



**BOSNIA AND HERZEGOVINA
FEDERATION OF BOSNIA AND HERZEGOVINA
BANKING AGENCY OF THE FEDERATION OF BOSNIA AND HERZEGOVINA**

I N F O R M A T I O N
ON THE BANKING SYSTEM OF
THE FEDERATION OF BOSNIA AND HERZEGOVINA
AS OF 31. 03. 2011.

Sarajevo, May 2011.

Information on banking system of the Federation of BiH (as of 31.03.2011., based on final, unaudited data) is prepared by the Banking Agency of the Federation of BiH, as a regulatory authority conducting supervision of banks, based on reports of banks, and other information and data submitted by banks. Findings and data from on-site examinations and analysis performed at the Agency (off-site financial analysis) have also been included.

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I INTRODUCTION

In 2010, negative economic movements stopped and there happened a slight economic activity in the real sector effects as in the previous year, was under the strong impact of the global economic crises and recession. The crises consequences and the adverse effects in the banking sector of FBiH, are mostly reflected in its stagnations, decline of profitability, increase of the non-performing assets and loans, past due receivables, loan loss provisions and deterioration of other key indicators of banks' performance. During the 2010, the banks kept the enhanced focus on the credit risk and restructuring of their credit portfolios with more restrictive and rigorous policies of credit risk management, especially in the loan approval process. Although, in 2010 recorded are first signs of slight recovery of economic activities, it is evident that the condition of the real sector is still not satisfactory and that the economic recovery will be slow and lengthy.

In 2010, the negative economic movements were blocked and there happened a slight recovery of the economic activities in the real sector. The growth and development of the banking sector that was stopped recorded a minor growth of the credit activity, which continued in the first quarter of 2011, and the negative trends of the asset quality decline and its deterioration from the previous periods have significantly been alleviated.

As of 31.03.2011., there were 19 banks with banking license issued in the Federation of BiH, of which 2 banks were under provisional administration (Hercegovačka bank d.d. Mostar and Postanska bank BH d.d. Sarajevo). In 2010, the trend of decrease of the number of employees in banks continued, which is another negative effect of the economic crises on the banking system in FBiH. As of 31.03.2011., the number of employees in the banking sector was 7.351, which is by 1% or 37 employees less than as of 31.12.2010..

The aggregate balance sheet of the banking sector, as of 31.03.2011., amounted to 15,04 billion KM, representing a minor decrease of 37 million KM compared to the end of 2010. The slight credit growth from the previous three quarters of 2010 continued in the first quarter of 2011, which is an encouraging indicator of the banks' credit activity. For the first time after the eighth month of 2009, when the amount of loans dropped under 10 billion KM, at the end of the second month of 2011 it again was over 10 billion KM, and as of 31.03.2011 the amount was 10,1 billion KM and it is by 1,4% higher than as of 31.12.2010.

In the first quarter of 2011, the assets structure had smaller changes related to two key property items: increase of the credit participation from 66,2% to 67,3% and decrease of the cash funds from 29,5% to 27,5%.

In the assets structure the cash funds present 4,1 billion KM and they declined by 7% or 311 million KM in comparison to the end of 2009, mostly due to increase of the time deposits on the accounts of the foreign banks and increase of the credit placements.

The most important liability items: deposits, credit liabilities and total capital in the first quarter of 2011. Had minimal changes: decline of 1% deposits (93 million KM), while credit liabilities realized growth (devet million KM) and capitala (23 million KM). In the liability structure of the banks' balance sheet, the deposits with the amount of 11,1 billion KM and participation of 74,1% still a dominant source of financing for banks in the Federation of FBiH.

Savings deposits, as the most significant segment of deposit and financial potential of banks, maintained the positive growth trend in the first three months of 2011., with a rate of 2% or 82

million KM and as of 31. 03. 2011., they were 5,06 billion KM, which is the highest amount up to date.

In the first quarter of 2011.the regulatory and net capital remained at almost the same level of two billion KM, that is it decreased for only nine million KM in relation to 2010. As of 31.03.2011., the banking system capital adequacy rate, as one of the most important indicators of strength and adequacy of banks' capital, was 15,8%, which is still significantly over the legal minimum (12%) and it presents a satisfactory capitalization of the overall system and a strong base and foundation for maintaining its security and stability.

At the level of the banking system of F BiH in the first quarter of 2011, positive financial result was realized in the total amount of 22,8 million KM, while in the same period in 2010 a loss was realized in the amount of 5,9 million KM. Positive financial result of 34,2 million KM was realized by 12 banks, while 7 banks realized losses in performance in the amount of 11,4 million KM.

II BUSINESS PERFORMANCES OF BANKS IN THE F BIH

1. STRUCTURE OF THE BANKING SECTOR

1.1. Status, number and business network

As of 31.03.2011., there were 19 banks with the banking license issued in the Federation of BiH. Number of banks is smaller than as of 31.12.2010. There is a special law regulating establishment and work of the Development Bank of the Federation of BiH, Sarajevo which is a legal successor of the Investment Bank of the Federation of BiH d.d., Sarajevo, as of 01.07.2008.

As of 31.03.2011., there were two banks under provisional administration (Hercegovačka banka d.d. Mostar and Postanska banka BH d.d. Sarajevo).

In the first quarter of 2011., there was no significant expansion of the banks' organizational units network. There were established only five new organiyational units. Simultaneously, some banks closed their organizational units, that is they performed reorganization and merger of their organizational parts with an aim to rationalise their expenses, so as of 31. 03. 2011., the banks from the Federation of BiH have a total of 602 organizational units. In relation to 31. 12. 2010. When the banks had 600 organizational units, the listed presents an increase of 0,3%.

As of 31.03.2011., seven banks from the Federation of BiH had 54 organizational units in the Republic Srpska and nine banks had 12 organizational units in District Brcko. Five banks from the Republic Srpska had 23 organizational units in the Federation of BiH. The only change was in the number of organizational units of banks from Federation of BiH on the territory of the Federation of BiH.

As of 31.03.2011., all the banks had the license for inter-bank transactions in the internal payment system and 15 banks were under the deposit insurance program.

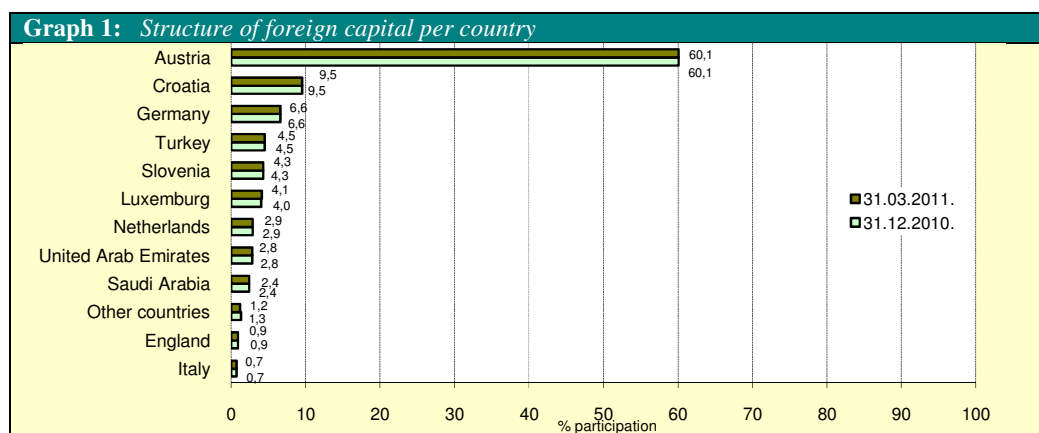
1.2. Ownership structure

As of 31.03.2011., ownership structure in banks¹ based on the available information and on-site visits to banks² is the following:

- Private and majority private ownership 18 banks (94,7%)
- State and majority state ownership³ 1 banks (5,3%)

Seven banks, of 18 banks with majority private ownership, are majority owned by domestic legal entities and individuals (residents), while 11 banks have majority foreign ownership.

If only foreign capital is analyzed based on the criteria of the shareholders' home country, as of 31.03.2011., the condition is the same as at the end of 2010: shareholders from Austria owned 60,1% of foreign capital, the shareholders from Croatia owned 9,5% of foreign capital, while other countries participated less than 7%.

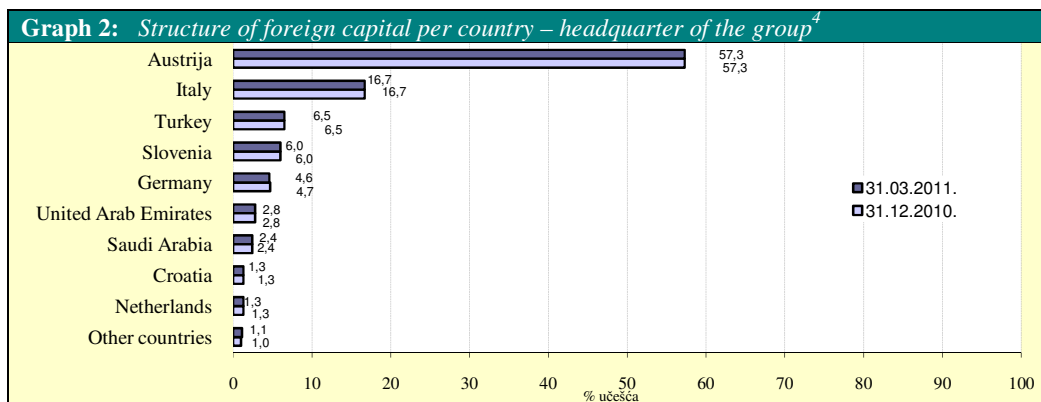


However, if capital correlations are taken into account the structure for foreign capital could be viewed according to the criteria of the parent-bank or the group's headquarter that has majority ownership (directly or indirectly over the group members) of the bank in the Federation of BiH. According to these criteria, the situation also did not change in relation to the end of 2010: banking group and banks from Austria with participation of 57,3%, banks from Italy with participation of 16,7%, while other countries participate below 6,5%.

¹ A bank classification criterion is ownership over banks' share capital.

² The ownership structure of banks in the FBiH, as of 31.12.2010., resulted from received documentation and registrations at authorized courts (changes in capital and shareholders structure).

³ State ownership refers to domestic state capital of BiH.

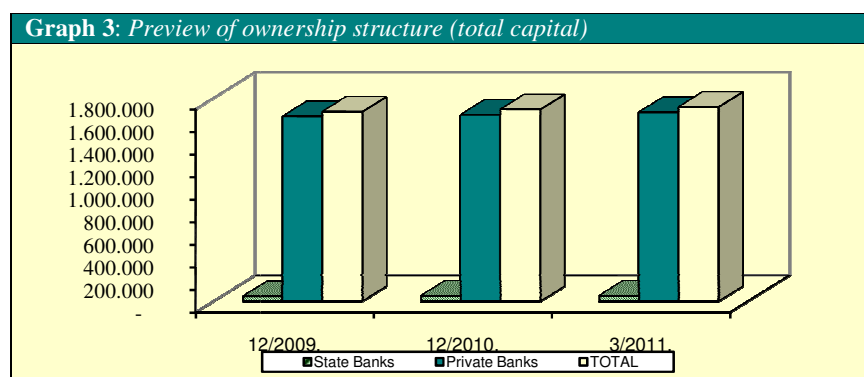


The ownership structure could be viewed from the aspect of financial indicators, which is based on the value of total capital⁵.

- in 000 KM-

Table 1: Ownership structure by total capital

BANKS	31.12.2009.		31.12.2010		31.03.2011.		RATIO	
	1	2	3	4	5	6	3/2	4/3
State banks	41.736	2%	46.586	3%	47.017	3%	112	101
Privates banks	1.635.962	98%	1.650.039	97%	1.672.871	97%	101	101
TOTAL	1.677.698	100%	1.696.625	100%	1.719.888	100%	101	101



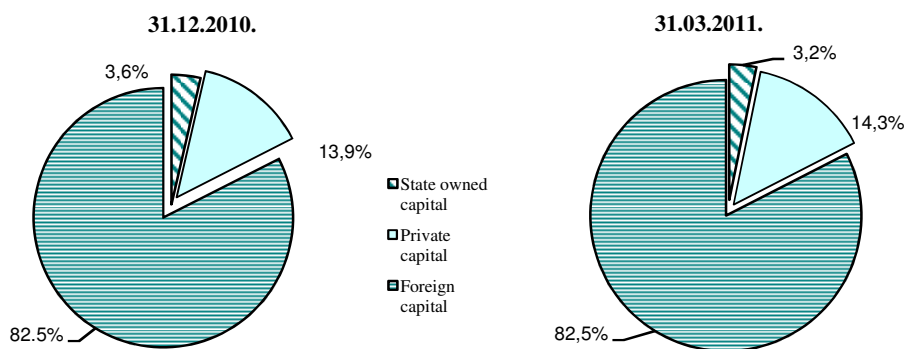
Analysis of participation by state, private and foreign capital in the share capital of banks shows more precise picture of the capital ownership structure in banks of the Federation of BiH.

⁴ Apart from the country of the headquarters of the parent-group whose members are the banks from the F BiH, the countries of all other shareholders of the banks from the F BiH are also included.

⁵ Information from balance sheet – FBA schedule: shareholder's capital, premium issue, undistributed profit and reserves, and other capital (financial results of current period).

- in 000 KM-

SHARE CAPITAL	31.12.2009.		31.12.2010.		31.03.2011.		RATIO		
	Amount	Participation %	Amount	Participation %	Amount	Participation %	5/3	7/5	
	1	2	3	4	5	6	7	8	9
State capital		41.860	3,6	41.860	3,6	37.620	3,2	100	90
Private capital (residents)		153.365	13,1	163.074	13,9	167.533	14,3	106	103
Foreign capital (nonresident)		975.943	83,3	968.363	82,5	968.144	82,5	99	100
TOTAL		1.171.168	100,0	1.173.297	100,0	1.173.297	100,0	100	100

Graph 4: Ownership structure (share capital)

The share capital of banks in the Federation of BiH, in the first quarter of 2011., remained the same as of 31.12.2010. The structure of the shareholder's capital slightly changed: the state capital decreased by 4,2 million KM, private capital (resident) increased by 4,4 million KM, and private (nonresident) capital decreased by 0,2 million KM.

Analysis of the banks' ownership structure shows in the most explicit way, from the aspect of share capital, the changes and trends in the banking system of the FBiH, and especially the changes of the ownership structure.

Participation of the state capital in total share capital, as of 31.03.2011., was 3,2%, and it decreased by 0,4% in relation to as of 31.12.2010.

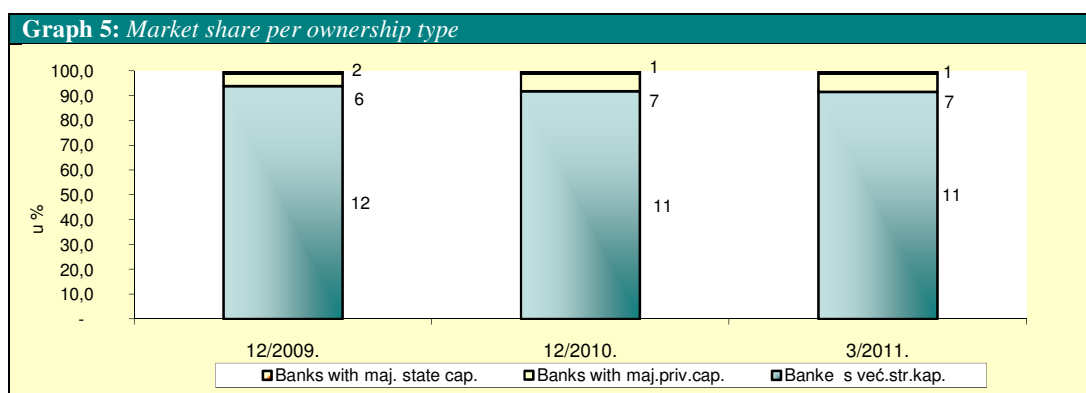
Participation of private capital (residents) in total share capital of 14,3% is representing a 0,4 per cent increase in comparison to the end of 2010. Nominal increase of 4,4 million KM was based on the increase in trading with state owned capital in banks, and slightly due to trading with non-residents, in seven banks in the net amount of 4,4 million KM.

Participation of foreign capital (nonresidents) in total share capital has decreased by 0,2 million KM or 0,03% percent points in comparison to 31.12.2010.

As of 31.03.2011., the market share of banks with majority foreign ownership was a high 91,6%, of banks with majority domestic private capital was 7,3%, and the share of banks with majority state capital was 1,1%.

Table 3: Market share of banks per ownership type (majority owned capital)

BANKS	31.12.2009.			31.12.2010.			31.03.2011.		
	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. In total assets
1	2	3	4	5	6	7	8	9	10
Banks with majority state capital	2	2,5	1,1	1	2,7	1,1	1	2,7	1,1
Banks with majority private domestic capital	6	10,7	5,0	7	12,2	7,0	7	11,8	7,3
Banks with majority foreign capital	12	86,8	93,9	11	85,1	91,9	11	85,5	91,6
TOTAL	20	100,0	100,0	19	100,0	100,0	19	100,0	100,0



1.3. Employees

As of 31.03.2011., there were a total of 7.351 employees in the banks of the Federation of BiH, of that number 2% is in the banks with a majority state capital and 98% in private banks.

Table 4: Bank employees in the FBiH

BANKS	NUMBER OF EMPLOYEES						RATIO	
	31.12.2009.		31.12.2010.		31.03.2011.		3:2	4:3
1	2	3	4	5	6	7	8	9
State banks	231	3%	180	2%	182	2%	78	101
Private banks	7.425	97%	7.208	98%	7.169	98%	97	99
TOTAL	7.656	100%	7.388	100%	7.351	100%	97	99
Number of banks	20		19		19		95	100

In the first quarter of 2011., the number of employees decreased by 1% or 37 employees and almost all refers to two banks in teh system.

Table 5: Qualification structure of employees

EDUCATION	NUMBER OF EMPLOYEES						RATIO	
	31.12.2009.		31.12.2010.		31.03.2011.		4:2	6:4
1	2	3	4	5	6	7	8	9
University qualifications	3.104	40,5%	3.234	43,8%	3.267	44,4%	104	101
Two-year post secondary school qualifications	774	10,1%	696	9,4%	693	9,4%	89	100
Secondary school qualifications	3.719	48,6%	3.406	46,1%	3.341	45,5%	92	98
Other	59	0,8%	52	0,7%	50	0,7%	88	96
TOTAL	7.656	100,0%	7.388	100,0%	7.351	100,0%	97	99

The decreasing trend from the previous year continued in the first quarter of 2011, which is one of the consequences of the adverse effects of the economic crisis on the banking sector of the Federation of BiH.

The trend of improvement of the qualification structure of employees through the increase of participation of employees with higher education also continued in the first quarter of 2011., and the negative of the decrease of the number of employees, mostly with high school diploma, had a positive impact on the change of the qualification structure.

One of the indicators influencing an evaluation of performance of a respective bank, and the banking system, is effectiveness of employees and it is shown as a ratio of the assets and the number of employees, that is, the amount of assets per an employee. The higher ratio, the better the performance effectiveness of both the bank and the entire system

Table 6: Assets per employee									
BANKS	31.12.2009.			31.12.2010.			31.03.2011.		
	No. of empl.	Assets (000 KM)	Assets per empl.	No. of empl.	Assets (000 KM)	Assets per empl.	No. of empl.	Assets (000 KM)	Assets per empl.
State	231	161.619	700	180	167.263	929	182	162.208	891
Private	7.425	15.074.741	2.030	7.208	14.908.434	2.068	7.169	14.876.352	2.075
TOTAL	7.656	15.236.360	1.990	7.388	15.075.697	2.041	7.351	15.038.560	2.046

At the end of 2010, there was a two million KM assets per employee on the level of the banking system. The increase of the indicators for the majority state capital is a consequence of the decrease of the number of employees.

Table 10: Assets per employee by groups						
Assets (000 KM)	31.12.2009.		31.12.2010.		31.03.2011.	
	Number of banks		Number of banks		Number of banks	
Up to 500	1		0		0	
500 to 1.000	8		7		4	
1.000 to 2.000	5		6		9	
2.000 to 3.000	5		5		5	
Over 3.000	1		1		1	
TOTAL	20		19		19	

Analytical indicators of respective banks range from 620 thousand KM to 3,2 million KM of assets per an employee. Six banks have a better indicator than the one for the whole banking sector, and three largest banks in the system have one that exceeds 2,4 million KM.

2. FINANCIAL INDICATORS OF BANKS' PERFORMANCES

Examination of banks based on reports is performed through using the reports prescribed by the FBA and the reports of other institutions creating a database constructed of three sources of information:

1. Information on balance sheet for all banks submitted monthly, including quarterly attachments, containing more detailed information on funds, loans, deposits and off-balance sheet items, and some general statistic information,
2. Information on bank solvency, data on capital and capital adequacy, asset classification, concentrations of certain types of risks, liquidity position, foreign exchange exposure, based on the reports prescribed by the FBA (quarterly),
3. Information on performance results of banks (income statement – FBA format) and cash flow reports submitted to the FBA quarterly.

Aside from the mentioned standardized reports, the database includes the information obtained from additional reporting requirements prescribed by the FBA in order to have the best conditions for monitoring and analysis of banks' performance in the Federation of BiH. The database also includes audit reports of financial statements of banks prepared by independent auditor, as well as all other information relevant to the assessment of performances of individual banks and the entire banking system.

In accordance with the provisions of Law on Opening Balance Sheet of Banks, banks with majority state owned capital have to report to the FBA "full" balance sheet divided into: passive, neutral and active sub-balance sheet. In order to obtain realistic indicators of banks' performance in the Federation of BiH, all further analysis of the banking system will be based on the indicators from the active sub-balance sheet of banks with majority state owned capital⁶.

2.1. Balance Sheet

Aggregate balance sheet of the banking sector, as of 31.03.2011., amounted to 15,04 billion KM, which is for an insignificant 37 million KM less than at the end of 2010. It is evident that the impact of the financial crises on the banking sector in FBiH is still strong, the development and growth of the overall sector has been stopped, but the stagnation present in the last two quarters can still be evaluated as positive, since the negative trends from the period after the crises up to the first half of 2010 have been significantly alleviated.

Table 8: Balance Sheet								
DESCRIPTION	AMOUNT (IN 000 KM)							
	31.12.2009.		31.12.2010.		31.03.2011.		RATIO	
	AMOUNT	Partic. %	AMOUNT	Partic. %	AMOUNT	Partic. %	3/2	4/3
1	2	3	4	5	6	7	8	9
ASSETS:								
Cash funds	4.782.301	27,9	4.443.614	29,5	4.132.114	27,5	93	93
Securities ⁷	119.157	0,1	375.252	2,4	376.259	2,5	315	100
Placements to other banks	111.019	0,6	145.007	1,0	296.771	2,0	131	205
Loans	9.796.800	69,2	9.981.911	66,2	10.121.527	67,3	102	101
Loan loss provisions (LLP)	458.803	2,5	635.792	4,2	649.701	4,3	139	102
Loans – net value (loans minus LLP)	9.337.997	66,7	9.346.119	62,0	9.471.826	63,0	100	101
Business premises and other fixed assets	528.910	3,1	552.764	3,7	551.581	3,6	105	100
Other assets	356.976	1,6	212.941	1,4	210.009	1,4	60	99
TOTAL ASSETS	15.236.360	100,00	15.075.697	100,00	15.038.560	100,00	99	100
LIABILITIES								
LIABILITIES								
Deposits	11.045.868	69,4	11.232.830	74,5	11.140.157	74,1	102	99
Borrowings from other banks	3.089	0,0	7.000	0,0	8.000	0,1	227	114
Loan Commitments	1.771.978	14,4	1.403.451	9,3	1.412.484	9,4	79	101
Other liabilities	737.727	5,3	735.791	4,9	758.031	5,0	100	103
CAPITAL								
Capital	1.677.698	10,9	1.696.625	11,3	1.719.888	11,4	101	101
TOTAL LIABILITIES (LIABILITIZIES AND CAPITAL)	15.236.360	100,0	15.075.697	100,00	15.038.560	100,00	99	100

⁶ Some state banks in their "full balance sheet" report passive and neutral items, which will be taken over by the state upon finalization of the privatization process. As of 31.12.2010., these items amounted to KM 659 million.

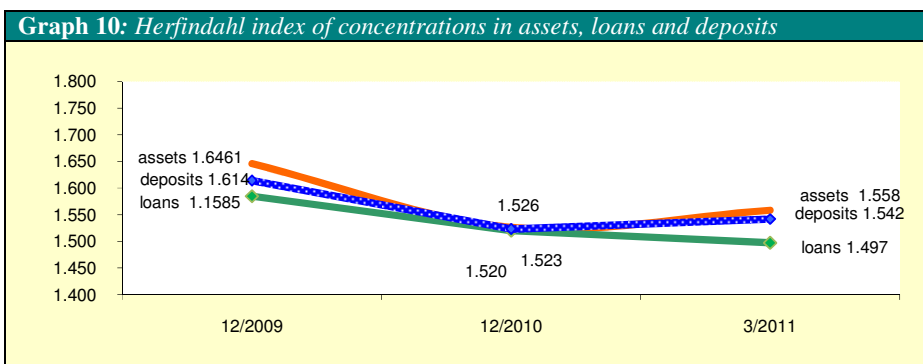
⁷ Trading securities and securities held to maturity.

Table 9: Assets of banks based on the ownership structure

BANKS	31.12.2009.		31.12.2010.			31.03.2011.		RATIO	
	No. banks	Assets (000 KM)	No. banks	Assets (000 KM)	No. banks	Assets (000 KM)	5/3	7/5	
State	2	161.619	1	167.263	1	162.208	103	97	
Private	18	15.074.741	18	14.908.434	18	14.876.352	99	100	
TOTAL	20	15.236.360	19	15.075.697	19	15.038.560	99	100	

The assets of majority of banks (13) were smaller than at the end of 2010, with low declining rate (up to 3%), and only one bank from the group of larger banks in the system had an asset decline of 11,5%. Of the remaining six banks, three had the level of assets from the end of 2010, and at three banks realized is a moderate growth between 5% and 13%. Of three largest banks in the system, two recorded a slight decline of their aggregate balance sheet of 17,1% with total nominal amount of 94 million KM, while the third listed bank recorded a growth of 4,7% or 177 million KM.

Indicator of concentrations in the three most significant segments of banking performance, in assets, loans and deposits is the value of the Herffindahl index⁸.



At the end of the first quarter of 2011, the Herffindahl index in all three relevant categories (loans, deposits and assets) recorded insignificant changes in value: assets 1.558 units, loans 1.497 deposits 1.542, indicating a moderate concentration⁹. In comparison to the end of 2010, the indicator for assets and deposits increased (by 32 and 19 units), and for loans declined (by 23 units).

Another indicator of concentration in the banking system is the ratio of market concentration, that is the concentration rate¹⁰ (hereinafter: CR), which indicates the total market participation of

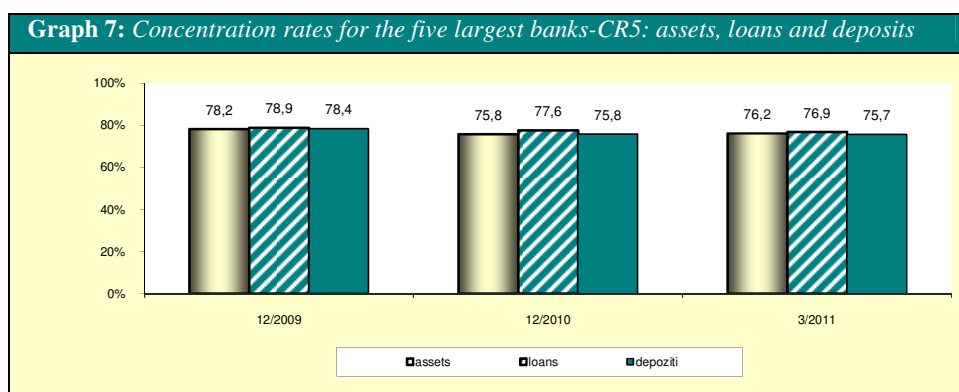
⁸ It is also called the Hirschmann-Herffindahl index or HHI as calculated in the formula $HI = \sum_{j=1}^n (S_j)^2$,

representing the sum of square of percentage shares of concrete values (e.g. assets, deposits, loans,...) of all market participants in the system. We should mention that the index is not linearly increasing, and the value of e.g. 3000 does not mean the concentration in the system is 30%. Hypothetically, if there is only one bank in the system, the HHI would be maximum at 10000.

⁹ If the HHI value is below 1000, the opinion is that there is no concentration in the market; for the index value between 1000 and 1800 units, concentration in the market is moderate; and if the HHI value exceeds 1800, it indicates high concentration.

¹⁰ Engl.: concentration ratio (CR), assigned to the number of institutions included in the calculation.

the largest institutions in the system per relevant chosen categories: assets, loans and deposits. The CR5 for market participation and deposits of the five largest banks in the system, at the end of the first quarter of 2011., was by 0,4 percent points higher, for loans it declined from 77,6% to 76,9%, and for deposits remained at the same level of 75,7%. In the past two years the CR value has slightly declined in all three categories, but there is still an evident dominance of five largest banks in the system that “hold” approximately 76% of the market, loans and deposits



The banking sector could be analyzed from the aspect of several groups established according to the asset size¹¹. The minor changes in relation to the end of 2010 refer to the number of banks and participation of certain groups which is a result of changes of assets in a larger number of banks.

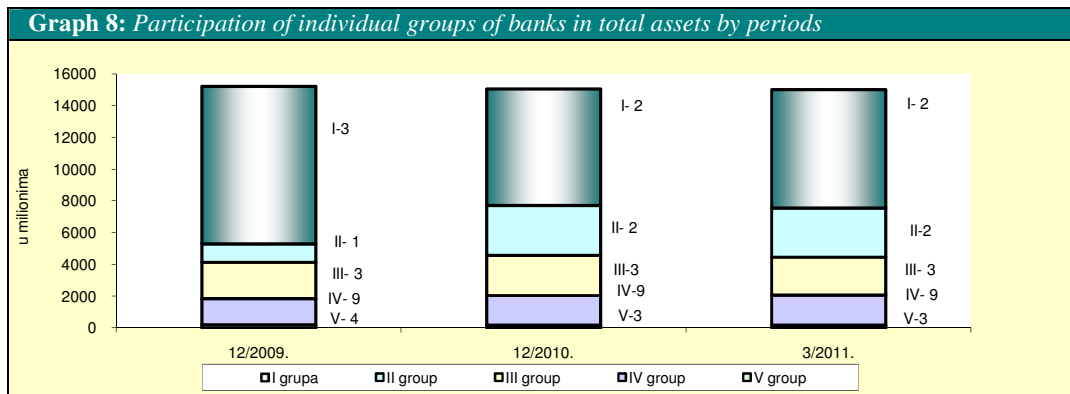
The participation of banks in Group I (assets higher than two billion KM), increased from 48,8% to 49,6%, while in group II, also two banks, slightly declined and amounted to 20,6%. The participations of Group III (three banks assets between 500 million KM and one billion KM) decreased by 0,8 percent points, and was 15,9%, while in Group IV (nine banks, assets between 100 and 500 million KM) increased by a slight 0,3 per cent that is 12,6%. The participation of the last Group V (three banks with assets lower than 100 million KM), maintained the same participation of 1,3% as at the end of 2010.

The following table presents a preview of amounts and participations of individual groups of banks in total assets by periods (amounts presented in KM millions).

Table 10: Participation of individual groups of banks in total assets through periods

ASSETS	31.12.2009.			31.12.2010.			31.03.2011.		
	Amount	Partic. %	No. of banks	Amount	Partic. %	No. of banks	Amount	Partic. %	No. of banks
I- Over 2.000	9.912	65,1	3	7.348	48,8	2	7.462	49,6	2
II- 1000 to 2000	1.165	7,6	1	3.146	20,9	2	3.099	20,6	2
III- 500 to 1000	2.293	15,1	3	2.521	16,7	3	2.387	15,9	3
IV- 100 to 500	1.648	10,8	9	1.862	12,3	9	1.894	12,6	9
V- Under 100	218	1,4	4	199	1,3	3	197	1,3	3
TOTAL	15.236	100,0	20	15.076	100,0	19	15.039	100,0	19

¹¹ Banks are divided into five groups depending on the assets size.

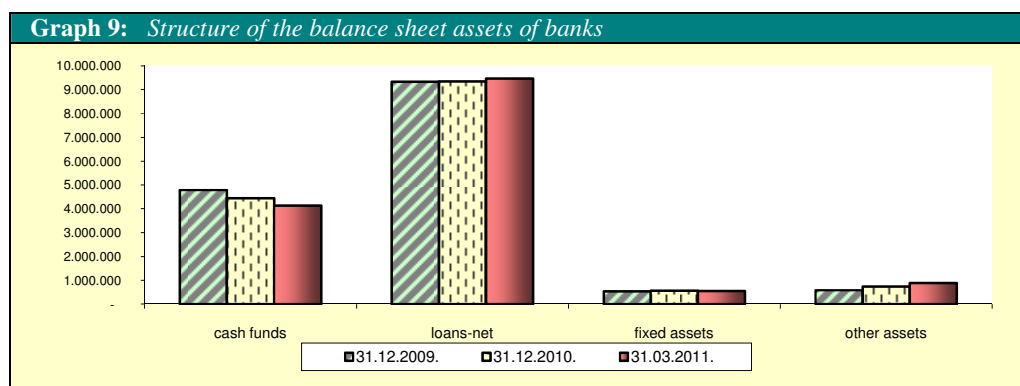


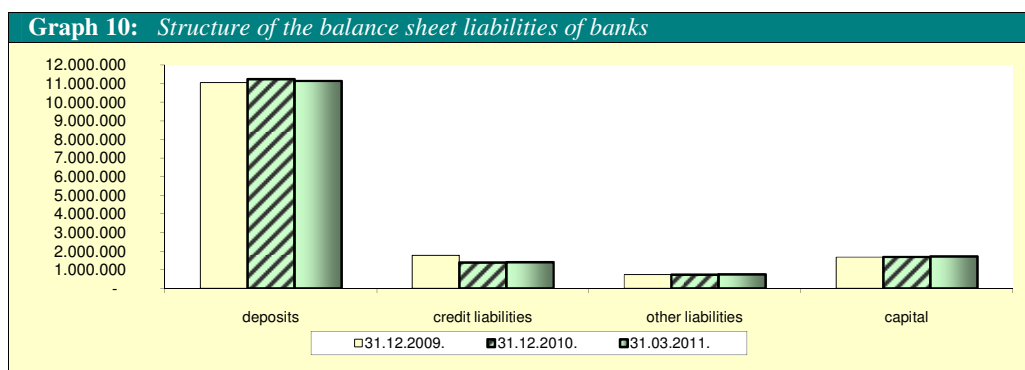
At the end of the first quarter of 2011., the aggregate balance sheet remained at the same level as at the end of 2010., that is it decreased by a minor 37 million KM. The most important liability items: deposits, credit liabilities and total capital had the same minimal changes of 1%, the deposits had a decline of 93 million KM, while the growth was realized with credit liabilities (nine million KM) and capital (23 million KM).

In the assets, cash funds (4,1 billion KM) are lower by 7% or 311 million than in comparison to the end of 2010, mostly due to increase of time deposits on the accounts of foreign banks by 105% or 152 million KM (as of 31.03.2011., they were 297 million KM) and increase of loan placements by 1% or 140 million KM. Due to too high liquidity and minimal return on funds over the obliged reserves on the reserve account in Central Bank of BiH, the banks, mostly the large ones, through placements in the securities and time deposits in foreign banks, are trying to realize higher income and by doing that mitigate the decline of the interest income due to decrease in loan placement.

A slight credit growth from the last three quarters of 2010., continued in the first quarter of 2011., which is encouraging and it is an indicator of intensifying the credit activities of banks. For the first time after the eighth month of 2009., when the amount of loans declined under 10 billion KM, at the end of the second month of 2011., they again realized the amount over 10 billion KM, and as of 31. 03. 2011., they were 10,1 billion KM.

The following table and graph present the structure of the most significant balance sheet positions of banks.





In the structure of banks' balance sheet, deposits in the amount of 11,1 billion KM and participation of 74,1% are still the dominant source of financing for banks in the Federation of BiH. After a slight increase of 0,1%, the participation of loan obligations was 9,4%, and capital 11,4%.

The structure of assets, as well as the structure of sources, had slight changes related to two key assets items: increased participation of loans from 66,2% to 67,3% and a decrease of cash funds from 29,5% to 27,5%

- in 000 KM-

Table 11: Cash funds of bank

CASH FUNDS	31.12.2009.		31.12.2010.		31.03.2011.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	355.419	7,4	370.414	8,3	348.039	8,4	104	94
Reserve accounts with CBBiH	2.455.505	51,4	2.592.920	58,4	2.342.786	56,7	106	90
Accounts with deposit institutions in BiH	441	0,0	670	0,0	2.120	0,1	152	316
Accounts with deposit institutions abroad	1.970.473	41,2	1.479.322	33,3	1.438.772	34,8	75	97
Cash funds in collection process	463	0,0	288	0,0	397	0,0	62	138
TOTAL	4.782.301	100,0	4.443.614	100,0	4.132.114	100,0	93	93

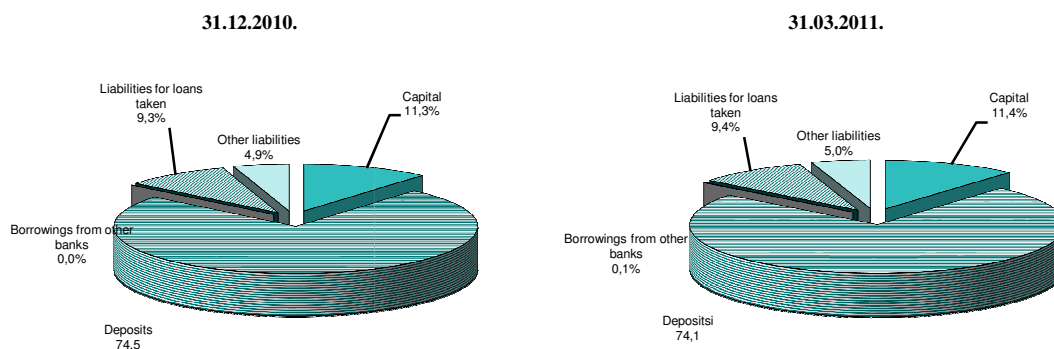
Cash funds of the banks on the reserve accounts of CBBiH, in the first quarter of 2011, decreased by 10% or 250 million KM, amounting to 2,34 billion KM or 56,7% of total cash funds as of 31.03.2011., representing the participation decrease of seven per cent in relation to the end of 2010. Banks' funds on the accounts with the depository institutions abroad have decreased by a 3% or 40 million KM, amounting to 1,44 billion KM or 34,8% of total cash funds (33,3% at the end of 2010). The banks have increased their cash on hand and in vaults by 6% or 22 million KM. At the end of the first quarter of 2011., those funds amounted to 338 million KM, representing 8,4% of total cash funds (8,3 at the end of 2010.).

The listed fluctuations had a significant impact on the change of the currency structure of the cash funds: the domestic currency participation in the reviewed period increased from 63,7% to 62,7%, and for the same, while the participation of funds in foreign currency has increased by the same amount of change.

2. 1. 1. Liabilities

Structure of liabilities (liabilities and capital) in the balance sheet of banks, as of 31.03.2011. is presented in the following graph:

Graph 11: Liabilities structure of banks



In the first quarter of 2011, there were minor changes in participation of the two most important banks' financing sources: deposits and credit obligations, that is decrease of deposit participation from 74,5% to 74,1%, and increase of credit liabilities from 90,3% to 9,4%.

Deposits participating with 74,1% or 11,14 billion KM still represent the most significant funding source of banks in the Federation of BiH. In comparison to the end of 2010, these items increased by 1% or 93 million KM. Second source, per its size are credit funds in the amount of 1,4 billion KM obtained by banks mostly through the debt with foreign financial institutions. During the last two years, due to the impact of the financial and economic crises, the banks had far less lending from abroad, and with the payment of the past due liabilities these sources decreased significantly. However, in the last quarter of 2010., and in the first quarter of 2011., this negative trend was stopped, the credit funds increased in total by 3% or 40 million KM, of which in the first quarter of 2011, by 1% or nine million KM. If subordinate debts of 153 million KM, which were withdrawn by banks to strengthen capital base and capital adequacy, are added to credit liabilities then the participation of total credit funds in the sources would still be 10,4% .

Capital, as of 31.03.2011, was 1,7 billion KM, which is by 1% or 23 million KM higher than at the end of 2010, and the growth was realized exclusively on the basis of the current financial result-profit.

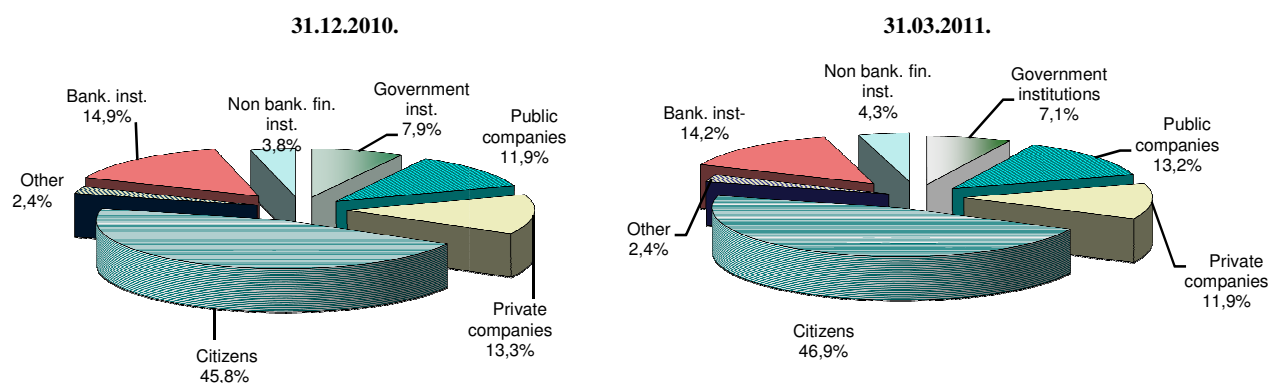
As of 31.03.2011., the highest bank commitments were towards the following creditors (eight of total 42), representing 70% of total credit commitments: European Investment Bank (EIB), Central Eastern European Finance Agency (CEEFA), EBRD, European fund for Southeast Europe (EFSE), UniCredit Bank Austria AG, ComercBank AG Frankfurt, Council of Europe Development Bank and Raiffeisen Zentralbank Osterreich A.G. (RZB).

According to the data submitted by banks, out of total deposits as of 31.03.2011., only 6,1% were deposits collected by organizational units of banks from the Federation of BiH operating in Republic Srpska and Brcko District.

- in 000 KM-

Table 15: Deposit structure by sectors ¹²								
DEPARTMENTS	31.12.2009.		31.12.2010.		31.03.2011.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	839.926	7,6	891.638	7,9	788.470	7,1	106	88
Public enterprises	1.400.839	12,7	1.332.695	11,9	1.476.054	13,2	95	111
Private enterprises and assoc.	1.403.465	12,7	1.491.562	13,3	1.329.020	11,9	106	89
Non-profit. organizations	2.120.143	19,2	1.674.576	14,9	1.582.180	14,2	79	94
Banking institutions	509.769	4,6	428.045	3,8	473.758	4,3	84	110
Citizens	4.506.881	40,8	5.144.607	45,8	5.223.085	46,9	114	102
Other	264.845	2,4	269.707	2,4	267.590	2,4	102	99
TOTAL	11.045.868	100,0	11.232.830	100,0	11.140.157	100,0	102	99

Graph 12: Deposit structure by sectors



In the first quarter of 2011, there were minor changes in the deposit sector structure, which on one side, are a result of decrease of funds of private companies, government and banking institutions, and on the other hand, growth of deposits of citizens and public companies.

Deposits of the citizens sector also increased in the first quarter of 2010., and the realized growth rate of 2% or 78 million KM. The deposits of this sector with the amount of 5,22 billion KM and participation of 46,9% in total deposits still are the largest financing source for banks in FBiH.

The deposits of the banking institutions, which are the second highest source in the deposit potential of the sector, in the observing period decreased by 6% or 92 million KM and as of 31.03.2011., were 1,58 billion KM, which is 14,2% of total deposits. These funds are by 170 million KM higher than the credit liabilities (at the end of 2010 the difference was 271 million KM), which, after the deposits are the second most important financing source for banks in FBiH. From the listed data it can be concluded that the debt abroad of the banks in FBiH significantly decreased, especially the deposit funds of the parent groups, while there was an evident slight growth of the credit debt in 2011, which was to be expected taken the unfavourable maturity of the local deposit funds and urgency in providing the security of the good quality sources in terms of maturity, in order to continue the growth trend of the banks' credit placements from the last several months.

¹² Information from the attached form BS-D, each quarter submitted by banks with balance sheet - FBA format.

It should be emphasized that 96% or 1,52 billion KM of banking institutions' deposits refers to deposits of banks-members of groups (primarily shareholders). Financial support of the groups is present in nine banks in the Federation of BiH, with a concentration on three large banks (70%), with only one bank representing 39% of total deposits received from the group. In this manner, the domestic banks-members of the groups receive financial support and have secured inflow of new funding sources by the group whose members they are. Under the times of crisis and more difficult access to money market and new funds, as well as the increase of liquidity risk as result of deterioration in collection of loans and increase of nonperforming claims as well as the unsatisfactory maturity structure of local deposit sources, of special importance is support and willingness of the 'parent' to secure further financing of the 'daughter' bank in the volume necessary for the planned volume of operations, especially growth of the credit placements, as well as maintaining satisfactory liquidity positions of the bank. If credit liabilities and subordinate debts (loans and deposits in supplementary capital) are added to these funds, the financial support the banks receive from their groups becomes higher (in ten banks), amounting to 2,2 billion KM or 14,6% of total liabilities of the banking sector as of 31.03.2011. In comparison to the end of 2010, these funds were reduced by 78 million KM or 3% (deposits decreased by 96 million KM or 6%, subordinated loans by 4% or eight million KM, while credit liabilities increased by 5% or 26 million KM).

Under the support of IMF and other financial institutions, the FBA has been involved in activities related to signing of the Memorandum of Understanding with parent-banks from the European Union countries whose daughter-banks operate in the territory of BiH, the so-called "Vienna Initiative", by which the parent banks have taken the obligation to maintain the exposure in Bosnia and Herzegovina at the level from 31.12.2008., during the IMF program (2009 -2012), taken into account the availability of adequate credit possibilities in BiH within the defined good practices for managing the credit risk, capital and liquidity. Since, due to the economic crises, the banks' credit activities have significantly decreased, which resulted with high liquidity, as well as the good capitalization of almost all banks in FBiH which parent banks signed the "Vienna Initiative", in 2011 the trend of the decreasing exposure from the previous year continued in the deposit sources segment on the basis of the return of portions of deposit funds before the maturity. Once again emphasized should be the importance of the continuing financial support of the group, primarily the "parent", especially in the banks which core sources were deposits and credit funds from the "parent" bank or the group.

Deposits of other sectors had minor changes: the private enterprises' deposits, after the significant growth in three months of 2011., of 11% or 143 million KM, as of 31.03.2011, amounted to 1,48 billion KM, while the participation increased from 11,9% to 13,2%. The deposits of private companies declined by 11%, which is a high 163 million KM, therefore as of 31.03.2011., with the amount of 1,33 billion KM they had a participation of 11,9% which presents a decrease by 1,4%. Deposits of government institutions, after a decline of 12% or 103 million KM, at the end of the first quarter of 2011 were 788 million KM, which is 7,1% of total deposits. Relatively significant changes in the deposits of the government institutions (the downfall) and public companies (the growth) are the result of separation and transfer of funds of around 90 million KM from the account of the Federal Ministry of finance to the account of one public company.

Currency structure of deposits, at the end of observing period remained unchanged: deposits in foreign currencies (with the dominant participation of EURO) in the amount of 6,3 billion KM participated with 57% and deposits in domestic currency in the amount of 4,8 billion KM participated with 43%.

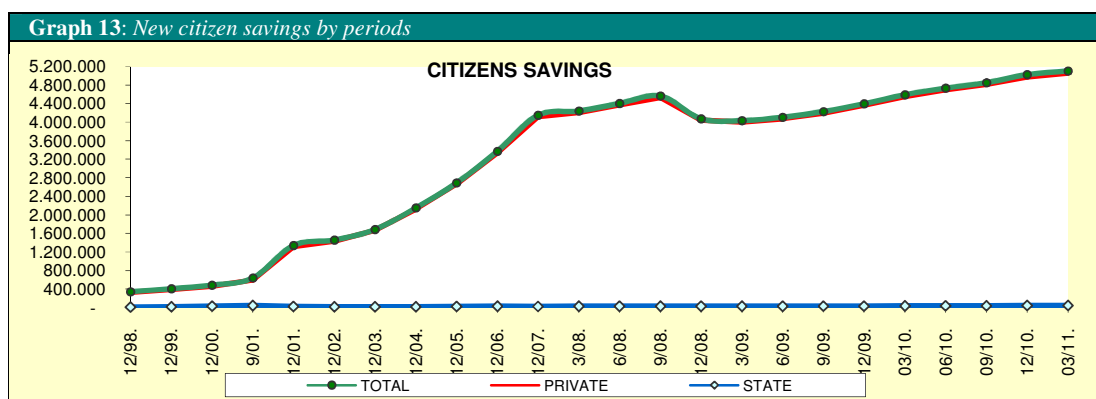
Saving deposits, as the most significant segment of deposits and financial potential of banks,

maintained the positive growth trend and in the first three months of 2011 with a growth rate of 2% or 82 million KM, amounted to over five billion KM as of 31.03.2011., more precisely they were 5,06 billion Km , which is the highest amount so far and by 526 million KM or 12% higher than the level of savings as of 30.09.2008., which was the highest amount up to the crises.

Table 16: New citizen savings by periods

BANKS	AMOUNT (IN 000 KM)			RATIO	
	31.12.2009.	31.12.2010.	31.03.2011.	3/2	4/3
1	2	3	4	5	6
State	35.275	47.148	48.795	134	103
Private	4.325.928	4.926.361	5.006.584	114	102
TOTAL	4.361.203	4.973.509	5.055.379	114	102

Graph 13: New citizen savings by periods



The largest three banks hold 71% of savings, while participation of six banks has an individual participation of less than 1%, representing only 2,6% of total savings in the system.

Savings deposits in local currency represent 31% and in foreign currency 69% of total savings amount.

Table 14: : Maturity structure citizen saving deposits by periods

BANKS	AMOUNT (IN 000 KM)			RATIO				
	31.12.2009.	31.12.2010.	31.03.2011.	3/2	4/3			
1	2	3	4	5	6			
Short term saving deposits	2.054.197	47,1%	2.581.767	51,9%	2.583.522	51,1%	126	100
Long term saving deposits	2.307.006	52,9%	2.391.742	48,1%	2.471.857	48,9%	104	103
TOTAL	4.361.203	100,0 %	4.973.509	100,0 %	5.055.379	100,0 %	114	114

The maturity structure of the savings deposits slightly improved in the first quarter of 2011. The participation of the long term deposits increased from 48,1% to 48,9%, due to their growth of 3% or 80 million KM, while the short term decreased from 51,9% to 51,1%, and the amount remained at the level from the end of 2010.godine.

Long term continuous growth and positive trends in the savings segment of banks in the F BiH are a result, on one hand, of the strengthening of safety and stability of the overall banking system, giving the key importance to the existence of functional, effective and efficient banking supervision conducted by the FBA, and, on the other hand, deposit insurance system with the main purpose to increase stability of the banking, that is, financial sector and protection of

depositors. In December 2008, with purpose to preserve citizens' trust in safety and stability of the banking system in BiH, the amount of insured deposit increased to KM 20.000. After that there was an initiative to increase the amount of the insured deposit, so as of 01.04.2010., it was increased to 35.000 KM, and all taken measures were directed to decrease the impact of the global economic crises on the banking and economic system of the Federation of BiH and BiH.

As of 31.03.2011., there are 15 banks included in the deposit insurance program in the Federation of BiH (they have a license by the Deposit Insurance Agency in BiH), and according to the submitted data 96,8% of total deposits and 98,5% of total savings are in these banks.

Of the remaining four banks three can not apply to be admitted since they do not qualify with the criteria prescribed by the Deposit Insurance Agency: one due to the existing composite rating, and two because they are under provisional administration. One bank, which upon receiving the new composite rating fulfilled this criterion, should start the procedure of entering the deposit insurance program.

2.1.2. Capital – strength and adequacy

2.1.3. Capital¹³ of banks in the Federation of BiH, as of 31.03.2011., amounted to two billion KM.

-in 000 KM-

Table 15: Regulatory capital						
DESCRIPTION	31.12.2009.	31.12.2010.	31.03.2011.	RATIO		
				3/2	4/3	
1	2	3	4	5	6	
STATE BANKS						
1. Core capital before reduction	44.906	45.431	46.461	101	102	
2. Offsetting items	3.796	97	91	3	94	
a) Core capital (1-2)	41.110	45.334	46.370	110	102	
b) Supplementary capital	1.294	1.046	1.075	81	103	
c) Capital (a + b)	42.404	46.380	47.445	109	102	
PRIVATE BANKS						
1. Core capital before reduction	1.708.796	1.839.728	1.896.539	108	103	
2. Offsetting items	195.208	313.224	323.359	160	103	
a) Core capital (1-2)	1.513.588	1.526.504	1.573.180	101	103	
b) Supplementary capital	506.458	488.940	432.496	97	88	
c) Capital (a + b)	2.020.046	2.015.444	2.005.676	100	100	
Total						
1. Core capital before reduction	1.753.702	1.885.159	1.943.000	108	103	
2. Offsetting items	199.004	313.321	323.450	157	103	
a) Core capital (1-2)	1.554.698	1.571.838	1.619.550	101	103	
b) Supplementary capital	507.752	489.986	433.571	97	88	
c) Capital (a + b)	2.062.450	2.061.824	2.053.121	100	100	

In the first quarter of 2011, capital¹⁴ remained on almost the same level, it decreased by only nine million KM in comparison to 2010, while the changes in core and supplementary capital influenced the changes in the structure of regulatory capital by three percent points, that is the increase of the participation of the core capital to 79% and decrease of the additional to 21%.

¹³ Regulatory capital as defined by Article 8 and 9 of Decision on Minimum Standards for Capital Management in Banks (Official Gazette of the Federation of BiH, 3/03, 18/03, 53/06, 55/07, 81/07, 6/08).

¹⁷ Data source is the quarterly Report on Capital Positions of Banks (Form 1-Schedule A) regulated by the Decision on Minimum Standards for Managing Capital in Banks.

The core capital increased by 3% or 47 million KM, and supplementary capital decreased by 12% or 56 million KM.

The core capital growth is a result in most part of the inclusion of the realized profit for 2010 in the amount of 54 million KM in the retained profit and reserves. In the first quarter of 2011, there was no increase of the capital on the bases of inflow of new, fresh capital- additional capitalization.

Offsetting items (which decrease the core capital) increased by 10,1 million KM mostly from increase of the current loss (which is 11,4 million KM), with a simultaneous decrease of nontangible property by 1,3 million KM.

Supplementary capital decreased by 56 million KM, with major changes in the structure: the 2010 profit of 52 million KM that was included in the additional capital at the end of 2010, was moved to the core capital, the subordinate debts decreased by 8,2 million KM, while items of general loan loss provisions increased by 3,9 million KM. During the year the current unaudited profit does not go into the accrual of capital, which also influenced the decrease of supplementary capital.

Net capital, as well as regulatory capital, remained at almost the same level, that is it decreased by only 8,7 million KM, amounting to two billion KM as of 31.03.2011.

The banks' capital level rate is expressed as a ratio of capital and assets and as of 31.03.2011., it was 13,1%, at the same level as at the end of 2010.

One of the most significant indicators of capital strength and adequacy¹⁵ of banks is capital adequacy ratio calculated as a ratio of net capital and risk weighted assets. As of 31.03.2011., this ratio at the banking system level was 15,8% which is lower by 0,4% than at the end of 2010., due to the increase of total risk weighted risks by 2% or 213 million KM; while the net capital remained at almost the same level. The risk of the risk weighted assets and credit equivalents increased by 190 million KM (from 11,71 billion KM to 11,90 billion KM) mostly due to slight increase of credit activities, off-balance sheet items (forward term purchases and sale of foreign currency at one bank) and placements to other banks, which are items that have risk weight with higher risk level (of 20% - 100%) with a simultaneous decrease of cash funds which the banks have in CBBiH and cash funds, and which risk weight is zero. On the other hand, the risk weighted operating risk (POR) increased by 23 million KM (966 million KM), which all together resulted with the noted increase of the total risk weighted risk

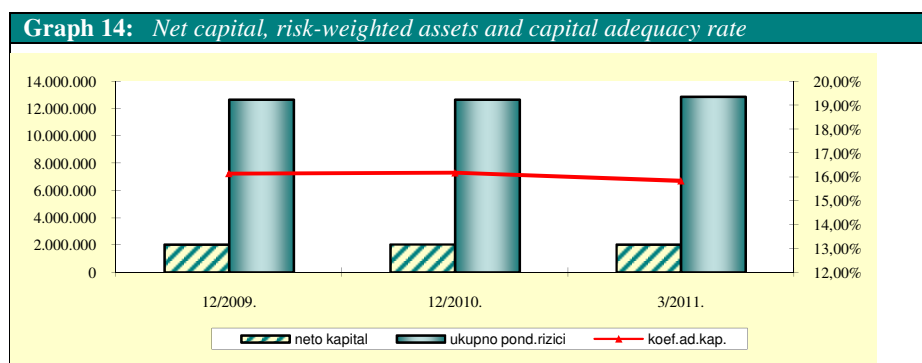
At the end of the first quarter of 2011, the participation of risk-weighted assets exposed to credit risk was 92%, and to operating risk 8%.

In process of conducting supervision of operations and financial positions of banks in the FBiH, as regulated by the Law, the FBA issues orders to banks to undertake actions for strengthening of capital base and provision of adequate capital in order to improve safety of both banks individually and the entire banking system, according to the level and profile of existing and potential exposure to all risks relevant to the banking operations. Under the conditions of economic crisis and the increase of the loan risk caused by the decline of the credit portfolio quality, this request has a priority and that is why the segment of capital is under a continuous enhanced supervision. One of the measures is also a requirement imposed on banks not to distribute the 2009 profit they generated to pay out dividends, but to rather strengthen their capital base, which was accepted by all banks.

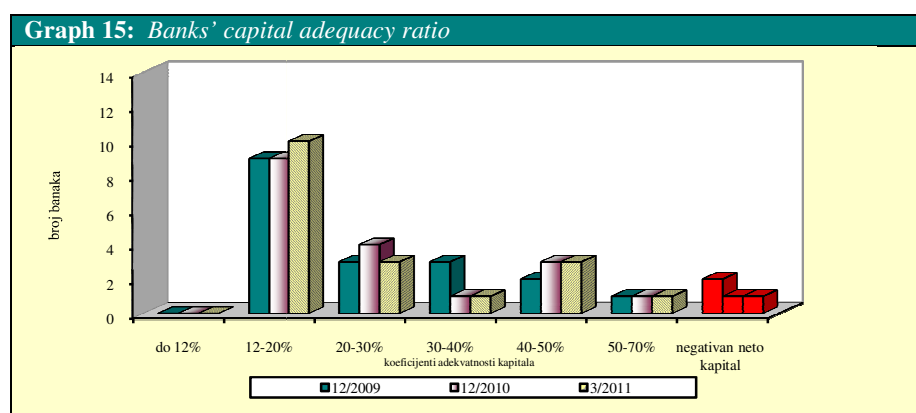
¹⁵ The Law prescribes minimum capital adequacy rate of 12%.

- 000 KM-

DESCRIPTION S	31.12.2009.	31.12.2010.	31.03.2011.	RATIO	
				3/2	4/3
1	2	3	4	5	6
1. NET CAPITAL	2.046.414	2.045.886	2.037.183	100	100
2. RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS	11.790.234	11.713.116	11.903.345	99	102
3. POR (RISK WEIGHTED OPERATING RISK)	882.928	942.707	965.930	107	102
4. TOTAL RISK WEIGHTED RISKS (2+3)	12.673.162	12.655.823	12.869.275	100	102
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/4)	16,1%	16,2%	15,8%	101	98



Capital adequacy rate of the banking system, as of 31.03.2011., was 15,8%, which is still much more than the minimum prescribed by the law (12%), representing satisfactory capitalization of the entire system and very strong basis and foundation to preserve its safety and stability.



Of total 19 banks in the FBiH, as of 31.03.2011., capital adequacy rate of 18 banks was higher than minimum prescribed by the law of 12%, one bank under provisional administration recorded capital adequacy rate below 12% that is a negative adequacy rate. According to analytical data at the end of the first quarter of 2011, 15 banks recorded the capital adequacy rate lower than prior year, in the range from 0,1 to 2,7%, three banks recorded better rate.

Preview of capital adequacy rates of 18 banks in comparison to the minimum prescribed by the law of 12% is the following:

- ten banks had the rate between 13% and 18,2%, and three largest banks from 13,2% to 15,2%,
- seven banks had the rate between 20,9% and 45,0%,
- One bank had the rate between of 62,4%.

Further strengthening of capital base will be priority task in majority of banks as it has been the case so far, especially in the largest banks of the system, which is necessary to strengthen stability and safety of both banks and the entire banking system, especially due to changes in business and operating environment under which banks in the Federation operate, because of the global financial crisis expansion to the area of our country and adverse effects this crisis may have on the banking sector and the entire economy of BiH. Following bank expansion and performing regular supervision of this segment, when acting towards banks, depending on the evaluation of their capital adequacy and risk profile, the FBA takes different corrective and supervisory measures, such as: adoption of strategy to maintain certain level of capital and plan which will provide for quantity and quality (structure) of that capital in accordance with the nature and complexity of bank's present and future business activities and the undertaken and potential risk, then intensified supervision and monitoring of bank, request to supply additional capital in order to strengthen capital base, and elimination of excessive credit risk concentrations and related limitation and decrease of credit risk exposure related to certain types of concentrations, monitoring of implementation and realization of adopted capital plans, especially for additional capital supplied from external resources, supervision of compliance and implementation of the ordered measures, etc.

2.1.3. Assets and asset quality

Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks determines the criteria for evaluation of bank's exposure to loan risk based on evaluation of their assets quality and adequacy of reserves for loan and other losses according to the risk of placements and balance sheet and off-balance sheet items.

Total assets with off-balance sheet items (assets)¹⁶ of banks in the FBiH as of 31.03.2011., amounted to 18,1 billion KM, and gross assets¹⁷ in the amount of 15,7 billion KM are at the same level as at the end of 2010.

¹⁶ Assets defined by Article 2 of Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks („Official Gazette of FBiH“, number 3/03, 54/04, 68/05).

¹⁷ Data source: Report on classification of balance sheet assets and off-balance sheet items of banks.

Table 17: Assets off-balance sheet items and potential loan losses								
DESCRIPTION	AMOUNT (in 000 KM)					RATIO		
	31.12.2009.	Struct. %	31.12.2010.	Struct. %	31.03.2011.	Struct. %	4:2	6:4
1.	2	3	4	5	6	7	8	9
Loans	9.442.600	60,1	9.414.729	59,8	9.514.492	60,5	100	101
Interests	61.797	0,4	51.348	0,3	52.341	0,4	83	102
Past due claims	352.580	2,2	566.629	3,7	605.955	3,9	161	107
Claims for paid guarantees	1.620	0,0	553	0,0	1.080	0,0	34	195
Other placements	276.693	1,8	410.797	2,6	412.373	2,6	148	100
Other assets	5.581.877	35,5	5.292.854	33,6	5.129.298	32,6	95	97
TOTAL ASSETS	15.717.167	100,0	15.736.910	100,0	15.715.539	100,0	100	100
OFF-BALANCE SHEET	2.271.512		2.352.092		2.352.074		104	100
ASSETS WITH OFF-BALANCE SHEET	17.988.679		18.089.002		18.067.613		101	100
RISK ASSETS WITH OFF-BALANCE SHEET	12.583.315		13.053.738		13.241.453		104	101
General loan risk and Potential loan losses	534.721		717.713		733.757		134	102
General and Special loan loss reserves already established	534.749		717.768		733.667		134	102

Non-risk items amount to 4,8 KM or 27% of total assets with off-balance sheet, and they are by 4% less than as of the end of 2010. On the other hand, risk assets with off-balance sheet items amount to 13 billion KM, and they increased by 1% or 188 million KM. Off-balance sheet risk items amounted to 2,4 billion KM.

After the negative trends in the previous periods in the segment of lending as a key activity of the banks due to the impact of the global financial and economic crises, in the first quarter of 2011, the positive trend from the second half of 2010., that is a slight growth of loans of 1% or 140 million KM. As of 31. 03. 2011., the loans were 10,1 billion KM, with participation in the assets of 67,3%, which is 1,1 percentual point in relation to the end of 2010. Macroeconomic projections indicate that the 2011., will bring a more significant acceleration of the economic activities and export, which should lead to the recovery of the economic activities, which is further in correlation with the increased credit activities of banks.

In the first quarter of 2011, granted was a total 1,2 billion KM of new loans, which is by 25% or 243 million KM more than for the first quarter of 2010. Of the total granted loans 72% refers to economy and 26% to citizens. The maturity structure of the newly granted loans slightly changes for the benefit of the long term loans in relation to the end of 2010, the participation of the long term loans was 52%, and short long term loans 48% (31.12.2010: the same participation of 50%).

The most significant limiting factor to the credit growth is adverse impact of the crisis to the entire economy in BiH and deterioration of condition in the real sector, then decreased citizen's spending, as well as more restrictive and prudent lending policies of banks. Based on that, as well as on the basis of the expected faster economic recovery in 2011, it is projected that the loan growth will be somewhat higher than in 2010., which is visible in the submitted performance plans in 2011., in this segment for majority of banks. However, when it comes to the quality performance of the existing loan portfolio it is expected that the deterioration trend will be blocked, the level of the poor performing loans is still significantly high and with that the individual loan losses, which will have a negative effect on the banks' financial results. In 2010 the banks significantly increased the provisioning for loan losses, "cleaning" the credit portfolio, therefore the reserves for loan losses will be a good amortization for potential loan losses in the following period.

The FBA has been involved in the activities aimed at signing of the Memorandum of Understanding with parent-banks from the European Union countries whose daughter-banks operate in the territory of BiH, so called „Vienna Initiative“, which will secure additional financial funds for lending to the real sector, since any deterioration of the economy could adversely reflect to the rating of daughter-banks, and consequently weaken the rating of parent banks.

Three largest banks in the FBiH with credit amount of 6,2 billion KM have participation of 61,4% in total loans at the system level.

From the aspect of sectors to which banks originate their loans, the movements in the first quarter 2011, can be evaluated as positive due to increase of loans originated to private companies decreased, while loans originated to citizens have decreased slightly. Namely, in comparison to the end of 2010, the loans to private companies are higher by 4% or 183 million KM, and they amount to five billion KM or 49,4% of total loans (48,2% at the end of 2010). Loans to citizens decreased by 1% or 42 million KM, and they amount to 4,7 billion KM, with a participation of 46,3% (47,4% at the end of 2010). The data submitted by banks, as of 31.03.2011., in the aspect of loan structure originated to citizens (based on the purpose), do not record any change over a longer period of time, that is, the highest participation of approx. 72% have loans originated to finance consumer goods¹⁸, 25% have housing loans, and remaining 3% have loans for SMEs and agriculture.

Three largest banks in the system financed 65% of total loans originated to citizens, and to private companies 58% of total loans to all sectors (for citizens sector 65,4% at the end of 2010, and 59% for private companies).

Trend and changes in participation of individual sectors in the overall structure of loans are presented in the following table:

- in 000 KM-

Table 21 : Structure of loans per sectors								
DEPARTMENTS	31.12.2009.		31.12.2010.		31.03.2011.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	74.609	0,8	126.328	1,3	124.473	1,2	169	99
Public enterprises	184.005	1,9	238.105	2,4	237.634	2,4	129	100
Private enterprises and assoc.	4.696.276	47,9	4.815.426	48,2	4.998.678	49,4	103	104
Banking institutions	6.755	0,1	10.975	0,1	11.789	0,1	162	107
Non-banking financial instit.	51.255	0,5	37.235	0,4	44.213	0,4	73	119
Citizens	4.765.656	48,6	4.733.198	47,4	4.691.238	46,3	99	99
Other	18.244	0,2	20.644	0,2	13.502	0,2	113	65
TOTAL	9.796.800	100,0	9.981.911	100,0	10.121.527	100,0	102	101

Currency structure of loans has also been unchanged for longer period: loans financed with currency clause had the highest participation of 72% or 7,3 billion KM, loans in domestic currency of 27% or 2,7 billion KM, while loans in foreign currency had the lowest participation of only 1% or 97 million KM.

Since placements, that is, loans represent the most risky portion of banks' assets, their quality represents one of the most significant elements of stability and successful performance. Evaluation of assets quality is actually evaluation of exposure to loan risk of banks' placements, that is, identification of potential loan losses that are recognized as loan loss provisioning.

¹⁸ Short- term operation included.

Quality of assets and off-balance sheet risk items, general loan risk, potential loan losses by classification categories¹⁹ and off-balance sheet items are presented in the following table:

Table 19: Asset classification, general loan risk (GLR), potential loan losses (PLL) and off-balance sheet items (charged off assets and suspended interest)

Classification category	AMOUNT (in 000 KM) and PARTICIPATION (in%)									RATIO	
	31.12.2009.			31.12.2010.			31.03.2011.			5/2	8/5
	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL		
1	2	3	4	5	6	7	8	9	10	11	12
A	10.260.601	81,5	205.228	10.477.329	80,3	209.555	10.681.765	80,7	213.646	102	102
B	1.804.767	14,4	136.973	1.645.750	12,6	132.048	1.571.949	11,9	129.921	91	96
C	307.892	2,5	72.970	471.505	3,6	113.962	500.290	3,8	114.350	153	106
D	206.201	1,6	115.703	455.303	3,5	258.297	483.523	3,6	271.920	221	106
E	3.854	0,0	3.847	3.851	0,0	3.851	3.926	0,0	3.920	100	102
Risk assets (A-E)	12.583.315	100,0	534.721	13.053.738	100,0	717.713	13.241.453	100,0	733.757	104	101
Classified (B-E)	2.322.714	18,5	349.493	2.576.409	19,7	508.158	2.559.688	19,3	520.111	111	99
Non perform. (C-E)	517.947	4,1	119.550	930.659	7,1	376.110	987.739	7,5	390.190	180	106
No risk assets²⁰	5.405.364			5.035.264			4.826.160			93	96
TOTAL (risk and nonrisk)	17.988.679			18.089.002			18.067.613			101	100
OFF BALANCE SHEET											
Written Off	505.632	89,7		622.990	89,6		635.721	89,4		123	102
Susp. Interest	57.957	10,3		72.251	10,4		75.595	10,6		125	105
TOTAL:	563.589	100,0		695.241	100,0		711.316	100,0		123	102

Risk assets with off-balance sheet items (A-E) amounted to 13 billion KM, and, as of 31.03.2011., these items decreased by 1% or 188 million KM. Non-risk items amounted to 4,8 billion KM, decreasing by 4% or 209 million KM in comparison to the end of 2010.

If an analysis of the risk assets quality is performed, it could be concluded, that in the first quarter of 2011, the negative trend of the downfall of asset quality and its deterioration from the previous period had significantly improved, special mentioned assets (category B) decreased, poor performing assets slightly increased, and that there was a significant decrease of write off into the off-balance sheet. However, it must be noted that the highest impact on the significant deterioration of the indicators of the overall system had one bank, which in the previous periods intensified "cleaning" of its credit portfolio, which as a result had a significantly more poor asset quality indicators of this bank and the overall banking system. While the credit portfolio participation of that bank as of 12.03.2011., was 15,7%, the participation of its classified and non performing assets was 32% and 56%, and of the realized increase of the non-performing loans (57 million KM) the largest part refers to the bank (47 million KM or 82%). In the other banks the indicators has slight oscillations (deterioration or improvement), that is: five banks have indicators of the classified in relation to the risk assets more poor than the banking sector, and two banks have participation of non-performing in relation to risk asses also more poor than the banking sector.

Classified assets (B – E), in the observed period recorded growth of 1% or 17 million KM, the category B was decreased by 4% or 74 million KM, and nonperforming assets (C-E) increased by 6% or 57 million KM. In the same period performed was the write off of the assets and interest (transferred to off balance sheet) in the amount of 38 million KM (of that 8,5 million

¹⁹ As regulated in the Article 22 of the Decision on Minimum Standards for Managing Credit Risk and Assets Classification in Banks, banks have to allocate and maintain reserves for general and special loan losses in percentages according to classification categories: A 2%, B 5% to 15%, C 16% to 40%, D 41% to 60% and E 100%.

²⁰ Assets items that are not, according to Article 22, Paragraph 7 of Decision on Minimum Standards for Bank Credit Risk and Assets Classification Management, subject to accrual of general loan loss provisions of 2%.

KM refers to one bank), which is the lowest quarterly amount after the second quarter of 2009. While in 2010 due to poor collection and increase of due days of the past due receivables, the banks had to perform a reclassification and a significant amount of loans were moved from B category to nonperforming category resulting in the increase of the loan loss provisioning expenses and having a significant negative impact on the financial results of the banks in 2010., in the first quarter of 2011 recorded is a decline of reserves for loan losses, which had a positive reflection on the financial result of the banking system.

The classified assets as of 31.03.2011 were 2,6 billion KM, and nonperforming 988 million KM (31.12.2010: 2,6 billion KM and 931 million KM).

As result of the mentioned, the indicators of asset quality expressed as ratio, that is, participation of individual categories in risky assets have deteriorated in comparison to the end of 2010. The classified assets to risky assets ratio has improved by 0,4% due to an downfall of classified assets (1%) and increase of risky assets (1%) in comparison to the end of 2010, which is representing 19,3%.

If an analysis is performed of only the ratio and trend of nonperforming assets and risk assets, as of 31.03.2010., this ratio was 7,5%, which is still relatively low ratio, and, if compared to the end of 2010, it is higher by 0,4 per cent. However, if we take into account that participation of category B in the risk assets is 11,9%, and the increasing doubt that portion of placements reported under this category deteriorated in quality and should be categorized as nonperforming assets, in other words that some banks still practice not to timely establish adequate loan loss provisioning which was confirmed in the on-site examinations and resulted in insufficient provisioning for loan losses.

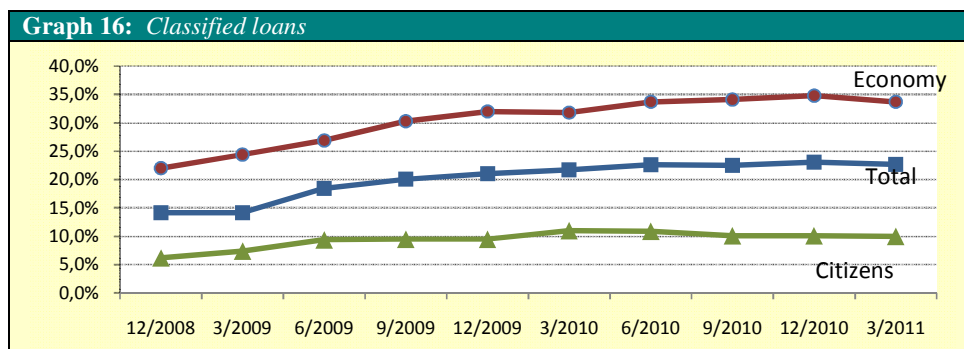
The analysis of data by sectors is based on the indicators of the quality of loans granted to the two most significant sectors: private companies and citizens. The two mentioned indicators for these sectors are significantly different and indicate higher loan risk exposure, and also the exposure to potential loan losses with the loans originated to legal entities.

Table 20: Classification of loans originated to citizens and legal entities

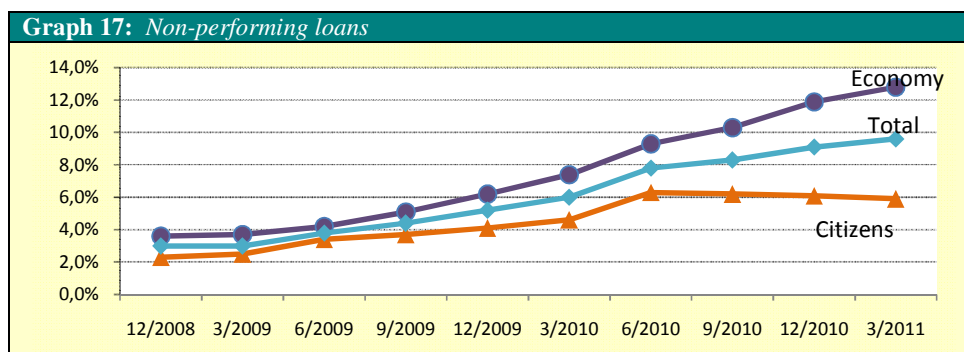
Classification category	AMOUNT(in 000 KM) AND PARTICIPATION(in%)											INDEKS	
	31.12.2010.						31.03.2011.					12/6	
	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	Partic.	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount		Partic.
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14
A	4.257.408	89,95	3.422.650	65,21	7.680.058	76,94	4.223.206	90,03	3.600.233	66,30	7.823.439	77,30	102
B	185.851	3,93	1.201.981	22,94	1.387.832	13,90	192.174	4,09	1.135.036	20,90	1.327.210	13,11	96
C	125.114	2,65	336.038	6,36	461.152	4,62	107.923	2,30	383.001	7,05	490.924	4,85	106
D	164.826	3,47	288.042	5,49	452.868	4,54	167.890	3,58	312.019	5,75	479.909	4,74	106
E	1	0,00	0	0,00	1	0,00	45	0,00	0	0,00	45	0,00	4500
TOTAL	4.733.200	100,0	5.248.711	100,0	9.981.911	100,00	4.691.238	100,0	5.430.289	100,0	10.121.527	100,00	101
Class.loans B-E	475.792	10,05	1.826.061	34,79	2.301.853	23,06	468.032	9,98	1.830.056	33,70	2.298.088	22,70	100
NPL C-E	289.941	6,13	624.080	11,89	914.021	9,16	275.858	5,88	695.020	12,80	970.878	9,59	106
		47,42		52,58		100,00		46,35		53,65		100,00	
Participation by sectors in classified loans, nonperforming loans and category B:													
Classification B-E		20,67		79,33		100,00		20,36		79,64		100,00	
NPL C-E		31,72		68,28		100,00		28,41		71,59		100,00	
Category B		13,39		86,61		100,00		14,47		85,53		100,00	

The indicators of the quality of loans originated to legal entities and citizens, as well as already stated indicators of the quality of total risky assets, show a deteriorating trend in the first quarter of 2011, apart from a slight deterioration of the participation of poor performing loans, primarily as a result of growth in the poor quality categories by 6% or 71 million KM, citizens 5% or 14

million KM, which lead to negative impact on other indicators for these two sectors and total loan portfolio. However, again should be noted the impact of the indicators of one bank on the total banking system, especially on the growth indicator and participation of the non-performing loans, since if that bank is excluded, it can be concluded that the indicators are at the same level as 31.12.2010 (4,87).



As of 31.03.2011., of total loans originated to legal entities in the amount of 5,4 billion KM, 1,8 billion KM or 33,70% was classified in categories B to E (1,8 billion KM or 34,79% at the end of 2009), while of total loans originated to citizens in the amount of 4,7 billion KM, classification categories B to E represent 468 million KM or 9,98% (476 million KM or 10,05% at the end of 2010).



Of loans finance to legal entities, 695 million KM was classified as nonperforming loans or 12,80% of total loans originated to this sector (as of 31.12.2010., these items amounted to 624 million KM or 11,89%). Nonperforming loans, in the sector of citizens, amounted to 276 million KM or 5,88% of total loans originated to this sector (as of 31.12.2010., these items amounted to 290 million KM or 6,13).

Due to poor performing receivables trend that is the delays in collecting the past due loan liabilities from clients, there were activated some guarantees in a number of delinquent loans that had this type of insurance, so the burden of payment of such loans fell on the guarantors. As of 31.12.2009., the FBA requires a report about the loans being repaid by the guarantor, in order to collect, monitor and analyze the data on loans that are being repaid by the guarantors. According to the banks' reports in F BiH as of 31. 03. 2011., 3.394 guarantors in total repaid 11 million KM of the total granted amount of loans of 68 million KM (2.882 credit party), which is by 28% less in comparison to the amount of the payment by the guarantors, with an aim to collect, monitor and analyze the data on loans paid by guarantors twice higher than the amount repaid by the

guarantors as of 31. 12. 2009. (15 million KM paid by 3.767 guarantors, while the amount of the total loans was 101 million KM – 3.192 credit parties). The amount of the remaining debt is 45 million KM (31. 12. 2010.: 63 million KM). From the listed data it can be concluded that in the first quarter of 2011, the amount of loans paid by guarantors decreased, the balance of the remaining debt, as well the amount of payments on the account of guarantors, which was mostly influenced by the return of the significant amount of repayment of loans by principal debtor (around 30 million KM, eight debtors, all legal entities). The participation of loans and the number of credit parties being repaid by the guarantors in relation to the data for the entire system is low and amounts to only 0,44% and 0,26%.

With an aim to defer the negative effects of the global financial and economic crises, and taking care of maintaining the stability of the banking sector, the FBA at the end 2009, issued a Decision on temporary measures for reconstruction of loan liabilities of individuals and legal entities²¹.

The main goal for issuing these temporary measures was to stimulate the banks to „revive“ credit activities, and restructuring the existing receivables, without increasing the price of the loan and expenses for the existing creditors, to help both the individuals and the legal entities to overcome the situation in which they are because of the effects of the economic crises (decrease in the repayment capability, for individuals due to the loss of jobs, late salaries, decrease in income etc., and for legal entities due to increased lack of liquidity, significant decrease of business activities, very difficult conditions in the real sector in general etc.).

Acting in accordance with the mentioned Decision, the banks in the Federation of BiH in the first quarter of 2011, of total received 131 requests for reconstruction of credit liabilities granted 113 requests in the total amount of 14,2 million KM or 86% which is significantly lower in comparison to the quarters in 2010. Of the total amount of granted reconstructed liabilities 13,7 million KM refers to legal entities, and 0,5 million to individuals.

Net effect on the loan loss reserves (in further reading LLR), based on the performed reprogramming is an increase of 239 thousand KM. It should be noted that there were opposite movements that is increases and declines of the LLR on these basis, which at the end resulted in the noted net effect. The banks were performing very prudently, mostly maintaining the LLR on the same level, with which they were able to avoid short term and long term increases of the income, which in reality presents a true and responsible banks' attitude in implementing the provisions of the Decision that relate to this segment.

In the first quarter of 2011., the reconstructed loans in the total loans as of 31.03.2011., have a participation of only 0,14% (for the sector of legal entities in the portfolio of legal entities this per cent is 0,25%, while the citizens sector is 0,01%).

Based on the listed data, it can be concluded that, comparing the number and the amounts of the reconstructed loan liabilities) the result is relatively modest, if it is compared with the total credit portfolio and through sectors (for legal entities and individuals).

Although the results and the effects of implementation of the Decision are not significant, it is estimated that development of such a regulation was very important, such measures of temporary character under the conditions of extreme financial and economic crises were necessary for the financial and real in FBiH, and had a positive effect on debtors (individuals and legal entities), facilitating debt servicing in compliance with their repayment ability. That is why the prolonging of the amendments of the Decision to the end of 2011 is justifiable, especially due to the fact that

²¹ “Official Gazette F BiH”, No.2/10.

the impact of the crises is still evident, and that the positive movements and economic recovery are to be expected next year.

For more realistic assessment, it should take into account the amount of loans that banks, during the observing period, charged off to the off-balance sheet, as presented in the following table.

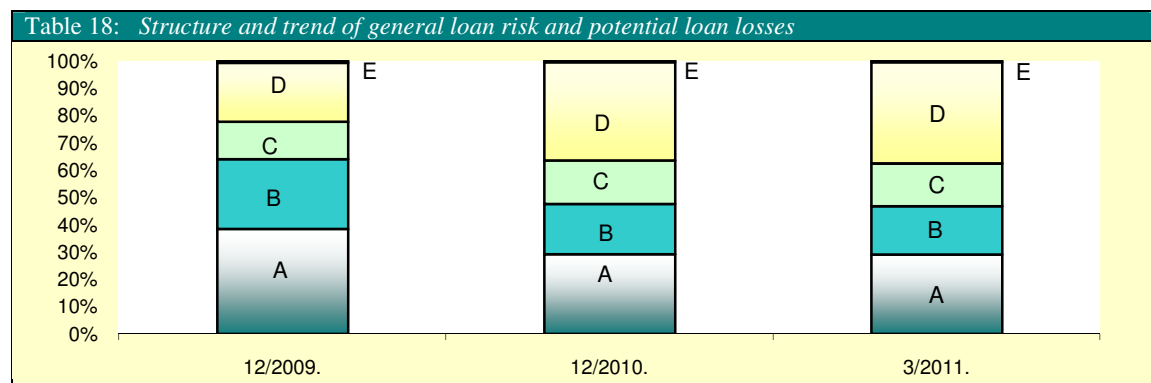
-000 KM-

DESCRIPTION	CITIZENS		LEGAL ENTITIES		TOTAL	
	Charged off assets	Suspended interest	Charged off assets	Charged off assets	Suspended interest	Charged off assets
1	2	3	4	5	6	7
Opening balance as of 31.12.2010.	216.721	16.759	406.269	55.530	622.990	72.289
<i>Changes in 2011:</i>						
- new charge offs (current year)	17.815	1.544	14.610	4.307	32.425	5.851
- payments made in the current year	8.157	1.307	8.198	1.087	16.355	2.394
- permanent charge off	15	0	3.324	151	3.339	151
Balance as of 31.03.2011.	223.908	16.991	411.813	58.604	635.721	75.595

Balance of the charged off assets, as of 31.03.2011., (636 million KM), and the suspended interest (76 million KM) increased by 2% that is 5% in comparison to 2010.

Level of general loan risk and estimated potential loan losses in the classification categories, as determined in accordance with the criteria and methodology prescribed by the FBA's decisions, their trend and structure at the level of the banking sector are presented in the following tables and graphs.

Classification category	AMOUNT (in 000 KM) and STRUCTURE (in%)						RATIO	
	31.12.2009.		31.12.2010.		31.03.2011.		4/2	6/4
	1	2	3	4	5	6	7	8
A	205.228	38,4	209.555	29,2	213.646	29,1	102	102
B	136.973	25,6	132.048	18,4	129.921	17,7	96	98
C	72.970	13,7	113.962	15,9	114.350	15,6	156	100
D	115.703	21,6	258.297	36,0	271.920	37,1	223	105
E	3.847	0,7	3.851	0,5	3.920	0,5	100	102
TOTAL	534.721	100	717.713	100	733.757	100	134	102



As reported, banks have established loan loss provisions in accordance with the regulations and level of the estimated credit risk.

Based on an analysis of the established provisions, in total amount and by classification categories, if compared to the end of 2010, general loan risk (for category A) and potential loan loss provisions have increased by 2%, or 16 million KM amounting to 734 million KM. Due to an increase of the poor performing assets, the banks had to increase the reserves for these poorest quality loans. Due to the growth of the poor performing assets the provisioning for the worst quality loans increased by 4% or from 376 million KM to 390. The reserves for general credit risk (A category) increased by an insignificant 2% or four million KM, while for category B, due to its decrease, mostly generated by the reclassification into more poor categories, the reserves decreased by 2% or two million KM. One of the most significant indicators of the asset quality is the relation of the potential loan losses and the risk assets with the off-balance sheet, which is 3,9% and is at the same level as last year. As of 31.03.2011., banks in average allocated for category B 8,3%, for category C 22,9%, category D 56,2% and E 100% (at the end of 2010: B 8%, C 24,2%, D 56,7% and E 100%).

The asset quality analysis, that is, the loan portfolio analysis of individual banks, as well as on-site examinations at banks, indicate loan risk as dominant risk with majority of banks, raising a concern that some banks still have inadequate management practices, that is, evaluation, measuring, monitoring, and control of loan risk and assets classification, which was determined in on-site examinations through significant amount of insufficient loan loss reserves that banks have established based on the orders issued by the FBA. However, this is not adding to an essential resolution of the problem.

The FBA has ordered corrective measures to those banks whose assets quality was rated poor by the examination in sense of preparation of the operating program that has to contain action plan aimed to improve existing practices for loan risk management, that is, assets quality management, decrease of existing concentrations and resolution of the nonperforming assets issue, and prevention of their further deterioration. Implementation of the FBA's orders is continuously monitored through an intensified follow-up procedure based on reports and other documentation submitted by banks, as well as their verification in targeted on-site examinations. Supervision of this segment has been intensified due to obvious adverse trends, which has a significant impact through deterioration of banks' profitability and declining of their capital base, which is a reason for banks to timely take actions to raise capital from external sources.

Transactions with related entities

While operating, banks are exposed to different types of risks, of which the most significant is the risk of transactions with related entities of banks.

In accordance with the Basle Standards, the FBA has established certain prudential principles and requirements related to transactions with related entities of banks, as regulated in Decision on Minimum Standards for Bank's Operations with Related Entities, prescribing requirements and method of operations with related entities. The Decision and Law on Banks regulate the duty of Supervisory Board of a bank, which has to adopt, upon the proposal of the General Manager, special policies regulating operations with related entities and to monitor their implementation.

The FBA Decisions prescribe a special set of reports, including transactions with one segment of related entities, such as loans, and potential and undertaken off-balance sheet liabilities (guarantees, letters of credit, undertaken loan commitments), as the most frequent and the most riskiest form of transactions between a bank and related entities.

The set of prescribed reports include data on loans originated to the following categories of related entities:

- Bank's shareholders over 5% of voting rights,
- Supervisory Board members and bank management and
- Subsidiaries and other enterprises related to a bank.

-000 KM-

Opis	ORIGINATED LOANS ²²			RATIO	
	31.12.2009.	31.12.2010.	31.03.2011.	3/2	4/3
	1	2	3	4	5
Shareholders over 5% of voting rights, subsidiaries and other related enterprises	29.191	84.600	98.939	290	117
Supervisory Board and Audit Board members	470	375	376	80	100
Bank Management	2.193	2.239	2.264	102	101
TOTAL	31.854	87.214	101.579	274	116
Potential and undertaken off-balance sheet liabilities	5.137	22.653	24.870	441	110

In the observed period, credit exposures to persons related to banks increased by 16%, and potential liabilities by 10%. Based on the presented data, it can be concluded that it is still a question of a small amount of loans-guarantees operations with related entities, and the level of risk is low. The FBA pays special attention (in on-site examinations) to banks' operations with related entities, especially in assessing identification system and monitoring of risk exposure to related entities operations. The FBA on-site examiners issue orders for elimination of determined weaknesses within certain deadlines and initiate violation procedures. Part of these activities is also to monitor and supervise implementation of the issued orders in the follow up procedure. This has had a positive influence on this segment of operations, since the risk management quality in this segment has improved.

2.2. Profitabilnost

According to the income statement for 2010. godinu, the banks in the Federation of BiH in the first quarter of 2011., realized a positive financial result – profit in the amount of 22,8 million in 2010., generated was loss in the amount of 5,9 million KM. The biggest effect on the realization of the financial result on the level of the banking sector had the performance with profit at four banks which in the same period last year had loss, then higher profit at several banks which have positive performance, as well as the generated smaller loss in banks which had a loss in the first quarter of 2010.

The biggest influence on improvement of profitability of almost all banks is the decrease of loan loss provisions, increase of net interest due to significant decline of the interest expenses (18%) in comparison to interest income (2%), as well as increase of operating income in most of the banks.

Positive financial result of 34,2 million KM was generated by 12 banks, which is almost three times higher or by 22 million KM than in the same period in 2010. At the same time seven banks reported loss of 11,4 million KM, which declined by 38% or seven million KM in comparison to the same period in 2010

²² Apart from loans, it includes other claims, deposited funds and the placements to shareholders (financial institutions) exceeding 5% of voting rights.

Detailed data is shown in the following table.

-000 KM-

Table 24: Financial result reported: profit/loss

Datum/Opis	At the system level		State banks		Private banks	
	Amount	No. of banks	Amount	Amount	No. of banks	Amount
31.03.2009.						
Loss	-6.796	7	-240	1	-6.556	6
Profit	21.414	13	82	1	21.332	12
Total	14.618	20	-158	2	14.776	18
31.03.2010.						
Loss	-18.394	11	-199	1	-18.195	10
Profit	12.522	9	168	1	12.354	8
Total	-5.872	20	-31	2	-5.841	18
31.03.2011.						
Loss	-11.386	7	-	-	-11.386	7
Profit	34.170	12	556	1	33.614	11
Total	22.784	19	556	1	22.228	18

Similar to other segments, this segment has also encountered concentrations: of total profit generated (34 million KM), 77% or 26 million was generated by two banks in the system, whose participation in the banking system assets was 49,6%. In the total loss of 11 million KM, nine million KM or 81,9% refers to only two banks with asset participation of 13,7% and 81,9. Analytical data for the first quarter of 2011., indicate that a total of 11 banks have a better financial result (by 32 million KM), and nine banks have worse results (the effect is 3,7 million KM).

Based on the analytical data and the indicators for the quality evaluation of the profitability (the amount of the generated financial result – profit/loss and ratios used for evaluation of profitability productivity and efficiency of operation as well as other parameters related to evaluation of operation) it can be concluded that profitability had improves in comparison to the previous year, and especially at larger banks that are carriers of profitability of which one generated a high loss in the same period last year, and in the first quarter of 2011 it is operating with profit.

At the system level, total income was realized in the amount of 221 million KM with an increasing rate of 13% or 25 million KM in relation to the comparing period in the previous year. Total noninterest bearing expenses were 198 million KM, with the decrease rate of 2% or 3,5 million KM which had a positive reflection to the overall financial result of the sector.

The slight growth of the credit activities in teh first quarter of 2011, teh decrease of teh interest rates, as well as the growth of the poor performing assets and related suspended interest, resulted in a minor downfall of the interest income. Namely, the total interest income was 209 million KM and in comparison to teh same period last year is lower by 2% or four million KM, and their participation in the total income decreased from 108,8% to 94,4%. In the interest income structure the largest participation belongs to the interest income from loans, in relation to the comparing period they decreased by 3% or 6,6 million KM and are 188 million KM or 85% of total income. It should be emphasized that the interest bearing accounts in the deposit institutions have a significant profit growth of 30% or million KM in comparison to teh same period last year, but with an amount of 4,6 million KM they still have a low participation of 2,1% in the total profit.

On the other hand, positive changes were recorded in interest expenses. In comparison to the decline rate of the interest income (2%), the interest expenses with a decline rate of 18% or 15,3

million KM had a significantly higher decline. Interest expenses are 71,6 million KM, and their participation in the structure of total income decreased from 44,4% to 32,4%. Interest expenses on deposits, as a structurally largest item of the interest expenses, declined by 21% or 15 million KM, with a decreased participation from 36,7 to 25,7% in spite to an insignificant growth of the interest deposits, mostly as a result of the interest rate decrease. Interest expenses on taken loans declined by 5% and their participation in the total income decreased from 5,7% to 4,8%.

The result of the above is an increase by 9% or 10,9 million KM and that is it is realized in the amount of 137 million KM, with a decreased participation in the total income from 64,4% to 62,0%.

Operating income was 84 million KM and in relation to the comparing period recorded a growth of 20% or 14,2 million KM and an increase in the structure of the total income from 35,6% to 38%, mostly due to the growth of other operating income (collection of previously written off receivables).

Total noninterest expenses were 198 million KM and in comparison to the same period of last year decreased by 2% or 3,5 million KM, primarily based on the downfall of loan loss provisions. At the same time, their participation in the structure of total income declined from 103,0% to 90,0%.

Within the noninterest expenses, after a high increase from last year (76%), both nominally and relatively significant decline of 14% or nine million KM was recorded by loan loss provisions of 56 million KM, which had a positive impact on the decreasing of their participation in the structure of the total income from 33,2% to 25,2%. The opposite trend and movements of the salary and contributions expenses with a growth rate of 3% and are 63 million KM (average number of employees in the first quarter of 2011., decreased by 5% in comparison to the first quarter) and fixed assets expenses with increasing rate of 2% were 38 million KM.

Trend and structure of total income and expenses is presented in the following tables and graphs:
- in 000 KM-

Table 25: Structure of total income

Structure of total income	31.03.2009.		31.03.2010.		31.03.2011.		RATIO	
	Amount	%	%	%	Amount	%	4/2	6/4
1	2	3	4	5	6	7	8	9
I Interest income and similar income								
Interest bearing deposit accounts with depository institutions	10.337	3,4	3.523	1,2	4.570	1,6	34	130
Loans and leasing	217.913	71,7	194.653	68,8	188.076	64,3	89	97
Other interest income	10.140	3,4	14.824	5,3	15.990	5,4	146	108
TOTAL	238.390	78,5	213.000	75,3	208.636	71,3	89	98
II Operating income								
Service fees	42.552	14,0	45.934	16,2	49.067	16,8	108	107
Foreign exchange income	6.690	2,2	6.445	2,3	8.355	2,8	96	130
Other operating income	16.088	5,3	17.383	6,2	26.532	9,1	108	153
TOTAL	65.330	21,5	69.762	24,7	83.954	28,7	107	120
TOTAL INCOME (I + II)	303.720	100,0	282.762	100,0	292.590	100,0	93	103

Graph 19: Structure of total income

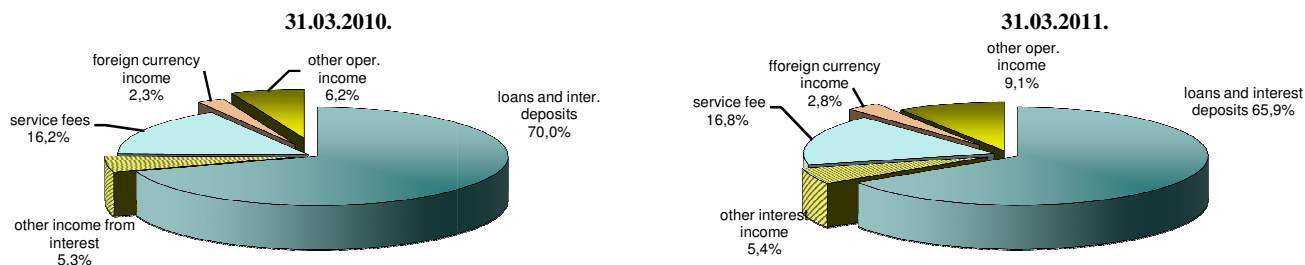
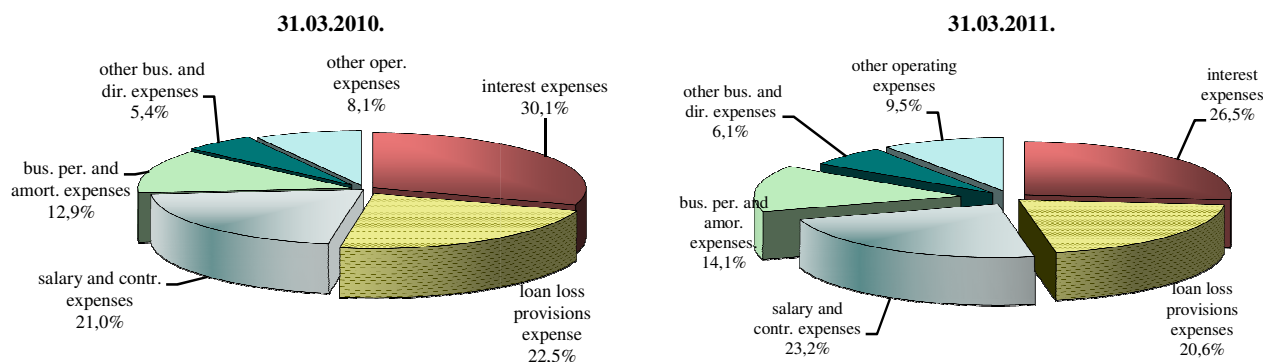


Table 26: Structure of total expenses

Structure of total expenses	31.03.2009.		31.03.2010.		31.03.2011.		RATIO	
	Iznos	%	Iznos	%	Iznos	%	4/2	6/4
1	2	3	4	5	6	7	8	9
I Interest expenses and similar expenses								
Deposits	80.525	27,9	71.926	24,9	56.808	21,0	89	79
Liabilities for borrowings	22.866	7,9	11.177	3,9	10.600	3,9	49	95
Other interest expenses	6.649	2,3	3.811	1,3	4.200	1,6	57	153
TOTAL	110.040	38,1	86.914	30,1	71.608	26,5	79	82
II Total non-interest bearing expenses								
General loan risk and potential loan losses Provisioning	36.787	12,7	64.893	22,5	55.688	20,6	176	86
Salary expenses	63.626	22,0	60.652	21,0	62.702	23,2	95	103
Business premises and depreciation expenses	37.821	13,1	37.109	12,9	37.915	14,1	98	102
Other business and direct expenses	15.726	5,4	15.757	5,4	16.336	6,1	100	104
Other operating expenses	25.102	8,7	23.309	8,1	25.557	9,5	93	110
TOTAL	179.062	61,9	201.720	69,9	198.198	73,5	113	98
TOTAL EXPENSES (I + II)	289.102	100,0	288.634	100,0	269.806	100,0	100	93

Graph 20: Structure of total expenses



The following tables give the most significant ratios for evaluation of profitability, productivity and efficiency of banks:

- in %-

Table 27: Ratios of profitability, productivity and effectiveness by periods			
RATIOS	31.03.2009.	31.03.2010.	31.03.2011.
Return on Average Assets	0,10	-0,04	0,15
Return on Average Total Capital	0,89	-0,35	1,33
Return on Average Equity	1,30	-0,50	1,94
Net Interest Income/Average Assets	0,85	0,83	0,92
Fee Income/Average Assets	0,43	0,46	0,56
Total Income/Average Assets	1,29	1,29	1,48
Operating and Direct Expenses ²³ /Average Assets	0,35	0,53	0,48
Operating Expenses/Average Assets	0,84	0,79	0,85
Total Non-interest Expenses/Average Assets	1,19	1,32	1,33

- in %-

Table 28: Ratios of profitability, productivity and effectiveness as of 31.12. 2010.			
RATIOS	31.03. 2011.		
	DRŽAVNE BANKE	PRIVATNE BANKE	PROSJEK U FBiH
Return on Average Assets	0,34	0,15	0,15
Return on Average Total Capital	1,18	1,33	1,33
Return on Average Equity	1,63	1,95	1,94
Net Interest Income/Average Assets	0,60	0,92	0,92
Fee Income/Average Assets	1,40	0,55	0,56
Total Income/Average Assets	2,00	1,47	1,48
Operating and Direct Expenses/Average Assets	0,20	0,49	0,48
Operating Expenses/Average Assets	1,46	0,84	0,85
Total Non-interest Expenses/Average Assets	1,66	1,32	1,33

Based on the analyses of the core parameters for profitability quality evaluation, it can be concluded that the profitability of the overall system is better, the profit realized in comparison to the loss reported on the level of the system, resulted with positive key profitability indicators: ROAA (Return on Average Assets) is 0,15% and ROAE (Return on Average Equity) is 1,94% (the same indicators in the same period last year were negative due to the reported loss on the level of the system). Productivity of banks, measured as ratio of total income and average assets was improved in comparison to the same period last year (from 1,29% to 1,48%) due to growth of the total income (13%) while the average total assets slightly declined (2%). The indicators for the realized business and direct operating income by unit of average assets also improved. It should be emphasized that the business and direct expenses per average assets decreased (from 0,53% to 0,48%), which is related to the decline of loan loss provisions expenses.

Under a more deteriorated performance conditions of banks, and due to adverse effects of the economic and financial crisis to the banking sector in the FBiH, profitability of banks, in the forthcoming period, will mostly depend on deterioration of asset quality, that is, permanent increase of loan losses and loan risk, and will depend on effective management and operating income and expenses control. Banks will have to increase the level of lending activities, not only to ensure increase of interest income, but to utilize their social core function of the collected financial assets allocation to the economic flows and the economy in compliance with the standards of prudent performance and sound practices of risk management, primarily of credit risk.

²³ Expenses include provisions for potential loan losses.

In addition, profit of banks, that is, financial result will mostly depend on price and interest rate risk, both in the sources and price changes in funding sources of banks, and possibility to realize interest rate margin sufficient to cover all non-interest bearing expenses, and, eventually, to provide for satisfactory profit on the invested capital for bank owners. That is why the key factor is effectiveness and profitability of each bank's management quality and its business policy since this is the most direct way to affect its performance.

2.3. Risk-weighted nominal and effective interest rates

In order to increase transparency, and to make easy a comparability of conditions of banks in process of originating loans and accepting deposits and protection of customers through a transparent disclosure of loan expenses versus deposit income, and, in accordance with the international standards, criteria and practices in other countries, the FBA, as of 01.07.2007., prescribed unified method of computation and disclosure of effective interest rate²⁴ for all banks that have their seat in the Federation of BiH, and their organizational units, regardless of the territory in which they operate, including organizational units of the banks operating in the Federation of BiH. Effective interest rate represents a real relative price of a loan, that is, an income generated from a deposit, expressed as per cent at the annual level.

Effective interest rate is a discursive interest rate computed at the annual level. It applies a compound interest rate in a way to equal discounted cash inflows with discounted cash outflows for the originated loans, that is, accepted deposits.

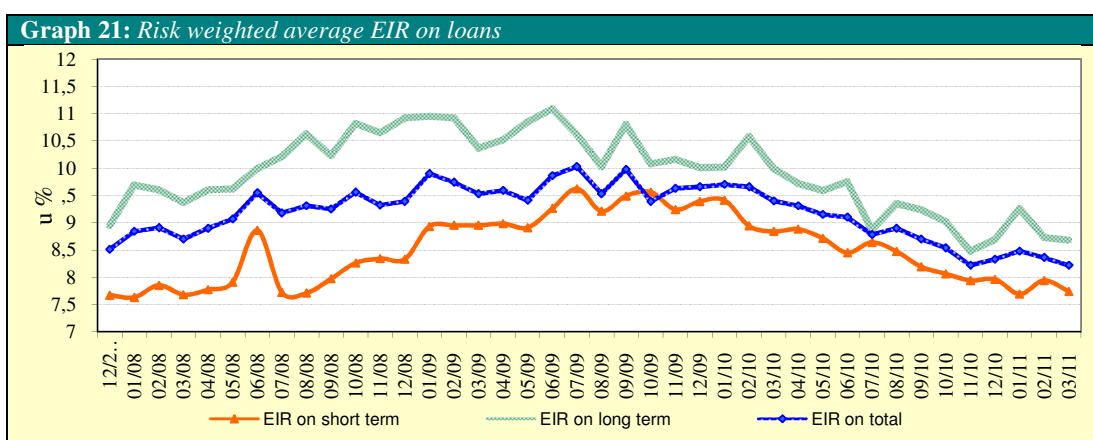
Banks are obliged to monthly report to the FBA of risk-weighted nominal and effective interest rates on loans and deposits originated or accepted within the reporting month, in accordance with the methodology prescribed²⁵.

The following table presents risk-weighted nominal and effective interest rates (hereinafter: NIR and EIR) for loans on the banking system level for the two most important sectors (economy and citizens) for December of 2009, March, June, September and December of 2009, and March of 2011:

²⁴ Decision on unified method of computation and disclosure of effective interest rates on loans and deposits ("Official Gazette of the FBiH", number 27/07).

²⁵ Guidelines for implementation of Decision on unified method of computation and disclosure of effective interest rates on loans and deposits and Guidelines for computation of risk-weighted nominal and effective interest rate.

Table 29 Risk-weighted average NIR and EIR on loans												
DESCRIPTION	31.12.2009.		31.03.2010.		30.06.2010.		30.09.2010.		31.12.2010		31.03.2011.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Risk-weighted interest rates for short-term loans	8,55	9,39	8,28	8,84	7,9	8,45	7,7	8,19	7,51	7,96	7,18	7,74
1.1. Economy	8,51	9,27	8,22	8,63	7,86	8,34	7,69	8,08	7,47	7,82	7,15	7,63
1.2. Citizens	9,51	12,9	9,29	12,28	8,97	12,28	8,42	12,57	8,67	12,65	7,9	11,81
2. Risk-weighted interest rates for long-term loans	9,16	10,00	9,02	9,99	8,89	9,75	7,75	9,24	7,91	8,69	7,87	8,68
2.1. Economy	8,46	9,15	8,28	9,04	8,4	8,9	8,07	8,45	7,34	7,82	7,37	7,81
2.2. Citizens	10,21	11,32	9,65	10,8	9,35	10,56	7,48	9,93	8,79	10,05	8,49	9,57
3. Total risk-weighted interest rates for loans	8,82	9,66	8,64	9,4	8,4	9,1	7,73	8,70	7,72	8,33	7,54	8,22
3.1. Economy	8,50	9,23	8,24	8,76	8,04	8,53	7,81	8,19	7,42	7,82	7,22	7,69
3.2. Citizens	10,17	11,42	9,63	10,89	9,34	10,64	7,53	10,05	8,78	10,18	8,39	9,66



When analyzing the trend of interest rates, it is relevant to monitor risk-weighted EIR, while a difference in the risk-weighted NIR is exclusively the result of fees and provisions paid to banks for originated loans, which is included in the computation of the loan price. That is the reason why the EIR represents a real loan price.

The risk-weighted EIR for loans, in the first quarter of 2011, recorded a slight monthly oscillation. The risk-weighted EIR in January were higher by 0,15% in comparison to the level in December of 2010., and in the following two months it recorded a decline (by 0,12% and 0,14%) and it was 8,22% in March.

During the first quarter of 2011, higher oscillations are recorded by the EIR for long-term loans, within 0,58%, than the short term that oscillated within 0,25%.

The risk-weighted EIR for short-term loans, in March 2011, was 7,74%, which was lower by 0,22 per cent in comparison to December 2010.

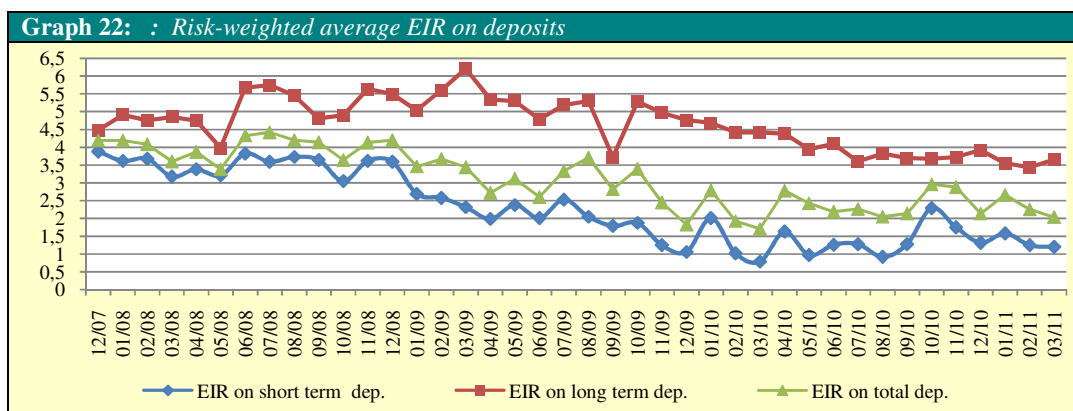
The risk-weighted EIR for long-term loans, in March 2011, was 7,74%, which was lower by 0,22 per cent in comparison to December 2010.

Interest rates for loans originated in the two most significant sectors: economy and citizens²⁶, over the observing period of 2011, had the same moving direction that is a decreasing trend. The risk weighted EIR for loans originated in the economy, although still much lower than the EIR for loans to citizens, decreased from 7,823% in December 2010 to the level of 7,69% in March 2011. As for long term loans, although it was oscillating within 0,72% in the first quarter, the interest rate had a minimal decline of 0,01% and in March it was 7,81%. The EIR on short term loans had a decline of 0,19% (from 7,82% to 7,63%).

In January of 2011., the total EIR on loans to citizens had a growth trend, and short term and long term, within 0,43 percent points, in February there happened a further growth of EIR only for short term loans by 0,55 percent points, while in March, both short term and long term deposits realized a slight decrease amounting to 9,66% in March (12/2010.: 10,18). In March of 2011., the EIR on long term loans decreased to 9,57% from 10,05% in December of 2010. EIR In March the EIR for short term loans was 11,81% , which is by 0,84 percentual points less than in comparison to December of 2010.

Risk-weighted interest rates for loans referring to the contracted overdraft and demand deposits, computed based on monthly statements, are presented in the following table:

Table 30: Risk-weighted average NIR and EIR on deposits												
DESCRIPTION	31.12.2009.		31.03.2010.		30.06.2010.		30.09.2010.		31.12.2010.		31.03.2011.	
	NIR	EIR	NIR	EIR	NIR	NIR	EIR	NIR	EIR	NIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Risk-weighted interest rates on short term deposits	1,06	1,06	0,79	0,79	1,26	1,26	1,28	1,28	1,31	1,32	1,2	1,2
1.1. up to 3 months	0,72	0,72	0,45	0,45	0,39	0,39	0,69	0,69	0,97	0,97	0,96	0,96
1.2. up to 1 year	2,90	2,91	2,33	2,34	3,25	3,26	2,59	2,6	2,61	2,63	2,19	2,19
2. Risk-weighted interest rates on long term deposits	4,75	4,77	4,43	4,42	4,08	4,09	3,65	3,69	3,89	3,92	3,63	3,65
2.1. up to 3 years	4,72	4,74	4,3	4,29	3,86	3,87	3,44	3,47	3,78	3,80	3,55	3,56
2.2. over 3 years	5,12	5,13	5,18	5,19	5,45	5,47	4,58	4,64	4,48	4,57	4,18	4,26
3. Total risk-weighted interest rates on deposits	1,82	1,83	1,71	1,71	2,19	2,19	2,13	2,14	2,13	2,14	2,04	2,04



²⁶ Based on the methodology of classification in sectors: entrepreneurs are included in the sector of citizens.

As opposed to loans, where the real price is influenced by the expenses associated with loan origination and servicing (under condition they are known at the time of origination), deposits do not show almost any difference between nominal and effective interest rates.

If compared to December 2010, risk-weighted EIR for total term deposits, in December 2010, decreased by 0,1 per cent (from 2,14% to 2,04%). Risk-weighted EIR on short term deposits, after an increase of 0,26 percent points in January, had a slight declining trend in the following two months, and in March was 1,2%,(12/2010.: 1,32%). Risk-weighted EIR on long term deposits in January recorded a downfall of 0,37 per cent in comparison to December 2010, and 0,11 percent points in February of 2011, and in March, after a slight increase, was 3,65% which is in decline by 0,27 percent in comparison to December of 2010.

The EIR on short term deposits the largest decrease decrease comes from teh decline of EIR on deposits for up to one year (from 2,63% to 2,19%), with teh largest decline of 2,07 percentual points for deposits to the economy (from 3,70% to 1,63%).

In March of 2011., the banks paid interest at a significantly lower interest rates on deposits to the economy (1,51%) than citizens (3,11%). EIR on deposits to economy are lower in comparison to December of 2010 (12/2010.:2,55%), while for citizens, in comparison to teh same period, were higher (12/2010.:2,94%).

Risk-weighted interest rates for loans referring to the contracted overdraft and demand deposits, computed based on monthly statements, are presented in the following table:

Table 31: Risk-weighted average NIR and EIR on loans-overdrafts and demand deposits

DESCRIPTION	31.03.2009.		31.12.2009.		31.03.2010.		31.12.2010.		31.03.2011.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Risk-weighted interest rates for loans-overdrafts	8,29	8,29	8,96	8,96	8,83	8,84	8,29	8,29	8,02	8,08
2. Risk-weighted interest rates for demand deposits	0,39	0,39	0,41	0,41	0,25	0,25	0,22	0,22	0,21	0,21

The EIR for the above items of assets and liabilities, in general, should be equal to the nominal interest rate. The risk-weighted EIR for total loans in overdrafts for the banking sector, in March of 2011, was 8,08% (a decrease of 0,21 per cent in comparison to December 2010), and 0,21% for demand deposits, which was lower by 0,01 per cent in comparison to December 2010.

2.4. Liquidity

Liquidity risk management, along with credit risk, is one of the most compound and most important segments of banking operations. Maintaining liquidity in market economy is a permanent task of a bank and main precondition for its sustainability in financial market. This is also one of the key preconditions for establishment and maintenance of the confidence in the banking system of any country, as well as its stability and safety.

Under normal circumstances of banks' performance and stable environment, until the global financial and economic crisis occurred, liquidity risk has had a secondary significance, that is, credit risk was first priority and management systems established, that is, identification, measurement, and control of such risks were under continuous supervision with purpose of its enhancement and improvement. It should be emphasized, however, that during the course of its performance, a correlation of all risks that any bank is or may be exposed to is very high.

Along with turbulences in the financial market due to the global crisis, liquidity risk has rapidly increased and the risk management has become a key factor for normal operating of a bank, as well as timely meeting of past due liabilities and maintenance of a long term position of a bank in regard of its solvency and capital base.

In the last quarter of 2008 the liquidity risk increased after the expansion of the global crises and its adverse impact on the financial and economic system in BiH. Although a part of the savings was withdrawn and the trust in banks was impaired, it was evaluated that the banking system liquidity was not in danger in any given moment, since the banks in FBiH, due to regulatory requirements and proscribed limits, based on a conservative approach, had significant liquid funds and a good liquidity position.

In 2009 the adverse movements from the last quarter of 2008 were stopped, and general liquidity indicators were improved thanks to primarily decreased lending activity, with a tendency of slight deterioration in the 2010., and the first quarter of 2011., due to decrease of cash funds from slight increase of credit activities, investment in securities and payment of loan liabilities, as well as payment of the long term deposits in one bank during 2010, before they were due, which had an impact on the deterioration of the maturity structure of the assets and liabilities items. The statement remains that liquidity of the banking system in the Federation of BiH is still good, with satisfactory participation of liquid assets in total assets and coverage of short term liabilities by liquid assets. However, since the financial crisis is still present worldwide which has an adverse reflection to the banking systems of certain European countries, and since majority of banks in FBiH are owned by the European banking groups that provide financial support to our banks through deposit and credit funding, it is estimated that liquidity risk still needs to be under enhanced supervision.

In addition, we should have in mind the fact that impact of the crisis is still present in the real sector in 2010, adverse consequences are being reflected to the entire economy environment under which banks operate in BiH, causing delinquency of debtors and increase of nonperforming claims, which is causing decrease in inflow of liquid assets of banks.

Decision on Minimum Standards for Liquidity Risk Management prescribes minimum standards a bank has to establish and maintain in the process of managing this risk, that is, minimum standards to create and implement liquidity policy, which assures bank's ability to fully and immediately perform its liabilities as they become due.

The mentioned regulation represents a framework for liquidity risk management and qualitative and quantitative provisions and requirements towards banks. It prescribes limits banks have to meet in regard to average ten-day minimum and daily minimum of cash assets in relation to short-term sources, as well as minimum limit of maturity adjustment of the instruments of financial assets and liabilities up to 180 days.

Liquidity risk is closely correlated with other risks and often has an adverse effect on banks' success and profitability.

In the structure of financing sources of banks in the Federation of BiH, as of 31.03.2011., deposits still have the highest participation of 74,1%, followed by loans taken (including the subordinated debt²⁷) with participation of 10,5% with longer maturity, representing quality source for long term placements, and have made a significant contribution to maturity match between assets and liabilities.

²⁷ Subordinated debt – loans taken and permanent liabilities.

On the other hand, the structure of deposits is considerably unfavorable, and after a long period of improvements, has a slight trend of deterioration in 2010, and in the first quarter of 2011., the negative trend was stopped and the maturity structure slightly improved.

- in 000 KM-

Table 32: Maturity structure of deposits

DEPOSITS	31.12.2009.		31.12.2010.		31.03.2011.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Savings and demand deposits	4.490.845	40,7	5.054.335	45,0	4.891.211	43,9	113	97
Up to 3 months	322.763	2,9	344.926	3,1	328.012	2,9	107	95
Up to 1 year	833.089	7,5	1.085.115	9,6	1.063.589	9,6	130	98
1. Total short term	5.646.697	51,1	6.484.376	57,7	6.282.812	56,4	115	97
Up to 3 years	3.292.619	29,8	2.832.507	25,2	2.906.093	26,1	86	103
Over 3 years	2.106.552	19,1	1.915.947	17,1	1.951.252	17,5	91	102
2. Total long term	5.399.171	48,9	4.748.454	42,3	4.857.345	43,6	88	102
TOTAL (1 + 2)	11.045.868	100,0	11.232.830	100,0	11.140.157	100,0	102	99

Analysis of maturity structure of deposits in two main groups, if compared to 2010, evident is a slight improvement in the maturity, due to a decrease in participation of short term deposits by 1,3 per cent, and by the same percentage a decrease of long term deposits, so their participation, as of 31.03.2011., was 56,4% and 43,6% respectively.

The listed changes in the maturity structure are a result of the decrease of the short term deposits in the first quarter of 2011 by 3% or 202 million KM and a simultaneous increase of the long term deposits by 2% or 109 million KM.

The decrease of short term deposits was realized mostly from decreased demand deposits of 3% or 163 million KM, and participation from 45% to 43,9%, while deposits up to three months decreased by 5% or 17 million KM, along with an insignificant decrease in participation from 3,1% to 2,9%. The deposits up to one year decreased by 2% or 22 million KM, and their participation in total deposits maintained an approximately same level of 9,6%. Demand deposits still have the highest participation of 43,9% in total deposits, while deposits up to three months have the lowest participation (2,9%). In total demand deposits, the highest participation is still recorded by citizen deposits (42%), which, in comparison to 2010, have increased by 2% or 39 million KM.

Total long term deposits in 2011 have increased by a significant 2% or 109 million KM. It should be emphasized that of long term deposits, two sectors show dominant participation: citizens with an increased participation from 51,6% to 52,1% and banking institutions with a decrease in participation from 27,4 to 26,7%. Citizen deposits in term deposits up to three years show the highest unchanged participation of 67,1% (58,2% at the end of 2009), while banking institutions' deposits over three years show the highest participation of 59,6% (60,9% at the end of 2010).

In the function of planning for the necessary level of liquid resources, banks have to plan for sources and structure of adequate liquidity potential, along with planning of credit policy. Maturity of placements, that is, credit portfolio is determined by maturity of sources. Since maturity transformation of assets in banks is inherently connected to the functional characteristics of banking performance, banks continuously control and maintain maturity imbalance between sources and placements within prescribed minimum limits.

-in 000 KM-

LOANS	31.12.2009.		31.12.2010.		31.03.2011.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Past due claims and paid off-balance sheet liabilities	354.200	3,6	567.182	5,7	607.035	6,0	160	107
Short term loans	2.159.008	22,0	2.129.184	21,3	2.241.174	22,1	99	105
Long term loans	7.283.592	74,4	7.285.545	73,0	7.273.318	71,9	100	100
TOTAL LOANS	9.796.800	100,0	9.981.911	100,0	10.121.527	100,0	102	101

In the observed period in 2011., the long term loans remained at approximately the same level (decreased by 12 million KM), short term loans recorded an increase of 5% or 112 million KM, while past due claims increased by 7% or 40 million KM, of which the largest amount, 36 million KM, refers to private companies. In the structure of past due claims, 78% are private companies, 18% are citizens, and 4% are other sectors.

Sector analysis by maturity, in two most significant sectors, indicates that loans to citizens represent 88,8% of long term loans, and loans to private companies, of total originated loans, represent 55,3% of long term loans.

In the assets structure, as the most significant category, loans still have the highest participation of 66,2%, which has increased by 1,1 per cent in comparison to the end of 2010 due to a slight growth of loans of 1% or 140 million KM and decrease of assets of 37 million KM. Cash funds decreased by 7% or 312 million KM and their participation, in comparison to the end of 2010., decreased from 29,5% to 27,5%.

In 2011, banks were regularly meeting a commitment to maintain required reserves with the Central Bank of BiH. The required reserve rate, as of 11.10.2008., decreased to 14% with purpose to enable additional liquidity for banks. In addition, with the same purpose, the CBBiH's decision has been to change basis of the required reserve's computation, so the funds borrowed from nonresidents, based on the contracts signed after 01.11.2008., would not be subject to the basis for computation. As of 01.01.2009., a differentiated required reserve rate has been introduced with regard to the maturity of sources (10% for long term and 14% for short term) and as of 01.05.2009., the rate for long term deposits and borrowings decreased to 7%. Required reserve, as significant instrument of monetary policy in BiH, under the Currency Board and financially underdeveloped market, represents the only instrument of monetary policy used to realize monetary control, in sense of stopping fast credit growth from the past years, and decrease multiplications, as well as an increase of banks' liquidity under an impact of the crisis and intensified outflow of funds from banks that in BiH was experienced after 01.10.2008. On the other hand, implementation of regulation on foreign exchange risk and maintenance of currency adjustment within prescribed limits, also significantly influence the amount of funds banks maintain on the reserve account with the Central Bank in domestic currency, which provides for high liquidity of individual banks and the banking sector.

In liquidity analysis, we use several ratios, and preview of the most significant ones is presented in the following table:

- in % -

Table 34: Liquidity ratios			
Ratios	31.12.2009.	31.12.2010.	31.03.2011.
1	2	3	4
Liquid assets ²⁸ / Total assets	31,9	30,2	29,0
Liquid assets / Short term financial liabilities	54,2	50,8	49,7
Short term financial liabilities / Total financial liabilities	66,9	68,1	66,7
Loans / Deposits and Borrowings ²⁹	76,4	79,0	80,6
Loans / Deposits, borrowings and subordinate debts ³⁰	75,0	77,6	79,2

All banks continuously meet, considerably above the prescribed minimum, their obligation of a ten-day average of 20% on a comparable basis with the short term funding sources, and daily minimum of 10%, on the same basis, as presented in the following schedule.

- in 000 KM-

Table 35: Liquidity position – ten-day average and daily minimum					
	31.12.2009.	31.12.2010.	31.03.2011.	RATIO	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6
1. Average daily balance of cash assets	3.789.107	3.887.490	3.614.796	103	93
2. Minimum total daily balance of cash assets	3.341.965	3.585.319	3.403.101	107	95
3. Short term sources (accrual basis)	5.431.143	6.128.941	6.071.065	113	99
4. Liabilities:					
4.1. ten-day average 20% of Item 3	1.086.229	1.225.788	1.214.213	113	99
4.2. daily minimum 10% of Item 3	543.114	612.894	607.107	113	99
5. Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	2.702.878	2.661.702	2.400.583	98	90
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	2.798.851	2.972.425	2.795.995	106	94

Apart from the mentioned prescribed minimum standards, monitoring of remaining maturity of financial assets and liabilities, according to the time scale, is of crucial significance for the liquidity position analysis. The time scale is from the aspect of prescribed minimum limits created based on time horizon up to 180 days.³¹

²⁸ Liquidity assets in the narrow sense: cash and deposits and other financial assets with maturity below three months, except inter-banking deposits.

²⁹ Empiric standards: below 70%-very solid, 71%-75%-satisfactory, 76%-80%-marginal to satisfactory, 81%-85%-insufficient, over 85%-critical.

³⁰ Prior ratio has been modified. Subordinated debts are included in the sources, which gives more realistic indicator.

³¹ Decision on Changes and Amendments to Decision on Minimum Standards for Liquidity Risk Management in Banks (Official Gazette of the FBiH, number 88/07) dated of 01.01.2008. sets new percentages for maturity matching between financial assets and liabilities: minimum 85% of funding sources (used to be 100%) with maturity up to 30 days must be engaged in placements with maturity up to 30 days; minimum 80% of funding sources (used to be 100%) with maturity up to 90 days in placements with maturity up to 90 days and minimum 75% of funding sources (used to be 95%) with maturity up to 180 days in placements with maturity up to 180 days.

- in 000 KM -

Table 36: Maturity of financial assets and liabilities up to 180 days					
Description	31.12.2009.	31.12.2010.	31.03.2011.	INDEX	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6
I. 1- 30 days					
1. Financial assets	5.719.878	5.674.836	5.560.795	99	98
2. Financial liabilities	5.070.291	5.816.147	5.584.821	115	96
3. Difference (+ or -) = 1-2	649.587	- 141.311	- 24.026	N/a	N/a
<i>Accrual of requirement in %</i>					
a) Performed %= Item 1 / Item 2	112,8%	97,6%	99,6%		
b) Required minimum %	85,0 %	85,0%	85,0%		
Surplus (+) or shortage (-) = a – b	27,8 %	12,6%	14,6%		
II. 1-90 days					
1. Financial assets	6.479.395	6.408.275	6.303.376	99	98
2. Financial liabilities	5.745.023	6.450.887	6.442.124	112	100
3. Difference (+ or -) = 1-2	734.372	- 42.612	-138.748	N/a	N/a
<i>Accrual of requirement in %</i>					
a) Performed %= Item 1 / Item.2	112,8 %	99,3%	97,8%		
b) Required minimum %	80,0%	80,0%	80,0%		
Surplus (+) or shortage (-) = a – b	32,8%	19,3%	17,8%		
III. 1-180 days					
1. Financial assets	7.469.752	7.343.882	7.229.565	98	98
2. Financial liabilities	6.956.965	7.509.597	7.242.814	108	96
3. Difference (+ or -) = 1-2	512.787	- 165.715	-13.249	N/a	N/a
<i>Accrual of requirement in %</i>					
a) Performed %= Item 1 / Item.2	107,4%	97,8%	99,8%		
b) Required minimum %	75,0 %	75,0%	75,0%		
Surplus (+) or shortage (-) = a – b	32,4%	22,8%	24,8%		

Based on the presented data, we may conclude that banks, as of 31.03.2011., were able to meet the required limits, and have managed to realize better maturity match between financial assets and financial liabilities in relation to the limits prescribed. However, of concern is the fact that the maturity match reflect deterioration taken the significantly lower percentages of the surplus over the prescribed minimum, that is, as of 31.12.2010, for the first time in the last two years the amount of the financial liabilities is higher than the amount of the financial assets, in all three time intervals up to 180 days, which was significantly impacted by the return of the long term deposits to the parent bank before the maturity (just in the fourth quarter of 2010, about 219 million KM). Also, from the aspect of the remaining maturity there is a negative trend of increase of the participation of deposits with maturity up to seven days due to extensive growth of these deposits during 2010 (about 17%), which resulted in an increase of their participation with about 42% to around 48% in total deposits at the end of 2010., and as of 31.03.2011., their participation slightly changed and was 46% and in compliance with the proscribed limits for the maturity match. In part, these funds finance the placements with longer maturities.

Based on all of the above presented indicators, it may be concluded that the negative movements from the last quarter of 2008 were stopped, that there was an improvement during 2009 and that there was a slight deterioration in 2010, so the liquidity of the banking system of the Federation of BiH is still assessed as satisfactory. Since this segment of performance and level of liquidity risk exposure correlates to credit risk, having in mind the effects of global financial crisis expansion in BiH and an impact to the banking sector of the FBiH (primarily through a stronger pressure on banks' liquidity), on one side, due to slower inflow of deposits, and, on the other side, poor inflow of liquid assets due to downfall in collection of loans, it should be emphasized that, in the forthcoming period, banks will have to pay more attention to the liquidity risk management by establishing and implementing liquidity policies, which will make sure that all matured liabilities of banks are timely realized, based on continuous planning of future liquidity

needs, and taking into account changes in operating, economic, regulatory and other segments of business environment of banks.

The FBA will, both through reports and on-site examinations of banks, monitor how banks manage this risk, and whether they act in accordance with the adopted policies and programs

2.5. Foreign exchange risk – foreign currency matching between assets and liabilities from balance sheet and off-balance sheet items

In their operations, banks are exposed to significant risks coming from potential losses in balance sheet and off-balance sheet items created as a result of price changes in the market. One of those risks is foreign exchange risk (FX) created as a result of changes of exchange rates and/or the imbalance in assets, liabilities and off-balance sheet items of the same currency – individual foreign currency position or all currencies together used by a bank in its operations – overall foreign currency position of a bank.

In order to enable application and implementation of prudential principles in foreign exchange activities of banks and to decrease influence of foreign exchange risk to their profitability, liquidity and capital, the FBA has issued Decision on Minimum Standards for Foreign Exchange Risk Management in Banks³² that regulates minimum standards for adoption and implementation of programs, policies and procedures for undertaking, monitoring, control and management of foreign exchange risk, and restrictions prescribed for opened individual and overall foreign exchange position (long or short), calculated in relation to the amount of bank's core capital.³³

The banks are obliged to report on daily basis to FBA so that FBA can monitor the banks compliance with the prescribed limits and the exposure to the foreign currency risk. Based on examination, monitoring and analysis of submitted reports on foreign currency position of banks, we can conclude that banks meet prescribe limits and perform their FX activities within these limits.

Since the Central Bank functions as the Currency Board and EUR is an anchor currency of the Currency Board, in practice banks are not exposed to foreign exchange risk in case of the most significant currency EUR.

According to the balance as of 31.03.2011., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 15,1% or 2,3 billion KM (14,8% or 2,2 billion KM at the end of 2010). On the other hand, currency structure of liabilities is essentially different, since participation of liabilities in foreign currency is significantly higher of 53,5% or 8,0 billion KM (53,6% or 8,1 billion KM at the end of 2010).

The following table presents structure and trend of financial assets and liabilities and foreign currency position for EUR as the most significant currency³⁴ and total.

³² “Official Gazette of F BiH”, Number. 3/03, 31/03, 64/03, 54/04.

³³ Article 8 of Decision on Minimum Standards for Capital Management of Banks determines limits for individual foreign currency position in EUR up to 30% of core capital, for other currencies up to 20% and foreign currency of a bank up to 30%.

³⁴ Source: Form 5-Foreign currency position.

-in million KM-

Description	31.12.2010.				31.03.2011.				RATIO	
	EURO		TOTAL		EURO		TOTAL		EURO	TOTAL
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	6/2	8/4
1	2	3	4	5	6	7	8	9	10	11
<i>I. Financial assets</i>										
1. Cash assets	1.195	14,6	1.637	18,0	1.164	14,2	1.599	17,7	97	98
2. Loans	72	0,9	104	1,1	62	0,7	90	1,0	86	87
3. Loans with currency clause	6.508	79,6	6.868	75,5	6.457	78,7	6.773	74,8	99	99
4. Other	401	4,9	489	5,4	523	6,4	589	6,5	130	120
Total (1+2+3+4)	8.176	100,0	9.098	100,0	8.206	100,0	9.051	100,0	100	99
<i>II. Financial liabilities</i>										
1. Deposits	5.552	71,6	6.424	74,1	5.556	71,3	6.351	73,6	100	99
2. Borrowings	1.328	17,1	1.363	15,7	1.341	17,2	1.373	15,9	101	101
3. Deposits and loans with currency clause	584	7,5	584	6,8	592	7,6	592	6,8	101	101
4. Other	288	3,8	296	3,4	306	3,9	316	3,7	106	107
Total (1+2+3+4)	7.752	100,0	8.667	100,0	7.795	100,0	8.632	100,0	101	100
<i>III. Off-balance sheet</i>										
1. Assets	26		28		23		25			
2. Liabilities	435		438		242		243			
<i>IV. Position</i>										
Long (amount)	16		21		192		201			
%	1,0%		1,3%		11,9%		12,4%			
Short										
%										
Limit	30%		30%		30%		30%			
Below limit	29,0%		28,7%		18,1%		17,6%			

If we analyze the structure of foreign currencies in the financial assets³⁵ we see a dominant participation of EUR of 76,8, which increased somewhat in comparison to the participation as of 31.12.2010. (74,8%) with slight increase in nominal amount from 1,7 billion KM to 1,8 billion KM. Participation of EUR in the liabilities has slightly decreased from 88,7% to 89,6%, maintaining the nominal amount at almost the same level of 7,2 billion KM.

However, calculation of the FX risk exposure also includes the amount of indexed items of assets (loans) and liabilities³⁶, which are especially significant in the assets (74,8% or 6,8 billion KM) this is slightly lower in relation to 31.12.2010. (75,5% or 6,9 billion KM). Other foreign currency assets items represent 25,2% or 2,3 billion KM, of which EUR items make 19,3% or 1,8 billion KM, and other currencies 5,9% or 0,5 billion KM (at the end of 2010, loans contracted with currency clause amounted to KM 6,9 billion with participation of 75,5%, and other items in EUR of 18,3% or 1,7 billion KM). Of total net loans (9,5 billion KM), 71,5% were contracted with currency clause, primarily tied to EUR (95,3%).

On the other hand, the structure of financial liabilities stipulates and determines the structure of financial assets, for each currency individually. In foreign currency liabilities (8,6 billion KM) items in EUR (primarily deposits) had the highest participation of 83,4% or 7,2 billion KM,

³⁵ Source: Form 5-Foreign currency position: portion of financial assets (in foreign currencies denominated in KM). According to the methodology, financial assets are expressed based on net principle (reduced by loan loss reserves).

³⁷ In order to protect from changes of the exchange rate banks contract certain items of assets (loans) and liabilities with currency clause (regulation allow only two-way currency clause).

while participation and amount of indexed liabilities was at minimum, amounting to 6,8% or 0,6 billion KM (at the end of 2010, participation of liabilities in EUR was 82,7% or 7,2 billion KM, while indexed liabilities were 6,3% or 0,6 billion KM).

Observed by banks and overall on the level of the banking system of the FBiH, we can conclude that foreign exchange risk exposure of banks and the system, in the first quarter of 2011, ranged within the prescribed limits. As of 31.03.2011., there were 12 banks with long foreign currency position, and seven banks with short position. At the system level, long foreign currency position represented 12,4% of banks' core capital, which is lower by 17,6% than the limit. Individual foreign currency position for EURO was at 11,9%, with financial assets items being higher than financial liabilities (long position), representing a decline of 18,1% than the limit.

Although in the environment of the Currency Board banks are not exposed to foreign exchange risk in the most significant currency EUR, they are still required to operate within prescribed limits for individual currencies and for total foreign currency position and to daily manage this risk in accordance with adopted programs, policies, procedures and plans.

IV CONCLUSIONS

Banking sector of the Federation of BiH during the period of implementation of the reform has reached an enviable level. The upcoming activities should be aimed at preserving its stability as priority task in the current stressful conditions, and its further progress and development. These goals require continuous and vigilant engagement of all parts of the system, legislative and executive authorities, which is a prerequisite to create the most favorable economic environment that would be stimulating to both banks and consequently to the real sector of the economy and citizens.

In the upcoming period, the Banking Agency of the Federation of BiH shall:

- Take measures and activities within its powers to overcome and mitigate adverse effects to the banking sector of the FBiH caused by the global financial crisis,
- Continue implementing activities, from the scope of its authority, to consolidate supervision on state level,
- Proceed with a continues supervision of banks through on-site and off-site examinations, focusing on targeted examination of dominant risk segments of banking operations, which will make supervision more effective, in regard to:
 - Persist on capital strengthening of banks, especially those recording outstanding assets growth and decrease of capital adequacy ratio,
 - Continue permanent monitoring of banks, primarily those with systemic importance to development of credit activities with the highest concentration of savings and other deposits in order to protect depositors,
 - Continue a systematic monitoring of banks' activities in prevention of money laundering and terrorism financing and improve cooperation with other supervisory and examination institutions,
 - Maintain continuity in payment system examinations,
 - Persist on capital strengthening of banks, especially those recording outstanding assets growth,
 - Continue permanent monitoring of banks, primarily those with systemic importance to development of credit activities with the highest concentration of savings and other deposits in order to protect depositors,
 - Continue a systematic monitoring of banks' activities in prevention of money laundering

and terrorism financing and improve cooperation with other supervisory and examination institutions,

- Maintain continuity in payment system examinations,
 - Continue working on further development of regulation based on the Basle Principles, the Basle Capital Accord, and the European Banking Directives, as part of BiH's preparation to join the European Union,
 - Establish and expand cooperation with home country supervisors of the investors present in the banking sector of the F BiH, and other countries in order to have more effective supervision,
 - Improve cooperation with the Banks Association in all banking performance segments, organization of counseling and professional assistance in the area of implementation of banking laws and regulations, advancement of cooperation in regard to professional development, proposed changes of all legislative regulations that have become a limiting factor to banks' development, introduction of new products, collection of claims and fully involve in building up and functioning of the unified registry of irregular debtors – legal entities and citizens, with daily data update.
- Continuous operational development of the IT system for early warning and prevention in elimination of weaknesses in banks;
 - Work on continuous education and training of staff;
 - Make effort to accelerate finalization of the remaining provisional administrations and liquidations based on the conclusion made by the Management Board;
 - Particularly, accelerate resolution of unsettled issues with the Government of BiH in relation to the Provisional Administration of Hercegovačka Bank d.d. Mostar related to terminal Dretelj.

In addition, it is necessary to have stronger involvement of other authorized institutions and bodies of Bosnia and Herzegovina and the Federation of BiH in order to:

- Realize Program of measures to mitigate effects of the global economic crisis and improve the business environment, as accepted by the Economic Social Council in the territory of the F BiH in December 2008, pursuant to the document issued by the F BiH Government;
- Realize the conclusion made by the Federation of BiH Parliament to establish banking supervision on state level;
- Form an opinion about status of banks owned by the Federation of BiH;
- Create and further develop the financial sector regulation related to the activity, status and performance of micro-credit organizations, leasing companies, insurance companies, etc.;
- Accelerate implementation of economic reform in the real sector in order to reach the level of the monetary and banking sector;
- Prepare for creation of legislative regulation for the banking sector and financial system based on the Basle Principles, the Basle Capital Accord, and the European Banking Directives,
- Establish specialized court departments for economy,
- Establish more efficient process for realization of pledges,
- Adopt law on protection of creditors and full responsibility of debtors,
- Adopt law or improve existing legislation regulating the area of safety and protection of money in banks and in transportation.

Banks, as the most important part of the system, have to concentrate their actions to:

- Full dedication to good quality and prudent performance, and actions to cope with the crisis impact that presently represents the greatest danger for banks and the real sector of the

- economy and citizens;
- Further capital strengthening and level of solvency proportional to the growth of assets and risk, higher profitability, more consistent implementation of adopted policies and procedures in the area of prevention of money laundering and terrorism financing, and safety and protection of money in banks and in transportation, in accordance with laws and regulations;
 - Strengthen internal control systems and internal audit functions as fully independent in performing their duties and roles;
 - Regular, updated and accurate submission of data to the Central Loan Registry and Unified Central Account Registry with the Central Bank of BiH.

Number: U.O.- 30-2/11
Sarajevo, 02.06.2011.

ATTACHMENTS

ATTACHMENT 1.....	General data about banks in the F BiH
ATTACHMENT 2.....	Balance sheet of banks, FBA Schedule
ATTACHMENT 3.....	Citizen savings in banks of the F BiH
ATTACHMENT 4.....	Report on changes in balance sheet assets and off-balance sheet risk items
ATTACHMENT 7.....	Income Statement of banks in F BiH
ATTACHMENT 6	Report on capital balance and adequacy in F BiH
ATTACHMENT 7.....	Information about employees in banks of the F BiH

ATTACHMENT 1

Banks in the Federation of Bosnia and Herzegovina - 31.12.2010.

No.	BANK	Address		Telephone	Director
1	BOSNA BANK INTERNATIONAL dd - SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	AMER BUKVIĆ
2	BOR BANKA dd - SARAJEVO	Sarajevo	Obala Kulina bana 18	033/663-500, fax:278-550	HAMID PRŠEŠ
3	HERCEGOVAČKA BANKA dd - MOSTAR	Mostar	Nadbiskupa Čule bb	036/332-901, fax:332-903	Prov.Admin. – Nikola Fabijanić - 16.04.2007.
4	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	036/444-444, fax:444-235	MICHAEL VOGT
5	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032/448-400, fax:448-501	SUVAD IBRANOVIĆ
6	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Sarajevo	Obala Kulina bana 9a.	033/497-555, fax:497-589	ALMIR KRKALIĆ
7	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Ibrahima Mržljaka 3	037/771-253, fax:772-416	HASAN PORČIĆ
8	MOJA BANKA dd - SARAJEVO	Sarajevo	Kolodvorska br. 5.	033/720-070, fax:720-100	EDIN MUFTIĆ
9	NLB TUZLANSKA BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/259-259, fax:250-596	ALMIR ŠAHINPAŠIĆ
10	POŠTANSKA BANKA BiH dd - SARAJEVO	Sarajevo	Put zivota 2.	033/564-000, fax: 564-050	Prov.Admin. - Stjepan Jovičić - 05.10.2010.
11	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:664-175	AZRA ČOLIĆ
12	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Emerika Bluma 8.	033/250-950, fax:250-971	FRIEDER WOEHRMANN
13	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb.	033/755-010, fax: 213-851	MICHAEL MÜLLER
14	RAZVOJNA BANKA FEDERACIJE BIH	Sarajevo	Igmanska 1	033/277-900, fax: 668-952	RAMIZ DŽAFEROVIĆ
15	SPARKASSE BANK dd - SARAJEVO	Sarajevo	Zmaja od Bosne br. 7.	033/280-300, fax:280-230	SANEL KUSTURICA
16	TURKISH ZIRAAT BANK BOSNIA dd - SARAJEVO	Sarajevo	Dženetića Čikma br. 2.	033/252-230, fax: 252-245	KENAN BOZKURT
17	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:312-121	BERISLAV KUTLE
18	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	ESAD BEKTEŠEVIĆ
19	VAKUFСКА BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	AMIR RIZVANOVIĆ
20	VOLKSBANK BH dd - SARAJEVO	Sarajevo	Fra Andela Zvizdovića 1	033/295-601, fax:295-603	REINHOLD KOLLAND

ATTACHMENT 2

**BALANCE SHEET OF BANKS IN THE FBiH - FBA SCHEDULE
ACTIVE SUB-BALANCE SHEET**

in 000 KM

No.	DESCRIPTION	31.12.2009.	31.12.2010.	31.03.2011.
	ASSETS			
1.	Cash funds and deposit accounts at depository institutions	4.782.297	4.443.614	4.132.114
1a	Cash and non-interest deposit accounts	496.720	452.188	398.447
1b	Interest deposit accounts	4.285.577	3.991.426	3.733.667
2.	Trading securities	12.815	233.178	245.008
3.	Placements in other banks	111.019	145.007	296.771
4.	Loans, receivables in leasing and past due receivables	9.797.817	9.981.911	10.121.527
4a	Loans	9.442.689	9.414.597	9.514.363
4b	Receivables on leasing	145	132	129
4c	Past due receivables - loans and leasing	354.983	567.182	607.035
5.	Securities held until maturity	106.411	142.074	131.251
6.	Premises and other fixed assets	498.959	521.625	519.344
7.	Other real estate	26.260	31.139	32.237
8.	Investments in non-consolidated related enterprises	42.716	44.753	43.495
9.	Other assets	336.955	193.609	193.792
10.	MINUS: Reserves for potential losses	477.611	661.213	676.979
10a	Reserves on item 4 in Assets	455.666	635.792	649.701
10b	Reserves on Assets except item 4	21.945	25.421	27.278
11.	TOTAL ASSETS	15.237.638	15.075.697	15.038.560
	LIABILITIES			
12.	Deposits	11.045.869	11.232.830	11.140.157
12a	Interest deposits	10.180.008	10.134.101	10.143.603
12b	Non-interest deposits	865.861	1.098.729	996.554
13.	Loans - past due	2.744	1.723	2.010
13a	Balance of payable loans, unpaid	0	0	0
13b	Unpaid - called for payment off-balance sheet items	2.744	1.723	2.010
14.	Loans from other banks	3.089	7.000	8.000
15.	Payables to Government	0	0	0
16.	Payables on loans and other borrowings	1.771.978	1.403.451	1.412.484
16a	payable within one year	678.607	381.305	297.967
16b	payable longer than one year	1.093.371	1.022.146	1.114.517
17.	Subordinated debts and subordinated bonds	250.483	226.847	218.905
18.	Other liabilities	486.122	507.221	537.116
19.	TOTAL LIABILITIES	13.560.285	13.379.072	13.318.672
	CAPITAL			
20.	Permanent priority shares	25.028	25.028	25.028
21.	Common shares	1.145.627	1.148.269	1.148.269
22.	Shares issued	143.725	136.485	136.485
22a	Permanent priority shares	8.420	8.420	8.420
22b	Common shares	135.305	128.065	128.065
23.	Undistributed income and capital reserves	354.621	489.557	386.986
24.	Currency rate difference	0	0	0
25.	Other capital	8.352	-102.714	23.120
26.	TOTAL CAPITAL (20. TO 25.)	1.677.353	1.696.625	1.719.888
27.	TOTAL LIABILITIES AND CAPITAL (19+26)	15.237.638	15.075.697	15.038.560
	PASSIVE AND NEUTRAL SUBBALANCE	622.094	659.059	637.529
	TOTAL BALANCE SHEET IN BANKS	15.859.732	15.734.756	15.721.089

ATTACHMENT 3

NEW CITIZEN SAVINGS BY PERIODS IN THE BANKS IN FBiH

in 000 KM

	31.12.2009.	31.12.2010.	31.03.2011.
State banks	35.275	47.148	48.795
Private banks	4.325.928	4.926.361	5.006.584
TOTAL	4.361.203	4.973.509	5.055.379



ATTACHMENT 4

**CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS IN
BANKS IN FBiH
As of 31.03.2011.**

- ACTIVE BALANCE SHEET -

in '000 KM

No.	BALANCE SHEET ASSETS AND OFF-BALANCE SHEET ITEMS	C L A S I F I C A T I O N					TOTAL
		A	B	C	D	E	
1.	Short-term loans	1.879.622	331.606	25.508	4.436	2	2.241.174
2.	Long-term loans	5.869.006	916.888	319.953	167.438	33	7.273.318
3.	Other placements	410.829	685	29	830	0	412.373
4.	Interest accrued	39.091	13.249	1	0	0	52.341
5.	Past due receivables	74.603	78.148	145.159	308.035	10	605.955
6.	Receivables on guarantees paid	209	567	304	0	0	1.080
7.	Other assets	5.086.578	32.138	4.968	1.767	3.847	5.129.298
8.	TOTAL ACTIVE BALANCE SHEET	13.359.938	1.373.281	495.922	482.506	3.892	15.715.539
	a) Guarantees payable	310.091	52.412	63	332	6	362.904
9.	b) Performing guarantees	486.280	81.052	886	243	21	568.482
10.	Unsecured LoC	39.390	15.772	0	0	0	55.162
11.	Irrevocable loans	1.297.041	47.456	3.419	326	7	1.348.249
12.	Other potential liabilities	15.185	1.976	0	116	0	17.277
13.	TOTAL OFF-BALANCE SHEET	2.147.987	198.668	4.368	1.017	34	2.352.074
14.	TOTAL BALANCE AND OFF-BALANCE SHEET (8+13)	15.507.925	1.571.949	500.290	483.523	3.926	18.067.613
15.	General credit risk and potential loan losses (#14 x % of loss)	213.646	129.921	114.350	271.920	3.920	733.757
16.	Allocated general reserves (A) and special reserves (B, C, D, E)	213.555	129.922	114.350	271.920	3.920	733.667
17.	MORE (LESS) of the allocated reserves (#16 - 15) +or -	-91	1	0	0	0	-90

INCOME STATEMENT

in '000 KM

ELEMENTS	PERFORMED 31.03. 2010.		PERFORMED 31.03.2011.		RATIO 4 : 2
	Amount	Partic. in total income	Amount	Partic. in total income	
INCOME					
Interest income	211.424	110%	206.980	95%	98
Interest expenses	86.175	45%	70.944	33%	82
Net interest income	125.249	65%	136.036	62%	109
Fee income and other operating income	67.257	35%	81.654	38%	121
TOTAL INCOME	192.506	100%	217.690	100%	113
EXPENSES					
Reserves for potential losses	64.545	34%	55.592	26%	86
Salaries and contribution expenses	59.088	31%	61.260	28%	104
Fixed assets and overhead expenses	36.430	19%	37.388	17%	103
Other expenses	38.284	20%	41.222	19%	108
TOTAL EXPENSES (without interests)	198.347	103%	195.462	90%	99
NET INCOME BEFORE TAX	-5.841		22.228	10%	N/A
Income Tax					
NET INCOME	-5.841		22.228	10%	N/A

ATTACHMENT 6
COMPARATIVE SCHEDULE OF CAPITAL BALANCE AND ADEQUACY IN
BANKS IN FBiH
ACTIVE SUB-BALANCE SHEET

in '00 KM

No.	DESCRIPTION	31.12.2009.	31.12.2010.	31.03.2011.
1	BANK'S CORE CAPITAL			
1.a.	Share capital, reserves and income			
1.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	1.155.790	1.157.918	1.157.918
1.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. And rights	12.550	12.550	12.550
1.3.	Issued shares income at share payments	143.725	136.485	136.485
1.4.	General regulatory reserves (reserves as regulated by the Law)	78.317	183.807	184.993
1.5.	Other reserves not related to assets quality assessment	201.758	228.867	261.349
1.6.	Retained - undistributed income from previous years	161.562	165.532	189.705
1.a.	TOTAL (from 1.1. to 1.6.)	1.753.702	1.885.159	1.943.000
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	82.324	92.058	249.990
1.8.	Losses from current year	52.966	157.933	11.386
1.9.	Book value of treasury shares owned by the bank	595	81	81
1.10.	Amount of intangible assets	63.119	63.249	61.993
1.b.	TOTAL (from 1.7.to 1.10.)	199.004	313.321	323.450
1.	AMOUNT OF CORE CAPITAL: (1.a.-1.b.)	1.554.698	1.571.838	1.619.550
2	BANK'S SUPPLEMENTARY CAPITAL			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	2.829	2.829	2.829
2.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. And rights	0	0	0
2.3.	General reserves for losses on loans from class. A - performing assets	205.254	209.612	213.555
2.4.	Accrued income for current year audited and confirmed by external auditor	49.186	52.090	0
2.5.	Income under FBA's temporary restriction on distribution	0	0	0
2.6.	Subordinated debts, the most 50% of core capital	184.093	159.056	150.788
2.7.	Hybrid convertible items - the most 50% of core capital	0	0	0
2.8.	Items-permanent liabilities without repayment duty	66.390	66.399	66.399
2.	AMOUNT OF SUPPLEMENTARY CAPITAL: (from 2.1. to 2.8.)	507.752	489.986	433.571
3	OFFSETTING ITEMS FROM BANK'S CAPITAL			
3.1.	Part of invested share capital that according to FBA's assessment represents accepted and overestimated value	0	0	0
3.2.	Investments in capital of other legal entities exceeding 5% of bank's core capital	16.036	15.938	15.938
3.3.	Receivables from shareholders for significant voting shares - approved aside from regulations	0	0	0
3.4.	VIKR to shareholders with significant voting shares in the bank without FBA's permission	0	0	0
3.	AMOUNT OF OFFSETTING ITEMS FROM BANK'S CAPITAL (3.1. to 3.4.)	16.036	15.938	15.938
A.	AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)	2.046.414	2.045.886	2.037.183
B.	RISK FROM RISK-WEIGHTED ASSETS AND CREDIT EQUIVALENTS	11.790.234	11.713.116	11.903.345
C.	POR (RISK-WEIGHTED OPERATING RISK)	882.928	942.707	965.930
D.	PTR (RISK-WEIGHTED MARKET RISK)	0	0	0
E.	TOTAL RISK-WEIGHTED RISKS B+C+D	12.673.162	12.655.823	12.869.275
F.	NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100	16,4%	16,2%	15,8%

ATTACHMENT 7

NUMBER OF EMPLOYEES BY BANKS

No.	BANK	31.12.2009.	31.12.2010.	31.03.2011.
1	BOR BANKA dd SARAJEVO	51	54	55
2	BOSNA BANK INTERNATIONAL dd Sarajevo	185	207	210
3	HERCEGOVACKA BANKA dd MOSTAR	77	75	75
4	HYPO ALPE ADRIA BANK dd MOSTAR	600	568	579
5	INTESA SANPAOLO BANKA dd BiH	514	519	517
6	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	174	178	170
7	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	68	67	68
8	MOJA BANKA dd SARAJEVO	133	143	146
9	NLB TUZLANSKA BANKA dd TUZLA	473	474	472
10	POŠTANSKA BANKA dd SARAJEVO	111	91	91
11	PRIVREDNA BANKA dd SARAJEVO	195	211	208
12	PROCREDIT BANK dd SARAJEVO	662	501	490
13	RAIFFEISEN BANK BH dd SARAJEVO	1.669	1.630	1.612
14	SPARKASSE BANK dd SARAJEVO	426	426	429
15	TURKISH ZIRAAT BANK dd SARAJEVO	152	150	152
16	UNA BANKA dd BIHAĆ	56	-	-
17	UNI CREDIT BANKA BH dd MOSTAR	1.389	1.362	1.340
18	UNION BANKA dd SARAJEVO	175	180	182
19	VAKUFСКА BANKA dd SARAJEVO	212	222	224
20	VOLKSBANK BH dd SARAJEVO	334	330	331
	TOTAL	7.656	7.388	7.351