

**BANKING AGENCY OF REPUBLIKA SRPSKA**

**INFORMATION**  
on Banking Sector of Republika Srpska  
for the year 2001

Banja Luka, March 2002

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## I INTRODUCTION

In the last three years significant results have been achieved within the arena of the banking system, although there are still unresolved problems within the system as a whole.

The RS Banking Agency was founded three years ago as an institution to monitor operation of the banking system under applied international standards, and we can truthfully state that this is a segment of the economy with the most international standards adopted.

Delayed privatization of banks allows for neither final definition of their status nor solution of a number of problems inherited from the previous period of operation. Waiting for completion of the privatization process, managers of majority state owned banks have stopped further development of their banks, offering no new products or improvements of business operation.

In contrast to banks with majority state-owned capital, there are private banks, which have had an increasing trend of development with, however, a low capital level, inadequate risk management, lack of adequate business policy and programs, insufficient number of quality officials, and poorly developed internal controls.

During the first nine months of last year the RS National Assembly, Government, and Ministry of Finance performed significant activities related to the condition of the banking sector with a goal to maintain the sector and to privatize the state-owned share of banks' capital in banks with majority state capital.

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

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

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

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

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

Beside the above adverse features, it should be pointed out that there have been some positive movements, too.

By the end of the last year, important changes the introduction of foreign capital (founding of a new bank and additional capitalization of a privately owned bank) and privatization of two state owned banks.

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

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

## 2. COMPOSITION OF THE BANKING SECTOR

As of December 31, 2001 fifteen commercial banks, a foreign bank branch-office, and three branch offices of banks from Federation BH were operating in Republika Srpska. In the period analyzed the liquidation process in the West banka d.d. Laktasi was started since the bank's license had been revoked as of December 31, 2000. Also, banking licenses were revoked from the Prijedorska banka a.d. Prijedor and Post Office Savings (Postanska stedionica) respectively.

Based on the balance sheet data related to the ownership structure as of December 31, 2001, six banks were state-owned, while nine banks were privately owned as well as a branch office of a foreign bank, indicating that banks' ownership structure has changed since three of the state-owned banks have become majority-privately-owned, and one of them was acquired by Pavlovic International Bank a.d. Slobomir, Bijeljina.

### 2.1. PRIVATE BANKS

At the end of the year 2001 the following nine banks and only one branch office of a foreign bank had majority privately owned capital in RS:

BANK	CAPITAL %			TOTAL
	Private	State	Cooperative	
- Agroprom banka a.d. Banja Luka	86.4	-	15.4	100.0
- VB banka a.d. Banja Luka	100.0	-	-	100.0
- Nova banka a.d. Bijeljina	98.9	1.9	1.1	100.0
- Ekvator banka a.d. Banja Luka	100.0	-	-	100.0
- Bobar banka a.d. Banja Luka	100.0	-	-	100.0
- Zepter Komerc banka a.d. Banja Luka	100.0	-	-	100.0
- PBS a.d. Srpsko Sarajevo	98.7	-	1.3	100.0
- Pavlovic International Bank a.d. Bijeljina	97.0	-	3.0	100.0
- Balkan Investment Bank a.d. Banja Luka	100.0	-	-	100.0
- BSEI	100.0	-	-	100.0

### 2.2. STATE OWNED BANKS

#### COMPOSITION OF CAPITAL IN BANKS INCLUDED IN PRIVATIZATION PROCESS

BANK	CAPITAL %			
	State	Co-operative	Private	Total
Kristal banka a.d. Banja Luka	75.6	4.8	19.6	100
Banjalučka banka a.d. Banja Luka	84.0	4.0	12.0	100
Privredna banka a.d. Gradiška	74.2	20.4	5.4	100
Privredna banka a.d. Brčko	100.0			100
Privredna banka a.d. Doboj	90.0	4.0	6.0	100
Razvojna banka a.d. Banja Luka	100.0			100

The Razvojna banka a.d. Banja Luka Opening Balance Sheet was adopted only in the first half of 2001 due to a delay caused by preparation of the SPP Separation Balance Sheet, after which the Agency performed the required solvency test and issued the Decision on the Bank's Solvency.

Tenders for sale of four state owned banks (Razvojna banka a.d. Banja Luka, Kristal banka a.d. Banja Luka, Banjalucka banka a.d. Banja Luka, and Privredna banka a.d. Doboje) are being opened. Not a single tender has been opened for sale of Privredna banka a.d. Brcko, yet, due to a controversy with the Brcko District Government. Originally, Provisional Administrations were introduced in two banks – Privredna banka a.d. Gradiska, and Prijedorska banka a.d. Prijedor. The Banking Agency was working on some schemes to sell those two banks as a whole or partially. In the meantime, Ekvator banka a.d. Banja Luka was also put under Provisional Administration, while as of December 31, 2002 a liquidation procedure was started in Prijedorska banka a.d. Prijedor.

In the fourth quarter of 2001 the remaining portion of the state owned capital in Agroprom banka a.d. Banja Luka was sold to two banks, the VB banka a.d. Banja Luka, and Nova banka a.d. Bijeljina.

### 2.3. STAFF

As of December 31, 2001 the RS banks employed in total 2,705 employees, out of whom 1,796 or 66.4% were in state-owned banks, and 909 or 33.6% were in privately owned banks, as shown in the following table:

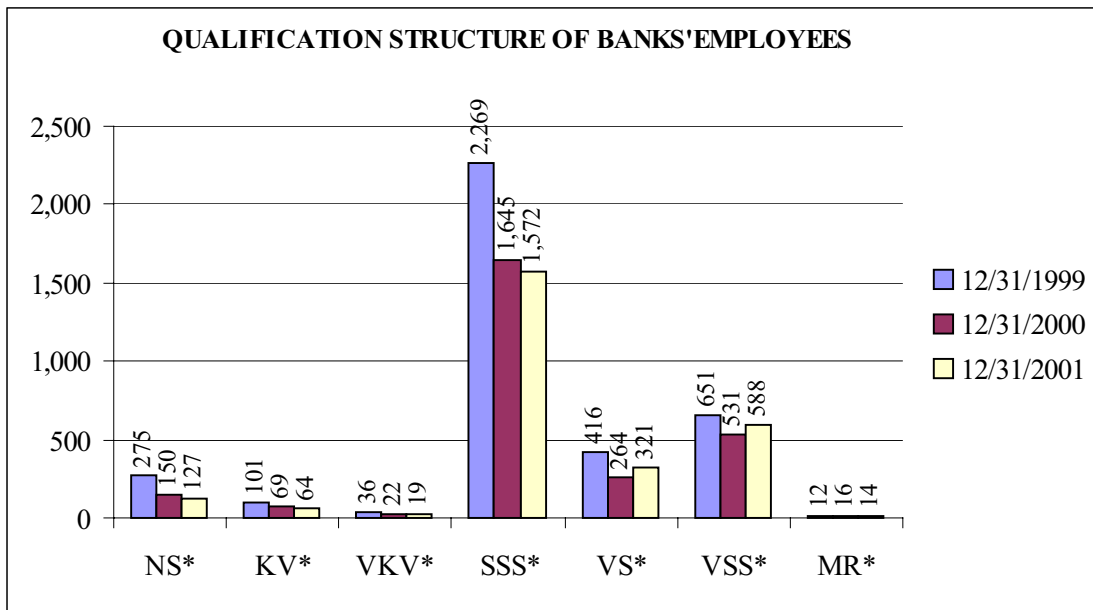
BANKS	NUMBER OF EMPLOYEES						INDEX 2001/1999	INDEX 2001/2000
	31.12.1999		31.12.2000		31.12.2001			
	Amount	%	Amount	%	Amount	%		
State-owned	3,644	96.91	2,421	89.77	1,796	66.40	49	74
Private	116	3.09	276	10.23	909	33.60	784	329
<b>TOTAL:</b>	3,760	100.00	2,697	100.00	2,705	100.00	72	100
Number of Banks	<b>17</b>		<b>18</b>		<b>16</b>			

Compared to the previous year, the total number of banks' employees remained approximately at the same level. The composition, however, significantly changed, since the number increased in private banks, and decreased in state owned banks. Such a change occurred due to privatization of two state banks (445) and 178 newly employed.

The number of employees in the state owned banks decreased by 625 or 26% due to the privatization of two banks, liquidation of a bank and merger of Postanska stedionica (Post office savings) and Srpske poste (RS Post Office).

The following table and graph give the qualification structure of the RS banks:

No.	Qualification	31.12.1999	%	31.12.2000	%	31.12.2001	%	INDEX 2001/1999	INDEX 2001/2000
1.	Non-Skilled	275	7.31	150	5.56	127	4.70	46	85
2.	Skilled	101	2.69	69	2.56	64	2.37	63	93
3.	Highly Skilled	36	0.96	22	0.82	19	0.70	53	86
4.	Secondary School	2,269	60.35	1,645	60.99	1,572	58.11	69	96
5.	2-year College	416	11.06	264	9.79	321	11.87	77	122
6.	College Degree	651	17.31	531	19.69	588	21.74	90	111
7.	M. Sc.	12	0.32	16	0.59	14	0.52	117	88
<b>TOTAL:</b>		<b>3,760</b>	<b>100.00</b>	<b>2,697</b>	<b>100.00</b>	<b>2,705</b>	<b>100.00</b>	<b>72</b>	<b>100</b>



The above summary shows that the qualification structure of banks' employees remained unfavorable. It should be pointed out, however, that the qualification structure did change and improve. Namely, the number of employees with lower education levels decreased and those with junior college and college graduation increased.

Having in mind that successful operation of banking system is also measured by the ratio of assets and number of employees, the ratio is shown in the following table:

BANKS	As of December 31, 2000			As of December 31, 2001			INDEX
	Number of employees	Assets in KM million	Assets per employee in KM million	Number of employees	Assets in KM million	Assets per employee in KM million	2001/2000
State-owned	2,421	488	0.20	1,796	403	0.22	110
Private	276	163	0.59	909	370	0.41	69
<b>TOTAL:</b>	2,697	651	0.24	2,705	773	0.29	121
Number of banks	18			16			

\*Assets were not reduced by the amount of reserves

At the end of 2001 assets per an employee amounted to KM 290 thousand and was larger by 21% compared to the previous year. It should be noted that this indicator differs related to the nature of ownership and it was much more favorable in private banks, although it was lower than in the previous year.

### 3. FINANCIAL INDICATORS

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

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

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. After adoption of the new Law on Accounting, an inclination to start fully implementing International Accounting Standards with a newly designed chart of accounts in accounting, recording, and reporting has prevailed in accounting practice in Republika Srpska. The official date for such an implementation is January 1, 2000. Therefore, the Agency prepared drafts for new reporting forms to be submitted in such a manner and within such deadlines as stipulated by pertaining Decisions and Instructions starting officially on January 1, 2000. Balance sheets were analyzed without those items that had been taken over by the state under the Law on Opening Balance Sheet, which means without passive and neutral sub-balances, i.e. only active items of balance sheets of banks were analyzed.

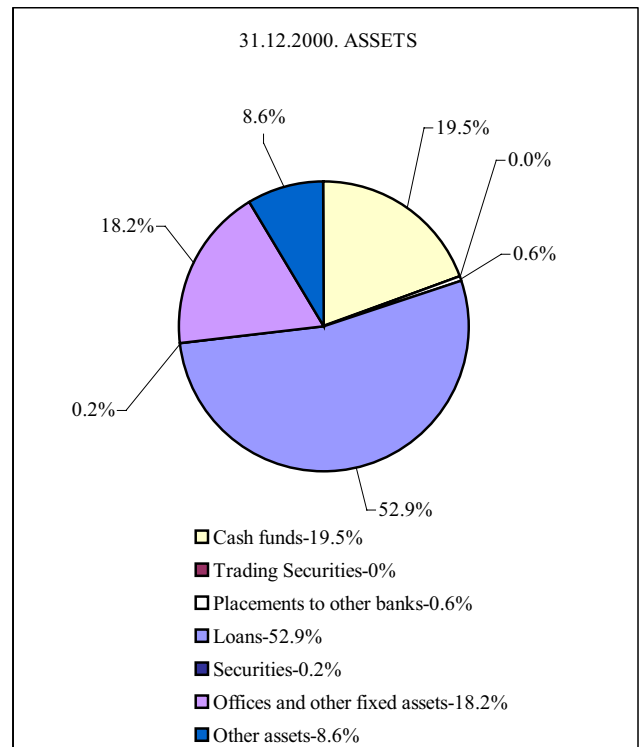
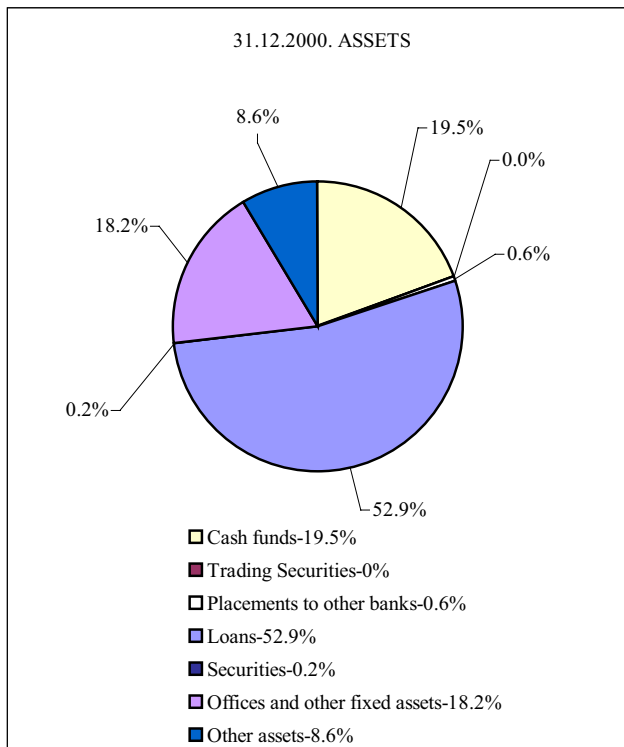
### 3.1. Balance Sheet

As of December 31, 2001 the total banks' assets amounted to KM 941.8 million, out of which balance sheet assets amounted to KM 772.2 million and off-balance sheet assets amounted to KM 169.6 million. The RS banks' asset and liability composition can be seen from the following table:

DESCRIPTION	AMOUNT (000 KM)						INDEX 2001/ 1999	INDEX 2001/ 2000
	31.12.1999		31.12.2000		31.12.2001			
	Amount	%	Amount	%	Amount	%		
1	2	3	4	5	6	7	8=6/2	9=6/4
<b>ASSETS (PROPERTY):</b>								
1. Cash Funds	146,901	24.29	126,893	19.49	211,364	27.37	144	167
2. Trading Securities	0	0.00	0	0.00	1,142	0.15	0	0
3. Placements to other banks	5,100	0.84	3,796	0.58	5,334	0.69	105	141
4. Loans	293,768	48.58	344,224	52.86	377,107	48.84	128	110
5. Securities held up to maturity	3,102	0.51	1,413	0.22	4	0.00	0	0
6. Premises and Other Fixed Assets	98,447	16.28	118,768	18.24	123,379	15.98	125	104
7. Other Assets	57,435	9.50	56,118	8.62	53,872	6.98	94	96
<b>8. TOTAL ASSETS</b>	<b>604,753</b>	<b>100.00</b>	<b>651,212</b>	<b>100.00</b>	<b>772,202</b>	<b>100.00</b>	<b>128</b>	<b>119</b>
9. Total Off-Balance Sheet (10+11+12)	121,276		218,632		169,639		140	78
10. Active Off-Balance Sheet	116,801		152,120		87,851		75	58
11. Classified Assets-Loss E	0		31,893		42,401		0	133
12. Fees for Agent and Other Operation	4,475		34,619		39,387		880	114
<b>13. TOTAL ASSETS (8+9)</b>	<b>726,029</b>		<b>869,844</b>		<b>941,841</b>		<b>130</b>	<b>108</b>
<b>LIABILITIES (COMMITMENTS):</b>								
14. Deposits	269,223	44.52	330,611	50.77	422,632	54.73	157	128
15. Borrowings	5,530	0.91	2,274	0.35	1,844	0.24	33	81
16. Obligations Based on Loans	58,783	9.72	47,273	7.26	23,935	3.10	41	51
17. Other Commitments	26,040	4.31	25,119	3.86	59,596	7.72	229	237
18. Special Reserves for Potential Loss	77,531	12.82	59,812	9.18	65,204	8.44	84	109
19. Capital	167,646	27.72	186,123	28.58	198,991	25.77	119	107
<b>20. TOTAL LIABILITIES (COMMITMENTS AND CAPITAL)</b>	<b>604,753</b>	<b>100.00</b>	<b>651,212</b>	<b>100.00</b>	<b>772,202</b>	<b>100.00</b>	<b>128</b>	<b>119</b>
21. Total Off-Balance Sheet (22+23+24)	121,276		218,632		169,639		140	78
22. Active Off-Balance Sheet	116,801		152,120		87,851		75	58
23. Classified Assets-Loss "E"	0		31,893		42,401		0	133
24. Fees for Agent and Other Operation	4,475		34,619		39,387		880	114
<b>25. TOTAL LIABILITIES (20+21)</b>	<b>726,029</b>		<b>869,844</b>		<b>941,841</b>		<b>130</b>	<b>108</b>



The banks' total balance sheet amount increased by 8% in 2001 compared to the previous



year.

The banks' balance sheet structure remained unfavourable taking into consideration the amount of inactive assets and increased amount of loan receivables due.

The total off-balance sheet assets amounted to KM 169.6 million, and was smaller by 22% compared to the previous year. It is especially important that risk-bearing active off-balance sheet items decreased by 42%.

The fact that is especially of concern, however, was an increase by 33% of assets classified in category E – loss carved out from the active balance sheet and entered in off-balance sheet records.

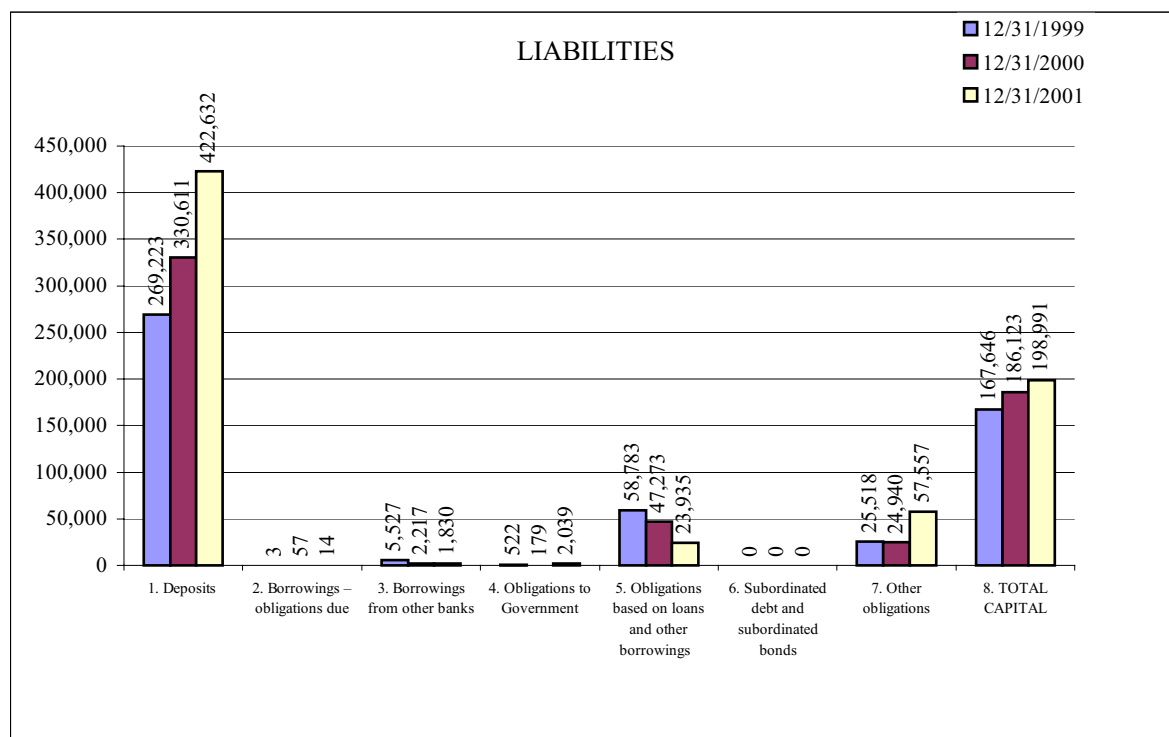
### 3.1.1. Liabilities

Composition of liabilities, i.e. liability and capital in the banks' balance sheets as of December 31, 2001 is shown in the following table:

DESCRIPTION/PERIOD	12/31/1999		12/31/2000		12/31/2001		INDEX	INDEX
	Amount	Share	Amount	Share	Amount	Share	2001/1999	2001/2000
	2	3	4	5	6	7	8=6/2	9=6/4
<b>LIABILITIES</b>								
1. Deposits	269,223	44.52	330,611	50.77	422,632	54.73	157	128
2. Borrowings	5,530	0.91	2,274	0.35	1,844	0.24	33	81
3. Obligations based on loans	58,783	9.72	47,273	7.26	23,935	3.10	41	51
4. Other obligations	26,040	4.31	25,119	3.86	59,596	7.72	229	237
5. Required potential loss reserves	77,531	12.82	59,812	9.18	65,204	8.44	84	109
6. Capital	167,646	27.72	186,123	28.58	198,991	25.77	119	107
<b>7.TOTAL LIABILITIES (LIABILITY AND CAPITAL)</b>	<b>604,753</b>	<b>100.00</b>	<b>651.212</b>	<b>100.00</b>	<b>772.202</b>	<b>100.00</b>	<b>128</b>	<b>119</b>

Liabilities consisted of 65.8% of liability, and 34.2% of capital with special reserves with potential losses. The item that is constantly present as a part of fund resources, i.e. banks' liabilities, are deposits on demand, which represent the only resource for lending, indicating that the composition of liabilities is very unsatisfactory.

Composition of the state banks' liabilities consisted of 67% of liability, and 33% of capital, while private banks had 64% of liability and 35% of capital.



### - Capital and Capital Adequacy

As of December 31, 2001 the banks' capital totaled to KM 214.9 million. The total capital was larger by KM 13.9 million, or by 7%, compared to the previous year. The level and the structure of the capital can be seen from the following table:

#### Capital Statement

- in 000 KM -

	31.12.1999	%	31.12.2000	%	31.12.2001	%	INDEX 2001/1999	INDEX 2001/2000
1. CORE CAPITAL	165,858	93.41	192,347	95.70	203,136	94.53	122	106
2. ADDITIONAL CAPITAL	11,699	6.59	8,646	4.30	11,744	5.47	100	136
<b>TOTAL CAPITAL ( 1 + 2 )</b>	<b>177,557</b>	<b>100.00</b>	<b>200,993</b>	<b>100.00</b>	<b>214,880</b>	<b>100.00</b>	<b>121</b>	<b>107</b>
LOSS	3,756		8,498		9,873		263	116
<b>TOTAL CAPITAL</b>	<b>173,801</b>		<b>192,495</b>		<b>205,007</b>		<b>118</b>	<b>106</b>
Shortage of separated reserves	4,666		1,395		7,573		162	543
Other	1,256		1,727		1,458		116	84
<b>BANKS' NET-CAPITAL</b>	<b>167,879</b>		<b>189,373</b>		<b>195,976</b>		<b>117</b>	<b>103</b>

Such an increase of capital resulted from some capital being paid in for additional capitalization of three private banks, and from undistributed profit.

Items deductible from capital also significantly increased being related to an increase of general credit risk and potential loan losses for which the banks had not separated general and special

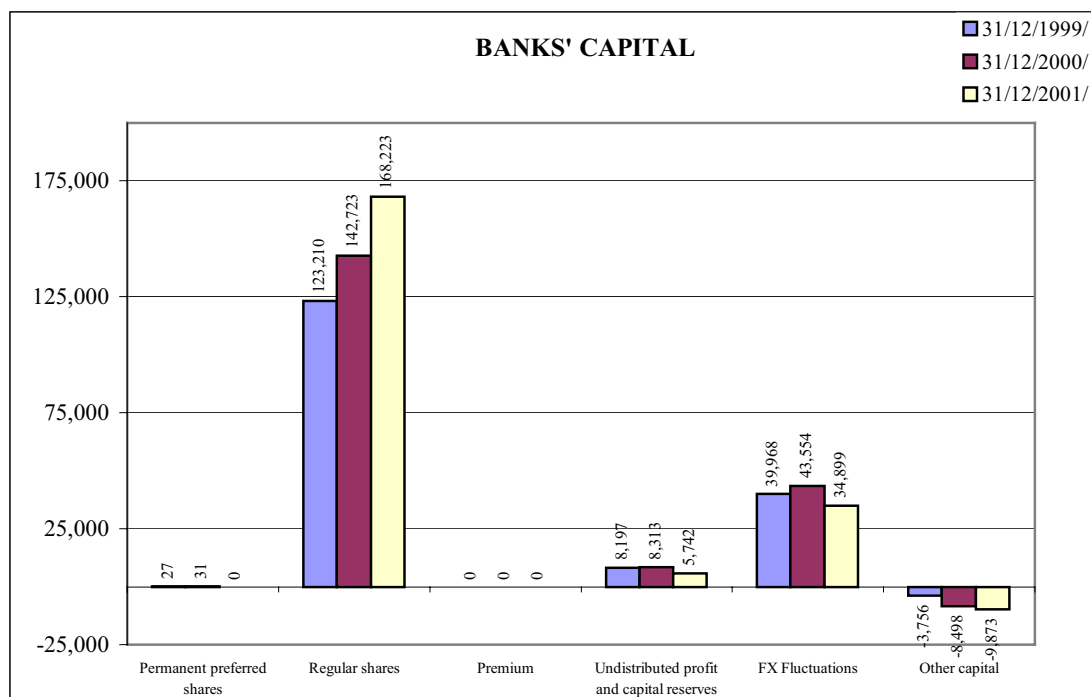
loan loss reserves. The amount of losses from the earlier period (KM 8.5 million) and the loss from the previous year amounting to KM 9.8 million, reducing the total capital, should be especially noted.

The following table and the graph below it show the structure and trends of shareholders' capital in the RS banks:

### Shareholders' capital

- in 000 KM -

BANKS	31.12.1999		31.12.2000		31.12.2001		INDEX 2001/1999	INDEX 2001/2000
	Amount	%	Amount	%	Amount	%		
State banks	96,253	78.18	85,807	60.11	61,687	36.67	64	72
Private banks	26,865	21.82	56,947	39.89	106,536	63.33	397	187
<b>TOTAL:</b>	<b>123,118</b>	<b>100.00</b>	<b>142,754</b>	<b>100.00</b>	<b>168,223</b>	<b>100.00</b>	<b>137</b>	<b>118</b>



An important indicator in capital analysis is the capital adequacy rate, which according to the current regulation should not be under 10%. As of December 31, 2001 average capital adequacy shown as a ratio of net capital and total risk assets, amounted to 37.5%. All banks met the capital adequacy requirement, which ranged from 17% to 152%.

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

Relative ratios are given in the following table:

#### Capital Ratios

		in 000 KM		
DESCRIPTION / PERIOD		31.12.1999	31.12.2000	31.12.2001
1.	Net Capital/	167,879	189,373	195,976
	Total Assets	604,753	651,212	772,202
	%	<b>27.76</b>	<b>29.08</b>	<b>25.38</b>
2.	Shareholders' Capital/	123,118	142,754	168,223
	Total Assets	604,753	651,212	772,202
	%	<b>20.36</b>	<b>21.92</b>	<b>21.78</b>
3.	Core Capital/	165,858	192,347	203,136
	Total Risk Assets	459,951	532,099	522,141
	%	<b>36.06</b>	<b>36.15</b>	<b>38.90</b>
4.	Total Capital/	177,557	200,993	214,880
	Total Risk Assets	459,951	532,099	522,141
	%	<b>38.60</b>	<b>37.77</b>	<b>41.15</b>
5.	Net Loans/	243,262	306,904	333,629
	Total Capital	177,557	200,993	214,880
	%	<b>137.01</b>	<b>152.69</b>	<b>155.26</b>
6.	Profit/	10,761	3,538	6,249
	Shareholders' Capital	123,118	142,754	168,223
	%	<b>8.74</b>	<b>2.48</b>	<b>3.71</b>

Based on the banks' reports as of December 31, 2001 two state-owned banks did not meet the legal requirement for net capital of KM 10.0 million, and due to the privatization process they were unable to put in additional capital for capitalization. Also, the legal capital requirement was not met by one private bank under provisional administration.

It is important to mention here that, in accordance with the Law on Banks, the new legal requirement for banks' net capital amounts to KM 15.0 million. By November 16, 2001 banks were required to provide cash funds in an amount of KM 10.0 million and additional capitalization in the remaining amount of KM 5.0 million should be completed by December 31, 2002.

#### - Deposits

Some obvious changes occurred in the liability structure in 2001 related to deposits, which increased by KM 92.0 million or 28%.

The main feature of the deposit base in the RS banking sector was that it relied on deposits on demand. The deposit breakdown as of December 31, 2001 is given below:

- KM deposits on demand                      KM 238.8 million or 56.5% of total deposits

- FC deposits on demand KM 150.8 million or 35.7% of total deposits

Out of the total deposits only 10.7% were term deposits.

Deposits held by state-owned banks:

- KM deposits on demand KM 158.4 million  
 - FC deposits on demand KM 53.0 million

Deposits held by private banks:

- KM deposits on demand KM 71.6 million  
 - FC deposits on demand KM 58.0 million

In the total deposit composition citizens' saving deposits amounted to KM 106.6 or 25.2%, showing an increase of 98% compared to the previous year due to the conversion of DEM to EURO.

Amounts and composition of citizens' saving deposits can be seen from the following table:

New Citizens' Saving Deposits in RS Banks

- in 000 KM -

No.	DESCRIPTION	31.12.2000	%	31.12.2001	%	INDEX 2001/2000
1.	ON DEMAND					
	1. KM	33,707	62.69	16,8644	15.77	50
	2. Foreign Currency	15,068	28.02	51,697	48.35	343
	<b>TOTAL: 1</b>	<b>48,775</b>	<b>90.71</b>	<b>68,561</b>	<b>64.12</b>	<b>141</b>
2.	TERM-DEPOSITS					
	1. KM	136	0.25	949	0.89	698
	2. Foreign Currency	4,857	9.03	37,423	35.00	770
	<b>TOTAL: 2</b>	<b>4,993</b>	<b>9.28</b>	<b>38,372</b>	<b>35.89</b>	<b>769</b>
3.	<b>TOTAL (1+2)</b>	<b>53,768</b>	<b>100.00</b>	<b>106,933</b>	<b>100.00</b>	<b>199</b>

In 2001 the total new citizens' savings increased by 52.9 million compared to the end of 2000. It should be pointed out that citizens' saving deposits differ in state-owned and private banks. Savings in state-owned banks remained at the level recorded last year. Increase in private banks amounted to 53.1 million or 537%, indicating a significant change in favor of private banks, as shown in the following table:

New Citizens' Saving Structure

in 000 KM

	31.12.2000	%	31.12.2001	%	INDEX 2001/2000
State-Owned Banks	43,837	81.53	43,633	40.80	100
Private Banks	9,931	18.47	63,300	59.20	637
<b>TOTAL:</b>	<b>53,768</b>	<b>100.00</b>	<b>106,933</b>	<b>100.00</b>	<b>199</b>

Until citizens' savings return to banks, to increase significantly the quality of banks' deposits, there will be no stable banking in support of overall economic growth of Republika Srpska.

### - Banks' Liquidity

Unfortunately, the deposit maturity was still extremely unfavorable. Short-term deposits represented 87.3% giving lending policy even greater importance. Mismatch of maturity adjustments between deposits and placements represent a real danger for banks' liquidity, financial condition of banks, and finally their survival.

The banks' liquidity rate was still low in 2001, and most of state-owned banks and a single private bank had liquidity maintenance problems. The basic reason for illiquidity was difficult cash position of borrowers, that is, adverse situation of the country's economy.

Liquidity ratios are given in the following table:

Liquidity ratios

in 000 KM

DESCRIPTION/PERIOD		31.12.1999	31.12.2000	31.12.2001
1.	Short-term assets/	322,663	340,811	399,631
	Short-term liabilities	310,823	352,770	433,888
	<b>%</b>	<b>103.81</b>	<b>96.61</b>	<b>92.10</b>
2.	Short-term assets /	322,663	340,811	399,631
	Total assets	604,753	651,212	772,202
	<b>%</b>	<b>53.35</b>	<b>52.33</b>	<b>51.75</b>
3.	Short-term liabilities	310,823	352,770	433,888
	Total assets	604,753	651,212	772,202
	<b>%</b>	<b>51.40</b>	<b>54.17</b>	<b>56.19</b>
4.	Net short-term liabilities /	-11,840	11,959	34,257
	Total assets	604,753	651,212	772,202
	<b>%</b>	<b>- 1.96</b>	<b>1.84</b>	<b>4.44</b>
5.	Net loans /	243,262	306,904	333,629
	Deposits	269,223	330,611	422,632
	<b>%</b>	<b>90.36</b>	<b>92.83</b>	<b>78.94</b>
6.	Net loans and financial commitments, letters of credit/	266,253	354,860	337,339
	Total assets	604,753	651,212	772,202
	<b>%</b>	<b>44.03</b>	<b>54.49</b>	<b>43.69</b>

### 3.2. Assets

#### - Cash Funds

As of December 31, 2001 cash funds amounted to KM 211.3 million and were larger by KM 77.1 million or 67% compared to the previous year. That increase resulted from transferring

cash from the former SPP, payments made for newly founded banks, additional capitalization of some banks, and especially the conversion of DEM to EURO.

Amounts and composition of cash funds can be seen from the following table:

PERIOD/ DESCRIPTION	31.12.2000				31.12.2001				INDEX 2001/ 2000
	State- Owned	Private	Total	%	State- Owned	Private	Total	%	
<b>KM</b>									
1.Cash Funds	4,600	2,402	7,002	5.5	11,902	16,894	28,796	13.6	411
2.Giro-accounts at SPP (reserve accounts at CB BH)	15,671	9,195	24,866	19.6	11,337	35,870	47,207	22.3	190
3.Deposit accounts at depository institutions in BH	1,072	22	1,094	0.9	1,755	603	2,358	1.1	216
4.Deposit accounts at depository institutions abroad	0	0	0	0.0	0	0	0	0.0	0
5.Cash funds in process of collecting	9	1	10	0.0	11	1,249	1,260	0.6	12,600
6.Non-repaid debts	0	0	0	0.0	0	0	0	0.0	0
<b>7. TOTAL</b>	<b>21,352</b>	<b>11,620</b>	<b>32,972</b>	<b>26.0</b>	<b>25,005</b>	<b>54,616</b>	<b>79,621</b>	<b>37.7</b>	<b>241</b>
<b>FOREIGN CURRENCY</b>									
1.Cash Funds	16,082	11,304	27,386	21.6	43,035	24,941	67,976	32.2	248
2.Giro-accounts at SPP (reserve accounts at CB BH)	21	0	21	0.0	0	0	0	0.0	0
3.Deposit accounts at depository institutions in BH	1,539	913	2,452	1.9	2,818	667	3,485	1.6	142
4.Deposit accounts at depository institutions abroad	20,625	43,081	63,706	50.2	6,775	52,667	59,442	28.1	93
5.Cash funds in process of collecting	323	12	335	0.3	438	402	840	0.4	251
6.Non-repaid debts	21	0	21	0.0	0	0	0	0.0	0
<b>7. TOTAL :</b>	<b>38,611</b>	<b>55,310</b>	<b>93,921</b>	<b>74.0</b>	<b>53,066</b>	<b>78,677</b>	<b>131,743</b>	<b>62.3</b>	<b>140</b>
<b>GRAND TOTAL :</b>	<b>59,963</b>	<b>66,930</b>	<b>126,893</b>	<b>100.0</b>	<b>78,071</b>	<b>133,293</b>	<b>211,364</b>	<b>100.0</b>	<b>167</b>

Within the cash fund structure, foreign cash funds amounted to KM 131.7 million or 62.3%, and were larger by 40% compared to the previous year. Private banks had an amount of KM 133.2 million or 63.0%.

#### - Asset Quality

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

Amounts and composition of classified balance sheet and off-balance sheet are shown in the following table:



in 000 KM

BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS	31.12.1999	31.12.2000	31.12.2001	INDEX 2001/1999	INDEX 2001/2000
1. Short-term Loans	178,810	221,497	190,794	107	86
2. Long-Term Loans	87,625	93,020	110,502	126	119
3. Other Placements	5,962	13,935	7,206	121	52
4. Accrued Interest	37,183	31,293	35,027	94	112
5. Receivables Due	33,085	33,902	76,108	230	224
6. Paid Guarantee based Receivables	80	8,282	7,440	9,300	90
7. Other Assets	47,034	32,387	26,365	56	81
<b>8. TOTAL BALANCE SHEET ASSET ITEMS:</b>	<b>389,779</b>	<b>434,316</b>	<b>453,442</b>	<b>116</b>	<b>104</b>
9. General Loan Risk and Potential Loan Loss (no. 8 X % loss)	323	52,100	67,372	20,858	129
10. Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	2,674	53,012	60,441	2,260	114
11. Balance 10.-9.	2,351	912	-6,931	-295	-760
12.a) Payable Guarantees	51,128	58,769	53,988	106	92
b) Performance Guarantees	40,994	35,851	20,482	50	57
13. Non-Covered Letters of Credit	22,644	46,373	4,791	21	10
14. Irrevocable Loan based Commitments	116	15	556	479	3,707
15. Other Potential Commitments	917	609	7,358	802	1,208
<b>16. TOTAL OFF-BALANCE SHEET ITEMS:</b>	<b>115,799</b>	<b>141,617</b>	<b>87,175</b>	<b>75</b>	<b>62</b>
17. General Loan Risk and Potential Loan Loss (no.16 X % loss)	3	5,179	4,972	165,733	96
18. Already Separated General Reserves (A) and Special Reserves (B, C, D, E)	0	6,801	4,762	0	70
19. Balance 18.-17.	-3	1,622	-210	7,000	-13
<b>20. TOTAL BALANCE SHEET &amp; OFF-BALANCE SHEET ITEMS (8 + 13)</b>	<b>505,578</b>	<b>575,933</b>	<b>540,617</b>	<b>107</b>	<b>94</b>
21. General Loan Risk and Potential Loan Loss (no. 20 X % loss)	64,549	57,281	72,344	112	126
22. Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	77,530	59,813	65,203	84	109
23. OVERAGE of Separated Reserves (+)(amount) (no.22. - no.21.)	17,647	3,929	432	2	11
SHORTAGE of Separated Reserves (-)(amount) (no.21. - no.22.)	4,666	1,397	7,573	162	542
<b>NON-CLASSIFIED ACTIVE ASSETS</b>	<b>220,450</b>	<b>227,399</b>	<b>319,436</b>	<b>145</b>	<b>140</b>

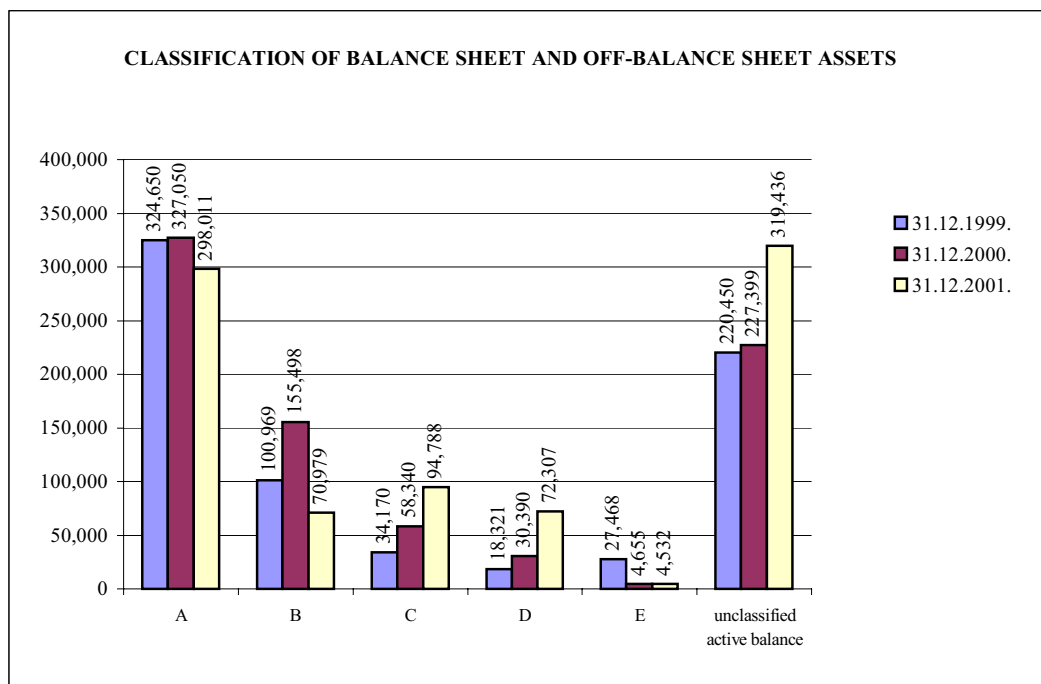
Total classified assets as of December 31, 2001 amounted to KM 540.6 million, which means that it decreased by 6% compared to the previous year. Out of the total, balance sheet assets amounted to KM 453.4 million and off-balance sheet assets amounted to KM 87 million showing a decrease by 38% compared to the previous year.

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

The following table shows classified balance sheet assets and off-balance sheet assets as of December 31, 2001:

000KM

BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS	A	B	C	D	E	TOTAL
1. Short-term Loans	133,847	22,316	19,133	14,719	779	190,794
2. Long-Term Loans	53,313	17,917	20,722	18,550	0	110,502
3. Other Placements	5,355	172	1,460	216	3	7,206
4. Accrued Interest	3,488	4,870	11,258	14,949	462	35,027
5. Receivables Due	5,442	16,716	31,992	20,292	1,666	76,108
6. Paid Guarantee based Receivables	736	576	4,266	1,731	131	7,440
7. Other Assets	23,483	2,274	193	414	1	26,365
8. TOTAL BALANCE SHEET ASSET ITEMS:	225,664	64,841	89,024	70,871	3,042	453,442
9. General Loan Risk and Potential Loan Loss (no. 8 X % loss)	4,614	4,275	21,558	33,883	3,042	67,372
10. Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	4,696	2,823	16,136	33,874	2,912	60,441
11. Balance 10.-9	82	-1,452	-5,422	-9	-130	-6,931
12.a) Payable Guarantees	44,193	4,681	2,597	1,027	1,490	53,988
b) Performance Guarantees	15,717	1,405	3,167	193	0	20,482
13. Non-Covered Letters of Credit	4,523	52	0	216	0	4,791
14. Irrevocable Loan based Commitments	556	0	0	0	0	556
15. Other Potential Commitments	7,358	0	0	0	0	7,358
16. TOTAL OFF-BALANCE SHEET ITEMS:	72,347	6,138	5,764	1,436	1,490	87,175
17. General Loan Risk and Potential Loan Loss (no.16 X % loss)	1,296	360	1,117	709	1,490	4,972
18. Already Separated General Reserves (A) and Special Reserves (B, C, D, E)	1,320	126	1,117	709	1,490	4,762
19. Balance 18.-17.	24	-234	0	0	0	-210
20. TOTAL BALANCE SHEET AND OFF-BALANCE SHEET ITEMS	298,011	70,979	94,788	72,307	4,532	540,617
21. General Loan Risk and Potential Loan Loss (no. 20 X % loss)	5,910	4,635	22,675	34,592	4,532	72,344
22. Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	6,016	2,949	17,253	34,583	4,402	65,203
23. OVERAGE of Separated Reserves (+)(amount) (no.22. - no.21.)	384	0	32	16	0	432
SHORTAGE of Separated Reserves (-)(amount) (no.21. - no.22.)	278	1,686	5,454	25	130	7,573
NON-CLASSIFIED ACTIVE ASSETS						319,436



in 000 KM

Classification Category	31.12.1999	%	31.12.2000	%	31.12.2001	%	INDEX 2001/1999	INDEX 2001/2000
A	324,650	44.7	327,050	40.7	298,011	34.7	92	91
B	100,969	13.9	155,498	19.4	70,979	8.3	70	46
C	34,170	4.7	58,340	7.3	94,788	11.0	277	162
D	18,321	2.5	30,390	3.8	72,307	8.4	395	238
E	27,468	3.8	4,655	0.6	4,532	0.5	16	97
Non-classified active balance sheet	220,450	30.4	227,399	28.3	319,436	37.1	145	140
<b>TOTAL:</b>	<b>726,028</b>	<b>100.0</b>	<b>803,332</b>	<b>100.0</b>	<b>860,053</b>	<b>100.0</b>	<b>118</b>	<b>107</b>
Required potential loan loss general reserves (A)	6,465		6,540		5,910		91	90
Already established general reserve (A)	6,153		6,372		6,016		98	94
<b>Balance for A:</b>	<b>- 312</b>		<b>- 168</b>		<b>106</b>			
Required special reserves for potential loan loss (B-E)	58,084		50,741		66,434		114	131
Already separated special reserves (B-E)	71,377		53,441		59,187		83	111
<b>Balance for (B-E):</b>	<b>13,293</b>		<b>2,700</b>		<b>-7,247</b>			

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

Category “A”, amounting to 34.7%, represented the largest risk group within the classified assets as of December 31, 2001, but, taking into consideration asset quality itself, it is better to have a higher percentage of this asset category.

Receivables classified as category “C” increased by 62%, and the largest increase within that category was based on balance sheet asset items – short and long-term loans.

The increase of high-risk receivables, classified as “D” and amounting to 138%, represents a special concern. The largest increase within this risk category is seen with short-term loans and receivables related to guaranties paid.

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

In the year 2001 the risk category “E” decreased by 3% compared to the previous year-end.

It should be pointed out that general and special reserves already separated for potential loan losses did not reach the required level, especially taking into consideration assessments made by Agency examiners during on-site examinations, who apply stricter assessment rules than banks themselves. As of December 31, 2001, total reserves separated by banks for assets classified in risk categories “B” – “E” amounted to KM 72.3 million, while the actual amount separated was KM 65.2 million, indicating that the RS banks had not established required reserves for potential losses.

#### Classification based on Enterprises’ Property

Classification Category	State Enterprises		Private Companies		-in 000KM -
					TOTAL
A	78,704	219,307	298,011		
B	37,042	33,937	70,979		
C	46,481	48,307	94,788		
D	43,550	28,757	72,307		
E	1,769	2,763	4,532		
<b>TOTAL:</b>	<b>207,546</b>	<b>333,071</b>	<b>540,617</b>		

- **Loans**

Sector breakdown of the RS banks' total loans is shown below:

000 KM

DESCRIPTION/PERIOD	31.12.1999	%	31.12.2000	%	31.12.2001	%	INDEX 2001/1999	INDEX 2001/2000
1. Government Institutions	1,157	0.39	8,177	2.38	2,111	0.56	182	26
2. Public and State Enterprises	14,996	5.10	165,511	48.08	104,428	27.69	696	63
3. Private Enterprises and Associations	252,903	86.09	144,629	42.02	217,211	57.60	86	150
4. Non-Profit Organizations	428	0.15	2	0.00	273	0.07	64	13,650
5. Banking Institutions	962	0.33	936	0.27	8,197	2.17	852	876
6. Non-Banking Financial Institutions	853	0.29	0	0.00	5,561	1.47	652	0
7. Citizens	10,056	3.42	16,352	4.75	23,686	6.28	236	145
8. Other	12,413	4.23	8,617	2.50	15,640	4.15	126	182
<b>9.TOTAL:</b>	<b>293,768</b>	<b>100.00</b>	<b>344,224</b>	<b>100.00</b>	<b>377,107</b>	<b>100.00</b>	<b>128</b>	<b>110</b>

Sector breakdown of the total loans related to majority ownership in banks, i.e. majority state owned and majority privately owned capital in banks can be seen from the following table:

No.	DESCRIPTION/PERIOD	31.12.2001					
		State Banks	%	Private Banks	%	TOTAL	%
1.	Government Institutions	489	0.24	1,622	0.96	2,111	0.56
2.	Public and State Enterprises	80,974	39.05	23,454	13.82	104,428	27.69
3.	Private Enterprises and Associations	105,008	50.65	112,203	66.09	217,211	57.60
4.	Non-Profit Organizations	273	0.13	0	0.00	273	0.07
5.	Banking Institutions	50	0.02	8,147	4.80	8,197	2.17
6.	Non-Banking Financial Institutions	0	0.00	5,561	3.28	5,561	1.47
7.	Citizens	9,148	4.41	14,538	8.56	23,686	6.28
8.	Other	11,396	5.50	4,244	2.50	15,640	4.15
9.	<b>TOTAL:</b>	<b>207,338</b>	<b>100.00</b>	<b>169,769</b>	<b>100.00</b>	<b>377,107</b>	<b>100.00</b>

In the course of the year 2001 the structure of loans changed, i.e. loans to private enterprises significantly increased, and, on the other hand, loans to public-state owned enterprises significantly decreased due to removal of loans classified as "E" category.

It should be pointed out, however, that receivables due increased and amounted to KM 76.5 million as of December 31, 2001. The amount was higher by 135% compared to the previous year-end. This increase of receivables due resulted from aggravated conditions for collection and a high level of risk exposure of placements. Amounts and composition of receivables due can be seen in the following table:

No	DESCRIPTION/PERIOD	31.12.2000			%	31.12.2001			%	INDEX 2001/ 2000
		State	Private	Total		State	Private	Total		
1.	Government Institutions	0	0	0	0.00	489	1,663	2,105	2.17	0
2.	Public and State Enterprises	19,301	73	19,374	59.55	27,721	4,341	32,062	41.89	165
3.	Private Enterprises and Associations	10,311	935	11,246	34.57	29,605	10,948	40,553	52.98	361
4.	Non-Profit Organizations	0	0	0	0.00	0	0	0	0.00	0
5.	Banking Institutions	0	0	0	0.00	0	0	0	0.00	0
6.	Non-Banking Financial Institutions	0	0	0	0.00	0	0	0	0.00	0
7.	Citizens	75	60	135	0.41	26	330	356	0.47	264
8.	Other	222	1,555	1,777	5.46	1,912	0	1,912	2.50	108
9.	<b>TOTAL</b>	<b>29,909</b>	<b>2,623</b>	<b>32,532</b>	<b>100.00</b>	<b>59,753</b>	<b>16,793</b>	<b>76,546</b>	<b>100.00</b>	<b>235</b>

Total receivables due increased by 135%, while individually receivables due from state enterprises increased by 65%, from citizens by 164%, and from private companies by a rate of 261%, which is of concern.

Attention should be paid to an unfavorable loan maturity structure as shown below:

No	DESCRIPTION/PERIOD	31.12.2001				TOTAL
		Short Term < 1 year	Long Term > 1 year	Due Receivables	Removed Off-Balance Sheet Items	
1.	Government Institutions	0	6	1,663	442	2,111
2.	Public and State Enterprises	49,721	22,523	32,062	122	104,428
3.	Private Enterprises and Associations	110,062	62,365	40,553	4,231	217,211
4.	Non-Profit Organizations	273	0	0	0	273
5.	Banking Institutions	4,122	4,075	0	0	8,197
6.	Non-Banking Financial Institutions	4,352	1,209	0	0	5,561
7.	Citizens	5,473	17,857	356	0	23,686
8.	Other	13,122	606	1,912	0	15,640
9.	<b>TOTAL:</b>	<b>187,125</b>	<b>108,641</b>	<b>76,546</b>	<b>4,795</b>	<b>377,107</b>

Loans to citizens represented the total of both long and short-term loans and proved once again to be the category of loans with the lowest risk, unfortunately in an amount still too small.

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

DESCRIPTION	Loans Extended				Loan Loss Reserves			
	31.12.2000		31.12.2001		31.12.2000		31.12.2001	
	Amount	%	Amount	%	Amount	%	Amount	%
State Banks	275,382	80.00	207,338	54.98	29,930	80.20	29,714	68.34
Private Banks	68,842	20.00	169,769	45.02	7,390	19.80	13,764	31.66
<b>TOTAL</b>	<b>344,224</b>	<b>100.00</b>	<b>377,107</b>	<b>100.00</b>	<b>37,320</b>	<b>100.00</b>	<b>43,478</b>	<b>100.00</b>

State owned banks decreased their amount of loans by 24.8%, and their amount of loan loss reserves by 0.7%. On the other hand private banks increased their loans by 246%, and loan loss reserves by 186.2%.

### Transactions with Related Persons

In their operation banks were exposed to various types of risks among which, the most important one was the risk in lending to related persons. Unless well controlled, lending to employees, shareholders, and managing bodies' members, may create considerable problems and especially abuses.

The Agency Decision stipulates that the total amount of transactions to related persons shall not exceed 10% of the total amount of the bank's core capital, while transactions to an individual shall not exceed 1% of the bank's core capital.

#### Loans Extended to Related Persons

In 000 KM

BANKS	Extended Loans				Total Loans	Off-Balance Sheet Liabilities	GRAND TOTAL
	Shareholders with over 5% voting rights	Managing Board Members	Bank Management	Employees			
1	2	3	4	5	6=2+3+4+5	7	8=6+7
State	1,327	86	209	2,868	4,490	135	4,625
Private	4,388	877	302	808	6,375	4,713	11,088
<b>TOTAL:</b>	<b>5,715</b>	<b>963</b>	<b>511</b>	<b>3,676</b>	<b>10,865</b>	<b>4,848</b>	<b>15,713</b>

As of December 31, 2001 two banks did not comply with the Decision.

### 3.3. Income Statement

In the year 2001 banks' total income amounted to KM 134.9 million, and total expense amounted to KM 138.1 million. Profit before taxes amounted to KM 6.2 million, while generated loss amounted to KM 9.5 million.

Income Statement amounts and composition can be seen from the following table:

DESCRIPTION/PERIOD	31.12.2000			%	31.12.2001			%	INDEX 2001/2000
	State	Private	Total		State	Private	Total		
1. INTEREST INCOME AND SIMILAR INCOME									
a) Interest Income and Similar Income	45,181	9,588	54,769	41.20	36,638	20,583	57,221	42.41	104
b) Operating Income	61,402	16,754	78,156	58.80	36,287	41,402	77,689	57.59	99
2. TOTAL INCOME (1.a + 1.b)	106,583	26,342	132,925	100.00	72,925	61,985	134,910	100.00	101
3. EXPENSE									
a) Interest Expense and Similar Expense	8,474	2,068	10,542	7.76	7,484	3,608	11,092	8.03	105
b) Business Operation and Direct Expense	33,986	7,988	41,974	30.91	19,284	25,266	44,550	32.24	106
c) Operating Expense	68,729	14,557	83,286	61.33	46,966	35,580	82,546	59.73	99
4. TOTAL EXPENSE (3.a + 3.b + 3.c)	111,189	24,613	135,802	100.00	73,734	64,454	138,188	100.00	102
5. PROFIT BEFORE TAX	1,464	2,074	3,538		949	5,300	6,249		177
6. LOSS	6,070	345	6,415		1,759	7,769	9,528		149
7. TAXES	220	104	324		117	404	521		161
8. NET-PROFIT	1,244	1,970	3,214		832	4,896	5,728		178

In the year 2001 twelve banks had a positive financial result shown in an amount of KM 6.2 million, and four banks generated loss in an amount of KM 9.5 million.

Out of total interest income as of December 31, 2001, state owned banks generated KM 72.9 million or 54.0%, and private banks generated KM 61.9 million or 46.0%.

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

Out of total expense as of December 31, 2001 amounting to KM 138.1 million, interest and similar expense amounted to KM 11.0 million or 8.0%. Out of that, expense for deposit interest amounted to KM 1.4 million.

Out of operating expense in the year 2001 an amount of KM 36.5 million was related to expense for general and special reserves for loan and other losses.

Operating expense of banks was very large (KM 82.5 million or 59.7% of total banks' income) and related to salary and contribution costs (KM 31.2 million), premises and other fixed assets cost (KM 32.1 million), and other operating cost (KM 19.2 million).

It is a fact, however, that the RS banking sector (both state and private banks) is not able to fund its operating expense from its interest income, since as of December 31, 2001 operating expense was larger than interest income by KM 25.3 million.

In the year 2001 RS banks generated losses amounting KM 9.5 million. State banks' loss was KM 1.7 million, and private banks' KM 7.8 million.

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



### Earning Ratios

in 000 KM

DESCRIPTION/PERIOD		31.12.1999	31.12.2000	31.12.2001
1.	Total Income/	205,161	132,925	134,910
	Total Assets	604,753	651,212	772,202
	%	<b>33.92</b>	<b>20.41</b>	<b>17.47</b>
2.	Total Income /	205,161	132,925	134,910
	Total Capital	177,557	200,993	214,880
	%	<b>115.55</b>	<b>66.13</b>	<b>62.78</b>
3.	Total Expense/	196,534	135,802	138,188
	Total Assets	604,753	651,212	772,202
	%	<b>32.50</b>	<b>20.85</b>	<b>17.90</b>
4.	Interest Income/	72,426	54,769	57,221
	Total Assets	604,753	651,212	772,202
	%	<b>11.98</b>	<b>8.41</b>	<b>7.41</b>
5.	Interest Income/	30,122	10,542	11,092
	Total Assets	604,753	651,212	772,202
	%	<b>4.98</b>	<b>1.62</b>	<b>1.44</b>
6.	Net Interest Income /	42,304	44,227	46,129
	Total Assets	604,753	651,212	772,202
	%	<b>7.00</b>	<b>6.79</b>	<b>5.97</b>
7.	Net Interest Expense/	42,304	44,227	46,129
	Total Capital	177,557	200,993	214,880
	%	<b>23.83</b>	<b>22.00</b>	<b>21.47</b>
8.	Fees/	15,151	20,866	34,231
	Total Assets	604,753	651,212	772,202
	%	<b>2.51</b>	<b>3.20</b>	<b>4.43</b>
9.	Material Expense and Gross Earnings/	129,605	83,286	82,546
	Total Assets	604,753	651,212	772,202
	%	21.43	12.79	10.69
10.	Non-Interest Expense/	166,412	125,260	127,096
	Total Assets	604,753	651,212	772,202
	%	27.52	19.23	16.46
11.	Profit before Taxes/	10,761	3,538	6,249
	Total Assets	604,753	651,212	772,202
	%	<b>1.78</b>	<b>0.54</b>	<b>0.81</b>

What is immediately noticed is that all relative indicators of profitability were unsatisfactory in 2001. Also, it should be noted that the total loss would have been even larger if all banks had implemented the Decision on Minimum Standards for Banks' Loan Risk Management and Asset Classification and had separated loan loss reserves debiting expenses in amounts equal to assessed loan loss. That would have given more realistic financial result, and shown even more negative banks' condition in the banks' income statement.

At the end, it can be concluded that the RS banks' profitability is poor with a tendency of deterioration.

## INTERNAL PAYMENT OPERATION

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

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

In the fourth quarter of 2001 three branch offices of banks from Federation of Bosnia and Herzegovina were granted licenses for internal payment transactions in Republika Srpska.

The payment system of Republika Srpska included fifteen commercial banks, one branch office of a foreign bank and three branch offices of banks from Federation BH.

By the end of 2001 banks opened 52,934 transaction accounts out of which 38,523 accounts were opened in state-owned banks, and 14,411 accounts in private banks.

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

DATE	LOW RISK LEVEL				MEDIUM RISK LEVEL			
	Number of transactions		Amount of transactions		Number of transactions		Amount of transactions	
	Debit of account	Credit of account	Debit of account	Credit of account	Debit of account	Credit of account	Debit of account	Credit of account
31.01.2001	94,077	116,224	323,121	351,794	86,175	89,705	133,030	130,639
28.02.2001	392,482	440,132	860,015	879,607	283,450	299,356	320,203	282,875
31.03.2001	447,533	506,218	1,475,257	1,497,736	294,358	317,606	371,308	339,457
30.04.2001	400,936	462,604	1,557,656	1,563,702	290,450	316,105	351,610	336,767
31.05.2001	424,333	488,674	2,068,889	2,115,612	315,194	329,708	419,869	385,301
30.06.2001	504,372	583,742	2,802,231	2,792,213	283,523	286,905	355,117	350,309
31.07.2001	522,988	654,807	2,599,126	2,604,933	345,637	355,032	386,095	353,453
31.08.2001	316,048	367,708	2,474,918	2,449,350	347,853	343,935	390,439	347,851
30.09.2001	346,713	357,644	1,722,056	1,739,352	318,985	309,905	324,075	299,190
31.10.2001	352,692	366,838	1,440,667	1,466,541	363,297	356,778	418,183	371,075
30.11.2001	319,043	334,589	1,268,584	1,297,465	331,236	323,617	367,864	354,932
31.12.2001	359,686	375,797	1,374,593	1,421,764	381,457	351,941	412,377	397,154
<b>TOTAL:</b>	<b>4,480,903</b>	<b>5,054,977</b>	<b>19,967,113</b>	<b>20,180,069</b>	<b>3,641,615</b>	<b>3,680,593</b>	<b>4,250,170</b>	<b>3,949,003</b>

It can be seen that transactions increased from month to month both in number and in amounts. The following table gives a survey of internal payment operations in both state-owned and private banks:

	LOW RISK LEVEL				MEDIUM RISK LEVEL			
	Number of transactions		Amount of transactions		Number of transactions		Amount of transactions	
	Debit of account	Credit of account	Debit of account	Credit of account	Debit of account	Credit of account	Debit of account	Credit of account
State banks	4,057,411	4,556,426	17,195,973	17,233,388	1,947,909	2,606,442	2,466,868	2,340,594
Private banks	423,492	498,551	2,771,140	2,946,681	1,693,706	1,074,151	1,783,302	1,608,409
<b>TOTAL:</b>	<b>4,480,903</b>	<b>5,054,977</b>	<b>19,967,113</b>	<b>20,180,069</b>	<b>3,641,615</b>	<b>3,680,593</b>	<b>4,250,170</b>	<b>3,949,003</b>

By the end of the year 2001 the Agency examined the performance of internal payment operation in a few main banks involved in internal payment operation in Republika Srpska and discovered that problems and difficulties were mostly due to incorrectly filled-in payment orders, inadequate equipment for budget revenue transfer, and especially due to delayed issuance of technical instructions i.e. internal payment operation instructions.

Taking into consideration the speed by which the Law on Transfer of Internal Payment Operation to Commercial Banks was prepared, and delay in issuing regulation related to the Law, and poor preparedness and equipment of banks, it could be stated that internal payment operation was well introduced and banks satisfactorily met their clients' needs related to payment operations.

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

## 5. CONCLUSION

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

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

- *Balance sheet assets amounted to KM 772.2 million and increased by 19% compared to the previous year, but are still insufficient to support economic development.*
- *Off-balance sheet assets, related to guarantees and letters of credit, amounted to KM 169.6 million, and decreased by 22% compared to the previous year, but are still too large in relation to balance sheet assets.*
- *Citizens' savings were still at a low level (KM 106.9 million).*
- *Receivables due amount increased by 135% compared to the previous year, and amounted to KM 76.5 million.*
- *A large amount and further increase of litigated receivables indicated inefficiency of the courts' operation.*
- *Loans increased by 10%, although at the same time the total assets increased by 19%, indicating an increased cautiousness in lending.*
- *Cash funds increased by 67% compared to the previous year, which resulted from transferring internal payment operations into commercial banks, from founding capital paid for a newly established bank, and, especially, because of conversion of German marks to Euros.*
- *Separated general and special reserves for loan loss did not meet the required level, which realistically diminishes the reported banks' operating results.*
- *The total capital amounted KM 214.8 million, and it was larger by 7% than at the end of the previous year.*
- *Capital share in liabilities was 25.7%, and deposit share was 54.7%, which was larger compared to the previous year. The liability composition, however, was still unsatisfactory.*
- *Banks' profitability was still poor and 4 banks reported losses, while 12 banks had positive operating results. If the legally required reserves had been separated the banks' profitability would have been even poorer.*

- *Such a poor profitability was caused, among other things, by a large number of banks' employees, especially in state-owned banks.*
- *Privatization of banks cannot be considered successful since only two state-owned banks were privatized in the course of the year.*
- *Responsibility for a bank's operation is vested primarily with the bank managing bodies and its management who run the bank, as defined by the Law on Banks and Decisions issued by the Agency.*

*Based on the above shown indicators it is important for the Agency to prioritize the following tasks:*

- *First of all, strengthen supervision over problem banks to remove weaknesses noticed implementing all measures stipulated by the law in order to protect banks' depositors;*
- *Finalize provisional administration processes started in the above mentioned banks;*
- *Perform targeted examinations in such banks where significant noncompliance was noted in individual segments of operation;*
- *In co-operation with the Central Bank of Bosnia and Herzegovina, Ministry of Finance of Republika Srpska, and other institutions working on additional legal regulation defining internal payment operation and financial discipline, speed up drafting of the law;*
- *Continue education and training of the Agency staff with the emphasis on implementation of the Basle Principles for Bank Supervision.*

*It is important for the banks to perform the following activities in order to develop a more efficient and higher quality banking system:*

- *To implement legal regulation in their business operation;*
- *To improve the managing of their business operation and individual bank management;*
- *To prepare realistic development and business operation plans;*
- *To develop programs to resolve overstaffing and urgent programs to reduce operating expenses;*
- *To improve bank internal controls;*
- *To strengthen and improve their staff qualification structure;*
- *To improve essentially activities of the RS Bank Association and to resolve key banking issues through this institution with assistance of the Banking Agency of Republika Srpska;*
- *To cooperate strongly on establishing the Bank Account Central Register.*

*Based on the above lists of tasks to be performed by the RS Banking Agency and RS banks it is necessary that RS Government and National Assembly continue with the process of improving banking sector through their institutions (Ministry of Finance, Courts) and especially the following:*

- *To activate deposit insurance in banks and legally regulate the issue of frozen foreign currency savings;*
- *To insist on larger responsibility (work results) of bank management, especially in state-owned banks;*
- *To establish economic courts, which should speed up the process of collecting problem receivables, and improve the process of foreclosure of payment security (mortgage, lien, etc.);*
- *To complete legal regulation providing for more efficient financial discipline (The Law on Foreign Currency Operations; The Decision on the Maximum Available Cash Funds; etc.).*

## ATTACHMENTS

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

**LIST OF BANKS  
as of 31.12.2001**

R/B	BANKS	LOCATION	ADDRESS	GENERAL MANAGER	PHONE	FAX	31.12.2001 (000KM)		NUMBER OF EMPLOYEES
							ASSETS	CAPITAL	
1.	Banjalučka banka a.d.	Banja Luka	M.Bursać 7	Acting Momčilo Poparić	051/212-140	212-830	95,375	31,494	613
2.	Agroprom banka a.d.	Banja Luka	Knjaza Miloša 19	Acting Manojlo Avdalović	051/303-611	314-181	25,994	12,769	71
3.	Privredna banka a.d.	Gradiška	Vidovdanska bb	PA Jela Radišić	051/813-333	813-205	7,461	1,883	87
4.	Kristal banka a.d.	Banja Luka	I.F.Jukića 9	Acting Slavica Milikić	051/212-930	212-878	132,609	27,416	390
5.	Privredna banka a.d. Doboj	Doboj	Svetog Save 1	Acting Rodoljub Milovanović	053/241-544	241-662	26,099	14,026	162
6.	Razvojna banka a.d.	Banja Luka	Bana Milosavljevića 4	Acting Ranko Travar	051/212-012	217-575	134,957	13,669	505
7.	VB banka a.d.	Banja Luka	K.Petra Karadordevića 103	Radovan Bajić	051/212-678	212-078	47,764	14,355	44
8.	Privredna banka a.d. Brčko	Brčko	M.Aganovića 2	Nada Pavlović	049/204-222	204-055	6,070	1,666	39
9.	Nova banka a.d.	Bijeljina	Svetog Save 46	Milorad Andžić	054/471-094	401-410	57,260	12,400	142
10.	Privredna banka a.d. Sarajevo	Pale	Dobroslava Jevtića 14	Dragan Popović	057/786-809	786-805	34,921	12,667	317
11.	Ekvator banka a.d.	Banja Luka	M.Bursać 2	PA Savo Ševaljević	051/217-920	211-757	15,190	31	13
12.	Bobar banka a.d.	Bijeljina	Filipa Višvića 211	Dragan Radumilo	054/472-490	472-898	15,841	10,434	38
13.	Zepter komerc b. a.d.	Banja Luka	Braće Mažar 68	Acting Đuro Beronja	051/215-755	215-771	74,911	12,176	99
14.	Balkan Investment a.d.	Banja Luka	Krajiških brigada 2	Salilus Zostautas	051/216-285	211-445	50,125	9,858	27
15.	BSEI	Banja Luka	Jevrejska 1	Miće Vračar	051/218-200	218-984	23,452	10,574	17
16.	Pavlović International Bank a.d.	Slobomir, Bijeljina	Pavlovića Most	Milenko Mihajlović	055/471-588	472-247	24,173	13,573	141
	<b>TOTAL:</b>						<b>772,202</b>	<b>198,991</b>	<b>2,705</b>



## BANKS' ACTIVE BALANCE SHEET

- in 000 KM -

DESCRIPTION/PERIOD	31.12.99	%	31.12.00	%	31.12.01	%	INDEX 2001/ 1999	INDEX 2001/ 1999
1. Cash funds and deposit accounts at depository institutions (1.a.+1.b.)	146,901	24.29	126,893	19.49	211,364	27.37	144	167
1.1. Cash and non-interest bearing deposit accounts	118,241	19.55	74,833	11.49	143,266	18.55	121	191
1.2. Interest-bearing deposit accounts	28,660	4.74	52,060	7.99	68,098	8.82	238	131
2. Trading Securities	0	0.00	0	0.00	1,142	0.15	0	0
3. Placements to other banks	5,100	0.84	3,796	0.58	5,334	0.69	105	141
4. Loans, leasing and receivables due (4.a.+4.b.+4.c.)	293,768	48.58	344,224	52.86	377,107	48.84	128	110
4.a. Loans	273,213	45.18	311,368	47.81	290,481	37.62	106	93
4.b. Leasing receivables	0	0.00	324	0.05	5,285	0.68	0	1,631
4.c. Loan and leasing receivables due	20,555	3.40	32,532	5.00	81,341	10.53	396	250
5. Securities held up to maturity	3,102	0.51	1,413	0.22	4	0.00	0	0
6. Office space and other fixed assets	98,447	16.28	118,768	18.24	123,379	15.98	125	104
7. Other immovables	1,172	0.19	2,002	0.31	1,228	0.16	105	61
8. Investments in non-consolidated related companies	1,896	0.31	3,927	0.60	4,190	0.54	221	107
9. Other assets (9b)	54,367	8.99	50,189	7.71	48,454	6.27	89	97
<b>TOTAL (1 to 9)</b>	<b>604,753</b>	<b>100.00</b>	<b>651,212</b>	<b>100.00</b>	<b>772,202</b>	<b>100.00</b>	<b>128</b>	<b>119</b>
10. MINUS: Reserves for potential losses (10.a.+10.b.+10.c.)	77,531		53,011		60,441		78	114
<b>11. TOTAL ASSETS: (1.to 9.-10.)</b>	<b>527,222</b>		<b>598,201</b>		<b>711,761</b>		<b>135</b>	<b>119</b>
11.1 Total off-balance sheet items								
11.a. Active off-balance sheet items	116,801		152,120		87,851		75	58
11.b. Classified assets – loss E	0		31,893		42,401		0	133
11.c. Commissioned (agent) services	4,475		34,619		39,387		880	114
<b>TOTAL ASSETS (11.+11.1)</b>	<b>648,498</b>		<b>816,833</b>		<b>881,400</b>		<b>136</b>	<b>108</b>
12. Deposits (12.a.+12.b.)	269,223		330,611		422,632		157	128
12.a. Interest-bearing deposits	114,094		185,360		297,426		261	160
12.b. Non-interest bearing deposits	155,129		145,251		125,206		81	86
13. Borrowings – obligations due (13.a.+13.b.)	3		57		14		467	25
13.a. Obligations due, not paid	3		57		14		467	25
13.b. Off-balance sheet obligations not paid-called for repayment	0		0		0		0	0
14. Borrowings from other banks	5,527		2,217		1,830		33	83
15. Obligations to Government	522		179		2,039		391	1,139
16. Obligations based on loans and other borrowings (16.a.+16.b.)	58,783		47,273		23,935		41	51
16.a. remaining maturity up to one year	35,735		30,230		11,219		31	37
16.b. remaining maturity over one year	23,048		17,043		12,716		55	75
17. Subordinated debt and subordinated bonds	0		0		0		0	0
18. Reserve to cover off-balance sheet items (18.b.+18.c.)	0		6,801		4,763		0	70
Other obligations (18.d.)	25,518		24,940		57,557		226	231
<b>19. TOTAL LIABILITIES (12 to 18)</b>	<b>359,576</b>		<b>412,078</b>		<b>512,770</b>		<b>143</b>	<b>124</b>
20. Permanent preferred shares	27		31		0		0	0
21. Regular shares	123,210		142,723		168,223		137	118
22. Premium (22.a. +22.b)	0		0		0		0	0
22.a. on permanent preferred shares	0		0		0		0	0
22.b. on regular shares	0		0		0		0	0
23. Undistributed profit and capital reserves	8,197		8,313		5,742		70	69
24. Capital reserves	39,968		43,554		34,899		87	80
25. Other capital	-3,756		-8,498		-9,873		263	116
<b>26. TOTAL CAPITAL: (20. To 25.)</b>	<b>167,646</b>		<b>186,123</b>		<b>198,991</b>		<b>119</b>	<b>107</b>
<b>27. TOTAL LIABILITIES AND CAPITAL: (19. + 26.)</b>	<b>527,222</b>		<b>598,201</b>		<b>711,761</b>		<b>135</b>	<b>119</b>
28.1. Total off-balance								
28.a. Active off-balance sheet	116,801		152,120		87,851		75	58
28.b. Classified assets – loss E	0		31,893		42,401		0	133
28.c. Commissioned (agent) services	4,475		34,619		39,387		880	114
<b>TOTAL LIABILITIES (27.+28.a)</b>	<b>648,498</b>		<b>816,833</b>		<b>881,400</b>		<b>136</b>	<b>108</b>

## BANKS' CAPITAL STATEMENT

in 000 KM

DESCRIPTION/PERIOD	31.12.1999	31.12.2000	31.12.2001	INDEX 2001/ 1999	INDEX 2001/ 2000
<b>1. CORE CAPITAL OF BANKS</b>					
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:	109,166	136,301	164,628	151	121
1.2. Equity capital based on nominal amounts of regular and preferred non-cumulative shares issued against immovables and rights invested into shareholders' capital:	13,952	6,453	3,595	26	56
1.3. Premiums collected for share payments:	0	0	0	0	0
1.4. General reserves required (reserves required by the law):	26,339	30,834	25,398	96	82
1.5. Other reserves which are not taken into account when rating asset quality:	14,282	15,341	9,498	67	62
1.6. Retained – undistributed profit from previous years:	2,119	3,418	17	1	0
<b>1. AMOUNT OF CORE CAPITAL:</b>	<b>165,858</b>	<b>192,347</b>	<b>203,136</b>	<b>122</b>	<b>106</b>
<b>2. ADDITIONAL CAPITAL OF BANKS</b>					
2.1. Equity capital based on nominal amounts of permanent preferred cumulative shares issued against cash fund payments into shareholders' capital:	0	0	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	0	0
2.3. General reserves for loan loss coverage for bank's assets rated as category A – Pass:	6,153	6,372	6,016	98	94
2.4. Accrued profit in the current year:	5,546	2,274	5,716	103	251
2.5. Amount of profit for which BA-RS issued Decision on Temporary Suspension of Distribution:	0	0	12	0	0
2.6. Amount of subordinated debt maximum 50% of amount of Core Capital:	0	0	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	0	0
2.8. Amount of items-commitments of a permanent character without obligation to be repaid:	0	0	0	0	0
<b>2. AMOUNT OF ADDITIONAL CAPITAL:</b>	<b>11,699</b>	<b>8,646</b>	<b>11,744</b>	<b>100</b>	<b>136</b>
<b>3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL</b>					
3.1. Portion of general credit risk and potential loan losses for which bank has not established General and Special reserves for loan losses:	4,666	1,395	7,573	162	543
3.2. Uncovered losses carried over from previous years:	1,608	2,083	345	21	17
3.3. Current Year Loss:	2,148	6,415	9,528	444	149
3.4. Bookkeeping value of bank's owned (vault) shares:	0	0	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	0	0
3.6. Part of invested shareholders' capital, which represents, according to BA-RS, received, but overstated value:	0	0	0	0	0
3.7. Intangible property: patents, licenses, concession, investments in: marketing, commercial name, trade mark, goodwill and similar:	0	0	0	0	0
3.8. Bank's investments in capital of other legal entities exceeding 5% of the bank's core capital:	1,256	1,727	1,458	116	84
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	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	0	0
<b>4. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL:</b>	<b>9,678</b>	<b>11,620</b>	<b>18,904</b>	<b>195</b>	<b>163</b>
<b>A. ITEMS OFF-SETTING FROM BANK'S CAPITAL:</b>					
<b>1. AMOUNT OF BANK'S CORE CAPITAL</b>	<b>165,858</b>	<b>192,347</b>	<b>203,136</b>	<b>122</b>	<b>106</b>
<b>2. AMOUNT OF BANK'S ADDITIONAL CAPITAL</b>	<b>11,699</b>	<b>8,646</b>	<b>11,744</b>	<b>100</b>	<b>136</b>
<b>3. AMOUNT OF BANK'S ITEMS OFF-SETTING FROM THE CAPITAL</b>	<b>9,678</b>	<b>11,620</b>	<b>18,904</b>	<b>195</b>	<b>163</b>
<b>4. AMOUNT OF BANK'S NET-CAPITAL (1. + 2. - 3.)</b>	<b>167,879</b>	<b>189,373</b>	<b>195,976</b>	<b>117</b>	<b>103</b>
<b>B. RISK WEIGHTED ASSETS AND LOAN EQUIVALENTS</b>	<b>459,951</b>	<b>532,104</b>	<b>522,142</b>	<b>114</b>	<b>98</b>
<b>C. NET CAPITAL RATE</b>	<b>36.5</b>	<b>35.6</b>	<b>37.5</b>	<b>103</b>	<b>105</b>

INCOME STATEMENT

in 000 KM

DESCRIPTION/PERIOD	31.12.1999	%	31.12.2000	%	31.12.2001	%	INDEX 2001/ 1999	INDEX 2001/ 2000
<b>1. INTEREST INCOME AND EXPENSE</b>								
<b>a) Interest income and similar income</b>								
1) Interest bearing deposit accounts at depository institutions	13,281	18.34	803	1.47	1,319	2.31	10	164
2) Placements to other banks	6,180	8.53	808	1.48	1,902	3.32	31	235
3) Loans and leasing operations	34,926	48.22	47,672	87.04	51,317	89.68	147	108
4) Securities held up to maturity	18	0.02	0	0.00	0	0.00	0	0
5) Other companies' shares owned by banks	6	0.01	0	0.00	0	0.00	0	0
6) Paid off-balance sheet obligation receivables	0	0.00	0	0.00	470	0.82	0	0
7) Other interest income and similar income	18,015	24.87	5,486	10.02	2,213	3.87	12	40
<b>8) TOTAL INTEREST INCOME AND OTHER INCOME (1 to 7)</b>	<b>72,426</b>	<b>100.0</b>	<b>54,769</b>	<b>100.0</b>	<b>57,221</b>	<b>100.0</b>	<b>79</b>	<b>104</b>
<b>b) Interest expense and similar expense</b>								
1) Deposits	1,421	4.72	2,184	20.72	5,394	48.63	380	247
2) Borrowings from other banks	1,000	3.32	1,154	10.95	1,663	14.99	166	144
3) Borrowings – due obligations	579	1.92	0	0.00	0	0.00	0	0
4) Loan and other borrowing obligations	9,383	31.15	1,986	18.84	2,636	23.76	28	133
5) Subordinated debt and subordinated bonds	0	0.00	18	0.17	0	0.00	0	0
6) Other interest expense and similar expense	17,739	58.89	5,200	49.33	1,400	12.62	8	27
<b>7) TOTAL INTEREST EXPENSE AND SIMILAR EXPENSE (1 to 6)</b>	<b>30,122</b>	<b>100.0</b>	<b>10,542</b>	<b>100.0</b>	<b>11,092</b>	<b>100.0</b>	<b>37</b>	<b>105</b>
<b>c) NET INTEREST AND SIMILAR INCOME a.8)-b.7)</b>	<b>42,304</b>		<b>44,227</b>		<b>46,129</b>		<b>109</b>	<b>104</b>
<b>2. OPERATING INCOME</b>								
a) Foreign currency operation income	16,124	12.15	18,729	23.96	10,298	13.26	64	55
b) Loan fees	8,949	6.74	4,777	6.11	11,891	15.31	133	249
c) Off-balance sheet operation fees	1,097	0.83	2,248	2.88	2,720	3.50	248	121
d) Service fees	5,105	3.85	13,841	17.71	19,620	25.25	384	142
e) Trading operation income	22	0.02	28	0.04	1,613	2.08	7,332	5,761
f) Other operating income	101,439	76.42	38,533	49.30	31,547	40.61	31	82
<b>g) TOTAL OPERATING INCOME (a to f)</b>	<b>132,735</b>	<b>100.0</b>	<b>78,156</b>	<b>100.0</b>	<b>77,689</b>	<b>100.0</b>	<b>59</b>	<b>99</b>
<b>3. NON-INTEREST BEARING EXPENSE</b>								
<b>a) Operating and direct expense</b>								
1) Reserves for general loan risk and potential loan and other losses	29,498	80.14	30,980	73.81	36,513	81.96	124	118
2) Other operating and direct expenses	7,309	19.86	10,994	26.19	8,036	18.04	110	73
<b>3) TOTAL OPERATING AND DIRECT EXPENSES 1) + 2)</b>	<b>36,807</b>	<b>100.0</b>	<b>41,974</b>	<b>100.0</b>	<b>44,550</b>	<b>100.0</b>	<b>121</b>	<b>106</b>
<b>b) Operating expenses</b>								
1) Salaries and contributions	33,770	26.06	30,313	36.40	31,238	37.84	93	103
2) Office space, other fixed assets and overheads	48,648	37.54	27,446	32.95	32,115	38.91	66	117
3) Other operating expenses	47,187	36.41	25,527	30.65	19,193	23.25	41	75
<b>4) TOTAL OPERATING EXPENSES (1 to 3)</b>	<b>129,605</b>	<b>100.0</b>	<b>83,286</b>	<b>100.0</b>	<b>82,546</b>	<b>100.0</b>	<b>64</b>	<b>99</b>
<b>c) TOTAL NON-INTEREST BEARING EXPENSES a.3) + b.4)</b>	<b>166,412</b>		<b>125,260</b>		<b>127,096</b>		<b>76</b>	<b>101</b>
<b>4. PROFIT BEFORE TAX 1.c)+2.g)-3.c)</b>	<b>10,761</b>		<b>3,538</b>		<b>6,249</b>		<b>58</b>	<b>177</b>
<b>5. LOSS 1.c) + 2.g) - 3.c)</b>	<b>2,133</b>		<b>6,415</b>		<b>9,528</b>		<b>447</b>	<b>149</b>
<b>6. TAX</b>	<b>782</b>		<b>324</b>		<b>521</b>		<b>67</b>	<b>161</b>
<b>7. NET-PROFIT 4. - 6.</b>	<b>9,994</b>		<b>3,214</b>		<b>5,728</b>		<b>57</b>	<b>178</b>

**QUALIFICATION STRUCTURE OF BANKS' EMPLOYEES  
AS OF 31.12.2001**

No.	BANKS	QUALIFICATION STRUCTURE							TOTAL	%
		NS*	KV*	VKV*	SSS*	VS*	VSS*	MR*		
1.	Nova banjalučka banka a.d. B.L.	28	23	8	388	72	93	1	613	22.66
2.	Kristal banka a.d. Banja Luka	29	5	5	246	27	78	0	390	14.42
3.	Agroprom banka a.d. B.Luka	2	2	0	35	11	21	0	71	2.62
4.	PB a.d. Gradiška	4	1	0	55	7	20	0	87	3.22
5.	PB a.d. Srpsko Sarajevo	11	10	2	209	32	52	1	317	11.72
6.	Razvojna banka a.d B.Luka	13	8	3	265	83	130	3	505	18.67
7.	PB a.d. Doboj	14	3	0	104	18	23	0	162	5.99
8.	PB a.d. Brčko	4	2	0	17	5	11	0	39	1.44
9.	Nova banka a.d. Bijeljina	2	0	0	47	29	61	3	142	5.25
10.	Ekvator banka a.d. B. Luka	0	0	0	8	2	3	0	13	0.48
11.	Bobar banka a.d. Bijeljina	0	1	0	22	5	9	1	38	1.40
12.	VB banka a.d. Banja Luka	1	0	1	19	2	21	0	44	1.63
13.	Zepter komerc banka a.d. B.L.	0	2	0	52	12	33	0	99	3.66
14.	Balkan Investment Bank a.d. Banja Luka	0	0	0	12	4	7	4	27	1.00
15.	BSEI Banja Luka	0	0	0	12	1	4	0	17	0.63
16.	Pavlović International Bank a.d. Slobomir/Bijeljina	19	7	0	81	11	22	1	141	5.21
<b>TOTAL</b>		<b>127</b>	<b>64</b>	<b>19</b>	<b>1,572</b>	<b>321</b>	<b>588</b>	<b>14</b>	<b>2,705</b>	<b>100.00</b>
<b>%</b>		<b>4.70</b>	<b>2.37</b>	<b>0.70</b>	<b>58.11</b>	<b>11.87</b>	<b>21.74</b>	<b>0.52</b>	<b>100.00</b>	

- NS\* = Non-skilled worker  
KV\* = Skilled worker  
VKV\* = Highly skilled  
SSS\* = Secondary School Diploma  
VS\* = Junior College Graduation  
VSS\* = College Graduation  
MR\* = Master of Science