



NATIONAL BANK OF YUGOSLAVIA

**Financial statements
for the year ended 31 December 2001**

Belgrade, 27 June 2002

**FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2001**

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NATIONAL BANK OF YUGOSLAVIA
GOVERNOR

Belgrade, 200
Kralja Petra 12

Belgrade, 27 June 2002

Governor's Report

Statement of Management's responsibilities

Management of the National Bank of Yugoslavia is responsible for ensuring that the National Bank of Yugoslavia maintains accounting records which disclose accurately and completely the financial position of the National Bank of Yugoslavia and which enable the financial statements to comply with Yugoslav laws, decrees and regulations in force, applicable to the National Bank of Yugoslavia. Management also has a legal responsibility for taking such steps as are reasonable to safeguard the assets of the National Bank of Yugoslavia and to prevent and detect fraud and other irregularities.

Management considers that, in preparing the financial statements set out on pages 4 to 41, the National Bank of Yugoslavia has used appropriate accounting policies, supported by reasonable, conservative and prudent judgements and estimates, in accordance with International Accounting Standards ("IAS") as promulgated by the International Accounting Standards Board, except for International Accounting Standard no. 29 – Financial Reporting in Hyperinflationary Economies.

Mladen Dinkić





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Independent Auditor's Report

TO THE MANAGEMENT OF THE NATIONAL BANK OF YUGOSLAVIA

We have audited the accompanying balance sheet of the National Bank of Yugoslavia ("the Bank") as at 31 December 2001 and the related statement of income, cash-flow statement and statement on changes in equity for the year then ended ("the financial statements"). These financial statements as set out on pages 4 to 41 are the responsibility of the management of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in the Note 3 (a), the Bank has not applied International Accounting Standard no. 29 – Financial Reporting in the Hyperinflationary Economies. Management believes that the application of this standard is not appropriate for the Bank since a vast majority of the Bank's assets is in foreign currencies and the exchange rate of Yugoslav currency was stable throughout the period ended 31 December 2001.

As discussed in paragraphs (b) and (c) of the Note 24, short term borrowings in foreign currency amounting to YUD 13,534 million are in default.





In our opinion, except for the effects on the financial statements of the matters referred to in the preceding paragraphs, the financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2001 and results of its operations, cash flow and changes in equity for the year then ended in accordance with the International Accounting Standards as promulgated by the International Accounting Standards Board.

27 June 2002

KPMG Hungary Kft. Budapest

A blue ink signature of John Varsanyi, written in a cursive style.

John Varsanyi
Partner

KPMG d.o.o. Belgrade

A blue ink signature of Nina Bulatović, written in a cursive style.

Nina Bulatović
Partner

NATIONAL BANK of YUGOSLAVIA

Income Statement for the year ended 31 December 2001
(all amounts in millions of YUD)=

	<u>Notes</u>	<u>2001</u>	<u>2000</u>
Interest income	4	3,453	1,500
Interest expense	5	(3,170)	(4,916)
Net interest margin		283	(3,416)
Fee and commission income	6	6,268	2,679
Fee and commission expense		(945)	(53)
Net fee and commission income		5,323	2,626
Foreign exchange gain (net)		1,639	21,219
Expenses relating to the repatriation of citizens' savings		(620)	(1,530)
Specific provisions for losses and impairment (net)	7	3,592	(30,258)
Other operating income		657	422
Other operating expenses	8	<u>(5,497)</u>	<u>(3,675)</u>
Result for the year		<u>5,377</u>	<u>(14,612)</u>

The accompanying notes on pages 9 to 41 form an integral part of these financial statements.

NATIONAL BANK of YUGOSLAVIA

Balance Sheet as at 31 December 2001
(all amounts in millions of YUD)=

ASSETS	Notes	2001	2000
Foreign assets			
Gold	10	11,164	17,396
Special Drawing Rights		579	1,300
Convertible foreign currencies	11	66,057	23,583
International Monetary Fund	12	39,741	38,473
Loans to banks in foreign currency	13	31	1,115
Other foreign assets	14	1,825	344
Total foreign assets		119,397	82,211
Domestic assets			
Cash and cash equivalents		1,048	634
Loans to banks in dinars	15	173	300
Loans to the Government and other state institutions	16	2,905	933
Securities	17	11,577	570
Investments in associates		25	14
Inventories	18	553	544
Intangible and tangible assets	19	8,425	5,630
Other domestic assets	20	3,780	2,484
Total domestic assets		28,486	11,109
Total assets		147,883	93,320

The accompanying notes on pages 9 to 41 form an integral part of these financial statements.

NATIONAL BANK of YUGOSLAVIA

Balance Sheet as at 31 December 2001
(all amounts in millions of YUD)

LIABILITIES and EQUITY	Notes	2001	2000
Foreign liabilities			
International Monetary Fund	22	62,989	52,754
Deposits in foreign currency	23	20,180	11,768
Borrowings in foreign currency	24	14,564	12,634
Other foreign liabilities	25	2,589	2,745
Total foreign liabilities		100,322	79,901
Dinars in circulation	26	25,452	10,932
Domestic liabilities			
Deposits in dinars	27	19,778	9,113
Other domestic liabilities	28	2,018	1,391
Total domestic liabilities		21,796	10,504
Equity			
Capital		3,319	3,083
Revaluation reserve		6,229	3,512
Accumulated gain/(loss)		(14,612)	-
Result for the year		5,377	(14,612)
Total equity	30	313	(8,017)
Total liabilities and equity		147,883	93,320

Contingent liabilities 31

Belgrade, 27 June 2002


Mladen Dinkić, MA
Governor of the National Bank of Yugoslavia



The accompanying notes on pages 9 to 41 form an integral part of these financial statements.

NATIONAL BANK of YUGOSLAVIA

Cash Flow Statement for the year ended 31 December 2001
(all amounts in millions of YUD)=

	<u>2001</u>
Net profit for the year	5,377
Adjustment for non-cash items	
Depreciation	440
Specific provision for losses and impairments (net)	(3,592)
Loss on disposal of tangible assets	423
Unrealised exchange rate losses and gains (net)	<u>1,161</u>
Adjusted net profit	<u>3,809</u>
Changes in operating assets and liabilities	
Increase in non-cash foreign assets	(25,973)
Increase in non-cash domestic assets	(9,102)
Increase in foreign liabilities	17,765
Increase in domestic liabilities	11,292
Increase in dinars in circulation	<u>14,520</u>
Cash generated from operating activities	<u>8,502</u>
Investing activities	
Additions of property and equipment	<u>(726)</u>
Cash used in investing activities	<u>(726)</u>
Net cash increase	<u>11,585</u>
Cash and cash equivalents as at 31 December 2000 (Note 9)	17,340
Cash and cash equivalents as at 31 December 2001 (Note 9)	<u>28,925</u>
Net cash increase	<u>11,585</u>

The accompanying notes on pages 9 to 41 form an integral part of these financial statements.

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Statement of Changes in Equity for the year ended 31 December 2001
(all amounts in millions of YUD)=

	<u>Capital</u>	<u>Revaluation reserve</u>	<u>Accumulated gain/(loss)</u>	<u>Introduction of IAS 39</u>	<u>Total equity</u>
Balance as at 1 January 2000	3,083	-	-	-	3,083
Revaluation of tangible assets	-	2,722	-	-	2,722
Other	-	790	-	-	790
Result for the year	<u>-</u>	<u>-</u>	<u>(14,612)</u>	<u>-</u>	<u>(14,612)</u>
Balance as at 31 December 2000	<u>3,083</u>	<u>3,512</u>	<u>(14,612)</u>	<u>-</u>	<u>(8,017)</u>
Balance as at 1 January 2001	3,083	3,512	(14,612)	-	(8,017)
Effect of application of IAS 39 on opening accumulated gain/(loss)	-	-	1,051	(1,051)	-
Contribution of the Federal State in tangible assets	236	-	-	-	236
Revaluation of intangible and tangible assets	-	2,145	-	-	2,145
Other	-	572	-	-	572
Result for the year	<u>-</u>	<u>-</u>	<u>5,377</u>	<u>-</u>	<u>5,377</u>
Balance as at 31 December 2001	<u>3,319</u>	<u>6,229</u>	<u>(8,184)</u>	<u>(1,051)</u>	<u>313</u>

The accompanying notes on pages 9 to 41 form an integral part of these financial statements.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

1 Principal activities of the Bank

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

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

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

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

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

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

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

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

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Notes to the financial statements=

As at 31 December 2001, the number of employees in the Bank was 9,744 (as at 31 December 2000 – 9,922 employees).

2 Separation of the balance sheet of the Bank

From the establishment of FRY in 1992 until the change of the government in October 2000, the FRY government had lead the consistent policy of considering itself as the single successor state of SFRY. Thereby, the Bank had continued to keep records in its balance sheet of all assets and liabilities of the Bank that had been originating before the break-up of the SFRY regardless on which of the republics of former SFRY they related to.

After the change of the Government, FRY was accepted as the new member country of the United Nations. The application represented the termination of the single successor policy of FRY.

On 29 June 2001 foreign ministers of Bosnia and Herzegovina, the Republic of Croatia, the Republic of Macedonia, the Republic of Slovenia and the Federal Republic of Yugoslavia (“Succession Countries”) signed the Agreement on Succession Issues (“the Agreement”).

The Agreement defines Bosnia and Herzegovina, the Republic of Croatia, the Republic of Macedonia, the Republic of Slovenia and the Federal Republic of Yugoslavia, in sovereign equality, as the five successor states to the former SFRY.

The document shall enter into force thirty days after the Parliaments of all succession countries ratify the Agreement. By the date of this report, the Agreement had been ratified by the Parliaments of Bosnia and Herzegovina, and Macedonia.

Subsequent to the Agreement on Succession Issues, the Parliament of the FRY in February 2002 enacted the Law on:

- preparing the balance sheet of the National Bank of Yugoslavia in the SFRY (“NBY-SFRY”),
- preparing the balance sheet of the Bank in the FRY (“NBY-FRY”), and
- covering the excess of expenditures over revenues.

The legal basis for this Law is the Law on Ratification of the Agreement on Succession Issues that is expected to be adopted.

As at 1 November 2001, the Bank had extracted from the balance sheet of the NBY-FRY, the assets and liabilities that belong to other succession countries and transferred them into the balance sheet of the NBY-SFRY.

Following the policy of sovereign equality, the Bank had decided to include within the balance sheet of the NBY-FRY only the assets and liabilities for which the Agreement was signed with the representatives of foreign borrowers and where, according to Yugoslav laws, the Bank was nominated as bearer of obligations.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

During year 2001 and up until the date of this Report, following agreements and their related Yugoslav laws have been adopted:

European Union:

- Loan agreement between the European Community as lender, the Federal Republic of Yugoslavia as borrower and the National Bank of Yugoslavia as agent to the borrower dated 14 September 2001 (The Federal Parliament has verified this Agreement by passing a Law – "Official Gazette of FRY – International Agreements" no 7/01)
- Law on Indebtedness of the Federal Republic of Yugoslavia towards the European Community ("Official Gazette of FRY" no 53/01)
- Federal Government's Decision on Settlement of the Federal Republic of Yugoslavia's Liabilities towards the European Community ("Official Gazette of FRY" no 6/02).

International Bank for Reconstruction and Development:

- Loan agreement between the International Bank for Reconstruction and Development as lender and the Federal Republic of Yugoslavia as borrower dated 17 December 2001 (The Federal Parliament has verified this Agreement by passing a Law – "Official Gazette of FRY – International Agreements" no 13/01)
- Law on Indebtedness of the Federal Republic of Yugoslavia towards the International Bank for Reconstruction and Development ("Official Gazette of FRY" no 69/01)
- Federal Government's Decision on Settlement of the Federal Republic of Yugoslavia's Liabilities towards the International Bank for Reconstruction and Development ("Official Gazette of FRY" no 13/02).

Paris and London club of borrowers:

- Multilateral agreement between the Government of the Federal Republic of Yugoslavia and representatives of the Paris club of borrowers member nations relating to restructuring of the Federal Republic of Yugoslavia's debt towards this club
- Bilateral agreements between the Government of the Federal Republic of Yugoslavia and representatives of the Paris club of borrowers member nations (Spain, Denmark, Norway, Netherlands, Germany, Sweden, United Kingdom) relating to restructuring of the Federal Republic of Yugoslavia's debt towards individual nations
- Law on regulating relations between the Federal Republic of Yugoslavia and legal entities and banks from the territory of the Federal Republic of Yugoslavia that were original debtors or guarantors towards the Paris and London clubs of borrowers.

As at the date of the report, discussions with the London club of borrowers are still under progress, and an agreement has yet to be reached.

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Notes to the financial statements=

According to these agreements and laws, the Bank had been nominated as fiscal agent of the republics of FRY that are defined as debtors towards foreign borrowers. Following the provisions of these acts, the related assets and liabilities in the balance sheet of the NBY-SFRY should not be considered as part of the balance sheet of the NBY-FRY.

After the adoption of the abovementioned laws, the assets of the former SFRY that remain to be agreed either between the successor states or between the FRY and the foreign counter-parties are:

- frozen assets held with banks abroad, and
- receivables from clearing relations with the Soviet Union (now assumed by the Russian Federation) and other former socialist or developing countries' central banks

The resolution of the future status of these receivables might influence the result of the NBY-FRY in the year when the funds are received.

3 Summary of significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretation Committee of IASB, except for International Accounting Standard no. 29 – Financial Reporting in Hyperinflationary Economies.

Management believes that the application of this standard is not appropriate for the Bank since a vast majority of the Bank's assets is in foreign currencies and the exchange rate of Yugoslav currency were stable throughout the period ended 31 December 2001.

(b) Basis of preparation

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

In accordance with the changes explained in the Note 2, for the preparation of financial statements for the year 2001 for the NBY-FRY, corresponding figures from the financial statements for the year 2000 had been extracted for the assets and liabilities, as well as income and expenses, that do not belong to the Bank. The extracted balance sheet and income statement for the year 2000 are presented in the Note 37.

It has been impractical to prepare comparative information on the cash flow statement for the year 2000, since that was the first year the financial statements have been prepared in accordance with IAS.

The financial statements include operations of the organisational units of the Bank with the exception of units in the Republic Branch Office in Podgorica, the Branch Office in Priština and ZOP Kosovo. The units have been excluded from these financial statements as the regions within which these units operate have adopted a currency other than the Yugoslav

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Notes to the financial statements=

dinar and are currently not under the control of the Bank's management. In addition, comprehensive accounting records are not available due to the Bank's lack of control over these units. Management believe that the assets and liabilities, including contingent liabilities of these units are not significant.

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

(c) Financial instruments

(i) Classification

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

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

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

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

(ii) Recognition

Settlement date accounting has been adopted to record transactions.

(iii) Measurement

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

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

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Notes to the financial statements=

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

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

(iv) Specific instruments

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

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

Investments in associate entities have not been equity accounted on the grounds of immateriality.

Deposits are stated at their original nominal value.

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

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

Derivatives – the Bank does not trade in any derivatives.

(d) Intangible and tangible assets

(i) Recognition

All tangible and intangible assets are initially recorded at cost.

(ii) Classification

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

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Notes to the financial statements=

(iii) Measurement

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

Cost of intangible and tangible assets is revalued annually. The effects of revaluation of tangible and intangible assets are credited to the revaluation reserve in the equity. The Bank's management believes that retail price increase (2001: 38.7%, 2000: 113.3%) is the appropriate estimate of the fair value increase of intangible and tangible assets.

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

(iv) Depreciation

Depreciation of intangible and tangible assets is provided on a straight-line basis at the prescribed rates to amortise the cost or valuation of assets over their estimated useful lives. The following depreciation rates have been applied during 2001:

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

Depreciation is charged to the income statement.

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

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

(f) Investment property

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

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Notes to the financial statements=

Investment property is stated at the value initially determined by the Government regulated institutions less accumulated depreciation. At the balance sheet date the value of investment property is revalued. The effect of revaluation of investment property is credited to the revaluation reserve in the equity. The Bank's management believes that retail price increase (2001: 38.7%, 2000: 113.3%) is the appropriate estimate of the fair value increase of investment property.

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

(g) Inventories

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

(h) Foreign currency translation

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

	<u>31 December 2001</u>	<u>31 December 2000</u>
DEM	30.5269	30.0000
FRF	9.1020	8.9450
ITL	0.0308	0.030305
CHF	40.3159	38.5346
USD	67.6702	63.1659
EUR	59.7055	58.6750
SDR	84.97	82.26

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

(i) Interest income and expense

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

(j) Fee and commission income and expense

Fee income and expenses are recognised in the income statement when earned or incurred.

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

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Notes to the financial statements=

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

(k) Tax

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

4 Interest income

Interest income for the year comprises:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Foreign operations		
Interest on deposits with foreign banks	1,011	117
Other income	<u>500</u>	<u>38</u>
Total foreign interest income	1,511	155
Domestic operations		
Interest on loans to domestic banks	921	384
Interest on loans to the Government and other state institutions	214	513
Interest on securities	<u>807</u>	<u>448</u>
Total domestic interest income	1,942	1,345
	<u> </u>	<u> </u>
Total interest income	<u>3,453</u>	<u>1,500</u>

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

5 Interest expense

Interest expense for the year comprises:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Foreign operations		
Interest on borrowings from banks	1,528	715
Interest on International Monetary Fund borrowings		
- current year	778	441
- prior years	-	3,342
Total foreign interest expense	2,306	4,498
Domestic operations		
Interest on deposits from banks	410	261
Interest on securities issued	451	131
Other	3	26
Total domestic interest expense	864	418
Total interest expense	3,170	4,916

6 Fee and commission income

Fee and commission income for the year comprises:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Payment traffic fee		
- domestic payments	4,706	2,492
- payments abroad	503	112
	5,209	2,604
Commission on purchase and sale of foreign currency	1,032	42
Other	27	33
Total fee and commission income	6,268	2,679

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Notes to the financial statements=

7 Specific provisions for losses and impairment (net)

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

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Gold	-	(16,280)
Convertible foreign currencies	(1,103)	-
Loans to banks in foreign currency	(139)	(3,600)
Other foreign assets	(211)	(2,013)
Loans to banks in dinars	(118)	(975)
Loans to the Government and other state institutions	2,106	(3,626)
Securities	2,903	(3,098)
Other domestic assets	155	(622)
Other	(1)	(44)
Total	<u>3,592</u>	<u>(30,258)</u>

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

8 Other operating expenses

Other operating expenses for the year comprise:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Depreciation	440	160
Salaries and other personnel costs	2,419	1,370
Other operating costs	2,109	1,384
Other	529	761
Total operating expenses	<u>5,497</u>	<u>3,675</u>

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

9 Cash and cash equivalents

Cash and cash equivalents in the Cash Flow Statement comprise:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Cash and cash equivalents in dinars	1,048	634
Special Drawing Rights	579	1,300
Foreign currency current accounts held with domestic banks	31	43
Foreign currency current accounts held with banks abroad	2,734	192
Foreign currency in cash in the Bank's vaults	<u>24,533</u>	<u>15,171</u>
Balance as at 31 December	<u>28,925</u>	<u>17,340</u>

10 Gold

Gold reserves comprise:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Gold held in the Bank's vaults	5,876	7,987
Gold held with foreign banks	5,288	25,689
Specific provision (Note 21)	<u>-</u>	<u>(16,280)</u>
	5,288	9,409
Balance as at 31 December	<u>11,164</u>	<u>17,396</u>

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

11 Convertible foreign currencies

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

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Foreign currency current accounts with domestic banks	31	43
Foreign currency current accounts held with banks abroad	3,233	192
Specific provision (Note 21)	(499)	-
	<u>2,734</u>	<u>192</u>
Foreign currency deposits at banks abroad	39,363	8,177
Specific provision (Note 21)	(604)	-
	<u>38,759</u>	<u>8,177</u>
Foreign currency in cash in the Bank's vaults	<u>24,533</u>	<u>15,171</u>
Balance as at 31 December	<u>66,057</u>	<u>23,583</u>

12 International Monetary Fund

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

In December 2000, the Federal Republic of Yugoslavia re-activated its status with the IMF after the period of sanctions imposed by the United Nations since 1992. At the end of 2001, the Federal Republic of Yugoslavia's quota with the IMF amounted to SDR 467,700,000.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

13 Loans to banks in foreign currency

Loans to banks in foreign currency are placed in banks and other domestic financial institutions.

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Short term loans	170	1,115
Specific provision (Note 21)	(139)	-
	31	1,115
Long term loans	3,857	3,600
Specific provision (Note 21)	(3,857)	(3,600)
	-	-
Balance as at 31 December	<u>31</u>	<u>1,115</u>

14 Other foreign assets

Other foreign assets comprise:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Shares in:		
- European Bank for Reconstruction and Development	1,465	-
- Bank for International Settlement, Basel	320	192
	1,785	192
Other	2,012	2,165
Specific provision (Note 21)	(1,972)	(2,013)
	40	152
Balance as at 31 December	<u>1,825</u>	<u>344</u>

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

15 Loans to banks in dinars

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Short term loans	502	491
Specific provision (Note 21)	<u>(502)</u>	<u>(326)</u>
	-	165
Long term loans	764	784
Specific provision (Note 21)	<u>(591)</u>	<u>(649)</u>
	173	135
	<hr/>	<hr/>
Balance as at 31 December	<u>173</u>	<u>300</u>

16 Loans to the Government and other state institutions

Loans to the Government and other state institutions comprise:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Short term loans	840	42
Specific provision (Note 21)	<u>(171)</u>	<u>(42)</u>
	669	-
Long term loans	3,585	4,517
Specific provision (Note 21)	<u>(1,349)</u>	<u>(3,584)</u>
	2,236	933
	<hr/>	<hr/>
Balance as at 31 December	<u>2,905</u>	<u>933</u>

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

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

17 Securities

Securities comprise:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Bonds issued by banks	1,543	1,840
Specific provision (Note 21)	(646)	(1,288)
	<u>897</u>	<u>552</u>
 Bonds issued by the state utilities	 1,804	 1,000
Specific provision (Note 21)	(127)	(1,000)
	<u>1,677</u>	<u>-</u>
 Bonds issued by the Republic of Serbia	 8,979	 780
Specific provision (Note 21)	-	(780)
	<u>8,979</u>	<u>-</u>
 Other securities	 30	 48
Specific provision (Note 21)	(6)	(30)
	<u>24</u>	<u>18</u>
	<u> </u>	<u> </u>
 Balance as at 31 December	 <u>11,577</u>	 <u>570</u>

18 Inventories

Inventories comprise:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Inventories of banknotes and coins production	197	168
Stationery and other	<u>356</u>	<u>376</u>
 Balance as at 31 December 2000	 <u>553</u>	 <u>544</u>

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

19 Intangible and fixed assets

Movements in intangible and fixed assets during 2001 are as follows:

<u>In millions of YUD</u>	<u>Land and buildings</u>	<u>Equipment and other fixed assets</u>	<u>Fixed assets under construction</u>	<u>Intangible assets</u>	<u>Investment property</u>	<u>Total</u>
<u>Cost</u>						
Balance as at 1 January 2001	3,133	3,929	2,022	105	-	9,189
Increase						
Additions	12	464	722	85	236	1,519
Transfer	15	180	(195)	-	-	-
Revaluation	1,139	1,580	791	47	69	3,626
Decrease						
Disposals/write-offs	-	(202)	(336)	-	-	(538)
Balance as at 31 December 2001	4,299	5,951	3,004	237	305	13,796
<u>Accumulated depreciation</u>						
Balance as at 1 January 2001	949	2,552	-	58	-	3,559
Increase						
Depreciation charge for the year	42	379	-	17	2	440
Revaluation	369	1,080	-	31	1	1,481
Other	-	23	-	16	-	39
Decrease						
Disposals/write-offs	-	(148)	-	-	-	(148)
Balance as at 31 December 2001	1,360	3,886	-	122	3	5,371
Net book value						
As at 31 December 2001	2,939	2,065	3,004	115	302	8,425
Net book value						
As at 31 December 2000	2,184	1,377	2,022	47	-	5,630

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

20 Other domestic assets

Other domestic assets comprise:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Advances paid	470	795
Specific provision (Note 21)	<u>(164)</u>	<u>(230)</u>
	306	565
Receivables from sales of foreign currency	688	766
Interest receivable	749	695
Specific provision (Note 21)	<u>(410)</u>	<u>(596)</u>
	339	99
Other	3,300	2,040
Specific provision (Note 21)	<u>(853)</u>	<u>(986)</u>
	2,447	1,054
	<u> </u>	<u> </u>
Balance as at 31 December	<u>3,780</u>	<u>2,484</u>

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

21 Movements in specific provision for losses and impairments

The following table provides movements in specific provision for losses and impairments during 2001:

<u>In millions of YUD</u>	Gold (Note 10)	Convertible foreign currencies (Note 11)	Loans to banks in foreign currency (Note 13)	Other foreign currency assets (Note 14)	Loans to banks in dinars (Note 15)	Loans to the Government and other state institutions (Note 16)	Securities (Note 17)	Other domestic assets (Note 20)	Other	Total
As at 1 January 2001	16,280	-	3,600	2,013	975	3,626	3,098	1,812	44	31,448
Transfer between categories	-	-	-	(354)	-	-	584	(230)	-	-
Provision for loss and impairments against 2001 portfolio	-	1,103	139	328	197	240	-	289	3	2,299
Reversal of provision for losses and impairments during 2001	-	-	-	(117)	(79)	(2,346)	(2,903)	(444)	(2)	(5,891)
Write-off	(16,280)	-	-	-	-	-	-	-	-	(16,280)
Exchange rate loss	-	-	257	102	-	-	-	-	-	359
As at 31 December 2001	-	1,103	3,996	1,972	1,093	1,520	779	1,427	45	11,935

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

22 International Monetary Fund

Short term deposits of International Monetary Fund comprise:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Securities for regulating membership in IMF	39,742	38,474
Bridging loan	9,935	9,618
Stand-by arrangement	8,497	-
SDR allocation	<u>4,815</u>	<u>4,662</u>
Balance as at 31 December	<u>62,989</u>	<u>52,754</u>

On 11 June 2001, the International Monetary Fund approved a one-year Stand-by arrangement with the Bank in the total amount of SDR 200 million. As at 31 December 2001, the International Monetary Fund has extended two instalments to the Bank totalling SDR 100 million.

The last two instalments amounting to SDR 100 million were extended in 2002. The Stand-by arrangement expired on 13 May 2002.

23 Deposits in foreign currency

Deposits in foreign currency comprise:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Demand deposits		
- banks	141	130
- Government and other state institutions	<u>4,354</u>	<u>3,018</u>
	4,495	3,148
Short term deposits	13,524	8,600
Long term deposits	446	20
Deposits without specified maturity	<u>1,715</u>	<u>-</u>
Balance as at 31 December	<u>20,180</u>	<u>11,768</u>

Included in short term deposits is an amount of YUD 4,380 million relating to the obligation of commercial banks to place a minimum of 50% foreign currency deposit with the Bank as a collateral for citizens' savings.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

24 Borrowings in foreign currency

Borrowings in foreign currency consist of:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Short term borrowings	13,534	6,317
Long term borrowings	<u>1,030</u>	<u>6,317</u>
Balance as at 31 December	<u>14,564</u>	<u>12,634</u>

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

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Bank of China	6,767	6,317
Export-Import Bank of China	<u>6,767</u>	<u>-</u>
Total	<u>13,534</u>	<u>6,317</u>

(b) The entire amount of short term foreign currency borrowing from Bank of China relates to a loan in the amount of USD 100 million originally extended in 1997, which after rescheduling was due to be repaid by December 2001. Interest is being accrued and paid on this loan. As at 31 December 2001, the loan is in default.

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

(d) The entire amount of long term foreign currency borrowing of YUD 1,030 million relates to a loan in the amount of EURO 17.25 million from an OECD Government. The loan was extended with a grace period until January 2006 and will be due in full by January 2011. The loan does not bear any interest.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

25 Other foreign liabilities

Other foreign liabilities comprise:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Interest accruals	686	199
Other liabilities with non-OECD central banks	841	823
Deferred liability and interest income	-	382
European Bank for Reconstruction and Development	435	-
Expenses accrued relating to the repatriation of citizens' savings	350	350
Other	277	991
Balance as at 31 December	<u>2,589</u>	<u>2,745</u>

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

26 Dinars in circulation

Banknotes and coins in circulation in amount of YUD 25,452 million (YUD 10,932 million in 2000) represent an obligation of the Bank to the holders of banknotes and coins.

27 Deposits in dinars

Deposits in dinars comprise:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Demand deposits of domestic banks	7,726	3,893
Obligatory reserves of domestic banks	8,025	3,713
Treasury bills	724	549
Bank for International Settlement, Basel	320	192
Other	2,983	766
Balance as at 31 December	<u>19,778</u>	<u>9,113</u>

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

28 Other domestic liabilities

Other domestic liabilities consist of:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Deferred income	183	247
Other provisions	-	148
Liabilities from sales of foreign currency	360	-
Suppliers and advances received	113	227
Issued promissory notes	107	127
Employee housing deposits	517	410
Other	738	232
Balance as at 31 December	2,018	1,391

29 Fair value information

The following table is a comparison of the carrying amounts (after impairment adjustments) and fair values of all Bank's financial assets and liabilities that are not carried at fair value:

<u>In millions of YUD</u>	<u>2001</u> <u>Carrying amount</u>	<u>2001</u> <u>Fair value</u>
Financial assets		
- Loans to banks in foreign currency	31	31
- Other foreign assets	1,825	1,825
- Loans to banks in dinars	173	173
- Loans to the Government and other state institutions	2,905	2,905
- Securities	11,577	11,577
- Investments in associates	25	25
- Other domestic assets	3,780	3,780
Financial liabilities		
- Deposits in foreign currency	20,180	20,180
- Borrowings in foreign currency	14,564	14,564
- Other foreign liabilities	2,589	2,589
- Deposits in dinars	19,778	19,778
- Other domestic liabilities	2,018	2,018

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

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

(a) Loans and advances carried at cost

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

(b) Bank and customer deposits

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

(c) Borrowings

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

30 Equity

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

31 Contingent liabilities and commitments

Liabilities relating to the repatriation of citizens' savings

The contingent liability relating to the Bank's obligation arising from the repatriation and settlement of citizens' foreign currency savings in accordance with the Law on Settlement of Citizens' Foreign Currency Savings (1998) with expected payment structure is presented below.

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
Up to one year	2,636	1,260
More than one but not more than five years	11,509	8,550
More than five years	<u>18,499</u>	<u>22,200</u>
Balance as at 31 December	<u>32,644</u>	<u>32,010</u>

The Federal Parliament has adopted the new Law on Settlement of the FRY's Public Debt for Citizens' Foreign Currency Savings on 20 June 2002. In the new Law, the governments of the member republics of the Federal Republic of Yugoslavia are the sole debtors in respect to the outstanding liability relating to citizens' foreign currency savings as at 31 March 2002.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

32 Funds managed

As at 31 December 2001, funds managed by the Bank as an agent on behalf of the Federal Republic of Yugoslavia comprise of:

<u>In millions of YUD</u>	<u>2001</u>	<u>2000</u>
EURO banknotes in the Bank's vaults for conversion purposes	19,494	-
Non-convertible foreign currencies	<u>53</u>	<u>177</u>
Balance as at 31 December	<u>19,547</u>	<u>177</u>

No liability is assumed by the Bank for funds managed.

33 Risk management policies

(i) Liquidity risk

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

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

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

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

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

Note 34 provides an analysis of the Bank's financial assets and liabilities based on the remaining periods to repayment.

(ii) Interest rate risk

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

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

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

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

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

Note 35 provides an analysis of the Bank's interest rate risk exposure as at 31 December 2001.

(iii) Currency risk

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

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

Note 36 provides an analysis of the Bank's foreign currency exposure as at 31 December 2001.

(iv) Credit risk

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

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

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

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

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

34 Liquidity risk

The amount of financial assets and liabilities analysed over the remaining period at 31 December 2001 to the contractual maturity date is as follows:

<u>In millions of YUD</u>	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
FINANCIAL ASSETS						
Gold	11,164	-	-	-	-	11,164
Special Drawing Rights	579	-	-	-	-	579
Convertible foreign currencies	65,218	839	-	-	-	66,057
Loans to banks in foreign currency	31	-	-	-	-	31
Cash and cash equivalents	1,048	-	-	-	-	1,048
Loans to banks in dinars	-	-	-	72	101	173
Loans to the Government and other state institutions	-	-	834	2,066	5	2,905
Securities	-	-	9,900	1,677	-	11,577
Other domestic assets	1,550	-	166	698	-	2,414
TOTAL FINANCIAL ASSETS	79,590	839	10,900	4,513	106	95,948
FINANCIAL LIABILITIES						
International Monetary Fund	-	-	-	18,432	-	18,432
Deposits in foreign currency	8,438	11,742	-	-	-	20,180
Borrowings in foreign currency	13,534	-	-	-	1,030	14,564
Other foreign liabilities	2,589	-	-	-	-	2,589
Dinars in circulation	25,452	-	-	-	-	25,452
Deposits in dinars	18,734	724	-	-	-	19,458
Other domestic liabilities	570	-	-	931	-	1,501
TOTAL FINANCIAL LIABILITIES	69,317	12,466	-	19,363	1,030	102,176
Liquidity gap	10,273	(11,627)	10,900	(14,850)	(924)	(6,228)

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

35 Interest rate risk

The period of notice required to change interest rates as at 31 December 2001 is:

<u>In millions of YUD</u>	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>Over 1 year</u>	<u>Total</u>
FINANCIAL ASSETS					
Gold	5,288	-	-	-	5,288
Special Drawing Rights	579	-	-	-	579
Convertible foreign currencies	40,685	839	-	-	41,524
Loans to banks in dinars	-	-	-	173	173
Loans to the Government and other state institutions	-	-	-	2,905	2,905
Securities	10,680	-	897	-	11,577
Other domestic assets	475	-	135	-	610
TOTAL FINANCIAL ASSETS	57,707	839	1,032	3,078	62,656
FINANCIAL LIABILITIES					
International Monetary Fund	23,247	-	-	-	23,247
Deposits in foreign currency	4,380	-	7,362	-	11,742
Borrowings in foreign currency	-	-	13,534	-	13,534
Deposits in dinars	8,749	-	-	-	8,749
TOTAL FINANCIAL LIABILITIES	36,376	-	20,896	-	57,272
Interest rate gap	21,331	839	(19,864)	3,078	5,384

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

36 Currency risk

The amount of assets and liabilities denominated in dinars and in foreign currency as at 31 December 2001 is analysed below:

<u>In millions of YUD</u>	<u>EUR</u>	<u>USD</u>	<u>SDR</u>	<u>Gold</u>	<u>Other</u>	<u>Total</u>
FOREIGN ASSETS						
Gold	-	-	-	11,164	-	11,164
Special Drawing Rights	-	-	579	-	-	579
Convertible foreign currencies	46,475	16,011	-	-	3,571	66,057
International Monetary Fund	-	-	39,741	-	-	39,741
Loans to banks in foreign currency	31	-	-	-	-	31
Other foreign assets	1,465	-	-	-	360	1,825
TOTAL FOREIGN ASSETS	47,971	16,011	40,320	11,164	3,931	119,397
FOREIGN LIABILITIES						
International Monetary Fund	-	-	62,989	-	-	62,989
Deposits in foreign currency	13,526	5,826	-	-	828	20,180
Borrowings in foreign currency	1,030	13,534	-	-	-	14,564
Other foreign liabilities	1,687	677	-	-	225	2,589
TOTAL FOREIGN LIABILITIES	16,243	20,037	62,989	-	1,053	100,322
Currency gap	31,728	(4,026)	(22,669)	11,164	2,878	19,075

Note: EUR relates to EURO – zone currencies.

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

37 Separation of balances relating to the financial statements for the year 2000

The following is a summary of the separation of the balance sheet of the Bank as presented in the financial statements of the Bank for year 2000 between NBY-FRY and NBY-SFRY balances (figures are presented net of provision):

<u>In millions of YUD</u>	<u>NBY-FRY</u>	<u>NBY-SFRY</u>	<u>Total</u>
ASSETS			
Foreign assets			
Gold	17,396	1,695	19,091
Special Drawing Rights	1,300	-	1,300
Convertible foreign currencies	23,583	-	23,583
International Monetary Fund	38,473	-	38,473
Loans to banks in foreign currency	1,115	-	1,115
Other foreign assets	344	480	824
Total foreign assets	82,211	2,175	84,386
Domestic assets			
Cash and cash equivalents	634	-	634
Loans to banks in dinars	300	-	300
Loans to the Government and other state institutions	933	-	933
Securities	570	-	570
Investments in associates	14	-	14
Inventories	544	-	544
Intangible and fixed assets	5,630	-	5,630
Other domestic assets	2,484	67	2,551
Total domestic assets	11,109	67	11,176
Total assets	93,320	2,242	95,562

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

<u>In millions of YUD</u>	<u>NBY-FRY</u>	<u>NBY-SFRY</u>	<u>Total</u>
LIABILITIES and EQUITY			
Foreign liabilities			
International Monetary Fund	52,754	-	52,754
Deposits in foreign currency	11,768	18,499	30,267
Borrowings in foreign currency	12,633	207,770	220,403
Other foreign liabilities	2,746	13,354	16,100
Total foreign liabilities	79,901	239,623	319,524
Dinars in circulation	10,932	-	10,932
Domestic liabilities			
Deposits in dinars	9,113	-	9,113
Other domestic liabilities	1,391	-	1,391
Total domestic liabilities	10,504	-	10,504
Equity			
Capital	3,083	-	3,083
Revaluation reserve	3,512	-	3,512
Result for the year	(14,612)	(237,381)	(251,993)
Total equity	(8,017)	(237,381)	(245,398)
Total liabilities and equity	93,320	2,242	95,562

NATIONAL BANK of YUGOSLAVIA***Notes to the financial statements=***

The following is a summary of the separation of the income statement of the Bank as presented in the financial statements for year 2000 between NBY-FRY and NBY-SFRY:

<u>In millions of YUD</u>	<u>NBY-FRY</u>	<u>NBY-SFRY</u>	<u>Total</u>
Interest income	1,500	-	1,500
Interest expense	(4,916)	-	(4,916)
Net interest margin	(3,416)	-	(3,416)
Fee and commission income	2,679	-	2,679
Fee and commission expense	(53)	-	(53)
Net fee and commission income	2,626	-	2,626
Foreign exchange gain (net)	21,219	78,687	99,906
Expenses relating to the repatriation of citizens' savings	(1,530)	-	(1,530)
Specific Provisions for losses and impairment	(30,258)	(316,068)	(346,326)
Other operating income	422	-	422
Other operating expenses	(3,675)	-	(3,675)
Result for the year	<u>(14,612)</u>	<u>(237,381)</u>	<u>(251,993)</u>

NATIONAL BANK of YUGOSLAVIA

Notes to the financial statements=

38 Discontinued activity

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

At the date of this report it is not possible to identify the amount of assets and liabilities that will be disposed of, nor the amount of revenue and expenses that are attributable to the discontinuing of certain ZOP activities.

ZOP's financial position and result for year ending 31 December 2001 were as follows:

<u>In millions of YUD</u>	<u>2001</u>
Total assets	7,224
Total liabilities	5,975
Total income	4,801
Total expense	3,643

39 Subsequent events

The International Monetary Fund reached the Agreement on an Extended Arrangement with the Federal Republic of Yugoslavia on 13 May 2002. The Agreement is intended as a support of the FRY's economic program in the period from May 2002 to May 2005. By reaching this Agreement, the Bank has accepted convertibility of foreign-held dinar balances as regulated by the Article VIII of the Articles of Agreement of the International Monetary Fund.

The Extended Arrangement amounts to SDR 650 million (YUD 55,230 million as at 31 December 2001) and will be transferred to the Bank in 13 equal quarterly instalments upon successful completion of quarterly reviews to be performed by the International Monetary Fund.