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 BANKING SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
AS OF DECEMBER 31, 2006

Sarajevo, March 2007

Banking Agency of the Federation of BiH, as a regulatory authority performing bank supervision, prepared Information on banking system of the Federation of BiH (as of December 31, 2006 upon the final non-audited data) based on reports of banks, and other information and data submitted by banks. We also included findings and data resulting from on-site examinations and analysis performed by the Agency (off-site financial analysis).

I. INTRODUCTION

In 2006, the banking sector of the Federation of Bosnia and Herzegovina has maintained positive trends from the past years in all significant performance segments and remained as the most organized and most important part of the entire financial system in the country. We may conclude, based on the most significant quantitative and qualitative performance indicators realized, that the banking sector in 2006 has operated successfully and that moderate and continuous growth and development has been followed by strengthening of its stability and safety, which is one of key factors for financial stability of the country and entire economic system.

Positive trends attained and the sector's achievements and stability improved result from the established institutional framework, which is regulating performance of banks, effective supervision of their performance and examination of work legitimacy, implementation of regulations and maintenance of the standards prescribed, along with better quality of management and governance in majority of banks.

Inflow of new foreign investments have affected strengthening of capital base, increase of deposits, especially savings and lending resources, which have provided for new placements. Banks have taken many significant activities to raise quality and diversification of products and services, as well as to introduce and apply some new modern technologies, increased competition and struggle for better market positioning.

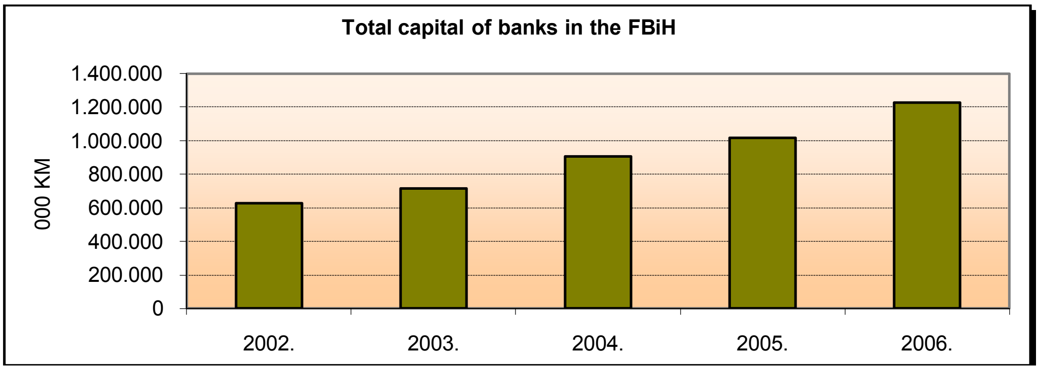
Management, measuring and control of risk is still the key segment in majority of banks that has to continuously keep enhancing and improving.

In general, we could say that performance of banks, based on the international standards and principles, even in 2006 have been in function of development, strengthening and progress of the entire system, its effectiveness, stability, solvency, profitability and liquidity.

During 2006, the most significant changes could be summarized as growth and development of the system and strengthening of capital base, inflow of new foreign investments which resulted by changes in the ownership structure and further increase of foreign capital participation, and as a result of the mentioned, market positioning and intensified competition.

- ***Growth:*** At the end of 2002, there were 29 banks with the banking license issued in the FBiH, and at the end of 2006, there were 23 banks operating in the system. After certain claim period in 2005, when number of banks (24) remained the same as at the end of 2004, some significant changes happened in 2006 (bank license revoked from a state bank, status change of merger – integration of two banks and license issued to a new bank), and number of banks decreased to 23.

The same as previous years, all significant banking sector performance indicators have recorded growth in 2006, out of which we should especially emphasize quantitative and qualitative parameters of capital strength and power which have been stopped from deterioration by the inflow of some new green capital of approximately KM 121 million in six banks and KM 16 million of a foundation capital in a new bank, which is approximately two times higher than in 2005 when additional capitalization was performed in five banks of KM 56 million. Banks have also continued expanding the network of their organizational units, with the number of 512 units in the whole territory of BiH at the end of 2006, representing an increase of 32 new organizational units in 2006 (22 in the Federation, nine in Republic Srpska and one in Brčko District).



• ***Ownership structure:*** Foreign investors (banking groups) have shown interest in 2006 to invest in the banking sector of the Federation of BiH through acquisition of two banks that were majority domestic owned, so at the end of 2006 there were only four banks left with majority domestic private capital, „holding" only 2,9% of market share. Slightly higher is the participation of five state banks (4,1%), while 14 banks with majority foreign capital have dominant participation of 93%. Therefore, increasing trend of foreign capital participation in share capital continues, which for the last three years have increased from 68,2% or KM 409 million (at the end of 2003) to 75,5% or KM 671 million at the end of 2006. At the same time, participation of domestic private capital decreased from 19,2% or KM 115 million to 9,3% or KM 83 million, while state capital increased from 12,6% to 15,2%, which comes from additional capitalization of the Investment Bank of the FBiH in 2004, but there is still obvious decreasing trend of state capital participation.

By using the same indicators, we could get the data that at the end of 2004, percentage of foreign capital in Slovakia was 89,6%, in Croatia 91,5%, in Czech Republic 83,1%, in Bulgaria 74,3%, in Hungary 80,4% , in Romania 69,3%, in Macedonia 47,6%, and in Slovenia 32,3%[1].

There are eight banks in the FBiH in full foreign ownership with KM 477 million of share capital, six banks with majority foreign capital (KM 176 million), and in five banks foreign ownership participate between 0,1 and 43% with total amount of KM 17 million. There are four banks that do not have foreign capital in their ownership structure, that is, they are banks with majority state capital.

• ***Competition:*** Safety and stability of the banking sector have contributed to the entrance of new investors, resulting by purchase of shares in two „domestic" banks that have changed their ownership structure (Austrian Steiermarkische Bank und Sparkasse is in process of acquisition of majority ownership in ABS Bank d.d. Sarajevo, while Privredna Bank d.d Zagreb-member of the Italian Banking Group Banca Intesa has become majority owner of LT Gospodarska Bank d.d Sarajevo) and foundation of a new bank (Validus d.d. Varaždin from Croatia has founded Vaba Bank d.d. Sarajevo).

Although for the last three years, the system has experienced some concentrations and polarizations and extracting of „the big four", the entrance of the new „players" in the banking market of the Federation of BiH has intensified competition and increased struggle to get more of the market share. At the end of 2006, four largest banks with the assets of KM 7,9 billion

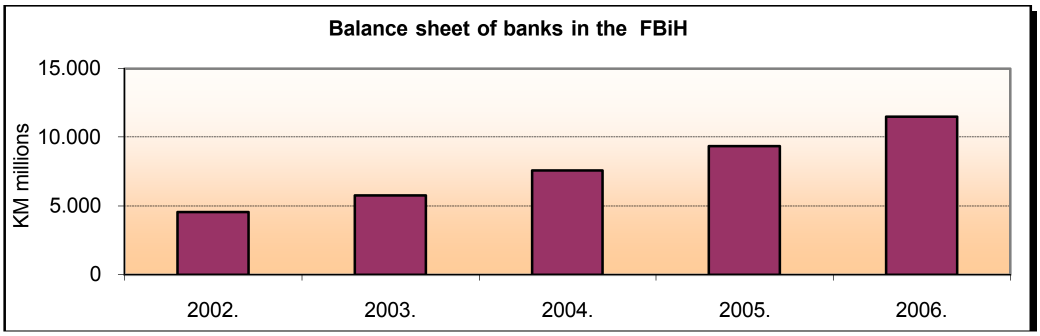
[1] Data source: BSCEE Review 2005. (BSCEE: Banking Supervisors of Central and Eastern Europe), BSCEE Review 2006. still not published.

retained the market share of 69%, the same as at the end of 2005, including deposited 72% of total deposits and 76% of total savings, and those banks financed 71% of total loans. In order to attract new customers, that is, to take over some good quality customers from their competitive banks, they have developed some new strategies of marketing approach that is characterized by more aggressive promotion in media. Banks create and offer some new credit and deposit products, they introduce some new services in other banking segments as well, and that is, they improve quality and assortment of their services. By doing this, they use different instruments, such as interest rate policy, organization enhancement and personnel strengthening, business network expanding, financial support of a „parent" bank or the group member-banks, etc. Card-based operations represent a significant business activity for most of banks, which is reflected through more massive usage of credit and debit cards and increased level of non-cash payments. Throughout the year 2006, 93 new ATMs were installed, and at the end of the very same year their number was 415. The number of POS terminals also increased by 1.793, so at the end of 2006 there was total of 9.619 points of sale able to accept cards.

In 2006, there has been stronger entrance of banks into the market of micro-crediting through credit support to micro-credit organizations. At the end of 2005, eight banks financed through placements micro-credit organizations in the amount of approximately KM 43 million, and as of 31. 12. 2006., seven banks granted credit funds in the amount of KM 61 million. Micro-credit organizations and banks have recognized, through this type of business cooperation, joint interests in order to find new sources to finance small customers that otherwise would not be able to access the funds through banks. This will add to further growth and development of micro-credit sector, which is becoming more and more significant segment of the entire financial system.

Balance sheet

According to the final non-audited data, aggregate balance sheet of banks in the Federation of BiH amounted to KM 11,5 billion as of 31. 12. 2006. If compared to the prior year, it represents an increase of 23% or KM 2,1 billion. For the past nine years, that is, from the beginning of 2002 to the end of 2006, the aggregate balance sheet of the system has increased by almost 2,5 times.



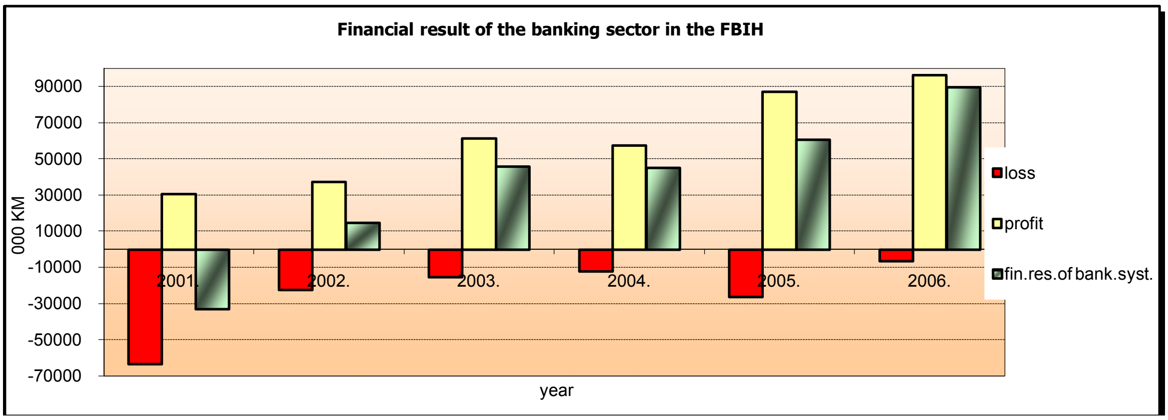
Balance sheet, that is, amount of assets are bringing us closer to another regular European standard. To be exact, ratio between assets and GDP is often used as an indicator of a banking sector's strength. In developed countries, banking assets is two or more times higher than GDP. In transition countries, we have somewhat fairly smaller ratios. According to this criteria, the banking sector of the Federation of BiH has a very solid result, since its assets in 2006 has reached approximately 104% of the evaluated GDP for the F BiH.

The aggregate balance sheet growth resulted from increase in deposits by KM 1,5 billion or 22%, borrowings of KM 268 million, representing an increase of 23% if compared to 2005 and capital growth by KM 211 million or 21%.

Total deposits, as the most important source of financial potential, have reached the amount of KM 8,4 billion, and total capital of banks of KM 1,2 billion. The most important item of the banks' assets is loans of KM 6,8 billion and cash funds of KM 4,3 billion.

Income statement

After the year 2001, when the banking system recorded loss in the amount of KM 33 million, a positive trend of a successful performance has begun. According to the preliminary data for 2006, the banking system is recording profit of KM 89,8 million, which is higher by 47,8% or KM 29 million than in 2005. In other words, 19 banks recorded profit of KM 96,2 million, and four banks (all in provisional administration) recorded loss of KM 6,4 million.



Total profit realized in 2006 was KM 684 million that is higher by 15% than in 2005. In the structure, participation of net interest income keeps increasing: from 57,2% in 2005 to 57,9% in 2006. Different from previous years, increase of interest income on loans (18%) in 2006 has been decelerated (18%) in comparison to credit placements (23%). This is primarily the result of decreasing trend of the interest rates. At the same time, banks have realized operating income of KM 288 million, which makes 42,4% of total income.

Two most significant indicators of profitability: ROAA (return on average assets) of 0,87% and ROAE (return on average equity) of 10,82% are better if compared to 2005, and are getting closer to the level of feasible standards. The same indicators for 2004 were the following in Slovakia 1,21% and 29,03%, in Croatia 1,68% and 16,05%, in Czech Republic 1,26% and 23,4%, in Bulgaria 2,06% and 20,02%, in Hungary 1,97% and 23,4%, in Romania 2,04% and 15,58%, in Macedonia 1,1% and 6,2%, and in Slovenia 1,05% and 13,34%.

II. TRANSITION OF THE BANKING SYSTEM

Reform process, transformation, rehabilitation and consolidation of the banking system in the Federation of BiH are reaching their final stage. The reforms implemented have resulted by positive effects and successful transformation into a stable and safe banking sector characterized by traditional banking activities and operations (deposits and loans) whose performance is based on the international standards and principles.

It should be especially emphasized that the reform and rehabilitation of the banking system in the Federation has been realized without any investments of public revenues – budget funds of the Federation. Other transition countries, according to some estimates, allocated significant funds for the same purpose: in Croatia 27, in Czech Republic 25, Hungary 13, and Poland 8% of GDP.

Banking system has a leading position in the financial sector of the Federation of BiH; therefore stability of the system is important for the overall economic development. Twelve years after the war and eleven years since the FBA's initiation, we can make conclusion that the sector has been rehabilitated and consolidation of banking is reaching its final stage:

- majority of problems inherited from previous system and induced by the war were eliminated,
- four fifths of total number of banks are privately owned now, and they hold 96% of the system's assets,
- privatization process of remaining five state banks should be finalized in 2007,
- foreign investors own 75,5% of share capital in the system,
- entrance of foreign investors brought large banks and decreased number of banks through integration of banks owned by the same group, resulting by intensified competition, modern know-how, new banking products,
- capital base in banks was strengthened, efficiency and effectiveness of banking operations were improved and they are closer to the international standards,
- international supervision standards have been accepted and are implementing, management of risks was improved etc.

Successful transformation of banking industry has not been followed by changes in other sectors, especially in the core economy sector, which is essential for further development of banking. Slow recovery process of economy brings danger of multiple consequences, which will, if trends remain the same, affect banking as well.

The weakest point is certainly privatization process of state banks. More decisive and energetic approach and activities of the Managing Board and FBA in 2006 have finally resulted by some concrete progress.

More specifically, the status of Ljubljanska Bank d.d Sarajevo has been resolved through assumption of majority of its assets and liabilities by newly established bank, after which the Bank was revoked banking license and liquidation process initiated. At the end of 2006, there were still five banks in the system owned by the state. The status of Investment Bank of the FBiH will be resolved by adopting new law, Postbank Sarajevo is in process of realizing additional capitalization in order to get privatized, while in January 2007 BOR Bank d.d. Sarajevo, after successful issue of shares had been finalized, changed its ownership structure and became a bank with majority private capital, but still with significant participation of state capital. As for remaining two state banks (UNA Bank d.d. Bihać-under provisional administration and Union Bank d.d. Sarajevo) the solution will be found through privatization.

1. RESTRUCTURING

It is quite certain that number of banks in the Federation of BiH will continue decreasing, although this process will be slower in comparison to the previous period. Total of four banks (per two with the same owner) are in process of integration, one of which is planned to be finalized by mid 2007, and the other one by the end of the year. There are some indications that foreign investors will come into another two-three banks.

Observed by the assets size, the system has gone through some radical changes. List of banks according to their assets show huge disparity. Assets of the largest bank has exceeded three billion (KM 3,1 billion), representing 26,9% of total assets of the sector, followed by three banks with the assets between KM 1,3 and 1,9 billion and the highest market share of 42,1%. The same number of banks (three) has assets between KM 506 million and 660 million and the share of 15%. Eight banks have the assets between KM 107 million and 300 million and the participation of 12%. The smallest market share of 4% has also eight banks with the assets below KM 100 million.

2. BANKING AGENCY

Banking Agency of the F BiH extensively contributed to the banking system reform, although, often actions set up by the Agency were misunderstood. FBA, as an independent institution for supervision and licensing of banks, was founded at the end of 1996. From the very beginning the activities of the Agency were designed to create strong and stable banking system, market oriented and complied with the international business and supervision standards in banks. The Law on Banking Agency established main duties of the Agency which, in short, are licensing banks for inception and operations, passing regulations, supervising banks and undertaking actions as regulated by the Law (this includes provisional administration and liquidation in banks or initiation of bankruptcy).

According to the assessments made by both domestic and foreign experts, the FBA has in past 10 years reached the level of high proficiency, with the employees that have the best expertise in the area of supervision gained through many educations in country and abroad.

As the main objective of the Agency is to protect money and interests of depositors, since its establishment to the end of 2006 the FBA has initiated measures (provisional administration, liquidation or bankruptcy) in 25 banks, and, in one bank, provisional administration was initiated based on the order issued by the High Representative of BiH. Provisional administration was initiated in 23 banks.

Out of 26 banks in which provisional administration was initiated:
- Four banks were merged to other banks.
- Bankruptcy process was initiated in seven banks. According to the information available to the FBA, this process was finalized in one bank, and in other five it is ongoing.
- Liquidation process was initiated in ten banks. Liquidation process was finalized in five banks, one was sold, and four banks paid out all the liabilities to creditors and shareholders. It is expected that liquidation processes will finalize in 2007.
- Provisional administration is ongoing in five banks. It is expected that provisional administration is finalized in four banks in 2007. As for Hercegovačka Bank that has been transferred to the FBA now in 2007 from the High Representative, we need to assess and review the condition and determine deadlines for its finalization.

3. PAYMENT SYSTEM

Functioning of the internal payment system in the banking system of the Federation of Bosnia and Herzegovina has successfully continued in 2006, that is, its quality is recording slight trend of increase. This primarily has to do with a successful functioning of Unified Transaction Account Registry, which is maintained by the Central Bank of Bosnia and Herzegovina.

In the banking system of the Federation of Bosnia and Herzegovina in 2006, according to the statements received from banks, there was total of 32,5 million of payment transactions performed in the internal payment system in total value of KM 55,5 billion. According to the data of the Central Bank of BiH, during 2006, banks in the Federation of BiH performed total of 14,7 million of inter-bank payment transactions (Rtgs and GC) in total value of KM 35,3 billion. Accordingly, intra-bank transactions make 17,8 million in value of KM 20,2 billion. So, out of total number 54,8% were intra-bank transactions and 45,2% were inter-bank payment transactions. Based on the value, 36,4% were intra-bank and 63,6% were inter-bank payment transactions. If compared to the prior year, we see an obvious decrease in participation of intra-bank payment transactions (both per transactions performed and per their value), that is, increase in participation of inter-bank payment transactions in the internal payment system of the Federation of Bosnia and Herzegovina.

Observed on the level of Bosnia and Herzegovina, banks in the Federation of BiH performed 51,5% of all intra-bank and 59% of all inter-bank transactions. According to the value, banks from the Federation of BiH transferred 45% intra-bank and 74% inter-bank of total payment system transactions in BiH.

Individual participation of banks in the payment system transactions in the Federation of BiH ranges between 0,02 and 10,32 per number and between 0,09 and 14,02 per amount of transactions performed.

4. COMBAT AGAINST MONEY LAUNDERING AND TERRORISM FINANCING

We would like to start the assessment of the banking system of the Federation of Bosnia and Herzegovina in the segment of prevention of money laundering and terrorism financing by the statement that there are no reasons for supervisory concern in regard to risk management in the area of money laundering and terrorism financing (reputation risk, operating risk, legal risk, risk of concentrations in assets and deposits). That is, the quality of management over risks, which may arise in a bank performance as a consequence of money laundering and terrorism financing, continues with its increasing trend, along with the quantity of risks staying within the limits of moderate.

Implementation of policies, as a composite part of the risk management program, is the following:

1. Customer Acceptance Policy: Customer acceptance criteria have been defined, and banks have organized special customer profile registries.

2. Customer Identification Policy: Banks have adopted customer identification as core element of the «know your customer» standard. Banks apply customer identification policy in process of establishment of business relationships with customers. However, banks are still facing the issue of documentation updating that is used as support documentation for establishment of those relationships with already established business relationships.

3. Policy on Continuous Monitoring of Accounts and Transactions: Implementation of this Policy has started more effectively and there is less of formal monitoring of customer accounts and transactions. In order to arrive at more effective monitoring of customer accounts and transactions, based on implementation of know your customer policy, banks created lists of customers whose transactions of KM 30,000.00 or more are excluded from reporting requirement.

4. *Policy on Management of Money Laundering and Terrorism Financing Risk*: Elements of the mentioned Policy are defined in the programs prepared by banks. Reporting lines, both external and internal, are defined. Reporting to the Agency was satisfactory. In 2006, banks reported about 215.967 transactions, which is higher by 35% in comparison to prior year, representing 0,66% of total transactions performed in the banking system of the Federation of Bosnia and Herzegovina (32.514.037 transactions performed according to the data received from banks) of KM 8,3 billion, which is higher by 15% in comparison to prior year, which makes 15% of total value of the transactions performed in the banking system of the Federation of Bosnia and Herzegovina (KM 55,5 billion according to the data received from banks). Banks have reported of 10 transfers before execution, which is less by 87% in comparison to 2005, and it makes a small part (0,005%) of total reported transfers in value of KM 28,4 million, which is less by 48% in comparison to prior year, and it represents 0,3% of the value of total reported transfers this year. Majority of reported transfers were the transfers that banks reported upon their execution within prescribed deadline, total 214.574 of transfers, which is higher by 35% in comparison to the prior year, and it represents 99,35% of total reported transfers this year in value of KM 8,2 billion, which is higher by 15% in comparison to previous year and it makes 98,9% of the value of total reported transfers. Banks also reported of transfers after the deadline for execution expired, total 1.383 transfers, which is less by 7% in comparison to 2005 and it represents 0,65% of total executed transfers this year in value of KM 66,4 million, which is less by 18% in comparison to prior year and it represents 0,8% of value of total transfers reported.

Banks reported of 31 suspicious transfers of KM 36,5 million. Ten transfers were reported before execution of KM 28,4 million. Eleven transfers of KM 7,5 million, which were reported after deadline for reporting, were reported upon the FBA's orders. Other transfers, which were reported after reporting deadline expired, upon monitoring of banks were defined as suspicious and were reported to the FOO. Data on number and value of transfers reported before execution indicate that quantity of risk is moderate and is still recording a decreasing trend, and data on number and value of transfers reported after reporting deadline expired indicate that quality of risk management coming from money laundering and terrorism financing is satisfactory and is still recording an increasing trend. Other data from banks' reports (number and value of transfers: suspended by the FOO, executed upon notification of the FOO, executed after the deadline of 5 days, for which (no) information was requested), are also confirming the assessment on risk quantity and quality of its management. The examination, however, determined that there was significant inaccuracy in the reporting to the FOO. That is, majority of the examined banks reported in such way that connected reported transactions included the transactions of KM 30.000,00 or more, neglecting the fact that connected transactions are made of two or more transactions interrelated and their value is below the amount subject to identification and reporting.

Training of staff, as significant element of policy for managing money laundering and terrorism financing risks, has become a continuous process in the banking system. This year, the AML coordinators have attended trainings organized by the Banks Association of BiH with both domestic and foreign experts as instructors.

Therefore, we may conclude that quality of risk management coming from money laundering and terrorism financing is satisfactory and is recording a slight increasing trend.

5. BANKING SUPERVISION

Based on the need of the overall macroeconomic and financial stability, the Basle Supervision Committee adopted twenty-five core principles in 1997, which have to be respected in order to have efficient supervisory system within banking.

The core principles are minimum requirements to be implemented and in many cases it is necessary to supplement them with other measures in order to comply with specific conditions and regulate risks of financial systems in respective countries. The principles regulate preconditions for effective bank supervision, licensing, prudential regulations and requirements, methods for continuing supervision of banks, necessary information, official authorization of supervisors and cross-border banking with other countries.

Legal and regulatory framework for banking operations in the Federation of BiH is consistent with the international standards. The Law on Changes and Amendments to the Law on Banks that was passed in August 2002 provides in Article 69 that “The regulations passed by the Agency… are based on the core principles for bank supervision as regulated by the Basle Committee for Bank Supervision.” The FBA is fully in compliance with this standard in process of preparation and adoption of regulations implemented from the beginning of 2003. The regulations also include some of the standards from the European Banking Directives.

Banking supervision – on-site and off-site bank examinations have been conducted based on the work plan and program for 2006. All the examined banks, after examination reports were prepared, were issued orders for execution and elimination of determined deficiencies. The examination has determined that all banks performed the FBA's orders regularly and mostly timely.

It should be emphasized that both to the pleasure of banks and the FBA supervision is more and more objectively accepted and there is less and less misunderstanding between supervisors and bank employees. This has been officially stated at the gathering held at the beginning of November 2006 that was organized by the Banks Association of BiH to the topic „Banks and Supervision“. Concrete, proficient and professional approach by the supervision while examining banks has its aim to enhance quality of bank performance, their profitability, solvency and safety of the performance, which is the interest of both sides.

III. BUSINESS PERFORMANCE OF BANKS IN THE FEDERATION OF BIH

1. STRUCTURE OF THE BANKING SECTOR

1.1. Status, number and business network

As of 31. 12. 2006., there were 23 banks with the banking license issued in the federation of BiH. Number of banks has decreased in comparison to 31. 12. 2005.: CBS Bank d.d. Sarajevo was merged to NLB Tuzlanska Bank d.d. Tuzla; banking license was issued to Validus Bank d.d. Sarajevo (it changed name in December to VABA banka d.d. Sarajevo), banking license was revoked from Ljubljanska Bank d.d. Sarajevo – segment of assets and liabilities was assumed by Vaba Bank, and remaining segment will be subject of liquidation that has been initiated.

As of 31. 12. 2006., there were five banks with provisional administration (UNA banka d.d. Bihać, Hercegovačka banka d.d. Mostar, Poštanska banka BiH d.d. Sarajevo, Privredna banka d.d. Sarajevo and Investicijska banka Federacije BiH d.d. Sarajevo).

Table 1: *Changes in the number and ownership structure of banks*

	State banks	Private banks	TOTAL
31.12. 2003.	7	20	27
Changes in 2004:			
- licenses revoked	-1		-1
- mergers		-2	-2
31.12.2004.	6	18	24
No changes in 2005			
31.12. 2005.	6	18	24
Changes in 2006:			
- licenses revoked	-1		-1
- new licenses		+1	+1
- mergers		-1	-1
31.12.2006.	5	18	23

In 2006, banks continued expanding the network of their organizational units. Banks from the Federation of BiH have founded 32 new organizational units, 22 in the Federation of BiH, nine in Republic Srpska and one in District Brčko. If compared to 31. 12. 2005. when banks had 480 organizational units, this represents an increase of 6,7%.

As of 31. 12. 2006., 11 banks from the Federation of BiH had 38 organizational units in Republic Srpska and 13 in District Brčko, and five banks from Republic Srpska had 19 organizational units in the Federation of BiH.

The license for inter-bank-transactions in internal payment system was issued to all banks as of 31.12.2006. There were 15 banks with deposit insurance.

1.2. Ownership structure

As of 31.12.2006., ownership structure in banks[2] was assessed based on the available information and on-site visits to banks[3], which is the following:

- Private and majority private ownership 18 banks (78%)
- State and majority state ownership[4] 5 banks (22%)

Ownership structure can be observed from aspect of financial results, which is by the value of total capital[5].

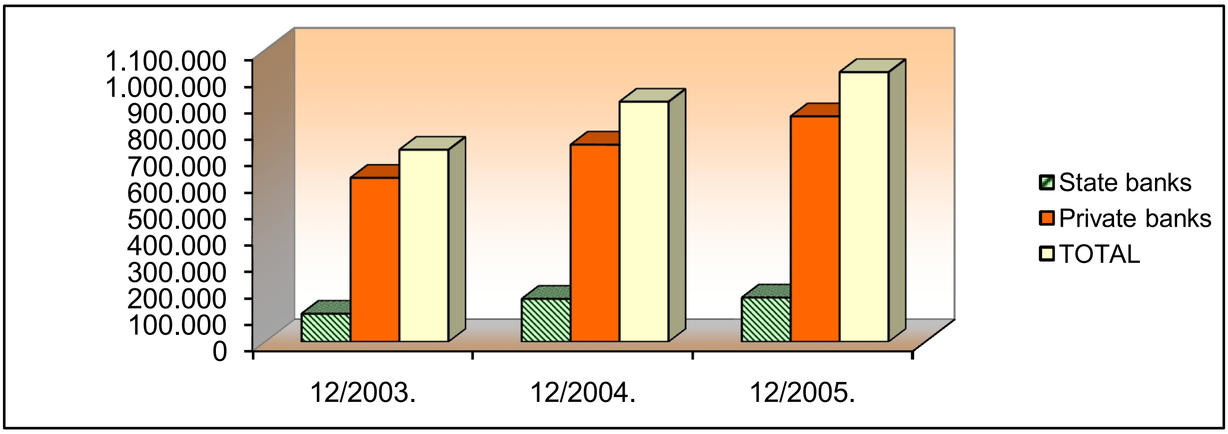
[2] Classification criteria of banks by type of ownership is ownership over share capital of banks.
[3] General overview of ownership structure of banks in the F BiH as of 12/31/05 resulted from received documentation, and registrations at authorized courts (changes in capital and shareholders structure).
[4] State ownership refers to domestic state capital of BiH.
[5] Information from balance sheet - FBA schedule: shareholders capital, premium issue, undistributed profit and reserves, and other capital (financial results of current period).

Table 1: *Ownership structure by total capital*

-in 000 KM-

BANKS	31.12.2004.		31.12.2005.		31.12.2006.		RATIO	
							3/2	4/3
1	2		3		4		5	6
State banks	161.915	18%	166.494	16%	171.919	14%	103	103
Private banks	743.495	82%	850.223	84%	1.056.174	86%	114	124
TOTAL	905.410	100%	1.016.717	100%	1.228.093	100%	112	121

Graph 1: *Review of ownership structure (total capital)*



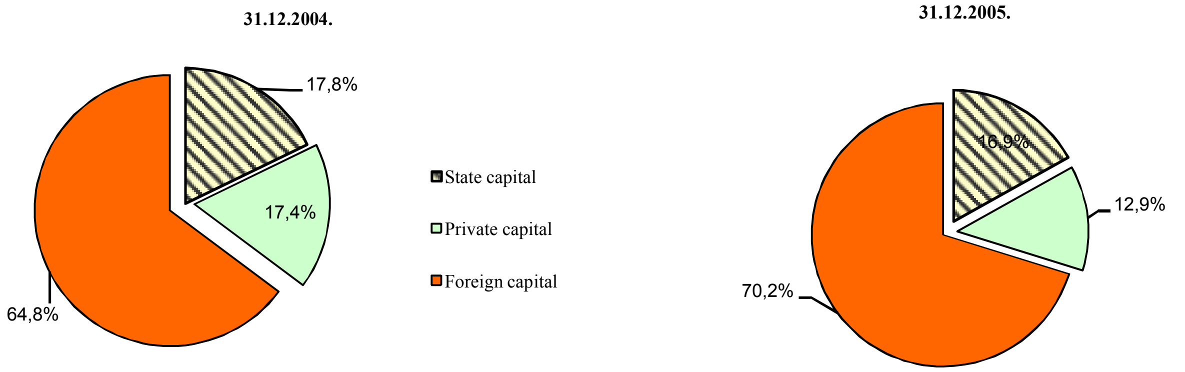
More detailed picture on ownership structure of banks in the Federation of BiH can be viewed from the analysis of participation of state, private and foreign capital in share capital of banks.

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

- in 000 KM-

SHARE CAPITAL	31.12.2004.		31.12.2005.		31.12.2006.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	5/3	7/5
1	3	4	5	6	7	8	9	10
State capital	135.350	17,8	135.344	16,9	135.019	15,2	100	100
Private capital (residents)	132.785	17,4	103.026	12,9	83.077	9,3	78	81
Foreign capital (non-residents)	493.227	64,8	561.117	70,2	670.695	75,5	114	120
TOTAL	761.362	100,0	799.487	100,0	888.791	100,0	105	111

Graph 2: *Ownership structure (share capital)*



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

As of 31.12.2006., participation of state capital in total share capital of banks was 15,2 % and it was less by 1,7% in comparison to 31. 12. 2005.

If compared to the end of 2005, participation of private capital (residents) in total share capital of the banking sector has decreased from 12,9% to 9,3%, and participation of foreign capital has increased from 70,2% to 75,5%. Increase in participation of foreign capital of 5,3% is result of the following: additional capitalization of KM 77 million[6] in six banks (in foreign ownership), a new bank was established with capital of KM 16 million (in foreign ownership), sale of residents' shares (in six banks) to foreign buyers (nonresidents) in total amount of approximately KM 23,3 million (the result in two banks was ownership structure changes and transition into banks with majority foreign capital), along with decrease of share capital in one bank (in foreign ownership) in the process of status changes in the amount of approximately KM 6,7 million.

Changes in the ownership structure have also reflected through participation, that is, market share and positioning of banks that grouped based on the criteria of majority ownership in share capital. Market share of banks with majority foreign ownership increased by 4,0% and as of 31. 12. 2006. it was 93,0%. Market share of banks with majority domestic private capital was 2,9%, which is less by 3,6% than at the end of 2005. Participation of state capital also decreased from 4,5% at the end of 2005, to 4,1% as of 31. 12. 2006.

Integration process in past period have also been focused to stronger market positioning, which resulted by concentrations in the banking sector through growing of the largest banks, decreased number of banks, and intensified competition. The changes have also happened due to the integration activities that were finalized as of 30. 06. 2006., that is, the resulting bank exists since 01. 07. 2006. In the second half of 2006, the agreement on assumption of portion of assets and liabilities by a newly established bank was finalized.

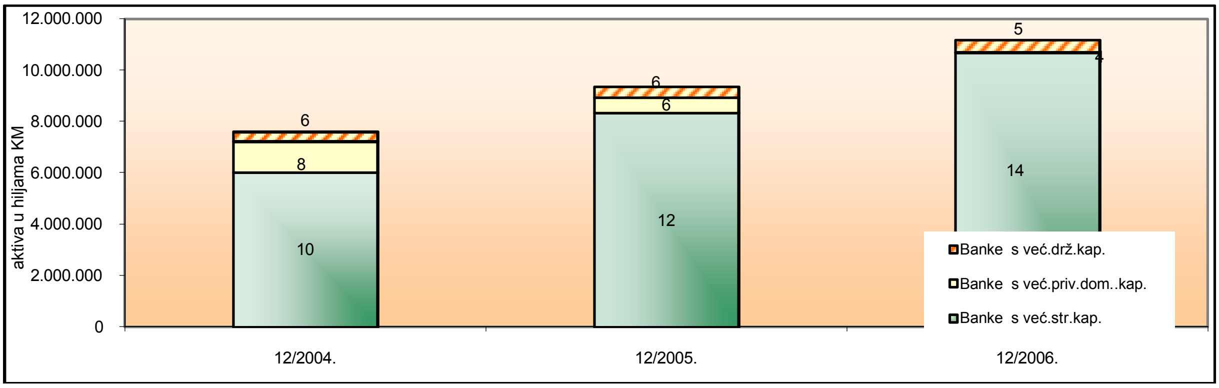
Table 3: *Market share of banks by type of ownership*[7]

- in %-

BANKE	31.12.2004.			31.12.2005.			31.12.2006.		
	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. in total assets
1	2	2	3	7	5	6	10	8	9
Banks with majority state capital	6	17,9	4,9	6	16,4	4,5	5	14,0	4,1
Banks with majority private domestic capital	8	16,9	15,8	6	8,0	6,5	4	3,7	2,9
Banks with majority foreign capital	10	65,2	79,3	12	75,6	89,0	14	82,3	93,0
TOTAL	24	100,0	100,0	24	100,0	100,0	23	100,0	100,0

6 Amount refering to nonresidents (total additional capitalization of six banks was KM 80,3 million plus surplus over the share value KM 41,1 million).
7 According to majority owned capital (participation over 50%).

Graph 3: *Market share by type of ownership*



1.3. Staff

As of 31.12.2006., there were total 6.606 employees in the banks of the Federation of BiH, of which 6% in banks with majority state capital and 94% in private banks.

Table 4: *Employees of banks in the FBiH*

BANKS	NUMBER OF EMPLOYEES						RATIO	
	31.12.2004.		31.12.2005.		31.12.2006.		3:2	4:3
1	2		3		4		5	6
State banks	490	9%	475	8%	423	6%	97	89
Private banks	5.197	91%	5.540	92%	6.183	94%	107	112
TOTAL	5.687	100%	6.015	100%	6.606	100%	106	110
Number of banks	24		24		23			

In 2006, number of employees increased by 10% or 591 employees, which is higher by 4% than the rate realized in 2005. More intensive employment of new employees in the banking industry is a result of further expansion of the business network of banks, introduction of new products and services, that is, growth and development of the entire banking sector.

Table 5 : *Qualification structure of employees*

EDUCATION	NUMBER OF EMPLOYEES						RATIO	
	31.12.2004.		31.12.2005.		31.12.2006.		4:2	6:4
1	2	3	4	5	6	7	8	9
University qualifications	2.016	35,4%	2.165	36,0%	2.408	36,5%	107	111
Two-year post secondary school qualifications	596	10,5%	642	10,7%	714	10,8%	108	111
Secondary school qualifications	2.962	52,1%	3.102	51,6%	3.391	51,3%	105	109
Other	113	2,0%	106	1,7%	93	1,4%	94	88
TOTAL	5.687	100,0%	6.015	100%	6.606	100,0%	106	110

Over longer period of time banks have been experiencing a trend of improvement in qualification structure and increased number of employees with university and two-year post secondary education, which has influenced changes in the education structure, so as of 31. 12.

2006. participation of secondary school employees was 51,3%, which is less by 0,3% than at the end of 2005.

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

Table 7: *Assets per an employee*

BANKS	31.12.2004.			31.12.2005.			31.12.2006.		
	No. of empl.	Assets (000 KM)	Assets per an empl.	No. of empl.	Assets (000 KM)	Assets per an empl.	No. of empl.	Assets (000 KM)	Assets per an empl.
State	490	373.064	766	475	422.680	890	423	475.618	1.124
Private	5.197	7.240.166	1.393	5.540	8.956.027	1.617	6.183	11.023.562	1.783
TOTAL	5.687	7.613.230	1.339	6.015	9.378.707	1.559	6.606	11.499.180	1.741

At the end of 2006, there was KM 1,74 million of assets per an employee on the level of the banking system. This indicator is somewhat better with state banks in comparison to the end of 2005, due to significant decrease of number of employees of 11% (after banking license was revoked from one state bank), but it still worst than the private banks indicator.

Table 8: *Assets per an employee by groups*

Assets (000 KM)	31.12.2004.	31.12.2005.	31.12.2006.
	Number of banks	Number of banks	Number of banks
Up to 500	7	5	5
500 to 1.000	5	7	7
1.000 to 1.500	4	3	3
1.500 to 2.000	7	3	1
Over 2.000	1	6	7
TOTAL	24	24	23

Analytical indicators of respective banks range from KM 336 thousand to KM 3,4 million of assets per employee. The indicator of eight banks is better than the one for the whole banking sector, and the indicator for four largest banks in the system exceed KM 2,2 million. And finally, we could say that conditions under which banks service their customers, both legal entities and citizens, as well as conditions under which banks finance their customers, have improved.

2. FINANCIAL INDICATORS OF BANKS' PERFORMANCE

Examination of banks based on reports is performed in the way to use the reports prescribed by the FBA and the reports of other institutions, representing database of three groups 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 get 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[8].

2.1. Balance sheet

Aggregate balance sheet of banks in the Federation of BiH, according to the balance sheets submitted as of 31. 12. 2006. amounted to KM 11,5 billion, which is higher by 23% or KM 2,1 billion in comparison to 31. 12. 2005. The same growth rate was realized in 2005, which was an increase of KM 1,8 billion in absolute amount. Based on the mentioned indicators, we can conclude that moderate and stable trend of increase of the banking system of the Federation of BiH continues.

Table 9: *Balance sheet*

DESCRIPTION	AMOUNT (in 000 KM)			RATIO	
	31.12.2004.	31.12.2005.	31.12.2006.	3/2	4/3
1	2	3	4	5	6
ASSETS:					
Cash funds	2.859.489	3.533.700	4.287.723	124	121
Securities	19.430	20.010	45.922	103	229
Placements to other banks	81.624	68.811	105.390	84	153
Loans	4.422.539	5.545.077	6.820.154	125	123
Loan loss reserves (LLR)	237.960	260.155	287.561	109	111
Loans- net value (loans minus LLR)	4.184.579	5.284.922	6.532.593	126	124

[8] 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 12/31/2005, these items amounted to KM 680 million.

Business premises and other fixed assets	299.189	306.637	341.671	103	111
Other assets	168.919	164.628	185.881	98	113
TOTAL ASSETS	**7.613.230**	**9.378.708**	**11.499.180**	**123**	**123**
LIABILITIES:					
LIABILITIES					
Deposits	5.602.238	6.864.048	8.379.322	123	122
Borrowings from other banks	3.329	2.912	2.890	87	99
Loan commitments	850.833	1.152.910	1.420.944	136	123
Other liabilities	251.420	342.121	467.931	136	134
CAPITAL					
Capital	905.410	1.016.717	1.228.093	112	121
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**7.613.230**	**9.378.708**	**11.499.180**	**123**	**123**

Table 10: *Assets of banks by ownership structure*

BANKS	31.12.2004.		31.12.2005.		31.12.2006.		RATIO	
							3/2	4/3
1	2		3		4		5	6
State banks	373.064	5%	422.680	5%	475.618	4%	113	113
Private banks	7.240.657	95%	8.956.028	95%	11.023.562	96%	124	123
TOTAL	7.613.721	100%	9.378.708	100%	11.499.180	100 %	123	123

State banks have realized the same as in prior 2005, the assets growth of 13 % or KM 53 million, while private banks have had a significant increase of the aggregate balance sheet of 23% or KM 2,1 billion. This disproportion of growth resulted by changes in the structure and decrease of state banks participation from 5% to 4%.

Growth rates of individual banks ranged from 3% to 48%. Majority of banks (11 banks) have realized moderate growth between 15% and 27%. Five banks experienced stronger growth with the rates between 33% and 48%, and remaining banks (primarily smaller banks) recorded relatively smaller growth with the rate up to 8%. Only one bank in 2006 recorded assets decrease of 6%. Out of the aggregate balance sheet growth, 68% or KM 1,4 billion refers to the four largest banks.

If the banking system is analyzed from the aspect of assets size and certain groups within this frame, changes in number of banks and participation of individual groups are the result, on one side, of decrease in number of banks (integration of two banks), and on the other side, of assets growth with majority of banks.

In 2006, the largest bank in the system continued with strong growth and increase of participation by 0,3%, so, at the end of 2006, with the assets over KM 3 billion (KM 3,1 billion) its market share was 26,9%. In Group II, number of banks (three) did not change, but their participation in total assets decreased by 0,5%. This Group still holds the highest participation of 42,1%. Majority of changes in number of banks and participation were recorded in Groups III and IV. In 2006, three banks with the assets exceeding KM 500 million have formed Group III and reached the participation of 15% at the end of 2006. The largest group of 12 banks at the end of 2005 was decreased in 2006 by four banks (due to status change of merger of one bank and three banks moved to Group III), which caused a significant decrease of their participation that at the end of 2006 was only 12%. The same as earlier, participation of banks from Group V is decreasing (from 4,1% to 4%), but the number of banks (eight) is unchanged.

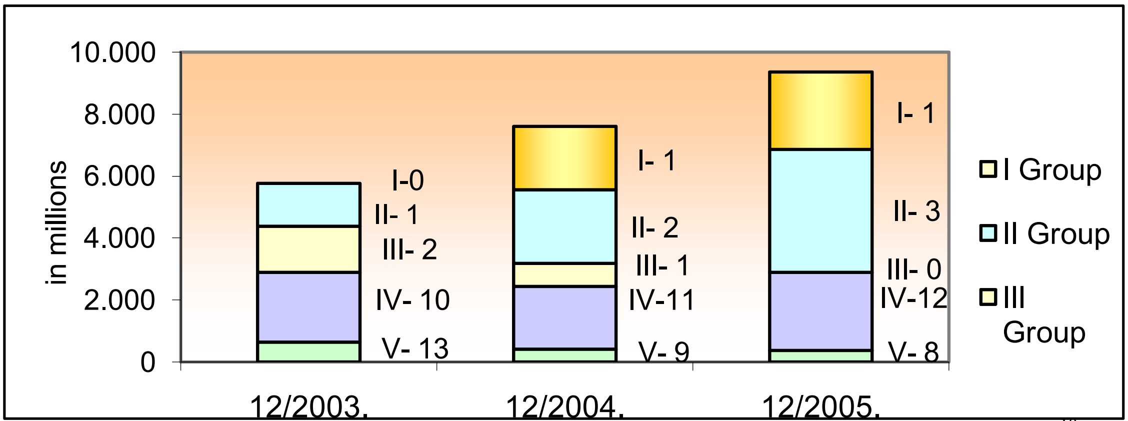
Based on the above, we can conclude that four banks in system „hold“ the shares they have reached, but the next group of banks (with the assets between KM 500 million and one billion)

is becoming more significant competitor to the largest banks in regard to market positioning, and status changes of mergers that have been announced to happen in 2007 will cause significant changes in participation of individual groups and number of banks.
The following table presents amounts and participations of individual groups of banks[9] in total assets in time line (amounts in million KM):

Table 11: *Participation of individual groups of banks in total assets through periods*

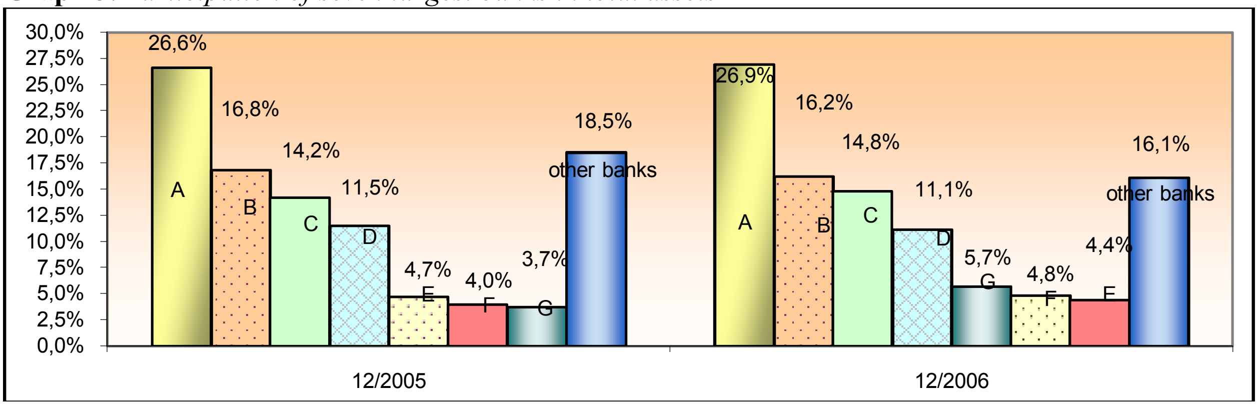
ASSETS	31.12.2004.			31.12.2005.			31.12.2006.		
	Amount	Particip %	No. of banks	Amount	Particip %	No. of banks	Amount	Particip %	No. of banks
I- Over 2.000	2.043	26,9	1	2.495	26,6	1	3.098	26,9	1
II- 1000 to 2000	2.382	31,3	2	3.996	42,6	3	4.836	42,1	3
III- 500 to 1000	741	9,7	1	0	0,0	0	1.723	15,0	3
IV- 100 to 500	2.036	26,7	11	2.504	26,7	12	1.382	12,0	8
V- Below 100	411	5,4	9	384	4,1	8	460	4,0	8
TOTAL	7.613	100,0	24	9.379	100,0	24	11.499	100,0	23

Graph 4: *Participation of individual groups of banks in total assets through periods*



The following graph shows structure and trend of participation of seven largest banks[10] in the banking system of the Federation of BiH:

Graph 5: *Participation of seven largest banks in total assets*



[9] Banks are divided into five groups, depending on the assets size.
[10] Banks are marked with letters from A to F.

As prior years, the aggregate balance sheet growth in sources has been financed by deposit growth (by 22% or KM 1,5 billion), then borrowings (by 23% or KM 268 million) and capital (by 21% or KM 211 million).

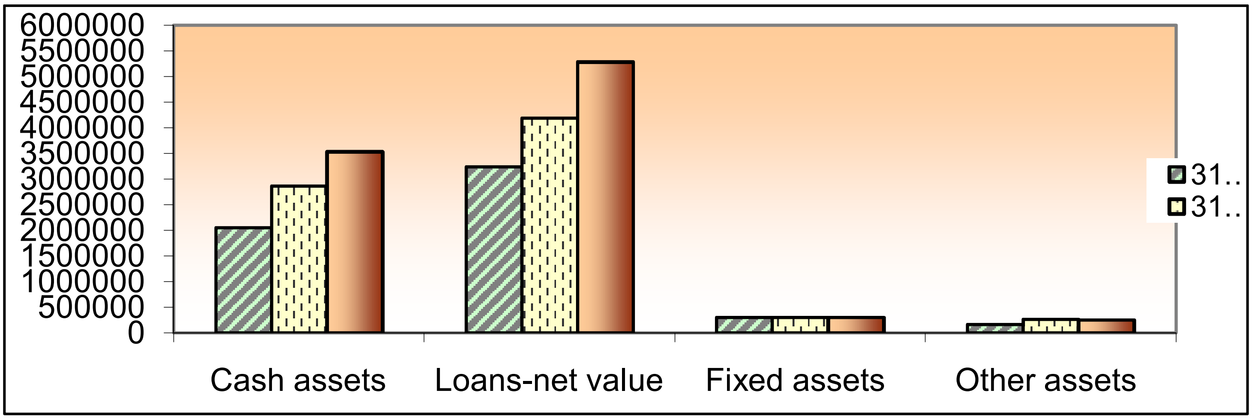
In the assets, cash funds increased by 21% or KM 754 million, and loans increased by 23% or KM 1,3 billion.

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

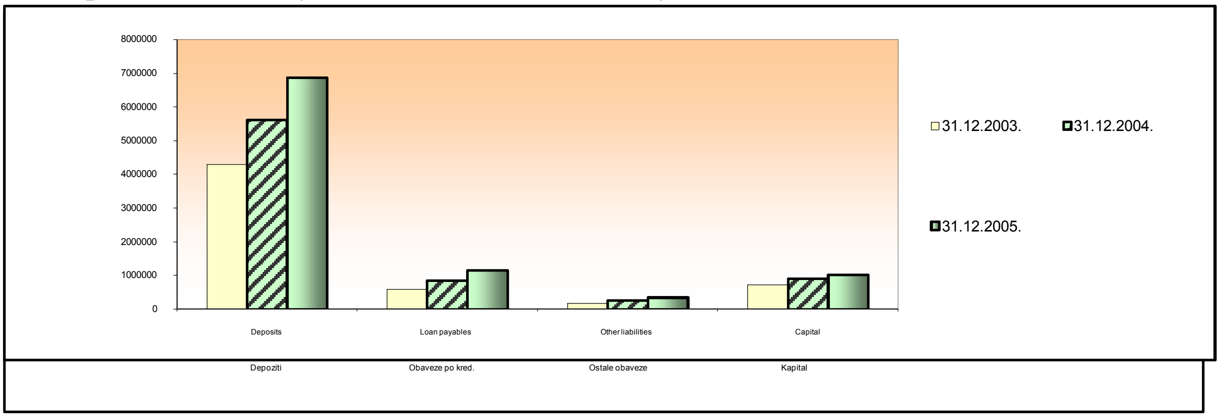
Table 12: *Structure of balance sheet of banks* - in % -

DESCRIPTION	PARTICIPATION		
	31.12.2004.	**31.12.2005.**	**31.12.2006.**
ASSETS:			
Cash funds	37,6	37,7	37,3
Securities	0,2	0,2	0,4
Placements to other banks	1,1	0,7	0,9
Loans	58,1	59,1	59,3
Loan loss reserves (LLR)	3,1	2,8	2,5
Loans- net value (loans minus LLR)	55,0	56,3	56,8
Business premises and other fixed assets	3,9	3,3	3,0
Other assets	2,2	1,8	1,6
TOTAL ASSETS	100,0	100,0	100,0
LIABILITIES:			
LIABILITIES			
Deposits	73,6	73,2	72,9
Borrowings from other banks	0,1	0,0	0,0
Loan commitments	11,2	12,3	12,3
Other liabilities	3,2	3,7	4,1
CAPITAL			
Capital	11,9	10,8	10,7
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	100,0	100,0	100,0

Graph 6: *Structure of the balance sheet assets of banks*



Graph 7: *Structure of the balance sheet liabilities of banks*



There have not been major changes in the balance sheet liabilities structure of banks from the aspect of the most significant balance sheet categories in the sources. It should, however, emphasize that after longer period of time, capital participation downfall has been stopped, which is the result of significant increase of capital in 2006 from the external sources – additional capitalization and internally through the financial result realized – profit for 2006.

The same as earlier, changes in the assets structure have continued through 2006. If compared to the end of 2005, capital participation has increased by 0,2% (from 59,1% to 59,3%), and cash funds decreased by 0,4% (from 37,7% to 37,3%).

Table 13: *Cash funds of banks*

CASH FUNDS	31.12.2004.		31.12.2005.		31.12.2006.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	215.543	7,5	231.874	6,6	241.561	5,6	108	104
Reserve accounts with CBBiH	1.177.935	41,2	1.679.194	47,5	2.258.035	52,7	143	134
Accounts with deposit institutions in BiH	47.798	1,7	24.241	0,7	21.354	0,5	51	88
Accounts with deposit institutions abroad	1.416.779	49,5	1.596.932	45,2	1.765.731	41,2	113	111
Cash funds in collection process	1.434	0,1	1.459	0,0	1.042	0,0	102	71
TOTAL	2.859.489	100,0	3.533.700	100,0	4.287.723	100,0	139	121

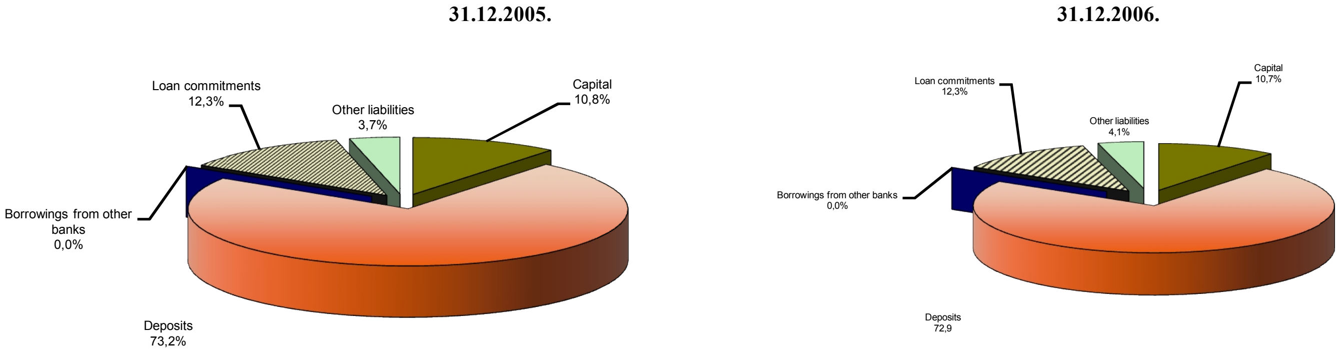
In the second half of 2006, some significant changes happened in the cash funds structure, because as of 30. 09. 2006. banks for the first time had over 50% of their own funds in the reserve account of the Central Bank of BiH, and the same trend was maintained in the last quarter. At the end of 2006, these funds amounted to KM 2,3 billion or 52,7% of total cash funds of banks, and if compared to the end of 2005 it represents an increase of 5,2%. On the accounts of deposit institutions abroad banks held KM 1,8 billion (most of it in EUR) or 41,2% of total cash funds, which is less by 4% than at the end of 2005, while the funds were nominally higher by 11% or KM 169 million. Remaining 6,1% or KM 263 million were at banks as cash in vault and tellers and with domestic banks.

From the aspect of currency structure of cash funds, the mentioned changes have influenced the funds participation in domestic and foreign currency, that is, increase of domestic currency from 52% to 56,4% and, due to the same change, decrease of funds participation in foreign currency.

2. 1. 1. Liabilities

As of 31.12.2006., structure of liabilities (liabilities and capital) in the balance sheet of banks is presented in the following graph:

Graph 8: *Liabilities structure of banks*



In the liabilities structure, deposit potential with its participation of 72,9% is still the most significant source of financing for banks in the Federation of BiH, although there is a slight trend of continuous decrease of their participation (in 2006 by 0,3%). For the last three years, credit funds have a growing significance in the sources, and at the end of 2006 their participation was 12,3%. But, contrary to 2005 when credit indebtness of banks increased by 36% or KM 302 million, lower rate of growth (23%) was recorded in 2006, and it was also smaller in the absolute amount (KM 268 million). The most important positive change in the liabilities structure is a discontinued downfall of capital participation and retention of almost the same percentage (10,7%) as at the end of 2005. That is why capital has increased, mainly in the last quarter of 2006 from the additional capitalization of several banks, and from the financial result – profit based on the banking system level for 2006 (more details in Capital Chapter).

At the end of 2006, credit commitments of banks amounted to KM 1,4 billion, and the highest commitments of banks were towards the following creditors (six out of total 55), representing 72% of total credit commitments: Raiffeisen Zentralbank Osterreich A.G. (RZB), OEWAG Wien, European fund for Southeast Europe (EFSE), Bank Polska OPIEKI, International Finance Corporation (IFC) and European Investment Bank (EIB). Analytical data of banks show that our banks have a strong financial support of the member-groups („parent bank“, shareholder or financial institution of the group). At the end of 2006, those funds amounted to approximately KM 890 million or 63% of total credit commitments, which is less by 3% than at the end of 2005. If we add subordinated loans which were granted to strengthen capital base, that is, additional capital and capital adequacy, in the amount of approximately KM 113 million, we could say that our banks still have a limited and hindered direct access to the international financial market, and they are oriented to and depend on the financial resources of their „parent banks“ and members of the group. This issue should be viewed from the aspect of a bad maturity structure of deposits and lack of good quality long-term sources, which is overcome by borrowings abroad from their "parent banks", shareholders and members of the group.

In 2006, deposits increased by 22% or KM 1,5 billion. The same as earlier, the increase primarily comes from private bank sector.

Based on information reported by banks, out of total deposits only 4,6% were deposits collected by organizational parts of the banks from the Federation of BiH operating in Republic Srpska and Brcko District as of 31.12.2006.

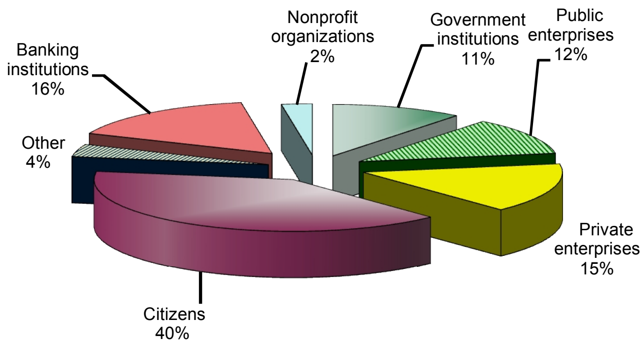
Table 14: *Deposit structure by sectors*[11]

- in 000 KM-

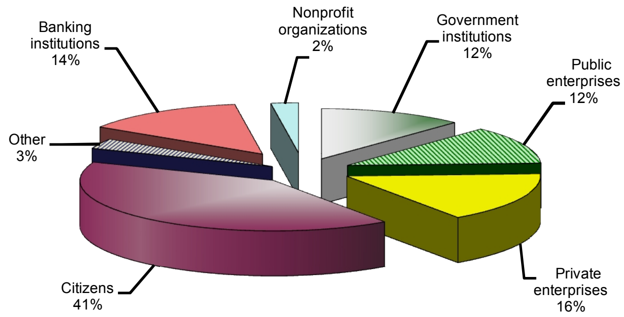
SECTORS	31.12.2004.		31.12.2005.		31.12.2006.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	599.060	10,7	733.881	10,7	1.033.902	12,3	123	141
Public enterprises	783.655	14,0	806.321	11,7	996.110	11,9	103	124
Private enterprises and assoc.	876.831	15,7	1.066.022	15,5	1.342.538	16,0	122	126
Non-profit. organizations	180.705	3,2	169.005	2,5	193.009	2,3	94	114
Banking institutions	808.112	14,4	1.102.161	16,1	1.136.450	13,6	136	103
Citizens	2.173.228	38,8	2.717.081	39,6	3.403.443	40,6	125	125
Other	180.647	3,2	269.577	3,9	273.870	3,3	149	102
TOTAL	5.602.238	100,0	6.864.048	100,0	8.379.322	100,0	123	122

Graph 9: *Deposit structure by sectors*

31.12.2005.



31.12.2006.



In 2006, analysis by sectors indicates that the highest growth rate of 41% or KM 300 million was recorded by the government institutions deposits, which is higher by 18% than in 2005. Public enterprises deposits increased by 24% or KM 190 million, and if compared to 2005 the growth rate was higher by 21%. At the end of 2006, deposits of these two sectors had almost the same participation (12%). At the end of 2006, private enterprises deposits with growth of 26% or KM 277 million had the participation of 16%, which is higher by 0,5% than in prior year. The most important sector – citizens deposits with the growth rate of 25% recorded the highest nominal growth of KM 686 million, resulting by increase of their participation by 1% (from 39,6% to 40,6%). Opposite from 2005, when the banking institutions deposits increased by 36% amounting to KM 1,1 billion, in 2006 the growth was insignificant of 3% or KM 34 million, which caused a decrease of their participation in total deposits from 16,1% to 13,6%.

In 2006, there were some changes in the currency structure of deposits, that is, participation of domestic currency deposits increased from 41,4% to 44,2% (KM 3,7 billion) and participation

[11] Information from attached form BS-D submitted by banks each quarter with balance sheet - FBA format.

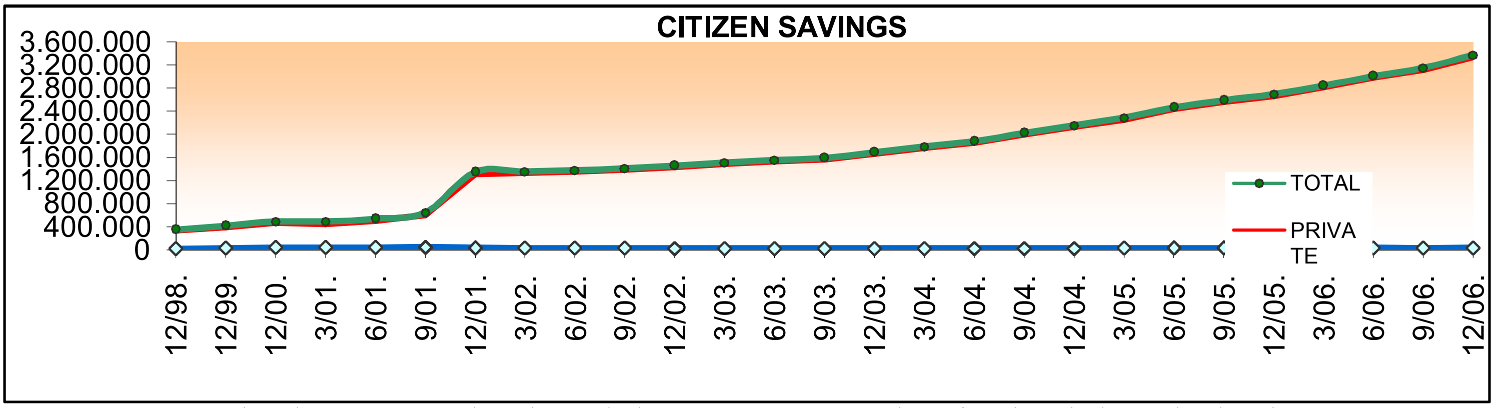
of foreign currency deposits decreased from 58,6% to 55,8% (KM 4,7 billion), with dominant participation of EUR.

In 2006, saving deposits, as the most significant segment of both deposit and financial potential of banks, continued growing in a moderate and stable way, reaching the amount of KM 3,3 billion. In 2006, savings had the same growth rate as in 2005 (25,3%), which was KM 675 million in nominal amount. Of total increase realized of 72% or KM 485 million refers to four largest banks in the system.

Table 15: New citizen savings by periods - in 000 KM-

BANKS	AMOUNT (in 000 KM)			RATIO	
	31.12.2004.	31.12.2005.	31.12.2006.	3/2	4/3
1	3	3	4	5	6
State	22.342	26.886	31.723	120	118
Private	2.105.167	2.638.391	3.308.413	125	125
TOTAL	2.127.509	2.665.277	3.340.136	125	125

Graph 10: *New citizen savings by periods*



As in other segments, there is an obvious strong concentration of savings in larger banks, since four largest banks hold 75,7% of total savings.

Out of total savings, 33% saving deposits in domestic currency and 67% are saving deposits in foreign currency.

Table 16: *Maturity structure of citizen saving deposits by periods*

BANKS	AMOUNT (in 000 KM)						RATIO	
	31.12.2004.		31.12.2005.		31.12.2006.		3/2	4/3
1	3		3		4		5	6
S-T savings deposits	1.360.285	63,9%	1.567.617	58,8%	1.851.173	55,4%	115	118
L-T savings deposits	767.224	36,1%	1.097.660	41,2%	1.488.963	44,6%	143	136
TOTAL	2.127.509	100,0%	2.665.277	100,0%	3.340.136	100,0%	125	125

Stability, safety and constant improvement of the banking sector's condition has a strong influence on this segment of banking performance, and all data indicate further increase of confidence in banks. This is especially reflected through the improvement of maturity structure of both savings and total deposits, and the emphasis should be on continuity and high level of growth rate of long term savings deposits, which caused that their participation in total savings deposits is closer to 50%.

Aside from a functional and thank effective banking supervision conducted by the FBA, deposit insurance system is also of significance for the growth of savings in banks of the FBiH, with their main goal being increase of stability of the banking, that is, financial sector and protection of savers. There is total 15 banks from the Federation of BiH accepted to the deposit insurance program, and according to the submitted data, there is total 96% of total deposits and 98% of total savings deposited in these banks. As for remaining banks, seven of them cannot apply to be accepted since they do not qualify with the criteria prescribed by the Deposit Insurance Agency: five state banks due to their ownership structure and two private banks under provisional administration, and a new bank that started operating in October 2006 gas to go through the procedure to be accepted to the insurance program.

2.1.2. Capital – strength and adequacy

As of 31.12.2006., capital[12] of banks in the FBiH amounted to KM 1.473 million.

Table 17: *Regulatory capital* -in 000 KM-

DESCRIPTION	31.12.2004.		31.12.2005.		31.12.2006.		RATIO	
							3/2	4/3
1	2		3		4		5	6
STATE BANKS								
1. Core capital before reduction	163.061		166.737		169.829		102	102
2. Offsetting items	2.607		4.200		4.401		161	105
a) Core capital (1-2)	160.454	98%	162.537	96%	165.428	94%	101	102
b) Additional capital	3.639	2%	7.107	4%	10.103	6%	195	142
c) **Capital (a + b)**	164.093	100%	169.644	100%	175.531	100%	103	103
PRIVATE BANKS								
1. Core capital before reduction	744.519		828.196		1.029.002		111	124
2. Offsetting items	88.598		98.341		104.704		111	106
a) Core capital (1-2)	655.921	75%	729.855	72%	924.298	71%	111	127
b) Additional capital	217.639	25%	290.758	28%	373.135	29%	134	128
c) Capital (a + b)	873.560	100%	1.020.613	100%	1.297.433	100%	117	127
Total								
1. Core capital before reduction	907.580		994.933		1.198.831		110	120
2. Offsetting items	91.205		102.541		109.105		112	106
a) Core capital (1-2)	816.375	79%	892.392	75%	1.089.726	74%	109	122
b) Additional capital	221.278	21%	297.865	25%	383.238	26%	135	129
c) Capital (a + b)	1.037.653	100%	1.190.257	100%	1.472.964	100%	115	124

In the observed period of 2006, capital[13] increased by 24% or KM 283 million if compared to the end of 2005, of which core capital increased by 22% or KM 197 million and additional capital by 29% or KM 85 million.

Growth of core capital is primarily due to the inflow of a new, green capital – additional capitalization of six banks. Based on this, share capital increased by KM 80,3 million, and in three additional capitalizations there was surplus over share value realized of KM 41,2 million. At the same time, in the status change of one bank, share capital decreased by KM 6,7 million. In the fourth quarter of 2006, a new bank was initiated with the foundation capital of KM 16 million.

Increase of core capital has been significantly influenced by the increase of reserves and retained – undivided profit in the amount of KM 73,4 million. Most of it refers to the

[12] Regulatory capital is defined by Article 8 and 9 in the Decision on Minimum Standards for Managing Capital

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

undivided profit for 2005 and allocation to the mentioned capital categories of KM 66,4 million. There have been some more changes in these capital categories, but these two are the most significant: decrease of KM 8,2 million[14] due to the changes in the IASs 18 and 19 with six banks and increase of KM 12,1 million with one bank after the fair value evaluation of its fixed assets.

Offsetting items (causing decrease of core capital) increased by KM 6,5 million.

Additional capital increased by a significant KM 85,3 million, due to the following changes: increase of general loan loss reserves of KM 31,2 million, increase of current audited profit (14 banks) for 2006 in the amount of KM 85 million, as well as increase of subordinated debts of KM 12,6 million, and decrease of KM 43,4 million based on transfer of profit from 2005 to core capital.

The mentioned changes influenced the structure of regulatory capital, so participation of core capital decreased from 75% to 74%, and additional capital increased from 25% to 26%.

Growth of regulatory capital of 24% was positively reflected on the net capital that in 2006 increased by the same percentage (24%) and nominal amount (KM 283 million). At the end of 2006, net capital was KM 1,4 billion (KM 1,3 billion with private banks, and KM 175 million with state banks).

Capitalization rate of banks, expressed as ratio of capital and assets, was 12,5% as of 31. 12. 2006., which is higher by 0,2% than at the end of 2005.

One of the most significant indicators of capital strength and adequacy[15] of banks is capital adequacy ratio calculated as ratio between net capital and risk weighted assets. As of 31.12.2006., this ratio at the system level was 17,6%, which is the same rate as at the end of 2005. As opposite from previous years, when the growth of risk assets was faster than the capital growth, which resulted by a downfall of the adequacy ratio, this trend in 2006 has been stopped by a stronger capital growth, that is, the same growth rate as risk assets (24%), which resulted by the same capital adequacy ratio as at the end of 2005.

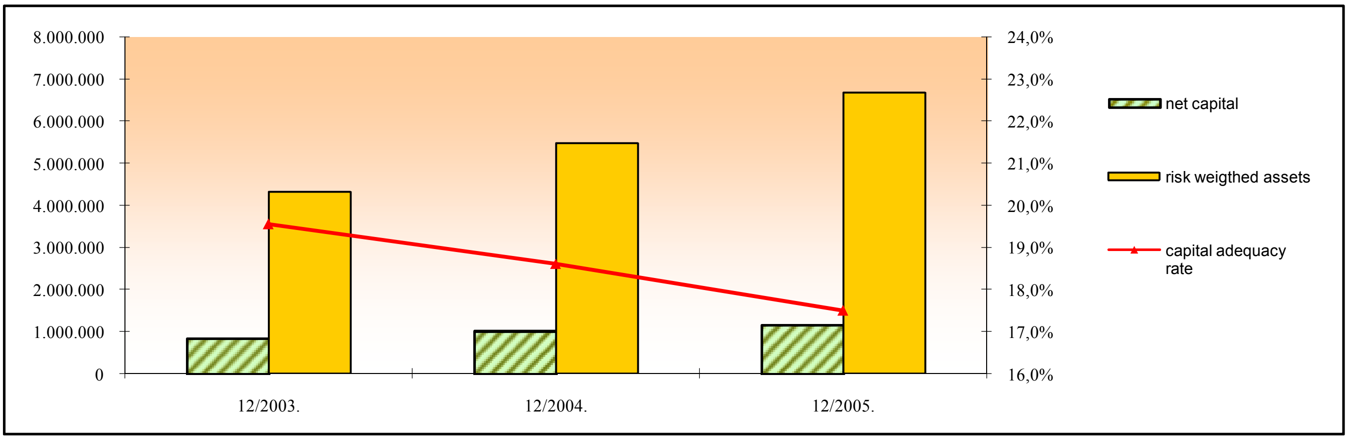
While conducting supervision of operations and financial positions of banks in the F BiH as regulated by the Law, the FBA issues orders to banks to undertake actions for strengthening of capital base and provision of adequate capital in order to strengthen safety in banks individually and in the entire banking system, according to the level and profile of existing and potential exposure to all risks relevant to the banking operation, which resulted by additional capitalizations in 2006 and improvement of the capital adequacy indicators.

[14] Capital effect based on implementation of the mentioned standards to previous years – prior to 2005.
[15] The Law prescribes minimum capital adequacy rate of 12%.

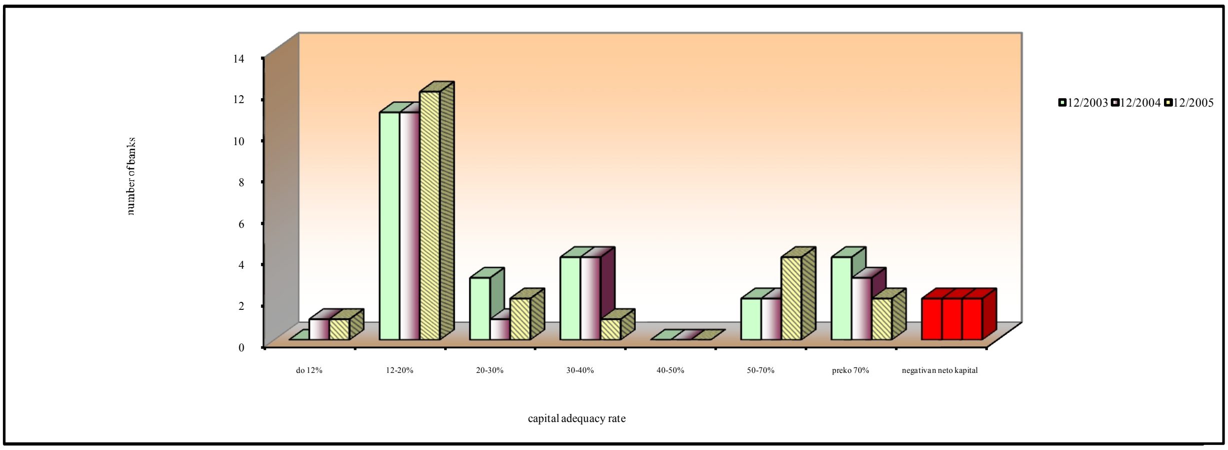
Table 18: *Net capital, risk weigthed assets and capital adequacy rate*

DESCRIPTION	31.12.2004.	31.12.2005.	31.12.2006.	RATIO	
				3/2	4/3
1	2	3	4	5	6
NET CAPITAL	1.018.626	1.173.022	1.455.728	115	124
RISK WEIGTHED ASSETS AND CREDIT EQUIVALENTS	5.472.154	6.681.510	8.281.695	122	124
NET CAPITAL RATE (CAPITAL ADEQUACY)	18,6%	17,6%	17,6%	95	100

Graph 11: Net capital, risk weighted assets and capital adequacy rate



Graph 12: *Capital adequacy rate of banks*



Of total 23 banks in the FbiH as of 31. 12. 2006., 20 banks had capital adequacy ratio higher than minimum prescribed by the law of 12%, and three banks, all under provisional administration, had capital adequacy ratio bellow 12%, that is, negative adequacy ratio..

Review of capital adequacy ratios of 20 banks in comparison to the minimum prescribed by the law of 12% is the following:

- Eight banks with the rate between 12,7% and 20%, and four largest banks from 12,7% to 16,4%,
- Seven banks with the rate between 21% and 50%,
- Two banks have rate between 51% and 70%,
- Three banks have rate higher than 70%.

Further strengthening of capital base will be priority task in majority of banks, especially in the largest banks in the system, which is necessary to strengthen stability and safety of both banks and the banking system. Following bank expansion and performing regular supervision of this segment, when acting towards banks, depending on the evaluation of their capital adequacy and risk profile, the FBA takes different corrective and supervisory measures, such as: adoption of strategy to maintain certain level of capital and plan which will provide for quantity and quality (structure) of that capital in accordance with the nature and complexity of bank's present and future business activities and undertaken and potential risk, then intensified supervision and monitoring of bank, request to supply additional capital in order to strengthen capital base, limitation and decrease of credit risk exposure with some concentrations, monitoring of capital plan implementation, especially for additional capital supplied from external resources, supervision of compliance and implementation of the ordered measures, etc.

All of the mentioned has contributed to the improvement of this segment, which is an assurance of stability and safety of the banking and overall financial system.

2.1.3. Assets and assets quality

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

Gross assets[16] of the balance sheet of banks in the FBiH, as of 31.12.2006., amounted to KM 11,8 billion, which is higher by 22% or KM 2,1 billion than at the end of 2005. Off-balance sheet risk items amounted to KM 1,8 billion and they increased by 31% or KM 436 million.

Total assets with off-balance sheet items (assets)[17] amounted to KM 13,6 billion, which is higher by 23% than at the end of 2005.

Table 19: *Assets, off-balance sheet items and potential loan losses* -in 000 KM-

DESCRIPTION	AMOUNT (in 000 KM)						RATIO	
	31.12.2004.	Struct. %	31.12.2005.	Struct. %	31.12.2006.	Struct. %	4:2	6:4
1.	2	3	4	5	6	7	8	9
Loans	4.208.295	53,5	5.326.900	55,2	6.609.302	56,0	127	124
Interests	29.856	0,4	37.531	0,4	36.237	0,3	126	97
Past due claims	209.218	2,7	214.045	2,2	206.720	1,8	102	97
Claims for paid guarantees	5.026	0,1	4.132	0,0	4.132	0,0	82	100
Other placements	40.811	0,4	23.950	0,2	47.739	0,4	59	199
Other assets	3.378.320	42,9	4.050.650	42,0	4.893.331	41,5	120	121
TOTAL ASSETS	7.871.526	100,0	9.657.208	100,0	11.797.461	100,0	123	122
OFF-BALANCE SHEET	1.046.809		1.391.183		1.826.980		133	131
ASSETS WITH OFF-BALANCE SHEET	8.918.335		11.048.391		13.624.441		124	123
RISK ASSETS WITH OFF-BALANCE SHEET	5.762.704		7.091.338		8.871.265		123	125
General loan risk and Potential loan losses	282.412		313.873		342.853		111	109
General and Special loan loss reserves already established	285.090		314.175		344.184		110	110

[16] Data source: Report on classification of balance sheet assets and off-balance sheet items of banks.
[17] Assets defined by Article 2 of Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks.

No risk items amount to KM 4,8 billion or 35% of total assets with off-balance sheet items and they increased by 20% in comparison to the end of 2005, which is primarily the result of the increase of cash funds. On the other hand, risk assets with off-balance sheet amount to KM 8,9 billion and in 2006 they increased by 25% or KM 1,8 billion.

If compared to 2005, credit placements increased by 23% or KM 1,3 billion, reaching the participation in the assets structure of 59,3%. Past due claims decreased by 3%, and their participation in the assets structure decreased from 2,3% to 1,8%.

Analytical data by banks indicate that seven banks (five under provisional administration) reported a slight decrease of credit placements (total of KM 15,6 million). Seven banks reported the growth rate of credit placements between 4% and 20%, and remaining banks realized the credit increase per relatively high rates (between 21% and 50%).

Four largest banks in the FBiH increased their credit placements by KM 944 million, which represents 74% of total increase on the banking system level, and their participation in total loans increased from 70,5% to 71,2%.

Based on the analysis of loan structure by sectors, we can see that placements to citizens increased of KM 688 million or 25%, causing increase of their participation from 50,2% to 50,9%. Placements to private companies increased by 24% or KM 584 million, and their participation increased from 44,1% to 44,4%. According to data submitted by banks as of 31.12.2006., from the aspect of citizen loan structure by purpose, the highest participation of approximately 69% had loans for financing consumer goods[18], 25% had housing loans, and remaining 6% had loans for SMEs and agriculture.

Other sectors recorded smaller changes in both nominal and relative amount.

Four largest banks in the system originated loans to citizens of 72% of total loans originated to this sector, which is less by 2% in comparison to the end of 2005, while the same indicator for the private companies sector was 72%, representing an increase of 3% in comparison to the end of 2005.
Changes in participation of individual sectors in overall structure of loans are presented in the following table:

Table 20: *Structure of loans by sectors*

-in 000 KM-

SECTORS	31.12.2004.		31.12.2005.		31.12.2006.		RATIO	
	Amount	Partic %	Amount	Partic %	Amount	Partic %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	31.810	0,7	35.513	0,6	27.084	0,4	112	76
Public enterprises	203.698	4,6	188.143	3,4	192.394	2,8	92	102
Private enterprises and assoc.	1.933.595	43,7	2.446.358	44.1	3.029.964	44,4	127	124
Non-profit organizations	3.619	0,1	9.276	0,2	18.088	0,3	256	195
Banking institutions	34.082	0,8	33.123	0,5	28.445	0,4	97	86
Citizens	2.139.699	48,4	2.784.053	50,2	3.471.829	50,9	130	125
Other	76.036	1,7	48.611	1,0	52.350	0,8	64	108
TOTAL	4.422.539	100,0	5.545.077	100,0	6.820.154	100,0	125	123

Apart from the sectorial, it is also interesting to see a currency structure of loans. The highest participation of 69% or KM 4,7 billion had loans originated with currency clause, then loans in

[18] Including card operations.

domestic currency of 25,6% or KM 1,7 billion, and the lowest participation of only 5,6% or KM 379 million had loans in foreign currency.

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[19] and off-balance sheet items are presented in the following table:

Table 21: *Assets classification, general loan risk (GLR), potential loan losses (PLL) and off-balance sheet items (assets charged off and suspended interest)*

Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in %)									RATIO	
	31.12.2004.			31.12.2005.			31.12.2006.				
	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL	5/2	8/5
1	2	3	4	5	6	7	8	9	10	11	12
A	4.725.199	82,0	94.501	5.943.367	83,8	118.864	7.519.869	84,8	150.516	126	127
B	730.737	12,7	53.633	831.403	11,7	62.512	1.069.395	12,1	78.917	114	129
C	143.586	2,5	42.104	157.310	2,2	41.915	146.015	1,6	36.339	110	93
D	162.299	2,8	91.294	159.224	2,3	90.551	135.829	1,5	76.940	98	85
E	883	0,0	880	34	0,0	31	157	0,0	141	4	462
Risk assets (A-E)	5.762.704	100,0	282.412	7.091.338	100,0	313.873	8.871.265	100,0	342.853	123	125
No risk assets[20]	3.155.631			3.957.053			4.753.176			125	120
TOTAL	8.918.335			11.048.391			13.624.441			124	123
OFF-BALANCE SHEET ITEMS											
E	343.472	83,3		385.601	87,6		409.082	89,8		112	106
Suspended interest	68.680	16,7		54.426	12,4		46.546	10,2		79	86
TOTAL	412.152	100,0		440.027	100,0		455.628	100,0		107	104

Risk assets with off-balance sheet items (A-E) amount to KM 8,9 billion and they increased by 25% or KM 1,8 billion, and no risk items to KM 4,8 billion which is higher by 20% in comparison to the end of 2005, which is primarily the result of the cash funds increase.

If we analyze the quality of risk assets, we see an increase of classified assets (B-E) by 18% or KM 203 million, especially the special mentioned placements (category B) by 29% or KM 238 million, while the poor quality assets (C-E) is lower by 11% or KM 35 million. The quality assets indicators expressed as ratio, that is, participation of individual categories in risk assets are fairly better, but further analysis indicates the essential improvement of assets quality. Ratio of classified assets and risk assets is better than as of 31.12.2005. by 1% of 15,2%, exclusively due to faster growth of risk assets (25%) than classified assets (18%). If we analyze the ratio and trend of only poor quality assets and risk assets, this ratio as of 31. 12. 2006. was 3,2%, which is relatively low ratio, and it is even better by 1,3% in comparison to the end of 2005. But, having in mind the increase of special mentioned assets (category B) by

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

[20] Assets items which are not subject, according to Article 22 Paragraph 7 of Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks, of general loan loss provision of 2%.

29 %, and participation of 12,1% in the risk assets, and doubt that portion of placements reported under this category have worst quality and should be placed under the category of poor quality assets, as well as decrease of poor quality assets primarily due to charge off (10% higher charge off than as of 31. 12 .2005.), we can make a conclusion that there is a slight trend of deterioration in assets quality. That is why it is of key importance that banks more realistically evaluate the quality of placements and establish adequate loan loss reserves, especially for the fact that these are new loans with long maturity (especially citizen loans), so the issues related to the assets quality are not timely detected, that is, they are in a way hidden through the highest increase of category B.

The analysis of analytical data by sectors is based on the indicators of loan quality grated 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 risk with the loans originated to legal entities, along with slight trend of improvement for these parameters.

As of 31.12.2006., of total loans granted to legal entities in the amount of KM 3.348 million, KM 947 million or 28,3% were classified in the categories B to E (28,2% at the end of 2005), while of total loan granted to citizens in the amount of KM 3.472 million, KM 175 million or 5% were classified in the categories B to E (6% at the end of 2005).

Decrease of poor quality loans of 9% has influenced the improvement of the loan quality indicators, which at the end of 2006 amounted to KM 204 million or 6,1% of total loans granted to this sector (KM 224 million or 8,1% as of 31. 12. 2005.). Poor quality loans granted to citizens amount to KM 69 million or 2% of total loans granted to this sector (KM 77 million or 2,8% of total citizen loans as of 31. 12 .2005.).

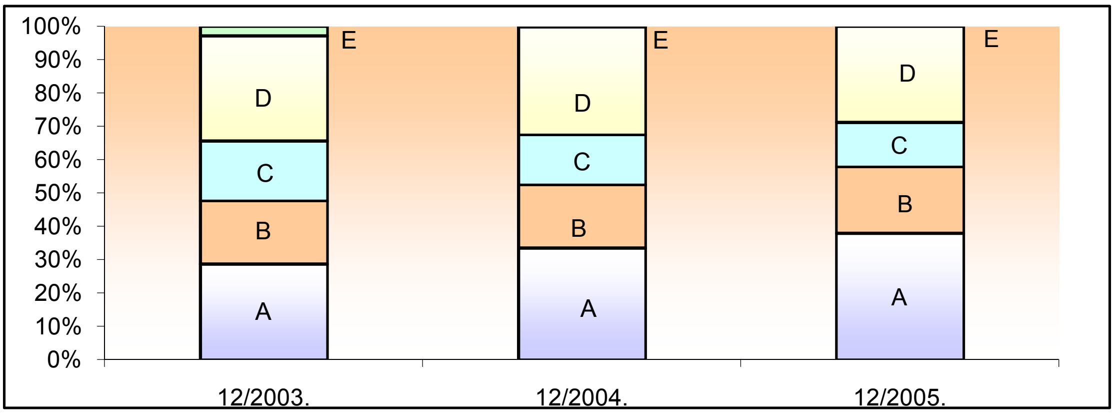
In 2006, banks charged off the balance sheet to off-balance sheet that is, charged off claims in the amount of KM 91, 6 million and suspended interest of KM 20, 7 million. In the same period, there was permanent charge off of the assets items of KM 24 million and suspended interest of KM 14,3 million. In the same period, banks were able to collect the charged off assets of KM 38,6 million and KM 12,4 million of suspended interest, which positively reflected to their profitability.

At the end of 2006, balance of the charged off assets was KM 409 million and it was higher by 6% than at the end of 2005, while the balance of suspended interest was KM 47 million and it was lower by 14% or KM 7,9 million than at the end of 2005.
Of total charged off assets, the charged off assets based on loans granted to citizens was KM 59 million or 14%, and KM 6,7 million or 14% based on suspended interest.
Level of general loan risk and potential loan losses by classification categories, as determined in accordance with the criteria and methodology prescribed by the FBA's Decisions, their trend and structure on the level of banking sector is presented in the following table and graph.

Table 22: *Structure and trend of general loan risk and potential loan losses*

Classification category	AMOUNT (in 000 KM) AND STRUCTURE (in%)						RATIO	
	31.12.2004.		31.12.2005.		31.12.2006.		4/2	6/4
1	2	3	4	5	6	7	8	9
A	94.501	33,5	118.884	37,9	150.516	44,0	126	127
B	53.633	19,0	62.517	19,9	78.917	23,0	117	126
C	42.104	14,9	41.954	13,4	36.339	10,6	100	87
D	91.294	32,3	90.465	28,8	76.940	22,4	99	85
E	880	0,3	31	0,0	141	0,0	4	455
TOTAL	282.412	100,0	313.851	100,0	342.853	100,0	111	109

Graph 13: *Structure and trend of general loan risk and potential loan losses*



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

According to the analysis of established reserves in total amount and by classification categories, if compared to the end of 2005, reserves for general loan risk and potential loan losses are higher by 9% and they amount to KM 343 million, that is, 3,9% of risk assets with off-balance sheet, which is lower by 0,5% than at the end of 2005. As of 31. 12. 2006., banks in average allocated reserves for category B 7,4%, for category C 24,9%, for category D 58% and category E 100%.

Analysis of assets quality, that is, loan portfolio of individual banks, as well as on-site examinations in banks, indicate loan risk as still dominant risk with majority of banks, and concern that some banks still have inadequate management practices, that is, evaluation, measuring, monitoring and control of loan risk and assets classification, which was determined in on-site examinations through significant amount of insufficient loan loss reserves that banks have established based on the orders issued by the FBA. However, the problem is not essentially solved.

To the banks whose assets quality based on the examination was rated poor, the FBA has ordered corrective measures 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 poor quality assets issue and prevention of their further deterioration. Implementation of the FBA's orders is continuously monitored in the follow-up procedure based on reports and other documentation submitted by banks, which are checked through targeted on-site examinations.

Transactions with related entities

While operating, banks are exposed to different types of risks, but 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[21], which is 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

[21] Article 39, Paragraph 2 of Law on Changes and Amendments to the Law on Banks defines term "entities related to a bank", excluding employees from this list.

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, which include 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 senior management and
- Subsidiaries and other enterprises related to a bank through capital

Table 23: *Transactions with related entities*

-000 KM-

Description	LOANS GRANTED			RATIO	
	31.12.2004.	31.12.2005.	31.12.2006.	3/2	4/3
1	2	3	4	5	6
Shareholders over 5% of voting rights, subsidiaries and other enterprises related to a bank through capital	40.084	28.520	21.333	71	75
Supervisory Board members	141	101	38	72	39
Bank Management and employees	2.392	2.663	1.962	111	74
TOTAL	42.617	31.284	23.333	73	75
Potential and undertaken off-balance sheet liabilities	3.235	911	1.072	28	118

The FBA pays a special attention (in on-site examinations) to banks' operations with related entities. The FBA on-site examiners issue orders for elimination of determined weaknesses within certain deadlines and initiate violation procedures, and part of the activity is also to monitor and supervise implementation of the issued orders. This has had a positive influence on this segment of operations, since the level of transactions with related entities is decreasing, causing decrease in risk exposure to those entities.

2.2. Profitability

According to the final non-audited data on financial performance of banks for 2006, banks in the Federation of BiH reported a positive financial result – profit of KM 89,8 million, which is higher by 47,8% or KM 29 million than at the end of 2005. Trend of increase in profitability of the system is a result of general trend of improvement and stabilization of the banking sector.

Financial result-profit on the system level is the result of profit realized by 19 banks in the amount of KM 96,2 million, which is higher by 10,4% or KM 9 million in comparison to 2005. and loss reported by four banks (all in provisional administration) of KM 6,4 million, which is lower by 75,8% or KM 20 million than prior year.

More detailed information is presented in the following table:

Table 24: *Financial result reported: profit/loss*

-000 KM-

Date/Description	Banking system		Private banks		State banks	
	Amount	Number of banks	Amount		Amount	Number of banks
31.12.2004.						
Loss	-12.100	6	-11.608	5	-492	1
Profit	57.316	18	53.982	13	3. 334	5
Total	45.216	24	42.374	18	2.842	6
31.12.2005.						
Loss	-26.398	5	-24.502	2	-1.896	3
Profit	87.129	19	82.893	16	4.236	3
Total	60.731	24	58.391	18	2.340	6
31.12.2006.						
Loss	-6.397	4	-4.427	2	-1.970	2
Profit	96.162	19	92.422	16	3.740	3
Total	89.765	23	87.995	18	1.770	5

Based on analytical data, as well as parameters for evaluation of profitability quality (level of realized financial result – profit / loss and ratios used for evaluation of profitability, productivity and effectiveness of performance, and other parameters related to evaluation of performance), we can conclude that improvement of the general profitability of the system comes from the overall increasing trend and stabilization of the banking sector, although the most influence to the high level of the profit realized has the financial result of a few large private banks in majority foreign ownership. Second important factor that has significantly improved the profit is a decrease of a huge loss of one bank in provisional administration by approximately KM 21 million. Sector of state banks does not have a significant influence to the overall profitability of the banking sector.

Same as other segments, concentrations are present here as well: of total profit realized only four largest banks (with the assets of 69% of the banking system's assets) realized profit of KM 75,4 million, representing 78,4% of total profit realized by 19 banks (KM 96,2 million). From the aspect of the financial result realized in 2006, 15 banks had better financial result than in 2005.

Total loss reported of KM 6,4 million was reported by two state and two private banks, all under provisional administration.

Total income realized on the system level was KM 684 million with the growth rate of 15% or KM 90 million, which is lower by 6% or KM 14 million than in 2005. On the other hand, total non-interest bearing expenses were KM 586 million with the growth rate of 11% or KM 58 million, representing a decrease of 9% or KM 27 million in comparison to the prior year, which positively reflected on the financial result of the entire sector.

If we analyze the structure of total income and changes in the most significant categories, we may conclude that the growth in 2006 was lower both in percentages and nominal amount than in 2005. Total interest income at the end of 2006 was KM 630 million, which is higher by 22% or KM 113 million than last year, but the realized growth rate was lower by 9 index points or KM 10 million than in 2005. One of the reasons for this downfall is that increase of interest income on loans (18%) in 2006 was slower than the growth of loan placements (23%). This is primarily the result of further tendency of decrease of interest rates. However, participation of interest income in the structure of total income has increased from 87,1% to 92,0%.

On the other hand, if compared to the growth rate of interest income, interest expenses recorded faster growth, that is, the rate of 32% or KM 57 million. If compared to prior year, the rate is lower by 6%, but in absolute amount interest expenses in 2006 were higher by KM 7 million. This is the result of a significant growth of interest-bearing sources (where long term sources realized faster growth) used to finance the growth of credit placements, that is, of interest bearing deposits with the growth of 25% and borrowings of 23%. Participation of interest expenses in total income has increased from 29% to 34%.

Due to faster growth of interest expenses, net interest income had a slower growth with the rate of 17% or KM 56 million, which is lower by 10% or KM 17 million than last year. With the amount of KM 396 million at the end of 2006, net interest income participated in total income with 57,9%, which is slightly better (0,7%) than at the end of 2005.

Growth of the participation of interest income in total income of banks is a positive indicator of the increasing trend and stability of earnings, since banks now realize more profit from their core activity, that is, their lending activity.

Operating income, as a second most important component of total income, has increased slower than net interest income, that is, they increased by 13% or KM 34 million, and amounted to KM 288 million at the end of 2006. Participation of operating income in the structure of total income slightly decreased in comparison to 2005 (from 42,8% to 42,4%).

The growth rate of operating income was significantly influenced by a decrease of service fee income, as a result of changes in accounting policies in the segment of methodology of treatment and recognition of income based on fees related to loans[22] (applied in all banks at the end of 2006).

Non-interest bearing expenses have realized the growth of 11% in comparison to the prior year. However, if viewed realistically, non-interest bearing expenses have increased by 15% in comparison to the prior (if we exclude a contingent-one time expense of approximately KM 18 million in other operating expense, which is why one bank reported enormous loss in 2005). Applying this principle, we can see that a realistic growth of other operating expenses is 16%.

The highest increase within non-interest bearing expenses of 12% or KM 20 million was realized in salary and contribution expenses, 38% or KM 15 million in other business and direct expenses (partially due to implementation of the IAS 19 in some banks), and 13% or KM 13 million in business premises and fixed assets expenses.

Provisioning for general loan risk and potential losses have realized growth of 9% or KM 11 million in comparison to the prior year and their participation in the structure of total income has decreased from 21,9% to 20,7%. In 2006, these expenses in banks were lower by 9% or KM 9 million, which consequently brings the issue of a realistic evaluation of assets quality and adequacy of the loan loss reserves established.

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

[22]Implementation of IAS 18-Income and IAS 39-Financial instrument: recognition and measurement.

Table 25: *Structure of total income*

- in 000 KM-

Structure of total income	31.12.2004. Amount	%	31.12.2005. Amount	%	31.12.2006. Amount	%	RATIO 4/2	RATIO 6/4
1	2	3	4	5	6	7	8	9
I Interest income and similar type of income								
Interest bearing deposit accounts with depository institutions	27.530	4,5	44.408	5,8	66.234	7,2	161	149
Loans and leasing	354.721	57,4	457.840	59,4	541.546	59,0	129	118
Other interest income	12.109	1,9	14.751	1,9	22.402	2,4	122	152
TOTAL	394.360	63,8	516.999	67,1	630.182	68,6	131	122
II Operating income								
Service fees	126.583	20,5	150.351	19,5	162.502	17,7	118	108
Foreign exchange income	26.257	4,2	30.266	3,9	32.627	3,6	115	108
Other operating income	70.121	11,5	73.397	9,5	93.048	10,1	105	127
TOTAL	222.961	36,2	254.014	32,9	288.177	31,4	114	113
TOTAL INCOME (I + II)	617.321	100,0	771.013	100,0	918.359	100,0	125	119

Graph 14: *Structure of total income*

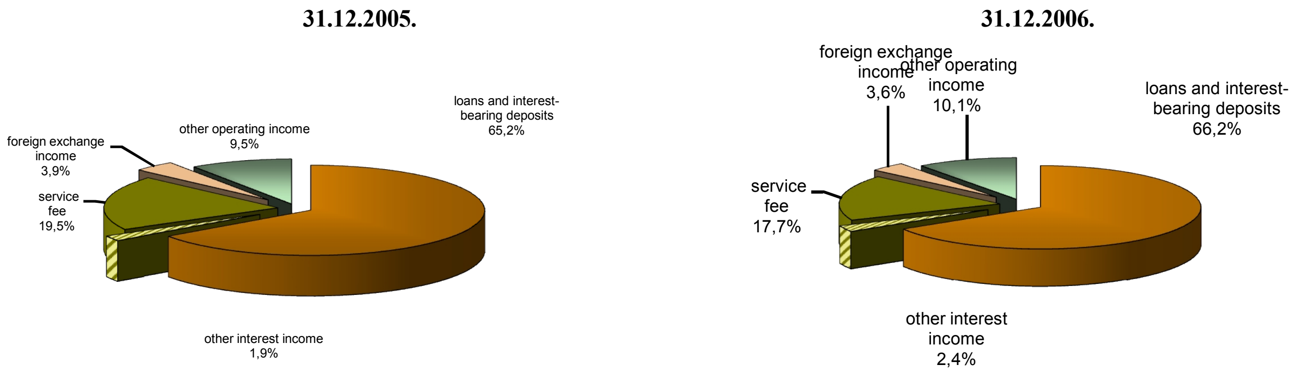


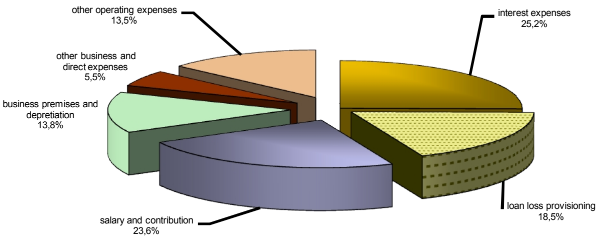
Table 26: *Structure of total expenses*

- in 000 KM-

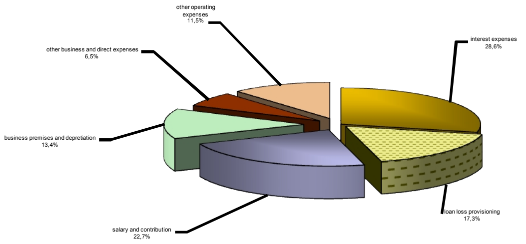
Structure of total expenses	31.12.2004. Amount	%	31.12.2005. Amount	%	31.12.2006. Amount	%	RATIO 4/2	RATIO 6/4
1	2	3	4	5	6	7	8	9
I Interest expenses and similar expenses								
Deposits	101.848	17,9	131.063	18,6	173.231	21,1	129	132
Liabilities for borrowings	22.979	4,0	40.345	5,7	53.987	6,6	176	134
Other interest expenses	2.893	0,5	6.162	0,9	7.412	0,9	213	120
TOTAL	127.720	22,4	177.570	25,2	234.630	28,6	139	132
II Total non-interest bearing expenses								
General loan risk and potential loan losses Provisioning	110.142	19,3	130.214	18,5	141.745	17,3	118	109
Salary expenses	143.631	25,2	166.621	23,6	186.157	22,7	116	112
Business premises and depreciation expenses	86.902	15,3	97.232	13,8	110.232	13,4	112	113
Other business and direct expenses	33.505	5,9	38.684	5,5	53.511	6,5	115	138
Other operating expenses	67.867	11,9	94.836	13,5	94.379	11,5	140	99
TOTAL	442.047	77,6	527.587	74,8	586.024	71,4	119	111
TOTAL EXPENSES (I + II)	569.767	100,0	705.157	100,0	820.654	100,0	124	116

Graph 15: *Structure of total expenses*

31.12.2005.



31.12.2006.



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

Table 27: *Ratios of profitability, productivity and effectiveness by periods*

-in %-

RATIOS	31.12.2004.	31.12.2005.	31.12.2006.
Return on Average Assets	0,69	0,72	0,87
Return on Average Total Capital	5,57	6,31	8,09
Return on Average Equity	6,61	7,81	10,82
Net Interest Income/Average Assets	4,08	4,05	3,85
Fee Income/Average Assets	3,41	3,03	2,80
Total Income/Average Assets	7,49	7,08	6,65
Operating and Direct Expanses[23]/Average Assets	2,20	2,01	1,90
Operating Expenses/Average Assets	4,57	4,28	3,80
Total Non-interest Expanses/Average Assets	6,76	6,29	5,70

Table 28: *Ratios of profitability, productivity and effectiveness as of 31.12.2006.*

-in %-

RATIOS	31.12. 2006.		
	STATE BANKS	PRIVATE BANKS	AVERAGE IN THE FBiH
Return on Average Assets	0,40	0,89	0,87
Return on Average Total Capital	1,06	9,33	8,09
Return on Average Equity	1,22	12,86	10,82
Net Interest Income/Average Assets	3,52	3,86	3,85
Fee Income/Average Assets	4,89	2,71	2,80
Total Income/Average Assets	8,30	6,57	6,65
Operating and Direct Expanses/Average Assets	3,02	1,85	1,90
Operating Expenses/Average Assets	4,57	3,77	3,80
Total Non-interest Expanses/Average Assets	7,58	5,62	5,70

Based on the analysis of general parameters for evaluation, we come to the two most important indicators of profitability: ROAA (Return on Average Assets) of 0,87% and ROAE (Return on Average Equity) of 10,82%, which are better in comparison to 2005.

23 Expenses include provisions for potential loan losses.

Productivity of banks, measured by ration between total income and average assets (6,65%), as well as realized net income and operating income per average assets, are slightly worst because of faster growth of average assets (23%) in comparison to the growth of net interest income (16%), due to decreasing trend of interest rates, faster growth of interest expenses, and, on the other hand, slower increase of average interest-bearing assets than average total assets.

All key financial indicators of profitability analyzed based on the ownership criteria in banks indicate that private banks operate more cost-effectively, productively and efficiently, which gives them competitive advantage if compared to state banks, emphasizing the need to finish privatization process in remaining state banks.

Profitability of banks in the coming period will depend on several factors, but the main ones are the following: assets quality, that is, exposure of banks to loan risk and consequently loan loss provisioning, then operating expenses management and control, and level and trend of off-balance sheet operations–activities which bring to banks a significant income as fees and charges and in the income structure of banking balance sheet have almost the same participation as net interest income. That is why, the key factor of effectiveness and profitability of each bank is management quality and business policy the management is following and bank development and growth strategy, since that is the most direct way to influence its performance. Apart from the mentioned, which is characterized as internal factors, we should point out that the profitability rate of the entire banking sector is strongly influenced by the environment as a macroeconomic factor, that is, condition and degree of the entire economic development, especially the real sector.

In addition, under the new market conditions, banks more adopt new concept of business policy aimed to market oriented banking in order to gain more profit, providing for bank stability and adequate management and control of all risks a bank is exposed to, and primarily credit risk. However, by entering international financial operations and market, banks will in future be more exposed to market risks: interest rate risk, foreign exchange and price risk, as well as indebtness risk, which will require further strengthening of capital base, not only from internal sources through increase of retained income from profit, but from external sources, which is at the same time a precondition for further expansion and growth of banks.

2.3. Liquidity

Liquidity risk management, along with credit risk, is one of the most compound and most important segments of banking operation. 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 trust in banking system of any country.

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.

In general, 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.

For the last three years, banks in the Federation of BiH, upon orders issued by the FBA, have implemented intensive activities in order to improve their maturity adjustment of financial assets and liabilities, which was significantly undermined in the preceding period due to credit expansion of primarily long term loans financed from the sources (deposits mostly) that did not have adequate maturity. The implemented activities and measures had positive effect on decrease of imbalance in maturity profiles of assets and liabilities, and the result was adjustment within prescribed limits.

In the structure of financing sources of banks in the Federation of BiH, the highest participation of 72,9% have deposits and borrowings of 12,4% which have longer maturity and represent good quality source for long term placements, and have significantly contributed to the maturity adjustment of assets and liabilities.

On the other hand, maturity structure of deposits is much worst, although we have trend of improvement for longer period of time. Liquidity risk is closely correlated with other risks, and in this case, it has adverse effect to the profitability of banks.

Table 29: *Maturity structure of deposits* - in 000 KM-

DEPOSITS	31.12.2004.		31.12.2005.		31.12.2006.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Particp. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Savings and demand deposits	2.663.053	47,5	3.264.937	47,5	4.074.553	48,6	123	125
Up to 3 months	389.395	7,0	408.679	6,0	295.224	3,5	105	72
Up to 1 year	490.685	8,8	541.832	7,9	745.954	8,9	110	138
1. Total S-T	3.543.133	63,3	4.215.448	61,4	5.115.731	61,0	119	121
Up to 3 years	1.367.882	24,4	1.709.665	24,9	2.212.076	26,4	125	129
Over 3 years	691.223	12,3	938.935	13,7	1.051.515	12,6	136	112
2. Total L-T	2.059.105	36,7	2.648.600	38,6	3.263.591	39,0	129	123
TOTAL (1 + 2)	5.602.238	100,0	6.864.048	100,0	8.379.322	100,0	123	122

Analyzing the maturity structure of deposits in two main groups, in comparison to 2005, we see an obvious fast growth of long-term deposits (23% or KM 615 million) in comparison to short-term deposits (21% or KM 901 million).

Within short-term deposits in comparison to 2005, the highest nominal growth of KM 810 million (growth rate of 25%) was realized in demand deposits, within which government institution deposits increased by 51% or KM 292 million, which most probably primarily comes from the growth of funds collected from VAT. Significant growth of 24% or KM 272 million was recorded in savings citizen deposits that have the highest participation in total demand deposits (34,6%). Term deposits over three months to one year had the highest growth rate of 38% or KM 204 million.

Due to faster growth of long-term deposits, there has been a change – increase of their participation in the structure of total deposits by 0,3% (short-term of 61%, and long-term of 39%). We should emphasize that there is a dominant participation of long-term deposits in two sectors: citizens of 45,8% and banking institutions of 28,7%, with citizen deposits making 58,4% of term deposits to three years, and the sector of banking institutions participate with 62,9% in term deposits over three years.

In the function of planning 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.

Table 29: *Maturity structure of loans* -in 000 KM-

LOANS	31.12.2004.		31.12.2005.		31.12.2006.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Pastdue claims and paid off-balance sheet liabilities	214.244	4,8	218.177	3,9	210.852	3,1	102	97
Short term loans	991.183	22,4	1.134.850	20,5	1.360.381	19,9	114	120
Long term loans	3.217.112	72,8	4.192.050	75,6	5.248.821	77,0	130	125
TOTAL LOANS	4.422.539	100,0	5.545.077	100,0	6.820.154	100,0	125	123

In 2006, long-term loans increased by 25% or KM 1.057 million (citizen loans make 62%), and short-term by 20% or KM 226 million (private enterprises make 87,6%), which caused some changes in their structure in total loans (participation of long term loans increased by 1,4%, that is, to 77%, by which participation of short-term loans decreased).

Sectorial analysis by maturity indicates that of total loans granted to citizens 91% make long-term loans, and with loans granted to private enterprises 63%.

In the assets structure, loans, as the most important category, still have the highest participation of 59,3%.

In 2006, banks were regularly meeting required reserves with the Central Bank of BiH.[24] Through the required reserve as the most significant instrument of monetary policy, in BiH under the environment of Currency Board and relatively financially underdeveloped market, required reserve as the most significant instrument of monetary policy is used to meet a primary monetary purpose, that is, monetary control, in sense of stopping fast credit growth from the past years and decrease multiplications. 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 keep on the reserve account with the Central Bank in domestic currency, which provides for high liquidity of individual banks and the banking sector, although that is adversely reflected on profitability of banks.

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

Table 30: *Liquidity ratios* - in % -

Ratios	31.12.2004.	31.12.2005.	31.12.2006.
1	2	3	4
Liquid assets[25] / Total assets	37,3	37,8	37,4
Liquid assets / Short term financial liabilities	60,5	63,9	62,2
Short term financial liabilities / Total financial liabilities	70,4	66,9	68,0
Loans / Deposits and borrowings[26]	68,5	69,2	69,6

[24] At the end of 2005, there were some changes in the regulations based on which the required reserve increased from 10% to 15% as of 01.12.2005.

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

[26] Empiric standards: below 70%-very sound, 71%-75%-satisfactory, 76%-80%-marginal to satisfactory, 81%-85%-insufficient, over 85%-critical.

Although in 2006 there was a slight deterioration of general liquidity indicators, primarily due to further growth of credit placements, we can still say that liquidity position of the banking system of the Federation of BiH is good, with satisfactory participation of liquid assets in total assets and coverage of short-term liabilities by liquid assets. Maturity structure of sources, primarily of deposit potential, as well as higher increase of short-term financial liabilities (deposits) has caused a slight deterioration of the structural indicator of participation of short-term liabilities in total financial liabilities, although this can be said only conditionally, since more relative indicator is ratio between short-term financial assets and short-term liabilities based on the criteria of remaining maturity. The last indicator expressed as ratio between loans and financing sources (deposits and borrowings) is also very good and it is in the level of feasible standard.

Regulatory requirements prescribed towards banks are quite restrictive, which resulted in good liquidity of banks individually and the entire banking system. All banks continuously meet prescribed minimum over the average, requirement of ten-day average of 20% in relation to short-term sources, and daily minimum of 10% according to the same basis, which is presented in the following table.

Table 32: *Liquidity position –ten-day average and daily minimum*

Description	31.12.2004.	31.12.2005.	31.12.2006.	RATIO	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6
1. Average daily balance of cash assets	2.502.469	2.687.043	3.478.292	107	129
2. Minimum total daily balance of cash assets	2.305.200	2.371.336	3.201.670	103	135
3. Short term sources (accrual basis)	3.598.348	4.165.268	5.135.086	116	123
4.Liabilities:					
4.1. ten-day average 20% of Item 3	719.670	833.054	1.027.017	116	123
4.2. daily minimum 10% of Item 3	359.835	416.527	513.509	116	123
5.Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	1.782.799	1.853.989	2.451.275	104	132
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	1.945.365	1.954.809	2.688.161	100	138

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.

Table 33: *Maturity adjustment of financial assets and liabilities up to 180 days*

Description	31.12.2004. Amount	31.12.2005. Amount	31.12.2006. Amount	RATIO 3/2	RATIO 4/3
1	2	3	4	5	6
I. 1- 30 days					
1. Financial assets	3.357.819	4.051.257	5.111.825	121	126
2. Financial liabilities	3.121.488	3.668.868	4.622.017	118	126
3. Difference (+ or -) = 1-2	236.331	382.389	489.808	162	128
Accrual of requirement in %					
a) Performed %= Item 1 / Item 2	107,6%	110,4%	110,60%		
b) Required minimum %	100,0%	100,0%	100,00%		
Surplus (+) or shortage (-) = a - b	7,6%	10,4%	10,60%		
II. 1-90 days					
1. Financial assets	3.723.961	4.559.015	5.622.934	123	123
2. Financial liabilities	3.496.272	4.150.956	5.104.149	119	123
3. Difference (+ or -) = 1-2	227.689	408.059	518.785	179	127
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	106,5%	109,8%	110,20%		
b) Required minimum %	100,0%	100,0%	100,00%		
Surplus (+) or shortage (-) = a - b	6,5%	9,8%	10,20%		
II. 1-180 days					
1. Financial assets	4.188.159	5.091.381	6.246.116	122	123
2. Financial liabilities	3.877.037	4.598.836	5.661.218	119	123
3. Difference (+ or -) = 1-2	311.122	492.545	584.898	158	119
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	108,0%	110,7%	110,3%		
b) Required minimum %	95,0%	95,0%	95,0%		
Surplus (+) or shortage (-) = a - b	13,0%	15,7%	15,30%		

From this schedule we can conclude that banks as of 31. 12. 2006. were in compliance with the prescribed limits and realized better maturity compliance between financial assets and liabilities in relation to the prescribed limits and in comparison to 2005.

Liquidity of the banking system of the Federation of BiH, based on the presented indicators, is high, which is a result of existing restrictive regulation. Since this segment of performance and level of liquidity risk exposure is in correlation with credit risk, and having in mind increasing trend and level of credit risk, banks will in future have to pay more attention to liquidity risk management through establishment and implementation of 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 examination in banks monitor how banks manage this risk and if they acted in accordance with the adopted policies and programs.

2.4. Foreign exchange risk – foreign currency adjustment of balance sheet assets and liabilities and off-balance sheet

While operating 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 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 – total foreign currency position of bank.

In order to enable 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 issued Decision on Minimum Standards for Foreign Exchange Risk Management in Banks that regulates minimum standards for adoption and implementation of programs, policies and procedures for undertaking, monitoring, control and management of foreign exchange risk.

Imbalance (difference) between the items relating to individual foreign currency in assets and liabilities of balance sheet and off-balance sheet represents an open foreign currency position (long or short), which can vary only within the minimum limits prescribed and calculated in relation to the amount of bank's core capital.[27]

Banks daily report to the FBA as part of the monitoring of prescribed limits. 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 those limits.

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

According to the balance as of 31. 12. 2006., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 20,8% or KM 2,4 billion (at the end of 2005, 26,5% or KM 2,48 billion). On the other hand, currency structure of liabilities is significantly different, since participation of liabilities in foreign currency was significantly higher of 53,5% or KM 6,2 billion (at the end of 2005, 55,7% or KM 5,2 billion).

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

The following table presents structure and trend of financial assets and liabilities and foreign currency position for EURO as the most significant currency[28] and total:

Table 33: *Foreign currency adjustment of financial assets and liabilities (EUR and total)*

-in million KM-

Description	31.12.2005.				31.12.2006.				RATIO	
	EURO		TOTAL		EURO		TOTAL		EURO	TOTAL
	Amount	Partic %	Amount	Partic %	Amount	Partic. %	Amount	Partic %	Amount	Partic %
1	2	3	4	5	6	7	8	9	10	11
I. Financial assets										
1. Cash assets	1.217	23,8	1.706	30,0	1.335	21,5	1.876	27,2	110	110
2. Loans	598	11,7	653	11,5	325	5,2	376	5,5	54	58
3.Loans with currency clause	3.198	62,5	3.203	56,3	4.434	71,4	4.507	65,3	139	141
4. Other	105	2,0	124	2,2	117	1,9	138	2,0	111	111
Total (1+2+3+4)	5.118	100,0	5.686	100,0	6.211	100,0	6.897	100,0	121	121
II. Financial liabilities										
1. Deposits	3.447	70,9	3.956	73,1	3.951	68,5	4.576	71,1	115	116
2. Borrowings	1.052	21,7	1.093	20,1	1.327	23,0	1.362	21,1	126	125
3.Deposits and loans with currency clause	190	3,9	190	3,5	284	4,9	284	4,4	149	149
4.Other	170	3,5	176	3,3	208	3,6	218	3,4	122	124
Total (1+2+3+4)	4.859	100,0	5.415	100,0	5.770	100,0	6.440	100,0	119	119
III. Off-balance sheet										
1.Assets	11		13		16		20		145	154
2.Liabilities	196		197		377		380		192	193
IV.Position										
Long (amount)	74		86		79		97			
%	8,2%		9,6%		7,30%		8,9%			
Short										
%										
Limit	30%		30%		30%		30%			
Below limit	21,8%		20,4%		22,7%		21,10%			

If we analyze the structure of foreign currencies, we see a dominant participation of EUR in the financial assets[29], which was decreased in 2006 by 3 index points, amounting to 74% or KM 1,8 billion (at the end of 2005, 77% or KM 1,9 billion), while remaining the same in liabilities at the end of 2005 (89%), although there was increase from KM 4,7 billion to KM to KM 5,5 billion.

However, the calculation of the FX risk exposure also includes the amount of indexed assets items (loans) and liabilities[30], which is especially important in assets[31]. Of total financial assets, loans contracted with currency clause make the highest portion (65,3% or KM 4,5 billion), while other foreign currency items make 34,7% or KM 2,4 billion, with the items in EUR of 25,8% or KM 1,8 billion, and other currencies of 8,9% or KM 0,6 billion (at the end of 2005, loans contracted with currency clause were KM 3,2 billion with participation of 56%,

[28] Source: Form 5-Foreign currency position.

[29] 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).

[30] 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).

[31]Financial assets which include the items in foreign currency denominated in KM and loans with currency clause.

and other items in EUR of 34% or KM 1,9 billion). Of total net loans, 69% were contracted with currency clause, mainly in EUR.

On the other hand, the structure of financial liabilities stipulates and determines the structure of financial assets, for each currency respectively. The highest participation in the liabilities of 85% or KM 5,5 billion had items in EUR (deposits primarily), while participation and amount of indexed liabilities was at minimum of KM 4,4% or KM 284 thousand (at the end of 2005, participation of liabilities in EUR was 86% or KM 4,7 billion, and indexed liabilities were 3,5% or KM 190 thousand). It should be emphasized that in 2006, there has been slower trend of increase of foreign currency deposits and loans as source of foreign currency placements.

Observed by banks and total on the level of the banking system of the FBiH, we can conclude that in 2006 banks were exposed to FX risk within prescribed limits, and in comparison to 2005, it has been improved, as contributed, among many things, by increase of core capital of 22%, as a parameter against which compliance of foreign currency position is calculated.

As of 31.12.2006., there were 18 banks with long foreign currency position, and 5 banks with short position, so on the system level long foreign currency position represented 8,9% of core capital of banks, which is lower by 21,1% than the limit. Individual foreign currency position for EUR was 7,3% where financial assets items were higher than financial liabilities (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.

IV. CONCLUSION

Consolidation and stabilization of banking sector of the Federation of BiH have reached an enviable level and upcoming activities should provide further progress and development of the system. This implies a continuous engagement of all parts of the system, legislative and executive authorities in order to provide for the most favorable environment in economy, which would be stimulating to banks and to the economy.

In other to meet such goals, it is necessary to have further involvement of authorized institutions and bodies in Bosnia and Herzegovina and the Federation of BiH in order to:

- Realize the conclusion made by the Federation of BiH Parliament to establish banking supervision on state level;
- Finalize privatization process of two state banks;
- Initiate acceleration of the appointment process for the FBA Managing Board and management members;
- Define and build on regulation for financial sector related to the activity, status and performance of micro-credit organizations, insurance companies, transition of Investment Bank of the Federation of BiH d.d. Sarajevo into Development Bank, leasing companies, etc.;

- Accelerate implementation of economic reform in the real sector in order to reach the level of monetary and banking sector;
- Based on a documented material, specialized and professionally processed in the Banks Association of BiH, and through the Ministry of Finance of the Federation of BiH, it is necessary to accelerate the activities in order to:
  - Continuously build up legal regulation for banking sector and financial system based on Basle Principles and 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.

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

- Proceed with a continues supervision of banks through on-site and off-site examinations, emphasizing targeted examination of dominant risk segments of banking operations, which will make supervision more effective and in that regard to:
  - Continue systematic monitoring of banks' activities in prevention of money laundering and terrorism financing and improve cooperation with other supervisory and examination institutions,
  - Persist on capital strengthening of banks, especially those recording outstanding assets growth,
  - Continue permanent monitoring of banks with the highest concentration of savings and other deposits in order to protect depositors,
  - Continue working on development of regulation based on the Basle Principles and European Directives as part of preparation to join the European Union,
  - Maintain continuity in payment system examinations,
  - 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, etc.,
- Continuous operational development of the new IT system for early warning and prevention in elimination of weaknesses in banks,
- Work on continuous education and training of staff,
- Finalize remaining provisional administrations and liquidations based on the conclusion made by the Managing Board as of 29. 03. 2006.

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

- Further capital strengthening, proportional to the growth of assets and risk, higher profitability, solvency, 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 establish internal audits, which will be fully independent in their work,
- Constant improvement of cooperation with the Banks Association in the area of professional development, change all laws and regulations which have become a limiting

factor in bank development, introduction of new products, collection of claims and active involvement in the establishment of unified registry of irregular debtors – legal entities and individuals;
- Regular and updated submission of data to the Central Loan Registry and Unified Central Account Registry with the Central Bank of BiH.

ATTACHMENTS

PRILOG 1

Banke u Federaciji Bosne i Hercegovine - 31.12.2006.

Br.	*BANKA*	*Adresa*		*Telefon*	*Direktor*	*Vlasništvo*
1	ABS BANKA dd - SARAJEVO	Sarajevo	Trampina 12/VI	277-060, 277-061	ZUKIĆ ADNAN	privatna
2	BOSNA BANK INTERNATIONAL dd - SARAJEVO	Sarajevo	Trg djece Sarajeva bb	275-130	AMER BUKVIĆ	privatna
3	BOR BANKA dd - SARAJEVO	Sarajevo	Obala Kulina bana 18	663-500, 472-487	HAMID PRŠEŠ	većinski državna
4	HERCEGOVAČKA BANKA dd MOSTAR	Mostar	Kneza Domagoja bb.	036/320-555,324-346,	Privr.upravitelj - Stjepan Jovičić - 19.12.2006.	privatna
5	HVB CENTRAL PROFIT BANKA d.d. - SARAJEVO	Sarajevo	Zelenih beretki 24	533-433; 533-688, 531-006,	ALEXANDER ZSOLNAI	privatna
6	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	036/444-444, 444-445, 444-400	PETAR JURČIĆ	privatna
7	INVESTICIJSKA BANKA FEDERACIJE BIH	Sarajevo	Paromlinska bb	230-390; 277-900; 277-902	privr.upravitelj - Miralem Babajić - 14.06.2006.	državna
8	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032 / 401-915, 401-850	ENIS CRNALIĆ	privatna
9	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Ibrahima Mržljaka 3.	037/772-416, 771-654, 771-253	HASAN PORČIĆ	privatna
10	LT GOSPODARSKA BANKA dd - SARAJEVO	Sarajevo	Ferhadija 11	667-688; 670-660, 444-605	DRAGO BILANDŽIJA	privatna
11	NLB TUZLANSKA BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/251-200, 251-576, 251-197,	ALMIR ŠAHINPAŠIĆ	privatna
12	POŠTANSKA BANKA BiH dd - SARAJEVO	Sarajevo	Branilaca Sarajeva 20/XI	212-993, 210-007	Privr.upravitelj - Ćamil Klepo - 16.10.2006.	državna
13	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	277-700, 277-707, 277-718	Privr.upravitelj - Maruf Burnazović - 17.07.2006.	privatna
14	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Emerika Bluma 8.	250-950, 232-172; 232-173	PETER MOELDERS	privatna
15	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Danijela Ozme 3	440-272; 442-964; 214-900;	EDIN MUFTIĆ	privatna
16	TURKISH ZIRAAT BANK BOSNIA dd - SARAJEVO	Sarajevo	Ferhadija 29	440-040, 440-062, 440-573	OZNUR OZENIS	privatna
17	UNA BANKA dd - BIHAĆ	Bihać	Bosanska 25	037 / 322-400, 322-402	Privr.upravitelj - Stjepan Blagović - 01.05.2005.	državna
18	UNICREDIT ZAGREBAČKA BANKA dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112,312-121,312-167,	BERISLAV KUTLE	privatna
19	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	219-471, 219-472, 219-473	ESAD BEKTEŠEVIĆ	državna
20	UPI BANKA dd - SARAJEVO	Sarajevo	Obala Kulina bana 9a.	497-500, 497-555, 497-572(fax)	MIRSAD LETIĆ	privatna
21	VAKUFSKA BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	280-102	AMIR RIZVANOVIĆ	privatna
22	VABA BANKA d.d. - SARAJEVO	Sarajevo	Kolodvorska 5.	033/205-264; fax: 033/656-316	STJEPAN KOLOVRAT	privatna
23	VOLKSBANK BH dd - SARAJEVO	Sarajevo	Fra Anđela Zvizdovića 1	295-601, 295-600, 295-603	REINHOLD KOLLAND	privatna

ATTACHMENT

	Banks in the Federation of Bosnia and Herzegovina - 31.03.2007.				
	BANK	***Address***		***Telephone***	***Director***
1	ABS BANKA dd - SARAJEVO	Sarajevo	Trampina 12/VI	033/277-060, fax:667-674	ZUKIĆ ADNAN
2	BOSNA BANK INTERNATIONAL dd - SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:472-159	AMER BUKVIĆ
3	BOR BANKA dd - SARAJEVO	Sarajevo	Obala Kulina bana 18	033/663-500, fax:278-550	HAMID PRŠEŠ
4	HERCEGOVAČKA BANKA dd MOSTAR	Mostar	Kneza Domagoja bb.	036/332-901, fax:332-908	Prov.Admin. - Stjepan Jovičić - 19.12.2006.
5	HVB CENTRAL PROFIT BANKA d.d. - SARAJEVO	Sarajevo	Zelenih beretki 24	033/533-688, fax:532-319	ALEXANDER ZSOLNAI
6	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	036/444-200, fax:444-235	PETAR JURČIĆ
7	INVESTICIJSKA BANKA FEDERACIJE BIH	Sarajevo	Paromlinska bb	033/277-900, fax:668-952	RAMIZ DŽAFEROVIĆ
8	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENIC	Zenica	Trg B&H 1	032/401-804, fax:246-187	ENIS CRNALIĆ
9	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Ibrahima Mržljaka 3.	037/771-253, fax:772-416	HASAN PORČIĆ
10	LT GOSPODARSKA BANKA dd - SARAJEVO	Sarajevo	Ferhadija 11	033/444-605, fax:665-457	DRAGO BILANDŽIJA
11	NLB TUZLANSKA BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/259-259, fax:250-596	ALMIR ŠAHINPAŠIĆ
12	POŠTANSKA BANKA BiH - SARAJEVO	Sarajevo	Branilaca Sarajeva 20/XI	033/212-993, fax:210-007	Prov.Admin. - Ćamil Klepo - 16.10.2006.
13	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:277-798	Priv.Admin. - Maruf Burnazović - 17.07.2006.
14	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Emerika Bluma 8.	033/250-950, fax:250-971	PETER MÖLDERS
15	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Danijela Ozme 3	033/287-100, fax: 213-851	MICHAEL MÜLLER
16	TURKISH ZIRAAT BANK BOSNIA dd - SARAJEVO	Sarajevo	Ferhadija 29	033/254-050, fax: 254-051	KENAN BOZKURT
17	UNA BANKA dd - BIHAĆ	Bihać	Bosanska 25	037/322-400, fax: 322-331	Prov.Admin. - Stjepan Blagović - 01.05.2005.
18	UNICREDIT ZAGREBAČKA BANKA dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-121, fax:312-123	BERISLAV KUTLE
19	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	ESAD BEKTEŠEVIĆ
20	UPI BANKA dd - SARAJEVO	Sarajevo	Obala Kulina bana 9a.	033/497-555, fax:497-589	ALMIR KRKALIĆ
21	VAKUFSKA BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	AMIR RIZVANOVIĆ
22	VABA BANKA d.d. - SARAJEVO	Sarajevo	Kolodvorska 5.	033/251-620; fax: 205-257	ISMET KUMALIĆ
23	VOLKSBANK BH dd - SARAJEVO	Sarajevo	Fra Anđela Zvizdovića 1	033/295-601, fax:295-603	REINHOLD KOLLAND

ATTACHMENT 2

CORE (BASLE) PRINCIPLES FOR EFFECTIVE BANK SUPERVISION AND THEIR IMPLEMENTATION IN THE FEDERATION OF BiH

Preconditions for Effective Supervision

Principle 1: *An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks. Each such agency should possess operational independence and adequate resources. A suitable legal framework for banking supervision is also necessary, including provisions relating to authorization of banking establishments and their ongoing supervision; powers to address compliance with laws as well as safety and soundness concerns; and legal protection for supervisors. Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.*

Implementation: BiH have been adjusted and implemented to this principle. Supervision has clearly defined role and duties. Regulatory framework provides existence of an independent and a self-financing Agency. Complete compliance to the Basle Principles has been achieved during 2002, when the High Representative have passed the Law on Changes and Amendments to the Law on Banking Agency of Federation of BiH, which had regulated "limited immunity" of the FBA, of FBA's Managing Board and its staff. At the beginning of 2003, the implementation of Changes and Amendments to the Law on Banks (adopted in August 2002) including complete regulations prepared and passed by the Agency, in accordance with Basle Principles and European Directives, has been initiated.

Licensing and Ownership Structures

Principle 2: *The permissible activities of institutions that are licensed and subject to supervision as banks must be clearly defined, and the use of the word "bank" in names should be controlled as far as possible.*

Implementation: Activities of banks and limitation to definition of the word "bank" have been defined by the Law on Banks which is completely complied with this principle.

Principle 3: *The licensing authority must have the right to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the banking organization's ownership structure, directors and senior management, its operating plan and internal controls, and its projected financial condition, including its capital base; where the proposed owner or parent organization is a foreign bank, the prior consent of its home country supervisor should be obtained.*

Implementation: As the Law on Banks regulates, the FBA is authorized to establish criteria and reject applications for inception of banks. The Banking Agency of the Federation of Bosnia and Herzegovina has passed Guidelines for Licensing and Other Approvals of the Agency. The Guidelines are completely complied with this Principle and it is consistently applied.

Principle 4: *Banking supervisors must have the authority to review and reject any proposals to transfer significant ownership or controlling interests in existing banks to other (new) parties.*

Implementation: In the banking sector of F BiH, this Principle is completely met and implemented. By the law, significant ownership participation in a bank over 10, 33, 50 and 66.7% cannot be attained or increased without approval of the FBA, which has sufficient authorization and instituted procedures necessary to implement the Law and this principle, and that is regulated with special Guidelines stringently applied.

Principle 5: *Banking supervisors must have the authority to establish the criteria for reviewing major acquisitions or investments by a bank and ensuring that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.*

Implementation: This Principle is developed based on the Law on Banks and Decisions of the FBA, and the regulations and practice are complied with it.

Prudential and Safety Regulations and Requirements

Principle 6: *Banking Supervisors must set minimum capital adequacy requirements for banks that reflect the risks that the bank undertakes, and must define the components of capital, bearing in mind its ability to absorb losses. For internationally active banks, these requirements must not be less than those established in the Basle Capital Accord and its amendments..*

Implementation: The Law and the Decision on Minimum Standards for Capital Management in Banks defines components and methods of capital management. The requirements are complied with the Basle Principles and appropriate European Directives, but as for other market risks, interest rate and price risks have to be further developed. Within the market risks, special attention has been paid to compliance of foreign exchange risk. Activities for development of the regulation are ongoing in order to reach the compliance of the entire principle.

Principle 7: *As essential part of any supervisory system is the independent evaluation of a bank's policies, practices, and procedures related to the granting of loans and making of investments and the ongoing management of the loan and investment portfolio.*

Implementation: Starting from collateral and key element, the Decision on Minimum Standards for Credit Risk Management and Assets Classification and Decision on Minimum Standards for Internal and External Audit Systems, passed by the FBA, are the most complex regulations with detailed classification of assets. By these decisions, banks have to conduct audit of all risk areas. But, we have noticed that in some banks independent auditors are not independent (they are influenced by members of Supervisory Boards and management of banks) so in few cases banks have good policies, but they do not act upon them. It happens that external audit firms do not perform their job properly. Although there are good regulatory frameworks for evaluation of credit and investment risk, the problem is in the application of those regulations. Therefore, it is possible to say that practices are largely complied with Principle 7. The FBA will monitor operation of internal and external audits, and if necessary, apply corrective actions.

Principle 8: *Banking supervisors must be satisfied that banks establish and adhere to adequate policies, practices, and procedures for evaluating the quality of assets and the adequacy of loan loss provisions and reserves.*

Implementation: The regulatory frameworks for adequacy of policies, practices and procedures in banks have been complied with the Principle. The problem is in the realization: banks are not always following laws and decisions. The FBA have implemented aggressive application of authorizations and corrective actions in this area and resulted in significant improvement in this area. The FBA will continue to implement those actions until the principle is complied completely.

Principle 9: *Banking supervisors must be satisfied that banks have a management information system that enables management to identify concentrations within the portfolio and supervisors must set prudential limits to restrict bank exposures to single borrowers or groups of related borrowers.*

Implementation: The Decision of the FBA on Minimums Standards for Risk Concentration Management regulates in detail limits for credit risk exposure and defines related entities of banks, starting from standards set by the Law. Considering the framework set up by the Law, the FBA has accepted the initiative of banks and prepared more detailed criteria by which related entities are legal entities owning at least 5% of total shares in the bank, and related entities of banks' shareholders are entities related to shareholders which own 5% of total number of bank's shares. This provides precise limits set up by the Principle. The FBA has insisted on implementation of the Decision, and that resulted by decrease of loans approved to related entities of the bank and entities related to shareholders of the bank, that is, this risk is decreased.

Principle 10: *In order to prevent abuses arising from connected lending, banking supervisors must have in place requirements that banks lend to related companies and individuals on an arm's-length basis, that such extensions of credit are effectively monitored, and that other appropriate steps are taken to control or mitigate the risks.*

Implementation: Implementation of existing Law and regulations of the FBA is sufficient to prevent abuse while lending to related entities. In general, these situations result in provisional administration, liquidation or bankruptcy of banks. In order to provide complete compliance to this principle, more frequent examinations were introduced in banks that had this problem.

Principle 11: *Banking supervisors must be satisfied that banks have adequate policies and procedures for identifying, monitoring and controlling country risk and transfer risk in their international lending and investment activities, and for maintaining appropriate reserves against such risks.*

Implementation: Although, the Law on Banks does not regulate in detail what is country risk, there is appropriate limitation in the Decision on Minimum Standards for Foreign Exchange Risk Management. There is no regular process for evaluation of this risk. Although, for now, there are no banks in the Federation of BiH that have loans or made investments abroad in significant amounts, the FBA is gradually building appropriate regulatory framework for future situations.

Principle 12: *Banking supervisors must be satisfied that banks have in place systems that accurately measure, monitor and adequately control market risks; supervisors should have powers to impose specific limits and/or a specific capital charge on market risk exposures, if warranted.*

Implementation: The Changes and Amendments to the Law on Banks and appropriate Decision of the FBA opened up possibility for implementation of particular limits, as well as setting up more severe requirements for capital, if estimated risks so require. It should be considered that our financial market is still developing and therefore there are no explicit regulations forcing banks to create policies and procedures associated with securities or financial derivatives. The FBA is preparing additional regulation, including necessary education of staff so it could face demands of a more developed financial market.

Principle 13: *Banking supervisors must be satisfied that banks have in place a comprehensive risk management process (including appropriate board and senior management oversight) to identify, measure and control all other material risks and where appropriate, to hold capital against these risks.*

Implementation: Since the banking system has faced predominantly traditional types of risks until now, the FBA mainly addressed credit risk. However, losses can occur in area of non-traditional banking operations and further development of banking industry will result more frequently in those situations (market risks, money laundering etc). The FBA has passed appropriate regulations for prevention of money laundering and terrorism financing in accordance with the Basle Principles and recommendations of FATF. The emphasis will be given to risk management in all supervised institutions, and FBA will continue to improve regulations in accordance with the European Directives. Aside from already regulated core and additional capital, there will be a third category of capital related to market risks.

Principle 14: *Banking supervisors must determine that banks have in place internal controls that are adequate for the nature and scale of their business. These should include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding its assets; and appropriate independent internal or external audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.*

Implementation: Internal controls and audit functions are in place in all banks, but it has still not achieved an optimum level. As the Law provides, the FBA has passed the Decision on Minimum Standards for Internal Controls in Banks and Decision on Minimum Standards for Internal and External Audit in Banks. The FBA monitors implementation of the Decisions and applies appropriate corrective actions.

Principle 15: *Banking supervisors must determine that banks have adequate policies, practices and procedures in place, including strict "know-your-customer" rules, that promote high ethical and professional standards in the financial sector and prevent the bank being used, intentionally or unintentionally, by criminal elements.*

Implementation: By setting up the Decision on Minimum Standards in Banks for Prevention of Money Laundering and Terrorism Financing, the FBA has introduced an obligation of banks to apply the rule "know-your-customer". Banks have implemented the Decision, and examiners of the FBA are receiving continuous training for detecting financial crime. Cooperation of the FBA with other institutions is improved, there were some substantial achievements, some corrective actions were set up, preventive actions were improved, and by changes of appropriate law, money laundering is considered a criminal action. Currently, preparations for changes of the law are in process. The changes will provide better formulation of this area and complete compliance with the European Directive.

Methods of Continued Bank Supervision

Principle 16: *An effective banking supervisory system should consist of some from of both on-site and off-site supervision.*

Implementation: Since the foundation of the FBA, there were both types of supervision (on-site and off-site) and activities of both examinations are coordinated. The FBA has designed procedures for evaluation of risks in banks, which are fully complied with this principle, and in accordance with the international standards, we have prepared a special manual or «guidelines» for on-site examination.

Principle 17: *Banking supervisors must have regular contact with bank management and a thorough understanding of the institutions' operations.*

Implementation: The FBA maintains contacts with banks. The institution of Bankers Association has provided more efficient and better communication. Unfortunately, the FBA inherited too many problems from past, therefore in previous period it took a lot of time to implement provisional administrations, following implementation of ordered actions, liquidation procedures etc. Decreased number of banks, that is, "elimination" of problem banks from the system opened possibilities for better implementation of this principle.

Principle 18: *Banking supervisors must have a means of collecting, reviewing and analyzing prudential reports and statistical returns from banks on a solo and consolidated basis.*

Implementation: Information gathered by the FBA are sufficient and complete, except in the area of examination of consolidated balance sheet. During the first six months of 2004, this will be resolved completely by introduction and application of new automatic database processing system.

Principle 19: *Banking supervisors must have a means of independent validation of supervisory information either through on-site examinations or use of external auditors.*

Implementation: There are no obstacles for complete implementation of this Principle. The FBA can examine banks completely and that represents major part of its activities. It is necessary to continue promotion of international accounting and audit standards in order to eliminate discrepancies and inaccuracies in banks' reports, to unify reports and force external audit firms to implement them.

Principle 20: *An essential element of banking supervision is the ability of supervisors to supervise the banking group on a consolidated basis.*

Implementation: Since this issue has been raised in our banking system as well, preparations for setting up appropriate regulations are ongoing and this principle will be implemented adequately.

Necessary Information

Principle 21: *Banking supervisors must be satisfied that each bank maintains adequate records drawn up in accordance with consistent accounting policies and practices that enable the supervisor to obtain a true and fair view of the financial condition of the bank and the profitability of its business, and that the bank publishes on a regular basis financial statements that fairly reflect its condition.*

Implementation: By existing laws, banks' obligation is to publish summarized report of external audit of annual financial statements in media. Also, it is obligatory for banks to publish non-revised semi annual report. Banks have fulfilled this duty and that will help to significantly improve transparency of banking industry and that will result in strengthening of financial discipline and further strengthening of confidence in banks.

Official Supervisory Authorities

Principle 22: *Banking supervisors must have at their disposal adequate supervisory measures to bring about timely corrective action when banks fail to meet prudential requirements (such as minimum capital adequacy ratios), when there are regulatory violations, or where depositors are threatened in any other way. In extreme circumstances, this should include the ability to revoke the banking license or recommend its revocation.*

Implementation: The Law provides necessary authorizations to the FBA. The focus should be transferred to proactive approach that would anticipate crisis situations that are, as we could see from foreign experience, inevitable, no matter to frequency and quality of supervision.

Cross-Border Banking

Principle 23: *Banking supervisors must practice global consolidated supervision over their internationally active banking organizations, adequately monitoring and applying appropriate prudential norms to all aspects of the business conducted by these banking organizations worldwide, primarily at their foreign branches, joint ventures and subsidiaries.*

Principle 24: *A key component of consolidated supervision is establishing contact and information exchange with the various other supervisors involved, primarily host country supervisory authorities.*

Principle 25: *Banking supervisors must require the local operations of foreign banks to be conducted to the same high standards as are required of domestic institutions and must have powers to share information needed by the home country supervisors of those banks for the purpose of carrying out consolidated supervision.*

Implementation: Currently, in the Federation BiH, there is not a single "internationally active" banking institution, but in future period we can expect expansion of some banks to neighboring markets. By now, these principles are not applicable in our country. We have undertaken activities for implementation of signed memorandums of understanding with Bank of Slovenia and National Bank of Croatia and similar documents are in process of preparation with authorized supervisory institutions from Austria, Turkey and Italy.

Exchange of information has been agreed with Bank of Slovenia and National Bank of Croatia, and similar agreement should be established with other countries - originating countries of investors in banking system of the Federation of BiH.

ATTACHMENT 3

LEGAL FRAMEWORK OF THE BANKING AGENCY OF THE FBiH AND BANKS IN THE FEDERATION OF BiH

Laws of BiH

1. Law on Central Bank of BiH (“Official Gazette of BiH”, number 1/97, 29/02, 13/03, 14/03, 9/05, 76/06),
2. Law on Administrative Procedure (“Official Gazette of BiH”, number 29/02 and 12/04),
3. Law on Court of Bosnia and Herzegovina («Official Gazette of BiH», number 29/00, 16/02, 24/02, 3/02, 37/03, 4/04 and 9/04),
4. Law on Conflict of Interests in Government Institutions of Bosnia and Herzegovina («Official Gazette of BiH», number 16/02 and 12/04),
5. Law on Violations of Bosnia and Herzegovina («Official Gazette of BiH», number 20/04),
6. Conclusion on Authentic Interpretation of Laws, Regulations and General Enactment («Official Gazette of BiH», number 24/04),
7. Law on Criminal Proceeding of Bosnia and Herzegovina («Official Gazette of BiH», 36/03, 26/04 and 76/06),
8. Roof Law on Pleadges («Official Gazette of BiH», number 27/04 and 54/04),
9. Law on Prevention of Money Laundering («Official Gazette of BiH», number 29/04),
10. Law on Prosecution of Bosnia and Herzegovina («Official Gazette of BiH», number 42/03, 9/04 and 35/04),
11. Law on Civil Proceeding in front of the Court of Bosnia and Herzegovina («Official Gazette of BiH», number 36/04),
12. Law on Civil Proceeding («Official Gazette of BiH», number 53/03),
13. Law on Mediation Proceeding («Official Gazette of BiH», number 37/04),
14. Law on Accounting and Audit of Bosnia and Herzegovina («Official Gazette of BiH», number 42/04),
15. Law on Deposit Insurance in BiH («Official Gazette of BiH», number 20/02 and 18/05),
16. Law on Temporary Suspension of Realization of Claims based on Executive Decisions against Budget of the Institutions of Bosnia and Herzegovina and International Liabilities of Bosnia and Herzegovina («Official Gazette of BiH», number 43/03 and 43/04),
17. Law on Treasury of the Institutions of BiH («Official Gazette of BiH», number 27/00),
18. Law on Public Supplies of BiH («Official Gazette of BiH», number: 49/04, 19/05, 52/05, 24/06 and 70/06);
19. Law on Consumer Protection in BiH («Official Gazette of BiH», number: 25/06);
20. Law on Repayment of Liabilities based on Old Foreign Currency Savings («Official Gazette of BiH», number: 28/06 and 76/06);
21. Law on Unified Registry of Transaction Accounts in Bosnia and Herzegovina («Official gazette of BiH», number 28/04);

Laws of the FBiH

1. Law on Banking Agency of the Federation of BiH (“Official Gazette of the FBiH”, number
   9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06)

2. Law on Banks ("Official Gazette of the FBiH", number 39/98,32/00, 48/01, 27/02, 41/02 and 58/02, 13/03, 19/03 and 28/03),
3. Law on Financial Operations ("Official Gazette of the FBiH", number 2/95, 13/00 and 29/00),
4. Law on Foreign Exchange Operations ("Official Gazette of the FBiH", number 35/98),
5. Law on Securities ("Official Gazette of the FBiH", number 39/98 and 36/99),
6. Law on Securities Registry ("Official Gazette of the FBiH", number 39/98 and 36/99),
7. Law on Securities Commission ("Official Gazette of the FBiH", number 39/98 and 36/99),
8. Law on Bill of Exchange ("Official Gazette of the FBiH", number 32/00 and 28/03),
9. Law on Check ("Official Gazette of the FBiH", number 32/00),
10. Law on Payment Transactions ("Official Gazette of the FBiH", number 32/00 and 28/03),
11. Law on Obligations ("Official Gazette of the FBiH", number 29/03),
12. Law on Enterprises ("Official Gazette of the FBiH", number 23/99, 45/00, 2/02, 6/02-correction and 29/03),
13. Law on Bankruptcy ("Official Gazette of the FBiH", number 29/03, 32/04, 42/06),
14. Law on Liquidation Process ("Official Gazette of the FBiH", number 29/03),
15. Labor Law ("Official Gazette of the FBiH", number 43/99, 32/00 and 29/03),
16. Law on Executive Procedure ("Official Gazette of the FBiH", number 32/03, 33/06, 39/06),
17. Law on Civil Proceeding ("Official Gazette of the F BiH", number: 53/03 and 19/06),
18. Law on Opening Balance Sheet of Enterprises and Banks ("Official Gazette of the F BiH", number: 12/98, 40/99, 47/06),
19. Law on Registration of Legal Entities into Court Registry ("Official Gazette of the FBiH", number 4/00, 19/00, 49/00, 32/02, 58/01, 13/03, 19/03 and 50/03),
20. Law on Administrative Procedure («Official Gazette of the FBiH», number 2/98 and 48/99),
21. Law on Violations subject to Federal Regulations ("Official Gazette of the FBiH", number 9/96 and 29/00),
22. Law on Treasury of the FBiH ("Official Gazette of the FBiH", number 19/03),
23. Law on Accounting and Audit of the FBiH ("Official Gazette of the FBiH", number 32/05),
24. Law on Competition ("Official Gazette of the FBiH", number 2/95, 14/97 and 12/98),
25. Law on Assumption of Shareholder Companies («Official Gazette of the FBiH», number 7/06).
26. Law on Microcredit Organizations ("Official Gazette of the F BiH", number 59/06)

ENACTMENT REGULATING WORK OF BANKS

1. Decision on Bank Supervision and Actions of the Banking Agency of the Federation of BiH ("Official Gazette of the F BiH", No 3/03),
2. Decision on Minimum Standards for Capital Management in Banks ("Official Gazette of the F BiH", No 3/03 and 18/03),
3. Decision on Minimum Standards for Loan Risk and Assets Classification Management in Banks ("Official Gazette of the F BiH", No 3/03),
4. Decision on Minimum Standards for Risk Concentration Management in Banks ("Official Gazette of the F BiH", No 3/03, correction 6/03, 18/03),
5. Decision on Minimum Standards for Liquidity Risk Management in Banks ("Official Gazette of the F BiH", No 3/03),
6. Decision on Minimum Standards for Foreign Exchange Risk Management in Banks ("Official Gazette of the F BiH", No 3/03 and 31/03),

7. Decision on Minimum Standards for Activities of Banks in Prevention of Money Laundering and Terrorism Financing ("Official Gazette of the F BiH", No 3/03, 18/04, 5/05, 13/05),
8. Decision on Financial Disclaimer ("Official Gazette of the F BiH", No 3/03),
9. Decision on Minimum Standards for Operations with Related Entities in Banks ("Official Gazette of the F BiH", No 3/03),
10. Decision on Minimum Standards for Documenting Loan Activities in Banks ("Official Gazette of the F BiH", No 3/03),
11. Decision on Minimum Standards for Internal Control System in Banks ("Official Gazette of the F BiH", No 3/03),
12. Decision on Minimum Standards for Internal and External Audit in Banks ("Official Gazette of the F BiH", No 3/03),
13. Decision on Conditions when Bank is Considered Insolvent ("Official Gazette of the F BiH", No 3/03),
14. Decision on Procedure for Determination of Claims and Distribution of Assets and Liabilities in Liquidation of Banks ("Official Gazette of the F BiH", No 3/03),
15. Decision on Reporting Forms Submitted by Banks to the Banking Agency of the Federation of BiH ("Official Gazette of the F BiH", No 3/03, 18/03, 52/03, 64/03 correction, 6/04, 14/04, 54/04, 5/05),
16. Decision on Reporting about Non-performing Customers Considered a Special Loan Risk ("Official Gazette of the F BiH", No 3/03),
17. Decision on Minimum Scope in Form and Content of Program and Reporting about Economic-Financial Audit in Banks ("Official Gazette of the F BiH", No 3/03),
18. Internal Rating Criteria of Banks performed by the Banking Agency of the Federation of BiH («Official Gazette of the FBiH», number 3/03, 6/03 correction),
19. Decision on Interest and Fee Accrual for Dormant Accounts ("Official Gazette of the F BiH", No 7/03),
20. Decision on Amount and Conditions for Origination of Loans to Bank Employees ("Official Gazette of the F BiH", No 7/03),
21. Decision on Minimum Conditions Banks have to Fulfill to Perform Internal Payment System ("Official Gazette of the F BiH", No 46/01),
22. Decision on Minimum Requirements for Issuance of License to Perform Internal Payment System to Bank Branches Located in Republic Srpska ("Official Gazette of the F BiH", No 50/01),
23. Guidelines for Licensing and Other Approvals Issued by the Banking Agency of the Federation of the F BiH ("Official Gazette of the F BiH", No 46/02, 18/03, 27/04).

ATTACHMENT 4

BALANCE SHEET OF BANKS IN THE FBiH ACCORDING TO THE FBA SCHEDULE

ACTIVE SUB-BALANCE SHEET

000 KM

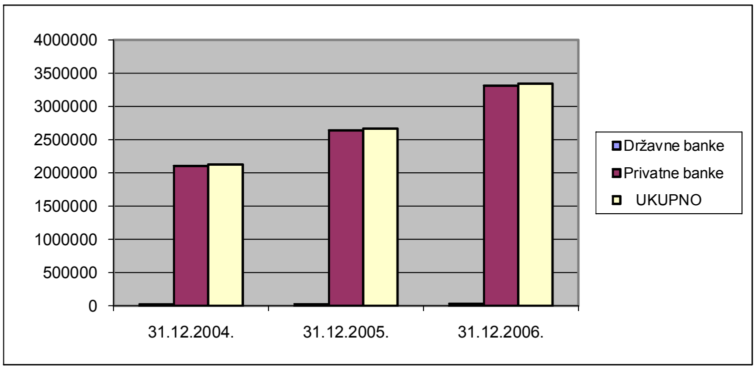
No.	DESCRIPTION	31.12.2004.	31.12.2005.	31.12.2006.
	ASSETS			
1.	Cash funds and deposit accounts at depository institutions	2.859.489	3.533.700	4.287.723
1a	Cash and non-interest deposit accounts	1.024.683	1.167.310	1.514.758
1b	Interest deposit accounts	1.834.806	2.366.390	2.772.965
2.	Trading securities	9.073	13.625	41.121
3.	Placements in other banks	81.624	68.811	105.390
4.	Loans, receivables in leasing and past due receivables	4.422.539	5.545.077	6.820.154
4a	Loans	4.208.091	5.326.708	6.609.122
4b	Receivables on leasing	204	192	180
4c	Past due receivables - loans and leasing	214.244	218.177	210.852
5.	Securities held until maturity	10.357	6.385	4.801
6.	Premises and other fixed assets	256.928	275.276	314.012
7.	Other real estate	42.261	31.361	27.659
8.	Investments in non-consolidated related enterprises	34.817	28.750	27.679
9.	Other assets	154.438	154.222	168.922
10.	MINUS:Reserves for potential losses	258.296	278.499	298.281
10a	Reserves on item 4 in Assets	237.960	260.155	287.561
10b	Reserves on Assets except item 4	20.336	18.344	10.720
11.	**TOTAL ASSETS**	7.613.230	9.378.708	11.499.180
	LIABILITIES			
12.	Deposits	5.602.238	6.864.048	8.379.322
12a	Interest deposits	4.995.633	6.114.978	7.529.517
12b	Non-interest deposits	606.605	749.070	849.805
13.	Loans - past due	10.667	8.308	7.802
13a	Balance of payable loans, unpaid			
13b	Unpaid - called for payment off-balance sheet items	10.667	8.308	7.802
14.	Loans from other banks	3.329	2.912	2.890
15.	Payables to Government			
16.	Payables on loans and other borrowings	850.833	1.152.910	1.420.944
16a	payable within one year	159.830	241.955	196.381
16b	payable longer than one year	691.003	910.955	1.224.563
17.	Subordinated debts and subordinated bonds	84.262	132.429	145.079
18.	Other liabilities	156.491	201.384	315.050
19.	**TOTAL LIABILITIES**	6.707.820	8.361.991	10.271.087
	CAPITAL			
20.	Permanent priority shares	23.729	26.280	30.180
21.	Common shares	737.407	773.205	858.610
22.	Shares issued	20.721	29.975	71.130
22a	Permanent priority shares	532	532	8.332
22b	Common shares	20.189	29.443	62.798
23.	Undistributed income and capital reserves	79.967	130.440	172.581
24.	Currency rate difference	0	0	0
25.	Other capital	43.586	56.817	95.592
26.	TOTAL CAPITAL (20. TO 25.)	905.410	1.016.717	1.228.093
27.	**TOTAL LIABILITIES AND CAPITAL (19+26)**	**7.613.230**	**9.378.708**	**11.499.180**
	PASSIVE AND NEUTRAL SUBBALANCE	**671.851**	**680.040**	**641.164**
	TOTAL BALANCE SHEET IN BANKS	**8.285.081**	**10.058.748**	**12.140.344**

ATTACHMENT 5

NEW CITIZEN SAVINGS BY PERIODS

000 KM

	31.12.2004.	31.12.2005.	31.12.2006.
State banks	22.342	26.886	31.723
Private banks	2.105.167	2.638.391	3.308.413
TOTAL	2.127.509	2.665.277	3.340.136



CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS
as of 31.12.2006.

- ACTIVE BALANCE SHEET -

000 KM

Ord. No.	BALANCE SHEET ASSETS AND OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	1.100.698	246.292	12.535	856		1.360.381
2.	Long-term loans	4.513.954	569.547	100.504	64.912	4	5.248.921
3.	Other placements	46.545	681	361	152		47.739
4.	Interest accrued	28.482	7.754		1		36.237
5.	Past due receivables	82.921	33.826	25.717	64.255	1	206.720
6.	Receivables on gurantees paid	159	45	334	3.478	116	4.132
7.	Other assets	4.883.692	6.276	1.801	1.542	20	4.893.331
8.	TOTAL ACTIVE BALANCE SHEET	10.656.451	864.421	141.252	135.196	141	11.797.461
9.	a) Guarantees payable	203.169	46.964	894	62		251.089
	b) Performing guarantees	360.066	86.146	152	239		446.603
10.	Unsecured LoC	90.037	16.332	299			106.668
11.	Unrevokable loans	961.572	54.232	3.418	332	16	1.019.570
12.	Other potential liabilities	1.750	1.300				3.050
13.	TOTAL OFF-BALANCE SHEET	1.616.594	204.974	4.763	633	16	1.826.980
14.	TOTAL BALANCE AND OFF-BALANCE SHEET (8+13)	12.273.045	1.069.395	146.015	135.829	157	13.624.441
15.	General credit risk and potential loan losses (#14 x % of loss)	150.516	78.917	36.339	76.940	141	342.853
16.	Allocated general reserves (A) and special reserves (B, C, D, E)	150.327	78.916	36.339	78.461	141	344.184
17.	**MINUS (PLUS) allocated reserves (#16 - 15) +or -**	**-189**	**-1**	**0**	**1.521**	**0**	**1.331**

ATTACHMENT 7

INCOME STATEMENT

000 KM

ELEMENTS	PERFORMED 31.12. 2005.		PERFORMED 31.12.2006.		RATIO 4 : 2
	Amount	partic.in total income	Amount	partic.in total income	
1	2		4	5	6
INCOME					
Interest income	516.999	87%	630.182	92%	122
Interest expense	177.570	30%	234.630	34%	132
Net interest income	339.429	57%	395.552	58%	117
Fee income	254.014	43%	288.177	42%	113
TOTAL INCOME	593.443	100%	683.729	100%	115
EXPENSES					
Reserves for potential losses	130.214	22%	141.745	21%	109
Salaries and payables with salary	166.621	28%	186.157	27%	112
Fixed assets and overhead expense	97.232	16%	110.232	16%	113
Other expense	133.520	23%	147.890	22%	111
TOTAL EXPENSES	527.587	89%	586.024	86%	111
NET INCOME BEFORE TAXES	65.856	11%	97.705	14%	148
Taxes	5.125	1%	7.940	1%	
NET INCOME	60.731	10%	89.765	13%	148

ATTACHMENT 8

COMPARABLE SCHEDULE OF CAPITAL BALANCE AND ADEQUACY
ACTIVE SUB-BALANCE SHEET

IN 000 KM

Pos	DESCRIPTION	12./2004.	12./2005.	12./2006.
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	748.514	784.085	873.390
1.2.	Share capital - comm. & perm. prior. non-cumul. shares-invested posses. & rights	12.550	12.550	12.550
1.3.	Issued shares income at share payments	20.721	29.975	71.130
1.4.	General regulatory reserves (reserves as regulated by the Law)	35.094	41.801	61.228
1.5.	Other reserves not related to assets quality assessment	32.789	49.583	86.990
1.6.	Retained - undistributed income from previous years	57.912	76.939	93.543
1.a.	TOTAL (from 1.1. to 1.6.)	907.580	994.933	1.198.831
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	41.640	34.741	62.603
1.8.	Losses from current year	12.100	26.376	6.397
1.9.	Book value of treasury shares owned by the bank	225		
1.10	Amount of intangible assets	37.240	41.424	40.105
1.b.	TOTAL (from 1.7.to 1.10.)	91.205	102.541	109.105
1.	**AMOUNT OF CORE CAPITAL: (1.a.-1.b.)**	**816.375**	**892.392**	**1.089.726**
2	**BANK'S ADDITIONAL CAPITAL**			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	297	2.850	2.850
2.2.	Share capital - comm. & perm. prior. non-cumul. shares-invested posses. & rights	0	0	0
2.3.	General reserves for losses on loans from class. A - performing assets	94.580	119.163	150.327
2.4.	Accrued income for current year audited and confirmed by external auditor	42.139	43.423	84.982
2.5.	Income under FBA's temporary restriction on distribution	0	0	0
2.6.	Subordinated debts, the most 50% of core capital	78.484	126.632	139.251
2.7.	Hybrid convertible items - the most 50% of core capital	0	0	0
2.8.	Items-permanent liabilities without repayment duty	5.778	5.797	5.828
2.	**AMOUNT OF ADDITIONAL CAPITAL: (2.1. to 2.8.)**	**221.278**	**297.865**	**383.238**
3	**OFFSETTING ITEMS FROM BANK'S CAPITAL**			
3.1.	Part of invested share capital that according to FBA's assessment represents accepted	0	0	0
3.2.	Investments in capital of other legal entities exceeding 5% of bank's core capital	19.027	17.235	17.236
3.3.	Receivables from shareholders for significant voting shares - approved aside from reg	0	0	0
3.4.	VIKR to shareholders with significant voting shares in the bank without FBA's permis	0	0	0
3.	**AMOUNT OF OFFSETTING ITEMS FROM BANK'S CAPITAL (3.1. to 3.4.)**	**19.027**	**17.235**	**17.236**
A	AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)	1.018.626	1.173.022	1.455.728
B.	RISK FROM RISK-WEIGHTED ASSETS AND LOAN EQUIVALENTS	5.472.154	6.681.510	8.281.695
C.	NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100	18,6%	17,6%	17,6%

ATTACHMENT 9

NUMBER OF EMPLOYEES BY BANKS

No.	BANK	31.12.2004.	31.12.2005.	31.12.2006.
1	ABS BANKA dd SARAJEVO	308	290	297
2	BOSNA BANK INTERNATIONAL dd Sarajevo	82	85	104
3	BOR BANKA dd SARAJEVO	36	37	40
4	HVB CENTRAL PROFIT BANKA dd SARAJEVO	454	451	476
5	CBS BANK dd SARAJEVO	116	130	
6	HERCEGOVACKA BANKA dd MOSTAR	100	99	98
7	HYPO ALPE ADRIA BANK dd MOSTAR	379	431	492
8	INVESTICIJSKA BANKA FBiH SARAJEVO	77	75	84
9	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	195	165	163
10	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	54	63	66
11	LT GOSPODARSKA BANKA BANKA dd SARAJEVO	197	186	196
12	LJUBLJANSKA BANKA dd SARAJEVO	70	62	
13	NLB TUZLANSKA BANKA dd TUZLA			479
14	TUZLANSKA BANKA dd TUZLA	343	332	
15	PROCREDIT BANK dd SARAJEVO	291	430	595
16	POŠTANSKA BANKA dd SARAJEVO	66	63	63
17	PRIVREDNA BANKA dd SARAJEVO	208	190	170
18	RAIFFEISEN BANK BH dd SARAJEVO	1.106	1.195	1.348
19	TURKISH ZIRAAT BANK dd SARAJEVO	74	95	108
20	UNA BANKA dd BIHAĆ	61	58	61
21	UNION BANKA dd SARAJEVO	180	180	175
22	UPI BANKA dd SARAJEVO	191	208	233
23	UNI CREDIT ZAGREBACKA BANKA BH dd MOSTAR	755	790	840
24	VAKUFSKA BANKA dd SARAJEVO	151	167	175
25	VABA BANKA DD SARAJEVO			58
26	VOLKSBANK BH dd SARAJEVO	193	233	285
	TOTAL	5.687	6.015	6.606