

BANKING AGENCY OF REPUBLIKA SRPSKA

R E P O R T
ON BANKING SYSTEM OF REPUBLIKA SRPSKA
IN THE 1st HALF OF 2001

Banja Luka, July 2001

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I INTRODUCTION

Since the first half of 1998, when the Banking Agency of Republika Srpska was established, through the first quarter of 2001 significant changes have taken place in the RS banking system but the system itself as well as individual banks are still faced with serious problems.

In the second quarter the RS Government, Ministry of Finance, and National Assembly performed significant activities related to condition of the banking sector with a goal to maintain the sector and to privatize state-owned share of banks' capital in banks with majority state capital.

Taking into consideration the economic environment, banks have been operating under complex conditions.

The first problem is the fact that there are so many banks in such a small banking market creating a fierce market competition where, as a rule, only banks with larger capital can survive, while smaller banks will be forced to merge.

The second problem is lack of confidence in banking system as a whole, due to which there is no significant increase in savings, especially citizens' savings, which is fundamental for development of banking system.

The third problem is uncompleted reform of overall economic and legal system, creating for banks additional operating risks.

Delayed privatization of majority-state-owned banks has decreased their competitiveness and profitability, as well as minimized their realistic possibilities to complete the privatization process.

A significant step forward during the first half of this year was stepping in of foreign capital (founding of a new bank and additional capitalization of a privately owned bank).

The reform of payment operation has been completed in a short period of time and should provide for increased profitability and development of banks.

Nine banks have opened investment-banking departments to deal with securities, and, at the same time, the banks established the "Stock Exchange".

Opening of the Deposit Insurance Agency is also an important fact, which will have its share in restoring of confidence in banks.

The Banking Agency of Republika Srpska, as a regulatory institution, has prepared this Report based on off-site supervision of banks, which has also included results of the Agency's on-site examinations of banks.

It should be noted also that external audit reports on banks were submitted to the Agency. The Agency prepared comparative indicators on the RS banks' operation based on the data reported by banks and external audit reports, which are always prepared based on more rigorous criteria than the banks' reports.

II BUSINESS OPERATION OF BANKS IN REPUBLIKA SRPSKA

1. GENERAL DATA

During the first half of 2001 seventeen banks plus the Post Office Savings (Postanska stedionica) and two branch offices of banks from Federation BH were operating in Republika Srpska. In the first half of the year the bankruptcy proceedings related to the West banka d.d. Laktasi was started since the bank's license had been revoked on December 31, 2000.

Based on the balance sheet data related to the ownership structure as of June 30, 2001 nine banks and Postanska stedionica were state-owned while eight banks were privately owned, indicating that banks' owners have changed since one of the state-owned banks has become majority-privately-owned.

Capital Structure of Banks Involved in the Process of Privatization

| BANK | CAPITAL OWNERSHIP in % | | | |
|--------------------------------------|------------------------|--------------|---------|-------|
| | State | Co-operative | Private | Total |
| Kristal banka a.d. Banja Luka | 75.6 | 4.8 | 19.6 | 100 |
| Banjalucka banka a.d. Banja Luka | 84.0 | 4.0 | 12.0 | 100 |
| Privredna banka a.d. Gradiska | 74.2 | 20.4 | 5.4 | 100 |
| Privredna banka a.d. Brcko | 100.0 | | | 100 |
| PBS a.d. Srpsko Sarajevo | 84.4 | 1.3 | 14.3 | 100 |
| Privredna banka a.d. Doboj | 90.0 | 4.0 | 6.0 | 100 |
| Prijedorska banka a.d. Prijedor | 90.6 | 5.6 | 3.8 | 100 |
| Postanska stedionica a.d. Banja Luka | 100.0 | | | 100 |
| Semberska banka a.d. Bijeljina | 90.1 | 6.9 | 3.0 | 100 |
| Razvojna banka a.d. Banja Luka | 100.0 | | | 100 |

In the first quarter of 2001 the opening balance sheet of the Razvojna banka a.d. Banja Luka was finally adopted, since the balance sheet based on separation of the bank from the former SPP had been delayed. After that the Agency made an assessment of the bank's solvency and issued the Decision on the bank's solvency.

During the first quarter of 2001 the following eight majority-privately-owned banks operated in Republika Srpska:

| BANK | CAPITAL | | | TOTAL |
|--|---------|-------|--------------|-------|
| | Private | State | Co-operative | |
| Agroprom banka a.d. Banja Luka | 51.2 | 33.4 | 15.4 | 100.0 |
| VB banka a.d. Banja Luka | 89.6 | 10.4 | - | 100.0 |
| Nova banka a.d. Banja Luka | 97.0 | 1.9 | 1.1 | 100.0 |
| Ekvator banka a.d. Banja Luka | 100.0 | - | - | 100.0 |
| Bobar banka a.d. Banja Luka | 100.0 | - | - | 100.0 |
| Zepter Komerc banka a.d. Banja Luka | 100.0 | - | - | 100.0 |
| Balkan Investment Bank a.d. Banja Luka | 100.0 | - | - | 100.0 |
| BSEI | 100.0 | - | - | 100.0 |

In accordance with the Law on Banking Agency and the Law on Banks during the first quarter of this year the Agency licensed a new privately owned bank (Pavlovic International Bank a.d. Slobomir – Bijeljina). Also the following approvals and decisions were issued:

- thirteen approvals to choose and appoint an external auditor;
- one decision on appointing liquidation administrator;
- one decision on significant share in bank's capital;
- eight approvals to establish branch offices of banks having their headquarters in Republika Srpska and one approval to establish a branch office of a Federation BH based bank;
- nine approvals to establish bank departments to perform operations with securities;
- two banks' Statute approvals;
- one approval for bank general management appointment;
- one approval for bank founding agreement;
- one approval for purchase of bank shares owned by the state.

It should be pointed out that in the first half of 2001 the Agency issued two licenses to perform low risk internal payment operation, and three such licenses for medium risk transactions.

Activities related to issuance of internal payment operation licenses are performed in accordance with the order in which banks' applications were submitted, and based on compliance with the related Decision.

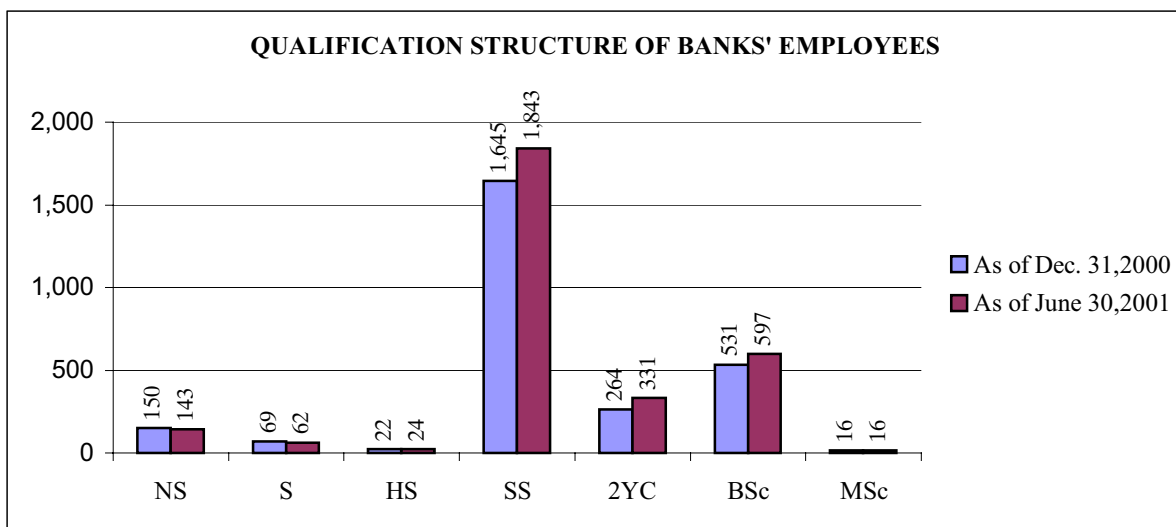
1.1. Staff

As of June 30, 2001 the total number of banks' employees was 3,016 with the following qualification structure:

Qualification Structure of Banks' Employees

| No. | Qualification | As of December 31, 2000 | % | As of March 31, 2001 | % | Index 2001/2000 |
|---------------|------------------|-------------------------|---------------|----------------------|---------------|-----------------|
| 1. | Non-Skilled | 150 | 5.56 | 143 | 4.74 | 95 |
| 2. | Skilled | 69 | 2.56 | 62 | 2.06 | 90 |
| 3. | Highly Skilled | 22 | 0.82 | 24 | 0.80 | 109 |
| 4. | Secondary School | 1,645 | 60.99 | 1,843 | 61.11 | 112 |
| 5. | 2-year College | 264 | 9.79 | 331 | 10.97 | 125 |
| 6. | College Degree | 531 | 19.69 | 597 | 19.79 | 112 |
| 7. | M. Sc. | 16 | 0.59 | 16 | 0.53 | 100 |
| TOTAL: | | 2,697 | 100.00 | 3,016 | 100.00 | 112 |

By the end of the first half of 2001 the number of employees increased by 319 or by 12%, which resulted from increased number of employees in one state-owned and three private banks. It should be pointed out, however, that employees having secondary school education still prevail, 61.1%, while there are only 19.8% of employees with a college degree. College degree is mostly required now, due to an increasing complexity of banking business. Majority of state owned banks were overstaffed having an unsatisfactory qualification structure of employees.



As of June 30, 2001 banks with majority state-owned capital employed 86.4% of the total number of banks' employees, while 13.6% were employed by privately owned banks, as it is shown in the following table:

| BANKS | NUMBER OF EMPLOYEES | | | | INDEX 2001/2000 |
|-----------------|---------------------|---------------|---------------|---------------|--------------------|
| | December 31, 2000 | | June 30, 2001 | | |
| | Number | % | Number | % | |
| State-owned | 2,421 | 89.77 | 2,605 | 86.37 | 108 |
| Private | 276 | 10.23 | 411 | 13.63 | 149 |
| TOTAL: | 2,697 | 100.00 | 3,016 | 100.00 | 112 |
| Number of Banks | 18 | | 18 | | |

Amount of banks' assets related to the number of employees and to the ownership structure can be seen from the following table:

| BANKS | As of June 30, 2001 | | |
|-----------------|---------------------|----------------------|-----------------------------------|
| | Number of employees | Assets in KM million | Assets per employee in KM million |
| State-owned | 2,605 | 512 | 0.20 |
| Private | 411 | 192 | 0.47 |
| TOTAL: | 3,016 | 704 | 0.23 |
| Number of banks | 18 | | |

Compared to December 31, 2000 asset per employee ratio was lower in state-owned banks.

The total number and qualification structure of banks' employees as of June 30, 2001 are presented in the Attachment number 5.

2. FINANCIAL INDICATORS OF BANKS' OPERATION

Supervision of banks' operations as one of the basic tasks of the Agency has been performed by on-site examinations and off-site examinations based on banks' reports submitted to the Agency, which are the following:

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

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

an inclination to start fully implementing International Accounting Standards with a newly designed chart of accounts in accounting recording and reporting has prevailed in accounting practice in Republika Srpska. The official date for such an implementation is January 1, 2000. Therefore, the Agency prepared drafts for new reporting forms to be submitted in such a manner and within such deadlines as stipulated by pertaining Decisions and Instructions starting officially on January 1, 2000. **Balance sheets show no longer those items that are to be taken over by the state, as provided by the Law on Opening Balance Sheet. That means that items of passive and neutral sub-balances are not to be included in banks balance sheets, i.e. only active items of balance sheets of banks are to be analyzed.**

2.1. Balance Sheet

As of June 30, 2001 banks' total assets amounted to KM 925.9 million, out of which KM 704.4 million was balance sheet and KM 221.5 million was off-balance sheet assets. The structure of assets and liabilities of banks in Republika Srpska is shown in the following table:

Banks' Balance Sheet

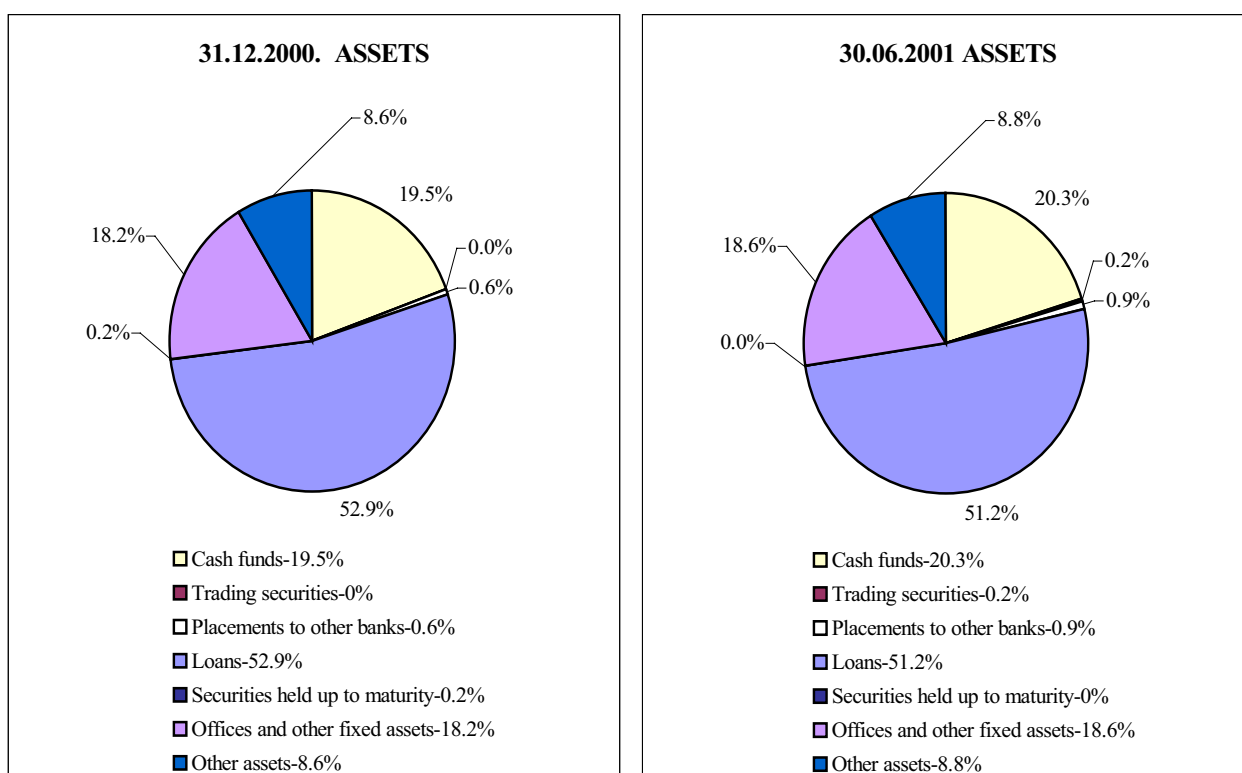
| DESCRIPTION | AMOUNT (000 KM) | | | | INDEX |
|--|-----------------|---------------|----------------|---------------|------------|
| | 31.12.2000 | | 30.06.2001 | | |
| | Amount | % | Amount | % | |
| 1 | 2 | 3 | 4 | 5 | 6=4/2 |
| ASSETS (PROPERTY): | | | | | |
| Cash Funds | 126,893 | 19,49 | 143,281 | 20,34 | 113 |
| Trading Securities | 0 | 0,00 | 1,141 | 0,16 | 0 |
| Placements to other banks | 3,796 | 0,58 | 6,190 | 0,88 | 163 |
| Loans | 344,224 | 52,86 | 360,555 | 51,18 | 105 |
| Securities held up to maturity | 1,413 | 0,22 | 4 | 0,00 | 0 |
| Premises and Other Fixed Assets | 118,768 | 18,24 | 131,177 | 18,62 | 110 |
| Other Assets | 56,118 | 8,62 | 62,097 | 8,82 | 111 |
| TOTAL ASSETS | 651,212 | 100.00 | 704,445 | 100.00 | 108 |
| Total Off-Balance Sheet (10+11+12) | 218,632 | | 221,167 | | 101 |
| Active Off-Balance Sheet | 152,120 | | 135,577 | | 89 |
| Classified Assets-Loss E | 31,893 | | 42,624 | | 134 |
| Fees for Agent and Other Operation | 34,619 | | 42,966 | | 124 |
| TOTAL ASSETS (8+9) | 869,844 | | 925,612 | | 106 |
| LIABILITIES (COMMITMENTS): | | | | | |
| Deposits | 330,611 | 50,77 | 362,335 | 51,44 | 110 |
| Borrowings | 2,274 | 0,35 | 3,938 | 0,56 | 173 |
| Obligations Based on Loans | 47,273 | 7,26 | 37,648 | 5,34 | 80 |
| Other Commitments | 25,119 | 3,86 | 44,880 | 6,37 | 179 |
| Special Reserves for Potential Loss | 59,812 | 9,18 | 61,185 | 8,69 | 102 |
| Capital | 186,123 | 28,58 | 194,459 | 27,60 | 104 |
| TOTAL LIABILITIES (COMMITMENTS AND CAPITAL) | 651,212 | 100.00 | 704,445 | 100.00 | 108 |
| Total Off-Balance Sheet (22+23+24) | 218,632 | | 221,167 | | 101 |
| Active Off-Balance Sheet | 152,120 | | 135,577 | | 89 |
| Classified Assets-Loss "E" | 31,893 | | 42,624 | | 134 |
| Fees for Agent and Other Operation | 34,619 | | 42,966 | | 124 |
| TOTAL LIABILITIES (20+21) | 869,844 | | 925,612 | | 106 |

2.1.1. Assets

Decreasing trend of cash funds was stopped in the 1st half of 2001.

Amount of cash funds as of June 30, 2001 compared to the end of the previous year increased by KM 28.5 million or 13%, which resulted from both a transfer of cash funds from the former SPP and payments of founding capital for newly founded banks.

In the first half of 2001 loans increased by 5% indicating a positive trend in expanding lending activity as a basic bank operation.



The banks' balance sheet structure was still unsatisfactory taking into consideration the significant amount of inactive assets and increased receivables due based on loans.

Total off-balance sheet assets amounted to KM 221.5 million and it remained almost on the previous year level, although banks' off-balance sheet assets bearing risk (active off-balance sheet) decreased by 11%.

2.1.1.1. Asset Quality

A bank's asset quality is rated based on the Decision on Minimum Standards for Banks' Loan Risk Management and Asset Classification. Each bank reports quarterly to the Agency on its own asset quality rate. On the other hand the Agency makes an assessment of each bank's asset quality during on-site examination. Also, external auditors present such an assessment in their annual bank audit report.

Total loans extended by RS banks structured per sectors are shown in the following table:

in 000 KM

| No. | DESCRIPTION/PERIOD | 31.12.2000. | % | 30.06.2001. | % | INDEX 2001/2000 |
|-----|--------------------------------------|----------------|---------------|----------------|---------------|--------------------|
| 1. | Government Institutions | 8,177 | 2.38 | 8,147 | 2.26 | 100 |
| 2. | Public Enterprises | 165,511 | 48.08 | 141,714 | 39.30 | 86 |
| 3. | Private Enterprises and Associations | 144,629 | 42.02 | 174,491 | 48.40 | 121 |
| 4. | Non-Profit Organizations | 2 | 0.00 | 217 | 0.06 | 10,850 |
| 5. | Bank Institutions | 936 | 0.27 | 200 | 0.06 | 21 |
| 6. | Non-Banking Financial Institutions | 0 | 0.00 | 1,440 | 0.40 | 0 |
| 7. | Citizens | 16,352 | 4.75 | 22,084 | 6.13 | 135 |
| 8. | Other | 8,617 | 2.50 | 12,262 | 3.40 | 142 |
| 9. | TOTAL: | 344,224 | 100.00 | 360,555 | 100.00 | 105 |

Total loans extended by RS banks structured per sectors and majority capital ownership i.e. majority state owned capital and majority privately owned capital are shown in the following table:

000 KM

| No. | DESCRIPTION/PERIOD | 30.06.2001 | | | | | |
|-----|--------------------------------------|----------------|---------------|---------------|---------------|----------------|---------------|
| | | State Banks | % | Private Banks | % | TOTAL | % |
| 1. | Government Institutions | 4,522 | 1.69 | 3,625 | 3.90 | 8,147 | 2.26 |
| 2. | Public and State Enterprises | 130,377 | 48.70 | 11,337 | 12.21 | 141,714 | 39.30 |
| 3. | Private Enterprises and Associations | 109,396 | 40.87 | 65,095 | 70.10 | 174,491 | 48.40 |
| 4. | Non-Profit Organizations | 216 | 0.08 | 1 | 0.00 | 217 | 0.06 |
| 5. | Banking Institutions | 50 | 0.02 | 150 | 0.16 | 200 | 0.06 |
| 6. | Non-Banking Financial Institutions | 0 | 0.00 | 1,440 | 1.55 | 1,440 | 0.40 |
| 7. | Citizens | 14,500 | 5.42 | 7,584 | 8.17 | 22,084 | 6.13 |
| 8. | Other | 8,637 | 3.23 | 3,625 | 3.90 | 12,262 | 3.40 |
| 9. | TOTAL: | 267,698 | 100.00 | 92,857 | 100.00 | 360,555 | 100.00 |

In the first half of the year the structure of loans changed based on an increase of loans to private enterprises and a significant decrease of loans to public-state owned enterprises due to removal of loans classified as "E" category.

It should be pointed out, however, that receivables due increased and amounted to KM 68.0 million as of June 30, 2001. The amount was higher by 109% compared to the previous year-end. Increase of receivables due resulted from aggravated conditions for collection and a high level of risk exposure of placements.

Level and composition of receivables due are shown in the following table:

000 KM

| No. | DESCRIPTION/PERIOD | 31.12.2000 | | | % | 30.06.2001 | | | % | INDEX 2001/2000 |
|-----|--------------------------------------|------------|---------|--------|--------|------------|---------|--------|--------|--------------------|
| | | State | Private | Total | | State | Private | Total | | |
| 1. | Government Institutions | 0 | 0 | 0 | 0.00 | 4,242 | 2,442 | 6,684 | 9.84 | 0 |
| 2. | Public Enterprises | 19,301 | 73 | 19,374 | 59.55 | 33,690 | 1,100 | 34,790 | 51.20 | 180 |
| 3. | Private Enterprises and Associations | 10,311 | 935 | 11,246 | 34.57 | 23,083 | 3,087 | 26,170 | 38.51 | 233 |
| 4. | Non-Profit Organizations | 0 | 0 | 0 | 0.00 | 0 | 1 | 1 | 0.00 | 0 |
| 5. | Banking Institutions | 0 | 0 | 0 | 0.00 | 0 | 0 | 0 | 0.00 | 0 |
| 6. | Non-Banking Financial Institutions | 0 | 0 | 0 | 0.00 | 0 | 0 | 0 | 0.00 | 0 |
| 7. | Citizens | 75 | 60 | 135 | 0.41 | 57 | 230 | 287 | 0.42 | 213 |
| 8. | Other | 222 | 1,555 | 1,777 | 5.46 | 21 | 0 | 21 | 0.03 | 1 |
| 9. | TOTAL: | 29,909 | 2,623 | 32,532 | 100.00 | 61,093 | 6,860 | 67,953 | 100.00 | 209 |

Banks' lending was directed to support public and state enterprises, as well as private companies and associations, and actually that is where the banks could be exposed to the highest level of risk.

Unfavorable maturity structure of loans should be also pointed out, which can be seen from the following table:

in 000 KM

| No | DESCRIPTION/PERIOD | 30.06.2001 | | | |
|----|------------------------------------|------------------------|-----------------------|--------------------|---------|
| | | Short Term < 1 year | Long Term > 1 year | Due Receivables | TOTAL |
| 1. | Government Institutions | 1,454 | 9 | 6,684 | 8,147 |
| 2. | Public and State Enterprises | 75,484 | 31,440 | 34,790 | 141,714 |
| 3. | Private Companies and Associations | 100,748 | 47,573 | 26,170 | 174,491 |
| 4. | Non-Profit Organizations | 216 | 0 | 1 | 217 |
| 5. | Banking Institutions | 200 | 0 | 0 | 200 |
| 6. | Non-Banking Financial Institutions | 0 | 1,440 | 0 | 1,440 |
| 7. | Citizens | 4,381 | 17,416 | 287 | 22,084 |
| 8. | Other | 11,890 | 351 | 21 | 12,262 |
| 9. | TOTAL: | 194,373 | 98,229 | 67,953 | 360,555 |

Loans to citizens consisted of both long and short-term loans and proved once again to be the category of loans with the lowest risk. Loans to citizens were extended from foreign credit lines, since banks had not created a deposit base to be used as a source of financing.

In order to present a more complete picture of composition of loans extended by banks and their condition in state and private banks respectively, the following table gives a survey of both loans and loan loss reserves.

in 000 KM

| DESCRIPTION | Loans | | | | Loan Loss Reserves | | | |
|---------------|------------|--------|------------|--------|--------------------|--------|------------|--------|
| | 31.12.2000 | | 30.06.2001 | | 31.12.2000 | | 30.06.2001 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| State Banks | 275,382 | 80.00 | 267,698 | 74.25 | 29,930 | 80.20 | 30,073 | 82.60 |
| Private Banks | 68,842 | 20.00 | 92,857 | 25.75 | 7,390 | 19.80 | 6,335 | 17.40 |
| TOTAL: | 344,224 | 100.00 | 360,555 | 100.00 | 37,320 | 100.00 | 36,408 | 100.00 |

The following table gives condition and composition of classified balance sheet and off-balance sheet assets:

- in 000 KM -

| BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS | 31.12.2000 | 30.06.2001 | INDEX |
|--|------------|------------|-------|
| 1. Short-term Loans | 221,497 | 197,916 | 89 |
| 2. Long-Term Loans | 93,020 | 98,284 | 106 |
| 3. Other Placements | 13,935 | 10,369 | 74 |
| 4. Accrued Interest | 31,293 | 38,121 | 122 |
| 5. Receivables Due | 33,902 | 62,135 | 183 |
| 6. Paid Guarantee based Receivables | 8,282 | 9,453 | 114 |
| 7. Other Assets | 32,387 | 42,108 | 130 |
| 8. TOTAL BALANCE SHEET ASSET ITEMS: | 434,316 | 458,386 | 106 |
| 9. General Loan Risk and Potential Loan Loss (no. 8 X % loss) | 52,100 | 62,231 | 119 |
| 10. Already Separated General Reserve (A) and Special Reserve (B, C, D, E) | 53,012 | 53,979 | 102 |
| 11. Balance 10.-9. | 912 | -8,252 | -905 |
| 12.a) Payable Guarantees | 58,769 | 74,037 | 126 |
| b) Performance Guarantees | 35,851 | 24,242 | 68 |
| 13. Non-Covered Letters of Credit | 46,373 | 27,234 | 59 |
| 14. Irrevocable Loan based Commitments | 15 | 0 | 0 |
| 15. Other Potential Commitments | 609 | 6,866 | 1,127 |
| 16. TOTAL OFF-BALANCE SHEET ITEMS: | 141,617 | 132,379 | 93 |
| 17. General Loan Risk and Potential Loan Loss (no.16 X % loss) | 5,179 | 6,887 | 133 |
| 18. Already Separated General Reserves (A) and Special Reserves (B, C, D, E) | 6,801 | 7,207 | 106 |
| 19. Balance 18.-17. | 1,622 | 320 | 20 |
| 20. TOTAL BALANCE SHEET AND OFF-BALANCE SHEET ITEMS (8 + 13) | 575,933 | 590,765 | 103 |
| 21. General Loan Risk and Potential Loan Loss (no. 20 X % loss) | 57,281 | 69,118 | 121 |
| 22. Already Separated General Reserve (A) and Special Reserve (B, C, D, E) | 59,813 | 61,186 | 102 |
| 23. OVERAGE of Separated Reserves (+)(amount) (no.22. - no.21.) | 3,929 | 1,147 | 29 |
| SHORTAGE of Separated Reserves (-)(amount) (no.21. - no.22.) | 1,397 | 9,079 | 650 |
| NON-CLASSIFIED ACTIVE ASSETS | 227,399 | 249,257 | 110 |

Total classified assets as of June 30, 2001 amounted to KM 690.7 million, and increased by 3% compared to the previous year-end. Out of the total amount, KM 458.3 million were balance sheet assets, and KM 132.3 million were off-balance sheet assets, which decreased by 7% compared to the previous year.

The asset quality rate, however, should be seen in direct relationship with the amount and share of bad assets (classified as C, D, and E) in the total balance sheet and off-balance sheet risk assets. Also, it is related to the structure of potential loan loss in each category of classification.

Classified balance sheet and off-balance sheet assets of banks as of June 30, 2001 is shown in the following table:

Classified Active Assets
as of June 30,2001

- 000KM -

| BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS | A | B | C | D | E | TOTAL |
|--|----------------|----------------|---------------|---------------|--------------|----------------|
| 1. Short-term Loans | 98,461 | 47,366 | 32,288 | 18,736 | 1,065 | 197,916 |
| 2. Long-Term Loans | 48,129 | 23,793 | 17,378 | 8,660 | 324 | 98,284 |
| 3. Other Placements | 9,705 | 366 | 37 | 257 | 4 | 10,369 |
| 4. Accrued Interest | 4,801 | 7,072 | 11,424 | 14,349 | 475 | 38,121 |
| 5. Receivables Due | 8,248 | 22,734 | 15,300 | 14,144 | 1,709 | 62,135 |
| 6. Paid Guarantee based Receivables | 835 | 1,665 | 4,305 | 2,004 | 644 | 9,453 |
| 7. Other Assets | 38,211 | 3,465 | 78 | 354 | 0 | 42,108 |
| 8. TOTAL BALANCE SHEET ASSET ITEMS: | 208,390 | 106,461 | 80,810 | 58,504 | 4,221 | 458,386 |
| 9. General Loan Risk and Potential Loan Loss (no. 8 X % loss) | 4,166 | 7,918 | 17,265 | 28,661 | 4,221 | 62,231 |
| 10. Already Separated General Reserve (A) and Special Reserve (B, C, D, E) | 4,093 | 5,622 | 11,861 | 28,238 | 4,165 | 53,979 |
| 11. Balance 10.-9 | -73 | -2,296 | -5,404 | -423 | -56 | -8,252 |
| 12.a) Payable Guarantees | 60,218 | 9,939 | 1,851 | 666 | 1,363 | 74,037 |
| b) Performance Guarantees | 18,439 | 2,179 | 3,248 | 376 | 0 | 24,242 |
| 13. Non-Covered Letters of Credit | 4,526 | 22,410 | 82 | 216 | 0 | 27,234 |
| 14. Irrevocable Loan based Commitments | 0 | 0 | 0 | 0 | 0 | 0 |
| 15. Other Potential Commitments | 6,866 | 0 | 0 | 0 | 0 | 6,866 |
| 16. TOTAL OFF-BALANCE SHEET ITEMS: | 90,049 | 34,528 | 5,181 | 1,258 | 1,363 | 132,379 |
| 17. General Loan Risk and Potential Loan Loss (no.16 X % loss) | 1,679 | 2,306 | 928 | 611 | 1,363 | 6,887 |
| 18. Already Separated General Reserves (A) and Special Reserves (B, C, D, E) | 1,718 | 2,621 | 923 | 538 | 1,407 | 7,207 |
| 19. Balance 18.-17. | 39 | 315 | -5 | -73 | 44 | 320 |
| 20. TOTAL BALANCE SHEET AND OFF-BALANCE SHEET ITEMS (8 + 13) | 298,439 | 140,989 | 85,991 | 59,762 | 5,584 | 590,765 |
| 21. General Loan Risk and Potential Loan Loss (no. 20 X % loss) | 5,845 | 10,224 | 18,193 | 29,272 | 5,584 | 69,118 |
| 22. Already Separated General Reserve (A) and Special Reserve (B, C, D, E) | 5,811 | 8,243 | 12,784 | 28,776 | 5,572 | 61,186 |
| 23. OVERAGE of Separated Reserves (+)(amount) (no.22. - no.21.) | 338 | 805 | 0 | 4 | 0 | 1,147 |
| SHORTAGE of Separated Reserves (-)(amount) (no.21. - no.22.) | 372 | 2,786 | 5,409 | 500 | 12 | 9,079 |
| NON-CLASSIFIED ACTIVE ASSETS | | | | | | 249,257 |

Classification Comparison

- in 000 KM -

| Classification Category | 31.12.2000 | % | 30.06.2001 | % | INDEX |
|---|----------------|--------------|----------------|--------------|------------|
| A | 327,050 | 40.7 | 298,439 | 35.5 | 91 |
| B | 155,498 | 19.4 | 140,989 | 16.8 | 91 |
| C | 58,340 | 7.3 | 85,991 | 10.2 | 147 |
| D | 30,390 | 3.8 | 59,762 | 7.1 | 197 |
| E | 4,655 | 0.6 | 5,584 | 0.7 | 120 |
| Non-classified active balance sheet | 227,399 | 28.3 | 249,257 | 29.7 | 110 |
| TOTAL: | 803,332 | 100.1 | 840,022 | 100.0 | 105 |
| Required potential loan loss general reserves (A) | 6,540 | | 5,845 | | 89 |
| Already established general reserve (A) | 6,372 | | 5,811 | | 91 |
| Balance for A: | - 168 | | - 34 | | |
| Required special reserves for potential loan loss (B-E) | 50,741 | | 63,273 | | 125 |
| Already separated special reserves (B-E) | 53,441 | | 55,375 | | 104 |
| Balance for (B-E): | 2,700 | | -7,898 | | |

Asset quality, however, deteriorated further during the first half of 2001, which is seen as decreasing nominal amount of assets classified in categories “A” and “B”, and increasing high risk categories “C”, “D” and “E”.

Category “A”, amounting 35.9%, represented the largest risk group within the classified assets as of June 30, 2001.

Receivables classified as category “C” increased by KM 27.6 million, and the largest increase within that category was based on balance sheet asset items – short and long-term loans.

Especially of concern is the increase of high-risk receivables classified as “D” and amounting KM 29.4 million. The largest increase within this risk category is seen with short-term loans and receivables related to guaranties paid.

Risk category “E” is very important since it represents a direct loss to a bank. Such a loss should be removed from balance sheet debiting special reserves for potential loss.

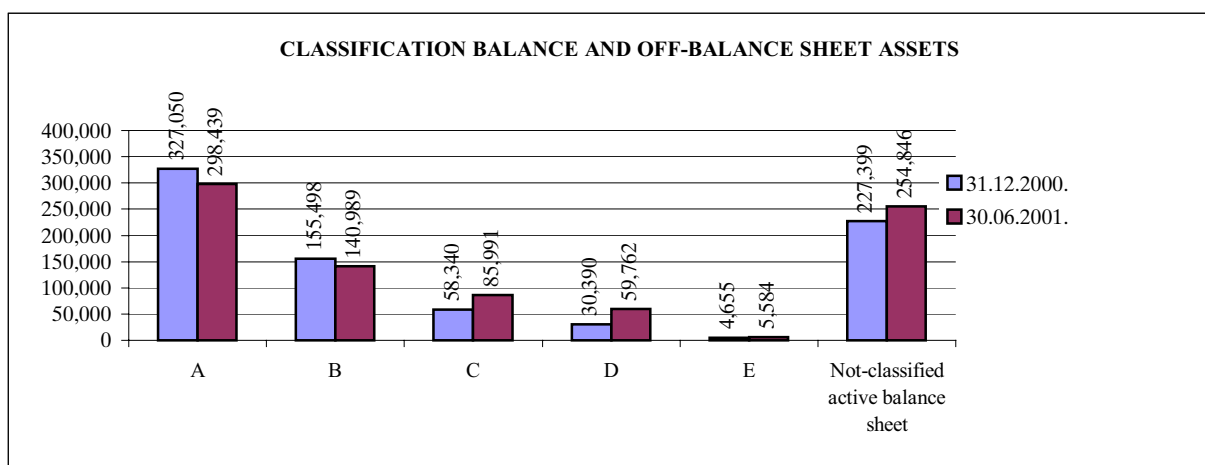
During the first half of 2001 the risk category “E” increased by 20% compared to the previous year-end, which is actually another indicator of deterioration of banks’ asset quality.

It should be pointed out that general and special reserves already separated for potential loan losses did not reach the required level, especially taking into consideration assessments made by the Agency examiners during on-site examinations, who apply stricter assessment rules than banks themselves. As of June 30, 2001, total reserves separated by banks for assets classified in risk categories “B” – “E” amounted to KM 63.2 million, while the actually separated amount was KM 55.3 million, indicating that the RS banks had not established required reserves for potential losses.

Classification based on Enterprises’ Property

- in 000 KM -

| Classification category | State Enterprises | Private Companies | TOTAL |
|-------------------------|-------------------|-------------------|---------|
| A | 110,807 | 187,632 | 298,439 |
| B | 94,068 | 46,921 | 140,989 |
| C | 47,918 | 37,793 | 85,711 |
| D | 44,236 | 15,806 | 60,042 |
| E | 3,067 | 2,517 | 5,584 |
| TOTAL: | 300,096 | 290,669 | 590,765 |



Asset Quality Ratios

- in 000KM -

| DESCRIPTION/PERIOD | | 31.12.2000 | 30.06.2001 |
|--------------------|-------------------------------|------------|------------|
| 1. | Loans Due/ | 32,532 | 67,953 |
| | Total Loans | 344,224 | 360,555 |
| | % | 9.45 | 18.85 |
| 2. | Loans Due/ | 32,532 | 67,953 |
| | Potential Loan Loss Reserves | 37,320 | 36,408 |
| | % | 87.17 | 186.64 |
| 3. | Loans Due/ | 32,532 | 67,953 |
| | Total Capital | 200,993 | 215,888 |
| | % | 16.19 | 31.48 |
| 4. | Classified Assets/ | 575,933 | 590,765 |
| | Total Capital | 200,993 | 215,888 |
| | % | 286.54 | 273.64 |
| 5. | Potential Loan Loss Reserves/ | 37,320 | 36,408 |
| | Total Loans | 344,224 | 360,555 |
| | % | 10.84 | 10.10 |
| 6. | Total Risk Assets/ | 532,104 | 558,786 |
| | Total Assets | 651,212 | 704,445 |
| | % | 81.71 | 79.32 |

Basic reasons for such poor bank asset quality were difficulties in business operation of borrowers caused by adverse economy trends. Banks had a lot of problem loans; very often borrowers' business operations generated losses, making collection of loan repayments very troublesome. Quite a number of loans was prolonged, since

borrowers were not able to repay either principal or interest. Some banks capitalized loan interest, i.e. add not-repaid interest to the original amount of loan.

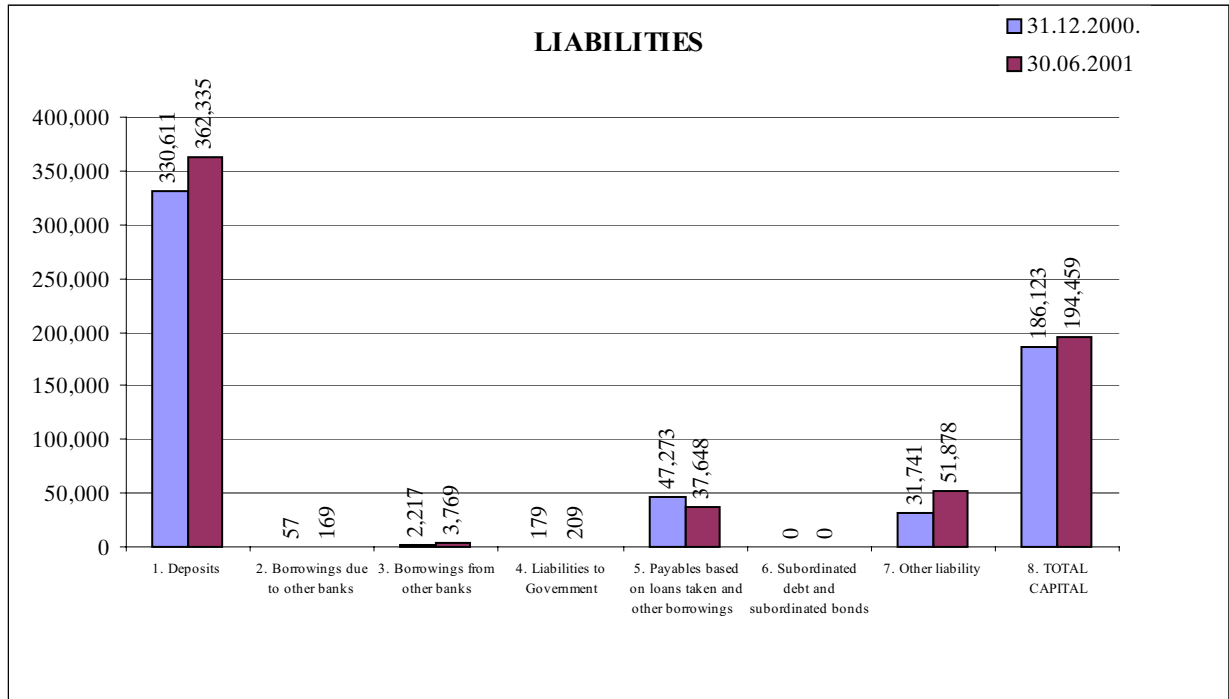
Due to problems in collecting loan repayments banks approved smaller loans (amounting up to KM 100 thousand) on shorter terms. Also, a number of banks restructured a portion of short-term loans turning them into long-term loans in order to enable borrowers to overcome their financial problems.

Improvement of asset quality cannot be expected until the economy is revitalized, foreign investments started, and banks' deposit base strengthened, especially in the sector for services to citizens.

The statement, made earlier, on unsatisfactory asset quality in banks, and insufficient reserves established for potential loan losses, still remains valid.

2.1.2 Liabilities

Structure of banks' liabilities, i.e. commitments and capital in banks' balance sheets, as of June 30, 2001 is shown in the following graph:



Banks' liabilities were composed of commitments amounting to 63.7% and capital with special reserves for potential losses amounting to 36.3%. The item that is constantly present in banks' resources, i.e. in banks' liabilities, is deposits on demand, which, together with the capital represent the only source for lending. All that leads to a conclusion that the structure of liabilities is extremely unsatisfactory.

2.1.2.1. Deposits

In 2001 liability structure changes in deposits were obvious showing an increase by KM 31.7 million or 10%.

Deposits on demand were a basic feature of the RS banking deposit base. As of June 30, 2001 deposits on demand consisted of the following:

- KM Deposits on Demand in an amount of KM 205.7 million or 56.8% of total deposits;
- Foreign Currency Deposits on Demand in an equivalent of KM 131.8 million or 36.4% of total deposits.

Out of total amount of deposits only 6.7% were term-deposits.

Within the total deposit structure, citizens' deposits were still a symbolic item (12.9% of total deposits) and were mostly related to payments of salaries and pensions kept on banks' accounts for a very short period of time.

Savings deposits were reduced to a symbolic amount of banks' resources. Balances and structure of new citizens' savings can be seen from the following table:

New Citizens' Saving Deposits in RS Banks

- in 000 KM -

| No. | DESCRIPTION | 31.12.2000 | % | 31.03.2001 | % | INDEX 2001/2000 |
|-----|---------------------|---------------|--------------|---------------|---------------|--------------------|
| 1. | ON DEMAND | | | | | |
| | 1. KM | 33,707 | 62.69 | 22,757 | 48.69 | 68 |
| | 2. Foreign Currency | 15,068 | 28.02 | 15,691 | 33.57 | 104 |
| | TOTAL: 1 | 48,775 | 90.71 | 38,448 | 82.26 | 79 |
| 2. | TERM-DEPOSITS | | | | | |
| | 1. KM | 136 | 0.25 | 328 | 0.70 | 241 |
| | 2. Foreign Currency | 4,857 | 9.03 | 7,965 | 17.04 | 164 |
| | TOTAL: 2 | 4,993 | 9.28 | 8,293 | 17.74 | 166 |
| 3. | TOTAL (1+2) | 53,768 | 99.99 | 46,741 | 100.00 | 87 |

In the first half of 2001 total new citizens' saving deposits recorded a decrease by 13% or KM 7.0 million compared to the end of 2000. This was recorded by the state owned banks. It has to be pointed out that privately owned banks recorded an increase of new citizens saving deposits by KM 2.3 million or 23%, which changed the structure in favor of private banks, shown in the following table:

New Citizens' Saving Structure

000 KM

| | 31.12.2000 | % | 30.06.2001 | % | Index 2001/2000 |
|-------------------|---------------|---------------|---------------|---------------|--------------------|
| State-Owned Banks | 43,837 | 81.53 | 34,555 | 73.93 | 79 |
| Private Banks | 9,931 | 18.47 | 12,186 | 26.07 | 123 |
| TOTAL: | 53,768 | 100.00 | 46,741 | 100.00 | 87 |

Until citizens' savings return to banks, to increase significantly quality of banks' deposits, there will be no stable banking as a support of an overall economy growth of Republika Srpska.

The following table gives a survey of cash funds and deposit accounts at depository institutions:

Cash Funds and Deposit Accounts at Depository Institutions

- in 000 KM -

| DESCRIPTION/PERIOD | 31.12.2000 | | | | 30.06.2001 | | | | INDEX 2001/ 2000 |
|---|-----------------|---------------|----------------|--------------|-----------------|---------------|----------------|--------------|---------------------|
| | State- Owned | Private | Total | % | State- Owned | Private | Total | % | |
| KM | | | | | | | | | |
| 1. Cash Funds | 4,600 | 2,402 | 7,002 | 5.5 | 13,438 | 9,052 | 22,490 | 15.7 | 321 |
| 2. Giro-accounts at SPP (reserve accounts at CB BH) | 15,671 | 9,195 | 24,866 | 19.6 | 15,520 | 13,761 | 29,281 | 20.4 | 118 |
| 3. Deposit accounts at depository institutions in BH | 1,072 | 22 | 1,094 | 0.9 | 1,663 | 232 | 1,895 | 1.3 | 173 |
| 4. Deposit accounts at depository institutions abroad | 0 | 0 | 0 | 0.0 | 0 | 0 | 0 | 0.0 | 0 |
| 5. Cash funds in process of collecting | 9 | 1 | 10 | 0.0 | 52 | 0 | 52 | 0.0 | 520 |
| 6. Non-repaid debts | 0 | 0 | 0 | 0.0 | 0 | 0 | 0 | 0.0 | 0 |
| 7. TOTAL : | 21,352 | 11,620 | 32,972 | 26.0 | 30,673 | 23,045 | 53,718 | 37.5 | 163 |
| FOREIGN CURRENCY | | | | | | | | | |
| 1. Cash Funds | 16,082 | 11,304 | 27,386 | 21.6 | 23,846 | 14,261 | 38,107 | 26.6 | 139 |
| 2. Giro-accounts at SPP (reserve accounts at CB BH) | 21 | 0 | 21 | 0.0 | 8 | 1,000 | 1,008 | 0.7 | 4,800 |
| 3. Deposit accounts at depository institutions in BH | 1,539 | 913 | 2,452 | 1.9 | 915 | 2,002 | 2,917 | 2.0 | 119 |
| 4. Deposit accounts at depository institutions abroad | 20,625 | 43,081 | 63,706 | 50.2 | 21,628 | 24,593 | 46,221 | 32.3 | 73 |
| 5. Cash funds in process of collecting | 323 | 12 | 335 | 0.3 | 1,103 | 186 | 1,289 | 0.9 | 385 |
| 6. Non-repaid debts | 21 | 0 | 21 | 0.0 | 21 | 0 | 21 | 0.0 | 100 |
| 7. TOTAL : | 38,611 | 55,310 | 93,921 | 74.0 | 47,521 | 42,042 | 89,563 | 62.5 | 95 |
| GRAND TOTAL : | 59,963 | 66,930 | 126,893 | 100.0 | 78,194 | 65,087 | 143,281 | 100.0 | 113 |

In the first half of 2001 banks' liquidity deteriorated, and mostly state-owned banks had difficulties in maintaining their current liquidity. The basic reason for non-liquidity was borrowers' poor financial condition, i.e. the adverse economic situation in the country.

Liquidity ratios are given in the following table:

- 000 KM -

| DESCRIPTION/PERIOD | | 31.12.2000 | 30.06.2001 |
|--------------------|--|--------------------|--------------------|
| 1. | Short-term assets/ Short-term liabilities | 340,811 352,770 | 338,795 374,844 |
| | % | 96.61 | 90.38 |
| 2. | Short-term assets / Total assets | 340,811 651,212 | 338,795 704,445 |
| | % | 52.33 | 48.09 |
| 3. | Short-term liabilities Total assets | 352,770 651,212 | 374,844 704,445 |
| | % | 54.17 | 53.21 |
| 4. | Net short-term liabilities / Total assets | 11,959 651,212 | 36,049 704,445 |
| | % | 1.84 | 5.12 |
| 5. | Net loans / Deposits | 306,904 330,611 | 324,147 362,335 |
| | % | 92.83 | 89.46 |
| 6. | Net loans and financial commitments, letters of credit/ Total assets | 354,860 651,212 | 352,373 704,445 |
| | % | 54.49 | 50.02 |

2.1.2.2. Capital

Total capital in banks' as of June 30, 2001 amounted to KM 215.8 million. Compared to the end of the previous year the amount of total capital was larger by KM 14.9 million or 7%. The following table gives the capital structure:

Capital Statement

000 KM

| | 31.12.2000 | % | 30.06.2001 | % | INDEX 2001/2000 |
|--------------------------------|----------------|---------------|----------------|---------------|--------------------|
| 1. CORE CAPITAL | 192,347 | 95.70 | 208,169 | 96.42 | 108 |
| 2. ADDITIONAL CAPITAL | 8,646 | 4.30 | 7,719 | 3.58 | 89 |
| TOTAL CAPITAL (1 + 2) | 200,993 | 100.00 | 215,888 | 100.00 | 107 |
| LOSS | 8,498 | | 15,618 | | 184 |
| TOTAL CAPITAL | 192,495 | | 200,270 | | 104 |
| Shortage of separated reserves | 1,395 | | 9,080 | | 651 |
| Other | 1,727 | | 1,458 | | 84 |
| BANKS' NET-CAPITAL | 189,373 | | 189,732 | | 100 |

This increase of capital resulted from additional capitalization of three private banks and undistributed earnings.

Items to be deducted from capital also increased significantly and were related to increased general loan risk and potential loan losses, where banks did not separate sufficient general and special reserves for loan losses. Items which also decreased the total capital and which should be pointed out were non-covered loss from previous years (KM 8.5 million) and loss from the first half of 2001 in an amount of KM 7.0 million.

Composition and trends of shareholders' capital in the RS banks are shown in the following table:

000 KM

| BANKS | 31.12.2000 | | 30.06.2001 | | INDEX |
|---------------|----------------|---------------|----------------|---------------|------------|
| | Amount | % | Amount | % | |
| State banks | 85,807 | 60.11 | 84,130 | 52.79 | 98 |
| Private banks | 56,947 | 39.89 | 75,251 | 47.21 | 132 |
| TOTAL: | 142,754 | 100.00 | 159,381 | 100.00 | 112 |

An important indicator in capital analysis is capital adequacy rate, which according to the current regulation should not be under 10%. As of June 30, 2001 average capital adequacy, shown as a ratio of net capital and total risk assets, amounted to 34%. All banks met the capital adequacy requirement, which ranged from 10.3% to 116.1%.

The above capital adequacy was calculated on the basis of the banks' own calculation, while final assessment of capital adequacy is best assessed by an on-site examination of individual banks.

Relative ratios are given in the following table:

Capital Ratios

000 KM

| DESCRIPTION / PERIOD | | 31.12.2000 | 30.06.2001 |
|----------------------|-----------------------|---------------|---------------|
| 1. | Net Capital/ | 189,373 | 189,732 |
| | Total Assets | 651,212 | 704,445 |
| | % | 29.08 | 26.93 |
| 2. | Shareholders' Capital | 142,754 | 159,381 |
| | Total Assets | 651,212 | 704,445 |
| | % | 21.92 | 22.63 |
| 3. | Core Capital | 192,347 | 208,169 |
| | Total Risk Assets | 532,104 | 558,786 |
| | % | 36.15 | 37.25 |
| 4. | Total Capital | 200,993 | 215,888 |
| | Total Risk Assets | 532,104 | 558,786 |
| | % | 37.77 | 38.64 |
| 5. | Net Loans | 306,904 | 324,147 |
| | Total Capital | 200,993 | 215,888 |
| | % | 152.69 | 150.15 |
| 6. | Profit | 3,538 | 2,025 |
| | Shareholders' Capital | 142,754 | 159,381 |
| | % | 2.48 | 2.54 |

Based on the banks' reports as of June 30, 2001 three state banks did not comply with the legal requirement related to net capital, which should amount to KM 5 million, and due to the process of privatization of state capital they were not able to perform additional capitalization.

2.2. Income Statement

In the first half of 2001 banks' total income amounted to KM 65.3 million, and total expense amounted to KM 70.3 million. Profit before taxes amounted to KM 2.0 million, while generated loss amounted to KM 7.0 million.

Income level and structure can be seen from the following table:

Banks' Income Statement

- in 000 KM -

| DESCRIPTION/PERIOD | 31.12.2000 | | | % | 30.06.2001 | | | % |
|--|----------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|
| | State | Private | Total | | State | Private | Total | |
| 1. INTEREST INCOME AND SIMILAR INCOME | | | | | | | | |
| a) Interest Income and Similar Income | 45,181 | 9,588 | 54,769 | 41.20 | 22,134 | 6,910 | 29,044 | 44.43 |
| b) Operating Income | 61,402 | 16,754 | 78,156 | 58.80 | 25,619 | 10,710 | 36,329 | 55.57 |
| 2. TOTAL INCOME (1.a + 1.b) | 106,583 | 26,342 | 132,925 | 100.00 | 47,753 | 17,620 | 65,373 | 100.00 |
| 3. EXPENSE | | | | | | | | |
| a) Interest Expense and Similar Expense | 8,474 | 2,068 | 10,542 | 7.76 | 6,903 | 1,295 | 8,198 | 11.65 |
| b) Business Operation and Direct Expense | 33,986 | 7,988 | 41,974 | 30.91 | 15,017 | 5,788 | 20,805 | 29.57 |
| c) Operating Expense | 68,729 | 14,557 | 83,286 | 61.33 | 30,390 | 10,963 | 41,353 | 58.78 |
| 4. TOTAL EXPENSE (3.a + 3.b + 3.c) | 111,189 | 24,613 | 135,802 | 100.00 | 52,310 | 18,046 | 70,356 | 100.00 |
| 5. PROFIT BEFORE TAX | 1,464 | 2,074 | 3,538 | | 661 | 1,364 | 2,025 | |
| 6. LOSS | 6,070 | 345 | 6,415 | | 5,218 | 1,790 | 7,008 | |
| 7. TAXES | 220 | 104 | 324 | | 78 | 39 | 117 | |
| 8. NET-PROFIT | 1,244 | 1,970 | 3,214 | | 583 | 1,325 | 1,908 | |

In the first half of 2001 ten banks had a positive financial result shown in an amount of KM 2.0 million, and six banks generated loss in an amount of KM 7.0 million, while two banks operated barely profitably.

Out of total interest income as of June 30, 2001 state owned banks generated KM 22.1 million or 76.2%, and private banks generated KM 6.9 million or 23.8%.

In the first half of 2001 operating income, including fee income, was larger than interest income in both state and private banks, indicating that RS banking engaged in fee bearing activities "running away" from lending, which should be one of basic banking activities.

Out of total expense as of June 30, 2001 amounting to KM 70.3 million, interest and similar expense amounted to KM 8.1 million or 11.5%. Out of that expense for deposit interest amounted to KM 6.0 million.

Out of operating expense in the first half of 2001 an amount of KM 17.5 million was related to expense for general and special reserves for loan and other losses.

Operating expense of banks was very large (KM 41.3 million or 58.7% of total banks' income) and related to salary and contribution costs (KM 16.2 million), premises and other fixed assets cost, and overhead (KM 16.1 million), and other operating cost (KM 9.0 million).

It is the fact, however, that the RS banking sector (both state and private banks) is not able to fund its operating expense from its interest income, since as of June 30, 2001 operating expense was larger than interest income by KM 12.3 million.

In the first half of 2001 the RS banks generated loss amounting KM 7.0 million. State banks' loss was KM 5.2 million, and private banks' KM 1.8 million.

The following table gives the most important ratios in rating profitability and efficiency of banks:

Earning Ratio

- in 000 KM -

| DESCRIPTION/PERIOD | 31.12.2000 | | | 30.06.2001 | | |
|---|------------|---------|---------|------------|---------|---------|
| | State | Private | Total | State | Private | Total |
| 1. Total Income/ | 106,583 | 26,342 | 132,925 | 47,753 | 17,620 | 65,373 |
| Total Assets | 487,818 | 163,394 | 651,212 | 512,121 | 192,324 | 704,445 |
| % | 21.85 | 16.12 | 20.41 | 18.65 | 18.32 | 18.56 |
| 2. Total Income / | 106,583 | 26,342 | 132,925 | 47,753 | 17,620 | 65,373 |
| Total Capital | 136,617 | 64,376 | 200,993 | 134,227 | 81,661 | 215,888 |
| % | 78.02 | 40.92 | 66.13 | 71.15 | 43.15 | 60.56 |
| 3. Total Expense/ | 111,189 | 24,613 | 135,802 | 52,310 | 18,046 | 70,356 |
| Total Assets | 487,818 | 163,394 | 651,212 | 512,121 | 192,324 | 704,445 |
| % | 22.79 | 15.06 | 20.85 | 20.43 | 18.77 | 19.97 |
| 4. Interest Income/ | 45,181 | 9,588 | 54,769 | 22,134 | 6,910 | 29,044 |
| Total Assets | 487,818 | 163,394 | 651,212 | 512,121 | 192,324 | 704,445 |
| % | 9.26 | 5.87 | 8.41 | 8.64 | 7.19 | 8.25 |
| 5. Interest Income/ | 8,474 | 2,068 | 10,542 | 6,903 | 1,295 | 8,198 |
| Total Assets | 487,818 | 163,394 | 651,212 | 512,121 | 192,324 | 704,445 |
| % | 1.74 | 1.27 | 1.62 | 2.70 | 1.35 | 2.33 |
| 6. Net Interest Income / | 36,707 | 7,520 | 44,227 | 15,231 | 5,615 | 20,846 |
| Total Assets | 487,818 | 163,394 | 651,212 | 512,121 | 192,324 | 704,445 |
| % | 7.52 | 4.60 | 6.79 | 5.95 | 5.84 | 5.92 |
| 7. Net Interest Expense/ | 36,707 | 7,520 | 44,227 | 15,231 | 5,615 | 20,846 |
| Total Capital | 136,617 | 64,376 | 200,993 | 134,227 | 81,661 | 215,888 |
| % | 26.87 | 11.68 | 22.00 | 22.69 | 13.75 | 19.31 |
| 8. Fees/ | 12,275 | 8,591 | 20,866 | 10,035 | 5,795 | 15,830 |
| Total Assets | 487,818 | 163,394 | 651,212 | 512,121 | 192,324 | 704,445 |
| % | 2.52 | 5.26 | 3.20 | 3.92 | 6.03 | 4.49 |
| 9. Material Expense and Gross Earnings/ | 68,729 | 14,557 | 83,286 | 30,390 | 10,963 | 41,353 |
| Total Assets | 487,818 | 163,394 | 651,212 | 512,121 | 192,324 | 704,445 |
| % | 14.09 | 8.91 | 12.79 | 11.87 | 11.40 | 11.74 |
| 10. Non-Interest Expense/ | 102,715 | 22,545 | 125,260 | 45,407 | 16,751 | 62,158 |
| Total Assets | 487,818 | 163,394 | 651,212 | 512,121 | 192,324 | 704,445 |
| % | 21.06 | 13.80 | 19.23 | 17.73 | 17.42 | 17.65 |
| 11. Profit before Taxes/ | 1,464 | 2,074 | 3,538 | 661 | 1,364 | 2,025 |
| Total Assets | 487,818 | 163,394 | 651,212 | 512,121 | 192,324 | 704,445 |
| % | 0.30 | 1.27 | 0.54 | 0.26 | 1.42 | 0.57 |

What is immediately noticed is that all relative indicators of profitability were lower in the first half of 2001 than as of December 31, 2000. Also, it should be noted that the total loss would have been even larger if all banks had implemented the Decision on Minimum Standards for Banks' Loan Risk Management and Asset Classification and had separated loan loss reserves debiting expenses in amounts equal to assessed loan loss. Also, there is a portion of payables to the Government related to three state banks, which actually did not pay tax due. All that included would have given a more realistic financial result, as well as even more negative banks' condition in the banks' income statement.

It should be pointed out that this is a temporary statement giving not even a close picture of realistically poor banks' profitability.

At the end, it can be concluded that the RS banks' profitability is poor with a tendency of deterioration. This is related to the state-owned banks where assets were extremely poor and number of employees too high.

3. INTERNAL PAYMENT OPERATION

Introduction of the Law on Payment Operation of Republika Srpska and the Law on Payment Transactions of Republika Srpska, as well as all other supporting regulation on payment operation, at the end of 2000 and beginning of 2001, started actually the reform of internal payment operations, i.e. transfer of operation from SPP to commercial banks with participation of the Central Bank of Bosnia and Herzegovina, which manages the system for real time gross settlement.

In the second half of 2000 and the first half of 2001 the Banking Agency issued licenses for internal payment operation of low risk level to 16 banks, and medium risk level to 15 banks. Out of those 15 medium risk licenses eight were granted to state-owned banks, and seven to private banks.

In the first half of 2001 banks opened 44,103 transaction accounts out of which 36,784 accounts were opened in state-owned banks, and 7,319 accounts in private banks.

The following table gives flow and volume of internal payment operations, i.e. number of performed transactions and related amounts per each month:

- 000 KM -

| Date | LOW RISK LEVEL | | | | MEDIUM RISK LEVEL | | | |
|---------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|
| | Number of transactions | | Amount of transactions | | Number of transactions | | Amount of transactions | |
| | Debit of account | Credit of account | Debit of account | Credit of account | Debit of account | Credit of account | Debit of account | Credit of account |
| 31.01.2001 | 94,077 | 116,224 | 323,121 | 351,794 | 86,175 | 89,705 | 133,030 | 130,639 |
| 28.02.2001 | 392,482 | 440,132 | 860,015 | 879,607 | 283,450 | 299,356 | 320,203 | 282,875 |
| 31.03.2001 | 447,533 | 506,218 | 1,475,257 | 1,497,736 | 294,358 | 317,606 | 371,308 | 339,457 |
| 30.04.2001 | 400,936 | 462,604 | 1,557,656 | 1,563,702 | 290,450 | 316,105 | 351,610 | 336,767 |
| 31.05.2001 | 424,333 | 488,674 | 2,068,889 | 2,115,612 | 315,194 | 329,708 | 419,869 | 385,301 |
| 30.06.2001 | 504,372 | 583,742 | 2,802,231 | 2,792,213 | 283,523 | 286,905 | 355,117 | 350,309 |
| TOTAL: | 2,263,733 | 2,597,594 | 9,087,169 | 9,200,664 | 1,553,150 | 1,639,385 | 1,951,137 | 1,825,348 |

It can be seen that transactions increased from month to month both in number and in amounts.

The following table gives a survey of internal payment operations in both state-owned and private banks:

- 000 KM -

| | LOW RISK LEVEL | | | | MEDIUM RISK LEVEL | | | |
|---------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|
| | Number of transactions | | Amount of transactions | | Number of transactions | | Amount of transactions | |
| | Debit of account | Credit of account | Debit of account | Credit of account | Debit of account | Credit of account | Debit of account | Credit of account |
| State Banks | 2,136,153 | 2,456,749 | 8,114,390 | 8,235,412 | 1,132,325 | 1,151,018 | 1,339,056 | 1,248,143 |
| Private Banks | 127,580 | 140,845 | 972,779 | 965,252 | 420,825 | 488,367 | 612,081 | 577,205 |
| TOTAL: | 2,263,733 | 2,597,594 | 9,087,169 | 9,200,664 | 1,553,150 | 1,639,385 | 1,951,137 | 1,825,348 |

In the first half of 2001 the Agency examined performance of internal payment operation in few main banks involved in internal payment operation in Republika Srpska and found out that problems and difficulties were mostly due to incorrectly filled in payment orders, inadequate equipment for budget revenue transfer, and especially due to delayed issuance of technical instructions i.e. internal payment operation instructions.

Taking into consideration speed by which the Law on Transfer of Internal Payment Operation to Commercial Banks was prepared, and delay in issuing regulation related to the Law, and poor preparedness and equipment of banks, it could be stated that internal payment operation was relatively well introduced and performed in the first half of this year.

Additional regulation and information system policy is being prepared in order to follow internal payment operations more efficiently.

III CONCLUSION

Legal framework for banking operation and bank supervision by the Agency, and additional regulation for internal payment operations were completed in the past period.

Based on the above-presented data we can conclude that the RS banking system is in a situation, which has deteriorated, compared to the condition of the end of the previous year. Basic features of the first half are as follows:

- Balance sheet assets amounted to KM 704.4 million and increased by 8% compared to the previous year, but are still insufficient to support economic development.
- Off-balance sheet assets, related to guarantees and letters of credit, amounted to KM 135.6 million, and decreased by 11% compared to the previous year, but are still too large in relation to balance sheet assets.
- Citizens' savings were still at a low level (KM 46.7 million).
- Receivables due amount increased by 109% compared to the previous year, and amounted to KM 68.0 million.
- A large amount and further increase of litigated receivables indicated inefficiency of the courts' operation.
- Loans increased by 5%, although at the same time the total assets increased by 8%, indicating an increased cautiousness in lending.
- Cash funds increased by 13% compared to the previous year, which resulted from transferring internal payment operations into commercial banks, and from paid founding capital for a newly established bank.
- Separated general and special reserves for loan loss did not meet required level, which realistically diminishes the reported banks' operating results.
- The total capital amounted KM 215.9 million and it was larger by 7% than at the end of the previous year; however, due to an increase of deductible items the net capital remained at the last year level.
- Capital share in liabilities was 27.6%, and deposit share was 51.4%, which was lower compared to the previous year; however, borrowings and other liability increased indicating a deterioration of the liability composition;
- Banks' profitability was still poor and even 6 banks reported losses, while 10 banks had positive operating results and two banks were barely profitable. Had the banks separated legally required reserves their profitability would have been even poorer.
- Privatization of banks has not been successful and in the first quarter of this year no bank was privatized.

Such a poor profitability was caused, among other things, by a large number of banks' employees, especially in state-owned banks, which was even increased during the period and resulted in a larger number compared to the previous year (from 2,421 to 2,605 employees).

- Privatization of banks has not been successful and in the first quarter of this year no bank was privatized.
- Responsibility for a bank's operation is vested primarily with the bank managing bodies and its management who run the bank, as defined by the Law on Banks and Decisions issued by the Agency.

Specialized departments of the Banking Agency of Republika Srpska actively monitored banks' operation, and prescribed required measures provided by the Law in the above found cases of non-compliance.

In the first half of 2001 the Agency prescribed the following measures:

- Issued warnings to those banks which had not complied with Article 71 of the Law on Banks;
- Temporarily revoked internal payment operation licenses for medium risk transactions;
- Started court procedures against those banks and their responsible officials for not implementing given recommendations;
- Made preparations to introduce provisional administration in those banks, which were not able to maintain their liquidity and whose operations deteriorated.

Taking into consideration all difficulties presented here, and the expiring deadlines for privatization of state-owned capital in banks, it is necessary to continue the banking system reform, especially the following:

- Accelerate process of privatization of state owned capital in banks;
- Resolve the status of those state-owned banks that were not able to find buyers (merge, acquisition, liquidation);
- Activate deposit insurance in banks and legally regulate issue of frozen saving deposits;
- Insist on larger responsibility (better results) of bank managing bodies and management, especially in state-owned banks;
- Establish business courts in order to accelerate collecting of problematic receivables and facilitate security enforcement (mortgage, lien, etc.)
- Accelerate procedures of establishing Central Register of Accounts in order to improve internal payment operations.

ATTACHMENTS

| | |
|------------------|-----------------------------|
| Attachment No.1 | Basic Data on RS Banks |
| Attachment No.2 | Banks' Active Balance Sheet |
| Attachment No.3 | Income Statement |
| Attachment No. 4 | Capital Statement |
| Attachment No. 5 | Data on Banks' Employees |

LIST OF RS BANKS
as of 30.06.2001

| R/B | BANK | LOCATION | ADDRESS | GENERAL MANAGER | PHONE | FAX | 30.06.2001 (in 000KM) | | NUMBER OF EMPLOYEES |
|-----|--------------------------|------------|----------------------------|-----------------------|-------------|---------|-----------------------|---------|---------------------|
| | | | | | | | ASSETS | CAPITAL | |
| 1. | Banjalucka banka | Banja Luka | Marije Bursac 7 | Momcilo Poparic | 051/212-140 | 212-830 | 118,070 | 33,573 | 635 |
| 2. | Agroprom banka | Banja Luka | Knjaza Milosa 19 | Manojlo Avdalovic | 051/303-611 | 314-181 | 26,191 | 12,773 | 87 |
| 3. | Privredna banka | Gradiska | Vidovdanska bb | Momir Hrvacanin | 051/813-333 | 813-205 | 7,799 | 2,253 | 90 |
| 4. | Kristal banka | Banja Luka | I.F.Jukica 9 | Ljubomir Klincov | 051/212-930 | 212-878 | 170,948 | 31,439 | 414 |
| 5. | Privredna banka | Doboj | Svetog Save 1 | Rodoljub Milovanovic | 053/241-544 | 241-662 | 24,385 | 13,853 | 162 |
| 6. | Prijedorska banka | Prijedor | Vozda Karadjordja 9 | Stojanka Dosen | 052/212-311 | 211-840 | 14,989 | 8,049 | 197 |
| 7. | Semberska banka | Bijeljina | Karadjordjeva 3 | Cvijetin Nikic | 054/471-588 | 472-247 | 12,644 | 5,344 | 128 |
| 8. | Razvojna banka | Banja Luka | Bana Milosavljevic 4 | Ranko Travar | 051/212-012 | 217-575 | 108,401 | 13,120 | 483 |
| 9. | VB banka | Banja Luka | K.Petra Karadjordjevic 103 | Radovan Bajic | 051/212-678 | 212-078 | 24,232 | 13,779 | 37 |
| 10. | Privredna banka | Brcko | M.Aganovica 2 | Nada Pavlovic | 049/204-222 | 204-055 | 4,310 | 1,657 | 40 |
| 11. | Nova banka | Bijeljina | Svetog Save 46 | Milorad Andzic | 054/471-094 | 401-410 | 35,643 | 11,399 | 117 |
| 12. | Privredna banka Sarajevo | Pale | Dobroslava Jevtica 14 | Mile Matic | 057/786-809 | 786-805 | 43,955 | 4,807 | 405 |
| 13. | Ekvator banka | Banja Luka | M.Bursac 2 | Ostoja Sabljic | 051/217-920 | 211-757 | 16,068 | 4,956 | 18 |
| 14. | Bobar banka | Bijeljina | Filipa Visnjica 211 | Dragan Radumilo | 054/472-490 | 472-898 | 12,262 | 8,009 | 31 |
| 15. | Zepter komerc banka | Banja Luka | Brace Mazar 68 | Djuro Beronja, acting | 051/215-755 | 215-771 | 56,255 | 12,003 | 90 |
| 16. | Postanska stedionica | Banja Luka | Karadjordjevic 61 | Vlada Vasiljevic | 051/211-433 | 211-555 | 6,620 | 2,849 | 51 |
| 17. | Balkan Investment | Banja Luka | Krajiskih brigada 2 | Salilus Zostautas | 051/216-285 | 211-445 | 12,929 | 9,145 | 19 |
| 18. | BSEI | Banja Luka | Jevrejska 1 | Mico Vracar | 051/218-200 | 218-984 | 8,744 | 5,451 | 12 |
| | TOTAL | | | | | | 704,445 | 194,459 | 3,016 |

BANKS' ACTIVE BALANCE SHEET

000 KM

| DESCRIPTION/PERIOD | 31.12.00 | % | 30.06.01 | % | INDEX |
|---|----------------|---------------|----------------|---------------|------------|
| 1. Cash funds and deposit accounts at depository institutions (1.a.+1.b.) | 126,893 | 19.49 | 143,281 | 20.34 | 113 |
| 1.1. Cash and non-interest bearing deposit accounts | 74,833 | 11.49 | 93,733 | 13.31 | 125 |
| 1.2. Interest-bearing deposit accounts | 52,060 | 7.99 | 49,548 | 7.03 | 95 |
| 2. Trading Securities | 0 | 0.00 | 1,141 | 0.16 | 0 |
| 3. Placements to other banks | 3,796 | 0.58 | 6,190 | 0.88 | 163 |
| 4. Loans, leasing and receivables due (4.a.+4.b.+4.c.) | 344,224 | 52.86 | 360,555 | 51.18 | 105 |
| 4.a. Loans | 311,368 | 47.81 | 291,740 | 41.41 | 94 |
| 4.b. Leasing receivables | 324 | 0.05 | 862 | 0.12 | 266 |
| 4.c. Loan and leasing receivables due | 32,532 | 5.00 | 67,953 | 9.65 | 209 |
| 5. Securities held up to maturity | 1,413 | 0.22 | 4 | 0.00 | 0 |
| 6. Office space and other fixed assets | 118,768 | 18.24 | 131,177 | 18.62 | 110 |
| 7. Other immovables | 2,002 | 0.31 | 3,199 | 0.45 | 160 |
| 8. Investments in non-consolidated related companies | 3,927 | 0.60 | 3,825 | 0.54 | 97 |
| 9. Other assets (9b) | 50,189 | 7.71 | 55,073 | 7.82 | 110 |
| TOTAL (1 to 9) | 651,212 | 100.00 | 704,445 | 100.00 | 108 |
| 10. MINUS: Reserves for potential losses (10.a.+10.b.+10.c.) | 53,011 | | 53,978 | | 102 |
| 11. TOTAL ASSETS: (1.to 9.-10.) | 598,201 | | 650,467 | | 109 |
| 11.1 Total off-balance sheet items | | | | | |
| 11.a. Active off-balance sheet items | 152,120 | | 135,577 | | 89 |
| 11.b. Classified assets – loss E | 31,893 | | 42,624 | | 134 |
| 11.c. Commission (agent) services | 34,619 | | 42,966 | | 124 |
| TOTAL ASSETS (11.+11.1) | 816,833 | | 871,634 | | 107 |
| 12. Deposits (12.a.+12.b.) | 330,611 | | 362,335 | | 110 |
| 12.a. Interest-bearing deposits | 185,360 | | 226,121 | | 122 |
| 12.b. Non-interest bearing deposits | 145,251 | | 136,214 | | 94 |
| 13. Borrowings – obligations due (13.a.+13.b.) | 57 | | 169 | | 296 |
| 13.a. Obligations due, not paid | 57 | | 169 | | 296 |
| 13.b. Off-balance sheet obligations not paid-called for repayment | 0 | | 0 | | 0 |
| 14. Borrowings from other banks | 2,217 | | 3,769 | | 170 |
| 15. Obligations to Government | 179 | | 209 | | 117 |
| 16. Obligations based on loans and other borrowings (16.a.+16.b.) | 47,273 | | 37,648 | | 80 |
| 16.a. remaining maturity up to one year | 30,230 | | 14,718 | | 49 |
| 16.b. remaining maturity over one year | 17,043 | | 22,930 | | 135 |
| 17. Subordinated debt and subordinated bonds | 0 | | 0 | | 0 |
| 18. Reserve to cover off-balance sheet items (18.b.+18.c.) | 6,801 | | 7,207 | | 106 |
| Other obligations (18.d.) | 24,940 | | 44,671 | | 179 |
| 19. TOTAL LIABILITIES (12 to 18) | 412,078 | | 456,008 | | 111 |
| 20. Permanent preferred shares | 31 | | 32 | | 103 |
| 21. Regular shares | 142,723 | | 159,349 | | 112 |
| 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 | 8,313 | | 3,903 | | 47 |
| 24. Capital reserves | 43,554 | | 46,793 | | 107 |
| 25. Other capital | -8,498 | | -15,618 | | 184 |
| 26. TOTAL CAPITAL: (20. To 25.) | 186,123 | | 194,459 | | 104 |
| 27. TOTAL LIABILITIES AND CAPITAL: (19. + 26.) | 598,201 | | 650,467 | | 109 |
| 28.1. Total off-balance | | | | | |
| 28.a. Active off-balance sheet | 152,120 | | 135,577 | | 89 |
| 28.b. Classified assets – loss E | 31,893 | | 42,624 | | 134 |
| 28.c. Commissioned (agent) services | 34,619 | | 42,966 | | 124 |
| TOTAL LIABILITIES (27.+28.a) | 816,833 | | 871,634 | | 107 |

INCOME STATEMENT

in 000 KM

| DESCRIPTION/PERIOD | 31.12. 2000 | % | 30.06. 2001 | % |
|---|----------------|--------------|----------------|--------------|
| 1. INTEREST INCOME AND EXPENSE | | | | |
| a) Interest income and similar income | | | | |
| 1) Interest bearing deposit accounts at depository institutions | 803 | 1.47 | 655 | 2.26 |
| 2) Placements to other banks | 808 | 1.48 | 806 | 2.78 |
| 3) Loans and leasing operations | 47,672 | 87.04 | 26,231 | 90.31 |
| 4) Securities held up to maturity | 0 | 0.00 | 0 | 0.00 |
| 5) Other companies' shares owned by banks | 0 | 0.00 | 0 | 0.00 |
| 6) Paid off-balance sheet obligation receivables | 0 | 0.00 | 246 | 0.85 |
| 7) Other interest income and similar income | 5,486 | 10.02 | 1,106 | 3.81 |
| 8) TOTAL INTEREST INCOME AND OTHER INCOME (1 to 7) | 54,769 | 100.0 | 29,044 | 100.0 |
| b) Interest expense and similar expense | | | | |
| 1) Deposits | 2,184 | 20.72 | 6,067 | 74.01 |
| 2) Borrowings from other banks | 1,154 | 10.95 | 657 | 8.01 |
| 3) Borrowings – due obligations | 0 | 0.00 | 4 | 0.05 |
| 4) Loan and other borrowing obligations | 1,986 | 18.84 | 572 | 6.98 |
| 5) Subordinated debt and subordinated bonds | 18 | 0.17 | 121 | 1.48 |
| 6) Other interest expense and similar expense | 5,200 | 49.33 | 777 | 9.48 |
| 7) TOTAL INTEREST EXPENSE AND SIMILAR EXPENSE (1 to 6) | 10,542 | 100.0 | 8,198 | 100.0 |
| c) NET INTEREST AND SIMILAR INCOME a.8)-b.7) | 44,227 | | 20,846 | |
| 2. OPERATING INCOME | | | | |
| a) Foreign currency operation income | 18,729 | 23.96 | 4,678 | 12.88 |
| b) Loan fees | 4,777 | 6.11 | 4,344 | 11.96 |
| c) Off-balance sheet operation fees | 2,248 | 2.88 | 1,325 | 3.65 |
| d) Service fees | 13,841 | 17.71 | 10,161 | 27.97 |
| e) Trading operation income | 28 | 0.04 | 8 | 0.02 |
| f) Other operating income | 38,533 | 49.30 | 15,813 | 43.53 |
| g) TOTAL OPERATING INCOME (a to f) | 78,156 | 100.0 | 36,329 | 100.0 |
| 3. NON-INTEREST BEARING EXPENSE | | | | |
| a) Operating and direct expense | | | | |
| 1) Reserves for general loan risk and potential loan and other losses | 30,980 | 73.81 | 17,524 | 84.23 |
| 2) Other operating and direct expenses | 10,994 | 26.19 | 3,281 | 15.77 |
| 3) TOTAL OPERATING AND DIRECT EXPENSES 1) + 2) | 41,974 | 100.0 | 20,805 | 100.0 |
| b) Operating expenses | | | | |
| 1) Salaries and contributions | 30,313 | 36.40 | 16,163 | 39.09 |
| 2) Office space, other fixed assets and overheads | 27,446 | 32.95 | 16,136 | 39.02 |
| 3) Other operating expenses | 25,527 | 30.65 | 9,054 | 21.89 |
| 4) TOTAL OPERATING EXPENSES (1 to 3) | 83,286 | 69.4 | 41,353 | 78.1 |
| c) TOTAL NON-INTEREST BEARING EXPENSES a.3) + b.4) | 125,260 | | 62,158 | |
| 4. PROFIT BEFORE TAX 1.c)+2.g)-3.c) | 3,538 | | 2,025 | |
| 5. LOSS 1.c) + 2.g) - 3.c) | 6,415 | | 7,008 | |
| 6. TAX | 324 | | 117 | |
| 7. NET-PROFIT 4. - 6. | 3,214 | | 1,908 | |

**CAPITAL AND CAPITAL ADEQUACY
COMPARATIVE SUMMARY**

000 KM

| DESCRIPTION/PERIOD | 31.12 2000 | 30.06. 2001 | INDEX 2001/2000 |
|---|----------------|----------------|--------------------|
| CORE CAPITAL OF BANKS | | | |
| Equity capital based on nominal values and amounts of regular and preferred non-cumulative shares issued against cash fund payments into shareholders' capital: | 136,301 | 152,927 | 112 |
| Equity capital based on nominal amounts of regular and preferred non-cumulative shares issued against immovables and rights invested into shareholders' capital: | 6,453 | 6,454 | 100 |
| Premiums collected for share payments: | 0 | 0 | 0 |
| General reserves required (reserves required by the law): | 30,834 | 25,568 | 83 |
| Other reserves which are not taken into account when rating asset quality: | 15,341 | 21,222 | 138 |
| Retained – undistributed profit from previous years: | 3,418 | 1,998 | 58 |
| AMOUNT OF CORE CAPITAL: | 192,347 | 208,169 | 108 |
| ADDITIONAL CAPITAL OF BANKS | | | |
| Equity capital based on nominal amounts of permanent preferred cumulative shares issued against cash fund payments into shareholders' capital: | 0 | 0 | 0 |
| Equity capital based on nominal amounts of permanent preferred cumulative shares issued against immovables and rights invested into shareholders' capital: | 0 | 0 | 0 |
| General reserves for loan loss coverage for bank's assets rated as category A – Pass: | 6,372 | 5,811 | 91 |
| Accrued profit in the current year: | 2,274 | 1,908 | 84 |
| Amount of profit for which BA-RS issued Decision on Temporary Suspension of Distribution: | 0 | 0 | 0 |
| Amount of subordinated debt maximum 50% of amount of Core Capital: | 0 | 0 | 0 |
| Amount of hybrid i.e. convertible items-instruments of capital maximum 50% of amount of Core Capital: | 0 | 0 | 0 |
| Amount of items-commitments of a permanent character without obligation to be repaid: | 0 | 0 | 0 |
| AMOUNT OF ADDITIONAL CAPITAL: | 8,646 | 7,719 | 89 |
| ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL | | | |
| Portion of general credit risk and potential loan losses for which bank has not established General and Special reserves for loan losses: | 1,395 | 9,080 | 651 |
| Uncovered losses carried over from previous years: | 2,083 | 8,610 | 413 |
| Current Year Loss: | 6,415 | 7,008 | 109 |
| Bookkeeping value of bank's owned (vault) shares: | 0 | 0 | 0 |
| Nominal amount of shares issued against investments from bank's loans, up to not-repaid amount of the loan, i.e not-repaid portion of the loan: | 0 | 0 | 0 |
| Part of invested shareholders' capital, which represents, according to BA-RS, received, but overstated value: | 0 | 0 | 0 |
| Intangible property: patents, licenses, concession, investments in: marketing, commercial name, trade mark, goodwill and similar: | 0 | 0 | 0 |
| Bank's investments in capital of other legal entities exceeding 5% of the bank's core capital: | 1,727 | 1,458 | 84 |
| 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 |
| 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 |
| ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL: | 11,620 | 26,156 | 225 |
| ITEMS OFF-SETTING FROM BANK'S CAPITAL: | | | |
| AMOUNT OF BANK'S CORE CAPITAL | 192,347 | 208,169 | 108 |
| AMOUNT OF BANK'S ADDITIONAL CAPITAL | 8,646 | 7,719 | 89 |
| AMOUNT OF BANK'S ITEMS OFF-SETTING FROM THE CAPITAL | 11,620 | 26,156 | 225 |
| AMOUNT OF BANK'S NET-CAPITAL (1. + 2. - 3.) | 189,373 | 189,732 | 100 |
| B. RISK WEIGHTED ASSETS AND LOAN EQUIVALENTS: | 532,099 | 558,783 | 105 |
| C. NET-CAPITAL RATE: | 35.6 | 34.0 | |

QUALIFICATION STRUCTURE OF BANKS' EMPLOYEES
AS OF JUNE 30, 2001

| No. | BANKS | QUALIFICATION STRUCTURE | | | | | | | | % |
|---------------|------------------------------|-------------------------|-------------|-------------|--------------|--------------|--------------|-------------|---------------|---------------|
| | | NS* | KV* | VKV* | SSS* | VS* | VSS* | MR* | TOTAL | |
| 1 | Banjalucka banka Banja Luka | 29 | 23 | 8 | 404 | 74 | 96 | 1 | 635 | 21.05 |
| 2 | Kristal banka B. Luka | 30 | 5 | 5 | 263 | 24 | 87 | 0 | 414 | 13.73 |
| 3 | Agroprom banka Banja Luka | 3 | 2 | 0 | 48 | 8 | 26 | 0 | 87 | 2.88 |
| 4 | Semberska banka Bijeljina | 11 | 6 | 0 | 80 | 9 | 21 | 1 | 128 | 4.24 |
| 5 | Privredna banka Gradiska | 4 | 1 | 0 | 56 | 7 | 22 | 0 | 90 | 2.98 |
| 6 | PBS a.d. Srpsko Sarajevo | 23 | 10 | 3 | 282 | 33 | 54 | 0 | 405 | 13.43 |
| 7 | Razvojna banka Banja Luka | 6 | 7 | 5 | 258 | 82 | 122 | 3 | 483 | 16.01 |
| 8 | Privredna banka Doboje | 15 | 3 | 0 | 106 | 16 | 22 | 0 | 162 | 5.37 |
| 9 | Prijedorska banka Prijedor | 10 | 2 | 3 | 151 | 17 | 14 | 0 | 197 | 6.53 |
| 10 | Privredna banka Brcko | 5 | 2 | 0 | 17 | 5 | 11 | 0 | 40 | 1.33 |
| 11 | Nova banka Bijeljina | 1 | 0 | 0 | 36 | 25 | 52 | 3 | 117 | 3.88 |
| 12 | Ekvator banka Banja Luka | 0 | 0 | 0 | 13 | 1 | 3 | 1 | 18 | 0.60 |
| 13 | Postanska stedionica B. Luka | 5 | 0 | 0 | 30 | 7 | 7 | 2 | 51 | 1.69 |
| 14 | Bobar banka Bijeljina | 0 | 0 | 0 | 21 | 1 | 8 | 1 | 31 | 1.03 |
| 15 | VB banka Banja Luka | 1 | 0 | 0 | 17 | 4 | 15 | 0 | 37 | 1.23 |
| 16 | Zepter-komerc banka B. Luka | 0 | 1 | 0 | 49 | 12 | 28 | 0 | 90 | 2.98 |
| 17 | Balkan Investment Bank | 0 | 0 | 0 | 5 | 5 | 5 | 4 | 19 | 0.63 |
| 18 | BSEI | 0 | 0 | 0 | 7 | 1 | 4 | 0 | 12 | 0.40 |
| TOTAL: | | 143 | 62 | 24 | 1,843 | 331 | 597 | 16 | 3,016 | 100.00 |
| % | | 4.74 | 2.06 | 0.80 | 61.11 | 10.97 | 19.79 | 0.53 | 100.00 | |

NS* - Not-skilled
KV* - Skilled
VKV* - Highly skilled
SSS* - Secondary school diploma
VS* - Two-year post-secondary school qualifications
VSS* - College education