

**BANKING AGENCY OF REPUBLIKA SRPSKA**

**INFORMATION  
ON RS BANKING SYSTEM  
IN THE PERIOD JANUARY 1, THROUGH DECEMBER 31, 2002**

Banja Luka, March 2003

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## 1. INTRODUCTION

The year 2002 was the year of completion of privatization of state owned capital in banks. Also, that was the year when new Law on Banks was passed, and complete legal regulation was reconciled with international standards.

The adopted legal regulation (The Law on Banks, The Law on Banking Agency, and Decisions) pertaining to this field of operation has been harmonized with basic banking principles and standards in force in almost the whole world, which originate from Basle Committee for Bank Supervision.

In the four-year period up to now, the Agency has worked hard on creating a regulatory framework to enable banks to operate independently, on market based principles, to take responsibility for their individual operations, as well as to provide for both supervision and examination of banks' operation by applying legally established requirements.

The Agency has constantly worked on refining the legal regulation in order to create legal framework for operation of banks of the best possible quality. At the same time such a modified and amended regulation should improve banking supervision and examination of banks.

In early 2002 the RS banking sector consisted of 16 banks, out of which 6 banks had majority state owned capital. In the course of the year all banks have been privatized, and through process of mergers, provisional administrations and liquidations, the banking sector consisted of 11 banks at the end of the year. In accordance with the legal provisions the Agency started bankruptcy procedures in two banks (one state-owned and one private), while the liquidation process in one bank is about to be completed. In the first nine months three largest banks were privatized (Kristal banka a.d. Banja Luka, Banjalučka banka a.d. Banja Luka, and Razvojna banka a.d. Banja Luka).

Other segments of economy do not follow adequately transformation of banking sector, and especially slow are the process of privatization of state owned capital in enterprises, court system, and resolution of frozen foreign currency savings issue.

A unique BH Deposit Insurance Agency has been established at the level of Bosnia and Herzegovina, and the Law on Deposit Insurance had been drafted and adopted by BH authorities, giving additional provisions related to banking sector operation.

Making a summary of the above listed, the most important results achieved in the banking sector are as follows:

- Privatization of state owned capital in banks completed;
- Foreign capital and foreign banks came in;
- Internal payment transactions taken over;
- Insurance of deposits up to Km 5,000 introduced;
- Larger banks obtained by mergers;
- Additional capital put in to meet KM 15.0 capital requirement;

- Saving deposits increased, especially citizens' savings, indicating that confidence in banks started to be restored;
- Market based interest rates and their reduction;
- Creation of quality institutional and regulatory framework adjusted to international standards pertaining to banking sector;
- Improved bank supervision and process of examination.

Responsibilities for operating results of each bank are up to bank managing bodies and its management team, where additional legal regulation makes their job easier if properly applied.

## 2. BANKING SECTOR STRUCTURE

As of December 31, 2002 eleven banks were in operation in Republika Srpska, and all of them had majority privately owned capital.

In accordance with legal provisions the Agency started bankruptcy procedures in two banks – Ekvator banka a.d. Banja Luka, and Prijedorska banka a.d. Prijedor, while the liquidation process in Privredna banka a.d. Gradiška, is in its final stage.

All banks were licensed to perform internal payment transactions.

### 2.1. OWNERSHIP STRUCTURE

As of December 31, 2002 all banks in Republika Srpska were privatized.

#### Shareholders' Capital Structure

In 000KM

No.	Bank	Private Capital		State Owned Capital		Cooperative Capital	
		Amount	%	Amount	%	Amount	%
<b>I</b>	<b>Majority Private Capital</b>						
1.	Nova banjalučka banka a.d.	23,991	93	1,370	5	601	2
2.	Kristal banka a.d.	43,280	98	0	0	683	2
3.	Privredna banka a.d. Srpsko Sarajevo	15,562	99	0	0	95	1
4.	Razvojna banka a.d.	13,690	91	1,354	9	0	0
5.	Nova banka a.d.	14,361	96	0	0	640	4
6.	Bobar banka a.d.	15,350	100	0	0	0	0
7.	VB banka a.d.	15,854	100	0	0	0	0
8.	Zepter Komerc banka a.d.	17,569	100	0	0	0	0
9.	Balkan Investment Bank a.d.	15,000	100	0	0	0	0
10.	Pavlović International Bank a.d.	14,213	98	0	0	312	2
11.	Privredna banka a.d. Doboj	10,979	96	0	0	414	4
<b>III</b>	<b>TOTAL:</b>	<b>199,849</b>	<b>97</b>	<b>2,724</b>	<b>1</b>	<b>2,745</b>	<b>2</b>

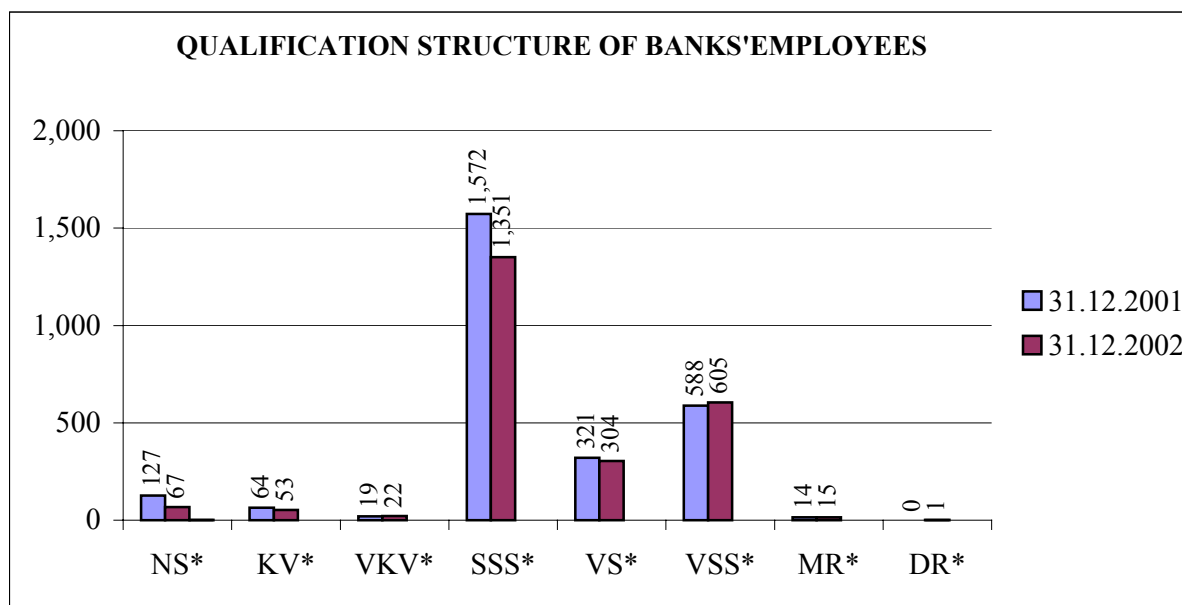
In the structure of shareholders' capital amounting KM 205,318, privately owned capital amounted to 98%, state owned 1%, and cooperative capital 2%.

## 2.2. STAFF

As of December 31, 2002 RS banks had 2,418 employees, which compared to December 31, 2001 figures decreased by 11%. As for the qualification structure, number of college-graduated and employees with master degree, and highly skilled workers increased, while number of employees with secondary school level of education, junior college graduated, skilled and non-skilled workers decreased.

### Employees Qualification Structure

No.	Qualification	31.12.2001	%	31.12.2002	%	INDEX 2002/2001
1.	Non-Skilled	127	5	67	3	53
2.	Skilled	64	2	53	2	83
3.	Highly Skilled	19	1	22	1	116
4.	Secondary School	1,572	58	1,351	56	86
5.	2-year College	321	12	304	13	95
6.	College Degree	588	22	605	25	103
7.	M. Sc.	14	0	15	0	107
8.	Dr.	0	0	1	0	0
<b>TOTAL</b>		<b>2,705</b>	<b>100</b>	<b>2,418</b>	<b>100</b>	<b>89</b>



### Assets Per Employee

DATE	Number of employees	Assets in KM million	Assets per employee in (000KM)
31.12.2001	2,705	772,202	285
31.12.2002	2,418	938,574	388

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In the reported period assets-per-employee increased from KM 285 thousand to KM 388, or by 36%. The increase of this indicator resulted from assets increased by 22%, and decreased number of employees by 11%. The assets-per-employee ratio ranged in individual banks from KM 77 thousand to KM 1,243 thousand. Two RS banks had assets-per-employee ratio exceeding KM 1,000 thousand.

### **3. FINANCIAL INDICATORS OF BANKS' OPERATION**

Financial indicators on RS banks' operation are provided for by the Banking Agency of Republika Srpska through on-site examinations and off-site supervision based on reports submitted by banks. Reports are the following:

1. Banks' Balance Sheets submitted monthly with additional attachments for three-month periods as scheduled by the Agency presenting data on banks' cash funds, loans, deposits and off-balance sheet items.
2. Reports on banks' capital, asset classification, and risks in operation submitted quarterly.
3. Reports on banks' operation results submitted on a three-month basis (Income Statement and Cash Flow).

In addition to this, all available data and information submitted under special Agency requests are taken into consideration in order to follow and analyze the operation of banks in Republika Srpska on a high quality level.

#### **3.1. Balance Sheet**

After additional capital had been paid in, and some banks merged, the RS banks' consolidated balance sheet amount increased by 27% compared to December 31, 2001.

Balance sheet assets amounted to KM 939 million, and increased by 22%, while off-balance sheet amounted to KM 256 million, and increased by 51% compared to December 31, 2001. As for the composition of assets, loans and cash flow increased constituting 80% of balance sheet assets, while office space and other fixed assets decreased by 9%.

Off-balance sheet assets increased by 51% due to increase of assets classified as category "E" – loss, made under external auditor's order before preparation of Final Financial Statement for the year 2002.

## Balance Sheet

DESCRIPTION	AMOUNT (000 KM)				INDEX 2002/2001
	31.12.2001		31.12.2002		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
<b>ASSETS (PROPERTY):</b>					
1. Cash Funds	211,364	27	228,326	24	108
2. Trading Securities	1,142	0	3,607	0	316
3. Placements to other banks	5,334	1	24,192	3	454
4. Loans	377,107	49	523,122	56	139
5. Securities held up to maturity	4	0	161	0	4,025
6. Premises and Other Fixed Assets	123,379	16	112,182	12	91
7. Other Assets	53,872	7	46,984	5	87
<b>8. TOTAL ASSETS</b>	<b>772,202</b>	<b>100</b>	<b>938,574</b>	<b>100</b>	<b>122</b>
9. Total Off-Balance Sheet (10+11+12)	169,639		283,268		167
10. Active Off-Balance Sheet	87,851		111,734		127
11. Classified Assets-Loss E	42,401		134,985		318
12. Fees for Agent and Other Operation	39,387		36,549		93
<b>13. TOTAL ASSETS (8+9)</b>	<b>941,841</b>		<b>1,221,842</b>		<b>130</b>
<b>LIABILITIES (COMMITMENTS):</b>					
14. Deposits	422,632	55	629,692	67	149
15. Borrowings	1,844	0	963	0	52
16. Obligations Based on Loans	23,935	3	35,349	4	148
17. Other Commitments	59,596	8	21,750	2	36
18. Special Reserves for Potential Loss	65,204	8	60,307	6	92
19. Capital	198,991	26	190,513	20	96
<b>20. TOTAL LIABILITIES (COMMITMENTS AND CAPITAL)</b>	<b>772,202</b>	<b>100</b>	<b>938,574</b>	<b>100</b>	<b>122</b>
21. Total Off-Balance Sheet (22+23+24)	169,639		283,268		151
22. Active Off-Balance Sheet	87,851		111,734		127
23. Classified Assets-Loss "E"	42,401		118,886		280
24. Fees for Agent and Other Operation	39,387		25,428		65
<b>25. TOTAL LIABILITIES (20+21)</b>	<b>941,841</b>		<b>1,194,622</b>		<b>127</b>

## Share of Individual Group of Banks in Total Assets

(in 000 KM)

AMOUNT OF ASSETS	31.12.2001			31.12.2002		
	Number of banks	Amount	%	Number of banks	Amount	%
Over 150	0	0	0	3	544,990	58
100 - 150	2	267,566	35	0	0	0
50 - 100	4	277,671	36	3	236,722	25
25 - 50	4	134,778	17	4	145,078	16
Under 25	6	92,187	12	1	11,784	1
<b>TOTAL:</b>	<b>16</b>	<b>772,202</b>	<b>100</b>	<b>11</b>	<b>938,574</b>	<b>100</b>

Process of banks' putting in additional capital has been completed, and banks' getting bigger by merger/acquisition is still going on. Thus, as of December 31, 2002 there were three banks with assets over KM 150 million, three banks with assets amounting to 50-100 million, four banks with assets of KM 25-50 million, and one bank having assets lower than KM 25 million.

Three banks' had 58% of total assets, and remaining 7 banks had 42%.

### 3.1.1. Liabilities

Liability structure, that is, structure of obligations and capital in the balance sheet as of September 30, 2002 can be seen from the following table:

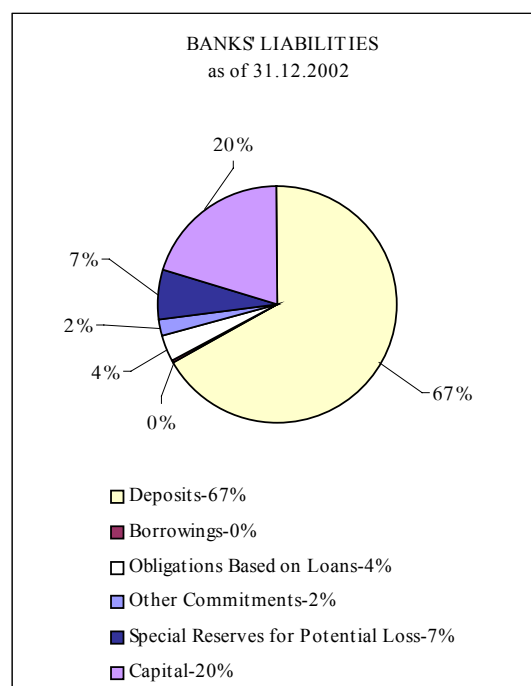
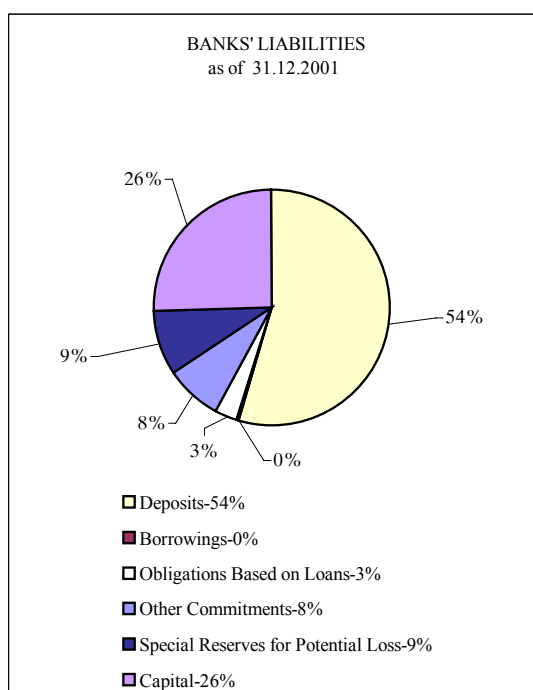
**Liability Structure**

DESCRIPTION	AMOUNT (000 KM)				INDEX 2002/2001
	31.12.2001		31.12.2002		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
<b>LIABILITIES (COMMITMENTS):</b>					
1. Deposits	422,632	54	629,692	67	149
2. Borrowings	1,844	0	963	0	52
3. Obligations Based on Loans	23,935	3	35,349	4	148
4. Other Commitments	59,596	8	21,750	2	36
5. Special Reserves for Potential Loss	65,204	9	60,307	7	92
6. Capital	198,991	26	190,513	20	96
<b>7. TOTAL LIABILITIES (COMMITMENTS AND CAPITAL)</b>	<b>772,202</b>	<b>100</b>	<b>938,574</b>	<b>100</b>	<b>122</b>

Liability structure consisted of obligations amounting to 73%, and capital with special reserves for potential losses amounted to 27%.

If compared to December 31, 2001, the amount of obligations increased, while capital with reserves decreased.

The largest increase in the liability structure is seen in deposits amounting to 49%, and obligations for taken loans of 48%, while capital decreased by 4%, and reserves for potential losses by 8%.





### 3.1.1.1. Capital and Capital Adequacy

## Capital

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2001	%	31.12.2002	%	INDEX
1	2	3	4	5	6
1. BANK'S CORE CAPITAL					
1.1. Shareholders' Capital	168,223	83%	205,318	88%	122
1.2. Legally Required Reserves	25,398	12%	11,469	5%	45
1.3. Other Reserves	9,498	5%	15,620	7%	164
1.4. Undistributed Earnings	17	0%	121	0%	712
1. AMOUNT OF CORE CAPITAL	203,136	100%	232,528	100%	114
2. BANK'S ADDITIONAL CAPITAL					
2.1. Amount of General Reserves for A	6,016	51%	13,983	68%	232
2.2. Current Earnings	5,716	49%	6,626	32%	116
2.3. Amount of Profit – Distribution Temporarily Stopped	12	0%	0	0%	0
2. AMOUNT OF ADDITIONAL CAPITAL:	11,744	100%	20,609	100%	175
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL					
3.1. Less Established Reserves	7,573	40%	0	0%	0
3.2. Uncovered Losses from Previous Years	345	2%	20,474	36%	5934
3.3. Current Year Loss	9,528	50%	28,167	50%	296
3.4. Amount of Intangible Property	0	0%	4,805	9%	0
3.5. Bank's Investments in Other Legal Persons' Capital Exceeding 5% of Bank's Core Capital	1,458	8%	2,828	5%	194
3. AMOUNT OF DEDUCTIBLE ITEMS:	18,904	100%	56,274	100%	298
4. BANK'S NET CAPITAL (1+2-3):	195,976		196,863		100

In the above Capital table it can be seen that the core capital increased by 14% compared to December 31, 2001 additional capital increased by 75%, while loss in the previous year increased by 5,834%, and current year loss increased by 196%.

In the structure of core capital cash funds within shareholders' capital increased by 22%, and other reserves related to the assessment of quality assets and retained earnings from previous years increased, while general required reserves decreased by 55%, and shareholders' capital based on invested non-monetary tangibles and rights slightly decreased.

Additional capital increased by 75%, and it consisted of general reserves to cover loan losses for good assets – category "A", which increased by 132%, and of accrued profit in the current year.

Items to be deducted from capital also increased by 198%, and consisted of non-covered loss carried over from the previous period (increased due to entries recorded under order of external auditor for 2001), current year loss (resulted after recorded orders of external auditor for 2002), and an amount for intangible property.

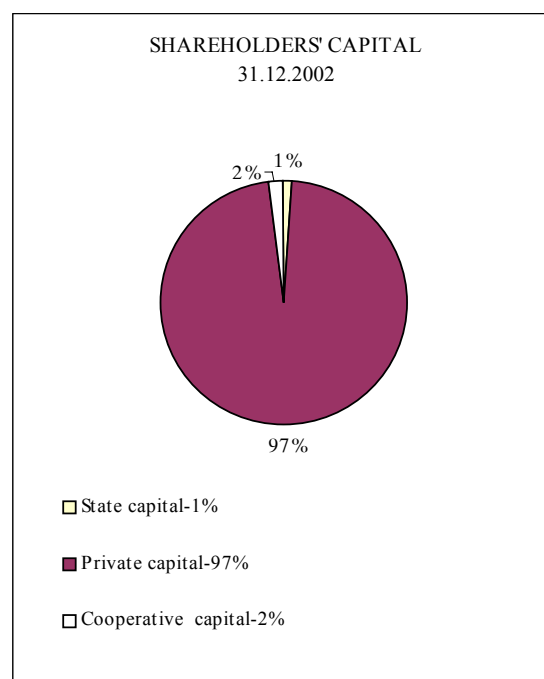
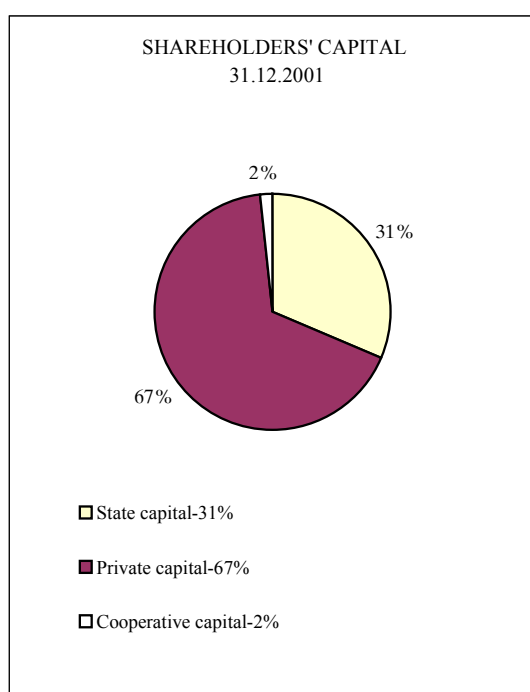
Regardless a significant amount of shareholders' capital cash funds increased after met capital requirement of KM 15 million, net capital remained at the same level since some banks had been liquidated. Banks that underwent a status change decreased their

shareholders' capital in order to cover loss, and since there are no established reserves for loan losses that means that the loss has been realistically reported, and balance sheet considerably "cleaned" from bad quality items.

### Shareholders' Capital Structure

(in 000 KM)

SHAREHOLDERS' CAPITAL 1	31.12.2001		31.12.2002		INDEX 6=4/2
	Amount 2	% 3	Amount 4	% 5	
1. State capital	52,955	31	2,724	1	5
2. Private capital	112,356	67	199,849	97	178
2.1. Foreign Capital	56,502	50	133,349	67	236
2.2. Domestic Capital	55,854	50	66,500	33	119
3. Cooperative capital	2,910	2	2,745	2	94
<b>TOTAL (1+2+3):</b>	<b>168,221</b>	<b>100</b>	<b>205,318</b>	<b>100</b>	<b>122</b>



Ownership structure based on state, private, co-operative, and foreign capital share in equity as of December 31, 2002 shows that state-owned capital share in equity amounted to 1% (decreased by 95% compared to December 31, 2001), privately owned capital amounted to 97% (increased by 78% compared to December 31, 2001), and share of capital owned by co-operatives amounted to 2% (decreased by 6%).

Privately owned share of equity capital consists of foreign and domestic investors' capital amounting to 67% and 33% respectively.

The share of equity capital privately owned by foreign investors increased by 136% compared to December 31, 2001, and the share privately owned by domestic investors increased by 19%.

Another important indicator in capital rating is capital adequacy rate, which actually represents a ratio between net capital and total risk assets, and should be at least 10%. Average capital adequacy for RS banks in this reporting period amounted to 24%, which compared to September 30, 2002 represents an increase by 2%, while index increased by 9%.

#### Capital Adequacy

1	31.12.2001	30.09.2002	31.12.2002	INDEX	
	2	3	4	5=4:2	6=4/3
Capital Adequacy	38%	22%	24%	58	109

Other capital ratios are shown in the following table:

#### Capital Ratios

in 000 KM

DESCRIPTION / PERIOD		31.12.2001	31.12.2002
1.	Net Capital/	195,976	196,863
	Total Assets	772,202	938,574
	%	<b>25</b>	<b>21</b>
2.	Shareholders' Capital/	168,223	205,318
	Total Assets	772,202	938,574
	%	<b>22</b>	<b>22</b>
3.	Core Capital/	203,136	232,528
	Total Risk Assets	522,142	822,355
	%	<b>39</b>	<b>28</b>
4.	Total Capital/	214,880	273,962
	Total Risk Assets	522,142	822,355
	%	<b>41</b>	<b>31</b>
5.	Net Loans/	332,921	490,468
	Total Capital	214,880	253,137
	%	<b>155</b>	<b>194</b>
6.	Profit/	6,249	6,779
	Shareholders' Capital	168,223	205,318
	%	<b>4</b>	<b>3</b>

Capital ratios indicate that increase in equity did not significantly affect increase of net capital. Fluctuations of net capital are not in proportion with fluctuations in total assets. Assets increased faster, having as a consequence decrease of net capital, which is also seen from ratio between total capital and total risk assets. This indicator warns that there was some deterioration in the segment of risky operation of a bank. Conclusion made is that additional capitalization is required in order to cover losses and to stabilize banking operation in Republika Srpska.

### 3.1.1.2. Deposits

#### Sector Based Deposit Structure

(in 000 KM)

DEPOSITS	31.12.2001		31.12.2002		INDEX
	Amount	%	Amount	%	
Government institutions	61,975	15	104,208	17	168
Public and state enterprises	55,682	13	46,860	7	84
Private companies and associations	126,919	31	132,657	21	105
Nonprofit organizations	17,657	4	19,035	3	108
Banks	30,890	7	145,762	23	472
Non-bank financial institution	1,144	0	20,055	3	1,753
Citizens	111,527	26	146,133	24	131
Other	16,837	4	14,982	2	89
<b>TOTAL</b>	<b>422,631</b>	<b>100</b>	<b>629,692</b>	<b>100</b>	<b>149</b>

Deposits increased by 49% compared to December 31, 2001.

The largest share within deposit structure consisted of citizens' deposits – 24%, banking institutions 23%, and private companies – 21%.

The largest increase was recorded with non-banking institutions' deposits amounting to 1,653% (funds of the Housing Fund), and banking institutions' deposits amounting to 372% (funds of those banking institutions that had bought other banks in the process of privatization of state-owned capital).

#### Currency Based Deposit Structure

(in M KM)

DEPOSITS	31.12.2001		31.12.2002		INDEX
	Amount	%	Amount	%	
Deposits in KM	240.8	57	309.7	49	129
Deposits in foreign currency	181.8	43	320.0	51	176
<b>TOTAL</b>	<b>422.6</b>	<b>100</b>	<b>632.4</b>	<b>100</b>	<b>149</b>

The currency based deposit structure shows larger increase of foreign currency deposits (76%) compared to domestic currency deposits (29%). Share of deposits in foreign currency amounted to 51%, and domestic currency deposits 49%.

## Deposit Term Structure

(in 000 KM)

DEPOSITS	31.12.2001		31.12.2002		INDEX
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
Savings and deposits on demand	369,231	87	384,120	61	113
Up to 3 months	36,871	9	74,226	12	177
Up to 1 year	12,684	3	39,038	6	286
1. Total Short-Term	418,786	99	497,384	79	124
Up to 3 years	2,231	1	20,751	3	773
Over 3 years	1,614	0	111,557	18	5,943
2. Total Long-Term	3,845	1	132,308	21	2,943
<b>TOTAL (1+2)</b>	<b>422,631</b>	<b>100</b>	<b>629,692</b>	<b>100</b>	<b>150</b>

It can be seen that 79% of deposits were short-term deposits, and 21% were long-term deposits. Share of long-term deposits is increasing, but that is still unsatisfactory to meet loan and deposit maturity adjustment.

### 3.1.1.3. Bank Liquidity

From the deposit term structure above it can be seen that short-term deposits were still prevailing. Lending policy must be based on deposit structure, since every divergence from term adjustment between sources and placements can lead to illiquidity, which impacts financial condition and viability of a bank very quickly.

In the first quarter two banks had problems in maintaining minimum required reserves with the CBBH. One bank had problems in maintaining current cash funds 10% and 5% higher than short-term sources, but the problems were overcome by the end of the third quarter.

Liquidity ratios showed an improving trend, but liquidity on the level of the banking system as a whole was not satisfactory, although some banks did have very good liquidity.

Liquidity ratios indicate certain movements that are bringing banks closer to have gaps in their short-term operation, since 91% of banks' obligations were covered by receivables. Ratio of net loans to total deposits is barely satisfactory, indicating necessity for banks' to strengthen their deposit base to be able to expand their lending.

Liquidity ratios are given in the following table:

## Liquidity Ratios

in 000 KM

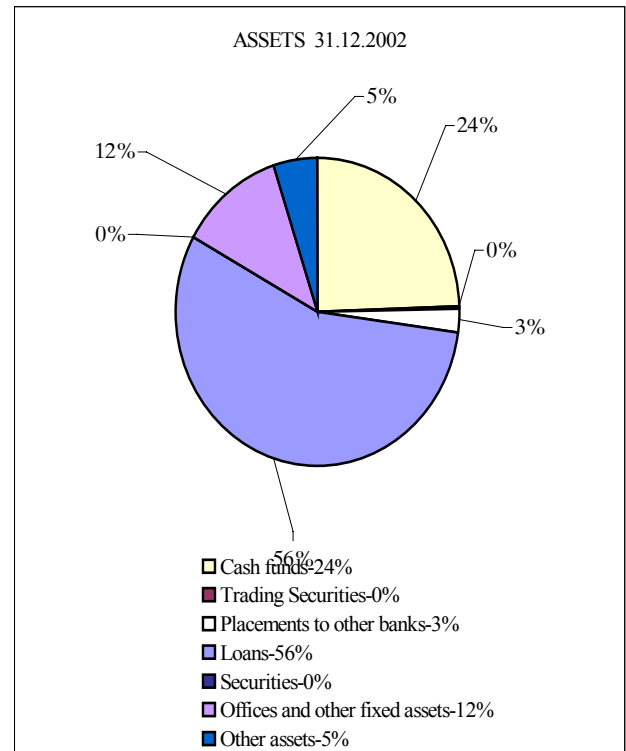
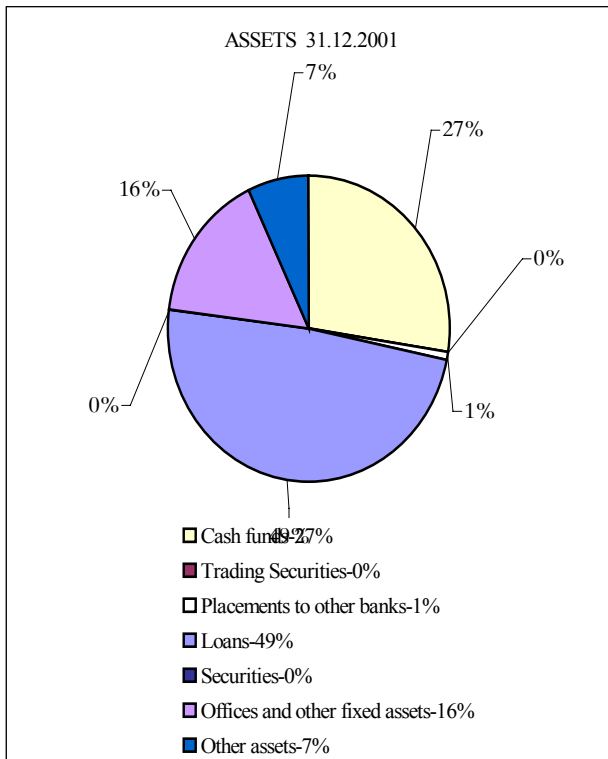
DESCRIPTION/PERIOD		31.12.2001	31.12.2002
1.	Short-term assets/	399,631	459,841
	Short-term liabilities	433,888	504,691
	%	<b>92</b>	<b>91</b>
2.	Short-term assets /	399,631	459,841
	Total assets	772,202	938,574
	%	<b>52</b>	<b>49</b>
3.	Short-term liabilities	433,888	504,691
	Total assets	772,202	938,574
	%	<b>56</b>	<b>54</b>
4.	Net short-term liabilities /	34,257	44,850
	Total assets	772,202	938,574
	%	<b>4</b>	<b>5</b>
5.	Net loans /	332,921	490,468
	Deposits	422,632	629,692
	%	<b>79</b>	<b>78</b>
6.	Net loans and financial commitments, letters of credit/	336631	500,045
	Total assets	772,202	938,574
	%	<b>44</b>	<b>53</b>

Liquidity ratios indicate certain movements that are bringing banks closer to have gaps in their short-term operation, since 91% of banks' obligations were covered by receivables. Ratio of net loans to total deposits is barely satisfactory, indicating necessity for banks' to strengthen their deposit base to be able to expand their lending.

### 3.1.2. Assets

#### Active Asset Structure

DESCRIPTION	AMOUNT (000 KM)				INDEX 2002/2001
	31.12.2001		31.12.2002		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
<b>ASSETS (PROPERTY):</b>					
1. Cash Funds	211,364	27	228,326	24	108
2. Trading Securities	1,142	0	3,607	0	316
3. Placements to other banks	5,334	1	24,192	3	454
4. Loans	377,107	49	523,122	56	139
5. Securities held up to maturity	4	0	161	0	4,025
6. Premises and Other Fixed Assets	123,379	16	112,182	12	91
7. Other Assets	53,872	7	46,984	5	87
<b>8. TOTAL ASSETS</b>	<b>772,202</b>	<b>100</b>	<b>938,574</b>	<b>100</b>	<b>122</b>



Total assets as of December 31, 2002 amounted to KM 939 million and were larger by 22% compared to December 31, 2001. Cash funds made 24% of balance sheet assets (increased by 8%), loans 56% (larger by 39%), office space and fixed assets 12% (decreased by 9%), placements to banks 3% (increased by 354%) and other assets 5% (decreased by 13).

Off-balance sheet risk assets amounted to KM 256 million and it increased by 51%. Active off-balance sheet items increased by 27%, and assets classified as category "E" - loss, increased by 180%.

### 3.1.2.1. Cash Funds

Cash funds as of December 31, 2002 amounted to KM 228 million, and compared to December 31, 2001 increased by 8%.

## Cash Funds Structure

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2001.	%	31.12.2002.	%	INDEX
1	2	3	4	5	6=4/2
<b>KM</b>					
1. Cash Funds	28,796	14	28,936	13	100
2. Giro-accounts	47,207	22	54,631	24	116
3. Deposit accounts at depository institutions in BH	2,358	1	31	1	1
4. Deposit accounts at depository institutions abroad	0	0	0	0	0
5. Cash funds in process of collecting	1,260	1	11	0	1
6. Non-repaid debts	0	0	0	0	0
<b>7. TOTAL:</b>	<b>79,621</b>	<b>38</b>	<b>83,609</b>	<b>37</b>	<b>105</b>
<b>FOREIGN CURRENCY</b>					
1. Cash Funds	67,976	32	44,695	20	66
2. Giro-accounts	0	0	371	0	0
3. Deposit accounts at depository institutions in BH	3,485	2	1,784	1	51
4. Deposit accounts at depository institutions abroad	59,442	28	97,223	42	164
5. Cash funds in process of collecting	840	0	644	0	77
6. Non-repaid debts	0	0	0	0	0
<b>7. TOTAL:</b>	<b>131,743</b>	<b>62</b>	<b>144,717</b>	<b>63</b>	<b>110</b>
<b>GRAND TOTAL:</b>	<b>211,364</b>	<b>100</b>	<b>228,326</b>	<b>100</b>	<b>108</b>

Cash funds consisted of foreign currency amounting to KM 145 million or 63%, and domestic currency amounting to KM 84 million or 37%.

Compared to December 31, 2001 foreign currency funds increased by 10%, and domestic currency funds increased by 5%.

Cash funds in domestic currency remained at the same level, while cash funds in foreign currency decreased by 34%.

Deposits held on accounts with deposit institutions abroad represented the largest portion of cash funds amounting to 42%, and compared to December 31, 2001 such deposits increased by 64%, which indicates that our banks held a large portion of money on accounts abroad.

### 3.1.2.2. Loans

In the composition of assets loans amounted to 47% of assets, and compared to December 31, 2001 increased by 39%.

### Total Loans Breakdown per Sectors

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2001	%	31.12.2002	%	INDEX
1	2	3	4	5	6	7=5/3
1.	Government institutions	2,111	1	14,473	3	686
2.	Public and state enterprises	104,428	28	112,378	21	108
3.	Private companies and associations	217,211	58	225,510	43	104
4.	Nonprofit organizations	273	0	580	0	212
5.	Banks	8,197	2	930	0	11
6.	Non-bank financial institution	5,561	1	5,728	1	103
7.	Citizens	23,686	6	155,469	30	656
8.	Other	15,640	4	8,054	2	51
<b>9.</b>	<b>TOTAL</b>	<b>377,107</b>	<b>100</b>	<b>523,122</b>	<b>100</b>	<b>139</b>



In the structure of total loans per sectors 53% were loans to private enterprises and associations, but the increase amounted only to 4% compared to December 31, 2001, while loans to citizens amounted to 30% of total loans, and increased by 556%.

Compared to the previous year the loan term structure is the following:

### Loan Term Structure

(in 000 KM)

No.	DESCRIPTION	Short Term < 1 year		INDEX	Long Term > 1 year		INDEX	Due Receivables		INDEX	TOTAL		INDEX
		31.12. 2001	31.12. 2002		31.12. 2001	31.12. 2002		31.12. 2001	31.12. 2002		31.12. 2001	31.12. 2002	
1.	Government institutions	0	12,108	0	6	1,016	16,933	2,105	1,439	68	2,111	14,473	686
2.	Public and state enterprises	49,721	43,547	88	22,523	42,399	188	32,184	26,432	82	104,428	112,378	108
3.	Private companies and associations	110,062	113,664	103	62,365	75,363	121	44,784	36,483	81	217,211	225,510	104
4.	Nonprofit organizations	273	576	211	0	0	0	0	4	0	273	580	212
5.	Banks	4,122	930	23	4,075	0	0	0	0	0	8,197	930	11
6.	Non-bank financial institution	4,352	3,370	77	1,209	2,358	195	0	0	0	5,561	5,728	103
7.	Citizens	5,473	18,770	343	17,857	135,843	761	356	856	240	23,686	155,469	656
8.	Other	13,122	5,025	38	606	926	153	1,912	2,103	110	15,640	8,054	51
9.	<b>TOTAL</b>	<b>187,125</b>	<b>197,900</b>	<b>106</b>	<b>108,641</b>	<b>257,905</b>	<b>237</b>	<b>81,341</b>	<b>67,317</b>	<b>83</b>	<b>377,107</b>	<b>523,122</b>	<b>139</b>

Short-term loans with maturity up to one year amounted to KM 198 million and increased by 6%, while long-term loans amounted to KM 258 million and increased by 137%.

Within the long-term and short-term loan structure the largest share represented loans extended to citizens.

Receivables due decreased by 17% compared to December 31, 2001, and the largest increase was with receivables due related to loans to citizens amounting to 140%.

#### 3.1.2.3. Asset Quality

The Decision on Minimum Standards for Banks' Loan Risk Management and Asset Classification determined criteria for rating of risk in banks' operation by assessing asset quality and adequacy of reserves for loan and other losses based on risks of placements and of balance-sheet and off-balance sheet items.

Based on the Decision it is banks' obligation to establish general loan risk reserves, debiting expenses, for those items of assets classified in category A – good assets; special reserves for potential loan losses are established for other categories of asset classification: B, C, D, and E.

Amounts and composition of classified balance and off-balance sheet assets can be seen from the following table:

(in 000 KM)

<b>BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS</b>	<b>31.12.2001</b>	<b>31.12.2002</b>	<b>INDEX</b>
1	2	3	4=3/2
1, Short-term Loans	190,794	199,067	104
2, Long-Term Loans	110,502	257,908	233
3, Other Placements	7,206	45,685	634
4, Accrued Interest	35,027	16,923	48
5, Receivables Due	76,108	63,542	83
6, Paid Guarantee based Receivables	7,440	6,385	86
7, Other Assets	26,365	154,492	586
<b>8, TOTAL BALANCE SHEET ASSET ITEMS:</b>	<b>453,442</b>	<b>744,002</b>	<b>164</b>
9, General Loan Risk and Potential Loan Loss (no, 8 X % loss)	67,372	55,546	82
10, Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	60,441	54,872	91
11, Balance 10,-9,	-6,931	-674	10
12,a) Payable Guarantees	53,988	69,485	129
b) Performance Guarantees	20,482	17,568	86
13, Non-Covered Letters of Credit	4,791	9,376	196
14, Irrevocable Loan based Commitments	556	12,340	2,219
15, Other Potential Commitments	7,358	2,829	38
<b>16, TOTAL OFF-BALANCE SHEET ITEMS:</b>	<b>87,175</b>	<b>111,598</b>	<b>128</b>
17, General Loan Risk and Potential Loan Loss (no,16 X % loss)	4,972	4,455	90
18, Already Separated General Reserves (A) and Special Reserves (B, C, D, E)	4,762	5,435	114
19, Balance 18,-17,	-210	980	-467
<b>20,TOTAL BALANCE SHEET &amp; OFF-BALANCE SHEET ITEMS (8 + 13)</b>	<b>540,617</b>	<b>855,600</b>	<b>158</b>
21,General Loan Risk and Potential Loan Loss (no, 20 X % loss)	72,344	60,001	83
22, Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	65,203	60,307	92
23, OVERAGE of Separated Reserves (+)(amount) (no,22, - no,21,)	432	306	71
SHORTAGE of Separated Reserves (-)(amount) (no,21, - no,22,)	7,573	0	0
<b>NON-CLASSIFIED ACTIVE ASSETS</b>	<b>319,436</b>	<b>194,707</b>	<b>61</b>

Total classified assets as of December 31, 2002 amounted to KM 856 million and increased by 58% in comparison with the amount as of December 31, 2001. The balance sheet assets increased by 64%, and off-balance sheet increased by 28%.

Long-term loans represented the largest item of risk assets amounting to 35%, short term loans amounted to 27%, other assets 21% and receivables due 9%,.

Other assets increased by 486%, other placements amounting increased by 534%, long term loans 133% (the largest item in the structure), and short-term loans by 14%.

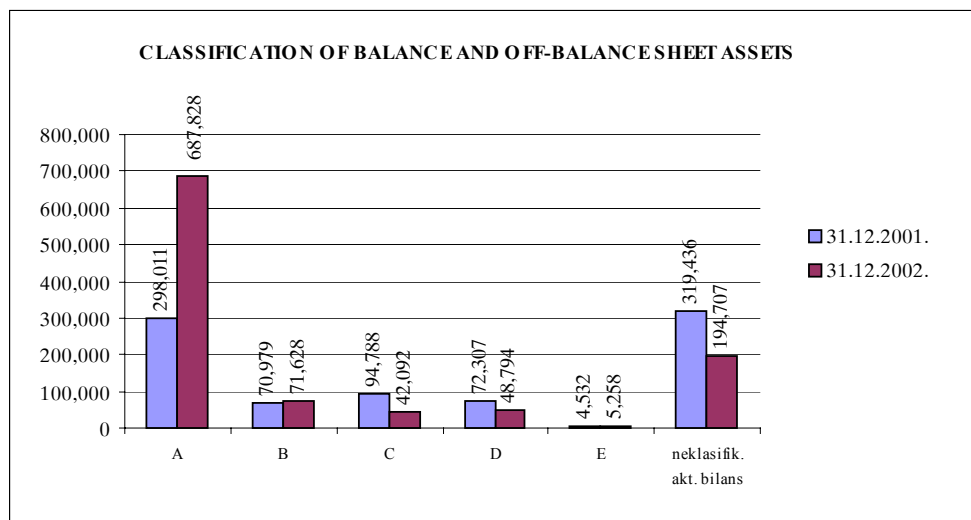
Items that decreased were, accrued interest by 53%, receivables due 16%, and receivables based on paid guaranties by 14%.

When rating asset quality, a share of poor assets in total balance sheet and off-balance sheet assets can be seen, as well as potential loan loss composition per classification categories.

Classification of banks' balance sheet and off-balance sheet assets as of December 31,2002 can be seen in the following table:

(in 000 KM)

<b>BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>TOTAL</b>
1. Short-term Loans	171,721	16,963	6,660	3,735	-12	199,067
2. Long-Term Loans	203,107	25,565	15,870	13,272	94	257,908
3. Other Placements	45,345	63	7	247	23	45,685
4. Accrued Interest	3,040	5,882	3,379	4,610	12	16,923
5. Receivables Due	10,897	13,157	12,243	22,554	4,691	63,542
6. Paid Guarantee based Receivables	536	2,715	830	2,304	0	6,385
7. Other Assets	151,492	1,364	1,636	0	0	154,492
<b>8. TOTAL BALANCE SHEET ASSET ITEMS:</b>	<b>586,138</b>	<b>65,709</b>	<b>40,625</b>	<b>46,722</b>	<b>4,808</b>	<b>744,002</b>
9. General Loan Risk and Potential Loan Loss (no. 8 X % loss)	11,791	5,448	9,204	24,295	4,808	55,546
10. Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	11,834	4,582	9,353	24,295	4,808	54,872
11. Balance 10.-9.	43	-866	149	0	0	- 674
12.a) Payable Guarantees	62,406	3,592	1,467	1,739	281	69,485
b) Performance Guarantees	14,769	2,297	0	333	169	17,568
13. Non-Covered Letters of Credit	9,346	30	0	0	0	9,376
14. Irrevocable Loan based Commitments	12,340	0	0	0	0	12,340
15. Other Potential Commitments	2,829	0	0	0	0	2,829
<b>16. TOTAL OFF-BALANCE SHEET ITEMS:</b>	<b>101,690</b>	<b>5,919</b>	<b>1,467</b>	<b>2,072</b>	<b>450</b>	<b>111,598</b>
17. General Loan Risk and Potential Loan Loss (no.16 X % loss)	2,035	577	337	1,056	450	4,455
18. Already Separated General Reserves (A) and Special Reserves (B, C, D, E)	2,147	1,445	337	1,056	450	5,435
19. Balance 18.-17.	112	868	0	0	0	980
<b>20. TOTAL BALANCE SHEET &amp; OFF-BALANCE SHEET ITEMS (8 + 13)</b>	<b>687,828</b>	<b>71,628</b>	<b>42,092</b>	<b>48,794</b>	<b>5,258</b>	<b>855,600</b>
21. General Loan Risk and Potential Loan Loss (no. 20 X % loss)	13,826	6,025	9,541	25,351	5,258	60,001
22. Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	13,981	6,027	9,690	25,351	5,258	60,307
23. OVERAGE of Separated Reserves (+)(amount) (no.22. - no.21.)	155	2	149	0	0	306
SHORTAGE of Separated Reserves (-)(amount) (no.21. – no.22.)	0	0	0	0	0	0
<b>NON-CLASSIFIED ACTIVE ASSETS</b>						<b>194,707</b>



(in 000 KM)

Classification Category	31.12.2001	%	31.12.2002	%	INDEX
A	298,011	35	687,828	65	231
B	70,979	8	71,628	7	101
C	94,788	11	42,092	4	44
D	72,307	8	48,794	5	67
E	4,532	1	5,258	1	116
Non-classified active balance sheet	319,436	37	194,707	18	61
<b>TOTAL:</b>	<b>860,053</b>	<b>100</b>	<b>1,050,307</b>	<b>100</b>	<b>122</b>
Required potential loan loss general reserves (A)	5,910		13826		234
Already established general reserve (A)	6,016		13,981		232
<b>Balance for A:</b>	<b>106</b>		<b>155</b>		
Required special reserves for potential loan loss (B-E)	66,434		46,175		70
Already separated special reserves (B-E)	59,187		46,326		78
<b>Balance for (B-E):</b>	<b>-7,247</b>		<b>151</b>		

The largest share amounting to 66% was made by assets classified in category "A", which compared to December 31, 2001 increased by 131%. The share of assets classified as "B" amounted to 7% and increased by 1%, while the category "E" represented just a small share with an increase of 16%.

Categories "C" and "D" decreased significantly.

Calculated special reserves for assets classified as categories from "B" to "E" totaled KM 46,175 thousand, while total established reserves amounted to KM 46,329 thousand, indicating that banks separated an amount larger by KM 151 thousand than required reserves.

### Asset Quality Ratios

- in 000 KM -

DESCRIPTION/PERIOD		31.12.2001	31.12.2002
1.	Loans Due/	81,341	67,317
	Total Loans	377,107	523,122
	%	<b>22</b>	<b>13</b>
2.	Loans Due/	81,341	67,317
	Potential Loss Reserve	44,186	32,654
	%	<b>184</b>	<b>206</b>
3.	Loans Due/	81,341	67,317
	Total Capital	214,880	253,137
	%	<b>38</b>	<b>27</b>
4.	Classified Assets/	540,617	855,600
	Total Capital	214,880	253,137
	%	<b>252</b>	<b>338</b>
5.	Potential Loss/	44,186	32,654
	Total Loans	377,107	523,122
	%	<b>12</b>	<b>6</b>
6.	Total Risk Assets	522,142	822,355
	Total Assets	772,202	938,574
	%	<b>68</b>	<b>88</b>

Looking at the above asset quality ratios it can be concluded that improvement of the past due loans to total loans ratio resulted from obligatory removal from books of loan losses classified as "E" category, and not from real improvement of asset quality. This can be confirmed by the classified assets and total assets ratio, as well as the total risk assets to total assets ratio, which increased significantly.

#### 3.1.2.4. Transactions with Related Persons

A part of banks' everyday activities is to perform transactions with related persons. In a market based economy that segment of banks' operation appears to be especially risky. That is why the Agency has issued the Decision on Minimum Standards for Banks Performing Transactions with Related Persons.

The Managing Board of each bank has to develop a special policy for such transactions, including the following restrictions:

- Banks may perform transactions with related persons only under approval of their Managing Board or other body with the same level of authorization;
- A single physical person may be approved a transaction amounting to a maximum of 1% of core capital;

- Total amount of transactions with all physical persons related with a bank cannot exceed 10% of the bank's core capital.

Banks are obliged to keep separate records on the following:

- Subsidiaries and other capital-related enterprises;
- Exposures to loan risks from shareholders having over 5% voting rights, as well as from managing board members, executive managers and officials of the bank.

### Other Loans to Related Persons as of December 31, 2002

(in 000 KM)

DESCRIPTION	31.12.2001	%	31.12.2002	%	INDEX
1	2	3	4	5	6=4/2
Loans approved:					
1. Shareholders exceeding 5% voting rights	5,715	53	7,932	50	139
2. Managing Board members	963	9	1,165	7	121
3. Management	511	5	788	5	154
4. Bank employees	3,676	33	5,973	38	162
<b>5. TOTAL LOANS (1 to 4)</b>	<b>10,865</b>	<b>100</b>	<b>15,858</b>	<b>100</b>	<b>146</b>
6. Potential and taken off-balance sheet obligations	4,848		666		
<b>7. GRAND TOTAL (5+6)</b>	<b>15,713</b>		<b>10,831</b>		

As of December 31, 2002 loans extended to related persons increased by 46% compared to December 31, 2001.

The largest share within the whole loan composition was recorded for loans extended to shareholders amounting to 50%, but the largest increase was recorded with loans extended to banks' employees amounting to 62% and loans extended to banks' management amounting to 54%.

#### 3.1.2.5. Office Space and Other Fixed Assets

Within total asset composition the share related to office space and other fixed assets amounted to 12%. Compared to December 31, 2001 fixed assets decreased by 9%.

Four banks exceeded 50% of investment into fixed assets related to their core capital, but it is expected that merging of banks and sale of office space will put that within the legal framework very soon.

#### 3.1.2.6. Other Assets

Other assets within the total asset structure represented a share of 5% and compared to December 31, 2001 decreased by 13%. Other assets mostly consisted of accrued interest and fees. Other items in the composition are insignificant and represented investments into non-consolidated related entities (funds), purchased guaranties, investments in apartments, transition accounts for foreign currency payments, current payments of previously taken obligations, accrued receivables, and other.

#### 4. Income Statement

### Income Statement

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2001		31.12.2002		INDEX
	Total	%	Total	%	
1	2	3	4	5	6=4/2
<b>1. INTEREST INCOME AND SIMILAR INCOME</b>					
a) Interest Income and Similar Income	57,221	42	51,382	30	90
b) Operating Income	77,689	58	120,977	70	156
<b>2.TOTAL INCOME (1.a + 1.b)</b>	<b>134,910</b>	<b>100</b>	<b>172,359</b>	<b>100</b>	<b>128</b>
<b>3. EXPENSE</b>					
a) Interest Expense and Similar Expense	11,092	8	11,104	5	100
b) Business Operation and Direct Expense	44,550	32	114,090	57	256
c) Operating Expense	82,546	60	75,563	38	92
<b>4. TOTAL EXPENSE (3.a + 3.b + 3.c)</b>	<b>138,188</b>	<b>100</b>	<b>200,757</b>	<b>100</b>	<b>145</b>
<b>PROFIT BEFORE TAX</b>	<b>6,249</b>		<b>6,779</b>		<b>108</b>
<b>LOSS</b>	<b>9,528</b>		<b>35,177</b>		<b>369</b>
<b>TAXES</b>	<b>521</b>		<b>141</b>		<b>27</b>
<b>NET-PROFIT</b>	<b>5,728</b>		<b>6,638</b>		<b>116</b>

In the year 2002 banks' total income amounted to KM 172.359 thousand, and was larger by 28% compared to December 31, 2001. Total expense amounted to KM 200,757 thousand and increased by 45%. Profit-before-tax amounted to KM 6,779 thousand, and increased by 8%. Loss amounted to KM 35,177 thousand, and increased by 269% compared to December 31, 2001. Net profit amounted to KM 6,639 thousand and decreased by 16%.

The reported loss was mostly influenced by operating and direct expenses, which had mostly increased due to expenses for establishing accurately reported reserves calculated in accordance with external auditor's orders related to 2002.

Operating expenses decreased by 8% and represented 38% in the total expense structure.

Operating income was larger than the reported interest income, indicating that in the RS banking system operation fee-based activities prevailed, and lending decreased by 10%.

Operating expenses were larger than interest income, and the mismatch amounted to KM 24.181 million.

In the reporting period four banks generated losses in an amount of KM 35,177 thousand, and seven banks had a positive financial result in an amount of KM 6,779 thousand, while the banking system balance sheet loss amounted to KM 48,641 thousand, and it consisted of loss from the current year and non-covered loss from previous years.

## Profitability Ratios

(in 000 KM)

DESCRIPTION/PERIOD		31.12.2001	31.12.2002
1.	Total Income/ Total Assets	134,910 772,202	172,359 938,574
	<b>%</b>	<b>17</b>	<b>18</b>
2.	Total Income / Total Capital	134,910 214,880	172,359 253,137
	<b>%</b>	<b>63</b>	<b>68</b>
3.	Total Expense/ Total Assets	138,188 772,202	200,757 938,574
	<b>%</b>	<b>18</b>	<b>22</b>
4.	Interest Income/ Total Assets	57,221 772,202	51,382 938,574
	<b>%</b>	<b>7</b>	<b>5</b>
5.	Interest Income/ Total Assets	11,092 772,202	11,104 938,574
	<b>%</b>	<b>1</b>	<b>1</b>
6.	Net Interest Income / Total Assets	46,129 772,202	40,278 938,574
	<b>%</b>	<b>6</b>	<b>4</b>
7.	Net Interest Expense/ Total Capital	46,129 214,880	40,278 253,137
	<b>%</b>	<b>22</b>	<b>16</b>
8.	Fees/ Total Assets	34,231 772,202	41,234 938,574
	<b>%</b>	<b>4</b>	<b>4</b>
9.	Material Expense and Gross Earnings/ Total Assets	82,546 772,202	75,563 938,574
	<b>%</b>	<b>11</b>	<b>8</b>
10.	Non-Interest Expense/ Total Assets	127,096 772,202	189,653 938,574
	<b>%</b>	<b>16</b>	<b>20</b>
11.	Profit before Taxes/ Total Assets	6,249 772,202	6,779 938,574
	<b>%</b>	<b>1</b>	<b>1</b>

The above profitability ratios show that in the course of 2002 banks' total expenses had faster trend of growth than total income, total expenses to total assets ratio increased, while interest income and net interest income kept decreasing indicating that fee income was the basic source of banks' financing.

Total loss generated by five banks is five times larger than the profit generated by the rest of banks, which points out the fact that the RS banking sector profitability was at a very low level.

Describing individual segments of banks' operation we have given detailed movements of ratios in the last two years.

Apart from those ratios we have calculated the most essential ratios for the banking sector in the period 1999 – 2002, pointing out that in our opinion 2002 ratios are realistic



indicators, since they resulted after external auditor's orders had been implemented, which was not the case in earlier period.

The most important ratios are given in the following table:

(u 000 KM)

	RATIO	31.12. 1999.	31.12. 2000.	31.12. 2001.	31.12. 2002.
1.	Profit	10,761	3,538	6,249	6,779
	Total Assets	604,753	651,212	772,202	938,574
	<b>Return On Assets (%) - ROA</b>	2	1	1	1
2.	Profit	10,761	3,538	6,249	6,779
	Capital	177,557	200,993	214,880	253,137
	<b>Return On Capital (%)</b>	6	2	3	3
3.	Profit	10,761	3,538	6,249	6,779
	Shareholders' Capital	123,118	142,754	168,223	205,318
	<b>Return On Shareholders' Capital (%) - ROE</b>	9	2	4	3
4.	Net Interest Income/	42,304	44,227	46,129	40,278
	Total Assets	604,753	651,212	772,202	938,574
	%	7	7	4	6
5.	Fees/	15,151	20,866	34,231	41,234
	Total Assets	604,753	651,212	772,202	938,574
	%	3	3	4	4
6.	Operating Expenses/	129,605	83,286	82,546	75,563
	Total Assets	604,753	651,212	772,202	938,574
	%	21	13	11	8
7.	Capital/	177,557	200,993	214,880	253,137
	Total Assets	604,753	651,212	772,202	938,574
	<b>Banks' Capitalization (%)</b>	<b>29</b>	<b>31</b>	<b>28</b>	<b>27</b>

ROA – return on assets ratio was 1%, which meets international standards, while in the reported period ROE – return on equity ratio was changing and amounted to 3% in 2002 being far below international standards which range from 12 to 18%.

Net interest income to total assets ratio was changing, but in the last period started increasing and amounted to 6%.

Fee to total assets ratio was stable and it had a significant share in the total income.

Operating expenses were decreasing, which was a logical consequence of decrease of employees in the RS banking sector.

Capital to total assets ratio lowered, since assets increased faster than capital and indicated need for additional capitalization.

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## 5. INTERNAL PAYMENT TRANSACTIONS

The payment operation of Republika Srpska included eleven commercial banks, and seven branch offices from Federation of Bosnia and Herzegovina.

As of December 31, 2002 there were 79,676 transaction accounts opened.

The following table shows the number and amounts of transactions performed:

**Number and Amounts of Transactions**

Date	Retail Payment Transactions (Debiting of Accounts)		Wholesale Payment Transactions (Debiting of Accounts)	
	Number of transactions	Amount of transactions (000 KM)	Number of transactions	Amount of transactions (000 KM)
31.01.2002	244,924	823,991	259,005	310,838
28.02.2002	390,075	1,093,346	324,269	410,840
31.03.2002	442,760	1,190,401	407,334	452,092
30.04.2002	424,286	1,297,034	416,240	553,209
31.05.2002	380,285	1,277,315	381,025	542,570
30.06.2002	367,733	1,201,733	354,472	505,308
31.07.2002	464,783	1,558,051	471,689	680,374
31.08.2002	407,458	1,486,531	452,755	665,086
30.09.2002	406,125	1,428,316	444,652	654,731
31.10.2002	430,559	1,395,452	489,846	679,048
30.11.2002	406,394	1,325,821	437,126	633,230
31.12.2002	464,292	1,670,137	472,713	661,283
<b>TOTAL:</b>	<b>4,829,674</b>	<b>15,748,128</b>	<b>4,911,126</b>	<b>6,748,609</b>

Related to number of transactions and their value three banks were placed among first ten banks in performing payment transactions in Bosnia and Herzegovina.

In the reporting period CBBH - RS Main Office Banja Luka, that is to say all banks under control of that Office participating in the BH payment transactions performed 33% of total number of transactions or in value of an amount of KM 28%.

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## 5. CONCLUSION

*Based on the above listed indicators, the most important features of the banking sector in the year 2002 can be given as follows:*

- *Process of privatization of state owned capital in banks has been completed;*
- *The Deposit Insurance Agency was established as a unique agency at the BH level, which should help in restoring confidence in banks, since banks should insure all deposits up to KM 5,000 by August 2003;*
- *The new Law on Banks was passed and its implementation should start in May 2003; the Law has been harmonized with international banking standards;*
- *Total assets increased by 27% out of which balance sheet assets increased by 22%;*
- *Cash funds increased by 8%, and loans by 39%;*
- *Deposits increased by 49%, out of which citizens' saving deposits amounted to 24%, and rate of growth was 31%;*
- *Banks' liquidity improved, but it has not reached a satisfactory level, yet;*
- *Equity increased by 55%, but net capital remained at the same level due to inherited bad assets in banks which should be removed debiting capital, and some banks should have additional capitalization;*
- *Banks separated sufficient amount of reserves for loan losses;*
- *Banks' profitability did not reach satisfactory level, but a significant improvement is expected in the future period;*
- *Banks have made preparations for deposit insurance, and we expect some of RS banks to insure their deposits in early 2003.*

*Taking into consideration positive movements in banking, the following is necessary to accelerate the process of improving banking sector:*

- *To accelerate privatization of state-owned capital in enterprises,*
- *To complete legal regulation for the system of justice as soon as possible, and to accelerate resolving court litigations, reaching solutions and collecting collaterals;*
- *To pass the Law on Frozen Foreign Currency Savings as soon as possible;*
- *To establish Central Register of Internal payment Participants' Transaction Accounts*
- *To complete legal regulation, which will provide for quality and efficient financial discipline, and prevention of money-laundering;*
- *To further improve supervision of banking sector.*

*Apart from obligations to be performed by environment and institutions in order to create better quality banking sector, banks themselves have to undertake a lot of activities to achieve the following:*

- *To improve assets quality;*
- *To improve risk management, especially when expanding lending activities;*
- *To put in additional capital, and to adjust all parameters prescribed by the Law;*

- 
- *To further improve payment transactions in order to speed up information exchange, and develop detailed procedures to monitor financial transactions, which might have money laundering features;*
  - *To strengthen banks' internal controls and internal audit;*
  - *To develop new products, especially debit and credit cards, and electronic banking;*
  - *To decrease expenses and fixed assets, which would also improve banks' profitability;*
  - *To adjust all policy and procedures with the new legal regulation and market economy conditions;*
  - *To strengthen hardware and software functions, as well as building up staff's computer skills, especially in those segments of operation dealing with small and medium size companies, and citizens;*
  - *The RS Bank Association should be more active and develop a new organization chart in order to offer quality solutions of banking sector issues (cooperation with institutions having an importance for banks' operation, training of banks' employees, issuing legal regulation, and similar).*

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## ATTACHMENTS

<b>Attachment No. 1</b>	<b>Basic Information on Banks in Republika Srpska</b>
<b>Attachment No. 2</b>	<b>Balance Sheet</b>
<b>Attachment No. 3</b>	<b>Capital Schedule</b>
<b>Attachment No. 4</b>	<b>Income Statement</b>
<b>Attachment No. 5</b>	<b>Information on Banks' Employees</b>
<b>Attachment No. 6</b>	<b>RS Banks' Organizational Units Network</b>

### BASIC INFORMATION ON BANKS

No.	BANK	LOCATION	ADDRESS	DIRECTOR	PHONE	FAX	31.12.2002 (in 000KM)		No. of Employees
							ASSETS	CAPITAL	
1.	Nova Banjalucka banka a.d.	Banja Luka	M.Bursac 7	Milenko Vracar	051/243-200	212-830	179,869	17,172	452
2.	Kristal banka a.d.	Banja Luka	I.F.Jukica 9	Slavica Milikic	051/212-930	212-878	204,103	37,196	264
3.	Privredna banka Doboj a.d.	Doboj	Svetog Save 1	Acting Rodoljub Milovanovic	053/241-544	241-662	11,784	3,917	154
4.	Pavlovic International Bank a.d.	Slobomir, Bijeljina	Slobomir	Milenko Mihajlovic	055/209-588	210-247	29,521	11,562	131
5.	Privredna banka ad Srpsko Sarajevo	Pale	Kninska bb	Dragan Popovic	056/210-173	057/226-805	46,869	16,867	303
6.	Nova banka a.d.	Bijeljina	Svetog Save 46	Milorad Andzic	055/209-094	201-410	91,696	19,262	299
7.	Razvojna banka Jug. Evrope a.d.	Banja Luka	Kralja Petra I 85-A	Ranko Travar	051/242-101	242-192	161,018	16,143	536
8.	Bobar banka a.d.	Bijeljina	Filipa Visnjica 211	Dragan Radumilo	055/201-862	201-862	32,725	15,632	63
9.	VB banka a.d.	Banja Luka	Milana Tepica 4	Radovan Bajic	051/221-600	221-623	64,630	18,714	52
10.	Zepter komerc banka a.d.	Banja Luka	Jevrejska bb/II	Ranko Labovic	051/241-100	215-771	80,396	19,110	129
11.	Balkan Investment Bank a.d.	Banja Luka	Krajiskih brigada 2	Saulius Zostautas	051/216-285	211-445	35,963	14,938	35
	<b>TOTAL:</b>						<b>938,574</b>	<b>190,513</b>	<b>2,418</b>

## BALANCE SHEET

(in 000 KM)

DESCRIPTION/PERIOD	31.12.01	%	31.12.02	%	INDEX
1. Cash funds and deposit accounts at depository institutions (1.a.+1.b.)	211,364	27	228,326	24	108
1.1. Cash and non-interest bearing deposit accounts	143,266	18	118,587	23	83
1.2. Interest-bearing deposit accounts	68,098	9	109,739	11	161
2. Trading Securities	1,142	0	3,607	0	316
3. Placements to other banks	5,334	1	24,192	3	454
4. Loans, leasing and receivables due (4.a.+4.b.+4.c.)	377,107	49	523,122	56	139
4.a. Loans	290,481	37	455,301	49	157
4.b. Leasing receivables	5,285	1	0	0	0
4.c. Loan and leasing receivables due	81,341	11	67,821	7	83
5. Securities held up to maturity	4	0	161	0	4,025
6. Office space and other fixed assets	123,379	16	112,182	12	91
7. Other immovables	1,228	0	1,173	0	96
8. Investments in non-consolidated related companies	4,190	1	7,024	1	168
9. Other assets (9b)	48,454	6	38,787	4	80
<b>TOTAL (1 to 9)</b>	<b>772,202</b>	<b>100</b>	<b>938,574</b>	<b>100</b>	<b>122</b>
10. MINUS: Reserves for potential losses (10.a.+10.b.+10.c.)	60,441		54,871		91
<b>11. TOTAL ASSETS: (1.to 9.-10.)</b>	<b>711,761</b>		<b>883,703</b>		<b>124</b>
11.1 Total off-balance sheet items					
11.a. Active off-balance sheet items	87,851		111,734		127
11.b. Classified assets – loss E	42,401		118,886		280
11.c. Commission (agent) services	39,387		25,428		65
<b>TOTAL ASSETS (11.+11.1)</b>	<b>881,400</b>		<b>1,139,751</b>		<b>129</b>
12. Deposits (12.a.+12.b.)	422,632	59	629,692	71	149
12.a. Interest-bearing deposits	297,426	42	481,231	54	162
12.b. Non-interest bearing deposits	125,206	17	148,461	17	119
13. Borrowings – obligations due (13.a.+13.b.)	14	0	313	0	2,236
13.a. Obligations due, not paid	14	0	313	0	2,236
13.b. Off-balance sheet obligations not paid-called for repayment	0	0	0	0	0
14. Borrowings from other banks	1,830	0	650	0	36
15. Obligations to Government	2,039	0	739	0	36
16. Obligations based on loans and other borrowings (16.a.+16.b.)	23,935	3	35,349	4	148
16.a. remaining maturity up to one year	11,219	1	5,605	1	50
16.b. remaining maturity over one year	12,716	2	29,744	3	234
17. Subordinated debt and subordinated bonds	0	0	0	0	0
18. Reserve to cover off-balance sheet items (18.b.+18.c.)	4,763	1	5,436	0	114
Other obligations (18.d.)	57,557	9	21,011	3	37
<b>19. TOTAL LIABILITIES (12 to 18)</b>	<b>512,770</b>	<b>72</b>	<b>693,190</b>	<b>78</b>	<b>135</b>
20. Permanent preferred shares	0		9,778		0
21. Regular shares	168,223		195,540		116
22. Premium (22.a. +22.b)	0		0		0
22.a. on permanent preferred shares	0		0		0
22.b. on regular shares	0		0		0
23. Undistributed profit and capital reserves	5,742		6,747		118
24. Capital reserves	34,899		27,089		78
25. Other capital	-9,873		-48,641		493
<b>26. TOTAL CAPITAL: (20. To 25.)</b>	<b>198,991</b>	<b>28</b>	<b>190,513</b>	<b>22</b>	<b>96</b>
<b>27. TOTAL LIABILITIES AND CAPITAL: (19. + 26.)</b>	<b>711,761</b>	<b>100</b>	<b>883,703</b>	<b>100</b>	<b>124</b>
28.1.Total off-balance					
28.a. Active off-balance sheet	87,851		111,734		127
28.b. Classified assets – loss E	42,401		118,886		280
28.c. Commissioned (agent) services	39,387		25,428		65
<b>TOTAL LIABILITIES (27.+28.a)</b>	<b>881,400</b>		<b>1,139,751</b>		<b>129</b>

## CAPITAL STATEMENT

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2001	30.09.2002	INDEX
<b>1. CORE CAPITAL OF BANKS</b>			
1.1. Equity capital based on nominal values and amounts of regular and preferred non-cumulative shares issued against cash fund payments into shareholders' capital:	164,628	201,919	123
1.2. Equity capital based on nominal amounts of regular and preferred non-cumulative shares issued against immovables and rights invested into shareholders' capital:	3,595	3,399	95
1.3. Premiums collected for share payments:	0	0	0
1.4. General reserves required (reserves required by the law):	25,398	11,469	45
1.5. Other reserves which are not taken into account when rating asset quality:	9,498	15,620	164
1.6. Retained – undistributed profit from previous years:	17	121	712
<b>1. AMOUNT OF CORE CAPITAL:</b>	<b>203,136</b>	<b>232,528</b>	<b>114</b>
<b>2. ADDITIONAL CAPITAL OF BANKS</b>			
2.1. Equity capital based on nominal amounts of permanent preferred cumulative shares issued against cash fund payments into shareholders' capital:	0	0	0
2.2. Equity capital based on nominal amounts of permanent preferred cumulative shares issued against immovables and rights invested into shareholders' capital:	0	0	0
2.3. General reserves for loan loss coverage for bank's assets rated as category A – Pass:	6,016	13,983	232
2.4. Accrued profit in the current year:	5,716	6,626	116
2.5. Amount of profit for which BA-RS issued Decision on Temporary Suspension of Distribution:	12	0	0
2.6. Amount of subordinated debt maximum 50% of amount of Core Capital:	0	0	0
2.7. Amount of hybrid i.e. convertible items-instruments of capital maximum 50% of amount of Core Capital:	0	0	0
2.8. Amount of items-commitments of a permanent character without obligation to be repaid:	0	0	0
<b>2. AMOUNT OF ADDITIONAL CAPITAL:</b>	<b>11,744</b>	<b>20,609</b>	<b>175</b>
<b>3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL</b>			
3.1. Portion of general credit risk and potential loan losses for which bank has not established General and Special reserves for loan losses:	7,573	0	0
3.2. Uncovered losses carried over from previous years:	345	20,474	5,934
3.3. Current Year Loss:	9,528	28,167	296
3.4. Bookkeeping value of bank's owned (vault) shares:	0	0	0
3.5. Nominal amount of shares issued against investments from bank's loans, up to not-repaid amount of the loan, i.e. not-repaid portion of the loan:	0	0	0
3.6. Part of invested shareholders' capital, which represents, according to BA-RS, received, but overstated value:	0	0	0
3.7. Intangible property: patents, licenses, concession, investments in: marketing, commercial name, trade mark, goodwill and similar:	0	4,805	0
3.8. Bank's investments in capital of other legal entities exceeding 5% of the bank's core capital:	1,458	2,828	194
3.9. Receivables from shareholders having a significant voting right in the bank, which receivables are based on the bank's approvals contrary to provisions of the Law, BA-RS and the bank's business policy:	0	0	0
3.10. Bank's large risk exposure related to shareholders having a significant voting right in the bank, which exposure has not been previously approved by the BA-RS:	0	0	0
<b>4. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL:</b>	<b>18,904</b>	<b>56,274</b>	<b>298</b>
<b>A. ITEMS OFF-SETTING FROM BANK'S CAPITAL:</b>			
<b>1. AMOUNT OF BANK'S CORE CAPITAL</b>	<b>203,136</b>	<b>232,528</b>	<b>114</b>
<b>2. AMOUNT OF BANK'S ADDITIONAL CAPITAL</b>	<b>11,744</b>	<b>20,609</b>	<b>175</b>
<b>3. AMOUNT OF BANK'S ITEMS OFF-SETTING FROM THE CAPITAL</b>	<b>18,904</b>	<b>56,274</b>	<b>298</b>
<b>4. AMOUNT OF BANK'S NET-CAPITAL (1. + 2. - 3.)</b>	<b>195,976</b>	<b>196,863</b>	<b>100</b>
<b>B. RISK WEIGHTED ASSETS AND LOAN EQUIVALENTS</b>	<b>522,142</b>	<b>822,355</b>	<b>157</b>
<b>C. NET CAPITAL RATE</b>	<b>37.5</b>	<b>23.9</b>	<b>64</b>



## INCOME STATEMENT

( in

000 KM)

DESCRIPTION/PERIOD	30.09.2001	%	30.09.2002	%	INDEX
<b>1. INTEREST INCOME AND EXPENSE</b>					
<b>a) Interest income and similar income</b>					
1) Interest bearing deposit accounts at depository institutions	1,319	2	2,359	5	179
2) Placements to other banks	1,902	3	754	2	40
3) Loans and leasing operations	51,317	90	42,799	83	83
4) Securities held up to maturity	0	0	0	0	0
5) Other companies' shares owned by banks	0	0	0	0	0
6) Paid off-balance sheet obligation receivables	470	1	200	0	43
7) Other interest income and similar income	2,213	4	5,270	10	238
<b>8) TOTAL INTEREST INCOME AND OTHER INCOME (1 to 7)</b>	<b>57,221</b>	<b>100</b>	<b>51,382</b>	<b>100</b>	<b>90</b>
<b>b) Interest expense and similar expense</b>					
1) Deposits	5,394	49	8,611	78	160
2) Borrowings from other banks	1,663	15	1,027	9	62
3) Borrowings – due obligations	0	0	21	0	0
4) Loan and other borrowing obligations	2,636	24	713	6	27
5) Subordinated debt and subordinated bonds	0	0	0	0	0
6) Other interest expense and similar expense	1,400	12	732	7	52
<b>7) TOTAL INTEREST EXPENSE AND SIMILAR EXPENSE (1 to 6)</b>	<b>11,092</b>	<b>100</b>	<b>11,104</b>	<b>100</b>	<b>100</b>
<b>c) NET INTEREST AND SIMILAR INCOME a.8)-b.7)</b>	<b>46,129</b>		<b>40,278</b>		<b>87</b>
<b>2. OPERATING INCOME</b>					
a) Foreign currency operation income	10,298	13	24,625	20	239
b) Loan fees	11,891	15	2,558	2	22
c) Off-balance sheet operation fees	2,720	4	3,033	3	112
d) Service fees	19,620	25	35,643	30	182
e) Trading operation income	1,613	2	1,381	1	86
f) Other operating income	31,547	41	53,737	44	170
<b>g) TOTAL OPERATING INCOME (a to f)</b>	<b>77,689</b>	<b>100</b>	<b>120,977</b>	<b>100</b>	<b>156</b>
<b>3. NON-INTEREST BEARING EXPENSE</b>					
<b>a) Operating and direct expense</b>					
1) Reserves for general loan risk and potential loan and other losses	36,513	82	86,731	76	238
2) Other operating and direct expenses	8,036	18	27,360	24	340
<b>3) TOTAL OPERATING AND DIRECT EXPENSES (1) + 2)</b>	<b>44,550</b>	<b>100</b>	<b>114,090</b>	<b>100</b>	<b>256</b>
<b>b) Operating expenses</b>					
1) Salaries and contributions	31,238	38	29,164	38	93
2) Office space, other fixed assets and overheads	32,115	39	33,961	45	106
3) Other operating expenses	19,193	23	12,438	17	65
<b>4) TOTAL OPERATING EXPENSES (1 to 3)</b>	<b>82,546</b>	<b>100</b>	<b>75,563</b>	<b>100</b>	<b>92</b>
<b>c) TOTAL NON-INTEREST BEARING EXPENSES a.3) + b.4)</b>	<b>127,096</b>		<b>189,653</b>		<b>149</b>
<b>4. PROFIT BEFORE TAX 1.c)+2.g)-3.c)</b>	<b>6,249</b>		<b>6,779</b>		<b>108</b>
<b>5. LOSS 1.c) + 2.g) - 3.c)</b>	<b>9,528</b>		<b>35,177</b>		<b>369</b>
<b>6. TAX</b>	<b>521</b>		<b>141</b>		<b>27</b>
<b>7. NET-PROFIT 4. - 6.</b>	<b>5,728</b>		<b>6,638</b>		<b>116</b>

## STAFF

R/ B.	BANKS	QUALIFICATION STRUCTURE									%
		NS*	KV*	VKV	SSS*	VS*	VSS*	MR*	DR*	TOTAL	
1.	Nova Banjalučka banka a.d.	9	17	5	272	51	96	2	0	452	19
2.	Kristal banka a.d.	10	0	1	170	15	68	0	0	264	11
3.	PB a.d. Srpsko Sarajevo	8	7	2	208	22	55	1	0	303	12
4.	Razvojna banka Jug. Evrope	9	16	9	275	96	128	2	1	536	22
5.	PB Doboja	14	3	0	101	16	20	0	0	154	6
6.	Nova banka	4	2	2	113	64	111	3	0	299	13
7.	Bobar banka	0	3	0	33	6	19	2	0	63	3
8.	VB banka	1	1	1	23	2	24	0	0	52	2
9.	Zepter Komerc banka	0	2	1	63	15	48	0	0	129	5
10.	Balkan Investment Bank	1	0	0	16	4	11	3	0	35	2
11.	Pavlović International Bank	11	2	1	77	13	25	2	0	131	5
<b>TOTAL</b>		<b>67</b>	<b>53</b>	<b>22</b>	<b>1,351</b>	<b>304</b>	<b>605</b>	<b>15</b>	<b>1</b>	<b>2,418</b>	<b>100</b>
<b>%</b>		<b>3</b>	<b>2</b>	<b>1</b>	<b>55</b>	<b>13</b>	<b>25</b>	<b>1</b>	<b>0</b>	<b>100</b>	

\*

NS = Non-Skilled Worker  
 KV = Skilled Worker  
 VKV = Highly Skilled Worker  
 SSS = Secondary School Diploma  
 VS = Junior College Graduation  
 VSS = College Graduation  
 MR = Master Degree  
 DR = Ph. D. Degree

