

BANKING AGENCY OF REPUBLIKA SRPSKA

**INFORMATION
ON REPUBLIKA SRPSKA BANKING SYSTEM
IN THE PERIOD JANUARY 1, THROUGH JUNE 30, 2003**

Banja Luka, August 2003

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1. INTRODUCTION

The Banking Agency of Republika Srpska was founded in 1998, and in the fifth year of its existence it successfully monitors and supervises development of the RS Banking Sector.

This year has been a year of private banking in Republika Srpska since the process of sale of the state owned capital in banks was completed at the end of 2002. Beside completion of the privatization process, a new Law on Banks of Republika Srpska was passed and the Law started to be implemented at the end of May 2003. Also, significant activities of banks were targeted to fulfillment of requirements under the Law on Deposit Insurance, since August 2003 was determined as the deadline. All changes, as well as adjustments of the legal regulation had as a goal further improvements of the banking sector, which has had significant activities in improving asset quality, reduction of operation costs, and offered new products to both businesses and citizens.

In the past period the Agency worked hard on creating as high quality as possible regulatory framework, which should enable banks to operate independently on market principles, and take responsibilities for their operation. The Agency will continue with fine-tuning of the overall legal regulation with an objective to create a high quality legal framework for operation of banks.

We also expect other segments of economic environment to follow intensively banking sector activities, since up to now they have been falling behind in both adjusting legal regulation and completing started processes (privatization of state owned capital in enterprises, operation of courts, and similar).

In the reporting period the Banking Sector of Republika Srpska consisted of ten banks with majority privately owned capital, out of which one bank has been put under Provisional Administration, which is still in existence.

Beside the above banks, in the territory of Republika Srpska there are nine operating units of banks from Federation of BiH supervised by the Federation Banking Agency, while in Federation BiH there are four operating units of banks from Republika Srpska.

2. BANKING SECTOR STRUCTURE

As of June 30, 2003 ten banks were in operation in Republika Srpska. In the course of the reporting period provisional administration was introduced in two banks due to incompliance with business operation legal requirements. Privredna banka a.d. Doboj had been already merged with an existing bank, and the PA procedure has been completed, while Privredna banka Sarajevo ad Srpsko Sarajevo is still under provisional administration.

Banks from Federation of Bosnia and Herzegovina have 9 organizational units operating in the territory of Republika Srpska.

Raiffeisen bank dd has five organizational units, Zagrebačka banka Mostar has two organizational units, and MEB banka Sarajevo has two organizational units.

Banks having their headquarters in Republika Srpska have four organizational units in operation in Federation of BiH, and they are Zepter Komerc banka ad Banja Luka with one organizational unit, Nova banjalučka banka ad Banja Luka with one organizational unit, and Nova banka ad Bijeljina with two organizational units.

Bankruptcy procedure is being conducted in four banks; all banks from Republika Srpska and branch offices from Federation of Bosnia and Herzegovina are licensed to perform internal payment transactions.

Two RS banks have been licensed by the Deposit Insurance Agency.

2.1. OWNERSHIP STRUCTURE

Shareholders' Capital Structure

In 000KM

No.	B a n k	Private Capital		State Owned Capital		Cooperative Capital	
		Amount	%	Amount	%	Amount	%
I	Majority Private Capital						
1.	Nova banjalučka banka a.d.	23,991	93	1,370	5	601	2
2.	Kristal banka a.d.	43,280	98	0	0	683	2
3.	Privredna banka a.d. Srpsko Sarajevo	15,562	99	0	0	95	1
4.	Razvojna banka of South East Europe a.d.	13,690	91	1,354	9	0	0
5.	Nova banka a.d.	14,361	96	0	0	640	4
6.	Bobar banka a.d.	15,350	100	0	0	0	0
7.	VB banka a.d.	15,819	100	0	0	0	0
8.	Zepter Komerc banka a.d.	17,569	100	0	0	0	0
9.	Balkan Investment Bank a.d.	15,000	100	0	0	0	0
10.	Pavlović International Bank a.d.	18,453	98	0	0	321	2
II	TOTAL:	194,075	98	2,724	1	2,340	1

All RS banks have majority private capital.

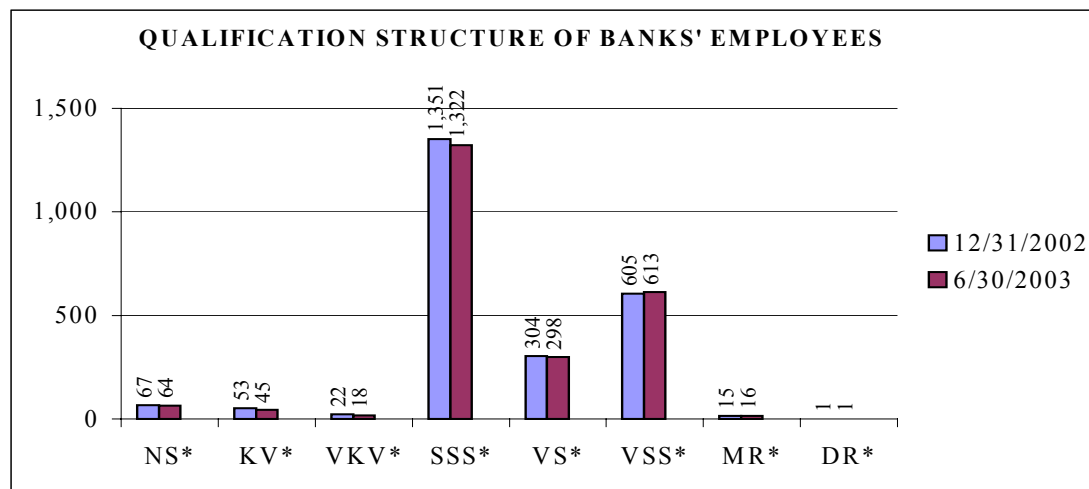
As of June 30, 2003 shareholders' capital amounted to KM 199,139 thousand out of which privately owned capital amounted to KM 194,075 thousand or 98%, state owned amounted to KM 2,724 thousand or 1%, and cooperative capital amounted to KM 2,337 thousand or 1%.

2.2. STAFF

As of June 30, 2003 RS banks had 2,377 employees, which compared to December 31, 2002 figures decreased by 2% or 41 employees. That decrease was in number of employees with secondary school level of education, junior college graduated, skilled and non-skilled workers, while number of college-graduated and employees with master degree had a slight increase.

Employees Qualification Structure

No.	Qualification	31.12.2002	%	30.06.2003	%	INDEX
1.	Non-Skilled	67	3	64	3	96
2.	Skilled	53	2	45	2	85
3.	Highly Skilled	22	1	18	1	82
4.	Secondary School	1,351	56	1,322	56	98
5.	2-year College	304	13	298	12	98
6.	College Degree	605	25	613	26	101
7.	M. Sc.	15	0	16	0	107
8.	Dr.	1	0	1	0	100
	TOTAL	2,418	100	2,377	100	98



One of the indicators of success of both banking system and individual banks is the ratio between assets and number of employees. A larger ratio indicates larger success in operation of the particular bank and the system in general.

Assets Per Employee

DATE	Number of employees	Assets in KM million	Assets per employee in (000KM)
31.12.2002	2,418	938,574	388
30.06.2003	2,377	1,007,660	424

As of June 30, 2003 assets per employee amounted to KM 424 thousand, and compared to December 31, 2002 increased by 9%. The increase of this indicator resulted from an increase of active assets by 1%, and decreased number of employees by 2%. The assets-per-employee ratio ranged in individual banks from KM 119 thousand to KM 1,245 thousand.

Five banks had an amount of assets per employee lower than KM 500 thousand, indicating that the number of employees is too large compared to the assets. Also, high overhead expense affects profitability of such banks.

One RS bank had assets-per-employee ratio exceeding KM 1,000 thousand, which represented a good bank operation indicator.

3. FINANCIAL INDICATORS OF BANKS' OPERATION

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

1. Banks' Balance Sheets submitted monthly with additional attachments for three-month periods presenting data on banks' cash funds, loans, deposits and off-balance sheet items.
2. Reports on banks' capital, asset classification, and risks in operation submitted quarterly.
3. Reports on banks' operational results submitted on a three-month basis (Income Statement and Cash Flow).
4. Daily, ten-day period, and monthly reports on liquidity, etc.

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

3.1. Balance Sheet

As of June 30, 2003 the RS banks' balance sheet amount increased by 13% compared to December 31, 2002.

Balance Sheet

DESCRIPTION	AMOUNT (000 KM)				INDEX 2003/2002
	31.12.2002		30.06.2003		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY):					
1. Cash Funds	228,326	24	276,359	27	121
2. Trading Securities	3,607	0	3,123	0	87
3. Placements to other banks	24,192	3	8,212	1	34
4. Loans	523,122	56	569,439	57	109
5. Securities held up to maturity	161	0	21	0	13
6. Premises and Other Fixed Assets	112,182	12	116,682	12	104
7. Other Assets	46,984	5	33,824	3	72
8. TOTAL ASSETS	938,574	100	1,007,660	100	107
9. Total Off-Balance Sheet (10+11+12)	254,496		337,298		133
10. Active Off-Balance Sheet	111,734		132,449		119
11. Classified Assets-Loss E	117,334		166,182		142
12. Fees for Agent and Other Operation	25,428		38,667		152
13. TOTAL ASSETS (8+9)	1,193,070		1,344,958		113
LIABILITIES (COMMITMENTS):					
14. Deposits	629,692	67	730,717	73	116
15. Borrowings	963	0	1,750	0	182
16. Obligations Based on Loans	35,349	4	42,012	4	119
17. Other Commitments	21,750	2	21,414	2	98
18. Special Reserves for Potential Loss	60,307	7	62,099	6	103
19. Capital	190,513	20	149,668	15	79
20. TOTAL LIABILITIES (COMMITMENTS AND CAPITAL)	938,574	100	1,007,660	100	107
21. Total Off-Balance Sheet (22+23+24)	254,496		337,298		133
22. Active Off-Balance Sheet	111,734		132,449		119
23. Classified Assets-Loss "E"	117,334		166,182		142
24. Fees for Agent and Other Operation	25,428		38,667		152
25. TOTAL LIABILITIES (20+21)	1,193,070		1,344,958		104

Balance sheet assets amounted to KM 1,008 million, and increased by 7%, compared to December 31, 2002. In the assets structure, cash funds, loans, office space and fixed assets increased constituting 96% of total balance sheet assets. Off-balance sheet assets increased by 33% and amounted to KM 337 million, and the largest increase was in assets classified as category "E" – loss 42%, agent based activities – 52% and active off-balance sheet items – 19%.

Share of Individual Group of Banks in Total Assets

(in 000 KM)

AMOUNT OF ASSETS	31.12.2002			30.06.2003		
	Amount	%	Number of banks	Amount	%	Number of banks
Over 150	544,990	58	3	592,692	59	3
100 - 150	0	0	0	104,112	10	1
50 - 100	236,722	25	3	163,572	16	2
25 - 50	145,078	16	4	124,700	13	3
Under 25	11,784	1	2	22,584	2	1
TOTAL:	938,574	100	11	1,007,660	100	10

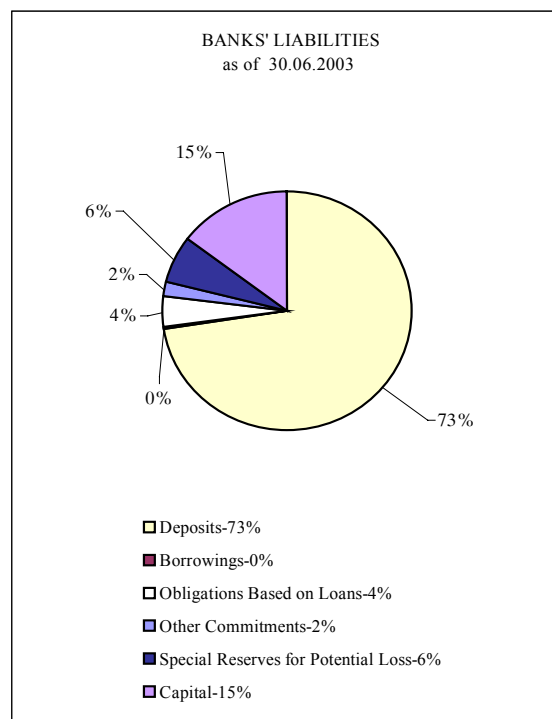
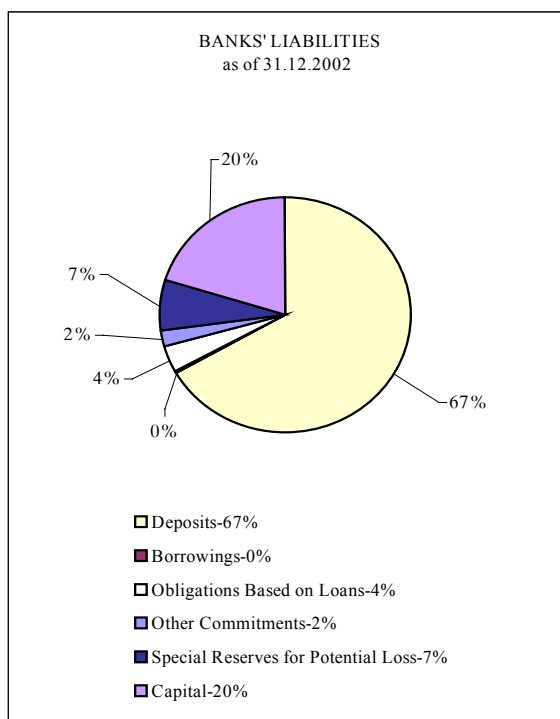
As of June 30, 2003 the share of individual groups of banks in total assets was the following: three banks with assets amounting to 59% of total assets falling into group of banks with over KM 150 million, one bank was in the group of KM 100-150 million, two banks in the group of KM 50-100 million, three banks with assets of KM 25-50 million, and one bank having assets lower than KM 25 million.

3.1.1. Liabilities

Liability structure, that is, structure of obligations and capital in the balance sheet as of June 30, 2003 can be seen from the following table:

Liability Structure

DESCRIPTION	AMOUNT (000 KM)				INDEX 2003/2002
	31.12.2002		31.03.2003		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
LIABILITIES (COMMITMENTS):					
1. Deposits	629,692	67	730,717	73	116
2. Borrowings	963	0	1,750	0	182
3. Obligations Based on Loans	35,349	4	42,012	4	119
4. Other Commitments	21,750	2	21,414	2	98
5. Special Reserves for Potential Loss	60,307	7	62,099	6	103
6. Capital	190,513	20	149,668	15	79
7. TOTAL LIABILITIES (COMMITMENTS AND CAPITAL)	938,574	100	1,007,660	100	107



Liability structure consisted of obligations amounting to 79%, and capital with special reserves for potential losses amounted to 21%.

If compared to December 31, 2002, the amount of obligations increased, while capital with reserves decreased.

The largest increase in the liability structure is seen in borrowings amounting to 82%, and obligations for taken loans of 19%, deposits 16%, and reserves for potential losses by 3%. Capital decreased by 21%.

3.1.1.1 Capital and Capital Adequacy

Capital

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2002	%	30.06.2003	%	INDEX
1	2	3	4	5	6
1. BANK'S CORE CAPITAL					
1.1. Shareholders' Capital	205,318	88	199,139	88	97
1.2. Legally Required Reserves	11,469	5	11,488	5	100
1.3. Other Reserves	15,620	7	16,695	7	107
1.4. Undistributed Earnings	121	0	726	0	600
1. AMOUNT OF CORE CAPITAL	232,528	100	228,048	100	98
2. BANK'S ADDITIONAL CAPITAL					
2.1. Amount of General Reserves for A	13,983	68	14,698	36	105
2.2. Current Earnings	6,626	32	5,294	13	80
2.3. Amount of Profit – Distribution Temporarily Stopped	0	0	866	2	0

2.4. Amount of Permanent Obligations Not to Be Repaid	0	0	20,000	49	0
2. AMOUNT OF ADDITIONAL CAPITAL:	20,609	100	40,858	100	198
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL					
3.1. Less Established Reserves	0	0	7	0	0
3.2. Uncovered Losses from Previous Years	20,474	36	36,643	40	179
3.3. Current Year Loss	28,167	50	47,230	51	168
3.4. Amount of Intangible Property	4,805	9	5,678	6	118
3.5. Bank's Investments in Other Legal Persons' Capital Exceeding 5% of Bank's Core Capital	2,828	5	2,352	3	83
3. AMOUNT OF DEDUCTIBLE ITEMS:	56,274	100	91,910	100	163
4. BANK'S NET CAPITAL (1+2-3):	196,863		176,996		90

In the above Capital table it can be seen that core capital decreased by 2% compared to December 31, 2002, additional capital decreased by 98%, while items to be deducted from capital decreased by 63%.

In the structure of core capital cash funds within shareholders' capital decreased by 3%, legally required reserves remained at the same level, other reserves increased by 7%, and undistributed earnings increased by 500%. Shareholders' capital decreased due to covering losses in banks under provisional administration, and undistributed earnings increased due to Agency's preventing of such distribution.

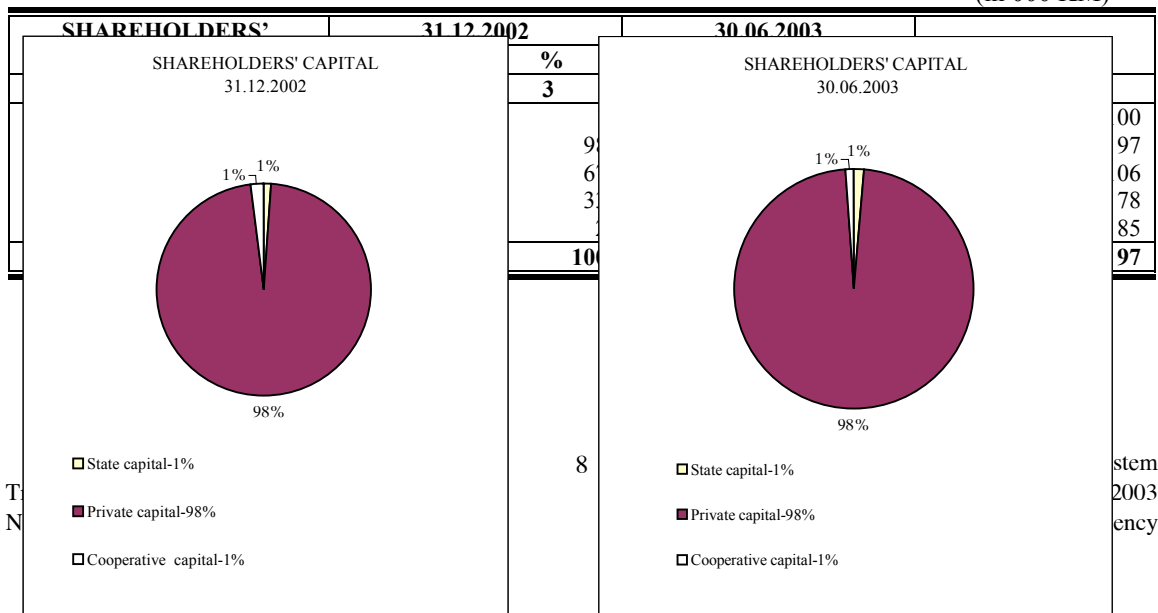
Additional capital increased by 98%, and it consisted of a significant amount of items of a permanent nature without an obligation to be repaid representing 49% of additional capital. Reserves for good assets – category “A” – increased by 5%, while accrued profit in the current year decreased by 20% indicating low profitability of banks.

Items to be deducted from capital increased by 63% compared to December 31, 2002, and that resulted from an increase by 79% of non-covered loss carried over from the previous period, current year loss of 68%, and increase of amount of intangible property by 18%.

All the above stated resulted in net capital decrease by 10% compared to December 31, 2002.

Shareholders' Capital Structure

(in 000 KM)



Ownership structure based on state, private, and co-operative share in equity as of June 30, 2003 shows that state-owned capital share in equity amounted to 1% (no changes compared to December 31, 2002), privately owned capital amounted to 98% (decreased by 3% compared to December 31, 2002), and share of capital owned by co-operatives amounted to 1% (decreased by 15% if compared to December 31, 2002).

Privately owned share of equity capital consists of foreign and domestic investors' capital amounting to 73% and 27% respectively.

The share of equity capital privately owned by foreign investors increased by 6% compared to December 31, 2002, and the share privately owned by domestic investors decreased by 22%.

Another important indicator in capital rating is capital adequacy rate, which actually represents a ratio between net capital and total risk assets, and should be at least 12%. Average capital adequacy for RS banks in this reporting period amounted to 21%, which compared to December 31, 2002 represents a decrease by 2%.

Capital Adequacy

	31.12.2001	31.12.2002	30.06.2003	INDEX	
1	2	3	4	5=4/2	6=4/3
Capital Adequacy	38%	24%	21%	55	88

Other capital ratios are shown in the following table:

Capital Ratios

in 000 KM

DESCRIPTION / PERIOD		31.12.2002	30.06.2003
1.	Net Capital/	196,863	176,996
	Total Assets	938,574	1,007,660
	%	21	18
2.	Shareholders' Capital/	205,318	199,139
	Total Assets	938,574	1,007,660
	%	22	20
3.	Core Capital/	232,528	228,048
	Total Risk Assets	822,355	842,015
	%	28	27
4.	Total Capital/	253,137	268,906
	Total Risk Assets	822,355	842,015
	%	31	32
5.	Net Loans/	490,468	528,773
	Total Capital	253,137	268,906
	%	194	197
6.	Profit/	6,779	10,782
	Shareholders' Capital	205,318	199,139
	%	3	5

*Income Statement data on annual basis

Capital ratios indicate that decrease in equity, due to loss covering, caused the decrease of net capital. Fluctuations of net capital are not in proportion with fluctuations in total assets. Assets increased faster, having as a consequence a decrease of net capital, which is also seen from the ratio between total capital and total risk assets. This indicator warns that there was some deterioration in the segment of risky operation of a bank.

Conclusion made is that additional capitalization is required in order to cover losses and to stabilize banking operation in Republika Srpska.

3.1.1.2. Deposits

Sector Based Deposit Structure

(in 000 KM)

DEPOSITS	31.12.2002		30.06.2003.		INDEX
	Amount	%	Amount	%	
Government institutions	104,208	17	120,661	17	116
Public and state enterprises	46,860	7	30,936	4	66
Private companies and associations	132,657	21	125,216	17	94
Nonprofit organizations	19,035	3	11,494	2	60
Banks	145,762	23	224,671	31	154
Non-bank financial institution	20,055	3	17,372	2	87
Citizens	146,133	24	169,177	23	116
Other	14,982	2	31,190	4	208
TOTAL	629,692	100	730,717	100	116

Deposits increased by 16% compared to December 31, 2002.

The largest share within deposit structure consisted of deposits of banks and other banking institutions 31%, citizens' deposits – 23%, private companies 17%, and government institutions 17%.

The largest increase was recorded with Other Deposits – 108% (foreign organizations and similar) but their share in the structure amounted to 4%. Next fastest increase was noted with banks and other banking institutions' deposits, which increased by 54%, and which is actually a deposit of a permanent nature with no obligation to be repaid representing the largest share in the deposit structure. Citizens' and Government deposits increased by 16%, while the rest of deposits decreased.

Currency Based Deposit Structure

(in M KM)

DEPOSITS	31.12.2002		30.06.2003.		INDEX
	Amount	%	Amount	%	
Deposits in KM	309.6	49	369.2	51	119
Deposits in foreign currency	320.1	51	361.5	49	113
TOTAL	629.7	100	730.7	100	116

The currency based deposit structure shows an increase of domestic currency deposits by 19%, and an increase of foreign currency deposits by 13%, while in the overall structure domestic deposits represented 51%.

Deposit Term Structure

(in 000 KM)

DEPOSITS	31.12.2002		30.06.2003		INDEX
	Amount	%	Amount	%	
Savings and deposits on demand	384,120	61	375,287	51	98
Up to 3 months	74,226	12	56,391	8	76
Up to 1 year	39,038	6	79,882	11	205
1. Total Short-Term	497,384	79	511,560	70	103
Up to 3 years	20,751	3	35,579	5	171
Over 3 years	111,557	18	183,578	25	165
2. Total Long-Term	132,308	21	219,157	30	166
TOTAL (1+2)	629,692	100	730,717	100	116

It can be seen that 70% of deposits were short-term deposits, and 30% were long-term deposits. Share of long-term deposits increased compared to December 31, 2002, but that is still not sufficient to meet increasing requests for long-term loans.

3.1.1.3. Bank Liquidity

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

In the last ten-day period of the first quarter one bank did not meet minimum required reserves with the CBBH.

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

Liquidity ratios are given in the following table.

Liquidity Ratios

in 000 KM

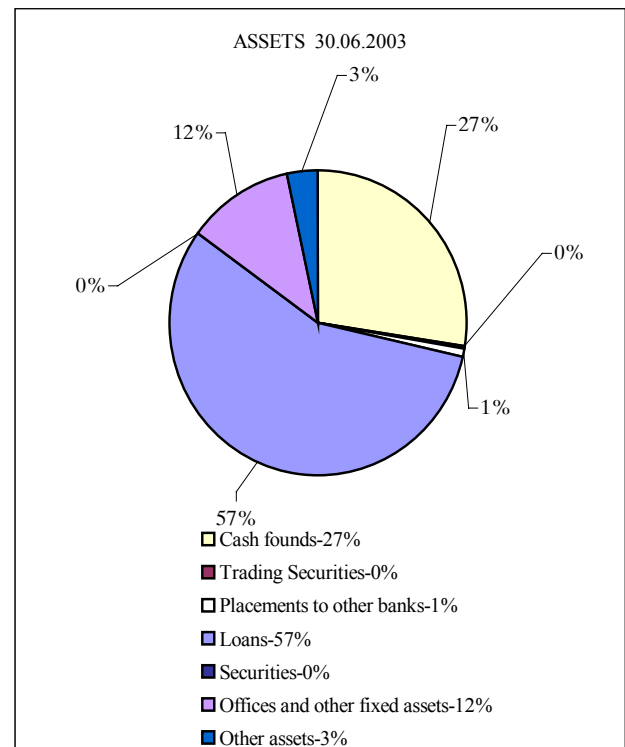
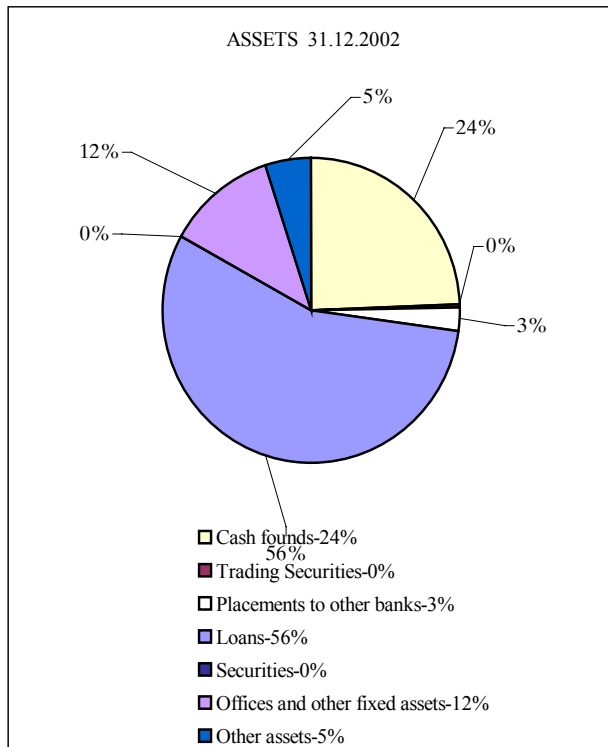
DESCRIPTION/PERIOD		31.12.2002	30.06.2003
1.	Short-term assets/	429,833	469,491
	Short-term liabilities	504,691	517,474
	%	85	91
2.	Short-term assets /	429,833	469,491
	Total assets	938,574	1,007,660
	%	46	47
3.	Short-term liabilities	504,691	517,474
	Total assets	938,574	1,007,660
	%	54	51
4.	Net short-term liabilities /	74,858	47,983
	Total assets	938,574	1,007,660
	%	8	5
5.	Net loans /	490,468	528,773
	Deposits	629,692	730,717
	%	78	72
6.	Net loans and financial commitments, letters of credit/	500,045	530,080
	Total assets	938,574	1,007,660
	%	53	53

Liquidity ratios indicate certain movements that are bringing banks closer to their being adjusted in short-term operation, since 91% of banks' obligations were covered by receivables. Ratio of net loans to total deposits had falling tendency, and some improvement was made, which means that banks should continue like that and strengthen their deposit base.

3.1.2. Assets

Active Asset Structure

DESCRIPTION	AMOUNT (000 KM)				INDEX
	31.12.2002		30.06.2003		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY):					
1. Cash Funds	228,326	24	276,359	27	121
2. Trading Securities	3,607	0	3,123	0	87
3. Placements to other banks	24,192	3	8,212	1	34
4. Loans	523,122	49	569,439	57	109
5. Securities held up to maturity	161	0	21	0	13
6. Premises and Other Fixed Assets	112,182	12	116,682	12	104
7. Other Assets	46,984	5	33,824	3	72
8. TOTAL ASSETS	938,574	100	1,007,660	100	107



Total active assets as of June 30, 2003 amounted to KM 1,008 million and were larger by 7% compared to December 31, 2002. Cash funds made 27% of balance sheet assets (increased by 21%), loans 57% (larger by 9%), office space and fixed assets 12% (increased by 4%), placements to banks 1% (decreased by 66%) and other assets 3% (decreased by 28%).

DESCRIPTION / PERIOD	AMOUNT (000 KM)				INDEX
	31.12.2002		30.06.2003		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
1. Active Off-Balance Sheet	111,734	100	132,449	100	119
- Irrevocable lending obligations	12,340	11	8,467	7	69
- Foreign checks sent for collection	284	0	622	0	219
- Irrevocable documentary L/C	9,577	8	1,307	1	14
- Guarantees issued	87,056	78	119,222	90	137
- Bills and sureties issued	649	1	527	0	81
- Nostro financially active – collection in process	5	0	0	0	0
- Current agreements for FC transactions	1,819	2	2,300	2	126
- Other Off-Balance Sheet Items	4	0	4	0	100
2. Classified Assets – Loss E	117,334		166,182		142
3. Agent Based Activities	25,428		38,667		152
4. TOTAL	254,496		337,298		133

Off-balance sheet assets amounted to KM 337 million and it increased by 33%. Active off-balance sheet items increased by 19%, assets classified as category "E" - loss, increased by 42% and agent based activities by 52%.

3.1.2.1. Cash Funds

Cash Funds Structure

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2002.	%	30.06.2003.	%	INDEX
1	2	3	4	5	6=4/2
KM					
1. Cash Funds	28,936	13	30,159	11	104
2. Giro-accounts	54,631	24	79,904	29	146
3. Deposit accounts at depository institutions in BH	31	0	1,018	0	3,284
4. Deposit accounts at depository institutions abroad	0	0	0	0	0
5. Cash funds in process of collecting	11	0	11	0	0
6. Non-repaid debts	0	0	0	0	0
7. TOTAL:	83,609	37	111,081	40	133
FOREIGN CURRENCY					
1. Cash Funds	44,695	20	42,860	16	96
2. Giro-accounts	371	0	0	0	0
3. Deposit accounts at depository institutions in BH	1,784	1	1,149	0	64
4. Deposit accounts at depository institutions abroad	97,223	42	120,967	44	124
5. Cash funds in process of collecting	644	0	302	0	47
6. Non-repaid debts	0	0	0	0	0
7. TOTAL:	144,717	63	165,278	60	114
GRAND TOTAL:	228,326	100	276,359	100	121

Cash funds consisted of foreign currency amounting to KM 165 million or 60%, and domestic currency amounting to KM 111 million or 40%.

Foreign currency funds increased by 14%, while domestic currency funds increased by 33%.

Cash funds in domestic currency increased by 4% compared to December 31, 2002, while cash funds in foreign currency decreased by 4%.

In this reporting period, within the structure of cash funds in domestic currency the share of cash funds on the reserve accounts at CBBH increased by 29%.

Deposits held on accounts with deposit institutions abroad represented the largest portion of cash funds amounting to 44%, and such deposits increased by 24%.

3.1.2.2. Loans

In the composition of assets loans amounted to 57% and compared to December 31, 2002 increased by 9%.

Total Loans Breakdown per Sectors

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2002	%	30.06.2003	%	INDEX
1	2	3	4	5	6	7=5/3
1.	Government institutions	14,473	3	5,139	1	36
2.	Public and state enterprises	112,378	21	68,810	12	61
3.	Private companies and associations	225,510	43	261,456	46	116
4.	Nonprofit organizations	580	0	675	0	116
5.	Banks	930	0	892	0	96
6.	Non-bank financial institution	5,728	1	2,455	0	43
7.	Citizens	155,469	30	216,731	38	139
8.	Other	8,054	2	13,281	3	165
9.	TOTAL	523,122	100	569,439	100	109

In the structure of total loans, the largest share amounting to 46% were loans to private enterprises and associations, while loans to citizens amounted to 38%, and loans to public and state enterprises were 12%.

Other loans recorded the largest increase in an amount of 65% (loans to RTV, catering, etc.) but their share in the structure amounted to 3%, while loans to citizens increased by 39%, loans to private companies and non-profit organizations increased by 16%, and all other sectors recorded a decrease.

Compared to the previous year the term structure of loans was as follows:

Loan Term Structure

(in 000 KM)

No.	DESCRIPTION	Short Term < 1 year		INDEX	Long Term > 1 year		INDEX	Due Receivables		INDEX	TOTAL		INDEX
		31.12.2002	30.06.2003		31.12.2002	30.06.2003		31.12.2002	30.06.2003		31.12.2002	30.06.2003	
1.	Government institutions	12,018	2,669	22	1,016	998	98	1,439	1,472	102	14,473	5,139	36
2.	Public and state enterprises	43,547	28,748	66	42,399	22,311	53	26,432	17,751	67	112,378	68,810	61

3.	Private companies and associations	113,664	128,799	113	75,363	92,398	123	36,483	40,259	110	225,510	261,456	116
4.	Nonprofit organizations	576	675	117	0	0	0	4	0	0	580	675	116
5.	Banks	930	50	5	0	350	0	0	492	0	930	892	96
6.	Non-bank financial institution	3,370	962	29	2,358	1,452	62	0	41	0	5,728	2,455	43
7.	Citizens	18,770	22,359	119	135,843	192,449	142	856	1,923	225	155,469	216,731	139
8.	Other	5,025	5,747	114	926	4,827	521	2,103	2,707	129	8,054	13,281	165
9.	TOTAL	197,900	190,009	96	257,905	314,785	122	67,317	64,645	96	523,122	569,439	109

Short-term loans with maturity up to one year amounted to KM 190 million and compared to December 31, 2002 decreased by 4%, while long-term loans amounted to KM 315 million and increased by 22%. Within the short-term loan structure the largest share represented loans extended to private companies increasing by 13%. Within the long-term loan structure loans extended to citizens represented the largest share with an increase of 42%, loans extended to private companies increased by 23%, while other loans increased by 421%, but their share in the structure was very small. Receivables due decreased by 4% compared to December 31, 2002, and their largest share was related to loans extended to private companies, while the largest increase was recorded with receivables due related to loans to citizens amounting to 59%.

3.1.2.3. Asset Quality

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

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

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

(in 000 KM)				
BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS		31.12.2002	30.06.2003	INDEX
1		2	3	4=3/2
1.	Short-term Loans	199,067	175,425	88
2.	Long-Term Loans	257,908	324,358	126
3.	Other Placements	45,685	23,163	51
4.	Accrued Interest	16,923	6,496	38
5.	Receivables Due	63,542	63,690	100
6.	Paid Guarantee based Receivables	6,385	4,224	66
7.	Other Assets	154,492	157,042	102
8. TOTAL BALANCE SHEET ASSET ITEMS:		744,002	754,398	101
9.	General Loan Risk and Potential Loan Loss (no. 8 X % loss)	55,546	54,813	99
10.	Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	54,872	55,061	100
11.	Balance 10.-9.	-674	248	-37
12.a)	Payable Guarantees	69,485	101,882	147
b)	Performance Guarantees	17,568	17,340	99
13.	Non-Covered Letters of Credit	9,376	1,863	20
14.	Irrevocable Loan based Commitments	12,340	8,467	69
15.	Other Potential Commitments	2,829	2,851	101
16. TOTAL OFF-BALANCE SHEET ITEMS:		111,598	132,403	119
17.	General Loan Risk and Potential Loan Loss (no.16 X % loss)	4,455	6,847	154

18. Already Separated General Reserves (A) and Special Reserves (B, C, D, E)	5,435	7,039	130
19. Balance 18.-17.	980	192	20
20.TOTAL BALANCE SHEET & OFF-BALANCE SHEET ITEMS (8 + 13)	855,600	886,801	104
21.General Loan Risk and Potential Loan Loss (no. 20 X % loss)	60,001	61,662	103
22. Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	60,307	62,100	103
23. OVERAGE of Separated Reserves (+)(amount) (no.22. - no.21.)	306	445	145
SHORTAGE of Separated Reserves (-)(amount) (no.21. – no.22.)	0	7	0
NON-CLASSIFIED ACTIVE ASSETS	194,707	253,319	130

Total classified assets as of June 30, 2003 amounted to KM 887 million and increased by 4% in comparison with the amount as of December 31, 2002. The balance sheet assets increased by 1%, and off-balance sheet increased by 19%.

Long-term loans represented the largest item of risk assets amounting to 43%, short term loans amounted to 23%, other assets 21% and receivables due 8%.

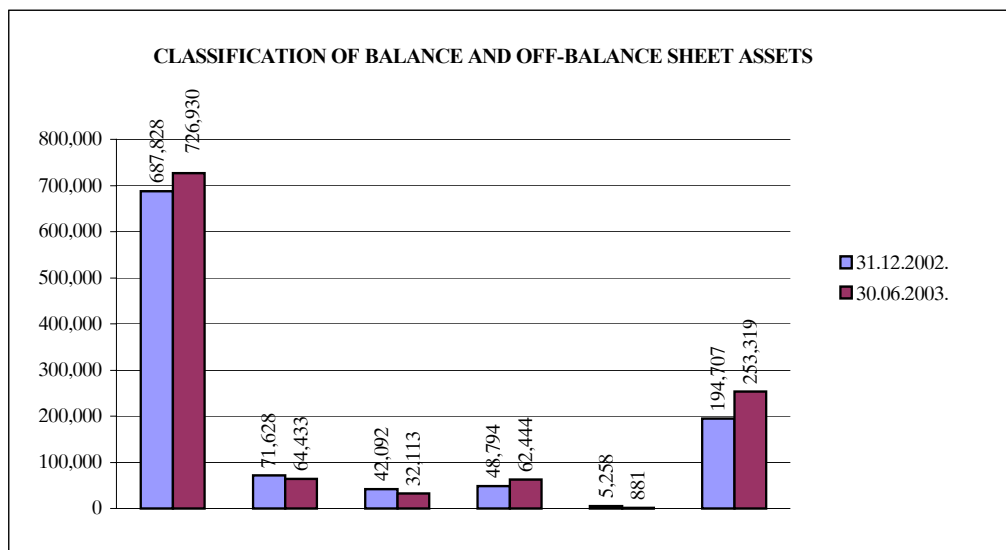
Compared to December 31, 2002, long-term loans increased by 26%, other placements increased by 1%, receivables due remained at the same level, while other risk asset items recorded a decrease.

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

Classification of banks' balance sheet and off-balance sheet assets as of June 30, 2003 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	147,242	18,254	3,481	6,448	0	175,425
2, Long-Term Loans	272,483	27,283	10,294	14,295	3	324,358
3, Other Placements	22,933	4	11	215	0	23,163
4, Accrued Interest	3,517	2,499	259	220	1	6,496
5, Receivables Due	10,214	6,732	10,143	36,393	208	63,690
6, Paid Guarantee based Receivables	1,012	4	188	3,020	0	4,224
7, Other Assets	154,431	1,545	1,066	0	0	157,042
8, TOTAL BALANCE SHEET ASSET ITEMS:	611,832	56,321	25,442	60,591	212	754,398
9, General Loan Risk and Potential Loan Loss (no, 8 X % loss)	12,364	5,315	6,497	30,425	212	54,813
10, Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	12,351	5,483	6,590	30,425	212	55,061
11, Balance 10,-9,	-13	168	93	0	0	248
12,a) Payable Guarantees	85,893	7,673	5,846	1,801	669	101,882
b) Performance Guarantees	16,155	308	825	52	0	17,340
13, Non-Covered Letters of Credit	1,823	40	0	0	0	1,863
14, Irrevocable Loan based Commitments	8,376	91	0	0	0	8,467
15, Other Potential Commitments	2,851	0	0	0	0	2,851
16, TOTAL OFF-BALANCE SHEET ITEMS:	115,098	8,112	6,671	1,853	669	132,403
17, General Loan Risk and Potential Loan Loss (no,16 X % loss)	2,307	808	1,696	944	1,092	6,847
18, Already Separated General Reserves (A) and Special Reserves (B, C, D, E)	2,347	960	1,696	944	1,092	7,039
19, Balance 18,-17,	40	152	0	0	0	192
20,TOTAL BALANCE SHEET & OFF-BALANCE SHEET ITEMS (8 + 13)	726,930	64,433	32,113	62,444	881	886,801
21.General Loan Risk and Potential Loan Loss (no, 20 X % loss)	14,672	6,124	8,193	31,369	1,304	61,662
22, Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	14,698	6,443	8,286	31,369	1,304	62,100
23, OVERAGE of Separated Reserves (+)(amount) (no,22, - no,21,)	33	319	93	0	0	445
SHORTAGE of Separated Reserves (-)(amount) (no,21, – no,22,)	7	0	0	0	0	7
NON-CLASSIFIED ACTIVE ASSETS						253,319



(in 000 KM)

Classification Category	31.12.2002	%	30.06.2003	%	INDEX
A	687,828	65	726,930	64	106
B	71,628	7	64,433	6	90
C	42,092	4	32,113	3	76
D	48,794	5	62,444	5	128
E	5,258	1	881	0	17
Non-classified active balance sheet	194,707	18	253,319	22	130
TOTAL:	1,050,307	100	1,140,120	100	109
Required potential loan loss general reserves (A)	13,826		14,672		106
Already established general reserve (A)	13,981		14,698		105
Balance for A:	155		26		
Required special reserves for potential loan loss (B-E)	46,175		46,990		102
Already separated special reserves (B-E)	46,326		47,402		102
Balance for (B-E):	151		412		

The largest share amounting to 64% was made by assets classified in category "A", which compared to December 31, 2002 increased by 6%. The share of assets classified as "B" amounted to 6% and decreased by 10%, category "C" amounted to 3% and decreased by 14%, category "D" amounted to 5% and increased by 28%, while a considerable decrease of the category "E" by 83% making its share in the structure quite insignificant resulted from removing this category from balance sheet to off-balance sheet records.

Calculated special reserves for assets classified as categories of risk from "B" to "E" totaled KM 46,990 thousand, while total established reserves amounted to KM 47,402 thousand, indicating that banks separated an amount larger by KM 412 thousand than required reserves.

Asset Quality Ratios
- in 000 KM -

DESCRIPTION/PERIOD		31.12.2002	30.06.2003
1.	Loans Due/	67,317	64,645
	Total Loans	523,122	569,439
	%	13	11
2.	Loans Due/	67,317	64,645
	Potential Loss Reserve	32,654	40,666
	%	206	159
3.	Loans Due/	67,317	64,645
	Total Capital	253,137	268,906
	%	27	24
4.	Classified Assets/	855,600	886,801
	Total Capital	253,137	268,906
	%	338	330
5.	Potential Loss/	32,654	40,666
	Total Loans	523,122	569,439
	%	6	7
6.	Total Risk Assets	822,355	842,015
	Total Assets	938,574	1,007,660
	%	88	84

Looking at the above asset quality ratios it can be concluded that improvement of the past due loans to total loans ratio resulted from obligatory removal from books of loan losses classified as “E” category in the previous period, and not from real improvement of asset quality. Both classified-assets-to-total-assets, and total-risk-assets-to-total-assets ratios, which are significantly large, confirm the above statement.

3.1.2.4. Transactions with Related Persons

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

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

- Banks may perform transactions with related persons only under approval of their Managing Board or other body with the same level of authorization;
- A single physical person may be approved a transaction amounting to a maximum of 1% of core capital;
- Total amount of transactions with all physical persons related with a bank cannot exceed 10% of the bank’s core capital.

Banks are obliged to keep separate records on the following:

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

Schedule of Other Loans to Related Persons

(in 000 KM)

DESCRIPTION	31.12.2002	%	30.06.2003	%	INDEX
1	2	3	4	5	6=4/2
Loans approved:					
1. Shareholders exceeding 5% voting rights	7,932	52	9,551	53	120
2. Managing Board members	1,165	8	953	5	82
3. Management	788	4	1,018	6	165
4. Bank employees	5,973	36	6,486	36	109
5. TOTAL LOANS (1 to 4)	15,858	100	18,008	100	114
6. Potential and taken off-balance sheet obligations	666		148		
7. GRAND TOTAL (5+6)	16,524		18,156		

As of June 30, 2003 loans extended to related persons increased by 14% compared to December 31, 2002.

The largest share within the whole loan composition was recorded for loans extended to shareholders amounting to 53%, increasing by 20%.

Loans extended to managing board members decreased by 18%, while loans extended to banks' management increased by 65% and to employees by 9% in comparison to December 31, 2002.

3.1.2.5. Office Space and Other Fixed Assets

Within total asset composition the share related to office space and other fixed assets amounted to 12%. Compared to December 31, 2002 fixed assets increased by 4%.

Four banks exceeded 50% of investment into fixed assets related to their core capital, but 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.

3.1.2.6. Other Assets

Other assets within the total asset structure represented a share of 3% and compared to December 31, 2002 decreased by 28%. Other assets mostly consisted of accrued interest and fees. Other items in the composition are insignificant and represented investments into non-consolidated related entities (funds), purchased guaranties, investments in apartments, transition accounts for foreign currency payments, current payments of previously taken obligations, accrued receivables, and other.

4. Income Statement

Income Statement

(in 000 KM)

DESCRIPTION/PERIOD	30.06.2002		30.06.2003		INDEX
	Total	%	Total	%	
1	2	3	4	5	6
1. INTEREST INCOME AND SIMILAR INCOME					
a) Interest Income and Similar Income	28,900	34	28,354	39	98
b) Operating Income	56,439	66	44,058	61	78
2, TOTAL INCOME (1.a + 1.b)	85,339	100	72,412	100	85
3. EXPENSE					
a) Interest Expense and Similar Expense	4,711	5	8,138	7	173
b) Business Operation and Direct Expense	36,821	43	60,742	53	165
c) Operating Expense	44,355	52	45,371	40	102
4. TOTAL EXPENSE (3.a + 3.b + 3.c)	85,887	100	114,251	100	133
PROFIT BEFORE TAX	3,211		5,391		168
LOSS	3,759		47,230		1,256
TAXES	83		97		117
NET-PROFIT	3,128		5,294		169

In the first half of 2003 banks' total income amounted to KM 72,412 thousand, decreasing by 15% in comparison to December 31, 2002.

Total expense amounted to KM 114,251 thousand and increased by 33% in comparison with December 31, 2002.

Profit-before-tax amounted to KM 5,391 thousand, and increased by 68%. Loss amounted to KM 47,230 thousand, and increased by 1,156% compared to December 31, 2002. Net profit amounted to KM 5,294 thousand and increased by 69%.

The reported loss was mostly influenced by operating and direct expenses, which were mostly related to reserves for loan and other losses increasing by 65% in comparison to June 30, 2002, and representing a significant share of 53% in the structure. Operating expenses increased by 2%, which resulted from an increase in salary costs, office space and other operational costs, and their share in the total expense structure amounted to 40%.

Operating income amounted to 61% in the income structure, but compared to June 30, 2002 decreased by 22%, while interest income amounted to 39%, and increased by 2%. Thus, banks were still orientated to activities generating fee-income in favor of lending activities.

Operating expenses were larger than interest income by KM 17,017 thousand.

In the reporting period two banks generated losses in an amount of KM 47,230 thousand, and eight banks had a positive financial result in an amount of KM 5,391 thousand, while the banking system balance sheet loss amounted to KM 83,873 thousand, and it consisted of loss from the current year and non-covered loss from previous years.

Profitability Ratios

(in 000 KM)

	DESCRIPTION/PERIOD	31.12.2002	30.06.2003
1.	Total Income/ Total Assets	172,359 938,574	144,824 1,007,660
	%	18	14
2.	Total Income / Total Capital	172,359 253,137	144,824 268,906
	%	68	54
3.	Total Expense/ Total Assets	200,757 938,574	228,502 1,007,660
	%	21	23
4.	Interest Income/ Total Assets	51,382 938,574	56,708 1,007,660
	%	5	6
5.	Interest Income/ Total Assets	11,104 938,574	16,276 1,007,660
	%	1	2
6.	Net Interest Income / Total Assets	40,278 938,574	40,432 1,007,660
	%	4	4
7.	Net Interest Expense/ Total Capital	40,278 253,137	40,432 268,906
	%	16	15
8.	Fees/ Total Assets	41,234 938,574	46,662 1,007,660
	%	4	5
9.	Material Expense and Gross Earnings/ Total Assets	75,563 938,574	90,742 1,007,660
	%	8	9
10.	Non-Interest Expense/ Total Assets	189,653 938,574	212,226 1,007,660
	%	20	21
11.	Profit before Taxes/ Total Assets	6,779 938,574	10,782 1,007,660
	%	1	1

*Income Statement Data showed on annual basis

The above profitability ratios show that in the first six months of 2003 banks' total expenses had a faster trend of growth than total income. Compared to December 31, 2002 total expenses to total assets ratio increased, while interest income slightly increased and net interest income remained at the same level, indicating that interest expense was also increasing, and that fee income remained the basic source of banks' financing.

Most important ratios are presented in the following table:

(y 000 KM)

	RATIO	31.12. 1999.	31.12. 2000.	31.12. 2001.	31.12. 2002.	30.06. 2003.
1.	Profit	10,761	3,538	6,249	6,779	10,782
	Total Assets	604,753	651,212	772,202	938,574	1,007,660
	Return On Assets (%) - ROA	2	1	1	1	1
2.	Profit	10,761	3,538	6,249	6,779	10,782
	Capital	177,557	200,993	214,880	253,137	268,906
	Return On Capital (%)	6	2	3	3	4
3.	Profit	10,761	3,538	6,249	6,779	10,782
	Shareholders' Capital	123,118	142,754	168,223	205,318	199,139
	Return On Shareholders' Capital (%) - ROE	9	2	4	3	5
4.	Net Interest Income/ Total Assets	42,304 604,753	44,227 651,212	46,129 772,202	40,278 938,574	40,432 1,007,660
	%	7	7	4	6	4
5.	Fees/ Total Assets	15,151 604,753	20,866 651,212	34,231 772,202	41,234 938,574	46,662 1,007,660
	%	3	3	4	4	5
6.	Operating Expenses/ Total Assets	129,605 604,753	83,286 651,212	82,546 772,202	75,563 938,574	90,742 1,007,660
	%	21	13	11	8	9
7.	Capital/ Total Assets	177,557 604,753	200,993 651,212	214,880 772,202	253,137 938,574	268,906 1,007,660
	Banks' Capitalization (%)	29	31	28	27	27

*Income Statement Data showed on annual basis

ROA – return on assets ratio was 1% and met international standards, while in the reporting period ROE – return on equity ratio was oscillating and in 2003 amounted to 5% being far below international standards which range from 12 to 18%.

Net interest income to total assets ratio decreased constantly, and amounted to 4% in the reporting period.

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

Operating expenses were decreasing since December 31, 2002, which was a logical consequence of decrease of employees in the RS banking sector, while as of June 30, 2003 recorded an increase of 1%.

Capital to total assets ratio was decreasing since the year 2000, since assets increased faster than capital, but as of December 31, 2002 and June 30, 2003 the ratio remained the same, indicating that the decreasing trend was stopped, and that implementation of the new Decision on Capital calculation should contribute to further improvement of this ratio.

5. INTERNAL PAYMENT TRANSACTIONS

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

As of June 30, 2003 there were 84,893 transaction accounts opened.

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

Date	Retail Payment Transactions (Debiting of Accounts)		Wholesale Payment Transactions (Debiting of Accounts)	
	Number of transactions	Amount of transactions (000 KM)	Number of transactions	Amount of transactions (000 KM)
31.01.2003	345,979	1,098,600	332,741	450,880
28.02.2003	401,114	1,131,163	438,342	492,208
31.03.2003	492,191	1,414,444	491,371	561,608
30.04.2003	497,702	1,552,028	507,209	571,909
31.05.2003	477,548	1,489,507	509,027	596,644
30.06.2003	495,806	1,600,351	502,578	593,371
TOTAL:	2,710,340	8,286,093	2,267,325	3,267,603

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 34% of total number of transactions or in value of an amount of KM 29%.

Branch offices of banks from Federation of Bosnia and Herzegovina performed 2% of both number and value of RS payment transactions.

4. CONCLUSION

Based on the above listed indicators related to the operation of the banking sector as of June 30, 2003, the following can be concluded:

- *Total assets increased by 13% out of which balance sheet assets increased by 7%;*
- *Cash funds decreased by 21%, and loans increased by 9% (loans increased faster than total assets);*
- *Deposits increased by 16%, out of which citizens' saving deposits amounted to 23%, and rate of growth was 16%;*
- *Banks' liquidity improved, but it has not reached a satisfactory level, yet;*
- *Equity decreased by 3%, and net capital by 10%, which resulted from debiting shareholders' capital and other reserves to cover losses;*
- *Banks separated required amount of reserves for loan losses;*
- *Banks' profitability was not at satisfactory level;*
- *Two RS banks were licensed for deposit insurance, and the rest of banks are making intensive preparations to have their deposits insured.*

Taking into consideration positive movements in banking, for continuation of such positive changes the following would be necessary:

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

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

- *To further improve asset quality and risk management especially with increasing lending activities and risks in operation with related entities;*
- *To further improve payment transactions in order to speed up information exchange, and develop detailed procedures to monitor financial transactions, which might have money laundering features;*
- *To strengthen banks' internal controls and internal audit;*
- *To decrease expenses and fixed assets, which would also improve banks' profitability;*
- *To strengthen hardware and software functions, as well as building up staff's computer skills, especially in those segments of operation dealing with small and medium size companies, and citizens;*

- *The RS Bank Association should be more active and develop a new organization chart in order to offer quality solutions of banking sector issues (cooperation with institutions having an importance for banks' operation, training of banks' employees, issuing legal regulation, and similar).*

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

BASIC INFORMATION ON BANKS

Attachment No. 1

No.	BANK	LOCATION	ADDRESS	DIRECTOR	PHONE	FAX	30.06.2003 (in 000KM)		NUMBER OF EMPLOYEES
							ASSETS	CAPITAL	
1.	Nova Banjalučka banka a.d.	Banja Luka	M.Bursać 7	Dragoljub Lekić	051/243-200	212-830	181,362	25,962	408
2.	Kristal banka a.d.	Banja Luka	I.F.Jukića 9	Kurt Makula	051/212-930	212-878	234,235	43,963	275
3.	Pavlović International Bank a.d. Bijeljina	Slobomir, Bijeljina	Slobomir	Nada Pavlović	055/209-588	210-247	49,556	18,774	283
4.	Privredna banka a.d. S. Sarajevo	Pale	Kninska bb	PA Mile Maksimović	056/210-173	057/226-805	35,806	15,675	301
5.	Nova banka a.d.	Bijeljina	Svetog Save 46	Milorad Andžić	055/209-094	201-410	104,112	15,001	292
6.	Razvojna banka Jug. Evrope a.d.	Banja Luka	Kralja Petra I 85-A	Ranko Travar	051/242-101	242-192	177,095	15,044	522
7.	VB banka a.d.	Banja Luka	Milana Tepića 4	Radovan Bajić	051/221-600	221-623	73,458	16,819	59
8.	Bobar banka a.d.	Bijeljina	Filipa Višnjića 211	Dragan Radumilo	055/201-862	201-862	39,338	15,350	69
9.	Zepter komerc Banka a.d. B. Luka	Banja Luka	Jevrejska bb/II sprat	Ranko Labović	051/241-100	215-771	90,114	17,569	132
10.	Balkan Investment Bank a.d. B. Luka	Banja Luka	Krajiških brigada 2	Saulilus Žostautas	051/216-285	211-445	22,584	15,000	36
	TOTAL:						1,007,660	199,139	2,377

BALANCE SHEET

(in 000 KM)

DESCRIPTION/PERIOD	31.12.02	%	30.06.03	%	INDEX
1. Cash funds and deposit accounts at depository institutions (1.a.+1.b.)	228,326	24	276,359	27	121
1.1. Cash and non-interest bearing deposit accounts	118,587	13	156,333	15	132
1.2. Interest-bearing deposit accounts	109,739	11	120,026	12	109
2. Trading Securities	3,607	0	3,123	0	87
3. Placements to other banks	24,192	3	8,212	1	34
4. Loans, leasing and receivables due (4.a.+4.b.+4.c.)	523,122	56	569,439	56	109
4.a. Loans	455,805	49	504,794	50	111
4.b. Leasing receivables	0	0	0	0	0
4.c. Loan and leasing receivables due	67,317	7	64,645	6	96
5. Securities held up to maturity	161	0	21	0	13
6. Office space and other fixed assets	112,182	12	116,682	12	104
7. Other immovables	1,173	0	321	0	27
8. Investments in non-consolidated related companies	7,024	1	6,053	1	86
9. Other assets	38,787	4	27,450	3	71
TOTAL (1 to 9)	938,574	100	1,007,660	100	107
10. MINUS: Reserves for potential losses	54,871		55,060		100
11. TOTAL ASSETS: (1.to 9.-10.)	883,703		952,600		108
11.1 Total off-balance sheet items					
11.a. Active off-balance sheet items	111,734		132,449		119
11.b. Classified assets – loss E	117,334		166,182		142
11.c. Commission (agent) services	25,428		38,667		152
TOTAL ASSETS (11.+11.1)	1,138,199		1,289,898		113
12. Deposits (12.a.+12.b.)	629,692	71	730,717	77	116
12.a. Interest-bearing deposits	481,231	54	614,749	65	128
12.b. Non-interest bearing deposits	148,461	17	115,968	12	78
13. Borrowings – obligations due (13.a.+13.b.)	313	0	462	0	148
13.a. Obligations due, not paid	313	0	462	0	148
13.b. Off-balance sheet obligations not paid-called for repayment	0	0	0	0	0
14. Borrowings from other banks	650	0	1,288	0	198
15. Obligations to Government	739	0	10	0	1
16. Obligations based on loans and other borrowings (16.a.+16.b.)	35,349	4	42,012	4	119
16.a. remaining maturity up to one year	5,605	1	4,154	0	74
16.b. remaining maturity over one year	29,744	3	37,858	4	127
17. Subordinated debt and subordinated bonds	0	0	0	0	0
18. Reserve to cover off-balance sheet items (18.a.+18.b.)	5,436	0	7,039	1	129
18.c. Other obligations	21,011	3	21,404	2	102
19. TOTAL LIABILITIES (12 to 18)	693,190	78	802,932	84	116
20. Permanent preferred shares	9,778		9,778		100
21. Regular shares	195,540		189,361		97
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	6,747		6,219		92
24. Capital reserves	27,089		28,183		104
25. Other capital	-48,641		-83,873		172
26. TOTAL CAPITAL: (20. to 25.)	190,513	22	149,668	16	79
27. TOTAL LIABILITIES AND CAPITAL: (19. + 26.)	883,703	100	952,600	100	108
28.1. Total off-balance					
28.1. Active off-balance sheet	111,734		132,449		119
28.2. Classified assets – loss E	117,334		166,182		142
28.3. Commissioned (agent) services	25,428		38,667		152
TOTAL LIABILITIES (27.+28.1)	1,138,199		1,289,898		113

CAPITAL STATEMENT

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2002	30.06.2003	INDEX
1. CORE CAPITAL OF BANKS			
1.1. Equity capital based on nominal values and amounts of regular and preferred non-cumulative shares issued against cash fund payments into shareholders' capital:	201,919	195,740	97
1.2. Equity capital based on nominal amounts of regular and preferred non-cumulative shares issued against immovables and rights invested into shareholders' capital:	3,399	3,399	100
1.3. Premiums collected for share payments:	0	0	0
1.4. General reserves required (reserves required by the law):	11,469	11,488	100
1.5. Other reserves which are not taken into account when rating asset quality:	15,620	16,695	107
1.6. Retained – undistributed profit from previous years:	121	726	600
1. AMOUNT OF CORE CAPITAL:	232,528	228,048	98
2. ADDITIONAL CAPITAL OF BANKS			
2.1. Equity capital based on nominal amounts of permanent preferred cumulative shares issued against cash fund payments into shareholders' capital:	0	0	0
2.2. Equity capital based on nominal amounts of permanent preferred cumulative shares issued against immovables and rights invested into shareholders' capital:	0	0	0
2.3. General reserves for loan loss coverage for bank's assets rated as category A – Pass:	13,983	14,698	105
2.4. Accrued profit in the current year:	6,626	5,294	80
2.5. Amount of profit for which BA-RS issued Decision on Temporary Suspension of Distribution:	0	866	0
2.6. Amount of subordinated debt maximum 50% of amount of Core Capital:	0	0	0
2.7. Amount of hybrid i.e. convertible items-instruments of capital maximum 50% of amount of Core Capital:	0	0	0
2.8. Amount of items-commitments of a permanent character without obligation to be repaid:	0	20,000	0
2. AMOUNT OF ADDITIONAL CAPITAL:	20,609	40,858	198
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL			
3.1. Portion of general credit risk and potential loan losses for which bank has not established General and Special reserves for loan losses:	0	7	0
3.2. Uncovered losses carried over from previous years:	20,474	36,643	181
3.3. Current Year Loss:	28,167	47,230	27
3.4. Bookkeeping value of bank's owned (vault) shares:	0	0	0
3.5. Nominal amount of shares issued against investments from bank's loans, up to not-repaid amount of the loan, i.e. not-repaid portion of the loan:	0	0	0
3.6. Part of invested shareholders' capital, which represents, according to BA-RS, received, but overstated value:	0	0	0
3.7. Intangible property: patents, licenses, concession, investments in: marketing, commercial name, trade mark, goodwill and similar:	4,805	5,678	118
3.8. Bank's investments in capital of other legal entities exceeding 5% of the bank's core capital:	2,828	2,352	83
3.9. Receivables from shareholders having a significant voting right in the bank, which receivables are based on the bank's approvals contrary to provisions of the Law, BA-RS and the bank's business policy:	0	0	0
3.10. Bank's large risk exposure related to shareholders having a significant voting right in the bank, which exposure has not been previously approved by the BA-RS:	0	0	0
4. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL:	56,274	91,910	163
A. ITEMS OFF-SETTING FROM BANK'S CAPITAL:			
1. AMOUNT OF BANK'S CORE CAPITAL	232,528	228,048	98
2. AMOUNT OF BANK'S ADDITIONAL CAPITAL	20,609	40,858	198
3. AMOUNT OF BANK'S ITEMS OFF-SETTING FROM THE CAPITAL	56,274	91,910	163
4. AMOUNT OF BANK'S NET-CAPITAL (1. + 2. - 3.)	196,863	176,996	90
B. RISK WEIGHTED ASSETS AND LOAN EQUIVALENTS	822,355	842,015	102
C. NET CAPITAL RATE	23.9	21.0	88

INCOME STATEMENT

(in

000 KM)

DESCRIPTION/PERIOD	30.06.2002	%	30.06.2003	%	INDEX
1. INTEREST INCOME AND EXPENSE					
a) Interest income and similar income					
1) Interest bearing deposit accounts at depository institutions	1,124	4	1,372	5	122
2) Placements to other banks	612	2	193	1	32
3) Loans and leasing operations	26,549	92	21,355	75	80
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	188	0	0	0	0
7) Other interest income and similar income	427	2	5,434	19	1,273
8) TOTAL INTEREST INCOME AND OTHER INCOME (1 to 7)	28,900	100	28,354	100	98
b) Interest expense and similar expense					
1) Deposits	2,976	64	6,452	79	217
2) Borrowings from other banks	478	10	843	10	176
3) Borrowings – due obligations	16	0	152	2	950
4) Loan and other borrowing obligations	702	15	10	0	1
5) Subordinated debt and subordinated bonds	12	0	7	0	58
6) Other interest expense and similar expense	527	11	674	8	128
7) TOTAL INTEREST EXPENSE AND SIMILAR EXPENSE (1 to 6)	4,711	100	8,138	100	173
c) NET INTEREST AND SIMILAR INCOME a.8)-b.7)	24,189		20,216		84
2. OPERATING INCOME					
a) Foreign currency operation income	17,905	32	7,208	16	40
b) Loan fees	1,380	2	4,432	10	321
c) Off-balance sheet operation fees	1,637	3	2,084	5	127
d) Service fees	22,585	40	16,815	38	74
e) Trading operation income	14	0	555	1	3,964
f) Other operating income	12,918	23	12,964	30	100
g) TOTAL OPERATING INCOME (a to f)	56,439	100	44,058	100	78
3. NON-INTEREST BEARING EXPENSE					
a) Operating and direct expense					
1) Reserves for general loan risk and potential loan and other losses	17,421	47	57,157	94	328
2) Other operating and direct expenses	19,400	53	3,585	6	18
3) TOTAL OPERATING AND DIRECT EXPENSES 1) + 2)	36,821	100	60,742	100	165
b) Operating expenses					
1) Salaries and contributions	17,595	40	18,025	40	102
2) Office space, other fixed assets and overheads	19,560	44	15,910	35	81
3) Other operating expenses	7,200	16	11,436	25	159
4) TOTAL OPERATING EXPENSES (1 to 3)	44,355	100	45,371	100	102
c) TOTAL NON-INTEREST BEARING EXPENSES a.3) + b.4)	81,176		106,113		131
4. PROFIT BEFORE TAX 1.c)+2.g)-3.c)	3,211		5,391		168
5. LOSS 1.c) + 2.g) - 3.c)	3,759		47,230		1,256
6. TAX	83		97		117
7. NET-PROFIT 4. - 6.	3,128		5,294		169

STAFF

No.	BANKS	QUALIFICATION STRUCTURE								TOTAL	%
		NS*	KV*	VKV	SSS*	VS*	VSS*	MR*	DR*		
1.	Nova Banjalučka banka a.d.	7	10	4	241	47	96	3	0	408	17
2.	Kristal banka a.d.	10	0	1	172	19	73	0	0	275	11
3.	PB a.d. Srpsko Sarajevo	9	6	2	203	25	55	1	0	301	13
4.	Razvojna banka Jug. Evrope	6	15	9	278	90	121	2	1	522	22
5.	Bobar banka	0	3	0	39	6	19	2	0	69	3
6.	VB banka	2	0	0	24	4	29	0	0	59	3
7.	Nova banka	4	2	0	117	56	111	2	0	292	12
9.	Zepter Komerc banka	0	5	1	57	18	50	1	0	132	5
10.	Balkan Investment Bank	1	0	0	15	4	13	3	0	36	2
11.	Pavlović International Bank	25	4	1	176	29	46	2	0	283	12
TOTAL		64	45	18	1,322	298	613	16	1	2,377	100
%		3	2	1	55	12	26	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