

*National Bank of Yugoslavia- Strengthening Bank Supervision
PCE-I-00-99-00006-01, TO No. 04
Problem Bank Resolution
NIS-I-00-99-00001, TO No. 07*

**National Bank of Yugoslavia
Strengthening Bank Supervision
PCE-I-00-99-00006-01
Problem Bank Resolution
NIS-I-00-99-00001-00**

**Quarterly Report
For the period ending
March 31, 2002**

**Cognizant Technical Officer
Bill Foerderer
Bojana Vukasinovic**

**Prepared by Barents Group of
KPMG Consulting with information from**

Resident Advisors- Kathryn Woolford, Daniel Callis, Borislav Todorovic

&

Short-term Advisors

Quarterly report for the period ending 31.03.02

OBJECTIVE

This bank supervision technical assistance project is a critical part of the U.S. Government's efforts in the Federal Republic of Yugoslavia (FRY)/Serbia to assist in banking sector reform and restructuring as part of our overall objective to promote economic stabilization and growth. The specific goal of this activity is to help the National Bank of Yugoslavia (NBY) develop a professional modern bank supervision department, which will promote a sound functioning private banking sector. This assistance will help accelerate the ability of the NBY to meet international standards as set forth under the Basle Committee's 25 Core Principles of Bank Supervision with a focus on developing the capacity to supervise both individual banks and the banking system based on risk.

This work is being done in collaboration with the World Bank and the International Monetary Fund (IMF). Both international financial institutions are working with the FRY/Serbia on banking sector reform. The activity will also be closely coordinated with a 9-month USAID technical assistance activity already underway at the NBY in problem bank resolution.

Background

The situation of the financial system as of 31 December 2000, was largely undefined, banking regulations had been in place but had not been enforced since the early 1990's. This had led to stagnation in the financial system in addition to widespread fraud and insider abuse. Furthermore, the financial infrastructure of the country after prolonged conflict and sanctions was in complete disarray. In order to rescue a once proud and relatively efficient economy, the Governor of the National Bank of Yugoslavia, in cooperation with the government of the Federal Republic of Yugoslavia and that of the Republic of Serbia embarked on a positive campaign of reforms for the financial system engineered to rehabilitate the banking system and to eliminate the blockages such as the existing credit crunch and a massively overstaffed financial system.

At the onset the Governor promised that the national currency, the dinar, would not be devalued. With this basis and with the support of the IMF, World Bank, and USAID, the National Bank's banking supervision staff began a concerted effort to examine all banks, particularly those deemed to be in difficulty, and to update banking laws and regulations to bring them into agreement with current international standards. The latter task being the most important, since without an up to date regulatory basis, modern supervision techniques such as risk-based supervision are rendered ineffective. Gary Gegenheimer, short term legal advisor to the project, worked closely with the legal department of the National Bank of Yugoslavia to develop the amendments to the law and regulations. As

of the end of March, the amended laws and regulations were not enacted. This is a very tenuous situation as delays in the laws and regulations will have far reaching effects in the implementation of modern risk based supervision.

During 2001, 19 relatively small banks were liquidated. The total banking assets removed from the system represented about 10% of aggregate banking assets. While this marked a 25% reduction in the number of banks in the system, the real progress in the improvement of the health of the system did not occur until the first of 2002. The financial system was improved significantly during the first quarter of the current year with the closing of four of the five largest banks, whose total assets represent over 50% of total system assets. One of the most fascinating aspects of these closing was the reaction of the depositors. There was no real protest on behalf of the depositors who were protected in full by the government due to budgetary flexibility allowed by the IMF. There were protests but they were on the part of the approximately 10,000 employees who were discharged as a result of the bank closings. Once the employees were satisfied that they would be paid a compensation, the protests stopped and the liquidation proceeded in an orderly manner. This is a harbinger of problems yet to come in the financial system with the anticipated transformation of the ZOP, which has over 8,000 employees. The National Bank of Yugoslavia has plans to train as many of the former financial sector employees as possible to enable them to get back to work. This training will be done in cooperation with the Bankers Association and the Economics Institute. KPMG Consulting NBY advisors have been invited to speak at this training program.

Economic and Financial Conditions

The dinar remains stable in accordance with the Governor's commitment to maintain the currency. However, inflation continues and in order to maintain the stability of the dinar the National Bank of Yugoslavia has increased the issue of NBY bills significantly over the last six months of the year.

TASK ORDER/WORK REQUIREMENTS

The period of performance for this Task Order will extend from April 1, 2001 - September 30, 2002 (appendix A).

1. Assessment

- a. The advisor(s) will begin an overall assessment of bank supervision in the FRY, including the legal/regulatory framework, institutional capacity of the NBY, on-site examination policies, procedures and staff capabilities, regulatory reports, off-site analysis, licensing policies and procedures. This assessment will help determine the status of bank supervision in the FRY in relation to the 25 Basle Core Principles of Bank Supervision. These findings will be used as a benchmark to determine future progress.

The Core Principles Methodology was updated as of March 1 to reflect the changes to be made due to the passing of new legislation and new regulations. Since this has not come to pass, the updated Methodology Matrix will not be circulated outside of the National Bank of Yugoslavia.

- b. The advisors will also undertake a training needs assessment as the basis for the formulation of a classroom based training supervision accreditation program.

The training needs assessment was performed by Claude Raworth during July 2001. A summary of the assessment was presented as part of the previous contract. An examiner training and development program was submitted for review to the Vice Governor (appendix C). Three training classes were held in the first quarter. Internal Control and Bank Financial Analysis. Both courses were well received.

2. On-site Examination Policies/Procedures/Training

- a. The advisors will develop and implement an on-site inspection process based on prudential bank regulations, which would result in a CAMELS (capital, assets, management, earnings and liquidity, sensitivity to market risk) type rating process. This will consist of developing inspection procedures for the on-site inspection of all major areas of bank activity, classroom training of these procedures, and training in and testing of the procedures during on-site inspections. A pivotal part of the program will be advisors participating in on-site inspections alongside NBY examiners.

When meeting with the World Bank mission on Supervision earlier in the year, supervision management indicated that it would not implement CAMEL rating system or adopt the Report of Examination. The World Bank mission reacted by requiring that these elements be included in performance requirements by the supervision department. Mr. Joel Shapiro and Mr. Daniel Callis worked with the supervision management to

come to agreement on what would be used. Senior supervision management is eager to use modern methods, however, delaying tactics on the part of middle management continue despite all best efforts.

- b. The advisors will assist the NBY in drafting the policies and procedures relating to the overall inspection process. This will include procedures for planning the inspection, conducting the inspection on-site, formatting work papers and communicating inspection results.

Significant progress was made in the formatting of work papers for examination reports during the previous contract diagnostic exercise. The Report of Examination, Examination Planning and Control, Capital, Earnings, and Audit procedures segments of the manual have been reviewed by a committee of examiners including senior and junior examiners and have been referred to management for second level review. Other segments in process at this moment are Liquidity and Funds Management and Asset Quality. The on-site committees who have been involved in this process are positive and very interested in creating the best manual possible for their department. Their enthusiasm for the project is very rewarding.

- c. The advisors will assist the NBY in developing a basic on-site inspection manual based on OCC/FED models, but customized to FRY/Serbian law and practice. This will include helping in the development of an outline for the manual, drafting chapters, testing the policy and procedures in the chapters during on-site examinations, providing classroom training geared toward the chapters and helping to put the chapters in final form.

As indicated above, the manual segments are in the committee process. Management of the supervision department, both senior and middle, have received copies of the entire manual and have given the okay for committees to begin review and preparation. Four segments were completely through the committee process by 31 March. Two further segments are currently in the committee process.

- d. The advisors will work with NBY staff in finalizing the format for the "report of inspection" which will be used to communicate inspection findings to both bank management and the management of NBY. This report will be tested during on-site inspections to determine its usefulness and to train inspectors in preparing the report.

A first draft of the examination report has been developed, delivered, and accepted and as of the end of March amended and submitted for review again.

- e. The advisors will work with NBY in developing administrative procedures for remedial action to address areas of concern disclosed by the onsite inspection.

Amendments have been made to the Law on the National Bank of Yugoslavia (appendix G) and are in the process for regulations for prudential regulation. As these new or amended regulations are put in place administrative procedures for remedial action will

be addressed. The problem bank policy was developed during the summer and was amended during the first quarter of this year. Procedures are slated for completion by 15 May.

3. Strengthening Off-site Supervision

- a. The advisors will assist the NBY in developing and implementing an effective and timely regulatory reporting process. An effective regulatory reporting process will provide a basis for the early detection of problems as well as the bank performance reporting process.

A reporting advisory group was set up during August 2001, this group made recommendations for changes to the chart of accounts. These changes bring the existing chart of accounts from a three digit format to a five digit format which will facilitate reporting for banks. While a fixed chart of accounts is not generally accepted in Anglo Saxon accounting practice, it is standard in French accounting formats and lends itself to the transition for accounting practices from centrally planned bookkeeping requirements to those with a more modern approach. Accounting practices here are being brought into line with International Accounting Standards, however, the typical problems concerning taxation and income reporting continue to be impediments to full integration of standards.

Rather than simplifying the regulatory process new regulations will require additional reports. This is a process in transition and with the help of an IT advisor, improvements in the reporting process will be made as soon as possible.

- b. As part of 3a the existing Chart of Accounts, reporting formats and processing of regulatory reports will be evaluated to determine their comprehensiveness and effectiveness in providing necessary data. With a view to streamlining the reports, recommendations for modifications, additions or deletions will be provided to the NBY (appendix D).

An advisor is currently working with the accounting department to prepare a diagnostic of the accounting needs both for supervision and other central bank operations. This diagnostic will be completed by 20 April.

- c. The advisors will assist the NBY in developing instruction manuals and/or training seminars to ensure that bankers as well as examiners understand the financial reporting requirements. The need for banker training in the preparation of regulatory reports/accounting rules will be determined.

The advisors will participate in the banker- training program instituted for personnel who have been made redundant due to bank closings and anticipated changes.

- d. The advisors will assist the NBY in beginning the elaboration of an internal bank rating system to provide an analytical basis for making supervisory decisions. The rating system should appropriately identify risk(s) in a financial institution and correspond to certain types of enforcement actions similar to the CAMEL rating system used by many OECD countries. The rating system will also incorporate ratings for risk management. The advisors will develop written policy guidelines and procedures based on the above recommendations. Training will also be provided to inspectors in the use of the bank rating system.

Advisor Joel Shapiro has worked with our resident team to provide training and guidance on the implementation of a CAMEL rating system. Progress is in the early stages/ Refer to Appendix E.

- e. The advisors will work with the NBY in beginning the development of an early warning process setting forth criteria, which would serve as the basis for identifying troubled banks. This is a prerequisite for the NBY taking measures/requiring corrective actions to resolve problems before they become irremediable. The specific ratios will be developed as well as procedures for performing the periodic analysis using the ratios and other criteria. Inspectors will be trained in these processes.

In response to requirements imposed by the World Bank, a supervisory strategy and supervision cycle will be developed. This will include a documentary database for each bank. The development of the early warning system is in process.

- f. An assessment of the effectiveness and capabilities of the computer systems and back office operations will be conducted to ensure their appropriateness and ability to support the mission of NBY. The advisor will recommend enhancements and prepare technical specifications for any additional computer hardware and software required.

Mr. Todorovic, an IT advisor worked in the bank for the first quarter of 2002. He has made a separate report of his activities for this period.

4. Legal/Regulatory Framework/Enforcement

- a. Based upon their review of current laws and regulations (particularly prudential regulations, enforcement authorities, and licensing) the advisors will make recommendations and help draft, where necessary, legislation and regulations to provide a better framework for bank supervision. The advisors will work closely with the IMF in this area.

Draft regulations were translated into English and referred to Mr. Gary Gegenheimer for review. He responded with recommendations for changes in three cases. Mr. Gegenheimer will return to Belgrade in May to continue with these discussions.

- b. The advisors will assist the NBY in developing a range of tools consistent with current banking law which can be used to enforce corrective actions by the banks and to resolve weaknesses identified during onsite and offsite analyses.

Since the Problem Bank Policy has been developed and approved the next step in this process is the development of problem bank procedures, which will ensure the consistent application of sanctions and corrective measures to all banks throughout the system.

- c. Based upon the review of existing enforcement processes and supervisory authorities, the advisors will make recommendations for enhancements, modifications or additions.

a-c -Mr. Gary Gegenheimer, short time advisor, has worked closely with the supervision department in developing more up to date regulations and amendments to the law and regulations pertaining to banks and banking. Many of these updates were to be put into legislation prior to the end of 2001, but due to the potential effect of the closing of the four banks in the BRA at that time, this process was postponed.

- d. The advisors will assist in the introduction of new regulations and policies to the financial and accounting community by conducting meetings, seminars or training, as may be needed

5. Problem Banks

- a. At the completion of the USAID "Problem Bank Resolution" project estimated in October 2001, the advisors will take-over responsibility for problem bank work at the NBY. The advisors will assist the NBY to implement the policies and guidelines adopted by the NBY to work with management of troubled banks that are not transferred to the Bank Rehabilitation Agency (BRA).

The five problem banks continue to be problems. The governor has developed a plan by which the liability to the government for Paris and London Club loans will be converted to equity and the banks will subsequently be privatized. This effort should improve the problem bank situation.

- b. Advisors will assist the NBY in developing techniques to resolve issues through a variety of actions (e.g., merger; change of ownership; new capitalization; resolution of problem assets; as well as liquidation.) Training will be provided to appropriate personnel in the use of these actions.

With the implementation of the new banking regulations, a structured approach to problem banks resolution will be developed by the supervision staff.

- c. The advisors will work with the staff, management and expatriate advisors of the BRA as directed by the Vice-Governor at the NBY for Banking, and with the approval of USAID.

6. Bank Licensing

- a. The advisor will assist the NBY in developing and implementing new procedures and criteria to analyze applications for new bank licenses and banking activities. These procedures and criteria should provide the basis to determine the integrity of ownership, the adequacy of management and reasonableness of the business plan.
- b. The advisors will provide training to NBY staff in the use of these new procedures as required.

7. Organizational Development

- a. Assist in the formulation and implementation of an overall mission statement and strategic plan for bank supervision. The mission statement and strategic plan will outline the role, and overall goals and objectives of bank supervision.

A supervisory development plan was put together and recommended to management. This was a requirement of the World Bank. This plan has not been approved as of the end of March.

- b. Assist bank supervision management in the development of a performance based employee assessment program directly tied to salary and benefits.

Advisors have given the Vice Governor an Employee Training and Development program previously developed by Dan Luczak for use in the Romania project (appendix I). This program involves the use of Individual development programs and personnel ratings. The Vice Governor has requested training for management on this system.

8. Miscellaneous

- a. As requested by the NBY and approved by USAID, the advisors will assist the NBY in other banking sector issues, including but not limited to, deposit insurance and payments related issues.

Summary of Appendices

| | |
|-------------------|--|
| Appendix A | Task Order |
| Appendix B | Benchmarks and Tangible Results |
| Appendix C | Proposed NBY decision on Related Party Transactions |
| Appendix D | Proposed NBY decision on Credit Files |
| Appendix E | Joel Shapiro Status report |
| Appendix F | Joel Hefty exit memo with documentation |
| Appendix G | Draft Supervisory Development Plan |
| Appendix H | Third quarter advisor schedule |
| Appendix I | Ken Jacques- Communication Specialist |
| Appendix J | Information Technology Assistance— Mr. Borislav Todorovic |

National Bank of Yugoslavia- Strengthening Bank Supervision

PCE-I-00-99-00006-01, TO No. 04

Problem Bank Resolution National Bank of Yugoslavia- Strengthening Bank Supervision

NIS-I-00-99-00001, TO No. 07

Appendix A

Task Order

Appendix A

TASK ORDER

The period of performance for this Task Order will extend from April 1, 2001 - September 30, 2002.

1. Assessment

- c. The advisor(s) will begin an overall assessment of bank supervision in the FRY, including the legal/regulatory framework, institutional capacity of the NBY, on-site examination policies, procedures and staff capabilities, regulatory reports, off-site analysis, licensing policies and procedures. This assessment will help determine the status of bank supervision in the FRY in relation to the 25 Basle Core Principles of Bank Supervision. These findings will be used as a benchmark to determine future progress.
- d. The advisors will also undertake training needs assessment as the basis for the formulation of a classroom based training supervision accreditation program.

3. On-site Examination Policies/Procedures/Training

- f. The advisors will develop and implement an on-site inspection process based on prudential bank regulations which would result in a CAMELS (capital, assets, management, earnings and liquidity, sensitivity to market risk) type rating process. This will consist of developing inspection procedures for the on-site inspection of all major areas of bank activity, classroom training of these procedures, and training in and testing of the procedures during on-site inspections. A pivotal part of the program will be advisors participating in on-site inspections alongside NBY examiners.
- g. The advisors will assist the NBY in drafting the policies and procedures relating to the overall inspection process. This will include procedures for planning the inspection, conducting the inspection on-site, formatting work papers and communicating inspection results.
- h. The advisors will assist the NBY in developing a basic on-site inspection manual based on OCC/FED models, but customized to FRY/Serbian law and practice. This will include helping in the development of an outline for the manual, drafting chapters, testing the policy and procedures in the chapters during on-site examinations, providing classroom training geared toward the chapters and helping to put the chapters in final form. A table of contents is included as appendix E.
- i. The advisors will work with NBY staff in finalizing the format for the "report of inspection" (appendix F) which will be used to communicate inspection findings to both bank management and the management of NBY. This report will be tested

during on-site inspections to determine its usefulness and to train inspectors in preparing the report.

- j. The advisors will work with NBY in developing administrative procedures for remedial action to address areas of concern disclosed by the onsite inspection.

3. Strengthening Off-site Supervision

- g. The advisors will assist the NBY in developing and implementing an effective and timely regulatory reporting process. An effective regulatory reporting process will provide a basis for the early detection of problems as well as the bank performance reporting process.
- h. As part of 3a. the existing Chart of Accounts, reporting formats and processing of regulatory reports will be evaluated to determine their comprehensiveness and effectiveness in providing necessary data. With a view to streamlining the reports, recommendations for modifications, additions or deletions will be provided to the NBY.
- i. The advisors will assist the NBY in developing instruction manuals and/or training seminars to ensure that bankers as well as examiners understand the financial reporting requirements. The need for banker training in the preparation of regulatory reports/accounting rules will be determined.
- j. The advisors will assist the NBY in beginning the elaboration of an internal bank rating system to provide a analytical basis for making supervisory decisions. The rating system should appropriately identify risk(s) in a financial institution and correspond to certain types of enforcement actions similar to the CAMEL rating system used by many OECD countries. The rating system will also incorporate ratings for risk management. The advisors will develop written policy guidelines and procedures based on the above recommendations. Training will also be provided to inspectors in the use of the bank rating system.
- k. The advisors will work with the NBY in beginning the development of an early warning process setting forth criteria, which would serve as the basis for identifying troubled banks. This is a prerequisite for the NBY taking measures/requiring corrective actions to resolve problems before they become irremediable. The specific ratios will be developed as well as procedures for performing the periodic analysis using the ratios and other criteria. Inspectors will be trained in these processes.
- l. An assessment of the effectiveness and capabilities of the computer systems and back office operations will be conducted to ensure their appropriateness and ability to support the mission of NBY. The advisor will recommend enhancements and prepare technical specifications for any additional computer hardware and software required.

4. Legal/Regulatory Framework/Enforcement

- e. Based upon their review of current laws and regulations (particularly prudential regulations, enforcement authorities, and licensing) the advisors will make recommendations and help draft, where necessary, legislation and regulations to provide a better framework for bank supervision. The advisors will work closely with the IMF in this area.
- f. The advisors will assist the NBY in developing a range of tools consistent with current banking law which can be used to enforce corrective actions by the banks and to resolve weaknesses identified during onsite and offsite analyses.
- g. Based upon the review of existing enforcement processes and supervisory authorities, the advisors will make recommendations for enhancements, modifications or additions.
- h. The advisors will assist in the introduction of new regulations and policies to the financial and accounting community by conducting meetings, seminars or training, as may be needed

5. Problem Banks

- d. At the completion of the USAID "Problem Bank Resolution" project estimated in October 2001, the advisors will take-over responsibility for problem bank work at the NBY. The advisors will assist the NBY to implement the policies and guidelines adopted by the NBY to work with management of troubled banks that are not transferred to the Bank Rehabilitation Agency (BRA).
- e. Advisors will assist the NBY in developing techniques to resolve issues through a variety of actions (e.g., merger; change of ownership; new capitalization; resolution of problem assets; as well as liquidation.) Training will be provided to appropriate personnel in the use of these actions.
- f. The advisors will work with the staff, management and expatriate advisors of the BRA as directed by the Vice-Governor at the NBY for Banking, and with the approval of USAID.

6. Bank Licensing

- c. The advisor will assist the NBY in developing and implementing new procedures and criteria to analyze applications for new bank licenses and banking activities. These procedures and criteria should provide the basis to determine the integrity of ownership, the adequacy of management and reasonableness of the business plan.
- d. The advisors will provide training to NBY staff in the use of these new procedures as required.

9. Organizational Development

- c. Assist in the formulation and implementation of an overall missions statement and strategic plan for bank supervision. The mission statement and strategic plan will outline the role, and overall goals and objectives of bank supervision.
- d. Assist bank supervision management in the development of a performance based employee assessment program directly tied to salary and benefits.

10. Miscellaneous

- a. As requested by the NBY and approved by USAID, the advisors will assist the NBY in other banking sector issues, including but not limited to, deposit insurance and payments related issues.

Appendix B

Benchmarks and Tangible Results

BENCHMARKS AND TANGIBLE RESULTS

The contractor understands and agrees that achievement of the Tangible Results and Benchmarks (appendix B) are the essence of the Task Order and that USAID will judge the contractor's success (or lack therefore) in the Task Order based upon whether or not the Tangible Results and Benchmarks are achieved. In the event that any one or more of the Tangible Results and Benchmarks are not achieved or should the contractor at any time realize that they are not achievable, then the contractor shall immediately advise USAID in writing and in the next quarterly report as part of the Task Order Reporting Requirements (i.e. monthly, quarterly or "completion" report) shall provide a complete explanation of the circumstances relating thereto.

TANGIBLE RESULTS

1. The NBY will have begun to examine licensed banks according to an annual schedule based upon perceived risk, which banks pose to the overall banking sector.
2. The NBY will have developed a basic on-site examination manual based upon CAMELS components (capital adequacy, assets, management, earnings and liquidity, sensitivity to market risk) and a risk management assessment, which is used during on-site inspections.
3. The NBY will have developed a training program and training materials for both on-site inspection and off-site analysis and a core group of examiners trained in all aspects of these disciplines.
4. The NBY will have developed standardized documents relating to on-site examinations e.g., request letters to bank management, reports of examination and formatted working papers. Inspection staff will have received training in using these documents.
5. The NBY will have established an organizational structure, which supports effective and efficient bank supervision -- position descriptions, which reflect duties and responsibilities and reporting requirements
6. The NBY will have begun revision of the Chart of Accounts to comply with IAS and also begun streamlining regulatory reports required of the banks and made them consistent with the new Chart of Accounts.

BENCHMARKS

Within 45 days

- A work plan will have been approved by USAID with more detailed benchmarks for the first six months.

 X Met _____ Partially Met _____ Not Met

- The overall bank supervision assessment will have been completed and NBY management briefed on findings and weaknesses identified

 X Met _____ Partially Met _____ Not Met

- The training needs assessment will have been completed and a training schedule for the first six months determined and approved by NBY management.

 X Met _____ Partially Met _____ Not Met

Within 90 days

- First training courses will have been provided to NBY examination staff

 X Met _____ Partially Met _____ Not Met

- An NBY working group (including NBY staff and expert advisors) responsible for the drafting of the on-site supervision manual will have been established.

 X Met _____ Partially Met _____ Not Met

- The Chart of Accounts and regulatory reports will have been reviewed and recommendations made for revisions

 X Met _____ Partially Met _____ Not Met

- Advisors will have participated in at least one on-site inspection

_____ Met _____ Partially Met X Not Met

Within 120 days

- The NBY working group will have an agreed Table of Contents and the first three chapters of the on-site inspection manual will have been drafted. Inspection staff will have received classroom and on-the-job training in these topics that will focus on general examination controls, documentation, and credit.

Met Partially Met Not Met

- The format for the Final Report of Inspection will have been finalized and presented to NBY management.

Met Partially Met Not Met

- Advisors will have participated in at least a second on-site inspection

Met Partially Met Not Met

- An outreach seminar with banking and accounting community focusing on prudential regulations and regulatory reports will have taken place.

Met Partially Met Not Met

Within 180 days

- Procedures for offsite analyses will have been drafted in conjunction with NBY officials and instructional materials developed and presented to inspection staff

Met Partially Met Not Met

- The second set of three chapters of the on-site inspection manual will have been drafted by the NBY working group, classroom training will have been held on these chapters, and testing of the procedures will have been done during on-site inspections.

Met Partially Met Not Met

- Advisors will have participated in at least a third on-site inspection

Met Partially Met Not Met

Within 240 days

- New regulatory report formats will have been drafted and presented to NBY management. Training in the new offsite analysis procedures will have been provided.

Met Partially Met Not Met

- Advisors will have participated in at least a fourth on-site inspection.

Met Partially Met Not Met

- Advisors will have helped NBY establish an annual inspection schedule of banks based on priorities.

_____ Met _____ Partially Met _____ Not Met

- The third set of three chapters of the on-site inspection manual will have been drafted by the NBY working group, classroom training will have been held on these chapters, and testing of the procedures will have been done during on-site inspections.

_____ Met _____ Partially Met _____ Not Met

- Continued training in the new offsite analysis procedures will have been provided and the new analysis procedures will have been implemented.

_____ Met _____ Partially Met _____ Not Met

Appendix C

Proposed NBY decision on Related Party Transactions



MEMORANDUM

To: Vice Governor Jelasic
Ninoslava Zugic
Mira Eric Jovic

From: Gary A. Gegenheimer
Senior Legal Advisor

CC: Kat Woolford

Date: March 28, 2002

Subject: Proposed NBY Decision on Related Party Transactions

Introduction and summary

I have reviewed the portion of the NBY's draft decision implementing Articles 26 and 27 of the Law on Banks and Other Financial Organizations, that concerns related party transactions. Before this decision is finalized and published, I recommend that the following elements be added:

- The affiliated person definition should be broader, and should include persons that control, are controlled by, or are under common control with, bank shareholders.
- The bank shareholder concept should include direct and indirect ownership, as well as persons acting in collaboration with each other.
- Transactions that give preferential treatment to bank insiders should be prohibited.
- Certain procedural requirements should apply to transactions between banks and their related persons.

I recognize that it may not be possible under the existing legislative framework in Yugoslavia to incorporate all of these elements. However, it should be feasible to incorporate at least the first two points. I also believe that it is essential that the Banking

Law be amended to bring the provisions on related party transactions into harmony with international best practices of banking supervision. These points are explained below.

“Affiliated person” definition

The “affiliated person” definition should be broader. This will help to prevent evasion of the decision.

The starting point for determining whether a person is “related” should be Article 26 of the Banking Law. This article defines a “related person” of a bank as:

- a shareholder of the bank;¹
- a person who is connected to a shareholder by ownership or controlling rights;
- a member of the bank’s bodies, or a person who is a member of a person who is a member of the bank’s bodies.

A critical element of determining “relatedness” is point 2 – a person who is “connected to a bank shareholder by ownership or controlling rights.” In my view, the phrase “connected by ownership or controlling rights” should encompass situations in which:

- a bank shareholder owns more than a certain benchmark, or can control (or significantly influence) a given legal entity;
- a given person (legal or physical) owns more than a certain benchmark, or can control (or significantly influence) the bank shareholder; or
- the same person (legal or physical) owns more than a certain benchmark, or can control (or significantly influence) both the bank shareholder and a third person. The bank shareholder and the third person would be considered “connected by ownership or controlling rights” because they are both owned or controlled by the same person.

The NBY draft refers to ownership of shares with voting rights, and includes in the affiliated party definition entities in which a 10% bank shareholder is also an owner, founder, managing director, or member of the board or supervisory council. It does not, however, include persons that own or can control the 10% shareholder, or persons that are controlled by the same person that owns or can control the 10% shareholder. It is important to include these persons; without doing so, the limitations are easy to evade. The language of Article 26 in my view is broad enough to encompass these persons within the phrase “connected by ownership or controlling rights.”

Thus, I would strongly recommend that the draft decision be amended to include the situations described above.

An additional source of concern is that point 3 of paragraph 24 of the draft decision does not specify an amount of ownership by a bank shareholder over another entity. Thus, *any*

¹ It is questionable whether the restrictions of the decision should apply to every shareholder; a 1% shareholder, for example, is unlikely to exert any significant degree of influence on a bank, unless he can influence the bank in other ways. However, applying the rules to shareholders who own more than a certain percentage of a bank’s voting shares, such as 10%, is clearly appropriate.

ownership in another entity by a 10% bank shareholder would make that entity an affiliated person of the bank. This may have the effect of “casting the net too wide,” and designating some entities as affiliated persons of a bank where as a practical matter it should not be necessary.

Control

A key element of this structure is a good “control” definition. “Control” over a legal person should include:

- direct or indirect ownership of 50 (and possibly 25) percent or more of any category of the voting shares of such legal entity;
- the ability to elect at least half of the members of the board of directors, supervisory board, or any equivalent governing body, of such legal entity; or
- regardless of formal ownership or voting rights, the ability to exercise a dominant influence over the management or policies of such legal entity, on the basis of an agreement or in any other way.²

Direct or indirect ownership

The 10% shareholder category should include indirect, as well as direct, ownership. Ownership interests that are held indirectly should be attributed in full to the person holding the indirect ownership. Thus, it should be clear that a “10% shareholder” includes a person who owns 10% or more of any entity that itself owns 10% or more of the bank. This should apply at every step along the line, until the 10% ownership chain is broken. By focusing only on the ownership of shares of the bank itself, it is easy to miss situations in which real control is exercised at a level that may be several layers above the first “tier” of ownership.

Concerted action

The 10% shareholder category should also include situations in which persons who each own less than 10% of a bank’s voting shares act together to achieve a common goal (“acting in concert,” or “in collaboration”). Again, without such provision, it is easy to evade the restrictions.

Members of bank’s management bodies

Article 26 of the Banking Law also includes in its definition of a “related person” a person who is a member of the bank’s bodies, or a person who is a member of a member of the bank’s bodies. The latter category is rather difficult to conceptualize (and may be

² It may be difficult, under current legislation, to include such “de facto” controlling arrangements that are not based on ownership, voting rights, or a formal agreement. This highlights the necessity to amend the Banking Law to include such situations. Please refer to our March 2001 report on the banking legislative framework for specific suggestions on this point.

a translation issue). However, as a practical matter, it is important to include entities that are controlled by such persons.

Many countries follow this pattern. For example, in the United States, banks are prohibited from making loans to their own directors, officers, or principal shareholders (generally direct or indirect 10% shareholders), or "related interests" of such persons, except in accordance with strict limitations and subject to certain procedures. A "related interest" of one of these persons includes a company controlled by that person. In Germany, certain loans may be granted only with the unanimous consent of all managers of a bank, and with the explicit approval of the bank's supervisory council. Included in this category are loans to enterprises in which the bank or a manager holds more than ten per cent of the enterprise's capital, or in which the institution or a manager is a general partner.

Terms and conditions

The decision should expressly prohibit transactions with related persons on more favorable terms than a bank would grant to persons who are not related.

Procedures for approval

Certain procedural requirements should apply to transactions between banks and their related persons.

A transaction between a bank and a related person (except for deposit-taking activity in the normal course of business, and perhaps certain small consumer or household loans) should be permitted only with the prior approval of the institution's board of directors or supervisory board. A member of a bank's board of directors or supervisory board should not be allowed to participate in the discussion, influence or attempt to influence the decision of the board, or vote on the approval of any transaction between the bank and:

- himself;
- any member of his immediate family;
- any legal entity that he or any member of his immediate family controls, is a manager, member of the board of directors or supervisory board.

The same restrictions should apply to any person who is not a member of the board of directors or supervisory board, but is otherwise a related person of the bank.

The decision of the board of directors or supervisory board on any transaction between a bank and a related person should be based on full disclosure of all relevant facts about the transaction. This includes, in particular:

- for credit transactions, the amount of the credit, interest rate, financial information of the borrower demonstrating ability to repay the credit, and information verifying the value of any collateral for the credit;

- for transactions involving the purchase or sale of assets, the purchase price and information verifying the value of the asset;
- for investments, an assessment of the risk involved in such investment and the potential benefits to the bank and to the person in question.

The bank should be required to maintain a written record of such approval.

Conclusion

I would strongly recommend that the above elements be included in any NBY decision regarding transactions between banks and their related persons. It may not be possible to include all of these elements under the current legislative scheme in Yugoslavia, but I believe that it is feasible to expand the coverage of "persons connected to shareholders by ownership or controlling rights" as outlined above.

Additionally, because of the importance of this topic, I recommend that the subject be placed in a separate NBY decision, rather than included as a component of a larger decision.

Finally, some of these issues highlight the necessity of amending the Banking Law to include items that are not currently included within its purview, but should be included in order to bring the law into harmony with international best practices.

National Bank of Yugoslavia- Strengthening Bank Supervision

PCE-I-00-99-00006-01, TO No. 04

Problem Bank Resolution National Bank of Yugoslavia- Strengthening Bank Supervision

NIS-I-00-99-00001, TO No. 07

Appendix D

Proposed NBY decision on Credit Files



Consulting
Barents Group

MEMORANDUM

To: Vice Governor Jelasic
Ninoslava Zugic
Mira Eric Jovic

From: Gary A. Gegenheimer
Senior Legal Advisor

CC: Kat Woolford

Date: March 26, 2002

Subject: Proposed NBY Decision on Credit Files

I have reviewed the NBY's draft decision on credit file documentation. For the most part, this draft decision is quite good. I have the following observations, which I believe should be incorporated before the decision is finalized and published:

1. There should be a requirement that credit files contain financial statements or equivalent information on borrowers who are natural persons, as there is for borrowers that are legal entities. This material could arguably be included in Item 4(3), but to eliminate any doubt, it would be preferable to make the requirement explicit.
2. In the case of loans that are collateralized, there should be a requirement that the file contain reliable documentation of the market value of the collateral property.
3. In the case of guarantees, the information on the guarantor should include financial statements on the guarantor (again, this material might be included in Item 3(3), but it would help to make the requirement explicit).

National Bank of Yugoslavia- Strengthening Bank Supervision

PCE-I-00-99-00006-01, TO No. 04

Problem Bank Resolution National Bank of Yugoslavia- Strengthening Bank Supervision

NIS-I-00-99-00001, TO No. 07

Appendix E

Joel Shapiro Status report

STATUS REPORT

February 26 – March 22, 2002

The following issues were worked on during this period:

- Problem Bank Program
- CAMEL rating system
- Examination report
- Examination manual
- Official visit to the United States for Mira Jovic Eric

Problem Bank Program

Management of the National Bank approved the Problem Bank Policy. The policy addresses three specific areas: (a) problem bank identification; (b) management of problem banks in the problem bank unit; and, (c) removal of banks from the problem bank program.

The policy is being translated into "correct" Serbian, and is being reviewed by the National Bank's Legal Division to ensure conformance with banking law.

Next steps: A policy directive needs to be written for Bank Supervision staff announcing adoption of the program. Advise on implementation of the management processes contained in the policy.

CAMEL Rating System

Mira Jovic Eric has agreed to provide me in writing additional benchmarks and ratios she would like included in the rating system, and I am expecting delivery on this commitment shortly. Delivery is expected quickly because Mr. Jelasic has instructed her to implement the rating system by May.

Next steps: Incorporate the information Ms. Jovic provides into the current recommended process. Consolidate with ratios utilized in proposed monthly management information reports. Write a policy directive for Bank Supervision staff. Advise on implementation of the rating system for those banks selected for the initial field-testing.

Examination Report

A new report format is being presented to Ms. Jovic on Monday, March 25. It combines the analytical qualities of the initial report recommended to her, together with certain data and charts she prefers to see in an examination report. The report still will be geared towards analyzing the components of the rating system.

Next steps: Work with Mira to preserve the analytical features of the report. Present it to the Bank Supervision staff through a formal directive. Provide advice as the report template is field-tested.

Examination Manual

Two modules of the examination manual – Examination Planning/Control and Audit -- have been drafted. They are being translated into "correct" Serbian. Gordana Gavrilovic, Division Manager for Examinations, has approved the Examination Planning module as a first step toward its implementation. She plans to review the Audit module beginning next week.

Next steps: Present both modules to Ms. Jovic for approval, based on recommendations to do so from Ms. Gavrilovic. Begin officially field-testing these modules (Examination Planning is being field tested now unofficially). Begin two more modules – Management and the Report of Examination.

Official Visit

Mr. Jelasic has agreed to send Ms. Jovic to the United States for an "orientation." Her trip would begin with attendance at the Toronto International Leadership Center, Toronto, Canada, which commences May 6. This presents an opportunity for her to meet and exchange ideas with her peers throughout the world in bank supervision and other central bank disciplines. During the remainder of her visit, Ms. Jovic would meet with bank supervision officials at the Federal Reserve, OCC, FDIC and officials at other supervisory agencies to discuss issues on which she is closely involved. Ms. Jovic also would observe a bank examination in process, and meet a senior bank official to discuss the bank supervision process from the perspective of the banker.

Next steps: Complete application form for the Toronto Center. Obtain visa and funding for the trip. Establish an agenda and schedule of meetings.

Joel Shapiro
March 22, 2002

Appendix F

Joel Hefty exit memo with documentation

Date: March 22, 2002
To: William Foerderer, USAID
Bojana Vukašinović, USAID
Through: Kathryn Wolford, KPMG-Barents
From: Joel Hefty, KPMG-Barents (short-term) *JH*
Subject: Work completed at National Bank of Yugoslavia; March 4-22, 2002

During the weeks beginning Monday March 4, 11, and 18, I worked with the KPMG-Barents team in the banking supervision function at the National Bank of Yugoslavia (NBY). Goals for the trip included presenting / teaching a bank financial analysis course for on-site and off-site examiners, and working on the bank supervision manual. Due to a change in the on-site examination schedule at NBY, the financial analysis courses were moved from the last two weeks to the first two weeks of the trip.

Week of March 4

I presented a bank financial analysis course to 23 on-site examiners. Course content was based on Basel Core Principles for Banking Supervision and the U.S. CAMEL rating system. Participant experience ranged from less than one year to more than 23 years (on-site sector chief). The course emphasized C-A-E-L components, the importance of on-site and off-site analysis, and utilized a variety of (U.S.) bank case studies to illustrate points and strengthen learning through small group analysis and encourage interactive large group discussion. For your reference, I have attached copies of slides, several case studies, and a ratio reference tool used in the course.

On Friday, March 8, each participant received a unique bank case study for independent written analysis. Having reviewed the translated analyses, all participants demonstrated an understanding of the material presented, and all were able to apply the C-A-E-L framework. The course was successful and very well received.

Week of March 11

I presented the same course to off-site examiners. Up to ten examiners attended portions of the course; schedule conflicts allowed only seven to complete all case work. Participants in this course brought experience of 3 ½ years to 25 years; however, the CAMEL framework seemed to be a relatively new concept. The course used fewer cases, but all seven participants completed a written analysis for a unique bank case study on the final day. Work conflicts interrupted the delivery schedule for class this week, and the final two days were delayed until the week of March 18. On March 14 and 15, I reviewed individual cases from the first week and assisted short-term advisor Joel Shapiro with the bank supervision manual.

Week of March 18

On March 18 and 19, I completed delivery of the second bank analysis course. During the rest of the week, I completed review of individual bank written analyses from both courses, discussed cash flow and liquidity aspects of the proposed bank supervision report, and organized and presented a brief team-building workshop for the (KPMG-Barents) banking supervision work team.

Summary

Both financial analysis courses provided participants with knowledge and confidence to apply the CAMEL framework. The KPMG-Barents team continues to work with NBY staff to *implement CAMEL-based financial indicators, examination processes, and report formats*. *Legal and accounting reforms* are also needed, given changes in the financial and political structures of Yugoslavia that are now occurring. From a training perspective, next steps include *refresher analysis training* and *individual coaching* for off-site examiners as CAMEL indicators and monitoring processes are implemented (July 2002 or later). Case studies would be based on both US and Yugoslavia banks. On-site examiners will likely benefit from similar refresher analysis and coaching, though after the on-site group.

It enjoyed working this project, and I look forward to future opportunities to work with USAID in Belgrade, the NBY supervision group, and KPMG-Barents team.

YU 3/02

Enterprise National Bank of Palm Beach

11811 U.S. Highway One
North Palm Beach, FL 33408

FDIC Certificate #: 32917 Bank Charter Class: N

| <i>Definition</i> | <i>Dollar figures in thousands</i> | Enterprise National Bank of Palm Beach North Palm Beach, FL September 30, 2001 | Enterprise National Bank of Palm Beach North Palm Beach, FL September 30, 2000 |
|-------------------|------------------------------------|--|--|
|-------------------|------------------------------------|--|--|

All Summary Information

Assets and Liabilities

| | | | |
|-----------|--|----------------|----------------|
| <u>1</u> | Total employees (full-time equivalent) | 28 | 25 |
| <u>2</u> | Total assets | 109,761 | 111,260 |
| <u>3</u> | <u>Cash and due from depository institutions</u> | 2,459 | 1,482 |
| <u>4</u> | Interest-bearing balances | 1,326 | 5 |
| <u>5</u> | <u>Securities</u> | 27,111 | 34,291 |
| <u>6</u> | Federal funds sold & reverse repurchase agreements | 165 | 6,582 |
| <u>7</u> | <u>Net loans & leases</u> | 74,286 | 67,000 |
| <u>8</u> | Loan loss allowance | 756 | 936 |
| <u>9</u> | Trading account assets | 0 | 0 |
| <u>10</u> | Bank premises and fixed assets | 213 | 297 |
| <u>11</u> | <u>Other real estate owned</u> | 1,032 | 72 |
| <u>12</u> | <u>Goodwill and other intangibles</u> | 21 | 78 |
| <u>13</u> | All other assets | 4,474 | 1,458 |
| <u>14</u> | Total liabilities and capital | 109,761 | 111,260 |
| <u>15</u> | Total liabilities | 97,912 | 100,657 |
| <u>16</u> | <u>Total deposits</u> | 91,074 | 91,366 |
| <u>17</u> | Interest-bearing deposits | 83,891 | 86,050 |
| <u>18</u> | Deposits held in domestic offices | 91,074 | 91,366 |
| <u>19</u> | % insured (estimated) | 87.63% | 88.02% |
| <u>20</u> | Federal funds purchased & repurchase agreements | 2,000 | 4,300 |
| <u>21</u> | Trading liabilities | 0 | 0 |
| <u>22</u> | Other borrowed funds | 4,450 | 4,500 |
| <u>23</u> | Subordinated debt | 0 | 0 |
| <u>24</u> | All other liabilities | 388 | 491 |
| <u>25</u> | <u>Equity capital</u> | 11,849 | 10,603 |
| <u>26</u> | Perpetual preferred stock | 0 | 0 |
| <u>27</u> | Common stock | 8,032 | 7,926 |
| <u>28</u> | Surplus | 4,099 | 4,099 |
| <u>29</u> | Undivided profits | -282 | -1,422 |
| | Memoranda: | | |
| <u>30</u> | Noncurrent loans and leases | 5,176 | 4,249 |
| <u>31</u> | Income earned, not collected on loans | 1,193 | 539 |
| <u>32</u> | Earning assets | 102,888 | 107,878 |
| <u>33</u> | Long-term assets (5+ years) | 20,329 | 19,969 |
| <u>34</u> | Average Assets, year-to-date | 116,798 | 117,912 |
| <u>35</u> | Average Assets, quarterly | 109,747 | 110,792 |
| <u>36</u> | Volatile liabilities | 23,222 | 24,600 |
| <u>37</u> | Insider loans | 2,388 | 1,599 |

| | | | |
|-----------|---|---------|--------|
| <u>38</u> | FHLB advances | 4,450 | N/A |
| <u>39</u> | Loans and leases held for sale | 0 | 0 |
| <u>40</u> | Unused loan commitments | 19,919 | 18,518 |
| <u>41</u> | <u>Total unused commitments</u> | 19,919 | 18,518 |
| <u>42</u> | Restructured Loans and leases | 0 | 0 |
| <u>43</u> | Quarterly mutual fund sales | 0 | 0 |
| <u>44</u> | <u>Total assets in foreign offices</u> | N/A | N/A |
| <u>45</u> | <u>Total liabilities in foreign offices</u> | N/A | N/A |
| <u>46</u> | <u>Derivatives</u> | 100,000 | 0 |
| | <u>Past due and nonaccrual assets</u> | | |

| | | <i>(Year-to-date)</i> | <i>(Year-to-date)</i> |
|---------------------------|--|-----------------------|-----------------------|
| Income and Expense | | | |
| <u>47</u> | Number of institutions reporting | 1 | 1 |
| <u>48</u> | <u>Total interest income</u> | 6,027 | 6,358 |
| <u>49</u> | <u>Total interest expense</u> | 3,604 | 3,866 |
| <u>50</u> | Net interest income | 2,423 | 2,492 |
| <u>51</u> | Provision for loan and lease losses | 92 | 130 |
| <u>52</u> | Total noninterest income | 86 | 133 |
| <u>53</u> | Fiduciary activities | 0 | 0 |
| <u>54</u> | Service charges on deposit accounts | 29 | 31 |
| <u>55</u> | <u>Trading account gains & fees</u> | 0 | 0 |
| <u>56</u> | <u>Additional noninterest income</u> | 57 | 102 |
| <u>57</u> | Total noninterest expense | 2,237 | 2,295 |
| <u>58</u> | Salaries and employee benefits | 1,153 | 994 |
| <u>59</u> | Premises and equipment expense | 293 | 354 |
| <u>60</u> | All other noninterest expense | 791 | 947 |
| <u>61</u> | Pre-tax net operating income | 180 | 200 |
| <u>62</u> | Securities gains (losses) | 0 | 127 |
| <u>63</u> | Applicable income taxes | 70 | 75 |
| <u>64</u> | Income before extraordinary items | 110 | 252 |
| <u>65</u> | Extraordinary gains - net | 0 | 0 |
| <u>66</u> | Net income | 110 | 252 |
| <u>67</u> | <u>Net charge-offs</u> | 492 | 382 |
| <u>68</u> | <u>Cash dividends</u> | 0 | 0 |
| <u>69</u> | Sale, conversion, retirement of capital stock, net | N/A | 0 |
| <u>70</u> | Net operating income | 110 | 154 |
| | Memoranda: | | |
| <u>71</u> | % of unprofitable institutions | N/A | N/A |
| <u>72</u> | % of institutions with earnings gains | N/A | N/A |
| | <u>Foreign office income & expense</u> | | |

| Performance and Condition Ratios | | | |
|---|--|-----------------------|-----------------------|
| | | <i>(Year-to-date)</i> | <i>(Year-to-date)</i> |
| <u>73</u> | % of unprofitable institutions | N/A | N/A |
| <u>74</u> | % of institutions with earnings gains | N/A | N/A |
| | Performance Ratios (% annualized) | | |
| <u>75</u> | Yield on earning assets | 7.21% | 7.39% |
| <u>76</u> | Cost of funding earning assets | 4.31% | 4.49% |
| <u>77</u> | Net interest margin | 2.90% | 2.90% |
| <u>78</u> | Noninterest income to earning assets | 0.10% | 0.15% |
| <u>79</u> | Noninterest expense to earning assets | 2.68% | 2.67% |
| <u>80</u> | Net operating income to assets | 0.13% | 0.17% |
| <u>81</u> | Return on assets (ROA) | 0.13% | 0.28% |
| <u>82</u> | Return on equity (ROE) | 1.26% | 3.29% |

| | | | |
|-----------------------------|--|--------|--------|
| 83 | Retained earnings to average equity (YTD only) | 1.26% | 3.29% |
| 84 | <u>Net charge-offs to loans</u> | 0.91% | 0.75% |
| 85 | Credit loss provision to net charge-offs | 18.70% | 34.03% |
| 86 | Earnings coverage of net loan charge-offs (x) | 0.55 | 0.86 |
| 87 | Efficiency ratio | 89.16% | 86.44% |
| 88 | Assets per employee (\$ millions) | 3.92 | 4.45 |
| 89 | Cash dividends to net income (YTD only) | 0 | 0 |
| Condition Ratios (%) | | | |
| 90 | Loss allowance to loans | 1.01% | 1.38% |
| 91 | Loss allowance to noncurrent loans | 14.61% | 22.03% |
| 92 | Noncurrent assets plus other real estate owned to assets | 5.66% | 3.88% |
| 93 | <u>Noncurrent loans to loans</u> | 6.90% | 6.25% |
| 94 | Net loans and leases to deposits | 81.57% | 73.33% |
| 95 | Net loans and leases to core deposits | 99.98% | 88.66% |
| 96 | Equity capital to assets | 10.80% | 9.53% |
| 97 | Core capital (leverage) ratio | 10.72% | 10.06% |
| 98 | Tier 1 risk-based capital ratio | 15.89% | 14.78% |
| 99 | Total risk-based capital ratio | 16.93% | 16.03% |

| <i>Definition</i> | <i>Demographic Information</i> | <i>January 3, 2002</i> | <i>September 30, 2001</i> | <i>September 30, 2000</i> |
|-------------------|--|--|--|--|
| 1 | Status | Active | Active | Active |
| 2 | Bank Holding Company (Regulatory Top Holder) | <u>See Note!</u> | | |
| 3 | Certificate# | 32917 | 32917 | 32917 |
| 4 | Institution Name | Enterprise National Bank of Palm Beach | Enterprise National Bank of Palm Beach | Enterprise National Bank of Palm Beach |
| 5 | City, State, Zip | North Palm Beach, FL, 33408 | North Palm Beach, FL, 33408 | North Palm Beach, FL, 33408 |
| 6 | Number of Domestic Offices | | 2 | 2 |
| 7 | Number of Foreign Offices | | 0 | 0 |
| 8 | Interstate Offices | | No | No |
| 9 | Summary Of Deposits | | <u>June 30, 2001</u> | <u>June 30, 2000</u> |
| 10 | Current List of Total Offices | <u>Offices</u> | | |
| 11 | Subchapter S Corporation | | No | No |
| 12 | County | Palm Beach | Palm Beach County | Palm Beach County |
| 13 | Metropolitan Statistical Area | West Palm Beach-Boca Raton, Florida | West Palm Beach-Boca Raton, Florida | West Palm Beach-Boca Raton, Florida |
| 14 | Established Date | April 10, 1990 | April 10, 1990 | April 10, 1990 |
| 15 | Date of Deposit Insurance | April 10, 1990 | April 10, 1990 | April 10, 1990 |
| 16 | Last Structure Change Process Date | April 3, 1998 | | |
| 17 | Last Structure Change Effective Date | January 2, 1998 | | |
| 18 | Ownership Type | | Stock | Stock |

Enterprise National Bank of Palm Beach
11811 U.S. highway One
North Palm Beach, FL 33408
FDIC Sertifikat # 32917 Klasa Banke : N

| Def | Iznos u 000 USD | 30-09-01 | 30-09-00 |
|-----|---|----------------|------------------|
| | PREGLED | | |
| | AKTIVA I PASIVA | | |
| 1 | Ukupan broj stalno zaposlenih | 28 | 21 |
| 2 | Ukupna aktiva | 109,761 | 111,261 |
| 3 | Gotovina i potrzivanja od finansijskih institucija | 2,459 | 1,481 |
| 4 | Kamatonosni bilansi | 1,326 | |
| 5 | Hartije od vrednosti | 27,111 | 34,291 |
| 6 | Over night (preko noci) pozajmice i obratni sporazumi o rekupovini hartija od vrednosti | 165 | 6,581 |
| 7 | Ukupni krediti i lizing | 74,286 | 67,001 |
| 8 | Rezerve za slucaj gubitka | 756 | 931 |
| 9 | Aktiva trgovinskog racuna | 0 | |
| 10 | Prostorije banke i osnovna sredstva | 213 | 291 |
| 11 | Materijalna dobra po osnovu naplate potrazivanja | 1,032 | 71 |
| 12 | "Goodwill" i ostala nematerijalna aktiva | 21 | 71 |
| 13 | Ostala aktiva | 4,474 | 1,451 |
| 14 | Ukupna pasiva (obaveze i kapital) | 109,761 | 111,261 |
| 15 | Ukupne obaveze | 97,912 | 100,651 |
| 16 | Ukupni depoziti | 91,074 | 91,361 |
| 17 | Kamatonosni depoziti | 83,891 | 86,051 |
| 18 | Depoziti kod ekspozitura u zemlji | 91,074 | 91,361 |
| 19 | % Osiguranih (procenjenih) depozita | 87.63% | 88.021 |
| 20 | Over night (preko noci) pozajmice i sporazumi o rekupovini hartija od vrednosti | 2,000 | 4,301 |
| 21 | Pasiva trgovinskog racuna | 0 | |
| 22 | Ostala pozajmljena sredstva | 4,450 | 4,501 |
| 23 | Subordinirana dugovanja | 0 | |
| 24 | Ostala pasiva | 388 | 41 |
| 25 | Akcijski kapital | 11,849 | 10,61 |
| 26 | Trajne prioritetne akcije | 0 | |
| 27 | Obicne akcije | 8,032 | 7,91 |
| 28 | Višak | 4,099 | 4,01 |
| 29 | Neraspoređena dobit | -282 | -1,41 |
| | Memoranda: | | |
| 30 | Kredit i lizing dospeli preko 90 dana | 5,176 | 4,21 |
| 31 | Ostvareni nenaplaćeni prihod po kreditima | 1,193 | 51 |
| 32 | Aktiva koja donosi prihod | 102,888 | 107,81 |
| 33 | Dugoročna aktiva (5 i više godina) | 20,329 | 19,91 |
| 34 | Prosečna aktiva (od početka godine do danas) | 116,798 | 117,91 |
| 35 | Prosečna aktiva (kvartalno) | 109,747 | 110,71 |
| 36 | Flukturajuća pasiva | 23,222 | 24,61 |
| 37 | Kredit i lizing odobreni povezanim licima | 2,388 | 1,51 |
| 38 | Avansi FHLB (Federal Home Loan Bank - Federalnoj banci za stambene kredite) | 4,450 | nedovoljno pozn1 |
| 39 | Kredit i lizing namanjeni za dalju prodaju | 0 | |
| 40 | Neiskorišćeni odobreni krediti | 19,919 | 18,11 |
| 41 | Ukupne neiskorišćene obaveze | 19,919 | 18,11 |
| 42 | Restrukturirani krediti i lizing | 0 | |
| 43 | Kvartalna prodaja zajedničkih sredstava | 0 | |

| Def. Iznosi u 000 USD | | 30.09.01 | 30.09.00 |
|-----------------------|--|-----------------------------------|-----------------------------------|
| 44 | Ukupna aktiva u ekspoziturama u inostranstvu | nedovoljno poznato | nedovoljno poznato |
| 45 | Ukupna pasiva u ekspoziturama u inostranstvu | nedovoljno poznato | nedovoljno poznato |
| 46 | Obaveze po derivatima | 100,000 | 0 |
| | Dospela i nekamatonsna aktiva | | |
| | Prihodi i rashodi | Od početka godine do danas | Od početka godine do danas |
| 47 | Broj institucija koje dostavljaju izveštaje | 1 | 1 |
| 48 | Ukupni prihodi od kamata | 6,027 | 6,358 |
| 49 | Ukupni rashodi kamata | 3,604 | 3,866 |
| 50 | Neto prihodi od kamata | 2,423 | 2,492 |
| 51 | Rezervisanja za slučaj gubitka po osnovu kredita i lizinga | 92 | 130 |
| 52 | Ukupni nekamatni prihod | 86 | 133 |
| 53 | Prihodi od aktivnosti upravljanja elementima tuđe aktive (Fiducijarne aktivnosti) | 0 | 0 |
| 54 | Troškovi usluga kod depozita | 29 | 31 |
| 55 | Prihodi i naknade na računima trgovine | 0 | 0 |
| 56 | Dodatni nekamatni prihodi | 57 | 102 |
| 57 | Ukupni nekamatni rashodi | 2,237 | 2,295 |
| 58 | Zarade i beneficije za zaposlene | 1,153 | 994 |
| 59 | Troškovi po osnovu poslovnog prostora i opreme | 293 | 354 |
| 60 | Ostali nekamatni rashodi | 791 | 947 |
| 61 | Neto poslovni prihod pre oporezivanja | 180 | 200 |
| 62 | Hartije od vrednosti - dobitak/gubitak | 0 | 127 |
| 63 | Relevantni porezi na prihod | 70 | 75 |
| 64 | Prihod bez vanrednih stavki | 110 | 252 |
| 65 | Neto vanredni prihodi | 0 | 0 |
| 66 | Neto prihod | 110 | 252 |
| 67 | Neto otpisi | 492 | 382 |
| 68 | Dividende isplaćene u gotovini | 0 | 0 |
| 69 | Neto prodaja, konverzija, povlačenje fondova kapitala | nema podataka | 0 |
| 70 | Neto poslovni prihod | 110 | 154 |
| | Memoranda: | | |
| 71 | % neprofitabilnih institucija | nema podataka | nema podataka |
| 72 | % institucija koje ostvaruju profit | nema podataka | nema podataka |
| | Pokazatelji poslovanja i stanja | | |
| 73 | % neprofitabilnih institucija | nema podataka | nema podataka |
| 74 | % institucija koje ostvaruju profit | nema podataka | nema podataka |
| | Pokazatelji poslovanja (proj. na godišnji nivo, u %) | Od početka godine do danas | Od početka godine do danas |
| 75 | Prinos od aktive koja donosi prihod | 7.21% | 7.39% |
| 76 | Troškovi finansiranja aktive koja donosi prihod | 4.31% | 4.49% |
| 77 | Neto kamatna marža | 2.90% | 2.90% |
| 78 | Nekamatni prihodi / Aktiva koja donosi prihod | 0.10% | 0.15% |
| 79 | Nekamatni rashodi / Aktiva koja donosi prihod | 2.68% | 2.67% |
| 80 | Neto poslovni prihod / Ukupna aktiva | 0.13% | 0.17% |
| 81 | Prinos na aktivu (ROA) | 0.13% | 0.28% |
| 82 | Prinos na akcijski kapital (ROE) | 1.26% | 3.29% |
| 83 | Neraspoređeni prihod / Prosečni akcijski kapital (samo iznos od početka godine do danas) | 1.26% | 3.29% |
| 84 | Neto otpisi / Ukupni krediti | 0.91% | 0.75% |
| 85 | Rezervisanja za slučaj gubitka / Neto otpisi | 18.70% | 34.03% |
| 86 | Pokrivenost neto otpisa prihodima | 0.55x | 0.86 |
| 87 | Koeficijent efikasnosti | 89.16% | 86.44% |

| Def | Iznosi u 000 USD | 30.09.04 | 30.09.00 |
|-----|--|----------|----------|
| 88 | Aktiva po zaposlenim (u millionima USD) | 3.92 | 4.45 |
| 89 | Dividende isplaćene u gotovini / Neto prihod (samo iznos od početka godine do danas) | 0 | 0 |
| | Pokazatelji stanja (%) | | |
| 90 | Rezerve za slučaj gubitka / Ukupni krediti | 1.01% | 1.38% |
| 91 | Rezerve za slučaj gubitka / Ukupni krediti koji su dospeli preko 90 dana | 14.61% | 22.03% |
| 92 | (Aktiva koja je dopela preko 90 dana + materijalna dobra po osnovu naplate potraživanja) / Ukupna aktiva | 5.66% | 3.88% |
| 93 | Kreditni dospeli preko 90 dana / Ukupni krediti | 6.90% | 6.25% |
| 94 | Neto krediti i lizing / Ukupni depoziti | 81.57% | 73.33% |
| 95 | Neto krediti i lizing / Bazični depoziti | 99.98% | 88.66% |
| 96 | Akcijski kapital / Ukupna aktiva | 10.80% | 9.53% |
| 97 | Koeficijent bazičnog kapitala (leverage) | 10.72% | 10.06% |
| 98 | Koeficijent adekvatnosti tier 1 kapitala | 15.89% | 14.78% |
| 99 | Koeficijent adekvatnosti ukupnog kapitala | 16.93% | 16.03% |

Washington Federal Savings and Loan Association

425 Pike Street
Seattle, WA 98101

FDIC Certificate #: 28088 Bank Charter Class: SA

UB 1/02
4U 3/02

Definition

Dollar figures in thousands

Washington
Federal Savings
and Loan
Association
Seattle, WA
September 30,
2001

Washington
Federal Savings
and Loan
Association
Seattle, WA
September 30,
2000

All Summary Information

Assets and Liabilities

| | | | |
|----|--|------------------|------------------|
| 1 | Total employees (full-time equivalent) | 714 | 676 |
| 2 | Total assets | 7,026,823 | 6,715,326 |
| 3 | <u>Cash and due from depository institutions</u> | 30,331 | 28,286 |
| 4 | Interest-bearing balances | 0 | 0 |
| 5 | <u>Securities</u> | 1,294,530 | 1,471,100 |
| 6 | Federal funds sold & reverse repurchase agreements | 0 | 0 |
| 7 | <u>Net loans & leases</u> | 5,389,857 | 4,948,821 |
| 8 | Loan loss allowance | 17,687 | 18,329 |
| 9 | Trading account assets | 0 | 0 |
| 10 | Bank premises and fixed assets | 52,247 | 48,454 |
| 11 | <u>Other real estate owned</u> | 17,046 | 17,749 |
| 12 | <u>Goodwill and other intangibles</u> | 35,703 | 41,577 |
| 13 | All other assets | 207,109 | 159,339 |
| 14 | Total liabilities and capital | 7,026,823 | 6,715,326 |
| 15 | Total liabilities | 6,152,774 | 5,958,119 |
| 16 | <u>Total deposits</u> | 4,277,789 | 3,421,446 |
| 17 | Interest-bearing deposits | 4,201,939 | 3,366,932 |
| 18 | Deposits held in domestic offices | 4,277,789 | 3,421,446 |
| 19 | % insured (estimated) | 91.88% | 92.47% |
| 20 | Federal funds purchased & repurchase agreements | 65,579 | 1,164,743 |
| 21 | Trading liabilities | N/A | N/A |
| 22 | Other borrowed funds | 1,667,500 | 1,289,000 |
| 23 | Subordinated debt | 0 | 0 |
| 24 | All other liabilities | 141,906 | 82,930 |
| 25 | <u>Equity capital</u> | 874,049 | 757,207 |
| 26 | Perpetual preferred stock | 0 | 0 |
| 27 | Common stock | 0 | 1 |
| 28 | Surplus | 421,069 | 421,068 |
| 29 | Undivided profits | 452,980 | 336,138 |
| | Memoranda: | | |
| 30 | Noncurrent loans and leases | 25,548 | 16,584 |
| 31 | Income earned, not collected on loans | 42,340 | 30,049 |
| 32 | Earning assets | 6,684,387 | 6,419,921 |
| 33 | Long-term assets (5+ years) | N/A | N/A |
| 34 | Average Assets, year-to-date | 6,989,525 | 6,464,212 |
| 35 | Average Assets, quarterly | 7,046,362 | 6,640,153 |
| 36 | Volatile liabilities | 2,705,678 | 3,109,060 |
| 37 | Insider loans | 680 | 534 |
| 38 | FHLB advances | 1,637,500 | 1,209,000 |
| 39 | Loans and leases held for sale | N/A | N/A |

| | | | |
|----|---|--------|---------|
| 40 | Unused loan commitments | 90,131 | 96,943 |
| 41 | <u>Total unused commitments</u> | 90,511 | 576,943 |
| 42 | Restructured Loans and leases | 22,793 | 23,231 |
| 43 | Quarterly mutual fund sales | 0 | 0 |
| 44 | <u>Total assets in foreign offices</u> | N/A | N/A |
| 45 | <u>Total liabilities in foreign offices</u> | N/A | N/A |
| 46 | <u>Derivatives</u> | N/A | N/A |
| | <u>Past due and nonaccrual assets</u> | | |

| | | (Year-to-date) | (Year-to-date) |
|---------------------------|--|----------------|----------------|
| Income and Expense | | | |
| 47 | Number of institutions reporting | 1 | 1 |
| 48 | <u>Total interest income</u> | 396,836 | 372,255 |
| 49 | <u>Total interest expense</u> | 232,695 | 231,325 |
| 50 | Net interest income | 164,141 | 140,930 |
| 51 | Provision for loan and lease losses | 1,850 | 0 |
| 52 | Total noninterest income | 12,784 | 11,974 |
| 53 | Fiduciary activities | N/A | N/A |
| 54 | Service charges on deposit accounts | N/A | N/A |
| 55 | <u>Trading account gains & fees</u> | 0 | 0 |
| 56 | <u>Additional noninterest income</u> | 12,784 | 11,974 |
| 57 | Total noninterest expense | 38,885 | 35,405 |
| 58 | Salaries and employee benefits | 22,598 | 20,403 |
| 59 | Premises and equipment expense | 7,629 | 6,467 |
| 60 | All other noninterest expense | 8,658 | 8,535 |
| 61 | Pre-tax net operating income | 136,190 | 117,499 |
| 62 | Securities gains (losses) | 1,535 | 3,459 |
| 63 | Applicable income taxes | 48,475 | 42,511 |
| 64 | Income before extraordinary items | 89,250 | 78,447 |
| 65 | Extraordinary gains - net | 0 | 0 |
| 66 | Net income | 89,250 | 78,447 |
| 67 | <u>Net charge-offs</u> | 1,310 | -98 |
| 68 | <u>Cash dividends</u> | 35,001 | 47,500 |
| 69 | Sale, conversion, retirement of capital stock, net | 0 | 0 |
| 70 | Net operating income | 88,252 | 76,199 |

| | | | |
|-------------------|--|-----|-----|
| Memoranda: | | | |
| 71 | % of unprofitable institutions | N/A | N/A |
| 72 | % of institutions with earnings gains | N/A | N/A |
| | <u>Foreign office income & expense</u> | | |

| Performance and Condition Ratios | | | |
|--|--|----------------|----------------|
| 73 | % of unprofitable institutions | N/A | N/A |
| 74 | % of institutions with earnings gains | N/A | N/A |
| Performance Ratios (% , annualized) | | | |
| | | (Year-to-date) | (Year-to-date) |
| 75 | Yield on earning assets | 7.96% | 8.05% |
| 76 | Cost of funding earning assets | 4.67% | 5.00% |
| 77 | Net interest margin | 3.29% | 3.05% |
| 78 | Noninterest income to earning assets | 0.26% | 0.26% |
| 79 | Noninterest expense to earning assets | 0.78% | 0.77% |
| 80 | Net operating income to assets | 1.68% | 1.57% |
| 81 | Return on assets (ROA) | 1.70% | 1.62% |
| 82 | Return on equity (ROE) | 14.34% | 14.29% |
| 83 | Retained earnings to average equity (YTD only) | 8.72% | 5.64% |
| 84 | Net charge-offs to loans | 0.03% | 0 |

| | | | |
|-----------------------------|--|---------|---------|
| 85 | Credit loss provision to net charge-offs | 141.22% | 0 |
| 86 | Earnings coverage of net loan charge-offs (x) | 105.37 | N/A |
| 87 | Efficiency ratio | 19.46% | 20.22% |
| 88 | Assets per employee (\$ millions) | 9.84 | 9.93 |
| 89 | Cash dividends to net income (YTD only) | 39.22% | 60.55% |
| Condition Ratios (%) | | | |
| 90 | Loss allowance to loans | 0.33% | 0.37% |
| 91 | Loss allowance to noncurrent loans | 69.23% | 110.52% |
| 92 | Noncurrent assets plus other real estate owned to assets | 0.53% | 0.43% |
| 93 | <u>Noncurrent loans to loans</u> | 0.47% | 0.33% |
| 94 | Net loans and leases to deposits | 126.00% | 144.64% |
| 95 | Net loans and leases to core deposits | 163.07% | 178.91% |
| 96 | Equity capital to assets | 12.44% | 11.28% |
| 97 | Core capital (leverage) ratio | 11.32% | 10.61% |
| 98 | Tier 1 risk-based capital ratio | 19.87% | 19.20% |
| 99 | Total risk-based capital ratio | 20.12% | 19.45% |

| <i>Demographic</i> | | February 28, 2002 | September 30, 2001 | September 30, 2000 |
|--------------------|--|---|---|---|
| <i>Definition</i> | <i>Information</i> | | | |
| 1 | Status | Active | Active | Active |
| 2 | Bank Holding Company (Regulatory Top Holder) | <u>See Note!</u> | | |
| 3 | Certificate# | 28088 | 28088 | 28088 |
| 4 | Institution Name | Washington Federal Savings and Loan Association | Washington Federal Savings and Loan Association | Washington Federal Savings and Loan Association |
| 5 | City, State, Zip | Seattle, WA, 98101 | Seattle, WA, 98101 | Seattle, WA, 98101 |
| 6 | Number of Domestic Offices | | 108 | 108 |
| 7 | Number of Foreign Offices | | 0 | 0 |
| 8 | Interstate Offices | | <u>Yes</u> | <u>Yes</u> |
| 9 | Summary Of Deposits | | <u>June 30, 2001</u> | <u>June 30, 2000</u> |
| 10 | Current List of Total Offices | <u>Offices</u> | | |
| 11 | Subchapter S Corporation | | No | No |
| 12 | County | King | King County | King County |
| 13 | Metropolitan Statistical Area | Seattle-Bellevue-Everett, Washington | Seattle-Bellevue-Everett, Washington | Seattle-Bellevue-Everett, Washington |
| 14 | Established Date | January 1, 1917 | January 1, 1917 | January 1, 1917 |
| 15 | Date of Deposit Insurance | June 24, 1935 | June 24, 1935 | June 24, 1935 |
| 16 | Last Structure Change-Process-Date | December 26, 2001 | | |
| 17 | Last Structure Change Effective Date | October 25, 2001 | | |
| 18 | Ownership Type | | Stock | Stock |
| 19 | Directly Owned by Another Bank? (CERT) | | No | No |
| 20 | Bank Charter Class | Savings Association | Savings Association | Savings Association |

42

| | | | | |
|-----------|--|---|---------------|---------------|
| <u>21</u> | Regulator | OTS | OTS | OTS |
| <u>22</u> | Insurance fund membership | SAIF | SAIF | SAIF |
| <u>23</u> | FDIC Geographic Region | San Francisco | San Francisco | San Francisco |
| <u>24</u> | FDIC Supervisory Region | San Francisco | San Francisco | San Francisco |
| <u>25</u> | FDIC Field Office | Seattle | Seattle | Seattle |
| <u>26</u> | Federal Reserve District | San Francisco | San Francisco | San Francisco |
| <u>27</u> | Office of the Comptroller of the Currency District | Western | Western | Western |
| <u>28</u> | Office of Thrift Supervision Region | West | West | West |
| <u>29</u> | Primary Web Address | http://www.washingtonfederal.com:80/ | NA | NA |

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Washington Federal Savings and Loan Association

425 Pike Street

Seattle, WA 98101

FDIC Sertifikat # 28088 Klasa Banke : SA

| Def | Iznosi u 000 USD | 30.09.01 | 30.09.00 |
|-----|---|------------------|------------------|
| | PREGLED | | |
| | AKTIVA I PASIVA | | |
| 1 | Ukupan broj stalno zaposlenih | 714 | 676 |
| 2 | Ukupna aktiva | 7,026,823 | 6,715,326 |
| 3 | Gotovina i potrzivanja od finansijskih institucija | 30,331 | 28,286 |
| 4 | Kamatonosni bilansi | 0 | 0 |
| 5 | Hartije od vrednosti | 1,294,530 | 1,471,100 |
| 6 | <i>Over night</i> (preko noći) pozajmice i obratni sporazumi o reupovini hartija od vrednosti | 0 | 0 |
| 7 | Ukupni krediti i lizing | 5,389,857 | 4,948,821 |
| 8 | Rezerve za slučaj gubitka | 17,687 | 18,329 |
| 9 | Aktiva trgovinskog računa | 0 | 0 |
| 10 | Prostorije banke i osnovna sredstva | 52,247 | 48,454 |
| 11 | Materijalna dobra po osnovu naplate potraživanja | 17,046 | 17,749 |
| 12 | "Goodwill" i ostala nematerijalna aktiva | 35,703 | 41,577 |
| 13 | Ostala aktiva | 207,109 | 159,339 |
| 14 | Ukupna pasiva (obaveze i kapital) | 7,026,823 | 6,715,326 |
| 15 | Ukupne obaveze | 6,152,774 | 5,958,119 |
| 16 | Ukupni depoziti | 4,277,789 | 3,421,446 |
| 17 | Kamatonosni depoziti | 4,201,939 | 3,366,932 |
| 18 | Depoziti kod ekspozitura u zemlji | 4,277,789 | 3,421,446 |
| 19 | % Osiguranih (procenjenih) depozita | 91.88% | 92.47% |
| 20 | <i>Over night</i> (preko noći) pozajmice i sporazumi o reupovini hartija od vrednosti | 65,579 | 1,164,743 |
| 21 | Pasiva trgovinskog računa | nema podataka | nema podataka |
| 22 | Ostala pozajmljena sredstva | 1,667,500 | 1,289,000 |
| 23 | Subordinirana dugovanja | 0 | 0 |
| 24 | Ostala pasiva | 141,906 | 82,930 |
| 25 | Akcijski kapital | 874,049 | 757,207 |
| 26 | Trajne prioritetne akcije | 0 | 0 |
| 27 | Obične akcije | 0 | 1 |
| 28 | Višak | 421,069 | 421,068 |
| 29 | Neraspoređena dobit | 452,980 | 336,138 |
| | Memoranda: | | |
| 30 | Kredit i lizing dospeli preko 90 dana | 25,548 | 16,584 |
| 31 | Ostvareni nenaplaćeni prihod po kreditima | 42,340 | 30,049 |
| 32 | Aktiva koja donosi prihod | 6,684,387 | 6,419,921 |
| 33 | Dugoročna aktiva (5 i više godina) | nema podataka | nema podataka |
| 34 | Prosečna aktiva (od početka godine do danas) | 6,989,525 | 6,464,212 |
| 35 | Prosečna aktiva (kvartalno) | 7,046,362 | 6,640,153 |
| 36 | Fluktuirajuća pasiva | 2,705,678 | 3,109,060 |
| 37 | Kredit i lizing odobreni povezanim licima | 680 | 534 |
| 38 | Avansi FHLB (Federal Home Loan Bank - Federalnoj banci za stambene kredite) | 1,637,500 | 1,209,000 |
| 39 | Kredit i lizing namanjeni za dalju prodaju | nema podataka | nema podataka |
| 40 | Neiskorišćeni odobreni krediti | 90,131 | 96,943 |
| 41 | Ukupne neiskorišćene obaveze | 90,511 | 576,943 |
| 42 | Restrukturirani krediti i lizing | 22,793 | 23,231 |
| 43 | Kvartalna prodaja zajedničkih sredstava | 0 | 0 |

| Defin | | Iznos u 000 USD | 30.09.01 | 30.09.00 |
|-------|--|-----------------|-----------------------------------|-----------------------------------|
| 44 | Ukupna aktiva u ekspoziturama u inostranstvu | | nedovoljno poznato | nedovoljno poznato |
| 45 | Ukupna pasiva u ekspoziturama u inostranstvu | | nedovoljno poznato | nedovoljno poznato |
| 46 | Obaveze po derivatima | | nedovoljno poznato | nedovoljno poznato |
| | Dospela i nekamatonsna aktiva | | | |
| | Prihodi i rashodi | | Od početka godine do danas | Od početka godine do danas |
| 47 | Broj institucija koje dostavljaju izveštaje | | 1 | 1 |
| 48 | Ukupni prihodi od kamata | | 396,836 | 372,255 |
| 49 | Ukupni rashodi kamata | | 232,695 | 231,325 |
| 50 | Neto prihodi od kamata | | 164,141 | 140,930 |
| 51 | Rezervisanja za slučaj gubitka po osnovu kredita i lizinga | | 1,850 | 0 |
| 52 | Ukupni nekamatni prihod | | 12,784 | 11,974 |
| 53 | Prihodi od aktivnosti upravljanja elementima tuđe aktive (Fiducijarne aktivnosti) | | nema podataka | nema podataka |
| 54 | Troškovi usluga kod depozita | | nema podataka | nema podataka |
| 55 | Prihodi i naknade na računu trgovine | | 0 | 0 |
| 56 | Dodatni nekamatni prihodi | | 12,784 | 11,974 |
| 57 | Ukupni nekamatni rashodi | | 38,885 | 35,405 |
| 58 | Zarade i beneficije za zaposlene | | 22,598 | 20,403 |
| 59 | Troškovi po osnovu poslovnog prostora i opreme | | 7,629 | 6,467 |
| 60 | Ostali nekamatni rashodi | | 8,658 | 8,535 |
| 61 | Neto poslovni prihod pre oporezivanja | | 136,190 | 117,499 |
| 62 | Hartije od vrednosti - dobitak/gubitak | | 1,535 | 3,459 |
| 63 | Relevantni porezi na prihod | | 48,475 | 42,511 |
| 64 | Prihod bez vanrednih stavki | | 89,250 | 78,447 |
| 65 | Neto vanredni prihodi | | 0 | 0 |
| 66 | Neto prihod | | 89,250 | 78,447 |
| 67 | Neto otpisi | | 1,310 | -98 |
| 68 | Dividende isplaćene u gotovini | | 35,001 | 47,500 |
| 69 | Neto prodaja, konverzija, povlacenje fondova kapitala | | 0 | 0 |
| 70 | Neto poslovni prihod | | 88,252 | 76,199 |
| | Memoranda: | | | |
| 71 | % neprofitabilnih institucija | | nema podataka | nema podataka |
| 72 | % institucija koje ostvaruju profit | | nema podataka | nema podataka |
| | Pokazatelji poslovanja i stanja | | | |
| 73 | % neprofitabilnih institucija | | nema podataka | nema podataka |
| 74 | % institucija koje ostvaruju profit | | nema podataka | nema podataka |
| | Pokazatelji poslovanja (proj. na godišnji nivo, u %) | | Od početka godine do danas | Od početka godine do danas |
| 75 | Prinos od aktive koja donosi prihod | | 7.96% | 8.05% |
| 76 | Troškovi finansiranja aktive koja donosi prihod | | 4.67% | 5.00% |
| 77 | Neto kamatna marža | | 3.29% | 3.05% |
| 78 | Nekamatni prihodi / Aktiva koja donosi prihod | | 0.26% | 0.26% |
| 79 | Nekamatni rashodi / Aktiva koja donosi prihod | | 0.78% | 0.77% |
| 80 | Neto poslovni prihod / Ukupna aktiva | | 1.68% | 1.57% |
| 81 | Prinos na aktivu (ROA) | | 1.70% | 1.62% |
| 82 | Prinos na akcijski kapital (ROE) | | 14.34% | 14.29% |
| 83 | Neraspoređeni prihod / Prosečni akcijski kapital (samo iznos od početka godine do danas) | | 8.72% | 5.64% |
| 84 | Neto otpisi / Ukupni krediti | | 0.03% | 0 |
| 85 | Rezervisanja za slučaj gubitka / Neto otpisi | | 141.22% | 0 |

45

| Def | Iznosi u 000 USD | 30.09.04 | 30.09.00 |
|-----|--|----------|---------------|
| 86 | Pokrivenost neto otpisa prihodima | 105.37% | nema podataka |
| 87 | Koeficijent efikasnosti | 19.46% | 20.22% |
| 88 | Aktiva po zaposlenom (u millionima USD) | 9.84 | 9.93 |
| 89 | Dividende isplaćene u gotovini / Neto prihod (samo iznos od početka godine do danas) | 39.22% | 60.55% |
| | Pokazatelji stanja (%) | | |
| 90 | Rezerve za slučaj gubitka / Ukupni krediti | 0.33% | 0.37% |
| 91 | Rezerve za slučaj gubitka / Ukupni krediti koji su dospeli preko 90 dana | 69.23% | 110.52% |
| 92 | (Aktiva koja je dopela preko 90 dana + materijalna dobra po osnovu naplate potraživanja) / Ukupna aktiva | 0.53% | 0.43% |
| 93 | Kreditni dospeli preko 90 dana / Ukupni krediti | 0.47% | 0.33% |
| 94 | Neto krediti i lizing / Ukupni depoziti | 126.00% | 144.64% |
| 95 | Neto krediti i lizing / Bazični depoziti | 163.07% | 178.91% |
| 96 | Akcijski kapital / Ukupna aktiva | 12.44% | 11.28% |
| 97 | Koeficijent bazičnog kapitala (leverage) | 11.32% | 10.61% |
| 98 | Koeficijent adekvatnosti tier 1 kapitala | 19.87% | 19.20% |
| 99 | Koeficijent adekvatnosti ukupnog kapitala | 20.12% | 19.45% |

Oregon Pacific Banking Company

1355 Highway 101

Florence, OR 97439

FDIC Certificate #: 23007 Bank Charter Class: SM

| <i>Definition</i> | <i>Dollar figures in thousands</i> | Oregon Pacific Banking Company Florence, OR September 30, 2001 | Oregon Pacific Banking Company Florence, OR September 30, 2000 |
|--------------------------------|--|--|--|
| All Summary Information | | | |
| Assets and Liabilities | | | |
| 1 | Total employees (full-time equivalent) | 56 | 58 |
| 2 | Total assets | 83,418 | 72,799 |
| 3 | <u>Cash and due from depository institutions</u> | 3,324 | 4,462 |
| 4 | Interest-bearing balances | 1,000 | 2,410 |
| 5 | <u>Securities</u> | 26,313 | 23,499 |
| 6 | Federal funds sold & reverse repurchase agreements | 0 | 0 |
| 7 | <u>Net loans & leases</u> | 50,160 | 41,370 |
| 8 | Loan loss allowance | 966 | 986 |
| 9 | Trading account assets | 0 | 0 |
| 10 | Bank premises and fixed assets | 1,608 | 1,628 |
| 11 | <u>Other real estate owned</u> | 35 | 290 |
| 12 | <u>Goodwill and other intangibles</u> | 356 | 302 |
| 13 | All other assets | 1,622 | 1,248 |
| 14 | Total liabilities and capital | 83,418 | 72,799 |
| 15 | Total liabilities | 76,178 | 65,182 |
| 16 | <u>Total deposits</u> | 70,207 | 59,386 |
| 17 | Interest-bearing deposits | 54,201 | 44,758 |
| 18 | Deposits held in domestic offices | 70,207 | 59,386 |
| 19 | % insured (estimated) | 81.57% | 86.45% |
| 20 | Federal funds purchased & repurchase agreements | 0 | 0 |
| 21 | Trading liabilities | 0 | 0 |
| 22 | Other borrowed funds | 5,420 | 5,345 |
| 23 | Subordinated debt | 0 | 0 |
| 24 | All other liabilities | 551 | 451 |
| 25 | <u>Equity capital</u> | 7,240 | 7,617 |
| 26 | Perpetual preferred stock | 0 | 0 |
| 27 | Common stock | 931 | 956 |
| 28 | Surplus | 3,623 | 3,883 |
| 29 | Undivided profits | 2,686 | 2,778 |
| Memoranda: | | | |
| 30 | Noncurrent loans and leases | 146 | 190 |
| 31 | Income earned, not collected on loans | 563 | 254 |
| 32 | Earning assets | 77,473 | 67,279 |
| 33 | Long-term assets (5+ years) | 14,419 | 10,939 |
| 34 | Average Assets, year-to-date | 76,030 | 72,851 |
| 35 | Average Assets, quarterly | 79,611 | 74,199 |
| 36 | Volatile liabilities | 10,569 | 4,381 |
| 37 | Insider loans | 1,331 | 966 |
| 38 | FHLB advances | 5,420 | N/A |
| 39 | Loans and leases held for sale | 1,275 | 994 |
| 40 | Unused loan commitments | 6,562 | 7,797 |

| | | | |
|----|---|-------|-------|
| 41 | <u>Total unused commitments</u> | 6,562 | 7,797 |
| 42 | Restructured Loans and leases | 0 | 0 |
| 43 | Quarterly mutual fund sales | 0 | 4,460 |
| 44 | <u>Total assets in foreign offices</u> | N/A | N/A |
| 45 | <u>Total liabilities in foreign offices</u> | N/A | N/A |
| 46 | <u>Derivatives</u> | 0 | 0 |
| | <u>Past due and nonaccrual assets</u> | | |

Income and Expense

| | | (Year-to-date) | (Year-to-date) |
|----|--|----------------|----------------|
| 47 | Number of institutions reporting | 1 | 1 |
| 48 | <u>Total interest income</u> | 4,780 | 4,600 |
| 49 | <u>Total interest expense</u> | 1,645 | 1,649 |
| 50 | Net interest income | 3,135 | 2,951 |
| 51 | Provision for loan and lease losses | 3 | 35 |
| 52 | Total noninterest income | 760 | 737 |
| 53 | Fiduciary activities | 99 | N/A |
| 54 | Service charges on deposit accounts | 190 | 224 |
| 55 | <u>Trading account gains & fees</u> | 0 | N/A |
| 56 | <u>Additional noninterest income</u> | 471 | 513 |
| 57 | Total noninterest expense | 2,948 | 2,749 |
| 58 | Salaries and employee benefits | 1,757 | 1,505 |
| 59 | Premises and equipment expense | 314 | 333 |
| 60 | All other noninterest expense | 877 | 911 |
| 61 | Pre-tax net operating income | 944 | 904 |
| 62 | Securities gains (losses) | -3 | -11 |
| 63 | Applicable income taxes | 220 | 227 |
| 64 | Income before extraordinary items | 721 | 666 |
| 65 | Extraordinary gains - net | 0 | 0 |
| 66 | Net income | 721 | 666 |
| 67 | <u>Net charge-offs</u> | 90 | 48 |
| 68 | <u>Cash dividends</u> | 1,347 | 284 |
| 69 | Sale, conversion, retirement of capital stock, net | N/A | N/A |
| 70 | Net operating income | 723 | 674 |
| | Memoranda: | | |
| 71 | % of unprofitable institutions | N/A | N/A |
| 72 | % of institutions with earnings gains | N/A | N/A |
| | <u>Foreign office income & expense</u> | | |

Performance and Condition Ratios

| | | | |
|----|--|-----------------------|-----------------------|
| 73 | % of unprofitable institutions | N/A | N/A |
| 74 | % of institutions with earnings gains | N/A | N/A |
| | Performance Ratios (% , annualized) | (Year-to-date) | (Year-to-date) |
| 75 | Yield on earning assets | 9.08% | 9.19% |
| 76 | Cost of funding earning assets | 3.12% | 3.29% |
| 77 | Net interest margin | 5.95% | 5.90% |
| 78 | Noninterest income to earning assets | 1.44% | 1.47% |
| 79 | Noninterest expense to earning assets | 5.60% | 5.49% |
| 80 | Net operating income to assets | 1.27% | 1.23% |
| 81 | Return on assets (ROA) | 1.26% | 1.22% |
| 82 | Return on equity (ROE) | 12.90% | 11.93% |
| 83 | Retained earnings to average equity (YTD only) | -11.20% | 6.84% |
| 84 | <u>Net charge-offs to loans</u> | 0.26% | 0.15% |
| 85 | Credit loss provision to net charge-offs | 3.33% | 72.92% |

| | | | |
|----|--|---------|---------|
| 86 | Earnings coverage of net loan charge-offs (x) | 10.52 | 19.56 |
| 87 | Efficiency ratio | 75.69% | 74.54% |
| 88 | Assets per employee (\$ millions) | 1.49 | 1.26 |
| 89 | Cash dividends to net income (YTD only) | 186.82% | 42.64% |
| | Condition Ratios (%) | | |
| 90 | Loss allowance to loans | 1.89% | 2.33% |
| 91 | Loss allowance to noncurrent loans | 661.64% | 518.95% |
| 92 | Noncurrent assets plus other real estate owned to assets | 0.22% | 0.66% |
| 93 | <u>Noncurrent loans to loans</u> | 0.29% | 0.45% |
| 94 | Net loans and leases to deposits | 71.45% | 69.66% |
| 95 | Net loans and leases to core deposits | 84.11% | 75.21% |
| 96 | Equity capital to assets | 8.68% | 10.46% |
| 97 | Core capital (leverage) ratio | 8.59% | 10.57% |
| 98 | Tier 1 risk-based capital ratio | 11.84% | 15.47% |
| 99 | Total risk-based capital ratio | 13.09% | 16.73% |

| <i>Definition</i> | <i>Demographic Information</i> | February 28, 2002 | September 30, 2001 | September 30, 2000 |
|-------------------|---|-----------------------------------|-----------------------------------|-----------------------------------|
| 1 | Status | Active | Active | Active |
| 2 | Bank Holding Company (Regulatory Top Holder) | <u>See Note!</u> | | |
| 3 | Certificate# | 23007 | 23007 | 23007 |
| 4 | Institution Name | Oregon Pacific Banking Company | Oregon Pacific Banking Company | Oregon Pacific Banking Company |
| 5 | City,State,Zip | Florence, OR, 97439 | Florence , OR, 97439 | Florence , OR, 97439 |
| 6 | Number of Domestic Offices | | 3 | 3 |
| 7 | Number of Foreign Offices | | 0 | 0 |
| 8 | Interstate Offices | | No | No |
| 9 | Summary Of Deposits | | <u>June 30, 2001</u> | <u>June 30, 2000</u> |
| 10 | Current List of Total Offices | <u>Offices</u> | | |
| 11 | Subchapter S Corporation | | No | No |
| 12 | County | Lane | Lane County | Lane County |
| 13 | Metropolitan Statistical Area | Eugene-Springfield, Oregon | Eugene-Springfield, Oregon | Eugene-Springfield, Oregon |
| 14 | Established Date | December 17, 1979 | December 17, 1979 | December 17, 1979 |
| 15 | Date of Deposit Insurance | December 17, 1979 | December 17, 1979 | December 17, 1979 |
| 16 | Last Structure Change Process Date | January 13, 1998 | | |
| 17 | Last Structure Change Effective Date | May 5, 1997 | | |
| 18 | Ownership Type | | Stock | Stock |
| 19 | Directly Owned by Another Bank?(CERT) | | No | No |
| 20 | Bank Charter Class | Federal Reserve Member | Federal Reserve Member | Federal Reserve Member |
| 21 | Regulator | FED | FED | FED |
| 22 | Insurance fund membership | BIF | BIF | BIF |
| 23 | FDIC Geographic Region | San Francisco | San Francisco | San Francisco |
| 24 | FDIC Supervisory Region | San Francisco | San Francisco | San Francisco |
| 25 | FDIC Field Office | Portland | Portland | Portland |
| 26 | Federal Reserve District | San Francisco | San Francisco | San Francisco |
| 27 | Office of the Comptroller of the Currency District | Western | Western | Western |
| 28 | Office of Thrift Supervision | West | West | West |

Oregon Pacific Banking Company
1355 highway 101
Florence, OR 97439
FDIC Sertifikat # 23007 Klasa banke : SM

| Def. | Iznos u 000 USD | 30-09-01 | 30-09-00 |
|------|---|---------------|---------------|
| | PREGLED | | |
| | AKTIVA I PASIVA | | |
| 1 | Ukupan broj stalno zaposlenih | 56 | 58 |
| 2 | Ukupna aktiva | 83,418 | 72,799 |
| 3 | Gotovina i potraživanja od finansijskih institucija | 3,324 | 4,462 |
| 4 | Kamatonosni bilansi | 1,000 | 2,410 |
| 5 | <u>Hartije od vrednosti</u> | 26,313 | 23,499 |
| 6 | Over night (preko noći) pozajmice i obratni sporazumi o rekupovini hartija od vrednosti | 0 | 0 |
| 7 | <u>Ukupni krediti i lizing</u> | 50,160 | 41,370 |
| 8 | Rezerve za slučaj gubitka | 966 | 986 |
| 9 | Aktiva trgovinskog računa | 0 | 0 |
| 10 | Prostorije banke i osnovna sredstva | 1,608 | 1,628 |
| 11 | Materijalna dobra po osnovu naplate potraživanja | 35 | 290 |
| 12 | "Goodwill" i ostala nematerijalna aktiva | 356 | 302 |
| 13 | Ostala aktiva | 1,622 | 1,248 |
| 14 | Ukupna pasiva (obaveze i kapital) | 83,418 | 72,799 |
| 15 | Ukupne obaveze | 76,178 | 65,182 |
| 16 | <u>Ukupni depoziti</u> | 70,207 | 59,386 |
| 17 | Kamatonosni depoziti | 54,201 | 44,758 |
| 18 | Depoziti kod ekspozitura u zemlji | 70,207 | 59,386 |
| 19 | % Osiguranih (procenjenih) depozita | 81.57% | 86.45% |
| 20 | Over night (preko noći) pozajmice i sporazumi o rekupovini hartija od vrednosti | 0 | 0 |
| 21 | Pasiva trgovinskog računa | 0 | 0 |
| 22 | Ostala pozajmljena sredstva | 5,420 | 5,345 |
| 23 | Subordinirana dugovanja | 0 | 0 |
| 24 | Ostala pasiva | 551 | 451 |
| 25 | <u>Akcijski kapital</u> | 7,240 | 7,617 |
| 26 | Trajne prioritetne akcije | 0 | 0 |
| 27 | Obične akcije | 931 | 956 |
| 28 | Višak | 3,623 | 3,883 |
| 29 | Neraspoređena dobit | 2,686 | 2,778 |
| | Memoranda: | | |
| 30 | Kredit i lizing dospeli preko 90 dana | 146 | 190 |
| 31 | Ostvareni nenaplaćeni prihod po kreditima | 536 | 254 |
| 32 | Aktiva koja donosi prihod | 77,473 | 67,279 |
| 33 | Dugoročna aktiva (5 i više godina) | 14,419 | 10,939 |
| 34 | Prosečna aktiva (od početka godine do danas) | 76,030 | 72,851 |
| 35 | Prosečna aktiva (kvartalno) | 79,611 | 74,199 |
| 36 | Fluktuirajuća pasiva | 10,569 | 4,381 |
| 37 | Kredit i odobreni povezanim licima | 1,331 | 966 |
| 38 | Avansi FHLB (Federal Home Loan Bank - Federalnoj banci za stambene kredite) | 5,420 | nema podataka |
| 39 | Kredit i lizing namanjeni za dalju prodaju | 1,275 | 994 |
| 40 | Neiskorišćeni odobreni krediti | 6,562 | 7,797 |
| 41 | <u>Ukupne neiskorišćene obaveze</u> | 6,562 | 7,797 |
| 42 | Restrukturirani krediti i lizing | 0 | 0 |

| Redni broj | Iznosi u 000 USD | 30:09:07 | 30:09:06 |
|------------|--|-----------------------------------|-----------------------------------|
| 43 | Kvartalna prodaja zajedničkih sredstava | 0 | 4,460 |
| 44 | Ukupna aktiva u ekspoziturama u inostranstvu | nedovoljno poznato | nedovoljno poznato |
| 45 | Ukupna pasiva u ekspoziturama u inostranstvu | nedovoljno poznato | nedovoljno poznato |
| 46 | Obaveze po derivatima | 0 | 0 |
| | Dospela i nekamatonsna aktiva | | |
| | Prihodi i rashodi | Od početka godine do danas | Od početka godine do danas |
| 47 | Broj institucija koje dostavljaju izveštaje | 1 | 1 |
| 48 | Ukupni prihodi od kamata | 4,780 | 4,600 |
| 49 | Ukupni rashodi kamata | 1,645 | 1,649 |
| 50 | Neto prihodi od kamata | 3,135 | 2,951 |
| 51 | Rezervisanja za slučaj gubitka po osnovu kredita i lizinga | 3 | 35 |
| 52 | Ukupni nekamatni prihod | 760 | 737 |
| 53 | Prihodi od aktivnosti upravljanja elementima tuđe aktive (Fiducijarne aktivnosti) | 99 | nema podataka |
| 54 | Troškovi usluga kod depozita | 190 | 224 |
| 55 | Prihodi i naknade na računima trgovine | 0 | nema podataka |
| 56 | Dodatni nekamatni prihodi | 471 | 513 |
| 57 | Ukupni nekamatni rashodi | 2,948 | 2,749 |
| 58 | Zarade i beneficije za zaposlene | 1,757 | 1,505 |
| 59 | Troškovi po osnovu poslovnog prostora i opreme | 314 | 333 |
| 60 | Ostali nekamatni rashodi | 877 | 911 |
| 61 | Neto poslovni prihod pre oporezivanja | 944 | 904 |
| 62 | Hartije od vrednosti - dobitak/gubitak | -3 | -11 |
| 63 | Relevantni porezi na prihod | 220 | 227 |
| 64 | Prihod bez vanrednih stavki | 721 | 666 |
| 65 | Neto vanredni prihodi | 0 | 0 |
| 66 | Neto prihod | 721 | 666 |
| 67 | Neto otpisi | 90 | 48 |
| 68 | Dividende isplaćene u gotovini | 1,347 | 284 |
| 69 | Neto prodaja, konverzija, povlačenje fondova kapitala | nema podataka | nema podataka |
| 70 | Neto poslovni prihod | 723 | 674 |
| | Memoranda: | | |
| 71 | % neprofitabilnih institucija | nema podataka | nema podataka |
| 72 | % institucija koje ostvaruju profit | nema podataka | nema podataka |
| | Pokazatelji poslovanja i stanja | | |
| 73 | % neprofitabilnih institucija | nema podataka | nema podataka |
| 74 | % institucija koje ostvaruju profit | nema podataka | nema podataka |
| | Pokazatelji poslovanja (godišnje, u %) | Od početka godine do danas | Od početka godine do danas |
| 75 | Prinos od aktive koja donosi prihod | 9.08% | 9.19% |
| 76 | Troškovi finansiranja aktive koja donosi prihod | 3.12% | 3.29% |
| 77 | Neto kamatna marža | 5.95% | 5.90% |
| 78 | Nekamatni prihodi / Aktiva koja donosi prihod | 1.44% | 1.47% |
| 79 | Nekamatni rashodi / Aktiva koja donosi prihod | 5.60% | 5.49% |
| 80 | Neto poslovni prihod / Ukupna aktiva | 1.27% | 1.23% |
| 81 | Prinos na aktivu (ROA) | 1.26% | 1.22% |
| 82 | Prinos na akcijski kapital (ROE) | 12.90% | 11.93% |
| 83 | Neraspoređeni prihod / Prosečni akcijski kapital (samo iznos od početka godine do danas) | -11.20% | 6.84% |
| 84 | Neto otpisi / Ukupni krediti | 0.26% | 0.15% |
| 85 | Rezervisanja za slučaj gubitka / Neto otpisi | 3.33% | 72.92% |

| Def. | Iznosi u 000 USD | 30-09-01 | 30-09-00 |
|------|--|----------|----------|
| 86 | Pokrivenost neto otpisa prihodima | 10.52x | 19.56x |
| 87 | Koeficijent efikasnosti | 75.69% | 74.54% |
| 88 | Aktiva po zaposlenom (u millionima USD) | X 1.49 | 1.26 |
| 89 | Dividende isplaćene u gotovini / Neto prihod (samo iznos od početka godine do danas) | 186.82% | 42.64% |
| | Pokazatelji stanja (%) | | |
| 90 | Rezerve za slučaj gubitka / Ukupni krediti | 1.89% | 2.33% |
| 91 | Rezerve za slučaj gubitka / Ukupni krediti koji su dospeli preko 90 dana | 661.64% | 518.95% |
| 92 | (Aktiva koja je dopela preko 90 dana + materijalna dobra po osnovu naplate potraživanja) / Ukupna aktiva | 0.22% | 0.66% |
| 93 | Kreditni dospeli preko 90 dana / Ukupni krediti | 0.29% | 0.45% |
| 94 | Neto krediti i lizing / Ukupni depoziti | 71.45% | 69.66% |
| 95 | Neto krediti i lizing / Bazični depoziti | 84.11% | 75.21% |
| 96 | Aksijski kapital / Ukupna aktiva | 8.68% | 10.46% |
| 97 | Koeficijent bazičnog kapitala (leverage) | 8.59% | 10.57% |
| 98 | Koeficijent adekvatnosti tier 1 kapitala | 11.84% | 15.47% |
| 99 | Koeficijent adekvatnosti ukupnog kapitala | 13.09% | 16.73% |

Bank Financial Analysis

Some key ratios

Below are some key ratios used during class to evaluate the financial condition of banks. The numbered lines match the lines from balance sheet and income statement. These ratios are a good place to start evaluating a bank; they are not an end. Use the ratios to determine key issues to discuss with management. Also, add other ratios that provide insight for banks in Yugoslavia. This list is just a beginning.

The adjustment column is used to make income and expense amounts comparable, even when considering different time periods. Remember that income statements cover a specific period of time while the balance sheet is reported as of a point in time.

| Qtr | Adj Income | Determine Average Assets |
|-----|------------|--------------------------|
| 1 | x 4 | (Q4+Q1)/2 |
| 2 | x 2 | (Q4+Q1+Q2)/3 |
| 3 | x 4/3 | (Q4+Q1+Q2+Q3)/4 |
| 4 | none | (Q4+Q1+Q2+Q3+Q4)/5 |

Example: Case #3 - Oregon Pacific Banking Company

For this case, use the balance sheet and income statement for 30 September 2001. Income figures are adjusted when needed below. For demonstration purposes, the following additional figures are provided:

| | |
|------------------------------|--------|
| Average Earning Assets (AEA) | 70,227 |
| Average Total Loans (ATL) | 46,000 |
| Risk Weight Assets (RWA) | 58,165 |

| No. | Ratio | Parts | No. | Amount | Adjust | Revised | Ratio |
|-----|------------------------------------|--|------------------|--------|--------|------------------------|-------|
| 75 | Yield on earning assets "Yield" | <u>Interest Income (annualized)</u> Average Earning Assets | <u>48</u> AEA | 4,780 | 1.3333 | <u>6,373</u> 70,227 | 9.08% |
| 76 | Cost of funding earning assets | <u>Interest Expense (annualized)</u> Average Earning Assets | <u>49</u> AEA | 1,645 | 1.3333 | <u>2,193</u> 70,227 | 3.12% |
| new | Cost of funds "COF" | <u>Interest Expense (annualized)</u> Average Paying Liabilities | <u>49</u> APL | | | | |
| 77 | Net Interest Margin "NIM" | <u>Net Interest income (annualized)</u> Average Earning Assets | <u>50</u> AEA | 3,135 | 1.3333 | <u>4,180</u> 70,227 | 5.95% |

| | | | | | | | |
|----|--|--|----------------------|-----------------------|--------|------------------------|---------|
| 78 | Noninterest Income to Earning Assets | <u>Noninterest Income (annualized)</u> Average Earning Assets | <u>52</u> AEA | 760 | 1.3333 | <u>1,013</u> 70,227 | 1.44% |
| 79 | Noninterest Expense to Earning Assets | <u>Noninterest Expense (annualized)</u> Average Earning Assets | <u>57</u> AEA | 2,948 | 1.3333 | <u>3,931</u> 70,227 | 5.60% |
| 81 | Return on Average Assets "ROA" or "ROAA" | <u>Net Income (annualized)</u> Average Assets (during year) | <u>66</u> 34 | 721 | 1.3333 | <u>961</u> 76,030 | 1.26% |
| 84 | Net charge-offs to loans | <u>Charge-offs - Recoveries (annualized)</u> Average Total Loans (during year) | <u>67</u> ATL | 90 | 1.3333 | <u>120</u> 46,000 | 0.26% |
| 87 | Efficiency Ratio | <u>Noninterest Expense (+Amortiz. Intangibles)</u> Net interest income + Noninterest income | <u>57</u> (50+57) | <u>2,948</u> 3,895 | | | 75.69% |
| 88 | Assets per employee (usually stated in millions) | <u>Total Assets (qtr end) in millions</u> Total Employees (qtr end) | <u>2</u> 1 | <u>83</u> 56 | | | 1.49 |
| 89 | Cash dividends to Net Income | <u>Cash dividends paid (year-to-date)</u> Net Income (year-to-date) | <u>68</u> 66 | <u>1,347</u> 721 | | | 186.82% |
| 90 | Loss allowance to loans | <u>Loan loss allowance (qtr end)</u> Total loans (qtr end) | <u>8</u> (7+8) | <u>966</u> 51,126 | | | 1.89% |
| 91 | Loss allowance to noncurrent loans | <u>Loan loss allowance (qtr end)</u> Loans past due 90 days or more (qtr end) | <u>8</u> 30 | <u>966</u> 146 | | | 661.64% |
| 93 | Noncurrent loans to loans | <u>Loans past due 90 days or more (qtr end)</u> Total loans (qtr end) | <u>30</u> (7+8) | <u>146</u> 51,126 | | | 0.286% |

| | | | | | |
|----|----------------------------------|--|-----------------------|-------------------------|--------|
| 94 | Net loans and leases to deposits | <u>Total loans - Loan loss allowance (qtr end)</u> Total deposits (qtr end) | <u>7</u> 16 | <u>50,160</u> 70,207 | 71.45% |
| 96 | Equity capital to assets | <u>Equity</u> Total assets (qtr end) | <u>25</u> 2 | <u>7,240</u> 83,418 | 8.68% |
| 97 | Core capital (leverage) ratio | <u>Equity</u> Average total assets (qtr end) | <u>25</u> 2 | <u>7,240</u> 83,418 | 8.68% |
| 98 | Tier 1 risk-based capital ratio | <u>Tier 1 capital</u> Risk-weight assets | <u>(25-12)</u> RWA | <u>6,884</u> 58,165 | 11.84% |

Finansijska analiza banaka
 Ključni koeficijenti

U tekstu su navedeni neki ključni koeficijenti korišćeni tokom predavanja za finansijsku ocenu banke. Redni brojevi linija odgovaraju linijama iz bilansa stanja bilansa uspeha. Ovi koeficijenti su dobra polazna tačka pri ocenjivanju poslovanja banke; ali nisu jedini parametar, i upotrebljavaju se da bi se utvrdila ključna pitanja za razgovor sa rukovodstvom. Takođe treba uključiti ostale koeficijente koji obezbeđuju uvid u poslovanje banaka u Jugoslaviji. Ovaj pregled je samo početak.

Kolona sa usklađenim vrednostima se primenjuje da bi vrednost prihoda i rashoda bila uporediva, čak i kada da se posmatraju različiti vremenski periodi. Zapamtite da se bilans uspeha sastavlja za tačno određeni period, dok se bilan stanja sastavlja za određeni vremenski trenutak.

| Kvartal | Usklađeni | |
|---------|-----------|--------------------------|
| | prihodi | Utvrđena prosečna aktiva |
| 1 | x 4 | $(Q4+Q1)/2$ |
| 2 | x 2 | $(Q4+Q1+Q2)/3$ |
| 3 | x 4/3 | $(Q4+Q1+Q2+Q3)/4$ |
| 4 | nema | $(Q4+Q1+Q2+Q3+Q4)/5$ |

Primer: Slučaj #3 - Oregon Pacific Banking Company

Kod ovog slučaja, primeniti bilans stanja i bilans uspeha od 30 septembra 2001. Podaci o prihodima, dole navedeni, imaju usklađene vrednosti po potrebi. U cilju prikazivanja, obezbeđeni su i sledeći podaci:

| | |
|--|--------|
| Prosečna aktiva koja donosi prihod (AEA) | 70,227 |
| Prosečni ukupni krediti (ATL) | 46,000 |
| Rizična aktiva (RWA) | 58,165 |

| Rbr. | Ratio | Obrazac | Rbr | Vrednost | Usklađena vrednost | Revidirana vrednost | Ratio |
|------------|---|---|-----|----------|--------------------|------------------------|-------|
| 75 | Prinos od aktive koja donosi prihod "Prinos" | $\frac{\text{Prihodi od kamata (proj. na godišnji nivo)}}{\text{Prosečna aktiva koja donosi prihod}}$ | 48 | 4,780 | 1.3333 | $\frac{6.373}{70,227}$ | 9.08 |
| 76 | Troškovi finansiranja aktive koja donosi prihod | $\frac{\text{Rashodi kamata (proj. na godišnji nivo)}}{\text{Prosečna aktiva koja donosi prihod}}$ | 49 | 1,645 | 1.3333 | $\frac{2.193}{70,227}$ | 3.12 |
| 10vi ratio | Troškovi sredstava | $\frac{\text{Rashodi kamata (proj. na godišnji nivo)}}{\text{Prosečna aktiva koja donosi prihod}}$ | 49 | | | | |

| | | | | | | | | |
|----|---|--|----------------------|-----------------------|--------|------------------------|---------|--|
| | "COF" | Prosečne obaveze po kojima se plaća kamata | APL | | | | | |
| 77 | Neto kamatna marža "NIM" | <u>Neto prihodi od kamata (proj. na god. nivo)</u> Prosečna aktiva koja donosi prihod | <u>50</u> AEA | 3,135 | 1.3333 | <u>4,180</u> 70,227 | 5.95 | |
| 78 | Odnos nekamatnih prihoda i aktive koja donosi prihod | <u>Nekamatni prihodi (proj. na godišnji nivo)</u> Prosečna aktiva koja donosi prihod | <u>52</u> AEA | 760 | 1.3333 | <u>1,013</u> 70,227 | 1.44 | |
| 79 | Odnos nekamatnih rashoda i aktive koja donosi prihod | <u>Nekamatni rashodi (proj. na godišnji nivo)</u> Prosečna aktiva koja donosi prihod | <u>57</u> AEA | 2,948 | 1.3333 | <u>3,931</u> 70,227 | 5.60 | |
| 81 | Prinos na prosečnu aktivu "ROA" ili "ROAA" | <u>Neto prihod (proj. na godišnji nivo)</u> Prosečna aktiva (u toku godine) | <u>66</u> 34 | 721 | 1.3333 | <u>961</u> 76,030 | 1.26 | |
| 84 | Odnos neto otpisa i ukupnih kredita | <u>Otpisi - Naplate (proj. na godiš. nivo)</u> Prosečni ukupni krediti (u toku godine) | <u>67</u> ATL | 90 | 1.3333 | <u>120</u> 46,000 | 0.26 | |
| 87 | Ratio efikasnosti | <u>Nekamatni rashodi (+Amortiz. nemater.aktiva)</u> Neto prihodi od kamata + Nekamatni prihodi | <u>57</u> (50+52) | <u>2,948</u> 3,895 | | | 75.69% | |
| 88 | Aktiva po zaposlenom (obično iskazana u milionima) | <u>Ukupna aktiva (na kraju kvartala) u milionima</u> Broj zaposlenih (na kraju kvartala) | <u>2</u> 1 | <u>83</u> 56 | | | 1.4 | |
| 89 | Odnos dividende isplaćene u gotovini i neto prihoda | Dividende isplaćene u gotovini (od početka godine do danas) <u>Neto prihodi (od početka godine do danas)</u> | <u>68</u> 66 | <u>1,347</u> 721 | | | 186.82% | |

| | | | | | |
|----|---|---|----------------|--------------------------|--------|
| 90 | Odnos rezervi za slučaj gubitka i kredita | <u>Rezerve za slučaj gubitka (na kraju kvartala)</u> Ukupni krediti (na kraju kvartala) | 8 (7+8) | <u>966</u> 51,126 | 1.89 |
| 91 | Odnos rezervi za slučaj gubitka i kredita koji su dospeli preko 90 dana | <u>Rezerve za slučaj gubitka (na kraju kvartala)</u> Kredit koji su dopeli preko 90 dana (na kraju kvartala) | 8 30 | <u>966</u> 146 | 661.64 |
| 93 | Odnos kredita koji su dopeli preko 90 dana i ukupnih kredita | <u>Kredit koji su dopeli preko 90 dana (na kraju kvartala)</u> Ukupni krediti (na kraju kvartala) | 30 (7+8) | <u>146</u> 51,126 | 0.286 |
| 94 | Odnos neto kredita i lizinga i ukupnih depozita | <u>Ukupni krediti - Rezerve za slučaj gubitka (na kraju kvartala)</u> Ukupni depoziti (na kraju kvartala) | 7 16 | <u>50,160</u> 70,207 | 71.45 |
| 96 | Akcijski kapital u odnosu na aktivu | <u>Akcijski kapital</u> Ukupna aktiva (na kraju kvartala) | 25 2 | <u>7,240</u> 83,418 | 8.68 |
| 97 | Koeficijent bazičnog kapitala (leverage) | <u>Akcijski kapital - Nedoz. nemater. aktiva</u> Prosečna ukupna aktiva (na kraju kvartala) | 25 - 35 | <u>7,240 -</u> 79,611 | 8.59 |
| 98 | Koeficijent adekvatnosti tier 1 kapitala | <u>Tier 1 kapital</u> Rizična aktiva | (25-12) RWA | <u>6,884</u> 58,165 | 11.84 |

National Bank of Yugoslavia- Strengthening Bank Supervision

PCE-I-00-99-00006-01, TO No. 04

Problem Bank Resolution National Bank of Yugoslavia- Strengthening Bank Supervision

NIS-I-00-99-00001, TO No. 07

Appendix G

Draft Supervisory Development Plan

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|------------------------------------|---|---|--|
| <p>1. Mission Statement</p> | <p>The role and function that banking supervision plays in the financial sector is not sufficiently clear or adequately communicated to the banking industry, government, or public</p> <p>A mission statement, prepared collectively by the supervision department staff and management, could provide added focus on all bank supervision activities. This statement should operate as the objective when drafting laws, regulations, guidelines, examination procedures, and when performing the business of bank supervision.</p> | <p>Establish a mission statement and objective for banking supervision. The mission statement should emphasize that supervision will:</p> <ul style="list-style-type: none"> • Safeguard the overall safety, soundness, and stability of the banking system; • Protect depositors and the public's investment in the system; • | <ol style="list-style-type: none"> 1. Organize a senior level working group for the development of mission statement. 2. Obtain approval for the mission statement by order of the Governor of the NBY. 3. Issue mission statement to all supervisory staff. 4. Convey statement to banking community and government officials via print media and targeted seminars. 5. Reinforce observance of mission statement through reference to same in all supervisory activities. |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|---|--|---|---|
| <p>2. External Audit Process</p> | <p>The external audit process should be used more heavily to augment and support supervisory objectives. In order for this to be achieved, increased requirements and higher expectation for the quality of the external audit process must be required.</p> | <p>a) The external audit scope, engagement letter, and adequacy therein, should be evaluated for adequacy. Scope of audits should be consistent with International Standards of Auditing as promulgated by the IFAC. The NBY should require each audit to produce a management letter, accessible by the supervisors.</p> | <p>Article 61 of The Law on the National Bank of Yugoslavia has gives the NBY the authority to prescribe the minimum scope of auditing and the minimum audit reports for banks and other financial organizations in conformity with the federal law. Further, the article states that the NBY may demand from a bank or other financial organization to obtain and, within the prescribed period of time, to furnish it with an audit report on its annual statement of accounts and operations.</p> <p>It is essential to note that training on audits is necessary so that review for adequacy, process, and content is sufficient to provide for supervision needs.</p> <p>The following actions will be taken in order to effect proficiency in the evaluation of audits:</p> <ul style="list-style-type: none"> • Training class on international Accounting Standards • |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|----------|-------------------|--------------------|---|
| | | | <ul style="list-style-type: none"> • Formal classroom training on International Accounting Standards for all BSD Staff, • Formal classroom training on International Standards of Audit for all BSD staff, • On the job training activities in cooperation with local auditors with the goal of learning the audit process, • The establishment of general guidelines for auditor and supervisor cooperation in line with the BCBS Publication 87 |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|----------|-------------------|---|---|
| | | <p>b) The supervisor should possess the authority, within reasonable limits, to require certain risk areas to be commented upon by the auditors in the management letter (ex: internal controls, "Know Your Customer" procedures, quality of certain policies, etc.)...</p> | <p>New regulations on audit and internal control have included these specifications coupled with the authority to require such comments.</p> <ul style="list-style-type: none"> • Develop specific risk area targets during supervisory cycle, • Develop regulations to target these risk areas, • Work with auditors to address risk area concerns • Require comment on risk areas in management letter. |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|----------|-------------------|---|---|
| | | <p>c) At each examination, and during interim periods if deemed necessary, the supervisor should review the adequacy of the audit and its results, according to the previously approved scope and against International Standards of Audit. If the scope or the a audit work itself is deemed inadequate, the supervisor should have the powers and authority to require another audit, in part or in whole, to be performed. The supervisor should also possess the authority to require this repeat audit to be performed by another qualified audit firm</p> | <p>Article 61 in the third chapter states that in the event that the NBY estimates that the audit report contravenes specific auditing standards or the scope of the audit reports prescribed for banks and other financial organizations, it may demand from the bank that it obtain within a prescribed period of time, a new report which shall be prepared by another independent auditor in compliance with federal law.</p> |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|----------|-------------------|---|---|
| | | <p>d) Increase dialog between the supervisors, banks, and the audit industry. Minimum number of meetings between the auditor and the supervisor should be prescribed in the new supervisory policy referred to in 6(a) below.</p> | <p>With the beginning of the new year, it has become the practice of the supervision department to meet with auditors as a part of the examination process. This practice will continue and the dialog between supervisors and auditors (both internal and external) will increase as the year progresses. The NBY supervision department has looked to the BIS publication on the relationship between supervisors and auditors for guidance in this area.</p> |

65

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|---|--|--|--|
| <p>3. Clearly Defined Responsibilities and Accountabilities for Effective Bank Supervision</p> | <p>The responsibilities for banking supervision, from the day to day duties of supervising banks, to the preparation of supervisory strategies, directing and approving supervisory responses (from licensing decisions to revoking licenses and all actions in between), ongoing monitoring, etc, should be clarified and documented.</p> | <p>In order to ensure that responsibilities and accountabilities for banking supervision are clearly assigned and clearly understood by all parties to supervision, an internal policy or document supported by the law and guidelines where appropriate, should be prepared by the supervisory Board.</p> <p>This document should define the role and responsibilities of the Vice Governor responsible for bank supervision, the Governor, and the Supervisory Board. This is particularly important for the Supervisory Board and Executive management as the final accountability to the public, banks, and courts, ultimately falls upon these parties.</p> | <p>The NBY BSD will set up a working group to develop the elaboration of the organic structure of the BSD and its seniors with a detailed account of the responsibilities and accountabilities of all involved in the supervisory process.</p> |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|--|---|--|--|
| <p>4. Quality Assurance Process</p> | <p>Existing supervisory actions, responses, and overall supervisory process need strengthening. One way to support adequate supervisory coverage (and also to learn from the past), is to establish a quality control process. This would help to ensure consistency, quality of supervisory response, and evaluate accountability.</p> | <p>The goal of this process is to provide senior and executive management a communication tool through which the performance of banking supervision can be conveyed and suggestions for improvement can be made.</p> <p>Further, objectives of the process itself are to evaluate the supervisory analysis of:</p> <ul style="list-style-type: none"> • Issues identified in bank examinations as well as in the ongoing monitoring process, • The interpretation of these issues into well supported conclusions, • The resulting supervisory responses, • The subsequent bank actions, • The effectiveness of enforcement actions taken, and • The effectiveness of ongoing supervision. | <ul style="list-style-type: none"> • A senior level supervisory committee will be organized to insure quality assurance, • International best practices will be surveyed to find a program which could be adapted for NBY BSD use, • A program will be developed and proposed for the approval of the Vice Governor • The supervisory committee will meet on a regular basis to review examination and enforcement actions to make recommendations for improvement. • The supervisory committee will make a quarterly presentation to the Vice Governor in charge of banking supervision on their findings and recommendations. |
| <p>5. Supervision Function</p> | | | |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|--|---|--------------------|---|
| <p>5a. Adoption of proactive approach</p> | <p>Progress has been made in the strengthening of the ongoing supervisory process. However, much remains to be done. The strategies, on and off-site, the supervisory procedure, and supervisory response and enforcement require further development. Each bank's history, condition, and future supervisory strategy requires more documented support and linkage to supervisory action. Supervisory responses must be more timely and effective, with enforcement actions increasingly elevated if deficiencies and bank responses continue.</p> | | <p>The BSD will organize a working group to develop the supervisory cycle process for banks under the supervision of the NBY. The supervisory cycle is an international best practice in the oversight of financial institutions and involves the close cooperation of on-site, off-site, bank management and auditors in the maintenance of a strong financial system.</p> |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|--|-------------------|--|---|
| <p>5.b. Strengthening the Supervisory Approach Implementation</p> | | <p>a) Update evaluation of status, condition, risks, rating and corrective action plans for each bank. Endorse or change the risk rating to reflect the current risk profile under the new supervisory procedure</p> | <ul style="list-style-type: none"> • The NBY BSD has adopted the supervisory approach to banking supervision combining effective regulatory action with evaluation of policies and procedures in banks. • Individual examiners are responsible for banks and will collect data relevant to each bank under their care • Information will be maintained in a centralized data base in a uniform manner • Using the CAMEL rating system the supervisors will amend ratings as deemed necessary • As active evaluation of management is key to the supervisory approach, the BSD will conduct a training seminar on the evaluation of management and policies for all staff |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|----------|-------------------|---|--|
| | | b) Stratify each bank according to risk level and priority for supervisory oversight. | <ul style="list-style-type: none"> • The offsite section will develop a risk profile for each bank using monthly and quarterly information submitted by banks. • The information submitted by banks will be validated in on-site activities • The off-site data will be evaluated and baseline indicators will be developed as indicators for immediate supervisory actions. • Targeted examinations will be conducted when banks data reflect deviation from baseline indicators. |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|----------|-------------------|---|--|
| | | <p>c) Review current corrective action program in place for each bank. Improve existing programs where necessary.</p> | <ul style="list-style-type: none"> • A senior level working group will be established to review and make recommendations for improvement in corrective action program • A formal matrix of corrective actions will be developed to ensure consistent application of corrective actions • Banks will be informed of corrective actions and triggers for their imposition • The corrective action matrix will be reviewed on a semi-annual basis for effectiveness • The results of the review, including a list of actions taken during the period under review will be submitted to the Vice Governor with recommendations for changes to the program if necessary. |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|---|-------------------|--|---|
| | | <p>d) Review, upgrade, and formalize each bank's supervisory strategy. Examiners responsible and assigned to each bank should evaluate all file information, offsite, analysis, examinations, and based on the existing knowledge, refine the strategies. Create a history of supervision for each bank.</p> | <p>A supervision strategy will be developed for each bank in the financial system. This is an important feature of the supervisory cycle as mentioned above.</p> <p>The supervisory strategy will be submitted to the Vice Governor for review on a semi annual basis. As conditions change in the bank and in the financial system the supervisory strategy will be updated as warranted.</p> |
| <p>5.c. Use of Remedial Action Tools and Corrective Action Plans</p> | | | <ul style="list-style-type: none"> • The problem bank policy has been developed and submitted to the Vice Governor for his approval. • The CAMEL rating system has also been developed for implementation in the second quarter of 2002 • With the above tools and the implementation of the corrective action plan as noted above enforcement actions will be applied in an appropriate and consistent manner |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|---|--|--|--|
| <p>5.d. Enhance Internal Communications – within the Supervisory Department and with other NBY departments</p> | <p>Communications within the Supervision Department should be improved to ensure that information access is facilitated and, at the same time, confidentiality of information is protected.</p> <p>Information exists in other departments of the NBY that can provide critical input into the bank supervision process. The supervision department should access this information through enhanced communication.</p> | <p>a) As a part of the supervisory policy in 5(a) above and during the evaluation of a work flow chart, identify key points of communication. Require regular exchange of pertinent information between departments (particularly the off-site monitoring and on-site examination). As a policy of the department require all employees to do their part in ensuring teamwork and communication.</p> | <p>Communication in the BSD will be addressed on two levels</p> <p>1) Formal communication</p> <ul style="list-style-type: none"> • A directive system will be developed for information, which must be maintained by each examiner such as policies and procedures specific to their function. • Formal meetings will be conducted in cooperation with other NBY departments in order that supervisors will gain better understanding for information available and their role in the overall function of the NBY. <p>2) Informal communication</p> <ul style="list-style-type: none"> • Contacts will be encouraged with other department staff • Open discussion within the BSD will be encouraged. |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|----------|-------------------|---|---|
| | | <p>b) Allow adequate access to developed databases (supervisory database recommended below and credit register) as needed.</p> | <ul style="list-style-type: none"> • The BSD has uses information from existing databases within the bank to develop reports and to monitor bank activity • The development of the credit registry will enhance the supervisory role of the BSD • The credit registry will be developed using international best practices by the third quarter of 2002 • Other information such as the data from the Solvency Centre will also be used to improve BSD efficacy |
| | | <p>c) Communicate on a regular basis with other NBY departments that might have information that could provide critical input to the bank supervisory process, especially monetary operations (any lending or reserve requirement issues with banks, changes in liquidity, etc.).</p> | <p>As noted above communications with other NBY departments will be facilitated and encouraged. Also data developed by these other departments is in use by the BSD. The strengthening of the financial system can be effected through the cooperative effort at all levels of the NBY.</p> |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|---|--|--|--|
| <p>5.e. Enhance External Communication with: 1) Banking Sector and 2) other supervisory agencies</p> | <p>Regular communications with the banking industry, through ongoing supervision and on-site examination should be more defined and established.</p> <p>While other supervisory functions (capital markets and insurance) begin to evolve, it is important to establish good communications with these entities to allow an overall view of the financial sector and potential issues, to the extent possible.</p> | <p>a) Require minimum communications with bank management and supervisory boards (2 and 1-2 times a year, respectively). Communications with management and boards should be increased in the case that the bank is rated a composite CAMEL 3 or worse or other reasons requiring increased communications.</p> <p>Regular communications should include representatives from on-site supervision as well as other pertinent oversight staff and management.</p> | <p>The BSD has developed a program for 2002 that calls for increased interaction with bank management. A schedule of contacts will be developed and presented to the Vice Governor on a regular basis.</p> <p>In accordance with the new problem bank policy, when banks reach a composite 3 or greater will have an increased level of contact with the BSD due to increased supervision.</p> |
| | | <p>b) Begin to establish communications and conduct periodic meetings with CM and Insurance supervisory functions.</p> | <p>The supervisory approach to other financial functions and insurance has not yet been developed. As the process progresses communication will be established in accordance with the core principles for the exchange of information and cooperation.</p> |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|---|---|--|---|
| 5. f. Licensing Evaluation | <p>There is a need to provide additional support when evaluating the “qualitative: aspects of management, owners, and risks presented by affiliate acquisitions</p> | <p>Review the licensing and application process. Refer to Core Principle #2 for expanded observations. Recommend additional procedures to support evaluation of owners, management, indirect management and ownership situations, acquisitions, and the integrity and source of capital funds.</p> | <p>Licensing regulations will be improved by proposed changes to the Law on Banks and Financial Institutions and implementing regulations. A review of the licensing process will be conducted and recommendations concerning the process will be taken into consideration. Training will be held on the evaluation of relationship and affiliations for all licensing and supervision staff.</p> |
| 5.g. Foreign Bank Branches and Subsidiaries: Licensing and Supervision | <p>The supervisory department should further and elevate its efforts to forge cooperative and active relationships and agreements with foreign supervisors and foreign banks’</p> | <p>a) Amend licensing and supervisory procedures to request and evaluate the additional information provided from abroad.</p> | <p>Licensing procedures will be re-evaluated as noted above. All efforts will be made to bring the licensing process in compliance with Core Principles</p> |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|----------|---------------------------|--|---|
| | directors and management. | b) Pursue supervisory cooperation agreements with bank supervisors in the respective parent company countries to also provide the NBY with key supervisory information to support supervisory and licensing activities. In the meantime, forge working relationships with both foreign supervisors and the respective foreign banks. | Supervisory cooperation agreements drawn up in line with the recommendations of the Basle Committee on Banking Supervision's recommended in publication 83. |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|--|---|---|---|
| | | <p>c) Review and amend supervisory procedures, in conjunction with 5 (a) and (b) above to address the nuances of foreign branch supervision, including areas such as capital and liquidity assessment. Also, incorporate in the supervisory strategies for such branches and the external communications policy, requirements to communicate on a regular basis (at least annually, perhaps more frequent for head office management – depending on situation) with parent company management and BoD or a committee thereof.</p> | <p>The revision of the supervisory process as noted previously will take the special needs of branch supervision into consideration.</p> |
| <p>6. Development of Bank Information Database (bank reporting database & documentary database)</p> | <p>Comment on status of banks/supervisory database for each bank.</p> | <p>Two types of database are required: 1) the reporting and statistical database that is used to house and maintain bank reported data, and 2) a documentary database to house each bank's life history.</p> <p>The creation and maintenance of both require regular and ongoing communication with</p> | <p>The BSD is working closely with the IT department to enhance the supervision data bases. This is an on going project which is anticipated to be consummated by the fourth quarter of the current year. Issues of reliability of data must be addressed by special attention to data input and classification by banks during</p> |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|---------------------------------------|---|---|--|
| | | <p>the IT department that is responsible for the databases.</p> <p>1) Conduct regular information exchanges with the IT projects to allow the bank-reporting database to be completed and maintained.</p> <p>2) Develop the necessary documentary database necessary to house bank specific details as previously described. Ensure adequate access by all supervisory staff as needed.</p> | <p>on-site examinations. Formal information exchanges are currently conducted with the IT department particularly since its reorganization in the first quarter of the current year. The documentary data base will be reviewed and recommendations will be made for improvements by the fourth quarter of the current year.</p> |
| <p>7. Regulatory Reporting</p> | <p>Generally comprehensive regulatory reporting is in place. In order to ensure that reporting requirements are up to date, the structure and content of the reports should be reviewed. This should also include consolidate reporting across bank institution organizations. Streamlining the banks' regulatory report requirements is also needed.</p> | <p>Conduct a review of the completeness and frequency of regulatory reports received by the Supervisor. Determine if they provide the right types of information to allow for effective evaluation of risk. Develop additional reporting requirements for consolidated companies.</p> | <p>New reporting requirements are to be imposed due to proposed changes in regulations. All regulatory reporting will be monitored and reviewed for accuracy of data and efficient use. The concept of consolidated accounting must be addressed in order to develop additional reporting requirements for consolidated companies.</p> |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|---------------------------------------|--|--|---|
| <p>8. Budget and Resources</p> | <p>Resources require review to ensure that they are sufficient to support effective supervisory oversight, including onsite reviews, ongoing monitoring, and specialist support staff.</p> | <p>a) Estimate staffing requirements based on new mission statement and objectives. Include staffing needs for specialist areas (bank insider activity, fraud, money laundering, etc.)</p> | <p>The evolution of the banking system and regulatory activity of the NBY will be evaluated on an ongoing basis for additional staffing needs. With the liquidation of 4 of the 5 largest banks, resources were reallocated during the first quarter of the current year.</p> |
| | <p>Currently, the budget does not operate on a cost center basis. However, it is important for the supervision department, in order to better understand its needs and resource requests. A separate, simple "in-house" budget may also help department management ensure that its needs are accurately incorporated into the line-by-line budget prepared on an institution wide basis.</p> | <p>b) Evaluate existing staff for the capacity necessary to conduct future, effective supervisory work and to effectively carry the workload necessary to properly implement the SDP and other developmental requirements.</p> | <ul style="list-style-type: none"> • Training will be continued during the year with emphasis on supervisory basics such as financial analysis • A bank examination manual will be completed during 2002 • A new standardized report of examination has been developed and |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|--|---|--|---|
| | | c) Conduct an industry survey, including private banks and other bank supervisors in other countries. Compare current grade levels and salaries to those of others. Design a program to address divergence. | |
| | | d) Based on current estimated expenditures, on the resources needed to fulfill the supervisory objectives (overall and bank specific), and on additional financial resources needed for personnel, develop a budget. Review and evaluate budget with authorities and develop a plan for resource augmentation. | |
| 9. Human Resources and Training | <p>Personnel resource should be strengthened in order to effectively support supervisory objectives. Additional training and career development is needed by all supervisory staff.</p> <p>New staff requires training and orientation, and all staff require updating of skills. Training should be viewed as a continual process in which all levels of</p> | | <p>The BSD management is aware of the need to develop an employee training and development program to meet the needs of a dynamic and diverse supervision staff. To this end the supervision department in cooperation with the Human Resources department will execute the following:</p> <ul style="list-style-type: none"> • Individual development |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|----------|---|--------------------|--|
| | <p>supervisory staff regularly participate in order to maintain updated skills.</p> | | <p>plans for all supervision staff,</p> <ul style="list-style-type: none"> • A comprehensive training database ensuring that all staff have training opportunities, • A core curriculum for all supervisory staff, • Specialized training for designated staff members in activities such as white-collar crime, foreign exchange, non-traditional banking activities, etc. • To the extent possible all staff members will be sent abroad for either training or on-site observation activities with European and American supervisory authorities, • And a formal review and promotion or reward process for all staff. |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|-----------------------------------|---|--------------------|---|
| <p>10. Code of Conduct</p> | <p>Review code of ethics, process of enforcement, monitoring, and updating.</p> | | <p>A working group will be developed to update the code of ethics, modifying it to meet the needs of the evolution of the BSD and the financial markets. This working group will make recommendations for improvements if necessary and develop a training program in order to ensure that all supervision staff are aware of the code of ethics.</p> |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|-------------------------------------|--|--------------------|---|
| <p>11. Systemic Analysis</p> | <p>Review any existing systemic analysis activity/function....</p> | | <p>The existing systemic analysis is currently under review, since the banking system has recently undergone such a radical revision with the closing of banking holding more than half of the banking assets in the country, a drastic re-shaping of the banking system has occurred. The liquidation of four of the five largest banks in the country coupled with the closure of 19 other financial institutions have lead to a significant improvement in the system as a whole. However, the BSD is aware that this is not a time to relax it vigilance and is preparing to devote staff and assets to the regular review of monitoring of the system in order to prevent further deterioration.</p> <p>The development of the supervision cycle as noted above will ensure timely review and observation of the financial system.</p> |

Supervisory Development Plan

| Function | Current Situation | Recommended Action | Action |
|---|---|---|--|
| <p>12. International Standards and Codes</p> | <p>Many of the formalized procedures recently adopted by the supervision department reflect international practice.</p> <p>The continued process of modifying and developing supervision should involve adopting international best practice, standards, and codes.</p> | <p>The development pursued by the NBY and the supervision department specifically should parallel international standards as closely as possible. The supervision department should consider establishing a function or method to ensure that the department is fully apprised of changing international standards and evaluating how to implement such elements.</p> | <p>The NBY Banking Supervision department is in the process of completing the Core Principles Self Assessment. Upon completion of this review, a comprehensive action plan will be generated which will include a proactive approach to compliance with international best practices in banking supervision.</p> <p>In the meantime, the BSD has selected individuals to staff a section entirely devoted to the study and implementation of international best practices in banking supervision. This section will monitor all current materials on the subject of banking supervision in order to develop those which are best suited to the existing supervisory environment.</p> <p>Prior to this however, all rules, regulations, and guidelines were prepared in accordance with the European Union Banking Directives. This practice is fully in keeping with the recommendation.</p> |

Appendix H

Third quarter advisor schedule

| | April | May | June | July | August | September |
|------------------|--|-----------------|-------------------|-------------------|--------|--------------------------|
| Kat Woolford | Present - (August 16 - September 8) Holiday - September 30 | | | | | |
| Boris Todorovic | Present - September 30 (Holiday unscheduled at this moment) | | | | | |
| | Other times not scheduled at this time. Future activity will depend upon performance of present activity and need for additional assistance. | | | | | |
| Matt Macellero | April 7- May 4 | | | | | |
| Joel Shapiro** | | May 6 - May 24* | June 16 - July 31 | | | August 16 - September 15 |
| Joel Hefty | | | | July 7 - August 3 | | |
| Gary Gegenheimer | | May 12 - 31 | | July 7 - August 3 | | |
| Susan Ballinger | | May 6 - June 8 | | | | |
| Claude Raworth | | | June 2 - June 29 | | | |

Appendix I

Ken Jaques- Communication Specialist

During the quarter, Mr. Jaques provided ongoing assistance to the National Bank of Yugoslavia.

The highlights of his efforts include:

- * Developed a plan for the hotline at the National Bank. This includes creating a policy manual of all the Bank's official policies. Each department was sent a questioner asking the to list their policies and answer an FAQ request.
- * Developed a plan to create a database of all calls/inquiries coming into the hotline. This can be used to help develop future policy and public relations efforts.
- * Developed a plan to train the staff of the hotline, which will begin on my next trip in late May.
- * Received a commitment from the vice-governor to create a new press staff and office capability (it should be noted that I proposed this nearly a year ago.)
- * Received a commitment from the vice-governor to conduct media training exercises that includes on camera work.

National Bank of Yugoslavia- Strengthening Bank Supervision

PCE-I-00-99-00006-01, TO No. 04

Problem Bank Resolution National Bank of Yugoslavia- Strengthening Bank Supervision

NIS-I-00-99-00001, TO No. 07

Appendix J

**Information Technology Assistance—
Mr. Borislav Todorovic**

Refer to summary report submitted under separate cover for Contract NIS-I-00-99-00001,
TO No. 07.