

BANKING AGENCY OF REPUBLIKA SRPSKA

INFORMATION
ON BANKING SECTOR OF REPUBLIKA SRPSKA
for the period January 1, to December 31, 2003

Banja Luka, March 2004

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1. INTRODUCTION

In the last year the banking sector in Republika Srpska was characterized by further growth, consolidation and stabilization, competition growing more severe, adoption of a new legal regulation, and offer of new products.

The year was a year of private banking in RS, since the process of selling state owned capital in banks was completed at the end of 2002. Since over the year two banks did not comply with legal requirements, the Agency introduced provisional administration in those two banks. After that, one of the banks was acquired by an already existing bank, while the other bank continued under PA.

In 2003 the Agency worked hard on modification and adjustment of regulation. That became necessary after the new Law on Banks was passed and started to be applied late in May 2003.

More significant activities of banks were directed towards meeting requirements of the Law on Deposit Insurance. In the reporting period the Banking Agency had intensive activities in prevention of money laundering and financing of terrorism. More specific improvements in this field could be expected in the following period when adoption and implementation of the new Law on Prevention of Money Laundering is anticipated.

A better quality regulation framework will provide for an independent market-based operation of banks, with banks taking over full responsibility for their own operation.

We do expect that in the future period other segments of economic environment will follow example of the banking sector more intensely (privatization of state-owned capital in enterprises, court operation, etc.) since they have considerably fallen behind in implementation of commenced process.

In the reporting period RS banking sector consisted of 10 banks with majority private capital. Apart from them, there were seventeen organizational units of banks from Federation BH operating in RS, while six organizational units of RS banks were operating in the territory of Federation BH.

These figures indicate a large increase of banks present in this region as well as a large competition resulting in placement of new products by many banks (electronic banking in both domestic and international payment transactions, VISA debit and credit cards, mortgage loans, loans for purchase of goods, investment loans, children's savings, etc.). In the reporting period banks significantly participated in larger activities of the RS Bank Association, so it is expected to have better quality solutions of all problems currently met in banks' operation, as well as a better quality cooperation of institutions included in banking sector.

2. BANKING SECTOR STRUCTURE

As of December 31, 2003 10 banks operated in RS. During the year provisional administration was introduced in two banks due to incompliance with legal requirements. Privredna Bank Dobož was acquired by an already existing bank, thus terminating the PA procedure, while Privredna banka Sarajevo a.d. Srpsko Sarajevo continued under PA.

Banks having their headquarters in Federation BH had seventeen organizational units in the RS territory. Raiffeisen Bank dd had seven organizational units, Zagrebacka Bank Mostar had four, and Pro Credit Bank Sarajevo had six organizational units.

Banks having their headquarters in Republika Srpska had six organizational units in the territory of Federation BH, and those were Zepter Komerc banka a.d. Banja Luka with one, Nova Banjalucka banka a.d Banja Luka with also one, and Nova banka a.d. Bijeljina with four organizational units.

Four banks were under bankruptcy procedure, while all RS banks and Federation banks' branch offices held license for internal payment operation.

Deposit Insurance Agency licensed two RS banks.

2.1. Ownership Structure

Based on banks' reports as of December 31, 2003 shareholders' capital amounted to KM 208,726 thousand, out of which private capital amounted to KM 204,231 thousand or 98%, state-owned KM 2,724 thousand or 1%, and cooperative capital KM 1,771 thousand or 1%.

Shareholders' Capital Structure

(in 000 KM)

Order number	Bank	Private Capital		State Owned Capital		Cooperative Capital	
		Amount	%	Amount	%	Amount	%
I	<u>Majority Private Capital</u>						
1.	Nova Banjalucka banka a.d.	23,991	93	1,370	5	601	2
2.	Hypo Alpe-Adria-Bank a.d.	43,849	100	0	0	114	0
3.	Privredna banka a.d. Srpsko Sarajevo	15,562	99	0	0	95	1
4.	Razvojna banka Jug. Evrope a.d.	18,555	93	1,354	7	0	0
5.	Nova banka a.d.	16,361	96	0	0	640	4
6.	Bobar banka a.d.	15,072	100	0	0	0	0
7.	VB banka a.d.	16,819	100	0	0	0	0
8.	Zepter Komerc banka a.d.	17,569	100	0	0	0	0
9.	Balkan Investment Bank a.d.	18.000	100	0	0	0	0
10.	Pavlovic International Bank a.d.	18.453	98	0	0	321	2
II	TOTAL:	204.231	98	2.724	1	1.771	1

Pier-Groups' Shares in Total Assets

(in 000 KM)

AMOUNT OF ASSETS	31.12.2002			31.12.2003		
	Amount	%	Number of banks	Amount	%	Number of banks
Over150	544,990	58	3	743,088	59	3
100 to 150	0	0	0	258,287	21	2
50 to 100	236,772	25	3	152,056	12	2
25 to 50	145,078	16	4	110,568	9	3
Under 25	11,784	1	1			
TOTAL:	938,574	100	11	1,263,999	100	10

If we divide banks into individual groups based on their shares in total assets as of December 31, 2003 we will get: a group of three banks making 59% of total assets falling into group having over KM 150 million, a group of two banks having KM 100-150 million, a group of two banks having KM 50-100 million, and a group of three banks having KM 25-50 million.

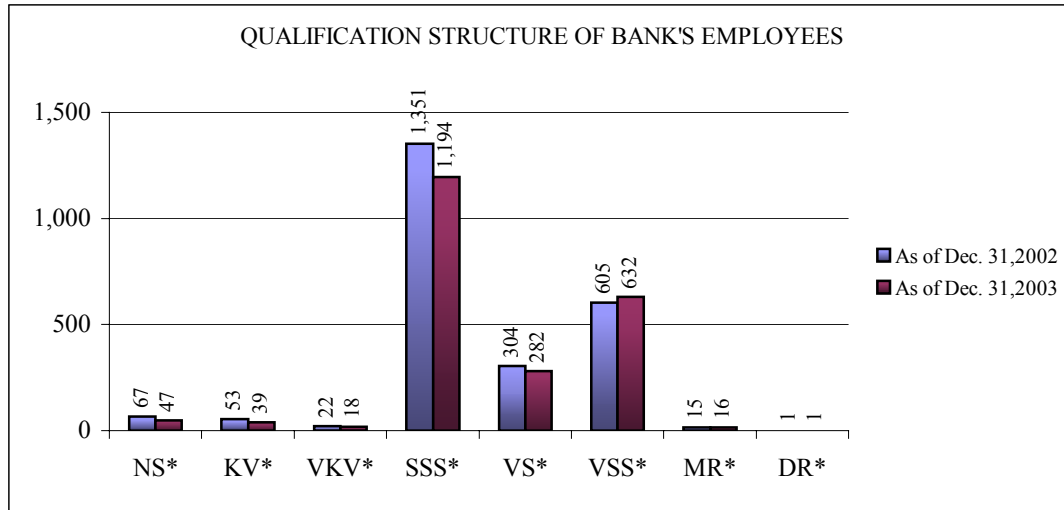
Comparing the data with the previous year we can see an increase of assets in banks, thus two banks constituting 21% joined the group in possession of KM 100-150 million, while not a single bank remained in the group representing assets under KM 25 million.

2.2. Staff

As of December 31, 2003 RS banks employed 2,229 employees, which was less by 8% compared to December 31, 2002. The number of college graduated employees and those with master degree increased, while numbers in other categories decreased. The decrease was caused by decreasing the number of employees in the bank under PA.

Staff Qualification Structure

Order number	Qualification	31.12.2002	%	31.12.2003	%	INDEX 2003/2002
1.	Non-Skilled	67	3	47	2	70
2.	Skilled	53	2	39	2	74
3.	Highly Skilled	22	1	18	1	82
4.	Secondary School	1.351	56	1.194	54	88
5.	Junior College	304	13	282	13	93
6.	College - Graduated	605	25	632	28	104
7.	Master Degree	15	0	16	0	107
8.	D. Sc.	1	0	1	0	100
TOTAL:		2.418	100	2.229	100	92



One of indicators of a successful banking system, and individual banks, is ratio between assets and number of employees, meaning larger the ratio, 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 (000KM)
31.12.2002	2.418	938.574	388
31.12.2003	2.229	1.263.999	567

As of December 31, 2003 assets per employee amounted to KM 567 thousand, and, compared to December 31, 2002 numbers, increased by 46%, 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 129 thousand to KM 1,507 thousand.

In two RS banks assets per employee exceeded KM 1.0 million, while the smallest amount of assets per employee was found 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 December 31, 2003 the RS banks' balance sheet amount increased by 33% compared to December 31, 2002.

Balance Sheet

DESCRIPTION/PERIOD	AMOUNT (000KM)				INDEX
	31.12.2002		31.12.2003		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY):					
1. Cash Funds	228,326	24	378,220	30	166
2. Trading Securities	3,607	0	2,264	0	63
3. Placements to other banks	24,192	3	3,385	0	14
4. Loans	523,122	56	728,165	58	139
5. Securities held up to maturity	161	0	541	0	336
6. Premises and Other Fixed Assets	112,182	12	110,069	9	98
7. Other Assets	46,984	5	41,355	3	88
8. TOTAL ASSETS	938,574	100	1,263,999	100	135
9. Total Off-Balance Sheet (10+11+12)	254,496		325,223		128
10. Active Off-Balance Sheet	111,734		134,143		120
11. Classified Assets-Loss E	117,334		140,751		120
12. Fees for Agent and Other Operation	25,428		50,329		198
13. TOTAL ASSETS (8+9)	1,193,070		1,589,222		133
LIABILITIES (COMMITMENTS):					
14. Deposits	629,692	67	950,060	75	151
15. Borrowings	963	0	545	0	57
16. Obligations Based on Loans	35,349	4	59,634	5	169
17. Subordinated Debt	0	0	1,898	0	0
18. Other Commitments	21,750	2	15,558	1	72
19. Required Reserves for Potential Loss	60,307	7	51,285	4	85
20. Capital	190,513	20	185,019	15	97
21. TOTAL LIABILITIES (COMMITMENTS AND CAPITAL)	938,574	100	1,263,999	100	135
22. Total Off-Balance Sheet (22+23+24)	254,496		325,223		128
23 Active Off-Balance Sheet	111,734		134,143		120
24. . Classified Assets-Loss "E"	117,334		140,751		120
25. Agent Fees	25,428		50,329		198
26. TOTAL LIABILITIES (20+21)	1,193,070		1,589,222		133

Balance sheet assets amounted to KM 1,264 million and increased by 35% compared to December 31, 2002.

Cash funds, loans, and securities held up to maturity recorded an increase within assets composition and amounted to 88% out of total balance sheet assets.

Off-balance sheet items increased by 28%, and amounted to KM 325 million, while the largest increase in the structure was recorded for agent based activities amounting to 98%, while active off-balance sheet and classified assets increased by 20%.

3.1.1. Liabilities

Banks' balance sheet as of the end of 2003 can be seen in the following table showing composition of liabilities, i.e. commitments and capital items:

Liabilities Structure

DESCRIPTION/PERIOD	AMOUNT (000KM)				INDEX
	31.12.2002		31.12.2003		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
LIABILITIES (COMMITMENTS):					
1.Deposits	629,692	67	950,060	75	151
2.Borrowings	963	0	545	0	57
3.Obligations based on loans	35,349	4	59,634	5	169
4.Other obligations	0	0	1,898	0	0
5.Reserves required for potential loss	21,750	2	15,558	1	72
6.Capital	60,307	7	51,285	4	85
7.TOTAL LIABILITIES (COMMITMENTS AND CAPITAL)	190,513	20	185,019	15	97
LIABILITIES (COMMITMENTS):	938,574	100	1,263,999	100	135

Liability structure consisted of obligations amounting to 81%, and capital with special reserves for potential losses amounted to 19%.

If compared to December 31, 2002, the amount of obligations increased, while capital with reserves decreased, which resulted from increasing deposits, 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

The Decision on Calculation of Capital published on April 23, 2003 (“Official Gazette of Republika Srpska” number 29/03) started to be implemented as of December 31, 2003. Under the new Decision structure of core capital and deductible items was changed, thus comparison of date as of December 31, 2002 and December 31, 2003, and change of some indicators resulted from implementation of the new methodology, and not because of realistic decrease or increase of categories constituting core capital and deductible items categories.

Uncovered losses from previous years, loss from current year, and amount of intangible property were moved as deductible items into core capital, while up to now they belonged to deductibles in calculation of net capital.

Analyzing capital composition it can be seen that compared to December 31, 2002 shareholders’ capital increased by 2%, other reserves increased by 2%, undistributed earnings by 2067%, while legal reserves decreased by 1%.

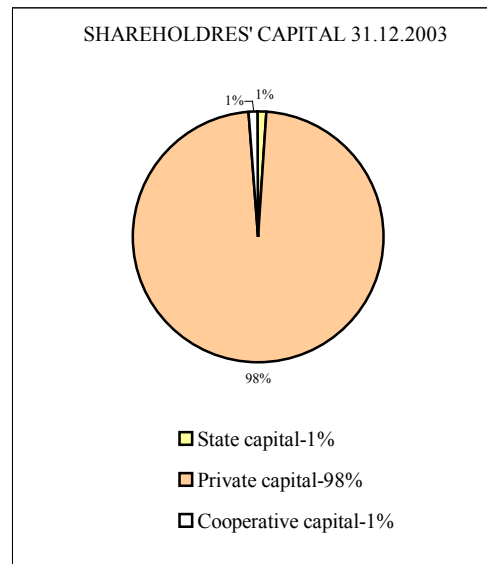
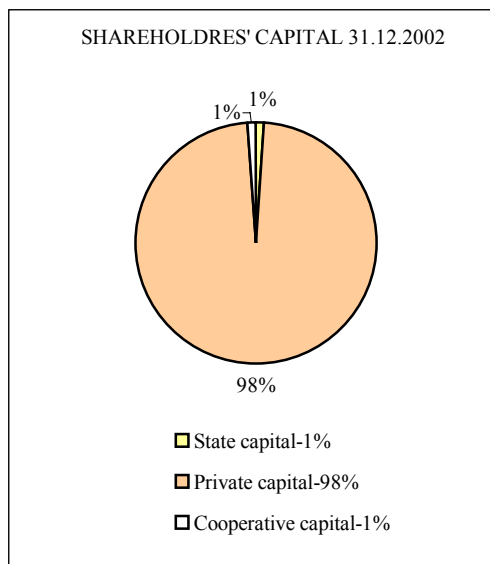
Capital

DESCRIPTION/PERIOD	31.12.2002	31.12.2003	Index
1. BANK’S CORE CAPITAL			
Shareholders’ Capital	205,318	208,726	102
Legally Required Reserves	11,469	11,323	99
Other Reserves	15,620	15,887	102
Undistributed Earnings	121	2,622	2167
Total		238,558	
Uncovered Losses from Previous Years		35,955	176
Current Year Loss		28,061	97
Amount of Intangible Property		5,429	113
1. AMOUNT OF CORE CAPITAL	232,528	169,113	73
2. BANK’S ADDITIONAL CAPITAL			
Amount of General Reserves for A	13,983	17,306	124
Current Earnings	6,626	6,854	103
Amount of Profit – Distribution Temporarily Stopped	0	0	0
Amount of Subordinated Debts Maximum 50% of Core Capital	0	1,898	0
Amount of Permanent Obligations Not to Be Repaid	0	17,944	0
2. AMOUNT OF ADDITIONAL CAPITAL:	20,609	44,002	213
3. ITEMS TO BE DEDUCTED FROM BANKS’ CAPITAL:			
Less Established Reserves	0		
Uncovered Losses from Previous Years	20,474		
Current Year Loss	28,167		
Amount of Intangible Property	4,805		
Bank’s Investments in Other Legal Persons’ Capital Exceeding 5% of Bank’s Core Capital	2,828	3,220	114
3. AMOUNT OF DEDUCTIBLE ITEMS:	56,274	3,220	6
4. BANK’S NET CAPITAL (1+2-3):	196,863	209,895	107

Uncovered losses from previous years increased by 76%. Current year loss decreased by 3%, and intangible property increased by 13%. Additional capital increased by 113%, caused by new items introduced into composition, such as permanent character deposits without obligation to be repaid, and subordinated debt; also general reserves for category “A” increased by 24%, and current earning increased by 3%. Items to be deducted from capital were actually bank’s investments in other legal persons’ capital exceeding 5% of bank’s core capital and that item increased by 14%. Amount of net capital increased by 7%.

Shareholders’ Capital Structure

SHAREHOLDERS’ CAPITAL	31.12.2002		31.12.2003		INDEX %
	Amount	%	Amount	%	
1	2	3	4	5	3
1. State-Owned Capital	2,724	1	2,724	1	1
2. Private Capital	199,849	98	204,231	75	98
2.1. Foreign Capital	133,349	67	152,718	25	67
2.2. Domestic Capital	66,500	33	51,513	1	33
3. Cooperative Capital	2,745	1	1,771	1	1
TOTAL (1+2+3):	205,318	100	208,726	100	101



Ownership structure based on state, private, and cooperative capital share in shareholders’ capital as of December 31, 2003 is the following: share of state-owned capital amounted to 1% and did not change if compared to December 31, 2002; private capital share amounted to 98% and increased by 2%, while cooperative capital share was 1% of shareholders’ capital and decreased by 35%.

Private shareholders' capital consisted of 75% of foreign shareholders' capital, which increased by 15% in comparison to December 31, 2002, and 25% of domestic shareholders' capital, which decreased by 23%.

An important indicator in making capital rating is capital adequacy, 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 24%, which was the same as of December 31, 2002.

Capital Adequacy

	31.12.2001	31.12.2002	31.12.2003	Index	
1	2	3	4	5=4/2	6=4/3
Capital Adequacy	38%	24%	24%	63	100

Other capital ratios are shown in the following table:

Capital Ratios

in 000 KM

DESCRIPTION/PERIOD		31.12.2002	31.12.2003
1.	Net Capital	196,863	209,895
	Total Assets	938,574	1,263,999
	%	21	17
2.	Shareholders' Capital	205,318	208,726
	Total Assets	938,574	1,263,999
	%	22	17
3.	Core Capital	232,528	169,113
	Total Risk Assets	822,355	870,085
	%	28	19
4.	Total Capital	253,137	213,115
	Total Risk Assets	822,355	870,085
	%	31	24
5.	Net Loans	490,468	697,559
	Total Capital	253,137	213,115
	%	194	327

* Data from income statement at annual level.

Capital Ratios Table indicates that net capital grew slower than total assets, and that particular ratio recorded significant decrease. The same situation was with shareholders' capital to total assets ratio. That was mostly because of change in core capital calculation due to which all ratios showing relation between core capital and total risk assets had a abrupt decrease in comparison to December 31, 2002, and did not reflect changes in banks' operation, but rather resulted from applying new methodology in core capital calculation.

Total capital, consisting of core and additional capital, decreased mostly because of deduction of accumulated and current losses from core capital, while total risk assets increased at the same time. Thus, total capital decreased, and total risk assets increased. Due to the same reasons mentioned above, total loan to total capital ratio was significantly worsened. Profit on shareholders' capital increased compared to December 31, 2002. All that indicates to a high level of risk in banks' operation.

3.1.1.2 Deposits

Deposit Structure per Sectors

(in 000 KM)

DEPOSITS	31.12.2002		31.12.2003		Index
	Amount	%	Amount	%	
Government and Government Institutions	104,208	17	171,268	18	164
Public and State Enterprises	46,860	7	69,199	7	148
Private Enterprises and Associations	132,657	21	139,227	15	105
Non-Profit Organizations	19,035	3	10,885	1	57
Banks and Banking Institutions	145,762	23	295,444	31	203
Non-Banking Financial Institutions	20,055	3	15,769	2	79
Citizens	146,133	24	226,794	24	155
Other	14,982	2	21,474	2	143
TOTAL:	629,692	100	950,060	100	151

Deposits increased by 51% compared to December 31, 2003.

The largest share within deposit structure consisted of deposits of banks and other banking institutions, which increased by 96%. Share of citizens' deposits amounted to 24%, the same as in the previous year, but the percentage of increase was 55%. Private companies' deposits decreased in the total structure, but compared to December 31, 2002 increased by 5%.

It is characteristic that government institutions' deposits increased by 64%, and public and state owned enterprises' deposits increased by 48%.

Deposit Structure per Currency

(in KM million)

DEPOSITS	31.12.2002		31.12.2003		INDEX
	Amount	%	Amount	%	
Deposits in KM	309,6	49	497,1	52	161
Deposits in foreign currency	320,1	51	453,0	48	142
TOTAL	629,7	100	950,1	100	151

Looking at the currency based deposit structure it can be seen that deposits in domestic currency increased by 61%, while deposits in foreign currency increased by 42%. In the whole structure increasing trend of deposits in domestic currency is seen as 52%.

Term Deposit Structure

(in 000 KM)

DEPOSITS	31.12.2002		31.12.2003		INDEX
	Amount	%	Amount	%	
Savings and Deposits on Demand	384.120	61	472.298	50	123
Up to 3 months	74.226	12	104.526	11	141
Up to 1 year	39.038	6	88.439	9	227
1. Total Short-Term	497.384	79	665.263	70	134
Up to 3 years	20.751	3	41.943	4	202
Over 3 years	111.557	18	242.854	26	218
2. Total Long-Term	132.308	21	284.797	30	215
TOTAL (1+2)	629.692	100	950.060	100	151

Based on the term deposit structure shown above, it can be seen that short-term deposits decreased from 79% to 70% of total deposits, although their amount increased by 34%, while share of long-term deposits increased from 21% to 30%, i.e. amount itself increased by 115%.

Deposits held in branch offices of banks having their headquarters in federation BH amounted to KM 79 million, which was 8% of total deposits in RS, where KM 67 million were short-term loans (9% of total RS short-term deposits) and Km 12 million were long-term deposits (7% 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.

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.

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

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

Liquidity ratios are given in the following table:

(in 000 KM)

DESCRIPTION/PERIOD		31.12.2002	31.12.2003
1.	Short Term Assets/	429,833	640,814
	Short Term Liabilities	504,691	673,999
	%	85	95
2.	Short Term Assets/	429,833	640,814
	Total Assets	938,574	1,263,999
	%	46	51
3.	Short Term Liabilities/	504,691	673,999
	Total Assets	938,574	1,263,999
	%	54	53
4.	Net Short Term Liabilities/	74,858	33,185
	Total Assets	938,574	1,263,999
	%	8	3
5.	Net Loans/	490,468	697,559
	Deposits	629,692	950,060
	%	78	73
6.	Net Loans and Financial Commitments; Letters of Credit/	500,045	707,439
	Total Assets	938,574	1,263,999
	%	53	56

Liquidity ratios indicated significant improvement compared to 2002. Banks' short-term obligations were covered 95% by receivables. Ratio of net loans to total deposits had falling tendency, and ratio of net short-term liabilities to total assets decreased as well.

3.1.2 Assets

Active Assets Structure

DESCRIPTION/PERIOD	AMOUNT (000KM)				INDEX
	31.12.2002		31.12.2003		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY):					
1. Cash Funds	228,326	24	378,220	30	166
2. Trading Securities	3,607	0	2,264	0	63
3. Placements to other banks	24,192	3	3,385	0	14
4. Loans	523,122	56	728,165	58	139
5. Securities held up to maturity	161	0	541	0	336
6. Premises and Other Fixed Assets	112,182	12	110,069	9	98
7. Other Assets	46,984	5	41,355	3	88
8. TOTAL ASSETS	938,574	100	1,263,999	100	135

As of December 31, 2003 total assets amounted to KM 1,264 million, and increased by 35% compared to the end of the previous year. The structure of assets consisted of 30% of cash funds showing an increase of 66%, loans 58% with an increase of 39%, securities 9% with a decrease of 2%, and other assets 3% with a decrease of 12%.

Off-Balance Sheet Assets Structure

DESCRIPTION/PERIOD	AMOUNT (000KM)				Index
	31.12.2002		31.12.2003		
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
1. Active Off-balance Sheet Items	111,734	100	134,143	100	120
- Irrevocable lending Obligations	12,340	11	28,191	21	228
- Foreign Checks Sent for Collection	284	0	50	0	18
- Irrevocable Documentary L/C	9,577	8	4,517	3	47
- Other L/C for Payments Abroad	0	0	5,363	4	0
- Guarantees Issued	87,056	78	95,158	71	109
- Bills and Sureties Issued	649	1	853	1	131
- Nostro financially active – collection in process	5	0	0	0	0
- Current Agreements for FC Transactions	1,819	2	0	0	0
- Other Off-Balance Sheet Items	4	0	11	0	275
2. Classified Assets – Loss E	117,334		140,751		120
3. Agent Based Activities	25,428		50,329		198
4. TOTAL	254,496		325,223		128

Off-balance sheet assets amounted to KM 325 million, and increased by 28%. The largest amounts in the structure itself were those related to guarantees issued and irrevocable lending obligations. The largest increase was recorded with agent-based activities in an amount of 98%, and assets classified in category “E”- loss increased by 20% compared to December 31, 2003.

3.1.2.1. Cash Funds

Cash Funds Structure

(in 000 KM)

DESCRIPTION	31.12.2002		31.12.2003		Index
	Total	%	Total	%	
1	2	3	4	5	6=4/2
<i>KM</i>					
Cash Funds	28,936	13	32,795	9	113
Reserve Accounts at CBBH	54,631	24	160,791	42	294
Deposit Accounts at BH Depository Institutions	31	0	7,008	2	22.606
Deposit Accounts at Depository Institutions Abroad	0	0	0	0	0
Cash Funds in Process of Collecting	11	0	0	0	0
Non-Repaid Debts	0	0	0	0	0
TOTAL:	83,609	37	200,594	53	240
<i>FOREIGN CURRENCY</i>					
Cash Funds	44,695	20	37,085	10	83
Reserve Account at CBBH	371	0	0	0	0
Deposit Accounts at Depository Institutions in BH	1,784	1	695	0	39
Deposit Accounts at Depository Institutions Abroad	97,223	42	137,734	36	142
Cash Funds in Process of Collecting	644	0	2,112	1	328
Non-Repaid Debts	0	0	0	0	0
TOTAL:	144,717	63	177,626	47	123
GRAND TOTAL:	228,326	100	378,220	100	166

Cash funds composition shows that cash funds in domestic currency amounted to KM 200 million or 53%, while foreign currency cash funds amounted to KM 178 million or 47%.

Domestic currency was mostly held in gyro-accounts, while foreign currency was deposited with foreign depository institutions.

Cash funds in KM increased by 140%, while foreign currency cash funds increased by 23%.

3.1.2.2. Loans

Loans represented 58% of assets composition, and increased by 39% compared to December 31, 2003.

Structure of Total Loans Per Sectors

(in 000 KM)						
No.	DESCRIPTION/PERIOD	31.12.2002	%	31.12.2003	%	Index
1	2	3	4	5	6	7=5/3
1.	Government institutions	14,473	3	7,550	1	52
2.	Public and state enterprises	112,378	21	62,975	9	56
3.	Private companies and associations	225,510	43	337,264	47	150
4.	Nonprofit organizations	580	0	1,355	0	234
5.	Banks	930	0	926	0	100
6.	Non-bank financial institution	5,728	1	1,962	0	34
7.	Citizens	155,469	30	299,530	41	193
8.	Other	8,054	2	16,603	2	206
9.	TOTAL:	523,122	100	728,165	100	139

The structure of loans consisted of 47% of loans to private enterprises, 41% of loans to citizens, and 12% of other loans.

The largest increase was recorded with other loans amounting to 106%, but their share in the structure was only 2%, loans to citizens increased by 93%, to private enterprises and companies increased by 50%, to non-profit organizations by 134%, but in the structure their share was less than 1%. Loans to Government and Government Institutions decreased by 48%, and loans to public and state enterprises decreased by 44%.

Compared to the previous year loan term structure was the following:

Loan Term Structure

(u 000 KM)

No	DESCRIPTION	Short Term < 1 year			Long Term > 1 year			Receivables Due			Total		Index
		31.12. 2002	31.12. 2003	Index	31.12. 2002	31.12. 2003	Index	31.12. 2002	31.12. 2003	Index	31.12. 2002	31.12. 2003	
		1.	Government institutions	12,018	1,435	12	1,016	6,053	596	1,439	62	4	
2.	Public and state enterprises	43,547	23,636	54	42,399	26,862	63	26,432	12,477	47	112,378	62,975	56
3.	Private companies and associations	113,664	167,512	147	75,363	137,622	183	36,483	32,130	88	225,510	337,264	150
4.	Nonprofit organizations	576	1,053	183	0	162	0	4	140	3,500	580	1,355	234
5.	Banks	930	105	11	0	328	0	0	493	0	930	926	100
6.	Non-bank financial institution	3,370	268	8	2,358	1,694	72	0	0	0	5,728	1,962	34
7.	Citizens	18,770	56,460	301	135,843	240,892	177	856	2,178	254	155,469	299,530	193
8.	Other	5,025	9,861	196	926	3,342	361	2,103	3,400	162	8,054	16,603	206
9.	TOTAL	197,900	260,330	132	257,905	416,955	162	67,317	50,880	76	523,122	728,165	139

Short-term loans up to 1 year amounted to KM 260 million and increased by 32% compared to December 31, 2002. Long-term loans amounted to KM 417 million and increased by 62%. Taking into consideration the amount of KM 285 million of long terms deposits, it is obvious that banks lacked long-term financing sources, and placed a significant portion of short-term funds as long term ones.

Within the short-term loan structure the largest share represented loans extended to private companies, which increased by 12%, and loans to citizens, which increased by 201%.

Within the long-term loan structure loans extended to citizens represented the largest share with an increase of 77%, and loans extended to private companies, which increased by 83%. A significant increase was with loans extended to Government and Government Institutions amounting to 496%, as well as with other loans, which increased by 261, but they did not represent a large share in the overall structure.

Receivables due decreased by 24% compared to December 31, 2002, and their largest share was related to loans extended to private companies, and public and state enterprises, but they recorded a significant drop if compared to the previous year. Receivables due related to loans to citizens increased by 154%, while other loans increased by 62%.

Organizational units of banks having their headquarters in Federation BH extended loans in an amount of KM 131 million or 15% of total loans placed in RS, out of which long-term loans in an amount of KM 118 million or 20% of total long-term loans in RS, and KM 13 million or 5% of short-term loans.

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	31.12.2002	31.12.2003	INDEX
1. Short-term Loans	199,067	208,116	105
2. Long-Term Loans	257,908	448,579	174
3. Other Placements	45,685	29,735	65
4. Accrued Interest	16,923	5,146	30
5. Receivables Due	63,542	50,276	79
6. Paid Guarantee based Receivables	6,385	1,126	18
7. Other Assets	154,492	123,869	80
8. TOTAL BALANCE SHEET ASSET ITEMS:	744,002	866,847	117
9. General Loan Risk and Potential Loan Loss	55,546	46,698	84
10. Already Separated General Reserve and Special Reserve	54,872	46,813	85
11. Balance 10.-9.	-674	115	-17
12a. Payable Guarantees	69,485	64,873	93
12b. Performance Guarantees	17,568	29,201	166
13. Non-Covered Letters of Credit	9,376	8,760	93
14. Irrevocable Loan based Commitments	12,340	28,189	228
15. Other Potential Commitments	2,829	877	31
16. TOTAL OFF-BALANCE SHEET ITEMS:	111,598	131,900	118
17. General Loan Risk and Potential Loan Loss	4,455	4,452	100
18. Already Separated General Reserves and Special Reserves	5,435	4,472	82
19. Balance 18.-17.	980	20	2
20. UKUPNO STAVKE BILANSA I VANBILANSA	855,600	998,747	117
21. General Loan Risk and Potential Loan Loss	60,001	51,150	85
22. Already Separated General Reserves and Special Reserves	60,307	51,285	85
23. OVERAGE of Separated Reserves	306	137	45
SHORTAGE of Separated Reserves	0	2	0
NON-CLASSIFIED ACTIVE ASSETS	194,707	399,395	205

Total classified assets as of December 31, 2003 amounted to KM 999 million, and increased by 17% in comparison with the amount as of December 31, 2002. The balance sheet assets increased by 17%, and off-balance sheet increased by 18%.

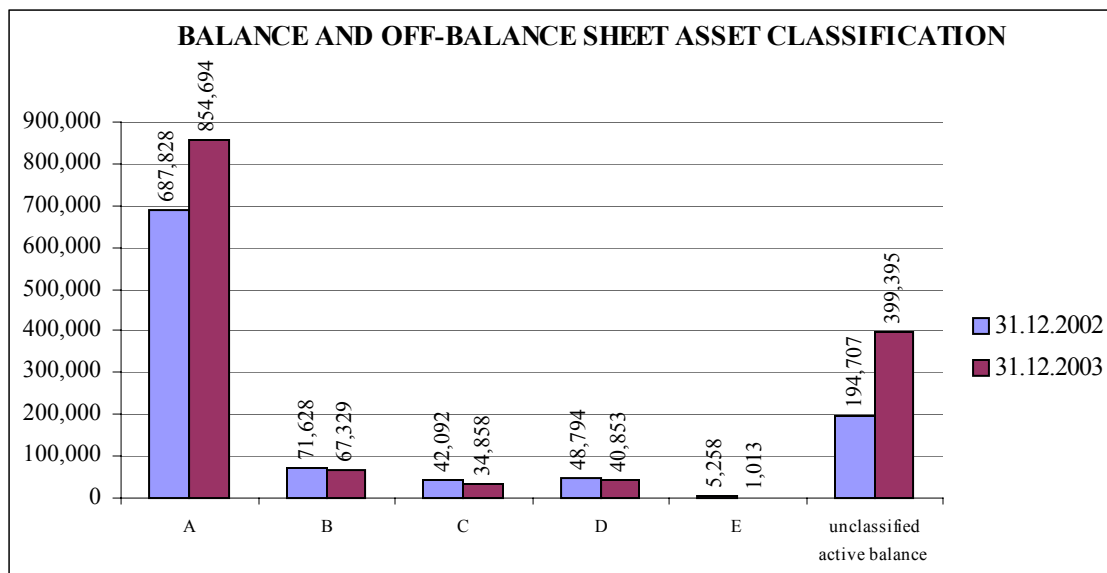
Long-term loans represented the largest item of risk assets amounting to 52%, short-term loans amounted to 24%, other assets 14% and receivables due 6%.

Compared to December 31, 2002, long-term loans increased by 74% and short-term loans by 5%, while other risk asset items recorded a decrease.

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

Classification of banks' balance sheet and off-balance sheet assets as of December 31, 2003 can be seen in the following table:

BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS	A	B	C	D	E	TOTAL
1. Short-term Loans	176,445	22,202	5,174	4,295	0	208,116
2. Long-Term Loans	390,181	33,894	16,955	7,549	0	448,579
3. Other Placements	29,490	30	117	98	0	29,735
4. Accrued Interest	3,443	1,703	0	0	0	5,146
5. Receivables Due	7,663	5,938	9,070	27,605	0	50,276
6. Paid Guarantee based Receivables	26	6	430	664	0	1,126
7. Other Assets	122,156	716	953	44	0	123,869
8. TOTAL BALANCE SHEET ASSET ITEMS:	729,404	64,489	32,699	40,255	0	866,847
9. General Loan Risk and Potential Loan Loss (no. 8 X % loss)	14,786	5,076	6,956	19,880	0	46,698
10. Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	14,828	5,049	6,956	19,980	0	46,813
11. Balance 10. - 9.	42	-27	0	100	0	115
12.a) Payable Guarantees	60,486	1,475	1,389	598	925	64,873
b) Performance Guarantees	27,245	1,099	769	0	88	29,201
13. Non-Covered Letters of Credit	8,760	0	0	0	0	8,760
14. Irrevocable Loan based Commitments	27,922	266	1	0	0	28,189
15. Other Potential Commitments	877	0	0	0	0	877
16. TOTAL OFF-BALANCE SHEET ITEMS:	125,290	2,840	2,159	598	1,013	131,900
17. General Loan Risk and Potential Loan Loss (no. 16 X % loss)	2,514	195	420	310	1,013	4,452
18. Already Separated General Reserves (A) and Special Reserves (B, C, D, E)	2,478	251	420	310	1,013	4,472
19. Balance 18. -17.	-36	56	0	0	0	20
20. TOTAL BALANCE SHEET & OFF-BALANCE SHEET ITEMS (8 + 13)	854,694	67,329	34,858	40,853	1,013	998,747
21. General Loan Risk and Potential Loan Loss (no. 20 X % loss)	17,300	5,271	7,376	20,190	1,013	51,150
22. Already Separated General Reserve (A) and Special Reserve (B, C, D, E)	17,306	5,300	7,376	20,290	1,013	51,285
23. OVERAGE of Separated Reserves (+)(amount) (no.22. - no.21.)	6	31	0	100	0	137
SHORTAGE of Separated Reserves (-)(amount) (no.21. - no.22.)	0	2	0	0	0	2
NON-CLASSIFIED ACTIVE ASSETS						399,395



- in 000KM -

Classification Category	31.12.2002	%	31.12.2003	%	INDEX
A	687,828	65	854,694	61	124
B	71,628	7	67,329	5	94
C	42,092	4	34,858	2	83
D	48,794	5	40,853	3	84
E	5,258	1	1,013	0	19
Non-classified active balance sheet	194,707	18	399,395	29	205
TOTAL:	1,050,307	100	1,398,142	100	133
Required potential loan loss general reserves (A)	13,826		17,300		125
Already established general reserve (A)	13,981		17,306		124
Balance for A:	155		6		
Required special reserves for potential loan loss (B-E)	46,175		33,850		73
Already separated special reserves (B-E)	46,326		33,979		73
Balance for (B-E):	151		129		

The largest share amounting to 61% was made by assets classified in category "A", which compared to December 31, 2002 increased by 24%. The share of assets classified as "B" amounted to 5% and decreased by 6%, category "C" amounted to 3% and decreased by 17%, category "D" amounted to 3% and decreased by 16%, while category "E" recorded a considerable decrease and its share in the structure was quite insignificant.

Calculated special reserves for assets classified as categories of risk from "B" to "E" totalled KM 33,850 thousand, while total established reserves amounted to KM 33,979 thousand, indicating that banks separated an amount larger by KM 129 thousand than required reserves.

Asset Quality Ratios

(in 000 KM)

DESCRIPTION/PERIOD		31.12.2002	31.12.2003
1.	Loans Due/	67.317	50.880
	Total Loans	523.122	728.165
	%	13	7
2.	Loans Due/	67.317	50.880
	Potential Loss Reserve	32.654	30.606
	%	206	166
3.	Loans Due/	67.317	50.880
	Total Capital	253.137	213.115
	%	27	24
4.	Classified Assets/	855.600	998.747
	Total Capital	253.137	213.115
	%	338	469
5.	Potential Loss/	32.654	30.606
	Total Loans	523.122	728.165
	%	6	4
6.	Total Risk Assets	822.355	870.085
	Total Assets	938.574	1.263.999
	%	88	69

Looking at the above presented asset quality ratio it can be concluded that there was some improvement with all ratios, except for classified assets to total capital ratio, due to already mentioned decrease of capital by losses, which resulted from the new methodology of calculating core capital.

3.1.2.4. Transactions with Related Persons

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

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

- Banks may perform transactions with related persons only under approval of their Managing Board or other body with the same level of authorization;
- A single physical person may be approved a transaction amounting to a maximum of 1% of core capital;
- Total amount of transactions with all physical persons related with a bank cannot exceed 10% of the bank's core capital;
- 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	31.12.2002	%	31.12.2003	%	Index
1	2	3	4	5	6=4/2
Loans Extended To:					
1. Shareholders with over 5% of Voting Rights	7,932	52	10,336	47	130
2. Supervisory Board Members	1,165	8	1,011	5	87
3. Executive Managers	788	4	1,092	5	139
4. Banks' Employees	5,973	36	9,316	43	156
5. TOTAL LOANS (1 to 4)	15,858	100	21,755	100	137
6. Potential and taken off-balance sheet obligations	666		18		3
7. GRAND TOTAL (5+6)	16,524		21,773		132

As of December 31, 2003 loans extended to related persons increased by 37% compared to December 31, 2002, but remained within legal provisions.

Loans extended to shareholders represented the largest share within the structure amounting to 47% and increased by 56%.

Loans to executive managers increased by 39%, and loans extended to the Supervisory Board members decreased by 13%.

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 10%. Compared to December 31, 2002 fixed assets decreased by 2%.

Five banks exceeded 50% of investment 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, 2002 decreased by 7%. 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	31.12.2002		31.12.2003		Index
	Amount	%	Amount	%	
1	2	3	4	5	6
1. INTEREST INCOME AND SIMILAR INCOME					
a) Interest Income and Similar Income	51,382	30	62,136	34	121
b) Operating Income	120,977	70	119,814	66	99
2. TOTAL INCOME (1.a+1.b)	172,359	100	181,950	100	106
3. EXPENSE					
a) Interest Expense and Similar Expense	11,104	6	18,807	9	169
b) Business Operation and Direct Expense	114,090	56	80,203	40	70
c) Operating Expense	75,563	38	101,021	51	134
4. TOTAL EXPENSE (3.a+3.b+3.v)	200,757	100	200,031	100	100
PROFIT BEFORE TAX	6,779		9,980		147
LOSS	35,177		28,061		80
TAX	141		233		165
NET PROFIT	6,638		9,747		147

In the year 2003 total income amounted to KM 182 million, increasing by 5% in comparison to 2002.

Income structure consisted of 34% of interest income, which increased by 21%, and fee income, which decreased by 1%.

Although interest income recorded an increase, and operating income decreased, operating income continued to amount to 66%, which means that banks directed their activities to fee based instead of interest based operation.

Total expense amounted to KM 200 million, while other types of expenses remained at the 2002 level. The expense structure significantly changed and consisted of 9% of interest expense, with a rate of increase of 69%, which resulted from increased deposits and deposit interest rate, especially with term-deposits.

Direct expenses decreased by 30% in comparison to the year 2002, and operating expenses increased by 34%, although the number of employees was lowered.

Operating expenses were larger than interest income by KM 39 million.

Profit before tax amounted almost to KM 10 million, increasing by 67%. Loss amounted to KM 28 million, decreasing by 20% in comparison to the year 2002.

Net profit amounted to KM 9.7 million, and increased by 47%.

We can see that banks improved their financial result, and 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 generated losses in an amount of KM 28million, and eight banks had a positive financial result in an amount of KM 9,97 million. The banking system balance sheet loss amounted to KM 64 million, and it consisted of loss from the current year and non-covered loss from previous years.

Profitability Ratios

(in 000 KM)

DESCRIPTION/PERIOD		31.12.2002	31.12.2003
1.	Total Income/	172,359	181,950
	Total Assets	938,574	1,263,999
	%	18	14
2.	Total Income /	172,359	181,950
	Total Capital	253,137	213,115
	%	68	85
3.	Total Expense/	200,757	200,031
	Total Assets	938,574	1,263,999
	%	21	16
4.	Interest Income/	51,382	62,136
	Total Assets	938,574	1,263,999
	%	5	5
5.	Interest Income/	11,104	18,807
	Total Assets	938,574	1,263,999
	%	1	1
6.	Net Interest Income /	40,278	43,329
	Total Assets	938,574	1,263,999
	%	4	3
7.	Net Interest Expense/	40,278	43,329
	Total Capital	253,137	213,115
	%	16	20
8.	Fees/	41,234	50,254
	Total Assets	938,574	1,263,999
	%	4	4
9.	Material Expense and Gross Earnings/	75,563	101,021
	Total Assets	938,574	1,263,999
	%	8	8
10.	Non-Interest Expense/	189,653	181,224
	Total Assets	938,574	1,263,999
	%	20	14

Profitability ratios calculated for the year 2003 indicate that income grew slower than assets, and expenses had a positive trend since they remained at the same level.

Interest expenses remained at the same level due to an increase of interest rate, especially those for term-deposits, and interest income decreased, which resulted from lowered loan interest rate.

Analyzing total financial result of the banking sector in 2003 it is necessary to point out that two banks, one of which is under provisional administration, generated current loss. The other bank separated larger reserves for loan and other losses (partially ordered by external auditor). That bank, however, had already paid in additional capital and a part of funds to cover current and loss from previous years, so it is expected to operate with a

positive result in 2004. Excluding those two banks from the total profitability figures, it can be stated that return on assets for the rest of eight banks is 1, which is a good indicator.

5. INTERNAL PAYMENT TRANSACTIONS

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

As of December 31, 2003 there were 92,046 transaction accounts opened.

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

Date	Retail Payment Transactions (Debiting of Accounts)		Wholesale Payment Transactions (Debiting of Accounts)	
	Number of transactions	Amount of transactions (000KM)	Number of transactions	Amount of transactions (000KM)
31.01.2003	345,979	1,098,600	336,145	451,099
28.02.2003	401,114	1,131,163	443,018	492,749
31.03.2003	492,191	1,414,444	492,348	561,831
30.04.2003	497,702	1,552,028	507,209	571,909
31.05.2003	477,548	1,489,507	509,027	596,644
30.06.2003	495,806	1,600,351	502,578	593,371
31.07.2003	526,815	1,726,532	579,607	650,925
31.08.2003	460,622	1,665,204	517,838	615,562
30.09.2003	499,605	1,645,524	543,810	623,508
31.10.2003	515,102	1,626,461	553,980	640,744
30.11.2003	446,391	1,359,098	487,640	566,104
31.12.2003	686,253	1,121,972	653,534	756,700
TOTAL:	5,845,128	17,430,884	6,126,734	7,121,146

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

In the reporting period CBBH - RS Main Office Banja Luka, that is to say all banks under control of that Office participating in the BH payment transactions performed 34% of total number of transactions or in value of an amount of KM 28%.

6. CONCLUSION

Based on the above listed indicators related to the operation of the banking sector as of December 31, 2003 compared to December 31, 2002 the following can be concluded:

- *Total assets increased by 33% out of which balance sheet assets increased by 35%;*
- *Cash funds increased by 66%, and loans by 39% (increase of loans was slower compared to balance sheet assets);*
- *Deposits increased by 51%, out of which citizens' saving deposits amounted to 24%, and rate of growth was 55%;*
- *Banks' liquidity was at satisfactory level;*
- *Equity increased by 2%, and net capital 7%;*
- *Banks separated required amount of reserves for loan losses;*
- *Banks' profitability was not at satisfactory level, yet;*
- *Two RS banks were licensed for deposit insurance, and the rest of banks were making preparations to have their deposits insured.*

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

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

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

- *To further improve asset quality and risk management, especially with increasing lending activities and risks in operation with related entities;*
- *To further improve payment transactions in order to speed up information exchange, and develop detailed procedures to monitor financial transactions, which might have money laundering features;*
- *To strengthen banks' internal controls and internal audit;*
- *To decrease expenses and fixed assets, which would also improve banks' profitability;*

- *To exchange information on non-performing clients, that is reporting to the Banking Agency of Republika Srpska on such debtors, who are considered special credit risk to banks, which would enable creation of a separate data-base;*
- *To speed up development of debit and credit card operation and electronic banking;*
- *To impose stricter rules and apply more consistently criteria of professionalism and competence in exercising managing and executive functions in banks;*
- *To improve quality of staff and provide for improvement of expertise in order to establish better quality relationships with clients, especially with small and medium companies, including new types of services, which are common practice worldwide, i.e. to better develop financial management operations;*
- *To strengthen hardware and software functions, as well as building up staff's computer skills, especially in those segments of operation dealing with small and medium size companies, and citizens.*

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 DATA ON BANKS

No.	BANK	HEADQUARTERS	ADDRESS	DIRECTOR	TELEPHONE	FAX	31.12.2003 (in 000KM)		NUMBER OF EMPLOYEES
							Assets	Capital	
1.	Nova Banjalucka banka a.d.	Banja Luka	M.Bursac 7	Dragoljub Lekic	051/243-200	212-830	173,796	18,677	414
2.	Bank a.d.	Banja Luka	I.F.Jukica 9	Kurt Makula	051/212-930	212-878	357,659	23,649	291
3.	Razvojna banka Jug. Evrope a.d.	Banja Luka	Kralja Petra I 85-A	Ranko Travar	051/242-101	242-192	211,633	21,526	463
4.	VB banka a.d.	Banja Luka	Milana Tepica 4	Radovan Bajic	051/221-600	221-623	96,449	20,721	64
5.	Nova banka a.d.	Bijeljina	Svetog Save 46	Milorad Andzic	055/209-094	201-410	143,805	21,836	297
6.	Privredna banka ad Srpsko Sarajevo	Pale	Kninska bb	PA Mile Maksimovic	056/210-173	057/226-805	33,826	2,353	263
7.	Bobar banka a.d.	Bijeljina	Filipa Visnjica 211	Dragan Radumilo	055/201-862	201-862	33,996	17,139	70
8.	Zepter komerc banka a.d.	Banja Luka	Jevrejska bb/ II sprat	Ranko Labovic	051/241-100	215-771	114,482	20,571	145
9.	Balkan Investment Bank a.d.	Banja Luka	Krajiskih brigada 2	Sauilus Zostautas	051/216-285	211-445	42,746	18,233	50
10.	Pavlovic International Bank a.d.	Slobomir, Bijeljina	Slobomir	Nada Pavlovic	055/209-588	210-247	55,607	20,314	172
	TOTAL						1,263,999	185,019	2.229

BALANCE SHEET

Attachment 2

(in 000 KM)

DESCRIPTION/PERIOD	31.12.02	%	31.12.03	%	INDEX
1. Cash funds and deposit accounts at depository institutions (1.a.+1.b.)	228,326	24	378,220	30	166
1.1. Cash and non-interest bearing deposit accounts	118,587	13	203,800	16	172
1.2. Interest-bearing deposit accounts	109,739	11	174,420	14	159
2. Trading Securities	3,607	0	2,264	0	63
3. Placements to other banks	24,192	3	3,385	0	14
4. Loans, leasing and receivables due (4.a.+4.b.+4.c.)	523,122	56	728,165	58	139
4.a. Loans	455,805	49	677,285	54	149
4.b. Leasing receivables	0	0	0	0	0
4.c. Loan and leasing receivables due	67,317	7	50,880	4	76
5. Securities held up to maturity	161	0	541	0	336
6. Office space and other fixed assets	112,182	12	110,069	9	98
7. Other immovables	1,173	0	5	0	0
8. Investments in non-consolidated related companies	7,024	1	7,056	0	100
9. Other assets	38,787	4	34,294	3	88
TOTAL (1 to 9)	938,574	100	1,263,999	100	135
10. MINUS: Reserves for potential losses	54,871		46,812		85
11. TOTAL ASSETS: (1.to 9.-10.)	883,703		1,217,187		138
11.1 Total off-balance sheet items					
11.a. Active off-balance sheet items	111,734		134,143		120
11.b. Classified assets – loss E	117,334		140,751		120
11.c. Commission (agent) services	25,428		50,329		198
TOTAL ASSETS (11.+11.1)	1,138,199		1,542,410		136
12. Deposits (12.a.+12.b.)	629,692	71	950,060	78	151
12.a. Interest-bearing deposits	481,231	54	806,114	66	168
12.b. Non-interest bearing deposits	148,461	17	143,946	12	97
13. Borrowings – obligations due (13.a.+13.b.)	313	0	3	0	1
13.a Obligations due, not paid	313	0	3	0	1
13.b.Off-balance sheet obligations not paid-called for repayment	0	0	0	0	0
14. Borrowings from other banks	650	0	542	0	83
15. Obligations to Government	739	0	0	0	0
16. Obligations based on loans and other borrowings (16.a.+16.b.)	35,349	4	59,634	5	169
16.a. remaining maturity up to one year	5,605	1	8,191	1	146
16.b. remaining maturity over one year	29,744	3	51,443	4	173
17. Subordinated debt and subordinated bonds	0	0	1,898	0	0
18. Reserve to cover off-balance sheet items (18.a.+18.b.)	5,436	0	4,473	0	82
18.c. Other obligations	21,011	3	15,558	1	74
19. TOTAL LIABILITIES (12 to 18)	693,190	78	1,032,168	84	149
20. Permanent preferred shares	9,778		16,643		170
21. Regular shares	195,540		192,083		98
22. Premium (22.a. +22.b)	0		0		0
22.a. on permanent preferred shares	0		0		0
22.b. on regular shares	0		0		0
23. Undistributed profit and capital reserves	6,747		12,857		191
24. Capital reserves	27,089		27,452		101
25. Other capital	-48,641		-64,016		132
26. TOTAL CAPITAL: (20. to 25.)	190,513	22	185,019	16	97
27. TOTAL LIABILITIES AND CAPITAL: (19. + 26.)	883,703	100	1,217,187	100	138
28.1.Total off-balance					
28.1. Active off-balance sheet	111,734		134,143		120
28.2. Classified assets – loss E	117,334		140,751		120
28.3. Commissioned (agent) services	25,428		50,329		198
TOTAL LIABILITIES (27.+28.1)	1,138,199		1,542,410		136

CAPITAL STATEMENT

in 000 KM

DESCRIPTION/PERIOD	31.12.2002	31.12.2003	INDEX 2003/2002
I. CORE CAPITAL OF BANKS			
Equity capital based on nominal values and amounts of regular and preferred non-cumulative shares issued against cash fund payments into shareholders' capital:	201,919	205,327	102
Equity capital based on nominal amounts of regular and preferred non-cumulative shares issued against immovables and rights invested into shareholders' capital:	3,399	3,399	100
Premiums collected for share payments:	0	0	0
General reserves required (reserves required by the law):	11,469	11,323	99
Other reserves which are not taken into account when rating asset quality:	15,620	15,887	102
Retained – undistributed profit from previous years:	121	2,622	2167
		238,558	
Uncovered loss carried over from previous years:		35,955	176
Current Year Loss:		28,061	97
Bookkeeping value of bank's owned (vault) shares:		0	0
Amount of intangible property: patents, licenses, concession, investments in: marketing, commercial name, trade mark, goodwill and similar:		5,429	113
		69,445	
1. AMOUNT OF CORE CAPITAL:	232,528	169,113	73
2. ADDITIONAL CAPITAL OF BANKS			
Equity capital based on nominal amounts of permanent preferred cumulative shares issued against cash fund payments into shareholders' capital:	0	0	0
Equity capital based on nominal amounts of permanent preferred cumulative shares issued against immovables and rights invested into shareholders' capital:	0	0	0
General reserves for loan loss coverage for bank's assets rated as category A – Pass:	13,983	17,306	124
Accrued profit in the current year audited and verified by external auditor:	6,626	6,854	103
Amount of profit for which BA-RS issued Decision on Temporary Suspension of Distribution:	0	0	0
Amount of subordinated debt maximum 50% of amount of Core Capital:	0	1,898	0
Amount of hybrid i.e. convertible items-instruments of capital maximum 50% of amount of Core Capital:	0	0	0
Amount of items-commitments of a permanent character without obligation to be repaid:	0	17,944	0
2. AMOUNT OF ADDITIONAL CAPITAL:	20,609	44,002	213
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL			
Portion of general credit risk and potential loan losses for which bank has not established General and Special reserves for loan losses:	0		
Uncovered losses carried over from previous years:	20,474		
Current Year Loss:	28,167		
Bookkeeping value of bank's owned (vault) shares:	0		
Nominal amount of shares issued against investments from bank's loans, up to not-repaid amount of the loan, i.e. not-repaid portion of the loan:	0		
Part of invested shareholders' capital, which represents, according to BA-RS, received, but overstated value:	0	0	0
Intangible property: patents, licenses, concession, investments in: marketing, commercial name, trade mark, goodwill and similar	4,805		
Bank's investments in capital of other legal entities exceeding 5% of the bank's core capital:	2,828	3,220	114
Receivables from shareholders having a significant voting right in the bank, which receivables are based on the bank's approvals contrary to provisions of the Law, BA-RS and the bank's business policy:	0	0	0
Bank's large risk exposure related to shareholders having a significant voting right in the bank, which exposure has not been previously approved by the BA-RS:	0	0	0
4. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL:	56,274	3,220	6
4. ITEMS OFF-SETTING FROM BANK'S CAPITAL:			
1. AMOUNT OF BANK'S CORE CAPITAL	232,528	169,113	73
2. AMOUNT OF BANK'S ADDITIONAL CAPITAL	20,609	44,002	213
3. AMOUNT OF BANK'S ITEMS OFF-SETTING FROM THE CAPITAL	56,274	3,220	6
4. AMOUNT OF BANK'S NET-CAPITAL (1. + 2. - 3.)	196,863	209,895	107
B. RISK WEIGHTED ASSETS AND LOAN EQUIVALENTS	822,355	870,085	106
C. NET CAPITAL RATE	23,9	24,1	101

INCOME STATEMENT

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2002	%	31.12.2003	%	INDEX
1. INTEREST INCOME AND EXPENSE					
a) Interest income and similar income					
1) Interest bearing deposit accounts at depository institutions	2,359	5	3,482	6	148
2) Placements to other banks	754	2	764	1	101
3) Loans and leasing operations	42,799	83	44,618	72	104
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	200	0	129	0	65
7) Other interest income and similar income	5,270	10	13,143	21	249
8) TOTAL INTEREST INCOME AND OTHER INCOME (1 to 7)	51,382	100	62,136	100	121
b) Interest expense and similar expense					
1) Deposits	8,611	77	16,009	85	186
2) Borrowings from other banks	1,027	9	1,230	7	120
3) Borrowings – due obligations	21	0	355	2	1,690
4) Loan and other borrowing obligations	713	7	385	2	54
5) Subordinated debt and subordinated bonds	0	0	11	0	0
6) Other interest expense and similar expense	732	7	817	4	112
7) TOTAL INTEREST EXPENSE AND SIMILAR EXPENSE (1 to 6)	11,104	100	18,807	100	169
c) NET INTEREST AND SIMILAR INCOME	40,278		43,329		108
2. OPERATING INCOME					
1) Foreign currency operation income	24,625	20	13,887	12	56
2) Loan fees	2,558	2	7,990	7	312
3) Off-balance sheet operation fees	3,033	3	5,169	4	170
4) Service fees	35,643	30	37,095	31	104
5) Trading operation income	1,381	1	1,567	1	113
6) Other operating income	53,737	44	54,106	45	101
7) TOTAL OPERATING INCOME (1 to 6)	120,977	100	119,814	100	99
3. NON-INTEREST BEARING EXPENSE					
a) Operating and direct expense					
1) Reserves for general loan risk and potential loan and other losses	86,731	76	73,491	92	85
2) Other operating and direct expenses	27,360	24	6,712	8	25
3) TOTAL OPERATING AND DIRECT EXPENSES (1) + 2)	114,090	100	80,203	100	70
b) Operating expenses					
1) Salaries and contributions	29,164	39	36,882	37	126
2) Office space, other fixed assets and overheads	33,961	45	41,817	41	123
3) Other operating expenses	12,438	16	22,319	22	179
4) TOTAL OPERATING EXPENSES (1 to 3)	75,563	100	101,021	100	134
c) TOTAL NON-INTEREST BEARING EXPENSES a)3) + b)4)	189,653		181,224		96
4. PROFIT BEFORE TAX (1c+2g - 3c)	6,779		9,980		147
5. LOSS (1.c + 2.g – 3.c)	35,177		28,061		80
6. TAX	141		233		165
7. NET-PROFIT (4. – 6.)	6,638		9,747		147

STAFF

No.	BANKS	QUALIFICATION STRUCTURE								Total	%
		NS*	KV*	VKV*	SSS*	VS*	VSS*	MR*	DR*		
1.	Nova Banjalucka banka a.d.	7	11	4	242	47	99	4	0	414	19
2.	Hypo-Alpe-Adria Bank a.d.	10	0	1	175	16	87	2	0	291	13
3.	PB a.d. Srpsko Sarajevo	9	5	1	180	25	43	0	0	263	12
4.	Nova banka a.d.	3	0	0	113	64	115	2	0	297	13
5.	Razvojna banka JIE a.d.	3	8	9	243	80	117	2	1	463	21
6.	Bobar banka a.d.	0	5	0	35	8	20	2	0	70	3
7.	VB banka a.d.	2	0	1	27	4	30	0	0	64	3
8.	Zepter Komerc banka a.d.	0	2	1	64	21	57	0	0	145	7
9.	Balkan Investment Bank a.d.	1	0	0	19	3	26	1	0	50	2
10.	Pavlovic International Bank a.d.	12	8	1	96	14	38	3	0	172	12
TOTAL		47	39	18	1,194	282	632	16	1	2,229	100
%		2	2	1	54	13	28	0	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