,076	8.0
- Socially-owned	18,049	5.7	5,412	8.5
- Private	74,792	23.6	25,269	39.7
Foreign banks	85,450	27.0	12,340	19.4
- Majority controlled by foreign banks	38,231	12.1	4,791	7.5
- Majority owned by other other foreign entities	47,219	14.9	7,549	11.9
TOTAL	316,578	100.0	63,587	100.0

SAVINGS
31 Dec. 2002



5. Savings

Two years after the restructuring of the banking industry was launched, the results of the regained trust in the banking sector and revived household savings have become apparent.

In million dinars

HOUSEHOLD SAVINGS	31 Dec. 2002	%	31 Dec. 2002	%	Index
Demand deposits	39,638	67.5	13,563	61.2	292
- Dinar	10,267	17.5	2,590	11.7	396
- Foreign currency	29,371	50.0	10,973	49.5	268
Short-term deposits	17,236	29.3	8,234	37.1	209
- Dinar	1,599	2.7	553	2.5	289
- Foreign currency	15,637	26.6	7,681	34.6	204
Long-term deposits	1,866	3.2	379	1.7	492
- Dinar	457	0.8	59	0.3	775
- Foreign currency	1,409	2.4	320	1.4	440
TOTAL	58,740	100.0	22,176	100.0	265

In 2002 the total dinar household deposits increased by over 9 billion dinars, or almost four times, while foreign currency deposits rose by more than EUR 446 million. Their structure was not satisfactory yet, however, as demand deposits still accounted for 67,5% of the total household savings.

Relative to the level reported in mid 2001, savings reported as of December 31, 2002 increased by ten times. In late 2001 foreign currency savings considerably rose due to the required conversion to euro (mostly placed in demand and short-term foreign currency deposits) which were subsequently not withdrawn, but additionally increased in 2002.

The highest level of savings (equal to 47.6% of the total savings, or 52.1% of the total foreign currency savings) was reported by three banks.

With the banks under majority control by foreign banks, the ratio was 3 to 1 in favor of foreign currency loans, as opposed to the banks majority owned by other foreign entities where the ratio was 3 to 1 in favor of dinar loans.

6. New Banks

At the end of 2002 the number of banks remained unchanged. Following the merger of Dunav banka AD Beograd and Jugobanka AD Kruševac with Komercijalna banka AD Beograd, and of Vranjska banka AD Vranje and Prokupačka banka AD Prokuplje with Niška banka AD Niš, and after the Post Office Savings Bank was transformed into a bank of universal type, and the new National Savings Bank Beograd started its operation, the new foreign bank Alpha Bank AD Beograd was founded, and one more foreign bank entered the market by acquiring the majority holdings in one of the previously established domestic banks (Deposit-Credit Bank Beograd which used to operate under RAJ banka AD Beograd), the number of banks was still 50.

In 2001 the share of foreign capital in eight observed European countries ranged from 55.3% in Romania to 94.2% in the Czech Republic.

7. Foreign Banks

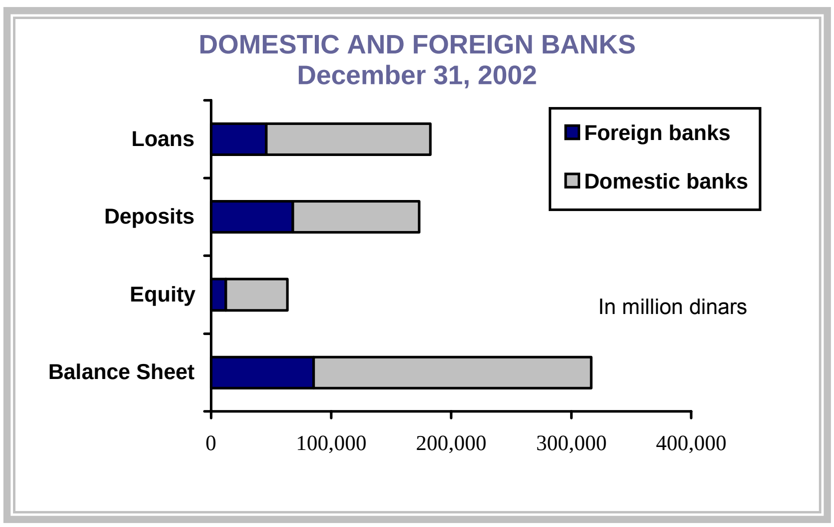
In 2002 the National Bank of Serbia issued the operating license to one more foreign bank, Alpha Bank AD Beograd, and on December 31, 2002 there were 12 banks with the majority foreign interests included in the banking sector as follows:

In million dinars

FOREIGN BANKS	Balance Sheet	Equity	Financial Result	Deposits	Loans
Majority controlled by foreign banks	38,231	4,791	- 204	31,422	17,544
Majority owned by other foreign entities	47,219	7,549	- 65	36,635	28,566
TOTAL	85,450	12,340	- 269	68,057	46,110
Percentage in the banking sector	27.0	19.4	1.0	39.2	25.2

In the deposits reported by foreign banks foreign currency and dinars accounted for 66.8% and 33.2% respectively, with 71.4% absorbed by demand deposits, and 28.0% by deposits up to one year.

One fourth of the aggregate lending in the banking sector was absorbed by portfolios of foreign banks. In the total loans amounting to 46,110 million dinars, dinar loans accounted for 56.1% (25,872 million dinars), and foreign currency loans for 43.9% (20,238 million dinars); short-term loans absorbed 92.1%, and long-term loans no more than 7.9%.



8. Number of Employees

In 2002 the number of employees in the banking sector increased by 3,193 or 22%. At the end of 2001 banks employed 22,804 people including 8,322 or 36.5% in the four banks whose operating licenses were revoked in early 2002. The number of staff reported at the end of 2002 was 18,914 (including 126 employees in Jugobanka AD Kosovska Mitrovica).

On the level of the entire banking sector, balance sheet assets per employee amounted to DIN 16.9 million at the end of 2001, as opposed to DIN 20.1 million at the close of 2001. With foreign banks, the balance sheet assets to employee ratio was DIN 30.5 compared to DIN 33.5 million at the end of 2001.

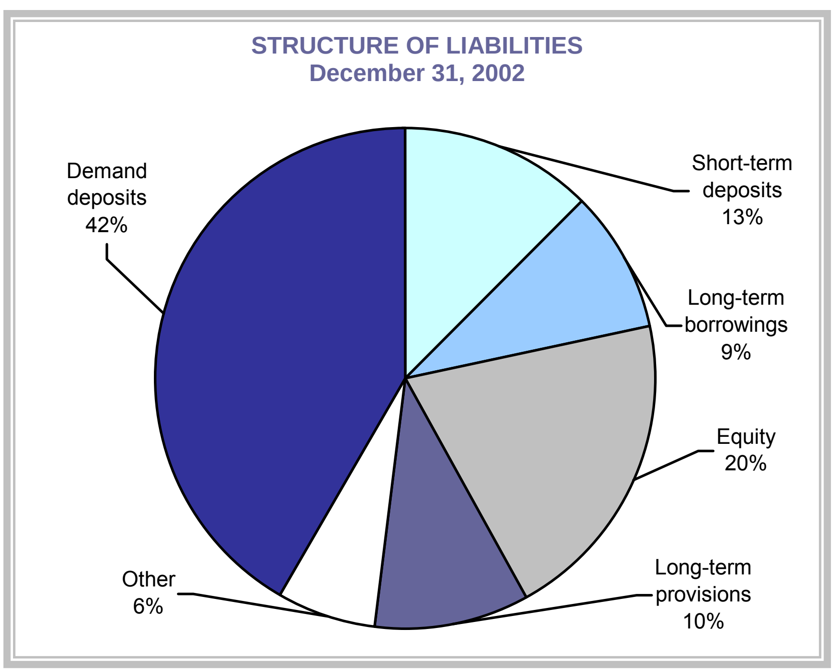
II BALANCE SHEET STRUCTURE

The total balance sheet amount of the banking sector as of December 31, 2002 increased by 25.1 billion dinars or 8.6% compared to December 31, 2001. Balance sheets of the three new banks which started operating in 2002 amounted to 15.7 billion dinars. The balance sheet amount rose by 79.3 billion dinars or 27.2% in real terms (taking into account the transfers required by law), or by 95.0 billion dinars or 32.6% including the new banks.

Pursuant to the Law on the Settlement of the Public Debt of the Federal Republic of Yugoslavia Under Personal Foreign Currency Savings, the liabilities arising from frozen currency savings were transferred from balance sheets to off-balance sheet items, and in 2002 the total balance sheet amount decreased accordingly, i.e. by DIN 69.9 billion.

1. Structure of Liabilities

In mid 2002 the Law on the Settlement of the Public Debt of the Federal Republic of Yugoslavia Under Household Foreign Currency Savings and the Law Governing the Relations between the Federal Republic of Yugoslavia and Legal Entities and Banks within the Territory of the Federal Republic of Yugoslavia Being the Original Debtors or Guarantors toward the Paris Club and London Club Creditors were enacted. The implementation of their provisions had direct effects as to the changes in the balance sheet structure of the banking sector.



The structure of total liabilities amounting to DIN 316,578 million shows that the largest portion of 41.5% was absorbed by demand deposits. The second highest position was equity (20.1%) which was followed by short-term deposits accounting for 12.5%. In addition to long-term provisions (10.2%) and long-term borrowings (9.2%), these were the only significant positions within the liabilities of the banking sector accounting for 93.5% in total.

As of December 31, 2002 **liabilities** aggregately reported by banks were as shown in the table below.

Within the short-term liabilities toward the NBS, 90.4% related to the banks belonging to Group I, while one bank alone accounted for 73.6% (DIN 308 million). The same bank had also long-term liabilities toward the NBS amounting to DIN 150 million, i.e. this bank absorbed 63.9% of the total liabilities toward the NBS reported by the banking sector.

STRUCTURE OF LIABILITIES

In million dinars

	31 Dec. 2002		31 Dec. 2001	
		%		%
Demand deposits	131,520	41.5	72,608	24.9
Short-term liabilities to NBS	419	0.1	264	0.1
Short-term deposits	39,705	12.5	20,677	7.1
Short-term borrowings	2,590	0.8	3,728	1.3
Short-term securities	1,836	0.6	2,796	1.0
Other liabilities and non-operating sources	8,375	2.7	7,849	2.7
Long-term liabilities to NBS	298	0.1	389	0.1
Long-term deposits	2,270	0.7	845	0.3
Long-term borrowings	29,174	9.2	40,847	14.0
Long-term securities	2,752	0.9	1,166	0.4
Household frozen FX deposits	0	0.0	69,908	24.0
Long-term provisions	32,217	10.2	24,191	8.3
Subordinated debt	1,835	0.6	6	0.0
Equity	63,587	20.1	46,186	15.8
TOTAL LIABILITIES	316,578	100.0	291,460	100.0

Although foreign currency deposits increased by 34,229 million dinars, their share in the total deposits fell from 60.3% in 2001 to 52.5% in 2002. Their percentage in the European countries, as reported in 2001, ranged from 17.8% in Slovakia to 74.9% in Croatia.

With the transfer of liabilities based on frozen foreign currency savings from balance sheets to off-balance sheet positions and the conversion of long-term liabilities related to the Paris Club and London Club creditors into bank shares, as provided by the enacted laws, the sources which could have not been transformed to interest-bearing assets were removed from balance sheets of banks whereby the volume and structure of accounts in the banking sector have become more realistic.

The aggregate deposits reported by Yugoslav banks amounted to 173,495 million dinars and accounted for 54.7% of the total liabilities. The deposit potential recorded an increase both in absolute terms, by 79,365 million dinars or 84.3%, and in relative terms, from 32.3% to 54.7% of liabilities. In 2002 such increase primarily resulted from the growing demand deposits and short-term deposits.

The three largest banks in terms of the deposit potential as of December 31, 2002 (86.3 billion dinars) accounted for 49.7% of the total deposits reported by the banking sector.

In million dinars

DEPOSITS	31 Dec. 2002	%	31 Dec. 2001	%
Demand deposits	131,520	75.8	72,608	77.1
- Dinar	69,454	40.0	32,877	34.9
- Foreign currency	62,066	35.8	39,731	42.2
Short-term deposits	39,705	22.9	20,677	22.0
- Dinar	12,287	7.1	4,146	4.4
- Foreign currency	27,418	15.8	16,531	17.6
Long-term deposits	2,270	1.3	845	0.9
- Dinar	755	0.4	337	0.4
- Foreign currency	1,515	0.9	508	0.5
TOTAL	173,495	100.0	94,130	100.0

The three largest banks in terms of demand deposits as of December 31, 2002 (57.5 billion dinars) accounted for 43.7% of the total demand deposits reported by the banking sector.

The maturity structure of deposits shows that demand deposits accounted for 75.8%, short-term deposits for 22.9%, and long-term deposits for no more than 1.3% of the total deposits. Foreign currency deposits absorbed 90,999 million dinars or 52.5% of the total deposits, with demand and short-term deposits accounting for 68.2% and 30.1% respectively.

The structure of deposits further points to corporate clients as the largest depositors accounting for 35.3% which were followed by households sharing with 33.9% in the total deposits. Corporate deposits prevailed within the aggregate dinar deposits reported by the banking sector, as they accounted for 40.8% of the total dinar deposits, whereas the leading position within the household deposits was held by those in foreign currency accounting for 51.0% of the overall foreign currency deposits.

By far the most significant (3) banks in terms of the deposit potential shared with 49.7% in the aggregate deposits reported by the banking sector.

Within the overall short-term deposits of the banking sector, those held with three banks accounted for 33.5% or 13.3 billion dinars.

The structure improved in favor of term deposits (from 22.9% to 24.2% in the total deposits).

Demand deposits increased by 58.9 billion dinars, with dinar and foreign currency demand deposits accounting for 36.6 billion and 22.3 billion dinars respectively. The leading (3) banks in terms of demand deposits absorbed 43.7% of the aggregate demand deposits.

Corporate demand deposits prevailed with 50.8 billion dinars or 38.6% of the total demand deposits. Households accounted for 30.1% (39.6 billion dinars) of the overall demand deposits.

Short-term deposits rose by 19.1 billion dinars, with dinar and foreign currency deposits increased by 8.1 billion and 10.9 billion respectively. The (3) leading banks in terms of short-term deposits shared with 33.5% in the overall short-term deposits reported by the reviewed banks.

The ratio of equity to deposits shows that larger banks used rather their deposit base than capital to provide financing, while the capital appeared to be the major source with the smallest banks.

Households made the major group accounting for 17.2 billion dinars or 43.3% of the aggregate short-term deposits.

On December 31, 2002 equity of the banking sector was reported at 63,587 million dinars and shared with 20.1% in the total liabilities of banks, mostly as the result of share capital amounting to 79,447 million dinars, revaluation reserves of 16,917 million dinars, and reserves from profit amounting to 4,913 million dinars, less reported loss of 38,584 million dinars. Compared to the balance of accounts reported at the end of 2001, the increase was 37.7%, or from 15.8% to 20.1% relative to the total liabilities.

In million dinars

EQUITY	31 Dec. 2002	31 Dec. 2001
Capital	79,457	40,481
Share premium	126	-
Revaluation reserves	16,917	11,167
reserves from profit	4,913	5,794
Profit	931	751
Treasury shares	162	898
Loss	38,584	11,109
TOTAL	63,587	46,186

The average equity (reported in this manner) per bank amounted to EUR 70 million within Group I; EUR 22 million within Group II; EUR 11 million within Group III; and EUR 6 million within Group IV.

The structure of equity indicates that the major changes occurred with share capital and loss. Share capital increased by 39.0 billion dinars whereof 33.9 billion resulted from the conversion of liabilities arising from frozen foreign currency savings and those related to the Paris Club and London Club creditors into the capital, in addition to 2.1 billion dinars reported by banks founded in 2002, and 3.0 billion dinars in new issues of shares. The increase in loss was partly created by 15% liabilities written-off on account of frozen foreign currency savings (9.5 billion dinars), as well as by additionally allocated special provisions against potential losses (11.3 billion dinars) mostly following the classification of the Paris Club and London Club claims.

In million dinars

EQUITY	I	II	III	IV
Capital	38,220	22,163	17,086	1,989
Share premium	125	0	0	1
Revaluation reserves	9,142	3,971	3,505	287
Reserves from profit	3,388	799	608	118
Profit	452	194	232	53
Treasury shares	0	0	0	162
Loss	21,238	13,421	3,749	177
TOTAL	30,089	13,706	17,682	2,109

In 2002 banks were required to review and classify the claims related to the Paris Club and London Club creditors after establishing the degree of their recoverability in real terms.

Reclassified balance sheet, in terms of liabilities reported as of December 31, 2002, is shown in the table below for banks divided by the volume of their balance sheets.

STRUCTURE OF LIABILITIES

In million dinars

	GROUP I	%	GROUP II	%	GROUP III	%	GROUP IV	%	TOTAL	%
Demand deposits	77,377	45.8	25,908	32.8	27,681	42.6	554	15.7	131,520	41.5
Short-term liabilities to NBS	379	0.2	14	0	23	0.1	2	0.1	419	0.1
Short-term deposits	19,453	11.5	10,344	13.1	9,766	15.0	142	4.0	39,705	12.5
Short-term borrowings	1,442	0.9	579	0.7	474	0.7	95	2.8	2,590	0.8
Short-term securities	579	0.3	327	0.4	930	1.4	1	0	1,836	0.6
Other liabilities and non-operating sources	3,258	1.9	3,447	4.4	1,574	2.4	97	2.7	8,375	2.7
Long-term liabilities to NBS	186	0.1	30	0.1	22	0	60	1.7	298	0.1
Long-term deposits	1,746	1.0	152	0.2	349	0.6	22	0.6	2,270	0.7
Long-term borrowings	14,481	8.6	11,878	15.0	2,673	4.1	141	4.0	29,174	9.2
Long-term securities	982	0.6	1,759	2.2	9	0	2	0.1	2,752	0.9
Long-term provisions	18,343	10.9	9,724	12.3	3,849	5.9	301	8.5	32,217	10.2
Subordinated debt	615	0.4	1,220	1.5	0	0	0	0	1,835	0.6
Equity	30,089	17.8	13,707	17.3	17,682	27.2	2,110	59.8	63,587	20.1
TOTAL LIABILITIES	168,930	100.0	79,089	100.0	65,032	100.0	3,527	100.0	316,578	100.0

Sources of banks belonging to the first three groups primarily related to their deposit potential which made 58.3%, 46.1%, and 58.2% of liabilities reported by banks in Groups I, II, and III respectively. Capital was the major source with banks belonging to Group IV sharing with 59.8% in their liabilities although it accounted for no more than 3.3% of the overall equity reported by the banking sector.

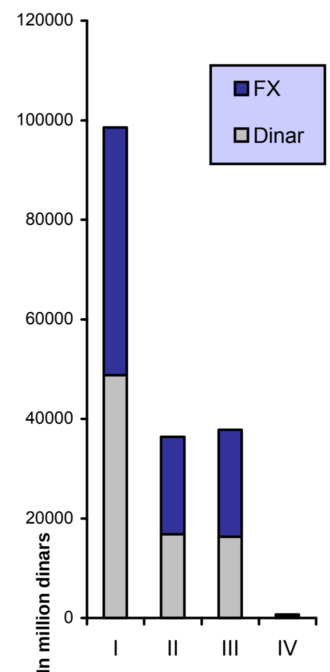
In million dinars

DEPOSITS	I	II	III	IV
Demand deposits	77,377	25,908	27,681	554
- Dinar	42,142	13,812	13,045	455
- FX	35,235	12,096	14,636	99
Short-term deposits	19453	10,344	9,766	142
- Dinar	6,088	2,914	3,215	68
- FX	13,365	7,430	6,551	74
Long-term deposits	1,746	152	349	22
- Dinar	575	81	76	22
- FX	1,171	71	273	-
TOTAL	98,576	36,404	37,796	718

Long-term borrowings were more significant with larger banks, partly due to the additional transfers relating to the Paris Club and London Club creditors; the same applied to long-term provisions for the same reasons (classification of respective loans).

Banks belonging to Group I were not only those with the strongest balance sheets, but also the banks with the highest position of deposits. They absorbed 56.8% of the overall deposit potential of the banking sector; Groups I and II accounted for 21.0% and 21.8% respectively; and Group IV for no more than 0.4% of the aggregate deposits.

DEPOSITS



Furthermore, banks in Group I reported the highest deposit amount per employee, 11,543 thousand dinars. The same ratio was reported at 7,822 thousand and 7,220 thousand dinars with banks belonging to Groups II and III respectively, while Group IV reached no more than 2,000 thousand dinars per employee.

Corporate clients and households were the most significant depositors.

In %

DEPOSITS	I	II	III	IV
Corporate	33.5	34.8	39.2	41.9
Households	35.6	38.6	25.4	24.6

With all banks, foreign currency deposits prevailed over those in dinars, except with Group IV where the ratio was 24:76 in favor of dinar deposits.

2. Structure of Assets

The structure of **assets** of the reviewed banks showed that the largest portion of 33.5% (a 39.4 billion dinars increase) was absorbed by short-term loans and long-term loans (24.2%), with the subsequent Paris Club and London Club transfers accounting for approximately 10 billion dinars of the overall increase amounting to 27.7 billion dinars.

STRUCTURE OF ASSETS

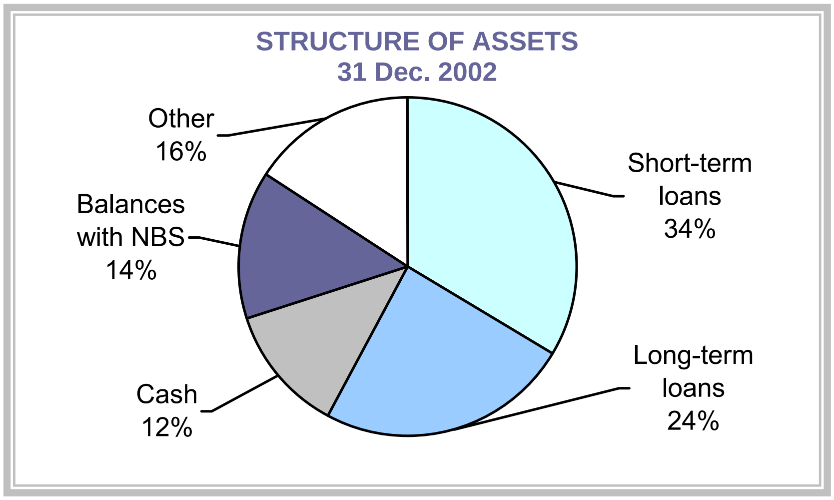
In million dinars

	31 Dec. 2002		31 Dec. 2001	
		%		%
Cash and cash equivalents	39,157	12.4	39,489	13.6
Balances with NBS and short-term securities	44,406	14.0	20,045	6.9
Short-term loans and advances	105,987	33.5	66,562	22.8
Short-term securities and other investments	7,495	2.4	6,638	2.3
Securities and other investments	1,516	0.5	2,238	0.8
Other and non-operating assets	10,450	3.3	13,830	4.7
Claims on FRY for frozen FX deposits	0	0.0	66,787	22.9
Long-term loans and advances	76,770	24.2	49,023	16.8
Long-term securities	4,232	1.3	8,106	2.8
Equity shares	5,302	1.7	5,182	1.8
Fixed assets	21,263	6.7	13,560	4.6
TOTAL ASSETS	316,578	100.0	291,460	100.0

Required reserves allocated by banks and held with the NBS (dinar and foreign currency) amounted to 20,105 million dinars or 6.3% of the total balance sheet assets.

Improved liquidity of the banking sector in 2002 resulted in the increase in balances with the National Bank of Serbia by 24.4 billion dinars; cash and cash equivalents remained unchanged but still made a significant portion of the total assets (12.4%).

For the purpose of foreign exchange liquidity required to provide withdrawals from foreign currency savings deposits, allocations of banks held with the NBS reached 17,162 million dinars or nearly EUR 280 million.



Loans and advances (short- and long-term) accounted for 57.7% of the total balance sheet assets. In 2002 banks increased their lending activities by 58.1% relative to the previous year with adequately improved percentage of loans and advances within the structure of assets.

In million dinars

LOANS	MAJOR BANKS*	%
Short-term	53,561	56.4
- Dinar	37,716	39.7
- FX	15,845	16.7
Long-term	41,418	43.6
- Dinar	12,659	13.3
- FX	28,759	30.3
TOTAL	94,979	100.0

* 5 leading banks in terms of amount of loans

In million of dinars

LOANS	ALL BANKS 31 Dec. 2002	%	ALL BANKS 31 Dec. 2001	%
Short-term	105,987	58.0	66,562	57.6
- Dinar	71,082	38.9	32,804	28.4
- FX	34,905	19.1	33,758	29.2
Long-term	76,770	42.0	49,023	42.4
- Dinar	19,246	10.5	10,327	8.9
- FX	57,524	31.5	38,696	33.5
TOTAL	182,757	100.0	115,585	100.0

The currency structure shows that in short-term lending foreign currency loans more or less maintained the level reported in the previous year (having increased by 1.2 billion dinars or 3.4%) while an increase by 38.3 billion dinars or 116.7% was reported with dinar loans. With long-term lending, foreign currency position still prevailed and recorded an increase by 18.8 billion dinars or 48.7%, mostly due to the transfers of additional Paris Club and London Club claims. An increase was reported in the percentage of dinar long-term loans which in 2002 also recorded a relatively higher growth compared to foreign currency lending (dinar loans rose by 86.4% or 8.9 billion dinars).

Foreign currency placed in short-term deposits with foreign banks amounted to 21.5 billion dinars, with the deposits held by international banks amounting to 14.5 billion dinars.

Lending activities were concentrated to a considerable extent as the largest five banks absorbed 52.0% of overall lending reported by the banking sector, whereas their share in short-term foreign currency loans was somewhat lower (45.4%) than in long-term dinar loans (65.8%).

In the total provisions for short-term dinar loans, 90.5% accounted for the provisions in the area of corporate lending.

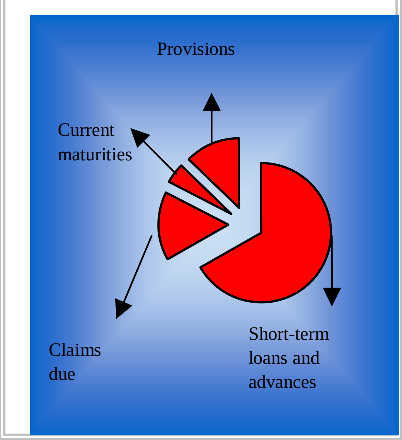
With the aggregate short-term loans (after provisions) 59.6% and 28.2% were provided to corporate clients and banks respectively, whereas household lending increased to 7.9%. Other borrowers shared with less than 2% in the overall short-term lending. Corporate clients were the prevailing borrowers in the area of short-term dinar lending (76.7%) while most of short-term foreign currency loans, or 72.2%, were extended to (primarily foreign) banks.

In terms of recoverability, the data reported as at December 31, 2002 relative to December 31, 2001 pointed to the improved recoverability of claims.

In million dinars

LOANS	31 Dec. 2002	%	31 Dec. 2001	%
Short-term loans and advances	95,229	81.0	59,581	76.9
Claims due	22,369	19.0	17,940	23.1
TOTAL	117,598	100.0	77,521	100.0
Current maturities under long-term loans	6,777		5,619	
TOTAL	124,375		83,140	
Provisions	18,388	82.2	16,578	92.4[1]
TOTAL	105,987		66,562	

RECOVERABILITY OF CLAIMS
31 Dec. 2002



Although an increase of approximately 40 billion dinars was reported for all respective positions, the amount of claims due decreased (from 23.1% to 19.0%), as well as the corresponding provisions for such claims (from 92.4% to 82.2%).

With long-term loans, provisions allocated by banks amounted to 52.9% of the current maturities under long-term loans, as opposed to lower provisions reported in the previous year (24.6%); this was also partly the result of more realistically reported loans related to the Paris Club and London Club creditors.

[1] Expressed relative to claims due

In 2002 the banks majority owned by foreign banks and other foreign entities reported lending activities amounting to the aggregate of 46.1 billion dinars or 25.2% of the overall lending activities in the banking sector.

While the maturity structure of loans extended by domestic banks was more or less equal, with foreign banks the amount of short-term lending exceeded by 10 times their long-term loans, and short-term foreign currency loans and advances (19.5 billion dinars), mostly to foreign banks (15.1 billion dinars), accounted for 42.4% of overall lending reported by foreign banks.

The ratio of extended loans to received deposits was 67.7% and 129.6% with foreign and domestic banks respectively.

In million dinars

LOANS	Banks majority controlled by foreign banks	Banks majority owned by other foreign entities	TOTAL FOREIGN BANKS 31 Dec. 2002	%
Short-term	16.473	25.989	42.462	92,1
- Dinar	3.795	19.116	22.911	49,7
- FX	12.678	6.873	19.551	42,4
Long-term	1.071	2.577	3.648	7,9
- Dinar	703	2.259	2.962	6,4
- FX	368	318	686	1,5
TOTAL	17.544	28.566	46.110	100,0

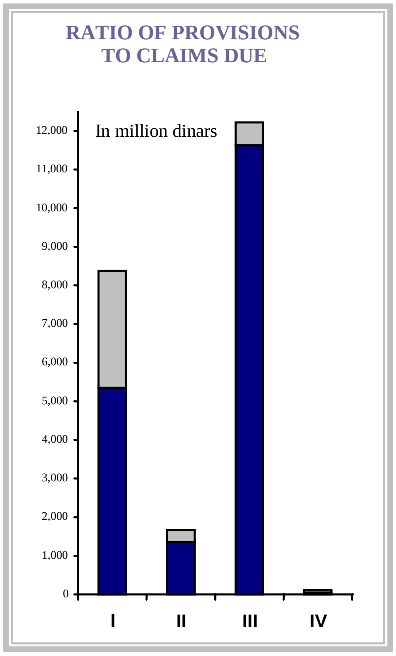
Although every fourth dinar of overall loans was reported by foreign banks, they accounted for no more than 5.1% of claims due and 2.2% of provisions for short-term lending. The fact speaks for much higher recoverability ratio achieved by these banks.

LOANS	Banks majority controlled by foreign banks	Banks majority owned by other foreign entities	TOTAL FOREIGN BANKS 31 Dec. 2002
Short-term loans and advances	15,904	23,766	39,670
Claims due	51	1,082	1,133
TOTAL	15,955	24,848	40,803
Current maturities under long-term loans	520	1,544	2,064
TOTAL	16,475	26,392	42,867
Provisions	2	403	405
TOTAL	16,473	25,989	42,462

The increased percentage of short- and long-term loans (and the total interest-bearing assets) in 2002 relative to 2001, from 39,6% to 57.7%, primarily resulted from lending activities of the largest banks. They accounted for 59.8% and 59.0% of the aggregate short- and long-term loans respectively.

In million dinars

LOANS	I	II	III	IV
Short-term	63,405	18,852	22,441	1,289
- Dinar	41,587	12,010	16,227	1,257
- FX	21,818	6,842	6,214	32
Long-term	45,301	25,844	5,348	277
- Dinar	13,113	3,264	2,716	152
- FX	32,188	22,580	2,632	125
TOTAL	108,706	44,696	27,789	1,566



Four banks belonging to this group alone absorbed 65% of the overall increase reported in short-term lending activities of the banking sector. Long-term loans provided by banks in Group I rose by 15.8 billion dinars and accounted for 57% of the overall increase reported in long-term lending. Considerable increase was also achieved by banks belonging to Group II (which reported 22.6 billion of long-term foreign currency loans), partly due to the transfers of the Paris Club and London Club claims.

In terms of recoverability, claims due accounted for 9.5% of short-term loans with banks belonging to Groups II and IV, for 14.8% with banks in Group I, and for 61.6% with those in Group III. The highest ratio of provisions to claims due (95.2%) was also reported for banks belonging to the latter group as one of them had allocated provisions for foreign currency claims due from foreign entities amounting to 9.5 billion dinars. The ratio of provisions to claims due was 63.9% with Group I, 81.9% with Group II, and 39.5% with Group IV.

Reclassified balance sheet, in terms of assets reported as of December 31, 2002, is shown in the table below for banks divided by the volume of their balance sheets.

STRUCTURE OF ASSETS

In million of dinars

	GROUP I		GROUP II		GROUP III		GROUP IV		TOTAL	
		%		%		%		%		%
Cash and cash equivalents	12,740	7.5	12,222	15.5	13,756	21.1	439	12.5	39,157	12.4
Balances with NBS and short-term securities	25,473	15.1	8,113	10.3	10,306	15.9	514	14.6	44,406	14.0
Short-term loans and advances	63,405	37.5	18,852	23.8	22,441	34.5	1,289	36.6	105,987	33.5
Short-term securities and other investments	2,484	1.5	1,430	1.8	3,559	5.5	22	0.6	7,495	2.4
Securities and other investments	487	0.3	238	0.3	746	1.1	45	1.3	1,516	0.5
Other and non-operating assets	4,357	2.6	3,965	5.0	1,926	3.0	202	5.7	10,450	3.3
Long-term loans and advances	45,300	26.8	25,845	32.7	5,348	8.2	277	7.8	76,770	24.2
Long-term securities	1,395	0.8	1,847	2.3	968	1.5	22	0.6	4,232	1.3
Equity shares	2,218	1.3	1,563	2.0	1,302	2.0	219	6.2	5,302	1.7
Fixed assets	11,071	6.6	5,014	6.3	4,680	7.2	498	14.1	21,263	6.7
TOTAL ASSETS	168,930	100.0	79,089	100.0	65,032	100.0	3,527	100.0	316,578	100.0

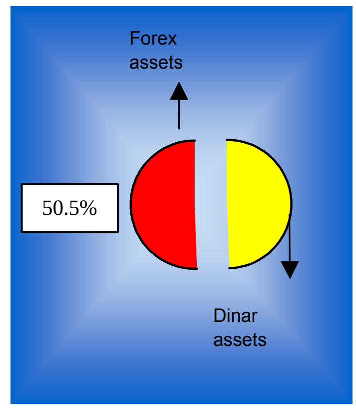
Foreign exchange position within liabilities and assets decreased by 47.2 billion dinars and 29.7 billion dinars respectively.

The maturity structure of assets and liabilities reflected adequate balance of accounts reported by banks as of December 31, 2002.

In million dinars

		31 Dec. 2002	31 Dec. 2001
LIABILITIES	**Short-term liabilities**	**184,445**	**107,514**
	Long-term liabilities and equity	**132,133**	**183,946**
	TOTAL:	**316,578**	**291,460**
ASSETS	**Short-term claims**	**209,011**	**148,803**
	Long-term claims	**107,567**	**142,657**
	TOTAL:	**316,578**	**291,460**

ASSETS CURRENCY STRUCTURE 31 Dec. 2002

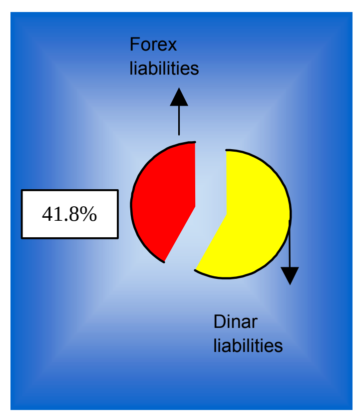


Foreign exchange and dinar positions were accounted for on the basis of reclassified balance sheets of banks.

In million dinars

	31 Dec. 2002	31 Dec. 2001
LIABILITIES		
Forex position	**132,477**	**179,650**
% of liabilities	**41.8**	**61.6**
ASSETS		
Forex position	**159,891**	**189,560**
% of assets	**50.5**	**65.0**

LIABILITIES CURRENCY STRUCTURE 31 Dec. 2002



Transfers of liabilities and claims based on frozen foreign currency savings and conversion of liabilities related to the Paris Club and London Club creditors into the share capital translated to dinars pointed to the considerably increased foreign exchange position in real terms although it decreased in terms of reported data. Within liabilities, this was the result of the increase in foreign currency deposits by 34.2 billion dinars and additionally transferred 10.3 billion dinars of the Paris Club and London Club liabilities. Within assets, foreign currency loans and advances rose by 20.0 billion dinars (with 50% of the amount on the same basis), balances with the NBS increased by 22.4 billion dinars, and foreign exchange cash dropped by 3.8 billion dinars.

III QUALITY OF ASSETS

Aggregately classified balance sheet assets and off-balance sheet positions by degree of recoverability, including all banks as of December 31, 2002 showed that, within the overall (on- and off-balance sheet) amount of 519,907 million dinars, 45.4% or 235,936 million dinars were classified, with non-classified 283,971 million dinars or 54.6%. Classified positions accounted for 184,699 million dinars or 58.3% of balance sheet assets, and for 25.2% or 51,237 million dinars of off-balance sheet items.

In late July, 2002 the National Bank of Serbia issued a new Decision on Classification of On-balance Sheet Assets and Off-balance Sheet Items According to the Level of Recoverability and Level of Specific Provisions of Banks and Other Financial Organizations (applicable as from September 1, 2002).

The table below contains the most significant positions of classified assets.

In million dinars

Category	Short-term loans	%	Long-term loans	%	Payment guarantees	%	Performance guarantees	%
A	59,847	73.6	36,399	49.7	18,606	68.0	11,029	75.0
B	10,529	13.0	6,627	9.0	5,556	20.3	1,465	10.0
C	5,238	6.4	5,592	7.6	354	1.3	342	2.3
D	4,483	5.5	17,407	23.8	2,068	7.6	1,397	9.5
E	1,248	1.5	7,240	9.9	762	2.8	480	3.2
Total	81,345	100.0	73,265	100.0	27,346	100.0	14,713	100.0

Within the total classified short-term loans, non-performing loans accounted for 13.5% (classified in C, D and E categories); with long-term loans the percentage was much higher (41.3%). As for guarantees, 11.7% of payment guarantees and 15% of performance guarantees were classified in the three lowest categories.

By respective regulations issued in late July, 2002 qualitative and quantitative criteria for classification of assets were tightened, the items deductible from the accounting base for specific provisions were established, and the rates for allocation of specific provisions were changed.

The major deductible items include: 50% of balance sheet claims secured by mortgage on property (43.7% of aggregate deductibles); 50% of the amount of performance guarantees (19.6%); and cash deposits used as security against claims (15.4%).

Consequently, the aggregate amount of classifiable balance sheet assets and off-balance sheet positions was reduced by deductibles of 33,553 million dinars.

Assets of the banking sector in terms of classification by degree of recoverability as of December 31, 2002 are shown in the table below:

In million dinars

Category	31 Dec. 2002	Allocated %	Specific provisions	31 Dec. 2001	Allocated %	Specific provisions
A	127,886	2	2,558	151,741	0	0
B	25,336	5	1,267	30,766	0	0
C	10,218	25	2,555	10,033	50	5,016
D	26,739	50	13,370	3,080	75	2,310
E	12,204	100	12,204	13,281	100	13,281
Total	202,383		31,952	208,901		20,607

In 2001 claims related to the Paris Club and Paris Club creditors were not classified by required criteria, but were reported within the positions classified in A category; in late 2002 banks were already required to fairly report these claims in terms of recoverability.

Bad assets (classified in C, D and E categories) amounted to 49,161 million dinars and made 24.3% of the total classified assets. Compared to December 31, 2002 these asses increased by 22,767 million dinars or 86.3% in absolute terms, whereas in real terms their share in the total classified assets rose from 12.6% to 24.3%.

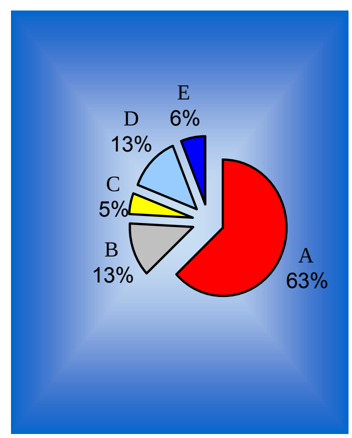
Consequently, the ratio of bad assets to the aggregate amount of balance sheet assets and off-balance sheet positions increased from 6.9% in 2001 to 9.5% at the end of 2002[2], while the share of potential losses relative to capital rose from 50.3% to 51.4%.

With two banks, the ratio of bad assets to the total balance sheet assets and off-balance sheet positions exceeded 60%.

In 2002 potential losses of the banking sector increased by 11,345 million dinars or 55.1% compared to 2001.

Three banks which reported the highest amounts of potential losses accounted for 59.3% of the aggregate potential losses of the banking sector.

CLASSIFIED ASSETS
31 Dec. 2002



[2] In the reviewed European countries the ratio of bad assets to the total assets ranged from 3.0% in Romania to 25.5% in Slovakia.

The quality of assets, as reported by banks divided in groups, showed that the largest banks accounted for 57% of both the total classifiable assets and total potential losses; the same applied to the smallest banks, with the respective percentage of 1%. Group II was less successful as these banks shared with 25% and 30% in the total classifiable assets and potential losses respectively; Group III performed better (17% of the total classifiable assets, and 12% of potential losses).

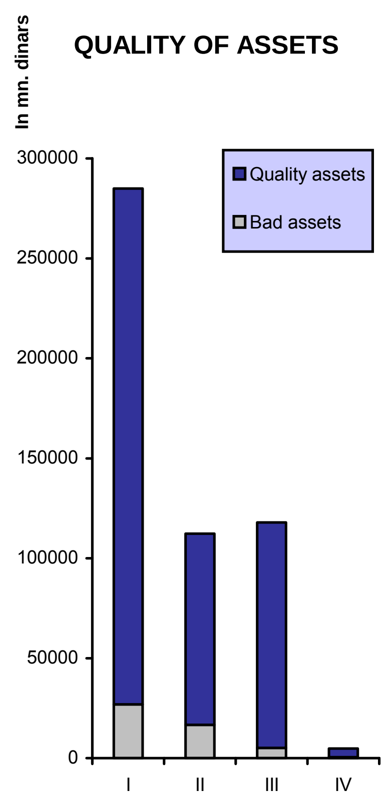
Six banks absorbed 74.8% of the total potential losses reported in the banking sector.

The ratio of bad assets to classifiable assets ranged from 14.5% with Group III to 33.2% with banks belonging to Group II.

The smallest banks reported the most adequate coverage of potential losses, with potential losses accounting for 13.1% of capital, whereas with banks in Group II the same ratio was 71.1%

QUALITY OF ASSETS

In million dinars



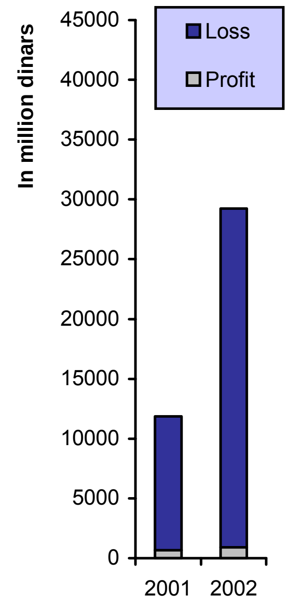
Category	TOTAL	%	Group I	%	Group II	%	Group III	%	Group IV	%
A	127,886	63.2	70,405	61.2	29,910	59.6	26,232	74.6	1,339	66.3
B	25,336	12.5	17,650	15.4	3,629	7.2	3,831	10.9	226	11.2
C	10,218	5.1	7,366	6.4	1,743	3.5	960	2.7	149	7.4
D	26,739	13.2	11,026	9.6	12,922	25.7	2,575	7.3	216	10.7
E	12,204	6.0	8,546	7.4	2,013	4.0	1,555	4.4	90	4.5
TOTAL	202,383	100.0	114,993	100.0	50,217	100.0	35,153	100.0	2,020	100.0
Potential losses	31,952		18,191		9,689		3,798		274	
Bad assets	49,161		26,938		16,678		5,090		455	
Bad assets/ total assets	9.5		9.5		14.8		4.3		9.5	
Potential losses/capital	51.4		61.1		71.1		22.9		13.1	

IV INCOME STATEMENT

1. Financial Performance

For the period January 1 – December 12, 2002 banks reported a negative net **financial result** (total profit less total loss) amounting to 27,408 million dinars.

FINANCIAL RESULT



In million dinars

	31 Dec. 2002		31 Dec. 2001	
	Amount	Number of banks	Amount	Number of banks
1. LOSS	28,318	23	11,198	19
2. PROFIT	910	26	675	30
FINANCIAL RESULT (2-1)	-27,408	49	-10,523	49

In the period January 1 – December 12, 2002, there were 23 banks out of the total number of banks that reported loss in operation. The aggregate reported loss amounted to 28,318 million dinars, with one bank accounting for nearly a half of the amount (approximately 44%).

Both in 2001 and 2002 there were 14 banks which reported loss or profit in operation, while most of the remaining banks reported less successful financial results.

The aggregate positive financial result amounting to 910 million dinars was reported by 19 banks. Three banks accounted for over 62.4% of reported profit, whereas 7 banks reported more or less equal income and expenses.

Income reported by the banking sector in 2002 shared with 5.78% in the GDP, and amounted to EUR 119.7 per capita.

The data for 2001 reported for the Central and East European countries in the process of joining the EU showed that the ratio of income generated by the banking sector to the GDP ranged from 2.9% (Bulgaria) to 4.0% (Czech Republic), with the income per capita ranging from EUR 57.0 (Bulgaria) to EUR 395.9 in Slovenia.

2. Structure of Income and Expenses

The aggregate reclassified income statement of banks for the period January 1 – December 31, 2002 showed that the major positions in the **structure of income and expenses** were covered by interest income and reversed provisions, i.e. non-operating expenses and provisions.

In million dinars

	31 Dec. 2002	31 Dec. 2001
Interest income	19,232	13,052
Interest expenses	5,157	3,349
Interest income, net	14,075	9,703
Fee and commission income	9,805	4,735
Fee and commission expenses	3,355	1,151
Fee and commission income, net	6,450	3,584
Interest, fee and commission net income	20,525	13,287
Other financial income, net	630	1,829
Profit from financial operation	21,155	15,116
Operating expenses, net	-15,952	-8,269
Provision income/expenses, net	-4,840	-9,472
Non-operating and extraordinary expenses, net	-27,594	-7,743
Taxes and contributions from profit	-177	-156
Loss, net	-27,408	-10,524

Index of growth reported for interest income was 147, i.e. it increased by 6,180 million dinars.

As shown in the aggregate reclassified income statement of all banks, 49.9% of total income reported for 2002 resulted from interest, fees and commissions (29,037 million dinars). Corporate clients and banks accounted for the largest portion of interest income, 57.7% and 18.3% respectively. Within interest expenses, the most significant share was absorbed by retail clients (46.9%) and banks (19,9%).

The highest increase in absolute terms was reported with income from reversed provisions (9,733 million dinars); the same income position also recorded the highest index of growth (262) relative to other types of income reported by the banking sector.

Nearly one third of the total income reported by banks in this period resulted from reversed provisions, mostly based on indirectly written-off loans and long-term risk provisions, as well as specific provisions. One bank alone reported 9,606 million dinars of income generated in this manner, or 61.8% of the aggregate income of the banking sector resulting from unused reversed provisions. The amount accounted for 83.9% of the total income reported by this bank.

Non-operating and extraordinary income shared with 18.2% in the total income reported by the banking sector in 2002, with 92.2% absorbed by other non-operating and extraordinary income (subsequently established income from previous years; reduced liabilities; surpluses; income from disposal of fixed assets).

In 2002 fee and commission income rose by 107%, with every sixth dinar of banking income generated by fees and commissions.

Two banks absorbed 66.7% of the aggregate expenses for provisions, and 48.1% of the total non-operating and extraordinary expenses.

In million dinars

	31 Dec . 2002		31 Dec. 2001	
		%		%
INCOME				
Interest	19,232	33.1	13,052	39.2
Fees and commission	9,805	16.8	4,735	14.2
Other financial income	2,400	4.1	2,555	7.7
Operating income	428	0.7	273	0.8
Reversed provisions	15,748	27.1	6,015	18.0
Non-operating and extraordinary income	10,568	18.2	6,702	20.1
TOTAL	58,181	100.0	33,332	100.0
EXPENSES				
Interest	5,157	6.0	3,349	7.7
Fees and commissions	3,355	3.9	1,151	2.6
Other financial expenses	1,770	2.1	726	1.7
Operating expenses	16,380	19.2	8,542	19.5
Provisions	20,588	24.1	15,487	35.4
Non-operating and extraordinary expenses	38,162	44.7	14,445	33.1
TOTAL	85,412	100.0	43,700	100.0
Taxes and contributions	177		156	
Financial result	-27,408		-10,524	

Index of growth reported for non-operating and extraordinary in 2002 expenses was 264.

Within the total expenses, the most significant portion was absorbed by non-operating and extraordinary expenses amounting to 38,162 million dinars (44.7% of the total expenses). The highest amount within these expenses related to other non-operating and extraordinary expenses of 19,595 million dinars (subsequently established expenses; deficits; loss on disposal of fixed assets, other). Unrecoverable claims written-off were reported at 3,929 million dinars, and expenses for indirect write-offs amounted to 14,591 million dinars.

Provisions accounted for 24.1% or 20,588 million dinars of the total expenses, with provisions for long-term risks amounting to 18,866 million dinars. Within the latter amount, provisions for outstanding long-term loans absorbed 9,174 million dinars, while the amount of 8,511 million dinars related to specific provisions, i.e. assets classified by degree of recoverability.

Operating expenses of 16,380 million dinars (accounting for 19.2%) consisted of net salaries, taxes and contributions (36%) and other operating costs (64%). In 2002 the ratio of net operating expenses to net income from fees and commissions was less successful. Relative to 2001, with operating expenses covered by net income from fees and commissions at the rate of 32%, the ratio reported in 2002 was 78%.

RATIOS	31 Dec. 2002 %	31 Dec. 2001 %
Interest, fee and commission income / total income	49.9	53.4
Interest, fee and commission income / total assets	5.6	4.7
Interest, fee and commission expenses / total expenses	9.9	10.3
Interest, fee and commission expenses / total liabilities	1.6	1.2
Operating expenses / total expenses	19.2	19.5
Net operating expenses / net interest, fee and commission income	77.7	62.2
Net loss / share capital	-34.5	-26.0

Weighted lending interest rates of commercial banks ranged from 4.6% in January to 2.4% in December, 2001 and continued declining in 2002 (from 2.4% in January to 1.5% in December).

Compared to 2001, the share of interest, fee and commission income in the overall income reported by the banking sector decreased from 53.4% to 49.9%. In addition to the declining interest rates, one of the reasons related to the considerably increased income resulting from reversed provisions (index 262).

However, relative to the total (on- and off-balance sheet) assets, the income generated by interest, fees and commissions income rose from 4.7% to 5.6% due to the lower rate of growth reported in balance sheet assets (index 109) than in interest, fee and commission income (index 163). This confirms that the risk-bearing assets of banks increased, both with respect to the transferred claims due from the FRY on account of frozen foreign currency deposits, and the intensified lending activity in 2002.

In 2002 the ratio of net operating expenses to net interest, fee and commission income was less successful due to the 91.8% increase in operating expenses.

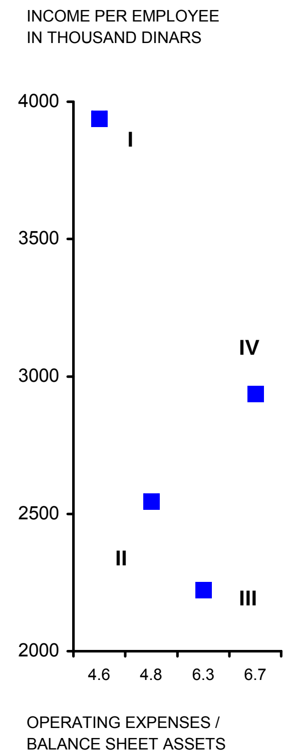
The structure of income and expenses with banks grouped by the volume of their balance sheets shows that:

- Banks belonging to Group I performed with negative financial results (after tax) amounting to 18,758 million dinars or 68.4% of the aggregate financial result reported in 2002. Out of the total provisions in the banking sector, both within income and expenses, 80% was reported in income statements of these banks. The highest item of reported expenses were non-operating and extraordinary expenses (accounting for 43.9% of the total expenses of banks belonging to this group) which absorbed 68.1% of expenses for indirect write-offs of loans reported by all banks or 60.5% of the aggregate other non-operating and extraordinary expenses.
- Banks belonging to Group II performed with negative financial results (after tax) amounting to 6,684 million dinars or 24.4% of the aggregate financial result reported in 2002. These banks reported an above-average ratio of interest, fee and commission income to their total income (58.7% of the total income compared to 49.9% reported by the banking sector as a whole). Non-operating and extraordinary expenses absorbed the most significant portion of expenses (52.9% of the aggregate expenses reported by this group) which accounted for 59.8% of expenses based on write-offs of unrecoverable claims reported by all banks.
- Banks belonging to Group II performed with negative financial results (after tax) amounting to 1,843 million dinars or 6.7% of the aggregate financial result reported in 2002. With these banks, income from interest, fees and commissions was also significant (60.9% of the total income). Operating expenses in this group accounted for 30.7% of the total expenses and exceeded the average of 19.2% reported by the banking sector.

RATIOS	I	II	III	IV
Interest, fee and commission income / total income	43.5	58.7	60.8	34.5
Interest, fee and commission income / total assets	8.2	8.8	10.9	10.3
Interest, fee and commission expenses / total expenses	8.1	13.9	12.5	4.7
Interest, fee and commission expenses / total liabilities	2.4	3.2	2.6	2.1
Operating expenses / total expenses	15.7	20.7	30.7	20.2
Net operating expenses / net interest, fee and commission income	77.5	83.3	73.6	76.9
Net loss / share capital	-49.1	-30.2	-10.8	-6.2

- Banks belonging to Group IV performed with negative financial results (after tax) amounting to 123 million dinars. The most significant position in the total income were reversed provisions (41.6%), with non-operating and extraordinary expenses prevailing within the total expenses (56.9%).

RATIOS	I	II	III	IV	ALL BANKS
Total income per employee	3,940	2,546	2,222	2,936	3,097
Operating expenses per employee	959	823	787	662	872
Non-interest income / total income	69.8	66.3	58.7	73.3	66.9
Fee and commission income / total income	13.3	25.0	19.6	7.8	16.8
Operating expenses / total balance sheet assets	4.6	4.8	6.3	6.7	5.0
Operating expenses / total deposits	8.3	10.5	10.9	33.1	9.4



The largest banks reported the highest income per employee in spite of the large number of staff. The income per employee with these banks reached 19.8 billion dinars, as opposed to 9.8 billion dinars with the smallest banks. Another reason was a considerable share of reversed provisions reported by the largest banks (37.6% of the total income).

Although operating expenses of the largest banks absorbed the lowest portion of their total expenses (15.7%), these banks reported the highest operating expenses per employee. However, relative to the total balance sheet assets and total deposits, their operating expenses absorbed the lowest share.

The smallest banks recorded the highest ratio of operating expenses to the total deposits, as their sources primarily relied on capital (59.8% of the total liabilities). These banks reported 2.0 billion dinars of deposits per employee compared to the largest banks where the ratio reached 11.5 billion dinars.

Medium-sized banks mostly relied on their interest, fee and commission income.

STRUCTURE OF INCOME AND EXPENSES BY GROUPS OF BANKS

In million dinars

	GROUP I		GROUP II		GROUP III		GROUP IV		TOTAL	
		%		%		%		%		%
INCOME										
Interest	**10,151**	**30.2**	**3,999**	**33.7**	**4,800**	**41.3**	**282**	**26.7**	**19,232**	**33.1**
Fees and commissions	**4,488**	**13.3**	**2,960**	**25.0**	**2,275**	**19.6**	**82**	**7.8**	**9,805**	**16.8**
Other financial income	**903**	**2.7**	**449**	**3.8**	**1,040**	**8.9**	**8**	**0.7**	**2,400**	**4.1**
Operating income	**102**	**0.3**	**175**	**1.5**	**150**	**1.3**	**1**	**0.1**	**428**	**0.7**
Reversed provisions	**12,640**	**37.6**	**723**	**6.1**	**1,946**	**16.7**	**439**	**41.6**	**15,748**	**27.1**
Non-operating and extraordinary income	**5,361**	**15.9**	**3,544**	**29.9**	**1,421**	**12.2**	**242**	**22.9**	**10,568**	**18.2**
TOTAL	**33,645**	**100.0**	**11,850**	**100.0**	**11,632**	**100.0**	**1,054**	**100.0**	**58,181**	**100.0**
EXPENSES										
Interest	**3,001**	**5.7**	**1,084**	**5.9**	**1,035**	**7.7**	**37**	**3.1**	**5,157**	**6.0**
Fees and commissions	**1,206**	**2.3**	**1,485**	**8.0**	**645**	**4.8**	**19**	**1.6**	**3,355**	**3.9**
Other financial expenses	**441**	**0.8**	**219**	**1.2**	**1,107**	**8.2**	**3**	**0.3**	**1,770**	**2.1**
Operating expenses	**8,188**	**15.7**	**3,832**	**20.7**	**4,122**	**30.7**	**238**	**20.2**	**16,380**	**19.2**
Provisions	**16,508**	**31.6**	**2,096**	**11.3**	**1,774**	**13.2**	**210**	**17.8**	**20,588**	**24.1**
Non-operating and extraordinary expenses	**22,953**	**43.9**	**9,792**	**52.9**	**4,747**	**35.4**	**670**	**56.9**	**38,162**	**44.7**
TOTAL	**52,297**	**100.0**	**18,508**	**100.0**	**13,430**	**100.0**	**1,177**	**100.0**	**85,412**	**100.0**
Taxes and contributions	**106**		**26**		**45**		**0**		**177**	
Financial result	**(18,758)**		**(6,684)**		**(1,843)**		**(123)**		**-27,408**	

V. REPORTED OPERATING RATIOS

In late July the National Bank of Serbia issued a new Decision on Detailed Requirement in Implementing Articles 26 and 27 of the Law on Banks and Other Financial Organizations providing for different structure of capital of banks, and defined values and range of operating ratios which differed from those applied before.

The aggregate statement of **reported operating ratios**, as required by Articles 26 and 27 of the Law on Banks, shows that as of December 31, 2002 banks generally brought their operation in compliance with the requirements in terms of capital adequacy and liquidity, with a number of banks facing problems with the ratios related to investments in fixed assets and foreign exchange risk (7), and with the ratios associated with the large and largest permissible loans (5).

The minimum 8% capital adequacy requirement was not complied with by two banks, both in the process of rehabilitation.

OPERATING RATIOS	NUMBER OF NON-COMPLYING BANKS
CAPITAL ADEQUACY (min. 8%)	2
LARGE AND LARGEST PERMISSIBLE LOANS (max. 400%)	5
INVESTMENTS IN FIXED ASSETS (max.60%)	7
LIQUIDITY RATIO[3] (min.1)	2
FOREIGN EXCHANGE RISK RATIO[4] (max. 30%)	7

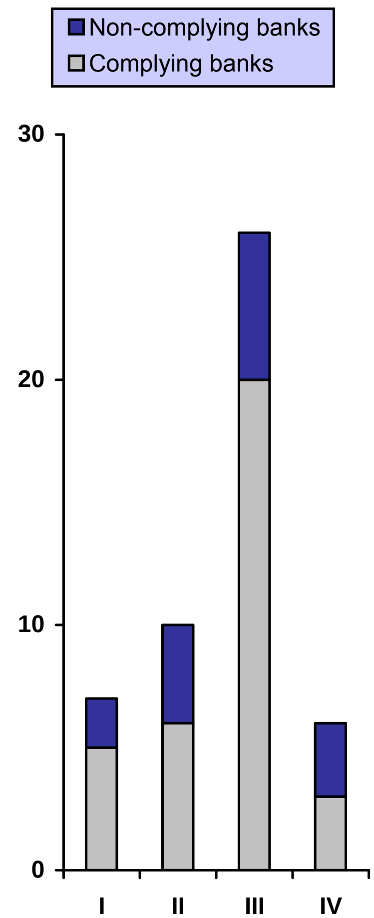
For the banking sector taken as a whole, operating ratios were reported as shown in the table below.

[3] Monthly
[4] As of December 31, 2002

OPERATING RATIOS	ALL BANKS %
CAPITAL ADEQUACY (min. 8%)	30.6
LARGE AND LARGEST PERMISSIBLE LOANS (max. 400%)	156.9
INVESTMENTS IN FIXED ASSETS (max.60%)	37.4
LIQUIDITY RATIO[5] (min.1)	2.92
FOREIGN EXCHANGE RISK RATIO[6] (max. 30%)	23.76

The requirement to have a minimum of 60% provided as the monetary portion of equity (the equivalent of EUR 6 million out of the total of EUR 10 million) until December 31, 2002 was not complied with by six banks, three of which were in the process of rehabilitation.

Out of 49 banks, 34 brought their operation in line with the required ratios, 9 banks failed to comply with one of the ratios, 3 banks did not meet 2 ratio requirements, 2 banks (both under rehabilitation) failed to comply with 4 ratios, and one bank in the process of rehabilitation did not fulfill any of the required ratios.



[5] Monthly
[6] As of December 31, 2002