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 30. 09. 2012.

Sarajevo, November 2012.

The Banking Agency of the Federation of BiH, as a regulatory authority conducting supervision of banks, developed the Information on the banking system of the Federation of BiH (as of 30.09.2012) 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.

I INTRODUCTION

Although in 2011 there were positive movements and improvements of certain indicators in banking sector performance, especially in the lending and profitability segment, the growth of the citizens savings continued, decline of the balance sheet amount in the first half of 2012, decline of the cash funds and deposits and a slight growth of loans, indicate that the impact of crises is still evident, which can have negative effects on key performance indicators for the banking system in the Federation of BiH.

As of 30.09.2012., there were 18 banks with banking license issued in the Federation of BiH, of which number one bank was under provisional administration. The number of bank in comparison to 31.12.2011 is lower by one banks, Hercegovacka bank dd Mostar which licence was revoked. As of 30.09.2012., the number of employees in banks was 7.196, which is by 2% or 173 employee less than in comparison to 31.12.2011.

The aggregate balance sheet of the banking sector, as of 30.09.2012., amounted to 14,9 billion KM, representing a decrease by 2% or 347 million KM compared to the end of 2011. After the decline of 3% or 457 million KM in the first quarter of this year, which was the largest quarterly decline in the last three years, in the second quarter there was a slight incline of the aggregate balance sheet, and the third quarter there was again a decrease of 0,4% or 51 million KM.

As of 30.09.2012, the structure of assets had smaller changes related to two key items: increase of the loan participation from 68,7% to 71,3% and decline of cash funds from 28,8% to 25,8%. The increase of the participation of the loans in assets is, above all, the result of decline of cash funds in the assets and slight credit growth of 1.4% or 154 million KM. The loans at the end of the half year reached the level of 10,6 billion KM.

The cash funds recorded a significant decline of 12% or 531 million KM and as of 30.09.2012 were 3,85 billion KM. The realized decline was primarily a result of outflow of deposits, and in a smaller part slight increase of loans and increase of investments in securities.

Although the deposits recorded a decline of 2,9% or 326 million KM, with the amount of 10,8 billion KM or 72,4% participation in the structure of liabilities are still a dominant source of financing of banks in the Federation of BiH. Loan liabilities as the second largest source of financing for banks in the F BiH, also recorded a decline of 9,5% or 125 million KM and at the end of the third quarter of 2012 they were 1,19 billion KM and with a participation of 8% in the liabilities structure. In the past three years, due to the impact of the financial and economic crises, the banks had borrowed much less abroad, and with the payment of the past due liabilities these sources significantly decreased (at the end of 2008 they were 2,17 billion KM)

Saving deposits, as the most significant segment of the deposit and financial potential of the banks in 2012 had an incline of 4% or 215 million KM and as of 30. 09. 2012 were 5,58 billion KM.

Capital as of 30. 09. 2012. was 2,2 billion KM and it was larger by 6% or 128 million KM than at the end of 2011, mostly based on the current financial result – profit, additional capital and increase of reserves in one bank.

The regulatory capital was 2,1 billion KM and it increased by 1% or 19 million KM in comparison to the end of 2011, along with smaller changes in its structure.

The banking system capital adequacy rate, as one of the most important indicators of strength and banks' capital adequacy, as of 30. 09. 2012 was 17%, which is on the same level as at the end of 2011, and still significantly over the prescribed minimum (12%) and presents a satisfactory capitalization of the total system and a strong base and foundation for preservation of its security and stability.

In the first nine months of 2012, on the level of the banking system of the FBiH, realized is a positive financial result in the amount of 111 million KM. A positive financial result of 177 million KM was realized by 15 banks, and losses in performance in the amount of six million KM were reported by three banks.

II BANKS' BUSINESS PERFORMANCE IN THE FEDERATION OF BIH

1. BANKING SECTOR STRUCTURE

1.1. Status, number and the business network

As of 30.09.2012, there were 18 banks with the banking license issued in the Federation of BiH. The number of banks is lower than as of 31.12.2011, since on 11.07.2012 revoked was the banking license from Hercegovacka bank d.d. Mostar, and the liquidation procedure initiated over the bank. 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 30.09.2012., there is one bank under provisional administration (Postanska banka BH d.d. Sarajevo).

In the first nine months of 2012, there was no significant expanding of the network of organizational units. Continued is the trend of expansion of the business units of banks, but in a significantly smaller volume than in previous years, mostly due to the financial crises. The banks performed reorganization of their networks of business units by increasing the changes in the organizational parts, organizational structure or adderss of the existing organizaitonal units, and all with an aim to rationalize the performance and decrease the performance expenses. There were 108 such changes (101 change on the territory of the Federation of BiH and eight in RS, and one in Districk Brcko), established are 7 new organizational parts, 24 have been terminated , and 77 had changes.

As of 30.09.2012., with the noted changes, all the banks had the a total of 585 organizational units which is a decline of 4,4% in comparison to the previous year.

The number of the organizational units of banks from Republic Srpska in the Federation of BiH (24) slightly changed in comparison to 31.12.2012, when there were 22 organizational units, which is an increase by 9,1%..

As of 30. 09. 2012, only 7 banks from the Federation of BiH had 48 organizational parts in Republic Srpska, and eight banks had 11 organizational units in Brcko District. Six banks from Republic Srpska had 24 organizational parts in the Federation.

As of 30.09.2012, all bank had the license for inter-bank transactions in the internal payment system and 16 banks were under the deposit insurance program.

1.2. Ownership structure

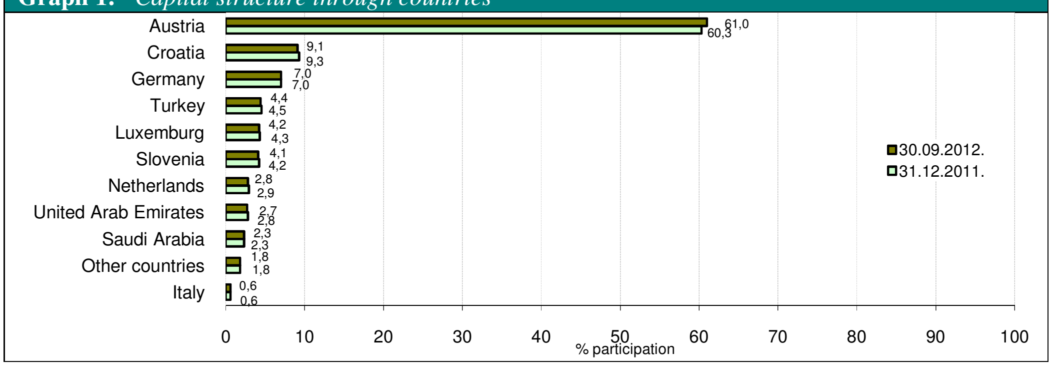
As of 30.09.2012., ownership structure in banks[1] based on the available information and on-site visits to banks[2] is the following:

- Private and majority private ownership 17 banks (94,4%)
- State and majority state ownership[3] 1 banks (5,6%)

Six banks, of 17 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 30.09.2012., the condition only slightly changed in comparison to the end of 2011, as a result of the additional capital of ne of the banks: participaiton of the foreign capital in the ownership of shareholders from Austria increased from 60,3% to 61%, the participation of shareholders from Croatia declined from 9,3% to 9,1%, while other countries had individual participation of less than 7%.

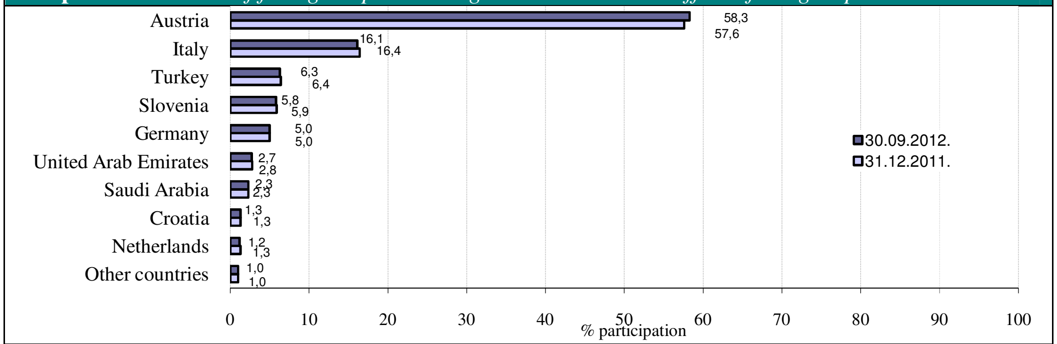
Graph 1: *Capital structure through countries*



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, situation had changed only slightly in relation to the end of 2011.: the participation of the banking groups and banks from Austria increased from 57,6% to 58,3%, the banks from Italy follow with the participation which declined from 16,4% to 16,1%, while other countries had individual partiicpation 6,3%.

[1] Bank classification criteria are ownership over banks' share capital.
[2] The ownership structure of banks in the FBiH as of 31.12.2009., 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.

Graph 2: *Structure of foreign capital through countries – head office of the group*[4]



The ownership structure could be viewed from the aspect of financial indicators, which is based on the value of total capital[5].

-in 000 KM-

Table 1: *Ownership structure based on the total capital*

BANKS	31.12.2010.		31.12.2011.[6]		30.09.2012.		RATIO	
1	2		3		4		5 (3/2)	6 (4/3)
State banks	46.586	3%	50.499	2%	51.227	2%	108	101
Private banks	1.650.039	97%	2.029.566	98%	2.156.365	98%	123	106
TOTAL	1.696.625	100%	2.080.065	100%	2.207.592	100%	123	106

In the nine months of 2012, the total capital increased by 6% or 7128million KM, mostly due to the current financial result- profit and additional capital and increase of reserves in one bank.

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.

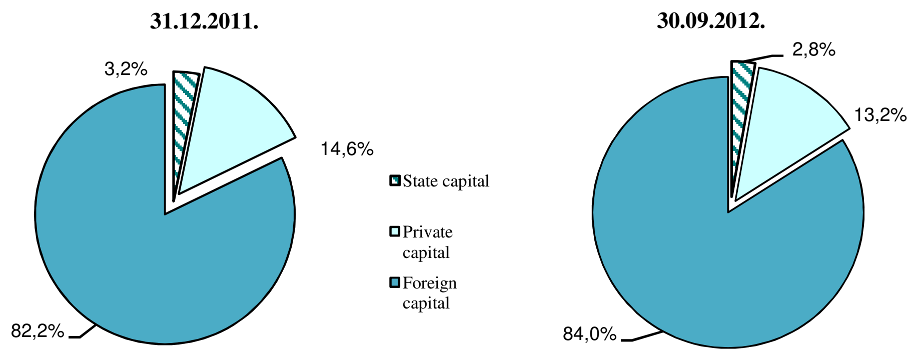
- in 000 KM-

Table 2: *Ownership structure by participation of state private and foreign capital*

SHAREHOLDERS CAPITAL	31.12.2010.		31.12.2011.		30.09.2012.		RATIO	
	Amount	Partici pation %	Amount	Particip ation %	Amount	Particip ation	4/2	6/4
1	2	3	4	5	6	7	8	9
State capital	41.860	3,6	38.072	3,2	33.096	2,8	91	87
Private capital (residents)	163.074	13,9	174.088	14,6	158.071	13,2	107	91
Foreign capital (nonresident)	968.363	82,5	981.412	82,2	1.002.199	84,0	101	102
TOTAL	1.173.297	100,0	1.193.572	100,0	1.193.366	100,0	102	100

[4] Apart from the countries which are the head countries of the parent groups which members are banks from F BiH, included are the countries from which are all other foreign shareholders of banks in F BiH.
[5] Information from balance sheet – FBA schedule: shareholder's capital, premium issue, undistributed profit and reserves, and other capital (financial results of current period).
[6] Svi podaci u Informaciji koji se odnose na 31.12.2011.godine su iz revidiranih finansijskih izvještaja banaka (revizija obavljena od strane vanjskog revizora kod 18 banaka u F BiH).

Graph 3: *Ownership structure (shareholders capital)*



The share capital of banks in the Federation of BiH, in the nine months of 2012, was lower by 206 thousand KM or 0,02% in comparison to the end of 2011. The structure of the shareholder's capital slightly changed: state capital decreased by 4,9 million KM, private capital (resident) decreased by 16 million KM, and private (nonresident) capital increased by 20,8 million KM in comparison to the end of 2011.

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 the changes of the ownership structure.

Participation of the state capital in total share capital, as of 30.09.2012., was 2,8%, and it decreased by 0,4 per cent in comparison to 31.12.2011.

Participation of private capital (residents) in total share capital of 13,2% and is lower by 1,4 percent points in comparison to 31.12.2011. Nominal increase of 16,0 million KM is a reuslt of a decrease by around 20 million KM, due to revoking of the license from one bank, and an increase by 3,7 million KM based on the turnover with stat ecapital.

The participation of the private capital (nonresident) in the total shareholders capital increased by 1,8%. The nominal increase of 20,8 million KM refers to the increase through the additional capital of 20 million KM in one bank, and slightly through the turnover.

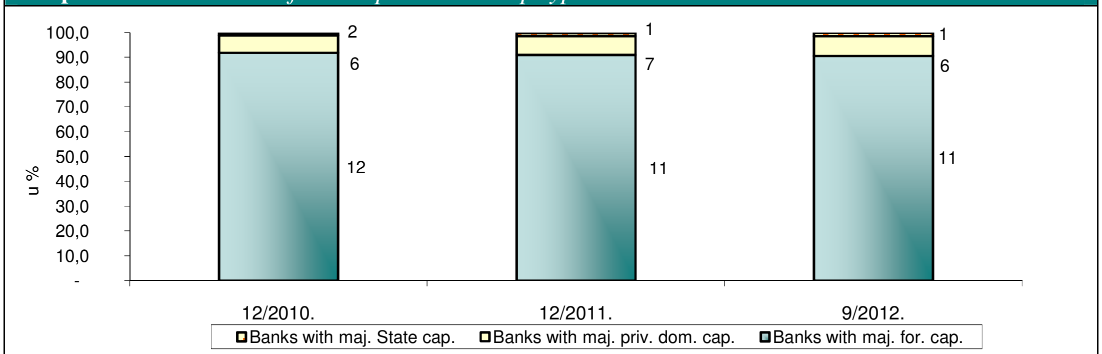
As of 30.09.2012., the market share of banks with majority foreign ownership was a high 90,6%, of banks with majority domestic private capital was 8,0%, and the share of banks with majority state capital was 1,4%.

- in %-

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

BANKS	31.12.2010. No. of banks	31.12.2010. Partic. in total capital	31.12.2010. Partic. in total assets	31.12.2011. No. of banks	31.12.2011. Partic. in total capital	31.12.2011. Partic. in total assets	30.09.2012. No. of banks	30.09.2012. Partic. in total capital	30.09.2012. Partic. In total assets
1	2	3	4	5	6	7	8	9	10
Banks with majority state capital	1	2,7	1,1	1	2,4	1,3	1	2,3	1,4
Banks with majority private domestic capital	7	12,2	7,0	7	10,3	7,7	6	10,6	8,0
Banks with majority foreign capital	11	85,1	91,9	11	87,3	91,0	11	87,1	90,6
TOTAL	19	100,0	100,0	19	100,0	100,0	18	100,0	100,0

Graph 4: *Market share of banks per ownership type*



1.3. Employees

As of 30.09.2012., there was a total of 7.196 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. In the nine months of 2012, the number of employees decreased by 2% or 173.

Table 4: *Employees in banks in FBiH*

B A N K S	NUMBER OF EMPLOYEES 31.12.2010.		31.12.2011.		30.09.2012.		RATIO 3/2	4/3
1	2		3		4		5	6
State banks	180	2%	177	2%	179	2%	98	101
Private banks	7.208	98%	7.192	98%	7.017	98%	100	98
TOTAL	7.388	100%	7.369	100%	7.196	100%	100	98
Number of banks	19		19		18		100	95

Table 5: *Qualification structure of the employees*

EDUCATION	NUMBER OF EMPLOYEES 31.12.2010.		31.12.2011.		30.09.2012.		RATIO 4/2	6/4
1	2	3	4	5	6	7	8	9
University qualifications	3.234	43,8%	3.401	46,1%	3.473	48,3%	105	102
Two-year post secondary school qualifications	696	9,4%	706	9,6%	683	9,5%	101	97
Secondary school qualifications	3.406	46,1%	3.218	43,7%	3.003	41,7%	94	93
Other	52	0,7%	44	0,6%	37	0,5%	85	84
TOTAL	7.388	100,0%	7.369	100,0%	7.196	100,0%	100	98

The trend of the increase of the employees' qualification structure through an increase of the number of employees with university qualifications continued in the three quarters of 2012, on one hand as a result of the increase of this category by 2% or 72 employees, and on the other due to the decrease of the number of employees with the high school diploma by 7% or 215 employees.

Table 6: *Asset per employee*

BANKS	31.12.2010.			31.12.2011.			30.09.2012.		
	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	180	167.263	929	177	191.881	1.084	179	204.058	1.140
Private	7.208	14.908.434	2.068	7.192	15.071.438	2.096	7.017	14.712.709	2.097
TOTAL	7.388	15.075.697	2.041	7.369	15.263.319	2.071	7.196	14.916.767	2.073

At the end of the observed period there was a two million KM assets per employe, the same as at the end of 2011.

Table 7 *Assets per employee by groups*

Assets (000 KM)	31.12.2010.	31.12.2011.	30.09.2012.
	Number of banks	Number of banks	Number of banks
Up to 500	0	0	0
500 to 1.000	7	4	4
1.000 to 2.000	6	9	8
2.000 to 3.000	5	5	5
Over 3.000	1	1	1
TOTAL	19	19	18

Analytical indicators of respective banks range from 590 thousand KM to 5,4 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 2,3 million KM.

2. FINANCIAL INDICATORS OF BANKS' PERFORMANCE

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 capital[7].

2.1. Balance sheet

Aggregate balance sheet of the banking sector, as of 30.09.2012., amounted to 14,9 billion KM, which presents a decrease by 2% or 347 million KM in comparison to end of 2011. After the decline of 3% or 457 million KM in the first quarter, which was the highest quarterly decline in the last three years, in the second quarter there happened a slight incline of the balance sheet amount of 1% or 163 million KM, while in the third quarter there again happened a slight decline oof 0,4% or 51 million KM, which cumulatively resulted with a decline rate of 2% for the nine months of 2012. Although in 2011, there were positive changes and improvements of certain indicators for the banking sector especially in the segment of lending and profitability and there was the continuation of the incline of the citizens savings, the relatively high decline of the balance sheet amount, very low credit growth, reduction in the financing sources (deposits and the loan liabilities) and consequently cash funds in the reviewed period in 2012, indicates that the impact of the crises is still evident, which can have negative effects on the key indicators of the banking system performance in the Federation of BiH.

- 000 KM-

Table 8: *Balance Sheet*

DESCRIPTION	31.12.2010.		31.12.2011.		30.09.2012.		RATIO	
	AMOUNT	Participation %	AMOUNT	Participation %	AMOUNT	Participation %		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
ASSETS:								
Cash funds	4.443.614	29,5	4.378.076	28,8	3.846.852	25,8	99	88
Securities[8]	375.252	2,4	458.465	3,0	519.458	3,5	122	113
Placements to other banks	145.007	1,0	79.940	0,5	143.137	1,0	55	179
Loans	9.981.911	66,2	10.487.671	68,7	10.641.365	71,3	105	101
Loan loss provisions (LLP)	635.792	4,2	931.946	6,1	991.799	6,6	147	105
Loans – net value (loans minus LLP)	9.346.119	62,0	9.555.725	62,6	9.649.566	64,7	102	101
Business premises and other fixed assets	552.764	3,7	540.749	3,5	513.352	3,4	98	95
Other assets	212.941	1,4	250.364	1,6	244.402	1,6	118	98
TOTAL ASSETS	**15.075.697**	**100,0**	**15.263.319**	**100,0**	**14.916.767**	**100,0**	**101**	**98**
LIABILITIES:								
LIABILITIES								
Deposits	11.232.830	74,5	11.124.675	72,9	10.798.820	72,4	99	97
Borrowings from other banks	7.000	0,0	2.000	0,0	2.000	0,0	29	100
Loan Commitments	1.403.451	9,3	1.319.299	8,6	1.194.287	8,0	94	91
Other liabilities	735.791	4,9	737.280	4,9	714.068	4,8	100	97
CAPITAL								
Capital	1.696.625	11,3	2.080.065	13,6	2.207.592	14,8	123	106
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**15.075.697**	**100,0**	**15.263.319**	**100,0**	**14.916.767**	**100,0**	**101**	**98**

[7] 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 31.12.2011., these items amounted to KM 671 million.

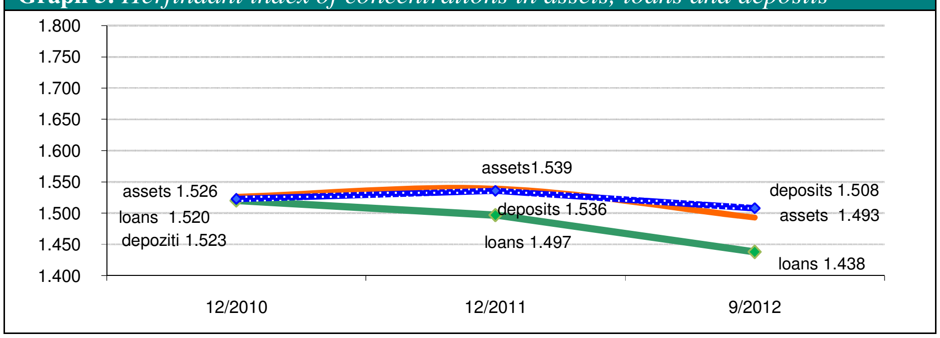
[8] Trading securities and securities held to maturity.

Table 9: *Assets of banks per ownership structure*											
BANKS	**31.12.2010.**			**31.12.2011.**			**30.09.2012.**			**RATIO**	
	Number of banks	**Assets (000 KM)**		**Number of banks**	**Assets (000 KM)**		**Number of banks**	**Assets (000 KM)**			
1	2	3		4	5		6	7		8 (5/3)	9(7/5)
State	1	167.263	1%	1	191.881	1%	1	204.058	1%	115	107
Private	18	14.908.434	99%	18	15.071.438	99%	17	14.712.709	99%	101	98
TOTAL	19	15.075.697	100%	19	15.263.319	100%	18	14.916.767	100%	101	98

In 11 banks the assets are slightly higher than at the end of 2011, while in the remaining eighth banks the assets declined, the decreasing rate was in the range from 2,3% to 16%, with a note that the largest bank in the system had a relatively significant downfall of assets of 8,3% or 335 million KM.

Indicator of concentrations in the three most significant segments of banking performance, in assets, loans and deposits is the value of the Herfffindahl index[9].

Graph 5: *Herfindahl index of concentrations in assets, loans and deposits*



At the end of the third quarter of 2012, the Herfindahl index in all three relevant categories (loans, deposits and assets) recorded very slight changes in the value: assets 1.493 units, deposits 1.438 and loans 1.508, indicating a moderate concentration[10]. In comparison to the end of 2011, all the indicators decreased: assets by 46, loans by 59 and deposits by 28 units.

Another indicator of concentration in the banking system is the ratio of market concentration, that is the concentration rate[11] (hereinafter: CR), which indicates the total market participation of the largest institutions in the system per relevant chosen categories: assets, loans and deposits. The CR5 decreased for market participation from 74,7% to 74,2%, loans from 75,4% to 74,3%

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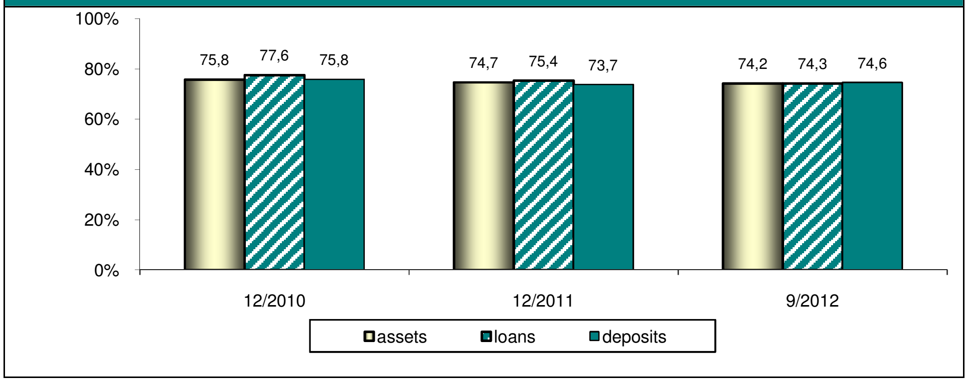
[9] It is also called the Hirschmann-Herfindahl index or HHI as calculated in the formula $HI = \sum_{j=1}^{n} (S)_j^2$, representing the sum of square of percentage shares of concrete values (e.g. assets, deposits, loans,…) of all market participants in the system. We should mention that the index is 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 at 10000 maximum.

[10] 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.

[11] Engl.: concentration ratio (CR), assigned to the number of institutions inlcuded in the calculation.

and for deposits increased from 73,7% to 74,6%. 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 74% of the market, loans and deposits

Graph 6: *Concentration rates for the five largest banks-CR5: assets, loans and deposits*



The banking sector could be analyzed from the aspect of several groups established according to the asset size[12]. The largest changes in comparison to the end of 2011 refer to the participation of four largest banks (group I and II) and IV the most numerous group of nine banks, while the changes in the number and participation in the V group are a result of the revoking of licence from one of the banks from this group

The participation of the two largest banks in the system (Group I, both banks with assets higher than three billion KM), in the nine months of 2012 decreased from 49,7% to 48,8% , while the participation of the Group II 19,1% (two banks with assets between one and two billion KM) almost remained unchanged. The group III (three banks with the assets between 500 million KM and one billion KM) recorded a slight delcine in the participation by 0,3 percentual points, that is 16,4. The participation of the Group IV of nine banks (with assets between 100 and 500 million KM) recorded an increase in participaiton from 1,5% to 14,9%. The number of banks in the last Group V (banks which have assets smaller than 100 million KM) decreased from three to two, and participation from 1,3% to 0,8%.still have an insigificant participation of 1,3%.

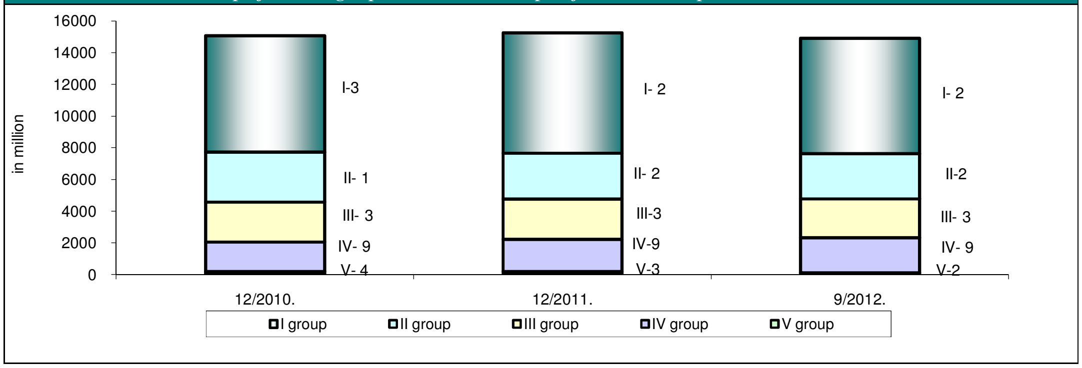
Although there happened slight changes in the participation of individual groups, it is evident that the four largest banks still have a high market participaiton of 68%.
The following table presents a preview of amounts and participations of individual groups of banks in total assets by periods (amounts presented in KM millions).

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

AMOUNT OF ASSETS	31.12.2010.			31.12.2011.			30.09.2012.		
	Amount	Partic. %	No. of banks	Amount	Partic. %	No. of banks	Amou nt	Partic. %	No. of banks
I- Over 2.000	7.348	48,8	2	7.596	49,7	2	7.280	48,8	2
II- 1000 to 2000	3.146	20,9	2	2.894	19,0	2	2.855	19,1	2
III- 500 to 1000	2.521	16,7	3	2.545	16,7	3	2.448	16,4	3
IV- 100 to 500	1.862	12,3	9	2.030	13,3	9	2.221	14,9	9
V- Under 100	199	1,3	3	198	1,3	3	113	0,8	2
TOTAL	15.076	100,0	19	15.263	100,0	19	14.917	100,0	18

[12] Banks are divided into five groups depending on the assets size.

Grafikon 7: *Učešće pojedinih grupa banaka u ukupnoj aktivi kroz periode*



The decline of the balance sheet amount by 2% or 347 million KM, or on the level of 14,9 billion KM at the end of the third quarter of 2012., it is the result of the decline of deposits by 2,9% or 326 million KM (if we exclude the impact of the bank from which the license was revoked, the decline of the deposits was 2% or 229 million KM) loan liabilities by 9% or 125 million KM< with a note that assets decreased due to the revoking of the license from one bank (the impact of around 85 million KM, and on deposits 97 million KM, and the impact on the entire capital is positive in the amount of 17 million KM). At the level of the system, only the total capital had a growth of 6,1 or 128 million KM.

The cash funds, after the decline of 12,1% or 531 million KM, at the end of the reviewing period were 3,85 billion KM. The realized decline is a result of the outflow of deposits, and in a smaller part due to the increase of the loans of 1,5% or 154 million KM, so the loans as of 30.09.2012 were 10,64 billion KM. The decline of the cash funds was in small part influenced by the increase in the investment in securities of 13,3% or 61 million KM, which as of 30.09.2012 were 519 million KM, which is only a participation of 3,5 in the assets.

The securities portfolio available for sale (a small part relates to trading portfolio) increased from 300 million to 343 million KM, and securities held to maturity from 158 million KM to 177 million KM. In the both portfolios there are securities issued by the Government of F BiH[13] with a total value as of 30.09.2012 of 163 million KM, as well as the securities issued by the Government of RS in a total value of 28 million KM. Also, the banks in the trading portfolio have the shares which issuing parties are local companies, in a total amount of 10 million KM.

In 2012, the Government of the Federation of BiH issued two emissions of bonds (three issues: in February, March and April, all with the same maturity of six months) with a nominal value of 60 million KM (the purchasing price was 59,3 million KM), of which 45 million reached 30.09.2012. Also, issued were three emissions of bonds (first in May in the amount of 80 million KM, maturity date three years in the amount of a total 30 million KM, the maturity is five years, and the third in September was 20 million KM with a maturity date two years: in May and June of 2012) with the nominal value of 130 million KM. The banks purchased the bonds in the value of 122,8 million KM. The majority of the treasury bonds and securities was classified in the portfolio available for sale (114,6 million KM), and the remaining part in the portfolio held to maturity. The rest of the portfolios of the securities in the banks are in most part the securities of the EU countries

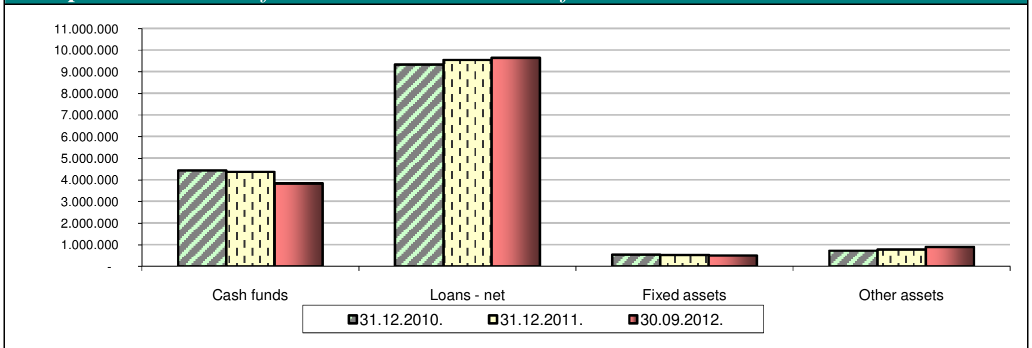
If the total portfolio is viewed based on the exposure to a particular country, the largest is BiH (38,6%), then Romania (16,1%), France (8,5%), Austria (8,3%) etc.

[13] All types of securities issued by the Government of FBiH.

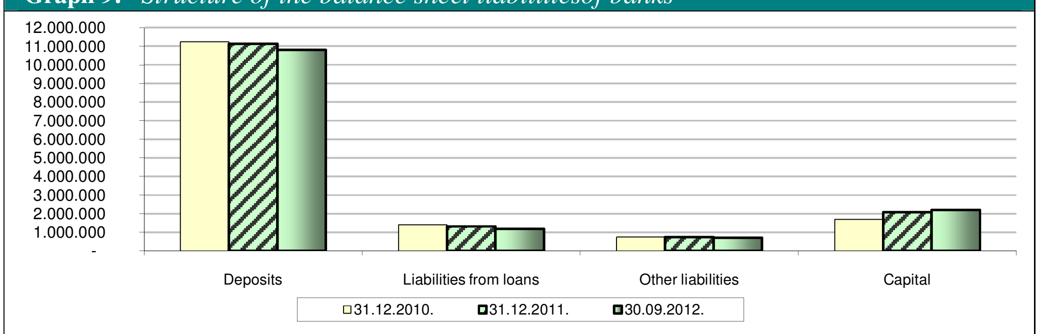
Also, placements to other banks recorded an increase by a high 79% or 63 million KM, as of 30. 09. 2012 they were 143 million KM. The banks still try to, under the conditions of the decreased volume of lending, realize additional income by placing the surplus of liquid funds, placing them as time deposits in foreign banks and investing in securities.

The following graphs provide the structure of the most significant positions of the banks' balances.

Graph 8: *Structure of the balance sheet assets of banks*



Graph 9: *Structure of the balance sheet liabilitiesof banks*



In the structure of banks' balance sheet liabilities deposits in the amount of 10,8 billion KM and participation of 72,4% are still the dominant source of financing for banks in the Federation of BiH. After the decline of 9,5%, the credit liabilities in the amount of 1,19 billion KM decreased its participation from 8,6% to 8,0%, while the participation of capital, which as of 30.09.2012 was 2,21 billion KM increased from 13,6% to 14,8%.

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 68,7% to 71,3% and a decrease of cash funds from 28,8% to 25,8%

- in 000 KM-

Table 11: *Cash funds of banks*

CASH FUNDS	31.12.2010.		31.12.2011.		30.09.2012.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	370.414	8,3	371.309	8,5	337.950	8,8	100	91
Reserve accounts with CBBiH	2.592.920	58,4	2.351.811	53,7	2.095.314	54,5	91	89
Accounts with deposit institutions in BiH	670	0,0	20.618	0,5	6.601	0,1	3077	32
Accounts with deposit institutions abroad	1.479.322	33,3	1.633.479	37,3	1.406.547	36,6	110	86
Cash funds in collection process	288	0,0	859	0,0	440	0,0	298	51
TOTAL	4.443.614	100,0	4.378.076	100,0	3.846.852	100,0	99	88

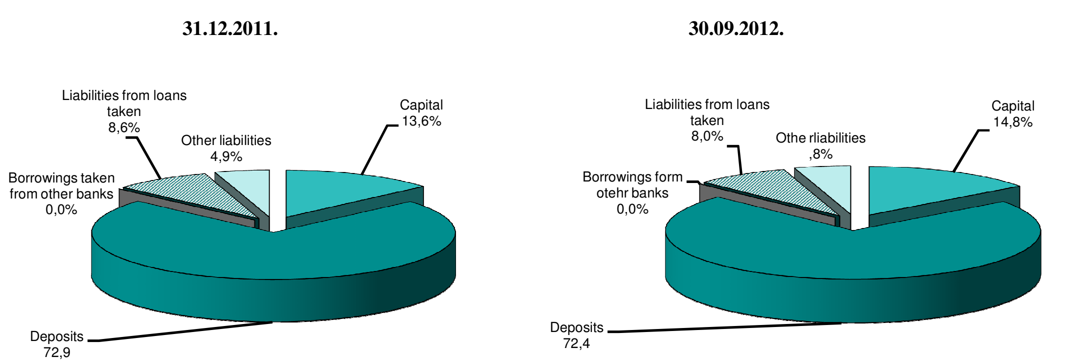
Cash funds of the banks on the reserve accounts of CBBiH, in the reviewed period, decreased by 11% or 256 million KM, amounting to 2,1 billion KM or 54,5% of total cash funds as of 30.09.2012., representing the participation increase of 0,8 percent points in relation to the end of 2011. Banks' funds on the accounts with the depository institutions abroad had a steep decline of 14% or 227 million KM, amounting to 1,41 billion KM or 36,6% of total cash funds (37,3% at the end of 2011). As of 30.09.2012, the banks had cash on hand and in vaults in the amount of 338 million KM, which is 8,8% of the total cash funds.

The listed fluctuations had an impact on the change of the currency structure of the cash funds: the domestic currency participation in the reviewed period increased from 59,3% to 60,7%, and the participation of funds in foreign currency has decreased by the same amount of change.

2. 1. 1. Liabilities

Structure of liabilities (liabilities and capital) in the balance sheet of banks, as of 30.09.2012. is presented in the following graph:

Graph 10: *Banks' liabilities structure*



In the reviewed period, there were minor changes in the participation of two most significant sources of banks' financing: deposits and credit liabilities that is the decrease of the deposit participation from 72,98% to 72,4% and participation of loan liabilities from 8,6% to 8,0%.

The main reason for the increase of deposits participation is their decline by 2,9% or 326 million

KM, so that at the end of the reviewing period they were 10,8 billion KM, and still represent the most significant funding source of banks in the Federation of BiH. Second source, per its size in the amount of 1,19 billion KM, are credit funds obtained, mostly, by banks through the debt with foreign financial institutions. In the last three 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 the net effect was the decrease of the credit liabilities (at the end of 2008, they were 2,17 billion KM), in the three quarters of 2012 they declined by 9,5% or 125 million KM. If subordinate debts of 127 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 be 8,8.

Capital, as of 30.09.2012, was 2,21 billion KM, which is by 6,1% or 128 million KM higher than at the end of 2011, and the increase was realised mostly based on the current financial result – profit and additional capital and increase of the reserves of one bank.

As of 30.09.2012., the highest bank commitments were towards the following creditors (seven of total 38), representing 73% of total credit commitments: European Investment Bank (EIB), European fund for Southeast Europe (EFSE), EBRD, UniCredit Bank Austria AG, Central Eastern European Finance Agency (CEEFA), ComercBank AG Frankfurt and Council of Europe Development Bank.

According to the data submitted by banks, out of total deposits at the end of the reviewing period in 2012, only 6% were deposits collected by organizational units of banks from the Federation of BiH operating in Republic Srpska and Brcko District.

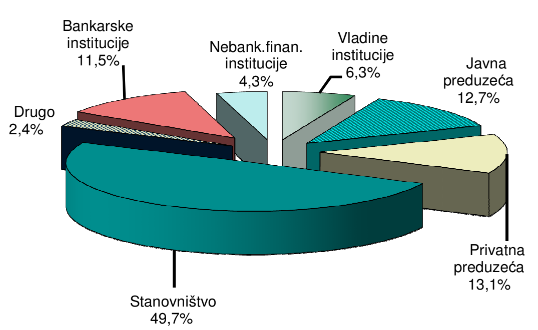
- in 000 KM-

Table 12: *Deposit structure by sectors*[14]

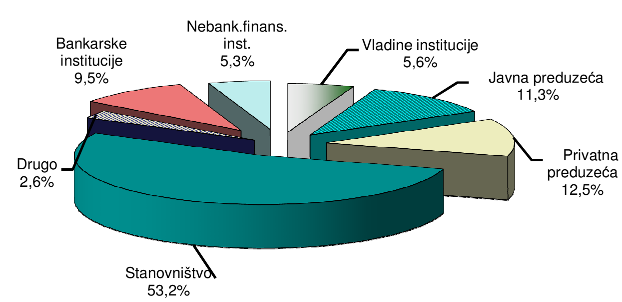
DEPARTMENTS	31.12.2010.		31.12.2011.		30.09.2012.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	891.638	7,9	705.805	6,3	610.060	5,6	79	86
Public enterprises	1.332.748	11,9	1.413.686	12,7	1.216.702	11,3	106	86
Private enterprises and assoc.	1.487.509	13,2	1.462.767	13,1	1.346.735	12,5	98	92
Non-profit. organizations	1.674.576	14,9	1.280.463	11,5	1.030.814	9,5	76	81
Banking institutions	432.045	3,9	483.504	4,3	568.941	5,3	112	118
Citizens	5.144.607	45,8	5.530.461	49,7	5.744.161	53,2	107	104
Other	269.707	2,4	247.989	2,4	281.407	2,6	92	113
TOTAL	11.232.830	100,0	11.124.675	100,0	10.798.820	100,0	99	97

Graph 11: *Deposit structure by sectors*

31.12.2011.



30.09.2012.



In the reviewed period in 2012, there were minor changes in the deposits sector structure, which on one hand, were a result of the decrease of funds of the private and public institutions as well as banking institutions, and on the other hand the increase of citizens' deposits..

The continuity in the growth of the citizens' deposits was maintained in the first nine months of 2012, with the growth rate of 4% or 214 million KM. The deposits of this sector with the amount of 5,74 billion KM due to the decline of deposits in other sectors increased its participation in the total deposits from 50% to 53,2% in the total deposits, so they are still the largest source of financing for banks in F BiH.

Second highest in the amount and participation in the sector sources are the deposits of the public companies, although in the first half of 2012 they had a steep decline by 16% or 241 million KM or from 1,46 billion KM to 1,22 billion KM, which was of concern. However, in the third quarter the negative movements were stopped and the deposits of this sector realized a growth of 6% or 125 million KM. Cumulatively for nine months, it still resulted with a decline of 8% or 116 million KM, or the level of 1,35 billion KM, while the participation decreased from 13,1% to 12,5%.

The largest change and a steep decline of 16% or 241 million KM, or from 1,46 billion KM to 1,22 billion KM, was recorded in the deposits of the private institutions, which is of concern. Of that number around 190 million refers to the outflow of demand deposits mostly in the local currency (KM). For that reason, the participation of this sector decreased from 13,2% to 11,3%.

The deposits of the public companies, after the banking institutions, had the largest decline of 14% or 197 million KM. The deposits of this sector are 1,22 billion KM or 11,3% of total deposits.

The deposits of the banking institutions since the end of 2007, until the III quarter of 2011 were second highest sector source in the deposit potential of the banks. The growth trend was present until mid-2009, when they reached the highest amount of 2,29 billion KM and participation of 21,4% in the total deposits. After that, under the impact of the crises, decrease of the lending volume and surplus of liquidity, there was a withdrawal of deposit funds of the parent groups, which resulted in the decline of the participation. However, after the decline in the IV quarter of 2011 of 23% or 368 million KM, the participation declined to 11,5%, which was fourth largest sector participation at the end of 2011. In 2012, the declining trend continued with a declining rate of 19% or 250 million KM. Negative movements in the funds level of this sector in the largest part refer to the decrease of the debt, or the return of the funds to the parent groups in which ownership are the banks in the Federation of BiH.

At the end of the third quarter of 2012 the deposits of the banking institutions were 1,03 billion KM, which is 9,5% of total deposits. These funds decreased by 163 million KM in comparison to the credit liabilities, which, after the deposits, are second most important funding source for banks in F BiH. From the noted data it can be concluded that the debt of the banks from F BiH abroad has significantly decreased, especially deposit funds of the parent groups. Taken that the same decreasing trend is present in the credit liabilities also, the banks are again facing the problem of maintaining the maturity match, which is caused by unfavorable maturity of the local deposit funds, so in the coming period they need to secure better quality sources when it comes to maturity, in order to continue the growth trend of the credit placements.

It should be emphasized that 88% or 905 million KM of banking institutions' deposits refers to deposits of banks-members of groups (primarily shareholders). Financial support of the groups is present in eight banks in the Federation of BiH, with a concentration on four large banks. In this manner, in the previous period, 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. If credit liabilities and subordinate debts (items in the supplementary capital) are added to these funds, the financial support the banks receive from their groups becomes higher (in ten banks), amounting to 1,4 billion KM or 9,4% of total liabilities of the banking sector as of 30.09.2012. In comparison to the end of 2011, these funds were reduced by 21,5% or 383 million KM, mostly from regular maturities (the deposits decreased by 25,1% or 304 million KM, loan liabilities by 15,7% or 65 million KM and subordinated loans by 8,8% or 14 million KM.

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 are owned by foreign banks groups, in 2012 the trend of the decreasing of the exposure from the previous year continued, in the segment of the deposit sources, mostly in one bank, while the credit sources decreased based on the regular payment of matured liabilities.

Due to the unfavourable events in the economies of the countries from which are the owners of the banks from F BiH and problems with which those countries are faced, and consequently the financial system and the banking groups, as well as the announced measures which Austria plans to take with an aim to strengthen the sustainability of the business models of large internationally active banks, and with that maintain the country's credit rating[15], it can be expected that the future financial support of the parent group will be more restricted, so the credit growth in the coming period in the Federation of BiH must be more financed from the growth of the local sources.

Under the conditions of crises and a more difficult access to the money market and new funds, the growth of the liquidity risk as a result of the deteriorating collection of the loans and growth of non-performing assets, unsatisfactory maturity structure of local deposit sources, expected continued decrease of foreign sources of funding, the problem of the unfavorable maturity structure of the funding sources, primarily deposits, as well as their growth, will be in the focus in majority of the banks in the coming period

Deposits of other sectors had also minor changes in the amount and participaiton, and the largest change had deposits of government institutions, after the decline by 14% or 96 million KM. This particularly high decline was significantly influenced (around 57 million KM) by the revoking of the license from one bank. It should be emphasized that the CBBiH, at the end of September, transferred to the accounts of the Federation of BiH the funds of the first payment in the amount of 79,3 million KM based on the standby arrangement with the IMF, the deposits of the government institutions, as of 30.09.2012, are 610 million KM or 5,6 of total deposits.

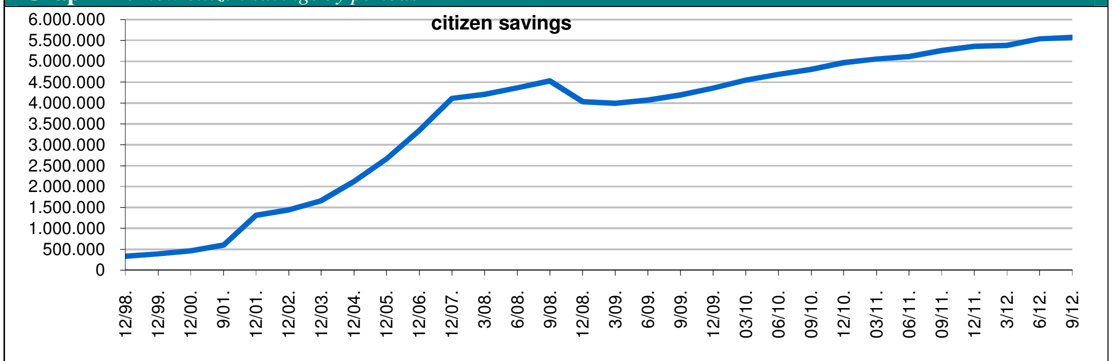
Currency structure of deposits, at the end of the observed period, changed slightly deposits in foreign currencies (with the dominant participation of EURO) in the amount of 5,81 billion KM decreased its participation from 55% to 54% and deposits in domestic currency in the amount of 4,99 billion KM, which is a participation of 46% .

Saving deposits, as the most significant segment of deposits and financial potential of banks in 2012, had an increase of 3,3% or 175 million KM and as of 30.06.2012 were 5,54 billion KM. Saving deposits, as the most significant segment of deposits and financial potential of banks in 2012, had an increase of 4% or 215 million KM and as of 30.09.2012 were 5,58 billion KM.

[15] The core of the measure is that the credit activity of the Austrian banks subsidiary in the Central, East and Southeast Europe (CESEE) in the future will be conditioned with strengthened and susteinable financing from local sources.

Table 13: *New citizen savings by periods*					
BANKS	**AMOUNT (IN 000 KM)**			**RATIO**	
	31.12.2010.	**31.12.2011.**	**30.09.2012.**	**3/2**	**4/3**
1	2	3	4	5	6
State	47.148	50.259	52.857	107	105
Private	4.926.361	5.311.178	5.523.221	108	104
TOTAL	4.973.509	5.361.437	5.576.078	108	104

Graph 12: *New citizen savings by periods*



The largest three banks hold 69% of savings, while participation of six banks has an individual participation of less than 1%, representing only 3,5% of total savings in the system.

Savings deposits in local currency represent 34% and in foreign currency 66% of total savings amount

Table 14: *Maturity structure of saving deposits of citizens through periods*								
BANKS	**AMOUNT (IN 000 KM)**						**RATIO**	
	31.12.2010.		**31.12.2011.**		**30.09.2012.**		**3/2**	**4/3**
1	2		3		4		5	6
Short term saving deposits	2.581.767	51,9%	2.606.732	48,6%	2.589.444	46,4%	101	99
Long term saving deposits	2.391.742	48,1%	2.754.705	51,4%	2.986.634	53,6%	115	108
TOTAL	4.973.509	100,0 %	5.361.437	100,0 %	5.576.078	100,0 %	108	104

The maturity structure of the savings deposits in comparison to the end of 2011 recorded a slight improvement, which is a result of the incline of the long term saving deposits by 8% or 232 million KM, which caused the change in the participation of these deposits that is an increase from 51, 4% to 53,63%.

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 30.09.2012., there are a total of 16 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 97% of total deposits and 98% of total savings.

The remaining two banks 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.

2.1.2. Capital – strength and adequacy

Capital[16] of banks in the Federation of BiH, as of 30.09.2012., amounted to 2,1 billion KM

-in 000 KM-

Table 15: *Regulatory capital*

DESCRIPTION	31.12.2010.		31.12.2011.		30.09.2012.		RATIO	
1	2		3		4		5 (3/2)	6 (4/3)
1.a.Core capital before deduction	1.885.159		2.008.081		1.903.089		107	95
1.1. Shareholders capital-common and permanent uncom.shares	1.170.468		1.190.482		1.190.276		102	100
1.2. Amount of emissions	136.485		136.485		136.485		100	100
1.3.Reserves and retained profit	578.206		681.114		576.328		118	85
1.b.Deductable items	313.321		353.960		178.567		113	50
1.1. Uncovered losses from previous years	92.058		251.187		120.666		273	48
1.2. Loss from the current year	157.933		45.512		6.298		29	14
1.3. treasury shares	81		81		156		100	193
1.4.. Amount of intangible assets	63.249		57.180		51.447		90	90
1. Core capital (1a-1b)	**1.571.838**	**76%**	**1.654.121**	**78%**	**1.724.522**	**81%**	105	104
2. Supplementary capital	**489.986**	**24%**	**466.968**	**22%**	**415.688**	**19%**	95	89
2.1.Shareholder capital- permanent priority cumul. shares	2.829		3.090		3.090		109	100
2.2. General reserves for loan losses	209.612		212.248		213.629		101	101
2.3. Amount of revised current profit	52.090		62.564[17]		7.303		120	12
2.4. Amount of subordinated debt up to 50% of the amount of core	159.056		139.754		125.261		88	90
capital	66.399		49.312		66.405		74	135
2.5. Items of permanent character	**2.061.824**	**100%**	**2.121.089**	**100%**	**2.140.210**	**100%**	103	101
3. Capital (1 + 2)								
	15.938		**37.794**		**76.205**		237	202
4. Items deductible from capital	15.938		18.408		2.470		116	13
4.1. Bank's invest. In cap. of state leg. ent.over 5% of cor. cap.	-		19.386		73.658		N/a	380
4.2. Amount of lack. reserves for loan loss. based on reg. request	-		-		77		N/a	N/a
5. Net capital (3- 4)	**2.045.886**		**2.083.295**		**2.064.005**		102	99

In the three quarters of 2012, capital increased by 1% or 19 million KM in comparison to 2011, while the changes in core and supplementary capital influenced the changes in the structure of regulatory capital. The core capital increased by 4% or 70 million KM, and participation from 78% to 81%, supplementary capital decreased by 11%, or 51 million KM.

[16] 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] Based on the final data of eighth banks included the audited income into supplementary capital, and two into core capital.

The core capital growth is a result in most part of the inclusion of the realized profit for 2011. After the implementation of the legal procedure in regard to the issuing and adopting the decisions by the assemblies of the banks, the realized profit for 2011, in the amount of 127 million KM (16 banks) was distributed as follows: 71% or 89 million KM into core capital (retained profit and reserves), three banks directed a part of the profit, in the amount of two million KM, towards partial coverage of previous losses, for coverage of lacking reserves for loan losses based on the regulatory request 17 million KM, while two banks allocated 19 million for pay out of dividends. Also, one bank retained profit to pay out dividends in the amount of 19 million KM.

The changes in the core capital were also influenced by the following: one bank had a direct payment in the reserves in the amount of 20 million KM, and in the second quarter additional capital in the amount of 20 million KM along with a simultaneous decrease of the reserves through a partial coverage of accumulated losses in the amount of 125 million KM. The effect of the cease of operations of one bank in provisional administration on core capital is positive in the amount of 17,5 million KM.

Deductible items (which decrease the core capital) decreased by 175 million KM mostly from decrease of cumulated losses in four banks in the amount of 176 million KM (of this amount, 125 million KM refers to one bank, and the coverage is performed from reserves), intangible property by 39 million KM and increase of current debt by 5,7 million KM.

Supplementary capital decreased by 51 million KM, with major changes in the structure: the 2011 profit of 62 million KM was transferred to core capital, subordinated debt (regular payments of past due liabilities) decreased by 14,5 million KM, while the items of the permanent character increased by 17 million KM (in one bank). One bank included the revised current income, in the amount of 7,3 million KM< in the supplementary capital.

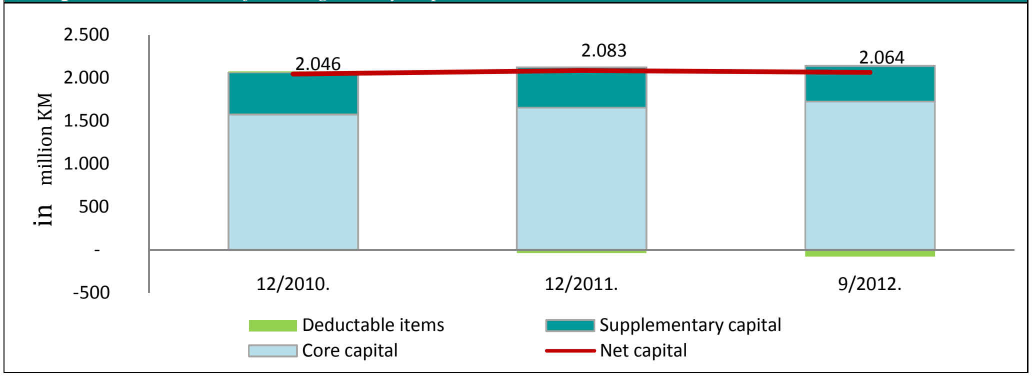
The change in the regulations includes in the items deductible from capital the new accrual item: lacking reserves for loan losses based on the regulatory request, which as of 30.09. 2012 was 73,6 million KM, which is a difference between the needed regulatory reserves for loan losses in the balance and off -balance items[18] and reserves for loan losses established from profit. Of total lacking reserves for loan losses based on the regulatory request in the amount of 110 million KM the banks reported 73,6 million KM against capital, which presents 67%[19] of the total amount of lacking reserves for loan losses. Also, the banks, in compliance with the regulations of the FBA, and based on the decision of the assembly, from the current profit for 2011 or reserves allocated the lacking amount of the reserves for loan losses of 19 million KM, reported as of 31.12.2011..

The following graph presents the structure of the regulatory capital.

[18] The bank reports the needed regulatory reserves when the value adjustment (based on the IAS) is lower than the accrued regulatory reserves, which is determined on the level of the individual debtors. This methodology the banks implemented as of 30.06.2012.

[19] The bank were obliged to as of 30.06.2012 report, against capital, and according to the permitted dynamics, a minimum ¼ of lacking reserves for loan losses based on the regulatory request, determined for the reporting date.

Graph 13: *Structure of the regulatory capital*



Net capital, as a result of the above mentioned changes, decreased by 1% or 19 million KM, and as of 30.09.2012 was 2,06 billion KM.

The adequacy of the capital level of individual banks, or the entire system, depends, on one side, on the level of net capital, and on the other, on the amount of the risk weighted assets.

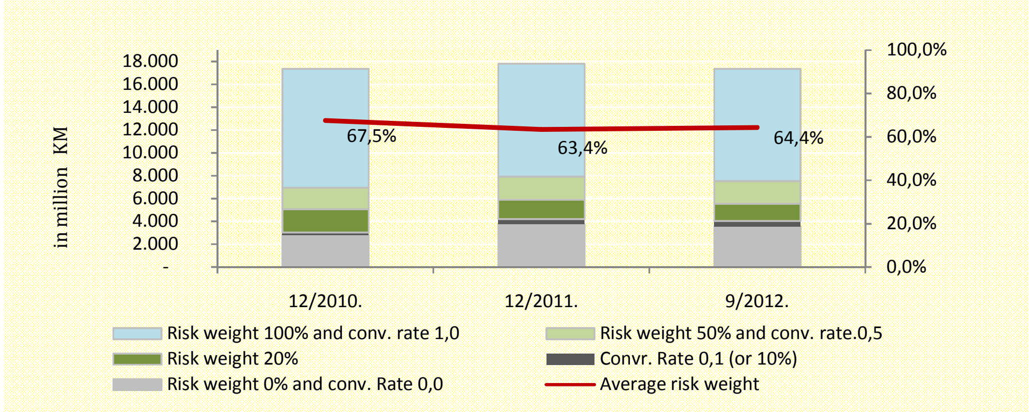
The following table presents the structure of the net exposure of the banks to the risk weighted credit risk that is the conversion ratio for the off-balance sheet items.

-in 000 KM-

Table 16: *Structure of the banks' net exposure to the risk weighted credit risk*

DESCRIPTION	31.12.2010.	31.12.2011.	30.09.2012.	RATIO	
1	2	3	4	5 (3/2)	6 (4/3)
TOTAL EXPOSURE (1+2):	**17.354.697**	**17.814.140**	**17.349.686**	103	97
1 Balance sheet assets	14.887.124	14.987.978	14.522.030	101	97
2. Off-balance sheet positions	2.467.573	2.826.162	2.827.656	115	100
DISTRIBUTION THROUGH RISK WEIGHTED RISKS AND CONVERSION RATIO					
Risk weight 0%	3.147.567	3.721.678	3.499.005	118	94
Risk weight 20%	1.640.802	1.674.585	1.518.788	102	91
Risk weight 50%	42.576	83.165	54.125	195	65
Risk weight 100%	10.056.179	9.508.550	9.450.112	95	99
Convers.ratio 0,0	0	54.529	60.623	N/a	111
Convers.ratio 0,1	220.264	445.006	461.030	202	104
Convers.ratio 0,5	1.923.685	1.938.361	1.921.020	101	99
Convers.ratio 1,0	323.624	388.266	384.983	120	99
	11.713.116	**11.286.997**	**11.172.524**	**96**	**99**
RISK OF THE RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS	**67,5%**	**63,4%**	**64,4%**	**94**	**102**

Graph 14: *Structure of the banks' net exposure to the risk weighted credit risk*



The total net exposure of the banks that is risk weighted in the first three quarters of 2012 decreased by 3% or 464 million KM, which was in the most part influenced by the decline of the balance sheet items (mostly with the conversion ratio of 0 and 20%), and partially off balance sheet items (mostly with the conversion ratio of 0,5), which influenced that the risk of the risk weighted assets and credit equivalents has the same direction, in other words the decline of 1% or 114 million KM (from 11,29 billion KM to 11,17 billion KM). This was mostly influence by the deduction in funds the banks keep at CBBiH (risk weight 0%).

The opposite movement from the risk weighted assets and loan equivalents had the risk weighted operating risk (POR), which increased by 1% and is 974 million KM. All of that resulted in decrease of total risk weighted risk by 1% or 69 million KM.

As of 30.09.2012, the participation of the risk weighted assets exposed to the credit risk was 92%, and operating risk 8%.

The capital level rate is presented as a ratio of capital to assets, and as of 30. 09. 2012, it was 13,4%, which is by 0,4 percent points higher than at the end of 2011.
One of the most significant indicators of strength and adequacy of capital[20] of banks is the capital adequacy ratio, calculated as a ratio of net capital and risk weighted assets. As of 30.09.2012, this ratio was 17%, which is on the same level as at the end of 2011. Although the total risk weighted risks decreased by 1% or 106 million KM, the capital adequacy remained at the same level as at the end of 2011. with a slight decrease of net capital.

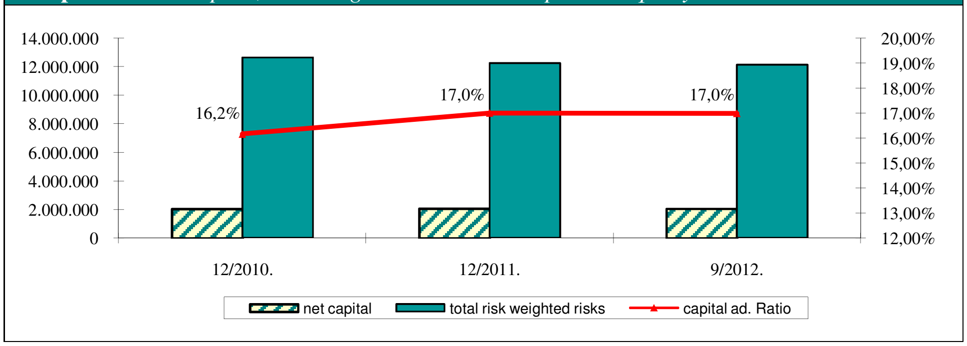
- 000 KM-

Table 17: *Net capital, risk-weighted assets and capital adequacy rate*

DESCRIPTION	31.12.2010.	31.12.2011.	30.09.2012.	RATIO	
1	2	3	4	5(3/2)	6(4/3)
1. NET CAPITAL	2.045.886	2.083.295	2.064.005	102	99
2. RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS	11.713.116	11.286.997	11.172.524	96	99
3. POR (RISK WEIGHTED OPERATING RISK)	942.707	965.932	974.284	102	101
4. TOTAL RISK WEIGHTED RISKS (2+3)	12.655.823	12.252.929	12.146.808	97	99
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/ 4)	16,2%	17,0%	17,0%	105	100

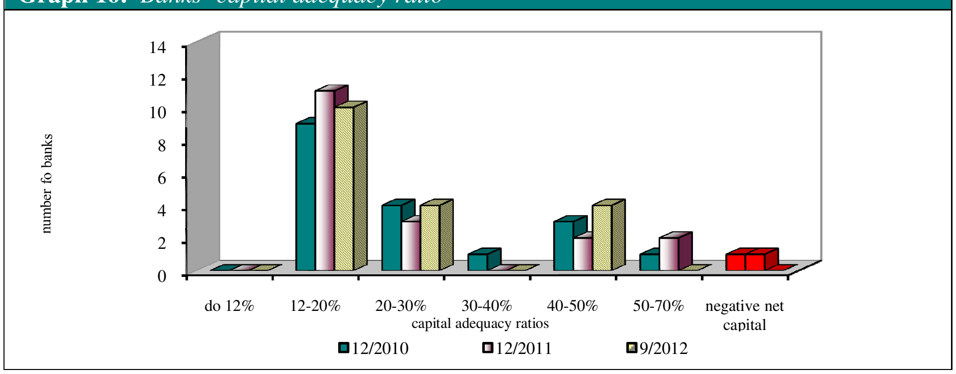
[20] By Law prescribed minimum capital adequacy rate is 12%.

Graph 15: *Net capital, risk-weighted assets and capital adequacy rate*



Capital adequacy rate of the banking system, as of 30.09.2012., was 17%, 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.

Graph 16: *Banks' capital adequacy ratio*



All 18 banks in the FBiH, as of 30.09.2012., had the capital adequacy rate higher than minimum prescribed by the law of 12%. According to analytical data at the end of the third quarter of 2012, 14 banks recorded the capital adequacy rate lower than at the end of 2011, in the range from 0,1 to 22,6 percent points, while in four banks it recorded a better rate.

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

- 6 banks had the rate between 13% and 16,9%
- 4 banks had the rate between 17,2% and 18,7%,
- 4 banks had the rate between 20,8% and 22,5% and
- 4 banks had the rate between 41,9% and 46,8%

The 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. After the beginning of the crises, due to the deterioration of the loan portfolio and increase of the reserve expenses for loan losses, which had a significant impact on the downfall of the profitability of all banks in the system, the bank's capital has been under increased supervisory review, in order to avoid the endangering the banks' stability and capital base erosion to the level that would jeopardize not only the operations of the banks, but also impact the stability of the total banking system

The FBA had, while performing the supervision of the performance and the financial condition of the banks in FBiH, in compliance with the legal authorities, and with the goal of strengthening the security of the individual banks and the entire system, ordered the banks to take appropriate actions aimed at strengthening of the capital base and securing that the capital is adequate, as well as the profile of the existing and potential exposure to all risks which are imminent for the banking operations. One of the measures which the FBA took, in order to maintain the capital base and soundness and stability of the banks, was the recommendation to the banks, as well as the last two years, not to direct the realized profit for 2011 into pay out of dividends, but to the strengthening of the capital base.

2.1.3. Assets and asset quality

Based on the Decision on minimum standards for managing the credit risk and banks' asset classification determined are criteria for evaluation of the exposure of the banks to the credit risk through evaluation of the quality of their assets and adequacy of reserves for loans and other losses in accordance with the risk of the placement and funds-items of the balance sheet and off balance items.

As the Law on accounting and the audit in the Federation of Bosnia and Herzegovina came into effect, the banks are obliged to starting as of 31. 12. 2011 develop and present financial reports in compliance with the International accounting standards (IAS) and International standards for financial reporting (ISFR). For the recognition and measurement of the financial assets and liabilities used is IAS 39 – Financial instruments, recording and measuring and IAS 37-Provisioning, potential liabilities and potential funds.

Therefore, in evaluating the exposure of the banks to the credit risk, the banks are still obliged to calculate the reserves for loan losses based on the Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks, credit risk and banks' asset classification, taking into account the already established value adjustments of the balance sheet assets and provisioning for losses for off balance sheet items which are recorded in the banks' books, as well as the RKG established from profit (on the accounts of capital)

-in 000 KM-

Table 18: Assets *(balance and off balance), LLR according to the regulator and value adjustment based on IAS*

	DESCRIPTION	31.12.2011.	30.09.2012.	RATIO
1.	RISK ASSETS[21]	13.376.110	13.446.260	100
2.	CALCULATED REGULATORY RESERVES FOR LOAN LOSSES	1.294.757	1.346.906	104
3.	PROVISIONING VALUE ADJUSTMENT FOR OFF BALANCE SHEET	1.039.529	1.088.129	105
4.	NEEDED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED	255.228	396.949	156
5.	ESTABLISHING REGULATORY RESERVES FROM PROFIT FOR	292.225	311.397	107
6.	LACKING AMOUNT OF REGULATORY RESERVES FROM PROFIT FOR	19.386	110.049	568
7.	NON-RISK ITEMS	5.787.457	5.427.493	94
8.	TOTAL ASSETS (1+7)	19.163.567	18.873.753	98

[21]Excluded is the amount of placements and potential liabilities of 173.301 h/KM secured by a cash deposit.

The total assets with the off balance sheet items (assets)[22] of banks in F BiH as of 30.09. 2012. were 18,9 billion KM and in relation to the end of 2011 was lower by 2% or 290 million KM. The risk assets are 13,4 billion KM which is at the same level as at the end of 2011.

Non risk items are 5,4 billion KM or 29% of total assets with off balance sheet and they decreased by 6% or 360 million KM in comparison to the end of 2011.

Total accrued RKG according to the regulatory request are 1,3 billion KM, and established balance sheet assets adjustments of value and provisioning for losses on off-balance sheet items 1,1 billion KM. The needed regulatory reserves[23] are 397 million KM and are higher by 56% or 142 million KM. The established regulatory reserves from the profit are 311 million KM and are higher by 7% or 19 million KM, which is a result of coverage of the lacking amount of RKG reported as of 31.12.2011. The lacking amount of regulatory reserves[24] as of 30.09.2012 are 110 million KM.

Table 19: *Total assets, gross balance sheet assets, risk and non risk items of the assets*

DESCRIPTION	AMOUNT (in 000 KM)						RATIO	
	31.12.2010.	Struct. %	31.12.2011.	Struct.%	30.09.2012.	Struct.%		
1.	2	3	4	5	6	7	8 (4/2)	9 (6/4)
Loans	9.244.429	86,4	9.364.121	85,4	9.307.215[25]	84,1	101	99
Interest	51.348	0,5	109.696	1,0	96.997	0,9	214	88
Past due receivables	566.629	5,3	937.899	8,5	1.070.597	9,7	165	114
Receivables from paid guarantees	553	0,0	24.808	0,2	25.786	0,2	4486	104
Other placements	410.797	3,8	171.052	1,5	205.074	1,8	42	120
Other assets	427.890	4,0	371.127	3,4	359.883	3,3	87	97
1.RISK BALANCE SHEET ASSETS	10.701.646	100,0	10.978.703	100,0	11.065.552	100,0	103	101
2. NON RISK BALANCE SHEET ASSETS	5.035.264		5.290.275		4.909.674		105	93
3.GROSS BALANCE SHEET ASSETS (1+2)	15.736.910		16.268.978		15.975.226		103	98
4.RISK OFF BALANCE SHEET	2.352.092		2.397.407		2.380.708		102	99
5.NON RISK OFF BALANCE SHEET	0		497.182		517.819		n/a	104
6.TOTAL OFF BALANCE SHEET ITEMS (4+5)	2.352.092		2.894.589		2.898.527		123	100
7.RISK ASSETS WITH OFF BALANCE SHEET (1+4)	13.053.738		13.376.110		13.446.260		102	100
8. NON RISK ITEMS (2+5)	5.035.264		5.787.457		5.427.493		115	94
9. ASSETS WITH OFF BALANCE SHEET(3+6)	18.089.002		19.163.567		18.873.753		106	98

Gross balance sheet assets[26] is 15,97 billion KM, and is lower by 2% or 294 million KM, and the risk balance sheet assets is 11,1 billion KM which is 69% gross balance sheet assets and is higher by 1% in comparison to the end of 2011. Non risk balance sheet assets are 4,9 billion KM and is lower by 7% or 381 million KM. Off balance sheet risk items are 2,4 billion KM and are lower by 1% and the non risk items are 518 million KM and they are higher by 4% or 21 million KM in comparison to 2011.

[22] Assets defined in Article 2. of the Decision on minimum stadards for managing credit risk and asset classification of banks („Official Gazette of F BiH“, Number 3/03, 54/04, 68/05, 86/10, 6/11, 70/11, 85/11; 85/11- clean version).

[23] The needed regulatory reserves present a positive difference between the accrued RKG and value adjustments (accrued RKG are higher than the value adjustmenst).

[24] Lacking amount of regulatory reserves presents the positive difference between the needed and established RKG.

[25] Isključen iznos kredita od 146.888 hiljada KM pokriven novčanim depozitom (uključen u nerizičnu bilansnu aktivu).

[26] Data source: report on classification of the banks' balance sheet and off balance sheet items.

The impact of the economic crises on the overall economy and industry in BiH is still present, therefore until the end of 2012 a significant credit growth in the segment of lending as a key activity of the bank is not expected, which is confirmed with the data for the nine months of 2012. As of 30.09. 2012., the loans were 10,6 billion KM, with a growth of 1,4% or 154 million KM in comparison to the end of 2011, while the participation in the assets increased by 2,6% and is 71,3%.
In the three quarters of 2012, placed are a total of 4,3 billion KM in new loans, which is by 6% or 248 million KM higher than in comparison to the same period in 2011. Of the total placed loans, loans in economy are 68%, and citizens 27%. Maturity structure of the newly granted loans has changed on behalf of the short term loans in comparison to the end of 2011. , the participation of the long term was 45%, and short term 55% (31.12.2011: long term 49%, short term 51%).

Three largest banks in the FBiH with credit amount of 6,1 billion KM have participation of 57,5% in total loans at the system level.

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

- in 000 KM-

Table 20: *Sector structure of loans*

DEPARTMENTS	31.12.2010.		31.12.2011.		30.09.2012.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Government institutions	126.328	1,3	125.827	1,2	133.876	1,2	100	106
Public companies	238.105	2,4	257.547	2,4	252.778	2,4	108	98
Private entre. and comp.	4.815.426	48,2	4.989.796	47,6	5.096.652	47,9	104	102
Banking institutions	10.975	0,1	16.411	0,2	11.452	0,1	149	70
Non banking fin. inst.	37.235	0,4	40.978	0,4	38.553	0,4	110	94
Citizens	4.733.198	47,4	5.043.634	48,1	5.094.579	47,9	106	101
Other	20.644	0,2	13.478	0,1	13.475	0,1	65	100
TOTAL	9.981.911	100,0	10.487.671	100,0	10.641.365	100,0	105	101

In the reviewed period the loans sector structure slightly changed in comparison to the end of 2011. Loans granted to citizens increased by 1% or 51 million KM, amounting to 5,1 billion KM, which is a participation of 47,9% (at the end of 2011. 48,1%). Loans granted to private companies are higher by 2% or 107 million KM, and they are 5,1 billion KM or 47,9% of total loans (at the end of 2011. 47,6%).

The data submitted by banks, as of 30.09.2012., in the aspect of loan structure originated to citizens (based on the purpose), there is an increased participation of the loans granted for financing the consumer goods[27], from 73% to 74%, while housing loans decreased from 24% to 23, and the remaining 3% have loans for SMEs and agriculture.

Three largest banks in the system financed 61% of total loans originated to citizens, and to private companies 53% of total loans to all sectors (31.12.2011: citizens 64,5%, private companies 52%).

Currency structure of loans: loans financed with currency clause had the highest participation of 65% or 6,9 billion KM (EUR: 6,6 billion KM or 96%, CHF: 287 million KM or 4%), loans in domestic currency of 34% or 3,7 billion KM, while loans in foreign currency had the lowest participation of only 1% or 104 million KM (EUR: 78 million KM or 75%, CHF: 12 million KM

[27] Credit card operations included.

or 11%). The total amount of loans in CHF currency of 299 million KM is 2,8% of the total loan portfolio and almost the whole amount refers to one bank in the system.

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.

Quality of assets and off-balance sheet risk items, general loan risk, potential loan losses by classification categories[28] are presented in the following table:

Table 21: *Classification of assets, general credit risk (OKR) and potential credit loss (PKG)*

Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in%)									RATIO	
	31.12.2010.			31.12.2011.			30.09.2012.				
	Clasif. assets	Partic. %	OKR PKG	Clasif. assets	Partic. %	OKR PKG	Clasif. assets	Partic. %	OKR PKG		
1	2	3	4	5	6	7	8	9	10	11(5/2)	12(8/5)
A	10.477.329	80,3	209.555	10.612.528	79,3	212.248	10.681.442	79,4	213.629	101	101
B	1.645.750	12,6	132.048	1.419.030	10,6	118.847	1.301.502	9,7	112.317	86	92
C	471.505	3,6	113.962	282.847	2,1	67.999	380.529	2,8	94.127	60	134
D	455.303	3,5	258.297	375.980	2,8	209.936	368.380	2,8	212.426	83	98
E	3.851	0,0	3.851	685.725	5,2	685.727	714.407	5,3	714.407	n/a	104
Risk ass. (A-E)	13.053.738	100,0	717.713	13.376.110	100,0	1.294.757	13.446.260	100,0	1.346.906	102	100
Classified (B-E)	2.576.409	19,7	508.158	2.763.582	20,7	1.082.509	2.764.818	20,6	1.133.277	107	100
Non-performing (C-E)	930.659	7,1	376.110	1.344.552	10,1	963.662	1.463.316	10,9	1.020.960	144	109
Non risk ass.[29]	5.035.264			5.787.457			5.427.493			115	94
TOTAL (risk and non risk)	18.089.002			19.163.567			18.873.753			106	98

If an analysis of the risk assets quality is performed and the changes of the key indicators, it could be concluded, that in the first three quarters of 2012 there was a slight deterioration in the asset quality indicators. In some banks the indicators had slight oscillations (deterioration or improvement), that is: six banks have indicators of the classified in relation to the risk assets more poor than the banking sector, and seven banks have participation of the poor performing assets in relation to the risk assets worse than the banking sector.

As of 30.09.2012, the classified assets were 2,8 billion KM, and non performing 1,5 billion KM (31.12.2011: 2,8 billion KM and 1,3 billion KM).

Classified assets are at the same level as last year: B category decreased by 8% or 117 million KM, and (C-E) increased by 9% or 119 million KM. The classified assets and risk assets ratio is 20,6%, which is by 0,1 percent points lower than at the end of 2011.

The most important indicator for the asset quality is the ratio of the nonperforming and risk assets. The review of the trend of this indicator in 2012, indicates that there is a slight

[28] 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%.

[29] The items of assets, which in compliance with the Article 2.paragraph (2) of the Decision on the minimum standards for managing credit risk and banks' asset classification, do not clasify the items on which, in compliance with the Article.22., paragraph (8) of the Decision do not calcualte the reserves for OKG of 2%.

deterioration, or an increase of 0,8 percent points and as of 30. 09. 2012. was 10,9%, and a core reason for that is the noted growth of the non performing assets of 9% in 2012. This is still a relatively low ratio, but it should be taken with a reservation, taking into account that the participation of the B category in the risk assets is 9,7%, and the doubt that a part of the placements reported in this category have a more poor quality and should be categorized as non performing assets.

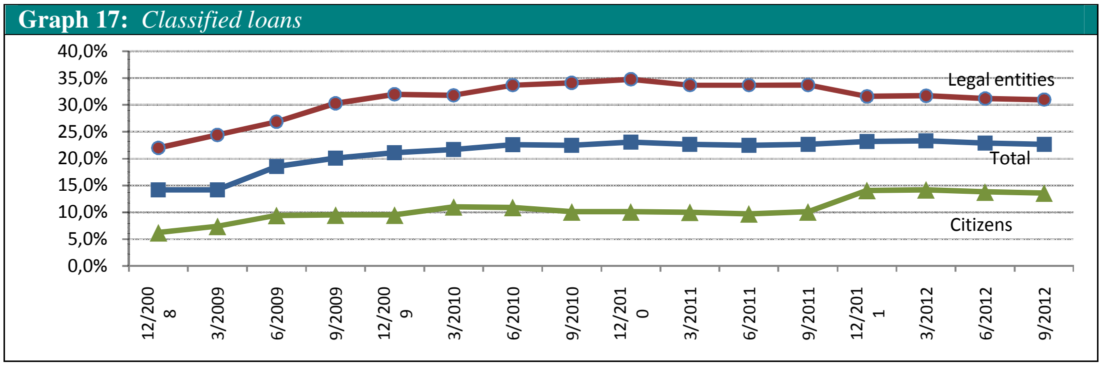
The analysis of data by sectors is based on the indicators of the quality of loans granted to the two most significant sectors: private companies and citizens. The two mentioned indicators for these sectors are significantly different and indicate higher loan risk exposure, and also the exposure to potential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

Table 22: *Classification of loans originated to citizens and legal entities*

Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in%)												RATIO
	31.12.2011.						30.09.2012.						
	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	TOTAL Partic.	Citizens	Partic. %	Legal entities	Partic. %	TOTAL		
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14(12/6)
A	4.334.673	85,94	3.722.420	68,38	8.057.093	76,82	4.401.470	86,40	3.825.429	68,97	8.226.899	77,31	102
B	164.427	3,26	1.014.460	18,64	1.178.887	11,24	158.458	3,11	878.149	15,83	1.036.607	9,74	88
C	128.876	2,56	143.447	2,63	272.323	2,60	102.476	2,01	265.457	4,79	367.933	3,46	135
D	156.974	3,11	207.674	3,81	364.648	3,48	159.647	3,13	196.280	3,53	355.927	3,34	98
E	258.685	5,13	356.035	6,54	614.720	5,86	272.527	5,35	381.472	6,88	653.999	6,15	106
TOTAL	5.043.635	100,0	5.444.036	100,0	10.487.671	100,00	5.094.578	100,0	5.546.787	100,0	10.641.365	100,00	101
Class. loans B-E	708.962	14,06	1.721.616	31,62	2.430.578	23,18	693.108	13,60	1.721.358	31,03	2.414.466	22,69	99
Non perfm. Loan C-E	544.535	10,80	707.156	13,00	1.251.691	11,93	534.650	10,49	843.209	15,20	1.377.859	12,95	110
		48,09		51,91		100,00		47,87		52,13		100,00	
Participation by sectors in classified loans, nonperforming loans and category B													
Classification B-E		29,17		70,83		100,00		28,71		71,29		100,00	
Non performing C-E		43,50		56,50		100,00		38,80		61,20		100,00	
Category B		13,95		86,05		100,00		15,29		84,71		100,00	

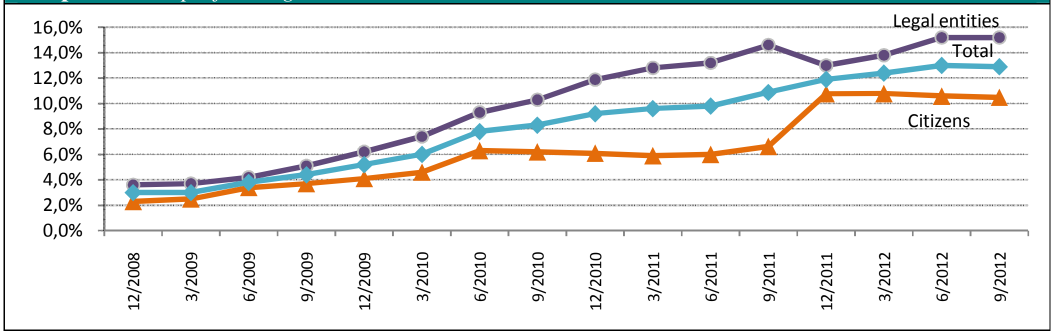
The asset quality indicators are slightly deteriorated in comparison to the end of the previous year, especially the participation of the nonperforming loans which increased by one percent points, as a result of the increase of the total nonperforming loans by 10% or 126 million KM, legal entities by 19% or 136 million KM, while the nonperforming loans to citizens had a decline of 2% or 10 million KM. The participation of the classified loans decreased to 22,7%, or 0,5 percent points due to the decrease of the B category by 12% or 142 million KM.

Graph 17: *Classified loans*



As of 30.09.2012., of total loans originated to legal entities in the amount of 5,5 billion KM, 1,7 billion KM or 31% was classified in categories B to E, while of total loans originated to citizens in the amount of 5,1 billion KM, the listed classification categories represent 13,6% or 693 million KM (709 million KM or 14,1% at the end of 2011).

Graph 18: *Nonperforming loans*



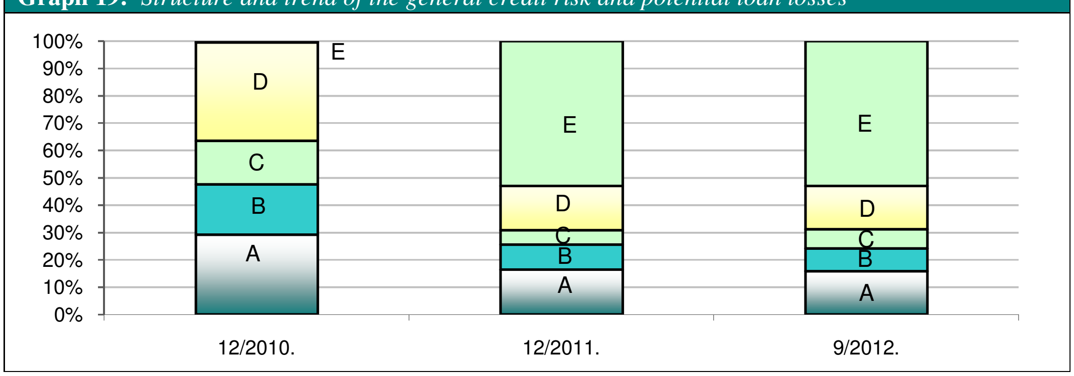
Of loans finance to legal entities, 843 million KM was classified as nonperforming loans or 15,2 of total loans originated to this sector (as of 31.12.2011., these items amounted to 707 million KM or 13% of total loans). Nonperforming loans, in the sector of citizens, amounted to 10,5 million KM or 535% (as of 31.12.2011., these items amounted to 544 million KM or 10,8%).

The level of the credit risk and estimated potential credit losses through classification categories, determined in compliance with the criteria and methodology prescribed in the FBA's decisions, their trend and structure on the banking sector level are given in the following table and graph:

Table 23: *Structure and trend of the general credit risk and potential credit losses*

Classification category	AMOUNT (in 000 KM) AND STRUCTURE (in%)						RATIO	
	31.12.2010.		31.12.2011.		30.09.2012.			
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
A	209.555	29,2	212.248	16,4	213.629	15,9	101	101
B	132.048	18,4	118.847	9,2	112.317	8,3	90	94
C	113.962	15,9	67.999	5,2	94.127	7,0	60	138
D	258.297	36,0	209.936	16,2	212.426	15,8	81	101
E	3.851	0,5	685.727	53,0	714.407	53,0	n/a	104
TOTAL	717.713	100,0	1.294.757	100,0	1.346.906	100,0	180	104

Graph 19: *Structure and trend of the general credit risk and potential loan losses*



Analyzing the level of the calculated RKG in total and through classification categories, in comparison to the end of 2011, the reserves for loan losses (for category A) and potential credit losses increased by 4% or 52 million KM and are 1,3 billion KM. Reserves for general credit risk (A category) are by 1% higher or 1,4 million KM in comparison to the end of 2011, and the reserves for category B decreased by 6% or 6,5 million KM due to the decline of the same by 8% or 117 million KM. Due to the growth of the poor performing assets (C, D and E category) by

9% or 119 million KM, increased are the reserves for the poorest loans by 6% or 57 million KM. Nominally, the largest growth of 29 million KM was in the category E, but significant is also the increase of the provisions for the C category of 26 million KM or 38%..

One of the most important asset quality indicators is the ratio of the potential credit losses (PKG) and risk assets with off balance sheet. This indicator is 8,4% and is by 0,3 percent points lower than in comparison to 2011.
As of 30. 09. 2012 in average banks had allocated reserves for category B based on the rate of 8,6%, for C category 24,7%, D category 57,7% and E 100% (at the end of 2011.: B 8,4%, C 24,0%, D 55,8% and E 100%).

In compliance with IAS/IFRS the banks are obliged to book the value impairments of property through expenses by establishing value adjustments for balance sheet items and provisioning for risk off balance sheet items (previously RKG).
The review of the total items of assets (balance and off-balance) and the default items, as well as the adequate value adjustments and provisioning (determined in compliance with the internal methodology of the banks which minimum elements are prescribed by the FBA) at the level of the banking sector are listed in the following table:

Table 24: *Evaluation and validation of the risk items according to IAS 39 and IRS 37*

Description	AMOUNT (in 000 KM) AND PARTICIPATION (in%)				RATIO
	31.12.2011.		30.09.2012.		
	TOTAL		TOTAL		
	Amount	Participation	Amount		
1	2	3	4	5	6 (4/2)
1. RISK ASSETS (a+b)	**13.376.110**	**100,0%**	**13.446.260**	**100,0%**	101
a) Default items	**1.606.395**	12,01%	**1.780.733**	13,24%	111
a.1. balance sheet default items	1.572.090		1.757.539		112
a.2. off balance sheet default items	34.305		23.194		68
b) Performing assets	**11.769.715**	87,99%	**11.665.527**	86,76%	99
1.1 TOTAL RISK ASSETS VALUE ADJUSTMENTS (a+b)	**1.039.529**	**100,0%**	**1.088.129**	**100,0%**	105
a) Value adjustment for default	**883.835**	85,02%	**929.223**	85,40%	105
a.1. Value adjustment of balance sheet default items	878.079		925.153		105
a.2. Reserves for off-balance sheet in default	5.756		4.070		71
b) Value adjustments for performing assets (IBNR[30])	155.694	14,98%	158.906	14,60%	102
2. TOTAL LOANS (a+b)	**10.487.671**	**100,0%**	**10.641.365**	**100,0%**	101
a) Non-performing loans	1.494.247	14,25%	1.696.996	15,95%	114
b) Performing loans	8.993.424	85,75%	8.944.369	84,05%	99
2.1. LOANS VALUE ADJUSTMENT (a+b)	**931.946**	**100,0%**	**991.799**	**100,0%**	106
a) Default loans value adjustment	813.078	87,25%	878.667	88,59%	108
b) Performing loans value adjustment (IBNR loans)	118.868	12,75%	113.132	11,41%	95
Coverage of items in default	**55,0%**		**52,2%**		
Coverage of performing assets items	**1,3%**		**1,4%**		
Participation of default loans in total loans	**14,2%**		**15,9%**		

Participation of default loans in the total loans increased from 14,2% to 15,9%, and all items in default in the total risk assets from 12% to 13,2%.

[30] IBNR (identified but not reported)-latent losses.

The coverage of items in default with the correction of value is 52,2%, and items of performing assets 1,4%, and total value adjustment is 8,1% of risk assets (12/11: 7,8%).

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 30.09. 2012., 3.066 guarantors in total repaid 12,3 million KM of the total granted amount of loans of 74 million KM (2,681 credit party), which is by 12% less in comparison to the amount of the payment by the guarantors as of 31.12. 2011. (14 million KM paid by 3.576 guarantors, while the amount of the total loans was 80 million KM – 3.122 credit parties). The amount of the remaining debt is 43 million KM (31. 12. 2011.: 47 million KM).

From the listed data it can be concluded that in the nine months of 2012, 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. 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 0,41% and 0,22%.

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 entities[31].

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 noted Decision, the banks in the Federation of in the first three quarters of 2012, of a total received 226 requests for restructuring of loan liabilities approved 204 requests in a total amount of 51million KM or 83%, which is by 7% more than in comparison to the same period in 2011. Of the total amount of granted restructured liabilities 49 million KM refer to legal entities, and two million KM to individuals.

Net effect on the reserves for loan losses on the bases of the performed restructuring is an increase of 169 thousand KM. It should be noted that there were some opposite movements, both increases and decreases of RKG on these bases, which at the end resulted with a noted net effect.

The restructured loans in the first half of 2012, in comparison to the total loans as of 30. 09. 2012 have a participation of only 0,48% (for the legal entities sector in comparison to the portfolio of the legal entities this percent is 0,88%, while for citizens it is 0,04%).

[31] "Official Gazette F BiH", No.2/10.

From the noted data it can be concluded that the result is relatively modest, both in number and amount of the restructured loan liabilities, if it is compared both with entire credit portfolio and through the sectors (for legal entities and individuals).

Although the result and the effects of the implementation of the Decision are not significant, it is estimated that the coming into effect of such regulation was very important, that is such measures of temporary character in the conditions of financial and economic crises were necessary for both the financial and real sector in FBiH, and it had positive impact on the debtors (both individuals and legal entities) making easier the servicing of their debt in compliance with their payment capabilities. That is why the prolonging the implementation of the Decision until the end of 2012 is justifiable due to the fact that the effects of the crises are still present.

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 still 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.

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-

Table 25: *Related entities transactions*

Description	ORIGINATED LOANS[32]			RATIO	
	31.12.2010.	31.12.2011.	30.09.2012.	3/2	4/3
1	2	3	4	5	6
Shareholders over 5% of voting rights, subsidiaries and other related enterprises	84.600	131.962	126.036	156	95
Supervisory Board and Audit Board members	375	400	710	107	177
Bank Management	2.239	2.170	2.318	97	107
TOTAL	87.214	134.532	124.589	154	93
Potential and undertaken off-balance sheet liabilities	22.653	29.818	19.556	132	66

In the observed period, credit exposures to persons related to banks decreased by 7% and potential liabilities by 34% due to the decreased exposure in two large banks. Based on the presented data, we could conclude 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. This has had a positive influence on this segment of operations, since the risk management quality in this segment has improved.

2.2. Profitability

According to the data from the income statement, at the level of the banking sector in the Federation of BiH in the first nine months of 2012 realized is a positive financial result – profit in the amount of 111 million KM, which is in reference to the level of the system an increase of 2,5 times or 69 million KM in comparison to the same period in 2011. The significant decrease of the losses in banks which in the same period of last year had a negative performance (three banks, effect 49,7 million KM), had the largest positive effect on the financial results of the system, then the realization of a larger profit in banks which had a positive performance in the same period last year (11 banks, effect 18 million KM), especially noticeable in larger banks (four banks, effect 14,6 million KM), also the realization of profit in banks which had a performance with losses in the comparative period of last year (two banks, effect three million KM).

The decrease of value adjustment expenses in relation to the loan loss reserve expenses had the largest impact on the profitability of majority of banks in comparison to the same period in 2011, which is mostly a consequence of implementation of IAS 39 and IAS 37. The larger decline of the non-interest expenses amortized the decrease of the total income, which had an impact on the realization of larger profit in comparison to the same period last year.

The positive financial result of 177 million KM was realized by 15 banks and it is larger by 17% or 17 million KM than in comparison to the same period in 2011. Simultaneously, the performance loss in the amount of six million KM was reported by three banks decreasing by 89% or 52 million KM in comparison to the same period in 2011.

More detailed data are provided in the following table.

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

-000 KM-

Table 26: *Realized financial result: profit/loss*

Description	30.09.2010.		30.09.2011.		30.09.2012.	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2		3	4	5	6
Loss	-98.836	7	-58.594	6	-6.298	3
Profit	40.095	13	100.066	13	117.054	15
Total	**-58.741**	**20**	**41.472**	**19**	**110.756**	**18**

Similar to other segments, this segment has also encountered concentrations: of total profit generated (177 million KM), 70% or 82 million was generated by two largest banks in the system, whose participation in the banking system assets was 49%. In the total loss of 6,3 million KM, refers to only one large bank which is in the foreign ownership, with asset participation of 95,8% or six million KM, on the third place in the system (in the same period last year the loss of the bank was 54,7 million KM). Analytical data indicate that a total of 16 banks reported a better financial result (by 71 million KM), and three banks have worse results (by 2 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 is evident that the total profitability of the system improved in comparison to the previous year, and especially in large banks which carry the profitability and which realised a significantly higher profit than last year, which is primarely the result of the applied new methodological approach which as a consequence has the influence on the significant decrease of expenses of the value adjustments inr egard to the loan loss reserve expenses in the sam eperiod last year.

At the system level, total income was realized in the amount of 629 million KM with a declining rate of 7% or 47 million KM in relation to the same period 2011. Total noninterest bearing expenses were 519 million KM, with the decrease rate of 18% or 117 million KM which had a positive reflection to the overall financial result of the sector.

In spite the incline of the interest bearing loans in almost all banks by 4%, the decrease of the average interest rates on loans had as a consequence the declining trend in the interest income. Although most of the banks recorded an increase in the interest income in comparison to the same period last year, as a result of the intensifying of lending activities, especially in the first half of 2012, but with a stagnating trend in third quarter, he lower interest income in three large banks, which carry the profitability, influenced the decrease on the level of the system. Interest income is 605 million KM, which is by 5% or 32 million KM lower than in the same period in 2011., and the participation in the structure of total income increased from 94,1% to 96,1%. Interest income, which decreased by 4% or 20 million KM, has the largest participation, and the participation in the total income increased from 83,8% to 86,82%, as a result of decrease of average active loan rates for the reviewing period from 5,58% to 5,19%.Also, it should be noted that after the interest income from loans, the second significant item with a negative impact on the interest income is the income from interest bearing accounts in deposit institutions, with a low participation of 0,5%, had a significant decline of 82% or 16 million KM, which is primarily a result of law fees on the obliged and above the obliged reserves at the Central bank of BiH.

Positive trend was recorded for the interest expenses, which had an insignificantly higher decline rate (-7%) in comparison to the declining rate of interest income (-5%). The interest expenses are 204 million KM, and their participation in the structure of the total income is almost on the same level as the previous year, 32,4%. Interest expenses on deposits, which are 164 million KM, as a structurally largest item relatively and nominally in the amount of total interest expenses declined by 5% or eighth million KM, primarily as a result of the decrease of average interest bearing deposits by 7%. The interest expenses on taken loans and other borrowings are 29 million KM and in reference to the same period in 2011 recorded a decline of 17% with a slight decline in participation from 5,2% to 4,6%.

As a result of decline of the interest expenses (-7%) and interest income (-5%), net interest income decreased by 4% or 16 million KM and is 401 million KM, with an increased participation in the structure of the total income from 61,72% to 63,7% .

Operating income was 228 million KM and in relation to the same period 2011 declined by 12% or 31 million KM and their participation in the structure of the total income declined from 38,3% to 36,3%. In most part it is a result of the new methodology, since according to the old methodology the income from collection of previously written off receivables in the balance sheet were reported on the position of other operating income, which according to the new methodology are treated on the position of value adjustment expenses (income from decrease of provisioning). Within the operating income the largest participation have the service fees which recorded an increase of 3% or four million KM.

Total noninterest expenses are 519 million KM and in comparison to the same period in 2011 declined by 18% or 117 million KM, primarily as a result of a significant decline of value adjustment expenses, that is according to the old methodology expenses of reserves for loan losses. At the same time, their participation in the structure of the total income declined from 93,9% to 82,4%. The value adjustment expenses are 94 million KM and in comparison to the same period last year, based on the old methodology the reserve expenses for loan losses, declined by 55% or 112 million KM, which had a positive impact on the decrease of their participation in the structure of total income from 30,5% to 14,9%.

On the other hand the operating expenses, with the amount of 370 million KM and participation of 58,7% in the total income, also recorded a slight decline of 2% or six million KM, of which the salary and contribution expenses, as the largest item in the operating expenses, decreased by a slight 1% and are 185 million KM or 29,3% of the total income while the fixed assets expenses, on the same level, are 119 million KM which is the largest participation in the total income of 18,8%. In the period after the beginning of the crises, the banks took numerous measures to rationalize operating expenses, above all on the decrease of the operating expenses, which in part softened the negative impact of the interest income decline due to the decrease in the volume of the lending activities and decline of the credit portfolio quality.

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

- in 000 KM-

Table 27: *Structure of the total income*

Structure of total income	30.09.2010.		30.09.2011.		30.09.2012.		RATIO	
1	Amount	%	%	%	Amount	%		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
I Interest income and similar income								
Interest bearing deposit accounts with depository institutions	10.117	1,2	19.119	2,1	3.353	0,4	189	18
Loans and leasing	584.168	67,2	567.062	63,2	546.598	65,6	97	96
Other interest income	46.669	5,3	51.115	5,7	55.066	6,6	110	108
TOTAL	640.954	73,7	637.296	71,1	605.017	72,6	99	95

II Operating income								
Service fees	150.973	17,4	156.605	17,5	160.138	19,2	104	102
Foreign exchange income	27.097	3,1	34.870	3,9	34.784	4,2	129	100
Other operating income	50.831	5,8	67.911	7,6	33.445	4,0	134	49
TOTAL	228.901	26,3	259.386	28,9	228.367	27,4	113	88
TOTAL INCOME (I + II)	869.855	100,0	896.682	100,0	833.384	100,0	103	93

Graph 20: *Structure of total income*

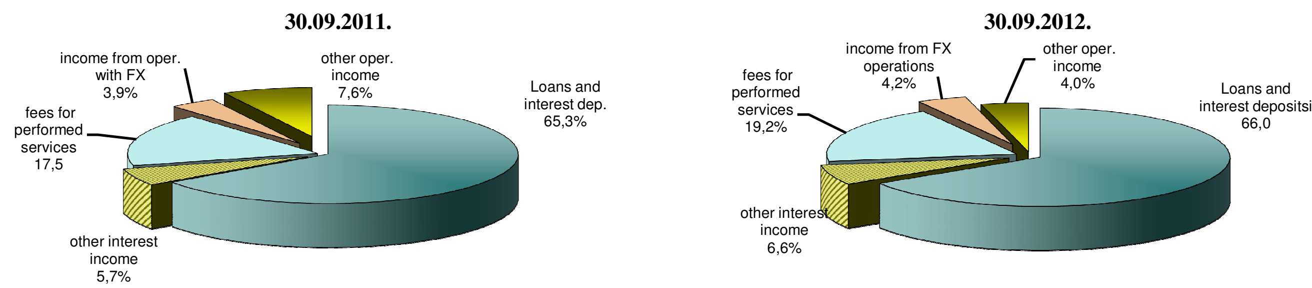
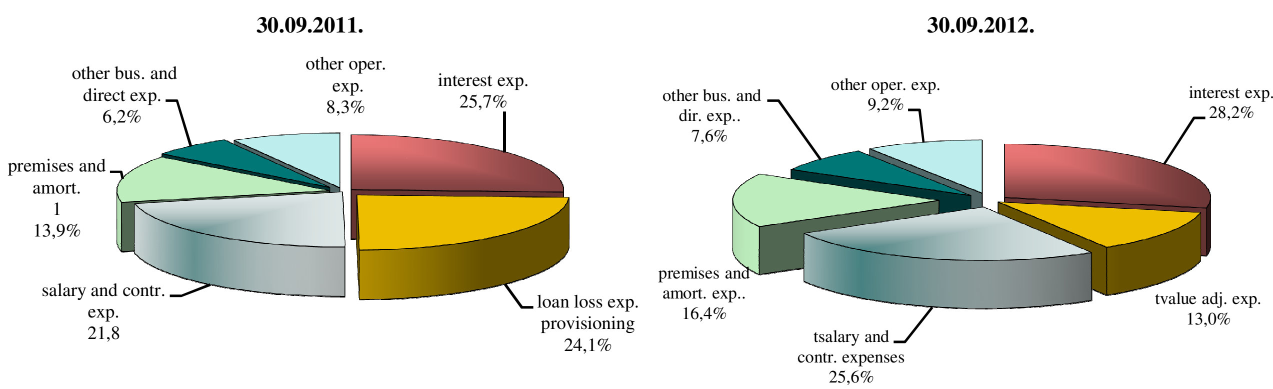


Table 28: *Structure of total expenses*

Structure of total expenses	30.09.2010. Amount	%	30.09.2011. Amount	%	30.09.2012. Amount	%	RATIO	
1	2	3	4	5	6	7	8 (4/2)/	9 (6/4)
I Interest expenses and similar expenses								
Deposits	205.259	22,1	172.150	20,1	163.678	22,6	84	95
Liabilities for borrowings	32.669	3,5	35.184	4,1	29.050	4,0	108	83
Other interest expenses	11.614	1,3	12.453	1,5	11.224	16	107	90
TOTAL	249.542	26,9	219.787	25,7	203.952	28,2	88	93
II Total non-interest bearing expenses								
General loan risk and potential loan losses Provisioning	264.900	28,5	206.140	24,1	93.718	13,0	78	45
Salary expenses	181.300	19,5	186.587	21,8	184.611	25,6	103	99
Business premises and depreciation expenses	111.980	12,1	118.515	13,9	118.620	16,4	106	100
Other business and direct expenses	50.400	5,4	53.318	6,2	55.089	7,6	106	103
Other operating expenses	70.435	7,6	70.843	8,3	66.603	9,2	101	94
TOTAL	679.015	73,1	635.403	74,3	518.641	71,8	94	82
TOTAL EXPENSES (I + II)	928.557	100,0	855.190	100,0	722.593	100,0	92	84

Graph 21: *Structure of total expenses*



In the following tables listed are the most significant ratios for evaluation of profitability, productivity and effectiveness of banks.

- in %-

Table 29: *Ratios of profitability, productivity and effectiveness by periods*

RATIOS	30.09.2010.	30.09.2011.	30.09.2012.
Return on Average Assets	-0,39	0,32	0,74
Return on Average Total Capital	-3,54	2,74	5,14
Return on Average Equity	-5,03	4,02	9,35
Net Interest Income/Average Assets	2,57	2,77	2,69
Fee Income/Average Assets	1,50	1,72	1,53
Total Income/Average Assets	4,07	4,49	4,23
Operating and Direct Expanses33/Average Assets	2,07	1,72	1,00
Operating Expenses/Average Assets	2,38	2,50	2,48
Total Non-interest Expanses/Average Assets	4,45	4,22	3,48

The analyses of the basic parameters for evaluation of the profitability, due to the higher amount of realized profit in comparison to the same period last year, ROAA (earnings on average assets) increased from 0,32% to 0,74% and ROAE (earnings on average shareholder capital) from 4,02 to 9,35%. However, the productivity of banks, measured with the relation of the total income and average assets (4,23%) also recorded a deterioration in comparison to the same period last year (4,49%), due to decrease of total income (-7%). Also, noted should be the improvement, as a consequence of the significant decrease of value adjustment expenses (last year: loan losses reserve expenses), of the business and direct expenses on average assets, from 1,72% to 1,00%.

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. The existing slow down and decline of the economic activities influenced the decrease of the demand for loans, but also the restrictive approach on the side of the offer (banks) which will have a direct influence on the profitability of the entire banking system by the end of the year. 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 rate[34]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.

33 Expenses include provisions for potential loan losses.

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

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.

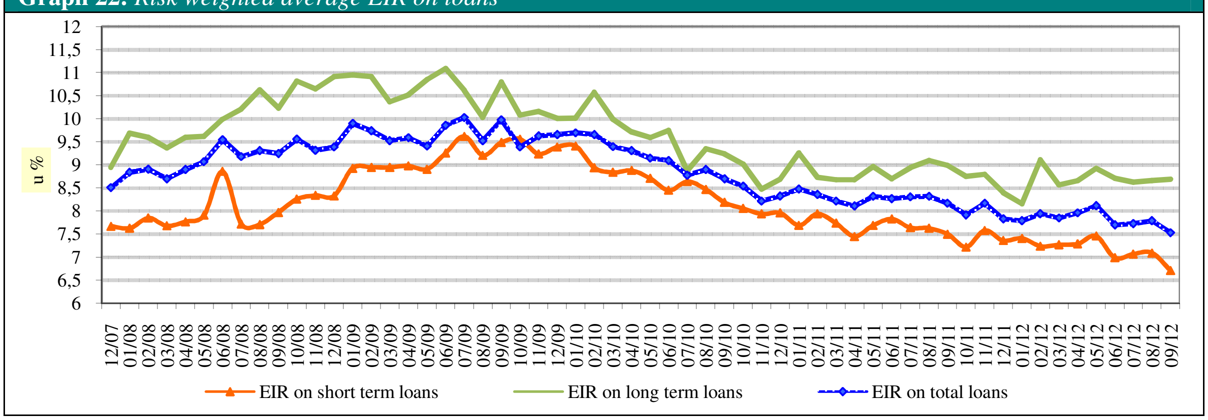
Banks are obliged to monthly report to the FBA of risk-weighted nominal and effective interest rates on loans and deposits originated or accepted within the reporting month, in accordance with the methodology prescribed[35].

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 2010, March, June, September and December of 2011 and June and September of 2012.

Table 30 : *Risk-weighted average NIR and EIR on loans*

DESCRIPTION	12/2010.		6/2011.		9/2011.		12/2011.		6/2012.		9/2012.	
	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	7,51	7,96	7,24	7,83	6,93	7,50	6,78	7,36	6,31	6,99	6,29	6,71
1.1. Economy	7,47	7,82	7,19	7,68	6,87	7,34	6,74	7,28	6,29	6,93	6,30	6,66
1.2. Citizens	8,67	12,65	8,74	12,64	8,38	12,07	8,66	11,89	7,73	10,88	8,23	11,55
2. Risk-weighted interest rates for long-term loans	7,91	8,69	7,76	8,70	8,05	8,99	7,57	8,40	7,77	8,71	7,72	8,69
2.1. Economy	7,34	7,82	7,17	7,67	7,54	8,08	6,96	7,59	6,82	7,41	6,83	7,60
2.2. Citizens	8,79	10,05	8,16	9,39	8,46	9,71	8,25	8,51	8,39	9,54	8,43	9,57
3. Total risk-weighted interest rates for loans	7,72	8,33	7,50	8,27	7,43	8,17	7,14	7,83	6,91	7,70	6,88	7,53
3.1. Economy	7,42	7,82	7,68	7,18	7,06	7,54	6,81	7,38	6,41	7,03	6,43	6,89
3.2. Citizens	8,78	10,18	9,54	8,19	8,46	9,85	8,27	8,69	8,36	9,61	8,42	9,68

Graph 22: *Risk weighted average EIR on loans*



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.

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35 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-weigthed nominal and effective interest rate.

In the first three quarters of 2012, the risk weighted EIR on loans whad a slight declining trend. In comparison to the level in December, when it was 7,83, the risk weighted EIR recorded a continuing decline, with a slight increase in February (0,15 percent point), July (0,03 percent points) and August (0,06 percent points), and in September of 2012 it was 7,53%.

During the first nine months of 2012 the risk-weighted EIR for long-term loans recorded larger oscilations (within 1,66 percent points) than on the short term (within 0,70 percent points)

The risk-weighted EIR for short-term loans, in September of 2012, was 6,71%, which was lower by 0635 per cent in comparison to December 2011.

The risk weighted EIR on long term loans was 8,69%, which is in comparison to the December of 2011 higher by 0,29%.

Interest rates for loans originated in the two most significant sectors: economy and citizens[36] had the oposite direction. The risk weighted EIR for loans originated in the economy, although still much lower than the EIR for loans to citizens, decreased from 7,38% in December 2011 to the level of 6,89% in September 2012. In long term loans to economy, although the interest rate had higher oscilations during the first nine months of 2012. (up to 1,16 percent points), in September of 2012. was 7,60%, which is on the same level as in December 2011. (7,59%). In short term loans, the interest rate oscillated within 0,76 percent points, and in comparison with the long term, had a more expressed declining trend of 0,62 percent points in comparison to December 2011., so in September it was 6,66%. The noted rate is at the same time the lowest EIR in short term loans to economy for the period of the last five years.

On the other hand, the EIR on loans to citizens for the first nine months of 2012 recorded an incline of 0,99 percent points, and in September was 9,68%. WIR on long term loans of this sector in December of 2011 was 8,51%, which was the lowest rate when viewed for the period of the last four years (2008-2011), and is a result of more competitive rates than at the end of 2011. However, in January of 2012, the noted rates returned to the level of the previous periods, and in September of 2012 they were 9,57%.

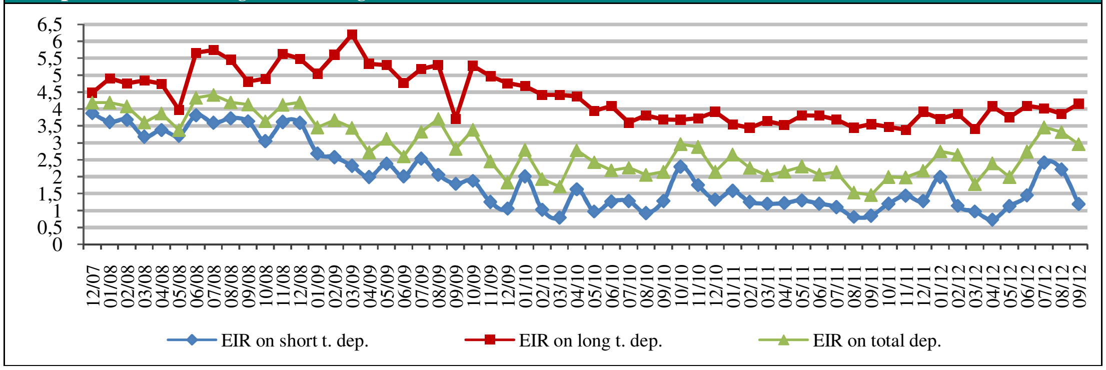
EIR on short term loans from the level in December of 2011 of 11,89% decreased in September of 2012 to the level of 11,55% with present oscillations of 1,78 percent points during the first nine months of 2012.
Risk weighted NIR and EIR for time deposits, calculated based on the monthly reports, for the banking sector, are presented in the following table:

Table 31 : *Risk-weighted average annual NIR and EIR on loans*

DESCRIPTION	12/2010.		6/2011.		9/2011.		12/2011.		6/2012.		9/2012.	
	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	1,31	1,32	1,21	1,20	0,94	0,94	1,28	1,28	1,44	1,45	1,18	1,19
1.1. Economy	0,97	0,97	1,01	1,01	0,78	0,78	0,91	0,91	0,48	0,48	0,87	0,87
1.2. Citizens	2,61	2,63	2,53	2,51	2,40	2,41	2,74	2,74	3,15	3,18	1,87	1,9
2. Risk-weighted interest rates for long-term loans	3,89	3,92	3,78	3,81	3,54	3,56	3,88	3,91	4,07	4,1	4,12	4,15
2.1. Economy	3,78	3,80	3,64	3,65	3,44	3,45	3,73	3,75	4,01	4,03	4,08	4,10
2.2. Citizens	4,48	4,57	4,52	4,61	3,90	3,96	4,56	4,61	4,57	4,76	4,41	4,50
3. Total risk-weighted interest rates for loans	2,13	2,14	2,05	2,06	1,46	1,46	2,17	2,18	2,72	2,74	2,94	2,96

[36] Based on the methodology of classification in sectors: entrepreneurs are included in the sector of citizens.

Graph 23: *Risk weighted average EIR on loans*



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 2011, risk-weighted EIR for total term deposits, in September of 2012, increased by 0,78 per cent (from 2,18% to 2,96%). Risk-weighted EIR on short term deposits had a slight increasing trend and in September it was 1,19% (December of 2011: 1,28%). Risk weighted EIR on long term deposits, in comparison to December of 2011, recorded a growth of 0,24 percent points, and in September of 2012 was 415%.

In September of 2012 the banks paid to economy an average EIR on deposits (2,91%) on a similar level as citizens (2,98%) which was not the case in the previous periods, when the average AIR on deposits to economy mostly were much lower than those paid to citizens (December of 2011: 1,28% and 3,07%). The average EIR on short term deposits to economy decreased from 0,51% from December of 2011 to 0,32% in September of 2012, and the reason is the increase of the short term deposits to the economy of up to three months, which carry significantly lower interest rates. On the other hand, EIR on long term deposits of this sector increased in September of 2012 to the level of 5,15%, which is by 0,42 percent points higher than in December of 2011.

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 32 : *Risk-weighted average NIR and EIR on loans-overdrafts and demand deposits*

DESCRIPTION	12/2010.		9/2011.		12/2011.		6/2012.		9/2012.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	12	13
1. Risk-weighted interest rates for loans-overdrafts	8,29	8,29	8,89	9,02	8,73	8,86	8,40	8,53	8,42	8,56
2. Risk-weighted interest rates for demand deposits	0,22	0,22	0,22	0,22	0,18	0,18	0,22	0,22	0,22	0,22

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 September of 2012, was 8,56% (an increase of 0,3 per cent in comparison to December 2011), and 0,22% for demand deposits, which was higher by 0,04 per cent in comparison to December 2011.

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.

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. 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 also appeared with the beginning of the crises.

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. In 2010 there was a slight deterioration of indicators, which with a smaller intensity continued in 2011 and in the first quarter of 2012, due to the decrease of cash funds based based on the slight increase of lending atcivities and investments in securities, payment of loan liabilities and investmenets in securities, decrease of deposits, payment of credit liabilities, increase of uncollected receivables and slight deterioration of the maturity structure of sources of funding. In spite of that, in the second quarter of 2012 this negative trend was stopped, and the liquidity indicators somewhat improved in comparison to the end of the first quarter, as a consequence of stopping the cash funds decreasing trend, with a slight inclien of deposits and loan liabilities. In the third quarter of 2012 reported was a slight improvement in the cash funds and deposits, and loans in the funding, so that as of 30.09.2012 the indicators are better than at the end of the first quarter of 2012, but still somewhat worse than at the end of 2011.

In spite the noted, 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 very good maturity match of the financial assets with the liabilities, with and improving trend in 2011 and 2012. However, since the financial crisis is still present worldwide which has an adverse reflection to the banking systems of certain European countries, which had a negative effect on certain European countries and parent banks in FBiH, 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, adverse consequences are being reflected to the entire economy environment under which banks operate in BiH, resulting in delinquency of debtors in repayment of past due liabilities and increase of nonperforming claims, which is causing decrease in inflow of liquid assets of banks and conversion of the credit risk into liquidity risk.

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.

In the structure of financing sources of banks in the Federation of BiH, as of 30.09.2012., deposits still have the highest participation of 72,4%, followed by loans taken (including the subordinated debt[37] with participation of 9,3%). The loans taken with longer maturity, represent quality source for long term placements, and have made a significant contribution to maturity match between assets and liabilities.

On the other hand, the structure of deposits is considerably unfavourable[38], and after a long period of improvements, during 2010 had a slight deterioration, and that trend, with a slightly lower intensity, continued in 2011 and in the first quarter of 2012. In the second and third quarter of 2012, this negative trend was however stopped, which at the end of the third quarter resulted with a somewhat more favourable maturity structure in comparison to 31.12.2011.

- in 000 KM-

Table 33: *Maturity structure of deposits based on contracted maturity*

DEPOSITS	31.12.2010.		31.12.2011.		30.09.2012.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and demand deposits	5.054.335	45,0	4.983.292	44,8	4.694.709	43,5	99	94
Up to 3 months	344.926	3,1	433.030	3,9	151.602	1,4	126	35
Up to 1 year	1.085.115	9,6	756.332	6,8	880.969	8,1	70	116
1. Total short term	6.484.376	57,7	6.172.654	55,5	5.727.280	53,0	95	93
Up to 3 years	2.832.507	25,2	3.272.641	29,4	3.505.387	32,5	116	107
Over 3 years	1.915.947	17,1	1.679.380	15,1	1.566.153	14,5	88	93
2. Total long term	4.748.454	42,3	4.952.021	44,5	5.071.540	47,0	104	102
TOTAL (1 + 2)	11.232.830	100,0	11.124.675	100,0	10.798.820	100,0	99	97

Total deposits in comparison to 31.12.2011, decreased by 3% or 326 million KM, mostly based on the decline of the deposits of the banking institutions by 19% or 250 million KM, public companies by 14% or 197 million KM, private companies by 8% or 116 million KM and government institutions by 14% or 96 million KM, which in part got compasated with the growth of the savings by 4% or 250 million KM and the increase of the deposits of the non banking financial institutions by 18% or 85 million KM. The maturity structure of deposits based on the contracted maturity is relatively good, with a participation of short term deposits of 53% and long term 47%. In comparison to the end of 2011, there is an evident slight improvement of the maturity due to the decrease of the participation of the short term deposits by 2,1 percentual points and for the same increase the long term deposits.

[37] Subordinated debt – loans taken and permanent liabilities.

[38] According to the remaining maturity

The listed changes in the maturity structure are a result of the decrease of the short term deposits by 7% or 445 million KM, mostly the demand deposits of public companies, government institutions and private ocmpanies, and time depostis of three months in the banking institutions sector.

The long term deposits increased slightly by 2% or 119 million KM, which is a result of the growth of the citizens deposits. It should be noted that in the long term deposits the dominating participation still have two sectors: citizens with an increased participation from 56,8% to 60,1% and banking institutions with decreased participation from 19,4% to 13,9%, although the public companies deposits are also a significant long term source with an increased participation from 11,5% to 12,9%. In the time deposits of one to three years the largest participation are the citizen deposits 64,9% , with a note that due to the slower incline of these deposits than total deposits of one to three years, there was a slight decline of the participation by 0,5 percent points, deposits of the public entities 17,8% with an increased participation by 0,9%. In the period of over three years the largest participation of 49,1% have citizens deposits with the increased participation of nine percent points and the banking institutions deposits after a longer period and a present declining trend have a participation of 33,8(at the end of 2011: 46,9%; 2010: 60,9%).

Although the maturity structure of the deposits for the contracted maturity shows a slight improvement in the maturity, for the liquidity risk analyses more relevant is the maturity of deposits according to the remaining maturity, since it illustrates the balance of the deposits for the period from the reporting date to the maturity date, which is presented in the following table

- in 000 KM-

Table 34: : *Deposit structure based on the remaining maturity*

DEPOSITS	31.12.2010.		31.12.2011.		30.09.2012.		RATIO	
	Amount	Participation %	Amount	Participation %	Amount	Participation %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and demand deposits (up to 7 days)	5.377.075	47,9	5.184.070	46,6	4.804.637	44,5	96	93
7- 90 days	776.732	6,9	917.917	8,3	649.794	6,0	118	71
91 day to one year	2.240.255	19,9	2.219.322	19,9	2.547.313	23,6	99	115
1. Total short term	8.394.062	74,7	8.321.309	74,8	8.001.744	74,1	99	96
Up to 5 years	2.214.874	19,7	2.404.179	21,6	2.538.585	23,5	109	106
Over 5 years	623.894	5,6	399.187	3,6	258.491	2,4	64	65
2. Total long term	2.838.768	25,3	2.803.366	25,2	2.797.076	25,9	99	100
TOTAL (1 + 2)	11.232.830	100,0	11.124.675	100,0	10.798.820	100,0	99	97

Based on the data it can be concluded that the maturity structure of deposits in the remaining maturity is much more poor due to the high participation of the short term deposits of 74,1%, but it has a slight improvement trend in comparison to the end of 2011. Short term deposits declined by 4% or 320 million KM, with a decreasing participation by 0,7%, while long term deposits decreased by 0,2% or six million KM, with an increase of participation from 25,2% to 25,9%. If we review the structure of the long term deposits, it is visible that deposits with the remaining maturity of up to 5 years are dominating (90,8% of long term deposits and 23,59% of total deposits). If maturity data are compared through contracted and remaining maturity, it is clear that of 5,07 billion long term contracted deposits as of 30.09.2012 around 2,27 billion KM had a remaining maturity of less than one year.

In the existing maturity structure of deposits, as the largest financing sources of banks in the F BiH, there are increasingly higher limiting factors for credit growth, since banks' biggest need are placements of long term loans. Due to that, the banks are faced with the issue how to secure better quality sources in regard to maturity, especially due to the fact that the inflow of financial funds (borrowings) from abroad had significantly declined, from parent groups as well as from financial institutions - creditors.

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-

Table 35: *Maturity structure of loans*

LOANS	31.12.2010. Amount	31.12.2010. Partic. %	31.12.2011. Amount	31.12.2011. Partic. %	30.09.2012. Amount	30.09.2012. Partic. %	RATIO	
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Past due claims and paid off-balance sheet liabilities	567.182	5,7	962.707	9,2	1.096.383	10,3	170	114
Short term loans	2.129.184	21,3	2.287.597	21,8	2.375.707	22,3	107	104
Long term loans	7.285.545	73,0	7.237.367	69,0	7.169.275	67,4	99	99
TOTAL LOANS	9.981.911	100,0	10.487.671	100,0	10.641.365	100,0	105	101

In the three quarters of 2012., the long term loans slightly increased by 1% or 68 million KM, short term loans recorded an increase of 4% or 88 million KM, while past due claims increased by 14% or 134 million KM. In the structure of the past due receivables 64% refer to private companies, 34% are citizens, and 2% are other sectors.

Sector analysis by maturity, in two most significant sectors, indicates that loans to citizens represent 84,1% of long term loans, and loans to private companies, of total originated loans, represent 49,6% of long term loans.

In the assets structure, as the most significant category, loans still have the highest participation of 71,3%, which has increased by 2,6 per cent in comparison to the end of 2011 due to a slight decrease of assets by 2% while the loans realized a slight incline of 1,5%. Cash funds decreased by 12% or 531 million KM and their participation, in comparison to the end of 2011., decreased from 28,7% to 25,8%.

The review of the basic liquidity indicators is presented in the following table. The transfer to the new regulation as of 31. 12. 2011 lead to a significant increase of the amount of total loans which had an impact on the deterioration of the indicators: loans in relation to the deposits and loans taken, in relation to the previous periods. In the three quarters of 2012 there was a slight deterioration of the liquidity indicators caused by the decrease in the cash funds and deposits, except the ratio of the short term financial liabilities /total financial liabilities which improved due to the better maturity structure of the funding.

- in % -

Table 36: *Liquidity ratios*			
Ratios	**31.12.2010.**	**31.12.2011.**	**30.09.2012.**
1	2	3	4
Liquid assets[39] / Total assets	30,2	28,9	26,4
Liquid assets / Short term financial liabilities	50,8	49,0	46,1
Short term financial liabilities / Total financial liabilities	68,1	69,1	68,1
Loans / Deposits and Borrowings[40]	79,0	84,3	88,7
Loans / Deposits, borrowings and subordinate debts[41]	77,6	82,9	87,3

In 2011, banks were regularly meeting a commitment to maintain required reserves with the Central Bank of BiH. 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.

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

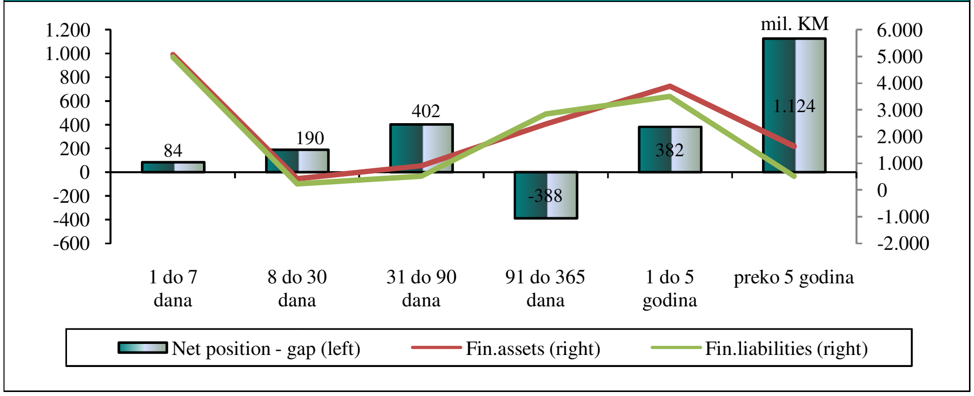
- in 000 KM-

Table 37: *Liquidity position – ten-day average and daily minimum*					
	31.12.2010.	**31.12.2011.**	**30.09.2012.**	**RATIO**	
	Amount	**Amount**	**Amount**		
1	2	3	4	5(3/2)	6(4/3)
1. Average daily balance of cash assets	3.887.490	3.759.486	3.412.788	97	91
2. Minimum total daily balance of cash assets	3.585.319	3.550.990	3.211.518	99	90
3. Short term sources (accrual basis)	6.128.941	6.013.102	5.906.669	98	98
4.Liabilities:					
4.1. ten-day average 20% of Item 3	1.225.788	1.202.620	1.181.335	98	98
4.2. daily minimum 10% of Item 3	612.894	601.310	590.667	98	98
5.Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	2.661.702	2.556.866	2.231.453	96	87
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	2.972.425	2.949.680	2.620.851	99	89

If we review the maturity match of the remaining maturity of the total financial assets and liabilities, it can be concluded that the maturity is good and somewhat better than as of 31. 12. 2011.

[39] Liquidity assets in the narrow sense: cash and deposits and other financial assets with maturity below three months, except inter-banking deposits.
[40] Empiric standards: below 70%-very solid, 71%-75%-satisfactory, 76%-80%-marginal to satisfactory, 81%-85%-insufficient, over 85%-critical.
[41] Prior ratio has been modified. Subordinated debts are included in the sources, which gives more realistic indicator.

Graph 24: *Maturity match of the financial assets and liabilities as of 30.09.2012.*



At the end of the third quarter of 2012 the short term financial assets of the banks was higher than the short term liabilities by 292 million KM. In relation to the end of 2011 when the positive gap was 171 million KM, that is an increase of 121 million KM, which lead to an increase in the coverage ration of the short term liabilities from 101,9% to 103,4%.

The short term financial assets decreased by 3,5% while the short term financial liabilities by 4,9%. In the short term financial assets the cash funds recorded a decrease of 12,1% or 531 million KM and securities held to maturity of 22,5% or 16 million KM. Financial assets of the remaining time to maturity date of over one year decreased by 0,2% or 13 million KM, mostly due to the decline of loans of 0,6% or 34 million KM.

On the liabilities side with a maturity date of up to one year, the largest decrease refers to deposits which decreased by 3,8% or 320 million KM and liabilities from loans taken by 38,7% or 150 million KM, as well as liabilities from the subordinated debt which decreased by 59,5% or 44 million KM, which lead to the total decrease of liabilities with the maturity deadline of one year by 4,9% or 437 million KM. The liabilities with the maturity date of over one year decreased slightly by 0,3% or 12 million KM, which is a consequence of a larger decrease of other financial liabilities, which declined by 38,9% or 60 million KM, which has been compensated by the growth of the liabilities from subordinated debt which are higher by 22,9% or 30 million KM, as well as the growth of the liabilities from loans taken, which are by 2,7% or 25 million KM higher. The liabilities with a maturity of over one year from deposits slightly decreased by 0,2 or 6 million KM.

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.[42]

[42] 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.

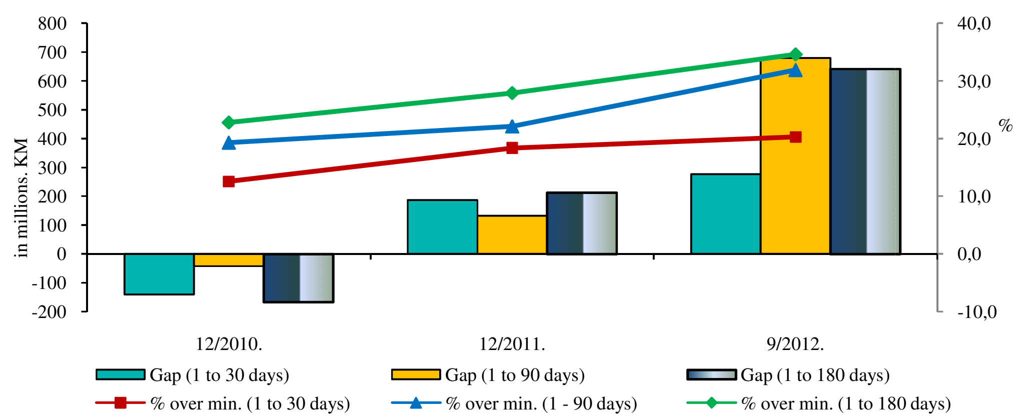
- in 000 KM -

Table 38: *Maturity of financial assets and liabilities up to 180 days*

Description	31.12.2010. Amount	31.12.2011. Amount	30.09.2012. Amount	RATIO	
1	2	3	4	5 (3/2)	6(4/3)
I. 1- 30 days					
1. Financial assets	5.674.836	5.748.473	5.475.719	101	95
2. Financial liabilities	5.816.147	5.561.192	5.198.926	96	93
3. Difference (+ or -) = 1-2	- 141.311	187.281	276.793	N/a	148
Accrual of requirement in %					
a) Performed %= Item 1 / Item 2	97,6%	103,4%	105,3%		
b) Required minimum %	85,0%	85,0%	85,0%		
Surplus (+) or shortage (-) = a – b	12,6%	18,4%	20,3%		
II. 1-90 days					
1. Financial assets	6.408.275	6.511.798	6.383.247	102	98
2. Financial liabilities	6.450.887	6.378.807	5.704.304	99	89
3. Difference (+ or -) = 1-2	- 42.612	132.991	678.943	N/a	511
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	99,3%	102,1%	111,9%		
b) Required minimum %	80,0%	80,0%	80,0%		
Surplus (+) or shortage (-) = a – b	19,3%	22,1%	31,9%		
III. 1-180 days					
1. Financial assets	7.343.882	7.522.305	7.344.318	102	98
2. Financial liabilities	7.509.597	7.308.881	6.702.639	97	92
3. Difference (+ or -) = 1-2	- 165.715	213.424	641.679	N/a	301
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	97,8%	102,9%	109,6%		
b) Required minimum %	75,0%	75,0%	75,0%		
Surplus (+) or shortage (-) = a – b	22,8%	27,9%	34,6%		

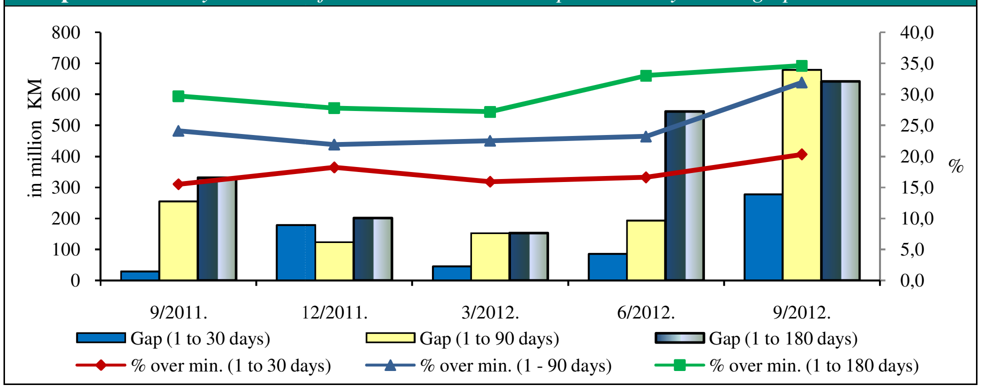
Based on the presented data it can be concluded that the banks as of 30. 09. 2012 maintained the prescribed limitations and realized a better maturity match of the financial assets and liabilities in regard to the prescribed limits.

Graph 25: *Maturity match of the financial assets and liabilities up to 180 days*



As of 31. 12. 2010 the amount of the financial liabilities was higher than the amount of the financial assets, in all their time intervals up to 180 days, upon which in 2011 there happened an improvement of the maturity match. At the end of 2011, the financial assets in all three time intervals was higher than the amount of the financial assets, and the realized percentages of the maturity match were above the prescribed minimum by 18,4% in the first interval, 22,1% in the second and 27,9% in the third. The maturity match improvement trend continued in 2012, and as of 30.09.2012 the financial assets were also higher than the financial liabilities in all three maturity intervals, with a somewhat higher improvement in the second quarter in 2012, but there happened a slight deterioration of the liquidity position of up to 30 and up to 180 days, due to a larger decrease of the financial assets (mostly cash funds) than the financial liabilities (mostly deposits). In the intervals up to 180 days there happened an improvement in the second quarter of 2012, due to a somewhat larger increase of the financial assets, primarily loans, in comparison to the increase of the financial liabilities (deposits), and somewhat lower in the third quarter of 2012, due to a decrease of the financial liabilities (liabilities from loans taken and subordinated debt). In the maturity interval of up to 90 days a more significant improvement was recorded in the third quarter due to an increase in loans and decrease in deposits and liabilities from loans taken and subordinated debt.

Graph 26 *Maturity matches of assets and liabilities up to 180 days through periods*



Based on all of the above presented indicators it may be concluded that 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

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 Banks[43] 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.[44]

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 30.09.2012., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 13,7% or 2 billion KM (14,9% or 2,3 billion KM at the end of 2011). On the other hand, currency structure of liabilities is essentially different, since participation of liabilities in foreign currency is significantly higher and is 48,5% or 7,2 billion KM (50% or 7,6 billion KM at the end of 2011).

The following table presents structure and trend of financial assets and liabilities and foreign currency position for EUR as the most significant currency[45] and total.

- in million KM-

Table 39: *Foreign currency adjustment of financial assets and liabilities (EUR and total)*

Description	31.12.2011.				30.09.2012.				RATIO	
	EURO		TOTAL		EURO		TOTAL		EURO	TOTAL
	Amount	Participation %	Amount	Participation %	Amount	Participation %	Amount	Participation %	6/2	8/4
1	2	3	4	5	6	7	8	9	10	11
I. Financial assets										
1. Cash assets	1.251	15,8	1.783	20,2	1.056	13,7	1.528	17,9	84	86
2. Loans	70	0,9	93	1,1	34	0,5	54	0,6	49	58
3.Loans with currency clause	6.262	79,2	6.537	74,2	6.227	80,9	6.476	76,0	99	99
4. Other	323	4,1	394	4,5	379	4,9	463	5,5	117	118
Total (1+2+3+4)	7.906	100,0	8.807	100,0	7.696	100,0	8.521	100,0	97	97
II. Financial liabilities										
1. Deposits	5.424	71,5	6.108	73,6	5.157	68,6	5.818	70,9	95	95
2. Borrowings	1.225	16,2	1.254	15,1	1.105	14,7	1.127	13,7	90	90
3.Deposits and loans with currency clause	661	8,7	661	8,0	971	12,9	971	11,8	147	147
4.Other	271	3,6	277	3,3	286	3,8	296	3,6	106	107
Total (1+2+3+4)	7.581	100,0	8.300	100,0	7.519	100,0	8.212	100,0	99	99
III. Off-balance sheet										
1.Assets	239		241		152		161			
2.Liabilities	250		377		208		336			

43 "Official Gazette of F BiH", Number. 3/03, 31/03, 64/03, 54/04.

44 The Article 8. of the Decision on minimum standards for managing the capital of banks prescribes the limitations: for individual foreign currency position for EURO highest up to 30% of the core capital, for other currencies up to 20% and bank's foreign currency position highest up to 30%.

45 Source: Form 5-Foreign currency position.

IV.Position				
Long (amount)	314	371	121	134
%	19,0%	22,4%	7,0%	7,8%
Short				
%				
Limit	30%	30%	30%	30%
Below limit	11,0%	7,6%	23,0%	22,2%

If we analyze the structure of foreign currencies in the financial assets[46] we see a dominant participation of EUR of 71,8, which is lower than the participation as of 31.12.2011. (72,4%) due to a decrease of the nominal amount from 1,6 billion KM to 1,5 billion KM. Participation of EUR in the liabilities has slightly decreased from 90,6% to 90,4%, with a slight decline in the nominal amount from 6,9 billion KM to 6,5 billion KM.

However, calculation of the FX risk exposure also includes the amount of indexed items of assets (loans) and liabilities[47], which are especially significant in the assets (76% or 6,5 billion KM) and nominally in almost the same level as of 31.12.2011. (74,2% or 6,5 billion KM). Other foreign currency assets items represent 24% or 2 billion KM of which EUR items make 17,2% or 1,5 billion KM, and other currencies 6,8% or 0,5 billion KM (at the end of 2011, loans contracted with currency clause amounted to KM 6,5 billion with participation of 74,2%, and other items in EUR of 18,7% or 1,6 billion KM). Of total net loans (9,6 billion KM), 67% were contracted with currency clause, primarily tied to EUR (96,2%).

On the side of the sources, the structure of financial liabilities stipulates and determines the structure of financial assets, for each currency individually. In foreign currency liabilities (8,2 billion KM) items in EUR (primarily deposits) had the highest participation of 79,7% or 6,5 billion KM, while participation and amount of indexed liabilities was at minimum, amounting to 11,8% or one billion KM (at the end of 2011, participation of liabilities in EUR was 83,4% or 6,9 billion KM, while indexed liabilities were 8,0% or 0,7 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 half of 2012, ranged within the prescribed limits. As of 30.09.2012., there were 11 banks with long foreign currency position, and seven banks with short position. At the system level, long foreign currency position represented 7,8% of banks' core capital, which is lower by 22,2% than the limit. Individual foreign currency position for EURO was 7,0%, which is 23 percentual points less than permitted, with financial assets items being higher than financial liabilities (net long position).

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.

[46] 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).

IV CONCLUSIONS AND RECOMMENDATIONS

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 the 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,
  - 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 FBiH, 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;

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 FBiH in December 2008, pursuant to the document issued by the FBiH 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, etc.

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.- 45-2/12
Sarajevo, 06.12.2012.

ATTACHMENTS

ATTACHMENT 1

Banks in the Federation of Bosnia and Herzegovina - 30.09.2012.

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	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	036/444-444, fax:444-235	ALEXANDER PICKER
4	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032/448-400, fax:448-501	SUVAD IBRANOVIĆ
5	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Sarajevo	Obala Kulina bana 9a.	033/497-555, fax:497-589	ALMIR KRKALIĆ
6	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Ibrahima Mržljaka 3	037/771-253, fax:772-416	HASAN PORČIĆ
7	MOJA BANKA dd - SARAJEVO	Sarajevo	Kolodvorska br. 5.	033/720-070, fax:720-100	OGNJEN SAMARDŽIĆ
8	NLB BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/259-259, fax:250-596	ALMIR ŠAHINPAŠIĆ
9	POŠTANSKA BANKA BiH dd - SARAJEVO	Sarajevo	Put zivota 2.	033/564-000, fax: 564-050	ĆAMIL KLEPO
10	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:664-175	AZEMINA GOLO
11	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Emerika Bluma 8.	033/250-950, fax:250-971	EDIN HRNJICA
12	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb.	033/755-010, fax: 213-851	MICHAEL MÜLLER
13	RAZVOJNA BANKA FEDERACIJE BIH	Sarajevo	Igmanska 1	033/277-900, fax: 668-952	RAMIZ DŽAFEROVIĆ
14	SPARKASSE BANK dd - SARAJEVO	Sarajevo	Zmaja od Bosne br. 7.	033/280-300, fax:280-230	SANEL KUSTURICA
15	TURKISH ZIRAAT BANK BOSNIA dd - SARAJEVO	Sarajevo	Dženetića Čikma br. 2.	033/252-230, fax: 252-245	ALI RIZA AKBAŞ
16	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:312-121	BERISLAV KUTLE
17	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	SENAD REDŽIĆ
18	VAKUFSKA BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	AMIR RIZVANOVIĆ
19	VOLKSBANK BH dd - SARAJEVO	Sarajevo	Fra Anđela 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	31.12.2010.	31.12.2011.	30.09.2012.
	ASSETS			
1.	Cash funds and deposit accounts at depository institutions	4.443.614	4.378.076	3.846.852
1a	Cash and non-interest deposit accounts	452.188	528.721	651.766
1b	Interest deposit accounts	3.991.426	3.849.355	3.195.086
2.	Trading securities	233.178	300.228	342.616
3.	Placements in other banks	145.007	79.940	143.137
4.	Loans, receivables in leasing and past due receivables	9.981.911	10.487.671	10.641.365
4a	Loans	9.414.597	9.524.844	9.544.926
4b	Receivables on leasing	132	120	56
4c	Past due receivables - loans and leasing	567.182	962.707	1.096.383
5.	Securities held until maturity	142.074	158.237	176.842
6.	Premises and other fixed assets	521.625	503.802	480.701
7.	Other real estate	31.139	36.947	32.651
8.	Investments in non-consolidated related enterprises	44.753	42.186	24.372
9.	Other assets	193.609	281.891	286.690
10.	MINUS: Reserves for potential losses	661.213	1.005.659	1.058.459
10a	Value adjustment on the items position 4 in Assets	635.792	931.946	991.799
10b	Value adjustment on the position of Assets except position 4 *	25.421	73.713	66.660
11.	**TOTAL ASSETS**	**15.075.697**	**15.263.319**	**14.916.767**
	LIABILITIES			
12.	Deposits	11.232.830	11.124.675	10.798.820
12a	Interest deposits	10.134.101	10.128.147	9.410.424
12b	Non-interest deposits	1.098.729	996.528	1.388.396
13.	Loans - past due	1.723	1.762	1.762
13a	Balance of payable loans, unpaid	0		
13b	Unpaid - called for payment off-balance sheet items	1.723	1.762	1.762
14.	Loans from other banks	7.000	2.000	2.000
15.	Payables to Government	0		
16.	Payables on loans and other borrowings	1.403.451	1.319.299	1.194.287
16a	payable within one year	381.305	387.585	237.658
16b	payable longer than one year	1.022.146	931.714	956.629
17.	Subordinated debts and subordinated bonds	226.847	206.159	191.666
18.	Other liabilities	507.221	529.359	520.640
19.	**TOTAL LIABILITIES**	**13.379.072**	**13.183.254**	**12.709.175**
	CAPITAL			
20.	Permanent priority shares	25.028	26.059	26.059
21.	Common shares	1.148.269	1.167.513	1.167.307
22.	Exchange premium	136.485	136.485	136.485
22a	On permanent priority shares	8.420	8.420	8.420
22b	On common shares	128.065	128.065	128.065
23.	Unallocated profit and capital reserves	489.557	376.102	455.663
24.	Foreign exchange differences	0		
25.	Other capital	-102.714	81.681	110.681
26.	Reserves for loan losses established from profit		292.225	311.397
27.	**TOTAL CAPITAL (20. to 25.)**	**1.696.625**	**2.080.065**	**2.207.592**
28.	**TOTAL LIABILITIES AND CAPITAL (19 +26)**	**15.075.697**	**15.263.319**	**14.916.767**
	PASSIVE AND NEUTRAL SUB BALANCE	**659.059**	**671.241**	**672.253**
	AGGREGATE BALANCE SHEET AMOUNT	**15.734.756**	**15.934.560**	**15.589.020**

*In 2009. and 2010.: reserves for loan losses

ATTACHMENT 3

REVIEW OF ASSETS, LOANS, DEPOSITS AND FINANCIAL RESULT OF BANKS IN F BiH as of 30.09.2012.

in 000 KM

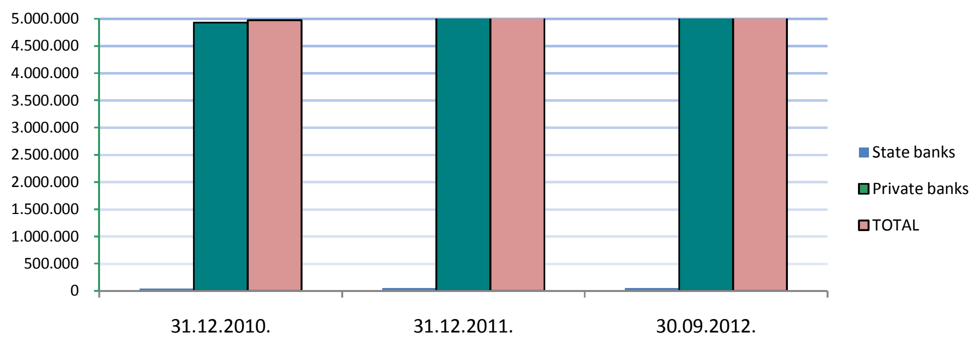
No.	BANK	Assets		Loans		Deposits		Financial result
		Amount	%	Amount	%			Amount
1	BOR BANKA dd SARAJEVO	330.614	*2,22*	202.631	*1,90*	206.673	*1,91*	2.161
2	BBI BANKA dd SARAJEVO	350.586	*2,35*	240.020	*2,26*	236.302	*2,19*	585
3	HYPO ALPE-ADRIA-BANK dd MOSTAR	1.479.232	*9,92*	1.017.065	*9,56*	1.016.680	*9,41*	-6.031
4	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	1.375.736	*9,22*	1.158.312	*10,88*	912.334	*8,45*	11.243
5	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	177.107	*1,19*	94.351	*0,89*	124.483	*1,15*	1.769
6	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	62.277	*0,42*	35.586	*0,33*	38.286	*0,35*	566
7	MOJA BANKA dd SARAJEVO	158.128	*1,06*	116.645	*1,10*	130.851	*1,21*	-76
8	NLB TUZLANSKA BANKA dd TUZLA	828.872	*5,56*	638.812	*6,00*	630.686	*5,84*	4.211
9	POŠTANSKA BANKA doo SARAJEVO	50.913	*0,34*	27.441	*0,26*	38.184	*0,35*	-191
10	PRIVREDNA BANKA dd SARAJEVO	220.709	*1,48*	151.136	*1,42*	159.116	*1,47*	112
11	PROCREDIT BANK dd SARAJEVO	314.517	*2,11*	274.688	*2,58*	229.784	*2,13*	309
12	RAIFFEISEN BANK BH dd SARAJEVO	3.713.483	*24,89*	2.471.605	*23,23*	2.725.472	*25,24*	38.175
13	SPARKASSE BANK d.d. SARAJEVO	935.345	*6,27*	760.531	*7,15*	813.540	*7,53*	6.821
14	TURKISH ZIRAAT BANK dd SARAJEVO	218.003	*1,46*	120.360	*1,13*	102.713	*0,95*	1.114
15	UNION BANKA dd SARAJEVO	204.058	*1,37*	95.341	*0,90*	145.764	*1,35*	728
16	UNI CREDIT BANKA BH dd SARAJEVO	3.566.586	*23,91*	2.494.550	*23,44*	2.586.604	*23,95*	44.132
17	VAKUFSKA BANKA dd SARAJEVO	246.935	*1,66*	179.866	*1,69*	185.284	*1,72*	437
18	VOLKSBANK BH dd SARAJEVO	683.666	*4,58*	562.425	*5,29*	516.064	*4,78*	4.691
	TOTAL	**14.916.767**	*100,00*	**10.641.365**	*100,00*	**10.798.820**	*100,00*	**110.756**

ATTACHMENT 4

NEW CITIZEN SAVINGS BY PERIODS IN THE BANKS IN FBiH

In 000 KM

	31.12.2010.	31.12.2011.	30.09.2012.
State banks	47.148	50.259	52.857
Private banks	4.926.361	5.311.178	5.523.221
TOTAL	**4.973.509**	**5.361.437**	**5.576.078**



ATTACHMENT 5

CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS IN BANKS IN FBiH AS OF 30.09.2012.

- CLASSIFICATION OF ACTIVE BALANCE SHEET ITEMS -

in 000 KM

No.	BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	2.091.505	271.056	10.762	1.212	1.172	2.375.707
2.	Long-term loans	5.975.526	712.447	249.440	131.285	9.698	7.078.396
3.	Other placements	203.166	440	12	111	1.345	205.074
4.	Interest accrued	40.750	9.891	5.906	7.858	32.592	96.997
5.	Past due receivables	68.990	53.104	107.701	223.344	617.458	1.070.597
6.	Receivables on guarantees paid			30	86	25.670	25.786
7.	Other assets	327.272	8.663	732	1.816	21.400	359.883
8.	**TOTAL BALANCE SHEET ASSETS WHICH IS CLASSIFIED (total of positions from 1.to 7. – base for accrual of regulatory reserves for loan losses)**	**8.707.209**	**1.055.601**	**374.583**	**365.712**	**709.335**	**11.212.440**
9.	**ACCRUED REGULATORY RESERVES FOR LOAN LOSSES ON BALANCE SHEET ASSETS**	**171.206**	**96.481**	**92.832**	**211.019**	**709.338**	**1.280.876**
10.	**VALUE ADJUSTMENT OF BALANCE SHEET ASSETS**	**99.856**	**82.857**	**97.510**	**154.657**	**623.579**	**1.058.459**
11.	**NEEDED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS**	**106.058**	**50.681**	**35.167**	**74.345**	**88.569**	**354.820**
12.	**ESTABLISHED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS**	**66.726**	**42.562**	**21.758**	**80.826**	**62.913**	**274.785**
13.	**LACKING AMOUNT OF REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS**						**103.248**
14.	BALANCE SHEET ASSETS WHICH IS NOT CLASSIFIED(gross bookkeeping value)						4.762.786
15.	TOTAL BALANCE SHEET ASSETS (gross bookkeeping value)						15.975.226

REVIEW OF ASSETS OF THE BALANCE SHEET WHICH IS NOT CLASSIFIED AND AMOUNTS OF THE PLACEMENTS SECURED BY A CASH DEPOSIT

14.a	Cash in treasury and cash funds on the account of Central bank of BiH, gold and other precious metals	2.434.559
14.b	Demand funds and time deposits up to one month on the accounts in banks with a determined investment rating	1.364.055
14.c	Tangible and non-tangible property	503.772
14.d	Gained financial and material assets in process of collection of receivables during one year of acquisition	4.839
14.e	Treasury shares	
14.f	Claims for overpaid tax liabilities	14.665
14.g	Securities intended for trading	151.221
14.h	Receivables from the Government of BiH, Government of FBIH and Government of RS, securities emission by the Government of BiH, Government of FBiH and Government of RS and receivables secured by their unconditional guarantees payable at first call	289.675
	TOTAL position 14	4.762.786
8a.	Amount of placements secured by cash deposits	146.888

ATTACHMENT 5A

CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS IN BANKS IN FBiH AS OF 30.09.2012.

- CLASSIFICATION OF OFF-BALANCE SHEET ITEMS -

in '000 KM

No.	OFF BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Guarantees payable	359.533	49.720	1.179	496	15	410.943
2.	Performing guarantees	515.965	106.352	596	1.185	2	624.100
3.	Unsecured LoC	41.060	7.531				48.591
4.	Irrevocable loans	1.249.018	81.431	4.171	869	673	1.336.162
5.	Other potential liabilities	12.338	867		118	4.382	17.705
6.	**TOTAL OFF BALANCE SHEET ITEMS CLASSIFIED (total of positions 1 to 5 – base for accrual of regulatory reserves for loan losses)**	**2.177.914**	**245.901**	**5.946**	**2.668**	**5.072**	**2.437.501**
7.	**ACCRUED REGULATORY RESERVES FOR LOAN LOSSES ON OFF BALANCE SHEET ITEMS**	**42.423**	**15.836**	**1.295**	**1.407**	**5.069**	**66.030**
8.	**PROVISIONING FOR LOSSES FOR OFF BALANCE SHEET ITEMS**	**20.167**	**2.218**	**1.089**	**1.465**	**4.731**	**29.670**
9.	**NEEDED REGULATORY RESERVES FRO PROFIT FOR ESTIMATED LOSSES ON OFF BALANCE SHEET ITEMS**	**26.456**	**14.237**	**680**	**411**	**345**	**42.129**
10.	**ESTABLISHED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ITEMS**	**22.259**	**12.233**	**561**	**1.403**	**156**	**36.612**
11.	**LACKING AMOUNT OF REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF BALANCE SHEET ITEMS**						**6.901**
12.	OFF BALANCE SHEET ITEMS WHICH ARE NOT CLASSIFIED						**461.026**
13.	TOTAL OFF BALANCE SHEET ITEMS						**2.898.527**
6a.	**Amount of potential liabilities secured by cash deposit**						**56.793**

ATTACHMENT 6

INCOME STATEMENT
OF BANKS IN F BiH

In 000 KM

ELEMENTS	REALIZED **30.09.2011.**		REALIZED **30.09.2012.**		RATIO 4 / 2
	Amount	Participation in the total income	Amount	Participation in total income	
INCOME					
Interest income	637.296	94%	605.017	96%	95
Interest expenses	219.787	32%	203.952	32%	93
Net interest income	417.509	62%	401.065	64%	96
Fee income and other operating income	259.386	38%	228.367	36%	88
TOTAL INCOME	**676.895**	**100%**	**629.432**	**100%**	**93**
EXPENSES					
Value adjustment*	206.140	30%	93.718	15%	45
Salaries and contribution expenses	186.587	28%	184.611	29%	99
Fixed assets and overhead expenses	118.515	18%	118.620	19%	100
Other expenses	124.161	18%	121.692	19%	98
TOTAL EXPENSES (without interests)	635.403	94%	518.641	82%	82
NET INCOME BEFORE TAX	41.492	6%	110.791	18%	267
Income Tax	20	0%	35	0%	175
NET INCOME	**41.472**	**6%**	**110.756**	**18%**	**267**

*Until 31.12.2011.: reserves for loan losses

ATTACHMENT 7

REPORT ON CAPITAL BALANCE AND ADEQUACY IN BANKS IN FBiH
ACTIVE BALANCE

in 000 KM

No.	DESCRIPTION	31.12.2010.	31.12.2011.	30.09.2012.
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	1.157.918	1.177.932	1.177.726
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	136.485	136.485	136.485
1.4.	General regulatory reserves (reserves as regulated by the Law)	183.807	192.752	96.330
1.5.	Other reserves not related to assets quality assessment	228.867	262.501	310.578
1.6.	Retained - undistributed income from previous years	165.532	225.861	169.420
1.a.	**TOTAL (from 1.1. to 1.6.)**	**1.885.159**	**2.008.081**	**1.903.089**
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	92.058	251.187	120.666
1.8.	Losses from current year	157.933	45.512	6.298
1.9.	Book value of treasury shares owned by the bank	81	81	156
1.10.	Amount of intangible assets	63.249	57.180	51.447
1.b.	**TOTAL (from 1.7.to 1.10.)**	**313.321**	353.960	178.567
1.	**AMOUNT OF CORE CAPITAL: (1.a.-1.b.)**	**1.571.838**	**1.654.121**	**1.724.522**
2	**BANK'S SUPPLEMENTARY CAPITAL**			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	2.829	3.090	3.090
2.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. And rights	0		0
2.3.	General reserves for losses on loans from class. A - performing assets	209.612	212.248	213.629
2.4.	Accrued income for current year audited and confirmed by external auditor	52.090	62.564	7.303
2.5.	Income under FBA's temporary restriction on distribution	0	0	0
2.6.	Subordinated debts, the most 50% of core capital	159.056	139.754	125.261
2.7.	Hybrid convertible items - the most 50% of core capital	0	0	0
2.8.	Items-permanent liabilities without repayment duty	66.399	49.312	66.405
2.	**AMOUNT OF SUPPLEMENTARY CAPITAL: (from 2.1. to 2.8.)**	**489.986**	**466.968**	**415.688**
3	**ITEMS DEDUCTABLE 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	15.938	18.408	2.470
3.3.	Receivables from shareholders for significant voting shares - approved aside from regulations	0	0	77
3.4.	VIKR to shareholders with significant voting shares in the bank without FBA's permission	0	0	0
3.5.	**AMOUNT OF ITEMS DEDUCTABLE FROM BANK'S CAPITAL (3.1. to 3.4.)**		**19.386**	**73.658**
3.	**AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)**	**15.938**	**37.794**	**76.205**
A.	**RISK FROM RISK-WEIGHTED ASSETS AND CREDIT EQUIVALENTS**	**2.045.886**	**2.083.295**	**2.064.005**
B.	**POR (RISK-WEIGHTED OPERATING RISK)**	**11.713.116**	**11.286.997**	**11.172.524**
C.	**PTR (RISK-WEIGHTED MARKET RISK)**	**942.707**	**965.932**	**974.284**
D.	**TOTAL RISK-WEIGHTED RISKS B+C+D**	**0**		**0**
E.	**NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100**	**12.655.823**	**12.252.929**	**12.146.808**
F.	**NET CAPITAL RATIO (CAPITAL ADEQUACY) (A.:E.) X 100**	**16,2%**	**17,00%**	**16,99%**

ATTACHMENT 8

NUMBER OF EMPLOYEES BY BANKS

No.	BANK	31.12.2010.	31.12.2011.	30.09.2012.
1	BOR BANKA dd SARAJEVO	54	57	61
2	BOSNA BANK INTERNATIONAL dd Sarajevo	207	235	245
3	HERCEGOVACKA BANKA dd MOSTAR	75	72	
4	HYPO ALPE ADRIA BANK dd MOSTAR	568	647	610
5	INTESA SANPAOLO BANKA dd BiH	519	525	534
6	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	178	173	173
7	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	67	71	71
8	MOJA BANKA dd SARAJEVO	143	171	165
9	NLB TUZLANSKA BANKA dd TUZLA	474	471	461
10	POŠTANSKA BANKA dd SARAJEVO	91	90	86
11	PRIVREDNA BANKA dd SARAJEVO	211	191	184
12	PROCREDIT BANK dd SARAJEVO	501	427	361
13	RAIFFEISEN BANK BH dd SARAJEVO	1.630	1.576	1.560
14	SPARKASSE BANK dd SARAJEVO	426	432	451
15	TURKISH ZIRAAT BANK dd SARAJEVO	150	158	160
16	UNI CREDIT BANKA BH dd MOSTAR	1.362	1.338	1.321
17	UNION BANKA dd SARAJEVO	180	177	179
18	VAKUFSKA BANKA dd SARAJEVO	222	229	231
19	VOLKSBANK BH dd SARAJEVO	330	329	343
	TOTAL	**7.388**	**7.369**	**7.196**