

INFORMATION
ON REPUBLIKA SRPSKA
BANKING SECTOR CONDITION
for the period from 01.01.2007 – 31.12.2007

Banja Luka, March 2008

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INTRODUCTION

Pursuant to the Law on the Banking Agency of Republika Srpska - revised text ("Official Gazette of Republika Srpska" number 67/07) the banking system of Republika Srpska includes banks, microcredit organizations, saving-credit organizations, and other financial organizations whose founding and operation is regulated by separated laws where it is stipulated that the Banking Agency of Republika Srpska shall issue operating licenses or approvals, supervises operation, and performs other activities related to such organizations.

The Information on the Republika Srpska Banking System Condition includes reports on condition of banking sector, microcredit organizations sector, saving-credit organization sector, and leasing providers sector.

In the period from January 1, 2007 to December 31, 2007 the banking sector of Republika Srpska (hereinafter: the RS banking sector) continued with positive trends in all segments of its operation.

In this period the balance sheet amount of the RS banking sector increased by 67% in comparison with the year 2006.

Inflows of cash funds from privatization of state-owned capital were made, which changed significantly the Republika Srpska banks' balance sheet structure.

Beside that, banks enhanced their equity by new stock issues, and their total capital by subordinated debt inclusion.

A new bank was licensed and started its operation in the third quarter of the year 2007.

In the ownership structure a share of 99% of shareholders' capital was private, and 1% state-owned capital. Private capital structure consisted of 87% of foreign capital, and 13% was domestic capital.

Core capital increased by 14% in comparison with the previous year, which was the result of increase in equity, capital reserves, and 2006 undistributed profit.

Deposits increased by 78%, and they represented 85% of funds sources. Such a growth of deposits resulted from increase of the state's deposits due to privatization of the state-owned capital. Thus, in the deposit sector structure those deposits had the largest share, amounting to 39%. All banks recorded increase of citizens' deposits, which increased by KM 294 million or 37% in comparison with the amount as of December 31, 2006. Also, all banks were in compliance with liquidity maintenance requirements.

Share of loans due in total loans had a positive trend, since it recorded decrease in total loans from 3.1% in 2006 to 2.2% as of December 31, 2007.

As of December 31, 2007 nine banks in Republika Srpska generated current profit in an amount of KM 34.1 million, while one bank (newly founded) had a current loss in an amount of KM 495 thousand.

Banks constantly worked on having their operations comply with requirements stipulated by the Law on Prevention of Money Laundering and Financing Terrorism, thus it can be said that they managed to systemize that segment of operation and improved their cooperation with other regulatory and supervisory authorities.

All banks were in possession of certificates on their membership in the Deposit Insurance Program (the newly founded one as of January 1, 2008).

There were 46 organizational parts of banks from Federation BH operating in Republika Srpska, with a share in total loan amounting to 20%, and in deposits 7.4%.

In the year 2007 banks continued their activities in expanding business network and number of ATMs, as well as services in electronic banking. A significant amount of banks' cash funds, which could be placed in the country, was sitting on accounts abroad due to banks' problems banks in finding quality clients.

Placements to citizens reached a level of KM 1,725 million, which amounted to around KM 1,161 of indebtedness per capita in Republika Srpska (based on 2006 statistical data on Republika Srpska population of 1,487 thousand of citizens) with tendency of a slight increase (as of June 30, 2006 indebtedness per capita in Republika Srpska amounted to KM 987, and as of September 30, 2007 it amounted to KM 1,060).

All segments of the banking sector are analyzed in detail in the following Chapter I.

Basic operation of microcredit organizations (hereinafter: MCO) is lending of micro credits in order to improve material condition of borrowers, to increase employment, to support development of entrepreneurship, to generate profit and other. By a rule borrowers of micro credits are citizens and entrepreneurs with lower income, as well as small and medium enterprises.

MCOs appeared in Republika Srpska in 2001 when their opening was enabled by the Law on Microcredit Organizations ("Official gazette of Republika Srpska" number 19/01). Pursuant to the Law, MCOs were founded as non-deposit and non-profit organizations with founding capital of KM 5 thousand. It was their obligation to use the surplus generated as a balance between income and expenses for further micro crediting.

Supervision of MCOs' operation was performed by the Ministry of Finance of Republika Srpska, as well as by creditors and donors of funds by means of loan agreements implementation. Agreements stipulated limits for utilization of funds and fulfillment of other requirements related to MCOs' operation.

The newly passed Law on Microcredit Organizations ("Official Gazette of Republika Srpska" number 64/06), provided for two possibilities in organizing an MCO; first, as a microcredit association (hereinafter: MCA) as a profit organization established either as a limited liability company or a stock company, and second, as a microcredit foundation (hereinafter: MCF) as a non-profit organization.

The Law stipulates the minimum amount of founding capital paid in cash, which is KM 500 thousand in case of MCA, and KM 50 thousand for MCF.

The deadline for adjustment of then existing MCOs with provisions of the Law and legal enactments passed by the Banking Agency of Republika Srpska (hereinafter: the Agency) expired as of the end of June 2007.

Pursuant to the Law, the Agency issues and revokes operating licenses, and regulates and supervises operation of MCOs in Republika Srpska.

By 31.12.2007 the Agency licensed three MCAs, established as limited liability companies, and three MCFs, while licensing of the fourth MCF was still being processed. Also, the Agency issued licenses for operation in Republika Srpska to organizational units of three MCFs having their headquarters in Federation of Bosnia and Herzegovina. Thus, the first of those MCFs has 17 of such organizational units licensed, the second 9, and the third one 3 organizational units. Those organizational units shall be included in the Agency's reporting data base for the year 2008.

As of 31.12.2007 the total MCOs' assets amounted to KM 252.4 million, out of which MCAs' assets amounted to KM 250.4 million or 99%, and MCFs' assets amounted to KM 2 million or 1%.

The amount of the total MCOs' capital was KM 53.8 million, out of which MCAs' share was KM 52.9 million or 99%, and MCFs' share was KM 0.1 million or 1%.

MCAs' net profit generated in 2007 i.e. the surplus of income over expenses before transformation of MCOs into MCAs amounted to KM 9.6 million, while MCFs reported lower income than expenses in an amount of KM 73 thousand.

The number of employees in microcredit sector totaled to 375, out of which 367 or 98% were employed by MCAs, and 8 employees or 2% by MCFs.

Segments of operation of microcredit sector are described in more details in the Chapter II.

Pursuant to the Law on Saving-Credit Organizations ("Official Gazette of Republika Srpska" number 93/06) the Agency issues and revokes licenses for operation, and regulates and supervises operation of saving-credit organizations.

By 31.12.2007 no saving-credit organization started operating. The Agency issued an operating license to one saving-credit organization, which is now being registered by the relevant court.

Pursuant to the Law on Leasing ("Official Gazette of Republika Srpska" number 70/07) the Agency issues and revokes licenses for operation, and regulates and supervises operation of leasing providers.

Legal entities who were engaged in leasing activities as of the date of coming into force of the Law are obliged to adjust its operation with provisions of the Law or to submit to the court register a request for cancellation not later than mid May 2008.

By 31.12.2007 the Agency received one application for issuance of operating license, and the licensing procedure is in the progress.

I BANKING SECTOR

1. BANKING SECTOR STRUCTURE

In the course of 2007 Republika Srpska banking sector increased by one bank and had a total of 10 banks. The newly founded bank started its operation in July 2007.

Establishing a broad network of operating units, banks of Republika Srpska have covered the whole territory of Republika Srpska and partially the territory of Federation of BH, which made banking services available in almost every significant urban place.

Among other things, banks' continuous striving to position themselves better at the financial market by introducing up-to-date forms of business operation such as electronic banking, ATM and POS facilities has brought banks' services closer to their clients.

Banks' Branch Offices and other Organizational Units
as of 31.12.2007

I	Banks of Republika Srpska	Branch Offices	Other Organizational Units	POS	ATM
	1. Nova Banjalucka banka a.d. Banja Luka	42	33	95	45
	2. Hypo Alpe-Adria-Bank a.d. Banja Luka	6	39	505	38
	3. Bobar banka a.d. Bijeljina	6	41	76	3
	4. NLB Razvojna banka a.d. Banja Luka	12	54	645	32
	5. Volksbank a.d. Banja Luka	12	12	416	18
	6. Balkan Investment Bank a.d. Banja Luka	10	9	19	11
	7. Pavlović International Bank a.d. Slobomir	14	21	36	3
	8. Nova banka a.d. Banja Luka	11	60	636	39
	9. Komercijalna banka a.d. Banja Luka	8	6	16	10
	10. IEFK banka a.d. Banja Luka	-	-	-	-
	Total:	121	275	2443	199
II	Organizational Units from Federation BH				
	1. ProCredit Bank dd Sarajevo	2	10	1	10
	2. Raiffeisen Bank dd BiH Sarajevo	8	15	643	20
	3. Volksbank BiH dd Sarajevo	2	-	26	3
	4. HVB Central profit Bank BiH dd Sarajevo	2	-	9	2
	5. UPI banka dd Sarajevo	2	1	23	1
	6. UniCredit Zagrebačka banka dd Mostar	4	-	224	7
	Total:	20	26	926	43
	Total I + II:	141	301	3369	242

The total number of organizational units of RS banks and banks having their headquarters in Federation BH was 442, out of which there were 141 branch offices, and 301 other organizational units.

RS banks had a total of 121 branch offices and 275 other organizational units, out of which 108 branch offices and 266 other organizational units were operating in the territory of Republika Srpska, while 13 branch offices and 9 other organizational units were operating in the territory of Federation BH.

The following RS banks had their branch offices and other organizational units operating in Federation BH: Volksbank a.d. Banja Luka two, Nova Banjalucka banka a.d. Banja Luka six, Nova banka a.d. Banja Luka ten, Balkan Investment Bank a.d. Banja Luka one, Komercijalna banka a.d. Banja Luka two, and Bobar banka a.d. Bijeljina one.

Balkan Investment Bank a.d. Banja Luka had two representative offices in Lithuania.

The largest network of branch offices and other organizational units was found with Nova Banjalucka banka a.d. Banja Luka, a total of 75, Nova banka a.d. Banja Luka, a total of 71, and NLB Razvojna banka a.d. Banja Luka, a total of 66. Those three banks had 54% out of the total number of organizational units of RS banks.

In order to provide for quality services suiting the population in place and time, RS banks have installed a total of 199 ATMs. Nova Banjalucka banka a.d. Banja Luka had the largest number of ATMs (45).

Apart from that, eight RS banks have installed a total of 2443 POS facilities in banks and in majority of shopping centers, department stores, and other selling places. POS installations have improved and alleviated citizens' non-cash payments.

Six banks having their headquarters in Federation of BH had 46 organizational units operating in the territory of Republika Srpska, 43 ATMs, and 926 POS installed.

All RS banks, as well as their branch offices, and a part of organizational units of banks from Federation BH were in possession of licenses to perform internal payment operations.

Also, all RS banks possessed certificates on membership in the Deposit Insurance Program granted by the BH Deposit Insurance Agency (the newly founded bank as of January 1, 2008).

Three banks were under bankruptcy proceedings (Privredna banka Gradiska a.d. Gradiska, Ekvator banka a.d. Banja Luka, and Prijedorska banka a.d. Prijedor), which were within the scope of court authority.

The Banking Agency of Republika Srpska carried out liquidation procedure for Privredna banka a.d. Srpsko Sarajevo.

1.1. Ownership Structure

RS banks' capital was majority privately owned with a large share of foreign privately owned capital.

Equity Structure as of 31.12.2007

(in 000 KM)

No.	Bank	Private capital		State-owned capital		Cooperative capital	
		Amount	%	Amount			Amount
Majority private capital							
1.	Nova Banjalucka banka a.d. B. Luka	60,774	98	1,202	2	78	0
2.	Hypo Alpe Adria Bank a.d. B. Luka	100,820	100	0	0	17	0
3.	Bobar banka a.d. Bijeljina	17,204	100	0	0	0	0
4.	NLB Razvojna banka a.d. B. Luka	40,388	96	1,615	4	0	0
5.	Volksbank a.d. Banja Luka	18,967	100	0	0	0	0
6.	Balkan Investment Bank a.d. B.Luka	18,000	100	0	0	0	0
7.	Pavlović International Bank a. Slobomir	15,547	98	0	0	255	2
8.	Nova banka a.d. Banja Luka	44,663	99	0	0	479	1
9.	Komercijalna banka a.d. Banja Luka	20,000	100	0	0	0	0
10.	IEFK banka a.d. Banja Luka	20,000	100	0	0	0	0
II	TOTAL:	356,363	99	2,817	1	829	0

The capital ownership structure did not change in the course of 2007.

Shareholders' capital (equity) amounted to KM 360,009 thousand, out of which privately owned capital amounted to KM 356,363 thousand or 99%, state owned capital amounted to KM 2,817 thousand or 1%, and co-operative capital amounted to KM 829 thousand.

The total equity amount consisted of KM 358,009 thousand or 99% of ordinary non-cumulative shares and of KM 2,000 thousand or 1% of preferred cumulative shares, which related to a single bank.

An important determinant of each banks' market position is its capital amount and soundness.

Banks' market share in total assets, capital, and deposits measured to the type of ownership is given in the following table:

(in %)

Banks	31.12.2006				31.12.2007			
	Share in total assets	Share in total capital	Share in deposits	Number of banks	Share in total assets	Share in total capital	Share in deposits	Number of banks
1. with majority domestic private capital	2.2	4.5	2.0	1	2.7	4.0	2.7	1
2. with majority foreign private capital	97.8	95.5	98.0	8	97.3	96.0	97.3	9

The banking sector of Republika Srpska was characterized by domination of foreign private ownership. Domestic private capital was found only in one bank and its share at the market and impact made on the banking sector, as a whole was very small.

Ranking banks according to amounts of their gross assets divides banks in the following groups of banks:

(in 000 KM)

AMOUNT OF ASSETS (in million KM)	31.12.2006			31.12.2007		
	Amount	Share %	Number of banks	Amount	Share %	Number of banks
Over 500	1,796,934	55	2	4,402,09	80	4
300 to 500	846,730	26	2	404,488	7	1
150 to 300	252,799	8	1	369,688	7	2
Under 150	371,877	11	4	302,655	6	3
TOTAL:	3,268,340	100	9	5,478,929	100	10

Market position of individual banks measured in accordance with their assets changed significantly. As of 31.12.2007 the number of banks that had assets exceeding KM 500 million increased from two to four, and their share in the total assets increased from 55% to 80%. The group of banks with assets from KM 300-500 million was reduced from two to one bank.

Five banks, including the two newly founded ones (one of them established at the end of 2006, and the other in June 2007), had assets smaller than KM 300 million. The group's share in total assets was 13%, and the group found increasingly difficult to follow large banks, especially from the aspect of long-term funds sources and potentials to increase its scope of operation.

1.2. Staff

Staff Qualification Structure

Ord. No.	Qualification	Figures as of 31.12.2006	%	Figures as of 31.12.2007	%	INDEX 2007/2006
1.	Unskilled worker	26	1	24	1	92
2.	Skilled	26	1	26	1	100
3.	Highly Skilled	14	1	13	0	93
4.	Secondary School	1305	51	1416	50	109
5.	Junior College	276	11	304	11	110
6.	College	893	35	1,045	37	117
7.	Master Degree	18	1	21	1	117
8.	Dr. Sc.	0	0	0	0	0
	TOTAL:	2558	100	2849	100	111

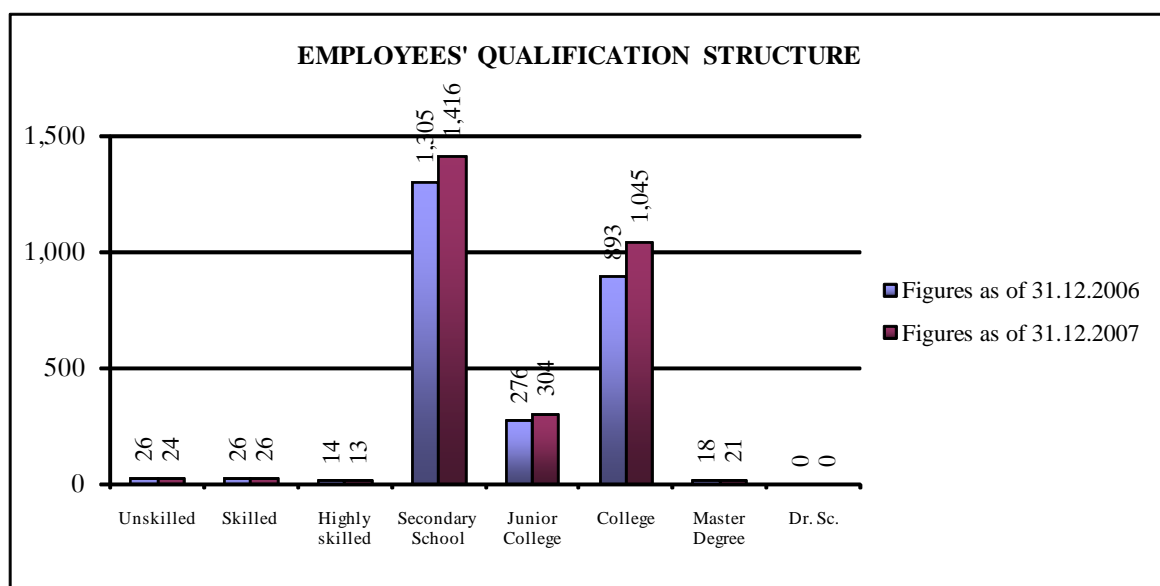
In 2007 the Republika Srpska banking sector increased its number of employees by 291 or 11%, which gave a total of 2849.

The staff qualification structure kept a dominating percentage of 50% of employees having secondary school diplomas in total number of 1416 employees, where there was an increase by 111 employees or 9% in comparison with the previous year. That was a result of scope of operation increasing primarily in segments related to work with citizens, and expanding organizational network. Also, introduction of new products (new credit-products, cards, e-banking etc.) required such a profile of employees.

A very positive trend is the policy to employ college graduated employees; thus, in 2007 the number of such employees increased by 152 or 17%.

In comparison with the end of the previous year the number of employees having other levels of education increased as in case of master degree by 3, and junior college graduated by 28, while highly skilled workers decreased by 1, unskilled workers by two, and the number of skilled workers remained the same.

All those variations in figures slightly changed percentages of individual levels of education participating in the total number of employees. As a result, the number of college graduated employees increased from 35% to 37%, while the number of employees with secondary school diplomas and of highly skilled workers decreased from 51% to 50% and from 1% to 0% respectively.



Ratio of the number of employees over total assets is seen as both employees' efficiency and one of indicators of operational efficiency of both banking sector and individual banks. Larger amount of assets per an employee is an indicator of larger efficacy and effectiveness in banks' operation.

Assets per Employee

DATE	Number of Employees	Assets (000 KM)	Assets per Employee (000 KM)
31.12.2006.	2558	3,268,340	1,278
31.12.2007.	2849	5,478,929	1,923

Considerably faster growth of gross assets (60%) than the total number of employees (11%) as of 31.12.2007 resulted in an increase of assets per employee from KM 1,278 thousand to KM 1,923 thousand or by 50%.

Nine banks met international standard requirement for assets per employee (KM 1 million).

Assets per employee ratio in individual banks ranged from KM 624 thousand to KM 3,661 thousand, which was the amount in the largest Republika Srpska bank.

Nine banks with assets per employee exceeding KM 1 million had total assets amounting to KM 5,351 million or 98% of total assets of the Republika Srpska banking sector. These nine banks had 2,644 employees or 93% of the total number of employees.

The single bank with assets per employee amounting less than KM 1 million had an amount of assets of KM 128 million or 2% of the total assets, and 205 employees or 7% of the total number of employees. That was a consequence of both inadequate number of employees and organization of operation, and altogether caused a decrease in productivity and operational efficiency of the bank.

2. FINANCIAL INDICATORS OF BANKS' OPERATION

As a legal function of a regulator and a supervisor of banks' financial condition and operation stability Banking Agency of Republika Srpska (hereinafter: the Agency) supervises and controls financial condition and stability of banks' operation by means of on-site and off-site examinations as required by the Law on Banks of Republika Srpska and regulation prescribed by the Agency.

Reports to be submitted by banks are the following:

1. Monthly Balance Sheets and quarterly additional attachments containing details on cash-funds, loans, deposits, and off-balance sheet items;
2. Quarterly reports on capital and capital adequacy, assets classification, concentration of credit and other risks, liquidity position, and foreign currency exposure;
3. Quarterly reports on operation results (income statement and cash-flows);
4. Other reports (daily, ten-day period and monthly) on specific segments of banks' operation.

Apart from reports listed above, the data-base consists of pieces of information submitted under the Agency's additional requests, data from reports on external audits of banks, as well as of data from other sources, and all that with a goal to perform, as quality as possible, monitoring, and analyses of RS banks' operation.

2.1. Balance Sheet

As of 31.12.2007 Republika Srpska banks' balance sheet total amount was KM 5,379 million with a growth rate of 69% in comparison with 31.12.2006.

The growth of the balance sheet amount was significantly influenced by cash inflows from sales of state-owned capital in enterprises, as well as by opening of a new bank with capital of KM 20 million.

(in 000 KM)

DESCRIPTION	31.12.2006		31.12.2007		INDEX
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY):					
1.Cash Funds	971,555	30	2,209,107	41	227
2.Trading securities	8,448	0	10,000	0	118
3.Placements to other banks	22,333	1	292,640	5	1.310
4.Net loans	1,957,198	61	2,620,101	49	134
5.Securities held up to maturity	0	0	0	0	0
6.Office space and other fixed assets	157,234	5	176,518	3	112
7.Other assets	73,032	3	70,341	2	96
8. ALL ASSETS:	3,189,800	100	5,378,707	100	169
9.Total off-balance sheet items (10+11+12)	547,838		847,004		155
10. Active off-balance sheet items	305,816		477,962		156
11. Classified assets-loss E	165,989		163,319		98
12. Commission (agent) business activities	76,033		205,723		271
13. TOTAL ASSETS (8+9)	3,737,638		6,225,711		167
LIABILITIES (OBLIGATIONS):					
14.Deposits	2,582,805	81	4,586,511	85	178
15.Borrowings taken	0	0	0	0	0
16.Obligations per loans taken	143,962	5	218,697	4	152
17.Subordinated debts	1,512	0	11,162	0	738
18.Other obligations	58,826	1	93,949	2	160
19.Reserve required for potential loss	17,870	1	19,302	0	108
20.Capital	384,825	12	449,086	9	117
21. ALL LIABILITIES (OBLIGATIONS AND CAPITAL)	3,189,800	100	5,378,707	100	169
22.Total off-balance sheet items (23+24+25)	547,838		847,004		155
23. Active off-balance sheet items	305,816		477,962		156
24. Classified assets-loss E	165,989		163,319		98
25. Commission (agent) business activities	76,033		205,723		271
26. TOTAL LIABILITIES (21+22)	3,737,638		6,225,711		167

Increase of the balance sheet amount influenced the balance sheet structure to change in comparison with the end of 2006.

The most significant growth within the assets structure was recorded in cash funds with a growth rate of 127% in comparison with the previous year, and with increase of share in the balance sheet structure from 30% to 41%. Net loans decreased their share from 61% as of the end 2006 to 49%, and had a growth rate of 34%. Share of other assets increased from 9% to 10%.

As for the structure of liabilities, deposit growth of 78% - in comparison with the amount as of 31.12.2006 - caused an increase of deposits in total liabilities from 81% to 85%. At the same time capital share in the total liabilities decreased from 12% to 9%.

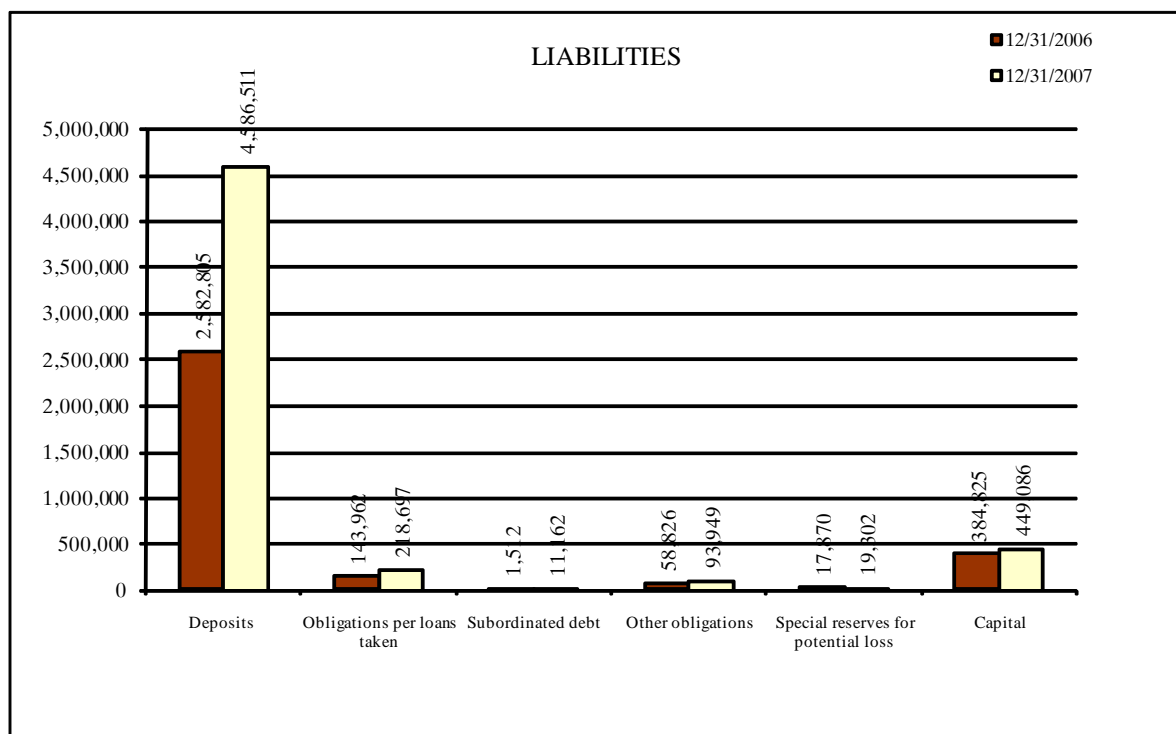
The largest increase in the off-balance sheet structure as of 31.12.2007 was recorded in commission business activities amounting to 171%. If compared to the end of 2006 active off-balance sheet increased by 56%, while classified assets - loss "E" decreased by 2%.

2.1.1. Liabilities

Liabilities structure (liability and capital - sources) can be seen from the following table:

(in 000 KM)

DESCRIPTION	31.12.2006		31.12.2007		INDEX
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
LIABILITIES (OBLIGATIONS):					
1. Deposits	2,582,805	81	4,586,511	85	178
2. Borrowings taken	0	0	0	0	0
3. Obligations per loans taken	143,962	5	218,697	4	152
4. Subordinated debts	1,512	0	11,162	0	738
5. Other obligations	58,826	1	93,949	2	160
6. Reserve required for potential loss	17,870	1	19,302	0	108
7. Capital	384,825	12	449,086	9	117
8. TOTAL LIABILITIES (OBLIGATIONS AND CAPITAL)	3,189,800	100	5,378,707	100	169



Deposits were a basic source of funds and participated in the total liabilities with 85%.

Deposits had a growth rate of 78%. The growth of total deposits was under a strong influence of cash inflow based on sale of enterprises' state-owned capital. Loans borrowed amounted to KM 218.7 million, and increased by 52%, while in the liabilities structure their share was lowered from 5% to 4%. Out of the total loans borrowed an amount of 56% represented loans extended by foreign banks, 22% by foreign funds, and 22% by the Housing Fund of Republika Srpska.

Other obligation increased by 60% in comparison with the end of 2006, mostly due to increase of deposit interests accrued, and loan related fees accrued.

Reserves for potential losses amounted to KM 19.3 million with a growth rate of 8%, and they were related to balance sheet receivables, except for loans, and to active off-balance sheet items.

Capital growth rate was 17%, and its share in total liabilities amounted to 9%.

2.1.1.1. Deposits

Deposit Structure per Sectors

(in 000 KM)

DEPOSITS	31.12.2006		31.12.2007		Index
	Amount	%	Amount	%	
Government Institutions	362,714	14	1,783,390	39	492
Public and State Enterprises	129,511	5	192,983	4	149
Private Enterprises and Corporations	312,308	12	471,385	10	151
Non-Profit Organizations	36,680	1	49,274	1	134
Banking Institutions	841,609	33	891,017	19	106
Non-Banking Financial Institutions	80,803	3	76,649	2	95
Citizens	800,855	31	1,095,185	24	137
Other	18,325	1	26,628	1	145
TOTAL	2,582,805	100	4,586,511	100	178

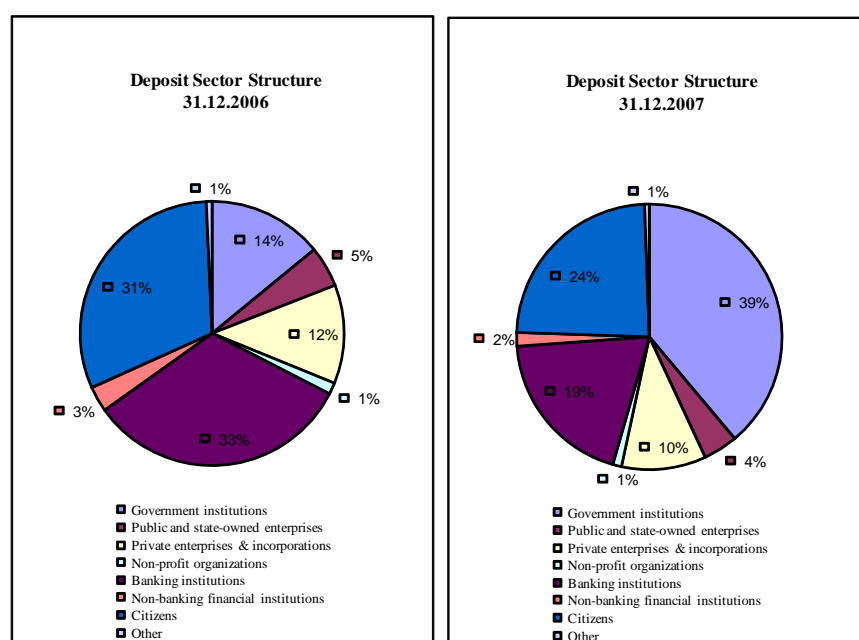
In 2007 deposits increased by 78% changing significantly structure of deposits per sectors. Deposits of the government had the largest share in the deposit structure per sectors amounting to 39% (as of 31.12.2006 it was 14%). Their growth rate was 392% in comparison with the end of the previous year due to deposits created from privatization of the state-owned capital.

Citizens' deposits decreased their share from 31% as of the end of 2006 to 24%, and had a growth rate of 37%.

Banking institutions' deposits decreased their share in total deposits from 33% to 19%, and increased by 6%. The level of these deposits mostly depended on condition of deposits of a single bank in an amount of KM 724.9 million or 83% of the total deposits of that sector.

Deposits of private enterprises and corporations increased by 51%, and decreased their share in total deposits from 12% to 10%.

All other sectors participated with 8% in the deposit structure with a total amount of KM 345.5 million.



Deposit Structure per Currency

(in 000 KM)

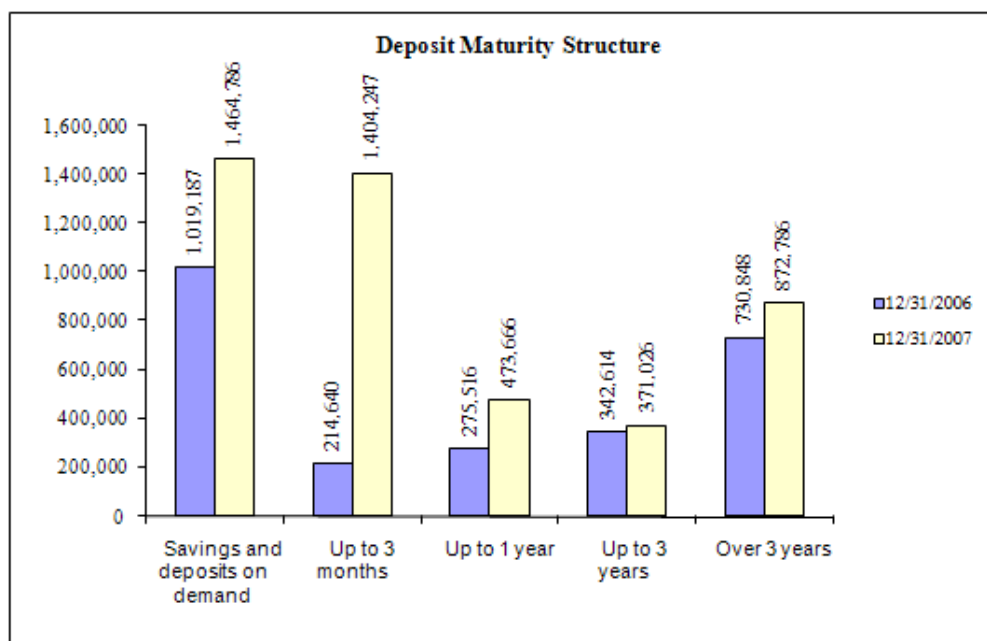
DEPOSITS	31.12.2006		31.12.2007		INDEX
	Amount	%	Amount	%	
KM Deposit	1,218,836	47	1,726,441	38	142
Foreign Currency Deposit	1,363,969	53	2,860,070	62	210
TOTAL:	2,582,805	100	4,586,511	100	178

In 2007 deposit currency structure significantly changed mostly due to FC inflow based on privatization of state-owned capital. Deposits in domestic currency increased by 42% and decreased their share in total deposits from 47% to 38%. Share of FC deposits, where Euro was a dominating currency, amounted to 62% of total deposits, and they were larger by 110% in comparison with the amount as of 31.12.2006.

Deposit Structure per Maturity

(in 000 KM)

DEPOSITS	31.12.2006		31.12.2007		INDEX
	Amount	%	Amount	%	
Savings and deposits on demand	1,019,187	40	1,464,786	32	144
Up to 3 months	214,640	8	1,404,247	31	654
Up to 1 year	275,516	11	473,666	10	172
1. Total short-term deposits	1,509,343	59	3,342,699	73	221
Up to 3 years	342,614	13	371,026	8	108
Over 3 years	730,848	28	872,786	19	119
2. Total long-term deposits	1,073,462	41	1,243,812	27	116
TOTAL (1+2)	2,582,805	100	4,586,511	100	178



Deposit structure per maturity reflected significant increase of short term deposits, which consisted of deposits on demand and time deposits with maturity up to one year. Growth rate of these deposits was 121% and their share in total deposits increased from 59% to 73%, and.

Long-term deposits grew by 16%, and decreased their share in total deposits from 41% to 27%.

Citizens' Loans and Savings

(in 000 KM)

No.	DESCRIPTION	31.12.2006	31.12.2007	INDEX
1	2	3	4	5=4/3
1.	Loans to citizens	883,918	1,216,108	138
2.	Citizens' savings	555,844	748,355	135
3.	Loans/Savings	159%	163%	
4.	Citizens' current accounts	189,085	266,863	141
5.	Total deposits (2+4)	744,929	1,015,218	136
6.	Loans/Total Deposits	119%	120%	

Growth of citizens' savings as of 31.12.2007 amounted to 748.4 or 16% of the total deposits in banks, with a growth rate of 35% in comparison with the end of the previous year. Time deposits amounted to KM 551.9 million or 74% of the total savings, and in 2007 they had a growth rate of 39%. Deposits on demand amounted to KM 196.5 million or 26% of the total savings with a growth rate of 25%. A larger share of time deposits is seen as one of results of recovered confidence into banking system supported by both adequate bank supervision and deposit insurance functions.

According to currency structure of savings as of 31.12.2007 foreign currency savings amounted to KM 521.1 million or 70%, while savings in KM amounted to KM 272.3 million or 30%.

Citizens' loans to savings ratio increased, since loans grew faster than savings. Loans to citizens were 62% covered by citizens' savings, and if citizens' current accounts were taken into consideration then the coverage rate was 84%, i.e. the same as on 31.12.2006.

In comparison with 31.12.2006, citizens' current account increased by 41%.

Deposits in Branch Offices and Operating Units of Banks from Federation BH

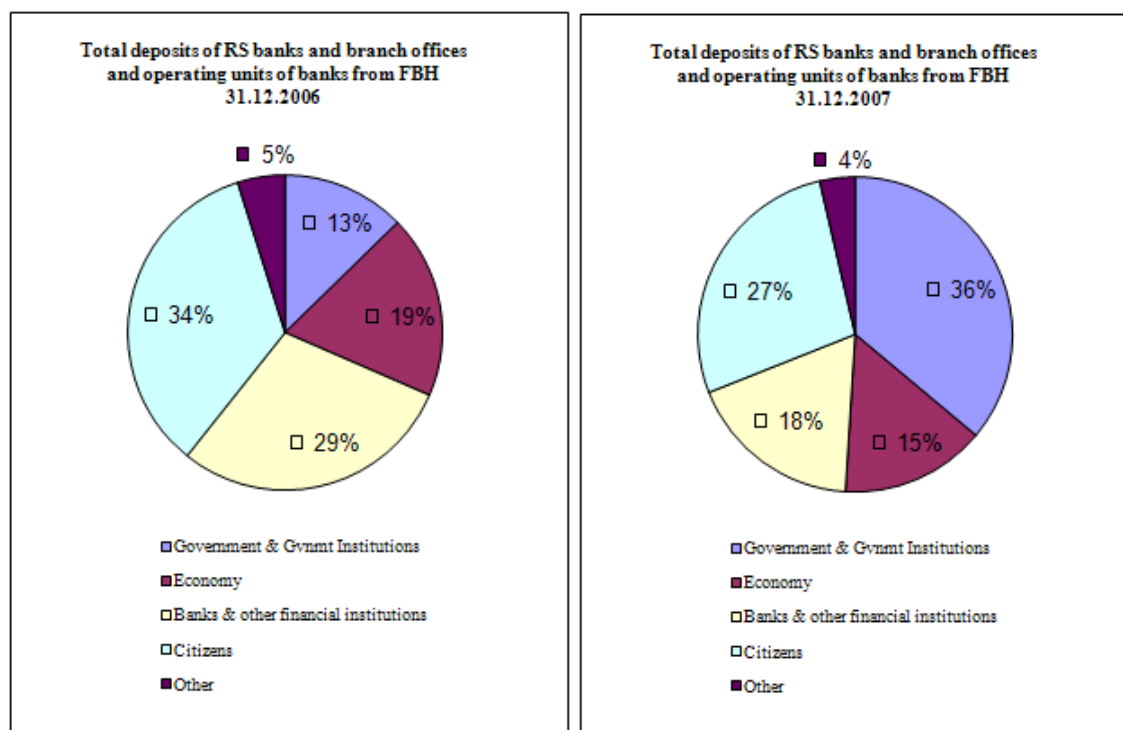
(in 000 KM)

No.	DESCRIPTION	31.12.2006	%	31.12.2007	%	Index
1	2	3	4	5	6	7=5/3
1.	Short-Term Deposits					
a.	Government and Government Institutions	3,202	1	3,941	1	123
b.	Economy	90,254	30	69,641	19	77
c.	Banks and Other Financial Institutions	582	0	805	0	138
d.	Citizens	115,077	38	136,916	37	119
e.	Other	2,468	1	27,005	8	1,094
	TOTAL (1)	211,583	70	238,308	65	113
2.	Long-Term Deposits					
a.	Government and Government Institutions	51	0	0	0	0
b.	Economy	10,382	3	4,846	1	47
c.	Banks and Other Financial Institutions	0	0	250	0	0
d.	Citizens	78,607	26	124,339	34	158
e.	Other	0	1	0	0	0
	TOTAL (2)	89,040	30	129,435	35	145
	GRAND TOTAL (1. +2.)	300,623	100	367,743	100	122

Deposits received by branch offices and units of banks from Federation BH operating in the territory of Republika Srpska amounted to KM 367.7 million, and were larger by 22% in comparison with the previous year end amount. According to the maturity structure there were 65% short-term, and 35% long-term deposits. Based on the sector structure the most important share was that of citizens' deposits, which increased from 64% as of the end of 2006 to 71% as of 31.12.2007. Those deposits made part of the total deposits of mother banks in Federation BiH.

Maturity and sector structure of total deposits received by banking sector of Republika Srpska and branch offices and operating units of banks from Federation of BH is given in the following table:
(in 000 KM)

DESCRIPTION	31.12.2006						31.12.2007						Index
	RS Banks	%	FBH Banks' units	%	Total	%	RS Banks	%	FBH Banks' units	%	Total	%	
1	2	3	4	5	6	7	8	9	10	11	12	13	14=12/6
1. Short-Term Deposits													
a) Gov.&Gov.Institutions	302,336	12	3,202	1	305,538	11	1,694,961	37	3,941	1	1,698,902	34	556
b) Economy	403,429	16	90,254	30	493,683	17	610,089	13	69,641	19	679,730	14	138
c) Banks & other fin.inst.	123,588	5	582	0	124,170	4	81,849	2	805	0	82,654	2	67
d) Citizens	566,677	22	115,077	38	681,754	24	823,853	18	136,916	37	960,769	19	141
e) Other	113,313	4	2,468	1	115,781	4	131,947	3	27,005	8	158,952	3	137
Total ST Deposits	1,509,343	59	211,583	70	1,720,926	60	3,342,699	73	238,308	65	3,581,007	72	208
2. Long-Term Deposits													
a) Gov.&Gov.Institutions	60,378	2	51	0	60,429	2	88,429	2	0	0	88,429	2	146
b) Economy	38,389	1	10,382	3	48,771	2	54,279	1	4,846	1	59,125	1	121
c) Banks&other fin.inst.	718,021	28	0	0	718,021	25	809,168	18	250	0	809,418	16	113
d) Citizens	234,179	9	78,607	26	312,786	11	271,332	6	124,339	34	395,671	8	126
e) Other	22,495	1	0	1	22,495	0	20,604	0	0	0	20,604	1	92
Total LT Deposits	1,073,462	41	89,040	30	1,162,502	40	1,243,812	27	129,435	35	1,373,247	28	118
GRAND TOTAL (1. +2.):	2,582,805	100	300,623	100	2,883,428	100	4,586,511	100	367,743	100	4,954,254	100	172



Total deposits received in Republika Srpska amounted to KM 4,954.2 million, out of which KM 4,586.5 million were deposits received by the RS banking sector, and KM 367.7 million were deposits received by branch-offices and operating units of banks from

Federation BH. Based on maturity structure out of total deposits received 72% were short-term deposits, and 28% were long-term deposits.

Deposits received by branch-offices and operating units of banks from Federation BH amounted to 7.4% out of total deposits received, which was considerably lower than the share as of the end of 2006 when it amounted to 10.4%.

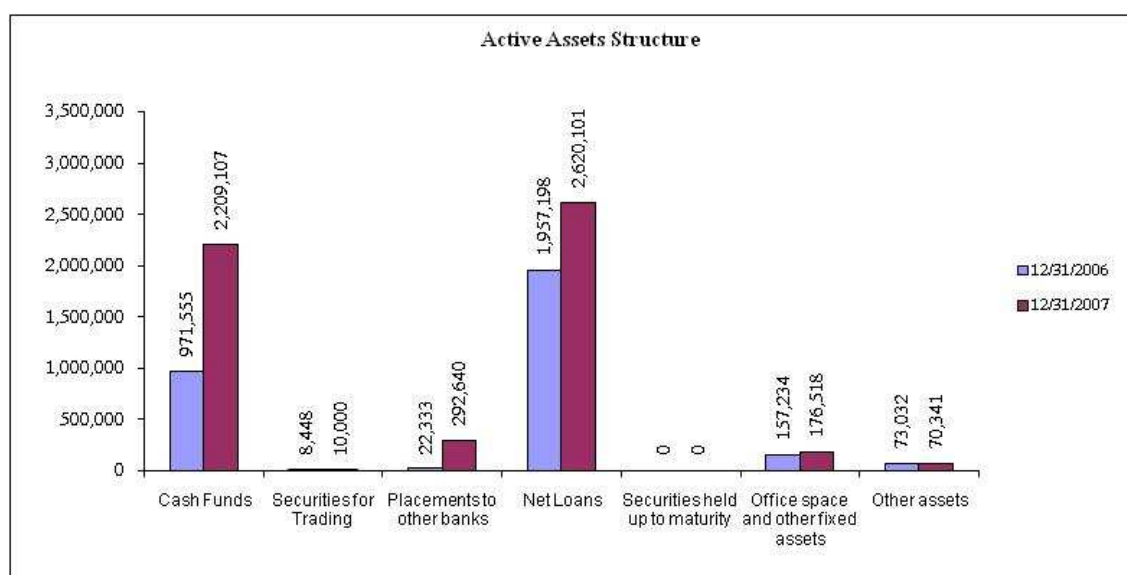
Deposits received by units of RS banks operating in Federation BH amounted to KM 46.4 million, which was by 23% larger amount in comparison with 31.12.2006. Those deposits were included in the total amount of deposits received by the RS banking sector.

2.1.2. Assets

Assets Structure

(in 000 KM)

DESCRIPTION	31.12.2006		31.12.2007		INDEX
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY):					
1.Cash Funds	971,555	30	2,209,107	41	227
2.Securities for Trading	8,448	0	10,000	0	118
3.Placements to other banks	22,333	1	292,640	5	1.310
4.Net Loans	1,957,198	61	2,620,101	49	134
5.Securities held up to maturity	0	0	0	0	0
6.Office space and other fixed assets	157,234	5	176,518	3	112
7.Other assets	73,032	3	70,341	2	96
8. ALL ASSETS:	3,189,800	100	5,378,707	100	169



As of 31.12.2007 total assets amounted to KM 5.38 billion and had a growth rate of 69% in comparison with the end of the previous year.

Assets structure significantly changed. Compared to the end of the previous year share of cash funds increased from 30% to 41%. This increase of cash funds in an amount of 127% was largely caused by foreign currency inflow due to privatization of state-owned capital.

Placements to other banks had a growth rate of 1210% in comparison with 31.12.2006, and their share in total assets increased from 1% to 5%. Increase of this category was mainly influenced by placements to banks at one bank in an amount of KM 254 million with coverage consisting of highly liquid securities from zone A countries.

Net loans had a growth rate of 34% and their share in total assets decreased from 61% as of the end of the previous year to 49% as of 31.12.2007.

Share of other assets items decreased from 8% to 5%.

Off-Balance Sheet Assets Structure

(in 000 KM)

DESCRIPTION	31.12.2006		31.12.2007		INDEX
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
1. Active Off-Balance Sheet Items	305,816	100	477,962	100	156
- Irrevocable obligations for lending	135,726	45	231,822	49	171
- Irrevocable documentary L/C	1,422	0	2,062	0	145
- Other L/C to be paid abroad	446	0	475	0	107
- Guarantees issued	166,810	55	242,571	51	145
- Drafts and sureties issued	0	0	33	0	0
- Nostro financial activities – being collected	0	0	0	0	0
- Current FC transaction contracts	551	0	0	0	0
- Other off-balance sheet items	861	0	999	0	116
2. Classified assets - loss E	165,989		163,319		98
3. Commission business activities	76,033		205,723		271
4. TOTAL	547,838		847,004		155

Total off-balance sheet assets amounted to KM 847 million and increased by 55% in comparison with the previous year-end.

Share of active off-balance sheet assets items in the structure of off-balance sheet assets amounted to KM 478 million or 57%, classified assets - loss "E" amounted to KM 163 million or 19%, and commission loans amounted to KM 206 million or 24% of the total off-balance sheet assets items.

Active off-balance sheet or off-balance sheet risk bearing receivables consisted of payable and performance guarantees issued amounting to 51% with a growth rate of 45%, irrevocable obligations for loans with down payment amounted to 49% with a growth rate of 71%. Other items had no significant influence on the structure of active off-balance sheet.

As of 31.12.2007 classified assets – loss "E" decreased by 2% or by KM 2.7.

Claims for a major part of classified assets - loss "E" were presented to the court, thus the process of collection depended also on the period of duration of court procedures.

Commission business activities amounted to KM 205.7 million and they recorded an increase of 171% in comparison with the previous year-end. Seven banks performed these activities. Such a growth of commission business activities was mostly due to the fact that one bank started custody business activities amounting to KM 120 million mostly performed for foreign legal persons.

Additionally, increase in commission business activities in 2007 was recorded in one bank in an amount of KM 39.3 million due to the bank's performing business activities on behalf and for the account of the mother bank.

2.1.2.1. Cash funds

The Republika Srpska banking sector constantly has a relatively high level of cash funds. In the second half of the year a further significant growth of cash funds continued mostly due to foreign currency inflow based on privatization of state-owned capital.

Cash Funds Structure

(in 000 KM)

DESCRIPTION	31.12.2006		31.12.2007		Index
	Total	%	Total	%	
1	2	3	4	5	6=4/2
KM					
Cash funds	43,907	4	64,979	3	148
Reserve accounts with CBBH	628,886	65	961,223	44	153
Deposit accounts with depositary institutions in BH	17,035	2	2,576	0	15
Deposit accounts with depositary institutions abroad	0	0	2	0	0
Cash funds in collection process	0	0	0	0	0
Debts not-repaid	0	0	0	0	0
TOTAL:	689,828	71	1,028,780	47	149
FOREIGN CURRENCY					
Cash funds	37,008	4	47,014	2	127
Reserve accounts with CBBH	0	0	0	0	0
Deposit accounts with depositary institutions in BH	1,723	0	209	0	12
Deposit accounts with depositary institutions abroad	242,379	25	1,132,526	51	467
Cash funds in collection process	617	0	578	0	94
Debts not-repaid	0	0	0	0	0
TOTAL:	281,727	29	1,180,327	53	419
GRAND TOTAL:	971,555	100	2,209,107	100	227

As of 31.12.2007 total cash funds amounted to KM 2.2 billion and increased by 127% in comparison with the previous year-end.

Foreign currency inflow due to privatization of state-owned capital caused some changes in the currency structure as well. Cash funds in KM increased by 49% in comparison with the previous year-end, while in the structure, however, their share decreased from 71% to 47%.

The KM cash funds composition shows that the largest share was that of cash funds at reserve accounts with the CBBH amounting to 44% out of total cash funds and having a growth rate of 53%. Cash funds in foreign currency amounted to KM 1,180.3 million with a growth rate of 319% in comparison with 31.12.2006. Their share increased from 29% to 53%. Out of the total an amount of KM 1,132.5 million or 51% was in deposit accounts at depositary institutions, which can be broken down to foreign currency current accounts of an amount of KM 103.8 million, and an amount of KM 1,028.7 million of short-term deposits (up to 90 days).

Out of the total cash funds an amount of KM 2,080.4 million or 94% represented interest bearing deposit accounts while KM 128.7 million or 6% were non-interest bearing accounts from which banks had no income. Share of non-interest bearing accounts in the total cash funds decreased from 11% to 6% in comparison with the end of 2006, which was a positive trend directly influencing better profitability of banks' operation.

Banks mostly maintained a constantly high level of cash funds in the balance sheet structure for the reason of performing payment operation, having a large network of operating units established, and also due to non-existence of money market, where banks could quickly provide for liquid cash funds. Additionally, a narrowed selection of quality clients and undeveloped financial instruments market contributed to maintaining such a high level of cash funds.

2.1.2.2. Loans

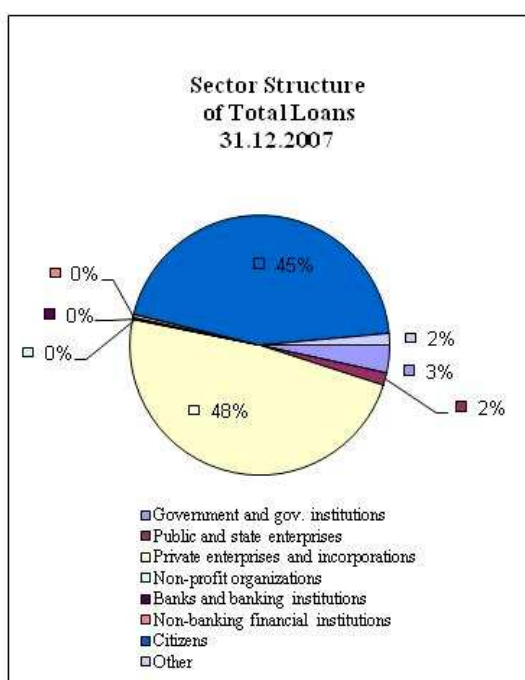
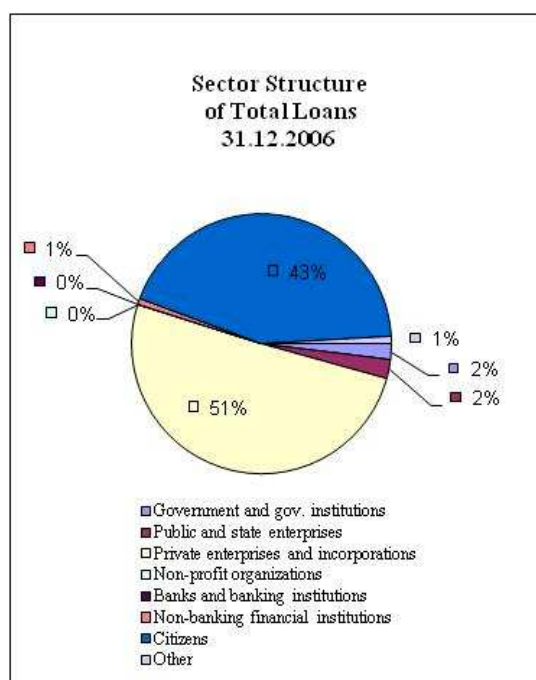
Lending is one of basic functions of banks' operation, which is confirmed by a 49% share of net loans in the total assets. Constant increase of total loans is an indicator of growing scope of operation of both individual banks and the banking sector as a whole.

As of 31.12.2007 total gross loans amounted to KM 2,720.3 million, and increased by 34% in comparison with the previous year.

Total Loan Sector Structure

(in 000 KM)

No.	DESCRIPTION	31.12.2006	%	31.12.2007	%	Index
1	2	3	4	5	6	7=5/3
1.	Government Institutions	39,536	2	93,232	3	236
2.	Public and State Enterprises	48,376	2	42,370	2	88
3.	Private Enterprises and Corporations	1,029,467	51	1,311,617	48	127
4.	Non-Profit Organizations	105	0	1,143	0	1.089
5.	Banks and Banking Institutions	668	0	4,883	0	731
6.	Non-Banking Financial Institutions	14,851	1	11,414	0	77
7.	Citizens	883,918	43	1,216,108	45	138
8.	Other	18,817	1	39,556	2	210
9.	TOTAL	2,035,738	100	2,720,323	100	134



Structure per sectors shows total loans on gross basis, i.e. loans that are not decreased by potential loan loss reserves, which banks are obligated to separate in accordance with the risk level of each placement.

Based on the structure of loans per sectors, loans extended to private enterprises and corporations had the largest share of 48% with a growth rate of 27%, followed by loans to citizens, with down payment required, in an amount of 45% and a growth rate of 38%.

Loans to the Government and Government Institutions, amounting to 3% in the total loan structure, had a growth rate of 136% in comparison with the previous year-end, and were mostly related to loans extended to municipality administrations. All other loans amounted to 4% of the total loans.

Net Loans

(in 000 KM)

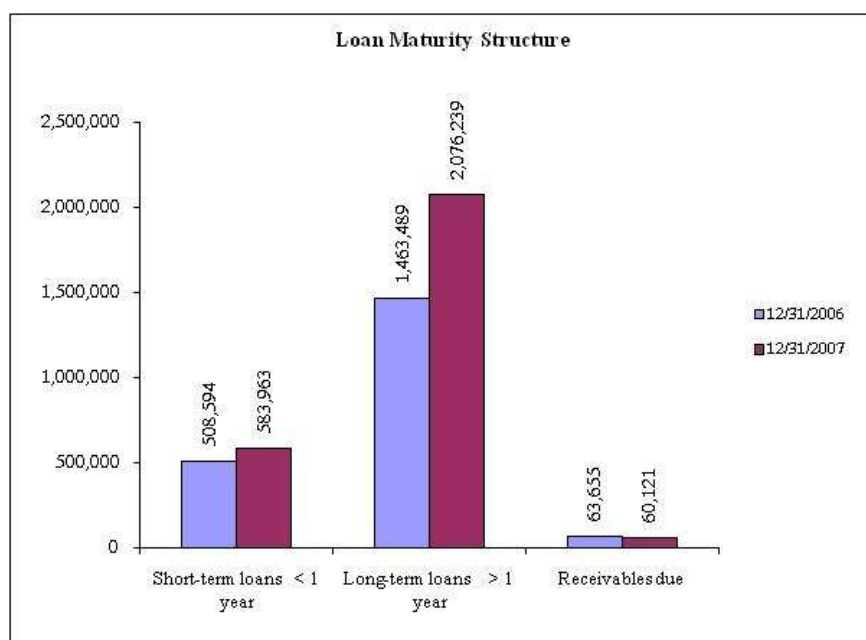
No.	DESCRIPTION	31.12.2006	31.12.2007	INDEX
1	2	3	4	5
1.	Loans, receivables leasing based and receivables due	2,035,738	2,720,323	134
2.	Reserves for potential loan loss	78,540	100,222	128
3.	Net loans (1. -2.):	1,957,198	2,620,101	134

Net loans are those loans from which potential loan loss reserves were deducted. They had the same rate of growth as loans on gross basis, i.e. 34%, i.e. banks kept the same classification structure, and approximately same rates of separating reserves per credit risk categories as of 31.12.2006. In this reporting period trend of growth of reserves (growth rate of 28%) continued to be slower than the one of loans. Thus in the next reporting period some of banks could be in situation to have to increase their reserves related to loan based receivables, which could have a negative impact on their profitability.

Loan Maturity Structure

(in 000 KM)

No.	DESCRIPTION	ST Loans < 1 year			LT Loans > 1 year			Receivables Due			Total		
		31.12. 2006	31.12. 2007	Index	31.12. 2006	31.12. 2007	Index	31.12. 2006	31.12. 2007	Index	31.12. 2006	31.12. 2007	Index
		1.	Gov. Institutions	2,648	1,568	59	36,847	91,641	249	41	23	56	39,536
2.	Public&State Enterp.	11,875	2,197	19	34,975	40,173	115	1,526	0	0	48,376	42,370	88
3.	Private Enterp.&Corp.	345,425	399,135	116	633,905	868,251	137	50,137	44,231	88	1,029,467	1,311,617	127
4.	Non-Profit Organiz.	70	493	704	35	650	1857	0	0	0	105	1,143	1089
5.	Banks&Banking Inst.	0	3,715	0	404	1,145	283	264	23	9	668	4,883	731
6.	Non-Bank Fin. Inst.	6,396	4,827	75	7,604	6,530	86	851	57	7	14,851	11,414	77
7.	Citizens	135,332	166,260	123	737,875	1,034,167	140	10,711	15,681	146	883,918	1,216,108	138
8.	Other	6,848	5,768	84	11,844	33,682	284	125	106	85	18,817	39,556	210
9.	TOTAL	508,594	583,963	115	1,463,489	2,076,239	142	63,655	60,121	94	2,035,738	2,720,323	134



According to maturity structure, long-term loans amounted to 76% with a growth rate of 42%. Short-term loans including receivables due amounted to 24% out of total loans with a growth rate of 13%.

Based on the short-term loan structure per sectors, loans to private enterprises and corporations participated with the most significant percentage (68%), while the largest items in long-term loans were loans to citizens with down payment amounting to 50%, and loans to private enterprises and corporations amounting to 42%.

Receivables due decreased by 6% in comparison with the amount as of 31.12.2006, which was a positive trend.

The largest share in the structure of past due loans in an amount of 74% was related to loans to private enterprises and corporations, while loans to citizens amounted to 26% out of the total receivables due.

Share of past due loans in total loans decreased from 3.1% to 2.2% in comparison with 31.12.2006, which was a positive trend.

Ratio of receivables due for loans to private enterprises and corporations over total loans in this sector amounted to 3.4%, which was far more favorable if compared to 31.12.2006 when it was 4.9%.

Citizens related receivables due increased their share in total citizens' loans from 1.2% as of 31.12.2006 to 1.3% as of 31.12.2007 (as of 30.06.2007 the share was 1.4%). Although loans to citizens still represented the safest category of placements for banks, the level of receivables due should be monitored with special attention since they were mostly related to long-term loans.

The amount of receivables due, regardless their decrease, points out to necessity of a better quality analyses of borrowers' creditworthiness in the process of loan approval as well as a more systematic follow up of loan servicing with a goal to minimize banks' credit risk exposure. Registers of loans to legal and physical persons established at the Central Bank of Bosnia and Herzegovina will be of a great support to banks in their analyses of borrowers' creditworthiness.

Taking into consideration long-term sources, consisting of long-term deposits, long-term loans taken, and subordinated debt, it can be seen that 70% of long-term loans were funded from long-term sources. As of 31.12.2006 that ratio amounted to 82%, while as of 30.06.2007 it amounted to 80%. Faster growth of long-term loans than funds sources was especially noticeable in the second half of 2007.

The ratio between long-term sources and loans in individual banks was far more unfavorable since total long-term sources were mainly influenced by a significant amount of such sources of a single bank.

Banks should pay special attention to maturity adjustment of sources and placements, since impairment of maturity matching could adversely impact bank's liquidity.

Loans of Branch Offices and Operating Units of Banks from Federation BH

(in 000 KM)						
No.	DESCRIPTION	31.12.2006	%	31.12.2007	%	Index
1	2	3	4	5	6	7=5/3
1.	Short-Term Loans					
a.	Government and Gov. Institutions	0	0	35	0	0
b.	Industry	25,207	5	30,495	4	121
c.	Banks and other Financial Institutions	0	0	0	0	0
d.	Citizens	14,933	3	18,366	3	123
e.	Other	1,325	0	8,063	1	609
	TOTAL (1)	41,465	8	56,959	8	137
2.	Long-Term Loans					
a.	Government and Gov. Institutions	2,300	1	2,942	0	128
b.	Industry	62,076	13	64,719	10	104
c.	Banks and other Financial Institutions	0	0	12	0	0
d.	Citizens	381,810	76	535,876	79	140
e.	Other	12,433	2	20,232	3	163
	TOTAL (1)	458,619	92	623,781	92	136
	GRAND TOTAL (1. +2.)	500,084	100	680,740	100	136

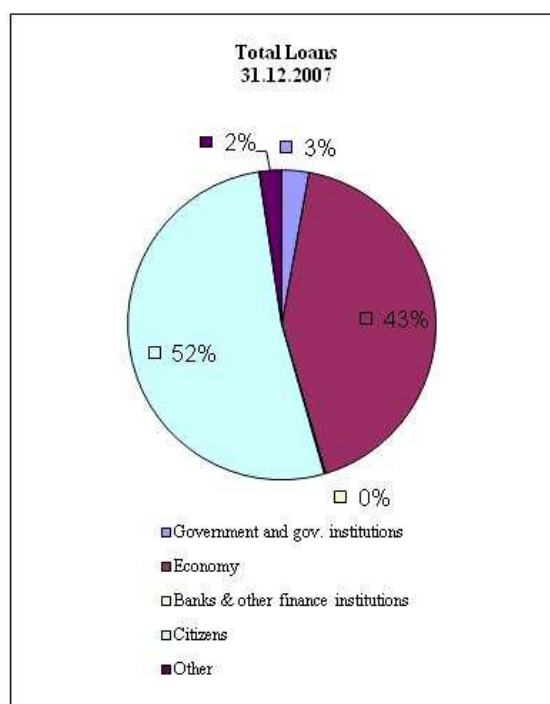
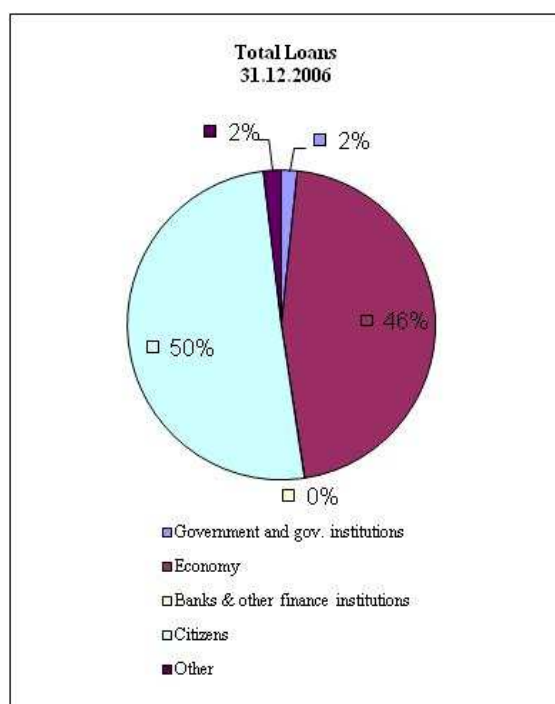
As it can be seen from the maturity structure of lending activity of branch offices and operating units of banks from Federation BH lending was directed to long-term loans, especially to citizens, which amounted to 79% out of the total loans, i.e. 86% out of the total long-term loans.

Those loans were not included in balance sheet of RS banks as they were included in balance sheets of their main banks.

The following table shows a comparative survey of maturity and sector based structures of loans extended by banks of Republika Srpska, and branch offices and operating units of banks from Federation BH:

(in 000 KM)

DESCRIPTION	31.12.2006						31.12.2007						Index
	RS Banks	%	FBH Banks' units	%	Total	%	RS Banks	%	FBH Banks' units	%	Total	%	
1	2	3	4	5	6	7	8	9	10	11	12	13	14=12/6
1. Short-Term Loans													
a) Gov. & Gov. Institutions	2,689	0	0	0	2,689	0	1,591	0	35	0	1,626	0	60
b) Industry	408,963	20	25,207	5	434,170	17	445,563	17	30,495	4	476,058	14	110
c) Banks & other finan.inst.	264	0	0	0	264	0	3,738	0	0	0	3,738	0	1.416
d) Citizens	146,043	7	14,933	3	160,976	6	181,941	7	18,366	3	200,307	6	124
e) Other	14,290	1	1,325	0	15,615	1	11,251	0	8,063	1	19,314	0	124
Total ST Loans	572,249	28	41,465	8	613,714	24	644,084	24	56,959	8	701,043	20	114
2. Long-Term Loans													
a) Gov. & Gov. Institutions	36,847	2	2,300	1	39,147	2	91,641	3	2,942	0	94,583	3	242
b) Industry	668,880	33	62,076	13	730,956	29	908,424	33	64,719	10	973,143	29	133
c) Banks & other finan.inst.	404	0	0	0	404	0	1,145	0	12	0	1,157	0	286
d) Citizens	737,875	36	381,810	76	1,119,685	44	1,034,167	38	535,876	79	1,570,043	46	140
e) Other	19,483	1	12,433	2	31,916	1	40,862	2	20,232	3	61,094	2	191
Total LT Loans	1,463,489	72	458,619	92	1,922,108	76	2,076,239	76	623,781	92	2,700,020	80	140
TOTAL (1. + 2.)	2,035,738	100	500,084	100	2,535,822	100	2,720,323	100	680,740	100	3,401,063	100	134

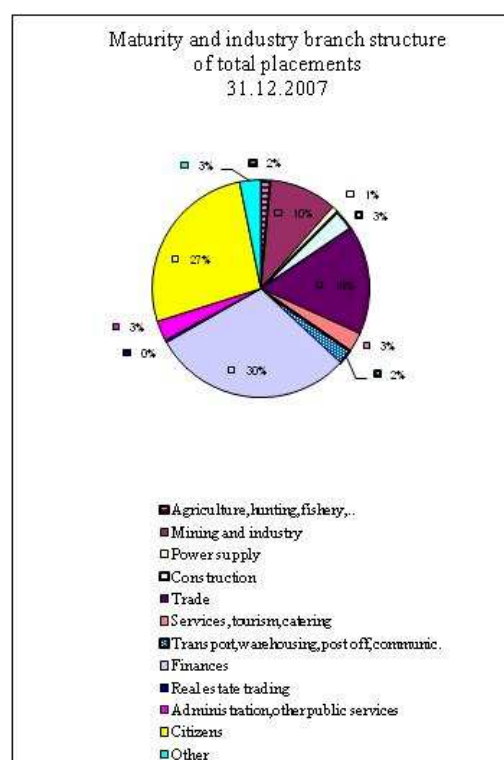
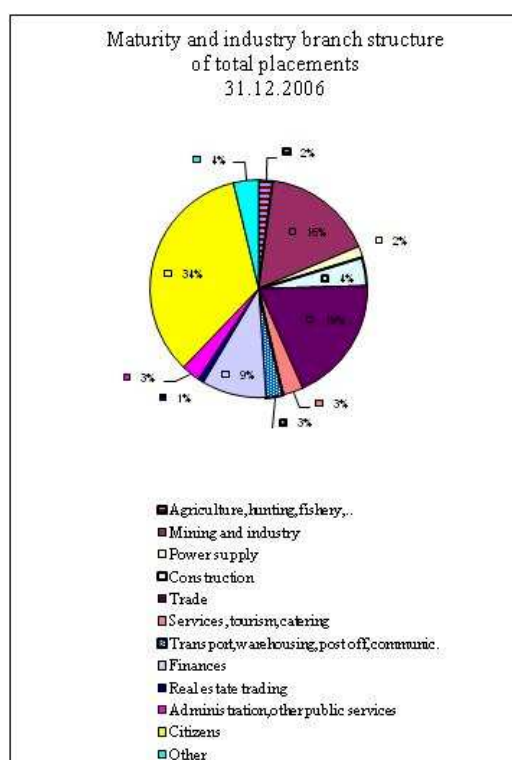


The comparative survey of maturity and sector based structures of loans extended by banks of Republika Srpska, and branch offices and operating units of banks from Federation BH shows that sector and maturity structures were similar, meaning that loans extended to private enterprises, corporations, and citizens were prevailing, and the main orientation was long-term lending.

Maturity and Industry Branch Structure of Total Placements by Banks of Republika Srpska

(in 000 KM)

No.	ASSETS PER INDUSTRY BRANCHES	Short-term Placements		Inde x	Long-term Placements		Inde x	Guarantees & Other Sureties		Inde x	TOTAL		In dex
		31.12.06	31.12.07		31.12.06	31.12.07		31.12.06	31.12.07		31.12.06	31.12.07	
1.	Agriculture,Hunting,Fish	26,514	24,132	91	25,047	38,162	152	4,251	4,903	115	55,812	67,197	120
2.	Mining & Industry	96,217	100,640	105	292,190	294,869	101	39,479	60,082	152	427,886	455,591	106
3.	Power Supply	10,180	3,455	34	20,803	31,146	150	10,962	11,178	102	41,945	45,779	109
4.	Construction	31,643	33,409	106	60,107	58,504	97	19,427	47,937	247	111,177	139,850	126
5.	Trade	172,980	200,741	116	219,967	407,859	185	96,039	130,024	135	488,986	738,624	151
6.	Services,Turism,Catering	26,974	18,050	67	30,293	64,743	214	18,966	45,259	239	76,233	128,052	168
7.	Transport,Warehousing, Post-Off.,Communication	9,966	11,658	117	17,084	46,024	269	40,843	47,730	117	67,893	105,412	155
8.	Finances	223,982	1,339,741	598	17,956	18,688	104	6,628	2,258	34	248,566	1,360,687	547
9.	Real Estate Trading	10,131	2,761	27	5,398	8,523	158	7,434	6,009	81	22,963	17,293	75
10.	Admin.,State,Public Serv.	13,743	7,012	51	46,296	97,049	210	11,739	31,469	268	71,778	135,530	189
11.	Citizens	146,043	181,941	125	737,875	1,034,167	140	0	0	0	883,918	1,216,108	138
12.	Other	12,415	2,639	21	35,164	50,578	144	50,048	91,114	182	97,627	144,331	148
	TOTAL	780,788	1,926,179	247	1,508,180	2,150,312	143	305,816	477,963	156	2,594,784	4,554,454	176



Category of total placements has a broader meaning, and beside total loans it includes all other placements (without foreign currency current accounts held with foreign banks), such as deposits termed at foreign banks, placements to other banks, securities, investments into non-consolidated enterprises, interests and fees, advances and postponed payments.

Based on the industry branch structure above, short-term placements to finances represented the largest item in an amount of 70% and with a growth rate of 498% in comparison with 31.12.2006. The increase was due to a significant growth of cash funds generated in privatization of state-owned capital, and termed mostly with foreign banks. Share of placements to trade, as the most frequent business activity, was 10%, while share of all other sectors amounted to 20% of total short-term placements.

The most important items in the structure of long-term loans to industry branches were loans to citizens, mining and industry, and trade.

Guarantees and other sureties were mostly concentrated in trade.

If, based on branch industry structure, total placements are analyzed it can be seen that placements to financial organizations had the largest share of 30%, then to citizens 27%, to trade 16%, to mining and industry 10%, while all other industry branches had a total share of 17%.

The following table gives a breakdown of loans extended to citizens by banks of Republika Srpska, and branch offices and operating units of banks having headquarters in Federation BH.

(in 000 KM)

DESCRIPTION	31.12.2006						31.12.2007						Index
	RS Banks	%	FBH Banks' units	%	Total	%	RS Banks	%	FBH Banks' units	%	Total	%	
1	2	3	4	5	6	7	8	9	10	11	12	13	14=12/6
1. ST loans to citizens													
a. - general consumption	83,698	9	12,807	3	96,505	8	149,656	12	14,849	3	164,505	9	170
b. - housing	47,653	6	0	0	47,653	4	9,078	1	4	0	9,082	0	19
c. - business activities	14,692	2	2,126	1	16,818	1	23,207	2	3,513	0	26,720	2	159
Total (1)	146,043	17	14,933	4	160,976	13	181,941	15	18,366	3	200,307	11	124
2. LT loans to citizens													
a. - general consumption	496,013	56	240,210	61	736,223	57	633,167	52	352,593	64	985,760	56	134
b. - housing	194,126	22	89,553	22	283,679	22	322,573	27	100,286	18	422,859	24	149
c. - business activities	47,736	5	52,047	13	99,783	8	78,427	6	82,997	15	161,424	9	162
Total (2)	737,875	83	381,810	96	1,119,685	87	1,034,167	85	535,876	97	1,570,043	89	140
GRAND TOTAL (1. +2.)	883,918	100	396,743	100	1,280,661	100	1,216,108	100	554,242	100	1,770,350	100	138

As of 31.12.2007 total loans to citizens amounted to KM 1,770.4 million and increased by KM 489.7 million or 38% in comparison with the year-end 2006.

Out of the total amount of loans to citizens an amount of KM 1,216.1 million or 69% were extended by banks of Republika Srpska, and KM 554.2 million or 31% were loans by branch offices and operating units of banks with headquarters in Federation BH. As for the maturity structure, KM 200.3 million or 11% were short-term loans, and KM 1,570 million or 89% were long-term loans.

Total loans for general consumption amounted to KM 1,150.3 million and they had approximately the same share of 65% in total loans to citizens. Growth rate of those loans amounted to 38% in comparison with the previous year-end.

General consumption loans structure based on their purpose can be seen from the following table:

(in 000 KM)

DESCRIPTION	31.12.2006.						31.12.2007.						Index
	RS Banks	%	FBH Banks' units	%	Total	%	RS Banks	%	FBH Banks' units	%	Total	%	
1	2	3	4	5	6=(2+4)	7	8	9	10	11	12=(8+10)	13	14=(12/6)
General consumption loan purpose													
1. Consumer goods purchase	12,094	2	9,448	4	21,542	3	30,299	4	10,187	3	40,486	3	188
2. Car purchase	4,260	1	11,518	5	15,778	2	6,908	1	11,004	3	17,912	2	114
3. Cards	31,086	5	774	0	31,860	4	37,789	5	1,645	0	39,434	3	124
4. Overdrafts	41,743	7	2,492	1	44,235	5	59,564	8	4,607	1	64,171	6	145
5. Purchase of securities	1,150	0	0	0	1,150	0	11,341	1	0	0	11,341	1	986
6. No specif. purpose cash loans	483,279	83	198,300	78	681,579	82	613,916	78	286,848	78	900,764	78	132
7. Lombard loans	2,451	1	18	0	2,469	0	4,320	1	2,166	1	6,486	1	263
8. Other general consumption loans	3,648	1	30,467	12	34,115	4	18,686	2	50,985	14	69,671	6	204
TOTAL:	579,711	100	253,017	100	832,728	100	782,823	100	367,442	100	1,150,265	100	138

An amount of KM 900.8 million or 78% of the total loans for general consumption was related to cash loans with no specific purpose having a growth rate of 32% in comparison with the previous year-end. Out of that amount loans extended by RS banks amounted to KM 613.9 million, while branch offices and operating units of banks from Federation BH extended loans in an amount of KM 286.9 million.

The largest growth rate of 886%, if compared to 31.12.2006, was related to loans for purchase of securities, but their share in total loans for general consumption represented only 1%.

Loans to citizens based on cards and overdrafts amounted to KM 103.6 million or 9% of the total loans to citizens, and had a growth rate of 36% in comparison with the previous year. RS banks extended 94% of those loans.

Loans for other purposes (purchase of consumer goods, cars, Lombard loans) amounted to KM 64.3 million or 6% of total loans for general consumption and had a growth rate of 62% in comparison with the end of the previous year.

Other loans for general consumption amounted to KM 69.7 million or 6% with a growth rate of 104%. The RS banks' share amounted to KM 19.3 million with a growth rate of 428% in comparison to the previous year end. Other loans for general consumption extended by FBH banks' units amounted to KM 51 million, and they were mostly related to a single bank's units, and they were extended as replacement loans, i.e. to cover bank loans outstanding.

In 2007 housing loans decreased their share in the total loans to citizens from 26% to 24% and amounted to KM 431.9 million with a growth rate of 30% in comparison with the year 2006.

Based on maturity structure of housing loans an amount of KM 9.1 million or 2% were short-term loans, and KM 422.9 million or 98% were long-term loans.

Within total housing loans there was an amount of KM 79.7 million funded through banks by the Housing Fund of Republika Srpska.

Loans for business activities (to entrepreneurs) amounted to KM 188.1 million while their share in total loans increased from 9% to 11% with a growth rate of 62% in comparison with the end of the previous year.

Instead of such general consumption lending, loans should be directed much more to entrepreneurs, since the coverage of that segment was still relatively unsatisfactory, although their increase was significant in comparison with the previous year-end.

Total amounts of loans to citizens of Republika Srpska as of 31.12.2007 can be seen from the following breakdown:

(in 000 KM)		
1.	RS Banks	1,216,108
	minus: RS banks' units operating in FBH	44,571
	Total 1:	1,171,537
2.	FBH banks' units operating in RS	554,242
	TOTAL (1+2):	1,725,779

The total credit indebtedness of citizens of Republika Srpska amounted to KM 1,725.8 million. According to the 2006 statistical data, population of Republika Srpska was 1,487 thousand, thus credit indebtedness per citizen amounted to KM 1,161 (increase of KM 101 in comparison with the previous quarter).

Total Deposits and Loans in Republika Srpska

(in 000 KM)							
No.	DESCRIPTION	31.12.2006		31.12.2007		Index	
		Deposits	Loans	Deposits	Loans	7=5/3	8=6/4
1	2	3	4	5	6	7=5/3	8=6/4
1.	RS Banks	2,582,805	2,035,738	4,586,511	2,720,323	178	134
2.	FBH banks' units	300,623	500,084	367,743	680,740	122	136
3.	TOTAL:	2,883,428	2,535,822	4,954,254	3,401,063	172	134
4.	Minus: RS banks' units operating in FBH	36,065	46,248	46,458	78,770	129	170
5.	TOTAL:	2,847,363	2,489,574	4,907,796	3,322,293	172	133

As of 31.12.2007 in the territory of Republika Srpska an amount of total deposit received was KM 4,907.8 million, which was by 72% larger than at the end of 2006, while total amount of loans extended was KM 3,322.3 million or 33% more than the amount as of 31.12.2006.

3.1.2.3. Office Space and Other Fixed Assets

In the assets structure, office space and other fixed assets had a share of 3%, and amounted to KM 176.5 million. In comparison with 31.12.2006 fixed assets increased by 12%.

One bank continued to exceed 50% of investments into fixed assets in relationship to core capital. The bank was in the process of putting in additional capital and selling a part of its fixed assets.

3.1.2.4. Other Assets

Other assets amounted to KM 70.3 million, and its share in the structure of total assets was 2%. In the structure of other assets the largest share was the one of accrued interests and fees. Other items were mostly investments into non-consolidated related enterprises and funds, tangible values collected instead of receivables due, transfer accounts for foreign currency payments, current payments of obligations created previously, assets accrued and other.

3. CAPITAL AND CAPITAL ADEQUACY

Strength and stability of a bank, as well as of a banking sector, depends quite significantly on capital amount, and its ability to absorb all possible operating risks.

Capital structure and tendencies are given in the following table:

(in 000 KM)

DESCRIPTION	31.12.2006	31.12.2007	INDEX
1	2	3	4=3/2
1. BANKS' CORE CAPITAL			
1.1 Equity	320,483	358,009	112
1.2. Issuance Premium	4,810	8,443	176
1.3. Reserves Legally Require	13,749	19,195	140
1.4. Other Reserves	15,606	20,121	129
1.5. Undistributed Profit	6,509	10,535	162
1. a Total (1.1 to 1.5.)	361,157	416,303	115
1.6. Losses from previous years Not Covered	0	1,878	0
1.7. Current Year Loss	1,878	495	26
1.8. Intangible Property Amount	18,749	24,143	129
1.b Total (1.6 to 1.8)	20,627	26,516	129
1. CORE CAPITAL AMOUNT (1a-1b)	340,530	389,787	114
2. BANKS' ADDITIONAL CAPITAL			
2.1. Equity based on permanent cumulative shares	0	2,000	0
2.2. General Reserves for A	40,851	56,096	137
2.3. Current Profit (audited)	24,539	28,671	117
2.4. Profit Amount – Distribution Temporarily Suspended	0	0	0
2.5. Subordinated Debts up to maximum 50% of Core Capital	1,512	11,162	738
2.6. Permanent Liability without Obligation to be Repaid	0	0	0
2. ADDITIONAL CAPITAL AMOUNT (2.1 to 2.6.)	66,902	97,929	146
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL			
3.1 Banks' invest. into other legal persons' capital over 5% of banks' core capital	2,312	2,312	100
3. AMOUNT OF ITEMS DEDUCTIBLE FROM BANKS' CAPITAL	2,312	2,312	100
4. AMOUNT OF BANKS' NET-CAPITAL	405,120	485,404	120

A bank's core capital is a parameter defined by the law to measure maximum exposure of a bank per concentration of credit and other risks.

As of 31.12.2007 total banks' core capital amounted to KM 389.8 million with a growth rate of 14% in comparison with the year-end 2006.

The level of core capital was largely under influence of deductible items in an amount of KM 26.5 million, which were related to loss not covered and amounts of intangible property having a growth rate of 29% in comparison with the previous year-end.

Within the structure of core capital the most important item was equity (shareholders' capital) which amounted to KM 358 million and was larger by KM 37.5 million than the amount as of 31.12.2006. The increase resulted from opening of a new bank with capital of KM 20 million, and from additional capitalization performed in three banks.

A significant growth of 40% was recorded in reserves legally required from banks, which had to be separated from generated profit in an amount of at least 5% each year until an amount of 10% of equity is reached. Currently only two banks have met this requirement. The amount of undistributed profit from previous years audited by external auditors amounted to KM 10.5 million and had a growth rate of 62% in comparison with the 2006 year-end. External audits were performed in all banks by the deadline legally required, i.e. by the end of May 2007.

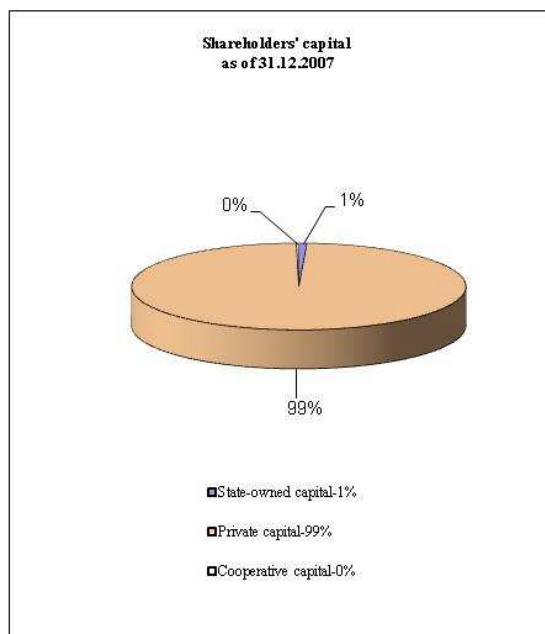
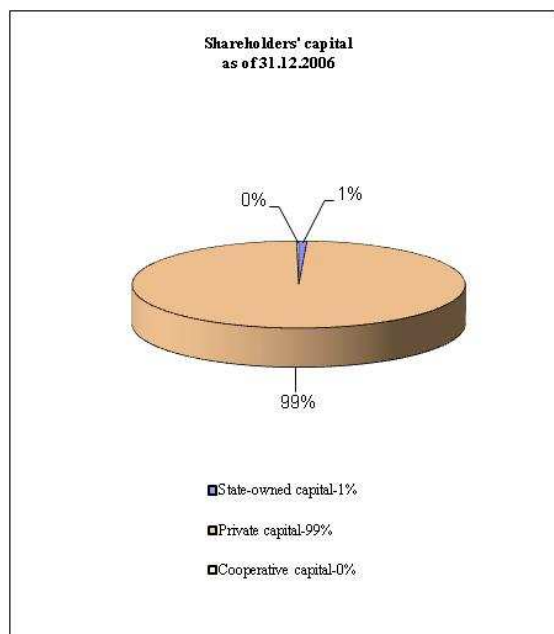
Additional capital recorded a significant increase of 46%. The amount of general reserves as the most important item of additional capital was KM 56.1 million having a growth rate of 37% in comparison with the previous year-end. The amount of current profit audited by external auditors was KM 28.7 million with a growth rate of 17%, and it was related to six out of total of nine banks which generated a positive financial result as of 31.12.2007. If compared with the amount as of 31.12.2006, the largest growth rate of 638% or increase by KM 9.7 million was recorded for the subordinated debt item. Only two banks had such a type of capital for the moment. In the same period an amount of KM 2,000 thousand of permanent cumulative shares was recorded in the structure of additional capital, and it was related to a single bank.

One bank had an item deductible from capital in an amount of KM 2.3 million based on investment into other legal persons' capital exceeding 5% of the bank's core capital.

Net capital, which is an accounting category in calculation of capital adequacy, and which consists of core and additional capital minus items deductible from capital, amounted to KM 485.4 million, and it was larger by 20% than the previous year amount.

Equity Structure

SHAREHOLDERS' CAPITAL	31.12.2006		31.12.2007		INDEX
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
1. State-Owned Capital	2,574	1	2,817	1	109
2. Private Capital	317,261	99	356,363	99	112
2.1. Foreign Capital	276,779	87	309,088	87	112
2.2. Domestic Capital	40,482	13	47,275	13	117
3. Cooperative Capital	648	0	829	0	128
TOTAL (1+2+3)	320,483	100	360,009	100	112



Based on the equity ownership structure as of 31.12.2007 private capital amounted to 99% and state-owned capital to 1%, thus the ownership structure did not change in relationship to the one as of 31.12.2006.

Based on the ownership structure and the number of voting shares nine banks had majority foreign shareholders managing total assets of KM 5.3 billion or 97% out of the total gross assets, and one bank had majority domestic shareholders managing an amount of KM 149.9 million of assets or 3%.

Capital Adequacy

(in 000 KM)

DESCRIPTION	31.12.2005	31.12.2006	31.12.2007	Index	
				5=4/2	6=4/3
1	2	3	4		
Net Capital	314,867	405,120	485,404	154	120
Total Risk Assets	1,663,732	2,216,687	2,957,709	178	133
Capital Adequacy	19%	18%	16%	84	89

Capital adequacy rate is a significant indicator of capital soundness representing a ratio of net capital over total risk assets, which, according to the Law on Banks of Republika Srpska, has to amount to at least 12%. Average capital adequacy rate had a downward trend (the rate improved by 1% in comparison with the one as of 30.09.2007) and as of 31.12.2007 it amounted to 16%, which means that capital grew slower than risk assets. Due to that some banks will have to strengthen their capital.

Capital adequacy rate per individual banks, not taking into consideration a newly founded bank, ranged from the lowest rate of 12.9% up to the highest one of 31.8%.

A survey of other relevant capital ratios is given in the following table:

Capital Ratios

(in 000 KM)

DESCRIPTION		31.12.2006	31.12.2007
1.	Net capital	356,052	435,274
	Total Assets	2,731,612	4,312,439
	%	13	10
2.	Equity	275,037	335,598
	Total Assets	2,731,612	4,312,439
	%	10	8
3.	Core Capital	308,119	368,382
	Total Risk Assets	2,004,809	2,698,076
	%	15	14
4.	Total Capital	311,898	388,346
	Total Risk Assets	2,004,809	2,698,076
	%	16	14
5.	Net Loans	1,692,685	2,286,299
	Total Capital	311,898	388,346
	%	543	589

Note: Calculation of ratios was based on average amounts

All ratios representing relationship between capital, or parts of capital, over total or risk assets decreased, which indicated that capital growth was slower than that of assets (such a growth of assets was caused by a significant inflow of funds acquired by privatization of the state owned capital).

Net capital over total capital ratio increased in comparison with the amount as of 31.12.2006 due to a faster growth of loans than that of capital.

Also, all these ratios indicated necessity for capital strengthening in the banking sector of Republika Srpska.

4. ASSETS QUALITY

Loans and other placements represent parts of assets with the largest risk, and their share is the largest one in the assets structure. Stability and success of operation of each bank and the banking sector as a whole depend on the level of credit risk, as the most frequent type of risk in banks' operation. Based on classification of assets (balance and off-balance sheet) and potential exposure to credit risk established for each item of risk assets, reserves are separated to cover credit and other losses debiting income statement, and to make assets quality rating.

Both condition and structure of classified balance and off-balance sheet assets established in accordance with the Decision of the Agency can be seen in the following table:

(in 000 KM)

ITEMS OF BALANCE AND OFF-BALANCE SHEET ASSETS	31.12.2006	31.12.2007	INDEX
1. Short-term loans	508,594	583,964	115
2. Long-term loans	1,463,489	2,076,238	142
3. Other placements	246,088	658,046	267
4. Interest accrued	9,333	16,852	181
5. Receivables due	62,661	59,863	96
6. Receivables per guarantees paid	994	258	26
7. Other assets	977,181	2,083,708	213
8. BALANCE SHEET ASSETS ITEMS TOTAL:	3,268,340	5,478,929	168
9. General credit risk and potential loan losses	83,818	104,626	125
10. General and special reserves already established	84,146	104,848	125
11. Balance 10. -9.	328	222	68
12a. Guarantees payable	102,406	141,210	138
12b. Performance guarantees	61,082	95,225	156
13. Letters of credit uncovered	1,868	2,537	136
14. Irrevocable credit obligations	127,525	223,090	175
15. Other potential obligations	12,935	15,901	123
16. OFF-BALANCE SHEET ASSETS ITEMS TOTAL:	305,816	477,963	156
17. General credit risk and potential loan losses	7,762	11,061	143
18. General and special reserves already established	7,818	11,085	142
19. Balance 18. -17.	56	24	43
20. BALANCE AND OFF-BALANCE SHEET ITEMS TOTAL:	3,574,156	5,956,892	167
21. General credit risk and potential loan losses	91,580	115,687	126
22. General and special reserves already established	91,964	115,933	126
23. OVERAGE of separated reserves	384	246	64
SHORTAGE of separated reserves	0	0	0
24. ASSETS for which reserves are not calculated (category A)	1,149,164	2,697,772	235
25. TOTAL ASSETS for which reserves are calculated (20-24)	2,424,992	3,259,120	134

Total amount of classified balance sheet and off-balance sheet assets included all items from banks' balance sheets and all items from active off-balance sheet. However, from the aspect of risk, the Decision of the Agency have defined no risk-bearing items (balance and off-balance sheet) for which banks are not obligated to separate reserves for loan and other losses.

As of 31.12.2007 classified assets (balance and off-balance sheet) amounted to KM 5,956.9 million, which was larger by 67% than the amount as of the year-end 2006. It included an amount of KM 2,697.8 million that represented no-risk-bearing assets with no reserves to be established, and which was by 135% larger than the amount as of the previous year-end. Balance sheet assets in the structure of no-risk-bearing assets amounted to KM 2,684.6 million out of which an amount of KM 2,435.8 million was related to cash funds and cash-funds placements to banks having a rank of investment banks.

No-risk-bearing assets amounted to KM 13.2 million.

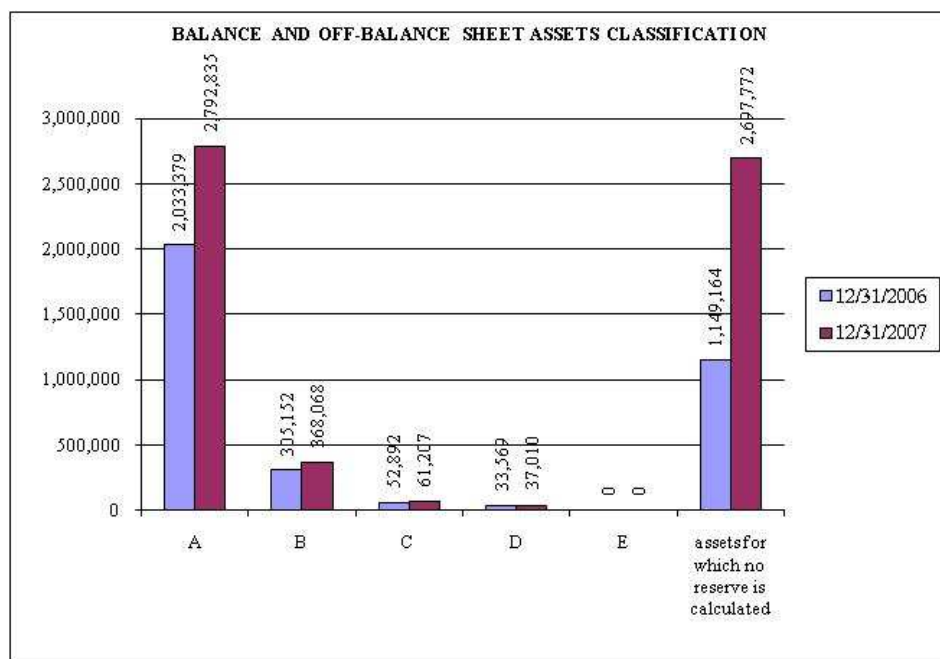
Classified balance sheet assets increased by 68% and off-balance sheet assets by 56%. The largest item in the structure of classified balance sheet assets was other assets amounting to 38%. That item also comprised no/risk/bearing other assets items (cash funds, short-termed funds, etc.).

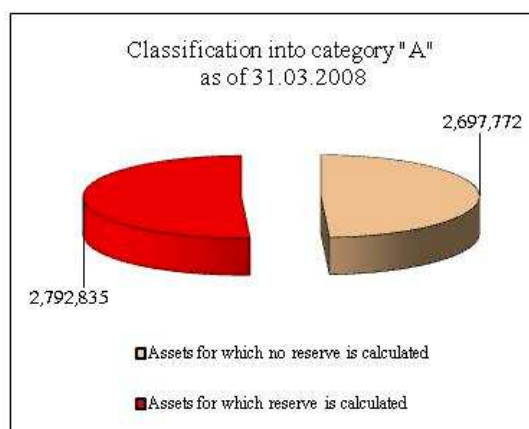
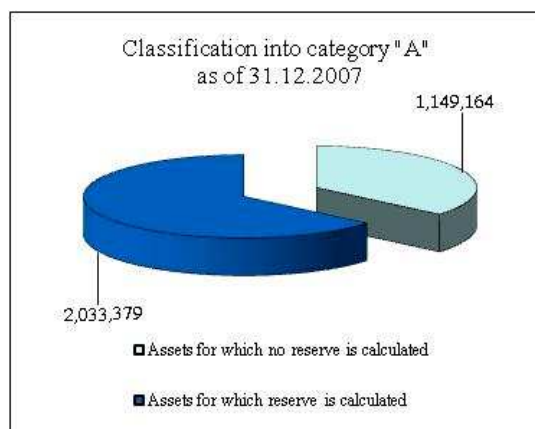
The largest item in the off-balance sheet structure was irrevocable credit obligations in an amount of 47% out of the total classified off-balance sheet.

If the total balance sheet and off-balance sheet assets as of 31.12.2007 are broken down into categories of risk, where an amount of KM 2,697.8 million of no-risk-bearing assets is included into category "A", condition of classified assets is as follows:

(in 000 KM)

BALANCE & OFF-BAL. SHEET ASSETS ITEMS	A	B	C	D	E	TOTAL
1. Short-Term Loans	514,519	62,504	6,331	610	0	583,964
2. Long-Term Loans	1,760,825	251,713	42,957	20,743	0	2,076,238
3. Other Placements	657,014	694	338	0	0	658,046
4. Interest accrued	13,060	3,778	11	3	0	16,852
5. Receivables due	24,379	11,599	9,480	14,405	0	59,863
6. Receivables per guarantees paid	154	0	0	104	0	258
7. Other assets	2,079,173	3,627	69	839	0	2,083,708
8. BALANCE SHEET ASSETS ITEMS TOTAL:	5,049,124	333,915	59,186	36,704	0	5,478,929
9. General credit risk and potential loan losses	47,291	25,563	13,324	18,448	0	104,626
10. General and special reserves already established	47,486	25,563	13,327	18,472	0	104,848
11. Balance 10. - 9.	195	0	3	24	0	222
12.a. Guarantees payable	124,187	16,581	342	100	0	141,210
12.b. Performance guarantees	89,748	4,738	674	65	0	95,225
13. Letters of credit uncovered	2,198	339	0	0	0	2,537
14. Irrevocable credit obligations	210,349	11,595	1,005	141	0	223,090
15. Other potential obligations	15,001	900	0	0	0	15,901
16. OFF-BALANCE SHEET ASSETS ITEMS TOTAL:	441,483	34,153	2,021	306	0	477,963
17. General credit risk and potential loan losses	8,566	1,940	411	144	0	11,061
18. General and special reserves already established	8,589	1,941	411	144	0	11,085
19. Balance 18. - 17.	23	1	0	0	0	24
20. BS & OFF-BS ITEMS TOTAL:	5,490,607	368,068	61,207	37,010	0	5,956,892
21. General credit risk and potential loan losses	55,857	27,503	13,735	18,592	0	115,687
22. General and special reserves already established	56,075	27,504	13,738	18,616	0	115,933
23. OVERAGE reserves established	218	1	3	24	0	246
SHORTAGE reserves established	0	0	0	0	0	0
24. ASSETS for which reserves are not calculated	2,697,772					2,697,772
25. TOTAL ASSETS for which reserves are calculated	2,792,835	368,068	61,207	37,010	0	3,259,120





As of 31.12.2007 total assets (balance and off-balance sheet) bearing risk in operation, and for which banks were obliged to separate reserves, amounted to KM 3,259.1 million and in comparison with 31.12.2006 it had a growth rate of 34%.

Classification of Assets per Risk Categories

(in 000 KM)

Classification Category	31.12.2006	%	31.12.2007	%	INDEX
A	2,033,379	84	2,792,835	86	137
B	305,152	13	368,068	11	121
C	52,892	2	61,207	2	116
D	33,569	1	37,010	1	110
E	0	0	0	0	0
TOTAL ASSETS for which reserves are calculated	2,424,992	100	3,259,120	100	134
Assets for which reserves are not calculated (cat. A)	1,149,164		2,697,772		235
General reserves required for potential LL (A)	40,668		55,857		137
General reserves already established (A)	40,851		56,075		137
Balance for A:	183		218		119
General reserves required for potential LL(B-E)	50,912		59,830		118
Special reserves already established (B-E)	51,113		59,858		117
Balance for (B-E):	201		28		14

Based on the level of risk the largest share in the structure of classified assets was that of risk category "A" amounting to 86% (increase from 84% to 86% in comparison with 31.12.2006).

For the risk category "A", which is considered "good assets" banks have an obligation to separate reserves at a rate of 2%.

As of 31.12.2007 category "B" decreased its share in the classified assets structure from 13% to 11%. Shares of categories "C" and "D" remained at the same level.

When rating quality of assets, special attention is paid to both structure and share of poor assets within the total classified assets. Classified assets consist of receivables classified into the largest risk categories "C", "D" and "E". As of 31.12.2007 poor assets amounted to KM 98.2 million, making 3% of assets for which reserves were calculated. The growth rate was 14% in comparison with the previous year-end. Potentially those risk categories have the largest possibility for loan loss.

General reserves calculated for risk category "A" amounted to KM 55,857 thousand, and actual amount separated for reserves was KM 56,075 thousand, that is banks separated a total of KM 218 thousand more than the amount of reserves indicated by calculation.

Total of special reserves calculated for assets classified into risk categories from "B"- "E" amounted to KM 59,830 thousand, while total of actually separated reserves amounted to KM 59,858 thousand. Thus reserves established by banks were larger by KM 28 thousand than reserves calculated.

Risk Assets and Reserves Separated

(in 000 KM)

No.	DESCRIPTION	31.12.2006	31.12.2007	INDEX
1.	Total risk assets (for which reserves are separated)	2,424,992	3,259,120	134
	- assets classified "A"	2,033,379	2,792,835	137
	- assets classified "B", "C", "D", "E"	391,613	466,285	119
2.	Reserves Separated	91,964	115,933	126
	- assets classified "A"	40,851	56,075	137
	- assets classified "B", "C", "D", "E"	51,113	59,858	117
3.	Total Reserve/ Total Risk Assets Ratio	3.8%	3.6%	
4.	General Reserve/ Assets Classified "A" Ratio	2.0%	2.0%	
5.	Special Reserve/ Assets Classified "B"- "E" Ratio	13.1%	12.8%	

Total reserves (general & special) amounting to KM 115.9 million over assets for which reserves were calculated (KM 3,259.1 million) gave a ratio of 3.6%.

General reserves over assets classified into category "A" gave a ratio of 2%, which was in compliance with the rate required. Special reserves over assets classified into categories from "B" to "E" gave a ratio of 12.8%, which was lower than the upper limit required for classification into the category "B" (15%).

Assets classified into categories from "B" to "E" increased by 19%, and special reserves separated for that classification group increased by 17%. Total reserves for these risk categories grew somewhat slower than assets classified into "B" – "E" resulting in an average rate decrease from 13.1%, as of 31.12.2006, to 12.8% as of 31.12.2007.

It should be noted that besides reserves for potential losses, which banks obligatory separate under the Law on Banks of Republika Srpska, banks are also obliged to separate legally required reserves of up to 10% of equity under the Law on Enterprises. Those reserves are separated from generated profit and they can be used to increase the amount of equity or to cover losses. Legally required reserves were separated in an amount of KM 19.2 million. If those reserves were added to reserves for credit and other losses they would amount to total reserves of KM 135.1 million, which, related to the total risk assets, would give the reserve rate of 4.1% instead of the reserve rate of 3.6%.

Additionally to the above stated reserves in banks' balance sheets there was also an amount of KM 1.2 million separated as other reserves in one bank, and an amount of KM 2.4 based on court procedures where estimations indicated that either a total or partial loss was possible, which related to three banks.

Evaluation of credit and other risks on one hand, and amounts of reserves separated per classification categories on the other hand, reflected assets quality of both individual banks and banking sector as a whole, due to which those items have to be monitored on continuous basis.

Within supervision of assets quality performed both off-site and on-site, the Agency ordered banks to implement corrective measures. That meant imposing additional requirements for separation of reserves to cover credit and other losses, and to improve existing practice in credit risk management, to lower concentration of exposure to credit risk, and to decrease and monitor amounts of poor assets, and other.

Assets Quality Ratios

(in 000 KM)

DESCRIPTION		31.12.2006	31.12.2007
1.	Loans Due/	68,212	58,254
	Total Loans	1,763,870	2,374,929
	%	4	2
2.	Loans Due /	68,212	58,254
	Potential Loan Loss Reserves	71,185	88,630
	%	96	66
3.	Loans Due /	68,212	58,254
	Total Capital	311,898	388,346
	%	22	15
4.	Classified Assets/	2,208,966	3,006,220
	Total Capital	311,898	388,346
	%	708	774
5.	Potential Loan Loss Reserves /	71,185	88,630
	Total Loans	1,763,870	2,374,929
	%	4	4
6.	Total Risk Assets	2,004,809	2,698,076
	Total Assets	2,731,612	4,312,439
	%	73	63

Note: Calculation of ratios is based on average amounts.

Assets quality ratios recorded a certain improvement. All ratios representing relationship between loans due over total loans, and potential loss reserves over total capital decreased as of 31.12.2007 due to decrease of total amount of receivables due, which is seen as a positive trend.

Assets increased faster than capital resulting in deterioration of classified assets over total capital ratio. Potential loan loss reserves over total loan ratio remained the same. Risk assets over total assets ratio decreased due to a significant increase of assets risk zero weighted, i.e. assets for which no reserves should be separated.

4.1. Transactions with Related Persons

A part of regular activities of banks is transactions with related persons. Under market economy circumstances, such activities represent a segment of banks' activities that is especially risky. Due to that, the Agency has enacted the Decision on Minimum Standards for Transactions with Persons Related to a Bank.

Banks' Supervisory Boards issue special policies for transactions with related persons, including the following limitations:

- A bank may perform transactions with persons related to the bank only under an approval by Supervisory Board or another body authorized by the Supervisory Board,
- A physical person related to the bank may be approved to perform business transactions (credit transactions and off-balance sheet obligations) amounting to a maximum of up to 1% of the bank's core capital,

- All physical persons related to a bank may be approved to a total of business transactions amounting to a maximum of up to 10% of the bank's core capital,
- All placements to persons related to a bank shall not exceed 40% of the bank's core capital.

Banks shall maintain separate records on the following:

- Subsidiaries and other capital related companies,
- Exposure to risk of loans extended to shareholders with voting rights exceeding 5%, as well as to Supervisory Board Members, Management and other employees.

Loans and Guarantees Extended to Shareholders with Voting Rights Exceeding 5%,
Supervisory Board Members, Management and Banks' Employees

(in 000 KM)

DESCRIPTION	31.12.2006	%	31.12.2007	%	Index
1	2	3	4	5	6=4/2
Loans to:					
1. Shareholders with voting rights exceeding 5%	4,500	55	3,778	47	84
2. Shareholders with off-balance sheet receivables exceeding 5%	114	1	15	0	13
3. Supervisory Board Members	309	4	609	7	197
4. Management	3,311	40	3,730	46	113
5. Total Receivables from Persons Related to Banks (1 to 4):	8,234	100	8,132	100	99
6. Bank's Employees	25,956		39,920		154
7. Grand Total (5+6)	34,190		48,052		141

Loans extended to related persons decreased by 1% in comparison with the amount as of 31.12.2006.

Loans to banks' shareholders represented the largest share in the structure of receivables from related persons amounting to 47%. Those loans had a rate of decrease of 18% in comparison with 31.12.2006, and they were related to two banks out of which an amount of KM 2.7 million was related to a single bank. Loans to banks' management amounted to 46% with a growth rate of 13%.

Loans to banks' employees amounted to KM 39.9 million and increased by KM 13.9 million or 54% in comparison with the previous year.

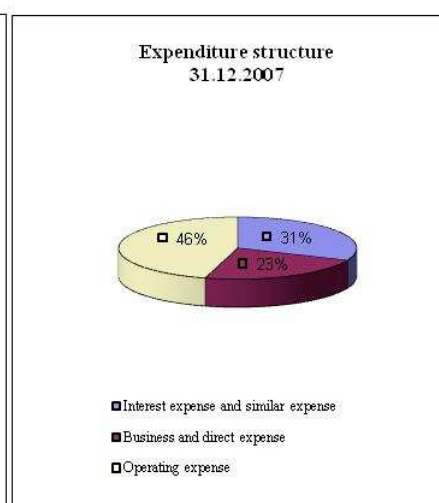
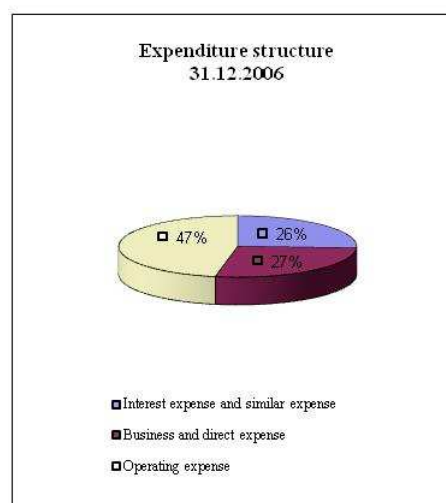
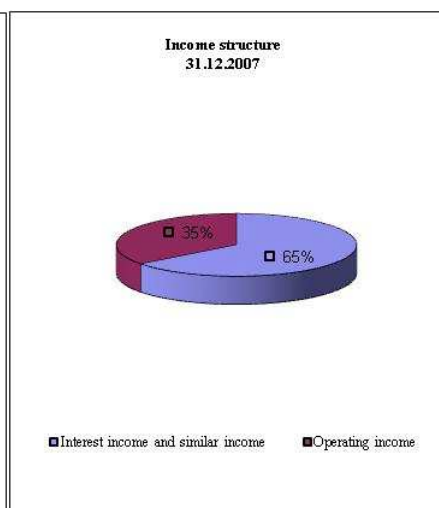
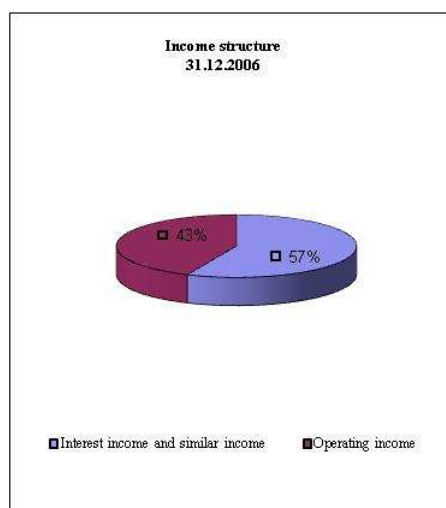
5. INCOME STATEMENT

Total income of the banking sector as of 31.12.2007 amounted to KM 402.6 million with a growth rate of 39%. Total expenditures amounted to KM 364.6 million, and had a growth rate of 38% if compared to the same period of the previous year.

The structure of the banking sector's income statement is the following:

(in 000 KM)

DESCRIPTION	31.12.2006		31.12.2007		Index
	Total	%	Total	%	
1	2	3	4	5	6
1.INTEREST INCOME AND SIMILAR INCOME					
a) Interest income and similar income	164,168	57	260,006	65	158
b) Operating income	125,505	43	142,597	35	114
2. TOTAL INCOME (1.a + 1.b)	289,673	100	402,603	100	139
3. EXPENDITURE					
a) Interest expenditure and similar expenditure	68,053	26	114,641	31	168
b) Business and direct expenses	72,045	27	83,660	23	116
c) Operating expenditure	124,147	47	166,318	46	134
4. TOTAL EXPENDITURE (3.a+3.b+3.c)	264,245	100	364,619	100	138
TOTAL INCOME-EXPENDITURE (2. -4.)	25,428		37,984		
PROFIT BEFORE TAX	27,306		38,479		141
LOSS	1,878		495		26
TAX	1,298		4,398		339
NET PROFIT	24,130		33,586		139



Basic income was interest income, due to increased lending activity of banks, especially in sectors of economy and operation with citizens. That was a positive trend, meaning that banks directed their operation towards more stable sources of income.

Total interest income and similar income amounted to KM 260.0 million, which was 65% of total income with a growth rate of 58% in comparison with the same period of the previous year. Within the structure of these incomes a share of loan interest income amounted to KM 196.5 million or 76% with a growth-rate of 30% in comparison with 31.12.2006.

If compared with the same period of the previous year income from both interest-bearing deposit accounts at deposit institutions and placements to other banks had a significant growth. Such income amounted in total to KM 49.4 million or 19% of interest income and similar income with a growth rate of 288%. Their larger part was related to interest on and placements of cash funds.

Other items of interest income and similar income amounted to KM 14 million or 5%, out of which an amount of KM 13.8 million related to fee income from processing loan applications and other.

Operating income amounted to KM 142.6 million or 35% of total income, and it increased by 14% in comparison with 31.12.2006.

Operating income structure consisted of the following: income from payment transaction in an amount of KM 47.1 million or 33%, income based on revoking reserves in an amount of KM 20.2 million or 14.2%, income based on foreign currency transactions in an amount of KM 14.8 million or 10.4%, income based on transactions with off-balance sheet items in an amount of KM 5.7 million or 4%, and income based on trading with securities in an amount of KM 8.5 million or 6%. Other items of operating income such as net foreign exchange balance, leases, card subscriptions, income from revaluation, share in others' capital, and similar income items amounted to KM 46.3 million or 32.4% of total operating income.

Total expenditures amounted to KM 364.6 million, and increased by 38%. Expenditure structure was changed in comparison with the same period of the previous year. Interest expense increased its share in total expenditure from 26% as of 31.12.2006 to 31% at a growth rate of 68%, which was a result of deposit increase and increasing deposit interest, especially in case of long-term deposits.

Business and direct expenses amounted to KM 83.7 million and were related to credit and other loss reserve costs in an amount of KM 73.3 million or 88%, and other business operation and direct costs in an amount of KM 10.4 million or 12%. These costs had a growth rate of 16%, and decreased their share in the expenditure structure from 27% to 23% in comparison with the same period of the previous year.

The item costs of reserves for credit and other losses increased by KM 9.7 million or 15% in comparison with the amount as of 31.12.2006.

Operating expense amounted to KM 166.3 million and recorded an increase of 34%. The operating expense structure consisted of salary and contribution costs in an amount of 40%, office space costs of 35%, and other operating costs of 23%.

Generated profit before tax amounted to KM 38.5 million, and it was larger by 41% in comparison with the previous year-end.

As of 31.12.2007 current loss was reported only by a newly founded bank in an amount of KM 495 thousand.

Net profit amounted to KM 33.6 million, and it was larger by 39% if compared to 31.12.2006.

Increasing level of the net profit generated could be seen as a positive trend, however, analysis of basic profitability ratios indicated certain deterioration since financial result achieved was not in proportion with growth of operation of the banking sector of Republika Srpska.

Profitability Ratios

(in 000 KM)

DESCRIPTION		31.12.2006	31.12.2007
1.	Profit /	24,130	33,586
	Average net assets	2,731,612	4,312,439
	%	0,88	0,78
2.	Profit/	24,130	33,586
	Average total capital*	311,898	388,346
	%	8	9
3.	Profit/	24,130	33,586
	Average equity	275,037	335,598
	%	9	10
4.	Net interest income /	96,115	145,365
	Average net assets	2,731,612	4,312,439
	%	4	3
5.	Fee Income/	74,101	79,355
	Average net assets	2,731,612	4,312,439
	%	3	2
6.	Total income/	221,620	287,962
	Average net assets	2,731,612	4,312,439
	%	8	7
7.	Business and direct expenses/	72,045	83,660
	Average net assets	2,731,612	4,312,439
	%	3	2
8.	Operating expenses/	124,147	166,318
	Average net assets	2,731,612	4,312,439
	%	5	4
9.	Non-interest bearing expenses /	196,192	249,978
	Average net assets	2,731,612	4,312,439
	%	7	6

*Balance sheet capital decreased by current profit.

Note: Calculation of ratios was based on average amounts and on the annual level.

Ratio of return on average assets (ROAA) decreased and it was under the level of a usual average of 1%, which means that growth of earnings did not follow increase of banks' scope of operation. Return on average total capital (ROAE) recorded a slight increase in comparison with the same period of the previous year, but it still remained under the average, which usually amounts to over 10%. Ratio calculated as net interest income, and fee income over average net assets decreased. Banks' productivity measured as total income over average net assets ratio deteriorated in comparison with the previous year-end (large and rapid increase of assets due to inflow of funds from sale of state-owned capital).

Ratios of expense measured in relationship with average net assets recorded a decrease, which was a positive trend, and it can be concluded that they resulted from a certain improvement in operation efficiency.

6. LIQUIDITY

Stability of business operation, building-up confidence in banks, and financial market position of each bank depend on the quality of liquidity risk management and capability to maintain liquid position. The process of maintaining liquidity and managing liquidity risk is a very complex and important segment in operation of a single bank and the banking system as a whole.

Responsibility for implementation of liquidity policy and providing for bank's capability to meet its obligations without delay as of the maturity date is up to the bank's management and management bodies.

In the process of managing liquidity risk banks are obligated to apply programs, policies, and procedures adopted in order to provide for both maturity structure and maturity adjustment of assets, liabilities, and off-balance sheet items. The goal is also to develop plans of future liquidity needs and sources, taking into consideration sources diversification required, to protect banks from unexpected funds outflows, and to anticipate contingency liquidity needs. All items stated above have to be provided by banks' having in mind that not only internal factors can influence their liquidity, but also external factors (regulatory, monetary, economy, legislation, market conditions, money market both development and accessibility, etc.) can make impact on the overall business operation of each bank.

The most important source of banks' operation funding were deposits, which amounted to 85% of total liabilities, while share of loans borrowed amounted to 4%. Share of subordinated debt (as a long-term quality source of funds) was still under 0.5% although it was increased by KM 9.7 million or 638% in comparison to the 2006 year-end. Only two banks in Republika Srpska had subordinated debts.

Based on deposit maturity structure an amount of KM 3,342.7 million or 73% was short-term deposits, and KM 1,243.8 million or 27% were long-term deposits. The deposit maturity structure was largely influenced by increase of the state's short-term deposits originating from privatization of state-owned capital.

The overall Republika Srpska banking sector was liquid and capable of meeting its obligations within due terms. Banks held a relatively high level of cash funds, which as of 31.12.2007 amounted to 41% of total banks' assets.

All banks met in continuity all minimum requirements for maintenance of liquidity position, i.e. maintenance of required minimum daily amount of cash funds of 5%, and ten-day cash funds amount of 10% of short-term sources, which can be seen from the following table:

(in 000 KM)

No.	DESCRIPTION	31.12.2006	31.12.2007	Index
1	2	3	4	5=4/3
1.	Average daily cash-funds position	776,125	1,140,180	147
2.	The smallest total daily cash-funds position	673,147	1,028,895	153
3.	Short-term funds sources (basis for calculation)	1,434,383	3,384,642	236
4.	Amount of obligation			
4.1	Ten-day average 10% of item no. 3	143,438	338,464	236
4.2	Daily minimum 5% of item no. 3	71,719	169,232	236
5.	Obligations met – ten-day average			
5.1	Overage/shortage (1-4.1)	632,687	801,716	127
6.	Obligations met - daily minimum			
6.1	Overage/shortage (2-4.2)	601,428	859,663	143

As of 31.12.2007 all banks met their obligation of maintaining mandatory minimum reserve at the Central Bank BH account. During the second quarter one bank failed to meet the limit required for one ten-day period not because problems in maintaining its liquidity, but due to a mistake in distribution of money from cash office to the vault.

One of important indicators in analyzing liquidity position is to monitor and control minimum requirements prescribed for financial assets and liabilities maturity matching in relationship with the remaining term due for particular periods of time (1-30 days, 1-90 days, 1-180 days), which is shown in the following table:

(in 000 KM)

No.	DESCRIPTION	31.12.2006	31.12.2007	Index
1	2	3	4	5=4/3
a)	Remaining maturity of 1-30 days			
1.	Total financial assets	1,245,543	2,678,476	215
2.	Total financial obligation	1,056,381	1,890,539	179
3.	Balance	189,162	787,937	417
4.	Generated in % (1/2*100)	117.91	141.68	
5.	Minimum required (in %)	100%	100%	
6.	More than minimum required (4-5 in %)	17.91	41.68	
7.	Less than minimum required (5-4 in %)	0	0	
b)	Remaining maturity of 1-90 days			
1.	Total financial assets	1,374,575	2,922,407	213
2.	Total financial obligation	1,232,496	2,754,268	223
3.	Balance	142,079	168,139	118
4.	Generated in % (1/2*100)	111.53	106.1	
5.	Minimum required (in %)	100%	100%	
6.	More than minimum required (4-5 in %)	11.53	6.1	
7.	Less than minimum required (5-4 in %)	0	0	
c)	Remaining maturity of 1-180 days			
1.	Total financial assets	1,547,649	3,149,347	203
2.	Total financial obligation	1,398,025	2,993,342	214
3.	Balance	149,624	156,005	104
4.	Generated in % (1/2*100)	110.7	105.21	
5.	Minimum required (in %)	95%	95%	
6.	More than minimum required (4-5 in %)	15.7	10.21	
7.	Less than minimum required (5-4 in %)	0	0	

It can be seen from the table above that maturity adjustment at the banking sector level was maintained within limits prescribed. In comparison with the maturity adjustment as of the end of 2006 it is obvious that indicators related to maturity of 1-30 days improved, while indicators for the remaining maturity periods were slightly lower. Based on facts stated it can be concluded that assets measured by comparing remaining maturity with maturity agreed had a larger rate of growth than amounts of sources measured in the same way. Maturity structure of sources represents basis for maturity structure of placements, thus planning of sources and the total liquid position of every bank should be adjusted to the lending policy planned. Any serious disruption of maturity adjustment could create problems in liquidity maintenance, which could further have an adverse impact on the total bank's financial condition.

Liquidity ratios are given in the following table:

(in 000 KM)

	DESCRIPTION	31.12.2006	31.12.2007
1.	Short-term assets/	1,298,237	2,419,939
	Short-term liabilities	1,340,372	2,723,637
	%	97	89
2.	Short-term assets /	1,298,237	2,419,939
	Total assets	2,731,612	4,312,439
	%	48	56
3.	Short-term liabilities /	1,340,372	2,723,637
	Total assets	2,731,612	4,312,439
	%	49	63
4.	Net short-term liabilities /	42,135	303,698
	Total assets	2,731,612	4,312,439
	%	2	7
5.	Net loans/	1,692,685	2,286,299
	Deposits	2,215,825	3,599,983
	%	76	64
6.	Net loans and financ. obligation taken, and L/Cs /	1,695,375	2,290,378
	Total assets	2,731,612	4,312,439
	%	62	53

Note: Calculation of ratios is based on average amounts

Short-term assets over liabilities ratio indicated to a slower growth of short-term placements than short-term sources resulting with a fall of ratios.

Share of short-term assets in total assets increased from 48% to 56%, and share of short-term liabilities from 49% to 63%. Those two ratios were under significant influence of growth of short-term deposits and placements, which was due to inflow of funds from privatization of state-owned capital.

Net short-term liabilities, consisting of short-term sources decreased by short-term placements, increased by 7%, which means that short-term liabilities grew faster than short-term assets.

Net loans over deposits ratio improved, indicating that growth of credit portfolio was followed by growth of sources.

6.1. Foreign Currency Adjustment of Financial Assets and Liabilities

Foreign currency risk represents bank's exposure to a possible influence of foreign currency changes depending on the amount and duration of exposure, and degree of foreign currency adjustment of assets, liabilities, and off-balance sheet, i.e. degree of foreign currency cash flow adjustment.

Due to a possible adverse influence of foreign currency changes on bank's financial position, minimum standards have been enacted, which banks are obligated to observe in performing foreign currency activities, as well as when developing and implementing programs, policies and procedures intended to monitor, control and manage foreign currency risk.

Balance between items of assets and liabilities per individual foreign currencies represent open foreign currency positions, which can be long and short ones.

Long position is created when assets items value per certain foreign currency exceeds value of items of liabilities, and short position is created when value of items of liabilities exceeds value of assets items. Sum of all long and short positions gives a bank's foreign currency position.

The limit prescribed for banks' foreign currency position is 30% of core capital, and the same percentage is prescribed in EURO while the limit for other foreign currencies is 20% of core capital.

Banks report daily on their foreign currency adjustment of financial assets, liabilities and off-balance sheet.

The following table shows amounts and changes of foreign currency (FC) adjustment:

(in 000 KM)

No.	DESCRIPTION	31.12.2006		31.12.2007		Index	
		EURO	TOTAL	EURO	TOTAL	7=5/3	8=6/4
1	2	3	4	5	6	7=5/3	8=6/4
1	FINANCIAL ASSETS						
1.	Cash funds	213,306	286,304	1,126,768	1,201,313	528	420
2.	Loans	114,589	129,251	440,055	456,150	384	353
3.	Loans with FC Clause	1,143,164	1,277,191	1,361,705	1,696,362	119	133
4.	Other	10,478	13,436	17,718	20,145	169	150
5.	TOTAL:	1,481,537	1,706,182	2,946,246	3,373,970	199	198
2	FINANCIAL OBLIGATIONS						
1.	Deposits	1,157,593	1,369,996	2,447,401	2,862,834	211	209
2.	Loans taken	68,845	74,931	37,877	46,665	55	62
3.	Deposits with FC Clause	224,163	224,163	285,161	285,161	127	127
4.	Other	14,832	15,522	143,057	147,769	965	952
5.	TOTAL:	1,465,433	1,684,612	2,913,496	3,342,429	199	198
3	OFF-BALANCE SHEET POSITION						
1.	Assets	12,227	12,234	14,426	14,702	118	120
2.	Liabilities	0	3	10,881	14,197	0	473.233
4	POSITION						
1.	Long position - amount	28,331	33,801	36,295	32,046	128	95
2.	Long position - in %	8	10	9	8		
3.	Short position - amount						
4.	Short position - in %						
	Allowed position						
1.	Larger than allowed - in %						
2.	Smaller than allowed - in %	22	20	21	22		

As of 31.12.2007 total FC assets of Republika Srpska banks amounted to KM 3,373.9 million with a growth rate of 98%. FC assets consisted of cash funds in an amount of KM 1,201.3 million, loans of KM 456.1 million, loans with FC clause in an amount of KM 1,696.4 million, and other items amounting to KM 20.1 million.

In the FC assets structure as of 31.12.2007 share of cash funds was 36% with a growth rate of 320% if compared to the year-end 2006, which resulted from a FC inflow based on privatization of the state-owned capital. Loans with FC clause amounted to 50%, and they increased by 33%, and represented 65% out of total net loans of the Republika Srpska banking sector.

Total FC liabilities of Republika Srpska banks amounted to KM 3,342 million, out of which deposits were KM 2,862.8 million or 86%, obligations per loans taken amounted to KM 46.7 million, and deposits with FC clause amounted to KM 285.1 million, and all other items were of an amount of KM 147.8 million.

The largest share in the Republika Srpska banks' FC liabilities structure was that of deposits, which had a rate of growth of 109% in comparison with the previous year because of deposits of the state.

As per FC structure EURO had a dominating share in the total FC structure of assets and liabilities (87%). EURO share in off-balance sheet assets amounted to 98% and in liabilities 78%. Since EURO is a parity currency for KM, banks were not exposed to FC risk for that currency.

As of 31.12.2007 the total FC position at the level of the banking system was a long position in an amount of KM 32,046 thousand or 8% out of core capital.

All banks met requirements prescribed for both individual FC positions per certain currencies, and the total position related to core capital.

7. WEIGHTED NOMINAL AND EFFECTIVE INTEREST RATES

Weighted nominal and effective interest rates are calculated for loans newly approved, i.e. deposits received in the reporting month. Effective interest rate is the market price for banking products or services.

Since July 1, 2007 banks have been obliged to publish and inform potential users of banks' services on amounts of interest rates per each product.

Weighted nominal and effective interest rates applied to loans in the third and fourth quarter of 2007 calculated on the basis of monthly reports for both Republika Srpska banking sector and Federation BH banks' units operating in Republika Srpska are shown in the following table:

(in %)

DESCRIPTION	3 rd & 4 th Q 2007			
	Weighted Interest Rates			
	RS Banks		FBH Banks' Units	
	NIR	EIR	NIR	EIR
ST Loan Weighted Interest Rates	8.74	10.83	9.61	10.91
LT Loan Weighted Interest Rates	8.01	8.74	10.29	11.50
Total Loan Weighted Interest Rates	8.26	9.45	10.19	11.42

NIR = Nominal Interest Rates

EIR = Effective Interest Rates

As for short-term loans in the third and fourth quarter of 2007 RS banks applied average nominal interest rate of 8.74% and effective interest rate of 10.83%.

In the same period Federation BH banks' units applied for short-term loans somewhat higher average interest rates; thus nominal interest rate was 9.61%, and effective interest rate was 10.91%.

As for long-term loans RS banks applied average nominal interest rate of 8.01%, and effective interest rate of 8.74%. Federation BH banks' units applied for long-term loans average nominal interest rate of 10.29, and average effective interest rate of 11.50%.

As for total loans in the second half of 2007 RS banks applied average nominal weighted interest rate of 8.26%, and effective interest rate of 9.45%. Federation BH banks' units applied average nominal interest rate of 10.19, and average effective interest rate of 11.42%, which were somewhat larger than average rates applied by Republika Srpska banks.

Average nominal and effective interest rates applied to time-deposits in the third and fourth quarter of 2007 calculated on the basis of monthly reports for both Republika Srpska banking sector and Federation BH banks' units operating in Republika Srpska are shown in the following table:

(in %)

DESCRIPTION	3 rd & 4 th Q 2007			
	Weighted Interest Rates			
	RS Banks		FBH Banks' Units	
	NIR	EIR	NIR	EIR
ST Deposit Weighted Interest Rates	3.33	3.34	2.23	2.24
LT Deposit Weighted Interest Rates	4.99	4.99	4.22	4.24
Total Deposit Weighted Interest Rates	3.52	3.53	3.62	3.64

NIR = Nominal Interest Rates

EIR = Effective Interest Rates

It can be seen from the table above that Federation BH banks' units applied considerably lower interest rates for the same categories of time deposits. As average active interest rates for loans were considerably higher than the banking sector's interest rates that means that Federation BH Banks' units, in average, generated much larger interest margin per these categories of balance sheet.

Average interest rates for loans related to account overdrafts agreed and for deposits on demand were calculated on the basis of average daily amounts in the reporting month. As a rule, effective interest rate for items of both assets and liabilities is equal to nominal interest rate.

Average interest rates for overdrafts agreed and deposits on demand in the third and fourth quarter of 2007 can be seen from the following table:

(in %)

DESCRIPTION	3 rd & 4 th Q 2007			
	Weighted Interest Rates			
	RS Banks		RS Banks	
	NIR	NIR	NIR	NIR
Loan interest rates weighted - account overdrafts	9.26	9.26	10.34	10.44
Deposit on demand interest rates weighted	0.79	0.79	0.47	0.47

NIR = Nominal Interest Rates

EIR = Effective Interest Rates

Average effective interest rate for total loans related to account overdrafts in the RS banking sector amounted to 9.26%, while in Federation BH banks' units it amounted to 10.44%.

Average effective interest rate for deposits on demand in RS banks amounted to 0.79%, while in Federation BH banks' units it amounted to 0.47%.

8. PREVENTION OF MONEY LAUNDERING AND TERRORISM FINANCING

Under the Decision on Supervision of Banks, the Agency supervises also banks' compliance with minimum standards for prevention of money laundering and terrorism financing.

The Law on Prevention of Money Laundering ("Official Gazette of BH" number 29/04) – hereinafter: the Law – prescribes that prevention, investigation, and discovery of business activities representing money laundering and terrorism financing shall be performed by the BH Investigation and Protection Agency - Financial Intelligence Department (hereinafter: FID). The Banking Agency, however, shall perform supervision of implementation of the Law on Banks.

All banks have developed overall Programs, Policy and Procedures for prevention of money laundering and terrorism financing, which have been implemented in their major parts. The Agency's examinations have confirmed that banks do report on prescribed transactions to authorities required. In order to minimize effectively operating risks due to money laundering and terrorism financing, apart from appointing authorized persons and their deputies, banks have established separate departments for prevention of money laundering and terrorism financing. Education received, as well as efficiency of those persons authorized for prevention of money laundering and terrorism financing are on a satisfactory level.

Banks have established special client's profile registers (there is still a smaller number of banks where development of client' profile registers for physical persons have not been completed).

Banks have also established Central registers of clients and of their accounts, for which cash transactions have been exempted from reporting, in order to simplify reporting method, and to provide for better quality and more relevant information to FID.

Reporting to the Agency on transactions required was performed at a satisfactory level and in accordance with the Law on Banks of Republika Srpska. In the course of the year 2007 banks reported to the FID on 10 suspicious transactions in a total amount of KM 869 thousand. That was significantly smaller number of suspicious transactions in comparison with previous years, continuing the trend of decreasing suspicious transactions, first of all due to adequate implementation of Programs, Policies, and Procedures for prevention of money laundering and terrorism financing by banks and their operating units.

Based on the condition described, and trend monitoring results it can be stated that there are no reasons for supervisory concern for the banking system in Republika Srpska when it comes to exposure to risks caused by money laundering and terrorism financing. It is for sure, however, that a continuous supervision is to be maintained, as well as the current level of compliance with existing requirements should be further improved.

9. INTERNAL PAYMENT TRANSACTIONS

As of 31.12.2007 all 10 banks from Republika Srpska and 27 operating units or branch offices of banks from Federation of Bosnia and Herzegovina licensed for payment transactions in Republika Srpska were involved in the RS internal payment transactions.

As of 31.12.2007 a total of 114,008 transaction accounts were opened, which was by 6,258 more than the number as of 31.12.2006.

The number and amounts of transactions performed can be seen from the following table:

Date	Bank internal payment transactions (debiting accounts)		Inter-banking payment transactions (debiting accounts)	
	Number of transactions	Transaction amount (000 KM)	Number of transactions	Transaction amount (000 KM)
31.01.2007	1,537,041	1,964,277	816,246	1,139,100
28.02.2007	1,824,258	2,055,350	892,437	1,108,084
31.03.2007	2,036,084	2,433,804	1,022,143	1,283,112
30.04.2007	1,960,345	2,423,194	1,018,054	1,283,549
31.05.2007	2,014,758	2,393,367	1,013,463	1,237,335
30.06.2007	2,210,205	2,485,466	973,286	1,310,814
31.07.2007	1,907,213	2,402,427	1,093,305	1,466,513
31.08.2007	2,073,278	2,413,180	1,077,415	1,512,445
30.09.2007	1,904,328	2,278,000	965,679	1,347,073
31.10.2007	2,194,492	2,592,388	1,119,168	1,628,944
30.11.2007	2,082,497	2,508,839	1,025,709	1,550,436
31.12.2007	2,485,863	2,973,047	1,112,257	1,859,967
TOTAL:	24,230,362	28,923,339	12,129,162	16,727,372

The total number of inter-banking transactions performed as of 31.12.2007 was 24.2 million, the value of which amounted to KM 28.9 billion, while the number of inter-banking transactions was 12.1 million with a value of KM 16.7 billion.

In the course of 2007 the Republika Srpska internal payment transactions continued to function successfully. Examinations of internal payment transactions performed did not find larger violations of provisions except for still insufficient update of documenting transaction account files. Also, banks' penalty interest calculations were checked in the course of both regular and targeted examinations. It was found out that banks complied with the Law on Amount of Penalty Interest Rate ("Official Gazette of Republika Srpska" number 19/01 and 52/06) i.e. amounts of funds paid out did not exceed amounts prescribed.

Establishing the Unified Register of Legal Persons' Transaction Accounts (the Register of Physical Persons' Transaction Accounts is being in its final stage), which is held at the Central Bank of Bosnia and Herzegovina, improved significantly the Republika Srpska internal payment transactions functioning. However, there are still some cases of inconsistency (different approaches applied by banks) in finding efficient system of debt enforcement in the sense of protection of creditors and financial discipline. The Republika Srpska Ministry of Finance has established a working group (the Agency's representative is also a member) developing a normative framework for debt enforcement.

II MICROCREDIT ORGANIZATIONS (MCO) SECTOR

1. MCO STRUCTURE

As of 31.12.2007 in Republika Srpska there were 6 MCOs in operation, out of which 3 were organized as profit organizations named microcredit associations (MCA) and 3 non-profit organizations named microcredit foundations (MCF).

MCAs had in total 24 organizational units out of which 18 were operating in Republika Srpska, 5 in Federation BH, and 1 in Brcko District. Only one MCA had its organizational units operating out of Republika Srpska.

MCFs operated within their main offices and did not have any other organizational units.

As for MCFs having their HQs in Federation BH, the Banking Agency of Republika Srpska licensed their 29 organizational units, out of which 17 were units of the "Partner" Tuzla, 9 of the "MI Bospo" Tuzla, and 3 of the "EKI" Sarajevo. Those organizational units will be included in the Agency's reporting database in the course of 2008.

1.1. Staff

Staff Qualification Structure

No.	Qualification	30.09.2007		Total	%	31.12.2007		Total	%	Index
		MCA	MCF			MCA	MCF			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/6
1.	Unskilled worker	1	0	1	0	1	0	1	0	100
2.	Skilled	1	0	1	0	1	0	1	0	100
3.	Highly Skilled	0	1	1	0	0	1	1	0	100
4.	Secondary School	154	2	156	45	163	4	167	45	107
5.	Junior College	62	0	62	18	65	0	65	18	105
6.	College	125	3	128	36	133	3	136	36	106
7.	Master Degree	4	0	4	1	4	0	4	1	100
TOTAL:		347	6	353	100	367	8	375	100	106

As of 31.12.2007 the MCO sector had a total of 375 employees, which was by 22 employees or 6% more than as of 30.09.2007. MCAs employed 367 employees or 98%, and MCFs 8 employees or 2% out of total number of employees.

A share of employees having secondary school diplomas in the staff structure was 45%, while percentage of college graduated employees was 36%.

Both MCOs' qualification structure and the total number of employees largely depended on the structure and the number of employees in the biggest MCA. That association had 293 employees or 78% out of the total number, and its assets amounted to KM 203.6 million or 81% out of the total assets of MCOs.

2. FINANCIAL INDICATORS OF MCOs' OPERATION

The Agency performs its function of supervising and examining financial condition of MCOs by implementing on-site and off-site examinations of MCOs in accordance with the Law and legal regulation of the Agency.

The reporting framework consists of quarterly reports on balance sheet, capital, loans, loan loss reserves, operation results, and of other reports on individual segments of operation, as well as of monthly reports on interest rates.

Diagnostic examinations were performed in all licensed MCOs. The goal of such examinations was to establish condition of operation and to provide for expert support for transition to the new reporting system in compliance with the Agency's regulation. Based on examination results concrete recommendations were given for removal of irregularities found out.

2.1. Balance Sheet

MCOs' Balance Sheet is given in the following table:

(in 000 KM)

DESCRIPTION	30.09.2007					31.12.2007					Index
	MCA	%	MCF	%	Total	MCA	%	MCF	%	Total	
1	2	3	4	5	6=(2+4)	7	8	9	10	11=(7+9)	12=11/6
ASSETS (PROPERTY)											
1. Cash Funds	18,336	8	131	7	18,467	6,154	2	69	3	6,223	34
2. Placements to banks	0	0	0	0	0	0	0	0	0	0	0
3. Loans	197,772	86	1,511	77	199,283	230,542	92	1,448	76	231,990	116
4. Office space and other fixed assets	7,363	3	178	9	7,541	7,428	3	188	10	7,616	101
5. Long-term investments	1,565	1	0	0	1,565	1,565	1	0	0	1,565	100
6. Other assets	5,063	2	135	7	5,198	4,700	2	210	11	4,910	94
Total assets:	230,099	100	1,955	100	232,054	250,389	100	1,915	100	252,304	109
LIABILITIES (OBLIGATIONS)											
7. Obligations per loans taken	173,338	75	1,069	54	174,407	189,310	76	846	44	190,156	109
8. Potential loss reserves	1,739	1	24	1	1,763	763	0	41	2	804	46
9. Other liabilities	4,602	2	167	9	4,769	7,457	3	242	13	7,699	161
10. Capital	50,420	22	695	36	51,115	52,859	21	786	41	53,645	105
11. Total liabilities (obligations & capital)	230,099	100	1,955	100	232,054	250,389	100	1,915	100	252,304	109
Off-balance sheet records	515		232		747	558		249		807	108

As of 31.12.2007 the MCO balance sheet amount was KM 252.3, which was by 9% larger than the amount as of 30.09.2007 (the first reporting quarter). The increase of balance sheet amount was recorded with MCAs, which share amounted to KM 250.4 million or 99% out of the total MCOs' balance sheet amount. One MCA had the largest share amounting to KM 203.6 million or 81% of the total MCOs' balance sheet amount.

Within the MCOs' assets composition the amount of cash funds was KM 6.2 million or 2% with a rate of decrease of 66% in comparison with 30.09.2007. The amount mostly related to the MCAs' cash funds. Loans amounted to KM 232 million or 92% out of the total assets with a growth rate of 16%. Office space and other fixed assets amounted to KM 7.6 million or 3% of the total assets. Long-term investments amounted to KM 1.6 million or 1% of the total assets, and related mostly to one MCA. Other assets amounted to KM 4.9 million or 2%, and consisted of interest accrued, advance payments, assets accruals and other.

Obligations per loans taken (borrowed by MCOs) were the main source of funds, which amounted to KM 190.2 million with a share of 75% of the total liabilities (obligations and capital) and a growth rate of 9% in comparison with 30.09.2007.

Maturity composition of the loans borrowed is the following:

(in 000 KM)

DESCRIPTION	30.09.2007				31.12.2007				Index
	MCA	MCF	Total	%	MCA	MCF	Total	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=9/5
1. Obligations per ST loans borrowed	2,428	609	3,037	2	5,448	540	5,988	3	197
2. Obligations per LT loans borrowed	170,910	460	171,370	98	183,862	306	184,168	97	107
Total:	173,338	1,069	174,407	100	189,310	846	190,156	100	109

Out of the total obligations per loans borrowed an amount of KM 184.2 million or 97% were long-term loans, while KM 6 millions or 3% were short-term loans. Loans borrowed by MCAs amounted to KM 189.3 million or 99.6% out of the total loans.

The most important creditors for micro-credit sector were the Blue Orchard Fund, Switzerland in an amount of KM 25.1 million, the Response Ability SICAV Fund, Switzerland in an amount of KM 19.6 million, European Fund for South-East Europe (EFSE) in an amount of KM 19.2 million, and European Bank for Reconstruction and Development (EBRD) in an amount of KM 13.0 million.

As of 31.12.2007 reserves for potential losses related to loans and other receivables amounted to KM 804 thousand. As of 30.09.2007 those reserves amounted to KM 1.8 million, and included reserves separated on the basis of the previous legal provisions regulating MCOs' operation. That is why a decreasing rate of 54% appeared in comparison with the amount as of 30.09.2007.

Other liabilities amounted to KM 7.7 million or 3% of the total liabilities, and they consisted of obligations toward employees, suppliers, liabilities accruals, and other.

Capital amounted to KM 53.6 million or 21% of the total liabilities.

Off-balance sheet records were related to loan based receivables written off, and their amount was KM 807 i.e. by 8% larger than the one as of 30.09.2007.

2.2. Capital

The total MCOs' capital amounted to KM 53.6 million, out of which MCAs' capital was KM 52.9 million or 98%, and MCFs' capital was KM 786 thousand or 2%.

MCOs' capital composition can be seen from the following table:

(in 000 KM)

DESCRIPTION	30.09.2007					31.12.2007					Index
	MCA	%	MCF	%	Total	MCA	%	MCF	%	Total	
1	2	3	4	5	6	7	8	9	10	11	12
Capital Donated	13,939	28	250	36	14,189	13,939	26	250	32	14,189	100
Core Capital	1,005	2	60	9	1,065	1,500	3	150	19	1,650	155
Issuance Premium	0	0			0	0	0			0	0
Undistributed Earnings*	35,476	70			35,476	37,420	71			37,420	105
Overage/shortage - income over exp.			270	38	270			351	45	351	130
Reserves Legally Required	0	0	5	1	5	0	0	35	4	35	700
Other Reserves	0	0	110	16	110	0	0	0	0	0	100
Total Capital:	50,420	100	695	100	51,115	52,859	100	786	100	53,645	105

* Undistributed Earnings included surplus of income over expenditures from the period previous to the transformation of MCOs into MCAs.

All MCOs complied with the legally required minimum amount of core capital paid in money in an amount of KM 500 thousand for MCAs, and KM 50 thousand for MCFs.

A significant source of capital for MCOs was capital donated in the period previous to the transformation in an amount of KM 14.2 million or 26% of the total capital, and it was mostly related to MCAs.

The most significant capital source for MCAs is undistributed earnings, i.e. surplus of income over expenditures from the period previous to the transformation of MCOs into MCAs, and as of 31.12.2007 it amounted to KM 37.4 million with a growth rate of 5% in comparison with the amount as of 30.09.2007.

As the most significant source of capital, surplus of income over expenditures generated by MCFs amounted to KM 351 thousand with a growth rate of 30% in comparison with the 3rd Q amount.

2.3. Credit Portfolio Quality

MCOs' basic business activity is lending micro credits, which constituted 92% of the total assets of MCO sector.

The total amount of the sector's loans depends on the level of MCAs' loans, which amounted to KM 230.5 million or 99% of the total loans, while loans extended by MCFs amounted to KM 1.5 million or 1% of total loans.

Structure of MCOs' loans per sectors and maturity in Republika Srpska as of 31.12.2007 can be seen from the following table:

(in 000 KM)

No.	Micro credits	ST Loans	LT Loans	Receivables Due	Total
1	2	3	4	5	6=(3+4+5)
1.	To Legal Persons				
a)	Services	470	1,960	0	2,430
b)	Trade	559	2,419	1	2,979
c)	Agriculture	15	227	2	244
d)	Production	262	1,607	5	1,874
e)	Other	0	16	1	17
	TOTAL 1:	1,306	6,229	9	7,544
2.	To Physical Persons				
a)	Services	4,899	62,974	175	68,048
b)	Trade	3,020	31,845	76	34,941
c)	Agriculture	5,110	70,485	146	75,741
d)	Production	1,193	17,224	47	18,464
e)	Housing	0	0	0	0
f)	Other	4,828	22,398	26	27,252
	TOTAL 2:	19,050	204,926	470	224,446
	TOTAL (1+2):	20,356	211,155	479	231,990

Based on loan structure per sectors an amount of KM 224.5 million, or 97% out of total loans, was placed to physical persons, and KM 7.5 million or 3% to legal persons.

Within the total loan maturity structure the amount of short-term loans, including receivables due, was KM 20.8 million or 9%, while long-term loans amounted to KM 211.2 million or 91%.

Total receivables due amounted to KM 479 thousand or 0.2% out of total loans, and they were almost completely related to loans to physical persons.

Based on branch of industry structure the largest amount of total loans to legal persons was invested in trade and amounted to KM 3 million or 40%, amount of loans invested in services was KM 2.4 million or 32%, in production KM 1.9 million or 25%, and in other branches of industry KM 261 thousand or 3%.

Loans to physical persons were invested in agriculture in an amount of KM 75.7 million or 34%, in services KM 68 million or 30%, in trade KM 34.9 million or 16%, in production KM 18.5 million or 8%, and in other branches an amount of KM 27.3 million or 12%.

Out of total loans related to branch industry structure an amount of KM 70.5 million or 30% was invested in services, KM 76.0 million or 33% in agriculture, KM 37.9 million or 16% in trade, KM 20.3 million or 9% in production, and KM 27.3 million or 12% in other branches.

The above shown figures indicate that microcredit sector was mostly lending to agriculture and services (63% out of total loans) and it was mostly related to long-term loans.

As of 31.12.2007 the total amount of loans extended to persons related to MCOs was KM 101 thousand and it was extended by one MCA.

MCOs are obligated to have their loan based receivables and all other receivables distributed in specific groups by implementing criteria of number of repayment delay days, and to separate adequate reserves for each of the groups to cover loan and other losses debiting operation costs.

Reserves for loan and other losses consist of general and special reserves.

General reserves are calculated for “good loans” and other assets, where repayment delay ranges from 1 to 15 days with a rate of 2% applied.

Special reserves are calculated for all loans and other items of assets where repayment delay exceeds 16 days.

Amounts of receivables distributed in specific groups, and reserves calculated per such groups can be seen from the following table:

(in 000 KM)

No.	Delay in Days	Reserve Rate	Loan Amount	Interest Due		Other Assets Items Amount	Reserves			Total Reserves
				Reserve Rate	Interest Amount		Per Loans	Per Interest Due	Per Other Assets Items	
1	2	3	4	5	6	7	8=(4x3)/100	9=6x5/100	10=(7x3)/100	11=(8+9+10)
1.	1-15	2%	2,105	2%	28	6,019	43	0	119	162
2.	16-30	15%	765	100%	10	0	115	10	0	125
3.	31-60	50%	184	100%	7	0	93	8	0	101
4.	61-90	80%	201	100%	8	0	165	10	0	175
5.	91-180	100%	226	100%	15	0	226	15	0	241
6.	over 180	write-off	19		2	0	1	0	0	0
TOTAL:			3,500		70	6,019	642	43	119	804

Out of the total MCO' loans an amount of KM 3.5 million or 1.5% had a repayment delay exceeding one day. This is an indicator of a very high loan repayment rate in this sector. The largest portion of loans had a repayment delay ranging from 1 to 15 days (KM 2.1 million or 1% out of total loans). Loans belonging to this group are considered “good loans”.

The total amount of interest due was KM 70 thousand, and out of that an amount of KM 28 thousand or 40% was in the group with the repayment delay from 1 to 15 days.

Other items of assets having a repayment delay from 1 to 15 days amounted to KM 6 million.

A total amount of reserves calculated on all bases amounted to KM 804 thousand.

2.4. Nominal and Effective Interest Rates Weighted

Microcredit effective interest rate is the market price for those loans.

Nominal and effective interest rates weighted are calculated for newly extended loans during the reporting month.

Average nominal and effective rates for December 2007 can be seen from the following table:

No.	DESCRIPTION	December 2007	
		Nominal Interest Rate Weighted	Effective Interest Rate Weighted
1	2	3	4
1.	Short-Term Loan Interest Rates Weighted	16.41	21.70
2.	Long-Term Loan Interest Rate Weighted	17.00	19.97
3.	Total Loan Interest Rates Weighted	16.92	20.20

Average nominal interest rate for short-term loan amounted to 16.41%, and effective interest rate amounted to 21.70%.

Average nominal interest rate for long-term loan amounted to 17%, and effective interest rate amounted to 19.97%.

MCOs' loans taken in total show that MCOs applied an average nominal interest rate of 16.92% and effective one of 20.20%, which were significantly higher interest rates than weighted average nominal and effective interest rates applied in the banking.

2.5. Income Statement

Income statement of Republika Srpska microcredit sector had the following structure:

(in 000 KM)

DESCRIPTION	31.12.2007			
	MCA	MCF	Total	%
1	6	7	8=(6+7)	9
1. INTEREST INCOME AND SIMILAR INCOME				
a) Interest income and similar income	35,665	493	36,158	97
b) Operating income	1,079	11	1,090	3
2. TOTAL INCOME (1.a+1.b)	36,744	504	37,248	100
3. EXPENSE				
a) Interest expense and similar expense	11,353	77	11,430	42
b) Operating expense	14,809	236	15,045	55
c) Reserves for credit and other losses	561	280	841	3
4. TOTAL EXPENSE (3.a+3.b+3.c)	26,723	593	27,316	100
5. EXTRAORDINARY INCOME	43	22	65	
6. EXTRAORDINARY EXPENSE	0	6	6	
TOTAL INCOME - EXPENSE (2+5-4-6)	10,064	-73	9,991	
PROFIT BEFORE TAX	10,065		10,065	
OVERAGE/SHORTAGE OF INCOME OVER EXPENSE		-73	- 73	
TAX	489		489	
NET PROFIT/LOSS	9,576		9,576	
OVERAGE/SHORTAGE OF INCOME OVER EXPENSE		-73	- 73	

As of 31.12.2007 the total MCOs' income amounted to KM 37.3 million, out of which KM 36.2 million or 99% was related to MCAs' income and KM 1.1 million or 1% represented MCFs' income.

The total expense amounted to KM 27.3 million, out of which KM 26.7 million or 98% was related to MCAs' expense, while KM 0.6 million or 2% represented MCFs' expense.

The main income was interest income amounting to KM 36.2 million or 97% of the total income.

Within the expense structure an amount of KM 11.4 million or 42% out of the total expense represented interest expense per loans taken and other similar expense.

Operating expense amounted to KM 15.0 million or 55% out of the total expense, and it consisted of expenses for salaries and contributions, office space cost, other fixed assets and overhead costs, and other operating costs.

Costs for provisioning for loan and other losses amounted to KM 0.8 million or 3% out of total expense.

As of 31.12.2007 positive financial results (surplus of income over expense from the period before transformation of MCOs into MCAs and current profit) were generated by all MCAs in an amount of KM 9.6 million, out of which KM 8.1 million related to the largest MCAs.

In the same period MCFs generated a loss in the total amount of KM 73 thousand. One MCF generated a loss of KM 98 thousand, and two MCFs had a surplus of income over expense in an amount of KM 25 thousand.

Positive financial result generated at the level of the microcredit sector amounted to KM 9.5 million.

III SECTOR OF SAVING-CREDIT ORGANIZATIONS

Supervision and examination of saving-credit organizations' operation will be based on on-site examinations and reports submitted to the Agency by saving-credit organizations within prescribed deadlines in compliance with the Decision on Formats and Contents of Reports to be submitted to the Banking Agency of Republika Srpska by saving-credit organizations ("Official Gazette of Republika Srpska" number 35/07).

As of 31.12.2007 not a single saving-credit organization started operating (on 29.11.2007 the Agency licensed one saving-credit organization and its registration with the competent court was in progress).

IV SECTOR OF LEASING PROVIDERS

Supervision and examination of leasing providers' operation will be based on on-site examinations and reports submitted to the Agency by leasing providers within prescribed deadlines in compliance with the Decision on Formats and Contents of Reports to be submitted to the Banking Agency of Republika Srpska by leasing providers ("Official Gazette of Republika Srpska" number 100/07).

As of 31.12.2007 one application for leasing provider licensing was submitted to the Agency, and the license issuance procedure was in progress.

CONCLUSION

After analyzing in detail indicators relating to banks in the year 2007 we could state that almost all of them defining quality of the banking sector had a positive trend.

Positive characteristics were the following:

- Total assets increased by 67% out of which balance sheet assets was larger by 69%;
- Cash funds increased by 127%, and net loans increased by 34%;
- Cash funds in domestic currency were larger by 49%;
- Cash funds in foreign currency were larger by 319%;
- Deposits increased by 78%, and share of citizens' deposits in total deposits was 24% with a growth rate of 37%;
- The largest influence on increase of loans was made by loans to citizens (growth rate of 38%) and loans to private enterprises (growth rate of 27%);
- Banks' liquidity was at the satisfactory level;
- Growth rate of equity was 12%, while net capital had a growth rate of 20% in comparison with the previous year-end;
- Banks separated reserves at rates within the framework prescribed;
- All Republika Srpska banks had their deposits insured (the newly founded bank since 01.01.2008).

In order to have better quality indicators of operation in the future period banks should work intensively on the following:

- To make adjustments in assets and capital growth;
- To report on assets quality in a more realistic way, and separate adequate reserves for potential losses;
- To provide for a faster growth of long-term sources;
- To intensify monitoring over lending to citizens, taking into consideration amounts and rate of growth of citizens' loans due;
- To take into account deposit diversification, and to follow-up influence made by deposit concentration of mother banks;
- To pay attention to cash funds amounts, and improve incomes generated by them;
- To improve further manner of performing payment transactions;
- To strengthen both banks' internal control and internal audit;
- To develop policy and procedures for more adequate protection from market and operating risks;
- To work in direction of decreasing expenditures and fixed assets, which would reflect in increasing profitability;
- Staff strengthening and professional training in order to achieve better quality relationships with clients, especially small and medium enterprises, which would include new types of services accepted worldwide, that is more powerful development of financial management operations;
- To strengthen IT support both hardware- and software-wise.

Since, apart from banks, the very environment, and especially economy, jurisdiction, and legislation ambience have a significant role for further positive movements in the banking sector, it should be necessary to complete, as soon as possible, activities already commenced:

- To speed up decision-making in court procedures, implementation of decisions, and mortgage collecting;
- To establish quality data-base for legal persons' financial reporting;
- Further improvement of legal and institutional framework to achieve quality financial discipline;
- To enable systemic method of recording and collecting funds from clients' accounts blocked.

It is also necessary to mention that the Agency should do the following:

- Further developing and improving supervision and examination of banks' operation,
- Staff professional education and IT development,
- Observe international banking standards and incorporate them into the current regulation,
- To insist on banks' capital strengthening,
- To pay special attention to banks with large amounts of savings in order to protect depositors,
- To continue adequate monitoring of payment transactions and banks' activities in preventing money laundering and terrorism financing.

After analyzing the first reports on micro-credit sector as of 30.09.2007 and 31.12.2007 the following can be stated:

- In the fourth quarter of 2007 MCOs' balance sheet amount increased by KM 20.3 million or 9%;
- As of 31.12.2007 MCOs' the total balance sheet amount was KM 252 million, out of which KM 250 million or 99% related to MCAs, while KM 2 million or 1% related to MCFs;
- Total loans amounted to KM 232 million or 92% out of the total MCOs' assets;
- Obligations per loans taken amounted to KM 190.2 million or 75% out of total MCOs' liabilities (obligations and capital);
- The total MCOs' core capital amounted to KM 1.7 million, and all MCOs had a minimum amount of paid-in capital legally required;
- The total MCOs' capital amounted to KM 53.6 million, and the most significant item of the capital as of 31.12.2007 was undistributed earnings in an amount of KM 37.4 million or 70% of the total capital, and capital donated in an amount of KM 14.2 million or 26% of the total capital;
- MCAs generated a positive financial result (surplus of income over expense from the period previous to the transformation of MCOs into MCAs, and current earnings) in an amount of KM 9.6 million, while MCFs generated loss in an amount of KM 73 thousand.

In the future period MCOs and especially MCFs have to intensify their work in the following:

- Staff strengthening and professional training in order to apply and implement in a strict manner all legal regulation and legal enactments related to their operation;
- To strengthen technical support in order to computerize completely their operation.

ATTACHMENTS

BANKING SECTOR

- **Basic Data on Banks**
- **Balance Sheet**
- **Capital Flow Statement**
- **Income Statement**
- **Staff Qualification Structure**

MCO SECTOR

- **Basic Data on MCOs**
- **MCAs' Balance Sheet**
- **MCFs' Balance Sheet**
- **MCAs' Income Statement**
- **MCFs' Income Statement**

BANKING SECTOR - Attachment no. 1

BASIC DATA ON BANKS IN REPUBLIKA SRPSKA

No.	BANK	HQ	ADDRESS	DIRECTOR	PHONE	FAX	31.12.2007 (in 000 KM)		Number of employees
							ASSETS	CAPITAL	
1.	Nova banjalucka banka a.d. Banja Luka	Banja Luka	M. Bursac 7	Ranko Labovic	051/243-200	212-830	530,430	66,696	521
2.	Hypo Alpe-Adria-Bank a.d. Banja Luka	Banja Luka	Aleja Svetog Save 13	Srecko Bogunovic	051/336-500	336-518	1,866,884	132,820	510
3.	Bobar banka a.d. Bijeljina	Bijeljina	Njegoseva 1	Dragan Radumilo	055/207-759	201-862	149,973	17,987	149
4.	NLB Razvojna banka a.d. Banja Luka	Banja Luka	Milana Tepica 4	Radovan Bajic	051/221-600	221-623	1,097,999	63,842	497
5.	Volksbank a.d. Banja Luka	Banja Luka	Jevrejska bb/II sprat	Vesna Grozdanic	051/241-100	215-771	404,488	24,000	234
6.	Balkan Investment Bank a.d. Banja Luka	Banja Luka	Bana Milosavljevica 8	Edvinas Navickas	051/245-111	245-145	186,026	20,612	159
7.	Pavlović International Bank a.d. Slobomir, Bijeljina	Slobomir, Bijeljina	Karadjordjeva 1	Petar Lazic	055/232-300	232-301	127,876	22,761	205
8.	Nova banka a.d. Banja Luka	Banja Luka	Veselina Maslese 1/III	Milorad Andzic	051/217-273	217-307	906,785	60,798	462
9.	Komercijalna banka a.d. Banja Luka	Banja Luka	Veselina Maslese 8	Srdjan Suput	051/244-701	244-710	183,662	20,065	99
10.	IEFK banka a.d. Banja Luka	Banja Luka	Vase Pelagica 11a	Nebojsa Dzelebdzic	051/221-400	231-432	24,806	19,505	13
	TOTAL:						5,478,929	449,086	2,849

BANKING SECTOR - Attachment no. 2

BALANCE SHEET

(in 000 KM)

DESCRIPTION	31.12.06	%	31.12.07	%	INDEX
1	2	3	4	5	6=4/2
1. Cash funds and deposit accounts with deposit institutions (1.a. +1.b.)	971,555	30	2,209,107	40	227
1.a. Cash funds and non-interest bearing deposit accounts	106,818	3	128,715	2	120
1.b. Interest bearing deposit accounts	864,737	27	2,080,392	38	241
2. Trading securities	8,448	0	10,000	0	118
3. Placements to other banks	22,333	1	292,640	5	1.310
4. Loans, Leasing based receivables and Receivables due (4.a. +4.b. +4.c.)	2,035,738	62	2,720,323	50	134
4.a. Loans	1,972,082	60	2,660,202	49	135
4.b. Leasing based receivables	0	0	0	0	0
4.c. Loans, and Leasing based receivables due	63,656	2	60,121	1	94
5. Securities held up to maturity	0	0	0	0	0
6. Office space and other fixed assets	157,234	5	176,518	4	112
7. Other immovables	104	0	1,369	0	1.316
8. Investments into non-consolidated related companies	9,783	0	10,431	0	107
9.b Other assets	63,145	2	58,541	1	93
TOTAL (1 to 9)	3,268,340	100	5,478,929	100	168
10. MINUS: Reserves for potential losses	84,147		104,848		125
11. TOTAL ASSETS: (1. to 9. -10.)	3,184,193		5,374,081		169
11.1. Total off-balance sheet items					
1. active off-balance sheet	305,816		477,962		156
2. classified assets-loss E	165,989		163,319		98
3. commission business activity (agents)	76,033		205,723		271
TOTAL ASSETS (11.+11.1)	3,732,031		6,221,085		167
12. Deposits (12.a. +12.b.)	2,582,805	81	4,586,511	85	178
12.a. Interest-bearing deposits	2,425,997	76	4,287,202	80	177
12.b. Non-interest bearing deposits	156,808	5	299,309	5	191
13. Borrowings taken – obligations due (13.a. +13.b.)	0	0	0	0	0
13.a. Balance of obligations due, and not repaid	0	0	0	0	0
13.b. Balance of off-bal. obligations not repaid –called for payment	0	0	0	0	0
14. Borrowings taken from other banks	0	0	0	0	0
15. Obligations to Government	312	0	0	0	0
16. Obligations per loans taken and other borrowings (16.a. +16.b.)	143,962	5	218,697	4	152
16.a. with remaining maturity up to one year	15,186	1	23,563	0	155
16.b. with remaining maturity more than one year	128,776	4	195,134	4	152
17. Subordinated debt and subordinated bonds	1,512	0	11,162	0	738
18. Reserve to cover off-balance sheet items	12,263	0	14,676	0	120
18. d. Other obligations	58,514	2	93,949	2	161
19. TOTAL LIABILITIES (12 to 18)	2,799,368	88	4,924,995	91	176
20. Permanent preferred shares	2,000	0	2,000	0	100
21. Regular shares	318,483	10	358,009	7	112
22. Premium (22.a. +22.b)	4,810	0	8,443	0	176
22.a. on permanent preferred shares	0	0	373	0	0
22.b. on regular shares	4,810	0	8,070	0	168
23. Undistributed profit	32,055	1	43,691	1	136
24. Capital reserves	29,355	1	39,316	1	134
25. Other capital	-1,878	0	-2,373	0	126
26. TOTAL CAPITAL: (20. to 25.)	384,825	12	449,086	9	117
27. TOTAL LIABILITIES AND CAPITAL: (19. + 26.)	3,184,193	100	5,374,081	100	169
28.1.Total off-balance sheet items					
1. active off-balance sheet	305,816		477,962		156
2. classified assets-loss E	165,989		163,319		98
3. commissioned (agent) services	76,033		205,723		271
TOTAL LIABILITIES (27.+28.1)	3,732,031		6,221,085		167

BANKING SECTOR - Attachment no. 3

CAPITAL STATEMENT

(in 000 KM)

DESCRIPTION	31.12.2006	31.12.2007	INDEX 2007/2006
1. CORE CAPITAL OF BANKS			
1.1. Equity capital based on nominal values and amounts of regular and preferred non-cumulative shares issued against cash fund payments into shareholders' capital	320,483	358,009	112
1.2. Equity capital based on nominal amounts of regular and preferred non-cumulative shares issued against immovables and rights invested into shareholders' capital	0	0	0
1.3. Premiums collected for share payments	4,810	8,443	176
1.4. General reserves required (reserves required by the law)	13,749	19,195	140
1.5. Other reserves which are not taken into account when rating asset quality	15,606	20,121	129
1.6. Retained – undistributed profit from previous years	6,509	10,535	162
TOTAL (from 1.1. to 1.6.)	361,157	416,303	115
1.7. Uncovered loss carried over from previous years	0	1,878	0
1.8. Current Year Loss	1,878	495	26
1.9. Bookkeeping value of bank's owned (vault) shares	0	0	0
1.10. Amount of intangible property: patents, licenses, concession, investments in: marketing, commercial name, trade mark, goodwill, and similar	18,749	24,143	129
TOTAL (from 1.7. to 1.10.)	20,627	26,516	129
1. AMOUNT OF CORE CAPITAL	340,530	389,787	114
2. ADDITIONAL CAPITAL OF BANKS			
2.1. Equity capital based on nominal amounts of permanent preferred cumulative shares issued against cash fund payments into shareholders' capital	0	2,000	0
2.2. Equity capital based on nominal amounts of permanent preferred cumulative shares issued against immovables and rights invested into shareholders' capital	0	0	0
2.3. General reserves for loan loss coverage for bank's assets rated as category A – Pass	40,851	56,096	137
2.4. Accrued profit in the current year audited and verified by external auditor	24,539	28,671	117
2.5. Amount of profit for which BA-RS issued Decision on Temporary Suspension of Distribution	0	0	0
2.6. Amount of subordinated debt maximum 50% of amount of Core Capital	1,512	11,162	738
2.7. Amount of hybrid i.e. convertible items-instruments of capital maximum 50% of amount of Core Capital	0	0	0
2.8. Amount of items-commitments of a permanent character without obligation to be repaid	0	0	0
2. AMOUNT OF ADDITIONAL CAPITAL	66,902	97,929	146
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL			
3.1. Part of invested shareholders' capital, which represents, according to BA-RS, balance of received, but overstated value	0	0	0
3.2. Bank's investments into capital of other legal entities exceeding 5% of the bank's core capital	2,312	2,312	100
3.3. Receivables from shareholders having a significant voting right in the bank, which receivables are based on the bank's approvals contrary to provisions of the Law, BA-RS and the bank's business policy	0	0	0
3.4. Bank's large risk exposure related to shareholders having a significant voting right in the bank, which exposure has not been previously approved by the BA-RS	0	0	0
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL	2,312	2,312	100
4. CALCULATION OF BANKS' CAPITAL AMOUNT			
1. AMOUNT OF BANKS' CORE CAPITAL	340,530	389,787	114
2. AMOUNT OF BANKS' ADDITIONAL CAPITAL	66,902	97,929	146
3. AMOUNT OF BANKS' ITEMS OFF-SETTING FROM THE CAPITAL	2,312	2,312	100
4. AMOUNT OF BANKS' NET CAPITAL (1. + 2. - 3.)	405,120	485,404	120
5. RISK WEIGHTED ASSETS AND LOAN EQUIVALENTS	2,216,687	2,957,709	133
6. NET CAPITAL RATE	18.3	16.4	

BANKING SECTOR - Attachment no. 4

INCOME STATEMENT

(in 000 KM)

DESCRIPTION	31.12.2006	%	31.12.2007	%	INDEX
1	2	3	4	5	6=4/2
1. INTEREST INCOME AND EXPENSE					
a) Interest income and similar income					
1) Interest bearing deposit accounts at depository institutions	8,345	5	27,429	11	329
2) Placements to other banks	4,430	3	22,078	8	498
3) Loans and leasing operations	151,122	92	196,493	76	130
4) Securities held up to maturity	44	0	0	0	0
5) Other companies' shares owned by banks	0	0	134	0	0
6) Paid off-balance sheet obligation receivables	204	0	118	0	58
7) Other interest income and similar income	23	0	13,754	5	59,800
8) TOTAL INTEREST INCOME AND OTHER INCOME (1 to 7)	164,168	100	260,006	100	158
b) Interest expense and similar expense					
1) Deposits	65,050	96	106,268		163
2) Borrowings from other banks	904	1	1,377		152
3) Borrowings – due obligations	0	0	0		0
4) Loan and other borrowing obligations	1,708	2	6,426		376
5) Subordinated debt and subordinated bonds	344	1	431		125
6) Other interest expense and similar expense	47	0	139		296
7) TOTAL INTEREST EXPENSE AND SIMILAR EXPENSE (1 to 6)	68,053	100	114,641	100	168
c) NET INTEREST AND SIMILAR INCOME	96,115		145,365		
2. OPERATING INCOME					
1) Foreign currency operation income	11,756	9	14,814	10	126
2) Loan fees	9,928	8	5,232	4	53
3) Off-balance sheet operation fees	6,751	5	5,734	4	85
4) Service fees	42,563	34	47,250	33	111
5) Trading operation income	3,103	3	6,325	5	204
6) Other operating income	51,404	41	63,242	44	123
7) TOTAL OPERATING INCOME (1 to 6)	125,505	100	142,597	100	114
3. NON-INTEREST BEARING EXPENSE					
a) Operating and direct expense					
1) Reserves for general loan risk and potential loan and other losses	63,556	88	73,257	88	115
2) Other operating and direct expenses	8,489	12	10,403	12	123
3) TOTAL OPERATING AND DIRECT EXPENSES (1) + 2)	72,045	100	83,660	100	116
b) Operating expenses					
1) Salaries and contributions	51,698	42	66,896	40	129
2) Office space, other fixed assets and overheads	47,281	38	58,007	35	123
3) Other operating expenses	25,168	20	41,415	25	165
4) TOTAL OPERATING EXPENSES (1 to 3)	124,147	100	166,318	100	134
c) TOTAL EXPENSES a)3) + b)4)	196,192		249,978		127
4. PROFIT BEFORE TAX (1c. + 2g. - 3c.)	27,306		38,479		141
5. LOSS (1c. + 2g. - 3c.)	1,878		495		26
6. TAX	1,298		4,398		339
7. NET-PROFIT (4. - 5. - 6.)	24,130		33,586		139

BANKING SECTOR - Attachment no. 5

STAFF

No.	BANKS	QUALIFICATION STRUCTURE									%
		Worker	Skilled worker	Highly skilled worker	Secondary School	Junior College	College Graduated	Master Degree	Dr. Sc.	TOTAL	
1.	Nova banjalucka banka a.d. Banja Luka	0	11	2	277	53	172	6	0	521	18.3
2.	Hypo Alpe Adria Bank a.d. Banja Luka	12	0	1	301	18	177	1	0	510	17.9
3.	Bobar banka a.d. Bijeljina	0	7	0	81	16	44	1	0	149	5.2
4.	NLB Razvojna banka a.d. Banja Luka	3	8	7	259	61	155	4	0	497	17.5
5.	Volksbank a.d. Banja Luka	2	0	1	108	27	94	2	0	234	8.2
6.	Balkan Investment Bank a.d. Banja Luka	0	0	0	71	24	63	1	0	159	5.6
7.	Pavlović International Bank a.d. Bijeljina	7	0	1	125	13	57	2	0	205	7.2
8.	Nova banka a.d. Banja Luka	0	0	0	144	82	233	3	0	462	16.2
9.	Komercijalna banka a.d. Banja Luka	0	0	1	46	9	42	1	0	99	3.5
10.	IEFK banka a.d. Banja Luka	0	0	0	4	1	8	0	0	13	0.5
TOTAL		24	26	13	1,416	304	1,045	21	0	2,849	100.0
%		0.8	0.9	0.5	49.7	10.7	36.7	0.7	0.0	100.0	

MCO SECTOR – Attachment no. 1.

BASIC DATA ON MCOs

P/6	МИКРОКРЕДИТНА ОРГАНИЗАЦИЈА	СЈЕДИШТЕ	АДРЕСА	DIRECTOR	PHONE	TELEFAX	E-MAIL ADDRESS	31.12.2007.	No. of employees
								ASSETS (in 000 KM)	
11.	MCA Mikrofin doo Banja Luka	Banja Luka	Save Kovacevica 23	Aleksandar Kremenovic	051/301-535	051/301-535	mikrofin@mikrofin.com	203,639	293
12.	MCA Sinergijaplus doo Banja Luka	Banja Luka	Mladena Stojanovica 111	Zeljko Bogdanic	051/332-600 332-601	051/332-602	info@mkosinergijaplus.org	42,253	62
13.	MCA Zdravo doo Banja Luka	Banja Luka	Bulevar Vojvode Stepe Stepanovica 175B	Jelica Galic	051/435-676	051/435-675	info@zdravo.org	4,497	12
14.	MCF Mikrokredit Srbac	Srbac	Mome Vidovica 11	Svetomir Kljajcin	051/740-865	051/740-611	mkomikrokredit@spinter.net	916	2
15.	MCF Micro-credit office Šipovo	Sipovo	Vojvode Radomira Putnika 2A	Dragica Jandric	050/371-161	050/371-161	dragicaj@teol.net	577	3
16.	MCF Alfa-plus Banja Luka	Banja Luka	Jovana Ducica 42	Mladen Karapetrovic	051/218-245	218-345	alfaplus@blic.net	422	3
TOTAL:								252,304	375

MCO SECTOR – Attachment no. 2.

MCAs' BALANCE SHEET

(in 000 KM)

DESCRIPTION	30.09.2007	%	31.12.2007	%	Index
1	2	3	4	5	6=4/2
ASSETS					
1. Cash Funds	18,336	8	6,154	2	34
1a) ready money and non-interest bearing deposit accounts	17,922	8	1,580	0	9
1b) interest bearing deposit accounts	414	0	4,574	2	1.105
2. Placements to banks	0	0	0	0	0
3. Loans	197,772	86	230,542	92	117
4. Office space and other fixed assets	7,363	3	7,428	3	101
5. Long-term investments	1,565	1	1,565	1	100
6. Other assets	5,063	2	4,700	2	93
TOTAL (1 to 6)	230,099	100	250,389	100	109
7. MINUS Reserves	1,739		763		5
7a) general reserves for loan loss	933		45		89
7b) special reserves for loan loss	653		584		88
7c) reserves per items, except for loans	153		135		109
8. TOTAL ASSETS (1-6 minus 7)	228,360		249,626		0
LIABILITIES AND CAPITAL					
9. Obligations per ST loans taken	2,428	1	5,448	2	224
10. Obligations per LT loans taken	170,910	75	183,862	74	108
11. Other liabilities	4,602	2	7,457	3	162
12. TOTAL LIABILITIES	177,940	78	196,767	79	111
13. Capital donated	13,939	6	13,939	6	100
14. Core capital	1,005	0	1,500	1	149
15. Premium	0	0	0	0	0
16. Undistributed earnings (16a+16b)	35,476	16	37,420	15	105
16a) previous years	27,844	12	27,844	11	100
16b)current year	7,632	3	9,576	4	125
17. Reserves legally required	0	0	0	0	0
18. Other reserves	0	0	0	0	0
19. TOTAL CAPITAL	50,420	22	52,859	21	105
20. TOTAL LIABILITIES AND CAPITAL	228,360	100	249,626	100	109
OFF-BALANCE SHEET RECORDS					
- loans written-off	515		558		108
- commissioned (agent) services	0		0		0

MCO SECTOR – Attachment no. 3.

MCFs' BALANCE SHEET

(in 000 KM)

DESCRIPTION	30.09.2007	%	31.12.2007	%	Index
1	2	3	4	5	6=4/2
ASSETS					
1. Cash Funds	131	7	69	3	53
1a) ready money and non-interest bearing deposit accounts	131	7	67	3	51
1b) interest bearing deposit accounts	0	0	2	0	0
2. Placements to banks	0	0	0	0	0
3. Loans	1,511	77	1,448	76	96
4. Office space and other fixed assets	178	9	188	10	106
5. Long-term investments	0	0	0	0	0
6. Other assets	135	7	210	11	156
TOTAL (1 to 6)	1,955	100	1,915	100	98
7. MINUS Reserves	24		41		150
7a) general reserves for loan loss	2		3		173
7b) special reserves for loan loss	22		38		0
7c) reserves per items, except for loans	0		0		97
8. TOTAL ASSETS (1-6 minus 7)	1,931		1,874		0
LIABILITIES AND CAPITAL					
9. Obligations per ST loans taken	609	31	540	28	89
10. Obligations per LT loans taken	460	24	306	16	67
11. Other liabilities	167	9	242	7	145
12. TOTAL LIABILITIES	1,236	64	1,088	50	88
13. Capital donated	250		250	13	100
14. Core capital	60		150	8	250
15. Premium	450		449	23	100
16. Undistributed earnings (16a+16b)	424		424	22	100
16a) previous years	26		25	1	96
16b)current year	-180		-98	5	54
17. Reserves legally required	0		-98	5	0
18. Other reserves	-180		0	0	0
19. TOTAL CAPITAL	5		35	2	700
20. TOTAL LIABILITIES AND CAPITAL	110		0	0	0
	695	36	786	50	113
OFF-BALANCE SHEET RECORDS	1,931	100	1,874	100	97
- loans written-off	232		249		107
- commissioned (agent) services	0		0		0

MCO SECTOR – Attachment no. 4.

MCAs' INCOME STATEMENT

(in 000 KM)

DESCRIPTION	31.12.2007	%
1	2	3
I FINANCIAL INCOME AND EXPENSES		
1. Interest income and similar income		
1.1. interest from interest-bearing deposit accounts at deposit institutions	68	0
1.2. interest from placements to banks	0	0
1.3. loan interest	32,816	92
1.4. other financial income	2,781	8
1.5. Total interest income and similar income (1.1. to 1.4.)	35,665	100
2. Interest expense and similar expenses		
2.1. interest per funds borrowed	10,474	92
2.2. other financial expenses	879	8
2.3. Total interest expenses and similar expenses (2.1. to 2.2.)	11,353	100
3. Net financial income (1.5.-2.3.)	24,313	
II OPERATING INCOME AND EXPENSES		
4. Operating income		
4.1. services fees	521	48
4.2. other operating income	558	52
4.3. Total operating income (4.1. to 4.2.)	1,079	100
5. Operating expenses		
5.1. salaries and contributions cost	8,603	58
5.2. costs for office space and other fixed assets, and overheads	2,669	18
5.3. other operating costs	3,537	24
5.4. Total operating expenses (5.1. to 5.3.)	14,809	100
6. Costs of reserves for loan and other loss	561	
7. REGULAR OPERATION PROFIT/LOSS (3+4.3.-5.4.-6)	10,022	
8. Extraordinary income	43	
9. Extraordinary expenses	0	
10. PROFIT/LOSS BEFORE TAX	10,065	
11. TAX	489	
12. NET PROFIT/LOSS	9,576	

MCO SECTOR – Attachment no. 5.

MCFs' INCOME STATEMENT

(in 000 KM)

DESCRIPTION	31.12.2007	%
1	2	53
I FINANCIAL INCOME AND EXPENSES		
1. Interest income and similar income		
1.1. interest from interest-bearing deposit accounts at deposit institutions	0	0
1.2. interest from placements to banks	0	0
1.3. loan interest	424	86
1.4. other financial income	69	14
1.5. Total interest income and similar income (1.1. to 1.4.)	493	100
2. Interest expense and similar expenses		
2.1. interest per funds borrowed	62	81
2.2. other financial expenses	15	19
2.3. Total interest expenses and similar expenses (2.1. to 2.2.)	77	100
3. Net financial income (1.5.-2.3.)	416	
II OPERATING INCOME AND EXPENSES		
4. Operating income		
4.1. services fees	0	0
4.2. other operating income	11	100
4.3. Total operating income (4.1. to 4.2.)	11	100
5. Operating expenses		
5.1. salaries and contributions cost	111	47
5.2. costs for office space and other fixed assets, and overheads	34	14
5.3. other operating costs	91	39
5.4. Total operating expenses (5.1. to 5.3.)	236	100
6. Costs of reserves for loan and other loss	280	
7. Surplus/shortage of regular operation income over expenses (3+4.4.-5.4.-6)	-89	
8. Extraordinary income	22	
9. Extraordinary expenses	6	
10. Surplus/shortage of income over expenses	-73	