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## REPORT OF THE GENERAL MANAGER

In 2003, the business of UPI Banka dd Sarajevo was significantly marked by the change of its ownership structure and by the entrance of EBRD as one of its main shareholders.

The Bank operated in the general conditions characterised by the continuing reform process, structural changes and privatisation, creating conditions to attract foreign investors, improvement of business environment, stimulating exports, and downgrading the grey economy to acceptable levels.

The average growth rate of industrial production in FBiH, based on monthly industrial production indices, was -0.3%, whereas the volume of industrial production in 2003 increased by 4.8%. Average net salary in FBiH grew by 5.6% from last year, and the unemployment rate did not show any significant changes.

Considering such conditions, the financial results show that the Bank achieved significant improvement in all aspects of business. From 2002, total assets grew by 18%, the loan portfolio by 38%, savings (or deposits) by 13%, total capital by 11%, profit by 104%, and the number of employees grew by 17%. Operating success can also be seen from the fact that, even though the number of employees grew, the Bank still has a total assets per employee ratio of KM 1.55 million.

Based on these results, 2003 can be characterized as the most successful business year of the Bank since it was founded, and this is the result of the efforts of the management and the employees to maximise the effects of their work.

An important feature of business this year is that the Bank decreased interest rates for both retail and corporate sectors, finding approval from all customers. The average interest rate in 2003 decreased by 1.27 percentage points for corporate customers and by 1.26 percentage points for retail customers.

Speaking of interest rate policy, it is worth mentioning that interest rates of commercial banks for short-term loans are still decreasing slightly. Rates for long-term loans were below 10% during the whole year. On the deposits side, a growing trend is evident, due to inadequate maturity structure. Therefore, for deposits over 12 months attractive interest rates were offered. It is expected that this will have an adverse effect in the market and cause a rise in interest rates on receivables. In the payment system through commercial banks 4.4 million transactions were done, totalling around KM 6 billion.

The most important thing for the Bank is that during turbulent developments in the Bosnian banking market, the Bank managed to keep up with the leading banks in Bosnia and Herzegovina and keep its market position. A large part of the credit for this success goes to the members of the Supervisory Board and Auditing Committee, who got involved in the Bank's operations and facilitated work easier for the management and other employees.

Last year was also the first year of active work with EBRD in order to reorganize the Bank, establishing new sectors and departments, and restructuring business



processes. The goals set were completely achieved, and the finalisation of the changes is expected in 2004.

Following the long-year tradition, the Bank continued successful cooperation with the international institutions in Bosnia and Herzegovina. Cooperation with USAID resulted in the approval of a third credit line, buying a part of the loan portfolio of USAID Business Finance, and in signing a contract guaranteeing loans to clients in agriculture, wood industry, or tourism.

The Bank confirmed its tradition of a pioneer in significant projects by signing a contract for a credit line from OPEC Fund for International Development. This made the Bank the first private institution in B&H to receive funds from OPEC. We are confident that this is the first step towards establishing a long-lasting cooperation with this renowned institution.

Besides these sources, the Bank approved loans to corporate and retail customers from the funds of other creditors: EBRD, KfW, IBF, IGA, and Sarajevo Canton.

The Bank put much effort into the development of cards business. This resulted in the Bank becoming a principal member in the VISA International group, making it possible for UPI Banka to offer an international card to its customers. We decided to take a step further and offer a chip card based on EMV technology. This will make the Bank the number one in another aspect in the BH market. We will be ready to adapt to these new technologies giving additional security to clients – by the end of 2005 all VISA, MasterCard, Diners, and AmericanExpress cards must be changed by these “smart” cards.

UPI Banka is the depositary bank of the budgets of FB&H and Brcko district, it has transactions accounts for Sarajevo and Zenica-Doboj Cantons, and it uses its current accounts to service salary payments for many ministries, companies, and other institutions.

The Bank continued the growth of its business network, Brcko and Gradacac offices became branches, and new offices in Bugojno and Srebrenik were opened. Currently, we cover around 80% of FBiH territory with our services.

Mirsad Letić  
General Manager

## REPORT OF THE SUPERVISORY BOARD TO SHAREHOLDERS OF UPI BANKA D.D. SARAJEVO

The report of the Supervisory Board (the Board), in accordance with the Law on Banks and acts of UPI Banka d.d. Sarajevo (UPI Banka), includes a summary of statements from the report of the Audit Board and the Chief Internal Auditor of the Bank.

In 2003 the Board held seven meetings and in accordance with legal and statutory duties and responsibilities reviewed 73 items in agendas.

Based on the review of reports and information about the work of the Bank, the Audit Board and the Internal Audit, and also based on the review of documents related to performance of the Bank, the Annual Report, financial statements and the opinion of the independent external auditor KPMG B-H on the audit of Bank's statements, and the annual statement for 2003 with the distribution of profit, the Board concludes that the Management and the Bank in general have operated in compliance with the law and the regulations, in a stable manner and have managed to achieve projected goals.

In addition, based on the review of documents related to the operations of the Bank, the Board expresses and confirms the opinion of the external auditor that the financial statements of the Bank were prepared in an adequate manner and in accordance with both international and local accounting standards, and that

they offer a true and fair view of the financial position of the Bank as of 31 December 2003.

It is especially important to stress that there were no material errors and omissions in the Bank's operations and that the activities of the Bank, including the Management, Internal Audit, Audit Board and the Supervisory Board, were focused on adoption of new and update of previously adopted programs, policies and procedures, in accordance with the amendments to the Law on Banks and new decisions of the Federal Banking Agency. The employees were appointed to new positions in accordance with the new organization scheme and acts regulating employment issues. Additional improvements and enhancements were made to the overall IT system, new products were introduced and the branch network was further expanded. The Board and the Management have paid special attention to issues of development and growth of the Bank, including the capital increase in order to strengthen its competitiveness and increase the Bank's market share.

Since the last Shareholders Meeting, the Audit Board held four meetings and reviewed 38 items of agenda. Among others, the Audit Board reviewed the Internal Audit reports on audit of specific operations in both headquarters and branches, on selection and



engagement of the external auditor, and other activities undertaken by the Bank. In addition, the Audit Board adopted the 2003 Internal Audit Annual Report and the 2004 Internal Audit Plan. It was concluded that there were no issues identified during the audits that the Bank could not manage with its risk management system, and that the Internal Audit had support of the Management during its work.

The Bank submitted all required reports to the Federal Banking Agency and other relevant bodies and institutions in a timely manner.

By adopting the bank performance report together with the report of the independent external auditor for 2003, the annual statement of the Bank and the 2003 internal audit report, the Board concluded that the Bank paid the due attention to all legal requirements, which in addition to the efforts of the Management, Internal Audit and employees ensures protection for the owners of the capital – the shareholders of the Bank.

The Supervisory Board recommends to the General Assembly of Shareholders to:

- Adopt the 2003 Annual Report and the 2003 Annual Statement with the distribution of profit,
- Approve of the work and confirm the trust to the Supervisory Board, the General Manager and the Management,
- Approve the basics of the 2004 operating plan, with a note that the plan is very ambitious.

Nazif Branković  
Chairman of the Supervisory Board

## INTRODUCTION

Main characteristics of the BiH economy in 2003 were continuation of the reform process, with a focus on structural changes, including the privatization process, creation of environment for growth of foreign investments, improvement of the business environment, export stimulation, and reduction of grey economy to as low level as possible.

Changes of the industrial production index in 2003 do not indicate significant recovery or growth of economic activities in the country. The average growth rate for industrial production in the Federation of Bosnia and Herzegovina (FBiH) in 2003, calculated based on monthly industrial production indices, is negative and totals 0.3%. At the same time, volume of industrial production in 2003 compared to 2002 shows that a 4.8% growth of industrial production has been achieved.

In general, industrial production index in 2003 varied and was impacted by a number of factors.

Price changes in BiH, in addition to domestic factors, due to implementation of the currency board, are impacted by external factors, such as price changes in the EMU and changes of the exchange rate between Euro and USD, which directly impact the exchange rate between the domestic currency and USD and other currencies. These changes have not had a significant impact on price changes in BiH in 2003, so the stability of prices during this period is obvious.

Annual inflation in BiH was approximately 0.9%, which is significantly lower than 2.1% inflation in the Euro region.

The trend of the living expense index was similar to the retail prices index. The structure of the living expense index compared to the previous year indicates that costs for goods in FBiH have increased 1.7% and costs for services have increased 0.3%.

Average net salary in FBiH increased 5.6% compared to 2002. Unemployment rate does not indicate major changes compared to the previous year.

Because the foreign currency reserve with the CBBH changes mostly due to fluctuation of the balance between sale and purchase of KM, net foreign currency reserve of CBBH grew continuously, which resulted in a positive balance between the sale and purchase of KM. Net free foreign currency reserve grew more rapidly than total foreign currency reserve of CBBH, and increased 44.5% compared to the previous year. Reform progress and stabilization of the banking system lead to increased inflow of foreign capital, mostly from the foreign banks.

There were 37 banks operating in BiH during the reporting period, of which 27 in FBiH and 10 in the RS. A total of 19 commercial banks were members of the deposit insurance program during the reporting period, which is an increase of two compared to the previous year.



During the same period, there were 27 banks with banking permits operating in the FBiH. The Federal Banking Agency (FBA), in accordance with the law, conducted the off-site and on-site analysis. The FBA revoked three banking licenses and five banks were under provisional administration.

Twenty six banks had permits for internal payments (for interbank transactions), 25 of which actively provided payment services.

Commercial banks' interest rates on short term loans continued to reduce. During this period, interest rates

on long term loans were constantly below 10%. Interest rates on deposits also continued the slow reduction, so the interest rates on term and savings deposits were 3.9% and on demand deposits around 1%. Some commercial banks were announcing increases in interest rates due to changes in the mandatory reserve requirements, however, interest rates continued to drop during the reporting period.

In mid 2003, there were 35 commercial banks and the CBBH participating in the payment system, resulting in execution of 4.4 million transactions totaling around KM 6.0 billion.



## BODIES OF THE BANK

### SUPERVISORY BOARD

Nazif Branković – Chairman, General Manager of Sarajevska pivara d.d. Sarajevo,

mr Husein Ahmović – member, General Manager of Klas d.d. Sarajevo

Marija Brezovec – member, Manager of Economic Finance Department of Coning Inženjering d.d. Varaždin,

Hajrudin Čengić – member, Advisor to General Manager of Bosna Reosiguranje d.d. Sarajevo

Roberto Marzanati – member, nominee of European Bank for Reconstruction and Development (EBRD), London

### AUDIT BOARD

Enver Kazazić – Chairman, Deputy General Manager of Klas d.d. Sarajevo

Sunita Ejubović – member, Head of Finance of Grafopek d.d. Gračanica

Mijo Grgić – member, Finance Director of Elektroprivreda BiH Sarajevo

Šefik Handžić – member, Finance Director of Bosnalijek d.d. Sarajevo

Sabaheta Imamović – member, Authorized Auditor of Vincent Tuzla

### MANAGEMENT

Mirsad Letić – General Manager, Economist

Hajrija Tanović – Deputy General Manager, Economist

Branko Ekert – Executive Director of Human Resources and Support Services, Lawyer

Zlata Mušić – Executive Director of Corporate Banking, Economist

Alma Škapur – Executive Director of Treasury and Payment System, Economist

Ljubica Tankosić – Executive Director of Finance and Risk Management, Associate Economist

Nedim Lulo – Executive Director of Retail Banking, Economist

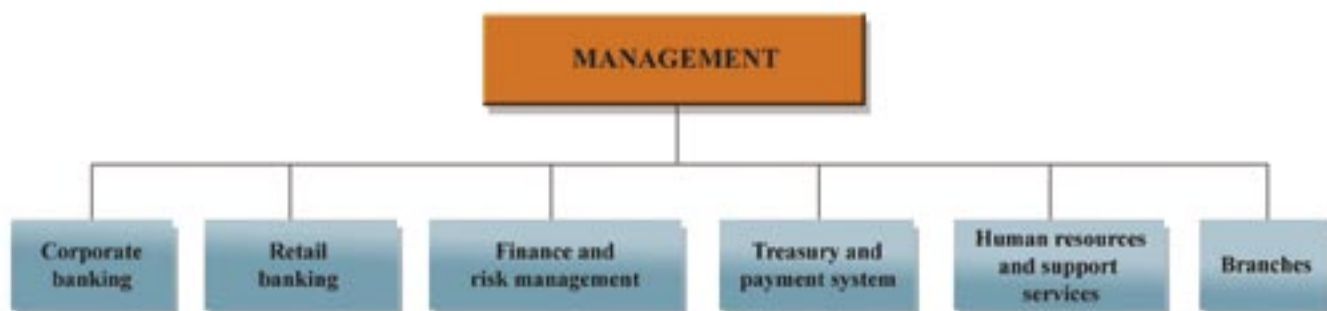
Lejla Neretljaković – Bank Secretary, Lawyer

### INTERNAL AUDIT

Mediha Čatović – Chief Internal Auditor, Economist



## ORGANIZATION CHART



## FINANCIAL INDICATORS

The results of the Bank in 2003 were the best results of the Bank to date, as indicated in the presented information.

in KM 000

Structure	31 December 2003	31 December 2002	Index
<b>Balance Sheet</b>			
Net Assets	262,169	223,047	118
Liquid Assets	101,395	100,933	100
Gross Loans	152,237	110,455	138
Fixed Assets	11,262	10,744	105
Investments	1,852	1,611	115
Reserves for Potential Losses	9,334	6,015	155
Deposits	201,449	178,030	113
Borrowings	25,211	15,812	159
Total Capital	29,584	26,624	111
Shareholders Capital	22,900	22,900	100
<b>Income Statement</b>			
Gross Profit	3,650	1,787	204
Net Profit	3,596	1,592	226
<b>Income</b>	<b>23,210</b>	<b>19,349</b>	<b>120</b>
Interest Income	15,867	11,909	133
Fee Income	5,803	4,820	120
Other Income	1,540	2,620	59
<b>Expense</b>	<b>19,560</b>	<b>17,562</b>	<b>111</b>
Interest Expense	4,532	4,238	107
Non-interest Expense	9,763	8,408	116
Provisions	5,265	4,916	107

## INTEREST INCOME

Interest income increased 33% compared to 2002 and makes 68% of total income of the Bank. The increase of interest income corresponds with the increase of the loan portfolio, which increased by 38% compared to the previous year.

The structure of interest income includes the following:

- Interest income from short term corporate loans - 45%,
- Interest income from long term corporate loans - 19%,
- Interest income from retail loans - 22%,
- Other interest income - 14%.

Following the market developments, the Bank implemented the policy of lower interest rates, which is confirmed with the following averages: average active interest rate for legal entities in 2003 was 9.90% (11.17% last year). Average interest rate for natural persons was 10.62% (11.88% last year).

## FEE INCOME

Fee income increased by 20% compared to 2002 and makes 25% of the Bank's total income. This increase is due to services provided by the Bank, including card operations and e-banking, as well as other operations and increased volume of operations.

Significant fee income is generated in internal payment operations, lending and guarantee operations, foreign payments, retail banking, etc.

## OTHER OPERATING INCOME

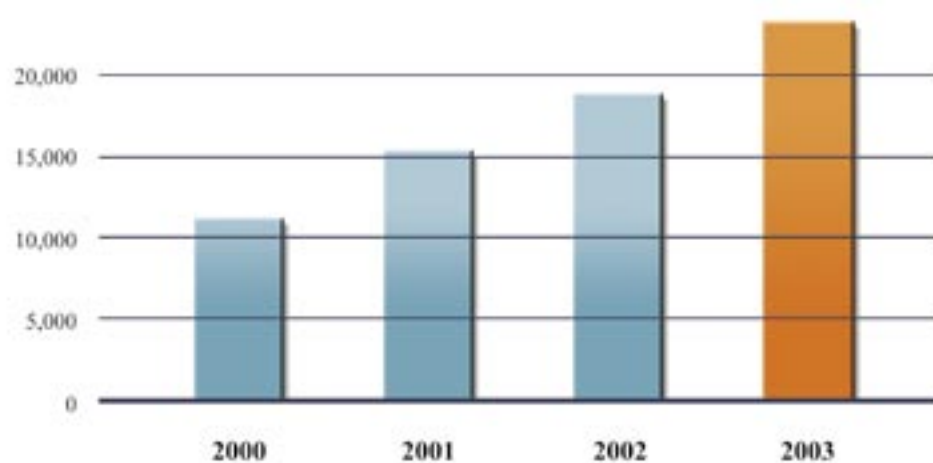
The structure of other income includes collected loan and interest write-offs of KM 1.01 million (KM 969 thousand in 2002), which is a result of numerous efforts that the Bank has taken in order to collect these receivables.

## INCOME STRUCTURE

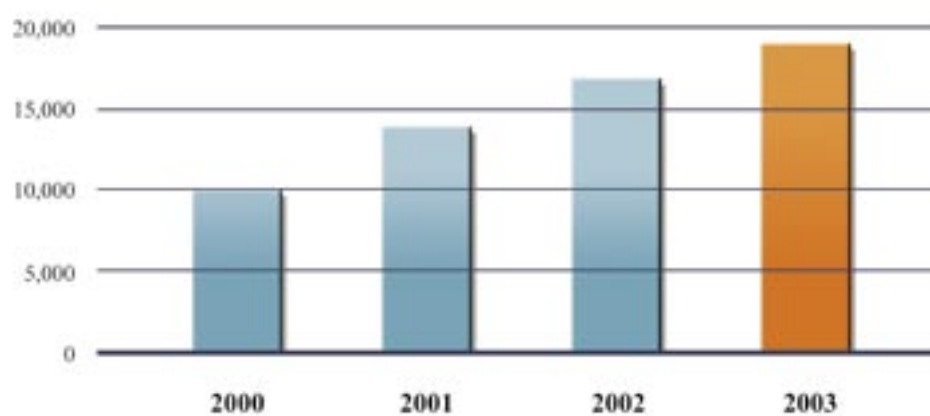
in KM 000

Structure	31 December 2003	% of total income	31 December 2002	% of total income
Interest income	15,867	68%	11,909	62%
Fee income	5,803	25%	4,820	24%
Other income	1,540	7%	2,620	13%
<b>Total income</b>	<b>23,210</b>	<b>100%</b>	<b>19,349</b>	<b>100%</b>

## INCOME IN KM 000

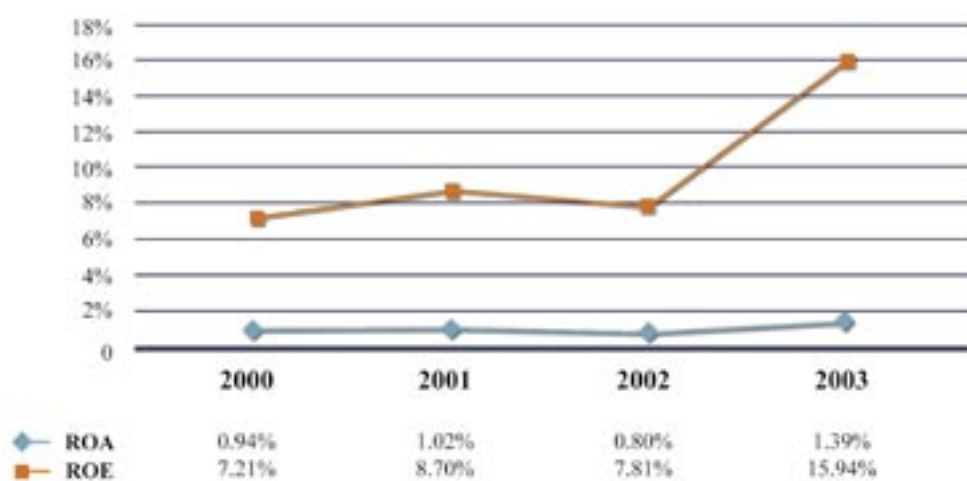


## EXPENSES IN KM 000





## RETURN ON EQUITY (ROE) AND RETURN ON ASSETS (ROA)



## ASSETS

Total net assets were KM 262.16 million, 18% more than in 2002, and assets per employee were KM 1.55 million.

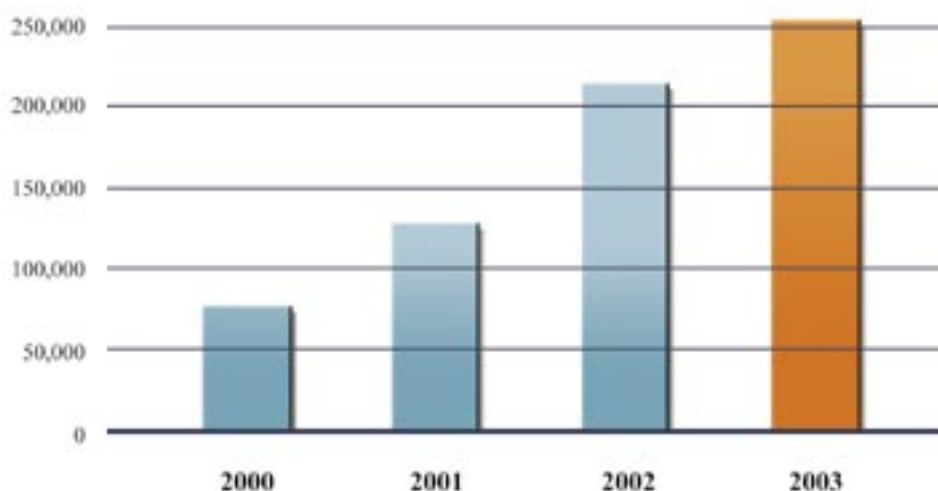
Investments in other entities totaled KM 1.85 million and the most significant were investments in Bosna Reosiguranje (31%), Bamcard (26%) and Triglav BH Osiguranje (12%).

In their financial statements, Bosna Reosiguranje and Triglav BH Osiguranje showed positive financial results of KM 1.40 million and KM 2.62 million, respectively.

Bamcard had a negative financial result in 2003 of KM 195 thousand, but has operated positively already in the first quarter of 2004. Preparations have been completed to certify Bamcard as a processing center for VISA cards. In the reporting period, there was also a capital increase in Bamcard and the company is now registered as a shareholding company.

Investment in fixed assets total KM 11.26 million, which means that the fixed assets to core capital ratio is 38.06% and does not exceed the limit set in the FBA decisions.

### TOTAL ASSETS IN KM 000



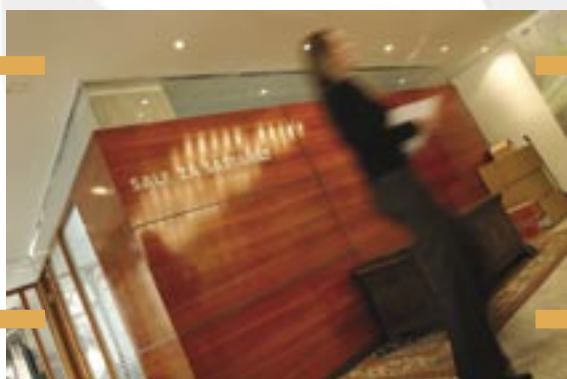


Liquid assets totaled KM 101.39 million, of which KM 93.89 million were interest bearing and KM 7.50 million were non-interest bearing. The increase of interest bearing assets, which make 93% of total liquid assets, is due to transformation of the CBBH reserve account into an interest bearing account. Non-interest bearing liquid assets make 7% of total liquid assets and include cash held in the vault and the organizational units of the Bank.

Liquidity ratio measured as the ratio of cash with 0% risk weighting to assets was 31.51%.



Signing of the Line of Credit Agreement with the OPEC Fund



## LENDING

**The loan portfolio of the Bank totaled KM 152.23 million, 38% more than in 2002.**

### CORPORATE LENDING

Corporate loan portfolio totaled KM 115.52 million, 76% of the total loan portfolio. Short term loans were KM 79.59 million and long term loans were KM 35.93 million, 52% and 24% of the total loan portfolio, respectively. In 2003 the Bank approved 791 loans totaling KM 196.65 million, financed with own and borrowed funds.

In addition, the Bank serviced 279 agency loans totaling KM 30.52 million, of which 112 loans totaling KM 9.38 million were approved during the reporting period.

In terms of corporate lending, the Bank directed significant funding to agriculture and food processing industries, which is supported by the fact that KM 62.81 million were used for financing of loans and guarantees to these industries.

The Bank signed an agreement for the third line of credit from USAID Business Finance for KM 2.0 million, an agency agreement with the Cinematography Foundation, a credit line agreement with Investment Guarantee Agency, loan purchase agreement with USAID Business Finance for KM 8.02 million, a loan portfolio guarantee agreement with USAID for \$5.0 million, and a line of credit agreement with the OPEC Fund for International Development for \$1.73 million.

## RETAIL LENDING

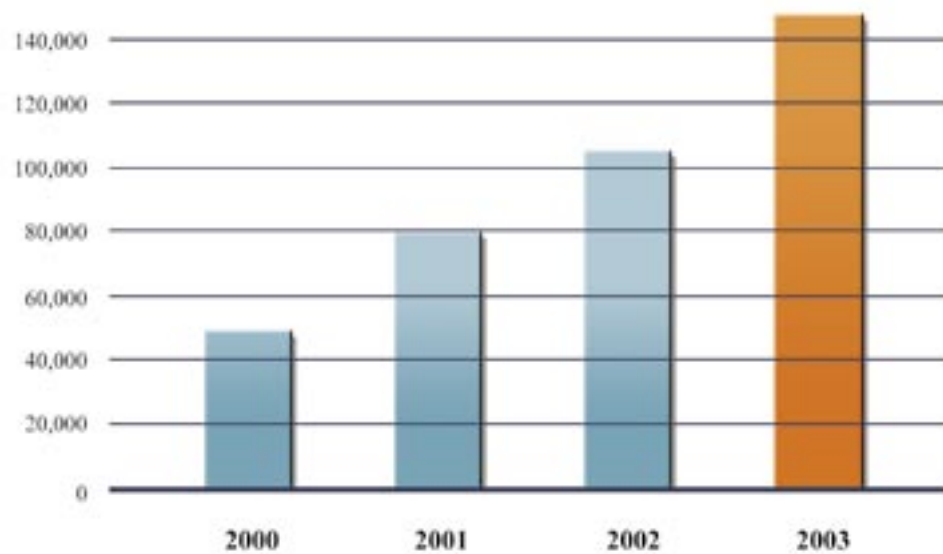
The Bank introduced new retail lending products, such as housing loans for depositors, family housing loans, medical treatment and education loans, and credit card loans secured with deposits.

The retail lending portfolio totaled KM 36.71 million, 59% more than in 2002. The structure of loans included short terms loans totaling KM 13.27 million and long term loans totaling KM 23.44 million. The Bank approved 2,784 loans totaling KM 14.36 million financed from own funds and credit lines.

During the reporting period, the Bank signed a credit line agreement for KM 1.5 million with Partners for Development (PFD) for financing of agricultural production.



## LOANS IN KM 000

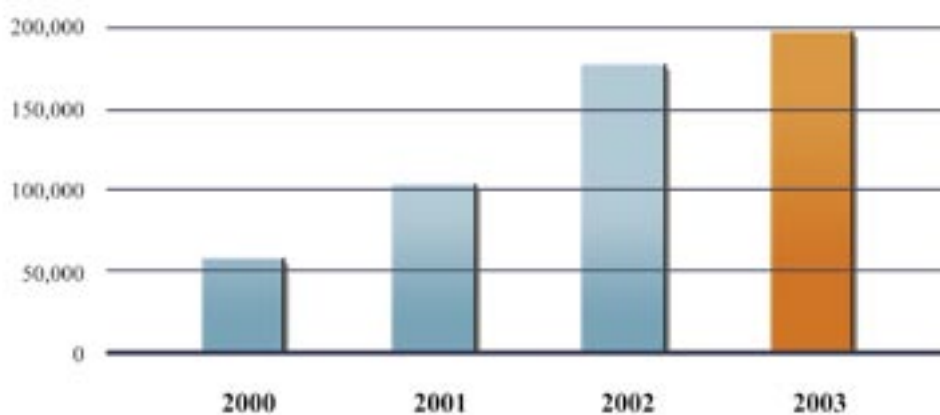


## SOURCES OF FUNDING

### DEPOSITS

Deposits make 77% of liabilities, borrowings make 10%, capital makes 11% and other liabilities make 2%. Participation of corporate deposits was 81% and participation of retail deposits was 19%.

### TOTAL DEPOSITS IN KM 000



Long term deposits 21%



Short term deposits 32%



Demand deposits 47%

## BORROWINGS

At year end 2003, borrowings of the Bank totaled KM 25.21 million, 59% more than in 2002. Long term borrowings included funding obtained from commercial, foreign banks and other sources, including the European Bank for Reconstruction and Development (EBRD), Kreditanstalt für Wiederaufbau (KfW), USAID Business Finance, Partners for Development (PFD), Investment Guarantee Agency (IGA), Investment Bank of FBiH (IBF), Federal Ministry of Agriculture, Water Management and Forestry, and Nova Ljubljanska Banka.

## SHAREHOLDERS OWNING MORE THAN 2% OF SHARES

Shareholder	31 December 2003 (%)	31 December 2002 (%)
European Bank for Reconstruction and Development, London	19.9	19.9
Sarajevska pivara d.d. Sarajevo	15.7	15.7
Klas d.d. Sarajevo	11.5	11.5
Coning Inženjering, Varaždin	4.1	4.1
Vidović Petar, Gradačac	3.9	0.0
Bosna Reosiguranje, Sarajevo	3.6	3.6
Hypo Alpe Adria Bank d.d. Mostar	2.5	2.5
HIP 2000 d.o.o. Sarajevo	2.1	2.1

## STRUCTURE OF FUNDING SOURCES

in KM 000

SHORT TERM SOURCES	31 December 2003	31 December 2002
Corporate demand deposits	87,401	80,043
Retail demand deposits	8,581	7,743
Short term corporate deposits	49,345	38,405
Short term retail deposits	14,744	17,847
Other short term liabilities	3,558	2,581
<b>Total short term sources</b>	<b>163,629</b>	<b>146,619</b>
LONG TERM SOURCES		
Long term corporate deposits	27,019	26,215
Long term retail deposits	14,359	7,777
Long term loans	25,211	15,812
Subordinated debt	2,367	0
<b>Total long term sources</b>	<b>68,956</b>	<b>49,804</b>
CAPITAL		
Shareholders capital	22,900	22,900
Retained earnings	6,684	3,724
<b>Total capital</b>	<b>29,584</b>	<b>26,624</b>
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>262,169</b>	<b>223,047</b>



## INTERNAL AND FOREIGN PAYMENT SYSTEM

There were 2.02 million transactions performed through 3,042 transaction accounts, totaling KM 5.43 billion. E-banking services are used by 180 clients, of which 70 started using these services during the reporting period. E-banking debit transactions make 30% of total internal payment system debit transactions.

Electronic processing of payment orders was enabled for the Ministry of Finance of FBiH and the Treasury of the Sarajevo Canton, and this method is also used for submission of statements of account for the Customs and Tax Administrations of FBiH.

Foreign payments covered 13,063 transactions totaling KM 274.13 million. This includes KM 88.79 million of incoming foreign payments (export operations) and KM 185.34 million of outgoing foreign payments (import operations).

In addition, during this period the Bank issued 200 foreign guarantees for its clients, totaling KM 22.56 million, and 20 letters of credit totaling KM 2.19 million.



Celebration of the Bank Day at the  
National Theatre in Sarajevo

## RETAIL OPERATIONS

In addition to lending, the focus included the depository operations, so during the reporting period the Bank opened 4,687 checking accounts, 452 giro accounts and 4,655 savings accounts.

Retail savings totaled KM 37.68 million, of which KM 29.10 million were term deposits and KM 8.58 million were demand deposits.

The card operations included the issuance of 5,449 debit and 6,760 credit Bamcard cards totaling KM 15.25 million.

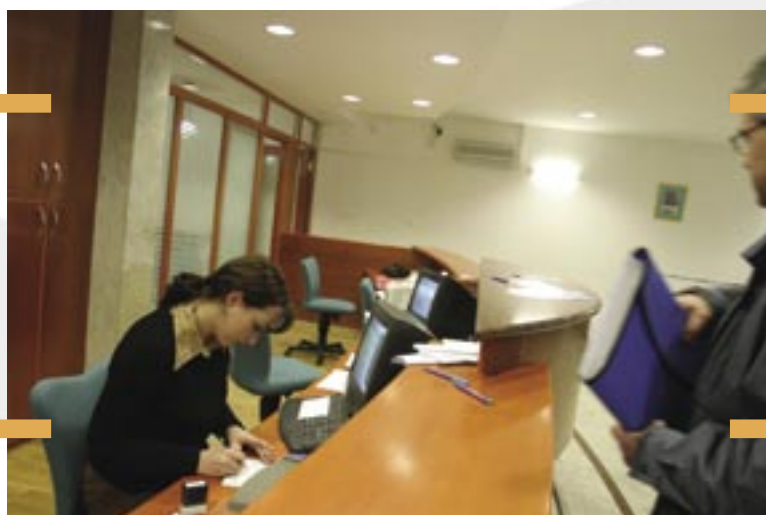
The Bank installed 288 POS terminals in the trade network and windows of the Bank and 9 ATMs. In order to increase the level of services, the Bank introduced the full day working hours during the week and some units are opened even on Saturdays and Sundays.

The Bank is continuously working on development of new and enhancement of existing products. VISA International approved the Principal membership to the Bank, which was followed by training of employees in card operations department. The Bank also completed the preparations for issuance of the first international chip card in the market of Bosnia and Herzegovina.

## CONTROL SYSTEM

During the reporting period, there were several different external examination institutions, including the independent auditor, KPMG BH d.o.o. Sarajevo, the Federal Banking Agency, the Central Bank of Bosnia and Herzegovina, the Deposit Insurance Agency of BiH, the EBRD, USAID, Sarajevo Canton Employment Bureau, relevant tax administrations of FBiH, the Canton and the Brčko District.

In addition to external examination, the Bank has a mandatory internal control, which continuously evaluated and assessed the efficiency of business operations, accuracy and adequacy of the IT, in accordance with legal requirements, and reported in accordance with the internal audit program.

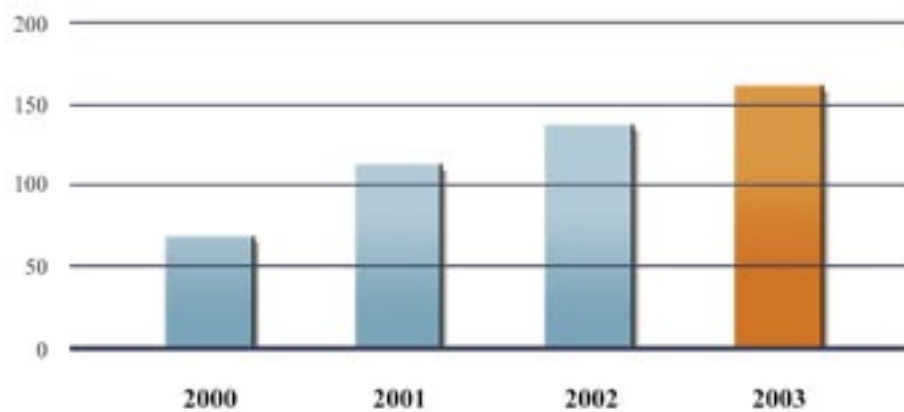


## EMPLOYEES

There were 169 employees in the Bank in the reporting period, 17% more than in 2002. The Bank had 25 new hires in 2003. The qualification structure of employees is as follows: university graduates–72, associate level–12, high school education–81, qualified workers–1 and low qualification employees–3.

The structure of employees includes 50% of employees with university and associate level education. The Bank was oriented toward hiring younger staff and providing continuous training and education.

### NUMBER OF EMPLOYEES



BRANCH  
NETWORK

## BRANCH NETWORK

### HEAD OFFICE:

Obala Kulina bana 9a  
71000 Sarajevo

Tel.: +387 33 20 03 01

Fax: +387 33 20 07 89

### BRANCHES:

Brčko District	+387 49 21 76 99	Bulevar Mira 8
Gračanica	+387 35 78 74 53	22. Divizije 42
Gradačac	+387 35 81 93 25	Hadžiefendijina bb
Mostar	+387 36 55 64 92	Šantićeva 2
Tuzla	+387 35 25 09 60	Stare tržnice 12
Zenica	+387 32 41 42 42	Adolfa Goldbergera 7

### AGENCIES:

Bugojno	+387 30 25 42 84	Ambasadora Wagnera 11
Kakanj	+387 32 55 52 60	Zgoščanska bb
Odžak	+387 31 76 11 17	Titova bb
Sarajevo Novo	+387 33 28 62 33	Ložionička 16
Visoko	+387 32 73 71 11	ZTC Sebilj

### UNITS:

Sarajevo Centar	+387 33 66 84 98	Branilaca Sarajeva 20
Novo Sarajevo	+387 33 28 62 33	Ložionička 16
Novo Sarajevo	+387 33 71 65 21	Zmaja od Bosne 13
Srebrenik	+387 35 64 49 62	211. oslobodilačke brigade bb
Vrapčići (Mostar)	+387 36 51 17 10	Tržni centar, Vrapčići bb
TC Merkur Vrapčići		



## LIST OF CORRESPONDENTS

COUNTRY BANK PLACE	CURRENCY/ OUR ACCOUNT NUMBER
<b>AUSTRIA</b>	
BANK AUSTRIA, Wien	EUR/126-155-664/01 978
RAIFFEISEN ZENTRALBANK OESTERRICH AG, Wien	EUR/55.062.830
<b>BELGIUM</b>	
FORTIS BANQUE S:A./N.V., Bruxelles (FORMERLY GENERALE DE BANQUE)	EUR/291-1117152-03-978-0
<b>CROATIA</b>	
VARAŽDINSKA BANKA DD, Varaždin	EUR/7092-71-978-9900659
ZAGREBAČKA BANKA DD, Zagreb	EUR/2690000235-978
CENTAR BANKA ZAGREB	EUR/56300-3003-8-709200
<b>HUNGARY</b>	
Kereskedelmi Es Hitelbank RT, Budapest	EUR/104799
<b>ITALY</b>	
UNICREDITO ITALIANO SPA Milano	EUR/995 312
CASSA DI RISPARMIO DI UDINE E POREDENONE, Udine	EUR/2101/27401279
BANCA ANTONIANA POPOLARE VENETA S.C.R.A.L. Padova	EUR/00400-01-027402154
BANCA AGRICOLA MONTOVANA SPA	EUR/0081219
<b>GERMANY</b>	
COMMERZBANK AG FRANKFURT/M	EUR/400 8768 558 00
HYPOVEREINSBANK AG MUNICH	EUR/69104720
LHB INTERNATIONAL HANDELS	EUR/0009867003
BANKEN AG FRANKFURT/M	USD/0009867300
	CHF/0009867 359
	AUD/0009867334
	J PY/0009867 367
	GBP/0009867318
DRESDNER BANK AG FRANKFURT/M	EUR/499/08081244/00/888
<b>GREAT BRITAIN</b>	
NATIONAL WESTMINSTER BANK Plc London	GBP/440/00/04598091
<b>SLOVENIA</b>	
SKB BANKA DD, Ljubljana	70100-978-306418-03770-1000003611
BANKA CELJE DD, Celje	EUR/370-7010-978-45006/87
A BANKA	EUR/051001010004519
<b>USA</b>	
BANK OF AMERICA N.A. New York	USD/6550-8-75865





**UPI Banka dd**

Annual report for the year  
ended 31 December 2003

## Statement of management's responsibilities

The management of the Bank is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and of the results of the Bank for that period. In preparing those financial statements, the management of the Bank is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

Management is responsible for maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and to enable it to ensure that the financial statements comply with the laws of Bosnia and Herzegovina. It has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

## Report of the independent auditor to the shareholders of UPI Banka dd

We have audited the accompanying balance sheet of UPI Banka dd ("the Bank") as of 31 December 2003 and the related statements of income, changes in equity and cash flows for the year then ended. As described on page 30 the Bank's management is responsible for the preparation of the financial statements. 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 as promulgated by the International Federation of Accountants. 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 the Management Board, 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 financial statements give a true and fair view of the financial position of the Bank, and of the results of its operations and its cash flows and changes in shareholders' equity for the year then ended in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board.

**KPMG B-H doo za reviziju**  
Registered auditors  
Fra Andjela Zvizdovica 1  
71000 Sarajevo  
Bosnia and Herzegovina

23 February 2004

**Income statement**  
*for the year ended 31 December 2003*

	<i>Note</i>	<b>2003</b> <b>KM'000</b>	2002 KM'000
Interest income	4	15,867	12,033
Interest expense	5	(4,530)	(4,238)
<b>Net interest income</b>		<b>11,337</b>	7,795
Commission and fee income	6	5,395	4,693
Commission and fee expense		(541)	(441)
<b>Net commission and fee income</b>		<b>4,854</b>	4,252
Foreign exchange gains, net	7	475	226
Other operating income	8	1,299	1,163
<b>Total income</b>		<b>17,965</b>	13,436
Operating expenses	9	(9,050)	(7,315)
<b>Profit before provisions</b>		<b>8,915</b>	6,121
Impairment losses and provisions	10	(5,265)	(4,916)
<b>Profit before tax</b>		<b>3,650</b>	1,205
Taxation	11	(54)	387
<b>Net profit for the year</b>		<b>3,596</b>	1,592

The notes set out on pages 36 to 58 form part of these financial statements.



## Balance sheet

*As at 31 December 2003*

	<i>Note</i>	<b>2003</b> <b>KM'000</b>	2002 KM'000
<b>Assets</b>			
Cash reserves	12	71,707	84,978
Obligatory reserve with the Central bank	13	11,803	10,184
Debt securities	14	1,339	-
Placements with, and loans and advances to, other banks	15	20,142	10,381
Loans and advances to customers	16	141,454	102,546
Accrued interest and other assets	17	2,967	2,628
Equity securities	18	1,377	1,496
Tangible fixed assets	19	10,612	10,319
Intangible fixed assets	20	768	515
<b>Total assets</b>		<b>262,169</b>	223,047
<b>Liabilities and funds employed</b>			
Current accounts and deposits from banks		-	267
Current accounts and deposits from customers	21	201,449	177,764
Borrowings	22	27,578	15,812
Accrued interest and other liabilities	23	2,412	1,828
Provisions for off balance sheet items	24	1,145	753
<b>Total liabilities</b>		<b>232,584</b>	196,424
<b>Share capital and reserves</b>			
Share capital	25	22,900	22,900
Retained earnings and reserves		6,685	3,723
<b>Total shareholders' funds</b>		<b>29,585</b>	26,623
<b>Total liabilities and funds employed</b>		<b>262,169</b>	223,047

These financial statements were approved on 23 February 2003 and were signed by:

Mirsad Letic  
*General Manager*

The notes set out on pages 36 to 58 form part of these financial statements.

## Statement of changes in equity

*for the year ended 31 December 2003*

	Share capital	Retained earnings and reserves	Total
	KM'000	KM'000	KM'000
Balance at 1 January 2003	22,900	3,723	26,623
Dividends paid	-	(634)	(634)
Profit for the year	-	3,596	3,596
Balance at 31 December 2003	22,900	6,685	29,585
Balance at 1 January 2002	17,187	2,131	19,318
Increase in share capital	6,744	-	6,744
Cancellation of state capital	(931)	-	(931)
Cancellation of unpaid shares	(100)	-	(100)
Profit for the year	-	1,592	1,592
Balance at 31 December 2002	22,900	3,723	26,623

The notes set out on pages 36 to 58 form part of these financial statements.

## Statement of cash flows

for the year ended 31 December 2003

	Note	2003 KM'000	2002 KM'000
<b>Cash flow from operating activities</b>			
Profit before tax		3,650	1,205
Tax paid		(934)	(498)
Depreciation and amortisation		736	461
Write off and provisions for equity securities		448	115
Write off of fixed assets		31	-
		<hr/>	<hr/>
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>		3,931	1,283
		<hr/>	<hr/>
Increase in placements with and loans to customers		(38,908)	(22,694)
Decrease / (increase) in placements with and loans to banks		3,614	(1,636)
Decrease in accrued interest and other assets		541	1,365
Decrease in current accounts and deposits from banks		(267)	(1,087)
Increase in current accounts and deposits from customers		23,685	72,178
Increase in accrued interest and other liabilities		584	468
Increase in provisions for liabilities and charges		392	433
		<hr/>	<hr/>
<b>Net cash (outflow)/inflow from operating activities</b>		(6,428)	50,310
		<hr/>	<hr/>
<b>Investing activities</b>			
Purchase of debt securities		(1,339)	-
Decrease/(increase) in investment in equity securities		(329)	43
Acquisition of tangible assets, net		(1,313)	(1,769)
		<hr/>	<hr/>
<b>Cash outflow from investing activities</b>		(2,981)	(1,726)
		<hr/>	<hr/>
<b>Financing activities</b>			
Issue of shares, net		-	5,713
Payment of dividend		(634)	-
Increase in borrowings		11,766	5,090
		<hr/>	<hr/>
<b>Cash inflow from financing activities</b>		11,132	10,803
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		1,723	59,387
<b>Cash and cash equivalents at the beginning of the year</b>	26	100,932	41,545
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	26	102,655	100,932
		<hr/>	<hr/>

The notes set out on pages 36 to 58 form part of these financial statements.

## Notes to the financial statements

### 1 Accounting standards and conventions

The principal accounting policies adopted for the preparation of the financial statements are set out below.

#### *Preparation and presentation of financial statements*

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and currently applicable interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

The financial statements are prepared on a fair value basis for financial assets and liabilities held for trading, and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

The financial statements are presented in the currency of Bosnia and Herzegovina, the convertible mark ("KM"), rounded to the nearest thousand. The Central Bank of Bosnia and Herzegovina has implemented a currency board arrangement aligning KM to Euro at an exchange rate of Euro 1: KM 1.95583.

#### *Disclosures*

The financial statements have been stated in a format generally adopted and internationally recognised by banks and in accordance with IAS 30, "Disclosures in the Financial Statements of Banks and Similar Financial Institutions".

### 2 Specific accounting policies

#### *Interest income*

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

#### *Commission and fee income*

Commission and fee income comprises mainly fees receivable from customers for payment transaction services, loans, guarantees, letters of credit, foreign currency transactions and other services provided by the Bank. Fees are credited to income when the related service is performed.

## Notes *(continued)*

### *Foreign currency*

Transactions in foreign currencies are translated into KM at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into KM at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

### *Financial instruments*

#### *Classification*

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 and advances to customers and other banks, other than purchased loans.

Available for sale assets are financial assets that are not held for trading purposes, originated by the Bank or held to maturity. Available for sale instruments include debt and equity securities.

#### *Recognition*

The Bank recognises financial assets available for sale on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised in the income statement.

Originated loans and receivables are recognised on the day they are transferred to the Bank.

#### *Measurement*

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

Subsequent to initial recognition all available for sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot otherwise be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non trading financial liabilities and originated loans are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

## Notes (continued)

### *Impairment of financial assets*

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of originated loans is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of impairment provisions for uncollectibility. Specific impairment provisions are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General impairment provisions are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the provision account are recognised in the income statement.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or provision is reversed through the income statement.

### *Derecognition*

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

Available-for-sale assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the assets.

Originated loans and receivables are derecognised on the day they are transferred by the Bank.

## Notes (continued)

### *Specific instruments*

#### *Equity securities*

Equity securities are classified as available for sale assets.

#### *Debt securities*

Debt securities are classified as held to maturity

#### *Loans and advances to banks and customers*

Loans and advances originated by the Bank are classified as originated loans and receivables. Loans and advances are presented net of impairment provisions to reflect the estimated recoverable amounts. The amortisation of any discounts included within impairment provisions is included in interest income.

#### *Property, plant and equipment*

All fixed assets are stated at historic cost, net of accumulated depreciation.

Depreciation is provided on all assets except land and assets in the course of construction on a straight line basis so as to write off the cost of the assets over their estimated useful lives at the following annual rates:

	<b>% per annum</b>
Computers and software	20.00
Furniture and equipment	10.00 – 20.00
Motor vehicles	15.50
Leasehold improvements	20.00
Buildings	1.30

#### *Taxation*

The Bank provides for taxation liabilities in accordance with law in the Federation of Bosnia and Herzegovina.

#### *Share capital and reserves*

Share capital is stated in KM at nominal value. Any profit for the year after appropriations is transferred to reserves.

#### *Comparatives*

Where necessary, comparative information has been reclassified to achieve consistency with current financial year amounts and other disclosures.

### **3 Incorporation**

The Bank is a joint stock company incorporated in the Federation of Bosnia and Herzegovina.

## Notes (continued)

### 4 Interest income

#### (a) Analysis by source

Total interest income is derived from the following sources:

	2003 KM'000	2002 KM'000
Companies	10,901	8,355
Individuals	3,459	2,468
Banks and other financial institutions	1,507	1,210
	<hr/> 15,867 <hr/>	<hr/> 12,033 <hr/>

#### (b) Analysis by product

Interest income is analysed by banking products as follows:

	2003 KM'000	2002 KM'000
Loans and advances to customers	14,360	10,823
Obligatory reserve with the Central Bank of Bosnia and Herzegovina	565	125
Other placements with, and loans and advances to banks	942	1,085
	<hr/> 15,867 <hr/>	<hr/> 12,033 <hr/>

### 5 Interest expense

#### (a) Analysis by recipient

Total interest payable is analysed by recipient as follows:

	2003 KM'000	2002 KM'000
Companies	2,613	2,494
Individuals	1,213	1,129
Banks and other financial institutions	704	615
	<hr/> 4,530 <hr/>	<hr/> 4,238 <hr/>



## Notes (continued)

### (b) Analysis by product

Total interest payable is analysed by banking product as follows:

	2003 KM'000	2002 KM'000
Current accounts and deposits	3,826	3,623
Borrowings	704	615
	<hr/> 4,530	<hr/> 4,238

### 6 Commission and fee income

	2003 KM'000	2002 KM'000
Fee income from processing of international payment transactions	830	758
Fee income from processing of domestic payment transactions	1,077	1,238
Fee income from lending activities	1,810	1,102
Fee income from guarantees and letters of credit	863	948
Fee income from foreign exchange transactions	303	270
Fee income from agency services	334	309
Other fee income	178	68
	<hr/> 5,395	<hr/> 4,693

### 7 Foreign exchange gains, net

	2003 KM'000	2002 KM'000
Foreign exchange trading gain, net	623	840
Net foreign exchange loss from translation of monetary assets and liabilities	(148)	(614)
	<hr/> 475	<hr/> 226

## Notes (continued)

### 8 Other operating income

	2003 KM'000	2002 KM'000
Collection of receivables written off	1,016	970
Dividend income	70	59
Rental income	90	80
Other operating income	123	54
	<hr/> 1,299	<hr/> 1,163

### 9 Operating expenses

	2003 KM'000	2002 KM'000
Marketing and representation costs	281	227
Personnel costs	4,684	3,935
Other personnel costs	673	579
Rent	109	77
Depreciation	624	461
Amortisation	112	-
Consultancy fees	455	242
Savings deposits insurance and other insurance charges	342	369
Other expenses	1,770	1,425
	<hr/> 9,050	<hr/> 7,315

Personnel costs include KM 887 thousand (2002: KM 775 thousand) of defined pension contributions paid into the State pension plan. The Bank had 169 employees at 31 December 2003 (2002: 145).

### 10 Impairment losses and provisions

The charge to the income statement in respect of impairment losses and provisions is analysed as follows:

	2003 KM'000	2002 KM'000
Impairment losses and provisions		
for loans and placements to banks	102	-
for loans to customers	4,411	2,935
for equity securities	360	115
for cash in hand	-	205
for other balance sheet exposures	-	1,228
for off balance sheet exposures	392	433
	<hr/> 5,265	<hr/> 4,916

## Notes (continued)

### 11 Taxation

	2003 KM'000	2002 KM'000
Accounting profit before tax	3,650	1,205
Disallowable items	523	1,670
Allowable items	(546)	(268)
	<hr/>	<hr/>
Tax base	3,627	2,607
Income tax at 30% (2002: 30%)	1,088	782
Reduction of tax liability for reinvestment of profit	(816)	(586)
Tax returned for tax relief for reinvestment of profit for 2001	-	(583)
Reduction of tax liability for foreign shareholders	(218)	-
	<hr/>	<hr/>
Income tax (credit) / charge for the year	54	(387)
	<hr/>	<hr/>

Tax is payable at the rate of 30% (2002: 30%) on adjusted operating profits for tax purposes.

### 12 Cash reserves

	2003 KM'000	2002 KM'000
Cash in hand	7,504	6,009
Current accounts with other banks	961	1,167
Giro account	63,242	77,802
	<hr/>	<hr/>
	71,707	84,978
	<hr/>	<hr/>

### 13 Obligatory reserve with the Central bank

The obligatory reserve represents amounts required to be deposited with the Central Bank of Bosnia and Herzegovina. Pursuant to the Law on the Central Bank of Bosnia and Herzegovina, the obligatory reserve requirement represents 5% of average ten-day demand and time deposits and borrowed funds irrelevant to the currency in which they are held.

The obligatory reserve is maintained through average balance on the reserve's account with the Central bank.

## Notes (continued)

### 14 Debt securities

Debt securities consist of corporate bills of exchange denominated in KM with maturities from 3 May 2004 to 1 July 2006, bearing interest at 8% per annum.

### 15 Placements with, and loans and advances to, other banks

	2003 KM'000	2002 KM'000
Loans to banks	2,026	2,049
Placements with banks	18,218	8,332
Impairment allowance	(102)	-
	<u>20,142</u>	<u>10,381</u>

### 16 Loans and advances to customers

#### (a) Analysis by product

	2003 KM'000	2002 KM'000
Companies		
- in KM	106,909	81,639
- in foreign currency	11,475	7,213
<b>Total companies</b>	<u>118,384</u>	<u>88,852</u>
Individuals		
- in KM	32,096	18,902
- in foreign currency	4,893	4,340
<b>Total individuals</b>	<u>36,989</u>	<u>23,242</u>
<b>Total loans before provisions</b>	<u>155,373</u>	<u>112,094</u>
Impairment allowance		
- specific	(11,711)	(7,579)
- general	(2,208)	(1,969)
<b>Total loans after provisions</b>	<u>141,454</u>	<u>102,546</u>

In KM loans are included loans in the amount of KM 62,706 thousand determined with reference to their EUR counter value. Repayments of principal and interest are determined in foreign currency and paid in the KM equivalent translated at the rate applicable on the date of payment.

## Notes (continued)

### (b) Movement in impairment allowance for loans to customers

	2003 Total KM'000	Specific KM'000	General KM'000	2002 Total KM'000	Specific KM'000	General KM'000
As at 1 January 2003	9,548	7,579	1,969	7,214	5,792	1,422
Net charge to income statement	4,411	4,172	239	2,935	2,388	547
Write off	(40)	(40)	-	(601)	(601)	-
As at 31 December 2003	13,919	11,711	2,208	9,548	7,579	1,969

### (c) Concentration of credit risk by industry

Commercial lending is concentrated on companies domiciled in Bosnia and Herzegovina.

The Bank's gross loan portfolio, at 31 December 2003 and as at 31 December 2002, is analysed by industry in the table below:

	2003 KM'000	2002 KM'000
Agriculture, fishing	7,950	7,389
Mining	1,263	-
Construction	13,761	11,509
Wholesale and retail	30,734	27,500
Tourism, catering	2,948	4,419
Transportation, communications	1,914	1,419
Financial sector	1,833	5,313
Real estate	3,601	3,198
Public sector	4,982	4,500
Processing	41,508	20,863
Other	7,890	2,742
<b>Total corporate lending</b>	<b>118,384</b>	<b>88,852</b>
<b>Total lending to individuals</b>	<b>36,989</b>	<b>23,242</b>
<b>Total lending</b>	<b>155,373</b>	<b>112,094</b>

## Notes (continued)

### 17 Accrued interest and other assets

	2003 KM'000	2002 KM'000
Accrued interest	1,293	1,119
Accrued fees	410	312
Prepayments	22	187
Prepaid tax	880	687
Other assets	362	323
	<hr/>	<hr/>
	2,967	2,628
	<hr/>	<hr/>

### 18 Equity securities

	2003 KM'000	2002 KM'000
Listed and unlisted securities (available for sale)	1,364	1,611
Equity investment in associate companies Bancard doo, Sarajevo	488	-
Impairment allowance	(475)	(115)
	<hr/>	<hr/>
	1,377	1,496
	<hr/>	<hr/>

Listed securities are quoted on the Sarajevo Stock Exchange. However, there is no sufficiently active these securities, they are valued at cost less impairment.

#### 18 (a) Movement in equity securities

	2003 KM'000	2002 KM'000
<b>Cost</b>		
As at 1 January	1,611	1,568
Additions	341	43
Sales	(12)	-
Write offs	(88)	-
	<hr/>	<hr/>
As at 31 December	1,852	1,611
	<hr/>	<hr/>
<b>Impairment</b>		
As at 1 January	115	-
Impairment losses (Note 10)	360	115
	<hr/>	<hr/>
As at 31 December	475	115
	<hr/>	<hr/>
<b>Net book value</b>		
At 31 December	1,377	1,496
	<hr/>	<hr/>

## Notes (continued)

### 19 Tangible assets

	Land and buildings KM'000	IT equipment KM'000	Furniture and equipment KM'000	Motor vehicles KM'000	Leasehold improvements KM'000	Assets under construction KM'000	Total KM'000
<b>Cost :</b>							
At 1 January 2003	6,231	2,019	1,355	98	113	2,639	12,455
Additions	-	-	-	-	-	948	948
Transfers	1,713	239	301	108	115	(2,476)	-
Disposals and write offs	(9)	(114)	(36)	(25)	-	-	(184)
At 31 December 2003	<b>7,935</b>	<b>2,144</b>	<b>1,620</b>	<b>181</b>	<b>228</b>	<b>1,111</b>	<b>13,219</b>
<b>Depreciation:</b>							
At 1 January 2003	362	1,312	377	65	20	-	2,136
Charge for the year	99	239	178	18	90	-	624
Disposals and write offs	-	(112)	(20)	(21)	-	-	(153)
At 31 December 2003	<b>461</b>	<b>1,439</b>	<b>535</b>	<b>62</b>	<b>110</b>	<b>-</b>	<b>2,607</b>
<b>Net book value:</b>							
At 1 January 2003	5,869	707	978	33	93	2,639	10,319
At 31 December 2003	<b>7,474</b>	<b>705</b>	<b>1,085</b>	<b>119</b>	<b>118</b>	<b>1,111</b>	<b>10,612</b>

## Notes (continued)

### 20 Intangible assets

	Software KM'000	Assets under construction KM'000	Total KM'000
<b>Cost:</b>			
At 1 January 2003	132	420	552
Additions	-	365	365
Transfers	672	(672)	-
At 31 December 2003	<b>804</b>	<b>113</b>	<b>917</b>
<b>Amortisation:</b>			
At 1 January 2003	37	-	37
Charge for the year	112	-	112
At 31 December 2003	<b>149</b>	<b>-</b>	<b>149</b>
<b>Net book value:</b>			
At 1 January 2003	95	420	515
At 31 December 2003	<b>655</b>	<b>113</b>	<b>768</b>



## Notes (continued)

### 21 Current accounts and deposits from customers

	2003 KM'000	2002 KM'000
<i>Companies</i>		
Demand deposits		
- in KM	72,633	59,341
- in foreign currency	14,768	12,601
Time deposits		
- in KM	74,390	56,399
- in foreign currency	1,977	15,753
	<hr/> 163,768 <hr/>	<hr/> 144,094 <hr/>
<i>Individuals</i>		
Demand deposits		
- in KM	5,217	4,660
- in foreign currency	3,362	3,374
Time deposits		
- in KM	4,692	3,325
- in foreign currency	24,410	22,311
	<hr/> 37,681 <hr/>	<hr/> 33,670 <hr/>
Total current accounts and deposits from customers	<hr/> 201,449 <hr/>	<hr/> 177,764 <hr/>

### 22 Borrowings

	2003 KM'000	2002 KM'000
Borrowings denominated in foreign currency		
- foreign banks	12,469	10,335
Borrowings denominated in KM		
- foreign banks	12,156	2,923
- domestic banks	2,953	2,554
	<hr/> 27,578 <hr/>	<hr/> 15,812 <hr/>

## Notes (continued)

### 23 Accrued interest and other liabilities

	2003 KM'000	2002 KM'000
Accrued interest	509	638
Salaries payable	595	-
Creditors	625	250
Dividends payable	156	175
Other liabilities	527	765
	<hr/> 2,412 <hr/>	<hr/> 1,828 <hr/>

### 24 Provisions for off balance sheet items

	Total KM'000	Specific KM'000	General KM'000
As at 1 January 2003	753	180	573
Net charge to income statement	392	311	81
	<hr/>	<hr/>	<hr/>
As at 31 December 2003	1,145 <hr/>	491 <hr/>	654 <hr/>

### 25 Share capital

Authorised and issued	Ordinary shares  KM'000
Balance at 1 January 2003	22,900 <hr/>
Balance at 31 December 2003	22,900 <hr/>
Nominal value (KM)	100
Number of shares	229,000 <hr/>

Each registered ordinary share carries the right of one vote per share.

Shareholders who have been identified as having more than 5% in the share capital of the Bank at 31 December 2003 are the following: European Bank for Reconstruction and Development; Sarajevska pivara d.d. and Klas d.d.

## Notes (continued)

### 26 Analysis of cash and cash equivalents as shown in the balance sheet

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity:

	Notes	2003 KM'000	2002 KM'000	Change KM'000
Cash reserves	12	71,707	84,978	(13,271)
Obligatory reserve	13	11,803	10,184	1,619
Short term placements with banks maturing within 30 days	30 (b)	19,145	5,770	13,375
		<u>102,655</u>	<u>100,932</u>	<u>1,723</u>

### 27 Commitments and contingencies

The aggregate amounts of outstanding guarantees, letters of credit and undrawn loan commitments at the year end were:

	2003 KM'000	2002 KM'000
Payment guarantees		
- in KM	6,072	8,527
- in foreign currency	12,527	9,806
	<u>18,599</u>	<u>18,333</u>
Performance guarantees		
- in KM	7,480	6,016
- in foreign currency	1,716	3,157
	<u>9,196</u>	<u>9,173</u>
Foreign currency letters of credit	441	102
Foreign currency bills of exchange	-	395
Undrawn lending commitments		
- in KM	12,992	5,378
	<u>41,228</u>	<u>33,381</u>

## Notes *(continued)*

Within payment guarantees is included KM 865 thousand (2002: KM 177 thousand) of payment guarantees covered with cash collateral. Within performance guarantees is included KM 1,071 thousand (2002: KM 988 thousand) of performance guarantees covered with cash collateral. Within letters of credit is included KM 39 thousand of letters of credit covered with cash collateral (2002: nil).

### **28 Related party transactions**

As at 31 December 2003 the Bank had exposure toward the following shareholders that own more than 5% of the Bank's shares: Sarajevska pivara dd, Sarajevo KM 1,003 thousand and Klas dd, Sarajevo KM 4,444 thousand. At the year end the outstanding debt toward Sarajevska pivara dd was KM 705 thousand, Klas dd, Sarajevo KM 2,506 thousand and EBRD was KM 6,772 thousand.

As at 31 December 2003 the Bank had total exposure in the amount of KM 3,946 thousand toward the shareholders that own from 1% to 5% of the Bank's shares. At the year end the outstanding debt toward the shareholders that own from 1% to 5% of the Bank's shares was KM 1,132 thousand.

As at 31 December 2003 the Bank had total exposure in the amount of KM 156 thousand toward the Management Board members. At the year end the outstanding debt toward the Management Board members was KM 562 thousand.

As at 31 December 2003 the Bank had total exposure in the amount of KM 113 thousand toward the Supervisory Board members. At the year end the outstanding debt toward the Supervisory Board members was KM 263 thousand.

## Notes (continued)

### 29 Managed funds – agency business

The Bank manages certain amount of assets on behalf of and for the third parties. These assets are kept separately from the Bank's assets. For its services the Bank charges a fee from 0.75% to 2.5% (2001: 0.75% - 2%).

	2003 KM'000	2002 KM'000
<b>Liabilities</b>		
Investment Bank of Bosnia and Herzegovina	5,852	10,350
Companies	11,250	6,995
Investment Guarantee Agency	3,709	2,365
Managed on behalf and for the account of the City of Sarajevo	2,015	1,452
Managed on behalf and for the account of individuals	500	500
	<hr/> 23,326 <hr/>	<hr/> 21,662 <hr/>
<b>Assets</b>		
Loans to companies	22,550	20,989
Loans to individuals	419	439
Cash on clearing account	357	234
	<hr/> 23,326 <hr/>	<hr/> 21,662 <hr/>

## Notes *(continued)*

### **30 Risk management**

This note provides details of the Bank's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk and interest rate risk.

An integrated system of risk management is being established at the Bank level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Bank.

#### **a) Credit risk**

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

## Notes (continued)

### b) Maturity analysis

The remaining contractual maturity of the Bank's assets and liabilities as at 31 December 2003 is presented in the table below.

	Up to 1 month KM'000	1 to 3 months KM'000	3 months to 1 year KM'000	1 to 5 years KM'000	Over 5 years KM'000	Total KM'000
<b>Assets</b>						
Cash reserves	71,707	-	-	-	-	71,707
Obligatory reserves	11,803	-	-	-	-	11,803
Debt securities	-	388	951	-	-	1,339
Placements with, and loans and advances to, other banks	19,145	997	-	-	-	20,142
Loans and advances to customers	9,544	13,941	80,931	36,630	408	141,454
Accrued interest and other assets	2,967	-	-	-	-	2,967
Equity securities	1,377	-	-	-	-	1,377
Tangible assets	-	-	-	-	10,612	10,612
Intangible assets	-	-	-	-	768	768
<b>Total assets</b>	<b>116,543</b>	<b>15,326</b>	<b>81,882</b>	<b>36,630</b>	<b>11,788</b>	<b>262,169</b>
<b>Liabilities and funds employed</b>						
Current accounts and deposits from customers	100,179	13,600	64,731	21,499	1,440	201,449
Borrowings	44	536	2,978	12,151	11,869	27,578
Accrued interest and other liabilities	2,412	-	-	-	-	2,412
Provisions for off balance sheet items	-	-	-	-	1,145	1,145
Share capital and reserves	-	-	-	-	29,585	29,585
<b>Total liabilities</b>	<b>102,635</b>	<b>14,136</b>	<b>67,709</b>	<b>33,650</b>	<b>44,039</b>	<b>262,169</b>
<b>Maturity gap</b>	<b>13,908</b>	<b>1,190</b>	<b>14,173</b>	<b>2,980</b>	<b>(32,251)</b>	<b>-</b>

## Notes (continued)

### c) Market risk

#### *Interest rate repricing, gap analysis and amounts subject to fixed interest rates*

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Management Board sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The following table illustrates the sensitivity of the Bank's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities.

	Up to 1 month KM'000	1 to 3 months KM'000	3 months to 1 year KM'000	1 to 5 year KM'000	Over 5 years KM'000	Non interest bearing KM'000	Total KM'000	Amounts subject to fixed rates KM'000
<b>Assets</b>								
Cash reserves	63,696	-	-	-	-	8,011	71,707	63,696
Obligatory reserves	11,803	-	-	-	-	-	11,803	11,803
Debt securities	-	388	951	-	-	-	1,339	1,339
Placements with, and loans to other banks	18,811	997	-	-	-	334	20,142	19,910
Loans to customers	18,230	13,445	79,283	28,102	2,394	-	141,454	73,110
Accrued interest and other assets	-	-	-	-	-	2,967	2,967	-
Equity securities	-	-	-	-	-	1,377	1,377	-
Tangible assets	-	-	-	-	-	10,612	10,612	-
Intangible assets	-	-	-	-	-	768	768	-
<b>Total assets</b>	<b>112,540</b>	<b>14,830</b>	<b>80,234</b>	<b>28,102</b>	<b>2,394</b>	<b>24,069</b>	<b>262,169</b>	<b>169,858</b>
<b>Liabilities and funds employed</b>								
Current accounts and deposits from customers	99,251	13,059	64,431	15,786	1,128	7,794	201,449	113,617
Borrowings	3,838	9,591	5,861	426	5,556	2,306	27,578	5,982
Accrued interest and other liabilities	-	-	-	-	-	2,412	2,412	-
Provisions for off balance sheet items	-	-	-	-	-	1,145	1,145	-
Share capital and reserves	-	-	-	-	-	29,585	29,585	-
<b>Total liabilities</b>	<b>103,089</b>	<b>22,650</b>	<b>70,292</b>	<b>16,212</b>	<b>6,684</b>	<b>43,242</b>	<b>262,169</b>	<b>119,599</b>
<b>Interest rate gap</b>	<b>9,451</b>	<b>(7,820)</b>	<b>9,942</b>	<b>11,890</b>	<b>(4,290)</b>	<b>(19,173)</b>	<b>-</b>	<b>50,259</b>



## Notes (continued)

### Foreign exchange position

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Bank had the following foreign exchange positions as at 31 December 2003.

	EURO KM'000	USD KM'000	Other FX KM'000	KM KM'000	Total KM'000
<b>Assets</b>					
Cash reserves	3,597	139	1,033	66,938	71,707
Obligatory reserve	-	-	-	11,803	11,803
Debt securities	-	-	-	1,339	1,339
Placements with, and loans and advances to, other banks	14,190	4,028	-	1,924	20,142
Loans and advances to customers	15,712	-	-	125,742	141,454
Accrued interest and other assets	100	339	-	2,528	2,967
Equity securities	-	-	-	1,377	1,377
Tangible assets	-	-	-	10,612	10,612
Intangible assets	-	-	-	768	768
<b>Total assets</b>	<b>33,599</b>	<b>4,506</b>	<b>1,033</b>	<b>223,031</b>	<b>262,169</b>
<b>Liabilities and funds employed</b>					
Current accounts and deposits from customers	39,524	4,539	450	156,936	201,449
Borrowings	15,109	-	-	12,469	27,578
Accrued interest and other liabilities	386	10	14	2,002	2,412
Provision for off balance sheet items	-	-	-	1,145	1,145
Share capital and reserves	-	-	-	29,585	29,585
<b>Total liabilities</b>	<b>55,019</b>	<b>4,549</b>	<b>464</b>	<b>202,137</b>	<b>262,169</b>
<b>Net foreign exchange position</b>	<b>(21,420)</b>	<b>(43)</b>	<b>569</b>	<b>20,894</b>	<b>-</b>

## Notes (continued)

### 31 Average balances and average effective interest rates

The table below summarises the average effective interest rate at year-end for monetary financial instruments. These average effective interest rates reflect foreign currency structure and interest rates as at 31 December 2003 and may not be representative at other times.

	2003 KM'000	Average effective interest rates %
Cash reserves	71,707	1.91
Obligatory reserves	11,803	2.16
Debt securities	1,339	8.00
Placements with, loans to other banks	20,142	2.00
Loans and advances to customers	141,454	10.46
<hr/>		
Current accounts and deposits from customers	201,449	2.08
Borrowings	27,578	3.05
<hr/>		

### 32 Fair values of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. As verifiable market prices are not available for a significant portion of the Bank's financial assets and liabilities, fair values have been based on management assumptions. The management of the Bank believes that the fair values of assets and liabilities are not significantly different from book values.

## Financial statements prepared in the form prescribed by the Federal Agency for the Banks of Bosnia and Herzegovina

These financial statements comprise the Income Statement for the year ended 31 December 2003 and the Balance Sheet as at 31 December 2003 prepared in the form prescribed by the Decision on volume, form and contents of programs and reports on economic and financial audit from 15 May 1999, the Amended Decision from 9 November 2001 and the Amended Decision from 19 December 2002.

## Income statement for the year ended 31 December 2003

	2003. KM'000	2002. KM'000
<b>Interest income and interest expense</b>		
<i>Interest income and similar income</i>		
Interest bearing deposits with deposit institutions	942	1,085
Placements with other banks	-	-
Loans and leasing	14,925	10,824
Debt securities held until maturity	-	-
Equity securities	-	-
Receivables for payments made for off balance sheet exposure	-	-
Other interest income and similar income	-	-
	<hr/>	<hr/>
Total interest income and similar income	15,867	11,909
	<hr/>	<hr/>
<i>Interest expense and similar expenses</i>		
Deposits	3,826	3,623
Borrowings from other banks	704	615
Borrowings – due	-	-
Borrowings	-	-
Subordinated debts and subordinated bonds	-	-
Other interest expense and similar expenses	2	-
	<hr/>	<hr/>
Total interest expense and similar expenses	4,532	4,238
	<hr/>	<hr/>
<b>Net interest income and similar income</b>	11,335	7,671
	<hr/>	<hr/>
<b>Operating income</b>		
Income from FX trade gains	958	1,153
Fee income from lending activities	1,548	1,181
Fee income from guarantees and letters of credit	1,510	1,497
Other fee income	2,028	1,862
Income from trading activities	-	-
Other operating income	1,299	1,747
	<hr/>	<hr/>
<b>Total operating income</b>	7,343	7,440
	<hr/>	<hr/>
<b>Non interest expenses</b>		
<i>Business expenses</i>		
General provision for balance sheet and off balance sheet exposures	5,265	4,916
Other expenses	1,809	1,453
	<hr/>	<hr/>
Total business expenses	7,074	6,369
	<hr/>	<hr/>
<b>Operating expenses</b>		
Personnel costs	5,258	4,436
Depreciation and other business premises related expenses	1,802	1,369
Other operating expenses	894	1,150
	<hr/>	<hr/>
Total operating expenses	7,954	6,955
	<hr/>	<hr/>
<b>Total non interest expenses</b>	15,028	13,324
	<hr/>	<hr/>
<b>Profit before tax</b>	3,650	1,787
<b>Taxation</b>	54	195
	<hr/>	<hr/>
<b>Net profit for the year</b>	3,596	1,592
	<hr/>	<hr/>

**Balance sheet as at 31 December 2003**

	2003. KM'000	2002. KM'000
<b>Assets</b>		
Cash reserves and deposits with financial institutions	101,395	100,933
Cash and non interest bearing deposits	82,550	93,994
Interest bearing deposits	18,845	6,939
Trading portfolio	-	-
Placements with banks	-	-
Loans, receivables from leasing and due debts	152,237	110,455
Loans	144,275	104,286
Receivables from leasing	-	-
Due debts and receivables from leasing	7,962	6,169
Debt securities held to maturity	-	-
Business premises and other fixed assets	10,904	10,687
Other real estates	358	57
Equity investments in non consolidated companies	1,852	1,611
Other assets	4,757	5,319
Less: Provisions for possible losses	9,334	6,015
Provisions for loans, receivables from leasing and due debts	9,334	5,536
Provisions for other assets	-	479
<b>Total assets</b>	<b>262,169</b>	<b>223,047</b>
<b>Liabilities</b>		
Deposits	201,449	178,030
Interest bearing deposits	193,355	170,746
Noninterest bearing deposits	8,094	7,284
Due debts	-	-
Due unpaid debts	-	-
Guarantees called up	-	-
Borrowings from other banks	-	-
Liabilities toward the government	-	-
Borrowings	25,211	15,812
with remaining maturity up to 1 year	3,398	3,330
with remaining maturity over 1 year	21,813	12,482
Subordinated debts and subordinated bonds	2,367	-
Other liabilities	3,558	2,582
<b>Total liabilities</b>	<b>232,585</b>	<b>196,424</b>
<b>Capital and reserves</b>		
Preference shares	-	-
Ordinary shares	22,900	22,900
Share premium	-	-
Preference shares	-	-
Ordinary shares	-	-
Retained profits and capital reserves	3,088	2,131
Foreign exchange differences	-	-
Other reserves	3,596	1,592
<b>Total shareholder's funds</b>	<b>29,584</b>	<b>26,623</b>
<b>Total liabilities and funds employed</b>	<b>262,169</b>	<b>223,047</b>



