

BANKING AGENCY OF
REPUBLIKA SRPSKA
BANJA LUKA

REPORT

ON CONDITION OF BANKING SYSTEM OF REPUBLIKA SRPSKA
FOR THE 1ST QUARTER OF THE YEAR 2000

Banja Luka, May 2000

TABLE OF CONTENTS

I INTRODUCTION

II OPERATION OF BANKS IN REPUBLIKA SRPSKA

1. General data
 - 1.1. Staff

2. Financial indicators of banks' operation
 - 2.1. Balance sheet
 - 2.1.1. Liabilities of Banks
 - 2.1.2. Asset Quality
 - 2.1.3. Capital
 - 2.2. Income Statement

III CONCLUSION

ATTACHMENTS

I INTRODUCTION

Banking Agency of Republika Srpska was established under the Law on Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska" number 10/98), with a basic goal to improve and support a sound and stable banking system of Republika Srpska.

The "Bank Supervision Basle Committee" issues basic principles and standards of banking operation accepted almost in the whole world. The essence of the principles has been built in our Law on Banks and the Law on Banking Agency of Republika Srpska, except for the principle on personal and institutional protection of examiners.

This deficiency was corrected on May 22, 2000 when the High Representative for Bosnia and Herzegovina issued the "Decision on Modifications and Amendments to the Law on Banking Agency of Republika Srpska".

The efforts endeavored by the Agency up to now were directed to establishment of a regulatory framework to enable banks to operate independently under market principles and to take responsibility for possible risks. On the other hand this is to enable the Banking Agency to supervise banks' operation reviewing their liquidity and solvency on both individual and consolidated basis for the banking system as a whole. The objective is to detect and prevent the banking system exposure to possible risks in the future as well as to provide for banks' operation compliance with legal provisions. That is why, ever since its establishment the Agency has been working on preparation and issuance of an overall legal regulation to support banking system restructuring. The most important was the Law on Banks (July 15, 1999) accompanied by a number of Decisions issued by the Managing Board of the Banking Agency of Republika Srpska in March and December 1999. The Decisions defining in more detail provisions framed by the Law on Banks are the following:

1. Decision on Bank Supervision,
2. Decision on Minimum Standards for Banks' Liquidity Risk Management,
3. Decision on Minimum Standards for Banks' Internal and External Audit,
4. Decision on Minimum Standards for Banks' Internal Control,
5. Decision on Minimum Standards for Documenting Lending Activities of Banks,
6. Decision on Non-Performing Clients,
7. Decision on Conditions and Criteria for Issuance of Banking License to Banks,
8. Decision on Format and Contents of Banks' Reports Submitted to the Banking Agency of Republika Srpska,
9. Decision on Conditions under which a Bank is Considered Insolvent,
10. Decision on Minimum Standards for Banks' Operation with Related Persons,
11. Decision on Minimum Standards for Banks' Capital Management,
12. Decision on Minimum Standards for Banks' Risk Concentration Management,
13. Decision on Minimum Standards for Banks' Credit Risk Management and Asset Classification,
14. Decision on Minimum Standards for Banks' Foreign Currency Risk Management,
15. Decision on Minimum Scope, Format and Contents of Scheduling of and Reporting on Economic-Financial Audit of Banks.

Data generated by these Decisions together with the newly designed banks' reports have been used for the first time in compiling such a Report. Also, the Agency has issued a number of Instructions on how the above Decisions are to be applied.

The Agency has also participated in issuing a set of legal provisions related to bank privatization process.

After the Law on Modifications and Amendments to the Law on Payment Transactions was issued (July 15, 1999), the Agency Managing Board issued the Decision on Minimum Standards to be Met by Banks in Performing Internal Payments. That was actually the beginning of a reform of payment system in Republika Srpska, enabling commercial banks to perform internal payments once they are licensed by the Agency.

Additionally to implementation of newly introduced accounting standards and balance sheets, a big change was in presenting balance sheets without showing those items which are to be taken over by the state, as provided by the Law on Opening Balance Sheet. That means that items of passive and neutral sub-balances are not to be included in banks balance sheets giving a more realistic picture of the banking system as a whole.

II BUSINESS OPERATION OF BANKS IN REPUBLIKA SRPSKA

1. GENERAL DATA

During the first quarter of 2000 sixteen banks plus the Post Office Savings (Postanska stedionica) were operating in Republika Srpska, which means that the number of banks remained the same as at the end of 1999. In the first quarter the bankruptcy proceedings related to the Gold banka a.d. Banja Luka was started since the bank's license had been revoked at the end of 1999.

Based on the balance sheet data related to the ownership structure as of December 31, 1999 ten banks and Postanska stedionica were state-owned while six banks were privately owned, indicating that banks' owners have not been changed since none of the state-owned banks has started privatization process.

Capital Structure of Banks Involved in the Process of Privatization

BANK	CAPITAL OWNERSHIP in %			
	State	Co-operative	Private	Total
Kristal banka a.d. Banja Luka	75,55	4,84	19,61	100
Banjalucka banka a.d. Banja Luka	93,5	3,0	3,5	100
Privredna banka a.d. Gradiska	74,2	20,4	5,4	100
Privredna banka a.d. Brcko	100,0			100
PBS a.d. Srpsko Sarajevo	85,0	1,0	14,0	100
Privredna banka a.d. Doboje	90,0	4,0	6,0	100
Prijedorska banka a.d. Prijedor	96,0		4,0	100
Postanska stedionica a.d. Banja Luka	100,0			100
Semberska banka a.d. Bijeljina	90,28	6,80	2,92	100
Agroprom banka a.d. Banja Luka	65,0	15,38	19,62	100
Razvojna banka a.d. Banja Luka	100,0			100

In the course of the first quarter of this year, the Ministry of Finance has approved opening balance sheets of another two state-owned banks, after which the Banking Agency has made an assessment of solvency and issued Solvency Certificate to Semberska banka a.d. Bijeljina.

In the first quarter of 2000 and in accordance with the Law on the Banking Agency, the Agency has issued a banking license to a newly founded bank and two permanent banking licenses to already existing banks that have met required standards. The Agency also issued the following consents and approvals:

- thirteen consents on Bank Statute modifications,
- four consents on external auditor selection and appointment,
- one authorization for operation abroad (foreign currency payments),
- two approvals on share issuance,
- one approval on appointment of provisional administrator, and
- one approval on significant share of bank capital.

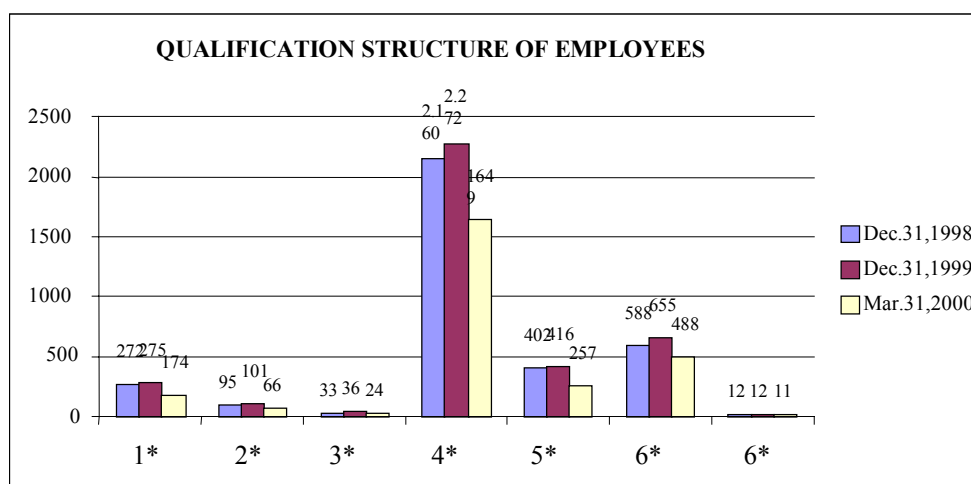
1.1. Staff

As of December 31, 2000 the total number of banks' employees was 2669 with the following qualification structure:

Qualification Structure of Banks' Employees

No.	Qualification	As of December 31, 1999	%	As of March 31, 2000	%	Index 2000/99
1*	Non-Skilled	275	7.30	174	6.52	63
2*	Skilled	101	2.68	66	2.47	65
3*	Highly Skilled	36	0.96	24	0.90	67
4*	Secondary School	2,272	60.31	1,649	61.78	73
5*	2-year College	416	11.04	257	9.63	62
6*	College Degree	655	17.39	488	18.28	75
7*	M. Sc.	12	0.32	11	0.41	92
	TOTAL:	3,767	100.00	2,669	100.00	71

In the first quarter of 2000 the number of employees decreased by 1091 or by 29%, which mostly resulted from separation of Payment Bureau from Razvojna banka. It should be pointed out, however, that employees having secondary school education still prevail, 62%, while there is only 18% of employees with a college degree. College degree is mostly required now, due to an increasing complexity of banking business. Majority of state owned banks are overstaffed having an unsatisfactory qualification structure of employees.



2. FINANCIAL INDICATORS OF BANKS' OPERATION

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

1. Banks' Balance Sheets submitted monthly with additional attachments for three-month periods as scheduled by the Agency presenting data on banks' cash funds, loans, deposits and off-balance sheet items;
2. Reports on banks' capital, asset classification and risks in operation;
3. Reports on banks' operation results submitted on three-month basis (Income Statement and Cash Flow).
4. In addition to this, all available data and information submitted under special Agency's requests are taken into consideration in order to follow and analyze operation of banks in Republika Srpska on a high quality level. After adoption of the new Law on Accounting, an inclination to start fully implementing International Accounting Standards with newly designed chart of accounts in accounting recording and reporting has prevailed in accounting practice in Republika Srpska. The official date for such an implementation is January 1, 2000. Therefore, the Agency prepared drafts for new reporting forms to be submitted in such a manner and within such deadlines as stipulated by pertaining Decisions and Instructions starting officially on January 1, 2000. Balance sheets do not show any more those items that are to be taken over by the state, as provided by the Law on Opening Balance Sheet. That means that items of passive and neutral sub-balances are not to be included in banks balance sheets, i.e. only active items of balance sheets of banks are to be analyzed.

2.1. Balance Sheet

As of March 31, 2000 banks' total assets amounted to KM 713.8 million, out of which KM 527.5 million was balance sheet and KM 186.3 million was off-balance sheet assets. The structure of assets and liabilities of banks in Republika Srpska is shown in the following table:

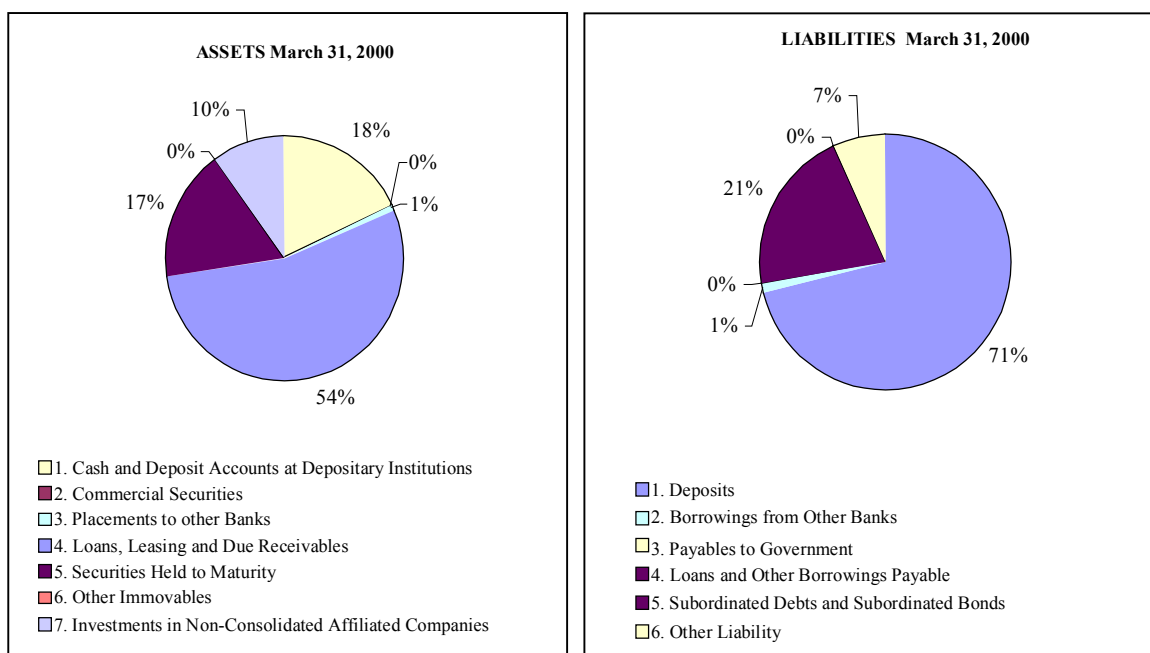
Banks' Balance Sheet

- thousand KM -

DESCRIPTION/PE	Dec.31,1999	%	Mar. 31,2000	%	INDEX 2000/1999
1. Cash Funds and Deposit Accounts at Depository Institutions	146,901	24.0	106,845	18.0	73
2. Commercial Securities	0	0.0	0	0.0	0
3. Placements to other banks	5,100	1.0	3,850	1.0	75
4. Loans, Leasing based Receivables and Due Receivables	294,896	49.0	317,118	54.0	108
5. Securities Held to Maturity	101,549	17.0	103,283	17.0	102
6. Other Immovables	1,177	0.0	1,066	0.0	91
7. Investments in Non-Consolidated Affiliated Companies	54,874	9.0	60,246	10.0	110
TOTAL (1 to 7)	604,497	100.0	592,408	100.0	98
8. MINUS: Reserves for Potential Losses	69,012	13.0	64,963	12.0	94
9. TOTAL ASSETS: (1. to 7.-8.)	535,485		527,445		98
10. Active Off-Balance Sheet	121,276		186,322		154
TOTAL ASSETS (9.+10.)	656,761		713,767		109
11. Deposits	269,223	49.0	246,918	46.0	92
12. Borrowings from Other Banks	5,530	1.0	3,798	1.0	69
13. Payables to Government	522	0.0	126	0.0	24
14. Loans and Other Borrowings Payable	59,467	11.0	73,050	14.0	123
15. Subordinated Debts and Subordinated Bonds	0	0.0	0	0.0	0
16. Other Payables	25,513	5.0	23,330	4.0	91
17. TOTAL LIABILITY (11 to 16)	360,255	66.0	347,222	65.0	96
18. Permanent Preferred Shares	27	0.0	27	0.0	100
19. Ordinary Shares	131,395	24.0	132,144	24.0	101
20. Issue Premium	0	0.0	0	0.0	0
21. Retained Earnings and Capital Reserves	52,778	10.0	57,475	11.0	109
22. FX Differentials	0	0.0	0	0.0	0
23. Other Capital	0	0.0	219	0.0	0
24. TOTAL CAPITAL: (18. to 23.)	184,200	34.0	189,865	35.0	103
25. TOTAL LIABILITY AND CAPITAL: (17. + 24.)	544,455	100.0	537,087	100.0	99
26. Active Off-Balance Sheet	121,276		186,322		154
TOTAL LIABILITIES (25.+26.)	665,731		723,409		109

*Active Balance Sheet of Banks is not balanced since some of the banks have not decreased their capital by the difference between their assets and liabilities given in passive and neutral sub-balances.

The asset structure shows a decline in cash funds from 24% to 18%, while loan amount have increased by 5%, indicating a positive trend in developing lending activities as a banks' basic business operation.



The Banks' Balance Sheet Structure is still unsatisfactory due to a considerable amount of inactive assets and an increase in due loan payables.

Total off-balance sheet assets amounted to KM 186.3 million and was increased by 54% in comparison to the end of the previous year, because of an intensive guarantee issuance and uncovered letters of credit by a state-owned bank.

During the war and even in the post war period saving deposits were reduced to a symbolic amount. That type of money stayed usually at the banks' accounts for a very short period of time and banks used that resource mostly to pay salaries and retirement allowances. Amounts and structure of new citizens' saving deposits can be seen from the following table:

Review of New Citizens' Savings at Banks in Republika Srpska

- thousand KM -

No.	DESCRIPTION	December 31, 1998	December 31, 1999	March 31, 2000
1.	AT DEMAND			
	1. Dinar	14,039	3,961	0
	2. KM	177	14,895	9,567
	3. Foreign Currency	9,627	9,961	10,353
	TOTAL 1:	23,843	28,817	19,920
2.	TIME DEPOSITS			
	1. Dinar	50	1	0
	2. KM	0	254	432
	3. Foreign Currency	15	1,384	1,901
	TOTAL 2:	65	1,639	2,333
3.	TOTAL (1+2)	23,908	30,456	22,253

In the first quarter of 2000 saving deposits were considerably decreased, actually by 27% in comparison to the end of 1999. That was caused by payments made from current accounts at the Postanska stedionica (pensions) and reallocations to other banks. It should be pointed out that savings have been increasing in private banks and their structure has been changed as shown in the following review:

Review of New Citizens' Savings

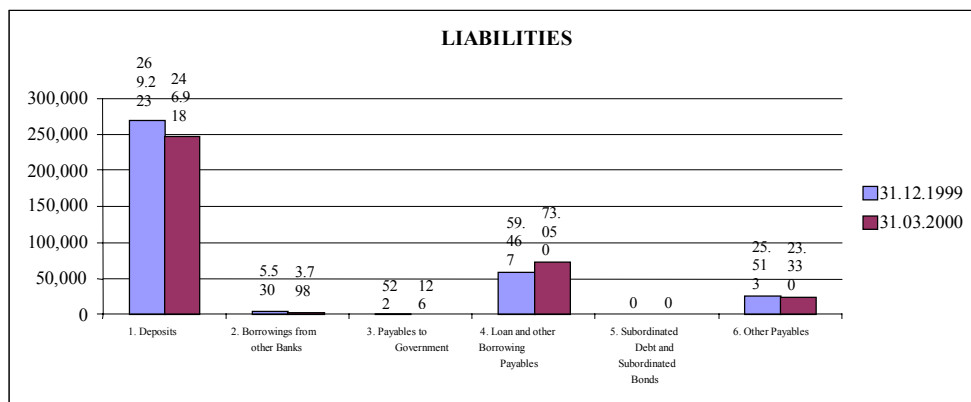
- thousand KM -

	Dec. 31, 1998	%	Dec. 31, 1999	%	Index 99/98	March 31, 2000	%	Index 2000/1999
State Owned Banks	22,584	94	26,418	87	116.98	17,294	78	65.46
Private Banks	1,324	6	4,038	13	304.98	4,959	22	122.81
TOTAL:	23,908	100	30,456	100	127.39	22,253	100	73.07

Until citizens' savings return to bank, which would represent a growth of quality deposits in banks, it will not be possible to establish a stable banking industry to support overall economy growth in Republika Srpska.

2.1.1. Banks' Liabilities

The following graph is showing the structure of liabilities, that is liability and capital, in the banks' balance sheet as of March 31, 2000:



In the structure of liabilities above, the liability share is 65%, and capital share 35%. The item, which is constantly present in resources, that is in banks' liabilities, is deposits on demand representing the only additional resource for lending except for capital. That is an indication of extremely poor liabilities.

Amounts related to cash funds and deposit accounts are shown in the following review:

Cash Funds and Deposit Accounts at Depository Institutions

(thousand KM)

DESCRIPTION/PERIOD	31.12.1999.	%	31.03.2000.	%	INDEX 2000/1999
KM					
1. Cash Funds	6,652	4.5	4,414	4.1	66
2. Giro account at SPP (reserve account at CB BiH)	38,877	26.5	16,736	15.7	43
3. Deposit Accounts at Depository Institutions in BiH	5,138	3.5	3,115	2.9	61
4. Deposit Accounts at Depository Institutions Abroad	0	0.0	0	0.0	0
5. Funds being Collected	9	0.0	97	0.1	1078
6. Unpaid Debt	0	0.0	431	0.4	0
7. T O T A L :	50,676	34.5	24,793	23.2	49
FOREIGN CURRENCY					
1. Cash Funds	47,285	32.2	32,272	30.2	68
2. Giro Account at SPP (reserve account at CB BiH)	22	0.0	57	0.1	259
3. Deposit Accounts at Depository Institutions in BiH	5,777	3.9	7,060	6.6	122
4. Deposit Accounts at Depository Institutions Abroad	35,276	24.0	34,623	32.4	98
5. Funds being Collected	7,339	5.0	7,439	7.0	101
6. Unpaid Debt	526	0.4	601	0.6	114
7. T O T A L :	96,225	65.5	82,052	76.8	85
GRAND TOTAL :	146,901	100.0	106,845	100.0	73

Such a drastic decrease of cash funds and deposits had a negative impact on the already low liquidity growth rate in banks in Republika Srpska. The Banks' Liquidity significantly deteriorated in the first quarter of 2000, and almost all of the banks were having problems in maintaining their current liquidity. The main reason for such illiquidity is a poor condition of borrowers, i.e. a difficult economical situation.

2.1.2. Asset Quality

Asset quality is rated in accordance with the Decision on minimum standards for banks' credit risk management and asset classification. Each bank rates its own assets on three-month basis and submits the report to the Agency. Also, the Agency's examiners during bank examination officially rate assets of each bank, as well as bank auditors in the course of final statement audit. It should be pointed out, that foreign currency loans, i.e. items of passive sub-balance are not included in the report on asset classification for the first quarter of the year, giving a completely different picture on banks' asset quality and level.

RS banks' total loan structure per sectors can be seen from the following table:

- thousand KM -

No.	DESCRIPTION / PERIOD	Dec. 31, 1999	March 31, 2000	INDEX
1.	Government institutions	1,157	1,230	106
2.	Public enterprises	14,996	69,830	466
3.	Private companies and associations	254,885	211,477	83
4.	Non-profit institution	428	764	179
5.	Banking institutions	962	1,300	135
6.	Non-banking institutions	0	1,262	-
7.	Citizens	10,056	9,472	94
8.	Other	12,412	21,783	175
	TOTAL:	294,896	317,118	108

The loan structure was changed in the first quarter. Actually, there was a significant increase of loans to public enterprises, and a significant decrease to private companies. It should be noted, however, that statements of some banks on public enterprises' loans as of December 31, 1999 related such loans to other sectors, giving an unrealistic statement on loan structure in basic sectors.

Banks' lending activities were mostly directed to supporting private companies and associations, a field where banks could be exposed to the highest degree of risk.

Loans to citizens represent a total amount of both short-term and long-term loans to citizens, and, according to banking practice, this type of loans do not generate a high risk. Loans to citizens are approved from foreign credit lines, since banks have not created deposit base, as a source of funding loans.

Amounts and structure of both balance sheet and off-balance sheet assets can be seen in the following table:

Asset Classification

(thousand KM)

BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS	31.12. 1999	31.03.2000	INDEX 2000/1999
1. Short Term Loans	179,494	188,976	105
2. Long Term Loans	87,625	91,671	105
3. Other Placements	5,962	8,654	145
4. Accrued Interest	35,799	34,427	96
5. Due Receivables	33,529	41,223	123
6. Guarantee Paid receivables	80	143	179
7. Other Assets	47,029	41,107	87
8. TOTAL OF BALANCE SHEET ASSET ITEMS:	389,518	406,201	104
9.a) Guarantee Payable	51,128	69,865	137
9.b) Performance Guarantees	40,994	59,207	144
10. Uncovered Letters of Credit	22,644	46,102	204
11. Irrevocable Loan Commitments	116	75	65
12. Other Potential Liabilities	917	846	92
13. TOTAL OF OFF-BALANCE SHEET ASSET ITEMS:	115,799	176,095	152
14. TOTAL OF BALANCE AND OFF-BALANCE SHEET ASSET ITEMS (8 + 13)	505,317	582,296	115
15. General Loan Risk and Potential Loan Losses (No. 14 X % loss)	63,211	67,211	106
16. Already Established General Reserves (A) and Special Reserves (B,C,D,E)	75,161	72,235	96
17. PLUS Established Reserves (+)(Amount) (No. 16. – No. 15.)	12,410	7,287	59
MINUS Established Reserves (-)(Amount) (No. 15. – No. 16.)	460	2,263	492
UNCLASSIFIED ACTIVE ASSETS	220,455	196,434	89

Total classified assets as of March 31, 2000, amounted to KM 582.3 million, and were actually increased by 15% when compared with the previous year-end. Out of the total amount, balance sheet assets amounted to KM 406.2 million, and off-balance sheet assets were KM 176.0 million, having an extremely high rate of increase, of 52%, compared with the previous year. Such a raise resulted mostly from increased number of issued guarantees and not-covered letters of credit at one state bank.

However, asset quality rate must be seen in a direct relationship with amount and percentage of poor quality assets (which was classified as "C", "D" and "E" categories) making part in total balance sheet and off-balance sheet risk assets. Also, it is to be seen as related to the structure of potential loan losses per categories of classification.

The following table is showing classification of banks' balance sheet and off-balance sheet assets as of March 31, 2000:

Asset Classification as of March 31, 2000

(thousand KM)

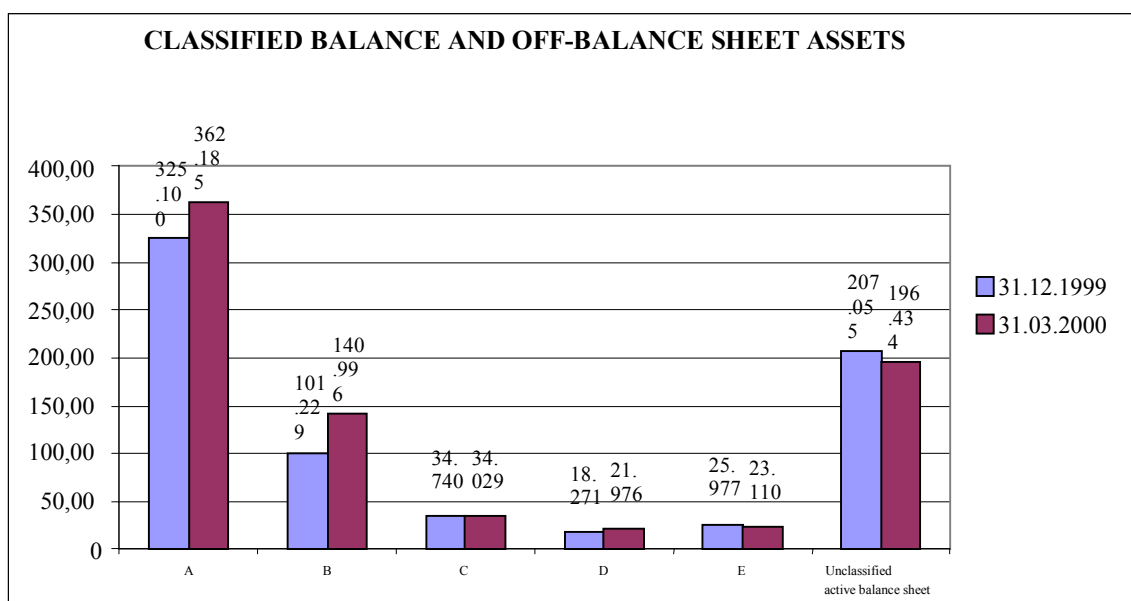
BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS	A	B	C	D	E	TOTAL
1. Short Term Loans	88,104	70,990	17,209	10,607	2,066	188,976
2. Long Term Loans	62,059	23,649	2,563	399	3,001	91,671
3. Other Placements	4,979	1,287	1,998	25	365	8,654
4. Accrued Interest	7,860	11,962	4,684	4,303	5,618	34,427
5. Receivables Due	9,684	10,088	6,185	5,705	9,561	41,223
6. Paid Guarantee Receivables	222	56	65	0	0	143
7. Other Assets	40,086	87	8	77	849	41,107
8. TOTAL OF BALANCE SHEET ASSET ITEMS:	212,794	118,119	32,712	21,116	21,460	406,201
9.a) Guarantee Payable	61,140	5,048	1,317	860	1,500	69,865
9.b) Performance Guarantees	49,162	9,895	0	0	150	59,207
10. Uncovered Letters of Credit	38,548	7,554	0	0	0	46,102
11. Irrevocable Loan Commitments	75	0	0	0	0	75
12. Other Potential Liabilities	466	380	0	0	0	846
13. TOTAL OF OFF-BALANCE SHEET ITEMS:	149,391	22,877	1,317	860	1,650	176,095
14. TOTAL BALANCE AND OFF-BALANCE SHEET ITEMS (8 + 13)	362,185	140,996	34,029	21,976	23,110	582,296
15. General Loan Risk and Potential Loan Loss (No. 14 X % Loss)	7,226	16,250	9,424	11,201	23,110	67,211
16. Already Established General Reserve (A) and Special Reserve (B,C,D,E)	7,270	21,619	10,277	12,222	20,847	72,235
17. PLUS Established Reserve (+)(Amount) (No. 16 - No. 15)	44	5369	853	1,021	0	7,287
MINUS Established Reserve (-)(Amount) (No. 15 - No. 16)	0	0	0	0	2,263	2,263
UNCLASSIFIED ACTIVE ASSETS						196,434

Classification Comparative Summary

- thousand KM -

Category Classification	31.12.1999	%	31.03.2000	%	Index 1999/2000
A	325,100	46	362,185	47	111
B	101,229	14	140,996	18	139
C	34,740	5	34,029	4	98
D	18,271	3	21,976	3	120
E	25,977	4	23,110	3	89
Unclassified active balance sheet	207,055	29	196,434	25	95
TOTAL:	712,372	100	778,730	100	109
Potential Loan Loss General Reserves Required (A)	6,474		7,226		112
Existing General Reserves (A)	6,283		7,270		116
(A) Balance:	191		-44		
Potential Loan Loss Special Reserves Required (B-E)	56,737		59,985		106
Existing Special Reserves (B-E)	68,878		64,965		94
(B-E) Balance:	-12,141		-4,980		

The largest share in the classification structure is made by the category "A", which was increased by 11% compared to the previous year. The category "B" has also a significant share in the structure and was increased by 39%. Category "D" also shows a considerable increase. All that means that asset quality has further deteriorated. It should be noted that Already Established General Reserves (Existing Reserves) and Special Reserves for Potential Loan Losses have not reached the amount required. It is especially important to point out that classification made by the Agency's examiners during bank examination is stricter than the one made by the bank itself.



Asset Quality Ratios

No.	Ratios	31.12.1999	31.03.2000
1.	LOANS DUE/ TOTAL LOANS	7.02	9.30
2.	LOANS DUE/ POTENTIAL LOSS RESERVES	30.01	45.39
3.	LOANS DUE/ TOTAL CAPITAL	11.02	14.79
4.	CLASSIFIED ASSETS/ TOTAL CAPITAL	268.85	292.14
5.	POTENTIAL LOSS RESERVES/ TOTAL LOANS	23.40	20.49
6.	TOTAL RISK ASSETS/ TOTAL ASSETS	76.06	88.57

Previously made statement on unsatisfactory banks' asset quality and insufficient potential loan loss reserve is still valid.

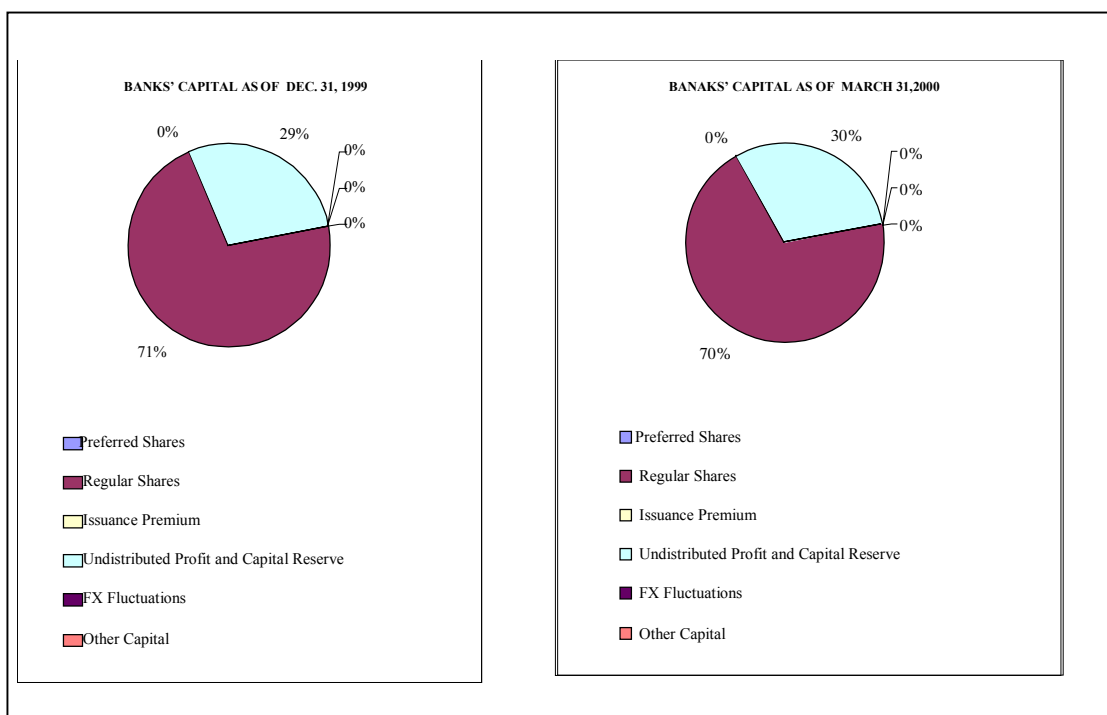
2.1.3. Capital

Total banks' capital as of March 31, 2000 amounted to KM 199.3 million, and consisted of core capital amounting to KM 184.2 million and additional capital of KM 15.1 million. Total capital is larger by KM 11.3 million or by 6% in comparison to the previous year. Capital amounts and structure are seen from the following table:

Capital

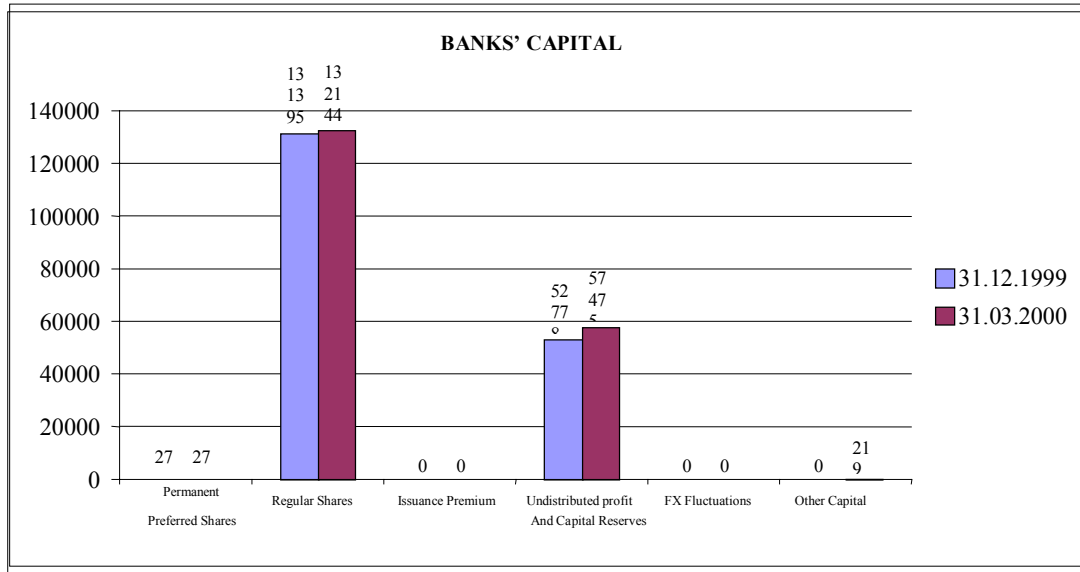
- thousand KM -

DESCRIPTION / PERIOD		31.12. 1999	%	31.03. 2000	%	INDEX 1999/2000
1.	CORE CAPITAL	176,262	94	184,209	92	105
2.	ADDITIONAL CAPITAL	11,696	6	15,115	8	129
3.	TOTAL CAPITAL (1+2)	187,958	100	199,324	100	106
4.	ITEMS TO BE DEDUCTED FROM CAPITAL	10,847		19,340		178
A.	NET-CAPITAL (3.-4.)	177,111		179,984		102



An increase was recorded due to additional capitalization of three private banks. Additional capital was increased based on general reserves for coverage of loan losses, profit and liabilities of a permanent character without obligation of repayment.

Also, items to be deducted from capital increased significantly (78%) due to an increase of general loan risk and potential loan loss, where banks have not established general and special reserve for loan loss. An item, which should be mentioned, is the amount of uncovered loss from previous years (KM 3.1 million), and especially loss from the first quarter of the year 2000 in an amount of KM 3.1 million.



A significant indicator for capital analysis is capital adequacy rate, which under current requirement should be minimum 8%. Average capital adequacy, as a ratio of net capital and total risk assets, amounted to 34.3% on March 31, 2000. The requirement related to capital all banks have met adequacy, and it ranged from 14.6% to 133.2%. Such high capital adequacy is found in newly founded banks due to their low lending activity, which also means low assets, while in state-owned banks reason for that is removal of neutral and passive balance sheet.

This analysis was based on capital adequacy reported by banks themselves, while final ration of each bank's capital adequacy will be determined by on-site examination.

Relative ratios are given in the following table:

Capital Ratios

No.	Ratios	31.12.1999	31.03.2000
1.	NET CAPITAL/ TOTAL ASSETS	29.30	30.38
2.	SHAREHOLDERS' CAPITAL/ TOTAL ASSETS	21.74	22.33
3.	CORE CAPITAL TOTAL RISK ASSETS	38.34	35.11
4.	TOTAL CAPITAL/ TOTAL RISK ASSETS	40.89	37.99
5.	NET LOANS/ TOTAL CAPITAL	131.02	136.02
6.	PROFIT/ SHAREHOLDERS' CAPITAL	8.19	9.80

In accordance with data reported by banks as of June 30, 2000 there are still one private and three state-owned banks that have not met the legal requirement for net capital which should amount to KM 5 million.

2.2. INCOME STATEMENT

In the first quarter of the year 2000 total banks' income amounted to KM 25.1 million, and total expense KM 25 million. The balance of KM 109 thousand indicates to a very low profitability of our banks. Amounts and structure of income is shown in the following table:

Banks' Income Statement

(thousand KM)					
DESCRIPTION/PERIOD	*				INDEX 4 / 2
	December 1999	%	March	%	
1	2	3	4	5	6
1.INCOME					
a) Interest income and similar income	72,426	35	12,814	51	18
b) Operating income	132,735	65	12,329	49	9
2)TOTAL INCOME (1.a + 1.b)	205,161	100	25,143	100	12
3)EXPENSE					
a) Interest expense and similar expense	30,122	15	3,343	13	11
b) Operating and direct expense	36,807	19	6,724	27	18
c) Operating expense	129,605	66	14,967	60	12
4)TOTAL EXPENSE (2.a+2.b+2.c)	196,534	100	25,034	100	13
5. PROFIT BEFORE TAX	10,761		3,240		30
6. LOSS	2,133		3,131		147
7. TAXES	782		101		13
8. NET-PROFIT	9,994		3,139		31

* Income statement of Razvojna Bank included income statements of both SPP-a and Razvojna Bank.

Positive financial statement for the first quarter of 2000 was reported by 14 banks in a total amount of KM 3.2 million, and 3 banks reported loss in a total amount of KM 3.1 million. It can be seen from the table that loss has significantly increased, mostly generated at one state-owned bank. The structure of income shows that fee income was very high compared to interest income. In the first quarter of this year this ratio started changing in favor of interest income, indicating an increase in lending activities.

The following table is showing the most important ratios for assessment of banks' profitability and efficiency:

Earning Ratios

Но.	Ратнос	31.12.1999*	31.03.2000
1.	ТОТАЛ ИНЦОМЕ/ ТОТАЛ АССЕТС	33.94	16.98
2.	ТОТАЛ ИНЦОМЕ/ ТОТАЛ ЦАПИТАЛ	109.15	50.46
3.	ТОТАЛ ЕЦПЕНСЕ/ ТОТАЛ АССЕТС	32.51	16.90
4.	ИНТЕРЕСТ ИНЦОМЕ/ ТОТАЛ АССЕТС	11.98	8.65
5.	ИНТЕРЕСТ ЕЦПЕНСЕ / ТОТАЛ АССЕТС	4.98	2.26
6.	НЕТ ИНТЕРЕСТ ИНЦОМЕ/ ТОТАЛ АССЕТС	7.00	6.39
7.	НЕТ ИНТЕРЕСТ ИНЦОМЕ/ ТОТАЛ ЦАПИТАЛ	22.51	19.01
8.	ФЕЕС / ТОТАЛ АССЕТС	2.51	2.82
9.	МАТЕРИАЛ ЦОСТ АНД ГРОСС БЕАРИНГ/ ТОТАЛ АССЕТС	21.44	10.11
10.	НОТ-ИНТЕРЕСТ-БЕАРИНГ ТОТАЛ АССЕТС	27.53	14.65
11.	ПРОФИТ БЕФОРЕ ТАЦ/ ТОТАЛ АССЕТС	1.78	2.19

*Ratios related to income statement are given on annual basis.

It is immediately noticed that almost all of relative indicators of profitability are lower in the first quarter of 2000 if compared to December 31, 1999. However, it should be pointed out that financial reports were prepared as temporary. Also, all banks have not applied the Decision on minimum standards for banks' credit risk management and asset classification. Namely, they have not established loan loss reserves in an amount of calculated loan loss, debiting expenses, which would result in an even more negative income statement for banks.

As a conclusion, it can be stated that profitability of banks in Republika Srpska is poor with a tendency of a decrease.

III CONCLUSION

In the first quarter of the year 2000 banks' total balance sheet assets (after removing passive and neutral sub-balance) amounted to KM 527 million.

Such a low level of assets is troubling, so it will be necessary to work intensely to restore depositors' confidence into banking system in the future period.

The amount of KM 22.2 million related to new citizens' savings is still a symbolic one and not capable to support development of the banking system.

The state has made a significant step in stabilizing banking system and restoring confidence by taking over the debt in an amount of KM 2.176 billion (frozen foreign currency savings and loans). However, in order to continue the reform it is necessary to complete privatization of state-owned capital in banks and issue the Law on Settlement of Obligations based on Frozen Foreign Currency Citizens' Savings and the Law on Deposit Insurance.

Taking into consideration problems inherited from the previous period, banking system in Republika Srpska is still in a very difficult situation.

Basic characteristics are the following:

- Total balance sheet assets of KM 572 million is extremely low, and it is lower by 2% compared to the end of the previous year, which is a cause of concern. Off-balance sheet assets of KM 186 million is too high compared to balance sheet assets, and compared to the previous year have increased by 54%. Banking system in Republika Srpska is in a very difficult situation not only because of such a low level of assets but because of a deteriorated quality of assets as well.
- Total capital amounted to KM 199.3 million and is larger by 6% if compared to the beginning of the previous year, which indicates a positive trend. That was actually a result of increased shareholders' capital at three private banks due to adjustments to net capital of KM 5 million required by the law

At this time one private and two state-owned banks do not meet this legal requirement.

- Profitability of banks in Republika Srpska was extremely low during the period, which will influence their liquidity and capitalization in the future.
- Total income amounted to KM 25 million, which is only 12% of the last year income. Balance between income and expense in an amount of KM 109.000 is a symbolic one, while especially troubling is loss reported by two banks. Although the statement based on three-month period is just a temporary one, the data reported are disturbing.

Due to a low level of profitability and decreasing trend of deposits, liquidity had a tendency of deterioration, which should be especially monitored in the future.

Taking into consideration obvious difficulties, it is necessary to continue the reform of banking industry in the following segments:

-
- Bank privatization process should be continued and, preferably, completed by the end of the year. Having that goal in mind, several privatization programs have been approved taking some of the banks very close to finalize their processes of privatization.
 - Banks should continue to take over internal payment operations, which would enable them to have better contacts with clients and provide for higher earnings and larger possibility to manage their own liquidity.

A significant improvement has been made in that sense, since Payment Bureau and Razvojna banka a.d. Banja Luka have been separated and licenses have been issued to few banks to start internal payment operations of low and mid-level risk.

This should be another step, not only to improve banks' profitability, but to help them restore confidence of their depositors.

The Central Bank of Bosnia and Herzegovina has been undertaking important activities in that area.

- The Agency should continue implementation of new Decisions related to banks' internal and external audit function, internal control of liquidity management, credit and other risks, asset quality and capital requirement.
- In order to restore confidence in banks, it is necessary to issue the Law on deposit Insurance as soon as possible, as well as the Law on Settlement of Obligations based on Frozen Foreign Currency Citizens' Savings.

At the end, it should not be forgotten that banking system is an integral part of the overall economy system, therefore a successful reform in one part can be performed only with coordination of mutual efforts of all participants in such a process.

A T T A C H M E N T S

Attachment no. 1	General Data on RS Banks
Attachment no. 2	Banks' Active Balance Sheet
Attachment no. 3	Income Statement
Attachment no. 4	Comparative Summary on Capital and Capital Adequacy
Attachment no. 5	Information on Banks' Employees

LIST OF BANKS
As of March 31, 2000

No.	BANK	LOCATION	ADDRESS	DIRECTOR	PHONE	FAX	30.06.2000 (thousand KM)			NUMBER OF EMPLOYEES
							ASSETS	CAPITAL	PROFIT	
1.	Banjalucka banka	Banja Luka	M.Bursac 7	Momcilo Poparic	051/212-140	212-830	548,126	29,363	-2,939	668
2.	Agroprom banka	Banja Luka	Knjaza Milosa 19	Miroslav Soldat	051/303-611	314-181	36,670	11,869	686	79
3.	Privredna banka	Gradiska	Vidovdanska bb	Momir Hrvacanin	051/813-333	813-205	76,977	10,018	104	92
4.	Kristal banka	Banja Luka	I.F.Jukica 9	LJubomir Klincov	051/212-930	212-878	511,820	32,359	0	366
5.	Privredna banka	Doboj	Svetog Save 1	Rodoljub Milovanovic	053/241-544	241-662	532,538	14,479	376	166
6.	Prijedorska banka	Prijedor	Vozda Karadjordja 9	Mladen Kovacevic	052/212-311	211-840	320,541	13,605	599	217
7.	Semberska banka	Bijeljina	Karadjordjeva 3	Cvijetin Nikic	054/471-588	472-247	72,103	5,351	-88	140
8.	Razvojna banka	Banja Luka	Bana Milosavljevica 4	Ranko Travar	051/212-012	217-575	87,823	24,995	285	289
9.	VB banka	Banja Luka	K.Petra Karadjordjevica 103	Radovan Bajic	051/212-678	212-078	13,729	5,787	208	29
10.	Privredna banka	Brcko	M.Aganovica 2	Nada Pavlovic	054/204-222	204-055	84,717	1,300	8	40
11.	Nova banka	Bijeljina	Svetog Save 46	Milorad Anxic	054/471-094	401-410	12,234	6,836	-104	36
12.	West banka	Laktasi	Karadjordjeva bb	Ranko Karapetrovic	051/832-174	832-042	4,357	3,306	22	3
13.	Privredna banka Sarajavo	Pale	Dobroslava Jevtica 14	Mile Matic	057/786-809	786-805	362,265	11,051	201	439
14.	Ekvator banka	Banja Luka	M.Bursac 2	Dragoslav Jovanovic	051/217-920	211-757	14,592	5,623	455	19
15.	Bobar banka	Bijeljina	Filipa Visnjica 211	Dragan Radumilo	054/472-490	472-898	7,085	5,761	180	12
16.	Zepter komerc b.	Banja Luka	Brace Mazar 68	Milenko Vracar	051/215-755	215-771	9,021	5,209	5	22
17.	Postanska stedionica	Banja Luka	Karadjordjevica 61	Vlada Vasiljevic	051/211-433	211-555	8,599	2,953	10	52
UKUPNO:							2,703,197	189,865	8	2,669

BANKS' ACTIVE BALANCE SHEET

(000 KM)

ITEM/PERIOD	31.12.1999*	%	31.03.2000*	%	INDEX 2000/1999
1. Cash Funds and Deposit Accounts at Depository Institutions (1.a.+1.b.)	146.901	24,0	106.845	18	73
1.1 Cash and Not-Interest-Bearing Deposit Accounts	109.961	18,0	72.782	12	66
1.2 Interest-Bearing Deposit Accounts	36.940	6,0	34.063	6	92
2. Trading Securities	0	0,0	0	0	0
3. Placements to other banks	5.100	1,0	3.850	1	75
4. Loans, Leasing and Receivables Due (4.a.+4.b.+4.v.)	294.896	49,0	317.118	54	108
4.a. Loans	274.187	45,0	287.631	49	105
4.b. Leasing Receivables	0	0,0	0	0	0
4.c. Loan and Leasing Receivables Due	20.709	3,0	29.487	5	142
5. Securities Held to Maturity	3.102	1,0	3.050	1	98
6. Office Space and Other Fixed Assets	98.447	16,0	100.233	16	102
7. Other Immovables	1.177	0,0	1.066	0	91
8. Investments into Non-Consolidated Related Companies	1.896	0,0	1.934	0	102
9. Other Assets (9b)	52.978	9,0	58.312	10	110
TOTAL (1 do 9)	604.497	100,0	592.408	100	98
10. MINUS: Reserves for Potential Loss (10.a.+10.b.)	69.012	13,0	64.963	12	94
11. TOTAL ASSETS: (1.to 9.-10.)	535.485		527.445		98
11.a. Active Off-Balance	121.276		186.322		154
TOTAL ASSETS (11.+11.a)	656.761		713.767		109
12. Deposits (12.a.+12.b.)	269.223	49,0	246.918	46	92
12.a Interest-Bearing Deposits	114.094	21,0	122.254	23	107
12.b Non-Interest-Bearing Deposits	155.129	28,0	124.664	23	80
13. Borrowings – Obligations Due (13.a.+13.b.)	3	0,0	19	0	633
13.a Due, Not-Repaid Obligations	3	0,0	19	0	633
13.b. Not-paid - Called for Payment Off-Balance Sheet Obligations	0	0,0	0	0	0
14. Borrowings from Other Banks	5.527	1,0	3.779	1	68
15. Obligations to Governm.	522	0,0	126	0	24
16. Obligations Based on Loans and Other Borrowings (16.a.+16.b.)	59.467	11,0	73.050	14	123
16.a. with remaining maturity up to one year	36.419	7,0	48.731	9	134
16.b. with remaining maturity over one year	23.048	4,0	24.319	5	106
17. Subordinated Debt and Subordinated Bonds	0	0,0	0	0	0
18. Other Obligations (18.b.)	25.513	5,0	23.330	4	91
19. TOTAL LIABILITIES (12 to 18)	360.255	66,0	347.222	65	96
20. Preferred Shares	27	0,0	27	0	100
21. Regular Shares	131.395	24,0	132.144	24	101
22. Premium (22.a. +22.b)	0	0,0	0	0	0
22.a. for preferred shares	0	0,0	0	0	0
22.b. for regular shares	0	0,0	0	0	0
23. Undistributed Profit and Capital Reserves	52.778	10,0	57.475	11	109
24. FX Fluctuations	0	0,0	0	0	0
25. Other Capital	0	0,0	219	0	0
26. TOTAL CAPITAL: (20. to 25.)	184.200	34,0	189.865	35	103
27. TOTAL LIABILITIES AND CAPITAL: (19. + 26.)	544.455	100,0	537.087	100	99
28.a . Active Off-Balance	121.276		186.322		154
TOTAL LIABILITIES (27.+28.a)	665.731		723.409		109

*Banks' Active Balance Sheet is not balanced since some banks have not decreased their capital for the balance between assets and liabilities from passive sub-balance.

INCOME STATEMENT

(thousand KM)

DESCRIPTION/PERIOD	31.12.1999*	%	31.03.2000	%	INDEX 2000/1999
1. INTEREST INCOME AND EXPENSE					
a) Interest income and similar income					
1) Interest bearing deposit accounts at depository institutions	13,281	18.3	28	0.2	0
2) Placements to other banks	6,180	8.5	2,533	19.8	41
3) Loans and leasing operations	34,926	48.2	8,963	69.9	26
4) Securities held up to maturity	18	0.0	257	2.0	1,428
5) Other companies' shares owned by banks	6	0.0	0	0.0	0
6) Paid off-balance sheet obligation receivables	0	0.0	0	0.0	0
7) Other interest income and similar income	18,015	24.9	1,033	8.1	6
8) TOTAL INTEREST INCOME AND OTHER INCOME (1 to 7)	72,426	100.0	12,814	100.0	18
b) Interest expense and similar expense					
1) Deposits	1,421	4.7	294	8.8	21
2) Borrowings from other banks	1,000	3.3	88	2.6	9
3) Borrowings – due obligations	579	1.9	35	1.0	6
4) Loan and other borrowing obligations	9,383	31.1	274	8.2	3
5) Subordinated debt and subordinated bonds	0	0.0	0	0.0	0
6) Other interest expense and similar expense	17,739	58.9	2,652	79.3	15
7) TOTAL INTEREST EXPENSE AND SIMILAR EXPENSE (1 to 6)	30,122	100.0	3,343	100.0	11
c) NET INTEREST AND SIMILAR INCOME a.8)-b.7)	42,304		9,471		22
2. OPERATING INCOME					
a) Foreign currency operation income	16,124	12.1	4,416	36.0	27
b) Loan fees	8,949	6.7	437	4.0	5
c) Off-balance sheet operation fees	1,097	0.8	258	2.0	24
d) Service fees	5,105	3.8	3,476	28.0	68
e) Trading operation income	22	0.0	23	0.0	105
f) Other operating income	101,439	76.4	3,650	30.0	4
g) TOTAL OPERATING INCOME (a to f)	132,735	100.0	12,329	100.0	9
3. NON-INTEREST BEARING EXPENSE					
a) Operating and direct expense					
1) Reserves for general loan risk and potential loan and other losses	29,498	80.1	4,579	68.1	16
2) Other operating and direct expenses	7,309	19.9	2,145	31.9	29
3) TOTAL OPERATING AND DIRECT EXPENSES 1) + 2)	36,807	100.0	6,724	100.0	18
b) Operating expenses					
1) Salaries and contributions	33,770	26.1	5,466	37.0	16
2) Office space, other fixed assets and overheads	48,648	38.0	4,069	27.0	8
3) Other operating expenses	47,187	36.0	5,432	36.0	12
4) TOTAL OPERATING EXPENSES (1 to 3)	129,605	100.1	14,967	100.0	12
c) TOTAL NON-INTEREST BEARING EXPENSES a.3) + b.4)	166,412		21,691		13
4. PROFIT BEFORE TAX 1.c)+2.g)-3.c)	10,761		3,240		30
5. LOSS 1.c) + 2.g) - 3.c)	2,133		3,131		147
6. TAX	782		101		13
7. NET-PROFIT 4. - 6.	9,994		3,139		31

**CAPITAL AND CAPITAL ADEQUACY
COMPARATIVE SUMMARY**

(thousand KM)

DESCRIPTION/PERIOD		31.12.1999	31.03.2000
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:	116,919	117,752
1.2.	Equity capital based on nominal amounts of regular and preferred non-cumulative shares issued against immovables and rights invested into shareholders' capital:	14,504	14,523
1.3.	Premiums collected for share payments:	0	0
1.4.	General reserves required (reserves required by the law):	27,789	30,119
1.5.	Other reserves which are not taken into account when rating asset quality:	14,926	18,934
1.6.	Retained – undistributed profit from previous years:	2,124	2,881
1.	AMOUNT OF CORE CAPITAL:	176,262	184,209
2.	ADDITIONAL CAPITAL OF BANKS		
2.1.	Equity capital based on nominal amounts of permanent preferred cumulative shares issued against cash fund payments into shareholders' capital:	0	0
2.2.	Equity capital based on nominal amounts of permanent preferred cumulative shares issued against immovables and rights invested into shareholders' capital:	0	0
2.3.	General reserves for loan loss coverage for bank's assets rated as category A – Pass:	6,150	7,270
2.4.	Accrued profit in the current year:	5,496	4,425
2.5.	Amount of profit for which BA-RS issued Decision on Temporary Suspension of Distribution:	50	0
2.6.	Amount of subordinated debt maximum 50% of amount of Core Capital:	0	0
2.7.	Amount of hybrid i.e. convertible items-instruments of capital maximum 50% of amount of Core Capital:	0	0
2.8.	Amount of items-commitments of a permanent character without obligation to be repaid:	0	0
2.	AMOUNT OF ADDITIONAL CAPITAL:	11,699	15,115
3.	ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL		
3.1.	Portion of general credit risk and potential loan losses for which bank has not established General and Special reserves for loan losses:	5,835	11,760
3.2.	Uncovered losses carried over from previous years:	1,608	3,193
3.3.	Current Year Loss:	2,148	3,131
3.4.	Bookkeeping value of bank's owned (vault) shares:	0	0
3.5.	Nominal amount of shares issued against investments from bank's loans, up to not-repaid amount of the loan, i.e not-repaid portion of the loan:	0	0
3.6.	Part of invested shareholders' capital, which represents, according to BA-RS, received, but overstated value:	0	0
3.7.	Intangible property: patents, licenses, concession, investments in: marketing, commercial name, trade mark, goodwill and similar:	0	0
3.8.	Bank's investments in capital of other legal entities exceeding 5% of the bank's core capital:	1,256	1,256
3.9.	Receivables from shareholders having a significant voting right in the bank, which receivables are based on the bank's approvals contrary to provisions of the Law, BA-RS and the bank's business policy:	0	0
3.10.	Bank's large risk exposure related to shareholders having a significant voting right in the bank, which exposure has not been previously approved by the BA-RS:	0	0
3.	ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL:	10,847	19,340
4.-A	BANKS' NET-CAPITAL:	177,111	179,984
B.	RISK WEIGHTED ASSETS AND LOAN EQUIVALENTS:	459,694	524,689
C.	NET-CAPITAL RATE:	38.5	34.3

TOTAL NUMBER AND QUALIFICATION STRUCTURE
OF BANKS' EMPLOYEES
AS OF MARCH 31, 2000

No.	BANKS	QUALIFICATION STRUCTURE							TOTAL	%
		NS*	KV*	VKV*	SSS*	VS*	VSS*	MR*		
1	Banjalucka banka B.Luka	30	28	7	419	83	100	1	668	25.03
2	Agroprom banka B.Luka	3	2	0	39	9	26	0	79	2.96
3	Privredna banka Gradiska	6	1	0	58	6	21	0	92	3.45
4	Kristal banka B. Luka	29	3	5	234	22	73	0	366	13.71
5	Privredna banka Dobož	16	2	1	106	15	25	1	166	6.22
6	Prijedorska banka Prijedor	14	3	3	158	18	21	0	217	8.13
7	Semberska banka Bijeljina	12	7	1	86	10	23	1	140	5.25
8	Razvojna banka B.Luka	25	16	5	147	24	70	2	289	10.83
9	VB banka Banja Luka	1	0	0	15	2	11	0	29	1.09
10	Privredna banka Brcko	5	2	0	17	4	12	0	40	1.50
11	Nova banka Bijeljina	1	1	0	7	7	18	2	36	1.35
12	West banka	0	0	0	1	1	1	0	3	0.11
13	PBS a.d. S.Sarajevo	27	1	2	298	45	65	1	439	16.45
14	Ekvator banka B.Luka	0	0	0	14	0	4	1	19	0.71
15	Bobar banka Bijeljina	0	0	0	7	0	5	0	12	0.45
16	Zepter-komerc. banka B. Luka	0	0	0	12	4	6	0	22	0.82
17	Postanska stedionica B. Luka	5	0	0	31	7	7	2	52	1.95
TOTAL:		174	66	24	1,649	257	488	11	2,669	100.00
%		6.52	2.47	0.90	61.78	9.63	18.28	0.41	100.00	

- NS* - Not-skilled
KV* - Skilled
VKV* - Highly skilled
SSS* - Secondary school diploma
VS* - Two-year post-secondary school qualifications
VSS* - College education
MR* - Master of Science