

INFORMATION
ON BANKING SECTOR OF REPUBLIKA SRPSKA
in the period from January 1 to September 30, 2004

Banja Luka, November 2004

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1. INTRODUCTION

After completion of the banking sector privatization process a moderate growth of higher quality assets, growing competition shown by a range of new products offered, better management, and implementation of legal regulation harmonized with international standards have been noted. Those trends have been confirmed by an increased confidence in banks, resulting in growing citizens' savings, bank's profitability, and better quality and stability of banks' assets, thus there was no need for the Agency to undertake any drastic measures against banks in the reporting period. Had the economy environment and GDP had at least similar growing trends, all results shown here would have been significantly better. Since banks have made progress faster than the rest of their environment, in the future they should pay special attention to the following:

- Market trends and offer of new products;
- Close monitoring of their clients and their indebtedness with other banks;
- Funds sources and placements maturity adjustment;
- Indebtedness of and future lending to citizens with special rating of both guarantors and guarantees.

After the first nine months of this year there were three more banks to meet deposit insurance requirements.

In the course of the reporting period total assets increased by KM 313 million, loans by KM 224 million, deposits by KM 263 million, out of which citizens' deposits amounted to KM 105 million. Such a growing trend was not followed by an adequate capital growth, indicating to necessity of additional capitalization of the banking sector, since some banks could face problems in meeting both core and net capital requirements. It is also important to mention that banks had more short-term than long-term sources of their funds, and the ratio between long-term and short-term loans was significantly larger, so banks should pay special attention in providing sufficient long-term fund sources. Some banks had rather low profitability, and some were overstaffed, which pointed out inadequate policies in managing problems inherited from the past.

The banking sector generated a positive result in an amount of KM 8.3 million. Nine banks generated profit in an amount of KM 10.4 million, and one bank reported loss in an amount of KM 2.1 million. Adding the loss from the previous period makes a rather large total loss of KM 59.6 million. The generated loss could be covered in some of those banks by means of additional capitalization, better organization, and a more profitable operation.

Significant activities of banks were quality performing payment transactions, and prevention of money laundering, while they still had to make special efforts in developing "know-your-client" policies and procedures. Other institutions involved in implementation of the Law on Prevention of Money Laundering should take more active role in cooperating with the banking sector.

It should be noted that banks from Federation of Bosnia and Herzegovina opened 22 branch offices in RS, while banks from Republika Srpska appeared less interested in opening their branch offices in Federation of BiH, having only eight of them opened. Chapters that follow give detailed descriptions of all segments of the banking sector.

2. STRUCTURE OF THE BANKING SECTOR

As of September 30, 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 twenty-two 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, while LT Gospodarska banka dd Sarajevo, VOLKS banka BH dd Sarajevo, HVB bank BiH dd Sarajevo, and UPI banka dd Sarajevo had one operational unit each.

Banks with their headquarters in RS had eight organizational units in the territory of Federation BiH, and they were Zepter Komerc banka a.d. Banja Luka with one operational unit, Nova Banjalucka banka a.d. Banja Luka with one, while Nova banka a.d. Bijeljina had six organizational units.

The number of operating organizational units indicates to significantly larger activity on the part of banks from Federation BiH, than of the RS banks, although one has to take into consideration amounts of capital and assets, as well as business policy of both owners of banks and banks' managements.

Bankruptcy procedures under the court authority were continued in four banks (Privredna banka Gradiska, Gold banka Banja Luka, Ekvator banka Banja Luka, Prijedorska banka Prijedor); all RS banks and branch offices of Federation banks had internal payment operation licenses.

Six 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, Nova banka a.d. Bijeljina, Bobar banka a.d. Bijeljina, and Balkan Investment Bank a.d Banja Luka).

2.1. Ownership Structure

Based on banks' reports as of September 30, 2004 shareholders' capital amounted to KM 222,154 and was larger by 6% in comparison to the figures as of December 31, 2003, however, its structure changed since private capital increased by 7%, state owned capital by 3%, and cooperative capital decreased by 18% (sale of cooperative capital to majority banks' owners).

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.	23,991	93	1,370	5	601	2
2.	Hypo Alpe-Adria-Bank a.d.	53,937	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.	19,390	93	1,437	7	0	0
5.	Nova banka a.d.	16,556	97	0	0	445	3
6.	Bobar banka a.d.	16,430	100	0	0	0	0
7.	LHB banka a.d.	17,971	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:	217.859	98	2.807	1	1.488	1

Peer-Groups' Shares in Total Assets

(in 000 KM)

AMOUNT OF ASSETS	31.12.2003			30.09.2004		
	Amount	%	Number of banks	Amount	%	Number of banks
Over 300	357,659	28	1	483,136	31	1
150 to 300	385,429	31	2	788,954	50	4
Under 150	520,911	41	7	304,560	19	5
TOTAL:	1,263,999	100	10	1,576,650	100	10

If the banks are grouped according to percentage of their respective assets making part in the total banking sector assets based on data as of September 30, 2004, then there will be the following distribution: one bank with 31% of share in total assets in the group with assets over KM 300 million, four banks in the group of KM 150-300 million, and five banks in the group under KM 150 million. Five banks had a share of 81%, and remaining five had a share of only 19% of total assets, indicating that those are small banks strongly influenced by the market.

2.2. Staff

As of September 30, 2004 the RS banks had 2,217 employees, which was by 1% 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	%	30.09.2004	%	INDEX 2004/2003
1.	Non-Skilled	47	2	41	2	87
2.	Skilled	39	2	37	2	95
3.	Highly Skilled	18	1	16	1	89
4.	Secondary School	1,194	54	1,165	52	98
5.	Junior College	282	13	264	12	94
6.	College - Graduated	632	28	681	31	108
7.	Master Degree	16	0	12	0	75
8.	D. Sc.	1	0	1	0	100
TOTAL:		2,229	100	2,217	100	99

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

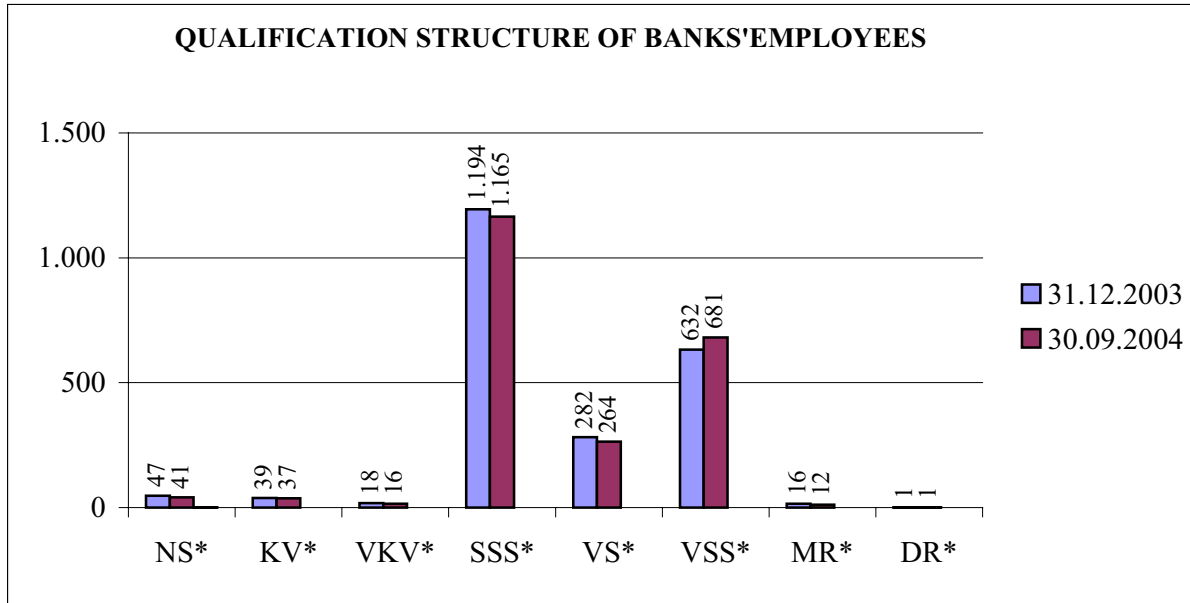
Assets per Employee

DATE	Number of Employees	Assets (000 KM)	Assets per Employee (000 KM)
31.12.2003	2,229	1,263,999	567
30.09.2004	2,217	1,576,650	711

As of September 30, 2004 assets per employee amounted to KM 611 thousand, and, compared to December 31, 2003 numbers, increased by 25%, 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 157 thousand to KM 1,687 thousand.

In two RS banks, assets per employee exceeded KM 1.0 million, while the smallest amount of assets per employee was 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

Total assets amounted to KM 1,973 million, and increased by 24% compared to December 31, 2003.

Balance Sheet

DESCRIPTION/PERIOD	AMOUNT (000KM)				INDEX
	31.12.2003		30.09.2004		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY):					
1. Cash Funds	378,220	30	431,794	27	114
2. Trading Securities	2,264	0	3,908	0	173
3. Placements to other banks	3,385	0	20,556	1	607
4. Loans	728,165	58	952,580	61	131
5. Securities held up to maturity	541	0	21	0	4
6. Premises and Other Fixed Assets	110,069	9	112,581	7	102
7. Other Assets	41,355	3	55,210	4	134
8. TOTAL ASSETS	1,263,999	100	1,576,650	100	125
9. Total Off-Balance Sheet (10+11+12)	325,223		396,773		122
10. Active Off-Balance Sheet	134,143		186,519		139
11. Classified Assets-Loss E	140,751		159,347		113
12. Agent Fees	50,329		50,907		101
13. TOTAL ASSETS (8+9)	1,589,222		1,973,423		124
LIABILITIES (COMMITMENTS):					
14. Deposits	950,060	75	1,212,755	77	128
15. Borrowings	545	0	542	0	99
16. Obligations Based on Loans	59,634	5	86,040	6	144
17. Subordinated Debt	1,898	0	1,768	0	93
18. Other Commitments	15,558	1	23,125	1	149
19. Required Reserves for Potential Loss	51,285	4	58,288	4	114
20. Capital	185,019	15	194,132	12	105
21. TOTAL LIABILITIES (COMMITMENTS AND CAPITAL)	1,262,101	100	1,576,650	100	125
22. Total Off-Balance Sheet (23+24+25)	325,223		396,773		122
23. Active Off-Balance Sheet	134,143		186,519		139
24. Classified Assets-Loss "E"	140,751		159,347		113
25. Agent Fees	50,329		50,907		101
26. TOTAL LIABILITIES (21+22)	1,587,324		1,973,423		124

Placements to other banks had the largest increase, but their share in the structure was only 1%; all other categories of assets increased also, except for securities held up to maturity, which decreased by 96%.

Off-balance sheet items increased by 22%, and amounted to KM 397 million, while active off-balance sheet items had the largest increase in the structure of 39%, followed by “E” category of 13%, and agent based operation of 1%.

3.1.1. Liabilities

Composition of liabilities i.e. commitments and capital items in the banks’ balance sheet as of September 30, 2004 can be seen from the following table:

DESCRIPTION/PERIOD	AMOUNT (000KM)				INDEX
	31.12.2003		30.09.2004		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
LIABILITIES (COMMITMENTS):					
1.Deposits	950,060	75	1,212,755	77	128
2.Borrowings	545	0	542	0	99
3.Obligations based on loans					
4. Subordinated debt	59,634	5	86,040	6	144
5.Other obligations	1,898	0	1,768	0	93
6.Reserves required for potential loss	15,558	1	23,125	1	149
7.Capital	51,285	4	58,288	4	114
	185,019	15	194,132	12	105
TOTAL LIABILITIES (COMMITMENTS AND CAPITAL):	1,263,999	100	1,576,650	100	125

Liability structure consisted of obligations amounting to 84%, and capital with special reserves for potential losses amounted to 16%.

If compared to December 31, 2003, the amount of deposits and obligations increased, while capital with reserves decreased, which resulted from increasing deposits, loans and other obligations taken, which grew faster than capital with required reserves for potential losses.

3.1.1.1. Capital and Capital Adequacy

Capital

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2003	30.09.2004	INDEX
1	2	3	4=3/2
1. BANK'S CORE CAPITAL			
1.1 Shareholders' Capital	208,726	222,154	106
1.2 Legally Required Reserves	11,323	9,285	82
1.3 Other Reserves	15,887	10,221	64
1.4 Undistributed Earnings	2,622	1,950	74
1.a. Total (1.1 to 1.4)	238,558	243,610	102
1.5 Uncovered Losses from Previous Years	35,955	57,528	160
1.6.Current Year Loss	28,061	2,091	7
1.7 Amount of Intangible Property	5,429	6,206	114
1.b. Total (1.5 to 1.7)	69,445	65,825	95
1. AMOUNT OF CORE CAPITAL (1a-1b)	169,113	177,785	105
2. BANK'S ADDITIONAL CAPITAL			
2.1 Amount of General Reserves for A	17,306	22,248	129
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	1,768	93
2.5.Amount of Permanent Obligations Not to Be Repaid	17,944	20,000	111
2. AMOUNT OF ADDITIONAL CAPITAL:	44,002	44,016	100
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	0	0
3. AMOUNT OF DEDUCTIBLE ITEMS:	3,220	3,084	96
4. BANK'S NET CAPITAL (1+2-3):	209,895	218,717	104

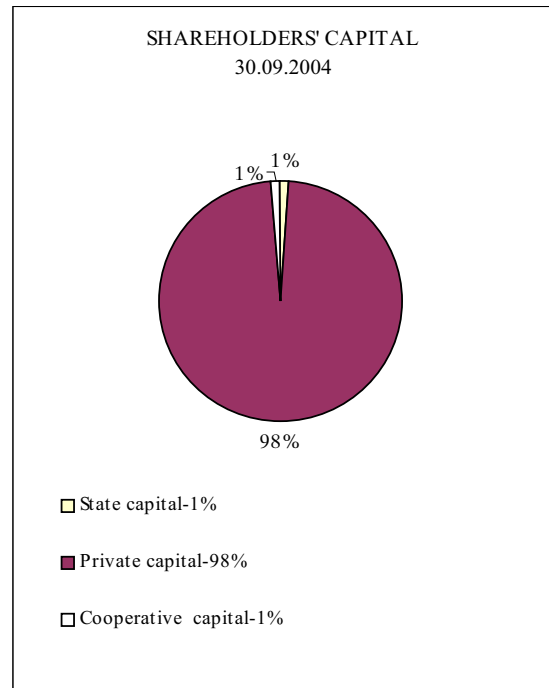
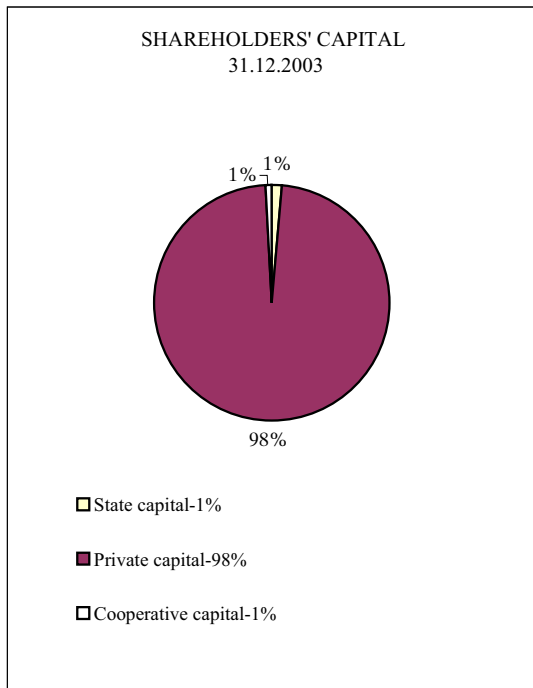
Core capital amounted to KM 178 million and compared to December 31, 2003 it increased by 5%. Analyzing core capital composition it can be seen that shareholders' capital increased by 6%, while legally required reserves decreased by 8%, other reserves by 36%, and corrected undistributed earnings by 28%. Increase in core capital resulted mostly from additional capitalization of four banks in a total amount of KM 13 million, out of which KM 10 million represented a new issue of shares, and KM 3 million originated from distribution of profit from previous years. The amount of core capital was still significantly influenced by uncovered losses from previous years, which increased by 60%, and loss from the reporting period amounted to KM 2,091 thousand.

Additional capital remained at the same level, and items deductible from capital decreased by 24%, indicating that banks were not willing yet to be shareholders of other legal persons, since legal restrictions established should be observed.

Net capital increased by 4%.

Shareholders' Capital Structure

SHAREHOLDERS' CAPITAL	31.12.2003		30.09.2004		INDEX %
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
1. State-Owned Capital	2,724	1	2,807	1	103
2. Private Capital	204,231	75	217,859	98	107
2.1. Foreign Capital	152,718	25	160,250	74	105
2.2. Domestic Capital	51,513	1	57,609	26	112
3. Cooperative Capital	1,771	1	1,488	1	82
TOTAL (1+2+3):	208,726	100	222,154	100	106



Based on the state, private and cooperative capital share in shareholders' capital as of September 30, 2004, the composition was the following: state capital 1%, private capital 98%, and cooperative capital 1%.

Private shareholders' capital consisted of foreign investors' equity of 74%, which was larger by 5% compared to December 31, 2003, while shareholders' capital belonging to domestic investors amounted to 26% and increased by 12%.

Capital Adequacy

1	31.12.2002	31.12.2003	30.09.2004	Index	
	2	3	4	5=4/2	6=4/3
Net Capital	196,863	209,895	218,717	111	104
Total Risk Assets	822,355	870,085	1,129,199	137	130
Capital Adequacy	24%	24%	19%	79	79

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 19%, and decreased by 21% compared to December 31, 2003.

Such a decrease of the capital adequacy rate resulted from a faster grow of risk assets over capital, thus in the future period some of the banks will have to put additional capital in to be able to meet legal requirements.

Other relevant capital ratios are shown in the following table:

Capital Ratios

in 000 KM

DESCRIPTION/PERIOD		31.12.2003	30.09.2004
1.	Net Capital	193,212	213,003
	Total Assets	1,053,486	1,414,498
	%	18	15
2.	Shareholders' Capital	199,346	217,678
	Total Assets	1,053,486	1,414,498
	%	19	15
3.	Core Capital	158,936	174,661
	Total Risk Assets	867,327	1,040,183
	%	18	17
4.	Total Capital	196,027	215,881
	Total Risk Assets	867,327	1,040,183
	%	23	21
5.	Net Loans	570,689	820,638
	Total Capital	196,027	215,881
	%	291	380

Analyzing the above ratios it can be seen that net capital grew at a lower rate than average assets, and that particular ratio recorded significant decrease. The same situation was with shareholders' capital to average assets ratio, and core capital and total capital to average risk assets. That was especially emphasized with net loans to total capital ratio, since in the first nine months total loans recorded an increase of 31%, and capital 5%, resulting in such a drop of the capital ratio.

Capital ratios indicated that additional capitalization of a number of banks would be necessary otherwise they could have problems in their operation and meeting legal requirements in the future.

3.1.1.2. Deposits

Deposit Structure per Sectors

(in 000 KM)

DEPOSITS	31.12.2003		30.09.2004		Index
	Amount	%	Amount	%	
Government and Government Institutions	171,268	18	184,104	15	107
Public and State Enterprises	69,199	7	77,899	6	113
Private Enterprises and Associations	139,227	15	178,430	15	128
Non-Profit Organizations	10,885	1	25,276	2	232
Banks and Banking Institutions	295,444	31	360,702	30	122
Non-Banking Financial Institutions	15,769	2	22,558	2	143
Citizens	226,794	24	331,481	27	146
Other	21,474	2	32,305	3	150
TOTAL:	950,060	100	1,212,755	100	128

Deposits increased by 28% compared to December 31, 2003.

The largest components within deposit structure were deposits of banking institutions of 30%, and citizens' deposits in an amount of 27%. Banking institutions' deposits increased by 22% compared to December 31, 2003, and citizens' deposits increased by 46%. Private companies' deposits represented 15% of the total deposits, and increased by 28%, while deposits of government institutions represented 15% of the total deposits, and increased by 19%.

Deposit Structure per Currency

(in KM million)

DEPOSITS	31.12.2003		30.09.2004		INDEX
	Amount	%	Amount	%	
Deposits in KM	497,1	52	627,7	52	126
Deposits in foreign currency	453,0	48	585,1	48	129
TOTAL	950,1	100	1,212.8	100	128

Looking at the currency based deposit structure it can be seen that domestic currency deposits' share was 52% with an increase of 26%, while foreign currency deposits' share was 48% with an increase of 29%. Both KM deposits' share and FC deposits' share remained at the same level related to the total deposit amount, and compared to the end of 2003.

Term Deposit Structure

(in 000 KM)

DEPOSITS	31.12.2003		30.09.2004		INDEX
	Amount	%	Amount	%	
Savings and Deposits on Demand	472.298	50	561,928	46	119
Up to 3 months	104.526	11	90,914	7	87
Up to 1 year	88.439	9	167,032	14	189
1. Total Short-Term	665.263	70	819,874	68	123
Up to 3 years	41.943	4	67,154	6	160
Over 3 years	242.854	26	325,727	27	134
2. Total Long-Term	284.797	30	392,881	32	138
TOTAL (1+2)	950.060	100	1,212,755	100	128

Based on the term deposit structure shown above, it can be seen that short-term deposits amounted to 68% of total deposits and increased by 23%, while share of long-term deposits amounted to 32%, of total deposits and increased by 38%. Compared to the December 31, 2003 figures the ratio was slightly improving in favor of long-term deposits.

Citizens' Savings and Loans

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2003	30.09.2004	Index
1	2	3	4	5=4/3
1.	Loans to Citizens	299,530	400.801	134
2.	Citizens' Savings	215,738	311.067	144
3.	Savings/Loans	139%	129%	

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 to deposits ratio was better compared to the one as of December 31, 2003.

Deposits in Branch Offices of Banks from Federation BH

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2003	%	30.09.2004	%	Index
1	2	3	4	5	6	7=5/3
1.	Short-term deposits					
a.	Government	140	0	262	0	88
b.	Economy	22,420	28	48.048	34	189
c.	Banks and other financial institutions	0	0	0	0	0
d.	Citizens	44,190	56	60.367	52	146
e.	Other	431	1	711	0	115
	TOTAL (1)	67,181	85	109.388	86	160
2.	Long-term deposits					
a.	Government	0	0	0	0	0
b.	Economy	2,000	3	3.400	3	150
c.	Banks and other financial institutions	0	0	0	0	0
d.	Citizens	9,793	12	20.154	11	141
e.	Other	0	0	52	0	0
	TOTAL (2)	11,793	15	23.606	14	143
	GRAND TOTAL (1.+2.)	78,974	100	132.994	100	158

Deposits held in branch offices of banks having their headquarters in Federation BH amounted to KM 133 million, which was 11% of total deposits in RS, where KM 109 million were short-term loans (11% of total RS short-term deposits) and KM 24 million were long-term deposits (6% 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 18.2 million of short-term, and KM 2.9 million 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 appeared unsatisfactory on the level of the banking system as a whole, although some banks did have very good liquidity.

Liquidity ratios are given in the following table:

(in 000 KM)

OPIS/PERIOD		31.12.2003	30.09.2004
1.	Short Term Assets/	504.604	646.794
	Short Term Liabilities	566.944	774.292
	%	89	84
2.	Short Term Assets/	504.604	646.794
	Total Assets	1.053.486	1.414.498
	%	48	46
3.	Short Term Liabilities/	566.944	774.292
	Total Assets	1.053.486	1.414.498
	%	54	55
4.	Net Short Term Liabilities/	62.340	127.498
	Total Assets	1.053.486	1.414.498
	%	6	9
5.	Net Loans/	570.689	820.638
	Deposits	749.034	1.068.771
	%	76	77
6.	Net Loans and Financial Commitments; Letters of Credit/	577.073	832.043
	Total Assets	1.053.486	1.414.498
	%	55	59

Ratios were calculated based on average values.

3.1.2 Assets

Active Assets Structure

DESCRIPTION/PERIOD	AMOUNT (000KM)				INDEX
	31.12.2003		30.09.2004		
	Amount	Amount	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY):					
1. Cash Funds	378,220	30	431,794	27	114
2. Trading Securities	2,264	0	3,908	0	173
3. Placements to other banks	3,385	0	20,556	1	607
4. Loans	728,165	58	952,580	61	131
5. Securities held up to maturity	541	0	21	0	4
6. Premises and Other Fixed Assets	110,069	9	112,581	7	102
7. Other Assets	41,355	3	55,210	4	134
8. TOTAL ASSETS	1,263,999	100	1,576,650	100	125

As of September 30, 2004 total assets amounted to KM 1,577 million, and increased by 25% compared to December 31, 2003. The balance sheet assets consisted of 27% of cash funds and increased by 14%, loans represented 61% with an increase of 31%, offices and fixed assets were 7% with an increase of 2%, and other assets was 4% with an increase of 34%.

Off-Balance Sheet Assets Structure

DESCRIPTION/PERIOD	AMOUNT (000KM)				Index
	31.12.2003		30.09.2004		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
1. Active Off-balance Sheet Items	134,143	100	186,519	100	139
- Irrevocable lending Obligations	28,191	21	22,063	12	78
- Irrevocable Documentary L/C	4,517	3	9,487	5	210
- Other L/C for Payments Abroad	5,363	3	3,552	2	66
- Guarantees Issued	95,158	71	148,665	80	156
- Bills and Sureties Issued	853	1	2,262	1	256
- Nostro financially active - collection in process	0	0	0	0	0
- Current Agreements for FC Transactions	0	0	0	0	0
- Other Off-Balance Sheet Items	11	0	490	0	803
2. Classified Assets – Loss E	140,751		159,347		113
3. Agent Based Activities	50,329		50,907		101
4. TOTAL	325,223		396,773		122

Off-balance sheet assets amounted to KM 397 million, and increased by 22%, and the largest amounts in the structure itself were those related to guarantees issued and irrevocable lending obligations. The largest increase was recorded with other off-balance sheet items of 703%, however their share in the off-balance sheet structure was very low.

Irrevocable guaranties decreased by 22%, irrevocable documentary letters of credit increased by 110%, bills by 56%, and sureties issued by 156%.

Assets classified in category “E”- loss increased by 13%.

Agent based activities increased by 1% and were related to credit lines and loans on behalf and for accounts of other persons.

3.1.2.1. Cash Funds

Cash Funds Structure

(in 000 KM)

DESCRIPTION	31.12.2003		30.09.2004		Index
	Total	%	Total	%	
1	2	3	4	5	6=4/2
KM					
Cash Funds	32,795	9	36,380	8	111
Reserve Accounts at CBBH	160,791	42	171,110	40	106
Deposit Accounts at BH Depository Institutions	7,008	2	42,242	10	603
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	249,732	58	124
FOREIGN CURRENCY					
Cash Funds	37,085	10	35,068	8	95
Reserve Account at CBBH	0	0	0	0	0
Deposit Accounts at Depository Institutions in BH	695	0	393	0	57
Deposit Accounts at Depository Institutions Abroad	137,734	36	142,893	33	104
Cash Funds in Process of Collecting	2,112	1	3,708	1	176
Non-Repaid Debts	0	0	0	0	0
TOTAL:	177,626	47	182,062	42	102
GRAND TOTAL:	378,220	100	431,794	100	114

Cash funds composition shows that cash funds in domestic currency amounted to KM 250 million or 58%, while foreign currency cash funds amounted to KM 182 million or 42%.

Domestic currency was mostly held in gyro-accounts, while foreign currency was deposited with foreign depositary institutions. Banks held a part of foreign currency cash funds in accounts for the sake of their clients having payment obligations abroad, while the other part was term-deposited since there were no prospects of placing them to domestic clients. Increase of loans indicated banks' activities in lending to citizens and industry branches; however, a faster increase in lending was still impeded by lack of better quality borrowers (clients meeting legal requirements for loan approvals).

Cash funds in KM increased by 24%, while foreign currency cash funds increased by 2%.

3.1.2.2. Loans

Loans represented 61% of assets composition, and increased by 20% compared to December 31, 2003.

Structure of Total Loans Per Sectors

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2003	%	30.09.2004	%	Index
1	2	3	4	5	6	7=5/3
1.	Government institutions	7,550	1	11,648	1	154
2.	Public and state enterprises	62,975	9	60,065	6	95
3.	Private companies and associations	337,264	47	467,596	49	139
4.	Nonprofit organizations	1,355	0	1,348	0	99
5.	Banks	926	0	883	0	95
6.	Non-bank financial institution	1,962	0	3,417	1	174
7.	Citizens	299,530	41	400,801	42	134
8.	Other	16,603	2	6,822	1	41
9.	TOTAL:	728,165	100	952,580	100	131

The structure of loans consisted of 49% of loans to private enterprises, 42% of loans to citizens, 7% of loans to the Government and state owned enterprises, 1% to non-banking financial institutions, and 1% of other loans.

Loans to private enterprises increased by 39%, loans to citizens 34%, and together they represented 91% of total loans. Loans to public and state enterprises decreased by 5%, and loans to the Government increased by 54%.

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

Loan Term Structure

(in 000 KM)

No	DESCRIPTION	Short Term < 1 year			Long Term > 1 year			Receivables Due			Total		Index
		31.12. 2003		Index	31.12. 2004		Index	31.12. 2003		Index	31.12. 2004		
		2003	2004		2003	2004		2003	2004		2003	2004	
1.	Government institutions	1,435	1,240	86	6,053	10,337	171	62	71	115	7,550	11,648	154
2.	Public and state enterprises	23,636	20,425	86	26,862	29,218	109	12,477	10,422	84	62,975	60,065	95
3.	Private companies and associations	167,512	201,861	121	137,622	228,109	166	32,130	37,626	117	337,264	467,596	139
4.	Nonprofit organizations	1,053	904	86	162	393	243	140	51	36	1,355	1,348	99
5.	Banks	105	381	363	328	232	71	493	270	55	926	883	95
6.	Non-bank financial institution	268	1,204	449	1,694	2,072	122	0	141	0	1,962	3,417	174
7.	Citizens	56,460	32,911	58	240,892	363,737	151	2,178	4,153	191	299,530	400,801	134
8.	Other	9,861	1,705	17	3,342	3,880	116	3,400	1,237	36	16,603	6,822	41
9.	TOTAL	260,330	260,631	100	416,955	637,978	153	50,880	53,971	106	728,165	952,580	131

Short-term loans amounted to KM 261 million and remained at the same level, long-term loans amounted to KM 638 million and increased by 53%. Taking into consideration the amount of KM 393 million of long-term deposits in banks, it is obvious that banks lacked long-term financing sources, and used a significant portion of short-term funds for long term placements.

Within the short-term loan structure loans extended to private companies represented the largest share and increased by 21%, and loans to citizens, which decreased by 42%.

Within the long-term loan structure loans extended to citizens represented the largest share with an increase of 51%, and loans extended to private companies, which increased by 66%. A significant increase was with loans extended to public and state owned enterprises amounting to 9%, and to the Government and Government Institutions amounting to 71%.

Receivables due increased by 6%, 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 91%, while receivables due related to other loans decreased by 64%.

Loans Extended by Federation BH Banks' Operational Units

No.	DESCRIPTION/PERIOD	31.12.2003	%	30.09.2004	%	Index
1	2	3	4	5	6	7=5/3
1.	Short term Loans					
a.	Government institutions	100	0	0	0	0
b.	Economy	8,362	6	12,751	7	152
c.	Banks and other financial institutions	0	0	0	0	0
d.	Citizens	4,716	4	7,113	4	151
e.	Other	355	0	698	0	197
9.	TOTAL:	13,533	10	20,562	11	152
2.	Long term Loans					
a.	Government institutions	0	0	0	0	0
b.	Economy	10,802	8	22,912	12	212
c.	Banks and other financial institutions	0	0	0	0	0
d.	Citizens	107,011	82	146,508	77	137
e.	Other	0	0	0		
	TOTAL (2)	117,813	90	169,420	89	144
	GRAND TOTAL (1. + 2.)	131,346	100	189,982	100	145

Organizational units of banks having their headquarters in Federation BH extended loans in an amount of KM 190 million or 17% of total loans placed in RS, out of which long-term loans in an amount of KM 169 million or 20% of total long-term loans in RS, and KM 21 million or 7% of total short-term loans in RS.

Comparing the amounts of deposits gathered in the RS territory and loans extended it can be concluded that the deposits covered 70% of loans.

RS banks' branch offices placed KM 8.2 thousand of short-term loans, and KM 2.1 thousand of long-term loans in the territory of Federation BH.

Term and Industry Structure of Total Placements

(in 000 KM)

No.	ASSETS INDUSTRY BRANCH	Short-term placements		Index	Long-term placements		Index	Guaranties & Other Sureties		Index	TOTAL		Index
		31.12. 2003	30.09. 2004		31.12. 2003	30.09. 2004		31.12. 2003	30.09. 2004		31.12. 2003	30.09. 2004	
		1.	Agriculture, hunting, fishing ...		12,609	12,054		96	6,766		8,170	121	
2.	Mining & Industry	63,481	58,021	91	83,867	107,111	128	13,563	24,792	183	160,911	189,924	118
3.	Power Supply	2,413	8,695	360	13,770	12,912	94	1,940	6,780	349	18,123	28,387	157
4.	Construction	19,944	28,870	145	13,903	29,379	211	27,331	20,412	75	61,178	78,661	129
5.	Trade	94,671	136,412	144	43,108	83,852	195	42,577	84,625	199	180,356	304,889	169
6.	Services, Tourism, Catering	4,062	6,179	152	3,172	11,544	364	12,636	17,872	141	19,870	35,595	179
7.	Transport, Storing, Post Office, Communications	3,801	3,281	86	3,669	7,626	208	1,155	4,551	394	8,625	15,458	179
8.	Finance	47,491	86,755	183	5,548	5,895	106	19	237	1,247	53,058	92,887	175
9.	Real Estate Trade	1,793	2,515	140	0	3	0	547	941	172	2,340	3,459	148
10.	Administration, Other Public Services	16,921	6,921	41	10,083	12,484	124	235	2,926	1,245	27,239	22,331	82
11.	Citizens	30,851	37,064	120	240,892	363,737	151	0	0	0	271,743	400,801	147
11.	Other	7,375	2,632	36	50,600	16,250	32	9,910	3,673	37	67,885	22,555	33
	TOTAL	305,412	389,399	127	475,378	658,963	139	111,671	168,334	151	892,461	1,216,696	136

The total placement category is a broader term and besides total loans it also includes other placements, such as term-funds at foreign banks, placements to other banks, securities, investments into non-consolidated enterprises, interests and fees, advance payments, and prolonged payment.

Analyzing total placements based on the above term and industry structure it can be seen that short-term placements amounted to 32%, long-term 54%, and guarantees and other sureties 14% of total placements. Compared to December 31, 2003 long-term placements increased by 39%, short-term placements by 27%, and guarantees by 51%.

The largest shares in the short-term placement structure were trade with 35%, and finance with 22%.

The largest shares in the long-term placement structure were placements to citizens amounting to 55%, mining and industry 16%, and trade 13%.

The largest shares in the structure of guarantees and other sureties were trade with 50%, mining and industry with 15%, and construction works with 12%. The total placements consisted of 33% of placements to citizens, 25% of trade, 16% of mining and industry, finance 8%, construction works 8%, while other branches participated in considerably smaller shares.

The following tables give a survey of composition of loans extended to citizens by banks having their headquarters in Republika Srpska and branch offices having their headquarters in Federation BH.

**Structure of Loans to Citizens
by RS Banks**

No.	DESCRIPTION/PERIOD	31.12.2003	%	30.09.2004	%	Index
1	2	3	4	5	6	7=5/3
1.	Short-Term Loans to Citizens					
a.	- general consumption	53,751	18	28,586	7	53
b.	- housing	2,405	1	6,688	2	278
c.	- business operation	1,203	0	1,199	0	100
	TOTAL (1)	57,359	19	36,473	9	64
2.	Long-Term Loans to Citizens					
a.	- general consumption	160,023	53	246,073	61	154
b.	- housing	76,669	26	107,358	27	140
c.	- business operation	5,494	2	10,897	3	198
	TOTAL (2)	242,186	81	364,328	91	150
	GRAND TOTAL (1. + 2.)	299,545	100	400,801	100	134

Out of total amount of loans that banks having their headquarters in RS placed to citizens 91% were long-term loans, and 9% short-term loans, while compared to December 31, 2003 they increased by 34%.

Long-term loans for general consumption had the largest share in the total loan structure and amounted to 61% with an increase of 54%, long-term loans intended for housing were 27% with an increase of 40%, while short-term loans for general consumption decreased by 47%.

**Structure of Loans to Citizens
by Federation BH Banks' Branch Offices**

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2003	%	30.09.2004	%	Index
1	2	3	4	5	6	7=5/3
1.	Short-Term Loans to Citizens					
a.	- general consumption	431	0	1.042	1	242
b.	- housing	2,829	3	4.021	3	142
c.	- business operation	1,456	1	2.050	1	141
	TOTAL (1)	4,716	4	7.113	5	151
2.	Long-Term Loans to Citizens					
a.	- general consumption	69,846	63	98.912	64	142
b.	- housing	30,691	27	37.605	24	123
c.	- business operation	6,474	6	9.991	7	154
	TOTAL (2)	107,011	96	146.508	95	137
	GRAND TOTAL (1. + 2.)	111,721	100	153.621	100	137

Analyzing loans extended by branch offices of banks from Federation BH it can be seen that they increased by 37%, and the structure consisted of long-term loans for general consumption in an amount of 64% with an increase of 42%, housing long-term loans in an amount of 24% with an increase of 23%, and long-term loans for business operation in an amount of 7% with an increase of 54%.

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 (5-15%), C (16-40%, D (41-60), and E (100%).

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	30.09.2004	INDEX
1. Short-term Loans	218,196	260,631	119
2. Long-Term Loans	455,681	637,978	140
3. Other Placements	60,026	78,579	131
4. Accrued Interest	5,147	6,313	123
5. Receivables Due	50,277	53,207	106
6. Paid Guarantee based Receivables	1,126	809	72
7. Other Assets	473,546	539,132	114
8. TOTAL BALANCE SHEET ASSET ITEMS:	1,263,999	1,576,649	125
9. General Loan Risk and Potential Loan Loss	46,500	51,961	112
10. Already Separated General Reserve and Special Reserve	46,813	52,486	112
11. Balance 10.-9.	313	525	168
12a. Payable Guarantees	65,720	96,392	147
12b. Performance Guarantees	29,214	52,273	179
13. Non-Covered Letters of Credit	9,841	13,019	132
14. Irrevocable Loan based Commitments	28,188	22,063	78
15. Other Potential Commitments	1,181	2,772	235
16. TOTAL OFF-BALANCE SHEET ITEMS:	134,144	186,519	139
17. General Loan Risk and Potential Loan Loss	4,443	5,734	129
18. Already Separated General Reserves and Special Reserves	4,472	5,803	130
19. Balance 18.-17.	28	69	246
20. TOTAL BALANCE SHEET AND OFF-BALANCE SHEET	1,398,143	1,763,168	126
21. General Loan Risk and Potential Loan Loss	50,943	57,696	113
22. Already Separated General Reserves and Special Reserves	51,285	58,289	114
23. OVERAGE of Separated Reserves	344	593	172
SHORTAGE of Separated Reserves	2	0	0
24. ASSETS for which reserves are NOT separated (A category)	399,422	495,912	124
25. TOTAL ASSETS for which reserves ARE separated (20-24)	998,714	1,267,256	127

Total assets for which reserves are separated amounted to KM 1,267 million, and increased by 27% in comparison with the amount as of December 31, 2003. The balance sheet assets increased by 25%, and off-balance sheet increased by 39%.

Long-term loans represented the largest item of risk assets amounting to 40%, while other items were: other assets 34%, short-term loans 17%, other placements 5%, and receivables due 4%.

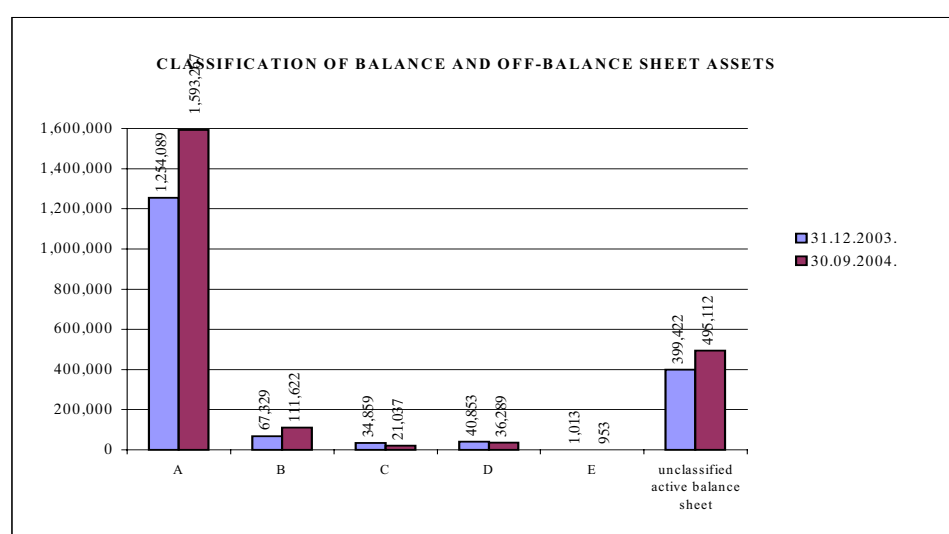
Compared to December 31, 2003, long-term loans increased by 40%, short-term loans by 19%, receivables due 6%, accrued interest 23%, other asset items 14%, and other placements 31%. Analyzing off-balance sheet asset items it can be seen that guarantees payable increased by 47%, performance guarantees by 79%, uncovered L/C by 32%. Only irrevocable loan payables decreased by 22%.

When rating asset quality, a share of poor assets in both 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 September 30, 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	236,122	19,722	2,649	2,138	0	260,631
2. Long-Term Loans	562,964	58,237	9,146	7,631	0	637,978
3. Other Placements	69,353	8,110	1,029	87	0	78,579
4. Accrued Interest	4,286	2,008	8	11	0	6,313
5. Receivables Due	12,225	8,999	7,180	24,803	0	53,207
6. Paid Guarantee based Receivables	26	0	0	783	0	809
7. Other Assets	531,015	7,721	158	238	0	539,132
8. TOTAL BALANCE SHEET ASSET ITEMS:	1,415,991	104,797	20,170	35,691	0	1,576,649
9. General Loan Risk and Potential Loan Loss (no. 8 X % loss)	18,617	9,783	5,417	18,144	0	51,961
10. Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	18,875	9,923	5,480	18,208	0	52,486
11. Balance 10.-9.	258	140	63	64	0	525
12.a) Payable Guarantees	90,111	4,526	332	558	865	96,392
b) Performance Guarantees	51,275	335	535	40	88	52,273
13. Non-Covered Letters of Credit	12,755	264	0	0	0	13,019
14. Irrevocable Loan based Commitments	20,510	1,553	0	0	0	22,063
15. Other Potential Commitments	2,625	147	0	0	0	2,772
16. TOTAL OFF-BALANCE SHEET ITEMS:	177,276	6,825	867	598	953	186,519
17. General Loan Risk and Potential Loan Loss (no.16 X % loss)	3,329	531	195	726	953	5,734
18. Already Separated General Reserves (A) and Special Reserves (B, C, D, E)	3,372	553	195	730	953	5,803
19. Balance 18.-17.	43	22	0	4	0	69
20. TOTAL BALANCE SHEET & OFF-BALANCE SHEET ITEMS (8 + 13)	1,593,267	111,622	21,037	36,289	953	1,763,168
21. General Loan Risk and Potential Loan Loss (no. 20 X % loss)	21,947	10,314	5,612	18,870	953	57,696
22. Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	22,247	10,476	5,675	18,938	953	58,289
23. OVERAGE of Separated Reserves (+)(amount) (no.22. - no.21.)	300	162	63	68	0	593
SHORTAGE of Separated Reserves (-)(amount) (no.21. - no.22.)	0	0	0	0	0	0
24. ASSETS for which reserves are NOT separated (category A)	495,912					495,112
25. TOTAL ASSETS for which reserves ARE separated (2—24)	1,097,355	111,622	21,037	36,289	953	1,267,256



Classification Category	31.12.2003	%	31.09.2004	%	INDEX
A	1,254,089	90	1,593,267	91	127
B	67,329	5	111,622	6	166
C	34,859	2	21,037	1	60
D	40,853	3	36,289	2	89
E	1,013	0	953	0	94
TOTAL CLASSIFIED ASSETS:	1,398,143	100	1,763,168	100	126
MINUS: Assets for which reserves are NOT separated (category A)	399,422		495,912		124
TOTAL ASSETS for which reserves ARE calculated	998,721		1,267,256		127
Required potential loan loss general reserves (A)	17,093		21,947		128
Already established general reserve (A)	17,306		22,247		129
Balance for A:	213		300		
Required special reserves for potential loan loss (B-E)	33,850		35,749		106
Already separated special reserves (B-E)	33,979		36,042		106
Balance for (B-E):	129		293		

The largest share in the above classification structure was that of assets classified in category "A" amounting to 91%, which compared to December 31, 2003 increased by 27%. The share of assets classified as "B" amounted to 6% and increased by 66%, category "C" amounted to 1% and decreased by 40%, category "D" amounted to 2% and decreased by 11%, while category "E" decreased by 6% and its share in the structure was quite insignificant.

Risk assets classification made by banks is mostly less strict, since the banks can record a better financial result by separating smaller reserves.

Assets for which reserves are not calculated amounted to KM 496 million, and increased by 24%, while assets for which reserves are calculated amounted to KM 1,267 million, and increased by 27%.

Special reserves calculated for assets classified as categories of risk from "B" to "E" totaled KM 35.7 million, while total established reserves amounted to KM 36.0 million, indicating that banks separated an amount of reserves larger by KM 293 thousand than calculated reserves, under condition that classification per categories was made realistically.

Risk Assets and Reserves Separated Breakdown

(in 000 KM)				
No.	DESCRIPTION	31.12.2003	30.09.2004	INDEX
1.	Total Risk Assets (for which reserves are separated)	998,721	1,267,256	127
	- Assets classified A	854,667	1,097,355	128
	- Assets classified B, C, D, E	144,054	169,901	118
2.	Reserves Separated	51,285	58,289	114
	- General for category A	17,306	22,247	129
	- Special for categories B, C, D, E	33,979	36,042	106
3.	Total Reserves/Total Risk Assets Ratio	5.1%	4.6%	
4.	General Reserves/Assets Classified A Ratio	2.0%	2.0%	
5.	Special reserves/Assets Classified B-E Ratio	23.6%	21.2%	

Total reserves (general and special) amounting to KM 58.3 million over assets for which reserves are calculated in an amount of KM 1,267 million give a ratio of 4.6%, which represents a low level of reserves.

General reserves over assets classified into category A give a ratio of 2%, while special reserves and assets classified into categories from B to E give a ratio of 21.2%, which is under an average classification of receivables in the C category.

Asset Quality Ratios

- in 000 KM -

DESCRIPTION/PERIOD		31.12.2003	30.09.2004
1.	Loans Due/	66,138	56,021
	Total Loans	607,215	849,889
	%	11	7
2.	Loans Due/	66,138	56,021
	Potential Loss Reserve	36,526	29,251
	%	181	192
3.	Loans Due/	66,138	56,021
	Total Capital	196,027	215,881
	%	34	26
4.	Classified Assets/	995,378	1,167,485
	Total Capital	196,027	215,881
	%	508	541
5.	Potential Loss Reserve/	36,526	29,251
	Total Loans	607,215	849,889
	%	6	3
6.	Total Risk Assets	867,327	1,040,183
	Total Assets	1,053,486	1,414,498
	%	82	74

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	%	30.09.2004	%	Index
1	2	3	4	5	6=4/2
Loans Extended To:					
1. Shareholders with over 5% of Voting Rights	10,336	837	9,240	84	89
2. Potential and taken off-balance sheet obligations	18	0			
3. Supervisory Board Members	1,011	8	164	1	911
4. Executive Managers	1,092	9	283	3	28
			1,276	12	117
5. Total receivables from related persons(1 to 4)	12,457	100	10,963	100	88
6. Banks' Employees	9,316		13,961		150
7. GRAND TOTAL (5+6)	21,773		24,924		114

As of September 30, 2004 loans extended to related persons decreased by 12% compared to December 31, 2003.

The largest share in the structure was that of loans extended to shareholders, which share amounted to 84% and decreased by 11%, and loans extended to management, which amounted to 12% recording an increase of 17%.

Loans extended to Supervisory Board members decreased by 72%, while loans extended to banks' employees increased by 50%.

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 7%. Compared to December 31, 2003 fixed assets increased by 2%.

Five banks exceeded 50% of investments 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 34%. 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	30.09.2003		30.09.2004		INDEX
	Total	%	Total	%	
1	2	3	4	5	6=4/2
1. INTEREST INCOME AND SIMILAR INCOME					
a) Interest Income and Similar Income	44,004	36	67,504	45	153
b) Operating Income	78,947	64	80,920	55	102
2. TOTAL INCOME (1.a + 1.b)	122,951	100	148,424	100	121
3. EXPENSE					
a) Interest Expense and Similar Expense	12,435	8	22,163	16	178
b) Business Operation and Direct Expense	71,303	46	42,687	31	60
c) Operating Expense	70,459	46	74,924	54	106
4. TOTAL EXPENSE (3.a + 3.b + 3.c)	154,197	100	139,774	101	91
TOTAL: INCOME-EXPENSE (2.-4.)	-31,246		8,650		
PROFIT BEFORE TAX	9,612		10,741		112
LOSS	40,858		2,091		5
TAXES	111		300		270
NET-PROFIT	9,501		10,441		110

Banks' total income amounted to KM 148 million and increased by 21% in comparison to the same period of the previous year.

Income structure consisted of 45% of interest income, which increased by 53%, and fee income, which increased by 2%.

Although interest income grew faster than operating income, the share of operating income still amounted to 55%.

Total expense amounted to KM 140 million and decreased by 9% compared to the same period of the previous year. The expense structure significantly changed and consisted of 16% of interest expense, with a rate of increase of 78%, which resulted from increased both deposits and deposit interest rate, especially with term-deposits.

Direct expenses decreased by 40% in comparison with the same period of 2003, and operating expenses increased by 6%.

Profit before tax amounted to KM 10.7 million, increasing by 12%. Loss amounted to KM 2.1 million and decreased by 95%.

Net profit amounted to KM 10.4 million, and increased by 10%.

We can see that banks improved their financial result, and except for the bank under PA, 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 one bank (the one under PA) generated loss in an amount of KM 2.1 million, and nine banks had a positive financial result in an amount of

KM10.4 million. The total banking system balance sheet loss amounted to KM 59.6 million, and it consisted of loss from the current year and non-covered loss from previous years.

Profitability Ratios

(in 000 KM)

DESCRIPTION/PERIOD		30.09.2003	30.09.2004
1.	Total Income/ Total Assets	163,935 1,005,753	197,899 1,414,498
	%	16	14
2.	Total Income / Total Capital	163,935 265,862	197,899 215,881
	%	62	92
3.	Total Expense/ Total Assets	205,596 1,005,753	186,365 1,414,498
	%	20	13
4.	Interest Income/ Total Assets	58,672 1,005,753	90,005 1,414,498
	%	6	6
5.	Interest Income/ Total Assets	16,580 1,005,753	29,551 1,414,498
	%	2	2
6.	Net Interest Income / Total Assets	42,092 1,005,753	60,455 1,414,498
	%	4	4
7.	Net Interest Expense/ Total Capital	42,092 265,862	60,455 215,881
	%	16	28
8.	Fees/ Total Assets	49,348 1,005,753	54,847 1,414,498
	%	5	4
9.	Material Expense and Gross Earnings/ Total Assets	93,945 1,005,753	99,899 1,414,498
	%	9	7
10.	Non-Interest Expense/ Total Assets	189,016 1,005,753	156,815 1,414,498
	%	19	11

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

Profitability ratios calculated for the first nine months of 2004 indicated that income grew slower than assets, and expenses had a positive trend since they decreased significantly, under condition that banks had made adequate reserves for their potential losses.

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 nine months of 2004 it is necessary to point out that the current loss was generated by one bank, the one under provisional administration. If we exclude that bank from the banking sector profitability rating it can be stated that return on assets for the remaining eight banks was 1, which was a good indicator.

5. INTERNAL PAYMENT TRANSACTIONS

The payment operation of Republika Srpska included ten commercial banks from RS, and six banks from Federation of Bosnia and Herzegovina operating through seventeen branch offices.

As of September 30, 2004 there were 103,800 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)
31.01.2004	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
30.04.2004	644,370	1,519,807	682,743	656,912
31.05.2004	648,850	1,394,458	681,457	610,756
30.06.2004	703,838	1,621,335	709,253	713,533
31.07.2004	746,103	1,658,224	753,157	731,923
31.08.2004	665,594	1,507,899	736,389	704,713
30.09.2004	732,981	1,608,286	759,850	736,905
TOTAL:	5.839.732	13.421.504	6.155.744	5.827.226

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 38% 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 illustrating comparison of the banking sector operation between the first nine months of this year and as of December 31, 2003 the following can be concluded:

- *Total assets increased by 24%;*
- *Cash funds increased by 14%, and loans increased by 31%;*
- *Capital increased by 5%;*
- *Required reserves for potential losses increased by 14%;*
- *Equity increased by 6%, and net capital increased by 4%;*
- *Deposits increased by 28%, out of which citizens' saving deposits amounted to 26%, with the rate of growth of 44%;*
- *Banks' liquidity was at a satisfactory level, although an increasing trend of long-term loans with considerably slower growth of long-term fund sources could create problems in the future liquidity of banks;*
- *Banks' profitability was not at satisfactory level, although it had a trend of growth;*
- *Six RS banks were licensed for deposit insurance, and the rest of banks were making preparations to have their deposits insured.*

In order to keep a growing trend in the banking system, it is necessary to have a more significant engagement of both the Government and the RS institutions involved either directly or indirectly in the following:

- *faster implementation of economic reforms in real sector in order to reach the same level of development as in monetary and banking sector;*
- *adjustment and fine tuning of legal regulation for overall economic, financial, and legal sector;*
- *courts in charge of economy to be more active and faster in their operation;*
- *to issue legal regulation for faster and more efficient enforcements of court orders especially those related to mortgages and pledges;*
- *further work on legal regulation for banking system and adjustment with the Basle Principles;*

In the future period intention of the Banking Agency of Republika Srpska is to do the following:

- *to perform quality supervision of banks' operation through both full scope and targeted examinations;*
- *to request additional capitalization of banks;*
- *to insist on meeting all conditions legally required in order to protect depositors, and especially in those banks keeping considerable citizens' deposits;*
- *to work on further development of the legal regulation;*
- *to organize trainings for its own staff, and assist banks;*
- *to monitor actively banks' activity in prevention of money laundering, and improve cooperation with other institutions in that field;*
- *to develop IT in order to provide for faster and higher quality exchange of information;*

- *to broaden cooperation with institutions supervising investors investing in our region.*

As the most important part for further development of the system, banks should do the following:

- *put in additional capital following increase of risk assets;*
- *provide for source and placement maturity adjustment;*
- *continue to develop policy and procedures in accordance with the market based earning;*
- *make Supervisory Boards more actively involved in managing banks' operation;*
- *increase independence of and strengthen internal audit, as well as external audit;*
- *persist in further training of staff, and increasing staff capacities;*
- *further improvement of IT;*
- *further development of policy and procedures in the area "know-your-client" and prevention of money laundering;*
- *Bank Association to play a more active role in order to resolve all claims banks have submitted to other institutions;*
- *Bank Association to organize higher quality seminars for banking sector.*

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 1

BASIC INFORMATION ON BANKS

No.	BANK	LOCATION	ADDRESS	DIRECTOR	PHONE	FAX	30.09.2004 (in 000KM)		NUMBER OF EMPLOYEES
							ASSETS	CAPITAL	
1.	Nova Banjalucka banka a.d.	Banja Luka	M.Bursać 7	Dragoljub Lekić	051/243-200	212-830	192,104	15,200	437
2.	Hypo Alpe-Adria-Bank a.d.	Banja Luka	I.F.Jukića 9	Kurt Makula	051/212-930	212-878	483,136	36,757	329
3.	Razvojna banka Jug. Evrope a.d.	Banja Luka	Kralja Petra I 85-A	Acting Miroslav Djordjević	051/242-101	242-192	267,156	23,005	427
4.	LHB banka a.d.	Banja Luka	Milana Tepića 4	Radovan Bajić	051/221-600	221-623	131,566	22,726	78
5.	Nova banka a.d.	Bijeljina	Svetog Save 46	Milorad Anđić	055/209-094	201-410	173,629	20,502	279
6.	Privredna banka ad Srpsko Sarajevo	Zvornik	Svetog Save 6	PA Toby Robinson	059/210-173	057/226-805	27,929	262	178
7.	Bobar banka a.d.	Bijeljina	Njegoševa 1	Dragan Radumilo	055/201-862	201-862	39,781	17,020	79
8.	Zepter komerc banka a.d.	Banja Luka	Jevrejska bb/ II sprat	Ranko Labović	051/241-100	215-771	156,065	19,715	158
9.	Balkan Investment Bank a.d.	Banja Luka	Bana Milosavljevića 8	Sauilus Žostautas	051/216-285	211-445	45,018	18,249	79
10.	Pavlovic International Bank a.d.	Slobomir, Bijeljina	Slobomir	Nada Pavlović	055/209-588	210-247	60,266	20,696	173
	TOTAL						1,576,650	194,132	2,217

Attachment 2

BALANCE SHEET

(in 000 KM)

DESCRIPTION/PERIOD	31.12.03	%	30.06.04	%	INDEX
1. Cash funds and deposit accounts at depository institutions (1.a.+1.b.)	378,220	30	431,794	27	114
1.1. Cash and non-interest bearing deposit accounts	203,800	16	205,161	13	101
1.2. Interest-bearing deposit accounts	174,420	14	226,633	14	130
2. Trading Securities	2,264	0	3,908	0	173
3. Placements to other banks	3,385	0	20,556	1	607
4. Loans, leasing and receivables due (4.a.+4.b.+4.c.)	728,165	58	952,580	61	131
4.a. Loans	677,285	54	898,609	57	133
4.b. Leasing receivables	0	0	0	0	0
4.c. Loan and leasing receivables due	50,880	4	53,971	4	106
5. Securities held up to maturity	541	0	21	0	4
6. Office space and other fixed assets	110,069	9	112,581	7	102
7. Other immovables	5	0	4	0	80
8. Investments in non-consolidated related companies	7,056	0	7,972	0	113
9. Other assets	34,294	3	47,234	4	138
TOTAL (1 to 9)	1,263,999	100	1,576,650	100	125
10. MINUS: Reserves for potential losses	46,812		52,916		113
11. TOTAL ASSETS: (1.to 9.-10.)	1,217,187		1,523,734		125
11.1 Total off-balance sheet items					
11.a. Active off-balance sheet items	134,143		186,519		139
11.b. Classified assets – loss E	140,751		159,347		113
11.c. Commission (agent) services	50,329		50,907		101
TOTAL ASSETS (11.+11.1)	1,542,410		1,920,507		125
12. Deposits (12.a.+12.b.)	950,060	78	1,212,755	80	128
12.a. Interest-bearing deposits	806,114	66	1,059,021	70	131
12.b. Non-interest bearing deposits	143,946	12	153,734	10	107
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	86,040	6	144
16.a. remaining maturity up to one year	8,191	1	7,233	1	88
16.b. remaining maturity over one year	51,443	4	78,807	5	153
17. Subordinated debt and subordinated bonds	1,898	0	1,768	0	93
18. Reserve to cover off-balance sheet items (18.a.+18.b.)	4,473	0	5,372	0	120
18.c. Other obligations	15,558	1	23,125	1	149
19. TOTAL LIABILITIES (12 to 18)	1,032,168	84	1,329,602	87	129
20. Permanent preferred shares	16,643		16,643		100
21. Regular shares	192,083		205,512		107
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		12,090		94
24. Capital reserves	27,452		19,506		71
25. Other capital	-64,016		-59,619		93
26. TOTAL CAPITAL: (20. to 25.)	185,019	16	194,132	13	105
27. TOTAL LIABILITIES AND CAPITAL: (19. + 26.)	1,217,187	100	1,523,734	100	125
28.1. Total off-balance					
28.1. Active off-balance sheet	134,143		186,519		139
28.2. Classified assets – loss E	140,751		159,347		113
28.3. Commissioned (agent) services	50,329		50,907		101
TOTAL LIABILITIES (27.+28.1)	1,542,410		1,920,507		125

Attachment 3

CAPITAL STATEMENT

in 000 KM

DESCRIPTION/PERIOD	31.12.2003	30.09.2004	INDEX 2004/2003
<i>1. CORE CAPITAL OF BANKS</i>			
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	218.980	107
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	3,174	93
1.3. Premiums collected for share payments:	0	0	0
1.4. General reserves required (reserves required by the law):	11,323	9,285	82
1.5. Other reserves which are not taken into account when rating asset quality:	15,887	10,221	64
1.6. Retained – undistributed profit from previous years:	2,622	1,950	74
1.a TOTAL (1.1.-1.6.)	238,558	243,610	102
1.7. Uncovered loss carried over from previous years:	35,955	57,528	160
1.8. Current Year Loss:	28,061	2,091	7
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	6,206	114
1.b TOTAL (1.7.-1.10.)	69,445	65,825	95
1. AMOUNT OF CORE CAPITAL (1.a - 1.b):	169,113	177,785	105
<i>2. ADDITIONAL CAPITAL OF BANKS</i>			
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	22,248	129
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	1,768	93
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	20,000	111
2. AMOUNT OF ADDITIONAL CAPITAL:	44,002	44,016	100
<i>3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL</i>			
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	0	0
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	3,084	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	3,084	96
<i>4. ITEMS OFF-SETTING FROM BANK'S CAPITAL:</i>			
1. AMOUNT OF BANK'S CORE CAPITAL	169,113	177,785	105
2. AMOUNT OF BANK'S ADDITIONAL CAPITAL	44,002	44,016	100
3. AMOUNT OF BANK'S ITEMS OFF-SETTING FROM THE CAPITAL	3,220	3,084	96
4. AMOUNT OF BANK'S NET-CAPITAL (1. + 2. - 3.)	209,895	218,717	104
B. RISK WEIGHTED ASSETS AND LOAN EQUIVALENTS	870,085	1,129,199	130
C. NET CAPITAL RATE	24.1	19.4	80

Attachment 4

INCOME STATEMENT

(in 000 KM)

DESCRIPTION/PERIOD	30.09.2003	%	30.09.2004	%	INDEX
1. INTEREST INCOME AND EXPENSE					
a) Interest income and similar income					
1) Interest bearing deposit accounts at depository institutions	2,290	5	4,301	6	188
2) Placements to other banks	1,863	4	693	1	37
3) Loans and leasing operations	30,874	71	46,722	70	151
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	39	0	173	0	444
7) Other interest income and similar income	8,938	20	15,615	23	175
8) TOTAL INTEREST INCOME AND OTHER INCOME (1 to 7)	44,004	100	67,504	100	153
b) Interest expense and similar expense					
1) Deposits	10,848	87	19,032	86	175
2) Borrowings from other banks	897	7	722	3	80
3) Borrowings – due obligations	0	0	0	0	0
4) Loan and other borrowing obligations	214	2	919	4	429
5) Subordinated debt and subordinated bonds	0	0	0	0	0
6) Other interest expense and similar expense	476	4	1,490	7	313
7) TOTAL INTEREST EXPENSE AND SIMILAR EXPENSE (1 to 6)	12,435	100	22,163	100	178
c) NET INTEREST AND SIMILAR INCOME	31,569		45,341		144
2. OPERATING INCOME					
1) Foreign currency operation income	10,507	13	9,644	12	92
2) Loan fees	8,074	10	9,189	11	114
3) Off-balance sheet operation fees	3,988	5	4,526	6	113
4) Service fees	24,949	32	27,420	34	110
5) Trading operation income	573	1	1,421	2	248
6) Other operating income	30,856	39	28,720	35	93
7) TOTAL OPERATING INCOME (1 to 6)	78,947	100	80,920	100	102
3. NON-INTEREST BEARING EXPENSE					
a) Operating and direct expense					
1) Reserves for general loan risk and potential loan and other losses	66,381	93	36,768	86	55
2) Other operating and direct expenses	4,922	7	5,919	14	120
3) TOTAL OPERATING AND DIRECT EXPENSES (1) + 2)	71,303	100	42,687	100	60
b) Operating expenses					
1) Salaries and contributions	27,050	38	31,154	42	115
2) Office space, other fixed assets and overheads	25,768	37	30,784	41	119
3) Other operating expenses	17,641	25	12,986	17	74
4) TOTAL OPERATING EXPENSES (1 to 3)	70,459	100	74,924	100	106
c) TOTAL NON-INTEREST BEARING EXPENSES (a)3) + b)4)	106,113		67,920		64
TOTAL: INCOME-EXPENSE (1c+2g - 3c)	141,762		117,611		83
4. PROFIT BEFORE TAX (1c+2g - 3c)	9,612		10,741		112
5. LOSS (1.c + 2.g – 3.c)	40,858		2,091		5
6. TAX	111		300		270
7. NET-PROFIT (4. – 6.)	9,501		10,441		110

Attachment 5

STAFF

No.	BANKS	QUALIFICATION STRUCTURE								Total	%
		NS*	KV*	VKV*	SSS*	VS*	VSS*	MR*	DR*		
1.	Nova Banjalucka banka a.d.	7	10	4	252	50	110	4	0	437	20
2.	Hypo-Alpe-Adria Bank a.d.	10	0	1	199	15	103	1	0	329	15
3.	PB a.d. Srpsko Sarajevo	6	4	1	116	20	31	0	0	178	8
4.	Razvojna banka JIE a.d.	3	8	7	219	66	120	3	1	427	19
5.	Bobar banka a.d.	0	5	0	43	9	21	1	0	79	3
6.	LHB banka a.d.	1	1	1	34	7	34	0	0	78	3
7.	Zepter Komerc banka a.d.	0	2	1	72	23	60	0	0	158	7
8.	Balkan Investment Bank a.d.	1	0	0	34	5	39	0	0	79	4
9.	Pavlovic International Bank a.d.	12	7	1	97	14	40	2	0	173	8
10.	Nova banka a.d.	1	0	0	99	55	123	1	0	279	13
TOTAL		41	37	16	1.165	264	681	12	1	2,217	100
%		2	2	1	52	12	31	1	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