

**INFORMATION
ON BANKING SECTOR OF REPUBLIKA SRPSKA
IN THE PERIOD FROM JANUARY 1, 2004 TO JUNE 30, 2004**

Banja Luka, August 2004

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1. INTRODUCTION

After completed privatization, and having met the minimum capital requirement of KM 15 million and more, nine banks operated in the first half of this year. The main activities of management of banks were targeted to overcoming problems inherited from the period prior to privatization, obtaining deposit insurance licenses, developing products, and meeting new legal requirements. Taking into consideration that banking sector legal regulation framework has mostly met requirements prescribed by the Basel Principles and International Standards it can be said that this segment of our economy has done the most for its development, but its further development is prevented by lack of a faster and higher quality development of other segments of the RS economy.

In the first six months of this year total assets increased by KM 220 million, loans by KM 149 million, deposits by KM 140 million, out of which KM 82 million were citizens' deposits. Such a growing trend was not followed by an adequate increase of capital, thus an additional capitalization of the banking sector would be necessary, since some of banks could fail to meet legal requirement related to the level of both core and net capital. Related to fund sources it is also important to mention that banks had more short-term than long-term fund sources, and the ratio between long-term and short-term loans was considerably larger, which should be considered very seriously in providing for long-term fund sources. Some banks had rather low profitability, as well as too large a number of employees indicating to insufficient activity of banks' managing bodies and lack of quality solutions in dealing with inherited problems.

In the first six months of this year six banks insured their deposits, while the remaining three banks were adjusting their legal requirements in order to acquire deposit insurance certificates.

The banking sector generated a positive result in an amount of KM 5.3 million. Eight banks generated profit in an amount of KM 7.9 million, while two banks reported loss in an amount of KM 2.6 million. If the loss from the previous period is added then the loss was considerably high and amounted to KM 60.1 million. With an additional capitalization of some banks, better organization, and a more profitable operation, banks could cover generated loss.

A significant activity of banks was rendering successfully services of internal payment transactions, as well as in prevention of money laundering, where "know-your-client" policy and procedures had to be developed. Other institutions, involved in implementation of the Law on Prevention of Money Laundering should be more active in cooperating with the banking sector.

It is important to point out that banks from Federation of Bosnia and Herzegovina had 21 organizational unit opened in RS, while banks from Republika Srpska appeared to be less interested in opening their branch offices in Federation BH and had them only seven.

All segments of the banking sector are presented in detail in chapters below.

2. STRUCTURE OF THE BANKING SECTOR

As of June 30, 2004 ten banks operated in RS. Privredna banka a.d. Srpsko Sarajevo remained under provisional administration.

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

Raiffeisen Bank dd had seven, Zagrebacka banka Mostar had five, and Pro Credit banka Sarajevo had six organizational units, while LT Gospodarska banka dd Sarajevo, VOLKS banka BH dd Sarajevo, and HVB bank BiH dd Sarajevo had one operational unit each.

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

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

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

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

2.1. Ownership Structure

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

Shareholders' Capital Structure

(in 000 KM)

Order number	Bank	Private Capital		State Owned Capital		Cooperative Capital	
		Amount	%	Amount	%	Amount	%
I	<u>Majority Private Capital</u>						
1.	Nova Banjalucka banka a.d.	23,971	93	1,370	5	621	2
2.	Hypo Alpe-Adria-Bank a.d.	53,937	100	0	0	26	0
3.	Privredna banka a.d. Srpsko Sarajevo	15,562	99	0	0	95	1
4.	Razvojna banka Jugoistocne Evrope a.d.	19,390	93	1,437	7	0	0
5.	Nova banka a.d.	16,602	98	0	0	399	2
6.	Bobar banka a.d.	16,430	100	0	0	0	0
7.	LHB banka a.d.	17,971	100	0	0	0	0
8.	Zepter Komerc banka a.d.	17.569	100	0	0	0	0
9.	Balkan Investment Bank a.d.	18.000	100	0	0	0	0
10.	Pavlovic International Bank a.d.	18.453	98	0	0	321	2
II	TOTAL:	217.885	98	2.807	1	1.462	1

Peer-Groups' Shares in Total Assets

(in 000 KM)

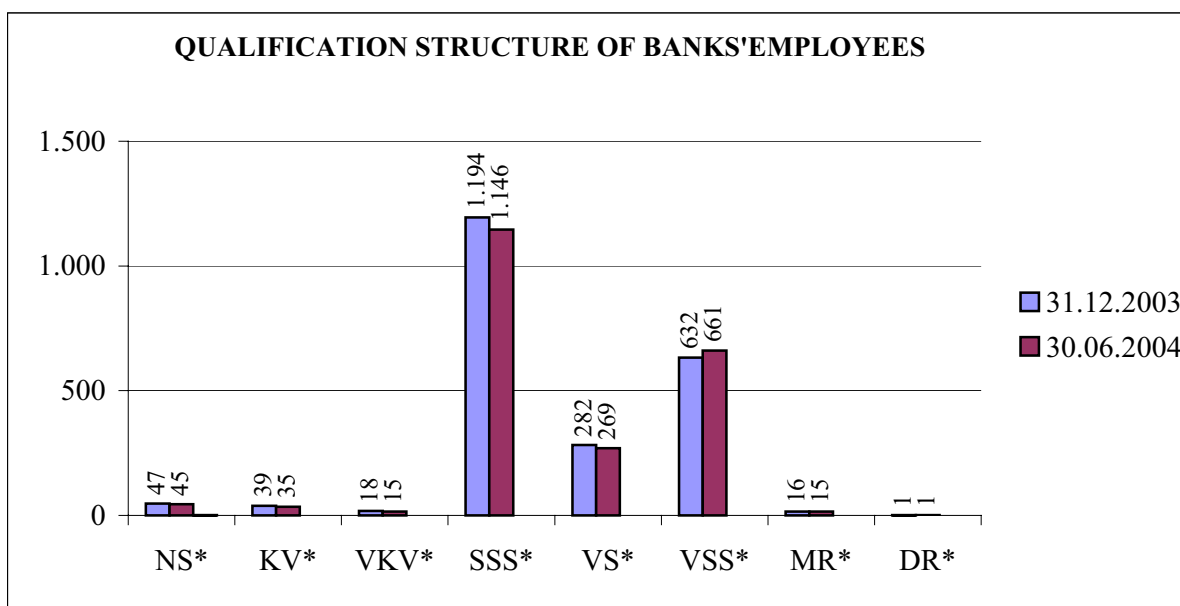
AMOUNT OF ASSETS	31.12.2003			30.06.2004		
	Amount	%	Number of banks	Amount	%	Number of banks
Over 150	743,088	59	3	998,457	69	4
100 to 150	258,287	20	2	262,873	18	2
50 to 100	152,056	12	2	64,648	5	1
25 to 50	110,568	9	3	113,709	8	3
Under 25						
TOTAL:	1,263,999	100	10	1,439,687	100	10

Based on June 30, 2004 data for individual peer groups' shares in total assets there were: four banks in the group having assets over KM 150 million whose share amounted to 69% of total assets, two banks in the group having assets of KM 100-150 million, one bank with assets of KM 50-100 million, and three banks in the group having assets of KM 25-50 million.

In comparison with the previous period it can be noticed that assets increased in banks. One bank moved to the group with over KM 150 million, and only one bank (under PA) was hardly reaching the group of KM 30 million.

2.2. Staff

As of June 30, 2004 the RS banks had 2,187 employees, which was by 2% less than on December 31, 2003. Number of college graduated employees increased, while other categories decreased.



Staff Qualification Structure

Order number	Qualification	31.12.2003	%	30.06.2004	%	INDEX 2004/2003
1.	Non-Skilled	47	2	45	2	96
2.	Skilled	39	2	35	2	90
3.	Highly Skilled	18	1	15	1	83
4.	Secondary School	1,194	54	1,146	52	96
5.	Junior College	282	13	269	12	95
6.	College - Graduated	632	28	661	30	105
7.	Master Degree	16	0	15	1	94
8.	D. Sc.	1	0	1	0	100
TOTAL:		2,229	100	2,187	100	98

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

Assets per Employee

DATE	Number of Employees	Assets (000 KM)	Assets per Employee (000 KM)
31.12.2003	2,229	1,263,999	567
30.06.2004	2,187	1,439,687	658

As of June 30, 2004 assets per employee amounted to KM 658 thousand, and, compared to December 31, 2003 numbers, increased by 16%, indicating more profitable and better quality operation of banks, although international standards related to the assets per employee ratio have not been reached, yet (over KM 1.0 million per employee).

The assets-per-employee ratio in individual banks ranged from KM 167 thousand to KM 1,725 thousand.

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

3. FINANCIAL INDICATORS OF BANKS' OPERATION

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

Reports are the following:

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

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

3.1. Balance Sheet

As of June 30, 2004 the RS banks' balance sheet assets amounted to KM 1,440 million, and increased by 14% compared to December 31, 2003.

Balance Sheet

DESCRIPTION/PERIOD	AMOUNT (000 KM)				INDEX
	31.12.2003		30.06.2004		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY):					
1. Cash Funds	378,220	30	377,747	26	100
2. Trading Securities	2,264	0	3,489	0	154
3. Placements to other banks	3,385	0	19,082	1	564
4. Loans	728,165	58	876,851	61	120
5. Securities held up to maturity	541	0	21	0	4
6. Premises and Other Fixed Assets	110,069	9	105,558	8	96
7. Other Assets	41,355	3	56,939	4	138
8. TOTAL ASSETS	1,263,999	100	1,439,687	100	114
9. Total Off-Balance Sheet (10+11+12)	325,223		369,321		114
10. Active Off-Balance Sheet	134,143		162,379		121
11. Classified Assets-Loss E	140,751		154,697		110
12. Fees for Agent and Other Operation	50,329		52,245		104
13. TOTAL ASSETS (8+9)	1,589,222		1,809,008		114
LIABILITIES (COMMITMENTS):					
14. Deposits	950,060	75	1,089,837	76	115
15. Borrowings	545	0	542	0	99
16. Obligations Based on Loans	59,634	5	80,887	6	136
17. Subordinated Debt	1,898	0	1,811	0	95
18. Other Commitments	15,558	1	20,334	1	131
19. Required Reserves for Potential Loss	51,285	4	55,777	4	109
20. Capital	185,019	15	190,499	13	103
21. TOTAL LIABILITIES (COMMITMENTS AND CAPITAL)	1,263,999	100	1,439,687	100	114
22. Total Off-Balance Sheet (22+23+24)	325,223		369,321		114
23. Active Off-Balance Sheet	134,143		162,379		121
24. Classified Assets-Loss "E"	140,751		154,697		110
25. Agent Fees	50,329		52,245		104
26. TOTAL LIABILITIES (20+21)	1,589,222		1,809,008		114

Placements to other banks showed the largest increase within the structure of assets, but they represented 1% of the structure, fixed assets decreased, cash funds remained at the same level, and other categories of assets increased.

Off-balance sheet items increased by 14% and amounted to KM 369 million, while the largest increase of 21% was recorded in active off-balance sheet item, category “E” increased by 10%, and agent fees 4%.

If we take in comparison active assets as of June 30, 2003, it can be seen that the rate of growth for the last year was 43%, and the total assets was larger by 36%.

3.1.1. Liabilities

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

Liabilities Structure

DESCRIPTION/PERIOD	AMOUNT (000KM)				INDEX
	31.12.2003		30.06.2004		
	Amount	%	Amount	%	
1	4	5	4	5	6=4/2
LIABILITIES (COMMITMENTS):					
1.Deposits	950,060	75	1,089,837	76	115
2.Borrowings	545	0	542	0	99
3.Obligations based on loans	59,634	5	80,887	6	136
4. Subordinated debt	1,898	0	1,811	0	95
5.Other obligations	15,558	1	20,334	1	131
6.Reserves required for potential loss	51,285	4	55,777	4	109
7.Capital	185,019	15	190,499	13	103
TOTAL LIABILITIES (COMMITMENTS AND CAPITAL):	1,263,999	100	1,439,687	100	114

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

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

3.1.1.1. Capital and Capital Adequacy

Capital

DESCRIPTION/PERIOD	31.12.2003	30.06.2004	Index
1	2	3	4=3/2
1. BANK'S CORE CAPITAL			
1.1 Shareholders' Capital	208,726	222,154	106
1.2 Legally Required Reserves	11,323	9,285	82
1.3 Other Reserves	15,887	10,654	67
1.4 Undistributed Earnings	2,622	824	31
1.a. Total (1.1 to 1.4)	238,558	242,917	102
1.5 Uncovered Losses from Previous Years	35,955	57,528	160
1.6. Current Year Loss	28,061	2,598	9
1.7 Amount of Intangible Property	5,429	5,687	105
1.b. Total (1.5 to 1.7)	69,445	65,813	95
1. AMOUNT OF CORE CAPITAL (1a-1b)	169,113	177,104	105
2. BANK'S ADDITIONAL CAPITAL			
2.1 Amount of General Reserves for A	17,306	20,084	116
2.2 Current Earnings	6,854	0	0
2.3 Amount of Profit – Distribution Temporarily Stopped	0	0	0
2.4 Amount of Subordinated Debts Maximum 50% of Core Capital	1,898	1,811	95
2.5. Amount of Permanent Obligations Not to Be Repaid	17,944	20,000	111
2. AMOUNT OF ADDITIONAL CAPITAL:	44,002	41,895	95
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL:			
3.1. Bank's Investments in Other Legal Persons' Capital Exceeding 5% of Bank's Core Capital	3,220	2,279	71
3. AMOUNT OF DEDUCTIBLE ITEMS:	3,220	2,279	71
4. BANK'S NET CAPITAL (1+2-3):	209,895	216,720	103

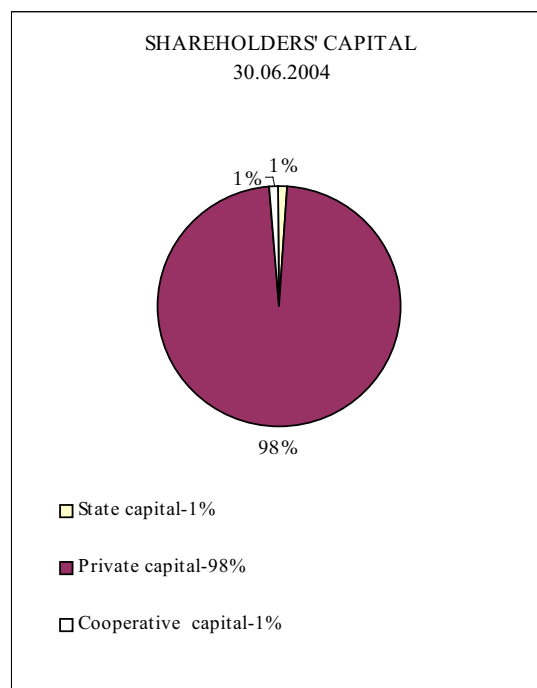
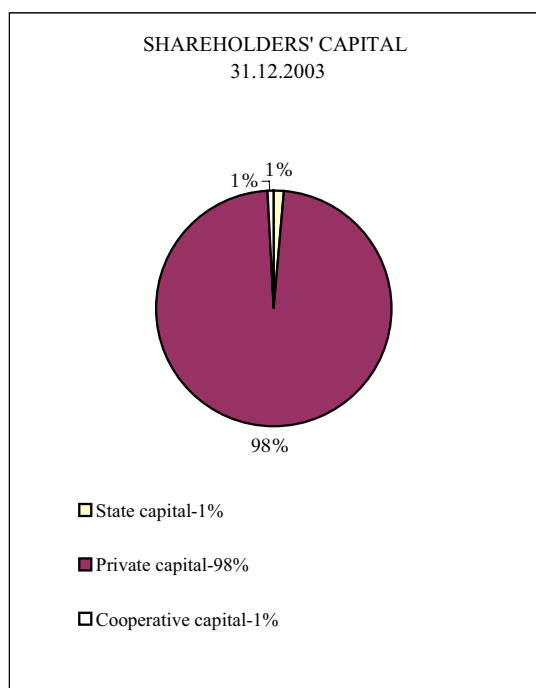
Core capital amounted to KM 177,104 and compared to December 31, 2003 it increased by 5%. Analyzing core capital composition it can be seen that shareholders' capital increased by 6%, legally required reserves decreased by 8%, other reserves by 33%, and undistributed earnings by 69%. Increase in core capital mostly resulted from additional capitalization of four banks in a total amount of KM 13 million, out of which KM 10 million represented a new issue of shares, and KM 3 million originated from distribution of profit from previous years. The amount of core capital was still significantly influenced by uncovered losses from previous years, which increased by 60%, and loss from the reporting period amounted to KM 2,598 thousand.

Additional capital decreased by 5%, and items deductible from capital decreased by 29%, indicating that banks were not willing yet to be shareholders of other legal persons.

Net capital increased by 3%.

Shareholders' Capital Structure

SHAREHOLDERS' CAPITAL	31.12.2003		30.06.2004		INDEX %
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
1. State-Owned Capital	2,724	1	2,807	1	103
2. Private Capital	204,231	75	217,885	98	107
2.1. Foreign Capital	152,718	25	160,125	72	105
2.2. Domestic Capital	51,513	1	57,760	28	112
3. Cooperative Capital	1,771	1	1,462	1	83
TOTAL (1+2+3):	208,726	100	222,154	100	106



As of June 30, 2004 the ownership structure related to state-owned, private, and cooperative capital was the following: state-owned capital share was 1%, private capital share was 98%, and cooperative capital share was 1% and decreased by 17% (which was a result of sale of cooperative capital to majority owners).

Private shareholders' capital consisted of 72% of foreign investors' capital, and increased by 5% compared to December 31, 2003, and 28% of domestic investors' capital, which increased by 12%.

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

There were no significant changes in the capital ownership structure compared to the previous reporting period.

Capital Adequacy

	31.12.2002	31.12.2003	30.06.2004	Index	
				5=4/2	6=4/3
1	2	3	4		
Net Capital	196,863	209,895	216,720	110	103
Total Risk Assets	822,355	870,085	1,035,205	126	119
Capital Adequacy	24%	24%	21%	88	88

Other relevant capital ratios are shown in the following table:

Capital Ratios

in 000 KM

DESCRIPTION/PERIOD		31.12.2003	30.06.2004
1.	Net Capital	209,895	216,720
	Total Assets	1,263,999	1,439,687
	%	17	15
2.	Shareholders' Capital	208,726	222,154
	Total Assets	1,263,999	1,439,687
	%	17	15
3.	Core Capital	169,113	177,104
	Total Risk Assets	870,085	1,035,205
	%	19	17
4.	Total Capital	213,115	218,999
	Total Risk Assets	870,085	1,035,205
	%	24	21
5.	Net Loans	697,559	844,236
	Total Capital	213,115	218,999
	%	327	385

Analyzing the above ratios it can be seen that net capital grew at a lower rate than total assets, and that particular ratio recorded significant decrease. The same situation was with shareholders' capital to total assets ratio, and core capital and total capital to total risk assets. That was especially emphasized with net loans to total capital ratio, since in the first half of the year total loans recorded an increase of 20%, and capital 3%, and with a 9% increase of loan loss reserves the result was such an increase of the ratio.

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

3.1.1.2 Deposits

Deposit Structure per Sectors

(in 000 KM)

DEPOSITS	31.12.2003		30.06.2004		Index
	Amount	%	Amount	%	
Government and Government Institutions	171,268	18	191,096	18	112
Public and State Enterprises	69,199	7	63,877	6	92
Private Enterprises and Associations	139,227	15	171,284	16	123
Non-Profit Organizations	10,885	1	19,659	2	181
Banks and Banking Institutions	295,444	31	290,868	27	98
Non-Banking Financial Institutions	15,769	2	19,444	2	123
Citizens	226,794	24	309,646	27	137
Other	21,474	2	23,963	2	112
TOTAL:	950,060	100	1,089,837	100	115

Deposits increased by 15 % compared to December 31, 2003.

The largest components within deposit structure were deposits of banking institutions, and citizens' deposits, each in an amount of 27%, however, the former decreased by 2% compared to December 31, 2003. The share of citizens' deposits increased by 37%. Deposits of government institutions increased by 12%, and private companies' deposits by 23%.

Deposit Structure per Currency

(in KM million)

DEPOSITS	31.12.2003		30.06.2004		INDEX
	Amount	%	Amount	%	
Deposits in KM	497,1	52	589,6	54	119
Deposits in foreign currency	453,0	48	500,2	46	110
TOTAL	950,1	100	1,089,8	100	115

Looking at the currency based deposit structure it can be seen that domestic currency deposits increased by 54%, and grew faster than foreign currency deposits.

Term Deposit Structure

(in 000 KM)

DEPOSITS	31.12.2003		30.06.2004		INDEX
	Amount	%	Amount	%	
Savings and Deposits on Demand	472.298	50	526,508	48	111
Up to 3 months	104.526	11	75,320	7	72
Up to 1 year	88.439	9	153,824	14	174
1. Total Short-Term	665.263	70	755,652	69	114
Up to 3 years	41.943	4	61,924	6	148
Over 3 years	242.854	26	272,261	25	112
2. Total Long-Term	284.797	30	334,185	31	117
TOTAL (1+2)	950.060	100	1,089,837	100	115

Based on the term deposit structure shown above, it can be seen that short-term deposits amounted to 69% of total deposits and increased by 14%, while share of long-term deposits amounted to 31%, of total deposits and increased by 17%. Compared to the December 31, 2003 figures it can be seen that the ratio was slightly improving in favor of long-term deposits.

Citizens' Savings and Loans

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2003	30.06.2004	Index
1	2	3	4	5=4/3
1.	Loans to Citizens	299,530	363,732	121
2.	Citizens' Savings	215,738	290,896	135
3.	Savings/Loans	139%	125%	

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

Deposits in Branch Offices of Banks from Federation BH

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2003	%	30.06.2004	%	Index
1	2	3	4	5	6	7=5/3
1.	Short-term deposits					
a.	Government	140	0	123	0	88
b.	Economy	22,420	28	42,437	34	189
c.	Banks and other financial institutions	0	0	0	0	0
d.	Citizens	44,190	56	64,586	52	146
e.	Other	431	1	494	0	115
	TOTAL (1)	67,181	85	107,640	86	160
2.	Long-term deposits					
a.	Government	0	0	0	0	0
b.	Economy	2,000	3	3,000	3	150
c.	Banks and other financial institutions	0	0	0	0	0
d.	Citizens	9,793	12	13,843	11	141
e.	Other	0	0	52	0	0
	TOTAL (2)	11,793	15	16,895	14	143
	GRAND TOTAL (1.+2.)	78,974	100	124,535	100	158

Deposits held in branch offices of banks having their headquarters in Federation BH amounted to KM 125 million, which was 10% of total deposits in RS, where KM 108 million were short-term loans (8% of total RS short-term deposits) and KM 17 million were long-term deposits (21% of total RS long-term deposits). Those deposits were not included in total amount of RS deposits, since they were included in their mother-banks' records in Federation BH. On the other hand, deposits held by RS banks' branch-offices operating in Federation BH were included in the total amount of RS deposits, and they amounted to KM 5,415 thousand of short-term, and KM 1,774 thousand of long-term deposits.

3.1.1.3. Banks' Liquidity

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

Liquidity ratios appeared unsatisfactory on the level of the banking system as a whole, although some banks did have very good liquidity.

Liquidity ratios are given in the following table:

(in 000 KM)

DESCRIPTION/PERIOD		31.12.2003	30.06.2004
1.	Short Term Assets/	640,814	632,266
	Short Term Liabilities	673,999	773,710
	%	95	82
2.	Short Term Assets/	640,814	632,266
	Total Assets	1,263,999	1,439,687
	%	51	44
3.	Short Term Liabilities/	673,999	773,710
	Total Assets	1,263,999	1,439,687
	%	53	54
4.	Net Short Term Liabilities/	33,185	141,444
	Total Assets	1,263,999	1,439,687
	%	3	10
5.	Net Loans/	697,559	844,236
	Deposits	950,060	1,089,837
	%	73	77
6.	Net Loans and Financial Commitments; Letters of Credit/	707,439	854,533
	Total Assets	1,263,999	1,439,687
	%	56	59

Liquidity ratios had a decreasing trend compared to 2003. Banks' short-term obligations were covered 82% by short-term receivables. Net loans increased faster than deposits. Short-term assets had falling tendency due to increasing long-term loans compared to short-term loans.

3.1.2 Assets

Active Assets Structure

DESCRIPTION/PERIOD	AMOUNT (000KM)				INDEX
	31.12.2003		30.06.2004		
	Amount	Amount	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY):					
1. Cash Funds	378,220	30	377,747	26	100
2. Trading Securities	2,264	0	3,489	0	154
3. Placements to other banks	3,385	0	19,082	0	564
4. Loans	728,165	58	876,851	61	120
5. Securities held up to maturity	541	0	21	0	4
6. Premises and Other Fixed Assets	110,069	9	105,558	8	96
7. Other Assets	41,355	3	56,939	4	138
8. TOTAL ASSETS	1,263,999	100	1,439,687	100	114

As of June 30, 2004 total assets amounted to KM 1,440 million, and increased by 14% compared to December 31, 2003. The balance sheet assets consisted of 26% of cash funds and remained at the same level, loans 61% with an increase of 20%, offices and fixed assets 8% with a decrease of 4%, and other assets 4% with an increase of 38%.

Off-Balance Sheet Assets Structure

DESCRIPTION/PERIOD	AMOUNT (000KM)				Index
	31.12.2003		30.06.2004		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
1. Active Off-balance Sheet Items	134,143	100	162,379	100	121
- Irrevocable lending Obligations	28,191	21	19,140	12	68
- Foreign Checks Sent for Collection	50	0	32	0	64
- Irrevocable Documentary L/C	4,517	3	6,814	4	151
- Other L/C for Payments Abroad	5,363	3	3,483	2	65
- Guarantees Issued	95,158	71	130,604	80	137
- Bills and Sureties Issued	853	1	1,400	1	164
- Nostro financially active - collection in process	0	0	0	0	0
- Current Agreements for FC Transactions	0	0	1	0	0
- Other Off-Balance Sheet Items	11	0	905	1	8227
2. Classified Assets – Loss E	140,751		154,697		110
3. Agent Based Activities	50,329		52,245		104
4. TOTAL	325,223		369,321		114

Off-balance sheet assets amounted to KM 369 million, and increased by 14%, and the largest amounts in the structure itself were those related to guarantees issued and irrevocable lending obligations. The largest increase was recorded with other off-balance sheet items of 8,227%, however their share in the off-balance sheet structure was very low amounting to 1%.

Irrevocable guaranties increased by 37%, irrevocable documentary letters of credit by 51%, and bills and sureties issued by 64%.

Assets classified in category “E”- loss increased by 10%.

3.1.2.1. Cash Funds

Cash Funds Structure

(in 000 KM)

DESCRIPTION	31.12.2003		30.06.2004		Index
	Total	%	Total	%	
1	2	3	4	5	6=4/2
KM					
Cash Funds	32,795	9	37,821	10	115
Reserve Accounts at CBBH	160,791	42	133,990	36	83
Deposit Accounts at BH Depository Institutions	7,008	2	31,275	8	446
Deposit Accounts at Depository Institutions Abroad	0	0	0	0	0
Cash Funds in Process of Collecting	0	0	0	0	0
Non-Repaid Debts	0	0	0	0	0
TOTAL:	200,594	53	203,086	54	101
FOREIGN CURRENCY					
Cash Funds	37,085	10	32,266	9	87
Reserve Account at CBBH	0	0	0	0	0
Deposit Accounts at Depository Institutions in BH	695	0	301	0	43
Deposit Accounts at Depository Institutions Abroad	137,734	36	137,130	36	100
Cash Funds in Process of Collecting	2,112	1	4,964	1	235
Non-Repaid Debts	0	0	0	0	0
TOTAL:	177,626	47	174,661	46	98
GRAND TOTAL:	378,220	100	377,747	100	100

Cash funds composition shows that cash funds in domestic currency amounted to KM 203 million or 54%, while foreign currency cash funds amounted to KM 175 million or 46%.

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

Cash funds in KM increased by 1%, while foreign currency cash funds decreased by 2%.

3.1.2.2. Loans

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

Structure of Total Loans Per Sectors

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2003	%	30.06.2004	%	Index
1	2	3	4	5	6	7=5/3
1.	Government institutions	7,550	1	11,565	1	153
2.	Public and state enterprises	62,975	9	61,167	7	97
3.	Private companies and associations	337,264	47	426,224	49	126
4.	Nonprofit organizations	1,355	0	1,244	0	92
5.	Banks	926	0	1,279	0	138
6.	Non-bank financial institution	1,962	0	2,896	0	148
7.	Citizens	299,530	41	363,732	42	121
8.	Other	16,603	2	8,744	1	53
9.	TOTAL:	728,165	100	876,851	100	120

The structure of loans consisted of 49% of loans to private enterprises, 42% of loans to citizens, 8% of loans to the Government and state owned enterprises, and 1% of other loans.

Loans to private enterprises increased by 26%, loans to citizens 21%, and together they represented 91% of total loans.

Loans to public and state enterprises decreased by 3%, and loans to the Government increased by 53%.

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

Loan Term Structure

(in 000 KM)

No	DESCRIPTION	Short Term < 1 year		Index	Long Term > 1 year		Index	Receivables Due		Index	Total		Index
		31.12.2003	30.06.2004		31.12.2003	30.06.2004		31.12.2003	30.06.2004		31.12.2003	30.06.2004	
		1.	Government institutions	1,435	1,290	90	6,053	10,234	169	62	41	66	7,550
2.	Public and state enterprises	23,636	19,079	81	26,862	32,370	121	12,477	9,718	78	62,975	61,167	97
3.	Private companies and associations	167,512	198,617	119	137,622	191,780	139	32,130	35,827	112	337,264	426,224	126
4.	Nonprofit organizations	1,053	686	65	162	272	168	140	286	204	1,355	1,244	92
5.	Banks	105	472	450	328	265	81	493	542	110	926	1,279	138
6.	Non-bank financial institution	268	1,174	438	1,694	1,691	100	0	31	0	1,962	2,896	148
7.	Citizens	56,460	27,741	49	240,892	332,835	138	2,178	3,156	145	299,530	363,732	121
8.	Other	9,861	1,971	20	3,342	3,910	117	3,400	2,863	84	16,603	8,744	53
9.	TOTAL	260,330	251,030	96	416,955	573,357	138	50,880	52,464	103	728,165	876,851	120

Short-term loans amounted to KM 251 million and decreased by 4%, long-term loans amounted to KM 573 million and increased by 38%. Taking into consideration the amount of KM 334 million of long-term deposits in banks, it is obvious that banks lacked long-term financing sources, and used a significant portion of short-term funds for long term placements.

Within the short-term loan structure loans extended to private companies represented the largest share, which increased by 19%, and loans to citizens, which decreased by 51%.

Within the long-term loan structure loans extended to citizens represented the largest share with an increase of 38%, and loans extended to private companies, which increased by 39%. A significant increase was with loans extended to public and state owned enterprises amounting to 21%, and to the Government and Government Institutions amounting to 69%.

Receivables due increased by 3%, and their largest share was related to loans extended to private companies, and public and state enterprises. Receivables due related to loans to citizens increased by 45%, while receivables due related to other loans decreased by 16%.

Loans Extended by Federation BH Banks' Operational Units

No.	DESCRIPTION/PERIOD	31.12.2003	%	30.06.2004	%	Index
1	2	3	4	5	6	7=5/3
1.	Short term Loans					
a.	Government institutions	100	0	0	0	0
b.	Economy	8,362	6	13,912	8	166
c.	Banks and other financial institutions	0	0	0	0	0
d.	Citizens	4,716	4	6,556	4	139
e.	Other	355	0	473	0	133
9.	TOTAL:	13,533	10	20,941	12	135
2.	Long term Loans					
a.	Government institutions	0	0	0	0	0
b.	Economy	10,802	8	21,865	13	202
c.	Banks and other financial institutions	0	0	0	0	0
d.	Citizens	107,011	82	126,614	75	118
e.	Other	0	0	0	0	0
	TOTAL (2)	117,813	90	148,479	88	126
	GRAND TOTAL (1. + 2.)	131,346	100	169,420	100	129

Organizational units of banks having their headquarters in Federation BH extended loans in an amount of KM 169 million or 29% of total loans placed in RS, out of which long-term loans in an amount of KM 148 million or 5% of total long-term loans in RS, and KM 21 million or 13% of total short-term loans in RS.

Comparing the amounts of deposits gathered in the RS territory and loans extended it can be concluded that the deposits covered 68% of loans.

RS banks' branch offices placed KM 2,788 thousand of short-term loans, and KM 438 thousand of long-term loans in the territory of Federation BH.

Term and Industry Structure of Total Placements

(in 000 KM)

No.	ASSETS INDUSTRY BRANCH	Short-term placements		Index	Long-term placements		Index	Guaranties & Other Sureties		Index	TOTAL		Index
		31.12. 2003	30.06. 2004		31.12. 2003	30.06. 2004		31.12. 2003	30.06. 2004		31.12. 2003	30.06. 2004	
		1.	Agriculture, hunting, fishing ...	12,498	9,564	77	6,416	7,584	118	1,758	1,901	108	20,672
2.	Mining & Industry	64,237	56,436	88	84,504	98,818	117	13,563	7,898	58	162,304	163,152	101
3.	Power Supply	2,599	5,076	195	13,770	13,873	101	1,940	4,465	230	18,309	23,414	128
4.	Construction	19,682	28,120	143	14,013	25,470	182	27,331	22,642	83	61,026	76,232	125
5.	Trade	94,586	129,320	137	43,640	61,128	140	42,577	78,967	185	180,803	269,415	149
6.	Services, Tourism, Catering	4,688	5,923	126	5,423	10,000	184	12,636	18,421	146	22,747	34,344	151
7.	Transport, Storing, Post Office, Communications	3,569	4,697	132	3,669	7,243	197	1,155	3,838	332	8,393	15,778	188
8.	Finance	47,804	87,673	183	5,389	5,423	101	19	52	274	53,212	93,148	175
9.	Real Estate Trade	1,793	2,918	163	0	4	0	547	1,103	202	2,340	4,025	172
10.	Administration, Other Public Services	18,051	11,591	64	7,855	12,932	165	235	2,123	903	26,141	26,646	102
11.	Other	33,724	38,669	115	292,880	355,202	121	9,910	4,438	45	336,514	398,309	118
	TOTAL	303,231	379,987	125	477,559	597,677	125	111,671	145,848	131	892,461	1,123,512	126

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

Analyzing total placements based on the above term and industry structure it can be seen that short-term placements amounted to 34%, long-term 53%, and guarantees and other sureties 13% of total placements. Compared to December 31, 2003 long-term and short-term placements increased by 25%, and guarantees 31%.

The short-term placement structure consisted of the following shares: trade 34%, and finance 23%. The largest share in the long-term placement structure was the item of other placements amounting to 59% (loans to citizens and other), mining and industry of 16%, and trade 10%.

The structure of guarantees and other sureties consisted of 54% of trade, which was the largest share, and then construction works 16%, and services, tourism, and catering 125. The total placements consisted of 35% of other placements, 24% of trade, 15% of mining and industry, finance 8%, construction works 6%, while other branches participated in considerably smaller shares.

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

Structure of Loans to Citizens by RS Banks

No.	DESCRIPTION/PERIOD	31.12.2003	%	30.06.2004	%	Index
1	2	3	4	5	6	7=5/3
1.	Short-Term Loans to Citizens					
a.	- general consumption	53,060	18	23,437	6	44
b.	- housing	2,746	1	6,086	2	222
c.	- business operation	1,552	0	868	0	56
	TOTAL (1)	57,358	19	30,391	8	53
2.	Long-Term Loans to Citizens					
a.	- general consumption	156,447	52	231,084	64	148
b.	- housing	78,360	26	92,780	26	118
c.	- business operation	7,380	3	9,360	2	127
	TOTAL (2)	224,187	81	333,224	92	138
	GRAND TOTAL (1. + 2.)	299,545	100	363,615	100	121

Out of total amount of loans that banks having their headquarters in RS placed to citizens 92% were long-term loans, and 8% short-term loans, while compared to December 31, 2003 they increased by 21%.

Long-term loans for general consumption had the largest share in the total loan structure and amounted to 64% with an increase of 48%, long-term loans intended for housing were 26% with an increase of 18%, while short-term loans for general consumption decreased by 56%.

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

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2003	%	30.06.2004	%	Index
1	2	3	4	5	6	7=5/3
1.	Short-Term Loans to Citizens					
a.	- general consumption	431	0	4,261	3	989
b.	- housing	2,829	3	0	0	0
c.	- business operation	1,456	1	2,295	2	158
	TOTAL (1)	4,716	4	6,556	5	139
2.	Long-Term Loans to Citizens					
a.	- general consumption	69,846	63	108,082	81	155
b.	- housing	30,691	27	10,007	7	33
c.	- business operation	6,474	6	8,525	7	132
	TOTAL (2)	107,011	96	126,614	95	118
	GRAND TOTAL (1. + 2.)	111,721	100	133,170	5	119

Analyzing loans extended by branch offices of banks from Federation BH it can be seen that they increased by 19%, and the structure consisted of long-term loans for general consumption in an amount of 81% with an increase of 55%, housing long-

term loans in an amount of 7% with a decrease of 67%, and long-term loans for business operation in an amount of 7% with an increase of 32%.

Comparison of deposits received and loans shows that amount of loans was larger by 7% than deposit amount.

3.1.2.3. Assets Quality

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

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

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

- in 000KM -

BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS	31.12.2003	30.06.2004	INDEX
1. Short-term Loans	218,196	250,197	115
2. Long-Term Loans	455,681	573,370	126
3. Other Placements	60,026	64,863	108
4. Accrued Interest	5,147	6,362	124
5. Receivables Due	50,277	51,700	103
6. Paid Guarantee based Receivables	1,126	1,073	95
7. Other Assets	473,546	492,122	104
8. TOTAL BALANCE SHEET ASSET ITEMS:	1,263,999	1,439,687	114
9. General Loan Risk and Potential Loan Loss	46,500	50,785	109
10. Already Separated General Reserve and Special Reserve	46,813	50,956	109
11. Balance 10.-9.	313	171	55
12a. Payable Guarantees	65,720	86,527	132
12b. Performance Guarantees	29,214	44,077	151
13. Non-Covered Letters of Credit	9,841	10,277	104
14. Irrevocable Loan based Commitments	28,188	19,140	68
15. Other Potential Commitments	1,181	2,358	200
16.TOTAL OFF-BALANCE SHEET ITEMS:	134,144	162,379	121
17. General Loan Risk and Potential Loan Loss	4,443	4,820	108
18. Already Separated General Reserves and Special Reserves	4,472	4,822	108
19. Balance 18.-17.	28	2	7
20. TOTAL BALANCE SHEET AND OFF-BALANCE SHEET	1,398,143	1,602,066	115
21. General Loan Risk and Potential Loan Loss	50,943	55,605	109
22. Already Separated General Reserves and Special Reserves	51,285	55,778	109
23. OVERAGE of Separated Reserves	344	185	54
SHORTAGE of Separated Reserves	2	12	600
24. ASSETS for which reserves are NOT separated (A category)	399,422	438,128	110
25. TOTAL ASSETS for which reserves ARE separated (20-24)	998,721	1,163,938	117

Total assets for which reserves are separated amounted to KM 1,164 million, and increased by 17% in comparison with the amount as of December 31, 2003. The balance sheet assets increased by 14%, and off-balance sheet increased by 21%.

Long-term loans represented the largest item of risk assets amounting to 39%, other assets 34%, short-term loans amounted to 17%, other placements 5%, and receivables due 4%.

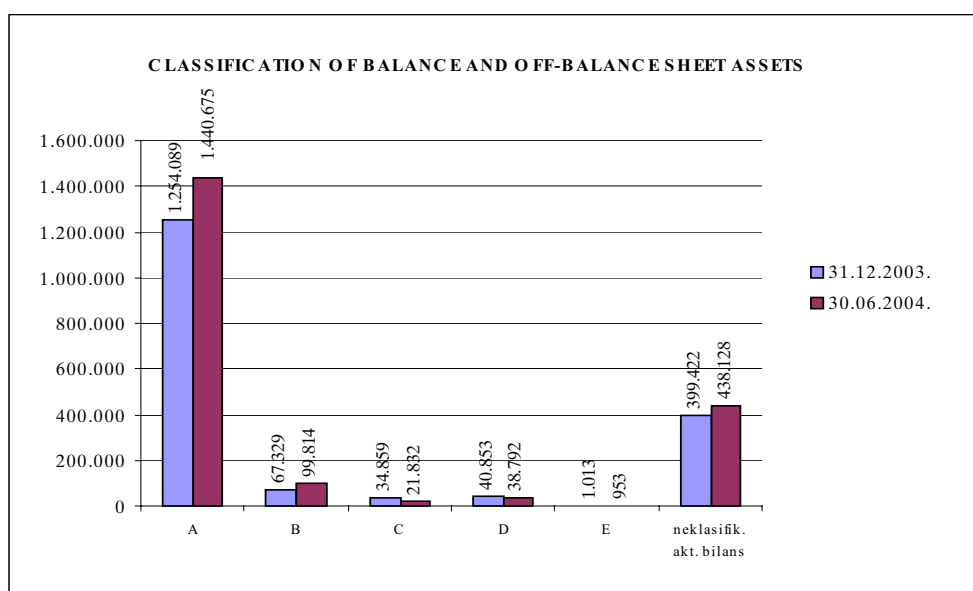
Compared to December 31, 2003, long-term loans increased by 26% and short-term loans by 15%, receivables due 3%, accrued interest 24%, other asset items 4% and other placements 8%. Analyzing off-balance sheet asset items it can be seen that guarantees payable increased by 32%, performance guarantees 51%, uncovered L/C 4%. Only irrevocable loan payables decreased by 32%.

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

Classification of banks' balance sheet and off-balance sheet assets as of June 30, 2004 can be seen in the following table:

(in 000 KM)

BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS	A	B	C	D	E	TOTAL
1. Short-term Loans	219,343	26,282	3,340	1,232	0	250,197
2. Long-Term Loans	515,838	40,059	9,420	8,053	0	573,370
3. Other Placements	57,540	6,150	1,045	128	0	64,863
4. Accrued Interest	4,328	1,964	48	22	0	6,362
5. Receivables Due	10,449	6,889	6,654	27,708	0	51,700
6. Paid Guarantee based Receivables	26	0	264	783	0	1,073
7. Other Assets	476,787	15,016	28	291	0	492,122
8. TOTAL BALANCE SHEET ASSET ITEMS:	1,284,311	96,360	20,799	38,217	0	1,439,687
9. General Loan Risk and Potential Loan Loss (no. 8 X % loss)	17,046	9,467	5,156	19,116	0	50,785
10. Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	17,081	9,477	5,170	19,228	0	50,956
11. Balance 10.-9.	35	10	14	112	0	171
12.a) Payable Guarantees	82,813	1,807	476	566	865	86,527
b) Performance Guarantees	42,323	1,102	557	7	88	44,077
13. Non-Covered Letters of Credit	10,275	0	0	2	0	10,277
14. Irrevocable Loan based Commitments	18,888	252	0	0	0	19,140
15. Other Potential Commitments	2,065	293	0	0	0	2,358
16. TOTAL OFF-BALANCE SHEET ITEMS:	156,364	3,454	1,033	575	953	162,379
17. General Loan Risk and Potential Loan Loss (no.16 X % loss)	3,004	340	237	286	953	4,820
18. Already Separated General Reserves (A) and Special Reserves (B, C, D, E)	3,005	341	237	286	953	4,822
19. Balance 18.-17.	1	1	0	0	0	2
20. TOTAL BALANCE SHEET & OFF-BALANCE SHEET ITEMS (8 + 13)	1,440,675	99,814	21,832	38,792	953	1,602,066
21. General Loan Risk and Potential Loan Loss (no. 20 X % loss)	20,049	9,807	5,393	19,403	953	55,605
22. Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	20,085	9,818	5,407	19,515	953	55,778
23. OVERAGE of Separated Reserves (+)(amount) (no.22. - no.21.)	48	11	14	112	0	185
SHORTAGE of Separated Reserves (-)(amount) (no.21. - no.22.)	12	0	0	0	0	12
24. ASSETS for which reserves are NOT separated (category A)	438,128					438,128
25. TOTAL ASSETS for which reserves ARE separated (2—24)	1,002,547	99,814	21,832	38,792	953	1,163,938



Classification Category	31.12.2003	%	30.06.2004	%	INDEX
A	1,254,089	90	1,440,675	90	115
B	67,329	5	99,814	6	148
C	34,859	2	21,832	2	63
D	40,853	3	38,792	2	95
E	1,013	0	953	0	94
TOTAL CLASSIFIED ASSETS:	1,398,143	100	1,602,066	100	115
MINUS: Assets for which reserves are NOT separated (category A)	399,422		438,128		110
TOTAL ASSETS for which reserves ARE calculated	998,721		1,163,938		117
Required potential loan loss general reserves (A)	17,093		20,049		117
Already established general reserve (A)	17,306		20,085		116
Balance for A:	213		6		
Required special reserves for potential loan loss (B-E)	33,850		35,556		105
Already separated special reserves (B-E)	33,979		35,693		105
Balance for (B-E):	129		137		

The largest share in the above classification structure was that of assets classified in category "A" amounting to 90%, which compared to December 31, 2003 increased by 15%. The share of assets classified as "B" amounted to 6% and increased by 48%, category "C" amounted to 2% and decreased by 38%, category "D" amounted to 2% and decreased by 5%, while category "E" decreased by 6% and its share in the structure was quite insignificant.

Assets for which reserves are not calculated amounted to KM 438 million, and increased by 10%, while assets for which reserves are calculated amounted to KM 1,164 million, and increased by 17%.

Calculated special reserves for assets classified as categories of risk from "B" to "E" totaled KM 35,556 thousand, while total established reserves amounted to KM 35,693 thousand, indicating that banks separated an amount of reserves larger by KM 137 thousand than calculated reserves.

Asset Quality Ratios

- in 000 KM -

DESCRIPTION/PERIOD		31.12.2003	30.06.2004
1.	Loans Due/	50,880	52,464
	Total Loans	728,165	876,851
	%	7	6
2,	Loans Due/	50,880	52,464
	Potential Loss Reserve	30,606	22,615
	%	166	161
3,	Loans Due/	50,880	52,464
	Total Capital	213,115	218,999
	%	24	24
4,	Classified Assets/	998,714	1,163,938
	Total Capital	213,115	218,999
	%	469	531
5,	Potential Loss/	30,606	32,615
	Total Loans	728,165	876,851
	%	4	4
6,	Total Risk Assets	870,085	1,305,205
	Total Assets	1,263,999	1,439,687
	%	69	72

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

Ratio of total reserves (general and special) amounting to KM 55.7 million to assets for which reserves are calculated, in an amount of KM 1,164 million, was 4.8%, which was a low level of reserves.

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

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

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

3.1.2.4. Transactions with Related Persons

A part of banks' everyday activities is to perform transactions with related persons. In a market based economy that segment of banks' operation appears to be especially

risky. That is why the Agency has issued the Decision on Minimum Standards for Banks Performing Transactions with Related Persons.

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

- Banks may perform transactions with related persons only under approval of their Supervisory Board or other body with the same level of authorization;
- A single physical person may be approved a transaction amounting to a maximum of 1% of core capital;
- Total amount of transactions with all physical persons related with a bank cannot exceed 10% of the bank's core capital;
- Total loans extended to all related person shall not exceed an amount of 40% of core capital.

Banks are obliged to keep separate records on the following:

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

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

(in 000 KM)

DESCRIPTION	31.12.2003	%	30.06.2004	%	Index
1	2	3	4	5	6=4/2
Loans Extended To:					
1. Shareholders with over 5% of Voting Rights	10,336	837	10,323	78	100
2. Potential and taken off-balance sheet obligations	18	0	975	7	5,417
3. Supervisory Board Members	1,011	8	950	7	94
4. Executive Managers	1,092	9	1,051	8	96
5. Total receivables from related persons(1 to 4)	12,457	100	13,299	100	107
6. Banks' Employees	9,316		12,285		132
7. GRAND TOTAL (5+6)	21,773		25,584		118

As of June 30, 2004 loans extended to related persons increased by 7% compared to December 31, 2003.

The largest share in the structure was that of loans extended to shareholders, which amounted to 78% and remained at the same level, and loans extended to management, which amounted to 8% recording a decrease of 4%.

Loans extended to Supervisory Board members decreased by 6%, while loans extended to banks' employees increased by 32%.

3.1.2.5. Office Space and Other Fixed Assets

Within total asset composition the share related to office space and other fixed assets amounted to 8%. Compared to December 31, 2003 fixed assets decreased by 4%.

Five banks exceeded 50% of investments into fixed assets related to their core capital. It is expected that additional capitalization of banks and sale of office space will put

that item within the legal framework in the coming period, since banks had submitted their action plans with precise time-schedules for such adjustments and the Agency approved them, which was the precondition for entering deposit insurance procedure.

3.1.2.6. Other Assets

Other assets, within the total asset structure, represented a share of 4% and compared to December 31, 2003 increased by 38%. Other assets mostly consisted of accrued interest and fees. Other items in the composition are insignificant and represented investments into non-consolidated related entities (funds), transition accounts for foreign currency payments, current payments of previously taken obligations, accrued receivables, and other.

4. INCOME STATEMENT

Income Statement

(in 000 KM)

DESCRIPTION/PERIOD	30.06.2003		30.06.2004		INDEX
	Total	%	Total	%	
1	2	3	4	5	6=4/2
1. INTEREST INCOME AND SIMILAR INCOME					
a) Interest Income and Similar Income	28,354	39	41,275	48	146
b) Operating Income	44,058	61	45,486	52	103
2. TOTAL INCOME (1.a + 1.b)	72,412	100	86,761	100	120
3. EXPENSE					
a) Interest Expense and Similar Expense	8,138	7	13,564	17	167
b) Business Operation and Direct Expense	60,742	53	21,971	27	36
c) Operating Expense	45,371	40	45,949	56	101
4. TOTAL EXPENSE (3.a + 3.b + 3.c)	114,251	100	81,484	100	71
TOTAL: INCOME-EXPENSE (2.-4.)	-41,839		5,277		
PROFIT BEFORE TAX	5,391		7,875		146
LOSS	47,230		2,598		6
TAXES	97		169		174
NET-PROFIT	5,294		7,706		146

Banks' total income amounted to KM 87 million, increasing by 20% in comparison to the same period of the previous year.

Income structure consisted of 48% of interest income, which increased by 46%, and fee income, which increased by 3%.

Although interest income increased faster than operating income, the share of operating income still amounted to 52%.

Total expense amounted to KM 82 million and decreased by 29% compared to the same period of the previous year. The expense structure significantly changed and consisted of 17% of interest expense, with a rate of increase of 67%, which resulted from increased both deposits and deposit interest rate, especially with term-deposits.

Direct expenses decreased by 64% in comparison with the same period of 2003, and operating expenses increased by 1%.

Profit before tax amounted almost to KM 7.9 million, increasing by 46%. Loss amounted to KM 2.6 million and decreased by 94%.

Net profit amounted to KM 7.7 million, and increased by 46%.

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

In the reporting period two banks (one of which was under PA) generated loss in an amount of KM 2.6 million, and eight banks had a positive financial result in an amount of KM 7,7 million. The total banking system balance sheet loss amounted to KM 60.1 million, and it consisted of loss from the current year and non-covered loss from previous years.

Profitability Ratios

(in 000 KM)

DESCRIPTION/PERIOD		30.06.2003	30.06.2004
1.	Total Income/ Total Assets	144,824 1,007,660	173,522 1,439,687
	%	14	12
2.	Total Income / Total Capital	144,824 268,906	173,522 218,999
	%	54	79
3.	Total Expense/ Total Assets	228,502 1,007,660	162,968 1,439,687
	%	23	11
4.	Interest Income/ Total Assets	56,708 1,007,660	82,550 1,439,687
	%	6	6
5.	Interest Income/ Total Assets	16,276 1,007,660	27,128 1,439,687
	%	2	2
6.	Net Interest Income / Total Assets	40,432 1,007,660	55,422 1,439,687
	%	4	4
7.	Net Interest Expense/ Total Capital	40,432 268,906	55,422 218,999
	%	15	25
8.	Fees/ Total Assets	46,662 1,007,660	50,938 1,439,687
	%	5	4
9.	Material Expense and Gross Earnings/ Total Assets	90,742 1,007,660	91,898 1,439,687
	%	9	6
10.	Non-Interest Expense/ Total Assets	212,226 1,007,660	135,840 1,439,687
	%	21	9

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

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

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

Analyzing total financial result of the banking sector in the first half of 2004 it is necessary to point out that two banks, one of which was under provisional administration, generated the current loss. If we exclude those two banks from the banking sector profitability rating it can be stated that return on assets for the remaining eight banks was 1, which was a good indicator.

5. INTERNAL PAYMENT TRANSACTIONS

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

As of June 30, 2004 there were 98,599 transaction accounts opened.

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

Number and Amounts of Transactions

Date	Retail Payment Transactions (Debiting of Accounts)		Wholesale Payment Transactions (Debiting of Accounts)	
	Number of transactions	Amount of transactions (000 KM)	Number of transactions	Amount of transactions (000 KM)
31.01.2004	467,330	1,198,578	400,276	410,769
29.02.2004	558,371	1,281,660	645,674	572,415
31.03.2004	672,049	1,627,008	786,609	685,714
30.04.2004	644,370	1,519,807	682,743	656,912
31.05.2004	648,850	1,394,458	681,457	610,756
30.06.2004	703,838	1,621,335	709,253	713,533
TOTAL:	3,694,808	8,642,846	3,906,012	3,650,099

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

In the reporting period CBBH - RS Main Office Banja Luka, that is to say all banks under control of that Office participating in the BH payment transactions performed 38% of total number of transactions, or in value of an amount of KM 26%.

6. PREVENTION OF MONEY LAUNDERING AND FINANCING OF TERRORISM

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

7. CONCLUSIONS

Based on the above listed indicators related to the operation of the banking sector as of June 30, 2004 compared to December 31, 2003 the following can be concluded:

- *Total assets increased by 14%, the same as balance sheet assets;*
- *Cash funds remained at the same level, and loans increased by 20%;*
- *Deposits increased by 15%, out of which citizens' saving deposits amounted to 27%, with the rate of growth of 37%;*
- *Banks' liquidity was at a satisfactory level, although increasing tendency of long-term loans with considerably slower growth of long-term fund sources could create problems in the future liquidity of banks;*
- *Equity increased by 6%, and net capital decreased by 3%;*
- *Banks' profitability was not at satisfactory level, although it had a trend of growth;*
- *Six RS banks were licensed for deposit insurance, and the rest of banks were making preparations to have their deposits insured.*

In the light of further improvement and development of the overall economy and the system, it is necessary to encourage all legislative and executive authorities, as well as all institution capable to contribute to further development of the country, in performing the following tasks:

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

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

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

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

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

ATTACHMENTS

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

BASIC INFORMATION ON BANKS

No.	BANK	LOCATION	ADDRESS	DIRECTOR	PHONE	FAX	30.06.2004 (in 000KM)		NUMBER OF EMPLOYEES
							ASSETS	CAPITAL	
1.	Nova Banjalucka banka a.d.	Banja Luka	M.Bursać 7	Dragoljub Lekić	051/243-200	212-830	173,257	16,018	428
2.	Hypo Alpe-Adria-Bank a.d.	Banja Luka	I.F.Jukića 9	Kurt Makula	051/212-930	212-878	422,335	35,514	317
3.	Razvojna banka Jug. Evrope a.d.	Banja Luka	Kralja Petra I 85-A	Acting Miroslav Đorđević	051/242-101	242-192	243,525	20,404	418
4.	LHB banka a.d.	Banja Luka	Milana Tepića 4	Radovan Bajić	051/221-600	221-623	122,442	21,566	71
5.	Nova banka a.d.	Bijeljina	Svetog Save 46	Milorad Andžić	055/209-094	201-410	159,340	20,907	301
6.	Privredna banka ad Srpsko Sarajevo	Pale	Kninska bb	PA Toby Robinson	059/210-173	057/226-805	29,970	645	180
7.	Bobar banka a.d.	Bijeljina	Njegoševa 1	Dragan Radumilo	055/201-862	201-862	40,726	16,890	77
8.	Zepter komerc banka a.d.	Banja Luka	Jevrejska bb/ II sprat	Ranko Labović	051/241-100	215-771	140,431	19,854	152
9.	Balkan Investment Bank a.d.	Banja Luka	Bana Milosavljevića 8	Sauilus Žostautas	051/216-285	211-445	43,013	18,257	70
10.	Pavlovic International Bank a.d.	Slobomir, Bijeljina	Slobomir	Nada Pavlović	055/209-588	210-247	64,648	20,444	173
	TOTAL						1,439,687	190,499	2,187

BALANCE SHEET

(in 000 KM)

DESCRIPTION/PERIOD	31.12.03	%	30.06.04	%	INDEX
1. Cash funds and deposit accounts at depository institutions (1.a.+1.b.)	378,220	30	377,747	26	100
1.1. Cash and non-interest bearing deposit accounts	203,800	16	174,760	12	86
1.2. Interest-bearing deposit accounts	174,420	14	202,987	14	116
2. Trading Securities	2,264	0	3,489	0	154
3. Placements to other banks	3,385	0	19,082	1	564
4. Loans, leasing and receivables due (4.a.+4.b.+4.c.)	728,165	58	876,851	61	120
4.a. Loans	677,285	54	824,387	57	122
4.b. Leasing receivables	0	0	0	0	0
4.c. Loan and leasing receivables due	50,880	4	52,464	4	103
5. Securities held up to maturity	541	0	21	0	4
6. Office space and other fixed assets	110,069	9	105,558	7	96
7. Other immovables	5	0	4	0	80
8. Investments in non-consolidated related companies	7,056	0	8,071	1	114
9. Other assets	34,294	3	48,864	4	142
TOTAL (1 to 9)	1,263,999	100	1,439,687	100	114
10. MINUS: Reserves for potential losses	46,812		50,956		109
11. TOTAL ASSETS: (1.to 9.-10.)	1,217,187		1,388,731		114
11.1 Total off-balance sheet items					
11.a. Active off-balance sheet items	134,143		162,379		121
11.b. Classified assets – loss E	140,751		154,697		110
11.c. Commission (agent) services	50,329		52,245		104
TOTAL ASSETS (11.-+11.1)	1,542,410		1,758,052		114
12. Deposits (12.a.+12.b.)	950,060	78	1,089,837	78	115
12.a. Interest-bearing deposits	806,114	66	961,118	69	119
12.b. Non-interest bearing deposits	143,946	12	128,719	9	89
13. Borrowings – obligations due (13.a.+13.b.)	3	0	0	0	0
13.a. Obligations due, not paid	3	0	0	0	0
13.b. Off-balance sheet obligations not paid-called for repayment	0	0	0	0	0
14. Borrowings from other banks	542	0	542	0	100
15. Obligations to Government	0	0	0	0	0
16. Obligations based on loans and other borrowings (16.a.+16.b.)	59,634	5	80,887	6	136
16.a. remaining maturity up to one year	8,191	1	17,516	1	214
16.b. remaining maturity over one year	51,443	4	63,371	5	123
17. Subordinated debt and subordinated bonds	1,898	0	1,811	0	95
18. Reserve to cover off-balance sheet items (18.a.+18.b.)	4,473	0	4,821	0	108
18.c. Other obligations	15,558	1	20,334	2	131
19. TOTAL LIABILITIES (12 to 18)	1,032,168	84	1,198,232	86	116
20. Permanent preferred shares	16,643		16,643		100
21. Regular shares	192,083		205,511		107
22. Premium (22.a. +22.b)	0		0		0
22.a. on permanent preferred shares	0		0		0
22.b. on regular shares	0		0		0
23. Undistributed profit and capital reserves	12,857		8,532		66
24. Capital reserves	27,452		19,939		73
25. Other capital	-64,016		-60,126		94
26. TOTAL CAPITAL: (20. to 25.)	185,019	16	190,499	14	103
27. TOTAL LIABILITIES AND CAPITAL: (19. + 26.)	1,217,187	100	1,388,731	100	114
28.1. Total off-balance					
28.1. Active off-balance sheet	134,143		162,379		121
28.2. Classified assets – loss E	140,751		154,697		110
28.3. Commissioned (agent) services	50,329		52,245		104
TOTAL LIABILITIES (27.+28.1)	1,542,410		1,758,052		114

CAPITAL STATEMENT

in 000 KM

DESCRIPTION/PERIOD	31.12.2003	30.06.2004	INDEX 2004/2003
1. CORE CAPITAL OF BANKS			
1.1. Equity capital based on nominal values and amounts of regular and preferred non-cumulative shares issued against cash fund payments into shareholders' capital:	205,327	218,980	107
1.2. Equity capital based on nominal amounts of regular and preferred non-cumulative shares issued against immovables and rights invested into shareholders' capital:	3,399	3,174	93
1.3. Premiums collected for share payments:	0	0	0
1.4. General reserves required (reserves required by the law):	11,323	9,285	82
1.5. Other reserves which are not taken into account when rating asset quality:	15,887	10,654	67
1.6. Retained – undistributed profit from previous years:	2,622	824	31
1.a TOTAL (1.1.-1.6.)	238,558	242,917	102
1.7. Uncovered loss carried over from previous years:	35,955	57,528	160
1.8. Current Year Loss:	28,061	2,598	9
1.9. Bookkeeping value of bank's owned (vault) shares:	0	0	0
1.10. Amount of intangible property: patents, licenses, concession, investments in: marketing, commercial name, trade mark, goodwill and similar:	5,429	5,687	105
1.b TOTAL (1.7.-1.10.)	69,445	65,813	95
1. AMOUNT OF CORE CAPITAL (1.a - 1.b):	169,113	177,104	105
2. ADDITIONAL CAPITAL OF BANKS			
2.1. Equity capital based on nominal amounts of permanent preferred cumulative shares issued against cash fund payments into shareholders' capital:	0	0	0
2.2. Equity capital based on nominal amounts of permanent preferred cumulative shares issued against immovables and rights invested into shareholders' capital:	0	0	0
2.3. General reserves for loan loss coverage for bank's assets rated as category A – Pass:	17,306	20,084	116
2.4. Accrued profit in the current year audited and verified by external auditor:	6,854	0	0
2.5. Amount of profit for which BA-RS issued Decision on Temporary Suspension of Distribution:	0	0	0
2.6. Amount of subordinated debt maximum 50% of amount of Core Capital:	1,898	1,811	95
2.7. Amount of hybrid i.e. convertible items-instruments of capital maximum 50% of amount of Core Capital:	0	0	0
2.8. Amount of items-commitments of a permanent character without obligation to be repaid:	17,944	20,000	111
2. AMOUNT OF ADDITIONAL CAPITAL:	44,002	41,895	95
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL			
3.1. Part of invested shareholders' capital, which represents, according to BA-RS, received, but overstated value:	0	0	0
3.2. Bank's investments in capital of other legal entities exceeding 5% of the bank's core capital:	3,220	0	0
3.3. Receivables from shareholders having a significant voting right in the bank, which receivables are based on the bank's approvals contrary to provisions of the Law, BA-RS and the bank's business policy:	0	2,279	0
3.4. Bank's large risk exposure related to shareholders having a significant voting right in the bank, which exposure has not been previously approved by the BA-RS:	0	0	0
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL:	3,220	2,279	71
4. ITEMS OFF-SETTING FROM BANK'S CAPITAL:			
1. AMOUNT OF BANK'S CORE CAPITAL	169,113	177,104	105
2. AMOUNT OF BANK'S ADDITIONAL CAPITAL	44,002	41,895	95
3. AMOUNT OF BANK'S ITEMS OFF-SETTING FROM THE CAPITAL	3,220	2,279	71
4. AMOUNT OF BANK'S NET-CAPITAL (1. + 2. - 3.)	209,895	216,720	103
B. RISK WEIGHTED ASSETS AND LOAN EQUIVALENTS	870,085	1,035,205	119
C. NET CAPITAL RATE	24.1	20.9	87

INCOME STATEMENT

(in 000 KM)

DESCRIPTION/PERIOD	30.06.2003	%	30.06.2004	%	INDEX
1. INTEREST INCOME AND EXPENSE					
a) Interest income and similar income					
1) Interest bearing deposit accounts at depository institutions	1,372	5	1,740	4	127
2) Placements to other banks	193	1	432	1	224
3) Loans and leasing operations	21,355	75	28,285	69	132
4) Securities held up to maturity	0	0	0	0	0
5) Other companies' shares owned by banks	0	0	0	0	0
6) Paid off-balance sheet obligation receivables	0	0	147	0	0
7) Other interest income and similar income	5,434	19	10,671	26	196
8) TOTAL INTEREST INCOME AND OTHER INCOME (1 to 7)	28,354	100	41,275	100	146
b) Interest expense and similar expense					
1) Deposits	6,452	79	11,894	88	184
2) Borrowings from other banks	843	11	309	2	37
3) Borrowings – due obligations	152	2	81	0	53
4) Loan and other borrowing obligations	10	0	371	3	3,710
5) Subordinated debt and subordinated bonds	7	0	0	0	0
6) Other interest expense and similar expense	674	8	909	7	135
7) TOTAL INTEREST EXPENSE AND SIMILAR EXPENSE (1 to 6)	8,138	100	13,564	100	167
c) NET INTEREST AND SIMILAR INCOME	20,216		27,711		137
2. OPERATING INCOME					
1) Foreign currency operation income	7,208	16	5,494	12	76
2) Loan fees	4,432	10	5,892	13	133
3) Off-balance sheet operation fees	2,084	5	2,860	6	137
4) Service fees	16,815	38	16,717	37	99
5) Trading operation income	555	1	648	1	117
6) Other operating income	12,964	30	13,875	31	107
7) TOTAL OPERATING INCOME (1 to 6)	44,058	100	45,486	100	103
3. NON-INTEREST BEARING EXPENSE					
a) Operating and direct expense					
1) Reserves for general loan risk and potential loan and other losses	57,157	94	18,267	83	32
2) Other operating and direct expenses	3,585	6	3,704	17	103
3) TOTAL OPERATING AND DIRECT EXPENSES (1) + 2)	60,742	100	21,971	100	36
b) Operating expenses					
1) Salaries and contributions	18,025	40	19,326	42	107
2) Office space, other fixed assets and overheads	15,910	35	19,008	41	119
3) Other operating expenses	11,436	25	7,615	17	67
4) TOTAL OPERATING EXPENSES (1 to 3)	45,371	100	45,949	100	101
c) TOTAL NON-INTEREST BEARING EXPENSES (a)3) + b)4)	106,113		67,920		64
TOTAL: INCOME-EXPENSE (1c+2g - 3c)	-41,839		5,277		
4. PROFIT BEFORE TAX (1c+2g - 3c)	5,391		7,875		146
5. LOSS (1.c + 2.g - 3.c)	47,230		2,598		6
6. TAX	97		169		174
7. NET-PROFIT (4. - 6.)	5,294		7,706		146

STAFF

No.	BANKS	QUALIFICATION STRUCTURE								Total	%
		NS*	KV*	VKV*	SSS*	VS*	VSS*	MR*	DR*		
1.	Nova Banjalucka banka a.d.	7	9	4	249	50	105	4	0	428	20
2.	Hypo-Alpe-Adria Bank a.d.	12	0	1	183	16	103	2	0	317	15
3.	PB a.d. Srpsko Sarajevo	6	4	1	116	21	32	0	0	180	8
4.	Razvojna banka JIE a.d.	3	8	6	216	66	115	3	1	418	19
5.	Bobar banka a.d.	0	5	0	43	9	19	1	0	77	3
6.	LHB banka a.d.	2	0	1	31	5	32	0	0	71	3
7.	Zepter Komerc banka a.d.	0	2	1	67	23	58	1	0	152	7
8.	Balkan Investment Bank a.d.	1	0	0	29	5	35	0	0	70	3
9.	Pavlovic International Bank a.d.	12	7	1	96	14	40	3	0	173	8
10.	Nova banka a.d.	2	0	0	116	60	122	1	0	301	14
TOTAL		45	35	15	1,146	269	661	15	1	2,187	100
%		2	2	1	52	12	30	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