

AY BANK LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30 JUNE 1998

Company Number: 1483013



AY BANK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1998

The Directors have pleasure in submitting their report and accounts for the year ended 30 June 1998.

PRINCIPAL ACTIVITIES

The company conducts full international and domestic banking services.

RESULTS AND DIVIDENDS

The operating profit for the year before debt provisions amounted to £865,000 (1997 - £562,000). The retained profit for the year amounted to £2,000 (1997 - loss £106,000). The directors recommend that no dividend be paid for the year (1997 - Nil).

SHARE CAPITAL AND SHAREHOLDERS

The shareholders and their respective shareholdings at 30 June 1998 are as follows:

	<u>% Holding</u>
Beogradska Banka a.d.	52.78
Almako Banka a.d.	9.15
Metalchem International Limited	8.21
Vojvodjanska Banka a.d.	6.71
Stopanska Banka a.d.	6.70
Jugobanka a.d.	6.12
Privredna Banka Zagreb d.d.	4.62
Montenegrobanka a.d.	3.34
Beobanka a.d.	2.37

AY BANK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1998

DIRECTORS AND THEIR INTERESTS

The Directors who held office during the year are given below:

Mrs Borka Vucic, Chairman (Yugoslavia)

Ljubisa Igic, Managing Director (Yugoslavia) (Resigned on 5 December 1997)

John Marchant, Joint Managing Director (British) (Appointed on 1 August 1997)

Vladimir Lincevski, Joint Managing Director (Yugoslavia) (Appointed on 9 February 1998)

Viktorija Dimevska-Mandicevska, Assistant Managing Director (Macedonia)

Clifford Evans, Deputy Managing Director (Resigned on 31 July 1997)

Veselin Babic (Yugoslavia)

Zanko Cado (Macedonia)

John Fletcher (Appointed on 15 October 1997, Resigned on 4 June 1998)

Peter Grafham (Appointed on 14 August 1998)

Brian Grimmond (Resigned 4 June 1998)

Dragan Lijesevic (Yugoslavia)

Zivota Mihajlovic (Yugoslavia)

Milos Milosavljevic (Yugoslavia)

Ljubomir Popovski (Macedonia)

Michael Wood

None of the Directors had any interests in the shares of the company at 30 June 1998 (1997 - Nil).

During the year the company has maintained Directors' liability insurance.

AY BANK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1998

EXECUTIVE COMMITTEE

The members of the Committee are as follows:

John Marchant (Chairman)

Mrs Borka Vucic

Vladimir Lincevski

Viktorija Dimevska-Mandicevska

Michael Wood

Peter Grafham (Appointed 14 August 1998)

AUDIT COMMITTEE

The members of the Committee are as follows:

Michael Wood (Chairman)

Jovan Angelkoski

Mrs Marija Milicic

FIXED ASSETS

Changes to fixed assets are detailed in Note 16 to the accounts.

CHARITABLE DONATIONS

During the year £7,000 was donated to charity (1997 - £23,000). No political donations were made (1997 - Nil).

AY BANK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1998

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are 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 accounts on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

AUDITORS

Following the merger of Price Waterhouse and Coopers and Lybrand on 1 July 1998, Price Waterhouse is not seeking reappointment at the forthcoming Annual General Meeting but a resolution for the appointment of the new firm, PricewaterhouseCoopers, will be proposed.

By order of the Board



BA Ractliffe

Secretary

28 October 1998

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF AY BANK LIMITED

We have audited the accounts on pages 6 to 25 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 30 June 1998 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors
London

28 October 1998

AY BANK LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 1998

	Note	1998 £'000	1997 £'000
Interest receivable	5	6,318	5,809
Interest payable		(3,163)	(3,306)
Net interest income		3,155	2,503
Fees and commissions receivable		603	960
Dealing profits		319	271
Other operating income		89	73
Administrative costs	6	(3,151)	(3,113)
Depreciation		(150)	(132)
OPERATING PROFIT BEFORE PROVISIONS	7	865	562
Provisions - net charge for the year	14	(837)	(518)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		28	44
Tax on profit on ordinary activities	9	(26)	(150)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	23	2	(106)

All of the results reflected in the profit and loss account derive from continuing operations.

The company had no recognised gains and losses during this year or the prior year other than those reflected in the above profit and loss account. There is no difference between the results disclosed in the profit and loss account and the results on an unmodified historical cost basis.

The notes on pages 9 to 25 form an integral part of these financial statements.

AY BANK LIMITED

BALANCE SHEET AS AT 30 JUNE 1998

	Notes	1998 £'000	1997 £'000
Assets			
Cash and balances at central banks		43	87
Loans and advances to banks	11	43,315	48,262
Loans and advances to customers	12	24,604	18,286
Debt securities	15	6,912	14,000
Tangible fixed assets	16	370	566
Other assets	17	59	1
Prepayments and accrued income		786	900
Total Assets	10	76,089	82,102
Liabilities			
Deposits by banks	18	47,998	51,031
Customer accounts	19	6,464	9,244
Other liabilities	20	431	630
Accruals and deferred income		343	378
Subordinated loan	21	2,879	2,847
		58,115	64,130
Called up share capital	22	17,672	17,672
Profit and loss account	23	302	300
Total Equity Shareholders' funds	24	17,974	17,972
Total Liabilities	10	76,089	82,102
Memoranda			
Contingent liabilities	29	2,875	1,950
Commitments	29	677	3,164

Approved by the Board of Directors on 28 October 1998

Borka Vucic



The notes on pages 9 to 25 form an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 1997

The notes on pages 9 to 25 form an integral part of these financial statements.

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

1 ACCOUNTING POLICIES

Basis of accounting

These accounts have been prepared under the historical cost convention and have been drawn up in accordance with applicable accounting standards and comply with the special provisions of the Companies Act 1985 applicable to banking companies as applied by the Companies Act 1985 (Bank Accounts) Regulations 1991.

Interest

Interest receivable and payable is accrued on a daily basis.

If the collection of interest is considered to be doubtful, it is suspended and excluded from interest income in the profit and loss account.

Depreciation

Depreciation is provided on a straight line basis to write down the cost of fixed assets to their estimated residual values over their useful lives, as follows:

Motor vehicles	4 years
Fixtures and fittings	4 years
Leasehold improvements	10 years

Depreciation is not charged on freehold property as the assets are continually maintained to a high state of repair and improved or extended from time to time such that the useful economic life is so long and residual value so high that any depreciation is insignificant.

Deferred taxation

Deferred taxation is provided at the estimated rates at which future taxation will become payable on all timing differences between the accounting and taxation treatment of income and expenses where, in the directors' opinion, it is probable that the taxation will become payable in the foreseeable future.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated at the rates of exchange ruling at the dates of the transactions. All exchange differences are dealt with in the profit and loss account.

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

Loans and advances

The company's provisioning policy is as follows:

1. Specific provisions are made against loans and advances, the recovery of which is considered doubtful.
2. Loans and advances are written off when any recovery is considered unlikely.
3. General provisions are maintained to cover losses not yet specifically identified but which may exist in any portfolio of loans and advances.

Debt securities

Certificates of deposit and Bills discounted/A forfait are stated at face value. Interest accrued thereon is included in accrued interest receivable. Premiums/discounts on purchase are included within other assets/other liabilities and are amortised over the deposit period.

Finance lease receivables

Finance lease receivables represent the net investment in finance leases, being the original capital payments plus the finance lease income credited to date less lease payments received. Finance lease income is credited to the profit and loss account on a straight line basis over the term of the lease. Provision is made against finance lease receivables where there is doubt as to their ultimate recovery.

Pensions

The company operates a defined contribution pension scheme on behalf of UK employees. The scheme is non contributory, company contributions being recognised in the profit and loss account in the accounting periods to which they relate.

Subordinated liabilities

Costs associated with the issue of subordinated liabilities are accounted for as an adjustment to the amount of the liability and amortised on a straight line basis over the period to maturity.

Related parties

The company has adopted the provisions of FRS 8 - Related Party Transactions.

Cashflow

The company has adopted the provisions of FRS 1 (Revised) - Cash Flow Statements.

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

2 EXPOSURE TO YUGOSLAVIA AND THE FORMER STATES OF YUGOSLAVIA

On 14 June 1998, the United States of America introduced sanctions against the entities connected with the Federal Republic of Yugoslavia and the Republics of Serbia and Montenegro. These sanctions require all banks within the jurisdiction of the United States of America to freeze all Yugoslav, Serbian and Montenegrin connected assets and liabilities and to cease trading with them.

On 24 June 1998, the European Union established sanctions against government bodies within the Federal Republic of Yugoslavia and the Republic of Serbia. In addition to preventing trade with such bodies, the European Union sanctions have also required all banks within their jurisdiction to freeze the assets and liabilities belonging to these bodies.

At 30 June 1998, the following assets and liabilities of the bank had been frozen:

	£'000
Assets	
Loans and advances to banks (Note 11)	15,660
<hr/>	
Liabilities	
Deposits by banks (Note 18)	17,321
Customer accounts (Note 19)	4,382
	<hr/>
	21,703
	<hr/>

Within the maturity analyses for loans and advances to banks (Note 11), deposits by banks (Note 18) and customer accounts (Note 19), the foregoing figures are reported under amounts repayable in more than 5 years.

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

3 RELATED PARTIES

	1998	1997
	£'000	£'000
Loan to corporations and banks in Macedonia	10,014	14,889
Loan to corporations and banks in Yugoslavia	8,362	10,770
Loan to other European based organisations	3,374	854
Total loans to related parties	21,750	26,513
Deposits from corporations and banks in Macedonia	1,119	1,012
Deposits from corporations and banks in Yugoslavia	4,793	5,852
Deposits from other European based organisations	128	1,417
Total deposits from related parties	6,040	8,281
Off balance sheet obligations with corporations and banks in Macedonia	784	36
Off balance sheet obligations with corporations and banks in Yugoslavia	304	1,620
Off balance sheet obligations with other European based organisations	-	67
Total related off balance sheet obligations	1,088	1,723

All transactions with related parties were performed at normal market terms and conditions.

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

4 SEGMENTAL ANALYSIS

The company's operation is all attributable to the business of banking and therefore its turnover and operating profit are not separately analysed. All of the bank's operations are conducted in the United Kingdom with customers located in the United Kingdom and overseas.

5 INTEREST RECEIVABLE

	1998	1997
	£'000	£'000
Interest receivable and similar income arising from debt securities	842	881
Other interest receivable and similar income	5,476	4,928
	6,318	5,809

6 ADMINISTRATIVE COSTS

	1998	1997
	£'000	£'000
Wages and salaries	1,440	1,346
Social security costs	84	78
Other pension costs	119	95
	1,643	1,519
Other administrative expenses	1,508	1,594
	3,151	3,113

The average number of employees during the year was 25 (1997 - 28).

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

7 OPERATING PROFIT BEFORE PROVISIONS

Operating profit before provisions is stated after charging/(crediting) the following:

	1998	1997
	£'000	£'000
Property rentals payable under operating leases	413	413
Profit on disposal of fixed assets	(7)	-
Fees for services provided by the auditors:		
- statutory audit	110	66
- other services	111	31

The company has an annual commitment of £413,000 (1997: £413,000) under non cancellable operating leases expiring in more than 5 years in respect of land and buildings.

8 DIRECTORS' EMOLUMENTS

	1998	1997
	£'000	£'000
Aggregate emoluments	603	626
Aggregate compensation for loss of office	39	-
Company contributions paid to money purchase pension schemes	11	10
Highest paid director		
Total amount of emoluments	112	238
Company contributions paid to money purchase pension schemes	10	-

Retirement benefits are accruing to 2 directors (1997 : 1) under the defined contribution (money purchase) scheme.

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

9 TAXATION

	1998	1997
	£'000	£'000
Current taxation	9	150
Tax in respect of prior years	17	-
	26	150

Taxation is based on a United Kingdom corporation tax rate of 31% (1996 – 32.5%).

10 ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

	1998	1997
	£'000	£'000
Denominated in sterling	14,298	21,331
Denominated in currencies other than sterling	61,791	60,771
Total assets	76,089	82,102
Denominated in sterling	14,098	21,443
Denominated in currencies other than sterling	61,991	60,659
Total liabilities	76,089	82,102

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

11 LOANS AND ADVANCES TO BANKS

	1998	1997
	£'000	£'000
Repayable:		
Within three months	27,347	29,139
Between three months and one year	1,460	4,280
Between one year and five years	-	1,476
In more than five years (Note 2)	15,660	15,030
	44,467	49,925
Less: Interest in suspense (Note 13)	(181)	(338)
Provisions (Note 14)	(971)	(1,325)
	43,315	48,262

Loans and advances to banks include advances to shareholders of £13,435,000 (1997 - £22,424,000) of which £6,672,000 (1997 - £7,101,000) are collateralised by cash deposits.

Loans and advances repayable within three months include loans and advances of £5,373,000 (1997 - £1,089,000) which are repayable on demand.

12 LOANS AND ADVANCES TO CUSTOMERS

	1998	1997
	£'000	£'000
Repayable:		
Within three months	9,495	15,846
Between three months and one year	13,285	3,217
Between one year and five years	4,769	2,454
	27,549	21,517
Less: Interest in suspense (Note 13)	(184)	(544)
Provisions (Note 14)	(2,761)	(2,687)
	24,604	18,286

Loans and advances to customers include advances to shareholders of £1,229,000 (1997 - £2,949,000).

Loans and advances repayable within three months include loans and advances of nil (1997 - £8,033,000) which are repayable on demand.

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

13 INTEREST IN SUSPENSE

	1998	1997
	£'000	£'000
At 1 July	882	782
Exchange adjustments	(7)	(32)
Amounts written off	(487)	(159)
Suspended in year	244	385
Released to profit and loss account	(267)	(94)
At 30 June	365	882
Represented by:		
Loans and advances to banks	181	338
Loans and advances to customers	184	544
	365	882

	1998	1997
	£'000	£'000
Loans and advances where interest is being suspended at end of year:		
Before provisions	4,476	3,782
After provisions	1,879	633

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

14 PROVISIONS FOR BAD AND DOUBTFUL DEBTS

The movement in provisions during the year is as follows:

	1998	1997
	£'000	£'000
At 1 July	4,240	4,193
Exchange adjustments	(7)	(105)
Amounts written off	(1,255)	(401)
Amounts written back	-	35
Charge for the year	2,353	1,198
Amounts recovered	(1,516)	(680)
At 30 June	3,815	4,240
Represented by:		
Loans and advances to banks	971	1,325
Loans and advances to customers	2,760	2,687
Finance lease receivables	83	172
Other assets	-	56
	3,815	4,240

The provisions for bad and doubtful debts include a general provision of £403,000 (1997 - £805,000).

15 DEBT SECURITIES

	1998	1997
	£'000	£'000
Bank certificates of deposit	5,000	14,000
Bills discounted/A forfait	1,912	-
	6,912	14,000

All debt securities, with the exception of £106,000 A forfait are due within 1 year. The remaining £106,000 is due within 3 years.

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

16 TANGIBLE FIXED ASSETS

	Freehold property	Leasehold improvements	Fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 1 July 1997	323	224	944	74	1,565
Additions	-	16	77	-	93
Disposals	(162)	(-)	(22)	(19)	(203)
As at 30 June 1998	161	240	999	55	1,455
Depreciation					
As at 1 July 1997	-	215	734	50	999
Charge for the year	-	3	103	10	116
Disposals	(-)	(-)	(11)	(19)	(30)
As at 30 June 1998	-	218	826	41	1,085
Net Book Amount					
As at 30 June 1998	161	22	173	14	370
As at 30 June 1997	323	9	210	24	566

None of the freehold property has been used by the bank for banking activities in the current or the prior year.

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

17 OTHER ASSETS

	1998	1997
	£'000	£'000
Finance lease receivables	83	172
Less: provisions (Note 14)	(83)	(172)
	-	-
Other assets	58	1
Corporation tax recoverable	1	-
	59	1

The aggregate finance lease rentals receivable during the year was £87,573 (1997 - £443,000). During both the current and prior years no assets were acquired for the purpose of letting under finance leases.

18 DEPOSITS BY BANKS

	1998	1997
	£'000	£'000
Repayable:		
Within three months	15,576	34,393
Between three months and one year	11,003	6,792
Between one and five years	4,098	-
In more than five years (Note 2)	17,321	9,846
	47,998	51,031

Deposits by banks include deposits by shareholders of £5,676,000 (1997 - £6,861,000).

Deposits repayable within three months include deposits of £861,000 (1997 - £12,101,000) which are repayable on demand.

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

19 CUSTOMER ACCOUNTS

	1998	1997
	£'000	£'000
Repayable:		
Within three months	1,052	5,156
Between three months and one year	7	603
Between one and five years	1,023	-
In more than five years	4,382	3,485
	6,464	9,244

Customer accounts repayable within three months include amounts of nil (1997 - £2,734,000) which are repayable on demand.

20 OTHER LIABILITIES

	1998	1997
	£'000	£'000
Corporation tax payable	-	144
Other liabilities	431	486
	431	630

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

21 SUBORDINATED LIABILITIES

	1998	1997
	£'000	£'000
Subordinated floating rate notes 2002/2001	3,002	3,004
Unamortised issue costs	(123)	(157)
	2,879	2,847

The above notes are denominated in US dollars. Interest is payable at 1% above the London interbank offered rate.

The rights of repayment of the holders of subordinated debt are subordinated to the claims of all depositors and all other creditors.

22 CALLED UP SHARE CAPITAL

	1998	1997
	£'000	£'000
Authorised share capital (£1 ordinary):	25,000	25,000
Allotted, issued and fully paid share capital (£1 ordinary):		
At 1 July	17,672	13,254
Bonus issue	-	4,000
Issue of shares for cash	-	418
At 30 June	17,672	17,672

23 PROFIT AND LOSS ACCOUNT

	1998	1997
	£'000	£'000
At 1 July	300	4,406
Capitalised by means of a bonus issue of Ordinary Shares	-	(4,000)
Retained profit/(loss) for the financial year	2	(106)
At 30 June	302	300

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

24 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	1998	1997
	£'000	£'000
Opening shareholders' funds	17,972	17,660
Issue of Ordinary shares for cash	-	418
Retained profit/(loss) for the financial year	2	(106)
Closing shareholders' funds	17,974	17,972

25 DEFERRED TAXATION

Unrecognised deferred taxation assets amount to £329,000 (1997 - unrecognised deferred taxation asset £380,000) being the tax effect of timing differences arising on the general provision and finance lease contracts which are not expected to crystallise in the foreseeable future.

26 RECONCILIATION OF OPERATING PROFIT TO NET OPERATING CASHFLOW

	1998	1997
	£'000	£'000
Operating profits	28	44
Decrease in prepayments and accrued income	114	147
(Decrease) in accruals and deferred income	(35)	(10)
Provisions - net charge for the year	837	518
Loans and advances written off net of recoveries	(1,255)	(366)
Depreciation and amortisation	150	132
Interest on subordinated loan added back	211	200
Other non cash movements	(208)	(225)
Net cash flow from trading activities	(158)	440
Net decrease/(increase) in loans and advances to banks and customers	4,289	(212)
Net (decrease) in deposits by banks and other customer accounts	(5,813)	(1,694)
Net (increase) in non-investment debt securities	(1,912)	-
Net (increase)/decrease on other assets	(58)	477
Net (decrease)/increase in other liabilities	(199)	99
Net cash outflow from operating activities	(3,851)	(890)

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

27 ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital	Loan capital
	£'000	£'000
Balance at 1 July 1997	17,672	2,847
Effect of foreign exchange differences	-	32
Balance at 30 June 1998	17,672	2,879

28 ANALYSIS OF THE BALANCES OF CASH AS SHOWN IN THE BALANCE SHEET

	At 30 June 1997	Cash flow	At 30 June 1998
	£'000	£'000	£'000
Cash and balances at central banks	87	(44)	43
Loans and advances to other banks repayable on demand	510	4,863	5,373
Certificates of deposit	14,000	(9,000)	5,000
	14,597	(4,181)	10,416

AY BANK LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

29 FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

The table below gives the nominal principal amounts and risk weighted amounts of off-balance sheet instruments. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The risk weighted amounts have been calculated by applying specified credit conversion factors and then applying risk weighting according to the nature of the counterparty; this is in accordance with the Financial Services Agency's guidelines.

	1998		1997	
	Contract amount £'000	Risk weighted amount £'000	Contract amount £'000	Risk weighted amount £'000
Contingent liabilities				
Guarantees and assets pledged as collateral security				
- guarantees and irrevocable letters of credit	2,875	386	1,950	791
Commitments				
Other commitments to lend	677	611	3,164	3,164
Financial instruments				
- exchange rate contracts	7,528	1,506	577	115

The exchange rate contracts are either entered into on behalf of customers or as a hedge against the future movement in exchange rates. At 30 June 1998 the replacement cost of these contracts was £7,396,284 (1997 - £601,000).

30 ULTIMATE PARENT UNDERTAKING

At 30 June 1998, the majority shareholder was Beogradska Banka a.d., a company incorporated in Yugoslavia. Consolidated accounts which include the company's accounts can be obtained from:

Beogradska Banka a.d.
Knez Mihailova 2-4
11000 Belgrade
Yugoslavia