

NATIONAL BANK OF SERBIA

**Financial Statements
prepared in accordance with
International Financial Reporting Standards
31 December 2003
and Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

To the Governor and the Council of the National Bank of Serbia

We have audited the accompanying balance sheet of the National Bank of Serbia (hereinafter: "the NBS") as of 31 December 2003 and the relating statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the NBS management. Our responsibility is to express an opinion on these financial statements based on our audit. The NBS financial statements as of, and for the year ended, 31 December 2002, before restatements by the NBS management, as disclosed in Note 22 to the accompanying financial statements, were audited by other auditors whose report dated 11 June 2003 expressed a qualified opinion with respect to their inability to determine the effects on the financial statements of borrowings in default.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the NBS as of 31 December 2003, and the results of its operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw your attention to the following matters:

- (a) As disclosed in Note 17 to the accompanying financial statements, as of 31 December 2003, matured and unpaid liabilities with respect to certain foreign bank loans amounted to Dinar 2,459 million. Given that NBS did not repay the matured portion of the loan and relating interest when due, the creditor may call for early re-payment of the non-matured portion of the loan in the amount of Dinar 3,005 million. Management has informed us that terms and conditions of these loans are currently being negotiated with the foreign creditor regarding its rescheduling and potential write-offs and the creditor has not made any repayment demands as of the date of these financial statements.
- (b) As disclosed in Note 23 to the accompanying financial statements, the NBS maintains memorandum accounts on the assets and liabilities of the former National Bank of Yugoslavia, originating from the period prior to the dissolution of the former Socialist Federal Republic of Yugoslavia ("SFRY"). Upon the release of the former SFRY balances from the previously frozen accounts held with US banks, in the year ended 31 December 2003, the NBS recognised exceptional income in the amount of Dinar 2,130 million. In addition, the NBS has similar balances on frozen accounts maintained with European banks. The effects of the release of such accounts, if and when it happens, will be included in the NBS financial statements of the future periods.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Governor and the Council of the National Bank of Serbia (continued)

As disclosed in Note 25 to the accompanying financial statements, the succession-related negotiations that are ongoing between the Republic of Serbia and the Republic of Montenegro, commenced upon the adoption of the Constitutional Charter of the State Union of Serbia and Montenegro, have not yet been finalised as of the date of these financial statements. The results of the negotiations may have effects on the NBS financial statements. As further disclosed in Note 2 to the financial statements, the accompanying financial statements include the operations of the NBS organisational units with the exception of its Main Branch in Podgorica, Republic of Montenegro. This branch has been excluded from these financial statements as the central bank functions in the Republic of Montenegro are maintained by the Central Bank of the Republic of Montenegro and the NBS does not have control over the assets of the branch.

- (c) As disclosed in Note 26 to the accompanying financial statements, as of 31 December 2003, certain legal proceedings are initiated against the NBS. Based on the independent legal advisors and the NBS management, it is not expected that those legal proceedings will have significant adverse effects on the NBS financial statements.

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Belgrade
28 May 2004

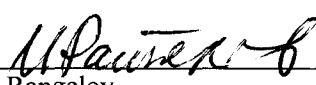
NATIONAL BANK OF SERBIA

STATEMENT OF INCOME
Year Ended 31 December 2003
(Millions of Dinars)

	<u>Notes</u>	<u>2003</u>	<i>Audited by Other Auditors</i> <u>2002</u>
Interest income	3.1, 4	5,376	5,224
Interest expense	3.1, 5	<u>(3,423)</u>	<u>(3,706)</u>
Net interest income		<u>1,953</u>	<u>1,518</u>
Fee and commission income	3.1, 6	4,575	10,918
Fee and commission expense	3.1	<u>(975)</u>	<u>(1,314)</u>
Net fee and commission income		<u>3,600</u>	<u>9,604</u>
Net trading income	7	3,387	240
Dividend income	3.1	54	2
Other income	3.1	<u>952</u>	<u>1,534</u>
Total operating income		9,946	12,898
Net impairment losses and provisions	3.8, 8	(3,022)	(3,008)
Other operating expenses	9	<u>(5,254)</u>	<u>(8,433)</u>
Profit before exceptional item		1,670	1,457
Exceptional item	23	<u>2,130</u>	<u>-</u>
Profit		<u><u>3,800</u></u>	<u><u>1,457</u></u>


The accompanying notes on pages 7 to 26 form
an integral part of these financial statements.

Signed on behalf of the National Bank of Serbia:



Ivan Rangelov
General Director
Accounting and Finance





G.B.R. 1969
23.06.2004.

BALANCE SHEET
As of 31 December 2003
(Millions of Dinars)

			<i>Audited by Other Auditors, Restated</i>
	Notes	2003	2002
ASSETS			
Cash and current accounts	3.4, 10	16,581	20,672
Deposits with foreign banks	3.5	92,176	66,663
Gold and other precious metals	11, 3.6	7,837	6,717
Trading securities	3.7	84,175	45,915
Securities held-to-maturity	3.8, 12	17,000	18,188
Loans	3.8, 13	1,586	2,688
IMF membership quota and SDR holdings	14	37,848	37,425
Property, plant, equipment and intangible assets	3.12, 15	7,947	7,187
Other assets	16	3,483	3,778
Total Assets		268,633	209,233
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to other banks and financial institutions	17	87,302	70,537
Liabilities to the Government and other depositors	18	33,796	13,762
Liabilities to the International Monetary Fund	19	92,308	75,210
Securities issued		2,223	1,551
Currency in circulation		42,979	43,431
Other liabilities	20	3,259	2,839
Total Liabilities		261,867	207,330
Equity			
Capital	21	3,319	3,319
Revaluation reserves		5,067	4,004
Accumulated loss		(1,620)	(5,420)
Total Equity		6,766	1,903
Total Liabilities and Equity		268,633	209,233

The accompanying notes on pages 7 to 26 form
an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year Ended 31 December 2003
(Millions of Dinars)

	<u>Capital</u>	<u>Revaluation Reserves</u>	<u>Accumulated Loss</u>	<u>Total</u>
For the year ended 31 December 2002				
<i>Audited by other auditors</i>				
Balance, beginning of year	3,319	6,229	(9,235)	313
Revaluation of property, plant, equipment and intangible assets	-	1,118	-	1,118
Impairment of the net book value of tangible assets in the Agency for Payment and Settlements	-	(1,981)	-	(1,981)
Other	-	366	-	366
Profit for the year	-	-	1,457	1,457
Balance, end of year	<u>3,319</u>	<u>5,732</u>	<u>(7,778)</u>	<u>1,273</u>
For the year ended 31 December 2003				
Balance, beginning of year as previously reported	3,319	5,732	(7,778)	1,273
Restatements (Note 22)	-	(1,728)	2,358	630
Balance, beginning of year as restated	<u>3,319</u>	<u>4,004</u>	<u>(5,420)</u>	<u>1,903</u>
Revaluation of property, plant, equipment and intangible assets	-	1,063	-	1,063
Profit for the year	-	-	3,800	3,800
Balance, end of year	<u>3,319</u>	<u>5,067</u>	<u>(1,620)</u>	<u>6,766</u>

The accompanying notes on pages 7 to 26 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year Ended 31 December 2003

(Millions of Dinars)

	2003	<i>Audited by Other Auditors</i> 2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit	3,800	1,457
<i>Adjustments to reconcile profit to cash flows from operating activities:</i>		
Non cash transactions included in profit:		
Depreciation and amortisation	451	665
Impairment losses and provisions	3,638	3,600
Losses on disposals of fixed assets, net	75	47
Unrealised exchange rate losses and gains, net	-	4,366
Net (increases)/decreases in operating assets:		
Deposits with foreign banks	(25,513)	-
Gold and other precious metals	(1,120)	-
Trading securities	(38,260)	-
Securities held-to-maturity	283	-
Loans to customers	511	-
IMF membership quota and SDR holdings	(458)	-
Other assets	(1,175)	-
Non-cash foreign assets	-	(69,325)
Non-cash domestic assets	-	(6,846)
Net increases/(decreases) in operating liabilities:		
Liabilities to other banks and financial institutions	16,765	-
Liabilities to the Government and other depositors	20,034	-
Liabilities to the International Monetary Fund	17,098	-
Securities issued	672	-
Currency in circulation	(452)	17,979
Other liabilities	420	-
Foreign liabilities	-	26,012
Domestic liabilities	-	14,247
Net cash used in operating activities	<u>(3,231)</u>	<u>(7,798)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to fixed assets, net of disposals	<u>(895)</u>	<u>(399)</u>
Net cash used in investing activities	<u>(895)</u>	<u>(399)</u>
Net decrease in cash and cash equivalents	(4,126)	(8,197)
Cash and cash equivalents, beginning of year	<u>20,728</u>	<u>28,925</u>
Cash and cash equivalents, end of year	<u><u>16,602</u></u>	<u><u>20,728</u></u>
Cash and cash equivalents comprise (Note 3.4):		
Cash and current accounts	16,581	20,672
SDR holdings	<u>21</u>	<u>56</u>
	<u><u>16,602</u></u>	<u><u>20,728</u></u>

The accompanying notes on pages 7 to 26 form
an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

1. THE BANK'S ESTABLISHMENT AND OPERATING POLICY

The origins of the National Bank of Serbia (hereinafter: "the NBS") date back to 1884, when the "Privilegovana banka Kraljevine Srbije" [The Chartered Bank of the Kingdom of Serbia] was founded. In 1920, that entity was transformed into the National Bank of the Kingdom of the Serbs, Croats and Slovenes. In 1929, the Bank's name was changed to the National Bank of the Kingdom of Yugoslavia. From 1946, the Bank continued its activities as the National Bank of Yugoslavia, representing the central monetary institution of the Socialist Federal Republic of Yugoslavia (SFRY) up until the dissolution of the federal state in 1991.

The Bank continued its operations in Belgrade, as the central bank of the Federal Republic of Yugoslavia, representing two of the successor republics of the former SFRY, Serbia and Montenegro, which in April of 1992 comprised the Federal Republic of Yugoslavia (FRY), when its Constitution was officially decreed by both republics.

On 25 June 1993, the Parliament of the FRY enacted the Law on the National Bank of Yugoslavia wherein the NBY is defined as an independent and integrated issuing institution of the FRY monetary system. All intangible and tangible assets that the Bank used in its operations represented the ownership of the FRY, and the Federal Government of FRY guaranteed all of the Bank's obligations.

Pursuant to the Law on the Implementation of the Constitutional Charter of the State Union of Serbia and Montenegro, effective as of 4 February 2003, the National Bank of Yugoslavia continues to operate as the central bank of the Republic of Serbia, as confirmed by the Law on the National Bank of Serbia, effective as of 19 July 2003, and the Bank was re-named into the National Bank of Serbia.

The National Bank of Serbia is the central bank of the Republic of Serbia. The NBS principal functions are defined under the terms of the Constitutional Charter of the State Union of Serbia and Montenegro, and by the Law on the National Bank of Serbia (Official Gazette of RS, No. 72/2003).

The primary aims of the NBS are to achieve and maintain adequate price and financial stability in the Republic of Serbia.

The basic functions of the NBS are to:

- Determine and carry out the monetary policy
- Establish the Dinar exchange rate policy
- Manage the foreign currency reserves of the Republic of Serbia
- Issue banknotes and coins
- Maintain efficient payment and financial systems
- Supervise the creditworthiness and legal compliance of the operations of commercial banks and other financial institutions.

The governing bodies of the NBS include: the Monetary Board, the Governor and the Council.

- The Monetary Board, is composed of the Governor and Vice Governors, and sets the monetary policy of the Republic of Serbia.
- The Governor is the administrator of the NBS and is responsible for its operations. He carries out the decisions of the Monetary Board and the Council, organises the NBS activities, and prepares and adopts all general and specific enactments falling under the jurisdiction of the NBS, while administratively representing, acting and legally executing documents on behalf of the NBS. The National Parliament of the Republic of Serbia appoints the Governor for a term of five years. The NBS has three Vice-Governors appointed by the NBS Council for a term of five years, based upon the Governor's recommendations.
- The Council, following the recommendation of the Governor, adopts the NBS financial plans and the annual reports. The Council has a president and four members appointed by the Republic of Serbia Parliament for a term of five years.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

1. THE BANK'S ESTABLISHMENT AND OPERATING POLICY (Continued)

The real estate and other assets occupied and used by the Bank are the property of the Republic of Serbia. The Government of the Republic of Serbia guarantees the Bank's existing obligations.

The NBS is a legal entity domiciled in Belgrade, Kralja Petra 12. The NBS is comprised of a Main Republic Branch Office situated in Belgrade and Branch Offices located in the cities of Novi Sad, Niš, Kragujevac and Užice. In addition, the NBS has a specialised organisational unit, the Institute for the Production of Banknotes and Coins located in Belgrade.

Within the NBS, a specialised unit, the Agency for Payments and Settlements ("ZOP" or "Zavod za Obračun i Plaćanje"), previously conducted all operations related to domestic payment traffic. However, effective as of 1 January 2003, domestic payment traffic activities were transferred from ZOP to the commercial banks comprising the banking sector, whereas the National Bank of Serbia continues all operations related to interbank payments transacted in dinars.

As of 31 December 2003, the NBS had 4,794 employees (31 December 2002: 9,186 employees).

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been, in all materially significant respects, prepared in accordance with standards and interpretations approved by the International Accounting Standards Board, which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS). In accordance with the Law on Accounting and Auditing (Official Gazette of FRY No. 71 dated 27 December 2002), all legal entities are required to prepare financial statements in accordance with IFRS.

The presentation of financial statements in accordance with IFRS requires management to make best estimates and reasonable assumptions that effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements as well as their reported amounts of revenues and expenses arising during the reporting period. These estimates and assumptions are based on the information available as of the date of the accompanying financial statements and thus, the future actual results could differ from those estimates.

The measuring and reporting currency of the NBS is the Convertible Serbian Dinar ("dinar" or "CSD"). Amounts in these financial statements are stated in millions of dinars, unless otherwise stated.

Where necessary, corresponding figures have been reclassified in order to conform to changes in the current year presentation of the financial statements. As disclosed in Note 22 to the financial statements, the NBS management made certain restatements to the opening balance of accumulated losses.

These financial statements include the operations of the NBS organisational units with the exception of its Main Branch in Podgorica, Republic of Montenegro. This branch has been excluded from these financial statements since the central bank functions in the Republic of Montenegro are maintained by the Central Bank of the Republic of Montenegro and the NBS does not have control over the assets of these organisational unit. In addition, as disclosed in Note 25 to the financial statements, the succession-related negotiations that are ongoing between the Republic of Serbia and the Republic of Montenegro, commenced upon the adoption of the Constitutional Charter of the State Union of Serbia and Montenegro, as which have not yet been finalised as of the date of these financial statements.

As of 31 December 2003, the NBS has equity investments in audit firm "MGI Revizija i Računovodstvo" A.D., Belgrade holding 100% of its shares. As of 31 December 2003, the NBS has not prepared consolidated financial statements since the NBS management intends to dispose these investments in the future period.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense Recognition

Interest income and interest expense, other operating income and expenses are accounted for on an accrual basis.

Fee and commission income arising on financial services is recognised when the corresponding services are rendered.

Dividend income is recognised when the right to receive a dividend is established.

3.2. Foreign Exchange Translation

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

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

Net foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities components denominated in foreign currencies are credited or charged, as appropriate, to the statement of income.

3.3. Financial Instruments

Classification

Financial instruments include: held-for-trading assets, originated loans and receivables, held-to-maturity assets, available-for-sale assets and financial liabilities.

Held-for-trading assets are principally acquired for security and liquidity purposes, as well as for generating a profit from short-term fluctuations in price.

Originated loans and receivables are loans and receivables originated by the NBS in providing money to a debtor.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturities that the NBS has the positive intent to hold to maturity.

Available-for-sale assets are financial assets that do not fall into any of the above categories.

A *financial liability* is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

Recognition

Financial instruments are recognised on settlement date.

Derecognising

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

Measurement

The accounting policies applied in the measurement of specific financial instruments are disclosed below.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash, current accounts and SDR holdings.

3.5. Deposits with Foreign Banks

Deposits with foreign banks represent short-term deposits placed with banks with high credit ratings. They are stated at their nominal amounts. The interest accrued on these deposits up-to the balance sheet date is reported as other assets.

3.6. Gold and Other Precious Metals

Gold and other precious metals are measured at their fair value as of the balance sheet date. Fair value is determined based on the average price listed at the three main gold exchanges – London, New York and Zurich. Changes in fair value are included under net foreign exchange gains/(losses).

3.7. Trading Securities

Trading securities are comprised of the government bonds of OECD member countries. These instruments are measured at their fair value as of the balance sheet date, being their published market price. Changes in fair value, as well as any gains and/or losses on the sale of these securities are included under net trading income.

3.8. Securities Held to Maturity and Originated Loans and Receivables

Securities held to maturity and originated loans and receivables are stated at cost less an allowance for impairment losses.

3.9. Allowances For Impairment Losses on Financial Assets

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If such evidence exists, the recoverable amounts of such assets are determined and their carrying values are reduced to the recoverable amounts using allowance accounts.

3.10. Equity Investments

Equity investments, as reported within other assets, are classified as financial instruments available-for-sale.

Equity investments in international financial institutions are stated at their nominal value, denominated in foreign currencies. The effects of changes in foreign exchange rates are included in net foreign exchange gains/(losses).

Equity investments in domestic entities are stated at cost less any allowance for impairment.

3.11. Inventories

Inventories are recognised at the lower of current cost and net realisable value at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Property, Plant and Equipment and Intangible Assets

Property, plant and equipment, and intangible assets are stated at cost or value as of the date of contribution by the government, and are revalued by the application of revaluation coefficients onto the historical cost or revalued cost, and accumulated depreciation and amortisation. The coefficients of revaluation represent the officially published indices derived from the rise in retail prices, as adjusted by the NBS management in an effort to estimate the divergence of the value changes of particular groups of assets from the movements in the official retail price index. The amounts of the revaluation of property, plant and equipment, and intangible assets are recorded under the revaluation reserves under equity. In accordance with IAS 16, "Property, Plant and Equipment" and IAS 38 "Intangible Assets" the revaluation of property, plant, equipment and intangible assets is allowed in so far as it is carried out on their appraised fair value. The NBS management believes that the aforescribed accounting policy is adequate and that the presentation and valuation of property, plant and equipment in these financial statements is most appropriate in the given circumstances.

The NBS uses the same policy for valuation of its investment properties as for other property. Rental income from investment property is recognised in the income statement on an accrual basis, under other operating income.

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 asset exceeds its recoverable amount. Impairment losses are first charged directly against any corresponding revaluation reserve, and subsequently, any remaining balances are charged to the income statement.

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

Buildings	1.3%
Computers and IT equipment	20%
Furniture and other equipment	10 – 15.5%
Intangible assets	20%

The depreciation of property, plant and equipment, and intangible assets commences when the applicable asset is placed into use.

3.13. Income Taxes

The NBS is legislatively exempt from paying corporate income taxes.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

4. INTEREST INCOME

	(Millions of Dinars)	
	Year Ended 31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Deposits with foreign banks	1,322	1,845
Trading securities	1,609	582
Securities held-to-maturity	1,645	705
Loans	798	2,069
Other	2	23
	<u>5,376</u>	<u>5,224</u>

5. INTEREST EXPENSE

	(Millions of Dinars)	
	Year Ended 31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Deposits from banks	1,211	572
Deposits from the Government and other depositors	263	85
Securities issued	207	568
Loans from other banks	661	1,344
Liabilities to the International Monetary Fund	1,081	1,137
	<u>3,423</u>	<u>3,706</u>

6. FEE AND COMMISSION INCOME

	(Millions of Dinars)	
	Year Ended 31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Domestic payments	2,157	7,548
Foreign exchange dealing	1,792	1,887
Conversion of euro banknotes	5	800
Other	621	683
	<u>4,575</u>	<u>10,918</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

7. NET TRADING INCOME

	(Millions of Dinars)	
	Year Ended 31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Net gains on trading securities	46	307
Net foreign exchange gains/(losses)	3,341	(67)
	<u>3,387</u>	<u>240</u>

8. NET IMPAIRMENT LOSSES AND PROVISIONS

a) Increase/(Decrease) During the Year

	(Millions of Dinars)	
	Year Ended 31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Securities held to maturity	875	871
Loans	444	(318)
Other assets	1,031	1,949
Property and equipment	672	420
Provision for discontinued activities of ZOP	-	86
	<u>3,022</u>	<u>3,008</u>

b) Changes on the Allowances for Impairment

	(Millions of Dinars)			
	Year Ended 31 December 2003			
	Securities held to maturity (Note 12)	Loans (Note 13)	Accrued Interest and Other Assets (Note 16)	Total
Balance, beginning of year	1,870	6,983	5,477	14,330
Charged during the year	905	591	1,470	2,966
Released during the year	(30)	(147)	(439)	(616)
Foreign exchange differences and other movements	-	(320)	(103)	(423)
Balance, end of year	<u>2,745</u>	<u>7,107</u>	<u>6,405</u>	<u>16,257</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

9. OTHER OPERATING EXPENSES

	(Millions of Dinars)	
	Year Ended 31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Personnel costs	2,582	3,330
Depreciation and amortisation	451	665
General, administrative and other operating expenses	2,221	4,438
	<u>5,254</u>	<u>8,433</u>

10. CASH AND CURRENT ACCOUNTS

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Cash on hand in foreign currency	6,363	11,403
Current accounts:		
- with domestic banks	6,778	4,857
- with foreign banks	3,439	4,374
Other	1	38
	<u>16,581</u>	<u>20,672</u>

11. GOLD AND OTHER PRECIOUS METALS

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
In standard form:		
- Gold	7,525	6,452
- Silver	116	100
- Platinum	94	74
- Other	1	-
	<u>7,736</u>	<u>6,626</u>
In other forms	101	91
	<u>7,837</u>	<u>6,717</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

12. SECURITIES HELD TO MATURITY

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Banks	946	1,224
Government and public enterprises	18,799	18,834
	<u>19,745</u>	<u>20,058</u>
Allowances for impairment:		
- Banks	(946)	(938)
- Government and public enterprises	(1,799)	(932)
	<u>(2,745)</u>	<u>(1,870)</u>
	<u>17,000</u>	<u>18,188</u>

13. LOANS

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Banks	5,743	6,290
Government and governmental institutions	2,950	3,381
	<u>8,693</u>	<u>9,671</u>
Allowances for impairment:		
- Banks	(5,573)	(6,094)
- Government and governmental institutions	(1,534)	(889)
	<u>(7,107)</u>	<u>(6,983)</u>
	<u>1,586</u>	<u>2,688</u>

14. INTERNATIONAL MONETARY FUND

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Membership quota in the International Monetary Fund	37,827	37,369
SDR holdings	21	56
	<u>37,848</u>	<u>37,425</u>

The quota of the State Union of Serbia and Montenegro in the International Monetary Fund ("the IMF") is secured by promissory notes issued by the Government of the FRY, and recorded as a placement denominated in SDRs. In December 2000, FRY re-activated its member status with the IMF after the period of sanctions imposed by the United Nations in 1992. As of 31 December 2003 and 2002, the membership quota amounted to SDR 467.7 million.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

15. FIXED ASSETS AND INTANGIBLE ASSETS

(Millions of Dinars)

	Land and Buildings	Equipment and Other Assets	Construction in Progress	Intangible Assets	Investment Property	Total
Cost						
Balance, beginning of year	4,915	7,140	3,600	376	388	16,419
Increases:						
- additions	11	209	580	102	-	902
- transfers	183	126	(128)	-	-	181
- revaluation	940	179	300	32	194	1,645
Decreases:						
- transfer to the Ministry of Finance	(2,937)	(2,988)	-	-	-	(5,925)
- disposals and shortages	(34)	(305)	(43)	(211)	-	(593)
Balance, end of year	3,078	4,361	4,309	299	582	12,629
Accumulated Depreciation and Amortisation						
Balance, beginning of year	1,664	4,970	-	179	18	6,831
Increases:						
- charge for the year	32	365	-	36	18	451
- revaluation	398	168	-	16	-	582
- other	-	-	-	27	-	27
Decreases:						
- transfer to the Ministry of Finance	(815)	(2,037)	-	-	-	(2,852)
- disposals and shortages	(6)	(226)	-	(125)	-	(357)
Balance, end of year	1,273	3,240	-	133	36	4,682
Net Book Value						
31 December 2003	<u>1,805</u>	<u>1,121</u>	<u>4,309</u>	<u>166</u>	<u>546</u>	<u>7,947</u>
31 December 2002	<u>3,251</u>	<u>2,170</u>	<u>3,600</u>	<u>197</u>	<u>370</u>	<u>9,588</u>

The NBS recognised an allowance for impairment of assets that were used by ZOP and transferred to the Ministry of Finance of the Republic of Serbia:

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Net book value of property, plant, equipment and intangible assets	7,947	9,588
Allowance for impairment	-	(2,401)
	<u>7,947</u>	<u>7,187</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

15. FIXED ASSETS AND INTANGIBLE ASSETS (Continued)

The movements in the allowance for impairment were as follows:

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Balance, beginning of year	2,401	-
Increases:		
- charged to statement of income	672	420
- charged to revaluation reserves	-	1,981
Net book value of assets transferred to the Ministry of Finance	<u>(3,073)</u>	<u>-</u>
	<u>-</u>	<u>2,401</u>

In accordance with the Law on the National Bank of Serbia, the buildings that are used by the NBS are the property of the Republic of Serbia Government. The NBS Governor decides on acquisitions, and use of tangible assets, except on disposals.

16. OTHER ASSETS

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Accrued interest	863	687
Equity investments	2,005	1,891
Inventories	269	276
Memorable coins	228	238
Housing loans to employees	204	238
Advances paid	414	465
Other assets	<u>5,905</u>	<u>5,460</u>
	<u>9,888</u>	<u>9,255</u>
Allowances for impairment:		
- Accrued interest	(694)	(495)
- Advances paid	(208)	(59)
- Other assets	<u>(5,503)</u>	<u>(4,923)</u>
	<u>(6,405)</u>	<u>(5,477)</u>
	<u>3,483</u>	<u>3,778</u>

Equity investments comprise the following:

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Bank for International Settlements, Basel	295	348
European Bank for Reconstruction and Development, London	1,676	1,510
Other	<u>34</u>	<u>33</u>
	<u>2,005</u>	<u>1,891</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

17. LIABILITIES TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Deposits from banks and other financial institutions:		
- Current accounts	16,302	14,833
- Obligatory reserves	58,470	42,016
- Term deposits	424	482
Deposits from international financial institutions	-	348
Loans	12,106	12,858
	<u>87,302</u>	<u>70,537</u>

Obligatory reserves of commercial banks and other financial institutions

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Obligatory reserves in dinars	16,212	11,466
Obligatory reserves in foreign currencies	9,642	8,592
Obligatory reserves with respect to public foreign currency savings	32,616	21,958
	<u>58,470</u>	<u>42,016</u>

Obligatory reserves in dinars and foreign currencies relate to the obligation of commercial banks and other financial institutions to maintain average deposits with the NBS that are to be equal to 18 percent (31 December 2002 – 20%) of their deposits and certain other liabilities.

Obligatory reserves with respect to public foreign currency savings relate to the obligation of the commercial banks and other financial institutions to deposit with the NBS 50 percent of the total balances of the public saving accounts denominated in foreign currencies that were deposited subsequent to 30 June 2001.

Loans

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Bank of China	5,464	5,899
Export-Import Bank of China	5,464	5,899
OECD member government	1,178	1,060
	<u>12,106</u>	<u>12,858</u>

The loan from the Bank of China was originally extended in 1997, and was rolled-over annually until December 2003. The interest on the loan is at the annual rate of EURIBOR + 1%, and has been regularly paid. The management is presently negotiating a new rescheduling of the loan.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

17. LIABILITIES TO OTHER BANKS AND FINANCIAL INSTITUTIONS (Continued)

The loan from the Export-Import Bank of China, in the amount of USD 100 million, was extended in December 1999 with a grace period until July 2002 and under semi-annual repayment terms, until January 2005. Although interest on this loan has been accrued, neither the interest, nor the instalments due have been paid since January 2001. The matured liabilities with respect to the loan amounted to Dinar 2,459 million. Given that the NBS did not repay the matured portion of the loan and relating interest when due, the creditor may call for early re-payment of the non-matured portion of the liabilities in the amount of Dinar 3,005 thousand. The creditor has not made such a request as of the date of these financial statements. The accrued interest on the loan, as included in these financial statements is based on the due dates specified under the loan agreement. Terms and conditions of the loan are currently being negotiated with the foreign creditor regarding its rescheduling and potential write-offs.

The loan from the OECD member government amounting to EUR 17.25 million, is an interest-free loan extended for the purpose of regulating the membership of Serbia and Montenegro in the European Bank for Reconstruction and Development, with a grace period until the end of 2005.

18. DEPOSITS FROM THE GOVERNMENT AND OTHER DEPOSITORS

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Demand deposits	19,463	13,331
Term deposits	14,333	431
	<u>33,796</u>	<u>13,762</u>

19. LIABILITIES TO THE INTERNATIONAL MONETARY FUND

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Promissory notes and other liabilities		
with respect to the membership in the IMF	37,828	37,370
Post-conflict emergency assistance	9,457	9,342
Stand-by arrangement	16,176	15,980
Extended arrangement	24,264	7,990
SDR allocation	4,583	4,528
	<u>92,308</u>	<u>75,210</u>

On 20 December 2000, the IMF approved a post-conflict emergency assistance facility in the amount of SDR 117 million maturing in 2004 and 2005.

On 11 June 2001, the IMF approved a one-year Stand-by arrangement in the total amount of SDR 200 million, which matures in 2004, 2005 and 2006.

On 13 May 2003, the IMF approved a three-year extended arrangement in the amount of SDR 650 million. The arrangement is intended to support the country's economic programme in the period from May 2002 to May 2005. In concluding this agreement, the Bank accepted the convertibility of the foreign-held dinar balances as defined under Article VIII of the Articles of Agreement of the International Monetary Fund. As of 31 December 2003, the IMF extended five instalments on this extended arrangement totalling SDR 300 million (31 December 2002: two instalments totalling SDR 100 million). Repayments of the facility are scheduled from November 2006 to September 2010. The IMF may extend due dates of the facility.

The IMF charges interest on these facilities, quarterly, at the rates based on the IMF's Articles of Agreement and the General Terms of Financial Assistance.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

20. OTHER LIABILITIES

	(Millions of Dinars)	
	31 December	
	2003	2002
		<i>Audited by Other Auditors</i>
Accrued interest	1,705	1,117
Liabilities with respect to equity investments in the European Bank for Reconstruction and Development	498	449
Payroll and social security costs	117	75
Liabilities to suppliers and advances received	184	71
Other	755	1,127
	<u>3,259</u>	<u>2,839</u>

Accrued interest as of 31 December 2003 includes accrued interest and penalty interest on the loan from the Export-Import Bank of China in the amount of Dinar 1,259 thousand (31 December 2002 – Dinar 802 thousand).

21. EQUITY

In accordance with the Law on the National Bank of Serbia, the NBS equity is comprised of its capital and special reserves. The capital shall amount to Dinar 10 billion and is formed from its retained earnings. Special reserves shall be formed by appropriations of not more than 30% of profits and may not exceed the NBS capital. Any remaining profits, reduced by the amounts of any unrealised items included in income, constitute the revenue of the Republic of Serbia budget. The losses of the NBS are to be covered from its special reserves. If the special reserves are not sufficient to absorb the losses, then they are to be covered from the Republic of Serbia budget, or by securities issued by the Republic of Serbia for that specific purpose. Repayment of such securities will be made from the NBS profits available in the future periods.

22. RESTATEMENTS OF THE OPENING BALANCE OF ACCUMULATED LOSSES

As of 1 January 2003, the NBS restated to the opening balance of accumulated losses for the effects of the following matters:

- In the period from 2000 to 2002 the NBS charged to the Statements of Income and credited to revaluation reserves the amount of Dinar 1,728 million pursuant to the statutory requirement to establish funds for investments in fixed assets. Given that such an accounting policy is not compliant to IFRS, as of 1 January 2003, the NBS reduced revaluation reserves by crediting accumulated losses.
- In the balance sheet as of 31 December 2002, the NBS included liabilities with respect to employee housing deposits in the amount of Dinar 630 million. The amount was established by charging the income statement in prior years to establish a fund to finance the purchase of property used by employees and housing loans to employees. Considering that there are no present obligations to transfer economic benefits at unfavourable terms, associated with these liabilities, they do meet the definition of liabilities in accordance with IFRS, and were derecognised by crediting accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003**23. MEMORANDUM ACCOUNTS OF THE ITEMS RELATING TO THE FORMER SFRY**

Up to the year ended 31 December 2000, the NBS financial statements included the assets and liabilities originating from the period prior to the disintegration of the former SFRY, irrespective of to which of the former constituent republics such assets and liabilities corresponded.

On 29 June 2001, the Ministers of Foreign Affairs of the Federal Republic of Yugoslavia, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia and Slovenia executed the Agreement on Succession Issues (the "Succession Agreement"). The Succession Agreement defines the newly established five countries as sovereignty equal states and as the successors of the former SFRY.

Subsequent to the execution of the aforecited agreement, the Parliament of FRY, in February 2002, enacted the Law on the Preparation of the Balance Sheet of the National Bank of Yugoslavia in the SFRY, and the Law on the Preparation of Balance Sheet of the National Bank of Yugoslavia in the FRY.

As of 1 November 2001, the NBS extracted from its balance sheet the assets and liabilities that correspond to the former SFRY.

The off-balance sheet records of assets and liabilities of the former SFRY include the following items:

- Balances on frozen accounts with foreign banks and liabilities to banks and other depositors relating to the frozen accounts,
- Amounts due from commercial banks and liabilities with respect to refinanced loans and relating interest from the Paris Club of Creditors and the London Club of Creditors,
- Balances from clearing relations with the former Soviet Union (assumed by the Russian Federation) and other central banks of the former socialist or developing countries, and
- Other receivables from and payables to commercial banks.

During 2003, US banks released balances on accounts frozen in 1992, upon dissolution of the SFRY and subsequent introduction of UN sanctions, in the amount of USD 90.3 million (equivalent of Dinar 5,267 million). The NBS recognised on its balance sheet the aforementioned amount under cash, corresponding liabilities to depositors, and the difference between the assets and the liabilities as exceptional income in the amount of Dinar 2,130 million.

The NBS has similar balances on frozen accounts maintained with European banks. The effects of the release of such account, if and when it happens, will be included in the NBS financial statements of the future periods. The NBS management believes that other items with respect to the assets and liabilities of the former SFRY would not have a material effect on the NBS future financial statements.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

24. RISK MANAGEMENT POLICIES

Liquidity Risk

Liquidity risk includes both the risk of not being able to fund assets at appropriate maturities and interest rates, and the risk of not being able to liquidate an asset at a reasonable price and within an appropriate time frame.

The NBS is the lender of last resort to commercial banks in the Republic of Serbia. However, the day-to-day operations of the NBS are aimed at ensuring that adequate liquidity exists to meet all domestic obligations and commitments as they become due. The NBS has access to diverse funding sources. Funds are raised through deposits, issue of securities and borrowings. Diversification of funding sources enhances funding flexibility, limits dependence on any source of funds and generally lowers the cost of funds. The NBS maintains a balance between the continuity of its funding and the flexibility of funding sources through the use of funding sources with a range of maturities. The NBS assesses liquidity risk by identifying and monitoring changes in funding sources required to meet the goals strategically set by the NBS management. In addition, the NBS holds a portfolio of liquid assets, such as current accounts and deposits with foreign banks, and OECD government bonds, as a part of its liquidity risk exposure management strategy.

The following table summarises an analysis of the NBS financial assets and liabilities based on the remaining periods to repayment.

	(Millions of Dinars)					
	Up to One Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Assets						
Cash and current accounts	16,581	-	-	-	-	16,581
Deposits with foreign banks	92,176	-	-	-	-	92,176
Gold and other precious metals	7,837	-	-	-	-	7,837
Trading securities	84,175	-	-	-	-	84,175
Securities held-to-maturity	-	-	17,000	-	-	17,000
Loans	22	-	393	1,082	89	1,586
IMF membership quota and SDR holdings	21	-	-	-	37,827	37,848
Property and equipment	-	-	-	-	7,947	7,947
Other assets	1,068	-	-	-	2,415	3,483
Total Assets	201,880	-	17,393	1,082	48,278	268,633
Liabilities						
Liabilities to other banks and financial institutions	83,521	138	1,095	2,312	236	87,302
Liabilities to the Government and other depositors	19,406	14,390	-	-	-	33,796
Liabilities to the IMF	-	2,194	10,623	22,253	57,238	92,308
Securities issued	2,223	-	-	-	-	2,223
Currency in circulation	-	-	-	-	42,979	42,979
Other liabilities	2,761	-	-	-	498	3,259
Total Liabilities	107,911	16,722	11,718	24,565	100,951	261,867
Net Liquidity gap	93,969	(16,722)	5,675	(23,483)	(52,673)	6,766

Items with indefinite maturities are included under the "Over-five-year" category.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

24. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk

Interest rate risk includes the risk of interest rate fluctuations that might cause the interest-bearing assets and interest-bearing liabilities to mature or reprice at different times, or at varying amounts. The NBS manages interest rate exposure by being in a position to:

- Set interest rates, to monitor them, and subsequently, to adjust them in order to fulfil the overall goals of the adopted monetary policy (obligatory reserves in dinars and foreign currency of the commercial banks and reserves with respect to public foreign currency savings);
- Maintain the Government's deposits and those of governmental institutions;
- Maintain funds on current accounts and short-term deposits with foreign banks maturing up to 30 days, and invest in the highly liquid securities of the governments of OECD member countries.

The NBS is exposed to interest rate risk related to issued securities, foreign currency borrowings and liabilities toward the International Monetary Fund.

The following table provides a summary of the average, annual interest rates on the most significant interest-bearing financial instruments stated in the balance sheet as of 31 December 2003, as per the major currencies:

	<u>Dinars</u>	<u>EUR</u>	<u>USD</u>	<u>SDR</u>
Financial assets				
Current accounts with foreign banks	-	1.4%	0.7%	-
Deposits with foreign banks	-	2%	1%	-
Trading securities	-	4.7%	4.6%	-
Securities held-to-maturity and loans	9-12%	-	-	-
Financial liabilities				
Obligatory reserves of banks	3.15%	0.4%	0.2%	-
Time deposits	1.8-3%	1.9%	0.9%	-
Borrowings	-	-	7-8%	-
Securities issued	12.6%	-	-	-
Liabilities to the International Monetary Fund	-	-	-	2.1%

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

24. RISK MANAGEMENT POLICIES (Continued)

Currency Risk

The NBS is exposed to foreign currency risk in its transactions in foreign currencies. The NBS 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 NBS. The NBS manages the foreign currency exposure by pursuing the policy of structuring its asset/currency mix in such a manner that would be in line with expected future known foreign currency obligations. The following table provides an analysis of the NBS foreign currency exposure as at 31 December 2003:

	(Millions of Dinars)						
	EUR	USD	SDR	Other Currencies	Total Foreign Currencies	Dinars	Total Balance Sheet
Assets							
Cash and current accounts	4,848	2,002	-	2,952	9,802	6,779	16,581
Deposits with foreign banks	59,208	29,634	-	3,334	92,176	-	92,176
Gold and other precious metals	-	7,837	-	-	7,837	-	7,837
Trading securities	56,178	27,997	-	-	84,175	-	84,175
Securities held-to-maturity	-	-	-	-	-	17,000	17,000
Loans	-	-	-	-	-	1,586	1,586
IMF membership quota and SDR holdings	-	-	37,848	-	37,848	-	37,848
Property and equipment	-	-	-	-	-	7,947	7,947
Other assets	1,725	240	315	4	2,284	1,199	3,483
Total Assets	121,959	67,710	38,163	6,290	234,122	34,511	268,633
Liabilities							
Liabilities to other banks and financial institutions	37,577	14,637	-	3,269	55,483	31,819	87,302
Liabilities to the Government and other depositors	16,652	1,146	-	328	18,126	15,670	33,796
Liabilities to the IMF	-	-	92,308	-	92,308	-	92,308
Securities issued	-	-	-	-	-	2,223	2,223
Currency in circulation	-	-	-	-	-	42,979	42,979
Other liabilities	596	1,585	-	31	2,212	1,047	3,259
Total Liabilities	54,825	17,368	92,308	3,628	168,129	93,738	261,867
Net Balance sheet position	67,134	50,342	(54,145)	2,662	65,993	(59,227)	6,766

Credit Risk

The primary exposure to credit risk arises from deposits and investments in foreign securities, as well as from held-to maturity securities of and loans extended to domestic banks, the Government, governmental institutions, and public enterprises. The amount of credit exposure in this respect is represented by the carrying amounts of the financial assets stated in the balance sheet. Management believes that the allowances stated in the balance sheet are adequate to absorb the losses that may arise from the exposures.

The concentration of credit exposures arising on financial instruments occurs in instances in which counterparties have similar economic characteristics that could render their ability to meet contractual obligations, to be similarly affected by changes in economic or other circumstances.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

24. RISK MANAGEMENT POLICIES (Continued)

The significant geographical concentrations of foreign assets of the NBS as of 31 December 2003 are as follows:

(Millions of Dinars)

	European Union	United States of America	Switzerland	Other	Total
Current accounts with foreign banks	741	54	132	2,512	3,439
Deposits with foreign banks	75,573	1,481	15,122	-	92,176
Trading securities	56,178	27,997	-	-	84,175

The NBS has significant concentrations of its domestic assets in the placements to the Pension and Disability Fund and the Budget of the Republic of Serbia.

25. FORMER FRY SEPARATION BALANCE DISCUSSIONS

The republics of the former Federal Republic of Yugoslavia comprised of Serbia and Montenegro have yet to reach an agreement on the separation to be applied to assets and liabilities arising from the dissolution of the FRY, and the subsequent creation of the State Union of Serbia and Montenegro. Such discussions are on going, and the NBS management is inherently involved in these negotiations that should determine the date and nature of the specific agreement, and the effects of the agreement on the financial statements of the NBS. The current separation negotiations include, among other subjects, the balances and amounts associated with the following:

- 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 originating from the SFRY Succession Agreement.

The completion of the FRY separation negotiations may have an impact on the NBS financial position, possibly involving a reversal of specific provisions made for doubtful assets, and on the treatment of liabilities, including interest income and interest expense.

26. LITIGATION

As of 31 December 2003, significant legal proceedings are initiated against the NBS, which may affect the NBS future financial statements. The most significant proceeding relates to lawsuit with the Banque Franco-Yugoslave based on a petition that was submitted on 21 June 2001 before the Paris Commercial Court, with the objective of ordering the National Bank of Yugoslavia to make payment in performance of alleged contractual commitments dating from 1991. The amounts claimed by the Banque Franco-Yugoslave, as of 31 December 2003, amount to EUR 72.8 million, equivalent to Dinar 4,973 million. Independent legal council, representing the NBS in the abovementioned lawsuit, and the NBS management are of the opinion that the NBS is not exposed to the risk of losing the lawsuit, but its final outcome cannot precisely be determined as of the date of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2003

27. EXCHANGE RATES

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

	In Dinars	
	31 December	
	2003	2002
USD	54.6372	58.9848
EUR	68.3129	61.5152
SDR	80.8794	79.9000

28. SUBSEQUENT EVENTS

As of 1 January 2004, the NBS transferred from its balance sheet to memorandum accounts investments in the European Bank for Reconstruction and Development in the amount of Dinar 1,676 million, liabilities with respect to a loan granted for the purpose of regulating the membership of the Federal Republic of Serbia in the EBRD in the amount of Dinar 1,178 million, and other liabilities with respect to the investments in the EBRD in the amount of Dinar 498 thousand.