



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

INFORMATION
ON BANKING SYSTEM OF
THE FEDERATION OF BOSNIA AND HERZEGOVINA
As of September 30th, 2008

Sarajevo, November 2008

Information on banking system of the Federation of BiH (as of September 30th, 2008) is prepared by the Banking Agency of the Federation of BiH, as a regulatory authority conducting supervision of banks, based on reports of banks, and other information and data submitted by banks. Findings and data from on-site examinations and analysis performed at the Agency (off-site financial analysis) have also been included.

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I INTRODUCTION

Over the nine months of 2008, the banking system of the Federation of BiH maintained a moderate continuity of growth and development. However, if compared to the prior periods, there is an obviously slower growth of the aggregate balance sheet. There were 20 banks as of 30.09.2008. with the banking license, which is lower by 2 banks if compared to the end of 2007: HVB Central Profit Bank d.d. Sarajevo was integrated into UniCredit Zagrebačka Bank d.d. Mostar as of 29.02.2008. (a new name of the bank is UniCredit Bank d.d. Mostar), while there is a special law regulating establishment and work of the Development Bank of the FBiH, Sarajevo, that is, as of 01.07.2008., the legal successor of the Investment Bank of the FBiH d.d. Sarajevo. During this time (12.09.2008.), the Banking Agency of the FBiH (FBA) has adopted resolution, which resulted by finalization of provisional administration in Privredna bank d.d. Sarajevo, while there is still provisional administration of UNA bank d.d. Bihać and Hercegovska bank d.d. Mostar. While continuing to expand the network of organizational units, banks in the FBiH, over the nine months of 2008, opened 68 new organizational units (three were opened in RS, and two in District Brcko). There were total of 7.924 employees employed by the banks of the Federation of BiH.

The aggregate balance sheet of banks in the FBiH, as of 30.09.2008., amounted to KM 15,2 billion, which is higher by 7% or KM one billion than at the end of 2007. There is an apparent domination of the five largest banks in the system that „hold“ approximately 80% of the market (74,4% at the end of 2007), in loans and deposits. Out of total aggregate balance sheet of the banking sector, 70% or KM 701 million refers to only two banks, and the assets of three banks (that still have dominant participation of 67,4%) exceed two billion. The assets of majority of banks (10) are below KM 500 million, while the assets of four banks (two under provisional administration) are below KM 100 million.

Growth of the aggregate balance sheet in the sources is primarily financed by deposit growth (by 8% or KM 821 million), while borrowings recorded growth of only 2% or KM 30 million. On the other hand, credit placements increased by 17%, amounting to KM 10,4 billion as of 30.09.2008., while cash funds decreased by 10%, amounting to KM 4,4 billion. Capital recorded minimum growth of 1% or eight million, primarily due to influence of status change of the Investment Bank of the FBiH, since this bank has stopped reporting its data as indicator of the banking system as of 01.07.2008., especially due to the high amount of its capital. Also, regulatory capital of banks in the FBiH, which remained at the level of last year, amounted to KM 1,9 billion as of 30.09.2008. Growth of core capital is based on the inflow of new, green capital –additional capitalization in the amount of KM 79 million in five banks, with the exchange premium of KM 8,8 million.

Overall profitability of the system has considerably deteriorated in comparison to the same period in 2007. Generally, the generated profit has increased with slower pace, but it is lower in majority banks of the system, as a result of faster growth of interest and non-interest expenses to total income. Over the nine months of 2008, financial result-profit at the system level was positive of KM 57,1 million, representing a significant decrease by 50% or KM 56,3 million in comparison to the same period in 2007. Positive financial result of KM 89,6 million has been reported by 14 banks, which is less by 23,7% or KM 27,8 million if compared to the same period in 2007. At the same time, performance loss of KM 32,5 million has been reported by six banks.

Banks have, in 2008, continued intensively financing private enterprises (placements increased by 19% or KM 767 million), credit placements to citizens increased by 16% or KM 719 million. Also, in the observing period of 2008, there has been slower growth of savings. Savings deposits, with the growth rate of 10% or KM 412 million, have reached the amount of KM 4,53 billion, while the three largest banks hold 74,1% of savings. Of total amount of the savings, 31% are savings deposits in domestic currency and 69% in foreign currency.

II BUSINESS PERFORMANCE OF BANKS IN THE FEDERATION OF BIH

1. STRUCTURE OF THE BANKING SECTOR

1.1. Status, number and business network

As of 30.09.2008., there were 20 banks with the banking license issued in the Federation of BiH. Number of banks has decreased by two in comparison to 31.12.2007. The approval has been issued for a status change of integration of HVB Central Profit Bank d.d. Sarajevo to UniCredit Zagrebačka bank d.d. Mostar that has also changed the name into UniCredit Bank d.d. Mostar. The integration process finalized on 29.02.2008. There is a special law which regulates the establishment and work of the Development Bank of the Federation of BiH, Sarajevo that is a legal successor of the Investment Bank of the Federation of BiH d.d., Sarajevo as of 01.07.2008.

As of 30.09.2008., there were two banks under provisional administration (UNA Bank d.d. Bihać and Hercegovska Bank d.d. Mostar).

Throughout the year of 2008, banks have continued expanding the network of their organizational units. Banks from the Federation of BiH have founded 68 new organizational units. Out of the newly established, three have been opened in Republic Srpska, and two in District Brčko. If compared to 31.12.2007., when banks had 569 organizational units, the mentioned figures represent an increase of 11,95%.

As of 30.09.2008., seven banks from the Federation of BiH had 57 organizational units in Republic Srpska, and 11 banks had 17 organizational units in District Brčko. Six banks from Republic Srpska had 22 organizational units in the Federation of BiH (one new organization unit was opened, but one was closed).

The license for inter-bank transactions in the internal payment system was issued to all banks as of 30.09.2008. There were 14 banks with deposit insurance program.

1.2. Ownership structure

As of 30.09.2008., ownership structure in banks¹ was assessed based on the available information and on-site visits to banks², as follows:

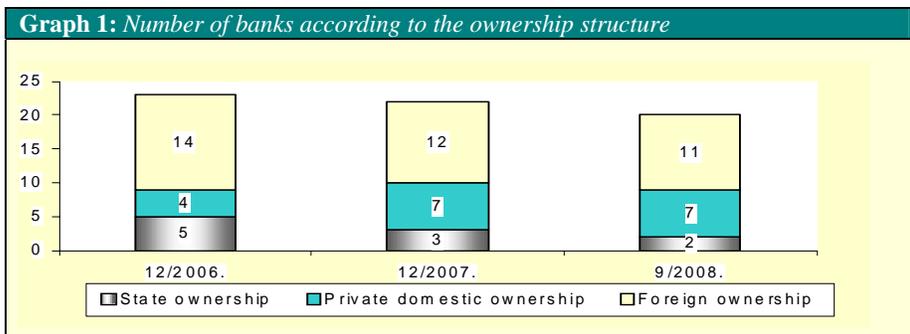
- Private and majority private ownership 18 banks (90%)
- State and majority state ownership³ 2 banks (10%)

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

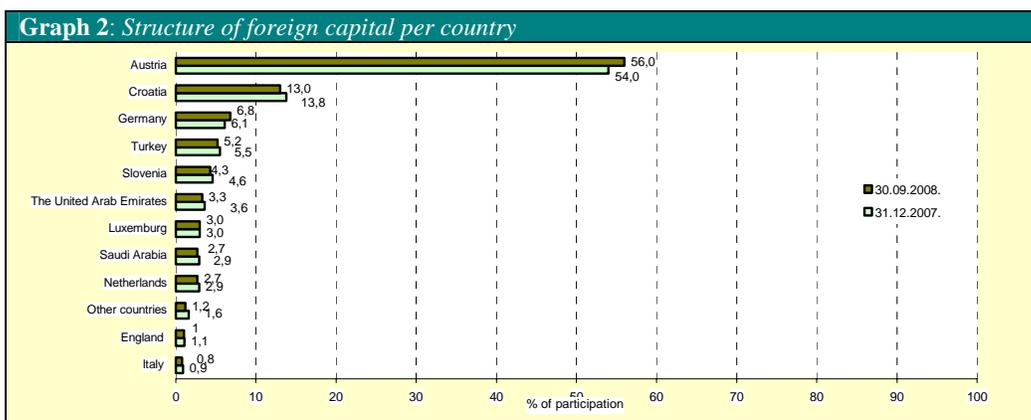
¹ Classification criterion of banks by ownership type is ownership over banks' share capital.

² General overview of ownership structure of banks in the F BiH as of 30.09.2008. resulted from received documentation, and registrations at authorized courts (changes in capital and shareholders structure of banks).

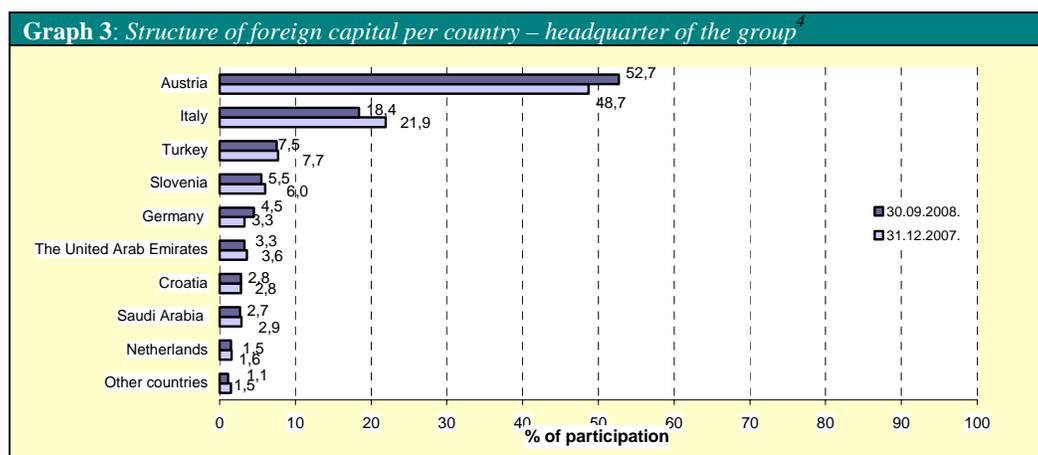
³ State ownership refers to domestic, state capital of BiH.



If only foreign capital is analyzed based on the criteria of the shareholder's home country as of 30.09.2008., 56% of foreign capital was recorded to be owned by the shareholders from Austria, then 13% of the shareholders from Croatia, while other countries participated below 7%.



If we, however, take into account the capital correlation, we could observe the criteria of headquarter of the parent institution or the group that have majority ownership (direct or indirect through the group members) over banks in the Federation of BiH. According to this criteria, as of 30.09.2008., there was also majority participation of banking groups and banks from Austria (52,7%), followed by the Italian banks with participation of 18,4%. Other countries recorded participation below 7,5%.



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

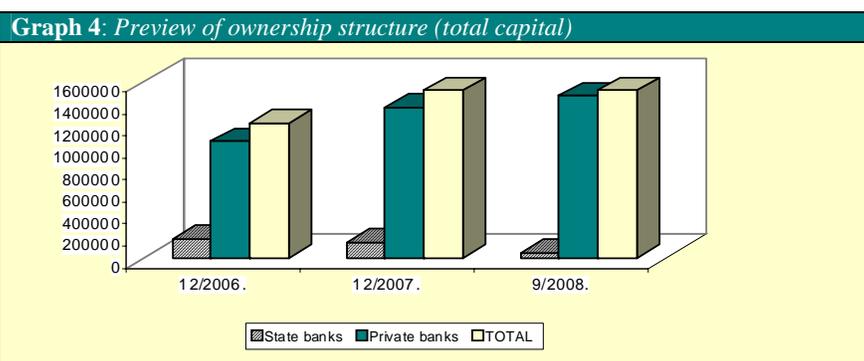
Minor changes in the ownership structure, based on the both criteria mentioned, during the observing period in 2008, result from additional capitalization of two banks majority owned by banks from Austria, which has caused increase of capital participation from this country by two percentages, or, based on headquarter of the group, by 4%.

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

-in 000 KM-

Table 1: Ownership structure by total capital

BANKS	31.12.2006.		31.12.2007. ⁶		30.09.2008.		RATIO	
	1	2	3	4	5	6	3/2	4/3
State banks	170.680	14%	147.022	10%	45.172	3%	86	31
Private banks	1.055.905	86%	1.363.020	90%	1.472.508	97%	129	108
TOTAL	1.226.585	100%	1.510.042	100%	1.517.680	100%	123	101



Analyzing participation of state, private and foreign capital in the share capital of banks, we get more precise picture of the capital ownership structure in banks of the Federation of BiH.

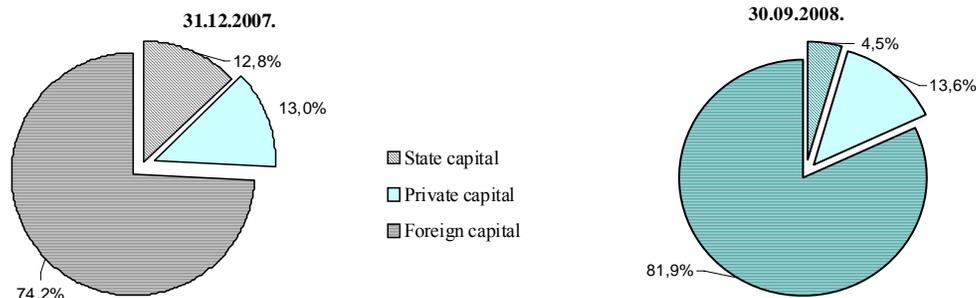
- in 000 KM-

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

SHARE CAPITAL	31.12.2006.		31.12.2007.		30.09.2008.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	5/3	7/5
1	3	4	5	6	7	8	9	10
State capital	135.019	15,2	133.582	12,8	46.100	4,5	99	35
Private capital (residents)	83.077	9,3	135.728	13,0	138.995	13,6	163	102
Foreign capital (nonresidents)	670.695	75,5	775.912	74,2	834.644	81,9	116	108
TOTAL	888.791	100,0	1.045.222	100,0	1.019.739	100,0	118	98

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

⁶ All data in the Information referring to 31.12.2007. come from the audited financial statements of banks (audit conducted by the external auditor at 21 banks in the Federation of BiH).

Graph 5: Ownership structure (share capital)

Share capital of banks in the Federation of BiH, over the three quarters of 2008, has decreased by 2,4% or by KM 25,5 million, and the most significant changes were: in calculation of share capital there is no longer the share capital of Development Bank of the Federation of BiH Sarajevo in the amount of KM 87,5 million; in six banks, share capital increased through additional capitalization in the amount of KM 80 million (green capital of KM 79 million), of which participation of nonresidents was KM 72,7 million, and of residents was KM 7,3 million; status change of integration of one to the other (both with majority foreign participation in capital) in the amount of capital lower than the nominal amount (the difference in favor of the issue exchange premium), has caused decrease of the share capital of nonresidents over the nine months of 2008 by KM 18,1 million.

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

Participation of state capital in total share capital, as of 30.09.2008., was 4,5 %, which is lower by 8,3% if compare to the end of 2007.

If compared to the end of 2007, participation of private capital (residents) in total share capital of the banking sector has increased from 13% to 13,6% or KM 3,3 million. Due to significantly higher increase of nonresidents' capital, relative participation of the residents recorded increase of only 0,6%. Share trading between residents and nonresidents also had influence on participation of the residents (participation decreased by approximately KM 4,4 million), as well as purchase of shares from additional capitalization in two banks by domestic buyers (participation increased by approximately KM 6,5 million).

Participation of foreign capital increased from 74,2% to 81,8%, that is, by KM 58,7 million as result of the following: additional capitalizations of KM 72,7 million in six banks (green capital of KM 72,5 million), above mentioned share trading between residents and nonresidents in seven banks (net effect on foreign capital is increase of KM 4,4 million), and decrease of KM 18,1 million in process of integration of two banks.

Participation, that is, market share and position of banks grouped by majority ownership in share capital has changed primarily due to exclusion of the Development Bank of the FBiH Sarajevo. Market share of banks with majority foreign ownership, as of 30.09.2008., was high of 93,8%, banks with majority domestic private capital of 4,9%, the same as of the end of 2007, while share of banks with majority state capital was 1,3%.

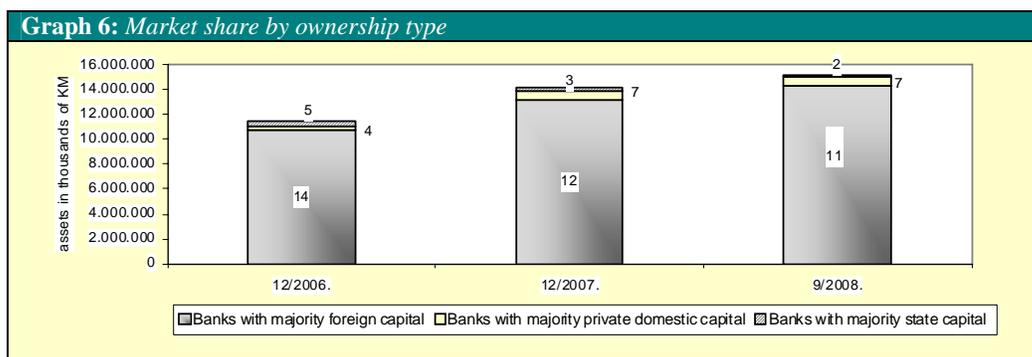
Integration processes from the past period were performed with purpose of stronger market positioning, resulting by concentrations in the banking sector by largest banks becoming larger, decreased number of banks, and intensified competition. Over the observed period, one

integration process finalized (status change of integration) as of 29.02.2008. Such processes resulted by decreased number of banks, strengthening of the resulting bank and further concentrations in the banking sector of the Federation of BiH.

- in %-

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

BANKS	31.12.2006.			31.12.2007.			30.09.2008.		
	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. in total assets
1	2	3	4	5	6	7	8	9	10
Banks with majority state capital	5	13,9	4,1	3	9,7	2,7	2	3,0	1,3
Banks with majority private domestic capital	4	3,7	2,9	7	10,9	4,9	7	11,8	4,9
Banks with majority foreign capital	14	82,4	93,0	12	79,4	92,4	11	85,2	93,8
TOTAL	23	100,0	100,0	22	100,0	100,0	20	100,0	100,0



1.3. Staff

In banks of the FBiH, as of 30.09.2008., there were total of 7.924 employees, of which 4% in banks with majority state capital, and 96% in private banks.

Table 4: Bank employees in the FBiH

BANKS	NUMBER OF EMPLOYEES						RATIO	
	31.12.2006.		31.12.2007.		30.09.2008.		3:2	4:3
1	2	3	4	5	6	7	8	9
State banks	423	6%	342	5%	235	3%	81	69
Private banks	6.183	94%	7.019	95%	7.689	97%	114	110
TOTAL	6.606	100%	7.361	100%	7.924	100%	111	108
Number of banks	23		22		20		96	91

Over the three quarters of 2008, number of employees increased by 8% or 563 employees. Due to transformation of the Investment Bank of the F BiH into the Development Bank of the F BiH as of 01.07.2008., number of employees in state banks decreased by 107 employees, while in private banks this number increased by 670 or 10%.

Table 5: Qualification structure of employees

EDUCATION	NUMBER OF EMPLOYEES						RATIO	
	31.12.2006.		31.12.2007.		30.09.2008.		4:2	6:4
1	2	3	4	5	6	7	8	9

University qualifications	2.408	36,5%	2.725	37,0%	2.954	37,2%	113	108
Two-year post secondary school qualifications	714	10,8%	799	10,8%	852	10,8%	112	107
Secondary school	3.391	51,3%	3.759	51,1%	4.043	51,0%	111	108
Other	93	1,4%	78	1,1%	75	1,0%	84	96
TOTAL	6.606	100,0%	7.361	100,0%	7.924	100,0%	111	108

One of the indicators influencing the 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 6: Assets per an employee

BANKS	31.12.2006.			31.12.2007.			30.09.2008.		
	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	423	474.793	1.122	342	381.036	1.114	235	196.631	837
Private	6.183	11.023.562	1.783	7.019	13.814.886	1.968	7.689	15.016.317	1.953
TOTAL	6.606	11.498.355	1.741	7.361	14.195.922	1.929	7.924	15.212.948	1.920

At the end of first nine months of 2008, there was KM 1,9 million of assets per an employee at the level of the banking system, which is slightly lower than at the end of 2007. This indicator is much better with the private bank sector, which is expected, having in mind stagnation or decreased volume of business activities of state banks, and, consequently, excessive number of employees.

Table 7: Assets per an employee by groups

Assets (000 KM)	31.12.2006.		31.12.2007.		30.09.2008.	
	Number of banks		Number of banks		Number of banks	
Up to 500	5		2		2	
500 to 1.000	7		7		8	
1.000 to 2.000	4		7		4	
2.000 to 3.000	6		4		5	
Over 3.000	1		2		1	
TOTAL	23		22		20	

Analytical indicators of respective banks range from KM 283 thousand to KM 4 million of assets per an employee. The indicator of six banks is better than the one for the whole banking sector, and the indicator of three largest banks in the system exceeds KM 2,4 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 offer their services and finance their customers, have significantly improved in terms of quality.

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 capital⁷.

2.1. Balance sheet

Aggregate balance sheet of banks in the Federation of BiH, according to the balance sheets submitted as of 30.09.2008. amounted to KM 15,2 billion, which is higher by 7% or KM one billion than at the end of 2007. The generated growth rates, both quarterly and cumulative, for the six or nine months of 2008, if compared to the prior two years, are lower by approximately 50%, so we could say there is a slower growth of the aggregate balance sheet of banks in 2008, retaining a continuous growth, which is estimated as moderate.

Table 8: Balance sheet					
DESCRIPTION	AMOUNT (in 000 KM)			RATIO	
	31.12.2006.	31.12.2007.	30.09.2008.	3/2	4/3
1	2	3	4	5	6
ASSETS:					
Cash funds	4.286.202	4.894.973	4.406.435	114	90
Securities ⁸	45.922	48.565	30.346	106	62
Placements to other banks	105.390	69.314	84.089	66	121
Loans	6.820.154	8.874.984	10.375.731	130	117
Loan loss provisions (LLP)	288.433	334.139	376.696	116	113
Loans – net value (loans minus LLP)	6.531.721	8.540.845	9.999.035	131	117
Business premises and other fixed assets	341.671	405.116	446.676	119	110
Other assets	187.449	237.109	246.367	126	104
TOTAL ASSETS	11.498.355	14.195.922	15.212.948	123	107
LIABILITIES:					
LIABILITIES					
Deposits	8.379.322	10.190.977	11.012.043	122	108
Borrowings from other banks	2.890	3.289	3.289	114	100
Loan Commitments	1.420.944	1.856.471	1.886.080	131	102
Other liabilities	468.614	635.143	793.856	136	125
CAPITAL					
Capital	1.226.585	1.510.042	1.517.680	123	101
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	11.498.355	14.195.922	15.212.948	123	107

Table 9: Assets of banks based on the ownership structure

BANKS	31.12.2006.	31.12.2007.	30.09.2008.	RATIO
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⁷ Some state banks in their "full balance sheet" report passive and neutral items, which will be taken over by the state upon finalization of the privatization process. As of 30.09.2008., these items amounted to KM 616 million.

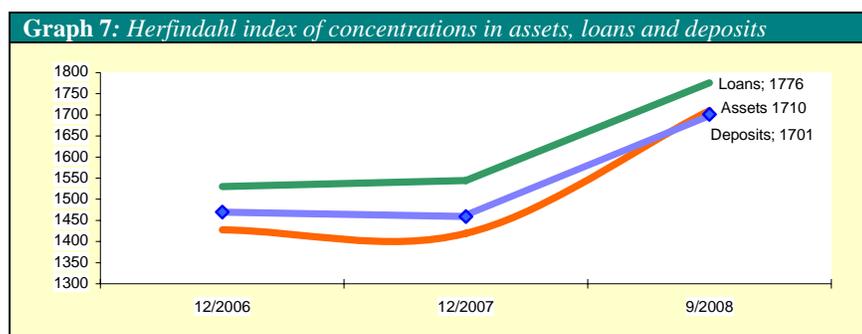
⁸ Trading securities and securities held to maturity.

	Number of banks	Assets (000 KM)		Number of banks	Assets (000 KM)		Number of banks	Assets (000 KM)	5/3	7/5	
	2	3	4	4	5	6	6	7	8	9	
State	5	474.793	4%	3	381.036	3%	2	196.631	1%	80	52
Private	18	11.023.562	96%	19	13.814.886	97%	18	15.016.317	99%	125	109
TOTAL	23	11.498.355	100%	22	14.195.922	100%	21	15.212.948	100%	123	107

Over the observed period, majority of banks recorded increase of the balance sheet total between 10% and 20%; the assets of three banks were lower than at the end of 2007 (between 2% and 15%), and only one bank (with the assets of KM 52 million at the end of 2007) recorded a significant growth of the balance sheet total of 119%.

Two of the three largest banks in the system recorded growth rate of 11,3% and 12,2%, while the assets of the third bank, which had experienced a status change of merger in the first quarter of 2008, were lower by 1,7% or KM 62 million if compared to the aggregate data at the end of 2007. The amount of KM 701 million or 70% of the aggregate growth of the balance sheet sum of the banking sector refers to these three banks.

Indicator of concentrations in the three most significant segments of banking performance in assets, loans, and deposits, is the value of the Herfindahl index⁹.



Over the three quarters of 2008, the Herfindahl indexes for concentration of assets, loans and deposits have experience an enormous growth (by 291, 232 and 242 units) and their values, as of 30.09.2008., were 1.710, 1.776 and 1.701 units. The reason for this increase of concentration indicators is integration of two banks that was performed in the third month of 2008. Since these are the two large banks in the system, the mentioned indicators have had a huge increase, and have reached the amount of 1.800 units, which is, according to the standard, the marginal value of moderate concentration, that is, the HHI value over this amount is an indicator of high concentration¹⁰.

Second indicator of concentration in the banking system is the ratio of market concentration, that is, the concentration rate¹¹ (hereinafter: CR), which indicates total market participation of the largest institutions in the system in the selected relevant categories: in assets, loans and deposits. The CR5 of market participation for loans and deposits of the five largest banks in the system were 79,7%, 82,1% and 84,1% as of 30.09.2008., and the increase in comparison to the end of

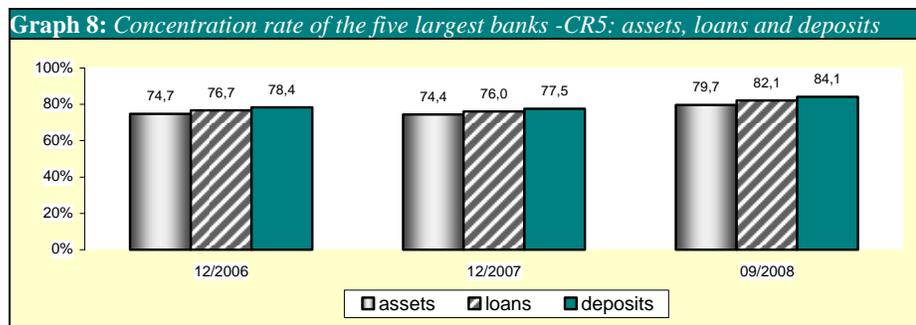
⁹ It is also called the Hirschmann-Herfindahl index or HHI as calculated in the formula $HI = \sum_{j=1}^n (S_j)^2$,

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

¹⁰ If the HHI value is below 1000, the opinion is that there is no concentration in the market; for the index value between 1000 and 1800 units, concentration in the market is moderate; and if the HHI value exceeds 1800, it indicates high concentration.

¹¹ Engl.: Concentration Ratio (CR), assigned according to the number of institutions included in the calculation.

2007 was the result of including another bank to the group of the five largest banks in the system, after integration of two banks from this group in the first quarter of 2008. Domination of the five largest banks in the system is obvious. They „hold” approximately 80% of the market (74,4% at the end of 2007), of loans and deposits.



The banking sector could be analyzed from the aspect of several groups, formed by assets size¹². Individual groups recorded smaller changes in the number of banks and their participation, as a result of assets growth in majority of banks and completion of the integration process in one bank and data of the Investment Bank of the FBiH are no longer included, after its transformation into the Development Bank of the FBiH as of 01.07.2008.

At the end of first nine months of 2008, and after integration of two banks (as of 31.12.2007. these banks were in groups I and II), three largest banks in the system (group I) still have dominant participation of 67,4%. One bank from Group III, with assets exceeding one billion KM, moved to Group II, which has caused decrease in participation and number of banks in Group III. But still, most of the changes occurred in Group IV and V, that is, three banks moved from Group V to Group IV (assets exceeded KM 100 million), but the effect is that Group IV increased by two banks, since at the same time data of the Investment Bank of the FBiH are no longer included. In the last Group V, there are four banks (two under provisional administration), with participation in the assets of the banking system of only 1,4%.

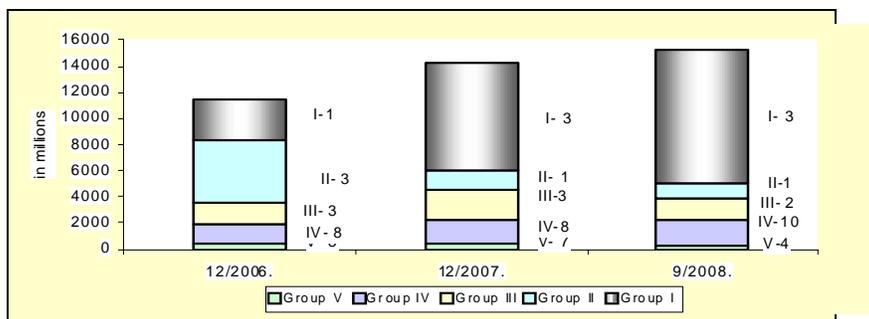
The following table presents review of amounts and participations of individual groups of banks in total assets by periods (amounts presented in KM millions).

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

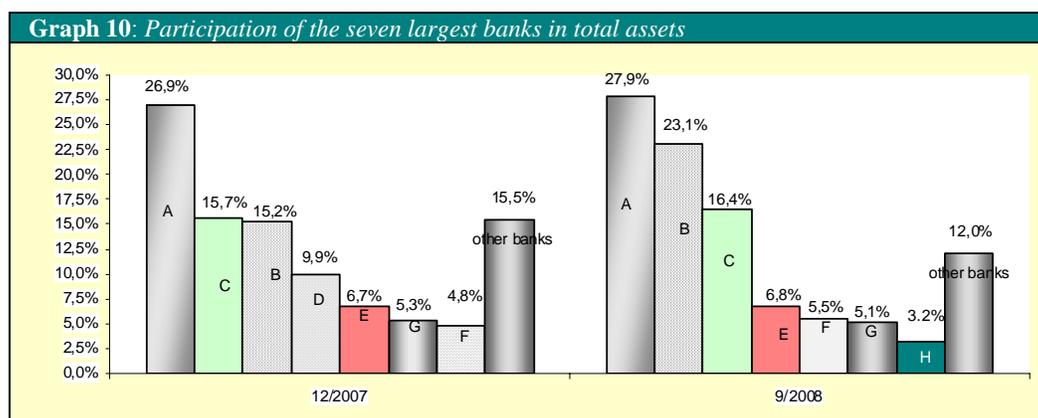
ASSETS	31.12.2006.			31.12.2007.			30.09.2008.		
	Amount	Particip %	No. of banks	Amount	Particip %	No. of banks	Amount	Particip %	No. of banks
I- Over 2.000	3.098	26,9	1	8.203	57,8	3	10.251	67,4	3
II- 1000 to 2000	4.836	42,1	3	1.409	9,9	1	1.038	6,8	1
III- 500 to 1000	1.723	15,0	3	2.392	16,8	3	1.614	10,6	2
IV- 100 to 500	1.382	12,0	8	1.741	12,3	8	2.101	13,8	10
V- Below 100	459	4,0	8	451	3,2	7	209	1,4	4
TOTAL	11.498	100,0	23	14.196	100,0	22	15.213	100,0	20

Graph 9: Participation of individual groups of banks in total assets by periods

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



The following graph presents the structure and participation trend of the seven largest banks¹³ in the banking system of the Federation of BiH:



Growth of the balance sheet sum (7% or KM one billion) in the sources has been primarily financed by deposit growth (by 8% or KM 821 million), while borrowings have recorded growth of only 2% or KM 30 million, and capital by 1% or KM 8 million.

After quarterly growth rates of 6% and 8%, loans have recorded growth of only 2% in the third quarter, representing a cumulative growth over the nine months of 2008 of 17% or KM 1,5 billion, while as of 30.09.2008. loans amounted to KM 10,4 billion. The mentioned has caused a downfall of cash funds by 10% or KM 489 million (as of 30.09.2008. they amounted to KM 4,4 billion).

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

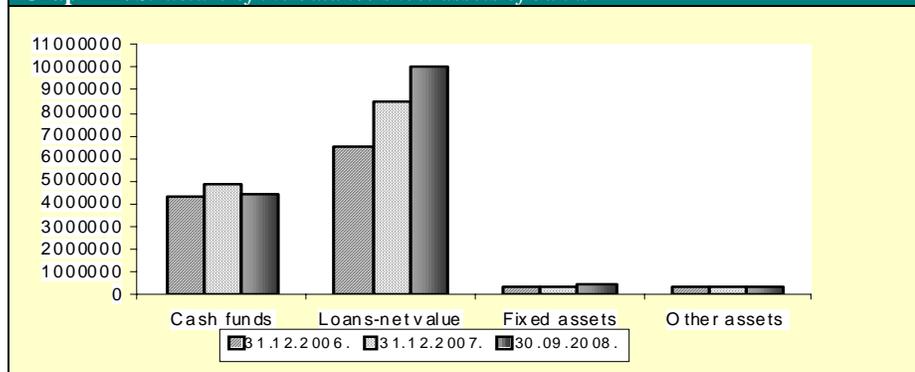
- in % -

DESCRIPTION	PARTICIPATION		
	31.12.2006.	31.12.2007.	30.09.2008.
ASSETS:			
Cash funds	37,3	34,5	29,0
Securities	0,4	0,3	0,2
Placements to other banks	0,9	0,5	0,2
Loans	59,3	62,5	68,2
Loan loss reserves (LLR)	2,5	2,4	2,5
Loans- net value (loans minus LLR)	56,8	60,1	65,7
Business premises and other fixed assets	3,0	2,9	3,0
Other assets	1,6	1,7	1,9

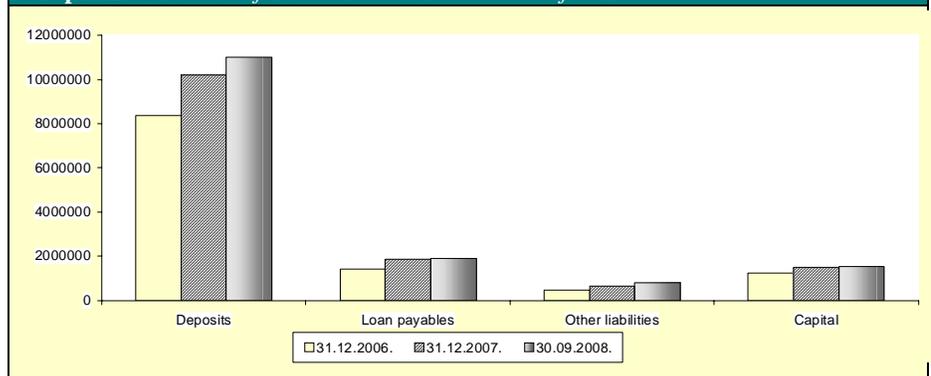
¹³ Banks are market with letters A to G.

TOTAL ASSETS	100,0	100,0	100,0
LIABILITIES:			
LIABILITIES			
Deposits	72,9	71,8	72,4
Borrowings from other banks	0,0	0,0	0,0
Loan commitments	12,3	13,1	12,4
Other liabilities	4,1	4,5	5,2
CAPITAL			
Capital	10,7	10,6	10,0
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	100,0	100,0	100,0

Graph 11: Structure of the balance sheet assets of banks



Graph 12: Structure of the balance sheet liabilities of banks



In the structure of the balance sheet liabilities of banks, from the aspect of the most significant balance sheet categories, deposits of KM 11 billion and participation of 72,4% still represent a dominant funding source for banks of the Federation of BiH. Participation of loan payables has decreased from 13,1% to 12,4%, and of capital from 10,6% to 10%.

Changes in the assets structure are the result of greater growth of loans over the observing period in 2008, which has reflected as increase of their participation from 62,5% to 68,2%, alongside with decrease of participation of cash funds from 34,5% to 29%.

Table 12: Cash funds of banks

CASH FUNDS	31.12.2006.		31.12.2007.		30.09.2008.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	241.561	5,6	311.436	6,4	334.350	7,6	129	107
Reserve accounts with CBBiH	2.258.035	52,7	2.805.568	57,3	2.738.778	62,2	124	98

Accounts with deposit institutions in BiH	21.354	0,5	12.304	0,3	14.664	0,3	58	119
Accounts with deposit institutions abroad	1.764.210	41,2	1.764.757	36,0	1.318.101	29,9	100	75
Cash funds in collection process	1.042	0,0	908	0,0	542	0,0	87	60
TOTAL	4.286.202	100,0	4.894.973	100,0	4.406.435	100,0	114	90

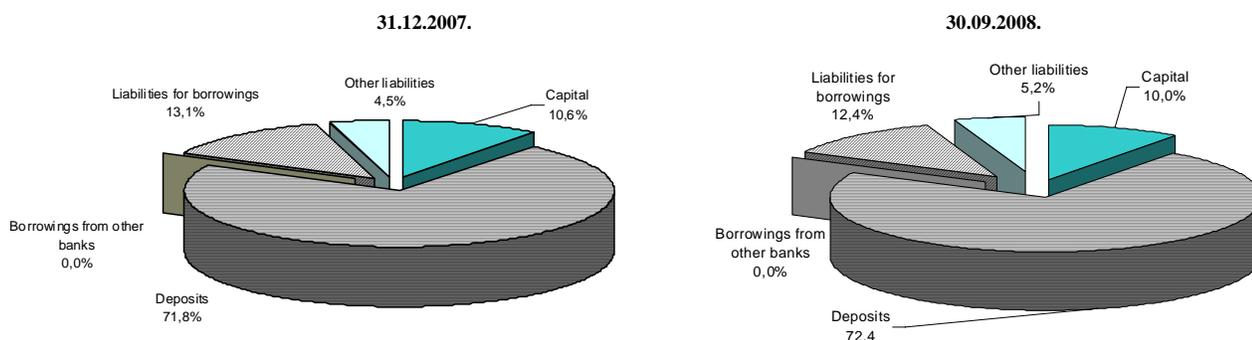
Over the three quarters of 2008, cash funds of banks in the Federation of BiH at the reserve accounts of the Central Bank of BiH decreased by 2% or KM 67 million, amounting to KM 2,74 billion or 62,2% of total cash funds, which is higher by 4,9% than at the end of 2007. It should be stressed out that as of 01.01.2008. required reserve rate increased from 15% to 18%. Banks' funds maintained at the accounts of depository institutions abroad decreased more significantly (by 25% or KM 447 million), amounting to KM 1,32 billion or 29,9% of total cash funds at the end of the observed period (36% at the end of 2007). Banks' funds held as cash in vaults and tellers amounted to KM 334 million as of 30.09.2008., representing 7,6% of total cash funds, which is higher by 1,2% than at the end of 2007.

The mentioned changes have influenced the currency structure of cash funds, that is, further growth of domestic currency participation has continued, and during the observing period participation of domestic currency has increased from 61,4% to 67,4%, resulting by decrease in participation of funds in foreign currency.

2. 1. 1. Liabilities

Structure of liabilities (liabilities and capital) in the balance sheet of banks as of 30.09.2008. is presented in the following graph:

Graph 13: Liabilities structure of banks



After longer period of downfall in participation of deposits and growth of participation of loan payables, in the third quarter, there was downfall of loan payables by 4% and deposit growth of 4%, and cumulatively, over the nine months of 2008, the realized growth rates were 2% for loan payables and 8% for deposits. This has eventually reflected through the changes of liabilities structures of banks, that is, growth of deposit participation by 0,6% and decrease of loan payables participation by 0,7%. With participation of 72,4% and amount of KM 11 billion, deposits still represent the most significant source of financing for banks in the Federation of BiH. Following high growth in 2007, credit indebtedness of banks over the observing period of 2008, is recording the minimum growth of 2% or KM 30 million, while in the same period of the prior year, credit liabilities, as the second most significant financing source, have increased by 22% or KM 306 million. These liabilities, with the amount of KM 1,97 billion, have reached the participation in liabilities of 12,4% (0,7% more than at the end of 2007). If we add to these liabilities the subordinated loans of KM 207 million, which banks have borrowed to strengthen their capital and capital adequacy, then total credit funds in the sources would have participation

of 13,8%.

Although the capital of banks in 2008 has increased by injection of new, green capital through additional capitalization of five banks, and profit generated over the nine months of 2008, we could still see that due to the status change of the Investment Bank of the FBiH and since the data of this bank are no longer included in the indicators of the banking system (after 01.07.2008.), especially due to the high amount of its capital, net effect of the mentioned changes to the overall capital at the system level over the nine months is the minimum growth of 1% or KM 8 million. As of 30.09.2008., capital amounted to KM 1,5 billion, representing participation of 10,0%.

As of 30.09.2008, the highest bank commitments came from following creditors (eight of total 51), representing 71% of total credit commitments: Raiffeisen Zentralbank Osterreich A.G. (RZB), European Investment Bank (EIB), ComercBank AG Frankfurt, European fund for Southeast Europe (EFSE), Steirmarkische Sparkasse, Bank Polska OPIEKI, Council of Europe Development Bank and EBRD.

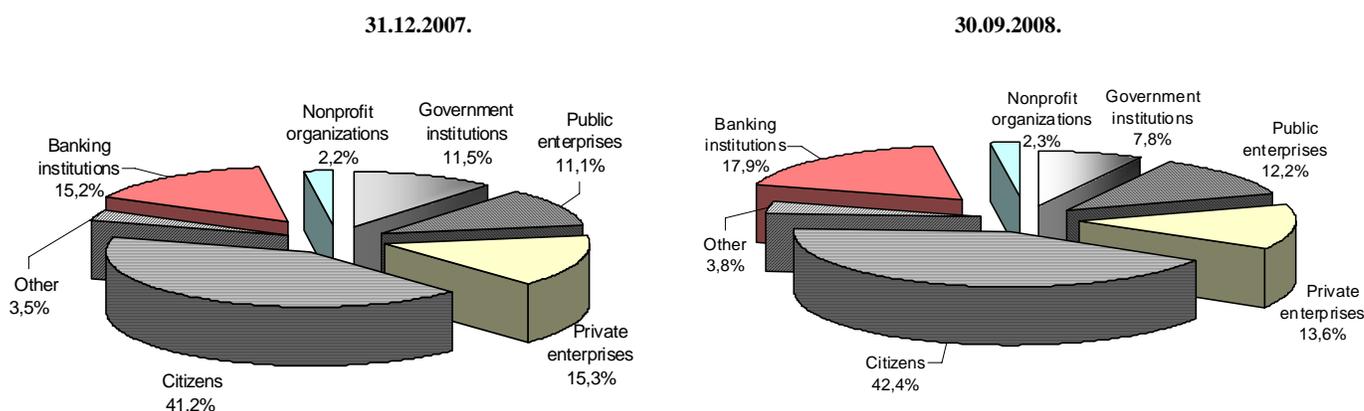
According to the data submitted by banks, out of total deposits, as of 30.09.2008., only 5% were deposits collected by organizational units of banks from the Federation of BiH, operating in Republic Srpska and Brčko District.

- in 000 KM-

Table 13: Deposit structure by sectors¹⁴

SECTORS	31.12.2006.		31.12.2007.		30.09.2008.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	1.033.902	12,3	1.171.095	11,5	856.244	7,8	113	73
Public enterprises	996.110	11,9	1.126.838	11,1	1.348.110	12,2	113	120
Private enterprises and assoc.	1.342.538	16,0	1.554.693	15,3	1.493.422	13,6	116	96
Non-profit. Organizations	193.009	2,3	225.866	2,2	252.114	2,3	117	112
Banking institutions	1.136.450	13,6	1.548.619	15,2	1.966.311	17,9	136	127
Citizens	3.403.443	40,6	4.202.161	41,2	4.672.893	42,4	123	111
Other	273.870	3,3	361.705	3,5	422.949	3,8	132	117
TOTAL	8.379.322	100,0	10.190.977	100,0	11.012.043	100,0	122	108

Graph 14: Deposit structure by sectors



Deposit growth of KM 821 million or 8%, over the observing period, has influenced deposit structure by sectors. Citizen deposits, with growth rate of 11%, have realized the highest nominal

¹⁴ Information from the attached form BS-D submitted by banks each quarter with balance sheet - FBA format.

growth of KM 471 million, amounting, as of 30.09.2008., to the amount of KM 4,7 billion and participation of 42,4%. Deposit growth of banking institutions has continued in the third quarter of 2008, and cumulatively over the three quarters they increased by KM 417 million or 27%, and almost the entire amount came from the banks of the groups (mainly shareholders) of two largest banks (approximately KM 561 million), while in one bank deposits of the „parent“ bank significantly decreased (approximately KM 124 million). In this way domestic banks get the financial support and secured inflow of new funds for financing from the group whose member they are, but on the other side, there are increased concentrations in the sources, which is directly correlated with the growth of liquidity risk and dependence on management over this risk at the level of the group to which the bank belongs to.

In the structure of total deposits, the funds of banking institutions, since the rapid growth in 2008, reached the participation level, as of 30.09.2008., of 17,9% (15,2% at the end of 2007) and have become the second significant deposit source of financing for banks in the Federation of BiH, after the sector of citizens.

Deposits of public enterprises have also increased (by KM 221 million or 20%), amounting to KM 1,3 billion and participation of 12,2%. Two sectors recorded a significant downfall of deposits: public institutions by 27% or KM 315 million, with the amount of 0,9 billion KM, their participation was 7,8%, which is lower by 3,7% than at the end of 2007. Second sector are private companies, whose deposits have also significantly decreased (by 4% or KM 62 million), while their participation decreased from 15,3% to 13,6%, amounting to KM 1,5 billion at the end of the observing period.

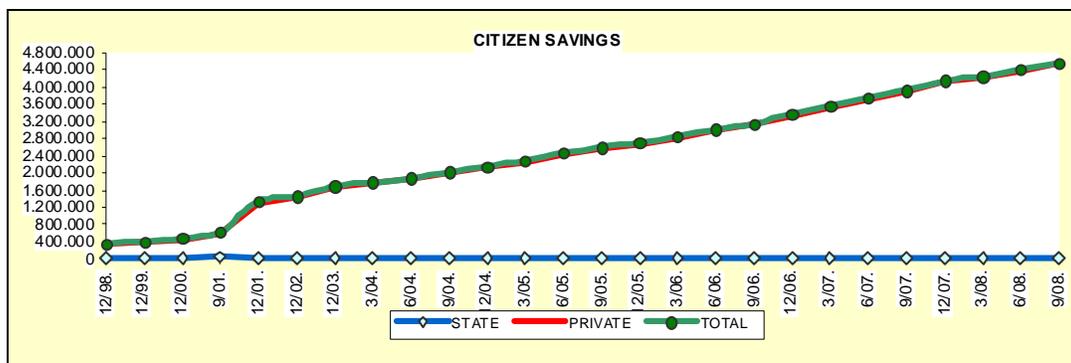
After longer period of time, in the third quarter of 2008, as well as in the prior two, changes in the currency structure of deposits continue in favor of foreign currency, that is, deposits in foreign currency (with dominant participation of EUR) in the amount of KM 6,4 billion recorded participation of 58% (55% at the end of 2007), while deposits in domestic currency in the amount of KM 4,6 billion recorded participation of 42% (45% at the end of 2007).

Savings deposits, as the most significant segment of deposit and financial potential of banks, continued with moderate and stable growth over the nine months of 2008, that is, their growth rate was 10% or KM 412 million, arriving at KM 4,53 billion. If compared to the prior quarterly growth rates and cumulative one in 2007, we could still conclude there has been a slower growth of savings in the observing period of 2008. However, just after 30.09.2008. or at the beginning of October, under influence of the widespread global financial and economic turmoil, there had been stronger pressure on banks in the Federation of BiH related to withdrawal of one segment of citizens' savings deposits that at the end of the month considerably returned to "normal" framework and the usual daily net effect (inflow and outflow). For the first time, after several years of the continuous growth of savings deposits, we recorded a negative rate, that is, downfall of savings in October 2008, so we should expect that savings deposits at the end of 2008 would remain at the similar level as in 2007.

Table 14: New citizen savings by periods

BANKS	AMOUNT (in 000 KM)			RATIO	
	31.12.2006.	31.12.2007.	30.09.2008.	3/2	4/3
1	3	3	4	5	6
State	31.723	30.469	32.652	96	107
Private	3.308.413	4.086.820	4.496.761	124	110
TOTAL	3.340.136	4.117.289	4.529.413	123	110

Graph 15: New citizen savings by periods



Three largest banks in the system hold 74,1% of savings, while 11 banks show participation below 1%, representing only 4,6% of total savings in the system.

Savings deposits in domestic currency represent 31%, while in foreign currency 69% of total savings.

Table 15: Maturity structure of citizen saving deposits by periods

BANKS	AMOUNT (in 000 KM)				RATIO			
	31.12.2006.		31.12.2007.		3/2	4/3		
1	3	3	3	4	5	6		
Short term savings deposits	1.851.173	55,4%	2.174.863	52,8%	2.411.683	53,2%	117	111
Long term savings deposits	1.488.963	44,6%	1.942.426	47,2%	2.117.730	46,8%	130	109
TOTAL	3.340.136	100,0%	4.117.289	100,0 %	4.529.413	100,0 %	123	110

Over the observing period of 2008, in the maturity structure of savings deposits, participation of long term deposits has slightly declined, which is the result of higher growth rate in short term deposits (11% or KM 237 million) than long term deposits (9% or KM 176 million). Within short term deposits, we should emphasize the significant growth of 36% or KM 179 million of term deposits up to one year, while demand deposits were higher by 3,5% or KM 58 million, which has increased participation of short term deposits from 52,8% to 53,2%.

Continuous growth and positive trends in the segment of savings in banks of the FBiH are primarily the result of, on one side, strengthening of safety and stability of the overall banking system, where the key importance is given to the existence of functional, effective and efficient banking supervision conducted by the FBA, and, on the other side, deposit insurance system with the main purpose to increase stability of the banking, that is, financial sector and protection of savers. There is total 14 banks from the Federation of BiH that were accepted to the deposit insurance program, and according to the submitted data, there is total 97% of total deposits and 98% of total savings deposited in these banks. As for remaining banks, six of them cannot apply to be accepted since they do not qualify with the criteria prescribed by the Deposit Insurance Agency: two state owned banks due to their ownership structure, one private bank with participation of state capital exceeding 10%, and one private bank under provisional administration, while two banks are currently in process of acceptance to the insurance program.

2.1.2. Capital - strength and adequacy

Capital¹⁵ of banks in the FBiH, as of 30.09.2008., amounted to KM 1,9 billion.

¹⁵ Regulatory capital as defined by Article 8 and 9 of Decision on Minimum Standards for Capital Management in Banks (Official Gazette of the Federation of BiH, number 3/03, 18/03, 53/06, 55/07, 81/07, 6/08).

-in 000 KM-

Table 16: Regulatory capital						
DESCRIPTION	31.12.2006.	31.12.2007.	30.09.2008.	RATIO		
				3/2	4/3	
1	2	3	4	5	6	
STATE BANKS						
1. Core capital before reduction	169.829	145.802	44.478	86	31	
2. Offsetting items	5.034	2.018	1.995	40	99	
a) Core capital (1-2)	164.795	143.784	42.483	87	30	
b) Supplementary capital	9.370	6.017	1.491	64	25	
c) Capital (a + b)	174.165	149.801	43.974	86	29	
PRIVATE BANKS						
1. Core capital before reduction	1.029.002	1.316.424	1.480.752	128	112	
2. Offsetting items	104.704	124.137	162.080	119	131	
a) Core capital (1-2)	924.298	1.192.287	1.318.672	129	111	
b) Supplementary capital	374.448	531.057	526.146	142	99	
c) Capital (a + b)	1.298.746	1.723.344	1.844.818	133	107	
Total						
1. Core capital before reduction	1.198.831	1.462.226	1.525.230	122	104	
2. Offsetting items	109.738	126.155	164.075	115	130	
a) Core capital (1-2)	1.089.093	1.336.071	1.361.155	123	102	
b) Supplementary capital	383.818	537.074	527.637	140	98	
c) Capital (a + b)	1.472.911	1.873.145	1.888.792	127	101	

Over the observing period of 2008, capital¹⁶ increased by 1% or KM 15,6 million in comparison to 2007, of which core capital increased by 2% or KM 25 million, and supplementary decreased by 2% or KM 9 million, resulting by the following structure of the regulatory capital as of 30.09.2008.: core capital was 72% and supplementary capital was 28%.

Growth of core capital is primarily based on distribution of profit reported for 2007 into the capital. Following legal procedure for decision on distribution of the audited profit that has been processed and adopted by the assemblies, the profit realized in 2007 (by 18 banks, while four banks reported loss of KM 8,2 million) of KM 118,1 million has been distributed of 71% in the core capital (reserves or retained-undistributed profit). Six banks have made decision to pay out dividends in total amount of KM 33,3 million, representing approximately 29% of the generated profit. However, one bank has allocated additional KM 6,3 million for dividends from its retained profit.

Increase of shareholder's capital from the inflow of new, green capital-additional capitalization of KM 79 million in five banks with realization of the exchange premium of eight million has significantly influenced, among other things, the growth of core capital. At the same time, as a result of the status change of integration of two banks, share capital decreased by KM 18 million

¹⁶ Data source is quarterly Report on Capital Positions of Banks (Form 1-Schedule A) regulated by the Decision on Minimum Standards for Managing Capital in Banks.

by which the exchange premium of the resulting bank has increased. The status change of the Investment Bank of the FBiH or its transformation to the Development Bank of the FBiH as of 01.07.2008. represents the major influence to decrease of share capital, resulting by decrease of core capital of KM 105 million.

Offsetting items (causing decrease of core capital) have increased by KM 37,9 million, mainly as a result of current loss amounting to KM 32,5 million.

Supplementary capital decreased by KM 9,4 million, and the most significant changes are: profit in 2007 of KM 94 million was transferred to core capital, general reserves for loan losses increased by KM 38 million, subordinated debts by KM 15 million, and hybrid items and permanent character liabilities by KM 10,5 million. One bank included the audited profit for the first nine months of 2008 in its supplementary capital in total amount of KM 20,5 million.

The mentioned changes have influenced the structure of regulatory capital, so participation of core capital increased by only 1% (from 71% to 72%), and supplementary capital decreased by the same change.

Net capital, as well as regulatory capital, had the same absolute and relative growth of 1% or KM 15,6 million, amounting to KM 1,87 billion as of 30.09.2008.

Capitalization rate of banks, expressed as capital to assets ratio, as of 30.09.2008., was 12,1%, which is lower by 0,8% if compared to the end of 2007.

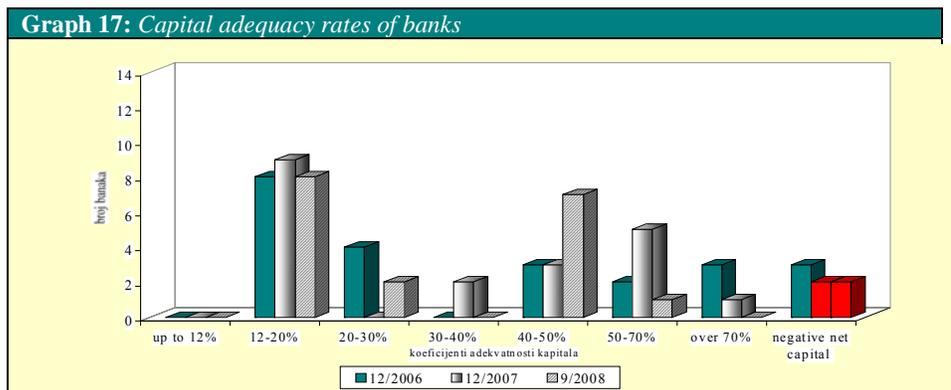
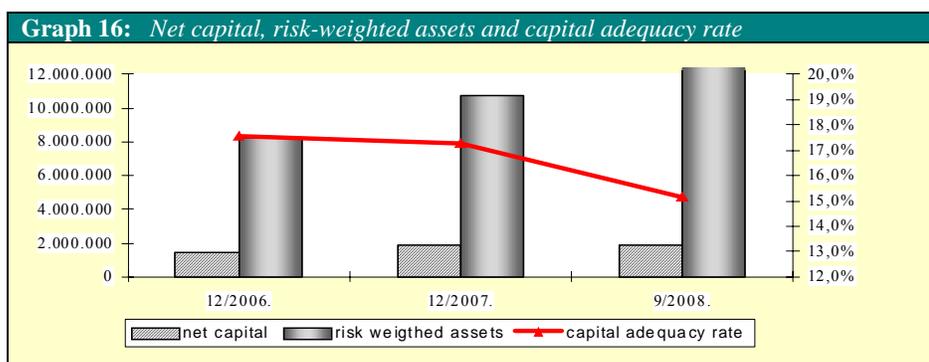
One of the most significant indicators of capital strength and adequacy¹⁷ of banks is capital adequacy ratio calculated as ratio between net capital and risk weighted assets. As of 30.09.2008., this ratio calculated at the system level was 15,2%, which is lower by 2,1% than at the end of 2007. This is relatively significant downfall, but also expected from the two reasons: higher growth rate of risk assets (15%) than of net capital (1%), the number of banks is lower by one (Investment Bank of the FBiH that had high capital adequacy rate) and methodology of capital adequacy accrual during the year, that is, not including the amount of the generated current profit. If non-audited profit for the first nine months of 2008 is included in the calculation, capital adequacy rate would be 15,7%.

While conducting supervision of operations and financial positions of banks in the FBiH as regulated by the Law, the FBA has been issuing 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.

- 000 KM -

Table 17: Net capital, risk-weighted assets and capital adequacy rate					
O P I S	31.12.2006.	31.12.2007.	30.09.2008.	INDEKS	
				3/2	4/3
1	2	3	4	5	6
NET CAPITAL	1.455.675	1.857.109	1.872.756	128	101
RISK WEIGHED ASSETS AND CREDIT EQUIVALENTS	8.282.086	10.740.880	12.341.079	130	115
NET CAPITAL RATE (CAPITAL ADEQUACY)	17,6%	17,3%	15,2%	98	88

¹⁷ The Law prescribes minimum capital adequacy rate of 12%.



Of total 20 banks in the FBiH as of 30.09.2008., capital adequacy rate of 18 banks was higher than minimum prescribed by the law of 12%, while two banks, under provisional administration, recorded capital adequacy rate below 12%, that is, negative adequacy rate. The rate of majority of banks (15) is lower than at the end of 2007, capital adequacy of three banks was better than at the end of 2007, of which in two banks this was the result of additional capitalization performed during the first six months of 2008.

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

- Eight banks had the rate between 12,5% and 20%, and three largest banks from 12,6% to 14,2%,
- Nine banks had the rate between 21% and 50%,
- One bank had the rate between 51% and 70%.

Further strengthening of capital base will be priority task in majority of banks as it has been the case so far, especially in the largest banks of the system, which is necessary to strengthen stability and safety of both banks and the entire banking system. 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 initiates 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.

2.1.3. Assets and asset quality

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

Total assets with off-balance sheet items (assets)¹⁸ of banks in the FBiH, as of 30.09.2008. was KM 18,4 billion, which is higher by 8% or KM 1,4 billion than at the end of 2007.

Gross assets¹⁹ of the balance sheet amounted to KM 15,6 billion, which is higher by 7% or KM 1,1 billion than at the end of 2007. Off-balance sheet risk items amounted to KM 2,8 billion, representing an increase by 15% or KM 369 million.

-in 000 KM-

DESCRIPTION	AMOUNT (in 000 KM)						RATIO	
	31.12.2006.	Struct. %	31.12.2007.	Struct. %	30.09.2008.	Struct. %	4:2	6:4
1.	2	3	4	5	6	7	8	9
Loans	6.609.302	56,0	8.660.761	59,6	10.176.790	65,2	131	118
Interests	36.210	0,3	53.512	0,4	60.680	0,4	148	113
Past due claims	206.720	1,8	210.585	1,4	197.373	1,3	102	94
Claims for paid guarantees	4.132	0,0	3.638	0,0	1.567	0,0	88	43
Other placements	47.739	0,4	61.910	0,4	51.125	0,3	130	83
Other assets	4.893.407	41,5	5.552.875	38,2	5.115.343	32,8	113	92
TOTAL ASSETS	11.797.510	100,0	14.543.281	100,0	15.602.878	100,0	123	107
OFF-BALANCE SHEET	1.826.980		2.453.214		2.822.654		134	115
ASSETS WITH OFF-BALANCE SHEET	13.624.490		16.996.495		18.425.532		125	108
RISK ASSETS WITH OFF-BALANCE SHEET	8.871.314		11.624.445		13.529.868		131	116
General loan risk and Potential loan losses	343.737		409.833		457.702		119	112
General and Special loan loss reserves already established	345.067		409.895		458.359		119	112

Non-risk items amount to KM 4,9 billion or 27% of total assets with off-balance sheet items and they decreased by 9% in comparison to the end of 2007, which is primarily the result of cash funds decrease. On the other hand, risk assets with off-balance sheet amount to KM 13,5 billion and they increased by 16% or KM 1,9 billion over the nine months of 2008.

¹⁸ Assets defined by Article 2 of Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks (Official Gazette of the FBiH, number 3/03, 54/04, 68/05).

¹⁹ Data source: Report on classification of balance sheet assets and off-balance sheet items of banks.

Credit placements²⁰ increased by 17% or KM 1,5 billion in comparison to 2007, reaching the amount of KM 10,4 billion and participation in the assets structure of 68%. Past due claims decreased by 6%, and their participation in the assets structure amounts to 1,3%.

Three largest banks in the FBiH increased their credit placements by KM 986 million, representing 66% of total increase at the level of the banking sector, so, as of 30.09.2008., three largest banks with loans of KM 7,2 billion had participation of 69% in total loans at the system level.

From the aspect of sectors to which banks have originated loans, we should emphasize that positive trend of 2007 has remained in 2008, that is, lending to private companies was higher than lending to citizens. Placements to private companies recorded over nine months of 2008 the increase of 19% or KM 767 million, which has increased their participation from 45% to 46,9%. Slightly lower growth of 16% or KM 719 million was recorded in loans to citizens, while their participation decreased from 50,3% to 49,9%. According to the data submitted by banks as of 30.09.2008., from the aspect of citizen loan structure by purpose, there has been longer period of time without changes, that is, the highest participation of approximately 71% was recorded in loans originated to finance consumer goods²¹, followed by housing loans of 24%, and remaining 5% were loans to small crafts and small business and agriculture.

Three largest banks in the system financed 67% of total loans originated to citizens, which is higher by 7% than at the end of 2007, and 70% to private companies, which is higher by 6% than at the end of 2007.

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

-in 000 KM-

Table 19: Structure of loans by sectors

SECTORS	31.12.2006.		31.12.2007.		30.09.2008.		INDEX	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	27.084	0,4	32.556	0,4	75.497	0,7	120	232
Public enterprises	192.394	2,8	211.465	2,4	168.903	1,6	110	80
Private enterprises and assoc.	3.029.964	44,4	3.998.141	45,0	4.765.440	45,9	132	119
Non-profit organizations	28.445	0,4	26.768	0,3	9.316	0,1	94	35
Banking institutions	52.279	0,8	114.084	1,3	137.319	1,3	218	120
Citizens	3.471.829	50,9	4.461.965	50,3	5.180.507	49,9	129	116
Other	18.159	0,3	30.005	0,3	38.749	0,5	165	129
TOTAL	6.820.154	100,0	8.874.984	100,0	10.375.731	100,0	130	117

Currency structure of loans has also been unchanged for longer period of time: loans financed with currency clause had the highest participation of 75% or KM 7,7 billion, loans in domestic currency of 24% or KM 2,4 billion, and loans in foreign currency had the lowest participation of only 2% or KM 194 million.

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.

²⁰ Short term and long term loans, past due claims and claims based on paid-called for payment guarantes.

²¹ Including card based operations.

Quality of assets and off-balance sheet risk items, general loan risk, potential loan losses by classification categories²² and off-balance sheet items are presented in the following table:

Table 20: Asset classification, general loan risk (GLR), potential loan losses (PLL) and off-balance sheet items (charged off assets and suspended interest)											
Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in %)									RATIO	
	31.12.2006.			31.12.2007.			30.09.2008.			5/2	8/5
	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL		
1	2	3	4	5	6	7	8	9	10	11	12
A	7.513.553	84,7	150.390	9.876.208	85,0	197.719	11.769.958	87,1	235.408	131	119
B	1.073.906	12,1	79.451	1.478.711	12,7	105.446	1.436.841	10,6	100.310	138	97
C	147.718	1,7	36.574	143.658	1,2	35.717	177.585	1,3	43.174	97	124
D	135.980	1,5	77.181	122.003	1,1	67.086	141.463	1,0	74.789	90	116
E	157	0,0	141	3.865	0,0	3.865	4.021	0,0	4.021	2462	104
Risk assets (A-E)	8.871.314	100,0	343.737	11.624.445	100,0	409.833	13.529.868	100,0	457.702	131	116
Non-risk assets²³	4.753.176			5.372.050			4.895.664			113	91
TOTAL	13.624.490			16.996.495			18.425.532			125	108
OFF-BALANCE SHEET ITEMS											
	409.108	89,7		430.069	90,1		428.931	89,1		105	100
Susp. interest	46.546	10,3		46.929	9,9		52.841	10,9		101	113
TOTAL	455.654	100,0		476.998	100,0		481.772	100,0		105	101

Risk assets with off-balance sheet items (A-E) amount to KM 13,5 billion. They increased by 16% or KM 1,9 billion. Non-risk items amount to KM 4,9 billion, and they decreased by 9% in comparison to the end of 2007, as a result of the cash funds decrease.

If we analyze the quality of risk assets, we notice the minimum increase of classified assets (B-E) over nine months of 2008 of 1% or KM 12 million due to growth of the substandard assets (category C) of 24% or KM 34 million; doubtful assets (category D) by 16% or KM 19 million, while the special mentioned placements (category B) decreased by 3% or KM 42 million. Classified assets, as of 30.09.2008., amounted to KM 1,8 billion. Poor quality assets (C-E) increased by 20% or KM 54 million, amounting to KM 323 million as of 30.09.2008., noting that in the same period there was the assets charge off (write off to the off-balance sheet) of KM 32 million. The assets quality indicators expressed as ratio, that is, participation of individual categories in risk assets have changed, which is the result of the above mentioned. The ratio of classified assets and risk assets, due to faster growth of risk assets (16%) than classified assets (1%) has slightly improved, and, if compared to the end of 2007, it is lower by 2%, amounting to 13%.

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

²³ Assets items that are not, according to Article 22, Paragraph 7 of Decision on Minimum Standards for Bank Credit Risk and Assets Classification Management, subject to accrual of general loan loss provisions of 2%.

If we analyze only the ratio and trend of poor quality assets and risky assets, as of 30.09.2008., this ratio was 2,4%, which is relatively low ratio, and, if compared to the end of 2007, it is higher by 0,1%. However, if we take into account that participation of category B in risky assets amounts to 11%, expressing doubt that portion of placements reported under this category have worst quality and should be placed under the category of poor quality assets, that is, some banks practice not to timely establish adequate loan loss provisioning (as confirmed through on-site examinations, resulting by insufficient loan loss reserves), we could make conclusion there is still a slight trend of deterioration in the assets quality. That is why it is of key importance that banks more realistically evaluate 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 have not been timely detected, that is, they are in some way hidden through the highest increase of category B.

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

Table 21: Classification of loans originated to citizens and legal entities											
Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in%)										RATIO
	31.12.2007.					30.09.2008.					
	Citizens	Partic. %	Legal entities	Partic. %	TOTAL	Citizens	Partic. %	Legal entities	Partic. %	TOTAL	
1	2	3	4	5	6 (2+4)	7	8	9	10	11 (7+9)	12
A	4.176.207	93,60	3.273.549	74,18	7.449.756	4.870.831	94,02	4.053.489	78,02	8.924.320	120
B	199.186	4,46	970.657	22,00	1.169.843	196.665	3,80	943.443	18,16	1.140.108	97
C	56.100	1,26	82.244	1,86	138.344	72.550	1,40	100.667	1,94	173.217	125
D	30.454	0,68	86.569	1,96	117.023	40.461	0,78	97.451	1,88	137.912	118
E	18	0,00	0	0,00	18	0	0,00	174	0,00	174	967
TOTAL	4.461.965	100,00	4.413.019	100,00	8.874.984	5.180.507	100,00	5.195.224	100,00	10.375.731	117
Classified loans (B-E)	285.758	6,40	1.139.470	25,82	1.425.228	309.676	5,98	1.141.735	21,98	1.451.411	102
Poor quality loans (C-E)	86.572	1,94	168.813	3,83	255.385	113.011	2,18	198.292	3,82	311.303	122
Loan structure		50,28		49,72	100,00		49,93		50,07	100,00	
Participation by sectors in classified loans, poor quality loans and category B:											
Classification B-E		20,05		79,95	100,00		21,34		78,66	100,00	
Poor quality C-E		33,90		66,10	100,00		36,30		63,70	100,00	
Category B		17,03		82,97	100,00		17,25		82,75	100,00	

As of 30.09.2008., of total loans originated to legal entities in the amount of KM 5,2 billion, KM 1,1 billion or 22% was classified in categories B to E (KM 1,1 billion or 25,8% was at the end of 2007), and of total loans originated to citizens in the amount of KM 5,2 million, KM 310 million or 6% was classified in categories B to E (KM 286 million or 6,4% was at the end of 2007).

Poor quality assets represent KM 198 million or 3,8% of all the loans originated to legal entities (as of 31.12.2007., they amounted to KM 169 million or 3,8%). As for the sector of citizens, loans classified as poor quality represent KM 113 million or 2,2% of total loans originated to this sector (as of 31.12.2007, they amounted to KM 87 million or 2%).

Observed indicators of the quality of loans originated to legal entities and citizens have slightly deteriorated if compared to 2007, while in order to make more realistic assessment we should take into account the amount of loans that banks, in the meantime, have charged off to the off-balance sheet, which is presented in the following table.

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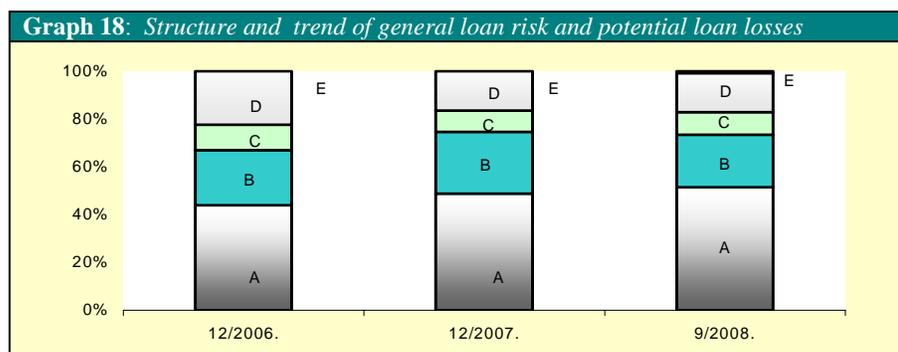
Table 22: Off-balance sheet records: charged off assets and suspended interest

DESCRIPTION	CITIZENS		LEGAL ENTITIES		TOTAL	
	Charged off assets	Suspended interest	Charged off assets		Charged off assets	Suspended interest
1	2	3	4	5	6	7
Opening balance as of 31.12.2007.	66.060	7.187	364.009	39.742	430.069	46.929
<i>Changes in 2008:</i>						
- new charge offs (current year)	30.130	4.390	1.941	8.991	32.071	13.381
- payments made in the current year	10.770	2.896	17.409	3.106	28.179	6.002
- permanent charge off	122	50	4.908	1.417	5.030	1.467
Balance as of 30.09.2008.	85.298	8.631	343.633	44.210	428.931	52.841

Balance of the charged off assets as of 30.09.2008. was KM 429 million and it maintains the level of 2007, while the balance of suspended interest was higher by 13%, amounting to KM 53 million.

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

Table 23: Structure and trend of general loan risk and potential loan losses								
Classification category	AMOUNT (in 000 KM) AND STRUCTURE (in %)						RATIO	
	31.12.2006.		31.12.2007.		30.09.2008.		4/2	6/4
1	2	3	4	5	6	7	8	9
A	150.390	43,8	197.719	48,2	235.408	51,5	131	119
B	79.451	23,1	105.446	25,7	100.310	21,9	133	95
C	36.574	10,6	35.717	8,7	43.174	9,5	98	121
D	77.181	22,5	67.086	16,4	74.789	16,3	87	111
E	141	0,0	3.865	1,0	4.021	0,8	2.741	104
TOTAL	343.737	100,0	409.833	100,0	457.702	100,0	119	112



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

Based on the analysis of the established provisions, in total amount and by classification categories, if compared to the end of 2007, general loan risk and potential loan loss provisions have increased by 12%, amounting to KM 458 million, that is, 3,4% of risk assets with off-balance sheet (3,5% at the end of 2007). As of 30.09.2008., banks in average allocated for category B 7%, for category C 24,3%, category D 52,9% and E 100%.

Analysis of assets quality, that is, loan portfolio of individual banks, as well as on-site examinations at banks, indicate loan risk as still dominant risk with majority of banks, which is

raising a concern that some banks still have inadequate management practices, that is, evaluation, measuring, monitoring and control of loan risk and assets classification, which was determined in on-site examinations through significant amount of insufficient loan loss reserves that banks have established based on the orders issued by the FBA. However, the problem is not essentially resolving.

The FBA has ordered corrective measures to those banks whose assets quality was rated poor by the examination in sense of preparation of the operating program that has to contain action plan aimed to improve existing practices for loan risk management, that is, assets quality management, decrease of existing concentrations and resolution of the 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 various types of risks, of which the most significant is the risk of transactions with related entities of banks.

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

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

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

-000 KM-

Table 24: Transactions with related entities					
Description	ORIGINATED LOANS ²⁴			RATIO	
	31.12.2006.	31.12.2007.	30.09.2008.	3/2	4/3
1	2	3	4	5	6
Shareholders over 5% of voting rights, subsidiaries and other related enterprises	21.333	26.083	82.617	122	317
Supervisory Board and Audit Board members	38	145	327	382	226
Bank Management	1.962	2.355	2.127	120	90
TOTAL	23.333	28.583	85.071	123	298
Potential and undertaken off-balance sheet liabilities	1.072	1.936	11.035	180	570

Although the volume of the transactions with the mentioned categories of related entities subject to reporting (especially potential and undertaken liabilities) based on guarantees issued for

²⁴ It includes, apart from loans, other claims, deposited funds and placements to shareholders (financial institutions) with voting rights exceeding 5%.

„sister“ leasing companies in BiH (two banks), we may conclude that this is a small amount of credit-guarantee transactions with related entities and that the risk level is low. The FBA pays 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 activities is also to monitor and supervise implementation of the issued orders in the follow up procedure. This has had a positive influence on this segment of operations, since the risk management quality of banks has significantly improved.

2.2. Profitability

According to the data from income statement, banks in the Federation of BiH, in the first nine months of 2008, reported positive financial result-profit of KM 57,1 million, representing a significant decrease of 50% or KM 56,3 million at the system level if compared to the same period of 2007, or this profit has reached only 48% of profit generated in 2007, therefore we should conclude that this segment of performance has deteriorated in majority of banks in the Federation of BiH. We should elaborate that decrease of the financial result has been under the following influence: accrued tax (KM four million) and capitalized profit of bank (integrated into another bank as of 29.02.2008.) it was KM 1,8 million for two months of 2008 (as of 01.03.2008. on the accounts of capital) and exclusion of the Investment Bank of the FBiH from the system of commercial banks, which based on the Law on Development Bank of the FBiH has been reregistered as Development Bank of the FBiH (this bank's profit for the last year was KM 3,5 million).

Positive financial result of KM 89,6 million was generated by 14 banks, which is lower by 23,7% or KM 27,8 million than in the same period of 2007. At the same time, six banks reported loss of KM 32,5 million, which is seven times higher or by KM 28,5 million than in the same period of 2007.

More detailed information is presented in the following table:

-000 KM-

Date/Description	At the system level		State banks		Private banks	
	Amount	No. of banks	Amount	Amount	No. of banks	Amount
30.09.2006.						
Loss	-6.844	6	-1.634	2	-5.210	4
Profit	79.956	16	3.384	3	76.572	13
Total	73.112	22	1.750	5	71.362	17
30.09.2007.						
Loss	-4.008	4	-	-	-4.008	4
Profit	117.395	18	4.906	3	112.489	15
Total	113.387	22	4.906	3	108.481	19
30.09.2008.						
Loss	-32.508	6	-	-	-32.508	6
Profit	89.624	14	2.656	2	86.968	12
Total	57.116	20	2.656	2	54.460	18

Similar to other segments, there are concentrations in this segment: of total profit generated (KM 89,8 million) 71,5% or KM 64,1 million was generated by the two largest banks in the system,

whose participation in the banking system assets is 50,9%. The reported loss of KM 32,5 million of the overall loss refers to one foreign bank that, with its participation in assets of 16,4%, holds third position with KM 19,8 million. The loss reported by this bank is the result of extremely high expenses caused by securities trading.

Financial result of state banks does not have any significant influence to the overall profitability of the banking sector.

Based on analytical data and indicators of profitability quality assessment (level of generated financial result-profit/loss and ratios used for assessment of profitability, productivity and effectiveness of performance and other parameters related to the assessment of performance), overall profitability of the system has significantly deteriorated if compared to the same period last year. Generally in the system, and especially in the large banks-holders of profitability, the generated profit has been increasing at slower pace or has been lower than in majority of banks in the system as a result of faster growth of interest and non-interest-bearing expenses in comparison to the overall income. However, adverse financial result is mainly under influence of the financial result of one bank, which is, as mentioned, related to the securities trading. It should be emphasized that this bank, in the first six months of last year, reported extremely high profit on the same basis.

Total income realized on the system level was KM 604,7 million, with growth rate of 2% or KM 11,8 million. Total noninterest bearing expenses amount to KM 543,9 million, with growth rate of 13% or KM 64,4 million, which has negatively reflected on the overall financial result of the sector.

If we analyze the structure of total income and changes in the most significant categories, we should conclude that there is still, although with slower pace, increase in participation of net interest income, representing 63,2% of total income (62,8% in the same period of 2007), while participation of operating income has decreased from 37,2% to 36,8%.

Total interest income amounts to KM 692 million, and if compared to the same period last year, it has increased by 15% or KM 88,9 million. In the structure of total income, its participation increased from 102% to 114%. This positive trend is the result of a faster growth of interest income than growth of the average interest-bearing assets, that is a continuous growth of credit placements and their relatively good quality, improved practices of free cash funds management and, on the same basis, significant growth of interest on funds of depository institutions and implementation of the IAS 18 provisions.

On the other hand, if compared to the growth of interest income, interest expenses recorded faster growth, that is, the rate of 34% or KM 79 million, amounting to KM 309,9 million. Also, their participation in the structure of total income has increased from 38,9% to 51,2% in comparison to the same period last year. Interest expenses recorded trend of faster growth as result of a continuous growth of credit liabilities (primarily foreign indebtedness) and term deposits, and trend of growth of interest rates on deposits and borrowings.

Although due to faster growth of interest expenses, net interest income of KM 382,2 million recorded lower growth rate (3% or KM 9,8 million), its participation in the structure of total income has increased from 62,8% to 63,2%.

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

Operating income amounts to KM 222,6 million, which has increased slower than net interest income, that is, they increased by 1% or KM 1,9 million if compared to the same period last year, and their participation in the overall income decreased from 37,2% to 36,8%. This

deterioration is mainly caused by enormous downfall of securities trading income (from KM 16,3 million to KM 0,3 million) of one bank due to the extreme changes of prices in the securities market, and decreased fee income on loans as a result of the accounting policies changes in the segment of treatment methodology and recognition of fee income related to loans, and especially due to more present growth of long term loans if compared to short term loans. Within operating income, both nominally and in percentages, in comparison to the same period last year, fee income recorded faster growth by KM 9,5 million or 10%.

Total non-interest bearing expenses recorded faster growth than net interest income (13%), amounting to KM 543,9 million as of 30.09.2008., and they increased by KM 64,4 million if compared to the same period last year. At the same time their participation in the structure of total income has increased from 80,9% to 90,0%. However, if we compare their relative and nominal growth for the period of nine months in 2007 to the same period in 2006 (15% or KM 63,6 million), the conclusion is that banks were good at managing non-interest bearing expenses, growth rate was even lower by two percentages, while the main cause of such worst financial result is decreased total income and significant downfall of operating income based on trading, and net interest income, due to the above mentioned reasons.

Within non-interest bearing expenses, the highest nominal growth was recorded in salaries and contribution expenses of KM 20,7 million or 13%. Other operating expenses amounted to KM 18,8 million or 25%, while their participation in the structure of total income increased from 12,8% to 15,6%. Within operating expenses, negative effects of securities trading were reported by three banks of KM 22 million, which has much negatively reflected on the profit of the entire system over the first nine months of 2008. In the past two years, oscillations in certain periods expressed through generated income or expenses, both nominally and relatively, indicate a high influence of market risk from this segment to the financial result of both the banks involved in such activities and the entire banking system.

Business premises and fixed assets expenses amount to KM 18,6 million with growth rate of 21%.

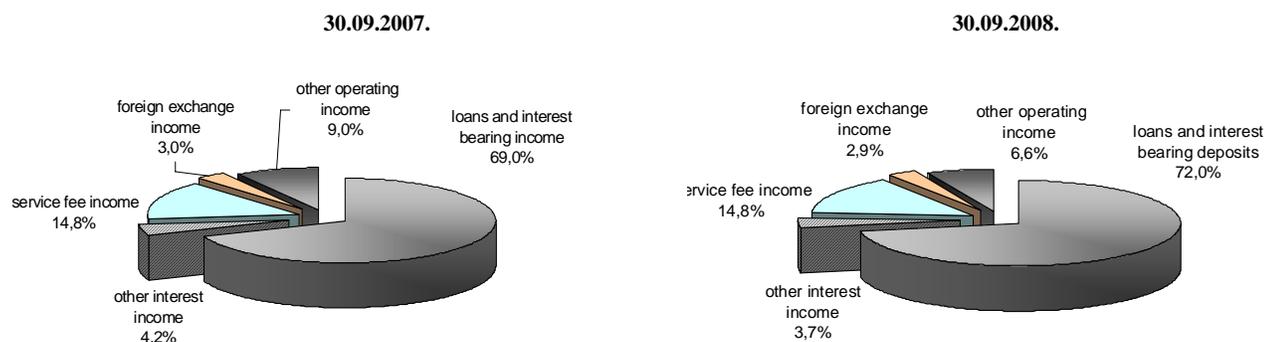
Loan loss provisioning recorded a slight growth of 2% or KM 2,6 million, which leads to the issue of adequacy of the established reserves and potentially hidden loan losses with certain number of banks.

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

-in 000 KM-

Table 26: Structure of total income								
Structure of total income	30.09.2006.		30.09.2007.		30.09.2008.		RATIO	
	Amount	%	%	%	%	%	4/2	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	46.151	7,0	87.402	10,6	67.208	7,4	189	77
Loans and leasing	389.577	59,3	481.167	58,4	591.322	64,6	124	123
Other interest income	14.317	2,2	34.588	4,2	33.504	3,7	242	97
TOTAL	450.045	68,5	603.157	73,2	692.034	75,7	134	115
II Operating income								
Service fees	123.289	18,8	121.960	14,8	135.647	14,8	99	111
Foreign exchange income	23.754	3,6	24.925	3,0	27.003	2,9	105	108
Other operating income	59.924	9,1	73.714	9,0	59.922	6,6	123	81
TOTAL	206.967	31,5	220.599	26,8	222.572	24,3	107	101
TOTAL INCOME (I + II)	657.012	100,0	823.756	100,0	914.606	100,0	125	111

Graph 19: Structure of total income

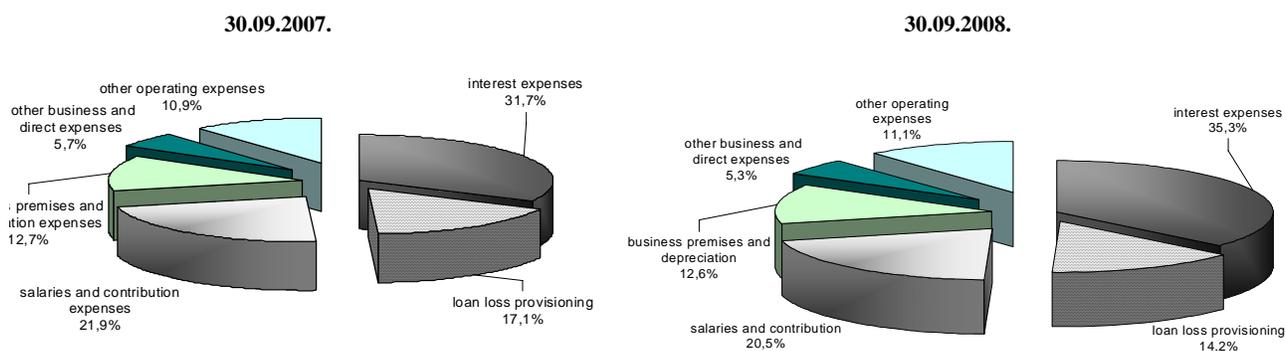


- in 000 KM-

Table 27: Structure of total expenses

Structure of total expenses	30.09.2006.		30.09.2007.		30.09.2008.		RATIO		
	Amount	%	Amount	%	Amount	%	4/2	6/4	
	1	2	3	4	5	6	7	8	9
I Interest expenses and similar expenses									
Deposits	124.245	21,3	162.332	22,8	213.720	25,0	131	132	
Liabilities for borrowings	36.829	6,3	59.478	8,4	79.844	9,4	161	134	
Other interest expenses	6.933	1,2	9.062	1,3	16.320	1,9	131	180	
TOTAL	168.007	28,8	230.872	32,5	309.884	36,3	137	134	
II Total non-interest bearing expenses									
General loan risk and potential loan losses Provisioning	106.991	18,3	119.073	16,8	121.704	14,2	111	102	
Salary expenses	133.746	22,9	154.162	21,7	174.920	20,5	115	113	
Business premises and depreciation expenses	78.003	13,4	89.211	12,5	107.796	12,6	114	121	
Other business and direct expenses	37.895	6,5	41.270	5,8	44.921	5,3	109	109	
Other operating expenses	59.258	10,1	75.781	10,7	94.605	11,1	128	125	
TOTAL	415.893	71,2	479.497	67,5	543.946	63,7	115	113	
TOTAL EXPENSES (I + II)	583.900	100,0	710.369	100,0	853.830	100,0	122	120	

Graph 20: Structure of total expenses



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

- in %-

RATIOS	30.09.2006.	30.09.2007.	30.09.2008.
Return on Average Assets	0,74	0,91	0,40
Return on Average Total Capital	6,91	8,61	3,90
Return on Average Equity	9,10	11,17	5,87
Net Interest Income/Average Assets	2,85	2,98	2,69
Fee Income/Average Assets	2,09	1,77	1,57
Total Income/Average Assets	4,94	4,75	4,26
Operating and Direct Expenses ²⁵ /Average Assets	1,45	1,28	1,17
Operating Expenses/Average Assets	2,74	2,56	2,66
Total Non-interest Expenses/Average Assets	4,20	3,84	3,83

-in %-

RATIOS	30.09. 2008.		
	STATE BANKS	PRIVATE BANKS	AVERAGE IN THE FBiH
Return on Average Assets	1,34	0,39	0,40
Return on Average Total Capital	6,15	3,83	3,90
Return on Average Equity	7,79	5,80	5,87
Net Interest Income/Average Assets	2,48	2,69	2,69
Fee Income/Average Assets	4,26	1,53	1,57
Total Income/Average Assets	6,74	4,22	4,26
Operating and Direct Expenses/Average Assets	1,35	1,17	1,17
Operating Expenses/Average Assets	4,05	2,64	2,66
Total Non-interest Expenses/Average Assets	5,40	3,81	3,83

Analysis of some general parameters for assessment of banks' profitability indicates that profitability of the entire banking system is poor, the profit generated has significantly deteriorated as a result of downfall of ROAA (return on average assets) from 0,91% to 0,40% and ROAE (return on average equity) from 11,17% to 8,57%. Also, productivity of banks, measured as ratio between total income and average assets, continues the trend of downfall (4,75% to 4,26%) due to slightly faster growth of average total assets than average interest-bearing assets, on one side, and slower growth of net-interest bearing income caused by growth of funding sources expenses (both deposit and credit) and downfall or loss in security trading transactions that has been present for some time.

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 will still mostly depend on asset quality, that is, bank's exposure to credit risk, especially related to the growth of poor quality assets resulting by suspension of interest income. The following important factor is effective management and control of operating income and expenses, and in majority of banks, as experience shows, especially those related to the securities trading activity. In addition, banks' profit, that is, financial result will be mainly under influence of price and interest rate risk, both in sources and price changes of financing

²⁵ Expenses include provisions for potential loan losses.

sources of banks also in possibility to gain interest rate margin which will be sufficient to cover all non-interest bearing expenses, and finally to ensure adequate return to the invested capital for bank owners. That is why, the key factor of effectiveness and profitability for each bank is management quality and business policy applied, since that is the most direct way to influence its performance.

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.

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

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

In the structure of financing sources of banks in the Federation of BiH as of 30.09.2008. deposits still have the highest participation of 72,4%, followed by borrowings (including subordinated debts²⁶) with participation of 14,2%, with longer maturity, representing quality sources for long term placements, and have made a significant contribution to maturity adjustment between assets and liabilities. On the other hand, majority structure of deposits is considerably unfavorable, although it has been some time of improving trend.

- in 000 KM-

DEPOSITS	31.12.2006.		31.12.2007.		30.09.2008.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Savings and demand deposits	4.079.002	48,7	4.747.689	46,6	4.617.394	41,9	116	97
Up to 3 months	293.735	3,5	430.784	4,2	534.746	4,9	147	124
Up to 1 year	742.994	8,9	1.045.768	10,3	1.108.483	10,1	141	106
1. Total S-T	5.115.731	61,1	6.224.241	61,1	6.260.623	56,9	122	101
Up to 3 years	2.212.076	26,4	2.722.927	26,7	3.061.445	27,8	123	112
Over 3 years	1.051.515	12,5	1.243.809	12,2	1.689.975	15,3	118	136
2. Total L-T	3.263.591	38,9	3.966.736	38,9	4.751.420	43,1	122	120
TOTAL (1 + 2)	8.379.322	100,0	10.190.977	100,0	11.012.043	100,0	122	108

Analysis of maturity structure of deposits in two main groups, if compared to 2007, indicates minor positive changes, that is, decreased participation of short term deposits by 4,2% and

²⁶ Subordinated debts: borrowings and permanent liabilities

increased participation of long term deposits by the same percentage, so their participation at the end of the first six months was 56,9% and 43,1%.

Within short term deposits, if compared to 2007, nominal downfall of KM 130 million or 3% was realized by demand deposits, which at the same time had the highest participation of 41,9% in total deposits, while deposits up to three months increased by KM 104 million or 24%, and deposits up to one year increased by KM 63 million or 6%. The highest participation in total demand deposits is still maintained by citizen deposits (39,5%) that have increased by 4,4% or KM 77 million in comparison to 2007.

We should emphasize that in long term deposits, there are two sectors with dominant participation: citizens of 45,5% and banking institutions of 31,2%, with further trend of increase in their participation in 2008 (from 25,6% to 31,2%). Citizen deposits represent the highest participation of 57,2% in term deposits up to 3 years (62% at the end of 2007), while banking institutions deposits have the highest participation of 67% over three years (64,4% at the end of 2007).

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

-in 000 KM-

Table 31: Maturity structure of loans

LOANS	31.12.2006.		31.12.2007.		30.09.2008.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Past due claims and paid off-balance sheet liabilities	210.852	3,1	214.223	2,4	198.940	1,9	102	93
Short term loans	1.360.381	19,9	1.719.297	19,4	2.281.430	22,0	126	133
Long term loans	5.248.921	77,0	6.941.464	78,2	7.895.361	76,1	132	114
TOTAL LOANS	6.820.154	100,0	8.874.984	100,0	10.375.731	100,0	130	117

Over the observing period of 2008, long term loans increased by 14% or KM 954 million (loans originated to citizens represent 72% or KM 685 million), while short term loans increased by 33% or KM 526 million (loans originated to private companies represent 82% or KM 459 million).

Analysis of sectors by maturity, for the two main sectors, indicates that long term loans represent 92% of total loans originated to citizens and 60% of loans originated to private companies.

In the assets structure, loans, as the most significant category, still have the highest participation of 68,2%, with constant increasing trend, which in the first nine months of 2008 was relatively high of 17% or KM 1,5 billion that has been financed from deposit and credit sources. Cash funds decreased by KM 489 million or 10%, as well as their participation from 34,5% to 29%.

In 2008, banks were regularly meeting required reserves with the Central Bank of BiH. As of 01.01.2008., the required reserve has been increased to 18% (it was 15% from 01.12.2005. to 31.12.2007). Required reserve, as the most significant instrument of monetary policy in BiH under the Currency Board and relatively financially underdeveloped market, is the only instrument of monetary policy that is used to maintain a monetary control in sense of stopping fast credit growth from the past years and to decrease multiplications. On the other hand,

implementation of regulation on foreign exchange risk and maintenance of currency adjustment within prescribed limits is also of significant influence on 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.

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

- in % -

Table 32: Liquidity ratios			
Ratios	31.12.2006.	31.12.2007.	30.09.2008.
1	2	3	4
Liquid assets ²⁷ / Total assets	37,4	34,5	28,9
Liquid assets / Short term financial liabilities	62,2	58,1	50,9
Short term financial liabilities / Total financial liabilities	68,0	67,3	63,9
Loans / Deposits and borrowings ²⁸	69,6	73,7	80,4
Loans / Deposits, borrowings and subordinated debts ²⁹	68,5	72,2	78,8

Over the first nine months of 2008, a trend of slight deterioration of general liquidity indicators quality has continued, primarily due to further growth of credit placements. If compared to 2007, almost all observed indicators have had a negative change between 5 and 7%. However, we could still say that liquidity position of the banking system of the Federation of BiH continues to be good, with satisfactory participation of liquid assets in total assets and coverage of short-term liabilities by liquid assets, while the changes in the first six months of 2008 indicate increased liquidity risk especially due to the present financial crisis in the world which has negatively reflected to the banking systems of some European countries, and banks in BiH are owned by large European banking groups, which offer significant financial support to our banks, through deposit and credit funds. Additional concern is the fact that positive changes in the real sector of the Federation of BiH are insignificant, that is, in the overall economic environment under which banks operate in BiH.

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.

- in 000 KM-

Table 33: Liquidity position – ten-day average and daily minimum					
Description	31.12.2006.	31.12.2007.	30.09.2008.	RATIO	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6

²⁷ Liquidity assets in the narrow sense: cash and deposits and other financial assets with maturity below three months, except inter-banking deposits.

²⁸ Empiric standards: below 70%-very solid, 71%-75%-satisfactory, 76%-80%-marginal to satisfactory, 81%-85%-insufficient, over 85%-critical.

²⁹ Prior ratio has been modified. Subordinated debts are included in the sources, which gives more realistic indicator.

1. Average daily balance of cash assets	3.478.292	3.974.722	3.569.945	114	90
2. Minimum total daily balance of cash assets	3.201.670	3.686.972	3.388.244	115	92
3. Short term sources (accrual basis)	5.135.086	6.094.193	6.387.297	119	105
4. Liabilities:					
4.1. ten-day average 20% of Item 3	1.027.017	1.218.839	1.277.459	119	105
4.2. daily minimum 10% of Item 3	513.509	609.419	638.730	119	105
5. Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	2.451.275	2.755.883	2.292.486	112	83
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	2.688.161	3.077.553	2.749.514	114	89

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.³⁰

- in 000 KM -

Table 34: Maturity adjustment of financial assets and liabilities up to 180 days					
Description	31.12.2006.	31.12.2007.	30.09.2008.	RATIO	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6
I. 1- 30 days					
1. Financial assets	5.111.643	5.678.451	5.274.223	111	93
2. Financial liabilities	4.626.466	5.291.774	5.288.627	114	100
3. Difference (+ or -) = 1-2	485.177	386.677	-14.404	80	
Accrual of requirement in %					
a) Performed %= Item 1 / Item 2	110,5%	107,3 %	99,7%		
b) Required minimum %	100,0%	100,0%	85,0 %		
Surplus (+) or shortage (-) = a – b	10,5%	7,3%	14,7 %		
II. 1-90 days					
1. Financial assets	5.622.709	6.283.942	5.962.300	112	95
2. Financial liabilities	5.107.109	5.957.300	5.923.403	117	99
3. Difference (+ or -) = 1-2	515.600	326.642	38.897	63	
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	110,1%	105,5%	100,7 %		
b) Required minimum %	100,0%	100,0%	80,0 %		
Surplus (+) or shortage (-) = a – b	10,1%	5,5%	20,7 %		
III. 1-180 days					
1. Financial assets	6.245.949	7.032.175	6.884.494	113	98
2. Financial liabilities	5.662.698	6.861.962	6.802.157	121	99
3. Difference (+ or -) = 1-2	583.251	170.213	82.337	29	
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	110,3%	102,5%	101,2 %		
b) Required minimum %	95,0%	95,0%	75,0 %		
Surplus (+) or shortage (-) = a – b	15,3%	7,5%	26,2 %		

Based on the above presented, we may conclude that as of 30.09.2008., banks were compliant with the prescribed limits, and have realized better maturity adjustment between financial assets and liabilities in relation to the prescribed limits.

Liquidity of the banking system of the Federation of BiH, based on the presented indicators, is satisfactory. Although it has been assessed in majority of banks that liquidity risk is low or medium, it is obvious that the risk trend is increasing. Since this segment of performance and

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

level of liquidity risk exposure is in correlation with credit risk, while having in mind the above stated, banks will in future have to pay more attention to liquidity risk management and 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 get to be 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 a bank.

In order to enable application and implementation of prudential principles in foreign exchange activities of banks and to decrease influence of foreign exchange risk to their profitability, liquidity and capital, the FBA has issued Decision on Minimum Standards for Foreign Exchange Risk Management³¹ 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, and restrictions prescribed for opened individual and total foreign exchange position (long or short), calculated in relation to the amount of bank's core capital.³²

Banks daily report to the FBA as part of the monitoring of prescribed limits and level of foreign exchange risk exposure by the FBA. Based on examination, monitoring and analysis of submitted reports on foreign currency position of banks, we can conclude that banks meet prescribe limits and perform their FX activities within these limits.

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

According to the balance as of 30.09.2008., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 11,2% or KM 1,7 billion (at the end of 2007, 15,6% or KM 2,2 billion). On the other hand, currency structure of liabilities is essentially different, since participation of liabilities in foreign currency is significantly higher of 56,4% or KM 8,6 billion (at the end of 2007, 53,9% or KM 7,6 billion).

The following table presents structure and trend of financial assets and liabilities and foreign currency position for EUR as the most significant currency³³ and total:

³¹ Official Gazette of the FBiH, numbers 3/03, 31/03, 64/03, 54/04.

³² Article 8 of Decision on Minimum Standards for Capital Management of Banks determines limits for individual foreign currency position in EUR up to 30% of core capital, for other currencies up to 20% and foreign currency of bank up to 30%.

³³ Source: Form 5-Foreign currency position.

-in KM millions-

Description	31.12.2007.				30.09.2008.				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>I. Financial assets</i>										
1. Cash assets	1.330	17,7	1.882	22,3	893	10,9	1.400	15,3	67	74
2. Loans	157	2,1	205	2,4	153	1,9	187	2,0	97	91
3. Loans with currency clause	5.910	78,9	6.233	73,8	7.046	86,2	7.463	81,5	119	120
4. Other	98	1,3	130	1,5	81	1,0	110	1,2	83	85
Total (1+2+3+4)	7.495	100,0	8.450	100,0	8.173	100,0	9.160	100,0	109	108
<i>II. Financial liabilities</i>										
1. Deposits	4.632	65,8	5.518	69,0	5.390	67,9	6.348	70,9	116	115
2. Borrowings	1.752	24,9	1.806	22,6	1.799	22,7	1.848	20,6	103	102
3. Deposits and loans with currency clause	341	4,8	341	4,3	373	4,7	373	4,2	109	109
4. Other	315	4,5	325	4,1	375	4,7	386	4,3	119	119
Total (1+2+3+4)	7.040	100,0	7.990	100,0	7.937	100,0	8.955	100,0	113	112
<i>III. Off-balance sheet</i>										
1. Assets	38		41		101		134			
2. Liabilities	429		431		321		326			
<i>IV. Position</i>										
Long (amount)	64		70		16		13			
%	4,8%		5,2%		1,2%		1,0%			
Short										
%										
Limit	30%		30%		30%		30%			
Below limit	25,2%		24,8%		28,8%		29%			

If we analyze the structure of foreign currencies, we see a dominant participation of EUR in the financial assets³⁴, although it was decreased in 2008 by 5,1 index points (from 71,5% to 66,4%) along with decrease of nominal amount from KM 1,6 billion to 1,1 billion. Participation of EUR in the liabilities has increased from 87,6% to 88%, that is, in nominal amount from KM 6,7 billion to KM 7,6 billion.

³⁴ 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).

However, calculation of the FX risk exposure also includes the amount of indexed assets items (loans) and liabilities³⁵, which is especially important in the assets (81,5% or KM 7,5 billion) that has a continuous increasing trend, which is partially the result of the increase of foreign borrowings as financing source in bank's liabilities structure that is becoming more important and deposit funds primarily generated from the group member-banks (shareholders mostly). Other foreign currency assets items represent 18,5% or KM 1,7 billion, of which EUR items make 12,3% or KM 1,1 billion and other currencies of 6,2% or KM 0,6 billion (at the end of 2007, loans contracted with currency clause amounted to KM 6,2 billion with participation of 73,8%, and other items in EUR of 18,7% or KM 1,6 billion). Of total net loans (KM 10 billion) 74,6% were contracted with currency clause, primarily tied to EUR (94,4%).

On the other hand, the structure of financial liabilities stipulates and determines the structure of financial assets, for each currency respectively. Items in EUR (primarily deposits) had the highest participation in foreign currency liabilities (KM 8,9 billion) of 84,4% or KM 7,6 billion, while participation and amount of indexed liabilities was at minimum, amounting to 4,2% or KM 0,4 billion (at the end of 2006, participation of liabilities in EUR was 83,8% or KM 6,7 billion, and indexed liabilities were 4,3% or KM 0,3 billion).

Observed by banks and overall at the level of the banking system of the FBiH, we may conclude that foreign exchange risk exposure of banks and the system in 2008 ranged within the prescribed limits. However, if compared to 2007, it has improved due to increase of core capital of 2%.

As of 30.09.2008., there were 12 banks with long foreign currency position, and 9 with short position, so at the system level long foreign currency position represented 1% of banks' core capital, which is lower by 29% than the limit. Individual foreign currency position for EUR was 1,2% where financial assets items were higher than financial liabilities (long position), and the same is lower by 28,8% than the limit.

Although under 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.

III CONCLUSIONS AND RECCOMENDATIONS

Consolidation and stabilization of banking sector of the Federation of BiH has reached an enviable level and upcoming activities should provide for 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 both banks and the economy.

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

- Continue, as so far, implementing activities, from the scope of its authority, related to consolidation of supervision on state level,
- 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:

³⁵ In order to protect from changes of the exchange rate banks contract certain items of assets (loans) and liabilities with currency clause (regulation allows only two-way currency clause).

- 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 the BiH's 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 eliminating weaknesses in banks,
- Keep conducting a permanent education and professional development of our staff,
- Finalize remaining provisional administrations and liquidations based on the conclusion made by the Management Board as of 29.03.2006.

It is also necessary to have further involvement of authorized institutions and bodies of 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 at the state level,
- Finalize privatization process of two state banks,
- Define and build on regulation for financial sector related to the activity, status and performance of micro-credit organizations, leasing companies, insurance companies, etc.,
- Accelerate implementation of economic reform in the real sector in order to reach the level of 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 on 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.

As the most important segment of the system, banks have to concentrate their actions to:

- Further capital strengthening, proportional to the growth of assets and risks, 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.

Number: UO - 7 - 2 /08
Sarajevo, 11.12.2008.

ATTACHMENTS

- ATTACHMENT 1..... General information about banks in the F BiH**
- ATTACHMENT 2..... Balance sheet of banks, FBA Schedule**
- ATTACHMENT 3..... Citizen savings in banks of the F BiH**
- ATTACHMENT 4..... Report on changes in balance sheet assets and off-balance sheet risk items**
- ATTACHMENT 5..... Income statement of banks**
- ATTACHMENT 6..... Report on capital balance and adequacy**
- ATTACHMENT 7..... Information about employees in banks of FBiH**

ATTACHMENT 1

Banks in the Federation of BiH as of 30.09.2008.

No.	BANK	Address		Telephone	Director
1	ABS BANKA dd – SARAJEVO	Sarajevo	Trampina 12/VI	033/280-300, fax:280-230	GERHARD MAIER Acting General Manager
2	BOSNA BANK INTERNATIONAL dd – SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	AMER BUKVIĆ
3	BOR BANKA dd – SARAJEVO	Sarajevo	Obala Kulina bana 18	033/663-500, fax:278-550	HAMID PRŠEŠ
4	FIMA BANKA dd - SARAJEVO	Sarajevo	Kolodvorska br. 5.	033/720-070, fax:720-100	EDIN MUFTIĆ
5	HERCEGOVAČKA BANKA dd MOSTAR	Mostar	Nadbiskupa Ćule bb.	036/332-901, fax:332-903	Prov. Admin. – Nikola Fabijanić - 16.04.2007.
6	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	036/444-444, fax:444-235	PETAR JURČIĆ
7	INTESA SANPAOLO BANKA DD BiH	Sarajevo	Obala Kulina bana 9a	033/497-555, fax:497-589	ALMIR KRKALIĆ
8	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032/448-400, fax:448-501	SUVAD IBRANOVIĆ
9	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Ibrahima Mržljaka 3.	037/771-253, fax:772-416	HASAN PORČIĆ
10	NLB TUZLANSKA BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/259-259, fax:250-596	ALMIR ŠAHINPAŠIĆ
11	POŠTANSKA BANKA BiH dd - SARAJEVO	Sarajevo	Put zivota 2	033/564-000, fax: 564-050	IGOR ADLEŠIĆ Acting General Manager
12	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:664-175	AZRA ČOLIĆ
13	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Emerika Bluma 8.	033/250-950, fax:250-971	PETER MÖLDERS

14	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Danijela Ozme 3	033/287-100, fax: 213-851	MICHAEL MÜLLER
15	TURKISH ZIRAAT BANK BOSNIA dd - SARAJEVO	Sarajevo	Dženetića Čikma br. 2.	033/252-230, fax: 252-245	KENAN BOZKURT
16	UNA BANKA dd - BIHAĆ	Bihać	Bosanska 25	037/222-400, fax: 222-331	Prov. Admin. - Stjepan Blagović - 01.05.2005.
17	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:312-121	BERISLAV KUTLE
18	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	ESAD BEKTEŠEVIĆ
19	VAKUFСКА BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/666-288, fax: 663-399	AMIR RIZVANOVIĆ
20	VOLKSBANK BH dd - SARAJEVO	Sarajevo	Fra Andela Zvizdovića 1	033/295-601, fax:295-603	REINHOLD KOLLAND

ATTACHMENT 2

BALANCE SHEET OF BANKS IN THE FBiH - FBA SCHEDULE

ACTIVE SUB-BALANCE SHEET

in 000 KM

Ord.No.	DESCRIPTION	31.12.2006.	31.12.2007.	30.09.2008.
	ASSETS			
1.	Cash funds and deposit accounts at depository institutions	4.286.202	4.894.973	4.406.435
1a	Cash and non-interest deposit accounts	1.514.758	349.241	383.776
1b	Interest deposit accounts	2.771.444	4.545.732	4.022.659
2.	Trading securities	41.121	44.361	24.144
3.	Placements in other banks	105.390	69.314	84.089
4.	Loans, receivables in leasing and past due receivables	6.820.154	8.874.984	10.375.731
4a	Loans	6.609.122	8.660.593	10.176.631
4b	Receivables on leasing	180	168	160
4c	Past due receivables - loans and leasing	210.852	214.223	198.940
5.	Securities held until maturity	4.801	4.204	6.202
6.	Premises and other fixed assets	314.012	363.270	415.406
7.	Other real estate	27.659	41.846	31.270
8.	Investments in non-consolidated related enterprises	27.679	34.390	38.924
9.	Other assets	170.492	215.938	220.677
10.	MINUS: Reserves for potential losses	299.155	347.358	389.930
10a	Reserves on item 4 in Assets	288.433	334.139	376.696
10b	Reserves on Assets except item 4	10.722	13.219	13.234
11.	TOTAL ASSETS	11.498.355	14.195.922	15.212.948
	LIABILITIES			
12.	Deposits	8.379.322	10.190.977	11.012.043
12a	Interest deposits	7.529.517	9.368.121	10.131.926
12b	Non-interest deposits	849.805	822.856	880.117
13.	Loans - past due	7.802	7.376	4.131
13a	Balance of payable loans, unpaid	0	0	0
13b	Unpaid - called for payment off-balance sheet items	7.802	7.376	4.131
14.	Loans from other banks	2.890	3.289	3.289
15.	Payables to Government	0	0	0
16.	Payables on loans and other borrowings	1.420.944	1.856.471	1.886.080

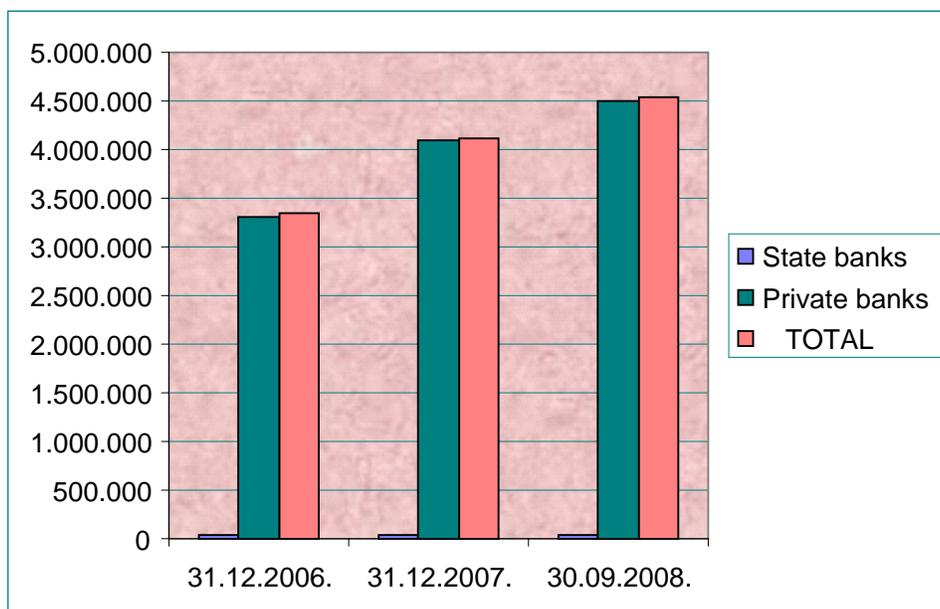
16a	payable within one year	196.381	357.425	406.066
16b	payable longer than one year	1.224.563	1.499.046	1.480.014
17.	Subordinated debts and subordinated bonds	145.079	242.791	268.180
18.	Other liabilities	315.733	384.976	521.545
19.	TOTAL LIABILITIES	10.271.770	12.685.880	13.695.268
	CAPITAL			
20.	Permanent priority shares	30.180	26.224	26.136
21.	Common shares	858.610	1.018.997	993.601
22.	Shares issued	71.130	94.739	121.583
22a	Permanent priority shares	8.332	8.332	16.433
22b	Common shares	62.798	86.407	105.150
23.	Undistributed income and capital reserves	172.581	260.146	312.124
24.	Currency rate difference	0	0	
25.	Other capital	94.084	109.936	64.236
26.	TOTAL CAPITAL (20. TO 25.)	1.226.585	1.510.042	1.517.680
27.	TOTAL LIABILITIES AND CAPITAL (19+26)	11.498.355	14.195.922	15.212.948
	PASSIVE AND NEUTRAL SUBBALANCE	641.164	606.788	616.213
	TOTAL BALANCE SHEET IN BANKS	12.139.519	14.802.710	15.212.948

ATTACHMENT 3

NEW CITIZEN SAVINGS BY PERIODS

in 000 KM

	31.12.2006.	31.12.2007.	30.09.2008.
State banks	31.723	30.469	32.652
Private banks	3.308.413	4.086.820	4.496.761
TOTAL	3.340.136	4.117.289	4.529.413



ATTACHMENT 4

CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS as of 30.09.2008.

- ACTIVE SUB-BALANCE SHEET -

in 000 KM

Ord. No.	BALANCE SHEET ASSETS AND OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	1.947.917	328.843	3.941	729	0	2.281.430
2.	Long-term loans	6.911.852	767.072	143.337	73.099	0	7.895.360
3.	Other placements	49.571	1.493	31	30	0	51.125

FBA

4.	Interest accrued	51.851	8.817	0	12	0	60.680
5.	Past due receivables	64.283	44.193	24.813	64.084	0	197.373
6.	Receivables on guarantees paid	268	0	1.125	0	174	1.567
7.	Other assets	5.101.467	5.480	2.686	1.863	3.847	5.115.343
8.	TOTAL ACTIVE BALANCE SHEET	14.127.209	1.155.898	175.933	139.817	4.021	15.602.878
	a) Guarantees payable	373.063	52.327	0	1.108	0	426.498
9.	b) Performing guarantees	532.389	119.044	655	125	0	652.213
10.	Unsecured LoC	44.187	23.991	196	299	0	68.673
11.	Irrevocable loans	1.567.855	85.581	801	114	0	1.654.351
12.	Other potential liabilities	20.919	0	0	0	0	20.919
13.	TOTAL OFF-BALANCE SHEET	2.538.413	280.943	1.652	1.646	0	2.822.654
14.	TOTAL BALANCE AND OFF-BALANCE SHEET (8+13)	16.665.622	1.436.841	177.585	141.463	4.021	18.425.532
15.	General credit risk and potential loan losses (#14 x % of loss)	235.408	100.310	43.174	74.789	4.021	457.702
16.	Allocated general reserves (A) and special reserves (B, C, D, E)	236.066	100.309	43.174	74.789	4.021	458.359
17.	MORE (LESS) of the allocated reserves (#16 - 15) +or -	658	-1	0	0	0	657

ATTACHMENT 5

INCOME STATEMENT

in 000 KM

ELEMENTS	PERFORMED 30.09. 2007.		PERFORMED 30.09.2008.		RATIO 4 : 2
	Amount	Particip. in total income	Amount	Particip. in total income	
INCOME					
Interest income	603.157	102%	692.034	114%	115

Interest expenses	230.872	39%	309.884	51%	134
Net interest income	372.285	63%	382.150	63%	103
Fee income and other operating income	220.599	37%	222.572	37%	101
TOTAL INCOME	592.884	100%	604.722	100%	102
EXPENSES					
Reserves for potential losses	119.073	20%	121.704	20%	102
Salaries and contribution expenses	154.162	26%	174.920	29%	113
Fixed assets and overhead expenses	89.211	15%	107.796	18%	121
Other expenses	117.051	20%	139.526	23%	119
TOTAL EXPENSES (without interests)	479.497	81%	543.946	90%	113
NET INCOME BEFORE TAX	113.387	19%	60.776	10%	54
Income Tax			3.660		
NET INCOME	113.387	19%	57.116	10%	50

ATTACHMENT 6

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

in 000 KM

Ord. No.	DESCRIPTION	31.12.2006.	31.12.2007.	30.09.2008.
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	873.390	1.029.756	1.004.359
1.2.	Share capital – comm.. and perm. prior. non-cumul. shares-invested posses. And rights	12.550	12.550	12.550
1.3.	Issued shares income at share payments	71.130	94.739	121.583
1.4.	General regulatory reserves (reserves as regulated by the Law)	61.228	65.945	84.105
1.5.	Other reserves not related to assets quality assessment	86.990	128.882	166.538

FBA

1.6.	Retained - undistributed income from previous years	93.543	130.354	136.095
1.a.	TOTAL (from 1.1. to 1.6.)	1.198.831	1.462.226	1.525.230
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	62.603	65.908	73.464
1.8.	Losses from current year	7.030	8.156	32.508
1.9.	Book value of treasury shares owned by the bank		2	81
1.10.	Amount of intangible assets	40.105	52.089	58.022
1.b.	TOTAL (from 1.7.to 1.10.)	109.738	126.155	164.075
1.	AMOUNT OF CORE CAPITAL: (1.a.-1.b.)	1.089.093	1.336.071	1.361.155
2	BANK'S SUPPLEMENTARY CAPITAL			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	2.850	2.917	2.829
2.2.	Share capital – comm.. and perm. prior. non-cumul. shares-invested posses. And rights	0	0	0
2.3.	General reserves for losses on loans from class. A - performing assets	150.200	197.782	236.066
2.4.	Accrued income for current year audited and confirmed by external auditor	85.689	93.945	20.562
2.5.	Income under FBA's temporary restriction on distribution	0	0	0
2.6.	Subordinated debts, the most 50% of core capital	139.251	191.575	206.821
2.7.	Hybrid convertible items - the most 50% of core capital	0	0	5.000
2.8.	Items-permanent liabilities without repayment duty	5.828	50.855	56.359
2.	AMOUNT OF SUPPLEMENTARY CAPITAL: (from 2.1. to 2.8.)	383.818	537.074	527.637
3	OFFSETTING ITEMS FROM BANK'S CAPITAL			
3.1.	Part of invested share capital that according to FBA's assessment represents accepted and overestimated value	0	0	0
3.2.	Investments in capital of other legal entities exceeding 5% of bank's core capital	17.236	16.036	16.036
3.3.	Receivables from shareholders for significant voting shares - approved aside from regulations	0	0	0
3.4.	VIKR to shareholders with significant voting shares in the bank without FBA's permission	0	0	0
3.	AMOUNT OF OFFSETTING ITEMS FROM BANK'S CAPITAL (3.1. to 3.4.)	17.236	16.036	16.036
A	AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)	1.455.675	1.857.109	1.872.756
B.	RISK FROM RISK-WEIGHTED ASSETS AND LOAN EQUIVALENTS	8.282.086	10.740.880	12.341.079
C.	NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100	17,6%	17,3%	15,2%

ATTACHMENT 7

NUMBER OF EMPLOYEES BY BANKS

Ord. No.	BANK	31.12.2006.	31.12.2007.	30.09.2008.
1	ABS BANKA dd SARAJEVO	297	326	367
2	BOR BANKA dd SARAJEVO	40	42	46
3	BOSNA BANK INTERNATIONAL dd Sarajevo	104	145	173
4	FIMA BANKA dd SARAJEVO	58	101	148
5	HERCEGOVACKA BANKA dd MOSTAR	98	93	89

6	HVB CENTRAL PROFIT BANKA dd SARAJEVO	476	465	
7	HYPO ALPE ADRIA BANK dd MOSTAR	492	550	620
8	INTESA SANPAOLO BANKA dd BiH	233	479	509
9	INVESTICIJSKA BANKA FBiH SARAJEVO	84	104	
10	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	163	154	177
11	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	66	65	67
12	LT GOSPODARSKA BANKA BANKA dd SARAJEVO	196		
13	NLB TUZLANSKA BANKA dd TUZLA	479	472	493
14	POŠTANSKA BANKA dd SARAJEVO	63	97	118
15	PRIVREDNA BANKA dd SARAJEVO	170	163	166
16	PROCREDIT BANK dd SARAJEVO	595	831	884
17	RAIFFEISEN BANK BH dd SARAJEVO	1.348	1.543	1.721
18	TURKISH ZIRAAT BANK dd SARAJEVO	108	129	150
19	UNA BANKA dd BIHAĆ	61	59	59
20	UNI CREDIT BANKA BH dd MOSTAR	840	840	1.406
21	UNION BANKA dd SARAJEVO	175	179	176
22	VAKUFСКА BANKA dd SARAJEVO	175	184	197
23	VOLKSBANK BH dd SARAJEVO	285	340	358
	TOTAL	6.606	7.361	7.924