



NATIONAL BANK OF YUGOSLAVIA

**Financial statements
for the year ended
31 December 2002**

Belgrade, 11 June 2003

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2002**

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Independent Auditor's Report

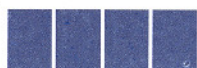
TO THE MANAGEMENT OF THE NATIONAL BANK OF YUGOSLAVIA

We have audited the accompanying balance sheet of the National Bank of Yugoslavia ("the Bank") as at 31 December 2002 and the related statements of: income, cash-flows and changes in equity for the year then ended ("the financial statements"). These financial statements as set out on pages 3 to 37 are the responsibility of the management of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in the paragraph (c) of the Note 24, short term borrowing in foreign currency amounting to YUD 5,899 million is in default. The effects of default cannot be determined.

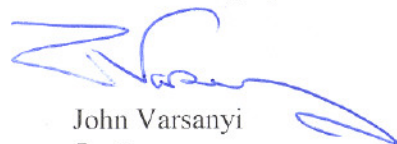
In our opinion, except for the effects on the financial statements of the matter referred to in the preceding paragraph, the financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2002 and of the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.



Without qualifying our opinion, we would like to emphasize that succession discussions between the Republic of Serbia and the Republic of Montenegro are currently on-going. As explained in the Note 36, the completion of the separation negotiations may have an impact on the financial statements of the Bank for the year, including the possible reversal of specific provisions made for doubtful assets and on the treatment of liabilities, including interest income and interest expense.

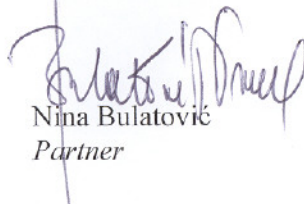
11 June 2003

KPMG Hungary Kft. Budapest



John Varsanyi
Partner

KPMG d.o.o. Belgrade



Nina Bulatović
Partner

NATIONAL BANK of YUGOSLAVIA

Income Statement for the year ended 31 December 2002
(all amounts in millions of YUD)

	<u>Notes</u>	<u>2002</u>	<u>2001</u>
Interest income	3	5,224	3,453
Interest expense	4	(3,706)	(3,170)
Net interest margin		1,518	283
Fee and commission income	5	10,918	6,268
Fee and commission expense		(1,314)	(945)
Net fee and commission income		9,604	5,323
Net gain on foreign exchange and fair value changes	6	242	1,639
Expenses relating to the repatriation of citizens' savings		-	(620)
Specific provisions for losses and impairment (net)	7	(3,600)	3,592
Other operating income		2,126	657
Other operating expenses	8	(8,433)	(5,497)
Result for the year		<u>1,457</u>	<u>5,377</u>

The accompanying notes on pages 8 to 37
form an integral part of these financial statements.

NATIONAL BANK of YUGOSLAVIA

Balance Sheet as at 31 December 2002
(all amounts in millions of YUD)

ASSETS	Notes	2002	2001
Foreign assets			
Gold	10	6,717	11,164
Special Drawing Rights		56	579
Convertible foreign currencies	11	82,470	66,057
OECD government bonds	12	45,915	-
International Monetary Fund	13	37,369	39,741
Loans to banks in foreign currency		-	31
Other foreign assets	14	1,882	1,825
Total foreign assets		174,409	119,397
Domestic assets			
Cash and cash equivalents		4,865	1,048
Loans to banks in dinars	15	196	173
Loans to the Government and other state institutions	16	2,492	2,905
Securities	17	18,188	11,577
Investments in associates		33	25
Inventories	18	515	553
Intangible and tangible assets	19	7,187	8,425
Other domestic assets	20	1,349	3,780
Total domestic assets		34,825	28,486
Total assets		209,234	147,883

The accompanying notes on pages 8 to 37
form an integral part of these financial statements.

NATIONAL BANK of YUGOSLAVIA

Balance Sheet as at 31 December 2002
(all amounts in millions of YUD)

LIABILITIES and EQUITY	Notes	2002	2001
Foreign liabilities			
International Monetary Fund	22	75,210	62,989
Deposits in foreign currency	23	38,261	20,180
Borrowings in foreign currency	24	12,858	14,564
Other foreign liabilities	25	2,072	2,589
Total foreign liabilities		128,401	100,322
Dinars in circulation	26	43,431	25,452
Domestic liabilities			
Deposits in dinars	27	34,731	19,778
Other domestic liabilities	28	1,398	2,018
Total domestic liabilities		36,129	21,796
Equity			
Capital		3,319	3,319
Revaluation reserve		5,732	6,229
Accumulated loss		(9,235)	(14,612)
Result for the year		1,457	5,377
Total equity	30	1,273	313
Total liabilities and equity		209,234	147,883

Belgrade, 11 June 2003



Mladan Dinkić
Governor of the National Bank of Serbia

The accompanying notes on pages 8 to 37
form an integral part of these financial statements.

NATIONAL BANK of YUGOSLAVIA**Cash Flow Statement for the year ended 31 December 2002
(all amounts in millions of YUD)**

	<u>2002</u>	<u>2001</u>
Net profit for the year	1,457	5,377
Adjustment for non-cash items		
Depreciation	665	440
Specific provision for losses and impairments (net)	3,600	(3,592)
Loss on disposal of tangible assets	47	423
Unrealised exchange rate losses and gains (net)	<u>4,366</u>	<u>1,161</u>
Adjusted net profit	<u>10,135</u>	<u>3,809</u>
Changes in operating assets and liabilities		
Increase in non-cash foreign assets	(69,325)	(25,973)
Increase in non-cash domestic assets	(6,846)	(9,102)
Increase in foreign liabilities	26,012	17,765
Increase in domestic liabilities	14,247	11,292
Increase in dinars in circulation	<u>17,979</u>	<u>14,520</u>
Cash used in operating activities	<u>(17,933)</u>	<u>8,502</u>
Investing activities		
Additions of property and equipment	<u>(399)</u>	<u>(726)</u>
Cash used in investing activities	<u>(399)</u>	<u>(726)</u>
Net cash increase/(decrease)	<u>(8,197)</u>	<u>11,585</u>
Opening cash and cash equivalents as at 1 January (Note 9)	28,925	17,340
Closing cash and cash equivalents as at 31 December (Note 9)	<u>20,728</u>	<u>28,925</u>
Net cash increase/(decrease)	<u>(8,197)</u>	<u>11,585</u>

The accompanying notes on pages 8 to 37
form an integral part of these financial statements.

NATIONAL BANK of YUGOSLAVIA

Statement of Changes in Equity for the year ended 31 December 2002
(all amounts in millions of YUD)

	<u>Capital</u>	<u>Revaluation reserve</u>	<u>Accumulated gain/(loss)</u>	<u>Total equity</u>
Balance as at 1 January 2001	3,083	3,512	(14,612)	(8,017)
Contribution of the Federal State in tangible assets	236	-	-	236
Revaluation of intangible and tangible assets	-	2,145	-	2,145
Other	-	572	-	572
Result for the year	-	-	5,377	5,377
Balance as at 31 December 2001	3,319	6,229	(9,235)	313
Balance as at 1 January 2002	3,319	6,229	(9,235)	313
Revaluation of intangible and tangible assets	-	1,118	-	1,118
Impairment of the net book value of tangible assets in ZOP (Note 37)	-	(1,981)	-	(1,981)
Other	-	366	-	366
Result for the year	-	-	1,457	1,457
Balance as at 31 December 2002	3,319	5,732	(7,778)	1,273

The accompanying notes on pages 8 to 37
form an integral part of these financial statements.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

1 Principal activities of the Bank

The National Bank of Yugoslavia (hereinafter: the "Bank" or "NBY") has its origins in the foundation of "Privilegovana banka Kraljevine Srbije" in 1884 which was transformed into the National Bank of the Kingdom of Serbs, Croats and Slovenians in 1919. In 1929, the Bank changed its name to the National Bank of the Yugoslav Kingdom.

The former name was adopted in 1945 when the Bank became the central monetary institution of the Socialist Federal Republic of Yugoslavia ("SFRY") until the break-up of SFRY in 1991. The Bank continued its operations in Belgrade as the central bank of SFRY representing two of the republics of former SFRY – Serbia and Montenegro, which had formed the Federal Republic of Yugoslavia ("FRY") in April 1992 when the constitution of the FRY was adopted.

The Constitution of the Federal Republic of Yugoslavia (1992) defines and grants the Bank its powers and authority. The Constitution stipulates that the Bank is independent and as the sole institution to regulate the monetary system of the Federal Republic of Yugoslavia, is responsible for monetary policy, for stability of the national currency, for financial discipline in the financial sector and for the execution of other operations prescribed by federal laws.

On 25 June 1993, the Parliament of the FRY had adopted the Law on the National Bank of Yugoslavia where the Bank is defined as an independent and integral issuing institution of the monetary system of the FRY. All intangible and other assets that the Bank is using represent the ownership of the FRY, while the FRY guarantees for all obligations of the Bank.

In accordance with the Law on National Bank of Yugoslavia, the Bank is licensed to perform the following functions:

- determination of monetary policy
- money supply regulation
- operations on behalf of the Federal Republic of Yugoslavia
- regulation of liquidity of banks and other financial institutions
- determination of dinar ("YUD") exchange rate policy
- regulation of liquidity of foreign payments
- domestic clearing system
- issuing banknotes and coins
- supervision of creditworthiness and operations of banks and other financial institutions.

The Governor of the Bank manages its operations and is responsible for its workings. The Governor organises activities of the Bank, adopts general and specific enactments and represents, acts and signs on behalf of the Bank. The Governor is elected for the period of 5 years. The Federal Parliament is responsible to elect and discharge the Governor. The Bank has a deputy governor and three vice-governors.

The Bank is a legal entity incorporated under the Constitution with the head office in Belgrade, two Republic Branch Offices in Belgrade and Podgorica, and two Branch Offices in Novi Sad and Priština. Two specialised organisations exist within the Bank: the Banknotes and Coins Factory (hereinafter: "ZIN") and the Agency for Payments and Settlements in YUD (hereinafter: "ZOP").

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

As disclosed in the Note 37, in accordance with the creation of the State Union of Serbia and Montenegro ("SUSM"), the Bank has changed its name from the National Bank of Yugoslavia to the National Bank of Serbia in February 2003.

2 Summary of significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretation Committee of IASB, except for International Accounting Standard no. 29 – Financial Reporting in Hyperinflationary Economies. Management believes that the application of this standard is not appropriate for the Bank on the following grounds:

- non-hyperinflation rates for 2001 and 2002
- the vast majority of the Bank's assets is in foreign currencies and the exchange rate of Yugoslav currency were stable throughout the period.

Certain balances have been reclassified to ensure consistency of presentation in 2001 and 2002.

(b) Basis of preparation

The financial statements are presented in Yugoslav Dinars (YUD), rounded to the nearest million.

The financial statements include operations of the organisational units of the Bank with the exception of units in the Republic Branch Office in Podgorica, the Branch Office in Priština and ZOP Kosovo. The units have been excluded from these financial statements as the regions within which these units operate have adopted a currency other than the dinar and are currently not under the control of the Bank's management. In addition, comprehensive accounting records are not available due to the Bank's lack of control over these units. Management believes that the assets and liabilities, including contingent liabilities of these units are not significant.

The financial statements are prepared under the historical cost convention except that the following assets and liabilities are stated at their fair value:

- gold
- Special Drawing Rights
- convertible foreign currencies
- OECD government bonds
- assets and liabilities with the International Monetary Fund
- cash and cash equivalents in dinars.

The Bank maintains its records under the Yugoslav laws, decrees and regulations applicable to the Bank. These financial statements have been prepared using the statutory financial statements, adjusted to reflect International Financial Reporting Standards, such adjustments principally being in respect of the provision for doubtful loans, securities and receivables.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year.

(c) Financial instruments

(i) Classification

Financial instruments include “held-for-trading assets”, “originated loans and receivables”, “held-to-maturity assets” and “available-for-sale assets”.

Held-for-trading assets are acquired principally for the purpose of generating a profit from short-term fluctuations in price. Held-for-trading assets relates to foreign currency government bonds.

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short term profit taking. Originated loans and receivables comprise loans to banks, loans to Government and other state institutions and advances to customers disclosed within other domestic assets.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent to hold to maturity. Held-to-maturity assets encompass securities, shares with international financial institutions disclosed as other foreign assets.

Available-for-sale assets are financial assets that are not originated by the Bank or held to maturity.

(ii) Recognition

Settlement date accounting has been adopted to record transactions.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Held-for-trading assets are measured at fair value. Fair value is determined based on the published price quotations.

Held-to-maturity assets and originated loans and receivables are measured at amortised cost less impairment losses. At the balance sheet date all held-to-maturity assets and originated loans and receivables are reviewed for any indication of impairment. If there is any indication of impairment, the amount of impairment loss of such financial instrument is determined as the difference between its carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount).

Additionally, all held-to-maturity assets and originated loans and receivables were identified for the cases of imputed interest loss represented as the difference between actual rate of interest of financial instrument and appropriate market rate of interest at the initiation of the placement.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

Except for the provision for impairment and for imputed interest relating to the opening balances for the current year disclosed as an item of equity, all subsequent provisions for impairment and for imputed interest are reported in the income statement as specific provisions and are deducted from the relevant asset category in the balance sheet for reporting purposes.

(iv) Gains and losses on subsequent measurement

Gains and losses arising from the change in the fair value of financial instruments are recognised in the income statement as gains/(losses) on fair value changes.

(v) Specific instruments

Gold is recorded at nominal value using the average price of the three main gold stock exchanges (London, New York and Zurich).

Convertible foreign currency assets are stated at nominal value less provisions for impairment. Impairment exists where the recovery is in doubt. The provision for impairment is reported in the income statement as a specific provision and is deducted from the relevant asset category in the balance sheet for reporting purposes. Convertible foreign currency comprise cash balances in the Bank's vaults, foreign currency deposits at domestic and banks abroad.

OECD government bonds are stated at fair value based on the daily published price quotations on active markets (New York and Frankfurt).

Securities are stated at cost less impairment losses, including imputed interest loss representing the difference between actual rate of interest of financial instrument and appropriate market rate of interest at the initiation of the placement.

Investments in associate entities have not been equity accounted on the grounds of immateriality. Investments in associates are carried at cost less provisions for impairment.

Deposits are stated at their original nominal value.

Deposits in foreign currency represent deposits of financial institutions, demand deposits of domestic commercial banks and federal organisations, and obligatory deposits of domestic commercial banks.

Borrowings in foreign currency represent the nominal value of short term and long term borrowings from abroad.

Derivatives – the Bank does not trade or hold derivatives.

(vi) Derecognition

A financial asset is derecognised when the Bank loses control over the contractual right that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

(d) Intangible and tangible assets

(i) Recognition

All tangible and intangible assets are initially recorded at cost.

(ii) Classification

Property that is being constructed or developed for future use as investment property is classified as tangible assets and stated at cost until construction is complete, at which time it is reclassified as investment property.

(iii) Measurement

Items of intangible and tangible assets are stated at cost less accumulated depreciation (see below) and impairment losses.

Cost of intangible and tangible assets is revalued annually. The effects of revaluation of tangible and intangible assets are credited to the revaluation reserve in the equity. The Bank's management believes that retail price increase (2002: 14.2%, 2001: 38.7%) is an appropriate estimate of the fair value increase of intangible and tangible assets.

The carrying amounts of the tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an assets exceeds its recoverable amount. Impairment losses are charged directly against any related revaluation reserve first and any remaining balances are recognised in the income statement.

(iv) Depreciation

Depreciation of intangible and tangible assets is provided on a straight-line basis at the prescribed rates to amortise the cost or valuation of assets over their estimated useful lives.

The following depreciation rates have been applied during 2002:

	<u>%</u>
Buildings	1.3
Equipment	
- motor vehicles	14.3 – 15.5
- furniture and office equipment	10 – 12.5
- computers	20
Intangible assets	20

Depreciation is charged to the income statement.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are included in the income statement.

Maintenance and repairs are charged to the income statement when the expenditure is incurred.

(e) Investment property

Investment property is recognised as an asset-related grant and is initially recognised in the balance sheet as an equity contribution of the Federal State.

Investment property is stated at the value initially determined by the Government regulated institutions less accumulated depreciation. At the balance sheet date the value of investment property is revalued. The effect of revaluation of investment property is credited to the revaluation reserve in the equity. The Bank's management believes that retail price increase (2002: 14.2%, 2001: 38.7%) is the appropriate estimate of the fair value increase of investment property.

Rental income from investment property is recognised in the income statement on an accrual basis, under other operating income.

(f) Inventories

Inventories are recorded at the lower of cost and net realisable value.

(g) Foreign currency translation

Transactions in foreign currency are converted into dinars at the exchange rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into dinars at the exchange rates as at end of year:

	<u>31 December 2002</u>	<u>31 December 2001</u>
CHF	42.3047	40.3159
USD	58.9848	67.6702
EUR	61.5152	59.7055
SDR	79.90	84.97

Foreign exchange gains and losses arising on translations are included in the income statement as net foreign exchange gains or losses.

(h) Interest income and expense

Interest income and expense arising from investments in securities, loans and deposits is recognised on an accrual basis using effective interest rate method.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

(i) Fee and commission income and expense

Fee income and expenses are recognised in the income statement when earned / the corresponding service provided or incurred.

Fee and commission income includes income for services of domestic payment operations calculated by ZOP, fee income for services of payment operations abroad and fees on the sale of foreign currency.

Fee and commission expense includes fees paid to commercial banks for foreign currency sale and purchase operations, fees to foreign banks for payment services abroad, fees for sale of the promissory notes and other fee and commission expenses.

(j) Tax

The Bank is exempt from any obligations for the payment of corporate taxes.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

3 Interest income

Interest income for the year comprises:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Foreign currency operations		
Interest on deposits with foreign banks	1,845	1,011
Interest on OECD government bonds	582	-
Other income	23	500
Total foreign interest income	2,450	1,511
Domestic currency operations		
Interest on loans to domestic banks	489	921
Interest on loans to the Government and other state institutions	1,580	214
Interest on securities	705	807
Total domestic interest income	2,774	1,942
Total interest income	5,224	3,453

4 Interest expense

Interest expense for the year comprises:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Foreign currency operations		
Interest on borrowings from banks	1,344	1,528
Interest on International Monetary Fund borrowings	1,137	778
Total foreign interest expense	2,481	2,306
Domestic currency operations		
Interest on deposits from banks	572	410
Interest on securities issued	568	451
Other	85	3
Total domestic interest expense	1,225	864
Total interest expense	3,706	3,170

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

5 Fee and commission income

Fee and commission income for the year comprises:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Payment traffic fee		
- domestic payments	7,548	4,706
- payments abroad	593	503
	<u>8,141</u>	<u>5,209</u>
Commission on purchase and sale of foreign currency	1,887	1,032
Commission on conversion of EURO-zone currencies	800	-
Other	90	27
	<u>90</u>	<u>27</u>
Total fee and commission income	<u>10,918</u>	<u>6,268</u>

6 Net gain on foreign exchange and fair value changes

Net gain on foreign exchange and fair value changes for the year comprises:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Gain/(loss) on foreign exchange (net)	(65)	1,639
Gain on fair value changes	307	-
	<u>307</u>	<u>-</u>
Total net gain on foreign exchange and fair value changes	<u>242</u>	<u>1,639</u>

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

7 Specific provisions for losses and impairment (net)

The following specific provisions were (charged)/released during the year:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Convertible foreign currencies	-	(1,103)
Loans to banks in foreign currency	-	(139)
Other foreign assets	-	(211)
Loans to banks in dinars	-	(118)
Loans to the Government and other state institutions	-	2,106
Securities	(1,123)	2,903
Other domestic assets	(1,971)	155
Tangible and intangible assets (Note 37)	(420)	-
Provision relating to discontinued ZOP activities (Note 37)	(86)	-
Other	-	(1)
Total	<u>(3,600)</u>	<u>3,592</u>

Movements in specific provision for losses and impairments are presented in the Note 21.

8 Other operating expenses

Other operating expenses for the year comprise:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Depreciation	665	440
Salaries and other personnel costs	3,330	2,419
Other operating costs	4,438	2,638
Total operating expenses	<u>8,433</u>	<u>5,497</u>

As at 31 December 2002, the number of employees in the Bank was 9,186 (as at 31 December 2001 – 9,744 employees).

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

9 Cash and cash equivalents

Cash and cash equivalents in the Cash Flow Statement comprise:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Cash and cash equivalents in dinars	4,865	1,048
Special Drawing Rights	56	579
Foreign currency current accounts held with domestic banks	30	31
Foreign currency current accounts held with banks abroad	4,374	2,734
Foreign currency in cash in the Bank's vaults	11,403	24,533
Balance as at 31 December	<u>20,728</u>	<u>28,925</u>

10 Gold

Gold reserves comprise:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Gold held in the Bank's vaults	6,717	5,876
Gold held with foreign banks	-	5,288
Balance as at 31 December	<u>6,717</u>	<u>11,164</u>

11 Convertible foreign currencies

Convertible foreign currency assets are placed primarily in banks and other financial institutions abroad as cash deposits. Convertible foreign currency assets comprise:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Foreign currency current accounts with domestic banks	30	31
Foreign currency current accounts held with banks abroad	4,813	3,233
Specific provision (Note 21)	(439)	(499)
	<u>4,374</u>	<u>2,734</u>
Foreign currency deposits with banks abroad	67,198	39,363
Specific provision (Note 21)	(535)	(604)
	<u>66,663</u>	<u>38,759</u>
Foreign currency in cash in the Bank's vaults	<u>11,403</u>	<u>24,533</u>
Balance as at 31 December	<u>82,470</u>	<u>66,057</u>

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

12 OECD government bonds

During 2002, the Bank started operations with purchases of foreign currency government bonds.

13 International Monetary Fund

The Federal Republic of Yugoslavia's quota in the International Monetary Fund (IMF), secured by promissory notes issued by the Government of Yugoslavia, is recorded as a placement denominated in SDR.

In December 2000, the Federal Republic of Yugoslavia re-activated its status with the IMF after the period of sanctions imposed by the United Nations since 1992. At the end of 2002, the Federal Republic of Yugoslavia's quota with the IMF amounted to SDR 467,700,000.

14 Other foreign assets

Other foreign assets comprise:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Shares in:		
- European Bank for Reconstruction and Development	1,510	1,465
- Bank for International Settlement, Basel	348	320
	<u>1,858</u>	<u>1,785</u>
Other	1,786	2,012
Specific provision (Note 21)	<u>(1,762)</u>	<u>(1,972)</u>
	<u>24</u>	<u>40</u>
	<hr/>	<hr/>
Balance as at 31 December	<u><u>1,882</u></u>	<u><u>1,825</u></u>

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

15 Loans to banks in dinars

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Short term loans	704	502
Specific provision (Note 21)	<u>(685)</u>	<u>(502)</u>
	19	-
Long term loans	339	764
Specific provision (Note 21)	<u>(162)</u>	<u>(591)</u>
	177	173
	<hr/>	<hr/>
Balance as at 31 December	<u>196</u>	<u>173</u>

16 Loans to the Government and other state institutions

Loans to the Government and other state institutions comprise:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Short term loans	808	840
Specific provision (Note 21)	<u>(185)</u>	<u>(171)</u>
	623	669
Long term loans	2,573	3,585
Specific provision (Note 21)	<u>(704)</u>	<u>(1,349)</u>
	1,869	2,236
	<hr/>	<hr/>
Balance as at 31 December	<u>2,492</u>	<u>2,905</u>

Loans to the Government and other state institutions include loans to the Central Budget of the Republic of Serbia and to the Social Insurance Fund of the Republic of Serbia.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

17 Securities

Securities comprise:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Bonds issued by banks	1,224	1,543
Specific provision (Note 21)	(938)	(646)
	<u>286</u>	<u>897</u>
 Bonds issued by the state utilities	 1,804	 1,804
Specific provision (Note 21)	(902)	(127)
	<u>902</u>	<u>1,677</u>
 Bonds issued by the Republic of Serbia	 17,000	 8,979
Specific provision (Note 21)	-	-
	<u>17,000</u>	<u>8,979</u>
 Other securities	 30	 30
Specific provision (Note 21)	(30)	(6)
	<u>-</u>	<u>24</u>
 Balance as at 31 December	 <u>18,188</u>	 <u>11,577</u>

18 Inventories

Inventories comprise:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Inventories of banknotes and coins production	217	197
Stationery and other	<u>298</u>	<u>356</u>
 Balance as at 31 December	 <u>515</u>	 <u>553</u>

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

19 Intangible and tangible assets

Movements in intangible and tangible assets during 2002 are as follows:

<u>In millions of YUD</u>	<u>Land and buildings</u>	<u>Equipment and other fixed assets</u>	<u>Fixed assets under constru- ction</u>	<u>Intan- gible assets</u>	<u>Invest- ment property</u>	<u>Total</u>
<u>Cost</u>						
Balance as at 1 January 2002	4,299	5,951	3,004	237	305	13,796
Increase						
Additions	16	230	395	116	-	757
Transfer	37	152	(223)	-	34	-
Revaluation	580	861	424	38	49	1,952
Decrease						
Disposals/write-offs	(17)	(54)	-	(15)	-	(86)
Balance as at 31 December 2002	4,915	7,140	3,600	376	388	16,419
<u>Accumulated depreciation</u>						
Balance as at 1 January 2002	1,360	3,886	-	122	3	5,371
Increase						
Depreciation charge for the year	60	559	-	41	5	665
Revaluation	194	613	-	24	3	834
Other	50	(36)	-	(1)	7	20
Decrease						
Disposals/write-offs	-	(52)	-	(7)	-	(59)
Balance as at 31 December 2002	1,664	4,970	-	179	18	6,831
Net book value						
As at 31 December 2002 (prior to impairment provision)	3,251	2,170	3,600	197	370	9,588
Net book value						
As at 31 December 2001	2,939	2,065	3,004	115	302	8,425

As at 31 December 2002, the Bank made an impairment relating to expected transfer of tangible assets in ZOP in the amount of YUD 2,401 million. The adjusted net book value of the Bank's intangible and tangible assets as at 31 December 2002 is as follows:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Net book value as at 31 December prior to impairment provision	9,588	8,425
Impairment provision	(2,401)	-
Net book value as at 31 December after impairment provision	7,187	8,425

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Notes to the financial statements

The Bank's management believes that the impairment represents the loss relating to the transfer of tangible assets to the various governmental organisations, free of charge that will occur in 2003.

20 Other domestic assets

Other domestic assets comprise:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Advances paid	465	470
Specific provision (Note 21)	<u>(59)</u>	<u>(164)</u>
	406	306
Receivables from sales of foreign currency	-	688
Interest receivable	687	749
Specific provision (Note 21)	<u>(495)</u>	<u>(410)</u>
	192	339
Other	3,912	3,300
Specific provision (Note 21)	<u>(3,161)</u>	<u>(853)</u>
	751	2,447
	<u> </u>	<u> </u>
Balance as at 31 December	<u>1,349</u>	<u>3,780</u>

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

21 Movements in specific provision for losses and impairments

The following table provides movements in specific provision for losses and impairments during 2002:

<u>In millions of YUD</u>	<u>Convertible foreign currencies (Note 11)</u>	<u>Loans to banks in foreign currency (Note 14)</u>	<u>Other foreign currency assets (Note 14)</u>	<u>Loans to banks in dinars (Note 15)</u>	<u>Loans to the Government and other state institutions (Note 16)</u>	<u>Securities (Note 17)</u>	<u>Intangible and tangible assets (Note 19)</u>	<u>Other domestic assets (Note 20)</u>	<u>Other</u>	<u>Total</u>
As at 1 January 2002	1,103	3,996	1,972	1,093	1,520	779	-	1,427	45	11,935
Transfer between categories	-	-	-	(220)	(339)	220	33	339	(33)	-
Provision for loss and impairment against 2002 portfolio	-	-	-	-	-	1,123	420	1,971	86	3,600
Reversal of provisions and impairments during 2002	-	-	-	(26)	(292)	(252)	-	(22)	-	(592)
Exchange rate loss/(gain)	(129)	(595)	(210)	-	-	-	-	-	-	(934)
As at 31 December 2002	974	3,401	1,762	847	889	1,870	453	3,715	98	14,009

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

22 International Monetary Fund

Short term deposits of International Monetary Fund comprise:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Securities for regulating membership in IMF	37,370	39,742
Bridging loan	9,342	9,935
Stand-by arrangement (see (a) below)	15,980	8,497
Extended arrangement (see (b) below)	7,990	-
SDR allocation	4,528	4,815
Balance as at 31 December	75,210	62,989

(a) On 11 June 2001, the International Monetary Fund approved a one-year Stand-by arrangement with the Bank in the total amount of SDR 200 million. As at 31 December 2002, the International Monetary Fund has extended all four instalments to the Bank totalling SDR 200 million.

(b) On 13 May 2002, the International Monetary Fund approved a three-year Extended Arrangement with the Bank in the total amount of SDR 650 million. The Arrangement is intended as support of the FRY's economic program in the period from May 2002 to May 2005. By reaching this Agreement, the Bank has accepted convertibility of foreign-held dinar balances as regulated by the Article VIII of the Articles of Agreement of the International Monetary Fund.

As at 31 December 2002, the International Monetary Fund has extended two instalments to the Bank totalling SDR 100 million. The two additional instalments amounting to SDR 100 million were extended in 2003.

23 Deposits in foreign currency

Deposits in foreign currency comprise:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Demand deposits		
- banks	429	141
- Government and other state institutions	5,875	4,354
	6,304	4,495
Short term deposits (see (a) below)	31,004	13,524
Long term deposits	953	446
Deposits without specified maturity	-	1,715
Balance as at 31 December	38,261	20,180

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Notes to the financial statements

(a) Short term deposits comprise of:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Obligatory reserve for foreign currency savings (see (b) below)	21,958	4,380
Obligatory reserve for deposits (see (c) below)	8,592	7,362
Other	454	1,782
Balance as at 31 December	<u>31,004</u>	<u>13,524</u>

(b) Obligatory reserve for foreign currency savings in the amount of YUD 21,958 million (YUD 4,380 million in 2001) relates to the obligation of commercial banks to place a minimum of 50% of their foreign currency citizens' savings with the Bank.

(c) Obligatory reserve for deposits in the amount of YUD 8,592 million (YUD 7,362 million in 2001) relates to the obligation of commercial banks to place a minimum of 20% of foreign currency deposits with the Bank.

24 Borrowings in foreign currency

Borrowings in foreign currency consist of:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Short term borrowings	11,798	13,534
Long term borrowings (see (a) below)	1,060	1,030
Balance as at 31 December	<u>12,858</u>	<u>14,564</u>

The composition of short term borrowings in foreign currency is as follows:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Bank of China (see (b) below)	5,899	6,767
Export-Import Bank of China (see (c) below)	5,899	6,767
Total	<u>11,798</u>	<u>13,534</u>

(a) The entire amount of long term foreign currency borrowing of YUD 1,060 million relates to a loan in the amount of EURO 17.25 million from an OECD Government. The loan was extended with a grace period until January 2006 and will be due in full by January 2011. The loan does not bear any interest.

(b) The entire amount of short term foreign currency borrowing from Bank of China relates to a loan in the amount of USD 100 million originally extended in 1997, which was rolled over on annual basis until December 2002. Interest is being accrued and paid on this loan regularly. The Bank is currently in the final phase of negotiations for the new rescheduling of the loan.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

(c) The entire amount of short term foreign currency borrowing from the Export-Import Bank of China relates to a loan in the amount of USD 100 million. The loan was extended with a grace period until May 2002 and will be due in full by May 2005. Interest is being accrued on this loan, but has not been paid since January 2001. The Bank has not met the terms of the Loan Agreement in respect of meeting principal and interest payments with the Export-Import Bank of China, and hence as at 31 December 2002 the loan is in default.

25 Other foreign liabilities

Other foreign liabilities comprise:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Interest accruals	1,117	686
Other liabilities with non-OECD central banks	-	841
European Bank for Reconstruction and Development	449	435
Expenses accrued relating to the repatriation of citizens' savings	-	350
Other	506	277
Balance as at 31 December	<u>2,072</u>	<u>2,589</u>

Interest accruals include an amount of YUD 802 million (YUD 457 million in 2001) that relates to interest and penalty interest accrued on short term borrowing in foreign currency from the Export-Import Bank of China.

26 Dinars in circulation

Banknotes and coins in circulation in amount of YUD 43,431 million (YUD 25,452 million in 2001) represent an obligation of the Bank to the holders of banknotes and coins.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

27 Deposits in dinars

Deposits in dinars comprise:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Demand deposits of domestic banks	14,404	7,726
Obligatory reserves of domestic banks	11,466	8,025
Treasury bills issued	1,551	724
Bank for International Settlement, Basel	348	320
Other	6,962	2,983
Balance as at 31 December	<u>34,731</u>	<u>19,778</u>

28 Other domestic liabilities

Other domestic liabilities consist of:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Deferred income	69	183
Provision relating to discontinued ZOP activities (Note 37)	86	-
Liabilities from sales of foreign currency	-	360
Suppliers and advances received	71	113
Issued promissory notes	25	107
Employee housing deposits	630	517
Other	517	738
Balance as at 31 December	<u>1,398</u>	<u>2,018</u>

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Notes to the financial statements

29 Fair value information

The following table is a comparison of the carrying amounts (after impairment adjustments) and fair values of all Bank's financial assets and liabilities:

<u>In millions of YUD</u>	<u>2002 Carrying amount</u>	<u>2002 Fair value</u>
Financial assets		
- Other foreign assets	1,882	1,882
- Loans to banks in dinars	196	196
- Loans to the Government and other state institutions	2,492	2,492
- Securities	18,188	18,188
- Investments in associates	33	33
- Other domestic assets	1,349	1,349
Financial liabilities		
- Deposits in foreign currency	38,261	38,261
- Borrowings in foreign currency	12,858	12,858
- Other foreign liabilities	2,072	2,072
- Deposits in dinars	34,731	34,731
- Other domestic liabilities	1,398	1,398

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

(a) OECD government bonds

Held-for-trading assets were measured at fair value based on the published price quotations.

(b) Loans and advances carried at cost

Held-to-maturity assets and originated loans and receivables were measured at amortised cost using the effective interest rate method with additional consideration for imputed interest loss.

(c) Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The value of long term relationships with depositors is not taken into account in estimating fair values.

(d) Borrowings in foreign currency

The fair value of borrowings in foreign currency was not practical to be determined since the Bank is currently in negotiations with the London club of borrowers.

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Notes to the financial statements

30 Equity

The sole owner of the Bank is the Federal Republic of Yugoslavia.

31 Funds managed

As at 31 December 2002, funds managed by the Bank as an agent on behalf of the Federal Republic of Yugoslavia comprise of:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
EURO banknotes in the Bank's vaults for conversion purposes	-	19,494
Non-convertible foreign currencies	<u>106</u>	<u>53</u>
Balance as at 31 December	<u>106</u>	<u>19,547</u>

No liability is assumed by the Bank for funds managed.

32 Risk management policies

(i) Liquidity risk

Liquidity risk include both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank is the lender of last resort to commercial banks in Yugoslavia. However, the day to day operation of the Bank is to ensure sufficient liquidity exists to meet all domestic obligations as they fall due.

The Bank has access to a diverse funding base. Funds are raised using deposits, borrowings and capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank maintains a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities.

The Bank assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the Bank's strategy.

In addition, the Bank holds a portfolio of liquid assets such as OECD government bonds, special drawing rights and convertible currencies as part of its liquidity risk management strategy.

Note 33 provides an analysis of the Bank's financial assets and liabilities based on the remaining periods to repayment.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements

(ii) Interest rate risk

Interest rate risk include risk of interest rate fluctuations that might cause that interest earning assets and interest bearing liabilities mature or reprice at different times or in different amounts.

The Bank manages interest rate risk by being in position to:

- determine interest rates, to monitor them and subsequently to adjust them in order to fulfil the overall goals of adopted monetary policy (obligatory dinar reserve, foreign currency deposits of the commercial banks related to the citizens' foreign currency savings),
- maintain deposits of Federal Institutions (the Bank in accordance with the Law on the National Bank of Yugoslavia is responsible to maintain deposits and perform payments for Federal Institutions).

The Bank is exposed to interest rate risk related to the securities and foreign currency borrowings.

Note 34 provides an analysis of the Bank's interest rate risk exposure as at 31 December 2002.

(iii) Currency risk

The Bank is exposed to foreign currency risk through transactions in foreign currencies. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank.

The Bank manages the foreign currency risk by pursuing the policy of structuring their asset currency mixture in a way that it would be in accordance with expected future known foreign currency obligations.

Note 35 provides an analysis of the Bank's foreign currency exposure as at 31 December 2002.

(iv) Credit risk

The Bank's primary exposure to credit risk arises through its loans and advances to domestic credit institutions, government and state institutions. The amount of credit exposure in this regard is represented by the carrying amounts of loans and advances in the balance sheet. Loans and advances to the banks and government institutions are secured by acceptance notes and guaranties.

The Bank is exposed to credit risk on other financial assets such as securities and the exposure to the credit risk related to this financial instruments is equal to the carrying amount of these assets in the balance sheet.

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Concentration of credit risk that arise from financial instruments exists for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations and that are similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by type of customer in relation to the Bank's loans and advances, securities. The Bank has significant exposure to the Budget of the Republic of Serbia and public sector.

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Notes to the financial statements

33 Liquidity risk

The amount of financial assets and liabilities analysed over the remaining period at 31 December 2002 to the contractual maturity date is as follows:

<u>In millions of YUD</u>	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	Total
FINANCIAL ASSETS						
Gold	6,717	-	-	-	-	6,717
Special Drawing Rights	56	-	-	-	-	56
Convertible foreign currencies	82,470	-	-	-	-	82,470
OECD government bonds	45,915	-	-	-	-	45,915
Cash and cash equivalents	4,865	-	-	-	-	4,865
Loans to banks in dinars	-	-	19	79	98	196
Loans to the Government and other state institutions	-	-	623	1,869	-	2,492
Securities	50	97	18,041	-	-	18,188
Other domestic assets	884	-	-	-	-	884
TOTAL FINANCIAL ASSETS	140,957	97	18,683	1,948	98	161,783
FINANCIAL LIABILITIES						
International Monetary Fund	-	-	1,498	27,153	4,661	33,312
Deposits in foreign currency	6,304	-	31,004	953	-	38,261
Borrowings in foreign currency	11,798	-	-	212	848	12,858
Other foreign liabilities	1,623	-	62	220	29	1,934
Dinars in circulation	43,431	-	-	-	-	43,431
Deposits in dinars	34,579	77	75	-	-	34,731
Other domestic liabilities	682	-	-	-	-	682
TOTAL FINANCIAL LIABILITIES	98,417	77	32,639	28,538	5,538	165,209
Liquidity gap	42,540	20	(13,956)	(26,590)	(5,440)	(3,426)

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Notes to the financial statements

34 Interest rate risk

The period of notice required to change interest rates as at 31 December 2002 is:

<u>In millions of YUD</u>	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>Over 1 year</u>	<u>Total</u>
FINANCIAL ASSETS					
Special Drawing Rights	56	-	-	-	56
Convertible foreign currencies	71,067	-	-	-	71,067
OECD government bonds	45,915	-	-	-	45,915
Loans to banks in dinars	-	-	-	196	196
Loans to the Government and other state institutions	-	-	-	2,492	2,492
Securities	17,902	-	286	-	18,188
TOTAL FINANCIAL ASSETS	134,940	-	286	2,688	137,914
FINANCIAL LIABILITIES					
International Monetary Fund	37,840	-	-	-	37,840
Deposits in foreign currency	21,958	287	8,592	-	30,837
Borrowings in foreign currency	-	-	11,798	-	11,798
Deposits in dinars	13,017	-	-	-	13,017
TOTAL FINANCIAL LIABILITIES	72,815	287	20,390	-	93,492
Interest rate gap	62,125	(287)	(20,104)	2,688	44,422

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Notes to the financial statements

35 Currency risk

The amount of assets and liabilities denominated in dinars and in foreign currency as at 31 December 2002 is analysed below:

<u>In millions of YUD</u>	<u>EUR</u>	<u>USD</u>	<u>SDR</u>	<u>Gold</u>	<u>Other</u>	<u>Total</u>
FOREIGN ASSETS						
Gold	-	-	-	6,717	-	6,717
Special Drawing Rights	-	-	56	-	-	56
Convertible foreign currencies	53,533	24,329	-	-	4,608	82,470
OECD government bonds	28,987	16,928	-	-	-	45,915
International Monetary Fund	-	-	37,369	-	-	37,369
Other foreign assets	1,510	-	-	-	372	1,882
TOTAL FOREIGN ASSETS	84,030	41,257	37,425	6,717	4,980	174,409
FOREIGN LIABILITIES						
International Monetary Fund	-	-	75,210	-	-	75,210
Deposits in foreign currency	33,461	2,710	-	-	2,090	38,261
Borrowings in foreign currency	1,060	11,798	-	-	-	12,858
Other foreign liabilities	1,154	754	161	-	3	2,072
TOTAL FOREIGN LIABILITIES	35,675	15,262	75,371	-	2,093	128,401
<hr/>						
Currency gap	48,355	25,995	(37,946)	6,717	2,887	46,008

36 Former FRY separation balance discussions

The republics of the former FRY comprising of Serbia and Montenegro, have yet to reach an agreement on the separation to be applied to financial assets and liabilities arising from the dissolution of the FRY and the creation of the State Union of Serbia and Montenegro ("SUSM"). Such discussions are on-going and the Bank's management are involved in the discussions which should determine the date and nature of the specific agreement and the effect of the agreement on the financial statements of the Bank. The current separation negotiations include, amongst others, the balances and amounts associated with:

- assets and liabilities relating to the entities located on the territory of the Republic of Montenegro,
- assets and liabilities relating to the International Monetary Fund,
- convertible foreign currencies,
- related interest income and expenses associated with the above stated assets and liabilities,
- unfrozen assets from succession of the former SFRY.

The completion of the separation negotiations may have an impact on the financial statements of the Bank, including the possible reversal of specific provisions made for doubtful assets and on the treatment of liabilities, including interest income and interest expense.

37 Subsequent events

(a) Change in regulations

In February 2003, the republics of the former FRY comprising of Serbia and Montenegro have decided on the dissolution of the FRY and creation of the State Union of Serbia and Montenegro ("SUSM"). According to the Constitutional Charter of the newly-created SUSM, the Bank assumed the role of the central monetary institution only in respect to the Republic of Serbia. Hence, in February 2003, the Bank, as a legal successor, has changed its name from the National Bank of Yugoslavia to the National Bank of Serbia.

To reflect the changes described above, the new laws defining and granting powers and authorities of the Bank are expected to be adopted later in 2003. For this reason, the Bank's activities are still governed by the laws enacted in the Parliament of the FRY.

(b) Discontinued activity

On 26 December 2001, the Federal Parliament adopted the amendment on the Law on Payment System effective from 1 January 2003. The Law defines that Agency for Payments and Settlements (ZOP) will be responsible to provide the sole payment system clearing operations between commercial banks.

As disclosed in the Notes 7 and 19, the Bank has impaired the net book value of tangible assets in ZOP in the amount of YUD 2,401 million as at 31 December 2002. The Bank's management believes that the estimated impairment loss represents a fair estimate of the net book value of tangible assets that were transferred to the various governmental organisations free of charge during early 2003.

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In addition, as disclosed in the Notes 7 and 28, the Bank made an additional provision relating to discontinued ZOP activities in the amount of YUD 86 million as at 31 December 2002. The Bank's management believes that the provision made represents a fair estimate of the expenses that are expected to be incurred during 2003 based on the Bank's plans for discontinuing of ZOP activities.

The Bank's management estimates that the following income and expenses are attributable to the discontinued ZOP activities:

<u>In millions of YUD</u>	<u>2002</u>	<u>2001</u>
Income		
Domestic payment traffic fee	5,400	3,366
Other income	165	95
Total income	<u>5,565</u>	<u>3,461</u>
Expenses		
Salaries and other personnel costs	(1,480)	(1,098)
Depreciation	(299)	(199)
Other expenses	<u>(1,676)</u>	<u>(843)</u>
Total expenses	<u>(3,455)</u>	<u>(2,140)</u>
Result of discontinued activities	<u>2,110</u>	<u>1,321</u>