**NATIONAL BANK OF YUGOSLAVIA**

## Supervision Department

# Banking Sector in FRY

## December 31, 2001

NATIONAL BANK OF YUGOSLAVIA – **SUPERVISION DEPARTMENT**

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S U P E R V I S I O N   D E P A R T M E N T

# Content

# Introduction

At the beginning of 2001 the banking system of FRY[1] comprised 86 banks (67 banks in the territory of Serbia proper, 17 banks in the territory of Vojvodina and 2 banks in the territory of the northern part of Kosovo and Metohija).

The first preliminary assessments of the general standing of the banking sector by the National Bank of Yugoslavia at the beginning of 2001 indicated that the Yugoslav banking had the following characteristics:

1. high level of contaminated bad assets and low level of real interest-bearing assets, which resulted directly in low profitability;
2. low level of real reserve for potential loss provisions;
3. real undercapitalization and inability of capital and reserves to absorb undertaken risks;
4. real insolvency of the largest banks whose share in the banking balance sheet total was over 57%;
5. high illiquidity;
6. non-existence or existence of inadequate systems of internal control and internal audit;
7. inadequate risk management system;
8. low level of professionalism of on-site auditors.

Starting from this situation and with the aim of restoring confidence in the banking system, the National Bank of Yugoslavia defined a strategy of its restructuring and initiated its implementation.

For the purpose of a realistic assessment of the financial standing of individual banks, as well as the banking system as a whole, during 2001 the National Bank of Yugoslavia conducted a number of activities, as follows:

- 43 diagnostic reviews, of which 28 with foreign consultants;
- 85 examinations of bank business operations;
- 13 assessments of the financial standing and feasibility and economic justifiability of rehabilitation.

[1] Excluding banks from the territory of Montengro.

In the meantime, a number of banks merged with other larger banks, in accordance with the Law on Banks and Other Financial Organizations.

By the end of 2001 the National Bank of Yugoslavia performed its prescribed activities on the basis of its analyses and controls, which resulted in the following:

- 23 banks had their operating licenses revoked, including 4 banks at the beginning of 2002,
- 4 banks were given a deadline for recapitalization,
- 5 banks were placed in rehabilitation programs,
- in 1 bank administration was introduced,
- 5 banks were placed in the problem bank category,
- 17 banks began undergoing a program of measures for the adjustment of business indicators, except for the pecuniary part of the equity capital,
- 18 banks merged with other banks, including those whose merger is in progress.

During 2001 the National Bank of Yugoslavia issued operating licenses to 5 foreign and 1 domestic bank.

After the conducted activities, at the beginning of 2002 the banking sector of the country shrank to 49 banks[2] from 86 banks at the beginning of the year.

Activities conducted by the National Bank of Yugoslavia during 2001 produced the first significant results:

- interest of foreign banks in opening their representative offices and banks, as well as in recapitalization of domestic banks, increased;
- the citizens' confidence in the banking system increased;
- the structure of the banking sector improved.

At the end of 2001, apart from Societe Generale Yugoslav Bank, operating licenses were issued to another 5 foreign banks: Micro Finance Bank AD Beograd, Raiffeisenbank Jugoslavija AD Beograd, Alpha Bank AE (Belgrade affiliate), HVB Bank Jugoslavija AD Beograd and National Bank of Greece (Belgrade branch office). The domestic bank founded in 2001 is Nacionalna {tedionica-banka AD Beograd.

In 2001 representative offices of 9 foreign banks were opened, with their total number climbing to 15 at the end of the year..

In 2001 an obligation was established for banks to deposit with National Bank of Yugoslavia 50% of new foreign currency savings for the purpose of maintenance of foreign currency liquidity for insuring the payments of foreign

[2] Provided all announced bank mergers are realised.

currency saving deposit. During the second half of 2001 household foreign savings increased by DM 618.7 million, i.e. from DM 62.5 million to DM 681.2 million.

At the end of 2001 the Agreed Minutes on the Consolidated Debt of the Federal Republic of Yugoslavia were signed, setting the terms of direct deferral, reduction and reorganization of debt referring to creditor countries, members of the Paris Club. This will present a significant relaxation for bank balance sheets, in view of the treatment of immobilization of these assets until the resolution of their status.

During 2001 the National Bank of Yugoslavia, on the basis of data available in a course of supervision of banks and the provisions of the Law on Bank Rehabilitation, Bankruptcy and Liquidation, adopted the decisions to the effect that rehabilitation is feasible and economically justified in the case of eight banks: Beogradska Banka AD Beograd, Investbanka AD Beograd, Jugobanka AD Beograd, Beobanka AD Beograd, Prokupa~ka Banka AD Prokuplje, Ni{ka Banka AD Ni{, Jugobanka AD Bor and Vranjska Banka AD Vranje.

Operating in conformity with the previously mentioned legal provision, in passing these decisions on bank rehabilitation the National Bank of Yugoslavia took into account the following in particular:

- the amount of a bank's potential losses;
- the amount which, in the event of a bank's bankruptcy, the Federal Republic of Yugoslavia and the National Bank of Yugoslavia, would have to pay with regard to guarantees for savings and deposits in household current and foreign currency accounts as well as guarantees for loans granted to the bank abroad;
- approximate amount of funds needed for rehabilitation;
- interest expressed by other banks in taking over a bank for which rehabilitation justifiability is being considered, conditions under which it would be taken over by the interested banks and the effect the takeover would have on the financial standing of the interested banks;
- interest expressed by other entities in purchasing the shares of a bank.

Apart from these elements and under Article 7 Paragraph 2 of the previously mentioned law, the elements characteristic of individual banks were taken into account, such as the systemic importance of the bank expressed in the volume of payment operations conducted through it, regional importance of the bank, participation of the public sector in the bank's liablilities, number of bank employees who would be terninated in the event of the bank's bankruptcy and the related indirect costs, possible contributions of the bank's creditors to the process of its rehabilitation in the form of write-off of a part of their claims from the bank.

After assessing the feasibility and justifiability of a bank's rehabilitation, the initiation and further conduct of rehabilitation program is a responsibility of the Agency for deposit insurance, rehabilitation, bankruptcy and liquidation of banks, as provided by the provisions of the previously mentioned law. In conformity with its competence, the Agency adopted separate decisions on the rehabilitation of the mentioned banks and implemented them within available funds and possibilities for reaching an agreement with creditors on easing the financial position of the bank, as well as possiblities for the collection of the bank's claims.

In the case of Beobanka AD Beograd, Beogradska Banka AD Beograd, Invest-banka AD Beograd and Jugobanka AD Beograd, the Agency determined, on the basis of additional analyses, that a rehabilitation of those banks could not be economically justufied and recommended to the National Bank of Yugoslavia to initiate bankruptcy proceedings in them. On the basis of the Agency's recommendations, the National Bank of Yugoslavia assessed the financial standing and economic justifiability of the continuation of rehabilitation program. The final decision on the iniciation of bankruptcy proceedings was made primaly because the assessment of the financial standing registered losses considerably above the inicial estimate, with no realistic prospects of positiv cash flow in the following 3 years, deposits also posted a significant decline, which is a consequence of the citizens' lack of confidence in those banks.

Apart from the listed activities in the implementation of the banking sector restructuring implementation, during 2001 significant efforts were directed towards the improvement of legislation related to the banking sector:

- The Law on Accounting was amended, introducing the obligatory adjustment of the value of claims not collected within 90 days from maturity, as well obligatory interest suspension, which resulted in more realistic reporting of bank balance sheets and profit and loss accounts.
- The Law on Bank Rehabilitation, Bankruptcy and Liquidation was amended, with the banks not being obligated to comply with all the prescribed operation frameworks for one year after the initiation of rehabilitation procedure, enforceable court decision related to banks in rehabilitation not realized during 120 days, and bank bankruptcy and liquidation proceedings accelerated by the Agency, as an independent institution with expert personnel, performing the function of receiver or liquidator.
- The Proposal was prepared for amendments to the Law on Banks and Other Financial Organizations, which is in the parliament procedure and creates the base for harmonization of bank operating framework with the principles of the Basle Committee for Bank Supervision and European Union Directives.
- On the basis of the Proposal of the amendments to the previously mentioned Law, the National Bank of Yugoslavia, within its

competence, prepared by-laws regulating in more detail bank operation, which will come into force after the National Assembly adopts the amendments to the Law on Banks and Other Financial Organizations, with their full implementation starting from December 31, 2002.

- The proposal of the new Law on the National Bank of Yugoslavia, which, inter alia, contains completely new provisions related to the supervision function of the National Bank of Yugoslavia, was prepared. The proposal contains a wider range of measures to be introduced for banks not complying with regulations or whose creditworthiness is jeopardized, from the most lenient, such as a warning, implemented in the event of less significant irregularities and when full co-operation of bank bodies can be expected, to the most stringent measures, including the revoking of operating license. The proposed measures are essentially defined in such a way that they do not impede the current operation of the bank and expose it to the risk of losing its clients; instead, they only limit, without interrupting business operations. One of the significant novelties is the possibility for the National Bank of Yugoslavia to introduce administration in banks whose financial standing is bad and bank management did nothing or failed to undertake appropriate measures to rectify this situation.
- The adoption was proposed of the Law on the Regulation of Public Debt of FRY arising from blocked household foreign currency savings and the Law on the Regulation of Relations between the FRY and legal entities and banks from the FRY territory which are original debtors or guarantors towards the Paris and London Club creditors, by which the FRY would obtain claims from banks, with a possibility of converting those claims into bank shares, thereby creating preconditions for their swift privatization, as well as privatization of companies-end Paris and London Club debtors, which would become debtors of banks.

The subject of this Analysis is the financial standing of the Yugoslav banking as of December 31, 2001, without the data for the four large banks in which bankruptcy procedure was initiated on January 3, 2002 (Beobanka AD Beograd, Beogradska banka AD Beograd, Investbanka AD Beograd and Jugobanka AD Beograd), since their share in the balance sheet total was over 57% and the negative amount of their capital, as well as the loss, was extremely high, all of which would significantly reduce the validity of this analysis.

Part 1

# Background information

## *Legal framework*

Prudential supervision of the financial standing of banks and other financial organizations, introduced in Yugoslavia in 1989, legally regulated according to recommendations of the Basel Committee for Banking Supervision and EU Directives, relies primarily on regulations adopted in conformity with the Law on Banks and Other Financial Organizations, specifically:

- Decision on Detailed Conditions of the Implementation of Articles 26 and 27 of the Law on Banks and Other Financial Organizations (with Instructions),
- Decision on the Criteria for Classification of Balance Sheet and Off–Balance Sheet Assets of Banks and Other Financial Organizations According to the Degree of Collectibility (with Instructions),
- Decision on the Amount of the Special Reserve for Loan Loss Provisioning of Banks and Other Financial Organizations.

The Decision on Detailed Conditions of the Implementation of Articles 26 and 27 of the Law on Banks and Other Financial Organizations defines in greater detail the relative business indicators:

1. The pecuniary part of equity capital, as the difference between equity capital increased by the amount of revaluation reserves relating to equity capital on the one part, and the total of the fixed assets, unpaid subscribed capital, own shares and the losses exceeding the reserves of the bank on the other, must at any time amount to at least USD 5 million, in dinar equivalent;
2. capital adequacy ratio, namely the requirement that capital should amount to at least 8% of the total of risk-weighted balance sheet and off-balance sheet assets;

3. ratio of short-term placements to short-term resources should be equal to or exceed 100%;
4. ratio of foreign currency liabilities to foreign currency assets is to be within a spread of 95%-105%;
5. ratio of large and the largest possible exposures is limited to a maximum of 80%[3];
6. ratio of the share in a firm's capital is limited to a maximum of 15%;
7. ratio of the share in the capital of banks and of other financial organizations is limited to 51%;
8. ratio of placements in fixed assets is limited to a maximum of 20%.

At the end of December 2001 the National Bank of Yugoslavia changed the by-laws in order to eliminate the obligation of banks to adjust their operation so as to ensure the share of capital in liabilities of at least 20% and the share of household deposits not exceeding 50%.

The Decision on the Criteria for Classification of Balance Sheet and Off–Balance Sheet Assets According to the Degree of Collectibility sets out in detail the criteria for the classification of risk-weighted balance sheet and off-balance sheet assets, depending on the degree of settlement of obligations by clients towards the bank and on their financial standing, as well the prescribed method of calculation of required provisions for potential loan losses, thereby making possible an assessment of contaminated assets, a bank's exposure to credit risk in relation to certain debtors, and especially of its exposure to and dependence on certain large debtors and major insiders.

## *Legal Obligation of Banks*

Pursuant to the current regulations, all banks and other financial organizations are obligated to submit to the National Bank of Yugoslavia their quarterly reports on the classification of balance sheet and off-balance sheet assets and reports on business indicators, as well as to submit re-classified balance sheets and profit and loss accounts prescribed for the adequate review of banks' operations as needed for supervision purposes.

## *Data Base*

This Analysis was made on the basis of the data submitted by 49 banks in their semiannual accounts as of December 31, 2001. The Analysis includes only the banks in the territory of Serbia proper and Vojvodina as well as the one bank registered in the northern part of Kosovo. The data obtained from reclassified balance sheets and profit

[3] Provided that a large exposure represents any claim from a borrower which exceeds 20% of the bank's capital, the largest possible exposure represents any claim up to 30% of the bank's capital, and the largest possible exposure granted to a related party (shareholder or a party related to it on any bases) amounts up to 5% of the capital.

and loss accounts of the banks and other financial organizations, from the reports on relative business indicators of banks and other financial organizations prescribed by Articles 26 and 27 of the Law on Banks and Other Financial Organizations, as well as from the reports of banks and other financial organizations on the classification of balance sheet and off-balance sheet assets as of December 31, 2001, have not been audited by an independent auditor nor subjected to the direct control of the Supervision Department of the National Bank of Yugoslavia.

As of December 31, 2001, 49 banks had operating licenses issued by the National Bank of Yugoslavia (with all the announced merges approved by National Bank of Yugoslavia and excluding the 4 largest banks which had their licenses revoked).

The data from the reports submitted by 49 banks as of December 31, 2001 were analyzed collectively for all banks together, as well as separately for the category of "transformed" banks and the category of "newly-established" banks.

Of the total number of banks, 19 banks were the so-called "transformed" banks and 30 the so-called "newly-established" banks. The category of "transformed" banks includes the banks which were founded in the period before 1989 and transformed, pursuant to the provisions of the 1989 Law on Banks and Other Financial Organizations, into joint-stock companies by a "mere" transformation of previously existing funds (capital asset fund, joint and several liability fund and reserve fund) and not by cash payments into their initial capital.

"Newly-established" banks are the banks founded as joint-stock companies pursuant to the 1989 Law on Banks.

The two categories of banks differ significantly, both regarding balance sheet size and structure, and capital quality.

At the beginning of 2001 "transformed" banks' share in the aggregate balance sheet total of FRY was 90%, with the share of 4 large banks which were liquidated being over 57% of the balance sheet total of all banks. In their balance sheets they had obligations and claims relating to the refinanced loans (Paris Club, London club, IBRD, IFC) with a share exceeding 40% and obligations related to blocked household foreign savings and claims from the FRY on the same grounds (over 20%), which means that over 60% of their balance sheet total was "frozen", did not generate cash income; instead, it only presented a base for entering into books and calculation of income and expenses, which resulted in extremely unrealistic reporting of financial results and deformation of their real financial standing.

The "newly-established" banks had significantly lower balance sheet totals (only 10% of the aggregate balance sheet total, or if the 4 liquidated large banks are excluded, 25%), without burdens from the previous period, with a number of these banks being founded by fictitious payments towards the initial capital, performing “quasi” recapitalization through subsequent issues of shares and, in such a way, artificially increasing their capital, which made them attractive to new depositors with the aim of attracting new deposits.

Since those banks essentially had at their disposal only someone else's, mostly short-term, funds which they placed mostly on long-term basis to their own companies directly or through their off-shore units abroad, with such business operation they not only put their depositors at risk, but also, by heavy borrowing on the market, there was a danger that potential termination of their operation could lead to a "chain" reaction in the banking sector.

The purpose of this Analysis is to assess the global financial standing of Yugoslav banks, and the National Bank of Yugoslavia can not be held responsible for the data presented. The source of the data presented here as of December 31, 2001 and December 31,2000 are financial reports submitted by the banks to the National Bank of Yugoslavia, without previously undergoing an audit by independent auditors. It should also be noted that, when comparing them, the difference in the banking sector structure at the end of 2001 relative to the end of 2000 should be borne in mind, both with regard to the number of banks and their balance sheet structure. The data presented in this Analyses which referred to the refinanced loans from the Paris and London Club countries are given with interest calculated up to 1992 and will be subject to further reconciliation.

Part
2

# Balance sheet indicators

## Balance Sheet

### *Balance Sheet Total and Capital*

Aggregate data from reclassified balance sheets as of December 31, 2001 indicate that the aggregate ***balance sheet total*** of all banks amounted to YUD 291,460.1 million.

Amount in mil. YUD. Share in %

| | 31.12.2001 | | | 31.12.2000[4] | | |
|---|---|---|---|---|---|---|
| | NUMBER OF BANKS | BALANCE SHEET TOTAL | SHARE | NUMBER OF BANKS | BALANCE SHEET TOTAL | SHARE |
| TRANSFORMED BANKS | 19 | 198,135.8 | 68.0 | 31 | 640,399.1 | 90.9 |
| NEWLY-ESTABLISHED BANKS | 30 | 93,324.3 | 32.0 | 50 | 63,950.4 | 9.1 |
| TOTAL | 49 | 291,460.1 | 100.0 | 81 | 704,349.5 | 100.0 |

One fifth of the aggregate balance sheet total relates to two thirds of the total number of banks. The structure of banks, with respect to the balance sheet total, shows that the greatest number of banks is in the category of banks with the balance sheet total

[4] The tables will present the data as of December 31, 2001 and December 31, 2000 for the total number of banks which submitted financial reports to the National Bank of Yugoslavia, regardless of the differences in the number of banks and their balance sheet structure. Apart from this, the text will also contain a comaprison of the balance sheet data relative to the identical sample of banks.

between YUD 1,000 and 5,000 million, as well as that two largest banks have almost a third of the aggregate balance sheet total of all banks.

Amount in mil. YUD.

| BALANCE SHEET TOTAL | TRANSFORMED | | NEWLY-ESTABLISHED | | BANKS, TOTAL | |
|---|---|---|---|---|---|---|
| | NO. | BAL. SHEET TOTAL | NO. | BAL. SHEET TOTAL | NO. | BAL. SHEET TOTAL |
| 40,000-50,000 | 2 | 91,375 | - | - | 2 | 91,375 |
| 10,000-20,000 | 3 | 44,971 | 1 | 17,095 | 4 | 62,066 |
| 5,000-10,000 | 5 | 38,685 | 5 | 37,255 | 10 | 75,940 |
| 1,000-5,000 | 7 | 21,663 | 16 | 33,668 | 23 | 55,331 |
| 500-1,000 | 1 | 948 | 6 | 4,422 | 7 | 5,370 |
| 400–500 | 1 | 494 | 2 | 884 | 3 | 1,378 |

In comparison with December 31, 2000 the balance sheet total of the banking sector went down by over YUD 400 billion or by 59% (at the end of 2000 the balance sheet total amounted to YUD 704,349.5 mil.). When excluding the banks which, as a result of activities conducted within the banking sector restructuring, had their operating licenses revoked by the National Bank of Yugoslavia in the course of 2001, the aggregate balance sheet total would be YUD 223,947.4 mil., which presents a 30% increase relative to December 31, 2001. The real increase in the balance sheet total in those banks which existed in both periods under observation (which means without the newly-established banks in 2001) is 24%.

As to the amount of *capital* stated on the books as of December 31, 2001 the Yugoslav banking system showed capital in the amount of YUD 46,185.7 mil.

Amount in mil. YUD Share in %

| | 31.12.2001 | | | 31.12.2000 | |
|---|---|---|---|---|---|
| | NUMB. OF BANKS | CAPITAL | SHARE | NUMB. OF BANKS | CAPITAL |
| TRANSFORMED BANKS | 19 | 14,449,6 | 31.3 | 31 | -2,056.9 |
| NEWLY-ESTABLISHED BANKS | 30 | 31,736.1 | 68.7 | 50 | 25,800.3 |
| TOTAL | 49 | 46,185.7 | 100.0 | 81 | 23,743.4 |

In contrast to the balance sheet total, of which over two thirds relate to transformed banks, the capital of those banks accounts for less than a third of the aggregate capital of all banks.

The structure of banks, from the point of view of the amount of capital, shows that the largest number of banks is in the category of banks with capital of YUD 500 to 1,000 mil.

Amount in mil. YUD.

| CAPITAL | TRANSFORMED | | NEWLY-ESTABLISHED | | BANKS, TOTAL | |
|---|---|---|---|---|---|---|
| | NO. | CAPITAL | NO. | CAPITAL | NO. | CAPITAL |
| Over 5,000 | 1 | 5,926 | 1 | 6,616 | 2 | 12,542 |
| 1,000-5,000 | 6 | 12,027 | 7 | 13,617 | 13 | 25,644 |
| 500-1,000 | 5 | 3,347 | 12 | 7,564 | 17 | 10,911 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 100–500 | 2 | 595 | 10 | 3,939 | 12 | 4,534 |
| Below 100 | 1 | 18 | - | - | 1 | 18 |
| Negative capital | 4 | -7,463 | - | - | 4 | -7,463 |

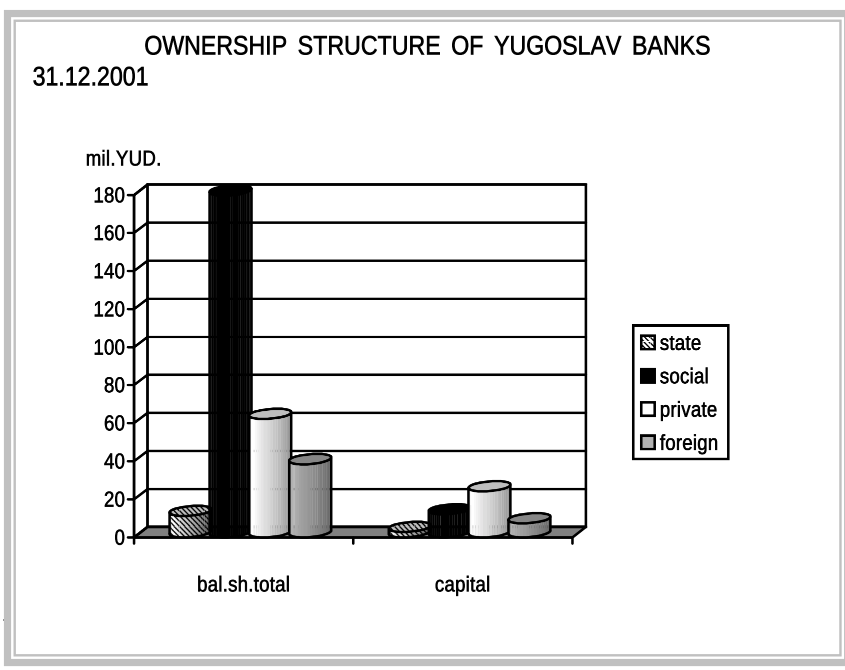
In comparison with December 31, 2000 the banking sector capital increased by over YUD 22 billion or by 95%. At the end of 2000 the total capital of banks amounted to YUD 23,743.4 mil. primarily as a result of negative capital of most banks whose operating licenses were revoked by the National Bank of Yugoslavia in the course of 2001. After excluding these banks from the comparison, the total capital of banks would increase by 15% relative to December 31, 2001, while a real increase in those banks which existed in both periods under observation was 5%.

As to the type of ownership, the most important banks are owned by domestic, so-called socially-owned entities. As to the ownership structure, foreign banks and banks with majority foreign capital still have, regardless of their larger number, an insignificant subordinate role.

Amount in mil. YUD. Share in %

| | Balance sheet total | Share | Capital | Share |
|---|---|---|---|---|
| Domestic banks | 253,065 | 86.8 | 38.924 | 84.3 |
| - state-owned | 11,230 | 3.8 | 2.682 | 5.8 |
| - socially-owned | 179,677 | 61.7 | 12.049 | 26.1 |
| - private | 62,158 | 21.3 | 24.193 | 52.4 |
| Foreign banks* | 38,395 | 13.2 | 7.262 | 15.7 |
| TOTAL | 291.460 | 100,0 | 46.186 | 100,0 |

*Societe Generale Yugoslav Bank AD Beograd, Zepter Banka AD Beograd, Delta Banka AD Beograd, Micro Finance Bank AD Beograd, Raiffeisenbank AD Beograd, HVB Banka Jugoslavija AD Beograd and National Bank of Greece SA Beograd




The territorial distribution of banks presented in this analysis shows an average (at the level of all banks) share of capital in the balance sheet total of 15.8%, below the average are the banks in the territory of Serbia proper (14.0%) and slightly above the average are the banks in Vojvodina (19.9%).

Amount in mil. YUD. Share in %

| | Balance sheet total | Share | Off-balance sheet total | Share | Capital | Share |
|---|---|---|---|---|---|---|
| Serbia (proper) | 200,897 | 68.9 | 50,854 | 57.3 | 28,062 | 60.8 |
| Vojvodina | 90,069 | 30.9 | 37,851 | 42.7 | 17,926 | 38.8 |
| Kosovo | 494 | 0.2 | 14 | 0.0 | 198 | 0.4 |
| TOTAL | 291,460 | 100.0 | 88,719 | 100.0 | 46,186 | 100.0 |

# Assets and Liabilities Structure

As of December 31, 2001 the total *liabilities* of all banks were as follows:

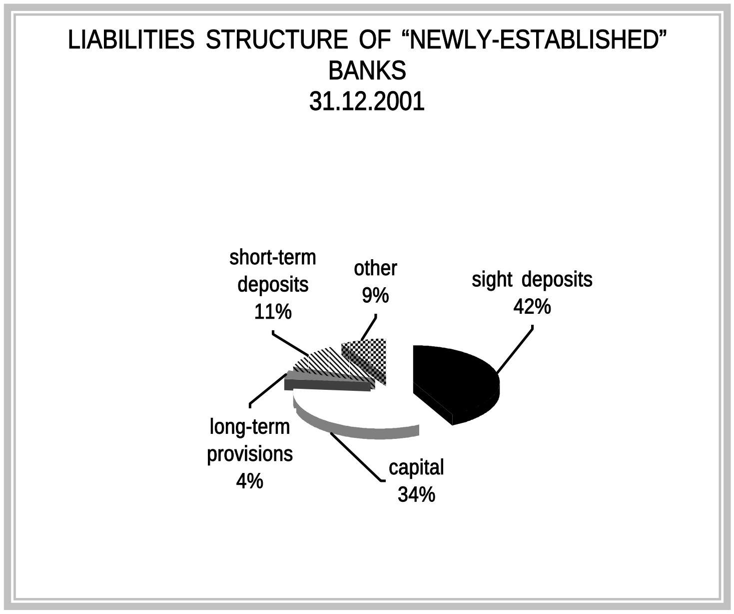
LIABILITIES STRUCTURE

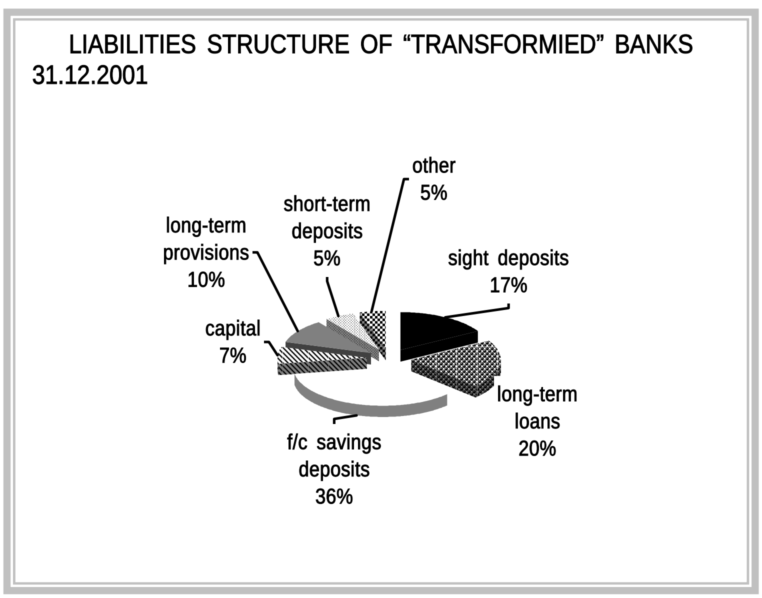
Amount in mil. YUD. Share in %

| | 31.12.2001 | | | | | | 31.12.2000 | |
|---|---|---|---|---|---|---|---|---|
| | TRANSFORMED | | NEWLY-ESTABLISHED | | BANKS, TOTAL | | BANKS, TOTAL | |
| | AMOUNT | SHARE | AMOUNT | SHARE | AMOUNT | SHARE | AMOUNT | SHARE |
| Sight deposits | 32,981.3 | 16.65 | 39,626.4 | 42.46 | 72,607.7 | 24.91 | 64,830.1 | 9.20 |
| Short-term liabilities to NBY | 211.5 | 0,11 | 52,7 | 0,06 | 264,2 | 0,09 | 777,5 | 0,11 |
| Short-term deposits | 10,342.4 | 5.22 | 10,334.9 | 11.08 | 20,677.3 | 7.08 | 26,092.6 | 3.70 |
| Short-term loans | 2,509.6 | 1.27 | 1,218.7 | 1.31 | 3,728.3 | 1.28 | 12,419.8 | 1.76 |
| Short-dated securities | 435.3 | 0.22 | 2,360.3 | 2.53 | 2,795.6 | 0.96 | 15,825.8 | 2.25 |
| Other liabilities, subord. liab. and non-operating fund resources | 4,054.0 | 2.05 | 3,801.3 | 4.07 | 7,855.3 | 2.70 | 25,689.9 | 3.65 |
| Long-term liabilities to NBY | 385.2 | 0.19 | 3.8 | 0.00 | 389.0 | 0.13 | 984.4 | 0.14 |
| Long-term deposits | 527.2 | 0.27 | 317.4 | 0.34 | 844.6 | 0.29 | 5,908.6 | 0.84 |
| Long-term loans | 40,544.1 | 20.46 | 303.0 | 0.32 | 40,847.1 | 14.01 | 287,729.5 | 40.85 |
| Long-dated securities | 1,162.3 | 0.59 | 3.7 | 0.00 | 1,166.0 | 0.40 | 2,943.4 | 0.42 |
| Liabilities for blocked foreign currency savings | 69,907.9 | 35.28 | - | - | 69,907.9 | 24.00 | 179,857.3 | 25.54 |
| Long-term provisions | 20,625.4 | 10.41 | 3,566.0 | 3.82 | 24,191.4 | 8.30 | 57,547.2 | 8.17 |
| Capital | 14,449.6 | 7.29 | 31,736.1 | 34.01 | 46,185.7 | 15.85 | 23,743.4 | 3.37 |
| TOTAL LIABILITIES | 198,135.8 | 100.00 | 93,324.3 | 100.00 | 291,460.1 | 100.00 | 704.,49.5 | 100,.0 |

In the structure of fund resources, the largest share of 24.9% refers to sight deposits. The second largest item are liabilities arising from deposited foreign currency savings (a 24.0% share), with the third item being capital (15.9%).

In contrast to "transformed" banks, in whose balance sheet structure liabilities for deposited foreign currency savings have the largest share (35.3%) as well as liabilities for long-term foreign currency loans (20.5%), which means that 55% of fund resources of these bunks refers to liabilities from the previous period guaranteed by the state, "newly-established" banks have a significantly different liability structure. In them the share of sight deposits is 42.5% and capital 34.0%.



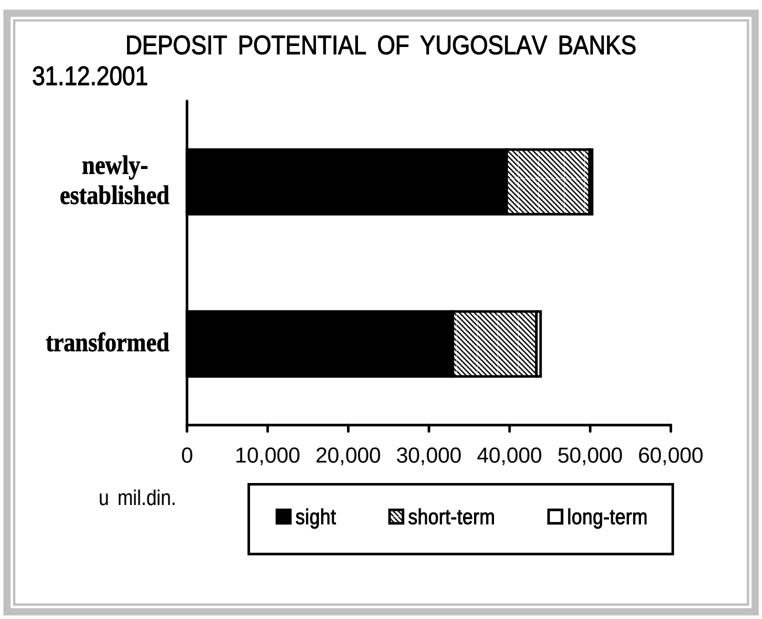

After a year of the implementation of banking sector reform measures the balance sheet structure of Yugoslav banks improved significantly. At the end of 2000 around 66% of the balance sheet liabilities of all banks were contained in liabilities for long-term foreign exchange loans and liabilities for blocked foreign currency savings. These two assets items of fund resources were immobilized in placements which could not be turned into interest-bearing assets, and have a status regulated by the Law on Settling Obligations Arising from Household Foreign Currency Savings, and with regard to long-term foreign currency loans the rescheduling terms of the Paris and London Club were awaited.

The deposit potential of Yugoslav banks amounts to YUD 94,077.2 mil. or 32,3% of total liabilities. .

Amount in mil. YUD

| DEPOSITS | 31.12.2001 TRANSFORMED BANKS | 31.12.2001 NEWLY-ESTABLISHED BANKS | 31.12.2001 BANKS, TOTAL | 31.12.2000 BANKS, TOTAL |
|---|---|---|---|---|
| Sight deposits | 32,981.3 | 39,626.4 | 72,607.7 | 64,830.1 |
| - dinar | 17,471.7 | 15,404.8 | 32,876.5 | 17,559.6 |
| - foreign currency | 15,509.6 | 24,221.6 | 39,731.2 | 47,270.5 |
| Short-term deposits | 10,342.4 | 10,334.9 | 20,677.3 | 26,092.6 |
| - dinar | 2,361.3 | 1,785.1 | 4,146.4 | 3,480.0 |
| - foreign currency | 7,981.1 | 8,549.8 | 16,530.9 | 22,612.6 |
| Long-term deposits | 527.2 | 317.4 | 844.6 | 5,908.6 |
| - dinar | 188.6 | 147.9 | 336.5 | 1,526.5 |
| - foreign currency | 338.6 | 169.5 | 508.1 | 4,382.1 |
| TOTAL | 43,850.9 | 50,278.7 | 94,129.6 | 96,831.3 |

The deposit potential of “newly-established banks” banks amounts to YUD 50,278.7 mil. or 53.4% of the total deposit potential, and accounts for 53.9% of the total liabilities of these banks. As to the maturity structure of deposits, over three quarters of total deposits of both bank categories are sight deposits, whereas long-term deposits form only 0.9% of total deposits, which points to the low quality of deposit potential. The total foreign currency deposits amount to YUD 56,770.2 mil. or 60.3% of the total deposits and 70.0% are sight deposits and 29.1% short-term deposits.




The structure of deposit potential shows that the largest depositors are companies (49.3%) and households with a 24.4% share in total deposits. Household deposits dominated short-term deposits (40.6%), as well as long-term deposits (44.9%).

In comparison with December 31, 2000, in nominal terms, deposit potential went down by over YUD 2.7 bn. or by 3%. However, with regard to deposits it is impossible to exclude completely from consideration the banks whose operating licenses were revoked by the National Bank of Yugoslavia in the course of 2001 (YUD 50.8 bn.) because in these banks offsetting of obligations and claims of certain clients was performed. In relative terms, in the analyzed period the share of deposit potential rose from a 13.7% at the end of 2000 to 32.3% share in total liabilities, and the structure also improved from the aspect of foreign currency deposits (on December 31, 2000 their share was 40.3% and on December 31, 2001 56.0% for banks which operated in both periods), primarily as result of household foreign savings increase.

The capital of Yugoslav banks as of December 31, 2001 amounts to YUD 46,185.7 mil. and presents 15.9% of their total liabilities, and is primarily a result of equity capital in the amount of YUD 40,481.3 mil., revaluation reserves of YUD 11,167.1 mil., reserves from profit of YUD 5,793.9 mil. and reported loss as a debit item of YUD 11,108.9 mil. As of December 31, 2000 banks reported only a 3.4% share of capital in total liabilities, equity capital was YUD 15.2 bn. larger (because of the inclusion of the banks which later lost their operating licenses), but loss as a debit item also rose by YUD 37.1 bn., which, together with reserves from profit, resulted in a reduction of capital relative to December 31, 2001 by YUD 22.4 bn.

Amount in mil. YUD

| CAPITAL | 31.12.2001 | 31.12.2000 |
|---|---|---|
| Equity capital | 40,481.3 | 55,673.9 |
| Revaluation reserves | 11,167.1 | - |
| Reserves from profit | 5,793.9 | 15,529.8 |
| Profit | 750.6 | 745.6 |
| Own shares | 898.3 | 34.1 |
| Loss | 11,108.9 | 48,171.8 |
| TOTAL | 46.185,7 | 23.743,4 |

Claims and liabilities arising from long-term foreign currency loans in transformed banks refer to the Paris and London Club creditor loans:

- financial arrangement on the refinancing of obligations with foreign commercial banks – London Club – includes the liabilities of the National Bank Yugoslavia and Yugoslav commercial banks arising from arrangements with foreign commercial banks (Agreement on Trade and Deposit Facility–TDF, New Financing Agreement on Refinancing the Obligations to Commercial Banks-NFA – installments A, B and C, Agreement on Debt Swap for Alternative Instrument for certain banks-API),
- liabilities concerning loans granted by governments or insured by governments' insurance agencies, which are refinanced within the Agreement with the Paris Club of creditors; in the period January 01, 1984 – June 30, 1989, 4 agreements were signed on the refinancing of obligations of the former SFRY which were due in 1984, 1985/86, 1986/88 and 1988/89; refinancing of due obligations arising from the mentioned loans was regulated by multilateral arrangements in the Paris Club for 1984, 1985/86, 1986/88, and 1988/89 – whereas the National Bank of Yugoslavia or certain

commercial banks (previous associated banks) used to conclude and sign separate bilateral agreements in the name of SFRY.

As of December 31, 2001 the total debt (principal and interest) to the Paris and London Club countries amounted to app USD 5,0 bn. (banks from the territory of Serbia). Of that amount, 90% or app USD 4,5 bn. is with the banks under bankruptcy procedure and app USD 0,5 bn. with the banks assessed.

In the *assets* structure, at the level of assessed banks, claims from FRY arising from foreign exchange savings (22.9%) and short-term loans (22.8%) have the largest share. Here, as well, as with liabilities, the assets structure of “newly-established” banks is different because the largest items are claims from short-term loans (43.0%) and cash and cash equivalents (24.5%), while in “transformed” banks the largest claims are still from SFRY arising from deposited foreign currency savings (33.7%) and long-term foreign currency loans (23.5%), which means that 57.2% of placements are frozen and non-interest bearing in real terms.

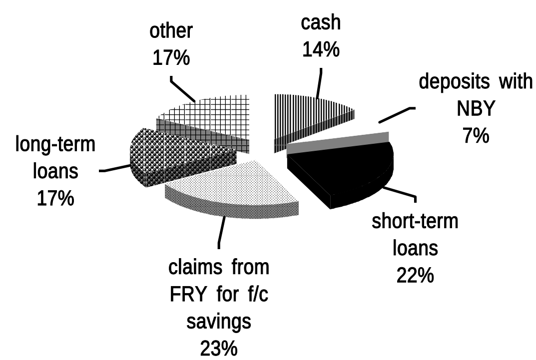
ASSETS STRUCTURE

Amount in mil. YUD   Share in %

| | 31.12.2001 | | | | | | 31.12.2000 | |
|---|---|---|---|---|---|---|---|---|
| | TRANSFORMED | | NEWLY-ESTABLISHED | | BANKS, TOTAL | | BANKS, TOTAL | |
| | AMOUNT | SHARE | AMOUNT | SHARE | AMOUNT | SHARE | AMOUNT | SHARE |
| Cash and cash equivalents | 16,630.3 | 8.39 | 22,859.1 | 24.49 | 39,489.4 | 13.55 | 45,225.6 | 6.42 |
| Depos. with NBY and short-dated securities | 9,213.8 | 4.65 | 10,831.5 | 11.61 | 20,045.3 | 6.88 | 28,876.7 | 4.10 |
| Short-term loans and placements | 26,465.8 | 13.36 | 40,096.5 | 42.96 | 66,562.3 | 22.84 | 70,363.6 | 9.99 |
| Short-dated securities and other placements | 2,900.3 | 1.46 | 3,737.5 | 4.00 | 6,637.8 | 2.28 | 28,299.0 | 4.02 |
| Securities and other placements | 533.9 | 0.27 | 1,704.2 | 1.83 | 2,238.1 | 0.77 | 2,395.6 | 0.34 |
| Other assets and non-operating funds | 9,344.4 | 4.72 | 4,485.4 | 4.81 | 13,829.8 | 4.75 | 25,752.1 | 3.66 |
| Claims from FRY arising from foreign savings | 66,786.8 | 33.71 | - | - | 66,786.8 | 22.91 | 188,114.2 | 26.71 |
| Long-term loans and placements | 46,621.5 | 23.53 | 2,401.1 | 2.57 | 49,022.6 | 16.82 | 277,415.4 | 39.38 |
| Long-dated securities | 8,101.8 | 4.09 | 4.6 | 0.00 | 8,106.4 | 2.78 | 8,437.5 | 1.20 |
| Shares in capital | 2,643.8 | 1.33 | 2,537.9 | 2.72 | 5,181.7 | 1.78 | 12,150.9 | 1.72 |
| Fixed assets | 8,893.4 | 4.49 | 4,666.5 | 5.00 | 13,559.9 | 4.65 | 17,319.1 | 2.46 |
| **TOTAL ASSETS** | **198,135.8** | **100.00** | **93,324.3** | **100.00** | **291,460.1** | **100.00** | **704,49.5** | **100.00** |

The observation given in the analysis of liabilities structure for the end of 2000 that approximately 66% of the balance sheet total is in long-term foreign currency loans and blocked foreign currency savings is also valid in the analysis of assets structure.

ASSETS STRUCTURE OF YUGOSLAV BANKS
31.12.2001




Short-term placements (loans and securities) participated with approximately 14% (on December 31,.2001 the share was app. 26%), whereas cash,, cash equivalents and deposits and securities with the National Bank of Yugoslavia approximately 10% (on December 31,.2001 the share was approximately 20%), all of which points to a visible improvement in the quality of assets in Yugoslav banks.

Credit placements (short-term and long-term) present 39.7% of total assets.

Amount in mil. YUD Share in %

| LOANS | 31.12.2001 | | | | 31.12.2000 | |
|---|---|---|---|---|---|---|
| | TRANSFORMED BANKS | NEWLY-ESTABLISHED BANKS | BANKS, TOTAL | SHARE | BANKS, TOTAL | SHARE |
| Short-term loans | 26,465.8 | 40,096.5 | 66,562.3 | 57.59 | 70,363.6 | 20.23 |
| - dinars | 12,712.8 | 20,091.3 | 32,804.1 | 28.38 | 23,292.4 | 6.70 |
| - foreign currency | 13,753.0 | 20,005.2 | 33,758.2 | 29.21 | 47,071.2 | 13.53 |
| Long-term loans | 46,621.5 | 2,401.1 | 49,022.5 | 42.41 | 277,415.4 | 79.77 |
| - dinar | 8,389.0 | 1,938.2 | 10,327.2 | 8.93 | 5,906.0 | 1.70 |
| - foreign currency | 38,232.5 | 462.9 | 38,695.4 | 33.48 | 271,509,4 | 78.07 |
| TOTAL | 73,087.3 | 42.497.6 | 115,584.9 | 100.00 | 347,779.0 | 100.00 |

“Newly-established" banks mostly base their operation on short deadlines, because of total loans only 5.6% have a maturity over a year (of YUD 42,497.6 mil. short-term loans amount to YUD 40,096.5 mil.), unlike "transformed" banks whose two thirds of loans have a maturity over a year.

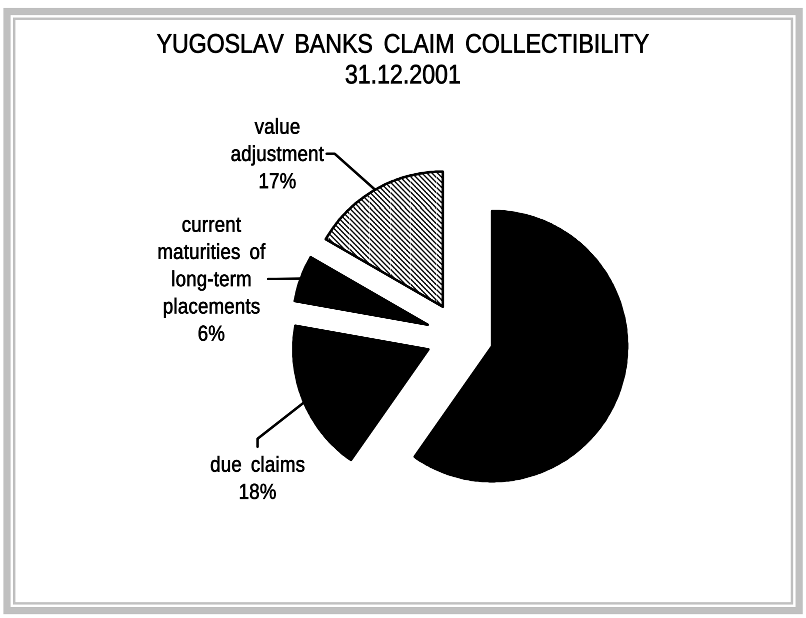
Of total short-term loans (after value adjustments is included) 55.6% was granted to companies, 25.7% to banks and other beneficiaries participate with less than 5% in total short-term loans. In total dinar short-term loans the largest share, as beneficiaries, have companies (80.4% of total dinar short-term loans), whereas in foreign currency short-term loans the largest share was granted to banks (primarily foreign) with 65.6% and companies with 29.5%.

From the aspect of collectibility of short-term placements, data as of December 31,.2001 indicate that difficulties in claims collection are present in all banks.

Amount in mil. YUD Share in %

| LOANS | TRANSFORMED BANKS | NEWLY-ESTABLISHED BANKS | BANKS, TOTAL | SHARE |
|---|---|---|---|---|
| Short-term loans and placements | 20,784.6 | 38,796.4 | 59,581.0 | 76.86 |
| Due claims | 4,255.5 | 13,684.8 | 17,940.3 | 23.14 |
| TOTAL | 25,040.1 | 52,481.2 | 77,521.3 | 100.00 |
| Current maturities of long-term placements | 4,452.6 | 1,166.3 | 5,618.9 | |
| TOTAL | 29,492.7 | 53,647.5 | 83,140.2 | |
| Value adjustment | 3,026.9 | 13,551.0 | 16,577.9 | 92.4[5] |
| **TOTAL** | **26,465.8** | **40,096.5** | **66,562.3** | |

Of total short-term placements in the amount of YUD 77,521.3 mil. 23.1% are due for payment. This percentage of short-term placement maturity is higher in “newly-established” banks - 26.1% and in “transformed” banks it is 17.0%.




Total short-term placements, including current maturities of long-term placements, amount to YUD 83,140.2 mil. (dinar and foreign currency) and the value adjustment is YUD 16,577.9 mil. (92.4% of all due placements). This illus-trates the fact that collection of claims, i.e. placements risk, is a general problem be-cause it does not refer only to “transformed” banks (71.1% of due placements were adjusted), whose clients are mostly large companies of general social

[5] Relative to due claims

significance, but also to “newly-established” banks (value adjustment was performed for 99.0% of due placements), for which the main motto of operation should only be profitability.

Cash and cash equivalents amount to 13.5% of total balance sheet assets and are mostly denominated in foreign currencies and primarily refer to foreign currency funds in foreign banks.

Amount in mil. YUD

| CASH AND CASH EQUIVALENTS | TRANSFORMED BANKS | NEWLY-ESTABLISHED BANKS | BANKS, TOTAL |
|---|---|---|---|
| In dinars | 2,809.6 | 5,424.8 | 8,234.4 |
| In foreign currency | 13,803.9 | 17,364.5 | 31,168.5 |
| Gold | 16.8 | 69.7 | 86.4 |
| **TOTAL** | **16,630.3** | **22,859.0** | **39,489.3** |

As of December 31, 2001 “newly-established” banks held cash accounting for 57.9% of total cash of all banks. The greater liquidity of “newly-established” banks is particularly pronounced in foreign currency cash equivalents, although on these accounts both disposable and non-disposable funds are reported.

*Maturity structure of resources and funds* as of December 31,.2001 shows similarities between banks in that respect.

Amount in mil. YUD

| | | 31.12.2001 | | | 31.12.2000 |
|---|---|---|---|---|---|
| | | TRANSFORMED BANKS | NEWLY-ESTABLISHED BANKS | BANKS, TOTAL | BANKS, TOTAL |
| LIABILITIES | Short-term resources | 50,528 | 56,986 | 107,514 | 145,635.6 |
| | Long-term resources and capital | 147,608 | 36,338 | 183,946 | 558,713.9 |
| | TOTAL: | 198,136 | 93,324 | 291,460 | 704,349.5 |
| ASSETS | Short-term claims | 6,.089 | 83,714 | 148,803 | 200,912.5 |
| | Long-term claims | 133,047 | 9,610 | 142,657 | 503,437.0 |
| | TOTAL: | 198,136 | 93,324 | 291,460 | 704,349.5 |

## Foreign currency sub-balance sheet

On the basis of the reclassified balance sheets of banks, *sub-balance sheets in foreign currencies and dinars* were created showing a difference between foreign currency liabilities and assets in the amount of 5.2% (in "newly-established” 11.3% and in “transformed” banks 3.2%).

Amount in mil. YUD Share in %

| | 31.12.2001 | | | 31.12.2000 |
|---|---|---|---|---|
| | TRANSFORMED BANKS | NEWLY-ESTABLISHED BANKS | BANKS, TOTAL | BANKS, TOTAL |
| LIABILITIES | | | | |
| Foreign currency sub-balance sheet | 138,097 | 41,553 | 179,650 | 588,589.9 |
| Share in liabilities | 69.7 | 44.5 | 61.6 | 83.6 |
| ASSETS | | | | |
| Foreign currency sub-balance sheet | 142,688 | 46,872 | 189,560 | 613,136.5 |
| Share in assets | 72.0 | 50.2 | 65.0 | 87.1 |

After excluding foreign currency savings and rescheduled loans[6], this difference increases to 18.5%.

## Off-balance sheet items

As of December 31, 2001, *off-balance sheet items* of these banks amount to YUD 88,719 mil., or 23.3% of the aggregate balance sheet and off-balance sheet total. Guarantees account for over a half of the total off-balance sheet assets and over 90% of them are with "transformed" banks.

Amount in mil. YUD

| | 31.12.2001 | | | 31.12.2000 |
|---|---|---|---|---|
| | TRANSFORMED BANKS | NEWLY-ESTABLISHED BANKS | BANKS, TOTAL | BANKS, TOTAL |
| | | | | |
| Balance sheet items | 198,136 | 93,324 | 291,460 | 704,349.5 |
| Off-balance sheet items | 77,449 | 11,270 | 88,719 | 378,874.5 |
| **TOTAL** | **275,585** | **104,594** | **380,179** | **1,083,224.0** |

As of December 31, 2000 banks reported as off-balance sheet items the total amount of YUD 378,874.5 mil., of which YUD 313,210.8 mil. were with banks whose operating licenses were revoked. If off-balance sheet assets/liabilities are observed only in banks which operated in both periods, their growth of app. 32% was recorded.

[6] Rescheduled debts were assumed to be equal to long-term foreign currency loans of "transformed" banks

# Profit and Loss Account

## *Financial result*

For the period January 01 – December 31, 2001 banks reported negative *financial results* (total profit minus total loss) in the net amount of YUD 10,523.5 mil.

Amount in mil. YUD

| | 31.12.2001 | | 31.12. 2000 | |
|---|---|---|---|---|
| | Amount | No. of banks | Amount | No. of banks |
| 1.LOSS | | | | |
| TRANSFORMED BANKS | 10,724.1 | 10 | 43,223.1 | 9 |
| NEWLY-ESTABLISHED BANKS | 474.0 | 9 | 1,414.7 | 21 |
| TOTAL | 11,198.1 | 19 | 44,637.8 | 30 |
| 2.PROFIT | | | | |
| TRANSFORMED BANKS | 20.0 | 9 | 110.2 | 21 |
| NEWLY-ESTABLISHED BANKS | 654.6 | 21 | 808.8 | 30 |
| TOTAL | 674.6 | 30 | 919.0 | 51 |
| | | | | |
| FINANCIAL RESULT (2-1) | -10,523.5 | 49 | -43,718.8 | 81 |

For the period January 01 – December 31, 2001, of the total number of banks, 19 banks operated at a loss. The total reported losses amount to YUD 11,198.1 mil, in which “transformed” banks participate with 95.8% (over half the total loss was reported by the bank under the administration of the Federal Agency for Deposit Insurance and Bank Rehabilitation, Bankruptcy and Liquidation and with two more banks that are in the category of problem banks the reported loss amounts to 83% of the total loss). Positive financial results in the total amount of YUD 674.6 mil. were reported by 22 banks (two “newly-established” banks reported almost half the total reported profit) while 8 banks (of which 5 are “transformed”) reported equal amounts of profit and loss.

Net financial results of Yugoslav banks, reported as net loss, represent 3.6% of balance sheet assets, or 22.8% of the total capital of all banks.

For the period January 01 – December 31, 2001, Yugoslav banking sector reported net negative results of YUD 43,718.8 mil. Banks whose operating license was revoked in 2001 reported net loss of YUD 42,732.0 mil.

# Income and Expenses Structure

From the aggregate reclassified profit and loss account of banks for the period January 01 – December 31, 2001, it follows that in the income and expenses structure, the greatest expenses refer to provisions and indirect write-offs of placements, as a reflection of asset quality, which actually led to negative financial results.

Amount in mil. YUD.

| | 31.12.2001 | | | 31.12.2000 |
|---|---|---|---|---|
| | TRANSFORMED BANKS | NEWLY-ESTABLISHED BANKS | BANKS, TOTAL | BANKS, TOTAL |
| Interest income | 5,570.7 | 7,481.6 | 13,052.3 | 12.746,8 |
| Interest expenses | 2,437.3 | 911.3 | 3,348.6 | 5,229.4 |
| Net interest income | 3,133.4 | 6,570.3 | 9,703.7 | 7,517.4 |
| Fee income | 2,326.0 | 2,408.7 | 4,734.7 | 3,066.4 |
| Fee expenses | 560.4 | 590.3 | 1,150.7 | 760.1 |
| Net fee income | 1,765.6 | 1,818.4 | 3,584.0 | 2,306.3 |
| Net interest and fee income | 4,899.0 | 8,388.7 | 13,287.7 | 9,823.7 |
| Net other financial income | 1,449.2 | 380.2 | 1,829.4 | 296.9 |
| Financ. oper. profit | 6,348.2 | 8,768.9 | 15,117.1 | 10,120.6 |
| Net operating expenses | -5,179.9 | -3,089.4 | -8,269.3 | -5,317.7 |
| Net income/expenses for provisions | -9,697.9 | 226.0 | -9,471.9 | -49,449.2 |
| Net non-oper. and extraordinary expenses | -2,136.2 | -5,607.2 | -7,743.4 | -8,754.6 |
| Net revaluation income | - | - | - | 9,802.9 |
| Tax and contr. on profit | -38.3 | -117.7 | -156.0 | -120.8 |
| **Net profit / loss** | **-10,704.1** | **180.6** | **-10,523.5** | **-43,718.8** |

The income and expenses structure points to different profit and loss account structures of “transformed” and “newly-established” banks. In income structure the greatest income comes from interest (39.2%), especially in “newly-established” banks, where it represents almost half the total income of those banks. In the structure of total expenses, more than a third of the expenses are for provisions for long-term risks (35.4%), which in “transformed” banks make up almost half the total expenses. Extraordinary income, or expenses, participate with 20.1% and 33.1% in total income/expenses respectively, primarily due to expenses referring to indirect write-offs of placements, as well as amendments to the Accounting Law related to revaluation. Namely, positive revaluation results are credited to non-operating and extraordinary income, and negative results are charged against non-operating and extraordinary expenses.

As of December 31, 2001, banks reported YUD 11.5 bn. of expenses for special provisions, as well as YUD 9.6 bn. of expenses for indirect write-offs of placements, which still indicates the risk of placement collection, but improved in relation to 2000, when banks reported YUD 50.9 bn. of expenses for provisions and YUD 25.8 bn. for non-operating and extraordinary expenses (the greatest part of which were expenses for indirect write-offs of placements).

In %

| INDICATORS | 31.12.2001 | | | 31.12.2000 |
|---|---|---|---|---|
| | TRANSFORMED BANKS | NEWLY-ESTABLISHED BANKS | BANKS, TOTAL | BANKS, TOTAL |
| Interest and fee income to total income ratio | 43.6 | 64.9 | 53.4 | 2.6 |
| Interest and fee income to total assets ratio | 2.9 | 9.5 | 4.7 | 1.5 |
| Interest income to total placements ratio | 6.6 | 15.6 | 9.8 | -* |
| Interest and fee expenses to total expenses ratio | 10.4 | 10.1 | 10.3 | 0.9 |
| Interest and fee expenses to total liabilities ratio | 1.1 | 1.4 | 1.2 | 0.6 |
| Operating expenses to total expenses ratio | 18.3 | 22.0 | 19.5 | 0.8 |
| Net operating expenses to net interest and fee income ratio | 105.7 | 36.8 | 62.2 | 54.1 |
| Net profit/loss to equity capital ratio | -62.7 | 0.8 | -26.0 | -78.5 |

*no corresponding data for December 31, 2000.

The profit and loss account structure shows that income structure improved in 2001, since the greatest items refer to interest and fee income (53.4%), as distinguished from the previous year when they were insignificant. However, this is invoiced realization, and the problem of collection still exists, not only related to the principal but also to interest because due interest and fees as of December 31, 2000 amount to YUD 3.6 bn. of which value adjustments were made in the amount of YUD 1.8 bn.

# Asset classification and relative business indicators

## *Asset classification*

C*lassification of balance sheet and off-balance sheet assets of banks* based on their collectibility, in aggregate amounts for all banks, as of December 31, 2001, shows that contaminated assets (assets for which the mandatory loan loss provisions are calculated) classified as C, D and E categories amount to YUD 26,393.5 mil. or 6.9% of total balance sheet and off-balance sheet assets. This is caused by the fact that foreign currency refinanced loans are not classified according to prescribed criteria but reported under items classified as category A.

As of December 31, 2000, contaminated assets comprised 7.9% of total balance sheet and off-balance sheet assets.

Amount in mil. YUD

| CLASSIFI-CATION | 31.12.2001 | | | 31.12.2000 |
|---|---|---|---|---|
| | TRANSFORMED BANKS | NEWLY-ESTABLISHED BANKS | BANKS, TOTAL | BANKS, TOTAL |
| A | 97,239.7 | 54,501.6 | 151,741.3 | 440,691.5 |
| B | 23,766.6 | 6,999.1 | 30,765.7 | 108,338.0 |
| C | 7,141.6 | 2,891.2 | 10,032.8 | 39,883.5 |
| D | 1,832.3 | 1,247.7 | 3,080.0 | 10,512.7 |
| E | 12,624.3 | 656.4 | 13,280.7 | 36,256.7 |
| TOTAL | 142,604.5 | 66,296.0 | 208,900.5 | 635,682.4 |

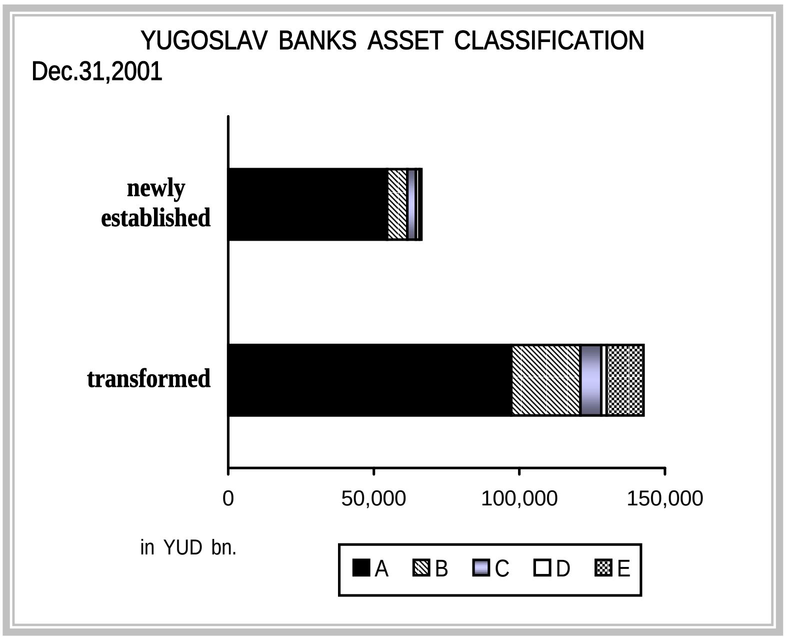
Based on such classification of balance sheet and off-balance sheet asset items, potential loan losses and mandatory special reserve were calculated as follows: 50% for category C, 75% for category D and 100% for category E.

Amount in mil.YUD

| | 31.12.2001 | | | 31.12.2000 |
|---|---|---|---|---|
| | TRANSFORMED BANKS | NEWLY-ESTABLISHED BANKS | BANKS TOTAL | BANKS TOTAL |
| POTENTIAL LOSSES | 17,569.3 | 3,037.8 | 20,607.1 | 62,523.9 |
| SPECIAL PROVISIONS | 17,569.3 | 3,022.5 | 20,591.8 | 54,878.5[7] |

[7] Special provisions in the amounts lower than their calculated potential loan losses reported by 20 banks

One bank reported uncovered potential losses although it was obligated to do so by the National Bank of Yugoslavia regulations.




Based on the classification of balance sheet and off-balance sheet asset items and the determined amount of potential losses, even after liquidation of the four largest transformed banks in 2001, there is still a clear distinction between these two bank groups.

In %

| POTENTIAL LOSSES | 31.12.2001 | | | 31.12.2000 |
|---|---|---|---|---|
| | TRANSFORMED BANKS | NEWLY-ESTABLISHED BANKS | BANKS TOTAL | BANKS TOTAL |
| As % of total balance sheet and off-balance sheet assets | 6.4 | 2.9 | 5.4 | 5.7 |
| As % of contaminated assets | 81.4 | 63.4 | 78.1 | 72.2 |
| As % of capital | 148.8 | 10.4 | 50.3 | 540.7 |

In relation to the end of 2000, undercapitalization of Yugoslav banks was significantly reduced.

# Operating Indicators

Aggregate report on *relative business indicators* under Art. 26. and 27. of the Law on Banks for Yugoslav banks shows that as of December 31, 2001, Yugoslav banks generally speaking, complied with the following indicators: capital adequacy, short-term placements/resources ratio, share in the capital of companies ratio and share in the capital of banks ratio.

In %

| RELATIVE BUSINESS INDICATORS | 31.12.2001. | | | 31.12.2000. |
|---|---|---|---|---|
| | TRANSFORMED BANKS | NEWLY ESTA-BLISHED BANKS | TOTAL BANKS | TOTAL BANKS |
| CAPITAL ADEQUACY RATIO (min.8%) | 10.3 | 40.6 | 21.9 | 0.7 |
| SHORT-TERM PLACEMENT TO RESOURCES RATIO (>=100%) | 128.9 | 146.9 | 138.4 | 138.0 |
| F/C LIABILITIES TO F/C ASSETS RATIO (95%-105%) | 96.4 | 87.9 | 94.3 | 96.0 |
| LARGE AND LARGEST POSSIBLE EXPOSURE RATIO (max.80%) | 665.3 | 58.6 | 233.3 | 3.928.9 |
| SHARE IN CAPITAL OF COMPANIES RATIO (max.15%) | 9.2 | 4.5 | 6.0 | 17.9 |
| SHARE IN CAPITAL OF BANKS AND OFO RATIO (max.51%) | 9.1 | 3.5 | 5.2 | 33.3 |
| PLACEMENTS IN CAPITAL ASSETS RATIO (max. 20%) | 75.3 | 16.0 | 33.1 | 149.8 |

Exceeding of individual business indictors (notwithstanding the pecuniary part of equity capital requirement) was primarily reported in f/c asset/liability ratio, placements in capital assets ratio and large and largest possible exposure ratio.

Compliance of banks' operations with business indicators has significantly improved relative to 2000, in the part of capital adequacy ratio, large and largest possible exposures ratio, share in the capital of companies and placements in capital assets.

| RELATIVE BUSINESS INDICATORS | 31.12.2001. | | | 31.12.2000. |
|---|---|---|---|---|
| | TRANS-FORMED BANKS | NEWLY ES-TABLISHED BANKS | TOTAL BANKS | TOTAL BANKS |
| | NUMBER OF BANKS NOT IN COMPLIANCE | | | |
| CAPITAL ADEQUACY RATIO (min.8%) | 5 | 0 | 5 | 14 |
| SHORT-TERM PLACEMENT TO RESOURCES RATIO (>=100%) | 3 | 0 | 3 | 9 |
| F/C LIABILITIES TO F/C ASSETS RATIO (95%-105%) | 5 | 13 | 18 | 44 |
| LARGE AND LARGEST POSSIBLE EXPOSURE RATIO (max.80%) | 15 | 4 | 19 | 36 |
| SHARE IN CAPITAL OF COMPANIES RATIO (max.15%) | 4 | 2 | 6 | 13 |
| SHARE IN CAPITAL OF BANKS AND OFO RATIO (max.51%) | 4 | 0 | 4 | 5 |
| PLACEMENTS IN CAPITAL ASSETS RATIO (max. 20%) | 15 | 7 | 22 | 42 |

Non-compliance of Yugoslav banks' operations with certain relative business indicators under Art. 26 and 27 of the Law on Banks shows that the fifth of the total number of banks does not comply with 3 or more relative indicators (notwithstanding the pecuniary part of equity capital requirement), i.e. 8 "transformed" and 2 "newly-established" banks. At the end of 2000 more than a third of all banks did not comply with 3 or more business indicators. When the USD 5 mil. pecuniary part of equity capital requirement is included. As of December 31, 2000, 51 banks, i.e. 63% of all banks operating at the time, reported non-compliance with more than 3 relative business indicators.

| NUMBER OF INDICATORS NOT COMPLIED WITH[8] | 31.12.2001 | | | 31.12.2000 |
|---|---|---|---|---|
| | TRANSFORMED BANKS | NEWLY-ESTAB-LISHED BANKS | BANKS, TOTAL | BANKS, TOTAL |
| 0 | 0 | 11 | 11 | 8 |
| 1 | 5 | 13 | 18 | 19 |
| 2 | 6 | 4 | 10 | 25 |
| 3 | 3 | 2 | 5 | 9 |
| 4 | 2 | 0 | 2 | 7 |
| 5 | 2 | 0 | 2 | 8 |
| 6 | 1 | 0 | 1 | 2 |
| 7 | 0 | 0 | 0 | 2 |
| 8 | 0 | 0 | 0 | 1 |

[8] Without the pecuniary part of equity capital requirement

Only 11 banks complied with all 7 indicators (notwithstanding pecuniary part of equity capital requirement).

As of December 31, 2001, 37 banks complied with the prescribed pecuniary part of equity capital of USD 5 mil. in dinar equivalent. 12 banks reported inadequate amounts. Of 81 examined banks on December 31, 2000, 19 fulfilled this requirement.

| | 31.12.2001 | | | 31.12.2000 |
|---|---|---|---|---|
| PECUNIARY PART OF EQUITY CAPITAL | TRANSFORMED BANKS | NEWLY-ESTABLISHED BANKS | BANKS, TOTAL | BANKS, TOTAL |
| | | | | |
| USD 65 to 70 mil. | 0 | 1 | 1 | 0 |
| USD 55 to 60 mil. | 0 | 0 | 0 | 1 |
| USD 35 to 40 mil. | 0 | 1 | 1 | 0 |
| USD 30 to 35 mil. | 0 | 0 | 0 | 1 |
| USD 25 to 30 mil. | 0 | 0 | 0 | 1 |
| USD 20 to 25 mil. | 1 | 0 | 1 | 1 |
| USD 15 to 20 mil. | 1 | 2 | 3 | 1 |
| USD 10 to 15 mil. | 4 | 2 | 6 | 3 |
| USD 5 to 10 mil. | 5 | 20 | 25 | 11 |
| USD 4 to 5 mil. | 0 | 2 | 2 | 5 |
| USD 3 to 4 mil. | 2 | 2 | 4 | 7 |
| USD 2 to 3 mil. | 0 | 0 | 0 | 9 |
| USD 1 to 2 mil. | 1 | 0 | 1 | 18 |
| USD 0 to 1 mil. | 0 | 0 | 0 | 14 |
| Negative value | 5 | 0 | 5 | 9 |

When the pecuniary part of equity capital requirement is taken into account when examining banks' operations compliance, 10 banks operated in compliance with all prescribed requirements, i.e. within the established framework of business indicators set out in Art. 26 and 27 of the Law on Banks and Other Financial Organizations.

Part
3

# Bank classification

After diagnostic examination of financial standing of Yugoslav banking industry and activities carried out during 2001, the National Bank of Yugoslavia, classified all banks into A, B, C and D categories:

- Categories A and B contain sound banks, with good capital base, as well as banks which have certain problems in their operations in terms of insufficient liquidity, but with real chance of "self-rehabilitation" in a realistically short-term (specially monitored by the National Bank of Yugoslavia as problem banks).
- Category C contains banks that were, due to insolvency, put under administration of the Federal Agency for Deposit Insurance, Bank Rehabilitation, Bankruptcy and Liquidation, with the aim of their rehabilitation and subsequent regular operation.
- Category D contains banks that are undergoing bankruptcy and liquidation and do not come under the competence of the National Bank of Yugoslavia, but under the competence of the Commercial Court.
- Five banks were left unclassified:
  - 4 sound, liquid undercapitalized bank that were given a deadline for recapitalization,
  - 1 bank was placed under administration, which means that it is under constant supervision of the National Bank of Yugoslavia.

This part of the analysis will present basic balance sheet indicators for banks grouped in such a manner.[9] Since category D contains banks that no longer submit reports to the National Bank of Yugoslavia, for the purposes of this analysis, the following classification of banks was made as of December 31, 2001:

- A and B – sound banks including problem banks,
- C – banks under administration of the Federal Agency for Deposit Insurance, Bank Rehabilitation, Bankruptcy and Liquidation,
- banks given a deadline for recapitalization (Rec.)

[9] Balance sheet data analysis as of December 31, 2001 was being conducted with regard to bank classification during the preparation of this analysis, with a possibility of later amendments to the actual ranking list of banks.

- the bank under administration of the NBY (Adm).

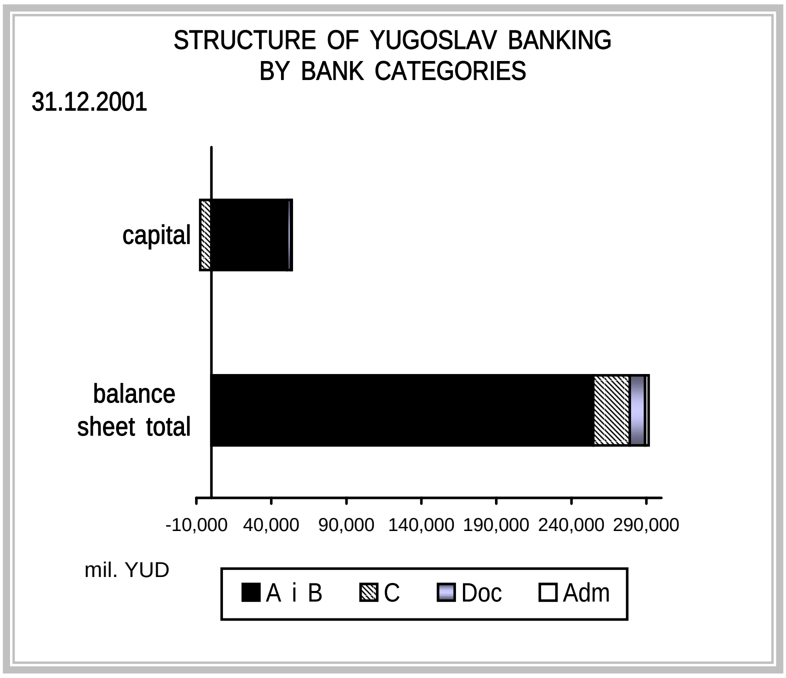
# Balance Sheet

## *Balance Sheet Total and Capital*

As of December 31, 2001 about 90% of Yugoslav banking sector, in terms of balance sheet total and amount of capital, are A and B category banks. It is characteristic of the banks under administration of the Federal Agency for Deposit Insurance, Bank Rehabilitation, Bankruptcy and Liquidation, that they reported negative capital, but due to their importance, they are undergoing a process of rehabilitation.

Amounts in mil. YUD Share in %

| CATEGORY | NUMBER OF BANKS | BALANCE SHEET TOTAL | SHARE | CAPITAL | SHARE |
|---|---|---|---|---|---|
| A and B | 39 | 254,495.8 | 87.3 | 50,516.9 | 94.2 |
| C | 5 | 24,377.6 | 8.4 | -7,445.5 | - |
| Rec. | 4 | 10,317.4 | 3.5 | 2,568.1 | 4.8 |
| Adm. | 1 | 2,269.3 | 0.8 | 546.2 | 1.0 |
| TOTAL | 49 | 291,460.1 | 100.0 | 46,185.7 | 100.0 |




The data point to the first successes in the banking sector reform in 2001, because, at the beginning of the process, about 60% of Yugoslav banking sector was in rehabilitation, with negative capital, huge losses and potential risks, all of which led to liquidation of these banks.

# Asset and liability structure

Aggregate data from reclassified balance sheets as of December 31, 2001, present the most important balance sheet items.

Amounts in mil. YUD. Share in %

| ASSETS | A and B | C | Rec. | Adm. | TOTAL |
|---|---|---|---|---|---|
| Short-term loans and placement | 63,382 | | | 791 | 66,562 |
| Share* | 24.9 | | | 34.9 | 22.8 |
| Claims from FRY for f/c savings | 55,204 | 11,299 | | | 66,787 |
| Share* | 21.7 | 46.4 | | | 22.9 |
| Long-term loans and placements | | 6,227 | 4,370 | | 49,022 |
| Share* | | 25.5 | 42.4 | | 16.8 |
| Cash and cash equivalents | | | 1,565 | 489 | 39,489 |
| Share* | | | 15.2 | 21.6 | 13.6 |
| Other assets | 135,910 | 6,852 | 4,382 | 989 | 69,600 |
| Share* | 53.4 | 28.1 | 42.4 | 43.5 | 23.9 |

| LIABILITIES | A and B | C | Rec. | Adm. | TOTAL |
|---|---|---|---|---|---|
| Sight deposits | 68,282 | | | 1,410 | 72,608 |
| Share** | 26.8 | | | 62.2 | 24.9 |
| Long-term loans | | 8,752 | 4,014 | | 40,847 |
| Share** | | 35.9 | 38.9 | | 14.0 |
| Blocked f/c savings deposits | 58,587 | 11,417 | | | 69,960 |
| Share** | 23.0 | 46.8 | | | 24.0 |
| Capital | | | 2,568 | 546 | 46,186 |
| Share** | | | 24.9 | 24.1 | 15.9 |
| Other liabilities | 127,627 | 4,209 | 3,735 | 313 | 61,859 |
| Share** | 50.2 | 17.3 | 36.2 | 13.7 | 21.2 |

*Share of the stated asset items in the total assets by bank category

** Share of the stated liability items in the total liabilities by bank category

Sound banks from categories A and B had one quarter of their balance sheet total of assets and liabilities in short-term placements and sight deposits respectively, while slightly more than 20% of assets/liabilities was blocked in f/c savings deposits, in consequence of previous period operations.

The banks under the administration of the Federal Agency for Deposit Insurance, Bank Rehabilitation, Bankruptcy and Liquidation (category C) are in a more unfavorable position since the two largest items in their aggregate balance sheet are blocked funds: f/c savings deposits and rescheduled long-term f/c loans.

Significant items for the bank under the administration of the National Bank of Yugoslavia (category Adm.) are cash and cash equivalents and sight deposits, while banks from category D (for recapitalization) are not homogenous with one large bank whose balance sheet structure is dominant.

## Off-balance sheet items

Amount in mil. YUD.

| | A and B | C | Rec. | Adm. |
|---|---|---|---|---|
| Balance sheet items | 254,496 | 24,378 | 10,318 | 2,269 |
| Off-balance sheet items | 80,662 | 6,489 | 1,153 | 414 |
| TOTAL | 335,158 | 30,867 | 11,471 | 2,683 |

The banks classified in category A and B hold 90.9% of the total off-balance sheet assets/liabilities, and it amounts to 24.1% of the aggregate balance sheet total of these banks.

# Profit and Loss Account

## *Financial results*

Aggregate data, by category, from reclassified profit and loss accounts for the period from January 01 - December 31, 2001, show that all the banks under the administration of the Federal Agency for Deposit Insurance, Bank Rehabilitation, Bankruptcy and Liquidation (category C) ended the year 2001 with a loss of YUD 7.9 bn. or 75% of all reported net loss of all banks.

Amount in mil. YUD.

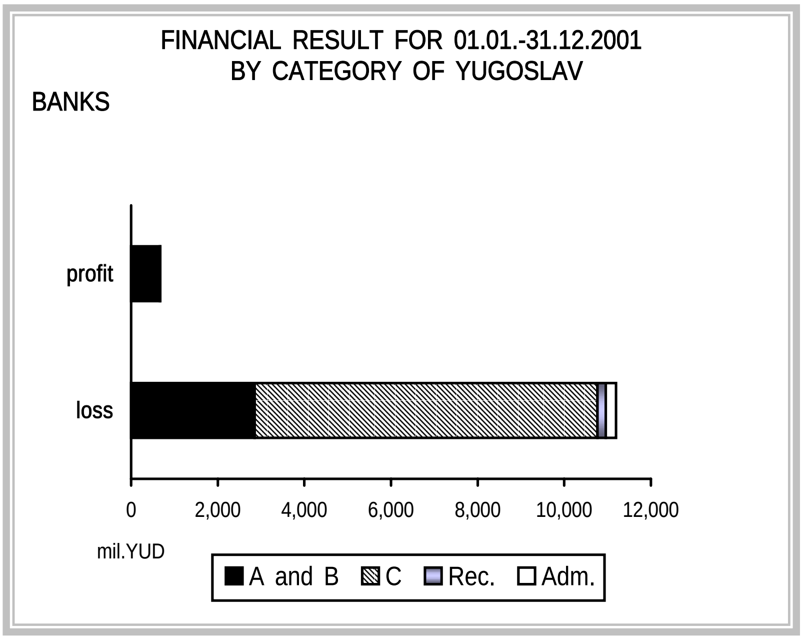
| | A and B | C | Rec. | Adm. |
|---|---|---|---|---|
| 1.LOSS | 2,851.4 | 7,916.7 | 188.3 | 241.7 |
| 2.PROFIT | 662.4 | | 12.2 | |
| FINANCIAL RESULT (2-1) | -2,189.0 | -7,916.7 | -176.1 | -241.7 |

Banks from category A and B also operated with net negative financial results of YUD 2.2 bn. primarily due to the loss reported by problem banks in the amount of YUD 2.7 bn.

In %

| INDICATORS | A and B | C | Rec. | Adm. |
|---|---|---|---|---|
| Interest and fee income to total income ratio | 52.7 | 56.2 | 51.8 | 76.4 |
| Interest and fee income to total assets ratio | 4.8 | 2.2 | 5.5 | 20.3 |
| Interest income to total placements ratio | 10.3 | 5.4 | 6.3 | 23.8 |
| Interest and fee expenses to total expenses ratio | 11.9 | 4.2 | 10.8 | 12.7 |
| Interest and fee expenses to total liabilities ratio | 1.1 | 1.2 | 1.3 | 4.5 |
| Operating expenses to total | 23.3 | 4.3 | 28.1 | 23.9 |

| | | | | |
|---|---|---|---|---|
| expenses ratio | | | | |
| Net operating expenses to net interest and fee income ratio | 60.3 | 132.6 | 75.1 | 53.7 |
| Net profit/loss to equity capital ratio | -5.8 | -6,116.5 | -8.4 | -39.8 |




All bank categories show in their profit and loss accounts a significant share of interest and fee income (over 50%). Banks from category A and B participate in the total income with app. 90% and in total expenses of Yugoslav banks with app. 74%. Banks under the administration of the Federal Agency for Deposit Insurance, Bank Rehabilitation, Bankruptcy and Liquidation (category C) reported app. 50% of the total expenses for provisions while their income participates in total income with app. 4%.

# Asset classification and business indicators

## *Asset classification*

C*lassification of balance sheet and off-balance sheet assets of banks* based on their collectibility, in aggregate amounts by categories, as of December 31, 2001, shows that, relative to the share of these bank categories in aggregate balance sheet and off-balance sheet total, contaminated assets of the banks belonging to category A and B are relatively low.

Amount in mil. YUD.

| CLASSIFICATION | A and B | C | Rec. | Adm. |
|---|---|---|---|---|
| A | 142,646.9 | 3,488.2 | 4,591.4 | 1,014.8 |
| B | 21,069.1 | 6,214.7 | 3,074.4 | 407.5 |
| C | 9,650.9 | 103.4 | 206.5 | 72.0 |
| D | 2,522.4 | 475.6 | 52.4 | 29.5 |
| E | 4,861.2 | 8,102.3 | 315.5 | 1.7 |
| TOTAL | 180,750.5 | 18,384.3 | 8,240.2 | 1,525.5 |
| | | | | |
| POTENTIAL LOAN LOSSES | 11,578.5 | 8,510.7 | 458.1 | 59.8 |

Banks under the administration of the Federal Agency for Deposit Insurance, Bank Rehabilitation, Bankruptcy and Liquidation (category C) participate in the aggregate balance sheet and off-balance sheet total of all banks with 8.1% while 61.0% of all claims classified as the worst (in E) is held by these banks. The soundest banks (classified in A and B) with the 88.2% share in the aggregate balance sheet and off-balance sheet total, hold 36.6% of all claims classified as E.

## *Relative business indicators*

Aggregate report on ***relative business indicators*** under Art. 26 and 27 of the Law on Banks and Other Financial Organizations by category shows that as of December 31, 2001, Yugoslav banks, generally speaking, complied with the following indicators: capital adequacy, short-term placements/resources ratio, share in the capital of companies ratio and share in the capital of banks ratio.

In %

| RELATIVE BUSINESS INDICATORS | A and B | C | Rec. | Adm. |
|---|---|---|---|---|
| | | | | |
| CAPITAL ADEQUACY RATIO (min.8%) | 27.6 | -64.2 | 30.0 | 37.2 |
| SHORT-TERM PLACEMENT TO RESOURCES RATIO | 139.5 | 105.7 | 144.4 | 122.9 |

| RELATIVE BUSINESS INDICATORS | A and B | C | Rec. | Adm. |
|---|---|---|---|---|
| (>=100%) | | | | |
| F/C LIABILITIES TO ASSETS RATIO (95%-105%) | 93.5 | 98.8 | 97.4 | 101.0 |
| LARGE AND LARGEST POSSIBLE EXPOSURE RATIO (max.80%) | 200.9 | -38.9 | 9.6 | 14.9 |
| SHARE IN CAPITAL OF COMPANIES RATIO (max.15%) | 4.8 | -1.9 | 6.8 | 2.2 |
| SHARE IN CAPITAL OF BANKS AND OFO RATIO (max.51%) | 4.2 | -0.7 | 10.3 | 0.3 |
| PLACEMENTS IN CAPITAL ASSETS RATIO (max. 20%) | 25.7 | -9.4 | 40.9 | 31.0 |

Due to reported negative capital in 4 out of 5 banks under the administration of the Federal Agency for Deposit Insurance, Bank Rehabilitation, Bankruptcy and Liquidation (category C), except short-term placements to resources ratio and f/c liabilities to assets ratio, other relative indicators are not complied with.

All bank categories reported excessive placements into capital assets ratio and in category A and B banks, there is a significant non-compliance of large and largest exposures ratio.

All banks whose operations were brought completely in compliance with requirements set out in Art. 26 and 27 of the Law on Banks, 10 in all, belong to category A and B.

As of December 31, 2001, 12 banks reported insufficient amount of the pecuniary part of equity capital, all of which from category C, 3 of 4 banks from category Rec. and 4 banks from category A and B.