

**INFORMATION
ON BANKING SECTOR OF REPUBLIKA SRPSKA
IN THE PERIOD FROM JANUARY 1, 2004 TO MARCH 31, 2004**

Banja Luka, May 2004

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1. INTRODUCTION

In the first three months of 2004 there were no significant changes in the RS Banking sector.

After completed privatization and provided for minimum capital requirement of KM 15 million, banks targeted all their activities to overcoming problems inherited from the period prior to privatization, obtaining deposit insurance licenses, and developing and offering new products.

Taking into consideration that legal and regulation framework for operation of banks in RS has in a very large degree met requirements prescribed by the International Standards, and was based on implementation of twenty five basic principles adopted by the Basel Committee, we feel that this segment of our economy is the best organized one and that the remaining segments fall behind significantly in implementation of the International Standards and very soon can start restraining development of banking sector.

The banking sector has been stabilized since at the very beginning of privatization process those banks that were not able to meet minimum requirements for operation were closed, while some other merged. The result is nine banks constituting current banking sector of Republika Srpska that meet all legal requirements of operation. Further development of those banks and their quality operation is within authority of their management and boards of directors.

Confidence in the banking sector is growing, which is shown by increased citizens' savings amounting to KM 256 million and having a rate of growth of 19% compared to the previous year.

Also, it is necessary to point out that banks successfully perform internal payment transactions, which reached the number of 3.5 million transactions representing an amount of KM 5.7 billion. A significant activity of banks is demonstrated in prevention of money laundering, however they do not have a quality support from other institutions, which should be more agile in that field.

In the reporting period total assets increased by 6% out of which loans increased by 10%. Analyzing credit portfolio it can be seen that long-term loans increased, and short-term loans decreased. Loans to citizens represent the biggest portion of long-term loans. Deposits are the most significant item in liabilities, and they increased by 6%.

In the reporting period nine banks generated current profit, and the bank under PA recorded loss. If we include losses from the previous period it can be seen that two banks still have uncovered loss from that period.

During the period the Agency worked on harmonization and modification of the Decision on Maturity Adjustment, which imposed new requirements to our banks, but contributed to a more stable operation of the banking sector.

A large number of branch offices of banks from Federation of Bosnia and Herzegovina, having strong foreign investors, opened in our region, and such competition contributed to even faster consolidation of the RS banking sector.

The remaining items illustrating operation of banks are given in the chapter Financial Indicators of Banks' Operation.

2. STRUCTURE OF THE BANKING SECTOR

As of March 31, 2004 ten banks operated in RS. Privredna banka a.d. Srpsko Sarajevo remained under provisional administration.

Banks having their headquarters in Federation of Bosnia and Herzegovina had eighteen operational units in the territory of RS.

Raiffeisen Bank dd had seven, Zagrebacka banka Mostar had five, and Pro Credit banka Sarajevo had six organizational units.

Banks with their headquarters located in RS had six organizational units in the territory of Federation BiH, and they are Zepter Komerc banka a.d. Banja Luka having one, Nova Banjalucka banka a.d. Banja Luka having one, and Nova banka a.d. Bijeljina having four organizational units.

Bankruptcy procedures under the court authority were continued in four banks; all RS banks and branch offices of Federation banks had internal payment operation licenses.

Four RS banks had been licensed by the Deposit Insurance Agency (VB banka a.d. Banja Luka, Zepter Komerc banka a.d. Banja Luka, Razvojna banka Jugoistocne Evrope a.d. Banja Luka, and Bobar banka a.d. Bijeljina).

2.1. Ownership Structure

Based on banks' reports as of March 31, 2004 shareholders' capital amounted to KM 208,726 and was the same as on December 31, 2003, however, its structure changed since private capital increased by the same amount by which cooperative capital decreased.

The state owned capital remained at the same level and amounted to KM 2,724 thousand.

Shareholders' Capital Structure

(in 000 KM)

Order number	Bank	Private Capital		State Owned Capital		Cooperative Capital	
		Amount	%	Amount	%	Amount	%
I	<u>Majority Private Capital</u>						
1.	Nova Banjalucka banka a.d.	23,971	93	1,370	5	621	2
2.	Hypo Alpe-Adria-Bank a.d.	43,937	100	0	0	26	0
3.	Privredna banka a.d. Srpsko Sarajevo	15,562	99	0	0	95	1
4.	Razvojna banka Jugoistocne Evrope a.d.	18,555	93	1,354	7	0	0
5.	Nova banka a.d.	16,527	96	0	0	474	3
6.	Bobar banka a.d.	15,072	100	0	0	0	0
7.	VB banka a.d.	16,819	100	0	0	0	0
8.	Zepter Komerc banka a.d.	17,569	100	0	0	0	0
9.	Balkan Investment Bank a.d.	18.000	100	0	0	0	0
10.	Pavlovic International Bank a.d.	18.453	98	0	0	321	2
II	TOTAL:	204.465	98	2.724	1	1.537	1

Peer-Groups' Shares in Total Assets

(in 000 KM)

AMOUNT OF ASSETS	31.12.2003			31.03.2004		
	Amount	%	Number of banks	Amount	%	Number of banks
Over 150	743,088	59	3	780,415	58	3
100 to 150	258,287	20	2	394,614	30	3
50 to 100	152,056	12	2	54,654	4	1
25 to 50	110,568	9	3	106,252	8	3
Under 25						
TOTAL:	1,263,999	100	10	1,353,935	100	10

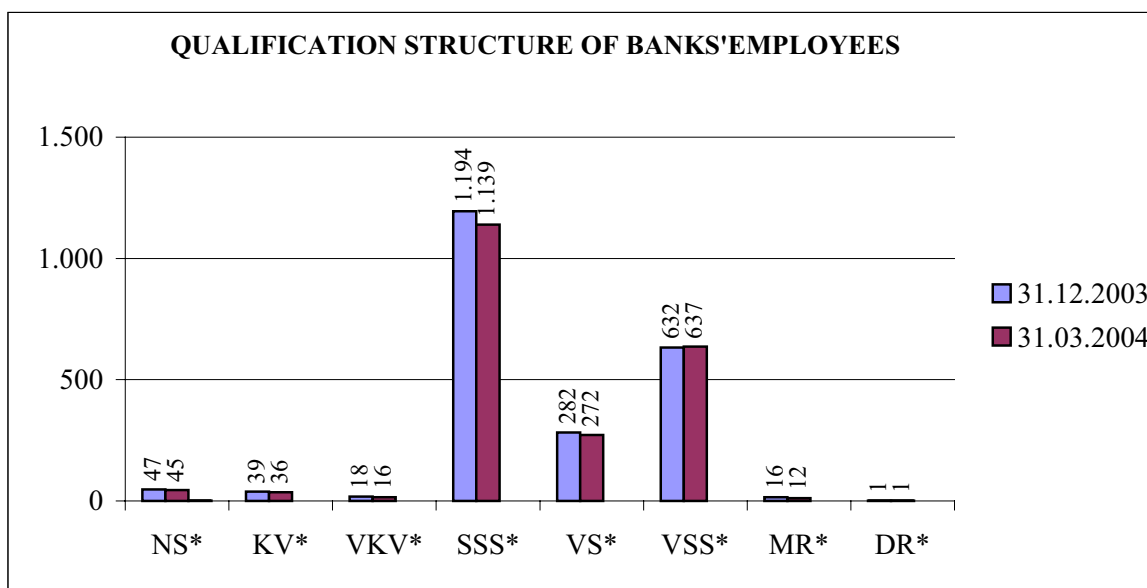
Based on March 31, 2004 data for individual peer groups' shares in total assets there were: three banks in the group having assets over KM 150 million whose share amounted to 58% of total assets, three banks in the group having assets of Km 100-150 million, one bank with assets of KM 50-100 million, and three banks in the group having assets of KM 25-50 million. In comparison with the previous period it can be noticed that assets increased in banks, thus three banks representing 30% entered the range of KM 100-150 million, and none of the banks remained in the group with assets of under KM 25 million.

2.2. Staff

As of March 31, 2004 the RS banks had 2,158 employees, which was by 3% less than on December 31, 2003. Number of college graduated employees increased, while other categories decreased.

Staff Qualification Structure

Order number	Qualification	31.12.2003	%	31.03.2004	%	INDEX 2003/2002
1.	Non-Skilled	47	2	45	2	96
2.	Skilled	39	2	36	2	92
3.	Highly Skilled	18	1	16	1	89
4.	Secondary School	1.194	54	1,139	53	95
5.	Junior College	282	13	272	13	96
6.	College - Graduated	632	28	637	29	101
7.	Master Degree	16	0	12	0	75
8.	D. Sc.	1	0	1	0	100
	TOTAL:	2.229	100	2,158	100	97



One of indicators of a successful banking system, and individual banks, is ratio between assets and number of employees, meaning the larger the ratio, the larger the success of both individual banks and the system as a whole.

Assets per Employee

DATE	Number of Employees	Assets (000 KM)	Assets per Employee (000 KM)
31.12.2003	2,229	1,263,999	567
31.03.2004	2,158	1,335,935	619

As of March 31, 2004 assets per employee amounted to KM 619 thousand, and, compared to December 31, 2003 numbers, increased by 9%, indicating more profitable and better quality operation of banks, although international standards related to the assets per employee ratio have not been reached, yet (over KM 1.0 million per employee).

The assets-per-employee ratio in individual banks ranged from KM 166 thousand to KM 1,797 thousand.

In two RS banks, assets per employee exceeded KM 1.0 million, while the smallest amount of assets per employee was found in the bank under PA.

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 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' operational results submitted on a three-month basis (Income Statement and Cash Flow).
4. Daily, ten-day period, and monthly reports on liquidity, etc.

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

As of March 31, 2004 the RS banks' balance sheet assets amounted to KM 1,336million, and increased by 6% compared to December 31, 2003.

Balance Sheet

DESCRIPTION/PERIOD	AMOUNT (000 KM)				INDEX
	31.12.2003		31.03.2004		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY):					
1. Cash Funds	378,220	30	366,124	28	97
2. Trading Securities	2,264	0	3,117	0	138
3. Placements to other banks	3,385	0	3,893	0	115
4. Loans	728,165	58	804,232	60	110
5. Securities held up to maturity	541	0	541	0	100
6. Premises and Other Fixed Assets	110,069	9	110,655	8	101
7. Other Assets	41,355	3	47,373	4	115
8. TOTAL ASSETS	1,263,999	100	1,335,935	100	106
9. Total Off-Balance Sheet (10+11+12)	325,223		351,520		108
10. Active Off-Balance Sheet	134,143		149,289		111
11. Classified Assets-Loss E	140,751		149,068		106
12. Fees for Agent and Other Operation	50,329		53,163		106
13. TOTAL ASSETS (8+9)	1,589,222		1,687,455		106
LIABILITIES (COMMITMENTS):					
14. Deposits	950,060	75	1,003,900	75	106
15. Borrowings	545	0	542	0	99
16. Obligations Based on Loans	59,634	5	76,248	6	128
17. Subordinated Debt	1,898	0	1,854	0	98
18. Other Commitments	15,558	1	24,581	2	158
19. Required Reserves for Potential Loss	51,285	4	49,343	4	96
20. Capital	185,019	15	179,467	13	97
21. TOTAL LIABILITIES (COMMITMENTS AND CAPITAL)	1,263,999	100	1,335,935	100	106
22. Total Off-Balance Sheet (22+23+24)	325,223		351,520		108
23. Active Off-Balance Sheet	134,143		149,289		111
24. Classified Assets-Loss "E"	140,751		149,068		106
25. Agent Fees	50,329		53,163		106
26. TOTAL LIABILITIES (20+21)	1,589,222		1,687,455		106

In the structure of assets all categories recorded an increase except for cash funds, which decreased by 3%.

Off-balance sheet increased by 8% and amounted to KM 352 million, while the largest increase of 11% was recorded in active off-balance sheet, category “E” increased by 6%, the same as agent fees (6%).

3.1.1. Liabilities

Banks’ balance sheet as of March 31, 2004 can be seen in the following table showing composition of liabilities, i.e. commitments and capital items:

Liabilities Structure

DESCRIPTION/PERIOD	AMOUNT (000KM)				INDEX
	31.12.2003		31.12.2003		
	Amount	%	Amount	%	
1	4	5	4	5	6=4/2
LIABILITIES (COMMITMENTS):					
1.Deposits	950,060	75	1,003,900	75	106
2.Borrowings	545	0	542	0	99
3.Obligations based on loans	59,634	5	76,248	6	128
4. Subordinated debt	1,898	0	1,854	0	98
5.Other obligations	15,558	1	24,581	2	158
6.Reserves required for potential loss	51,285	4	49,343	4	96
7.Capital	185,019	15	179,467	13	97
TOTAL LIABILITIES (COMMITMENTS AND CAPITAL):	1,263,999	100	1,335,935	100	106

Liability structure consisted of obligations amounting to 83%, and capital with special reserves for potential losses amounted to 17%.

If compared to December 31, 2003, the amount of obligations increased, while capital with reserves decreased, which resulted from increasing deposits, loans taken, and other obligations, while capital itself was still under significant influence of “inherited” losses from the pre-privatization condition of banks.

3.1.1.1. Capital and Capital Adequacy

Capital

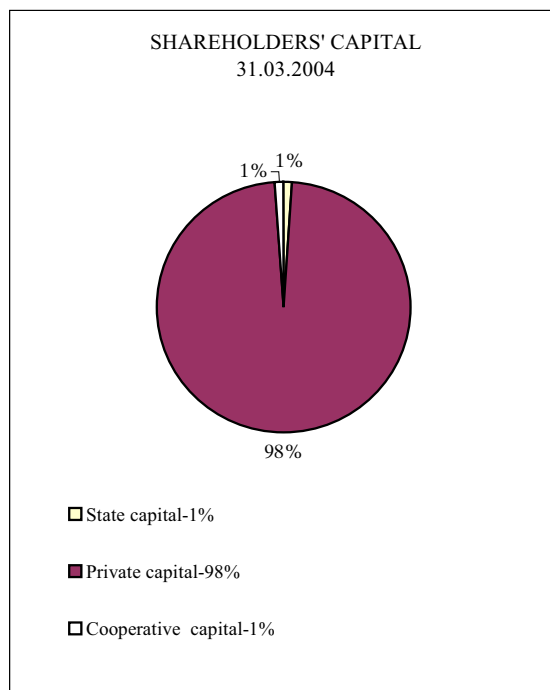
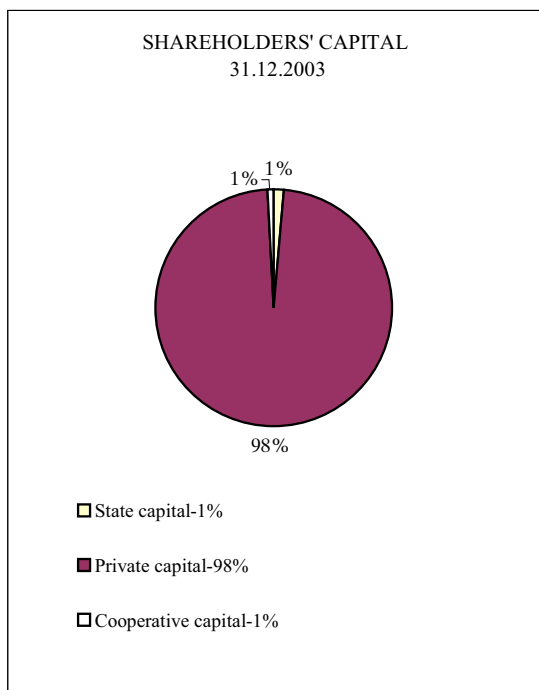
DESCRIPTION/PERIOD	31.12.2003	31.03.2004	Index
1	2	3	4=3/2
1. BANK'S CORE CAPITAL			
1.1 Shareholders' Capital	208,726	208,726	100
1.2 Legally Required Reserves	11,323	11,861	105
1.3 Other Reserves	15,887	15,964	100
1.4 Undistributed Earnings	2,622	7,808	298
1.a. Total (1.1 to 1.4)	238,558	244,359	102
1.5 Uncovered Losses from Previous Years	35,955	67,650	188
1.6 Current Year Loss	28,061	1,197	4
1.7 Amount of Intangible Property	5,429	6,419	118
1.b. Total (1.5 to 1.7)			
1. AMOUNT OF CORE CAPITAL (1a-1b)	169,113	169,093	100
2. BANK'S ADDITIONAL CAPITAL			
2.1 Amount of General Reserves for A	17,306	18,469	107
2.2 Current Earnings	6,854	0	0
2.3 Amount of Profit – Distribution Temporarily Stopped	0	0	0
2.4 Amount of Subordinated Debts Maximum 50% of Core Capital	1,898	1,855	98
2.5 Amount of Permanent Obligations Not to Be Repaid	17,944	17,426	97
2. AMOUNT OF ADDITIONAL CAPITAL:	44,002	37,750	86
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL:			
3.1 Bank's Investments in Other Legal Persons' Capital Exceeding 5% of Bank's Core Capital	3,220	3,272	102
3. AMOUNT OF DEDUCTIBLE ITEMS:	3,220	3,272	102
4. BANK'S NET CAPITAL (1+2-3):	209,895	203,571	97

Core capital amounted to KM 169,093 and compared to December 31, 2003 it decreased by KM 20 thousand. Analyzing core capital composition it can be seen that shareholders' capital remained at the same level, legal reserves increased by 5%, and undistributed earnings increased by 198%. However, the growth of undistributed earnings could not make a significant impact on increase of core capital, since uncovered losses from previous years increased by 88%, and intangible property increased by 18%.

Additional capital decreased by 14%, and items deductible from capital increased by 2%, thus decreasing net capital by 3%.

Shareholders' Capital Structure

SHAREHOLDERS' CAPITAL	31.12.2003		31.03.2004		INDEX %
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
1. State-Owned Capital	2,724	1	2,724	1	100
2. Private Capital	204,231	75	204,465	98	100
2.1. Foreign Capital	152,718	25	148,562	73	97
2.2. Domestic Capital	51,513	1	55,903	27	109
3. Cooperative Capital	1,771	1	1,537	1	87
TOTAL (1+2+3):	208,726	100	208,726	100	100



As of March 31, 2004 the ownership structure related to state-owned, private, and cooperative capital was the following: state-owned capital share was 1% and it did not change compared to December 31, 2003, private capital share was 98%, and cooperative capital share was 1% and decreased by 35%.

Private shareholders' capital consisted of 73% of foreign investors' capital, and decreased by 3% compared to December 31, 2003, and 27% of domestic investors' capital, which increased by 9%.

A significant indicator when rating capital is capital adequacy rate, which actually represents a ratio between net capital and total risk assets, and should be at least 12%. Average capital adequacy for RS banks in this reporting period amounted to 21%, and decreased by 12% compared to December 31, 2003.

Capital Adequacy

	31.12.2002	31.12.2003	31.03.2004	Index	
1	2	3	4	5=4/2	6=4/3
Net Capital	196,863	209,895	203,571	103	97
Total Risk Assets	822,355	870,085	956,144	116	110
Capital Adequacy	24%	24%	21%	88	88

Other capital ratios are shown in the following table:

Capital Ratios

in 000 KM

DESCRIPTION/PERIOD		31.12.2003	31.03.2004
1.	Net Capital	209,895	203,571
	Total Assets	1,263,999	1,335,935
	%	17	15
2.	Shareholders' Capital	208,726	208,726
	Total Assets	1,263,999	1,335,935
	%	17	16
3.	Core Capital	169,113	169,093
	Total Risk Assets	870,085	956,144
	%	19	18
4.	Total Capital	213,115	206,843
	Total Risk Assets	870,085	956,144
	%	24	22
5.	Net Loans	697,559	776,838
	Total Capital	213,115	206,843
	%	327	376

Capital Ratios Table indicates that net capital grew slower than total assets, and that particular ratio recorded significant decrease. The same situation was with shareholders' capital to total assets ratio, and core capital and total capital to total risk assets. That was especially emphasized with net loans to total capital ratio, since in the first three months total loans recorded an increase of 10% and capital decreased by 3%. With approximately the same level of loan loss reserves the result was an abrupt increase of the ratio.

It should be pointed out that non-revised profit of the current period was not included in the calculation of total capital, which made the listed ratio look even worse.

3.1.1.2 Deposits

Deposit Structure per Sectors

(in 000 KM)

DEPOSITS	31.12.2003		31.03.2004		Index
	Amount	%	Amount	%	
Government and Government Institutions	171,268	18	171,691	17	100
Public and State Enterprises	69,199	7	74,485	7	108
Private Enterprises and Associations	139,227	15	143,151	14	103
Non-Profit Organizations	10,885	1	16,178	2	149
Banks and Banking Institutions	295,444	31	287,227	29	97
Non-Banking Financial Institutions	15,769	2	17,185	2	109
Citizens	226,794	24	271,187	27	120
Other	21,474	2	22,796	2	106
TOTAL:	950,060	100	1,003,900	100	106

Deposits increased by 6% compared to December 31, 2003.

The largest share within deposit structure consisted of deposits of banking institutions, but they decreased by 3% compared to December 31, 2003. Share of citizens' deposits amounted to 27%, and increased by 20%. Private companies' deposits decreased in the total structure, but compared to December 31, 2003 increased by 3%.

The government institutions' deposits remained at the same level, while public and state owned enterprises' deposits increased by 8%.

Deposit Structure per Currency

(in KM million)

DEPOSITS	31.12.2003		31.03.2004		INDEX
	Amount	%	Amount	%	
Deposits in KM	497,1	52	518,5	52	104
Deposits in foreign currency	453,0	48	485,4	48	107
TOTAL	950,1	100	1,003,9	100	106

Looking at the currency based deposit structure it can be seen that the structure itself did not change, except that domestic currency deposits increased by 4%, while deposits in foreign currency increased by 7%.

Term Deposit Structure

(in 000 KM)

DEPOSITS	31.12.2003		31.03.2004		INDEX
	Amount	%	Amount	%	
Savings and Deposits on Demand	472.298	50	498,620	50	106
Up to 3 months	104.526	11	84,206	8	81
Up to 1 year	88.439	9	122,007	12	138
1. Total Short-Term	665.263	70	704,833	70	106
Up to 3 years	41.943	4	46,683	5	111
Over 3 years	242.854	26	252,384	25	104
2. Total Long-Term	284.797	30	299,067	30	105
TOTAL (1+2)	950.060	100	1,003,900	100	106

Based on the term deposit structure shown above, it can be seen that short-term deposits amounted to 70% of total deposits and increased by 6%, while share of long-term deposits amounted to 30%, of total deposits and increased by 5%.

Citizens' Savings and Loans

No.	DESCRIPTION/PERIOD	31.12.2003	31.03.2004	Index
1	2	3	4	5=4/3
1.	Loans to Citizens	299,530	325,488	109
2.	Citizens' Savings	215,738	256,194	119
3.	Savings/Loans	139%	127%	

Looking at the above figures for citizens' savings and loans to citizens, it can be seen that savings increased faster than loans, and that the citizens' loans/deposits ratio was better compared to December 31, 2003.

Deposits in Branch Offices of Banks from Federation BH

No.	DESCRIPTION/PERIOD	31.12.2003	%	31.03.2004	%	Index
1	2	3	4	5	6	7=5/3
1.	Short-term deposits					
a.	Government	140	0	88	0	63
b.	Economy	22,420	28	41,213	36	184
v.	Banks and other financial institutions	0	0	0	0	0
g.	Citizens	44,190	56	60,454	53	137
d.	Other	431	1	467	0	108
	TOTAL (1)	67,181	85	102,222	89	152
2.	Long-term deposits					
a.	Government	0	0	0	0	0
b.	Economy	2,000	3	2,000	2	100
v.	Banks and other financial institutions	0	0	0	0	0
g.	Citizens	9,793	12	10,501	9	107
d.	Other	0	0	0	0	0
	TOTAL (2)	11,793	15	12,501	11	106
	GRAND TOTAL (1.+2.)	78,974	100	114,723	100	145

Deposits held in branch offices of banks having their headquarters in federation BH amounted to KM 115 million, which was 10% of total deposits in RS, where KM 102 million were short-term loans (13% of total RS short-term deposits) and KM 12 million were long-term deposits (4% of total RS long-term deposits). Those deposits were not included in total amount of RS deposits, since they were included in their mother-banks' records in Federation BH. On the other hand, deposits held by RS banks' branch -offices operating in Federation BH were included in the total amount of RS deposits, and they amounted to KM 1,805 thousand of short-term, and KM 899 thousand of long-term deposits.

3.1.1.3. Banks' 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.

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 are given in the following table:

(in 000 KM)

DESCRIPTION/PERIOD		31.12.2003	31.03.2004
1.	Short Term Assets/	640,814	611,782
	Short Term Liabilities	673,999	721,517
	%	95	85
2.	Short Term Assets/	640,814	611,782
	Total Assets	1,263,999	1,335,935
	%	51	46
3.	Short Term Liabilities/	673,999	721,517
	Total Assets	1,263,999	1,335,935
	%	53	54
4.	Net Short Term Liabilities/	33,185	109,735
	Total Assets	1,263,999	1,335,935
	%	3	8
5.	Net Loans/	697,559	776,838
	Deposits	950,060	1,003,900
	%	73	77
6.	Net Loans and Financial Commitments; Letters of Credit/	707,439	787,717
	Total Assets	1,263,999	1,335,935
	%	56	59

Liquidity ratios had a decreasing trend compared to 2003. Banks' short-term obligations were covered 85% by short-term receivables. Net loans increased faster than deposits. Short-term assets had falling tendency due to increasing long-term loans compared to short-term loans.

3.1.2 Assets

Active Assets Structure

DESCRIPTION/PERIOD	AMOUNT (000KM)				INDEX
	31.12.2003		31.03.2004		
	Amount	Amount	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY) :					
1. Cash Funds	378,220	30	366,124	28	97
2. Trading Securities	2,264	0	3,117	0	138
3. Placements to other banks	3,385	0	3,893	0	115
4. Loans	728,165	58	804,232	60	110
5. Securities held up to maturity	541	0	541	0	100
6. Premises and Other Fixed Assets	110,069	9	110,655	8	101
7. Other Assets	41,355	3	47,373	4	115
8. TOTAL ASSETS	1,263,999	100	1,335,935	100	106

As of March 31, 2004 total assets amounted to KM 1,336 million, and increased by 6% compared to December 31, 2003. The structure of assets consisted of 28% of cash funds showing a decrease of 3%, loans 60% with an increase of 10%, offices and fixed assets 8% with an increase of 1%, and other assets 4% with an increase of 15%.

Off-Balance Sheet Assets Structure

DESCRIPTION/PERIOD	AMOUNT (000KM)				Index
	31.12.2003		31.03.2004		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
1. Active Off-balance Sheet Items	134,143	100	149,289	100	111
- Irrevocable lending Obligations	28,191	21	16,106	11	57
- Foreign Checks Sent for Collection	50	0	304	0	608
- Irrevocable Documentary L/C	4,517	3	10,289	7	228
- Other L/C for Payments Abroad	5,363	4	590	0	11
- Guarantees Issued	95,158	71	119,867	80	126
- Bills and Sureties Issued	853	1	761	1	89
- Nostro financially active – collection in process	0	0	0	0	0
- Current Agreements for FC Transactions	0	0	3	0	0
- Other Off-Balance Sheet Items	11	0	1,369	1	12,445
2. Classified Assets – Loss E	140,751		149,068		106
3. Agent Based Activities	50,329		53,163		106
4. TOTAL	325,223		351,520		108

Off-balance sheet assets amounted to KM 352 million, and increased by 8%, and the largest amounts in the structure itself were those related to guarantees issued and irrevocable lending obligations. The largest increase was recorded with irrevocable documentary letters of credit in an amount of 128%, guaranties issued 26%, foreign checks sent for collection 508%, and other off-balance sheet items, but those two items did not represent a significant percentage in the structure. Assets classified in category “E”- loss and agent-based activities increased by 6%.

3.1.2.1. Cash Funds

Cash Funds Structure

(in 000 KM)

DESCRIPTION	31.12.2003		31.03.2004		Index
	Total	%	Total	%	
1	2	3	4	5	6=4/2
<i>KM</i>					
Cash Funds	32,795	9	35,895	10	109
Reserve Accounts at CBBH	160,791	42	114,790	31	71
Deposit Accounts at BH Depository Institutions	7,008	2	49,410	14	705
Deposit Accounts at Depository Institutions Abroad	0	0	0	0	0
Cash Funds in Process of Collecting	0	0	0	0	0
Non-Repaid Debts	0	0	0	0	0
TOTAL:	200,594	53	200,095	55	100
<i>FOREIGN CURRENCY</i>					
Cash Funds	37,085	10	27,544	8	74
Reserve Account at CBBH	0	0	0	0	0
Deposit Accounts at Depository Institutions in BH	695	0	866	0	125
Deposit Accounts at Depository Institutions Abroad	137,734	36	129,114	35	94
Cash Funds in Process of Collecting	2,112	1	8,505	2	403
Non-Repaid Debts	0	0	0	0	0
TOTAL:	177,626	47	166,029	45	93
GRAND TOTAL:	378,220	100	366,124	100	97

Cash funds composition shows that cash funds in domestic currency amounted to KM 200 million or 55%, while foreign currency cash funds amounted to KM 166 million or 45%.

Domestic currency was mostly held in gyro-accounts, while foreign currency was deposited with foreign depository institutions. Banks held a part of foreign currency cash funds in accounts for the sake of their clients having obligations to make payments abroad, while the other part was term-deposited since there were no prospects of placing them to domestic clients.

Cash funds in KM remained at the same level, while foreign currency cash funds decreased by 7%.

3.1.2.2. Loans

Loans represented 58% of assets composition, and increased by 39% compared to December 31, 2003.

Structure of Total Loans Per Sectors

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2003	%	31.03.2004	%	Index
1	2	3	4	5	6	7=5/3
1.	Government institutions	7,550	1	8,758	1	116
2.	Public and state enterprises	62,975	9	79,586	10	126
3.	Private companies and associations	337,264	47	370,593	46	110
4.	Nonprofit organizations	1,355	0	1,363	0	101
5.	Banks	926	0	1,156	0	125
6.	Non-bank financial institution	1,962	0	2,370	0	121
7.	Citizens	299,530	41	325,488	41	109
8.	Other	16,603	2	14,918	2	90
9.	TOTAL:	728,165	100	804,232	100	110

The structure of loans consisted of 46% of loans to private enterprises, 41% of loans to citizens, 11% of loans to Government and state owned enterprises, and 2% of other loans.

All categories of loans recorded increase, except for other loans, which decreased by 10%. Absolutely the largest increase was recorded with loans to private enterprises and loans to citizens, while loans to public and state enterprises increased by 26%, representing a share of 10% in the whole structure.

Compared to December 31, 2003 loan term structure was the following:

Loan Term Structure

(in 000 KM)

No	DESCRIPTION	Short Term < 1 year		Index	Long Term > 1 year		Index	Receivables Due		Index	Total		Index
		31.12. 2003	31.03. 2004		31.12. 2003	31.03. 2004		31.12. 2003	31.03. 2004		31.12. 2003	31.03. 2004	
		1.	Government institutions	1,435	1,174	82	6,053	7,525	124	62	59	95	7,550
2.	Public and state enterprises	23,636	19,682	83	26,862	41,272	154	12,477	18,632	149	62,975	79,586	126
3.	Private companies and associations	167,512	187,053	112	137,622	148,611	108	32,130	34,929	109	337,264	370,593	110
4.	Nonprofit organizations	1,053	1,200	114	162	0	0	140	163	116	1,355	1,363	101
5.	Banks	105	348	331	328	297	0	493	511	104	926	1,156	125
6.	Non-bank financial institution	268	510	190	1,694	1,827	108	0	33	0	1,962	2,370	121
7.	Citizens	56,460	23,615	42	240,892	299,246	124	2,178	2,627	121	299,530	325,488	109
8.	Other	9,861	8,959	91	3,342	3,958	118	3,400	2,001	59	16,603	14,918	90
9.	TOTAL	260,330	242,541	93	416,955	502,736	121	50,880	58,955	116	728,165	804,232	110

Short-term loans amounted to KM 243 million and decreased by 7%, long-term loans amounted to KM 503 million and increased by 21%. Taking into consideration the amount of KM 299 million of long terms deposits, it is obvious that banks lacked long-term financing sources, and placed a significant portion of short-term funds as long term ones.

Within the short-term loan structure the largest share represented loans extended to private companies, which increased by 12%, and loans to citizens, which increased by 58%.

Within the long-term loan structure loans extended to citizens represented the largest share with an increase of 24%, and loans extended to private companies, which increased by 8%. A significant increase was with loans extended to public and state owned enterprises amounting to 54%, and to Government and Government Institutions amounting to 24%.

Receivables due increased by 16%, and their largest share was related to loans extended to private companies, and public and state enterprises. Receivables due related to loans to citizens increased by 21%, while receivables due related to other loans decreased by 41%.

Loans Extended by Federation BH Banks' Operational Units

No.	DESCRIPTION/PERIOD	31.12.2003	%	31.03.2004	%	Index
1	2	3	4	5	6	7=5/3
1.	Short term Loans					
a.	Government institutions	100	0	80	0	80
b.	Economy	8,362	6	9,846	7	118
c.	Banks and other financial institutions	0	0	0	0	0
d.	Citizens	4,716	4	6,034	4	128
e.	Other	355	0	407	0	115
9.	TOTAL:	13,533	10	16,367	11	121
2.	Long term Loans					
a.	Government institutions	0	0	0	0	0
b.	Economy	10,802	8	16,132	11	149
c.	Banks and other financial institutions	0	0	0	0	0
d.	Citizens	107,011	82	111,579	78	104
e.	Other	0	0	0	0	0
	TOTAL (2)	117,813	90	127,711	89	108
	GRAND TOTAL (1. + 2.)	131,346	100	144,078	100	110

Organizational units of banks having their headquarters in Federation BH extended loans in an amount of KM 144 million or 15% of total loans placed in RS, out of which long-term loans in an amount of KM 128 million or 20% of total long-term loans in RS, and KM 16 million or 5% of short-term loans.

Comparing the amounts of deposits gathered in the RS territory and loans extended it can be concluded that the deposits covered 80% of loans.

RS banks' branch offices placed KM 2,171 thousand of short-term loans, and KM 454 thousand of long-term loans in the territory of Federation BH.

3.1.2.3. Assets 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 000KM -

BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS	31.12.2003	31.03.2004	INDEX
1. Short-term Loans	218,196	242,539	111
2. Long-Term Loans	455,681	502,737	110
3. Other Placements	60,026	47,819	80
4. Accrued Interest	5,147	5,931	115
5. Receivables Due	50,277	58,304	116
6. Paid Guarantee based Receivables	1,126	965	86
7. Other Assets	473,546	477,640	101
8. TOTAL BALANCE SHEET ASSET ITEMS:	1,263,999	1,335,935	106
9. General Loan Risk and Potential Loan Loss	46,500	44,295	95
10. Already Separated General Reserve and Special Reserve	46,813	44,462	95
11. Balance 10.-9.	313	167	53
12a. Payable Guarantees	65,720	87,820	134
12b. Performance Guarantees	29,214	32,047	110
13. Non-Covered Letters of Credit	9,841	10,859	110
14. Irrevocable Loan based Commitments	28,188	16,090	57
15. Other Potential Commitments	1,181	2,474	209
16. TOTAL OFF-BALANCE SHEET ITEMS:	134,144	149,290	111
17. General Loan Risk and Potential Loan Loss	4,443	4,899	110
18. Already Separated General Reserves and Special Reserves	4,472	4,880	109
19. Balance 18.-17.	28	-19	-68
20. TOTAL BALANCE SHEET AND OFF-BALANCE SHEET	1,398,143	1,485,225	106
21. General Loan Risk and Potential Loan Loss	50,943	49,192	97
22. Already Separated General Reserves and Special Reserves	51,285	49,342	96
23. OVERAGE of Separated Reserves	344	151	44
SHORTAGE of Separated Reserves	2	1	50
24. ASSETS for which reserves are NOT separated (A category)	399,422	413,963	104
25. TOTAL ASSETS for which reserves ARE separated (20-24)	998,721	1,071,262	107

Total assets for which reserves are separated amounted to KM 1,071 million, and increased by 7% in comparison with the amount as of December 31, 2003. The balance sheet assets increased by 6%, and off-balance sheet increased by 11%.

Long-term loans represented the largest item of risk assets amounting to 38%, short-term loans amounted to 18%, other assets 36%, and receivables due 4%.

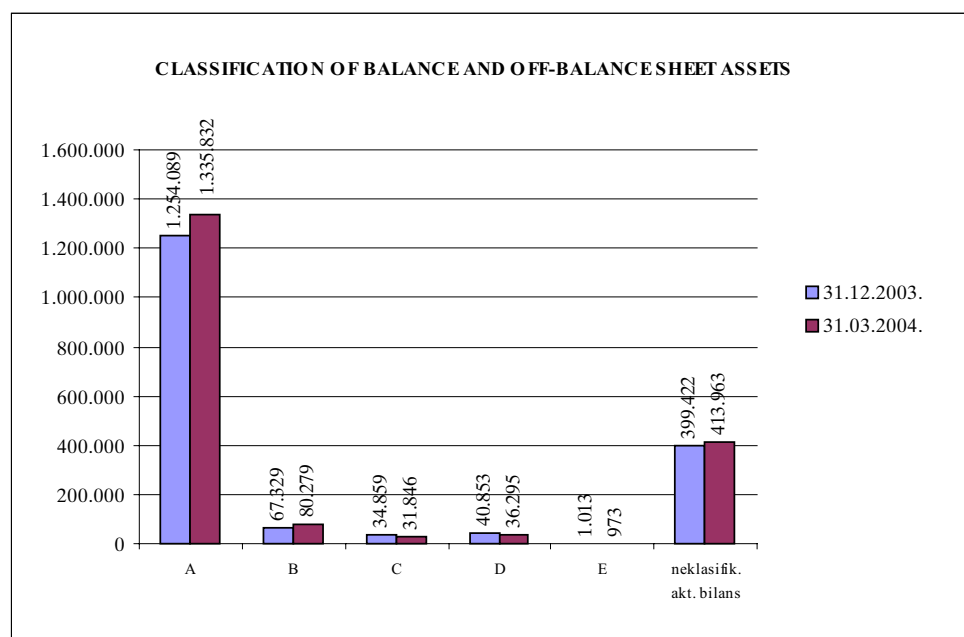
Compared to December 31, 2003, long-term loans increased by 11% and short-term loans by 10%, receivables due 16%, accrued interest 15%, and other asset items 1%. Analyzing off-balance sheet asset items it can be seen that guarantees payable increased by 34%, performance guarantees 10%, uncovered L/C 10%. Only irrevocable loan payables decreased by 43%.

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

Classification of banks' balance sheet and off-balance sheet assets as of March 31, 2004 can be seen in the following table:

(in 000 KM)

BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS	A	B	C	D	E	TOTAL
1. Short-term Loans	214,013	24,369	2,969	1,188	0	242,539
2. Long-Term Loans	448,181	30,553	17,065	6,938	0	502,737
3. Other Placements	47,545	78	112	84	0	47,819
4. Accrued Interest	3,497	2,401	17	16	0	5,931
5. Receivables Due	8,819	15,272	8,008	26,205	0	58,304
6. Paid Guarantee based Receivables	26	0	325	614	0	965
7. Other Assets	475,558	704	943	435	0	477,640
8. TOTAL BALANCE SHEET ASSET ITEMS:	1,197,639	73,377	29,439	35,480	0	1,335,935
9. General Loan Risk and Potential Loan Loss	15,887	5,393	6,206	16,809	0	44,295
10. Already Separated General Reserve and Special Reserve	15,938	5,396	6,208	16,920	0	44,462
11. Balance 10.-9.	51	3	2	111	0	167
12.a) Payable Guarantees	81,259	3,514	1,348	814	885	87,820
b) Performance Guarantees	30,110	1,040	809	0	88	32,047
13. Non-Covered Letters of Credit	10,859	0	0	0	0	10,859
14. Irrevocable Loan based Commitments	13,979	1,860	250	1	0	16,090
15. Other Potential Commitments	1,986	488	0	0	0	2,474
16. TOTAL OFF-BALANCE SHEET ITEMS:	138,193	6,902	2,407	815	973	149,290
17. General Loan Risk and Potential Loan Loss	2,551	432	544	399	973	4,899
18. Already Separated General Reserves and Special Reserves	2,532	432	544	399	973	4,880
19. Balance 18.-17.	-19	0	0	0	0	- 19
20. TOTAL BALANCE SHEET & OFF-BALANCE SHEET ITEMS (8 + 13)	1,335,832	80,279	31,846	36,295	973	1,485,225
21. General Loan Risk and Potential Loan Loss	18,436	5,825	6,750	17,208	973	49,192
22. Already Separated General Reserve and Special Reserve	18,470	5,828	6,752	17,319	973	49,342
23. OVERAGE of Separated Reserves	35	3	2	111	0	151
SHORTAGE of Separated Reserves	1	0	0	0	0	1
24. ASSETS for which reserves are NOT separated (category A)	413,963					413,963
25. TOTAL ASSETS for which reserves ARE separated (2-24)	921,869	80,279	31,846	36,295	973	1,071,262



(in 000 KM)

Classification Category	31.12.2003	%	31.03.2004	%	INDEX
A	1,254,089	90	1,335,832	90	107
B	67,329	5	80,279	6	119
C	34,859	2	31,846	2	91
D	40,853	3	36,295	2	89
E	1,013	0	973	0	96
TOTAL CLASSIFIED ASSETS:	1,398,143	100	1,485,225	100	106
MINUS: Assets for which reserves are NOT separated (category A)	399,422		413,963		104
TOTAL ASSETS for which reserves ARE calculated	998,721		1,071,262		106
Required potential loan loss general reserves (A)	17,093		18,436		108
Already established general reserve (A)	17,306		18,470		107
Balance for A:	213		34		
Required special reserves for potential loan loss (B-E)	33,850		30,756		91
Already separated special reserves (B-E)	33,979		30,872		91
Balance for (B-E):	129		116		

As per the above classification structure, the largest share amounting to 90% was made by assets classified in category "A", which compared to December 31, 2003 increased by 7%. The share of assets classified as "B" amounted to 6% and increased by 1%, category "C" amounted to 2% and decreased by 9%, category "D" amounted to 2% and decreased by 11%, while category "E" decreased by 4% and its share in the structure was quite insignificant. Assets for which reserves are not calculated amounted to KM 44 million, and increased by 4%, while assets for which reserves are calculated amounted to KM 1,071 million, and increased by 6%. Calculated special reserves for assets classified as categories of risk from "B" to "E" totaled KM 30,765 thousand, while total established reserves amounted to KM 30,872 thousand, indicating that banks separated an amount larger by KM 116 thousand than calculated reserves.

Asset Quality Ratios

- in 000 KM -

DESCRIPTION/PERIOD	31.12.2003	31.03.2004
1, Loans Due/	50,880	58,955
Total Loans	728,165	804,232
%	7	7
2, Loans Due/	50,880	58,955
Potential Loss Reserve	30,606	27,394
%	166	215
3, Loans Due/	50,880	58,955
Total Capital	213,115	206,843
%	24	29
4, Classified Assets/	998,714	1,071,262
Total Capital	213,115	206,843
%	469	518
5, Potential Loss/	30,606	27,394
Total Loans	728,165	804,232
%	4	3
6, Total Risk Assets	870,085	956,144
Total Assets	1,263,999	1,335,935
%	69	72

Analyzing the above presented asset quality ratio it can be concluded that there was a slight deterioration in some ratios, and that was especially shown in the ratio classified assets for which reserves are calculated over total capital.

Assets trend of increase was faster than in banks' capital, which was lowered by losses from the previous period. The ratio will be improved after coverage of the loss from the previous period in accordance with the Action Plan by the end of 2006.

In the future period banks shall have to establish larger reserves for loan losses.

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 Supervisory 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;
- Total loans extended to all related person shall not exceed an amount of 40% of 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% of voting rights, as well as from Supervisory Board members, executive managers and officials of the bank.

Schedule of Loans Extended to Shareholders with over 5% of Voting Rights, Supervisory Board Members, Executive Managers and Bank's Employees

(in 000 KM)

DESCRIPTION	31.12.2003	%	31.03.2004	%	Index
1	2	3	4	5	6=4/2
Loans Extended To:					
1. Shareholders with over 5% of Voting Rights	10,336	837	10,096	285	98
2. Potential and taken off-balance sheet obligations	18	0	257	2	1,428
3. Supervisory Board Members	1,011	8	513	4	51
4. Executive Managers	1,092	9	1,023	9	94
5. Total receivables from related persons(1 to 4)	12,457	100	11,889	100	95
6. Banks' Employees	9,316		10,069		108
7. GRAND TOTAL (5+6)	21,773		21,958		101

As of March 31, 2004 loans extended to related persons decreased by 5% compared to December 31, 2003.

Loans extended to shareholders amounted to 47%, which means that they decreased by 2%, but still represented the largest share in the structure, followed by loans extended to management, which amounted to 9% recording a decrease of 6%.

Loans extended to Supervisory Board members decreased by 49%, while loans extended to banks' employees increased by 8%.

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 8%. Compared to December 31, 2003 fixed assets increased by 1%.

Five banks exceeded 50% of investment into fixed assets related to their core capital. It is expected that additional capitalization of banks and sale of office space will put that item within the legal framework in the coming period, since banks had submitted their action plans with precise time-schedules for such adjustments and the Agency approved them, which was the precondition for entering deposit insurance procedure.

3.1.2.6. Other Assets

Other assets, within the total asset structure, represented a share of 4% and compared to December 31, 2003 increased by 15%. 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), 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	31.03.2003		31.03.2004		INDEX
	Total	%	Total	%	
1	2	3	4	5	6=4/2
1. INTEREST INCOME AND SIMILAR INCOME					
a) Interest Income and Similar Income	14,114	36	19,403	49	137
b) Operating Income	25,354	64	20,583	51	81
2.TOTAL INCOME (1.a + 1.b)	39,468	100	39,986	100	101
3. EXPENSE					
a) Interest Expense and Similar Expense	3,475	8	6,623	18	191
b) Business Operation and Direct Expense	20,028	44	8,170	22	41
c) Operating Expense	21,802	48	22,406	60	103
4. TOTAL EXPENSE (3.a + 3.b + 3.c)	45,305	100	37,199	100	82
TOTAL:INCOME-EXPENSE (2.-4.)	-5,837		2,787		
PROFIT BEFORE TAX	1,854		3,984		215
LOSS	7,691		1,197		16
TAXES	4		30		750
NET-PROFIT	1,850		3,954		214

Banks' total income amounted to KM 40 million, increasing by 1% in comparison to the same period of the previous year.

Income structure consisted of 49% of interest income, which increased by 37%, and fee income, which decreased by 19%.

Although interest income recorded an increase, and operating income decreased, and operating income continued to amount to 51%.

Total expense amounted to KM 37 million and decreased by 18% compared to the same period of the previous year. The expense structure significantly changed and consisted of 18% of interest expense, with a rate of increase of 91%, which resulted from increased deposits and deposit interest rate, especially with term-deposits.

Direct expenses decreased by 59% in comparison to the same period of 2003, and operating expenses increased by 3%.

Profit before tax amounted almost to KM 3.9 million, increasing by 115%. Loss amounted to KM 1.2 million and decreased by 84%.

Net profit amounted to KM 3.9 million, and increased by 114%.

We can see that banks improved their financial result, and the Agency approved action plans for loss coverage to all banks that inherited large losses in the process of privatization, which was a precondition to enter deposit insurance procedure.

In the reporting period the bank under PA generated loss in an amount of KM 1.2 million, and nine banks had a positive financial result in an amount of KM 3,9 million. The banking system balance sheet loss amounted to KM 68.8 million, and it consisted of loss from the current year and non-covered loss from previous years.

Profitability Ratios

(in 000 KM)

DESCRIPTION/PERIOD		31.03.2003	31.03.2004
1.	Total Income/ Total Assets	157,872 949,677	159,944 1,335,935
	%	17	12
2.	Total Income / Total Capital	157,872 246,279	159,944 206,843
	%	64	77
3.	Total Expense/ Total Assets	181,220 949,677	148,796 1,335,935
	%	19	11
4.	Interest Income/ Total Assets	56,456 949,677	77,612 1,335,935
	%	6	6
5.	Interest Income/ Total Assets	13,900 949,677	26,492 1,335,935
	%	1	2
6.	Net Interest Income / Total Assets	42,556 949,677	51,120 1,335,935
	%	4	4
7.	Net Interest Expense/ Total Capital	42,556 246,279	51,120 206,843
	%	17	25
8.	Fees/ Total Assets	45,232 949,677	46,740 1,335,935
	%	5	3
9.	Material Expense and Gross Earnings/ Total Assets	87,208 949,677	89,624 1,335,935
	%	9	7
10.	Non-Interest Expense/ Total Assets	167,320 949,677	122,304 1,335,935
	%	18	9

Profitability ratios kept an increasing trend, although loss generated in the previous period still had a significant influence.

Profitability ratios calculated for the first quarter of 2004 indicated that income grew slower than assets, and expenses had a positive trend since they remained at the same level.

Interest expenses increased due to an increase of interest rate, especially those for term-deposits, and interest income remained at the same level, which resulted from lowered loan interest rate, since total loans, as a basis of interest calculation, significantly increased.

Analyzing total financial result of the banking sector in the first quarter of 2004 it is necessary to point out that the bank under provisional administration generated the current loss.

5. INTERNAL PAYMENT TRANSACTIONS

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

As of March 31, 2004 there were 97,135 transaction accounts opened.

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

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)
31.01.2004	467,330	1,198,578	400,276	410,769
29.02.2004	558,371	1,281,660	645,674	572,415
31.03.2004	672,049	1,627,008	786,609	685,714
TOTAL:	1,697,750	4,107,246	1,832,559	1,668,898

Related to the number of transactions and their value three banks from RS were placed among the 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 41% of total number of transactions or in value of an amount of KM 27%.

6. PREVENTION OF MONEY LAUNDERING AND FINANCING OF TERRORISM

All banks appointed persons in charge of prevention of money laundering and financing of terrorism at levels of both banks as institutions and individual departments in their organizational schemes. In accordance with the law and enactments all banks developed special programs, policies, and procedures for prevention of money laundering and financing of terrorism, defining reporting lines within a bank itself, and reporting to authorities. Systems of internal control and audit should provide for supervision of implementation of such programs, policies, and procedures.

7. CONCLUSIONS

Based on the above listed indicators related to the operation of the banking sector as of March 31, 2004 compared to December 31, 2003 the following can be concluded:

- Total assets increased by 6%, the same as balance sheet assets;
- Cash funds decreased by 3%, and loans increased by 10%;
- Deposits increased by 6%, out of which citizens' saving deposits amounted to 27%, with the rate of growth of 20%;
- Banks' liquidity was at satisfactory level;
- Equity remained at the same level, and net capital decreased by 3%;
- Banks' profitability was not at satisfactory level, although it had a trend of growth;
- Four RS banks were licensed for deposit insurance, and the rest of banks were making preparations to have their deposits insured.

After completion of privatization process and consolidation of banking sector, activities should be intensified to improve economic environment in Republika Srpska, as well as an efficient engagement of legislature and executive authorities in order to rehabilitate production and increase gross domestic product. The following is necessary:

- To harmonize and complete legal regulation for the financial sector, and introduce adequate control of operation in other institutions;
- In an as short a period of time as possible complete legal regulation within jurisdiction in order to accelerate resolving court litigations, reaching solutions and collecting collaterals;
- To develop the Law on Frozen Foreign Currency Citizens' Savings as soon as possible;
- To establish Central Register of Internal Payment Participants' Transaction Accounts;
- To further improve legal and institutional framework in order to provide for stronger financial discipline, and prevention of money-laundering;
- To keep improving supervision of banking sector.

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

- To further improve asset quality and risk management, especially with increasing lending activities and risks in operation with related entities;
- 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 decrease expenses and fixed assets, which would also improve banks' profitability;

- To exchange information on non-performing clients, that is reporting to the Banking Agency of Republika Srpska on such debtors, who are considered special credit risk to banks, which would enable creation of a separate data-base;
- To speed up development of debit and credit card operation and electronic banking;
- To impose stricter rules and apply more consistently criteria of professionalism and competence in exercising managing and executive functions in banks;
- To improve quality of staff and provide for improvement of expertise in order to establish better quality relationships with clients, especially with small and medium companies, including new types of services, which are common practice worldwide, i.e. to better develop financial management operations;
- 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.

ATTACHMENTS

Attachment No. 1	Basic Information on Banks in Republika Srpska
Attachment No. 2	Balance Sheet
Attachment No. 3	Capital Schedule
Attachment No. 4	Income Statement
Attachment No. 5	Information on Banks' Employees

Attachment no. 1

BASIC DATA ON BANKS

No.	BANK	HEADQUARTERS	ADDRESS	DIRECTOR	TELEPHONE	FAX	31.03.2004 (in 000KM)		NUMBER OF EMPLOYEES
							Assets	Capital	
1.	Nova Banjalucka banka a.d.	Banja Luka	M.Bursac 7	Dragoljub Lekic	051/243-200	212-830	169,932	15,063	418
2.	Hypo Alpe-Adria-Bank a.d.	Banja Luka	I.F.Jukica 9	Kurt Makula	051/212-930	212-878	387,437	25,842	306
3.	Razvojna banka Jug. Evrope a.d.	Banja Luka	Kralja Petra I 85-A	Acting Miroslav Djordjevic	051/242-101	242-192	223,046	21,420	431
4.	VB banka a.d.	Banja Luka	Milana Tepica 4	Radovan Bajic	051/221-600	221-623	118,626	21,458	66
5.	Nova banka a.d.	Bijeljina	Svetog Save 46	Milorad Andzic	055/209-094	201-410	149,398	19,424	292
6.	Privredna banka ad Srpsko Sarajevo	Pale	Kninska bb	PA Mile Maksimovic	056/210-173	057/226-805	31,091	1,156	187
7.	Bobar banka a.d.	Bijeljina	Filipa Visnjica 211	Dragan Radumilo	055/201-862	201-862	35,837	17,232	75
8.	Zepter komerc banka a.d.	Banja Luka	Jevrejska bb/ II sprat	Ranko Labovic	051/241-100	215-771	126,590	19,221	146
9.	Balkan Investment Bank a.d.	Banja Luka	Krajiskih brigada 2	Sauilus Zostautas	051/216-285	211-445	39,324	39,314	64
10.	Pavlovic International Bank a.d.	Slobomir, Bijeljina	Slobomir	Nada Pavlovic	055/209-588	210-247	54,654	20,337	173
	TOTAL						1,333,935	179,467	2.158

Attachment no. 2

BALANCE SHEET

(in 000 KM)

DESCRIPTION/PERIOD	31.12.03	%	31.03.04	%	INDEX
1. Cash funds and deposit accounts at depository institutions (1.a.+1.b.)	378,220	30	366,124	28	97
1.1. Cash and non-interest bearing deposit accounts	203,800	16	186,197	14	91
1.2. Interest-bearing deposit accounts	174,420	14	179,927	14	103
2. Trading Securities	2,264	0	3,117	0	138
3. Placements to other banks	3,385	0	3,893	0	115
4. Loans, leasing and receivables due (4.a.+4.b.+4.c.)	728,165	58	804,232	60	110
4.a. Loans	677,285	54	745,277	56	110
4.b. Leasing receivables	0	0	0	0	0
4.c. Loan and leasing receivables due	50,880	4	58,955	4	116
5. Securities held up to maturity	541	0	541	0	100
6. Office space and other fixed assets	110,069	9	110,655	8	101
7. Other immovables	5	0	5	0	100
8. Investments in non-consolidated related companies	7,056	0	7,531	1	107
9. Other assets	34,294	3	39,837	3	116
TOTAL (1 to 9)	1,263,999	100	1,335,935	100	106
10. MINUS: Reserves for potential losses	46,812		44,462		95
11. TOTAL ASSETS: (1.to 9.-10.)	1,217,187		1,291,473		106
11.1 Total off-balance sheet items					
11.a. Active off-balance sheet items	134,143		149,289		111
11.b. Classified assets – loss E	140,751		149,068		106
11.c. Commission (agent) services	50,329		53,163		106
TOTAL ASSETS (11.+11.1)	1,542,410		1,642,993		107
12. Deposits (12.a.+12.b.)	950,060	78	1,003,900	78	106
12.a. Interest-bearing deposits	806,114	66	863,505	67	107
12.b. Non-interest bearing deposits	143,946	12	140,395	11	98
13. Borrowings – obligations due (13.a.+13.b.)	3	0	0	0	0
13.a. Obligations due, not paid	3	0	0	0	0
13.b. Off-balance sheet obligations not paid-called for repayment	0	0	0	0	0
14. Borrowings from other banks	542	0	542	0	100
15. Obligations to Government	0	0	0	0	0
16. Obligations based on loans and other borrowings (16.a.+16.b.)	59,634	5	76,248	6	128
16.a. remaining maturity up to one year	8,191	1	16,142	1	197
16.b. remaining maturity over one year	51,443	4	60,106	5	117
17. Subordinated debt and subordinated bonds	1,898	0	1,854	0	98
18. Reserve to cover off-balance sheet items (18.a.+18.b.)	4,473	0	4,881	0	109
18.c. Other obligations	15,558	1	24,581	2	158
19. TOTAL LIABILITIES (12 to 18)	1,032,168	84	1,112,006	86	108
20. Permanent preferred shares	16,643		16,643		100
21. Regular shares	192,083		192,083		100
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	12,857		11,762		91
24. Capital reserves	27,452		27,826		101
25. Other capital	-64,016		-68,847		108
26. TOTAL CAPITAL: (20. to 25.)	185,019	16	179,467	14	97
27. TOTAL LIABILITIES AND CAPITAL: (19. + 26.)	1,217,187	100	1,291,473	100	106
28.1. Total off-balance					
28.1. Active off-balance sheet	134,143		149,289		111
28.2. Classified assets – loss E	140,751		149,068		106
28.3. Commissioned (agent) services	50,329		53,163		106
TOTAL LIABILITIES (27.+28.1)	1,542,410		1,642,993		107

Attachment no. 3

CAPITAL STATEMENT

in 000 KM

DESCRIPTION/PERIOD	31.12.2003	31.03.2004	INDEX 2004/2003
1. CORE CAPITAL OF BANKS			
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:	205,327	205,327	100
1.2. Equity capital based on nominal amounts of regular and preferred non-cumulative shares issued against immovables and rights invested into shareholders' capital:	3,399	3,399	100
1.3. Premiums collected for share payments:	0	0	0
1.4. General reserves required (reserves required by the law):	11,323	11,861	105
1.5. Other reserves which are not taken into account when rating asset quality:	15,887	15,964	100
1.6. Retained – undistributed profit from previous years:	2,622	7,808	298
1.a TOTAL (1.1 to 1.6)	238,558	244,359	102
1.7. Uncovered loss carried over from previous years:	35,955	67,650	188
1.8. Current Year Loss:	28,061	1,197	4
1.9. Bookkeeping value of bank's owned (vault) shares:	0	0	0
1.10. Amount of intangible property: patents, licenses, concession, investments in: marketing, commercial name, trade mark, goodwill and similar:	5,429	6,419	118
1.b TOTAL (1.7.-1.10.)	69,445	75,266	108
1. AMOUNT OF CORE CAPITAL (1.a - 1.b):	169,113	169,093	100
2. ADDITIONAL CAPITAL OF BANKS			
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:	17,306	18,469	107
2.4. Accrued profit in the current year audited and verified by external auditor:	6,854	0	0
2.5. Amount of profit for which BA-RS issued Decision on Temporary Suspension of Distribution:	0	0	0
2.6. Amount of subordinated debt maximum 50% of amount of Core Capital:	1,898	1,855	98
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:	17,944	17,426	97
2. AMOUNT OF ADDITIONAL CAPITAL:	44,002	37,750	86
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL			
3.1. Part of invested shareholders' capital, which represents, according to BA-RS, received, but overstated value:	0	0	0
3.2. Bank's investments in capital of other legal entities exceeding 5% of the bank's core capital:	3,220	3,272	102
3.3. 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
3.4. 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
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL:	3,220	3,272	102
4. ITEMS OFF-SETTING FROM BANK'S CAPITAL:			
1. AMOUNT OF BANK'S CORE CAPITAL	169,113	169,093	100
2. AMOUNT OF BANK'S ADDITIONAL CAPITAL	44,002	37,750	86
3. AMOUNT OF BANK'S ITEMS OFF-SETTING FROM THE CAPITAL	3,220	3,272	102
4. AMOUNT OF BANK'S NET-CAPITAL (1. + 2. - 3.)	209,895	203,571	97
B. RISK WEIGHTED ASSETS AND LOAN EQUIVALENTS	870,085	956,144	110
C. NET CAPITAL RATE	24.1	21.3	88

Attachment no. 4

INCOME STATEMENT

(in 000 KM)

DESCRIPTION/PERIOD	31.03.2003	%	31.03.2004	%	INDEX
1. INTEREST INCOME AND EXPENSE					
a) Interest income and similar income					
1) Interest bearing deposit accounts at depository institutions	699	5	1,184	6	169
2) Placements to other banks	83	0	160	1	193
3) Loans and leasing operations	10,820	77	13,312	69	123
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	0	0	0	0	0
7) Other interest income and similar income	2,513	18	4,747	24	189
8) TOTAL INTEREST INCOME AND OTHER INCOME (1 to 7)	14,114	100	19,403	100	137
b) Interest expense and similar expense					
1) Deposits	2,724	78	5,562	84	204
2) Borrowings from other banks	296	8	201	3	68
3) Borrowings – due obligations	71	2	110	2	155
4) Loan and other borrowing obligations	124	4	190	3	153
5) Subordinated debt and subordinated bonds	0	0	0	0	0
6) Other interest expense and similar expense	260	8	560	8	215
7) TOTAL INTEREST EXPENSE AND SIMILAR EXPENSE (1 to 6)	3,475	100	6,623	100	191
c) NET INTEREST AND SIMILAR INCOME	10,639		12,780		120
2. OPERATING INCOME					
1) Foreign currency operation income	9,411	37	2,465	12	26
2) Loan fees	1,433	6	2,729	13	190
3) Off-balance sheet operation fees	1,441	6	1,333	7	93
4) Service fees	8,434	33	7,623	37	90
5) Trading operation income	478	2	194	1	41
6) Other operating income	4,157	16	6,239	30	150
7) TOTAL OPERATING INCOME (1 to 6)	25,354	100	20,583	100	81
3. NON-INTEREST BEARING EXPENSE					
a) Operating and direct expense					
1) Reserves for general loan risk and potential loan and other losses	12,155	61	6,263	77	52
2) Other operating and direct expenses	7,873	39	1,907	23	24
3) TOTAL OPERATING AND DIRECT EXPENSES (1) + 2)	20,028	100	8,170	100	41
b) Operating expenses					
1) Salaries and contributions	9,214	42	9,875	44	107
2) Office space, other fixed assets and overheads	8,533	39	9,978	44	117
3) Other operating expenses	4,054	19	2,553	12	63
4) TOTAL OPERATING EXPENSES (1 to 3)	21,802	100	22,406	100	103
c) TOTAL NON-INTEREST BEARING EXPENSES a)3) + b)4)	41,830		30,576		73
TOTAL:INCOME-EXPENSE (1c+2g - 3c)	-5,837		2,787		
4. PROFIT BEFORE TAX (1c+2g - 3c)	1,854		3,984		215
5. LOSS (1c + 2.g – 3.c)	7,691		1,197		16
6. TAX	4		30		750
7. NET-PROFIT (4. – 6.)	1,850		3,954		214

STAFF

No.	BANKS	QUALIFICATION STRUCTURE								Total	%
		NS*	KV*	VKV*	SSS*	VS*	VSS*	MR*	DR*		
1.	Nova Banjalucka banka a.d.	7	10	4	244	48	101	4	0	418	19
2.	Hypo-Alpe-Adria Bank a.d.	10	0	1	182	17	96	0	0	306	14
3.	PB a.d. Srpsko Sarajevo	7	4	1	121	21	33	0	0	187	9
4.	Razvojna banka JIE a.d.	3	7	7	222	73	116	2	1	431	20
5.	Bobar banka a.d.	0	6	0	40	8	19	2	0	75	3
6.	VB banka a.d.	2	0	1	28	4	31	0	0	66	3
7.	Zepter Komerc banka a.d.	0	2	1	65	21	57	0	0	146	7
8.	Balkan Investment Bank a.d.	1	0	0	25	4	34	0	0	64	3
9.	Pavlovic International Bank a.d.	12	7	1	96	14	40	3	0	173	8
10.	Nova banka a.d.	3	0	0	116	62	110	1	0	292	14
TOTAL		45	36	16	1,139	272	637	12	1	2,158	100
%		2	2	1	53	13	29	0	0	100	

*

- 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