

BANKING AGENCY OF REPUBLIKA SRPSKA

**REPORT**  
**ON CONDITION OF RS BANKING SYSTEM**  
**AS OF THE 3<sup>RD</sup> QUARTER OF 2000**

**Banja Luka, November 2000**

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## 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 were used for the first time in compiling Report for the First Quarter of 2000. 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 third quarter of 2000 seventeen banks plus the Post Office Savings (Postanska stedionica) were operating in Republika Srpska. 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 September 31, 1999 ten banks and Postanska stedionica were state-owned while seven banks were privately owned, indicating that banks' owners have not been changed since none of the state-owned banks has completed 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. Doboj	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

Up to the end of the third quarter of this year, the Ministry of Finance has approved opening balance sheets of another three state-owned banks, after which the Banking Agency has made an assessment of solvency and issued Solvency Certificates.

As of September 30, 2000 and in accordance with the Law on the Banking Agency, and the Law on banks, the Agency has issued a banking license to a newly founded bank (Balkan Investment Bank a.d. Banja Luka), to a foreign bank branch office – Banka za jugoistocnu Evropu (Bank for South-East Europe – BSEE) and two permanent banking licenses to already existing banks that have met required standards. The Agency also issued the following consents and approvals:

- nineteen consents on Bank Statute modifications,
- twelve 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,
- one approval on significant share of bank capital,
- three approvals on agreements,

- two approvals on bank general manager election, and
- four approvals for bank branch-office founding.

It should be especially pointed out that up to September 30, 2000 the Agency issued nine licenses for internal payment operation of low risk and seven licenses of medium risk.

Activities related to issuance of internal payment operation licenses are performed based on applications submitted by banks and their fulfillment of requirements under related Decision.

### **1.1. Staff**

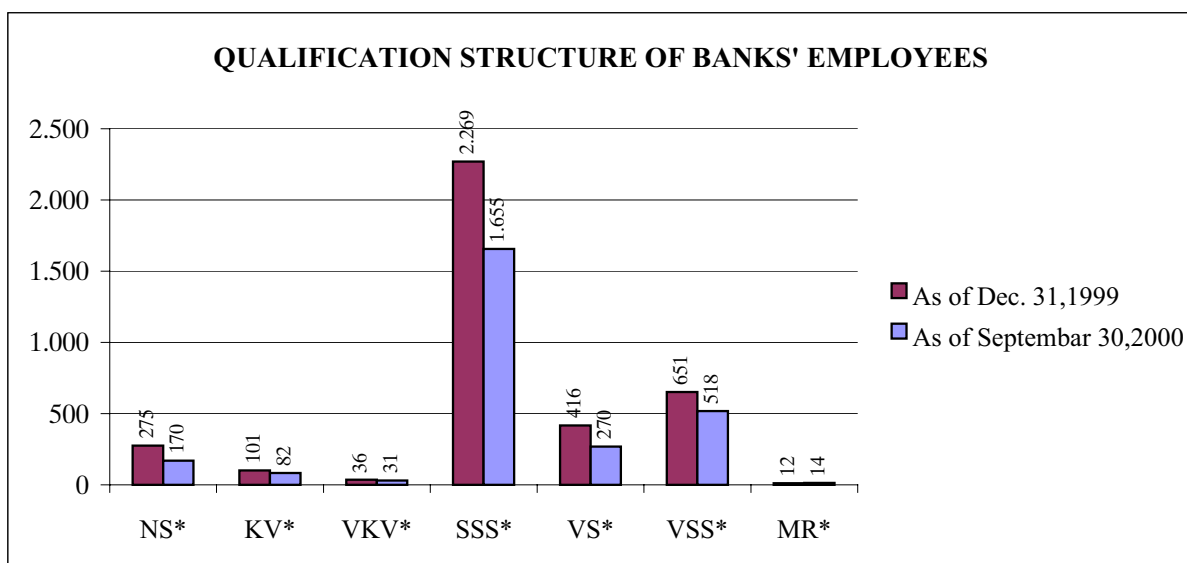
As of September 30, 2000 the total number of banks' employees was 2740 with the following qualification structure:

#### Qualification Structure of Banks' Employees

No.	Qualification	As of December 31, 1999	%	* As of September 30, 2000	%	Index 2000/99
1*	Non-Skilled	275	7.30	170	6.20	62
2*	Skilled	101	2.68	82	2.99	81
3*	Highly Skilled	36	0.96	31	1.13	86
4*	Secondary School	2,269	60.31	1,655	60.40	73
5*	2-year College	416	11.04	270	9.85	65
6*	College Degree	651	17.39	518	18.91	80
7*	M. Sc.	12	0.32	14	0.51	117
	TOTAL:	3,760	100.00	2,669	100.00	73

\*With Razvojna banka employees, without Payment Operation Bureau employees.

By the end of the third quarter of 2000 the number of employees decreased by 1027 or by 27%, 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, 60.4%, while there is only 18.9% 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.



As of September 30, 2000 out of the total number of banks' employees 94% were employed by banks with majority state-owned capital and 6% by privately owned banks, as it is shown in the following table:

BANKS	NUMBER OF EMPLOYEES				INDEX
	December 31, 1999		September 30, 2000		
	Number	%	Number	%	
State-owned	3,644	97	2,579	94	<b>70.77</b>
Private	116	3	161	6	<b>138.79</b>
<b>TOTAL:</b>	<b>3,760</b>		<b>2,740</b>		<b>72.87</b>
Number of Banks	17		18		

Amount of banks' assets related to the number of employees and to the ownership structure can be seen from the following table:

BANKS	As of September 30, 2000		
	Number of employees	Assets in KM million	Assets per employee in KM million
State-owned	2,579	558	0.22
Private	161	100	0.62
<b>TOTAL:</b>	<b>2,740</b>	<b>658</b>	<b>0.24</b>
Number of banks	18		

## **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).

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

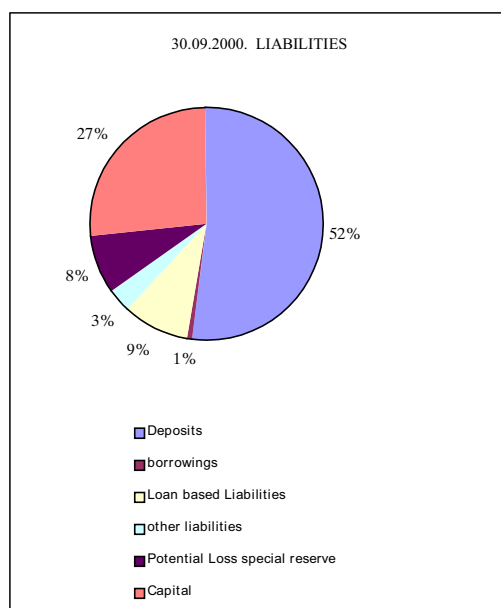
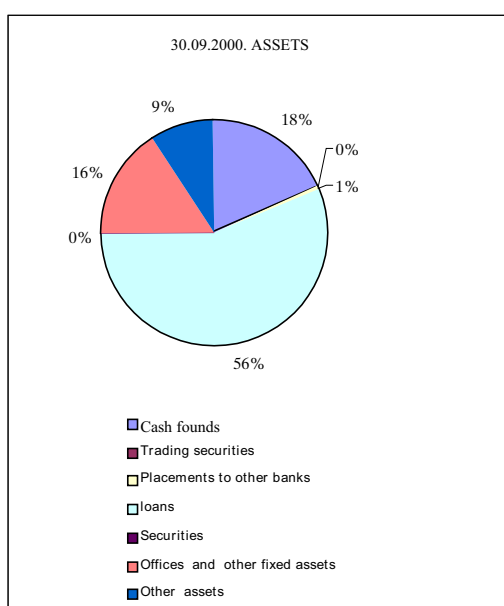
As of September 30, 2000 banks' total assets amounted to KM 909.1 million, out of which KM 658.1 million was balance sheet and KM 251 million was off-balance sheet assets. The structure of assets and liabilities of banks in Republika Srpska is shown in the following table:

### Banks' Balance Sheet

thousand KM

No.	DESCRIPTION	AMOUNT (thousand KM)				INDEX
		31.12.1999		30.09.2000		
		Amount	%	Amount	%	
1	2	3	4	5	6	7=5/3
	ASSETS:					
1.	Cash Funds	146,901	24	120,050	18	82
2.	Trading Securities	0	0	0	0	0
3.	Placements to other banks	5,100	1	4,534	1	89
4.	Loans	293,768	49	365,064	56	124
5.	Securities	3,102	1	1,687	0	54
6.	Offices and other fixed assets	98,447	16	106,693	16	108
7.	Other assets	57,435	9	60,077	9	105
8.	<b>TOTAL ASSETS</b>	<b>604,753</b>	<b>100</b>	<b>658,105</b>	<b>100</b>	<b>109</b>
9.	Active Off-Balance Sheet	121,276		251,201		207
10.	<b>TOTAL ASSETS (8+9)</b>	<b>726,029</b>	<b>100</b>	<b>909,306</b>	<b>100</b>	<b>125</b>
	LIABILITIES:					
11.	Deposits	269,223	45	340,045	52	126
12.	Borrowings	5,530	1	5,818	1	105
13.	Loan based Liabilities	58,783	10	59,969	9	102
14.	Other Liabilities	26,040	4	19,734	3	76
15.	Special Reserves for Potential Loss	71,378	12	54,801	8	77
16.	Capital	173,799	29	177,738	27	102
17.	<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>604,753</b>	<b>100</b>	<b>658,105</b>	<b>100</b>	<b>109</b>
18.	Active Off-Balance Sheet	121,276		251,201		207
19.	<b>TOTAL LIABILITIES (17+18)</b>	<b>726,029</b>		<b>909,306</b>		<b>125</b>

The asset structure shows a decline in cash funds from 24% to 18%, while loan amount have increased by 6%, 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 250.0 million and were increased by 107% in comparison to the end of the previous year, because of an intensive issuance of guarantees and letters of credit.

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, 1999	%	September 30, 2000	%	INDEX 2000/1999
1.	AT DEMAND					
	1. Dinar	3,961	13.0	0	0	0
	2. KM	14,895	48.9	27,159	59.9	182
	3. Foreign Currency	9,961	32.7	14,337	31.6	144
	<b>TOTAL 1:</b>	<b>28,817</b>	<b>94.6</b>	<b>41,496</b>	<b>91.6</b>	<b>144</b>
2.	TIME DEPOSITS					
	1. Dinar	1	0.0	0	0.0	0
	2. KM	254	0.8	100	0.2	39
	3. Foreign Currency	1,384	4.5	3,729	8.2	269
	<b>TOTAL 2:</b>	<b>1,639</b>	<b>5.4</b>	<b>3,829</b>	<b>8.4</b>	<b>234</b>
3.	<b>TOTAL (1+2)</b>	<b>30,456</b>	<b>100.0</b>	<b>45,325</b>	<b>100</b>	<b>149</b>

In the third quarter of 2000 new citizens' savings had a significant increasing trend compared to the end of 1999, namely it increased by 49% or KM 14.9 million. It should be also pointed out that such an increase was related mostly to an increase of saving deposits in private banks, changing the structure in favor of privately owned banks, as shown in the following table:

### New Citizens' Savings

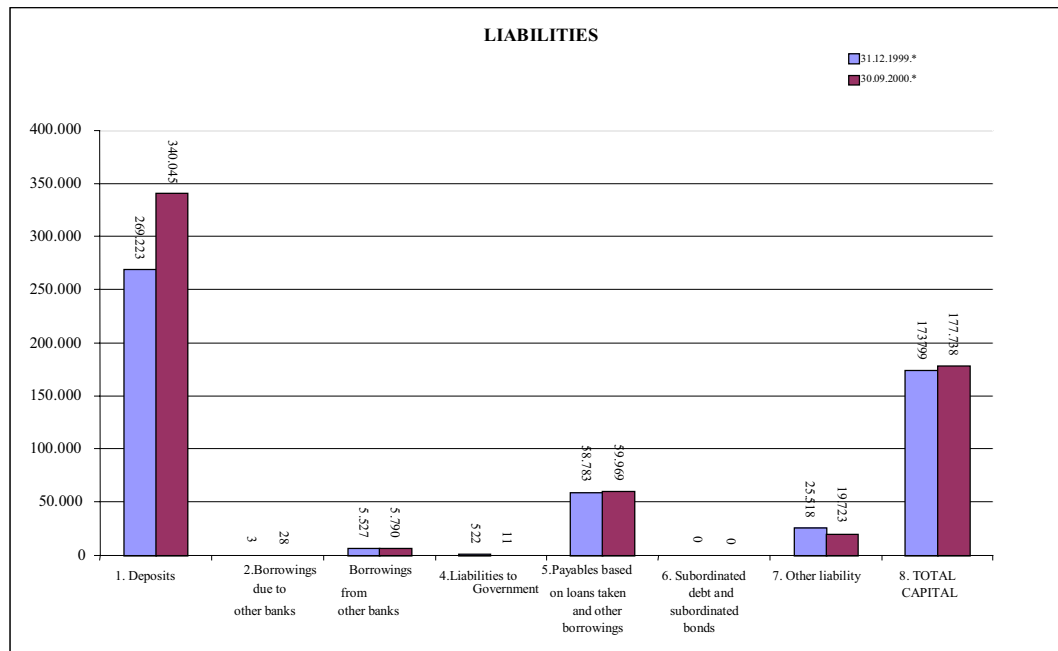
thousand KM

BANKS	December 30, 1999	%	September 30, 2000	%	INDEX 2000/1999
State-owned	26,418	87	37,807	83	143.1
Private	4,038	13	7,518	17	186.2
<b>TOTAL:</b>	<b>30,456</b>	<b>100</b>	<b>45,325</b>	<b>100</b>	<b>148.8</b>

Until citizens' savings return to banks, 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 September 30, 2000:



In the structure of liabilities above, the liability share was 73%, and capital share 27%. 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	As of December 31, 1999			%	As of September 30, 2000			%	INDEX 2000/1999
	State	Private	Total		State	Private	Total		
BANKS:									
KM									
1. Cash	6,351	301	6,652	4.5	4,156	1,150	5,306	4.4	80
2. Giro accounts at SPP (reserve account at CB BiH)	33,113	5,764	38,877	26.5	9,055	7,523	16,578	13.8	43
3. Deposit accounts at depository institutions in BiH	4,095	0	4,095	2.8	7,339	0	7,339	6.1	179
4. Deposit accounts at depository institutions abroad	0	0	0	0.0	0	0	0	0.0	0
5. Cash being collected	9	0	9	0.0	10	68	78	0.1	867
6. Not-repaid debt	0	0	0	0.0	0	0	0	0.0	0
7. T O T A L :	43,568	6,065	49,633	33.8	20,560	8,741	29,301	24.4	59
FOREIGN CURRENCY									
1. Cash	42,150	5,135	47,285	32.2	27,077	10,118	37,195	31.0	79
2. Giro accounts at SPP (reserve accounts at CB BiH)	22	0	22	0.0	54	0	54	0.0	245
3. Deposit accounts at depository institutions in BiH	5,556	1,264	6,820	4.6	2,719	7,116	9,835	8.2	144
4. Deposit accounts at depository institutions abroad	32,046	3,230	35,276	24.0	23,407	18,523	41,930	34.9	119
5. Cash being collected	227	7,112	7,339	5.0	1,302	412	1,714	1.4	23
6. Not-repaid debt	526	0	526	0.4	21	0	21	0.0	4
7. T O T A L :	80,527	16,741	97,268	66.2	54,580	36,169	90,749	75.6	93
GRAND TOTAL :	124,095	22,806	146,901	100.0	75,140	44,910	120,050	100.0	82

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 deteriorated in the third 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. an adverse situation in economy.

Liquidity ratios are given in the following table:

DESCRIPTION / PERIOD		December 31, 1999	September 30, 2000
1.	Short Term Assets/	322,663	336,450
	Short Term Liabilities	310,823	376,144
	%	<b>103.81</b>	<b>89.45</b>
2.	Short Term Assets /	322,663	336,450
	Total Assets	604,753	658,105
	%	<b>53.35</b>	<b>51.12</b>
3.	Short term Liabilities /	310,823	376,144
	Total Assets	604,753	658,105
	%	<b>51.40</b>	<b>57.16</b>
4.	Net Short Term Liabilities /	-11,840	39,694
	Total Assets	604,753	658,105
	%	<b>0.00</b>	<b>6.03</b>
5.	Net Loans /	243,262	319,762
	Deposits	269,223	340,045
	%	<b>90.36</b>	<b>94.04</b>
6.	Net Loans, Financial Commitments Taken Over, Letters of Credit /	266,253	388,671
	Total Assets	604,753	658,105
	%	<b>44.03</b>	<b>59.06</b>

### 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	December 31, 1999	%	September 30, 2000	%	INDEX 2000/1999
1.	Government institutions	1,157	0	5,296	2	458
2.	Public enterprises	14,996	5	31,456	9	210
3.	Private companies and associations	252,903	86	260,063	71	103
4.	Non-profit institution	428	0	17	0	4
5.	Banking institutions	962	0	16,219	5	1,686
6.	Non-banking institutions	853	0	1,024	0	120
7.	Citizens	10,056	3	8,772	3	87
8.	Other	12,413	4	40,177	11	324
<b>9.</b>	<b>TOTAL:</b>	<b>293,768</b>	<b>100</b>	<b>365,064</b>	<b>100</b>	<b>124</b>

The loan structure was changed in the third quarter. Actually, there was a significant increase of loans to public enterprises, while loans to private companies increased modestly. 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.

Analyzing, however, banks' lending it is necessary to point out a high both level and increase of receivables, which amounted to KM 36.8 million on September 30, 2000. That was larger by 79% compared to the end of the previous year.

The following table indicates level and structure of receivables due:

- thousand KM -

No.	DESCRIPTION / PERIOD	December 31, 1999	%	September 30, 2000	%	INDEX 2000/1999
1.	Government institutions	290	1	0	0	0
2.	Public enterprises	5	0	2,806	8	56,120
3.	Private companies and associations	18,351	89	30,550	83	166
4.	Non-profit institution	3	0	0	0	0
5.	Banking institutions	446	2	0	0	0
6.	Non-banking institutions	0	0	36	0	0
7.	Citizens	1,037	5	66	0	6
8.	Other	423	2	3,212	9	759
<b>9.</b>	<b>TOTAL:</b>	<b>20,055</b>	<b>100</b>		<b>100</b>	<b>179</b>

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.

In order to have a complete insight related to structure of approved loans and their condition in both state-owned and private banks, the following table is giving loan structure and loan loss reserve review:

thousand KM

BANKS	Approved Loans				Loan Loss Reserves			
	Dec. 31, 1999		Sept. 30, 2000		Dec. 31, 1999		Sept. 30, 2000	
	Amount	%	Amount	%	Amount	%	Amount	%
State	256,996	91	323,577	89	48,409	96	42,411	94
Private	27,772	9	41,487	11	2,097	4	2,891	6
<b>TOTAL</b>	<b>293,768</b>	<b>100</b>	<b>365,064</b>	<b>100</b>	<b>50,506</b>	<b>100</b>	<b>45,302</b>	<b>100</b>

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

Asset Classification  
as of September 30, 2000

(thousand KM)

BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS	31.12. 1999	30.09.2000	INDEX 2000/1999
1. Short Term Loans	178,810	271,593	122
2. Long Term Loans	87,625	111,308	127
3. Other Placements	5,962	7,878	132
4. Accrued Interest	37,183	31,769	85
5. Due Receivables	33,085	38,955	118
6. Guarantee Paid receivables	80	4,675	5,844
7. Other Assets	47,034	40,349	86
<b>8. TOTAL OF BALANCE SHEET ASSET ITEMS:</b>	<b>389,779</b>	<b>452,527</b>	<b>116</b>
9.a) Guarantee Payable	51,128	76,346	149
9.b) Performance Guarantees	40,994	36,052	88
10. Uncovered Letters of Credit	22,644	65,682	290
11. Irrevocable Loan Commitments	116	197	170
12. Other Potential Liabilities	917	2,661	290
<b>13. TOTAL OF OFF-BALANCE SHEET ASSET ITEMS:</b>	<b>115,799</b>	<b>180,938</b>	<b>156</b>
<b>14. TOTAL OF BALANCE AND OFF-BALANCE SHEET ASSET ITEMS (8 + 13)</b>	<b>505,578</b>	<b>633,465</b>	<b>125</b>
15. General Loan Risk and Potential Loan Losses (No. 14 X % loss)	64,549	66,144	102
16. Already Established General Reserves (A) and Special Reserves (B,C,D,E)	77,530	62,926	81
17. PLUS Established Reserves (+)(Amount) (No. 16. – No. 15.)	17,647	3,039	17
MINUS Established Reserves (-)(Amount) (No. 15. – No. 16.)	4,666	6,257	134
<b>UNCLASSIFIED ACTIVE ASSETS</b>	<b>220,450</b>	<b>275,664</b>	<b>125</b>

Total classified assets as of September 30, 2000, amounted to KM 633.4 million, and were actually increased by 25% when compared with the previous year-end. Out of the total amount, balance sheet assets amounted to KM 452.5 million, and off-balance sheet assets were KM 180.9 million, having an extremely high rate of increase, of 56%, compared with the previous year.

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 September 30, 2000:



Active Asset Classification  
as of September 30, 2000

(thousand KM)

BALANCE SHEET AND OFF-BALANCE SHEET ASSET ITEMS	A	B	C	D	E	TOTAL
1. Short Term Loans	119,479	58,030	33,981	5,964	139	217,593
2. Long Term Loans	51,697	39,674	15,653	4,284	0	111,308
3. Other Placements	6,587	361	764	146	20	7,878
4. Accrued Interest	3,160	7,912	7,497	12,390	810	31,769
5. Receivables Due	7,244	12,291	5,826	11,858	1,736	38,955
6. Paid Guarantee Receivables	606	2,392	587	1,090	0	4,675
7. Other Assets	39,784	389	51	14	111	40,349
<b>8. TOTAL OF BALANCE SHEET ASSET ITEMS:</b>	<b>228,557</b>	<b>121,049</b>	<b>64,359</b>	<b>35,746</b>	<b>2,816</b>	<b>452,527</b>
9.a) Guarantee Payable	56,201	12,367	6,426	979	373	76,346
9.b) Performance Guarantees	24,927	9,434	1,691	0	0	36,052
10. Uncovered Letters of Credit	60,573	4,559	30	520	0	65,682
11. Irrevocable Loan Commitments	80	0	117	0	0	197
12. Other Potential Liabilities	2,351	135	135	40	0	2,661
<b>13. TOTAL OF OFF-BALANCE SHEET ITEMS:</b>	<b>144,132</b>	<b>26,495</b>	<b>8,399</b>	<b>1,539</b>	<b>373</b>	<b>180,938</b>
<b>14. TOTAL BALANCE AND OFF-BALANCE SHEET ITEMS (8 + 13)</b>	<b>372,689</b>	<b>147,544</b>	<b>72,758</b>	<b>37,285</b>	<b>3,189</b>	<b>633,465</b>
15. General Loan Risk and Potential Loan Loss (No. 14 X % Loss)	7,454	13,768	20,836	20,964	3,122	66,144
16. Already Established General Reserve (A) and Special Reserve (B,C,D,E)	8,128	11,343	19,978	20,856	2,621	62,926
17. PLUS Established Reserve (+)(Amount) (No. 16 - No. 15)	2,301	337	198	203	0	3,039
MINUS Established Reserve -(Amount) (No. 15 - No. 16)	1,627	2,762	1,056	311	501	6,257
<b>UNCLASSIFIED ACTIVE ASSETS</b>						<b>275,841</b>

Comparative Classification

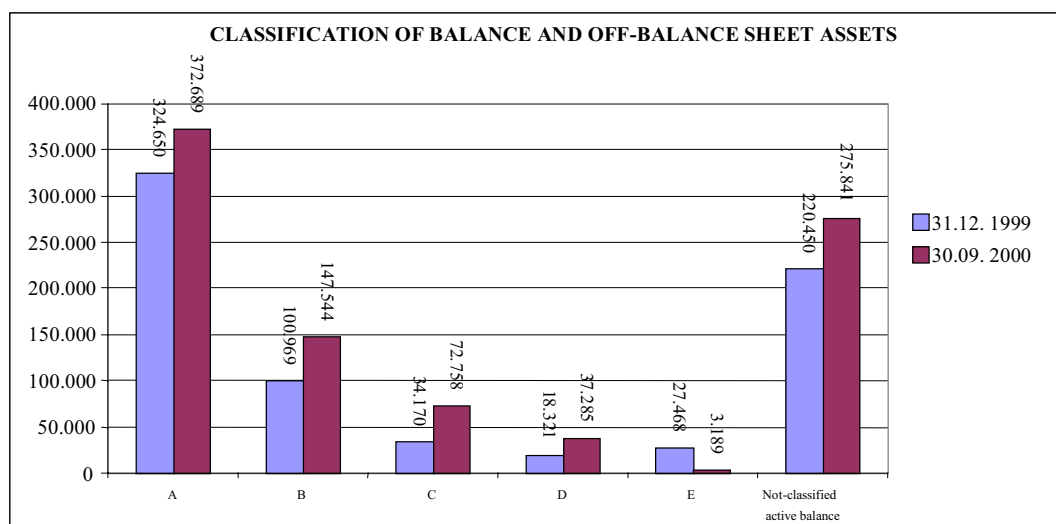
(thousand KM)

Classification Category	31.12.1999	%	30.09.2000	%	INDEX 1999/2000
A	324,650	44.7	372,689	41.0	115
B	100,969	13.9	147,544	16.2	146
C	34,170	4.7	72,758	8.0	213
D	18,321	2.5	37,285	4.1	204
E	27,468	3.8	3,189	0.4	12
unclassified active balance sheet	<b>220,450</b>	<b>30.4</b>	<b>275,664</b>	<b>30.3</b>	<b>125</b>
<b>TOTAL:</b>	<b>726,028</b>	<b>100.0</b>	<b>909,129</b>	<b>100.0</b>	<b>125</b>
Potential Gen, Reserve for Poten, Loan Loss (A)	6,465		7,454		115
Already Established General Reserve (A)	6,153		8,128		132
Balance for A:	<b>312</b>		<b>-674</b>		
Poten, Spec, Reserve for Poten, Loan Loss (B-E)	58,084		58,690		101
Already Established Special Reserve (B-E)	71,377		54,798		77
Balance for (B-E):	<b>-13,293</b>		<b>3,892</b>		

The largest share in the classification structure is made by the category "A", which was increased by 15% compared to the previous year. The category "B" has also a significant share in the structure and was increased by 46%. Categories "C" and "D" also show a considerable increase 113% and 114% respectively. 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

DESCRIPTION / PERIOD		December 31, 1999	September 30, 2000
1.	LOANS DUE /	20,555	36,892
	TOTAL LOANS	293,768	365,064
	%	<b>7,00</b>	<b>10,11</b>
2.	LOANS DUE /	20,555	36,892
	POTENTIAL LOSS RESERVE	71,378	54,801
	%	<b>28,80</b>	<b>67,32</b>
3.	LOANS DUE /	20,555	36,892
	TOTAL CAPITAL	177,557	186,017
	%	<b>11,58</b>	<b>19,83</b>
4.	CLASSIFIED ASSETS /	505,578	633,465
	TOTAL CAPITAL	177,557	186,017
	%	<b>284,74</b>	<b>340,54</b>
5.	POTENTIAL LOAN LOSS RESERVE /	71,378	54,801
	TOTAL CAPITAL	293,768	365,064
	%	<b>24,30</b>	<b>15,01</b>
6.	TOTAL RISK ASSETS /	459,955	577,746
	TOTAL ASSETS	604,753	658,105
	%	<b>76,06</b>	<b>87,79</b>

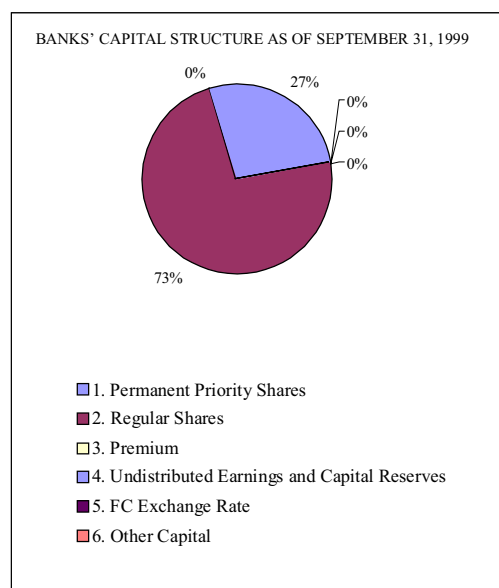
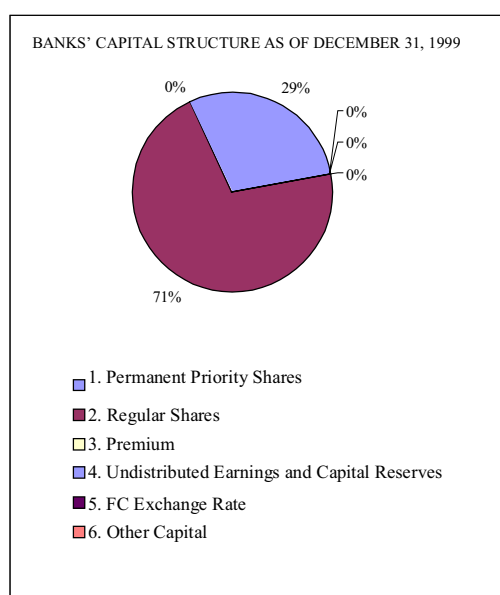
The statement made earlier on unsatisfactory assets and insufficient reserves for potential loan losses is still valid.

### 2.1.3 CAPITAL

As of September 30, 2000 banks' total capital amounted to KM 177,7 million, The total capital is larger by KM 3,9 million or by 2% compared to the previous year, The following table shows the structure and amounts of the capital:

#### CAPITAL STATEMENT

	December 31, 1999	%	September 30, 2000	%	INDEX 2000/1999
CORE CAPITAL	165,858	93,4	170,947	91,9	103
ADDITIONAL CAPITAL	11,699	6,6	15,070	8,1	129
<b>TOTAL CAPITAL</b>	<b>177,557</b>	<b>100,0</b>	<b>186,017</b>	<b>100,0</b>	<b>105</b>
LOSS	3,756		8,279		
<b>TOTAL CAPITAL</b>	<b>173,801</b>		<b>177,738</b>		
RESERVES MISSING	4,666		6,257		
OTHER	1,256		1,256		
<b>BANKS' NET CAPITAL</b>	<b>167,879</b>		<b>170,225</b>		<b>101</b>



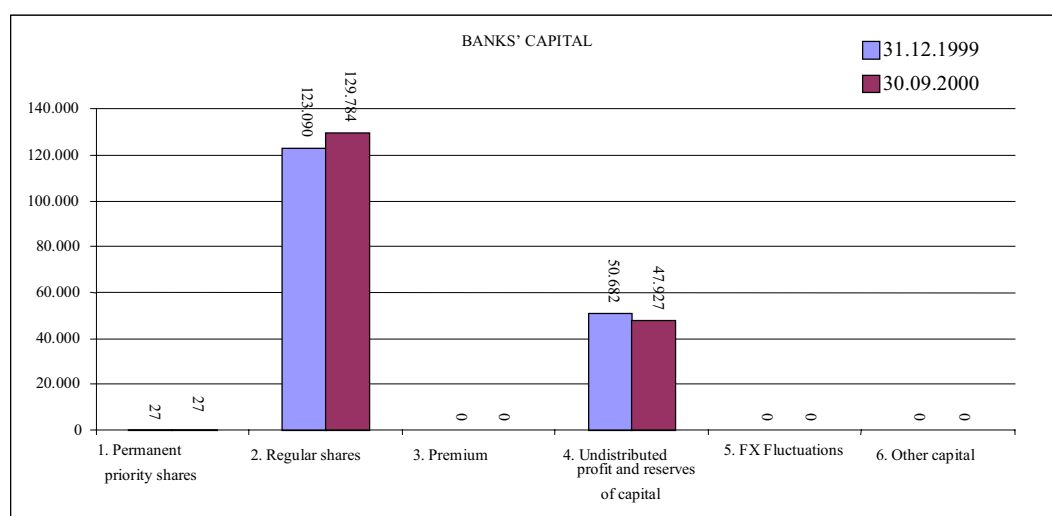
Such a small increase was recorded regardless additional capitalization of three private banks and a payment of founding capital made by a new bank, since the capital coverage of neutral and passive balance sheet decreased at few state-owned banks.

Also, items to be deducted from capital increased significantly 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 half of the year 2000 in an amount of KM 5,3 million.

Structure and trends of shareholder capital in RS banks can be seen from the following table:

thousand KM

BANKS	December 31, 1999		September 30, 2000		INDEX
	Amount	%	Amount	%	
State-owned	96,253	78	91,269	70	95
Private	26,865	22	38,542	30	143
<b>TOTAL:</b>	<b>123,118</b>	<b>100</b>	<b>129,811</b>	<b>100</b>	<b>105</b>



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 29,5% on September 30, 2000. All banks have met the requirement related to capital adequacy, and it ranged from 12,9% to 89,1%. 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

DESCRIPTION / PERIOD		December 31, 1999	September 30, 2000
1,	Net Capital /	167,879	170,225
	Total Assets	604,753	658,105
	%	<b>27,76</b>	<b>25,87</b>
2,	Shareholders' Capital /	123,118	129,811
	Total Assets	604,753	658,105
	%	20,36	19,72
3,	Core Capital /	165,858	170,947
	Total Risk Assets	459,955	577,746
	%	<b>36,06</b>	<b>29,59</b>
4,	Total Capital	177,557	186,017
		459,955	577,746
	%	<b>38,60</b>	<b>32,20</b>
5,	Net Loans /	243,262	319,762
	Total Capital	177,557	186,017
	%	<b>137,01</b>	<b>171,90</b>
6,	Profit /	10,761	7,070
	Shareholders' Capital	123,118	129,811
	%	<b>8,74</b>	<b>7,26</b>

\*Ratios related to income statement are shown on annual basis

Based on reports submitted by banks as of September 30, 2000 there are still one private and three state-owned banks not meeting the legal requirement for net capital of KM 5 million,

## 2.2 INCOME STATEMENT

In the third quarter of the year 2000 total banks' income amounted to KM 84,3 million, and total expense KM 82,6 million, The balance of KM 1,7 million indicates to a very low profitability of our banks, Amounts and structure of income are shown in the following table:

### Banks' Income Statement

(thousand KM)

DESCRIPTION/PERIOD	31.12.1999.*	%	30.09.2000	%	INDEX 2000/1999
1. INTEREST INCOME AND EXPENSE					
a) Interest and Similar Income	72,426	35	43,880	52	61
b) Operating Income	132,735	65	40,451	48	30
2.TOTAL INCOME (1.a + 1.b)	<b>205,161</b>	<b>100</b>	<b>84,331</b>	<b>100</b>	<b>41</b>
3. EXPENSE					
a) Interest and Similar Expense	30,122		10,819		
b) Operating and Direct Expenses	36,807	22	28,750	40	78
c) Operating Expenses	129,605	78	43,036	60	33
4. TOTAL EXPENSE ( 3.a + 3.b + 3.c)	<b>196,534</b>	<b>100</b>	<b>82,605</b>	<b>100</b>	<b>42</b>
5. PROFIT BEFORE TAX	<b>10,761</b>		<b>7,070</b>		<b>66</b>
6. LOSS	<b>2,133</b>		<b>5,333</b>		<b>250</b>
7. TAX	<b>782</b>		<b>409</b>		<b>52</b>
8. NET-PROFIT	<b>9,994</b>		<b>6,661</b>		<b>67</b>

\* Razvojna Bank Income Statement consists of both SPP and Razvojna Bank Income Statements

In the third quarter of 2000 10 banks reported positive financial statement in a total amount of KM 7 million, and 8 banks reported loss in a total amount of KM 5,3 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 still considerably higher compared to interest income, In the third quarter of this year this ratio has changed 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

DESCRIPTION/PERIOD		31.12.1999	30.09.2000
1.	Total income/	205.161	84.331
	Total assets	604.753	658.105
	%	<b>33,92</b>	<b>17,09</b>
2.	Total income/	205.161	84.331
	Total capital	177.557	186.017
	%	<b>115,55</b>	<b>60,45</b>
3.	Total expense/	196.534	82.605
	Total assets	604.753	658.105
	%	<b>32,50</b>	<b>16,74</b>
4.	Interest income/	72.426	43.880
	Total assets	604.753	658.105
	%	<b>11,98</b>	<b>8,89</b>
5.	Interest expense/	30.122	10.819
	Total assets	604.753	658.105
	%	<b>4,98</b>	<b>2,19</b>
6.	Net interest income /	42.304	33.070
	Total assets	604.753	658.105
	%	<b>7,00</b>	<b>6,70</b>
7.	Net interest income /	42.304	33.070
	Total capital	177.557	186.017
	%	<b>23,83</b>	<b>23,70</b>
8.	Fee/	15.151	11.901
	Total assets	604.753	658.105
	%	<b>2,51</b>	<b>2,41</b>
9.	Material expenses and gross earnings/	129.605	43.036
	Total assets	604.753	658.105
	%	<b>21,43</b>	<b>8,72</b>
10.	Not-interest bearing expenses/	166.412	71.786
	Total assets	604.753	658.105
	%	<b>27,52</b>	<b>14,54</b>
11.	Profit before tax/	10.761	7.070
	Total assets	604.753	658.105
	%	<b>1,78</b>	<b>1,43</b>

\* Ратиос релатед то инцоме статемент аре схоњн он аннуал басис

It is immediately noticed that almost all of relative indicators of profitability are lower in the third 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 CONCLUSIONS

Our banks' total balance sheet assets (without passive and neutral sub-balance items) amounted to KM 658.1 million.

Although, compared to the beginning of the year, assets increased by 9% or KM 53.4 million, such a low level of assets is still upsetting and indicating that confidence in banking is being restored very slowly.

New saving deposits in an amount of KM 43.3 million is still unsatisfactory to serve as a support for growth of banking industry, though it is showing a positive trend and an actual increase of 48.8% compared to the previous year.

Since the state has taken over existing debt (frozen foreign currency savings and loans) in an amount of KM 2.176 billion, a significant step has been made in stabilizing banking industry and creating conditions to restore depositors' confidence.

In order to continue reform successfully in this region, it is necessary for the process of privatization of state-owned capital in banks to be completed promptly. Issuance of the Law on Settlement of Commitments based on Frozen Foreign Currency Citizens' Savings, and the Law on Deposit Insurance should follow.

In spite of significant reforms made, the banking system finds itself inevitably under influence of overall economy situation, which is still very troublesome.

Basic features are the following:

- Total balance sheet assets in an amount of KM 658.1 million is exceptionally low and does not support growth of economic system.  
Off-balance sheet assets in an amount of KM 251 million is too high compared to balance sheet assets, and an increase of 107% compared to the previous year is too large.  
Implementation of stricter criteria for risk asset rating made asset quality even lower, resulting in an increase of total risk assets by KM 127.9 million or 25%.
- Total capital amounted to KM 177.7 million and was larger by 2% than at the end of the previous year. Several private banks increased their capital. Total capital, however, was not proportionally increased, due to reductions in capital for coverage of neutral and passive sub-balance in some of state-owned banks.
- Banks' profitability was disturbingly low even in the previous period, and over this reporting period it has further deteriorated.  
Total income amounted to KM 84.3 million, which represents only 41% of the previous year income.



Income and expense balance amounting to KM 1.726 million is insufficient to support growth of the banking industry.

Only 10 banks reported positive financial result amounting in total to KM 6.6 million. Eight banks, however, reported loss in a total amount of KM 5.3 million.

Due to such a poor profitability, banks' liquidity deteriorated as well, decreasing cash fund share in total assets from 24% to 18%.

Taking into consideration numerous difficulties, it is necessary to continue with reforms in overall economy, where banking industry makes an integral part. Reforms, that have been already started in banking industry should be accelerated, especially the following ones:

- If possible, bank privatization process should be completed in the first half of the following year. There are realistic possibilities for some banks to be privatized soon.
- After taking over internal payment operations banks should improve their profitability and have better possibilities to manage their liquidity. All that should support re-establishment of confidence in overall banking industry.
- Increase amount legally required as banks' net capital and urge smaller banks to merge.
- Continue process of restoring confidence in banking industry in all areas, and especially issue the Law on Deposit Insurance, and the Law on Settlement of Commitments based on Frozen Foreign Currency Citizens' Saving Deposits.

## **ATTACHMENTS**

<b>Attachment No, 1</b>	<b>Basic Information on Banks in Republika Srpska</b>
<b>Attachment No, 2</b>	<b>Banks' Active Balance Sheet</b>
<b>Attachment No, 3</b>	<b>Income Statement</b>
<b>Attachment No, 4</b>	<b>Comparative Review of Capital Condition and Adequacy</b>
<b>Attachment No, 5</b>	<b>Information on Banks' Employees</b>
<b>Attachment No, 6</b>	<b>Capital Statement</b>

Attachment number 1.

LIST OF BANKS  
as of September 30, 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	113,607	26,558	-3,138	665
2.	Agroprom banka	Banja Luka	Knjaza Milosa 19	Miroslav Soldat	051/303-611	314-181	36,403	11,929	835	80
3.	Privredna banka	Gradiska	Vidovdanska bb	Momir Hrvacanin	051/813-333	813-205	8,311	3,033	-358	92
4.	Kristal banka	Banja Luka	I.F.Jukica 9	Ljubomir Klincov	051/212-930	212-878	192,868	31,791	1,602	398
5.	Privredna banka	Doboj	Svetog Save 1	Rodoljub Milovanovic	053/241-544	241-662	20,842	13,411	17	166
6.	Prijedorska banka	Prijedor	Vozda Karadjordja 9	Mladen Kovacevic	052/212-311	211-840	9,839	4,290	-920	208
7.	Semberska banka	Bijeljina	Karadjordjeva 3	Cvijetin Nikic	054/471-588	472-247	15,625	5,159	-82	139
8.	Razvojna banka	Banja Luka	Bana Milosavljevic 4	Ranko Travar	051/212-012	217-575	95,586	23,311	192	315
9.	VB banka	Banja Luka	K.Petra Karadjordjevic 103	Radovan Bajic	051/212-678	212-078	16,466	6,241	658	30
10.	Privredna banka	Breko	M.Aganovica 2	Nada Pavlovic	054/204-222	204-055	4,310	1,440	-72	40
11.	Nova banka	Bijeljina	Svetog Save 46	Milorad Anxic	054/471-094	401-410	19,054	7,309	157	42
12.	Privredna banka Sarajavo	Pale	Dobroslava Jevtica 14	Mile Matic	057/786-809	786-805	51,678	13,703	2,547	424
13.	Ekvator banka	Banja Luka	M.Bursac 2	Dragoslav Jovanovic	051/217-920	211-757	20,058	5,050	-109	18
14.	Bobar banka	Bijeljina	Filipa Visnjica 211	Dragan Radumilo	054/472-490	472-898	8,722	5,947	294	14
15.	Zepter komerc b.	Banja Luka	Brace Mazar 68	Milenko Vracar	051/215-755	215-771	24,277	5,606	344	41
16.	Postanska stedionica	Banja Luka	Karadjordjevic 61	Vlada Vasiljevic	051/211-433	211-555	9,068	2,505	-526	52
17.	Balkan Investment	Banja Luka	Krajiskih brigada 2	Andrius Globis	051/216-285	211-445	5,713	5,015	15	12
18.	BSEI						5,678	5,440	-128	4
UKUPNO:							658,105	177,738	1,328	2,740

## BANKS' ACTIVE BALANCE SHEET

(thousand KM)

DESCRIPTION/PERIOD	31.12.1999	%	30.09.2000	%	INDEX 2000/1999
1. Cash funds and deposit accounts at depository institutions (1.a.+1.b.)	146,901	24.3	120,050	18.0	82
1.1. Cash and non-interest bearing deposit accounts	118,241	19.6	83,886	13.0	71
1.2. Interest-bearing deposit accounts	28,660	4.7	36,164	5.0	126
2. Trading Securities	0	0.0	0	0.0	0
3. Placements to other banks	5,100	0.8	4,534	1.0	89
4. Loans, leasing and receivables due (4.a.+4.b.+4.c.)	293,768	48.6	365,064	56.0	124
4.a. Loans	273,213	45.2	327,847	50.0	120
4.b. Leasing receivables	0	0.0	325	0.0	0
4.c. Loan and leasing receivables due	20,555	3.4	36,892	6.0	179
5. Securities held up to maturity	3,102	0.5	1,687	0.0	54
6. Office space and other fixed assets	98,447	16.3	106,693	16.0	108
7. Other immovables	1,172	0.2	1,324	0.0	113
8. Investments in non-consolidated related companies	1,896	0.3	3,333	1.0	176
9. Other assets (9b)	54,367	9.0	55,420	8.0	102
<b>TOTAL (1 to 9)</b>	<b>604,753</b>	<b>100.0</b>	<b>658,105</b>	<b>100.0</b>	<b>109</b>
10. MINUS: Reserves for potential losses (10.a.+10.b.)	71,378	13.0	54,801	9.0	77
<b>11. TOTAL ASSETS: (1.to 9.-10.)</b>	<b>533,375</b>		<b>603,304</b>		<b>113</b>
11.a. Active off-balance sheet	121,276		251,201		207
<b>TOTAL ASSETS (11.+11.a)</b>	<b>654,651</b>		<b>854,505</b>		<b>131</b>
12. Deposits (12.a.+12.b.)	269,223	50.5	340,045	56.0	126
12.a. Interest-bearing deposits	114,094	21.4	196,689	33.0	172
12.b. Non-interest bearing deposits	155,129	29.1	143,356	24.0	92
13. Borrowings – obligations due (13.a.+13.b.)	3	0.0	28	0.0	933
13.a. Obligations due, not paid	3	0.0	28	0.0	933
13.b. Off-balance sheet obligations not paid-called for repayment	0	0.0	0	0.0	0
14. Borrowings from other banks	5,527	1.0	5,790	1.0	105
15. Obligations to Government	522	0.1	11	0.0	2
16. Obligations based on loans and other borrowings (16.a.+16.b.)	58,783	11.0	59,969	10.0	102
16.a. remaining maturity up to one year	35,735	6.7	32,993	5.0	92
16.b. remaining maturity over one year	23,048	4.3	26,976	4.0	117
17. Subordinated debt and subordinated bonds	0	0.0	0	0.0	0
18. Other obligations (18.b.)	25,518	4.8	19,723	3.0	77
<b>19. TOTAL LIABILITIES (12 to 18)</b>	<b>359,576</b>	<b>67.4</b>	<b>425,566</b>	<b>70.0</b>	<b>118</b>
20. Permanent preferred shares	27	0.0	27	0.0	100
21. Regular shares	123,090	23.1	129,784	24.0	105
22. Premium (22.a.+22.b.)	0	0.0	0	0.0	0
22.a. on permanent preferred shares	0	0.0	0	0.0	0
22.b. on regular shares	0	0.0	0	0.0	0
23. Undistributed profit and capital reserves	50,682	9.5	47,927	8.0	95
24. Foreign Exchange Fluctuations	0	0.0	0	0.0	0
25. Other capital	0	0.0	0	0.0	0
<b>26. TOTAL CAPITAL: (20. to 25.)</b>	<b>173,799</b>	<b>32.6</b>	<b>177,738</b>	<b>32.0</b>	<b>102</b>
<b>27. TOTAL LIABILITIES AND CAPITAL: (19. + 26.)</b>	<b>533,375</b>	<b>100.0</b>	<b>603,304</b>	<b>102.0</b>	<b>113</b>
28.a. Active off-balance sheet	121,276		251,201		207
<b>TOTAL LIABILITIES (27.+28.a)</b>	<b>654,651</b>		<b>854,505</b>		<b>131</b>

## INCOME STATEMENT

(thousand KM)

DESCRIPTION/PERIOD	31.12.1999*	%	30.09.2000	%	INDEX 2000/1999
<b>1. INTEREST INCOME AND EXPENSE</b>					
<b>a) Interest income and similar income</b>					
1) Interest bearing deposit accounts at depository institutions	13,281	18.3	496	1.1	<b>4</b>
2) Placements to other banks	6,180	8.5	7,773	17.7	<b>126</b>
3) Loans and leasing operations	34,926	48.2	33,186	75.6	<b>95</b>
4) Securities held up to maturity	18	0.0	14	0.0	<b>78</b>
5) Other companies' shares owned by banks	6	0.0	0	0.0	<b>0</b>
6) Paid off-balance sheet obligation receivables	0	0.0	0	0.0	<b>0</b>
7) Other interest income and similar income	18,015	24.9	2,411	5.5	<b>13</b>
<b>8) TOTAL INTEREST INCOME AND OTHER INCOME (1 to 7)</b>	<b>72,426</b>	<b>100.0</b>	<b>43,880</b>	<b>100.0</b>	<b>61</b>
<b>b) Interest expense and similar expense</b>					
1) Deposits	1,421	4.7	590	5.5	<b>42</b>
2) Borrowings from other banks	1,000	3.3	760	7.0	<b>76</b>
3) Borrowings – due obligations	579	1.9	9	0.1	<b>2</b>
4) Loan and other borrowing obligations	9,383	31.1	872	8.1	<b>9</b>
5) Subordinated debt and subordinated bonds	0	0.0	19	0.2	<b>0</b>
6) Other interest expense and similar expense	17,739	58.9	8,560	79.1	<b>48</b>
<b>7) TOTAL INTEREST EXPENSE AND SIMILAR EXPENSE (1 to 6)</b>	<b>30,122</b>	<b>100.0</b>	<b>10,819</b>	<b>99.9</b>	<b>36</b>
<b>c) NET INTEREST AND SIMILAR INCOME a.8)-b.7)</b>	<b>42,304</b>		<b>33,070</b>		<b>78</b>
<b>2. OPERATING INCOME</b>					
a) Foreign currency operation income	16,124	12.1	14,020	35.0	<b>87</b>
b) Loan fees	8,949	6.7	3,013	7.0	<b>34</b>
c) Off-balance sheet operation fees	1,097	0.8	1,298	3.0	<b>118</b>
d) Service fees	5,105	3.8	7,590	19.0	<b>149</b>
e) Trading operation income	22	0.0	917	2.0	<b>4.168</b>
f) Other operating income	101,439	76.4	13,491	33.0	<b>13</b>
<b>g) TOTAL OPERATING INCOME (a to f)</b>	<b>132,735</b>	<b>100.0</b>	<b>40,451</b>	<b>99.0</b>	<b>30</b>
<b>3. NON-INTEREST BEARING EXPENSE</b>					
<b>a) Operating and direct expense</b>					
1) Reserves for general loan risk and potential loan and other losses	29,498	80.1	21,736	75.6	<b>74</b>
2) Other operating and direct expenses	7,309	19.9	7,014	24.4	<b>96</b>
<b>3) TOTAL OPERATING AND DIRECT EXPENSES 1) + 2)</b>	<b>36,807</b>	<b>100.0</b>	<b>28,750</b>	<b>100.0</b>	<b>78</b>
<b>b) Operating expenses</b>					
1) Salaries and contributions	33,770	26.1	19,798	46.0	<b>59</b>
2) Office space, other fixed assets and overheads	48,648	38.0	16,916	39.0	<b>35</b>
3) Other operating expenses	47,187	36.0	6,322	15.0	<b>13</b>
<b>4) TOTAL OPERATING EXPENSES (1 to 3)</b>	<b>129,605</b>	<b>100.1</b>	<b>43,036</b>	<b>100.0</b>	<b>33</b>
<b>c) TOTAL NON-INTEREST BEARING EXPENSES a.3) + b.4)</b>	<b>166,412</b>		<b>71,786</b>		<b>43</b>
<b>4. PROFIT BEFORE TAX 1.c)+2.g)-3.c)</b>	<b>10,761</b>		<b>7,070</b>		<b>66</b>
<b>5. LOSS 1.c) + 2.g) - 3.c)</b>	<b>2,133</b>		<b>5,333</b>		<b>250</b>
<b>6. TAX</b>	<b>782</b>		<b>409</b>		<b>52</b>
<b>7. NET-PROFIT 4. - 6.</b>	<b>9,994</b>		<b>6,661</b>		<b>67</b>

**CAPITAL AND CAPITAL ADEQUACY  
COMPARATIVE SUMMARY**

(thousand KM)

DESCRIPTION/PERIOD		31.12.1999	30.09.2000
<b>1.</b>	<b>CORE CAPITAL OF BANKS</b>		
1.1.	Equity capital based on nominal values and amounts of regular and preferred non-cumulative shares issued against cash fund payments into shareholders' capital:	109.166	117.366
1.2.	Equity capital based on nominal amounts of regular and preferred non-cumulative shares issued against immovables and rights invested into shareholders' capital:	13.952	12.445
1.3.	Premiums collected for share payments:	0	0
1.4.	General reserves required (reserves required by the law):	26.339	26.901
1.5.	Other reserves which are not taken into account when rating asset quality:	14.282	11.637
1.6.	Retained – undistributed profit from previous years:	2.119	2.598
<b>1.</b>	<b>AMOUNT OF CORE CAPITAL:</b>	<b>165.858</b>	<b>170.947</b>
<b>2.</b>	<b>ADDITIONAL CAPITAL OF BANKS</b>		
2.1.	Equity capital based on nominal amounts of permanent preferred cumulative shares issued against cash fund payments into shareholders' capital:	0	0
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:	6.153	8.128
2.4.	Accrued profit in the current year:	5.496	6.304
2.5.	Amount of profit for which BA-RS issued Decision on Temporary Suspension of Distribution:	50	638
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
<b>2.</b>	<b>AMOUNT OF ADDITIONAL CAPITAL:</b>	<b>11.699</b>	<b>15.070</b>
<b>3.</b>	<b>ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL</b>		
3.1.	Portion of general credit risk and potential loan losses for which bank has not established General and Special reserves for loan losses:	4.666	6.257
3.2.	Uncovered losses carried over from previous years:	1.608	2.948
3.3.	Current Year Loss:	2.148	5.331
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
<b>3.</b>	<b>ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL:</b>	<b>9.678</b>	<b>15.792</b>
<b>4.-A</b>	<b>BANKS' NET-CAPITAL:</b>	<b>167.879</b>	<b>170.225</b>
<b>B.</b>	<b>RISK WEIGHTED ASSETS AND LOAN EQUIVALENTS:</b>	<b>459.690</b>	<b>577.746</b>
<b>C.</b>	<b>NET-CAPITAL RATE:</b>	<b>36,5</b>	<b>29,5</b>

TOTAL NUMBER AND QUALIFICATION STRUCTURE  
OF BANKS' EMPLOYEES  
AS OF SEPTEMBER 30, 2000

No.	BANKS	QUALIFICATION STRUCTURE								TOTAL %
		NS*	KV*	VKV*	SSS*	VS*	VSS*	MR*	TOTAL	
1	Banjalucka banka B.Luka	30	29	7	416	82	100	1	665	24.27
2	Agroprom banka B.Luka	3	2	4	40	6	25	0	80	2.92
3	Privredna banka Gradiska	5	1	0	58	6	22	0	92	3.36
4	Kristal banka B. Luka	30	3	5	251	23	86	0	398	14.53
5	Privredna banka Doboј	16	2	0	105	17	25	1	166	6.06
6	Prijedorska banka Prijedor	14	3	3	147	19	22	0	208	7.59
7	Semberska banka Bijeljina	12	7	1	84	10	24	1	139	5.07
8	Razvojna banka B.Luka**	24	21	8	154	26	80	2	315	11.50
9	VB banka Banja Luka	1	0	1	13	3	12	0	30	1.09
10	Privredna banka Brcko	5	3	0	16	4	12	0	40	1.46
11	Nova banka Bijeljina	1	1	0	7	11	20	2	42	1.53
12	PBS a.d. S.Sarajevo	24	10	2	282	45	60	1	424	15.47
13	Ekvator banka B.Luka	0	0	0	13	1	3	1	18	0.66
14	Bobar banka Bijeljina	0	0	0	8	0	6	0	14	0.51
15	Zepter-komerc. banka B. Luka	0	0	0	23	7	11	0	41	1.50
16	Postanska stedionica B. Luka	5	0	0	31	7	7	2	52	1.90
17	Balkan Investment Bank	0	0	0	5	2	2	3	12	0.44
18	BSEI	0	0	0	2	1	1	0	4	0.15
<b>TOTAL:</b>		<b>170</b>	<b>82</b>	<b>31</b>	<b>1.655</b>	<b>270</b>	<b>518</b>	<b>14</b>	<b>2,740</b>	<b>100.00</b>
<b>%</b>		<b>6.20</b>	<b>2.99</b>	<b>1.13</b>	<b>60.40</b>	<b>9.85</b>	<b>18.91</b>	<b>0.51</b>	<b>100.00</b>	

\*\*Decrease in number of Razvojna Bank's employees is due to separation of SPP from the bank.

- 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

## CAPITAL STATEMENT

DESCRIPTION / PERIOD		31.12.1999.	30.09.2000.	INDEKS 1999/2000
<b>1.</b>	<b>BANKS' CORE CAPITAL</b>			
1.1.	Shareholders capital based on nominal amount of ordinary and permanent priority non-cumulative shares issued on the basis of money payments in equity capital	109.166	117.366	108
1.2.	Shareholders capital based on nominal amount of ordinary and permanent priority non-cumulative shares issued on the basis of funds and rights invested in equity capital	13.952	12.445	89
1.3.	Amount of exchange premium issues fulfilled on the basis of the shares paid in	0	0	0
1.4.	General legal reserves (reserves prescribed by the law)	26.339	26.901	102
1.5.	Other reserves not related to the assets evaluation	14.282	11.637	81
1.6.	Retained - not distributed income from previous years	2.119	2.598	123
<b>1.</b>	<b>AMOUNT OF CORE CAPITAL:</b>	<b>165.858</b>	<b>170.947</b>	<b>103</b>
<b>2.</b>	<b>BANK'S ADDITIONAL CAPITAL</b>			
2.1.	Shareholders capital based on nominal amount of permanent priority accumulated shares issued on the basis of money payments in equity capital	0	0	0
2.2.	Shareholders capital based on nominal amount of permanent priority accumulated shares issued on the basis of funds and rights invested in equity capital	0	0	0
2.3.	Amount of general reserves for loan losses for bank's assets evaluated as Category A - Good Assets	6.153	8.128	132
2.4.	Amount of income accrued in current year	5.496	6.304	115
2.5.	Amount of income for which RS-BA issued a decision on temporary suspension of distribution	50	638	1.276
2.6.	Amount of subordinated debts at most 50% of Core capital amount	0	0	0
2.7.	Amount of hybrid items that is convertible items – capital instruments at most 50% of Core capital amount	0	0	0
2.8.	Amount of items - liabilities with permanent nature without the obligation to repay	0	0	0
<b>2.</b>	<b>AMOUNT OF ADDITIONAL CAPITAL:</b>	<b>11.699</b>	<b>15.070</b>	<b>129</b>
<b>3.</b>	<b>ITEMS OFF-SETTING FROM BANK'S CAPITAL</b>			
3.1.	Part of general loan risk and potential loan losses for which a bank did not create General and Special Reserves for Loan Losses	4.666	6.257	134
3.2.	Uncovered losses transferred from previous years	1.608	2.948	183
3.3.	Loss from current year	2.148	5.331	248
3.4.	Book values of own (treasury) shares under bank's possession	0	0	0
3.5.	Nominal amount of shares issued on the basis of investments from bank's loans, up to the level of unpaid loan amount, that is unpaid part of a loan;	0	0	0
3.6.	Part of the invested equity capital which, according to the RS-BA evaluation, represents received, and not estimated value	0	0	0
3.7.	Amount of intangible assets: patents, licenses, concessions, investments in market research, trade name, trade mark, goodwill, etc.	0	0	0
3.8.	Bank's investments in other legal entities' capital, exceeding 5% of bank's Core capital	1.256	1.256	100
3.9.	Receivables from the shareholders who have Significant voting rights in a bank, approved by the bank that is against Law provisions, RS-BA regulations, and bank's business policy;	0	0	0
3.10.	Bank's big loan risk exposure to the shareholders with Significant voting rights in a bank, performed without prior approval by RS-BA	0	0	0
<b>3.</b>	<b>ITEMS OFF-SETTING FROM BANK'S CAPITAL:</b>	<b>9.678</b>	<b>15.792</b>	<b>163</b>
<b>4.</b>	<b>ITEMS OFF-SETTING FROM BANK'S CAPITAL:</b>			
<b>1.</b>	<b>AMOUNT OF BANK'S CORE CAPITAL</b>	<b>165.858</b>	<b>170.947</b>	<b>103</b>
<b>2.</b>	<b>AMOUNT OF BANK'S ADDITIONAL CAPITAL</b>	<b>11.699</b>	<b>15.070</b>	<b>129</b>
<b>3.</b>	<b>AMOUNT OF BANK'S ITEMS OFF-SETTING FROM THE CAPITAL</b>	<b>9.678</b>	<b>15.792</b>	<b>163</b>
<b>A.</b>	<b>AMOUNT OF BANK'S NET-CAPITAL (1. + 2. - 3.)</b>	<b>167.879</b>	<b>170.225</b>	<b>101</b>