

INFORMATION

ON BANKING SECTOR OF REPUBLIKA SRPSKA
for the period from 01.01. to 31.12.2006

Banja Luka, March 2007

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1. INTRODUCTION

In the period from 01.01. to 31.12.2006 the banking sector of Republika Srpska (RS) continued with positive trends in all segments of its operation, which contributed to further stabilization and strengthening of the system as a whole.

In the course of 2006, i.e. on 01.04.2006 two banks changed their status by merging into one bank.

Opening of a new bank in late September of 2006 influenced ownership structure, i.e. increased the amount of foreign private capital in the total equity from 82% in 2005 to 86% in the year of 2006. In 2006 in the structure of foreign private capital 72% of RS banks' equity were majority owned by large foreign banks as opposed to 57% reported in 2005.

Core capital increased by 37%, which resulted from new equity investments in an amount of 31%, and coverage of total loss in an amount of KM 15.6 million.

Deposits increased by 35% making 81% of cash funds sources. It is necessary to point out that based on deposit breakdown per sectors banking institutions have the largest share of deposits in an amount of 33% out of total deposits. All banks recorded increase in citizens' saving deposits. Also all banks complied with requirements of the liquidity maintenance regulation.

Compared with the total loan amount loans past due had a positive trend since their share in the total loan amount decreased from 3.7% in 2005 to 3.1% in the year 2006. Increase of reserves (loan provisions) was somewhat slower than increase of total loans. It was still practice of banks to classify a portion of their credit portfolios in better categories (for which a lower level of reserves is prescribed), and also an increasing trend of non-risk assets was noticed, which caused a decreasing trend in average rate of reserves.

As of December 31, 2006 eight banks in Republika Srpska generated current profit in an amount of KM 26 million, while one bank generated current loss in an amount of KM 1.9 million.

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

All banks are in possession of certificates on their membership in the Deposit Insurance Program.

There are 36 organizational parts of banks from Federation BH operating in Republika Srpska, and their share in total loan amounts to 20%, while their share in saving deposits is 10%.

In the course of 2006 banks significantly increased their activities in expanding their business network and number of ATMs, as well as services in electronic banking. A significant amount of banks' cash funds, which could be placed in the country, is sitting on accounts abroad due to problems banks have in finding quality clients. Placements to citizens reached a level of KM 1,252 million, which amounted to around KM 844 of indebtedness per capita in Republika Srpska (based on statistical data on Republika Srpska population of 1,484 thousand of citizens) with tendency to increase further.

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

2. STRUCTURE OF THE BANKING SECTOR

As of 31.12.2006 the banking sector of Republika Srpska had nine banks. In the course of 2006 two banks merged, while a new bank was founded and started its operation late in September, thus the actual number of banks remained the same. Upon completion of privatization of the state owned capital in banks a process of merging of banks within the banking sector of Republika Srpska started having as a result constant decrease of number of banks, and strengthening competitive abilities of banks at the banking market.

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

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

Banks' Branch Offices and other Organizational Units
as of 31.12.2006

I	Banks of Republika Srpska	Branch Offices	Other Organizatio nal Units	POS	ATM
	1. Nova Banjalucka banka Banja Luka	40	33	66	24
	2. Hypo Alpe-Adria-Bank Banja Luka	6	28	-	29
	3. Bobar Banka Bijeljina	5	38	57	1
	4. NLB Razvojna banka a.d. Banja Luka	15	48	338	20
	5. Zepter banka a.d. Banja Luka	12	10	339	18
	6. Balkan Investment Bank a.d. Banja Luka	9	5	10	1
	7. Pavlovic International Bank a.d. Slobomir	13	16	36	3
	8. Nova banka a.d. Bijeljina	11	55	281	23
	9. Komercijalna banka a.d. Banja Luka	6	4	-	-
	Total:	117	237	1127	119
II	Organizational Units from Federation BH				
	1. ProCredit Bank dd Sarajevo	2	7	1	5
	2. Raiffeisen bank dd Sarajevo	7	9	356	15
	3. Volksbank BH Sarajevo	2	-	12	4
	4. LT Gospodarska banka dd BH	1	-	-	-
	5. HVB bank BiH dd Sarajevo	2	-	9	2
	6. UPI Banka dd Sarajevo	1	1	6	3
	7. Uni Credit Zagrebacka banka dd Mostar	4	-	153	10
	Total:	19	17	537	39
	Total I+II:	136	254	1664	158

The total number of banks' organizational units was 390, out of which there were 136 branch offices, and 254 other organizational units. In the territory of Republika Srpska there were 125 branch offices and 245 other organizational units operating, while 11 branch offices and 8 other organizational units were operating in the territory of Federation BH, and one of them abroad. Five banks had their organizational units (total 19) in the territory of Federation BH as follows: Zepter banka a.d. Banja Luka two, Nova Banjalucka banka a.d. Banja Luka six, Nova banka a.d. Bijeljina nine, Balkan Investment Bank a.d. Banja Luka one, and Komercijalna banka a.d. Banja Luka one.

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

The largest network of branch offices and other organizational units was found with Nova Banjalucka banka, a total of 73, Nova banka Bijeljina, a total of 66, and NLB Razvojna banka, a total of 63. Those three banks had 57% out of the total number of organizational units of RS banks.

In order to provide for quality services in place and time suiting the population, RS banks have installed a total of 127 ATMs. Hypo Alpe-Adria-Bank had the largest number of ATMs.

Apart from that, seven RS banks have installed a total of 1,127 POS facilities in banks and in majority of shopping centers, department stores, and other selling places, making non-cash payments citizen friendly.

Seven banks with their headquarters located in Federation BH had 36 organizational units operating in the territory of Republika Srpska, 39 ATMs and 537 POSs installed.

Banks having their headquarters in Federation BH had a larger share in the BH banking market than banks from Republika Srpska, which was mostly due to capital and assets amounts.

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

As for Privredna banka a.d. Srpsko Sarajevo, where provisional administration had been introduced on 20.06.2003, the court started preliminary procedure on 22.03.2005 in order to establish terms for opening the bank's bankruptcy procedure. Then, on 22.06.2006 the High Representative of BH passed the Decision on Initiating Liquidation Procedure and Appointing Liquidation Administrator. On 15.12.2006 the High Representative passed the Decision under which the appointment of the liquidation administrator was terminated, and the liquidation procedure moved under authority of the Banking Agency of Republika Srpska. On 16.12.2006 the Banking Agency appointed a liquidation administrator.

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

Also, all RS banks possessed certificates on membership in the Deposit Insurance Program that were granted by the BH Deposit Insurance Agency.

2.1. Ownership Structure

RS banks' capital was majority privately owned with a large share of foreign privately owned capital. In the course of 2006 the capital ownership structure did not change.

As of 31.12.2006 equity (shareholders' capital) amounted to KM 320,483 thousand, out of which privately owned capital amounted to KM 317,261 thousand or 99%, state owned KM 2,574 thousand or 1%, and capital owned by cooperatives amounted to KM 648 thousand.

Equity Structure

(in 000 KM)

Ord. No.	Bank	Private Capital		State Owned Capital		Cooperatives' Capital	
		Amount	%	Amount	%	Amount	%
	Majority Private Capital						
1.	Nova banjalucka banka a.d.	48,505	98	959	2	39	0
2.	Hypo Alpe-Adria-Bank a.d.	100,820	100	0	0	17	0
3.	Bobar banka a.d.	16,748	100	0	0	0	0
4.	NLB Razvojna banka a.d.	40,388	96	1,615	4	0	0
5.	Zepter banka a.d.	18,967	100	0	0	0	0
6.	Balkan Investment Bank a.d.	18,000	100	0	0	0	0
7.	Pavlović International Bank a.d.	15,547	98	0	0	255	2
8.	Nova banka a.d.	38,286	99	0	0	337	1
9.	Komercijalna banka a.d.	20,000	100	0	0	0	0
II	TOTAL:	317,261	99	2,574	1	648	0

Each bank's position in the market is strongly determined by both amount and soundness of its capital.

The following table shows market share of banks' total assets, capital and deposits measured per type of ownership:

(in %)

Banks	31.12.2005				31.12.2006			
	Share in total assets	Share in total capital	Share in deposits	Number of banks	Share in total assets	Share in total capital	Share in deposits	Number of banks
1. with majority domestic private capital	1.8	6.1	1.2	1	2.2	4.5	2.0	1
2. with majority foreign private capital	98.2	93.9	98.8	8	97.8	95.5	98.0	8

The banking sector of Republika Srpska was characterized by domination of foreign private ownership. The bank with domestic private capital kept having a modest share in the market, since the bank in question was a small bank with no significant influence on the banking sector as a whole.

Ranking banks according to their gross assets amounts gives us the following groups of banks:

(in 000 KM)

ASSETS AMOUNT	31.12.2005			31.12.2006		
	Amount	Share %	Number of banks	Amount	Share %	Number of banks
Over 500	908,377	37	1	1,797,934	55	2
300 to 500	683,131	28	2	846,730	26	2
150 to 300	619,322	26	3	252,799	8	1
Lower than 150	206,133	9	3	371,877	11	4
TOTAL:	2,416,963	100	9	3,268,340	100	9

In the course of 2006 two banks merged, which also resulted in increasing the number of banks having individual assets amount of over KM 500 million. Two largest banks had a very strong influence at the banking market, and their share in the total gross assets amounted to 55%.

As of 31.12.2006 five banks had assets amounting to less than KM 300 million respectively. That group of banks had a share of 19% in the total assets, and it was difficult for the group to follow large banks, especially from the aspect of long-term funds sources and ability to increase scope of their operation.

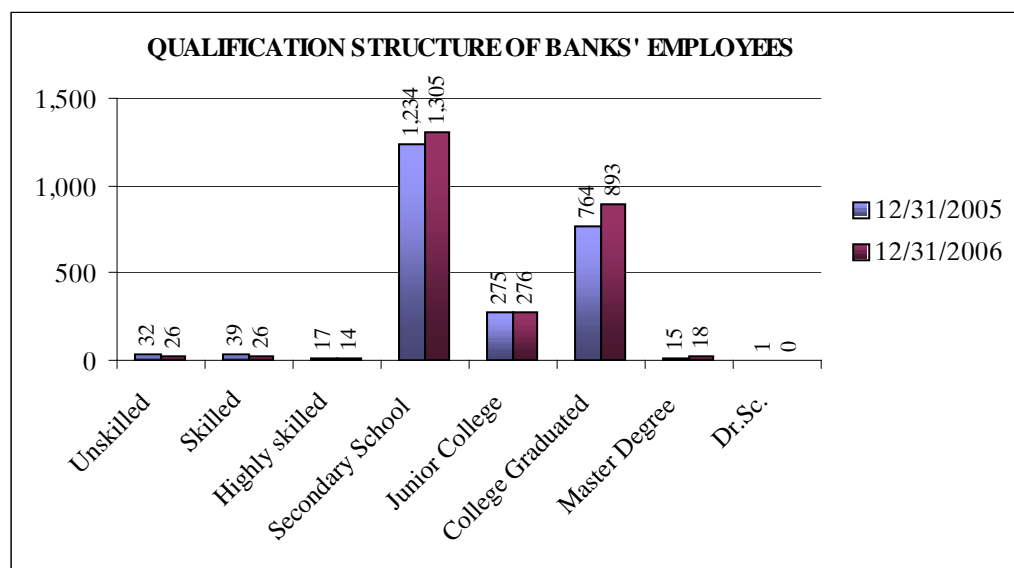
2.2. Staff

Staff Qualification Structure

Ord. No.	Qualification	As of 31.12.2005	Share	As of 31.12.2006	Share	INDEX 2006/2005
1.	Lower Education Level	32	1	26	1	81
2.	Skilled	39	2	26	1	67
3.	Highly Skilled	17	1	14	1	82
4.	Secondary School	1,234	52	1,305	51	106
5.	Junior College	275	12	276	11	100
6.	College	764	32	893	35	117
7.	Master Degree	15	0	18	0	120
8.	Dr. Sc.	1	0	0	0	0
TOTAL		2,377	100	2,558	100	108

As of 31.12.2006 banking sector of Republika Srpska employed 2,558 employees, and the number represented an increase of 8% or 181 employees compared to the end of the previous year. The policy of employing college graduated employees was seen as a very positive trend, thus in 2006 the number of such employees increased by 129 or 17%, i.e. percentage of college graduated employees in the total staff structure increased from 32% as of the end of 2005, to 35% as of 31.12.2006.

The dominating percentage of employees having secondary school diplomas, i.e. 51%, was kept in the staff qualification structure, and could be explained by expanding organizational network, increasing scope of operation primarily in segments related to work with citizens, and payment transactions, as well as introduction of new products (cards, e-banking etc.).



The total number of employees having lower educational background, being skilled and highly skilled was reduced from 88 to 66, while the number of employees graduated from secondary schools increased by 71 in comparison with the end of the previous year.

The ratio of number of employees over total assets is taken not only as an indicator of employees' efficiency but also as an indicator of operational efficiency of both banking sector and individual banks. Larger amount of assets per an employee is an indicator of larger efficacy and effectiveness in operation of both a bank itself and the system as a whole.

Assets per Employee

DATE	Number of employees	Assets (000 KM)	Assets per employee (000 KM)
31.12.2005	2,377	2,416,963	1,017
31.12.2006	2,558	3,268,340	1,278

In the year 2006 assets per employee increased by 26% and amounted to KM 1,278 thousand.

Five banks met the international standard related to assets per employee (KM one million).

Assets per employee ratio in individual banks ranged from 470 thousand up to KM 2,707 thousand, which was reached by the largest RS bank.

Five banks, whose assets per employee ratio exceeded KM 1 million, had total assets amounting to KM 2,572 million or 79% out of total assets of the RS banking sector, and employed 1,595 employees or 62% of the total number of employees.

Remaining four banks, which reported the assets per employee ratio lower than an average, had assets in an amount of KM 696 million or 21% out of the total assets, and 963 employees or 38% of the total number of employees. The consequence was both inadequate number of employees and organization of operation, resulting in decreased productivity and efficiency of banks' operation.

3. FINANCIAL INDICATORS OF BANKS' OPERATION

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

Reports to be submitted by banks are the following:

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

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

3.1. Balance Sheet

The total assets of RS banks with net loans item, i.e. loans decreased by loan loss reserves has a trend of a constant growth. As of 31.12.2006 balance sheet assets amounted to KM 3.19 billion, and compared to the previous year-end it was larger by 36%. Also, such a growth of assets was slightly influenced (in an amount of 2%) by a newly founded bank.

Analysis per individual banks showed that in 2006 one bank had the largest growth rate of 74%, whose share in the total assets amounted to 13%. The largest bank in the RS banking sector had a growth of 30%.

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2005		31.12.2006		INDEX
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY):					
1.Cash Funds	680,472	29	971,555	30	143
2.Trading securities	8,740	0	8,448	0	97
3.Placements to other banks	19,608	1	22,333	1	114
4.Net loans	1,445,117	61	1,957,198	61	135
5.Securities held up to maturity	30	0	0	0	0
6.Office space and other fixed assets	135,600	6	157,234	5	116
7.Other assets	63,871	3	73,032	3	114
8. ALL ASSETS:	2,353,438	100	3,189,800	100	136
9.Total off-balance sheet items (10+11+12)	430,558		547,878		127
10. Active off-balance sheet items	220,588		305,816		139
11. Classified assets-loss E	151,811		166,029		109
12. Commission (agent) business activities	58,159		76,033		131
13. TOTAL ASSETS (8+9)	2,783,996		3,737,678		134
LIABILITIES (OBLIGATIONS):					
14.Deposits	1,910,815	81	2,582,805	81	135
15.Borrowings taken	0	0	0	0	0
16.Obligations per loans taken	108,811	5	143,962	5	132
17.Subordinated debts	6,547	0	1,512	0	23
18.Other obligations	31,166	1	58,826	1	189
19.Reserve required for potential loss	17,639	1	17,870	1	101
20.Capital	278,460	12	384,825	12	138
21. ALL LIABILITIES (OBLIGATIONS AND CAPITAL)	2,353,438	100	3,189,800	100	136
22.Total off-balance sheet items (23+24+25)	430,558		547,878		127
23. Active off-balance sheet items	220,588		305,816		139
24. Classified assets-loss E	151,811		166,029		109
25. Commission (agent) business activities	58,159		76,033		131
26.TOTAL LIABILITIES (20+21)	2,783,996		3,737,678		134

As of 31.12.2006 some smaller movements occurred within the banking sector assets structure. Cash funds, which had a share of 30% in the total assets, recorded significant nominal growth of 43%. Net loans amounted to 61% of total balance sheet assets, and remained at the same level. Placements to other banks increased by 14% in comparison to 31.12.2005 mainly because cash funds were termed for a period longer than 90 days, however the share of this item remained unchanged and amounted to 1%. Share of other balance sheet items decreased from 9% to 8%.

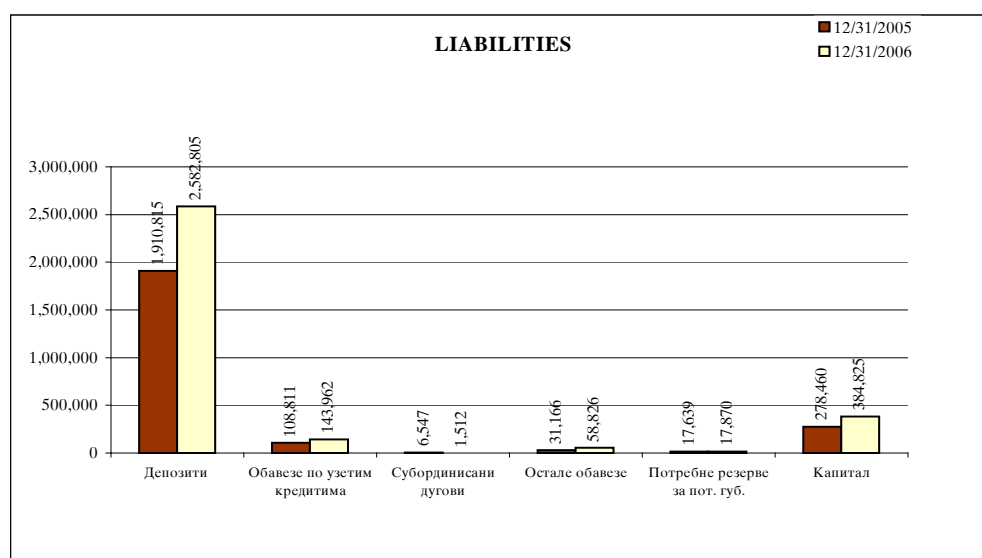
With growth rate of 39% active off-balance sheet items recorded the largest growth within the off-balance sheet structure as of 31.12.2006. If compared to the year-end of 2005 it can be seen that classified assets - loss "E" recorded a growth of 9%, and commission business activities increased by 31%.

3.1.1. Liabilities

Liabilities structure (obligations and capital - sources) is shown in the following table:

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2005		31.12.2006		INDEX
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
LIABILITIES (OBLIGATIONS):					
1.Deposits	1,910,815	81	2,582,805	81	135
2.Borrowings taken	0	0	0	0	0
3.Obligations per loans taken	108,811	5	143,962	4	132
4.Subordinated debts	6,547	0	1,512	0	23
5.Other obligations	31,166	1	58,826	2	189
6.Reserve required for potential loss	17,639	1	17,870	1	101
7.Capital	278,460	12	384,825	12	138
8. ALL LIABILITIES (OBLIGATIONS AND CAPITAL)	2,353,438	100	3,189,800	100	136



Liabilities structure did not change. Deposits represented main source of funds in an amount of 81% having a rate of growth of 35% compared to 31.12.2005. The structure of loans taken shows that 34% of them were funded from domestic sources (Housing Fund Loans), and 66% were mostly related to borrowings abroad having a slightly increasing trend.

If compared to the 2005 year-end other obligations (89%) had the largest growth mainly due to increase in deposit interest accruals.

Reserves required for potential losses amounted to 17.9 million with growth rate of 1% in comparison to 31.12.2005, and an unchanged share of 1% in the total liabilities related to balance sheet receivables, except for loans, and to active off-balance sheet items.

Capital growth rate was 38%.

3.1.1.1. Deposits

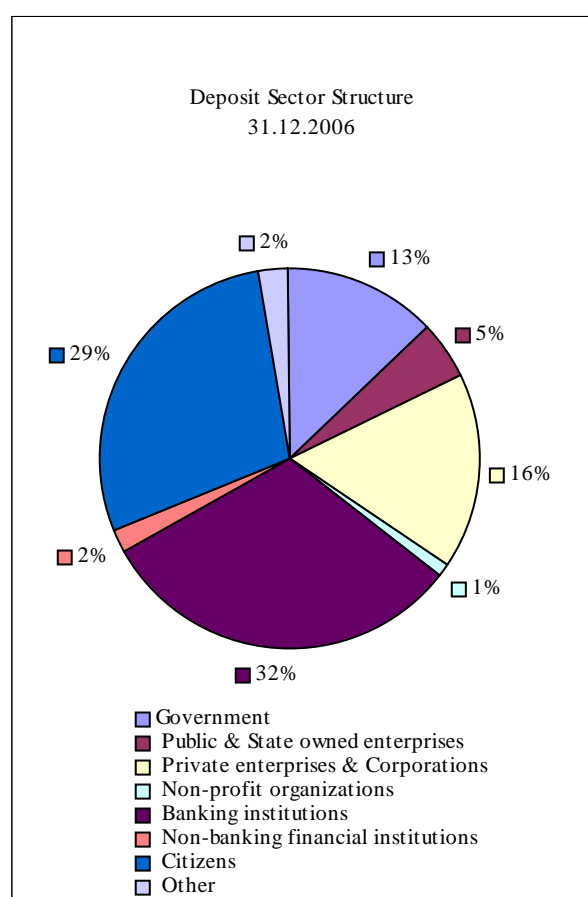
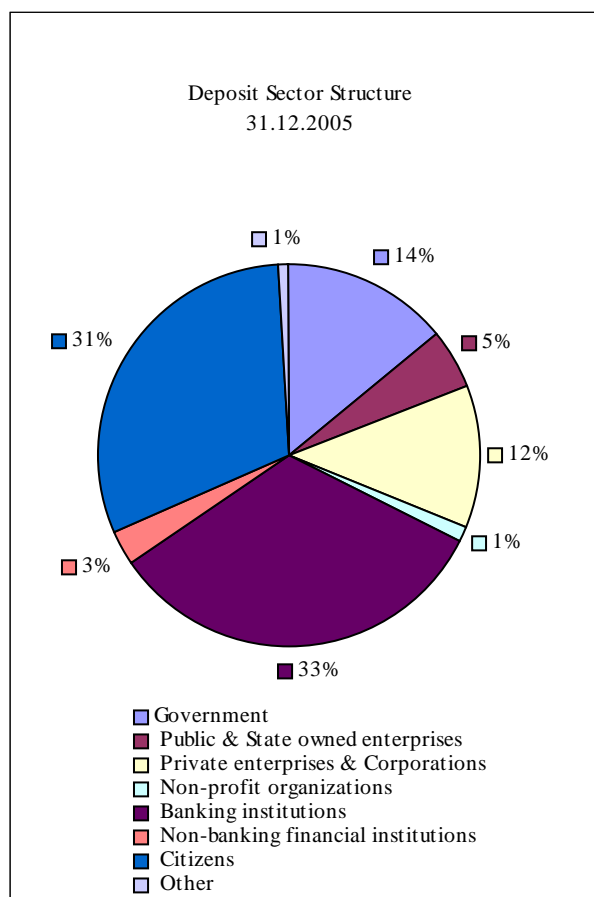
Deposit Structure per Sectors

(in 000 KM)

DEPOSITS	31.12.2005		31.12.2006		Index
	Amount	%	Amount	%	
Government Institutions	249,960	13	362,714	14	145
Public and State Enterprises	94,081	5	129,511	5	138
Private Enterprises and Corporations	312,670	16	312,308	12	100
Non-Profit Organizations	23,035	1	36,680	1	159
Banking Institutions	595,723	32	841,609	33	141
Non-Banking Financial Institutions	35,242	2	80,803	3	229
Citizens	553,826	29	800,855	31	145
Other	46,278	2	18,325	1	40
TOTAL	1,910,815	100	2,582,805	100	135

Analyzing deposit structure per sectors we can see that the largest share of 33% in total deposits was kept by deposits of banking institutions with a growth rate of 41% compared to the end of the previous year. The amount of those deposits mostly depended on the amount of deposits of one bank, which, as of 31.12.2006, amounted to KM 667 million or 79% of total banks' deposits. Share of citizens' deposits increased from 29% to 31% with a rate of growth of 45%, which indicated increasing citizens' confidence into banks and the banking system as a whole.

In 2006 deposits of government institutions recorded an increase of 45%, and those of public and state enterprises of 38%, which certainly resulted from improved financial discipline in collecting public revenue. Compared to the amount as of 31.12.2005 deposits of private enterprises and corporations remained at the same level during the reporting period and decreased their share within total deposits from 16% to 12%. Share of all other sectors in the deposit structure was 5% and amounted to KM 136 million.



Deposit Structure per Currency

(in million KM)

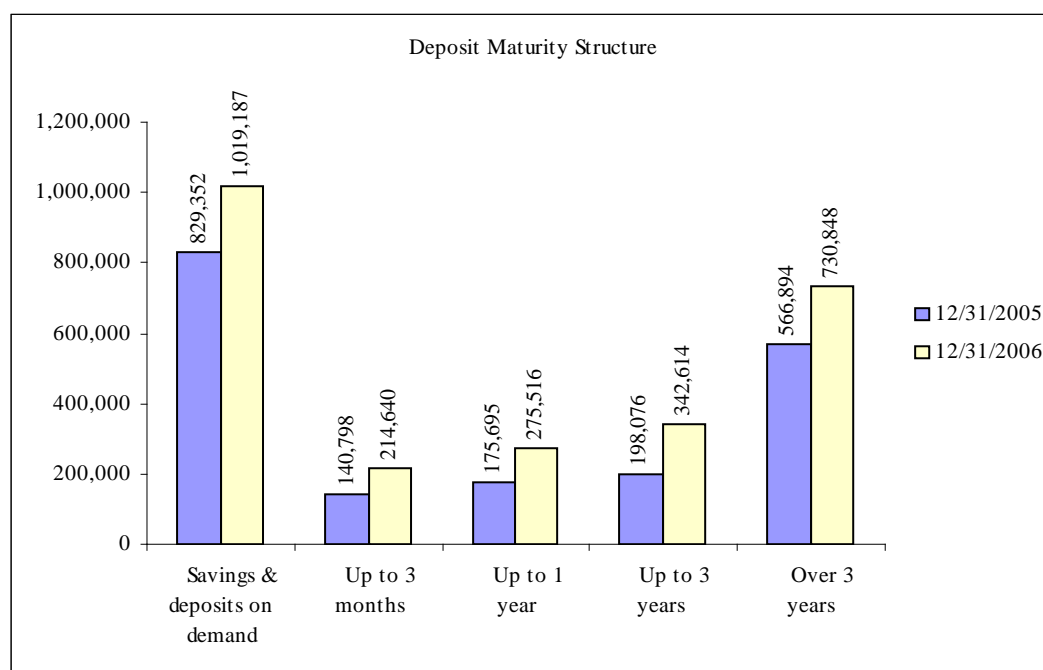
DEPOSITS	31.12.2005		31.12.2006		INDEX
	Amount	%	Amount	%	
Deposit in KM	873.5	46	1,218.8	47	140
Deposit in Foreign Currency	1,037.3	54	1,364.0	53	131
TOTAL	1,910.8	100	2,582.8	100	135

Deposit structure per currency slightly changed. Deposit in foreign currency amounted to 53% with EURO as dominating currency, while deposits in KM amounted to 47% out of total deposits.

Maturity Deposit Structure

(in 000 KM)

DEPOSITS	31.12.2005		31.12.2006		INDEX
	Amount	%	Amount	%	
Savings and deposits on demand	829,352	44	1,019,187	40	123
Up to 3 months	140,798	7	214,640	8	152
Up to 1 year	175,695	9	275,516	11	157
1. Total short-term deposits	1,145,845	60	1,509,343	59	132
Up to 3 years	198,076	10	342,614	13	173
Over 3 years	566,894	30	730,848	28	129
2. Total long-term	764,970	40	1,073,462	41	140
TOTAL (1+2)	1,910,815	100	2,582,805	100	135



Short-term deposits, consisting of deposits on demand and deposits termed up to one year, made 59% of total deposits (decrease from 60% to 59%). Growth rate for those deposits was 32%.

Nominal growth of long-term deposits in an amount of KM 308 million or 40% compared to the amount as of 31.12.2005, as well as increase in share from 40% to 41% resulted from the following: favorable conditions given for termed deposits, especially citizens' termed deposits (where deposits were linked with more favorable conditions for approval of long-term loans), and increased deposits in domestic banks. Growth of long-term deposits also indicates improvement and stability of operation, and gradually restored citizens' confidence into banking sector.

Savings and Loans to Citizens

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2005	31.12.2006	INDEX
1	2	3	4	5=4/3
1.	Loans to citizens	651,403	883,918	136
2.	Citizens' savings	396,441	555,844	140
3.	Loans/Savings	164%	159%	
4.	Citizens' current accounts	113,599	189,085	166
5.	Total deposits (2+4)	510,040	744,929	146
6.	Loans/Total Deposits	128%	119%	

Growth of citizens' savings continued during 2006 with a rate of 40% if compared with 31.12.2005. Termed deposit savings amounted to KM 398 million or 72% out of total savings with a growth rate of 50%, and deposit savings on demand amounted to KM 158 million or 28% out of total savings with a growth rate of 20%. Larger percentage and faster growth of termed deposit savings is also seen as one of results of restored confidence into banking system supported by deposit insurance capacity.

Foreign currency structure shows that foreign currency saving deposits amounted to KM 408 million or 73%, and saving deposits in KM amounted to KM 148 million or 27%.

Ratio between citizens' loans and savings decreased, since loans grew slower than savings. Loans-to-citizens were covered by citizens' saving-deposits in an amount of 63%, and if citizens' current accounts are taken into consideration, then the rate of coverage amounted to 84%.

Citizens' current accounts recorded a growth of 66% in comparison with 31.12.2005.

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

(in 000 KM)

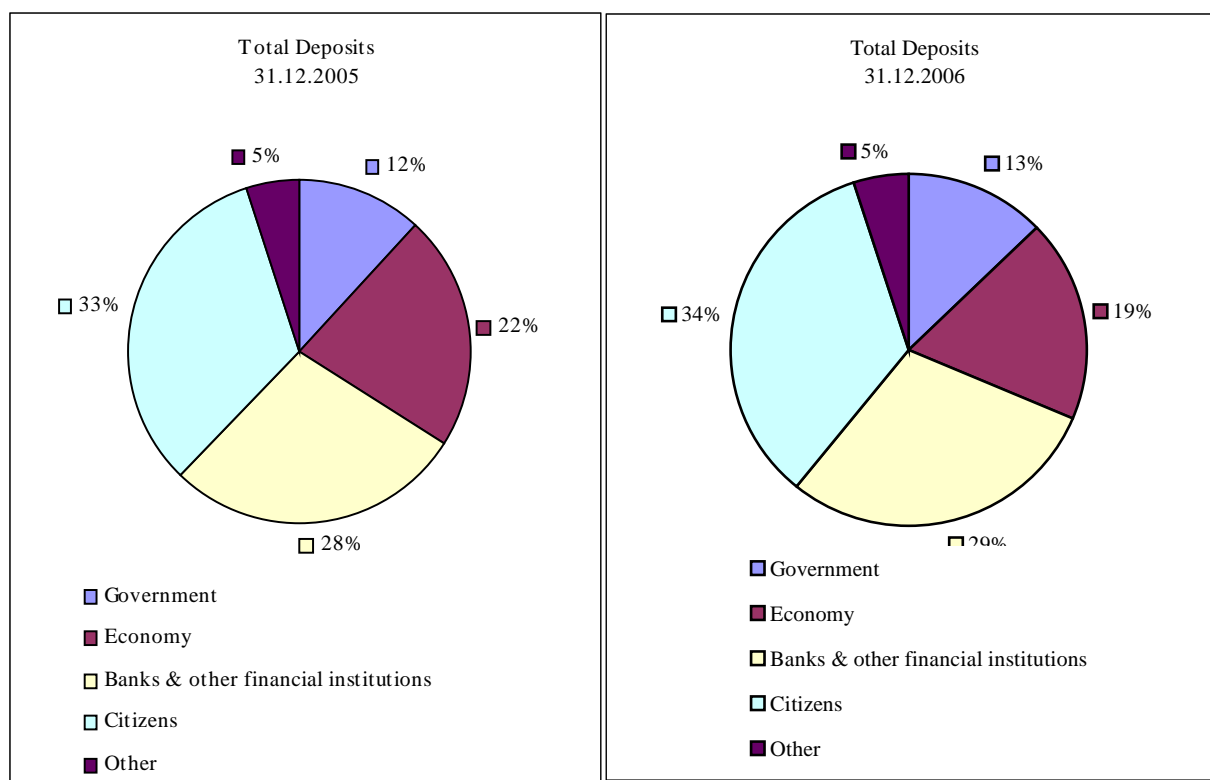
No.	DESCRIPTION/PERIOD	31.12.2005	%	31.12.2006	%	Index
1	2	3	4	5	6	7=5/3
1.	Short-Term Deposits					
a.	Government and Government Institutions	1,742	1	3,202	1	184
b.	Industry	60,118	30	90,254	30	150
c.	Banks and Other Financial Institutions	20	0	582	0	2.910
d.	Citizens	85,953	42	115,077	38	134
e.	Other	1,942	1	2,468	1	127
	TOTAL (1)	149,775	74	211,583	70	141
2.	Long-Term Deposits					
a.	Government and Government Institutions	0	0	51	0	0
b.	Industry	3,499	2	10,382	3	297
c.	Banks and Other Financial Institutions	0	0	0	0	0
d.	Citizens	49,510	24	76,150	26	154
e.	Other	0	0	2,457	1	0
	TOTAL (2)	53,009	26	89,040	30	168
	GRAND TOTAL (1.+2.)	202,784	100	300,623	100	148

As of 31.12.2006 deposits received by branch offices and operating units of banks from Federation BH in the territory of Republika Srpska amounted to KM 301 million and were larger by 48% than the amount as of the end of the previous year. Based on maturity structure 70% of deposits were short-termed, and 30% long-termed, and based on structure per sectors the most important share had citizens' deposits. Those deposits were included in the deposit amount of their banks' headquarters in Federation BH.

Structure per maturity and sectors of the total amount of deposits received by the banking sector of Republika Srpska and branch offices and operating units of banks from Federation BH is given in the following table:

(in 000 KM)

DESCRIPTION	31.12.2005						31.12.2006						Index
	RS Banks	%	FBH Banks' units	%	Total	%	RS Banks	%	FBH Banks' units	%	Total	%	
1	2	3	4	5	6	7	8	9	10	11	12	13	14=12/6
1. Short-Term Deposits													
a)Gov.&Gov.Institutions	211,334	11	1,742	1	213,076	10	302,336	12	3,202	1	305,538	11	143
b)Industry	370,209	19	60,118	30	430,327	20	403,430	16	90,254	30	493,684	17	115
c)Banks & other fin.inst.	78,442	4	20	0	78,462	4	123,588	5	582	0	124,170	4	158
d)Citizens	397,258	21	85,953	42	483,211	23	566,676	22	115,077	38	681,753	23	141
e)Other	88,603	5	1,942	1	90,545	4	113,313	4	2,468	1	115,781	4	128
Total short-term deposits	1,145,846	60	149,775	74	1,295,621	61	1,509,343	59	211,583	70	1,720,926	59	133
2. Long-Term Deposits													
a)Gov.&Gov.Institutions	38,626	2	0	0	38,626	2	60,378	2	51	0	60,429	2	156
b)Industry	36,542	2	3,499	2	40,041	2	38,389	1	10,382	3	48,771	2	122
c)Banks&other fin.inst.	517,281	27	0	0	517,281	24	718,021	28	0	0	718,021	25	139
d)Citizens	156,568	8	49,510	24	206,078	10	234,179	9	76,150	26	310,329	11	151
e)Other	15,953	1	0	0	15,953	1	22,495	1	2,457	1	24,952	1	156
TOTAL (2)	764,970	40	53,009	26	817,979	39	1,073,462	41	89,040	30	1,162,502	41	142
GRAND TOTAL (1.+2.)	1,910,816	100	202,784	100	2,113,600	100	2,582,805	100	300,623	100	2,883,428	100	136



Based on maturity structure of the total amount of deposits received by the banking sector of Republika Srpska and branch offices and operating units of banks from Federation BH short-term deposits amounted to 60%, and long-term deposits were 40%.

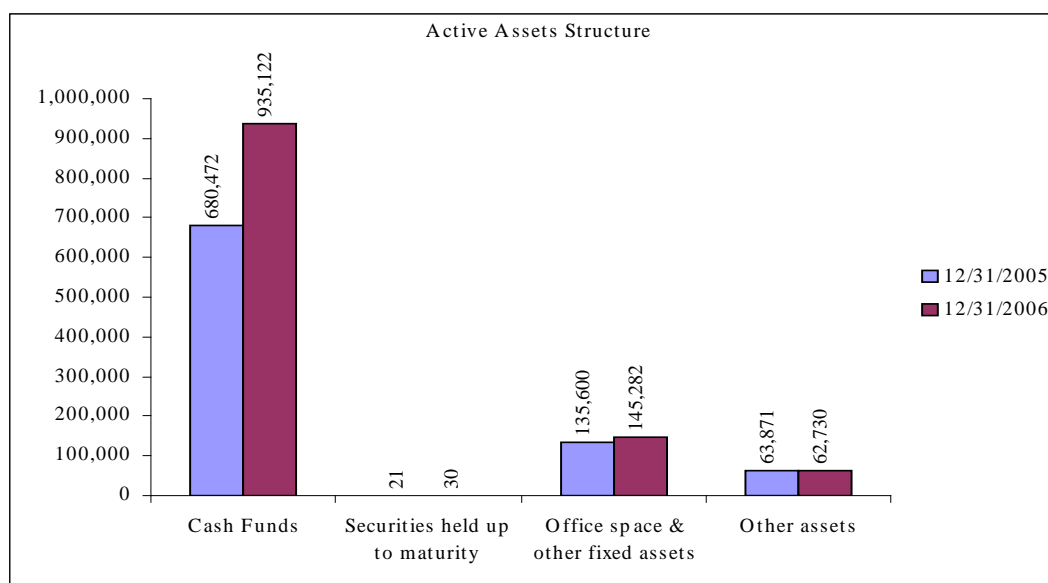
Deposits of branch offices and operating units of banks from Federation BH constituted an amount of 10% of total deposits received.

3.1.2. Assets

Assets Structure

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2005		31.12.2006		INDEX
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
ASSETS (PROPERTY):					
1.Cash Funds	680,472	29	971,555	30	143
2.Securities for Trading	8,740	0	8,448	0	97
3.Placements to other banks	19,608	1	22,333	1	114
4.Net Loans	1,445,117	61	1,957,198	61	135
5.Securities held up to maturity	30	0	0	0	0
6.Office space and other fixed assets	135,600	6	157,234	5	116
7.Other assets	63,871	3	73,032	3	114
8. ALL ASSETS:	2,353,438	100	3,189,800	100	136



Growth of assets recorded from year to year continued in 2006 as well. Total assets amounted to KM 3.19 billion with a growth rate of 36% if compared to the end of the previous year.

Assets structure did not change significantly. Share of cash funds increased from 29% to 30%, and share of other items of assets remained at approximately the same level.

Structure of Off-Balance Sheet Assets

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2005		31.12.2006		INDEX
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
1. Active Off-Balance Sheet Items	220,588	100	305,816	100	139
- Irrevocable obligations for lending	53,989	24	135,726	45	251
- Irrevocable documentary L/C	5,409	2	1,422	0	26
- Other L/C to be paid abroad	1,744	1	446	0	26
- Guarantees issued	155,717	71	166,810	55	107
- Drafts and sureties issued	372	0	0	0	0
- Nostro financial activities – collecting process	0	0	0	0	0
- Current FC transaction contracts	0	0	551	0	0
- Other off-balance sheet items	3,357	2	861	0	26
2. Classified assets - loss E	151,811		166,029		109
3. Commission business activities	58,159		76,033		131
4. TOTAL	430,558		547,878		127

Total off-balance sheet assets increased by 27% in comparison with the end of the previous year. Active off-balance sheet items amounted to KM 306 million or 56%, classified assets – loss E to 166 KM million or 30%, and commission loans to KM 76 million or 14% out of the total off-balance sheet assets.

Active risk bearing off-balance sheet or off-balance sheet receivables consisted of payable and performance guarantees issued, which amounted to 55% with a growth rate of 7%, irrevocable obligations for extending loans in an amount of 45% and a growth rate of 151%. Other items did not influence the structure of active off-balance sheet.

In 2006 classified assets - loss E increased by KM 14.2 million or by 9% due to new write-offs. Those write-offs were mostly presented to the court; thus the process of their collection depended on the period of time taken by court procedures.

Commission business activities amounted to KM 76 million, and recorded an increase of 31% in comparison to the end of the previous year. Seven banks performed such business activities, but an amount of KM 57.6 million or 76% of total commission business activities was related to two banks only.

3.1.2.1. Cash Funds

RS banking sector had relatively high level of cash funds, and 30% of total assets was related to it as of 31.12.2006.

Cash Funds Structure

(in 000 KM)

DESCRIPTION	31.12.2005		31.12.2006		Index
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
KM					
Cash funds	44,980	7	60,907	6	135
Reserve accounts with CBBH	380,569	56	628,886	65	165
Deposit accounts with depositary institutions in BH	2,175	0	35	0	2
Deposit accounts with depositary institutions abroad	0	0	0	0	0
Cash funds in collection process	0	0	0	0	0
Debts not-repaid	0	0	0	0	0
TOTAL:	427,724	63	689,828	71	161
FOREIGN CURRENCY					0
Cash funds	34,684	5	37,008	4	107
Reserve accounts with CBBH	0	0	0	0	0
Deposit accounts with depositary institutions in BH	184	0	1,723	0	936
Deposit accounts with depositary institutions abroad	215,016	32	242,379	25	113
Cash funds in collection process	2,864	0	617	0	22
Debts not-repaid	0	0	0	0	0
TOTAL:	252,748	37	281,727	29	111
GRAND TOTAL:	680,472	100	971,555	100	143

As of 31.12.2006 total cash funds amounted to KM 971,555 thousand and increased by 43% in comparison with the end of the previous year.

In 2006 currency structure of cash funds changed resulting in an increase of cash funds in domestic currency from 63% to 71% with a growth rate of 61%. During the same period cash funds in foreign currency decreased from 37% to 29% with a growth rate of 11%.

As for KM cash funds structure, the largest share was the one at the reserve account of CBBH amounting to 65% out of total cash funds and with a growth rate of 65%.

Cash funds in foreign currency amounted to KM 282 million, out of which cash funds at deposit accounts held by depositary institutions amounted to KM 242 million, and were related to foreign currency current accounts of KM 68 million, and KM 174 million of short-term termed cash-funds (up to 90 days).

Out of the total cash funds, an amount of KM 864 million or 89% were interest bearing deposit accounts, which increased by 55% in comparison to the amount as of 31.12.2005, and an amount of KM 107 million or 11% were non-interest bearing accounts generating no income for banks. Share of

non-interest-bearing-accounts in the total cash funds decreased by 12% in the year 2006, which was a positive trend making a direct impact on better profitability in banks' operation.

A high level of cash funds was constantly kept due to a requirement to maintain liquid funds for payment transactions, and a large network of banks' operating units, and also due to non-existence of inter-banking market and securities market developed, where banks could quickly provide for liquid cash funds. At the same time such a high level of cash funds was caused by banks' obligation to maintain maturity structure as well as foreign currency adjustment of assets and liabilities within the given limits.

3.1.2.2. Loans

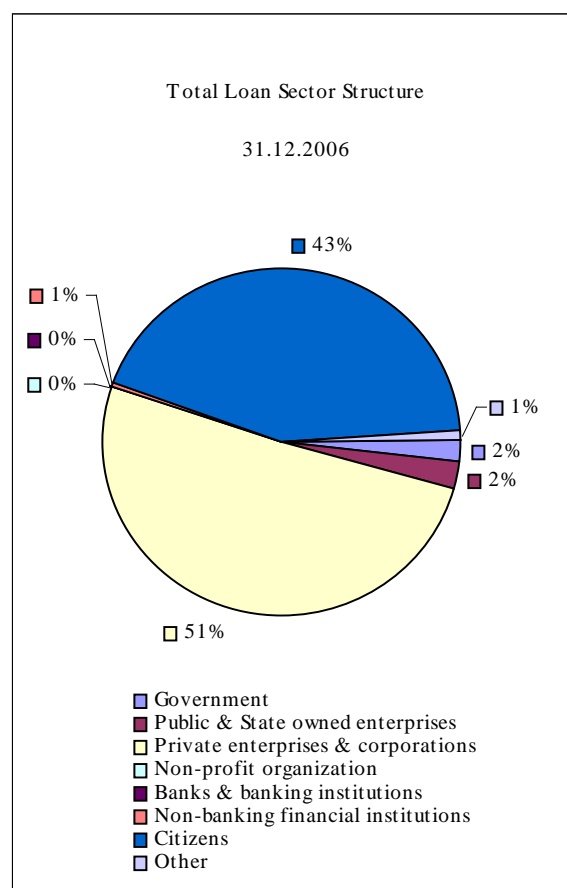
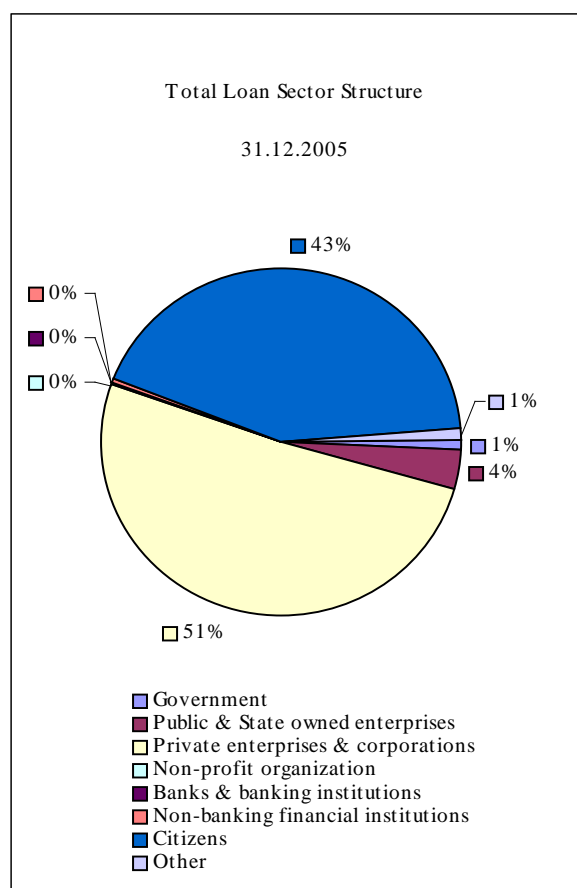
Lending function is one of basic functions of banks' operation, and a constant increase of total loans is an indicator of growing scope of operation of both each bank and the sector as a whole.

Total gross loans as of 31.12.2006 amounted to KM 2,036 million and increased by 35%.

Structure of Total Loans per Sectors

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2005	%	31.12.2006	%	Index
1	2	3	4	5	6	7=5/3
1.	Government Institutions	12,777	1	39,536	2	309
2.	Public and State Enterprises	54,019	4	48,376	2	90
3.	Private Enterprises and Corporations	768,557	51	1,029,467	51	134
4.	Non-Profit Organizations	1,829	0	105	0	6
5.	Banks and Banking Institutions	1,451	0	668	0	46
6.	Non-Banking Financial Institutions	1,718	0	14,851	1	864
7.	Citizens	651,403	43	883,918	43	136
8.	Other	16,888	1	18,817	1	111
9.	TOTAL	1,508,642	100	2,035,738	100	135



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

In the structure of loans per sectors, loans extended to private enterprises and corporations had the largest share of 51% with a growth rate of 34%, followed by loans to citizens in an amount of 43% and a growth rate of 36%.

Loans to the Government and Government Institutions, amounting to 2% in the total loan structure, had a growth rate of 209% in comparison with the previous year-end, and were mostly related to loans extended to municipality administrations. All other loans amounted to 4% out of total loans.

Net Loans

(in 000 KM)

No.	DESCRIPTION/PERIOD	31.12.2005	31.12.2006	INDEX
1	2	3	4	5
1.	Loans, leasing based receivables and receiv. due	1,508,642	2,035,738	135
2.	Reserves for potential loan losses	63,525	78,540	124
3.	Net loans (1.-2.)	1,445,117	1,957,198	135

Net loans are those loans from which potential loan loss reserves were deducted, and they had the same rate of growth as loans on gross basis, meaning that in the reporting period banks kept the same classification structure, and rates of separating reserves per credit risk categories as on 31.12.2005. In this reporting period the trend of growth of reserves was slower (growth rate 24%) than the one of loans, thus in the next reporting period some of banks could be in situation to have to increase their reserves, which could have a negative impact on their profitability.

Loan Maturity Structure

(in 000 KM)

No.	DESCRIPTION	Short-term loans < 1 year			Long-term loans > 1 year			Receivables Due			Total		
		31.12. 2005	31.12. 2006	Index	31.12. 2005	31.12. 2006	Index	31.12. 2005	31.12. 2006	Index	31.12. 2005	31.12. 2006	Index
		1.	Gov. Institutions	1,084	2,648	244	11,674	36,847	316	19	41	216	12,777
2.	Public&State Enterp.	4,426	11,875	268	38,139	34,975	92	11,454	1,526	13	54,019	48,376	90
3.	Private Enterp.&Corp.	267,899	345,425	129	464,694	633,905	136	35,964	50,137	139	768,557	1,029,467	134
4.	Non-Profit Organiz.	1,736	70	4	93	35	38	0	0	0	1,829	105	6
5.	Banks&Banking Inst.	387	0	0	793	404	51	271	264	97	1,451	668	46
6.	Non-Bank Fin. Inst.	611	6,396	1,047	1,107	7,604	687	0	851	0	1,718	14,851	864
7.	Citizens	77,308	135,332	175	565,891	737,875	130	8,204	10,711	131	651,403	883,918	136
8.	Other	7,620	6,848	90	8,674	11,844	137	594	125	21	16,888	18,817	111
9.	T O T A L	361,071	508,594	141	1,091,065	1,463,489	134	56,506	63,655	113	1,508,642	2,035,738	135

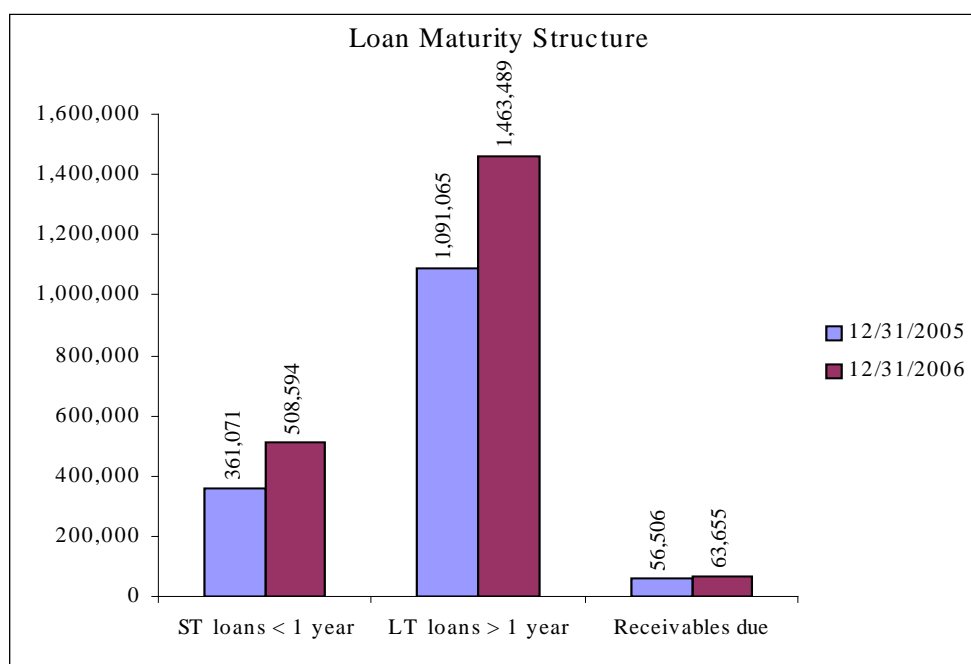
In the short-term loan structure per sectors, loans to private enterprises and corporations participated with the most significant percentage (68%), while the largest items in long-term loans were loans to citizens amounting to 50%, and loans to private enterprises and corporations amounting to 43%.

Receivables due increased by 13% in comparison to 31.12.2005. Receivables due in the table above included receivables per guarantees paid, which as of 31.12.2005 amounted to KM 6,387 thousand, and as of 31.12.2006 were significantly lower and amounted to KM 994 thousand.

The largest share in the structure of loans due in an amount of 79% was related to loans to private enterprises and corporations, which increased by 39% in comparison with the previous year-end, and loans to citizens in an amount of 17% with a growth rate of 31%.

Total receivables due compared to total loans amounted to 3.1% and were decreased by 0.6% in comparison with 31.12.2005, which was a positive trend.

If receivables due per loans to private enterprises and corporations were compared with total loans in that sector we would get a rate of 4.9% which is at the same level as the one on 31.12.2005. Ratio of receivables due per loans to citizens over total loans would give a rate of 1.2% in comparison with 31.12.2005 when the rate amounted to 1.3%.



Although loans to citizens were still in the category of the safest placements for banks, the level of receivables due in the citizens sector is not to be neglected taking into consideration that those loans were mostly long term ones.

The amount and the growth rate of receivables due is a signal requiring a better quality analysis of borrowers' credit-worthiness when approving loans, as well as more systematic follow-up of regular servicing of debt, with a goal to decrease exposure to credit risk.

Taken the ratio of long-term funds sources, calculated as long-term deposits over long-term loans taken, it can be seen that 82% of long-term loans were funded from the long-term funds sources. With individual banks, however, that ratio was much worse, since the total amount of all banks' long-term funds sources resulted actually from a significant amount of sources held by a single bank.

In the forthcoming period banks should strive to increase their long-term funds sources more significantly not to impair assets and liabilities adjustment, which could cause liquidity problems.

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

(in 000 KM)

No	DESCRIPTION/PERIOD	31.12.2005	%	31.12.2006	%	Index
1	2	3	4	5	6	7=5/3
1.	Short-Term Loans					
a.	Government and Gov. Institutions	60	0	0	0	0
b.	Industry	23,762	7	25,207	5	106
c.	Banks and other Financial Institutions	0	0	0	0	0
d.	Citizens	12,581	4	14,933	3	119
e.	Other	1,476	0	1,325	0	90
	TOTAL (1)	37,879	11	41,465	8	109
2.	Long-Term Loans					
a.	Government and Gov. Institutions	0	0	2,300	1	0
b.	Industry	45,839	13	62,076	13	135
c.	Banks and other Financial Institutions	0	0	0	0	0
d.	Citizens	259,207	73	381,810	76	147
e.	Other	10,569	3	12,433	2	118
	TOTAL (1)	315,615	89	458,619	92	145
	GRAND TOTAL (1.+2.)	353,494	100	500,084	100	141

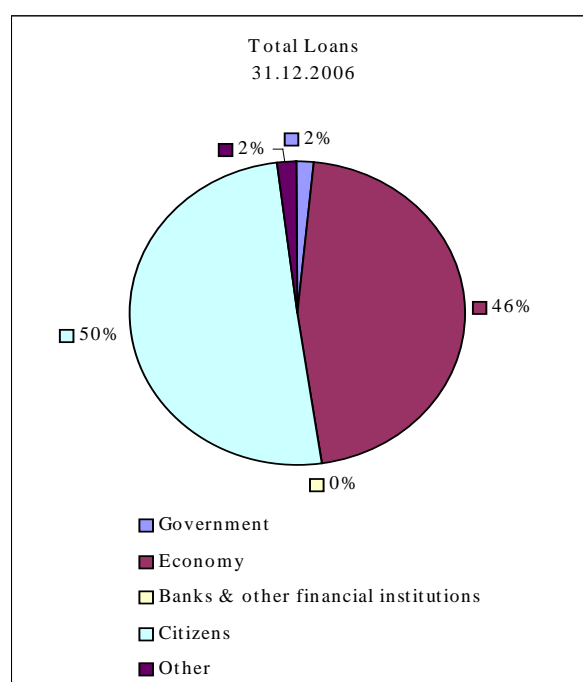
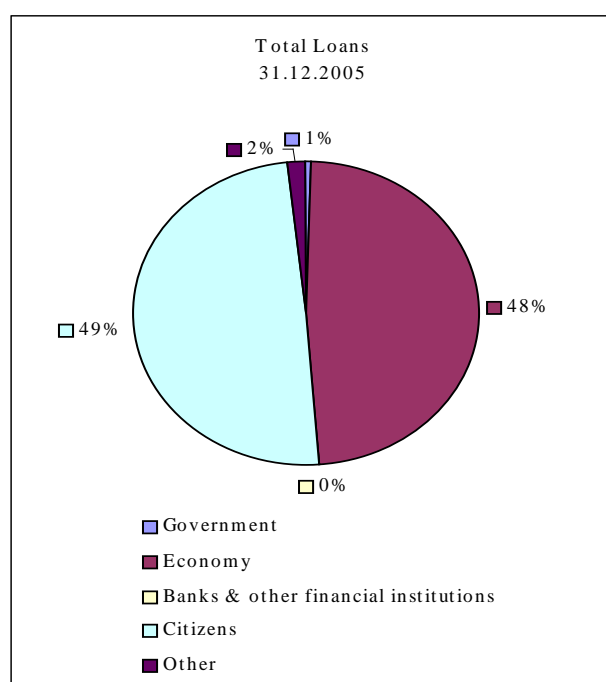
Lending activity of branch offices and operating units of banks from Federation BH was targeted to long-term loans, especially to citizens, which amounted to 83% out of total long-term loans.

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

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

(in 000 KM)

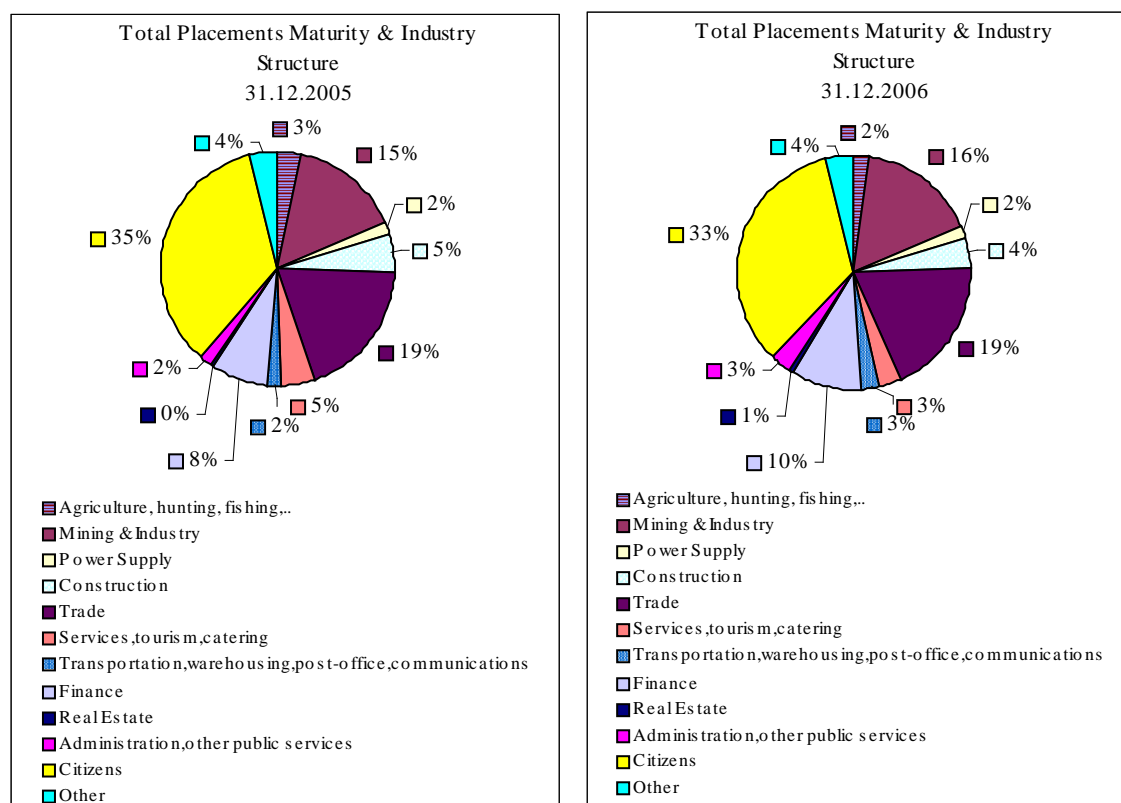
DESCRIPTION	31.12.2005						31.12.2006						Index 14=12/6
	RS Banks	%	FBH units	%	Total	%	RS Banks	%	FBH units	%	Total	%	
1	2	3	4	5	6	7	8	9	10	11	12	13	
1. Short-Term Loans													
a) Government & Gov. Inst.	1,103	0	60	0	1,163	0	2,689	0	0	0	2,689	0	231
b) Industry	319,743	21	23,762	7	343,505	18	408,963	20	25,207	5	434,170	17	126
c) Banks & Other Finan. Inst.	658	0	0	0	658	0	264	0	0	0	264	0	40
d) Citizens	85,512	6	12,581	4	98,093	5	146,043	7	14,933	3	160,976	6	164
e) Other	10,561	1	1,476	0	12,037	1	14,290	1	1,325	0	15,615	1	130
Total Short-Term Loans	417,577	28	37,879	11	455,456	24	572,249	28	41,465	8	613,714	24	135
2. Long-Term Loans													
a) Government & Gov. Inst.	11,674	1	0	0	11,674	1	36,847	2	2,300	0	39,147	2	335
b) Industry	502,833	33	45,839	13	548,672	30	668,880	33	62,076	12	730,956	29	133
c) Banks & Other Finan. Inst.	793	0	0	0	793	0	404	0	0	0	404	0	51
d) Citizens	565,891	37	259,207	73	825,098	44	737,875	36	381,810	76	1,119,685	44	136
e) Other	9,874	1	10,569	3	20,443	1	19,483	1	12,433	2	31,916	1	156
Total Long -Term Loans	1,091,065	72	315,615	89	1,406,680	76	1,463,489	72	458,619	92	1,922,108	76	137
GRAND TOTAL (1.+2.)	1,508,642	100	353,494	100	1,862,136	100	2,035,738	100	500,084	100	2,535,822	100	136



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

Maturity and Industry Branch Structure of Total Placements by Banks of Republika Srpska (in 000 KM)

No.	INDUSTRY BRANCH ASSETS	Short-Term Placements		Index	Long-Term Placements		Index	Guaranties and other sureties		Index	TOTAL		Index
		31.12.05	31.12.06		31.12.05	31.12.06		31.12.05	31.12.06		31.12.05	31.12.06	
1.	Agriculture,Hunting,Fish	28,366	26,514	93	22,191	25,047	113	11,320	4,251	38	61,877	55,812	90
2.	Mining & Industry	82,486	96,217	117	175,891	292,190	166	30,026	39,479	131	288,403	427,886	148
3.	Power Supply	3,447	10,180	295	22,238	20,803	94	3,178	10,962	345	28,863	41,945	145
4.	Construction	21,838	31,643	145	58,000	60,107	104	20,222	19,427	96	100,060	111,177	111
5.	Trade	146,335	172,980	118	139,191	219,967	158	76,762	96,039	125	362,288	488,986	135
6.	Services,Tour.,Catering	6,540	26,974	412	52,593	30,293	58	29,008	18,966	65	88,141	76,233	86
7.	Transport,Warehousing, Post Of.,Communication	9,848	9,966	101	11,737	17,084	146	15,984	40,843	256	37,569	67,893	181
8.	Finances	131,986	223,982	170	15,980	17,956	112	2,156	6,628	307	150,122	248,566	166
9.	Real Estate Trading	4,689	10,131	216	1,253	5,398	431	800	7,434	929	6,742	22,963	341
10.	Admin,State,Public Serv.	5,668	13,743	242	19,193	46,296	241	7,681	11,739	153	32,542	71,778	221
11.	Citizens	85,512	146,043	171	565,891	737,875	130	0	0	0	651,403	883,918	136
12.	Other	27,828	12,415	45	21,500	35,164	164	23,451	50,048	213	72,779	97,627	134
	TOTAL	554,543	780,788	141	1,105,658	1,508,180	136	220,588	305,816	139	1,880,789	2,594,784	138



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

Based on the industry branch structure above, short-term placements to finances represented the largest item due to a significant amount of not utilized cash funds termed with both foreign and domestic banks, and the next largest item was placements to trade as the most frequent business activity.

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

Guarantees and other sureties were mostly concentrated in trade. If, based on branch industry structure, total placements are analyzed it can be seen that placements to citizens had the largest share of 34%, followed by trade of 19%, mining and industry of 16%, finances of 10%, while all other industry branches participated with 21%.

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

(in 000 KM)

DESCRIPTION	31.12.2005						31.12.2006						Index
	RS Banks	%	FBH banks' units	%	Total	%	RS Banks	%	FBH banks' units	%	Total	%	
1	2	3	4	5	6	7	8	9	10	11	12	13	14=12/6
1. Short-term loans to citizens													
a. - general consumption	66,545	10	4,929	2	71,474	8	121,391	14	12,807	3	134,198	11	188
b. - housing	13,477	2	5,452	2	18,929	2	14,231	2	0	0	14,231	1	75
c. - business activities	5,490	1	2,200	1	7,690	1	10,421	1	2,126	1	12,547	1	163
Total (1)	85,512	13	12,581	5	98,093	11	146,043	17	14,933	4	160,976	12	164
2. Long-term loans to citizens													
a. - general consumption	404,749	63	182,566	67	587,315	64	546,632	62	240,210	60	786,842	61	134
b. - housing	133,100	20	53,881	20	186,981	20	158,679	18	89,553	23	248,232	19	133
c. - business activities	28,042	4	22,760	8	50,802	5	32,564	3	52,047	13	84,611	7	167
Total (2)	565,891	87	259,207	95	825,098	89	737,875	83	381,810	96	1,119,685	87	136
GRAND TOTAL (1.+2.)	651,403	100	271,788	100	923,191	100	883,918	100	396,743	100	1,280,661	100	139

From the table above it can be seen that the largest amount of loans to citizens of Republika Srpska was extended for general consumption, and such loans were mostly long-termed.

Instead of such general consumption lending, loans should be directed much more to entrepreneurs, since the coverage of that segment was still relatively unsatisfactory.

Total amounts of loans to citizens of Republika Srpska as of 31.12.2006 can be seen from the following breakdown:

		(in 000 KM)
1.	RS Banks	883,918
	minus: RS banks' units operating in FBH	28,286
	Total 1:	855,632
2.	FBH banks' units operating in RS	396,743
	TOTAL (1+2):	1,252,375

Total loan indebtedness of citizens of Republika Srpska amounted to KM 1,252,375 thousand, and, according to statistical data, population of Republika Srpska was 1,484 thousand of citizens, which resulted in loan indebtedness per citizen in an amount of KM 844 with a slight increasing trend.

Breakdown of Total Deposits and Loans of Republika Srpska

		(in 000 KM)					
No.	DESCRIPTION	31.12.2005		31.12.2006		Index	
		Deposits	Loans	Deposits	Loans	7=5/3	8=6/4
1	2	3	4	5	6	7=5/3	8=6/4
1.	RS Banks	1,910,815	1,508,642	2,582,805	2,035,738	135	135
2.	FBH banks' operating units	202,784	353,494	300,623	500,084	148	141
3.	TOTAL:	2,113,599	1,862,136	2,883,428	2,535,822	136	136
4.	Minus: RS banks' units operating in FBH	32,475	28,877	36,065	46,248	111	160
5.	TOTAL:	2,081,124	1,833,259	2,847,363	2,489,574	137	136

A total amount of deposits received by banks in the Republika Srpska territory was KM 2,847 million, which was larger by 37% in comparison with the year-end 2005, and a total amount of loans extended was KM 2,490 million or by 36% more than the amount as of 31.12.2005.

3.1.2.3. Office Space and Other Fixed Assets

Office space and other assets represented a share of 5% in the structure of assets. Compared to the amount as of 31.12.2005, fixed assets was nominally larger by KM 21.6 million or 16%, which resulted from opening new operating units and purchasing new equipment.

Two banks exceeded limit of investing into fixed assets up to 50% in relationship to core capital.

3.1.2.4. Other Assets

Share of other assets within the structure of total assets remained the same (3%) as of 31.12.2005. Interests and fees accrued were the largest items within the other assets structure. Other items were investments into non-consolidated enterprises (Funds), material values received as collection of receivables, transfer accounts for foreign currency payments, current payments of obligations created previously, assets accrued and other.

4. CAPITAL AND CAPITAL ADEQUACY

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

Capital structure and tendencies are given in the following table:

(in 000 KM)			
DESCRIPTION/PERIOD	31.12.2005	31.12.2006	INDEKS
1	2	3	4=3/2
1.BANKS' CORE CAPITAL			
1.1 Equity	244,719	320,483	131
1.2. Issuance Agio	1,500	4,810	321
1.3 Reserves Legally Required	10,610	13,749	130
1.4 Other Reserves	15,621	15,606	100
1.5 Undistributed Profit	2,027	6,509	321
1.a Total (1.1 to 1.5)	274,477	361,157	132
1.6 Losses from Previous Years Not Covered	7,829	0	0
1.7 Current Year Loss	7,744	1,878	24
1.8 Intangible Property Amount	10,378	18,749	181
1.b Total (1.6 do 1.8)	25,951	20,627	79
1.CORE CAPITAL AMOUNT (1a-1b)	248,526	340,530	137
2. BANKS' ADDITIONAL CAPITAL			
2.1 General Reserves for A	29,951	40,851	136
2.2 Current Profit (audited)	19,116	19,748	103
2.3 Profit Amount – Distribution Temporarily Suspended	0	0	0
2.4 Subordinated debts up to maximum 50% of core capital amount	6,547	1,512	23
2.5 Permanent Liability without Obligation to be Repaid	10,727	0	0
2. ADDITIONAL CAPITAL AMOUNT (2.1 to 2.5)	66,341	62,111	94
3.ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL			
3.1 Banks' invest. into other legal persons' cap. over 5% of banks' core cap.	0	2,312	0
3.ITEMS DEDUCTIBLE FROM BANKS' CAPITAL	0	2,312	0
4. BANKS' NET-CAPITAL	314,867	400,329	127

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

As of 31.12.2006 total banks' core capital amounted to KM 340,530 thousand with a growth rate of 37% in comparison to the year-end 2005.

Growth of core capital was influenced by additional capitalization, i.e. increase of equity in five banks by an amount of KM 58.9 million, and a new bank opening with equity of an amount of KM 20 million. At the same time, during 2006, two banks decreased their equities by KM 16.1 million (covering losses from previous periods). Growth of core capital was also under influence of increase of issuance agio, required reserves due to earmarking a part of profit from 2005, increase of undistributed profit, decrease of deductible items by 21% due to elimination of losses from previous years, and decrease of the current year losses by 76% in comparison to the year-end 2005.

Additional capital decreased by 6% due to conversion of both permanent liability without obligation to be repaid (KM 10.7 million) and subordinated debt (KM 5.0 million) into equity. Analyzing structure of additional capital it can be seen that share of reserves for good assets (classification category "A") amounted to 66% with growth rate of 36%, and share of current audited profit amounted to 32% with growth rate of 3%. The amount of current audited profit is related to five banks, since external audits in other four banks were not completed by 31.12.2006 (the deadline to submit audited reports is 31.05.2007).

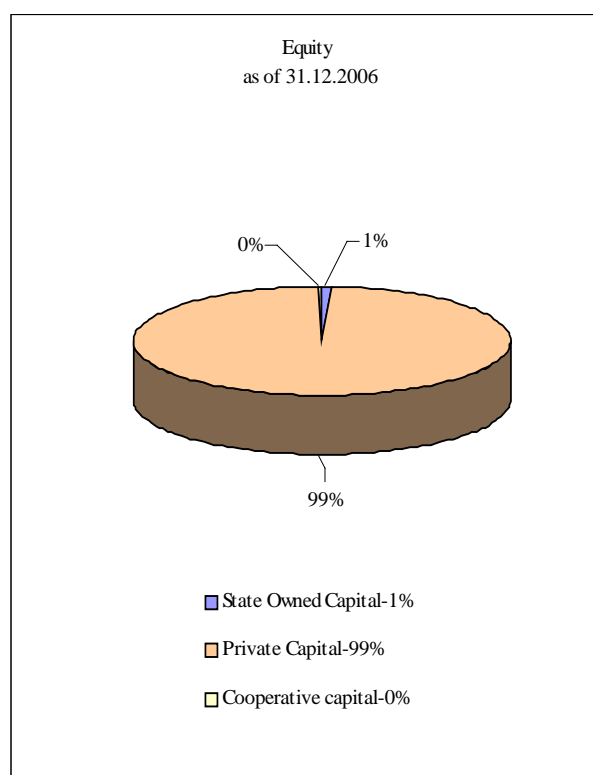
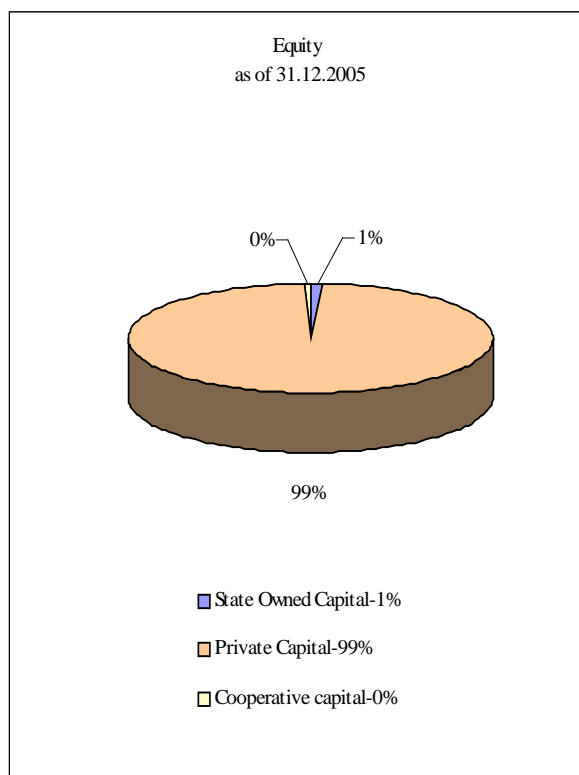
As of 31.12.2006 one bank had a deductible capital item in an amount of KM 2,312 thousand.

Net capital, which consists of core and additional capital decreased by deductible capital items, and which represents a category for calculation of capital adequacy, amounted to KM 400 million, and it was larger by 27% than the amount as of 31.12.2005.

Equity Structure

(in 000 KM)

EQUITY	31.12.2005		31.12.2006		INDEX
	Amount	%	Amount	%	
1	2	3	4	5	6=4/2
1. State owned capital	2,985	1	2,574	1	86
2. Private capital	240,598	99	317,261	99	132
2.1. Foreign capital	201,433	84	276,779	87	137
2.2. Domestic capital	39,165	16	40,482	13	103
3. Cooperative owned capital	1,136	0	648	0	57
TOTAL (1+2+3):	244,719	100	320,483	100	131



Based on the equity ownership structure as of 31.12.2006 share of private capital was 99%, and state owned capital amounted to 1%. As of 31.12.2006 private capital, and especially foreign private capital was nominally larger by KM 75.3 million or by 37% due to additional capitalization, and a new bank founding, while domestic capital was larger by KM 1.3 million or 3%.

According to the ownership structure and the number of voting shares it can be seen that eight banks had majority foreign shareholders managing a total of KM 3,195.8 million of assets or 97.8% out of total assets, while one bank had majority domestic shareholders managing a total of KM 72.5 million of assets or 2.2%.

Capital Adequacy

(in 000 KM)

1	31.12.2004	31.12.2005	31.12.2006	Index	
	2	3	4	5=4/2	6=4/3
Net Capital	229,801	314,867	400,329	174	127
Total Risk Assets	1,192,925	1,663,732	2,216,687	186	133
Capital Adequacy	19%	19%	18%		

Capital adequacy rate is a significant indicator of capital soundness representing a ratio of net capital and total risk assets, and, which, according to the Law on Banks of Republika Srpska, has to amount to at least 12%. As of 31.12.2006 average capital adequacy rate amounted to 18%, and was lower than in 2004 and 2005 when it amounted to 19%, which means that capital increased slower than assets.

Capital adequacy rate per individual banks ranged from the lowest rate of 14.7% up to the highest one of 41.5%, not taking into account the newly opened bank which started its operation only late in September and reached capital adequacy rate of 62.6%.

Three small banks, including the newly opened one (assets lower than KM 100 million), had net capital in an amount of KM 52,660 thousand or 13% out of the total net capital of the banking sector as of 31.12.2006, and total risk weighted assets amounted to KM 127,485 thousand or 6% out of total risk weighted assets, which resulted in an average adequacy rate of 41.3%.

Remaining six banks had average adequacy rate of 16.6%.

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

DESCRIPTION/PERIOD		31.12.2005	31.12.2006
1.	Net capital	283,570	354,854
	Total Assets	1,937,978	2,731,612
	%	15	13
2.	Equity Capital	225,836	285,305
	Total Assets	1,937,978	2,731,612
	%	12	10
3.	Core Capital	230,869	308,119
	Total Risk Assets	1,500,222	2,004,809
	%	15	15
4.	Total Capital	284,654	355,432
	Total Risk Assets	1,500,222	2,004,809
	%	19	18
5.	Net Loans	1,230,214	1,692,685
	Total Capital	284.654	355.432
	%	432	476

Note: Ratios are calculated based on average amounts

All ratios, representing relationship between capital (or parts of capital), and total assets, or total risk assets, had a decreasing trend, except for the ratio of core capital over total risk assets, which remained at the same level. Basic reason for that is the fact that capital growth did not follow sufficiently assets growth, and that was mostly related to larger banks.

5. ASSETS QUALITY

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

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

(in 000 KM)

BALANCE AND OFF-BALANCE SHEET ASSETS ITEMS	31.12.2005	31.12.2006	INDEX
1. Short-term loans	361,069	508,594	141
2. Long-term loans	1,091,067	1,463,489	134
3. Other placements	129,753	246,088	190
4. Interest accrued	7,844	9,333	119
5. Receivables due	50,120	62,661	125
6. Receivables per guarantees paid	6,387	994	16
7. Other assets	770,723	977,181	127
8. BALANCE SHEET ASSETS ITEMS TOTAL:	2,416,963	3,268,340	135
9. General credit risk and potential loan losses	68,757	83,818	122
10. General and special reserves already established	69,420	84,146	121
11. Balance 10.-9.	663	328	49
12a. Guarantees payable	106,706	102,406	96
12b. Performance guarantees	49,011	61,082	125
13. Letters of credit uncovered	7,153	1,868	26
14. Irrevocable credit obligations	46,164	127,525	276
15. Other potential obligations	11,554	12,935	112
16. OFF-BALANCE SHEET ASSETS ITEMS TOTAL:	220,588	305,816	139
17. General credit risk and potential loan losses	6,815	7,762	114
18. General and special reserves already established	6,984	7,818	112
19. Balance 18.-17.	169	56	33
20. BALANCE AND OFF-BALANCE SHEET ITEMS TOTAL:	2,637,551	3,574,156	136
21. General credit risk and potential loan losses	75,572	91,580	121
22. General and special reserves already established	76,404	91,964	120
23. OVERAGE of separated reserves	832	384	46
SHORTAGE of separated reserves	0	0	0
24. ASSETS for which reserves are not calculated (category A)	808,761	1,149,164	142
25. TOTAL ASSETS for which reserves are calculated (20-24)	1,828,790	2,424,992	133

Total amount of classified balance sheet and off-balance sheet assets included all items from banks' balance sheets and all items from active off-balance sheet. However, from the aspect of risk, the Decision of the Agency have defined items (balance and off-balance sheet) not bearing risk, and for which banks are not obligated to establish reserves for loan and other losses.

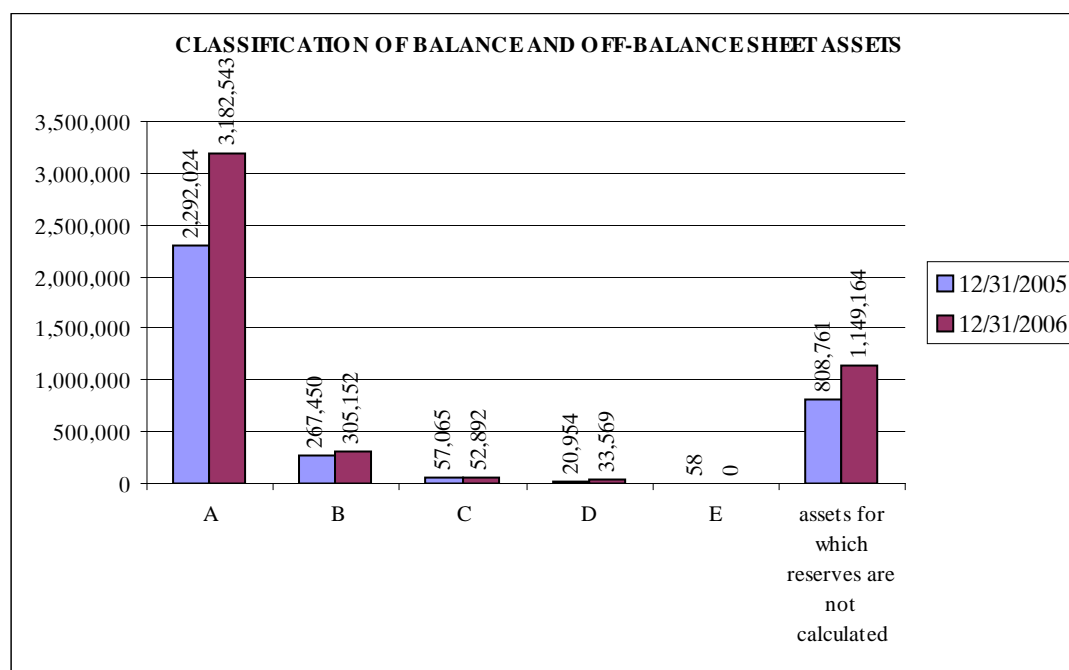
As of 31.12.2006 classified assets (balance and off-balance sheet) amounted to KM 3,574,156 thousand, which was larger by 36% than the amount as of the year-end 2005, and which included an amount of KM 1,149,164 thousand, which represented non-risk assets with no reserves established, and which had a growth rate of 42%.

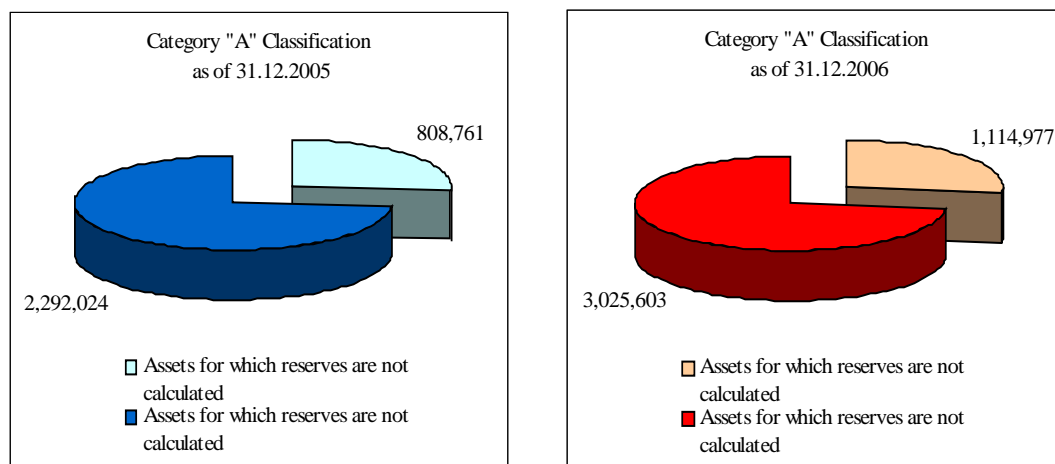
Balance sheet assets increased by 35% and off-balance sheet assets by 39%. The largest item in the structure of classified balance sheet assets were long-term loans amounting to 45%, while in the off-balance sheet structure the largest item was irrevocable credit obligations in an amount of 42% out of total classified off-balance sheet.

If the total balance sheet and off-balance sheet assets as of 31.12.2006 is broken down into risk categories, including also into category A an amount of KM 1,149,164 thousand of non-risk assets, classified assets condition is as follows:

(in 000 KM)

BALANCE AND OFF-BALANCE SHEET ASSETS ITEMS PER RISK CATEGORIES	A	B	C	D	E	TOTAL
1. Short-term loans	443,357	57,903	4,819	2,515	0	508,594
2. Long-term loans	1,216,439	204,630	32,633	9,787	0	1,463,489
3. Other placements	241,356	4,028	17	687	0	246,088
4. Interest accrued	6,587	2,746	0	0	0	9,333
5. Receivables due	20,416	12,706	10,836	18,703	0	62,661
6. receivables per guarantees paid	38	689	130	137	0	994
7. Other assets	972,452	1,277	2,446	1,006	0	977,181
8. BALANCE SHEET ASSETS ITEMS TOTAL:	2,900,645	283,979	50,881	32,835	0	3,268,340
9. General credit risk and potential loan losses	35,177	20,757	11,618	16,266	0	83,818
10. General and special reserves already established	35,307	20,948	11,622	16,269	0	84,146
11. Balance 10.-9.	130	191	4	3	0	328
12a. Guarantees payable	86,325	14,706	1,375	0	0	102,406
12b. Performance guarantees	57,896	3,037	141	8	0	61,082
13. Letters of credit uncovered	1,868	0	0	0	0	1,868
14. Irrevocable credit obligations	123,590	3,430	495	10	0	127,525
15. Other potential obligations	12,219	0	0	716	0	12,935
16. OFF-BALANCE SHEET ASSETS ITEMS TOTAL:	281,898	21,173	2,011	734	0	305,816
17. General credit risk and potential loan losses	5,491	1,507	397	367	0	7,762
18. General and special reserves already established	5,544	1,508	399	367	0	7,818
19. Balance 18.-17.	53	1	2	0	0	56
20. BALANCE AND OFF-BALANCE SHEET ITEMS TOTAL:	3,182,543	305,152	52,892	33,569	0	3,574,156
21. General credit risk and potential loan losses	40,668	22,264	12,015	16,633	0	91,580
22. General and special reserves already established	40,851	22,456	12,021	16,636	0	91,964
23. OVERAGE reserves established	183	192	6	3	0	384
SHORTAGE reserves established	0	0	0	0	0	0
24. ASSETS for which reserves are not calculated (category A)	1,149,164					1,149,164
25. TOTAL ASSETS for which reserves are calculated (20-24)	2,033,379	305,152	52,892	33,569	0	2,424,992





As of 31.12.2006 the total assets (balance and off-balance sheet) bearing operational risk, and for which banks had to separate reservations amounted to KM 2,424,992 thousand with a growth rate of 33% compared to the amount as of 31.12.2005.

Assets Classified per Risk Categories

(in 000 KM)

Classification Category	31.12.2005	%	31.12.2006	%	INDEX
A	1,483,263	81	2,033,379	84	137
B	267,450	15	305,152	13	114
C	57,065	3	52,892	2	93
D	20,954	1	33,569	1	160
E	58	0	0	0	0
TOTAL ASSETS for which reserves are calculated	1,828,790	100	2,424,992	100	133
Assets for which reserves are not calculated (cat. A)	808,761		1,149,164		142
General reserves required for potential LL (A)	29,672		40,668		137
General reserves already established (A)	29,950		40,851		136
Balance for A:	278		183		66
General reserves required for potential LL(B-E)	45,900		50,912		111
Special reserves already established (B-E)	46,454		51,113		110
Balance for (B-E):	554		201		36

In the structure of classified assets, and based on degree of risk, category "A" risk had the largest share in an amount of 84% (increase from 81% to 84%) with a growth rate 37% in comparison with the amount as of 31.12.2005.

As for risk category "A", which is considered "good assets", banks have an obligation to separate reserves at a rate of 2%. Such a large amount of category "A", however, may indicate to an unrealistic classification, since lower reserves separated for loan losses would result in generation of a larger profit, and concurrently banks' unrealistic profitability reported.

Category "B" decreased its share in the classified assets structure from 15% to 13% as of 31.12.2006.

When rating quality assets, special attention is paid to both structure and share of bad assets in the total classified assets consisting of receivables classified into the largest risk categories C, D and E. As of 31.12.2006 bad assets amounted to KM 86,461 thousand and represented 3% of assets, for which reserves were calculated, with a growth rate of 11% in comparison with the previous year-end. Potentially those risk categories have the largest possibility for loan loss.

General reserves, which were calculated for the risk category "A", amounted to KM 40,668 thousand, and reserves actually established amounted to KM 40,851 thousand, i.e. total reserves separated by banks were larger by KM 183 thousand than reserves calculated.

Special reserves calculated for assets classified into risk categories "B"- "E" amounted to a total of KM 50,912 thousand, and the total amount actually allocated to reserves was KM 51,113 thousand, indicating that the amount of reserves separated by banks was larger by KM 201 thousand than reserves calculated, under condition that classification per categories had been done realistically.

Risk Assets and Reserves Separated

(in 000 KM)

No.	DESCRIPTION	31.12.2005	31.12.2006	INDEX
1.	Total risk assets (for which reserves are separated)	1,828,790	2,424,992	133
	- assets classified A	1,483,263	2,033,379	137
	- assets classified B, C, D, E	345,527	391,613	113
2.	Reserves Separated	76,404	91,964	120
	- assets classified A	29,950	40,851	136
	- assets classified B, C, D, E	46,454	51,113	110
3.	Total Reserve/ Total Risk Assets Ratio	4.2%	3.8%	
4.	General Reserve/ Assets Classified A Ratio	2.0%	2.0%	
5.	Special Reserve/ Assets Classified B-E Ratio	13.4%	13.1%	

Total reserves (general & special) amounting to KM 92 million over assets for which reserves were calculated (KM 2,425 million) gave a ratio of 3.8%, which was lower by 1.2% than required minimum reserves for category "B".

General reserves over assets classified into category "A" gave a ratio of 2%, which was in compliance with required rate. Special reserves over assets classified into categories from "B" to "E" gave a ratio of 13.1%, which was lower by 1.9% than the maximum amount required for "B" category classification rate.

Assets classified into categories from "B" to "E" increased by 13%, and special reserves separated for that classification group increased by 10%, which means that banks applied somewhat lower reservation rates.

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

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

Assets Quality Ratios

(in 000 KM)

DESCRIPTION/PERIOD		31.12.2005	31.12.2006
1.	Loans Due/	54,496	68,212
	Total Loans	1,265,514	1,763,870
	%	4	4
2.	Loans Due /	54,496	68,212
	Potential Loan Loss Reserves	55,122	71,185
	%	99	96
3.	Loans Due /	54,496	68,212
	Total Capital	314,867	402,641
	%	17	17
4.	Classified Assets/	1,663,136	2,208,966
	Total Capital	314,867	402,641
	%	528	549
5.	Potential Loan Loss Reserves /	55,122	71,185
	Total Loans	1,265,514	1,763,870
	%	4	4
6.	Total Risk Assets	1,500,222	2,004,809
	Total Assets	1,937,978	2,731,612
	%	77	73

Note: Ratios are based on average amounts.

Loans due over total loans remained at the same level.

Assets grew faster than capital resulting in deterioration of the classified assets over total capital ratio. Reserves for potential loan losses over total loans ratio remained the same, while risk assets over total assets ratio decreased resulting in increase of all other risk bearing assets items.

5.1. Transactions with related persons

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

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

- A bank may perform transactions with persons related to the bank only under an approval by Supervisory Board or another body authorized by the Supervisory Board,
- A physical person related to the bank may be approved to perform business transactions (credit transactions and off-balance sheet obligations) amounting to a maximum of up to 1% of the bank's core capital,
- All physical persons related to a bank may be approved to a total of business transactions amounting to a maximum of up to 10% of the bank's core capital,
- All placements to persons related to a bank shall not exceed 40% of the bank's core capital.

Banks shall maintain separate records on the following:

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

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

(in 000 KM)					
DESCRIPTION	31.12.2005	%	31.12.2006	%	Index
1	2	3	4	5	6=4/2
Loans and guarantees to:					
1. Shareholders with voting rights exceeding 5% (loans)	5,194	67	4,500	55	87
2. Shareholders with voting rights exceeding 5% (guarantees)	8	0	114	1	1.425
3. Supervisory Board Members	482	6	309	4	64
4. Management	2,061	27	3,311	40	161
5. Total Receivables from Persons Related to Banks (1 to 4)	7,745	100	8,234	100	106
6. Bank's Employees	22,749		25,956		114
7. Grand Total (5+6)	30,494		34,190		112

Loans extended to related persons increased by 6% in comparison to the amount as of 31.12.2005, and were within legal requirements.

Loans to banks' shareholders represented the largest share of 55% in the structure of receivables from related persons, while loans to banks' management amounted to 40%. Loans to banks' management had a growth rate of 61% if compared to the year 2005, while loans to shareholders decreased by 13%.

Loans to banks' employees increased by 14% in comparison to the previous year.

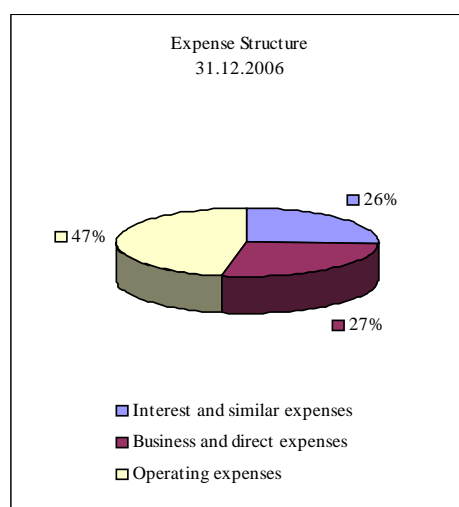
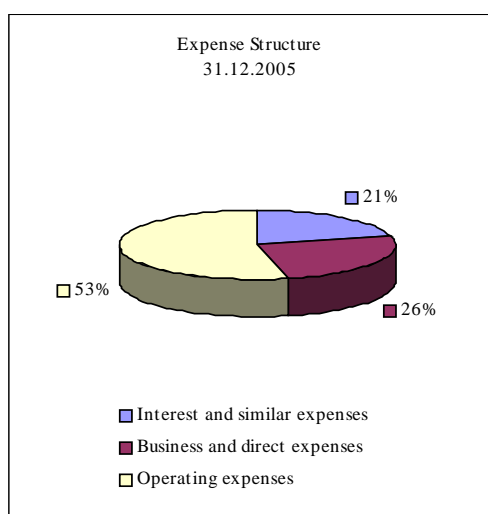
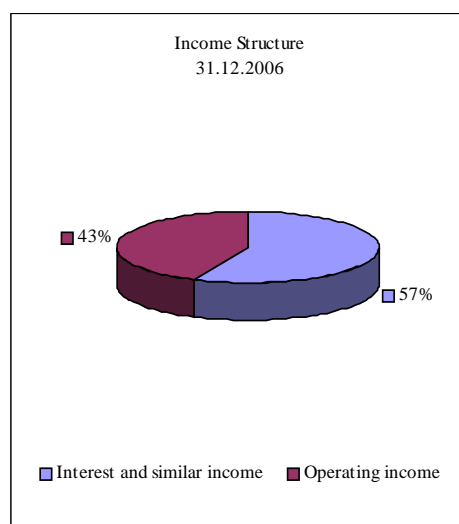
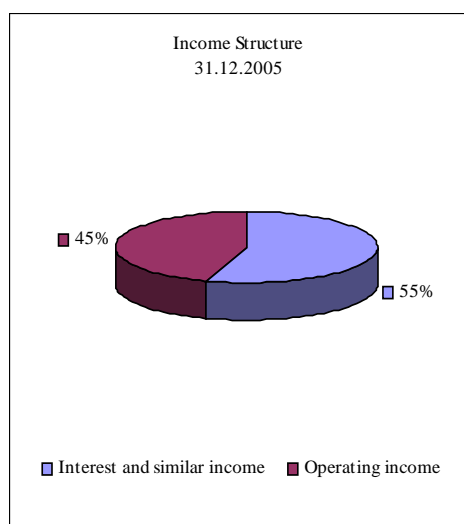
6. INCOME STATEMENT

As of 31.12.2006 total banking sector income amounted to KM 290 million with a growth rate of 24%, while total expenses grew at a rate of 19% and amounted to KM 264 million.

The income statement structure is the following:

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2005		31.12.2006		Index
	Total	%	Total	%	
1	2	3	4	5	6
1. INTEREST INCOME AND SIMILAR INCOME					
a) Interest income and similar income	128,213	55	164,168	57	128
b) Operating income	104,680	45	125,505	43	120
2. TOTAL INCOME (1.a+1.b)	232,893	100	289,673	100	124
3. EXPENDITURE					
a) Interest expenditure and similar expenditure	45,593	21	68,053	26	149
b) Business and direct expenses	57,485	26	72,045	27	125
c) Operating expenditure	118,511	53	124,147	47	105
4. TOTAL EXPENDITURE (3.a+3.b+3.c)	221,589	100	264,245	100	119
TOTAL INCOME-EXPENDITURE (2.-4.)	11,304		25,428		
PROFIT BEFORE TAX	19,048		27,306		143
LOSS	7,744		1,878		24
TAX	402		1,298		323
NET PROFIT	10,902		24,130		221



Income structure consisted of interest income amounting to 57% with a growth rate of 28%, and operating income amounting to 43% with a growth rate of 20%. Interest income increased its share in the total income from 55% to 57% in comparison to the same period of the previous year, while operating income share decreased from 45% to 43%.

Interest income is the main income, which resulted from increased lending activities of banks, especially to economy sector. That was a positive trend, since banks were directing their business operations to more stable sources of income.

Total expenditure amounted to KM 264 million, and increased by 19%. Expenditure structure significantly changed in comparison to 31.12.2005. Interest expenses increased its share in the total expenditure from 21% as of the year-end 2005 to 26% with a growth rate of 49%, which resulted from deposit growth and increase of deposit interest, especially for long-term deposits.

Business and direct expenses, consisting of expenses of reserves for loan and other losses, and direct cost, increased by 25% and their share in the expenditure structure amounted to 27%.

The amount increased mainly due to growth of expenses for loan and other loss reserves, since in the same period total loans, as a part of banking operation bearing the largest risk, increased by 35%.

Operating expenses increased by 5%. Operating expense structure consisted of 42% of expenses for salaries and contributions, 38% of expenses for office space, and 20% of other operating costs.

Salaries and contributions expenses increased by 8%, and were in alignment with increase of the total number of employees in 2006.

Profit before taxes amounted to KM 27.3 million, and it was larger by 43% in comparison to the same period of the previous year.

Net profit amounted to KM 24.1 million, and it was larger by 121% in comparison to the amount as of 31.12. 2005.

As of 31.12.2006 loss was reported by the newly opened bank in an amount of KM 1,878 thousand.

The level of generated profit indicates to significantly improved profitability of the banking sector of Republika Srpska, where it is especially important that losses from previous years were completely covered.

It should be pointed out that apart from reserves for potential losses, which are mandatory under the Law on Banks of Republika Srpska, banks were obligated to separate legally required amount of reserves of up to 10% as required by the Law on Enterprises. Legally required reserves separated by banks amounted to KM 13.7 million, and if that amount were added to reserves for credit and other losses, the total amount of reserves would be KM 105.7 million, which calculated over total risk assets would give a reserve rate of 4.4% instead of the reported 3.8%.

Profitability Ratios

(in 000 KM)

DESCRIPTION/PERIOD		31.12.2005	31.12.2006
1.	Profit /	10,902	24,130
	Average net assets	1,937,978	2,731,612
	%	0,56	0,88
2.	Profit/	10,902	24,130
	Average total capital	233,969	311,898
	%	4,66	7,74
3.	Profit/	10,902	24,130
	Average equity	221,230	275,037
	%	4,93	8,77
4.	Net interest income /	82,620	96,115
	Average net assets	1,937,978	2,731,612
	%	4	4
5.	Fee Income/	75,367	74,101
	Average net assets	1,937,978	2,731,612
	%	4	3
6.	Total income/	187,300	221,620
	Average net assets	1,937,978	2,731,612
	%	10	8
7.	Business and direct expenses/	57,485	72,045
	Average net assets	1,937,978	2,731,612
	%	3	3
8.	Operating expenses/	118,511	124,147
	Average net assets	1,937,978	2,731,612
	%	6	5
9.	Non-interest bearing expenses /	175,996	196,192
	Average net assets	1,937,978	2,731,612
	%	9	7

Note: Ratios are based on average amounts.

Return on average assets ratio increased, but it was still lower than the usual average amount of 1%, which means that increase of earnings did not follow increase of scope of banks' operation. Return on average total capital increased in comparison with the same period of the previous year, however it remained under the level required which should exceed 10%. Ratio calculated as net interest income over average assets remained at the same level. Fee income and total income over average assets ratio decreased. Total income increased at a somewhat slower rate than assets.

Business and direct expenses over average assets ratio remained at the same level as in the previous year.

Ratios of other expenses over average assets decreased, which represents a positive trend, thus it can be concluded that certain rationalization of business operation actually took place.

7. LIQUIDITY

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

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

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

The most important source of funding banks' business operation were deposits amounting to 81% of total liabilities, while loans borrowed amounted to 5%, and subordinated debt, as a long-term quality source, amounted to less than 0.5% and was related to only one bank.

Deposit maturity structure consisted of KM 1,509 million or 59% of short-term deposits, and KM 1,073 million or 41% of long-term deposits. Deposit maturity structure was under a strong influence of long-term deposits of one bank, whose mother bank actually had a large amount of deposits.

If we have in mind that deposit maturity structure makes a basis for placements maturity structure, then planning of sources, and overall liquid position of each bank must be aligned with the lending policy planned. Any serious impairment of maturity adjustment may always create problems in liquidity maintenance, and cause deterioration of the bank's financial condition.

Overall banking sector of Republika Srpska is both liquid and capable of meeting obligations as of maturity date. Banks kept a relatively large amount of cash funds, which represented 29% of total assets of all banks.

All banks met in continuity minimum requirements for liquidity position maintenance, i.e. banks kept certain amounts of cash funds on both daily and ten-day period basis related to sources, and actually amounts were much larger than the required ones.

Also, all banks met the requirement of maintaining minimum required reserve with the Central Bank of BH.

A survey of liquidity ratios is given in the following table:

(in 000 KM)

DESCRIPTION/PERIOD		31.12.2005	31.12.2006
1.	Short-term assets/	894,938	1,298,237
	Short-term liabilities	975,364	1,340,372
	%	92	97
2.	Short-term assets /	894,938	1,298,237
	Total assets	1,937,978	2,731,612
	%	46	48
3.	Short-term liabilities /	975,364	1,340,372
	Total assets	1,937,978	2,731,612
	%	50	49
4.	Net short-term liabilities /	80,426	42,135
	Total assets	1,937,978	2,731,612
	%	4	2
5.	Net loans/	1,252,593	1,744,272
	Deposits	1,543,583	2,215,825
	%	81	79
6.	Net loans and financ. obligation taken, L/Cs/	1,259,044	1,746,962
	Total assets	1,937,978	2,731,612
	%	65	64

Note: Ratios are based on average amounts

Short-term assets over liabilities ratio indicated faster growth of short-term placements than short-term sources.

Share of short-term assets in the total assets amounted to 2%, while share of short-term liabilities decreased by 1%.

Net loans over deposits ratio decreased from 81% to 79%, and it was barely satisfactory, which means that credit portfolio did not follow sufficiently growth of deposit basis, which could negatively influence liquidity in the future period.

7.1. Foreign currency adjustment of financial assets and liability

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

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

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

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

Bank's foreign currency position and individual foreign currency positions per individual currencies have to range within the framework stipulated in relationship with bank's core capital.

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

As of 31.12.2006 total foreign currency assets of RS banks amounted to KM 432 million, or 13.5% of total assets, and consisted of cash funds in an amount of KM 289 million, loans in an amount of KM 129 million, and other items in an amount of KM 14 million.

Total foreign currency exposure of assets have to be increased by loans with foreign currency clause, which amounted to KM 1,275 million or 65% of total net loans of banking sector of Republika Srpska as of 31.12.2006.

Total foreign currency liabilities of banks of Republika Srpska amounted to KM 1,462 million, out of which KM 1,371 million were deposits, and all other items amounted to KM 91 million.

Total foreign currency liabilities have to be increased by an amount of deposits with foreign currency clause of KM 227 million or 9% out of total deposits.

Foreign currency liabilities of banks of Republika Srpska were significantly different in amounts and structure in comparison with foreign currency assets due to a share of foreign currency deposits within total deposits, and especially so in the largest bank.

As per currency structure EURO currency dominated in the total amount of foreign currency of assets (87%) and liabilities (87%). Since KM is pegged to EURO banks were not exposed to foreign currency risk per that currency.

As of 31.12.2006 total foreign currency position at the level of the banking system was a long position.

Banks complied with regulation stipulated for individual foreign currency positions per actual currencies, as well as for total position related to core capital. Exception was only one bank, which at the end of the year made an additional capitalization payment in EURO.

8. BANKS' SENSITIVITY TO MARKET RISKS

Banks' sensitivity to market risk is measured by means of sensitivity of items of assets, liabilities, off-balance sheet, earnings, and capital, to changes of interest rates, foreign currency rates, and fluctuation of prices at the market.

Taking into consideration character, and level of development, as well as actual economic activities in Bosnia and Herzegovina (capital market underdeveloped, inadequate legal regulation for collateral enforcement and collection, dominating lending activities in banks' overall business operation), banking sector operation supervision pays the most serious attention to examination of credit risk, liquidity risk, and foreign currency risk. Due to lack of the market for the largest number of assets items, sophisticated market assessments are not applicable, yet.

Also, current regulatory support is not adequate, thus it should be necessary to have legal enactments and by-laws define in more details that risk area, especially in the sense of being able to recognize, understand, monitor and supervise such risk, as well as to establish additional capital requirements for risk coverage.

Taking into account that interest rate represents banking product price, changes of interest rate may significantly influence business operation of banks.

In order to, partially, amortize influence of interest rate changes, banks introduced into both their business and interest policy, a category of flexible interest rate contracted, which provides for continuous adjusting to market interest rates fluctuations.

Since credit portfolio is kept per non-repaid amounts of loans it is difficult to follow and make a correct assessment of risk pertaining to interest rate changes.

Also, we have to mention that effective interest rate has not been implemented yet in Republika Srpska and Bosnia and Herzegovina, i.e. such an interest rate under which present value of future credit based cash-flows is calculated (the Agency has published the Decision on unique method of calculation of and reporting on effective interest rate for loans and deposits, implementation of which is to commence on July 1, 2007, however, only for calculation of and reporting on effective interest rate).

Under current monetary circumstances, where domestic currency i.e. KM is pegged to EURO under a fixed rate, foreign currency rate is relatively low, since assets in EURO amounted to 87% of the total foreign currency assets as of 31.12.2006, and a similar ratio is found with foreign currency liabilities and off-balance sheet items.

The amount of trading assets has not represented an item of significance in the up-to-now banking operation, thus influence of market price risk could be measured in a smaller number of banks only, and not at the level of the banking sector. Such business activities will be developed in a future period, and it will be necessary to monitor their impact on the banking sector.

Ratios of banks' sensitivity to market risks

(in 000 KM)

DESCRIPTION/PERIOD		31.12.2005	31.12.2006
1.	Interest income/ Average interest-bearing assets	128,213 1,827,401	164,168 2,647,535
	%	7.02	6.20
2.	Loan interest income/ Average loans, leasing based receivables	118,877 1,265,514	151,122 1,763,870
	%	9.39	8.57
3.	Average long-term loans/ Average assets	904,626 1,996,628	1,300,814 2,808,520
	%	45.31	46.32
4.	Average FC loans and loans with FC clause Average assets	807,656 1,996,628	1,173,912 2,808,520
	%	40.45	41.80
5.	Average FC assets Average assets	1,039,499 1,996,628	1,423,679 2,808,520
	%	52.06	50.69
6.	Average FC assets without EURO Average assets	57,284 1,996,628	117,046 2,808,520
	%	2.87	4.17
7.	Interest expenses Average interest-bearing assets	45,593 1,648,844	68,053 2,334,809
	%	2.77	2.91
8.	Deposit interest expenses Average deposits	42,661 1,543,583	65,050 2,215,825
	%	2.76	2.94
9.	Average FC liabilities Average obligations	1,031,937 1,749,229	1,430,257 2,479,371
	%	58.99	57.69
10.	Average FC liabilities without EURO Average obligations	52,103 1,749,229	113,084 2,479,371
	%	2.98	4.56
11.	Average short-term deposits Average assets	961,744 1,996,628	1,329,631 2,808,520
	%	48.17	47.34
12.	Average short-term deposits Average loans, leasing based receivables	961,744 1,265,514	1,329,631 1,763,870
	%	76.00	75.38

Ratios listed above are some of parameters used in analyzing banks' sensitivity to market risks.

Average assets interest rate calculated as a ratio of interest income over average interest-bearing assets as of 31.12.2006 amounted to 6.20% with a decreasing tendency in comparison to the previous year-end.

Average credit interest rate (calculated as a ratio of credit interest income over total loans) was 8.57% and decreased in comparison with the amount as of 31.12.2005.

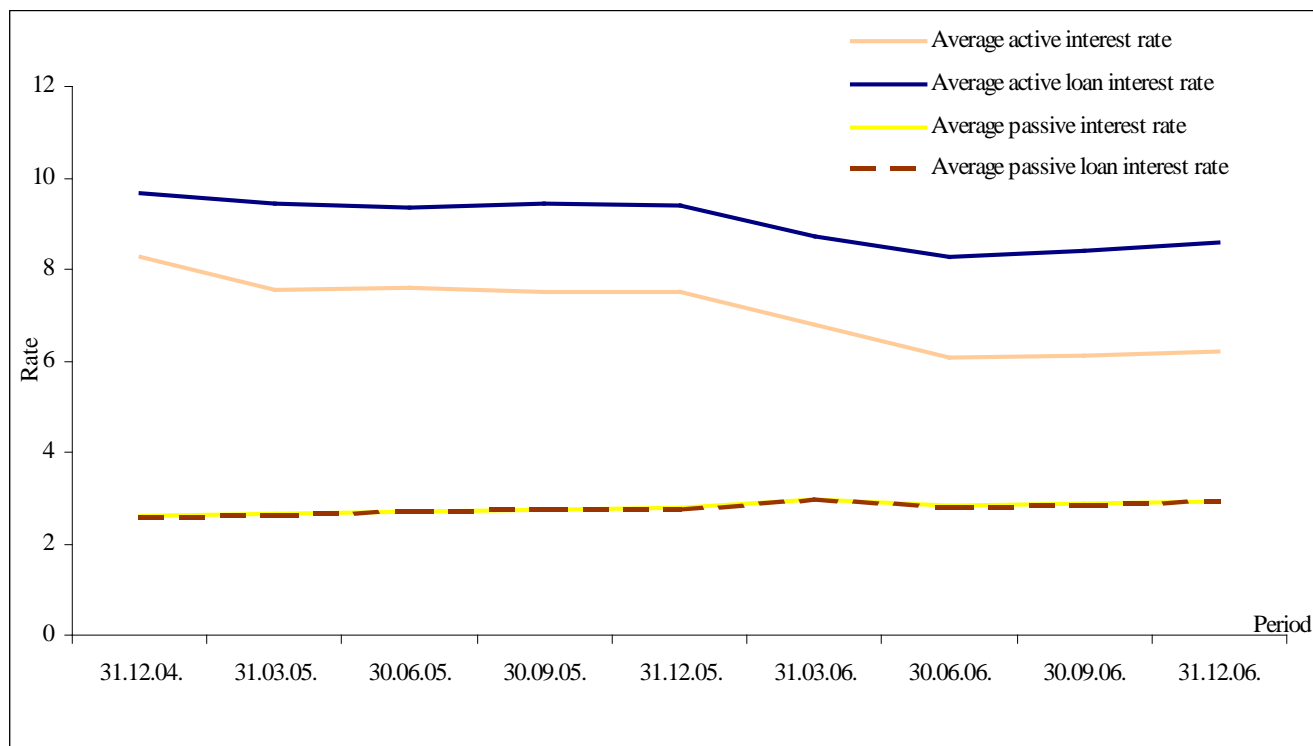
Ratio of average long-term loans over average assets amounted to 46.32% and recorded increase in comparison with the year 2005, but if we take into consideration the fact that the most of those loans had clauses on changeable interest rate, and FC clause, then it can be concluded that there was no significant risk to cause income decrease.

Average foreign currency (FC) assets amounted to 50.69% out of total average assets. If, however, the item of FC assets in EURO is excluded, then the amount is 4.17% out of average assets.

As of 31.12.2006 average passive interest rate calculated as a ratio of interest expense over average interest bearing liabilities amounted to 2.91%, and average deposit interest amounted to 2.94%, and both of them increased in comparison to the 2005 year-end.

Average FC liabilities amounted to 57.69% out of average liabilities, and with liabilities in EURO excluded, it would amount to 4.56%, which means that the essential foreign currency side of the banking sector of Republika Srpska consisted of EURO, which, by its being KM pegging currency, did not bear any risk due to changes of foreign currency exchange rate.

Fluctuations of average assets and liabilities interest rates are shown in the following graph:



If average active interest rate (ratio of interest income over interest bearing assets of 6.20%) is put into relationship with average passive interest rate (ratio of interest expenses over interest bearing liabilities of 2.91%), we can get an average interest margin of 3.29%.

Calculating ratio between average active interest rate for loans (loan interest rate over loans ratio of 8.57%) and average passive deposit interest rate (deposit interest expenses over total deposits ratio of 2.94%), we can get an interest margin of 5.63%.

Although interest margins decreased by 1% in comparison to the previous year-end, they were still large, and indicated to an ample space banks had preserved for possible decrease of active, and increase of passive interest rates in case of stronger competition at the banking market.

9. PREVENTION OF MONEY LAUNDERING AND TERRORISM FINANCING

Within its scope of bank supervision, the Agency also supervises banks' compliance with minimum standards for prevention of money laundering and terrorism financing.

The Law on Prevention of Money Laundering prescribes that business activities related to prevention, investigation, and discovery of business activities representing money laundering and terrorism financing shall be performed by the BH Investigation and Protection Agency - Financial Intelligence Department (hereinafter: FID), and the Banking Agency shall supervise implementation of the Law on Banks.

All banks have developed overall Programs, Policy and Procedures for prevention of money laundering and terrorism financing, which have been implemented in their major parts. Compliance of business operation of both banks and their lower-level organizational units with provisions regulating prevention of money laundering and terrorism financing represents a subject of regular assessment by banks' internal audit. The Agency's examinations, however, have shown that a smaller part of such internal auditors' reports do not always adequately assess implementation of Programs, Policies and Procedures by individual banks. The Agency's examinations have also found out that banks do report on prescribed transactions to authorities required. In order to minimize effectively operating risks due to money laundering and terrorism financing, apart from appointing authorized persons and their deputies, banks have established separate departments for prevention of money laundering and terrorism financing, whose only task is to adjust banks' operation with minimum standards for money laundering and terrorism financing activities. Both education received, and efficiency of those persons authorized for prevention of money laundering and terrorism financing have significantly improved, and the function is on a satisfactory level.

Banks have established a special client' profile register in order to have better quality implementation of activities targeted to prevention of money laundering and terrorism financing. Also, such a register can help in discovering unusual activities, and deviations from client's profile established. Unfortunately, there is still a smaller number of banks implementing the "know your client" principle neither adequately nor sufficiently.

Banks' have also established central registers of clients and of their accounts, for which cash transactions have been exempted from reporting, in order to simplify reporting method, and to provide for better quality and more relevant information to FID. Here, also, some of banks have not adequately completed collecting data and documentation of those clients exempted from reporting.

Suspicious Transactions Reported

DESCRIPTION	31.12.2005.	31.12.2006.
Number of suspicious transactions reported	54	6
Value of suspicious transactions reported (in 000 KM)	5,950	2,820

Reporting to the Agency on transactions required has been performed by banks in accordance with the Law on Banks of Republika Srpska, and it has been on a satisfactory level. In the course of the year 2005 banks reported to the Agency and FID on 54 suspicious transactions in a total amount of KM 5,950 thousand, while in 2006 there were 6 suspicious transactions in a total amount KM of 2,820 thousand. Such a decrease of the number of suspicious transactions resulted from, first of all, adequate implementation of banks' Programs, Policies, and Procedures for prevention of money laundering and terrorism financing.

Based on the condition described, and trend monitoring results it can be stated that there are no reasons for supervisory concern for the banking system in Republika Srpska when it comes to exposure to risks caused by money laundering and terrorism financing, but most certainly a continuous supervision is needed to maintain, and to further improve current level of compliance with existing requirements.

10. INTERNAL PAYMENT TRANSACTIONS

As of 31.12.2006 all 9 banks from Republika Srpska and 22 operating units or branch offices of banks from Federation of Bosnia and Herzegovina licensed to operate in Republika Srpska were involved in RS internal payment transactions.

As of 31.12.2006 a total of 107,758 transaction accounts were opened, which was by 29,865 lower in comparison with the number as of 31.12.2005 due to closing inactive accounts.

Numbers and amounts of transactions performed are shown in the following table:

Date	Internal bank payment transactions (accounts debited)		Inter-banking payment transactions (accounts debited)	
	Number of transactions	Amounts of transactions (000 KM)	Number of transactions	Amounts of transactions (000 KM)
31.01.2006	762,529	1,492,653	668,343	787,420
28.02.2006	891,997	1,584,874	772,249	887,676
31.03.2006	1,031,039	1,959,851	915,500	1,024,495
30.04.2006	927,845	1,490,781	823,502	914,576
31.05.2006	1,631,123	1,906,924	950,942	1,111,268
30.06.2006	1,535,883	1,903,081	879,306	1,080,590
31.07.2006	1,467,822	1,771,000	934,942	1,101,683
31.08.2006	1,635,124	2,074,769	975,183	1,197,564
30.09.2006	1,647,061	2,290,077	915,918	1,466,233
31.10.2006	1,682,407	2,386,744	957,643	1,277,352
30.11.2006	1,661,248	2,408,460	929,299	1,317,279
31.12.2006	1,987,370	2,567,601	1,019,950	1,452,926
TOTAL:	16,861,448	23,836,815	10,742,777	13,619,062

The total number of 16.9 million of internal bank transactions performed in 2006 amounted to KM 23.8 billion, while the number of 10.7 million of inter-banking transactions performed amounted to KM 13.6 billion.

Examinations of internal payments transactions performed did not find larger violations of provisions i.e. only smaller irregularities in filling-in payment orders and account blocking were noticed, as well as still inadequate documenting of transaction account files. Banks were given orders and deadlines for correction of irregularities found, and during and after examinations banks were intensively removing those irregularities.

11. CONCLUSION

After analyzing in detail indicators related to banks in 2006 we could state that almost all of them had a positive trend, which defined quality of the banking sector.

Positive characteristics were the following:

- Total assets increased by 34%, out of which balance sheet assets increased by 36%;
- Cash funds increased by 43%, and net loans increased by 35%;
- Cash funds in domestic currency increased by 61%;
- Deposits increased by 35%, and share of citizens' deposit amounted to 31% of total deposits with a growth rate of 45%;
- Loans to enterprises (34%) and loans to citizens (36%) had the largest influence on credit growth;
- Banks' liquidity was at the satisfactory level;
- Equity (shareholders' capital) increased by 31%, and net capital by 27%;
- Banks separated reserves at rates within legally prescribed framework under condition that assets classification was done realistically;
- All banks of Republika Srpska had their deposits insured except for the newly opened bank, which was in the process of insuring its deposits.

In order to improve the quality of their indicators of operation in the future period, banks should do the following:

- Adjust growths of assets and capital;
- Report on assets quality in a more realistic manner, and separate adequate reserves for potential losses;
- Banks have to provide for a faster growth of long-term sources, since long-term loans have larger growth rate than short-term loans;
- Monitor more intensively lending to citizens, taking into consideration amounts and growth rates of loans to citizens past due;
- Take care of diversification of deposits, and follow up concentration of deposits of mother-banks;
- Observe the amount of cash funds, and improve income generated;
- Further improve performance of payment transactions;
- Strengthen internal control and internal audit of banks;
- Work on decreasing expenses and fixed assets, which would result in increased profitability;
- Staff strengthening and professional education in order to have better quality relationships with clients, especially with small and medium enterprises, including new aspects of services already well known in the world, i.e. stronger development of financial management operations;
- Hardware and software strengthening of IT support.

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

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

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

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

12 . A T T A C H M E N T S

Attachment no. 1. Basic data on banks in Republika Srpska

Attachment no. 2. Balance Sheet

Attachment no. 3. Capital Flows

Attachment no. 4. Income Statement

Attachment no. 5. Staff

BASIC DATA ON BANKS

No.	BANK	HQ	ADDRESS	DIRECTOR	TELEPHONE	FAX	31.12.2006 (u 000KM)		Number of employees
							ASSETS	CAPITAL	
1.	Nova Banjalucka banka a.d.	Banja Luka	M. Bursac 7	Dragan Kovacevic	051/243-200	212-830	402,920	53,853	511
2.	Hypo Alpe-Adria-Bank a.d.	Banja Luka	I. F. Jukica 9	Kurt Makula	051/212-930	212-878	1,180,121	124,241	436
3.	Bobar banka a.d.	Bijeljina	Njegoseva 1	Dragan Radumilo	055/201-862	207-739	72,559	17,353	129
4.	NLB Razvojna banka a.d.	Banja Luka	Milana Tepica 4	Radovan Bajic	051/221-600	221-623	616,813	55,723	503
5.	Zepter banka a.d.	Banja Luka	Jevrejska bb/II sprat	Ranko Labovic	051/241-100	215-771	252,799	23,836	206
6.	Balkan Investment Bank a.d.	Banja Luka	Bana Milosavljevica 8	Edvinas Navickas	051/245-111	245-145	130,955	19,807	132
7.	Pavlovic International Bank a.d.	Slobomir, Bijeljina	Karadjordjeva 1	Petar Lazic	055/232-300	232-301	89,715	22,420	191
8.	Nova banka a.d.	Bijeljina	Svetog Save 46	Milorad Andzic	055/209-094	201-410	443,810	49,470	374
9.	Komercijalna banka a.d.	Banja Luka	Veselina Maslese 6	Srdjan Suput	051/244-701	244-710	78,648	18,122	76
	TOTAL:						3,268,340	384,825	2,558

BALANCE SHEET

(in 000 KM)

DESCRIPTION/PERIOD	31.12.05	%	31.12.06	%	INDEX
1. Cash funds and deposit accounts with deposit. institut. (1.a.+1.b.)	680,472	28	971,555	29	143
1.a. Cash funds and non-interest bearing deposit accounts	121,726	5	106,818	3	88
1.b. Interest bearing deposit accounts	558,746	23	864,737	26	155
2. Trading securities	8,740	0	8,448	0	97
3. Placements to other banks	19,608	1	22,333	1	114
4. Loans, Leasing based receivables, and Receivables due (4.a.+4.b.+4.v.)	1,508,642	63	2,035,738	63	135
4.a. Loans	1,452,136	60	1,972,082	60	136
4.b. Leasing based receivables	0	0	0	0	0
4.c. Loans, and Leasing based receivables due	56,506	3	63,656	3	113
5. Securities held up to maturity	30	0	0	0	0
6. Office space and other fixed assets	135,600	6	157,234	5	116
7. Other immovables	108	0	104	0	96
8. Investments into non-consolidated related companies	6,551	0	9,783	0	149
9.b Other assets	57,212	2	63,145	2	110
TOTAL (1 to 9)	2,416,963	100	3,268,340	100	135
10. MINUS: Reserves for potential losses	69,420		84,147		121
11. TOTAL ASSETS: (1. to 9.-10.)	2,347,543		3,184,193		136
11.1. Total off-balance sheet items					
1. active off-balance sheet	220,588		305,816		139
2. classified assets-loss E	151,811		165,967		109
3. commission business activity (agents)	58,159		76,033		131
TOTAL ASSETS (11.+11.1)	2,778,101		3,732,009		134
12. Deposits (12.a.+12.b.)	1,910,815	81	2,582,805	81	135
12.a. Interest-bearing deposits	1,756,428	75	2,425,997	76	138
12.b. Non-interest bearing deposits	154,387	6	156,808	5	102
13. Borrowings taken – obligations due (13.a.+13.b.)	0	0	0	0	0
13.a. Balance of obligations due, and not repaid	0	0	0	0	0
13.b. Balance of off-bal. obligations not repaid –called for payment	0	0	0	0	0
14. Borrowings taken from other banks	0	0	0	0	0
15. Obligations to Government	0	0	312	0	0
16. Obligations per loans taken and other borrowings (16.a.+16.b.)	108,811	5	143,962	5	132
16.a. with remaining maturity up to one year	21,753	1	15,186	0	70
16.b. with remaining maturity more than one year	87,058	4	128,776	5	148
17. Subordinated debt and subordinated bonds	6,547	0	1,512	0	23
18. Reserve to cover off-balance sheet items	11,744	1	12,263	0	104
18.a. Other obligations	31,166	1	58,514	2	188
19. TOTAL LIABILITIES (12 to 18)	2,069,083	88	2,799,368	88	135
20. Permanent preferred shares	2,000		2,000		100
21. Regular shares	242,719		318,483		131
22. Premium (22.a. +22.b)	1,500		4,810		321
22.a. on permanent preferred shares	0		0		0
22.b. on regular shares	1,500		4,810		321
23. Undistributed profit	21,583		32,055		149
24. Capital reserves	26,231		29,355		112
25. Other capital	-15,573		-1,878		12
26. TOTAL CAPITAL: (20. to 25.)	278,460	12	384,825	12	138
27. TOTAL LIABILITIES AND CAPITAL: (19. + 26.)	2,347,543	100	3,184,193	100	136
28.1.Total off-balance sheet items					
1. active off-balance sheet	220,588		305,816		139
2. classified assets-loss E	151,811		165,967		109
3. commissioned (agent) services	58,159		76,033		131
TOTAL LIABILITIES (27.+28.1)	2,778,101		3,732,009		134

CAPITAL STATEMENT

(in 000 KM)

DESCRIPTION/PERIOD	31.12.2005	31.12.2006	INDEX 2006/2005
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:	241,545	320,483	133
1.2. Equity capital based on nominal amounts of regular and preferred non-cumulative shares issued against immovables and rights invested into shareholders' capital:	3,174	0	0
1.3. Premiums collected for share payments:	1,500	4,810	321
1.4. General reserves required (reserves required by the law):	10,610	13,749	130
1.5. Other reserves which are not taken into account when rating asset quality:	15,621	15,606	100
1.6. Retained – undistributed profit from previous years:	2,027	6,509	321
TOTAL (from 1.1. to 1.6.)	274,477	361,157	132
1.7. Uncovered loss carried over from previous years:	7,829	0	0
1.8. Current Year Loss:	7,744	1,878	24
1.9. Bookkeeping value of bank's owned (vault) shares:	0	0	0
1.10. Amount of intangible property: patents, licenses, concession, investments in: marketing, commercial name, trade mark, goodwill, and similar:	10,378	18,749	181
TOTAL (from 1.7. to 1.10.)	25,951	20,627	79
1. AMOUNT OF CORE CAPITAL:	248,526	340,530	137
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	0
2.2. Equity capital based on nominal amounts of permanent preferred cumulative shares issued against immovables and rights invested into shareholders' capital:	0	0	0
2.3. General reserves for loan loss coverage for bank's assets rated as category A – Pass:	29,951	40,851	136
2.4. Accrued profit in the current year audited and verified by external auditor:	19,116	19,748	103
2.5. Amount of profit for which BA-RS issued Decision on Temporary Suspension of Distribution:	0	0	0
2.6. Amount of subordinated debt maximum 50% of amount of Core Capital:	6,547	1,512	23
2.7. Amount of hybrid i.e. convertible items-instruments of capital maximum 50% of amount of Core Capital:	0	0	0
2.8. Amount of items-commitments of a permanent character without obligation to be repaid:	10,727	0	0
2. AMOUNT OF ADDITIONAL CAPITAL:	66,341	62,111	94
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL			
3.1. Part of invested shareholders' capital, which represents, according to BA-RS, balance of received, but overstated value:	0	0	0
3.2. Bank's investments in capital of other legal entities exceeding 5% of the bank's core capital:	0	2,312	0
3.3. Receivables from shareholders having a significant voting right in the bank, which receivables are based on the bank's approvals contrary to provisions of the Law, BA-RS and the bank's business policy:	0	0	0
3.4. Bank's large risk exposure related to shareholders having a significant voting right in the bank, which exposure has not been previously approved by the BA-RS:	0	0	0
3. ITEMS TO BE DEDUCTED FROM BANKS' CAPITAL:	0	2,312	0
4. CALCULATION OF BANKS' CAPITAL AMOUNT			
1. AMOUNT OF BANKS' CORE CAPITAL	248,526	340,530	137
2. AMOUNT OF BANKS' ADDITIONAL CAPITAL	66,341	62,111	94
3. AMOUNT OF BANKS' ITEMS OFF-SETTING FROM THE CAPITAL	0	2,312	0
4. AMOUNT OF BANKS' NET-CAPITAL (1. + 2. - 3.)	314,867	400,329	127
B. RISK WEIGHTED ASSETS AND LOAN EQUIVALENTS	1,663,732	2,216,687	133
C. CAPITAL ADEQUACY RATE	19%	18%	

INCOME STATEMENT

(in 000 KM)

DESCRIPTION/PERIOD	31.12. 2005	%	31.12. 2006	%	INDEX
1. INTEREST INCOME AND EXPENSE					
a) Interest income and similar income					
1) Interest bearing deposit accounts at depository institutions	6,633	5	8,345	5	126
2) Placements to other banks	1,844	1	4,430	3	240
3) Loans and leasing operations	118,877	93	151,122	92	127
4) Securities held up to maturity	2	0	44	0	2.200
5) Other companies' shares owned by banks	0	0	0	0	0
6) Paid off-balance sheet obligation receivables	184	0	204	0	111
7) Other interest income and similar income	673	1	23	0	3
8) TOTAL INTEREST INCOME AND OTHER INCOME (1 to7)	128,213	100	164,168	100	128
b) Interest expense and similar expense					
1) Deposits	42,661	94	65,050	96	152
2) Borrowings from other banks	580	1	904	1	156
3) Borrowings – due obligations	0	0	0	0	0
4) Loan and other borrowing obligations	2,297	5	1,708	3	74
5) Subordinated debt and subordinated bonds	41	0	344	0	839
6) Other interest expense and similar expense	14	0	47	0	336
7) TOTAL INTEREST EXPENSE AND SIMILAR EXPENSE (1 to 6)	45,593	100	68,053	100	149
c) NET INTEREST AND SIMILAR INCOME	82,620		96,115		116
2. OPERATING INCOME					
1) Foreign currency operation income	15,170	14	11,756	9	77
2) Loan fees	13,634	13	9,928	8	73
3) Off-balance sheet operation fees	6,838	7	6,751	5	99
4) Service fees	38,066	36	42,563	34	112
5) Trading operation income	1,659	2	3,103	2	187
6) Other operating income	29,313	28	51,404	42	175
7) TOTAL OPERATING INCOME (1 to 6)	104,680	100	125,505	100	120
3. NON-INTEREST BEARING EXPENSE					
a) Operating and direct expense					
1) Reserves for general loan risk and potential loan and other losses	50,206	87	63,556	88	127
2) Other operating and direct expenses	7,279	13	8,489	12	117
3) TOTAL OPERATING AND DIRECT EXPENSES (1) + 2)	57,485	100	72,045	100	125
b) Operating expenses					
1) Salaries and contributions	47,856	41	51,698	42	108
2) Office space, other fixed assets and overheads	45,246	38	47,281	38	104
3) Other operating expenses	25,409	21	25,168	20	99
4) TOTAL OPERATING EXPENSES (1 to 3)	118,511	100	124,147	100	105
c) TOTAL EXPENSES (a)3) + b)4)	175,996		196,192		111
4. PROFIT BEFORE TAX (1c+2.7) – 3.c)	19,048		27,306		143
5. LOSS (1.c + 2.7) - 3.c)	7,744		1,878		24
6. TAX	402		1,298		323
7. NET-PROFIT (4. - 5. - 6.)	10,902		24,130		221

STAFF

No.	BANKS	QUALIFICATION STRUCTURE								TOTAL	%
		Worker	Skilled Worker	Highly Skilled Worker	Secondary School Diploma	Junior College	College Graduated	Master Degree	Dr. Sc.		
1.	Nova Banjalucka banka a.d.	0	12	3	276	58	157	5	0	511	20.0
2.	Hypo Alpe-Adria-Bank a.d.	12	0	1	264	14	144	1	0	436	17.0
3.	Bobar banka a.d.	0	5	0	78	13	32	1	0	129	5.0
4.	NLB Razvojna banka a.d.	3	8	7	251	64	165	5	0	503	19.7
5.	Zepter banka a.d.	1	0	1	96	26	82	0	0	206	8.1
6.	Balkan Investment Bank a.d.	3	1	0	70	11	47	0	0	132	5.2
7.	Pavlovic International Bank a.d.	7	0	1	116	13	52	2	0	191	7.5
8.	Nova banka a.d.	0	0	0	124	68	179	3	0	374	14.6
9.	Komercijalna banka a.d.	0	0	1	30	9	35	1	0	76	3.0
TOTAL		26	26	14	1,305	276	893	18	0	2,558	100.0
%		1	1	0	51	11	35	1	0	100	