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

I N F O R M A T I O N

ON THE BANKING SYSTEM OF THE FEDERATION OF BOSNIA AND HERZEGOVINA AS OF 31. 03. 2013.

Sarajevo, May 2013.

The Banking Agency of the Federation of BiH, as a regulatory authority conducting supervision of banks, developed the Information on the banking system of the Federation of BiH (as of 31.12.2012, based on final unaudited data) based on reports of banks and other information and data submitted by banks. Findings and data from on-site examinations and analysis performed at the Agency (off-site financial analysis) have also been included.

I INTRODUCTION

The impact of the financial and economic crises is present for four years, and negative effects are visible in most of the business segments of the banks. The characteristics of the banking sector performance, which marked 2012: stagnation, decline of the aggregate balance sheet, slowed credit activities, increase of the non performing loans, decrease of the foreign sources of funding, continued in the first quarter of 2013. In spite all the negative influences, the banking sector still remains stable, with adequate capital, the citizens savings retained the growth trend, liquidity is still satisfactory, and the profitability improved..

As of 31.03.2013., there were 18 banks with banking license issued in the Federation of BiH, of which number one bank was under provisional administration (Postanska bank BH d.d. Sarajevo). As of 31.03.2013., the number of employees in banks was 7.175, and recorded was a slight increase of the employees by 1% or 45 employees more than as of 31.12.2012.

The aggregate balance sheet of the banking sector, as of 31.03.2013., amounted to 14,8 billion KM, representing a decrease by 1,2% or 183 million KM compared to the end of 2012. The decline of the aggregate balance sheet is in part result of the decrease of deposits and credit liabilities, and consequently the cash funds.

The impact of the economic crises on the overall economy and industry in BiH had a significant reflection on the key activity of the banks, that is the lending segment. After the minimum increase of loans in 2012, in the first quarter recorded a slight increase of 0,2% or 22 million KM. The loans at the end of the first quarter were 10,7 billion KM and their participation in assets increased by 1,1% percent point and is 72,2%. The non performing loans in the first quarter of 2013 also recorded a slight increase and the participation in the total non performing loans in comparison to the total loans is 13,3%, and at the end of 2012., 13,2%.

In the first quarter the cash funds recorded a decline of 5,9% or 233 million KM as of 31.03.2013 they were 3,73 billion KM, and their participation in the assets declined from 26,4% to 25,2%. The realized decline is a result of the noted outflow and payment of the loan liabilities, and in a smaller part slight increase of investments in securities of 10,7% or 59 million KM, which at the end of the first quarter of 2013 is 607 million KM, which is participation of only 4,1% in assets..

In the structure of banks' financing, the deposits, although they recorded a decline in 2013 of 1,5% or 162 million KM, are still the most important source of financing of banks in the Federation of BiH with the participation of 72,9% in total liabilities of banks and are 10,8 billion KM as of 31.03.2013. In the same period the saving deposits, as the most important segment of deposit and financial potential of the banks, maintained the positive trend of growth and at the end of the first quarter of 2013 were 5,89 billion KM, which is by 2,3% or 135 million KM higher than at the end of 2012.

The loan liabilities of banks as of 31.03. 2012. were 1,07 billion KM or 7,2% of total sources of financing and are lower in comparison to the end of 2012. by 74 million KM or 6,5%. In the first quarter of 2013. continued is the trend of decline of the debt of the banks from F BiH overseas, especially from parent groups. The funds received from the group (deposits, loans taken and subordinated debt) are 1,23 billion KM and are lower by 163 million KM or 11,7% in comparison to the end of 2012.

At the system level, the total capital had an increase of 1,8% or 39 million KM, mostly based on the current financial result – profit, and as of 31.03.2012 was 2,26 billion KM.

The regulatory capital as of 31.03.2013, was 2,2 billion KM and it increased by 2% or 50 million KM in comparison to the end of 2012, along with smaller changes in its structure.

The banking system capital adequacy rate, as one of the most important indicators of strength and banks' capital adequacy, as of 31.03. 2013 was 17,6%, which is by 0,2 percent points higher than at the end of 2012 (17,4%), and presents a satisfactory capitalization of the total system and a strong base and foundation for preservation of its security and stability.

At the level of the banking system in FBiH in the first quarter of 2013, realized is a positive financial result in the amount of 42,3 million KM. A positive financial result of 44,7 million KM was realized by 14 banks, and losses in performance in the amount of 2,4 million KM were reported by four banks.

The largest influence on the improvement of profitability of most of the banks primarily was a result of the applied new methodological approach (implementation of IAS 37/39 as of 31.12.2011.), which consequently has an influence on a lower level of value adjustment expenses. The significant decline of the non interest expenses in comparison to the total income which is almost at the same level as last year, influenced the realization of a higher profit in comparison to the same period last year.

II BANKS' BUSINESS PERFORMANCE IN THE FEDERATION OF BIH

1. BANKING SECTOR STRUCTURE

1.1. Status, number and the business network

As of 31.03.2013, there were 18 banks with the banking license issued in the Federation of BiH. Number of banks is the same as of 31.12.2012. There is a special law regulating establishment and work of the Development Bank of the Federation of BiH, Sarajevo which is a legal successor of the Investment Bank of the Federation of BiH d.d., Sarajevo, as of 01.07.2008.

As of 31.03.2013., there was one bank under provisional administration (Postanska banka BH d.d. Sarajevo).

In the first quarter of 2013, there was no significant expanding of the network of organizational units. Continued is the trend of expansion of the business units of banks, but in a significantly smaller volume than in previous years, mostly due to the financial crises. The banks performed reorganization of their networks of business units by increasing the changes in the organizational parts, organizational structure or adderss of the existing organizaitonal units, but also mergers and terminaiton of some organizational parts and all with an aim to rationalize the performance and decrease the performance expenses. There was a total of five such changes in the banks in the Federation of BiH (all changes on the territory of the Federation of BiH): established was one new organizational part, one was terminated and changes happened in three.

As of 31.03.2013., with the noted changes, the banks from the Federation of BiH had the a total of 589 organizational units, which is an increase by 0,7% in comparison to 31.12.2012.

Number of organizational units of banks from Republic Srpska in the Federation of BiH (24) slightly changed in comparison to 31.12.2012, when there were 25 organizational units, which is a decline of 4%.

As of 31. 03. 2013, 7 banks from the Federation of BiH had 50 organizational parts in Republic Srpska, and eight banks had 11 organizational units in Brcko District. Five banks from Republic Srpska had 24 organizational parts in the Federation.

As of 31.12.2012, all bank had the license for inter-bank transactions in the internal payment system and 16 banks were under the deposit insurance program.

1.2. Ownership structure

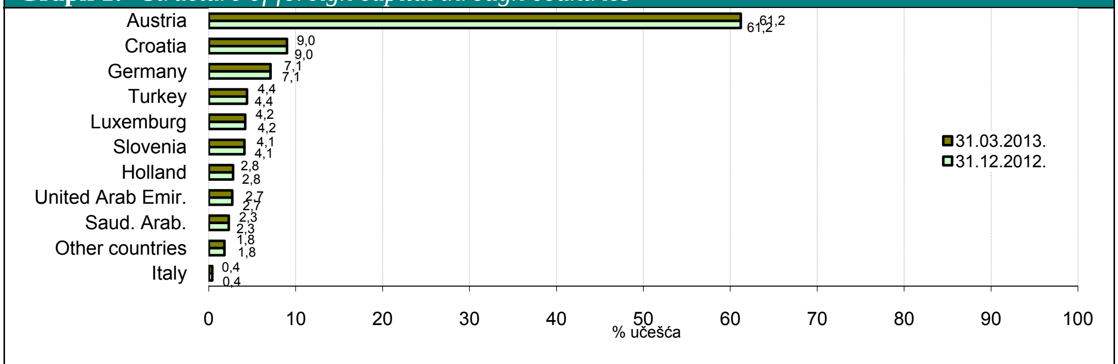
As of 31.03.2013., the ownership structure in banks[1] based on the available information and on-site visits to banks is the following:

- Private and majority private ownership 17 banks (94,4%)
- State and majority state ownership[2] 1 banks (5,6%)

Of 17 banks with majority private ownership, six banks are majority owned by domestic legal entities and individuals (residents), while 11 banks have majority foreign ownership.

If only foreign capital is analyzed based on the criteria of the shareholders' home country, as of 31.03.2013., the condition is unchanged in comparison to the end of 2012: the largest participation of the foreign capital, 61,2%, have the shareholders from Austria, followed by the participation of shareholders from Croatia 9%, germany 7,1%. Other countries had individual participation lower than 7%.

Graph 1: *Structure of foreign capital through countries*



However, if capital correlations are taken into account the structure for foreign capital could be viewed according to the criteria of the parent-bank or the group's headquarter that has majority ownership (directly or indirectly over the group members) of the bank in the Federation of BiH. According to these criteria, situation is also the same in comparison to the edn fo 2012: the participation of the banking groups and banks from Austria is 53,6%, the banks from Italy follow with the participation 16,1%, other countries had individual partiicpation lower than 6,3%, and since 2012 there is Russian[3] participation of 4,7% was recorded.

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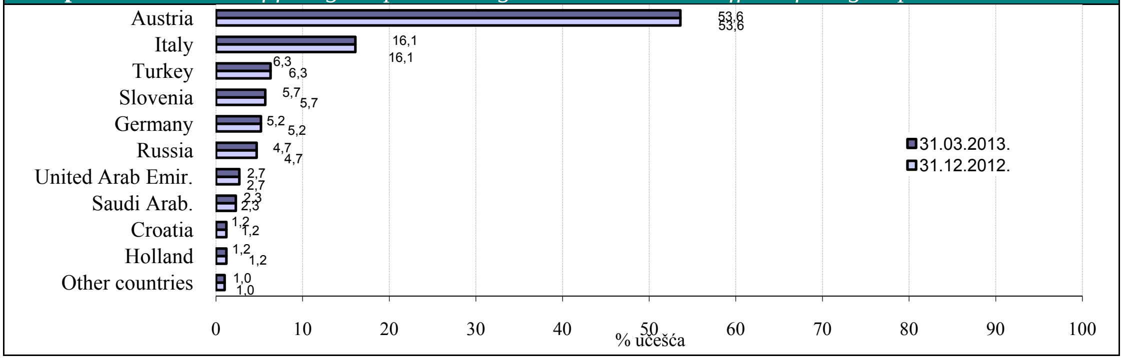
[1] Bank classification criteria is ownership over banks' share capital.
[2] State ownership refers to domestic state capital of BiH.
[3] Russian bank Sberbank bought in 2012. Volksbank International from Austria, in which ownership is Volksbank BH d.d. Sarajevo.

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



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

\- in 000 KM-

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

BANKS	31.12.2011.		31.12.2012.		31.03.2013.		RATIO	
1	2		3		4		5 (3/2)	6 (4/3)
State owned banks	50.499	2%	51.114	2%	51.451	2%	101	101
Private banks	2.029.566	98%	2.166.672	98%	2.205.819	98%	107	102
TOTAL	2.080.065	100%	2.217.786	100%	2.257.270	100%	104	102

In the first quarter of 2013, the total capital increased by 2% or 39 million KM, from the current financial result- profit.

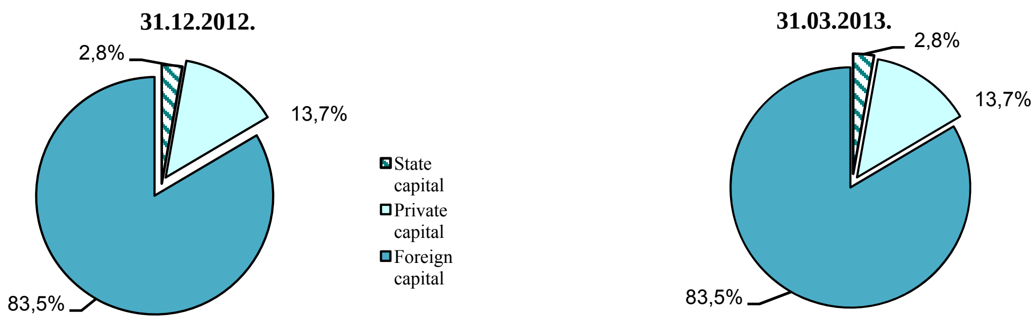
Analysis of participation by state, private and foreign capital in the share capital of banks shows more precise picture of the capital ownership structure in banks of the Federation of BiH.

\- in 000 KM-

Table 2: *Structure of ownership based on participation of state, private and foreign capital*

SHAREHOLDERS CAPITAL	31.12.2011.		31.12.2012.		31.03.2013.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
State capital	38.072	3,2	33.096	2,8	33.096	2,8	87	100
Private capital (residents)	174.088	14,6	164.603	13,7	165.045	13,7	95	100
Foreign capital (nonresident)	981.412	82,2	1.003.907	83,5	1.003.465	83,5	102	100
TOTAL	1.193.572	100,0	1.201.606	100,0	1.201.606	100,0	101	100

Graph 3: *Ownership structure (shareholders capital)*



[4] Apart from the countries which are the head countries of the parent groups which members are banks from F BiH, included are the countries from which are all other foreign shareholders of banks in F BiH.
[5] Information from balance sheet – FBA schedule: shareholder's capital, premium issue, undistributed profit and reserves, and other capital (financial results of current period).

The share capital of banks in the Federation of BiH, in the first quarter of 2013, was the same as on 31.12.2012. The structure of the shareholder's capital also did nto change.

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

Participation of the state capital in total share capital, as of 31.03.2013., was 2,8%, and it is the same as of 31.12.2012.

Participation of private capital (residents) in total share capital of 13,7% and it is the same as of 31.12.2012.

The participation of the private capital (nonresident) in the total shareholders capital also is unchanged and is 83,5%.

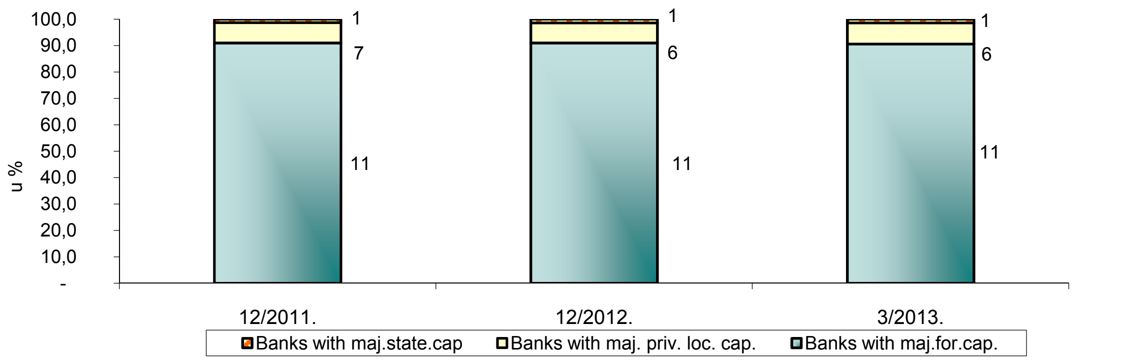
As of 31.03.2013., the market share of banks with majority foreign ownership was a high 90,6%, of banks with majority domestic private capital was 8,0%, and the share of banks with majority state capital was 1,4%.

- in %-

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

BANKS	31.12.2011.			31.12.2012.			31.03.2013.		
	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	1	2,4	1,3	1	2,3	1,4	1	2,3	1,4
Banks with majority private domestic capital	7	10,3	7,7	6	10,6	7,6	6	10,2	8,0
Banks with majority foreign capital	11	87,3	91,0	11	87,1	91,0	11	87,5	90,6
TOTAL	19	100,0	100,0	18	100,0	100,0	18	100,0	100,0

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



1.3. Employees

As of 31.03.2013., there was a total of 7.175 employees in the banks of the Federation of BiH, of that number 3% is in the banks with a majority state capital and 97% in private banks.

Table 4: *Employees in banks FBiH*								
B A N KS	NUMBER OF EMPLOYEES						RATIO	
	31.12.2011.		31.12.2012.		31.03.2013.		3/2	4/3
1	2		3		4		5	6
State banks	177	2%	183	3%	186	3%	103	102
Private banks	7.192	98%	6.947	97%	6.989	97%	97	101
TOTAL	7.369	100%	7.130	100%	7.175	100%	97	101
Number of banks	19		18		18		95	100

Table 5: *Qualification structure of the employees*								
EDUCATION	NUMBER OF EMPLOYEES						RATIO	
	31.12.2011.		31.12.2012.		31.03.2013.		4/2	6/4
1	2	3	4	5	6	7	8	9
University qualifications	3.401	46,1%	3.479	48,8%	3.556	49,5%	102	102
Two-year post secondary school qualifications	706	9,6%	667	9,3%	664	9,3%	94	100
Secondary school qualifications	3.218	43,7%	2.949	41,4%	2.922	40,7%	92	99
Other	44	0,6%	35	0,5%	33	0,5%	80	94
TOTAL	7.369	100,0%	7.130	100,0%	7.175	100,0%	97	101

In the first quarter of 2013, recorded is a slight increase of number of employees by 45 or 1%, which reflected on the change of the qualification structure.

The trend of the improvement of the employees' qualification structure through an increase of the number of employees with university qualifications continued in 2013, on one hand as a result of the increase of this category by 2% or 77 employees, and on the other due to the decrease of the number of employees with the high school diploma by 1% or 27 employees.

One of the indicators which impacts the evaluation of the performance of individual banks and banking system is the efficiency of employees, reported as a ratio of assets and the number of employees, that is amount of assets per employee. The higher the ratio the more efficient is the performance of both the banks and the entire system

Table 6: *Assets per employee*									
BANKS	31.12.2011.			31.12.2012.			31.03.2013.		
	No. of empl.	Assets (000 KM)	Assets per empl.	No. of empl.	Assets (000 KM)	Assets per empl.	No. of empl.	Assets (000 KM)	Assets per empl.
State	177	191.881	1.084	183	209.971	1.147	186	212.727	1.144
Private	7.192	15.071.438	2.096	6.947	14.781.079	2.128	6.989	14.594.851	2.088
TOTAL	7.369	15.263.319	2.071	7.130	14.991.050	2.103	7.175	14.807.578	2.064

At the end of the first quarter of 2013, on the level of the banking system there was a 2,1 million KM assets per employee, the same as at the end of 2012.

Table 7: *Assets per employee through groups*			
Assets (000 KM)	31.12.2011.	31.12.2012.	31.03.2013.
	Number of banks	Number of banks	Number of banks
To 500	0	0	0
500 to 1.000	4	3	3
1.000 to 2.000	9	10	9
2.000 to 3.000	5	4	5
Over 3.000	1	1	1
TOTAL	19	18	18

Analytical indicators of respective banks range from 597 thousand KM to 4,8 million KM of assets per an employee. Six banks have a better indicator than the one for the whole banking sector, and three largest banks in the system have one that exceeds 2,3 million KM.

2. . FINANCIAL INDICATORS OF BANKS' PERFORMANCE

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

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

Aside from the mentioned standardized reports, the database includes the information obtained from additional reporting requirements prescribed by the FBA in order to have the best conditions for monitoring and analysis of banks' performance in the Federation of BiH. The database also includes audit reports of financial statements of banks prepared by independent auditor, as well as all other information relevant to the assessment of performances of individual banks and the entire banking system.
In accordance with the provisions of Law on Opening Balance Sheet of Banks, banks with majority state owned capital have to report to the FBA "full" balance sheet divided into: passive, neutral and active sub-balance sheet. In order to obtain realistic indicators of banks' performance in the Federation of BiH, all further analysis of the banking system will be based on the indicators from the active sub-balance sheet of banks with majority state owned capital[6].

2.1. Balance sheet

Aggregate balance sheet of the banking sector, at the end of the first quarter of 2013., amounted to 14,8 billion KM, which presents a decrease by 1,2% or 183 million KM in comparison to end of 2012. The influence of the financial and the economic crises is still evident, which is noticable through the decline of the aggregate balance sheet, deposit base bad credit sources are declining, non performing receivables (non performing loans) are increasing, and the growth of the credit placements is insignificant.

- 000 KM-

Table 8: *Balance Sheet*

DESCRIPTION	31.12.2011. AMOUNT	31.12.2011. Participation %	31.12.2012. AMOUNT	31.12.2012. Participation %	31.03.2013. AMOUNT	31.03.2013. Participation %	RATIO 8 (4/2)	RATIO 9 (6/4)
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
ASSETS :								
Cash funds	4.378.076	28,8	3.962.581	26,4	3.729.782	25,2	91	94
Securities[7]	458.465	3,0	548.467	3,7	607.350	4,1	120	111
Placements to other banks	79.940	0,5	78.522	0,5	72.287	0,5	98	92
Loans	10.487.671	68,7	10.666.124	71,1	10.687.848	72,2	102	100
Impairment value (IV)[8]	931.946	6,1	1.007.196	6,7	1.023.220	6,9	108	102
Loans – net value (loans minus IV)	9.555.725	62,6	9.658.928	64,4	9.664.628	65,3	101	100
Business premises and other fixed	540.749	3,5	522.030	3,5	519.597	3,5	96	99
Other assets	250.364	1,6	220.522	1,5	213.934	1,4	88	97

[6] Some state banks in their "full balance sheet" report passive and neutral items, which will be taken over by the state upon finalization of the privatization process. As of 31.12.2012., these items amounted to KM 661 million.
[7] Trading securities and securities held to maturity.
[8] Column.2, the data refers to loan loss provisions (LLP).

TOTAL ASSETS	**15.263.319**	**100,0**	**14.991.050**	**100,0**	**14.807.578**	**100,0**	**98**	**99**
LIABILITIES:								
LIABILITIES								
Deposits	11.124.675	72,9	10.961.001	73,1	10.799.023	72,9	99	99
Borrowings from other banks	2.000	0,0	2.000	0,0	2.000	0,0	100	100
Loan Commitments	1.319.299	8,6	1.141.561	7,6	1.067.499	7,2	87	94
Other liabilities	737.280	4,9	668.702	4,5	681.786	4,7	91	102
CAPITAL								
Capital	2.080.065	13,6	2.217.786	14,8	2.257.270	15,2	107	102
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**15.263.319**	**100,0**	**14.991.050**	**100,0**	**14.807.578**	**100,0**	**98**	**99**

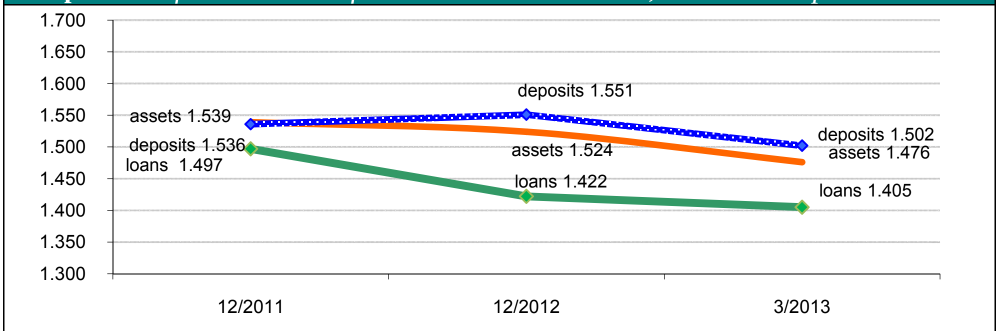
Table 9: *Assets of banks per ownership structure*

BANKS	31.12.2011.			31.12.2012.			31.03.2013.			RATIO	
	Number of banks	Assets (000 KM)		Number of banks	Assets (000 KM)		Number of banks	Assets (000 KM)			
1	2	3		4	5		6	7		8 (5/3)	9(7/5)
State	1	191.881	1%	1	209.971	1%	1	212.727	1%	109	101
Private	18	15.071.438	99%	17	14.781.079	99%	17	14.594.851	99%	98	99
TOTAL	19	15.263.319	100%	18	14.991.050	100%	18	14.807.578	100%	98	99

In 10 banks the assets are slightly higher than at the end of 2012, while in the remaining eight banks the assets declined, the decreasing rate was in the range from 0,5% to 6%. In the three largest banks in the system the aggregate balance also declined, and the rates were within the rage from 1% to 5,5%.

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

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



In the first quarter of 2013, the Herfindahl index concentration in all three relevant categories (loans, deposits and assets) recorded very slight changes in the value: assets 48, loans 17 and deposits 49 units, thus as of 31.03.2013 for the assets it was 1,476, loans 1.405 and deposits 1.502 units, indicating a moderate concentration[10].

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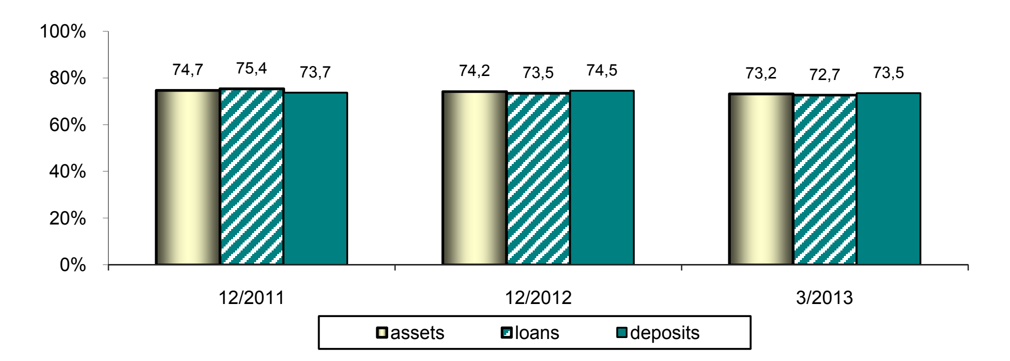
[9] It is also called the Hirschmann-Herfindahl index or HHI as calculated in the formula $HI = \sum_{j=1}^{n} (S)_j^2$, representing the sum of square of percentage shares of concrete values (e.g. assets, deposits, loans,…) of all market participants in the system. We should mention that the index is not linearly increasing, and the value of e.g. 3000 does not mean the concentration in the system is 30%. Hypothetically, if there is only one bank in the system, the HHI would be at 10000 maximum.

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

Another indicator of concentration in the banking system is the ratio of market concentration, that is the concentration rate[11] (hereinafter: CR), which indicates the total market participation of the largest institutions in the system per relevant chosen categories: assets, loans and deposits. The CR5 decreased for market participation from 74,2% to 73,2%, loans from 73,5% to 72,7% and for deposits increased from 74,5% to 73,5%. In the past two years the CR value has slightly declined in all three categories, but there is still an evident dominance of five largest banks in the system that "hold" approximately 73% of the market, loans and deposits.

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



The banking sector could be analyzed from the aspect of several groups established according to the asset size[12]. The changes in participation in comparison to the end of 2012 were recorded in all groups, which is a result of changes in assets in several banks.

The decline of the balance sheet in four largest banks resulted with the decline of participation of the I group (two largest banks in the system, with assets over three billion KM) from 49,8% to 48,7%, while the participation of II group (two banks with assets betwee one and two billion KM) was slightly changed from 18,3% to 18,2%. On the other hand, the participation of the group III (three banks with the assets between 500 million KM and one billion KM) increased by 0,7 percent points, that is 16,6%, and the group IV of nine banks (with assets between 100 and 500 million KM) increased by 0,5 percent points and is 15,7%. The participation of banks in the last group V (banks which have assets smaller than 100 million KM) of 0,8% remained unchanged.

Although there happened slight changes in the participation of individual groups, it is evident that the four largest banks still have a high market participation of 67%.

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

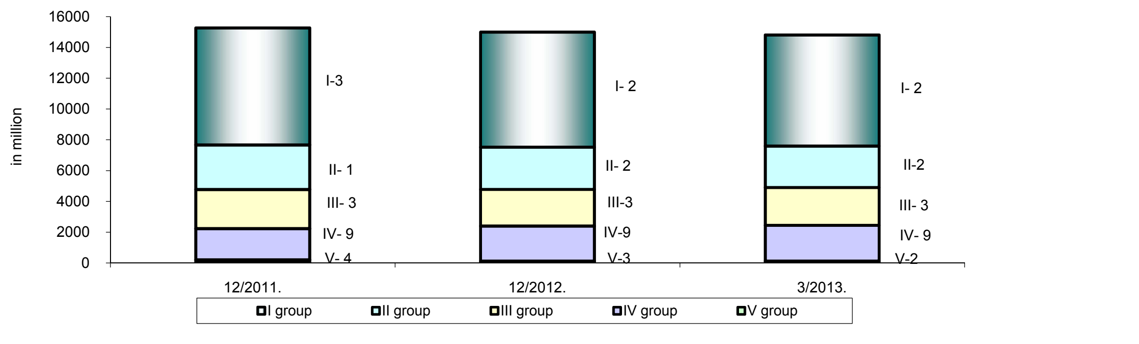
Table 10: *Participation of individual groups of banks in total assets through periods*

AMOUNT OF ASSETS	31.12.2011.			31.12.2012.			31.03.2013.		
	Amount	Partic. %	No. of banks	Amount	Partic. %	No. of banks	Amou nt	Partic. %	No. of banks
I- Over 2.000	7.596	49,7	2	7.476	49,8	2	7.216	48,7	2
II- 1000 to 2000	2.894	19,0	2	2.741	18,3	2	2.693	18,2	2
III- 500 to 1000	2.545	16,7	3	2.379	15,9	3	2.457	16,6	3
IV- 100 to 500	2.030	13,3	9	2.280	15,2	9	2.326	15,7	9

[11] Engl.: concentration ratio (CR), assigned to the number of institutions inlcuded in the calculation.
[12] Banks are divided into five groups depending on the assets size.

V- Under 100	198	1,3	3	115	0,8	2	116	0,8	2
TOTAL	15.263	100,0	19	14.991	100,0	18	14.808	100,0	18

Graph 7: *Participation of individual groups of banks in the total assets through periods*



The decline of the balance sheet amount by 1,2% or 183 million KM, or on the level of 14,8 billion KM at the end of the first quarter of 2013., is in most part the result of the decline of deposits by 1,5% or 162 million KM, the decline of the credit liabilities by 6,5% or 74 million KM and the value adjustments by 1,6 or 17 million KM. On the level of the system, only the total capital had an increase of 1,8% or 39 million KM, based on the current financial result-profit.

The cash funds, after the decline of 5,9% or 233 million KM, as of 31.03.2013 were 3,73 billion KM. The realized decline is a result of the outflow of deposits, payment of loan liabilities and, in a smaller part, increase of the investment in the securities of 10,7% or 59 million KM, which at the end of the first quarter of 2013 was 607 million KM, which is participation of only 4,1% in assets. After the slight increase of only 0,2% or 22 million KM, the loan portfolio in the amount of 10,69 billion remained almost at the same level as at the end of 2012.

The securities portfolio available for sale (a small part relates to trading portfolio) increased from 375 million to 418 million KM, and securities held to maturity from 173 million KM to 189 million KM. In both portfolios there are securities issued by the Government of F BiH[13] with a total value as of 31.03.2013 of 234 million KM, as well as the securities issued by the Government of RS in a total value of 17 million KM. Also, the banks in the trading portfolio have the shares which issuing parties are local companies, in a total amount of 9 million KM. The remaining part of portfolio of securities in the amount of around 348 million KM refers in the largest part to bonds of the countries from EU.

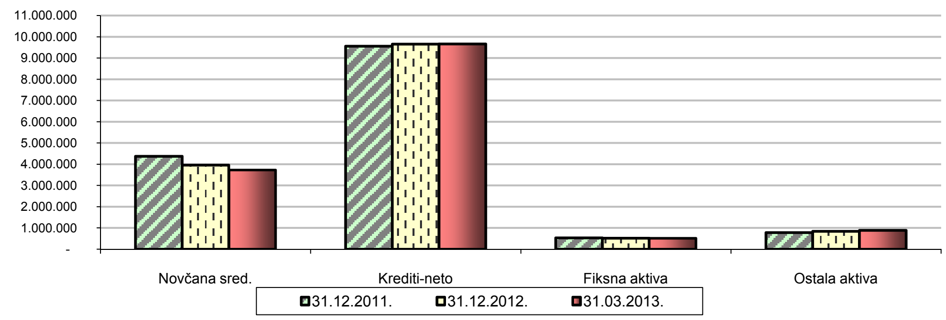
In the first quarter of 2013, the Government of the Federation of BiH issued a new emission of treasury bonds with nominal value of 30 million KM and maturity in September of 2013, which in total, with the previous two issues of nominal value 60 million KM maturity in May and June of 2013), as of 31.03.2013 are 89,5 million KM. Also, in the banks' securities portfolio are bonds of the issued by the Government of F BiH (emission in 2012, first in May in the amount of 80 million KM, maturity three years, second in June and August, a total of 30 million KM, the maturity five years, and third in September in the amount of 20 million KM and maturity of two years) with total nominal value of 123 million KM. The majority of the treasury bonds and securities was classified in the portfolio available for sale (180 million KM), and the remaining part in the portfolio held to maturity.

If the total securities portfolio (607 million KM) is viewed based on the exposure to a particular country, the largest is BiH (42,6%), then Romania (14,2%), Austria (12,2%), France (7,6), etc.

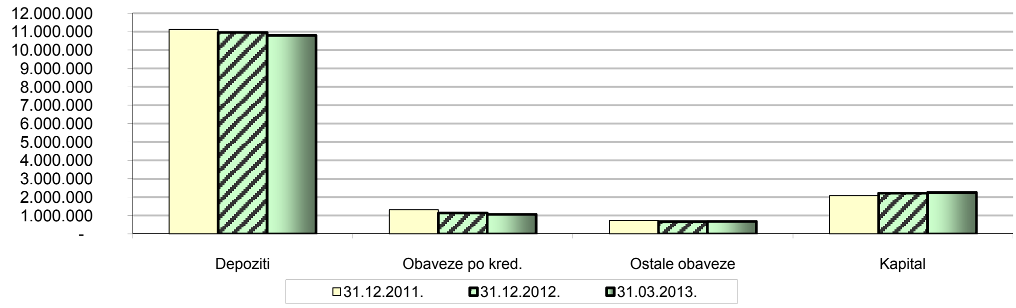
The following graphs provide the structure of the most significant positions of the banks' balances.

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

Graph 8: : *Structure of the bank's balance sheet assets*



Graph 9: *Structure of the bank's balance sheet liabilities*



In the structure of banks' balance sheet liabilities deposits in the amount of 10,8 billion KM and participation of 72,9% still are the dominant source of financing for banks in the Federation of BiH. After the decline of 6,5%, the credit liabilities in the amount of 1,07 billion KM decreased its participation from 7,6% to 7,2%, while the participation of capital, which as of 31.03.2012 was 2,26 billion KM increased from 14,8% to 15,2%.

The structure of assets, as well as the structure of sources, had slight changes related to two key assets items: increased participation of loans from 71,1% to 72,2% and a decrease of cash funds from 26,4% to 25,2%

- in 000 KM-

Table 11: *Banks' cash funds*

CASH FUNDS	31.12.2011.		31.12.2012.		31.03.2013.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	371.309	8,5	411.726	10,4	336.648	9,0	111	82
Reserve accounts with CBBiH	2.351.811	53,7	2.130.626	53,8	2.046.622	54,9	91	96
Accounts with deposit institutions in BiH	20.618	0,5	1.930	0,0	17.683	0,5	9	916
Accounts with deposit institutions abroad	1.633.479	37,3	1.417.857	35,8	1.328.510	35,6	87	94
Cash funds in collection process	859	0,0	442	0,0	319	0,0	51	72
TOTAL	4.378.076	100,0	3.962.581	100,0	3.729.782	100,0	91	94

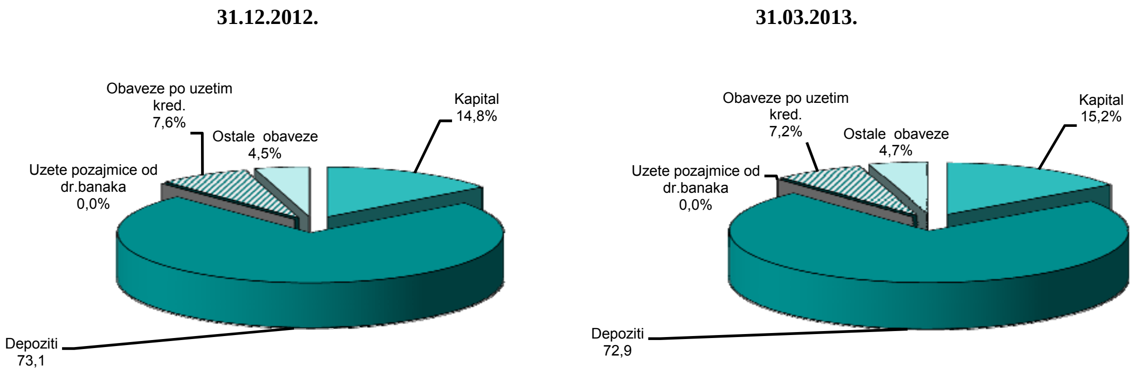
Cash funds of the banks on the reserve accounts of CBBiH in the reviewing period of 2013, decreased by 4% or 84 million KM, and as of 31.03.2013 were 2,05 billion KM or 54,9% of total cash funds (at the end of 2012, 53,8%). Banks' funds on the accounts with the depository institutions abroad had a decline of 6% or 89 million KM, amounting to 1,33 billion KM or 35,6% of total cash funds (35,8% at the end of 2012). As of 31.03.2013, after the decline of 18% or 75 million KM, the banks had cash on hand in the amount of 337 million KM, which is 9% of total cash funds.

The listed fluctuations had an impact on the change of the currency structure of the cash funds: the domestic currency participation in the reviewed period increased from 60,4% to 61,4%, and the participation of funds in foreign currency has decreased by the same amount of change.

2. 1. 1. Liabilities

Structure of liabilities (liabilities and capital) in the balance sheet of banks, as of 31.03.2013. is presented in the following graph:

Graph 10: *Structure of banks liabilities*



In the reviewed period, there were minor changes in the participation of two most significant sources of banks' financing: deposits and credit liabilities that is the decrease of their participation: deposits from 73,1% to 72,9%, and loan liabilities from 7,6% to 7,2%.

The decline of deposits in the first quarter of 2013, by 1,5% or 162 million KM resulted with the noted decrease in participation, so the deposits ar the end of first quarter of 2013 were 10,8 billion KM, and still are the most significant funding source of banks in the Federation of BiH. Second source, per its size in the amount of 1,14 billion KM, are credit funds obtained, mostly, by banks through the debt with foreign financial institutions. In the last three years, due to the impact of the financial and economic crises, the banks had far less lending from abroad, and with the payment of the past due liabilities the net effect was the decrease of the credit liabilities (at the end of 2008, they were 2,18 billion KM). In 2012 they declined by 13,5% or 178 million KM, and in the first quarter of 2013 6,5 or 74 million KM.. If subordinate debts of 119 million KM, which were withdrawn by banks to strengthen capital base and capital adequacy, are added to credit liabilities then the participation of total credit funds in the sources would be 8%.

The decline of deposits in the first quarter of 2013 of 1,5% or 162 million KM resulted also with the Banks as of 31.03.2013 having the highest bank commitments were towards the following creditors (seven of total 35), representing 73% of total credit commitments: European Investment Bank (EIB), European fund for Southeast Europe (EFSE), EBRD, UniCredit Bank Austria AG, TC ZIRAAT BANKASI A.S. (Turkey). EBRD, Council of Europe Development Bank and Central Eastern European Finance Agency (CEEFA).

Capital, as of 31.03.2012, was 2,26 billion KM, which is by 1,8% or 39 million KM higher than at the end of 2012, and the increase was realised mostly based on the current financial result – profit.

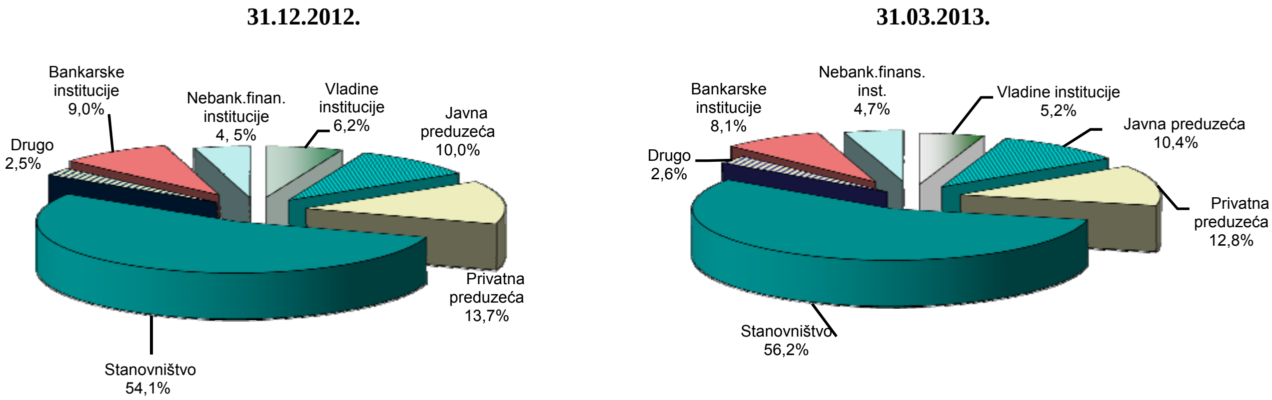
According to the data submitted by banks, out of total deposits at the end of the reviewing period in 2013, only 6% were deposits collected by organizational units of banks from the Federation of BiH operating in Republic Srpska and Brcko District.

- in 000 KM-

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

DEPARTMENTS	31.12.2011.		31.12.2012.		31.03.2013.		RATIO	
	Amount	Particip %	Amount	Particip ation %	Amount	Particip ation %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	705.805	6,3	682.313	6,2	566.287	5,2	97	83
Public enterprises	1.413.686	12,7	1.090.870	10,0	1.126.586	10,4	77	103
Private enterprises and assoc.	1.462.767	13,1	1.501.232	13,7	1.380.821	12,8	103	92
Non-profit. organizations	1.280.463	11,5	981.562	9,0	874.744	8,1	77	89
Banking institutions	483.504	4,3	493.689	4,5	505.718	4,7	102	102
Citizens	5.530.461	49,7	5.933.071	54,1	6.067.307	56,2	107	102
Other	247.989	2,4	278.264	2,5	277.560	2,6	112	100
TOTAL	11.124.675	100,0	10.961.001	100,0	10.799.023	100,0	99	99

Graph 11: *Deposits structure by sectors*



In the reviewing period in 2013, there were minor changes in the deposits sector structure, which on one hand, were a result of the decrease of funds of the private and public institutions as well as banking institutions, and on the other hand the increase of citizens' deposits and private companies.

Although the impact of the economic and financial crises has been present for four years now, and the negative effects are visible in most segment of the banks' performance, it should be noted that in this period the citizens' deposits had a continuous growth, that is they increased from 4,18 billion KM (at the end of 2008) to the level of over six billion as of 31.03.2012, which is a high increase of 45% or 1,88 billion KM .In the first quarter of 2013, the growth rate was 2% or 134 million KM. The deposits of this sector with the amount of 6,07 billion KM, due to the noted but also due to the decline of deposits in other sectors increased its participation in the total deposits from 54,1% to 56,2% in the total deposits, so they are still the largest source of financing for banks in F BiH.

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

Second highest in the amount and participation in the sector sources are the deposits of the private companies, which during 2012 had high oscillations (in the first half a steep decline, and in the second half they increased), that is cumulatively realized was a growth of 3% or 38 million KM. However, in the first quarter of 2013 the movements are again negative, the deposits of this sector had a relatively high quarterly decline of 8% or 120 million KM, which is another indicator of the influence of the economic crises on the real sector.

On the other hand, the deposits of the public companies, after the steep decline of 23% or 323 million KM in 2012, in the three months of 2013 recorded a slight increase by 3% or 36 million KM, so with the amount of 1,13 billion KM and participation of 10,4% are third sector source.

The deposits of the banking institutions since the end of 2007, until the III quarter of 2011 were second highest sector source in the deposit potential of the banks. The growth trend was present until mid-2009, when they reached the highest amount of 2,29 billion KM and participation of 21,4% in the total deposits. After that, under the impact of the crises, decrease of the lending volume and surplus of liquidity, there was a withdrawal of deposit funds of the parent groups, which resulted in the decline of the participation. However, after the decline in the IV quarter of 2011 of 19% or 294 million KM, the participation declined to 11,5%, which was fourth largest sector participation at the end of 2011. In 2012, the declining trend continued with a declining rate of 23% or 299 million KM, and in the first quarter of 2013 there also happened a significant decline of deposits of this sector by 11% or 107 million KM. Negative movements in the funds level of this sector in the largest part refer to the decrease of the debt, or the return of the funds to the parent groups in which ownership are the banks in the Federation of BiH.

At the end of the first quarter of 2013 the deposits of the banking institutions were 875 billion KM, which is 8,1% of total deposits. These funds decreased by 192 million KM in comparison to the credit liabilities, which, after the deposits, are second most important funding source for banks in F BiH. From the noted data it can be concluded that the debt of the banks from F BiH abroad has significantly decreased, especially deposit funds of the parent groups. Taken that the same decreasing trend is present in the credit liabilities also, the banks are again facing the problem of maintaining the maturity match, which is caused by unfavorable maturity of the local deposit funds, so in the coming period they need to secure better quality sources when it comes to maturity, in order to continue the growth trend of the credit placements.

It should be emphasized that 91% or 792 million KM of banking institutions' deposits refers to deposits of banks-members of groups (primarily shareholders). Financial support of the groups is present in six banks in the Federation of BiH, with a concentration on four large banks (95%). In this manner, in the previous period, the domestic banks-members of the groups receive financial support and have secured inflow of new funding sources by the group whose members they are. If credit liabilities and subordinate debts (items in the supplementary capital) are added to these funds, the financial support the banks receive from their groups becomes higher (in ten banks), amounting to 1,23 billion KM or 8,3% of total liabilities of the banking sector as of 31.03.2013. In total deposits the funds from the group, as at the end of 2012, have a participation of 7,3%, and in total credit liabilities 28,2% are short term liabilities to towards the group (the participation is lower by 0,8 percent points). In comparison to the end of 2012, these funds were reduced by a significant 11,7% or 163 million KM (the deposits decreased by 13,9% or 128 million KM, loan liabilities by 9,3% or 31 million KM and subordinated loans by 3,3% or five million KM.

Since, due to the economic crises, the banks' credit activities have significantly decreased, which resulted with high liquidity, as well as the good capitalization of almost all banks in FBiH which are owned by foreign banks groups, in 2013 the trend of the decreasing of the exposure to the group from the previous two years continued, in the segment of the deposit sources, while the credit sources decreased based on the regular payment of matured liabilities.

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

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

Deposits of other sectors had also minor changes in the amount and participation, and the largest change had deposits of government institutions, after the decline by 17% or 116 million KM. The deposits of this sector, as of 31.03.2013, are 566 million KM or 5,2 of total deposits.

Currency structure of deposits, as of 31.03.2013, changed slightly: deposits in foreign currencies (with the dominant participation of EURO) in the amount of 5,77 billion KM decreased its participation from 54% to 53% and deposits in domestic currency in the amount of 5,02 billion KM, which is a participation of 47% .

The structure of deposits based on the origin of the depositor at the end of the first quarter of 2013 is the following: residents' funds had the participation of 89,7%, non residents 10,3% (at the end of 2012.: 88,7% and 11,3%). The change in participation happened due to the decline of deposits of non residents in the first quarter of 2013 by 11% or 137 million KM, that is the level of 1,1 billion KM. The non residents deposits in last four years had a continuing decline, which is a result of withdrawal, or return of the parent deposits or member of the group, to which in most part the funds of non residents refer. The largest participation of 22,1% and a nominal amount of 2,31 billion KM the nonresident deposits had at the end of 2008.

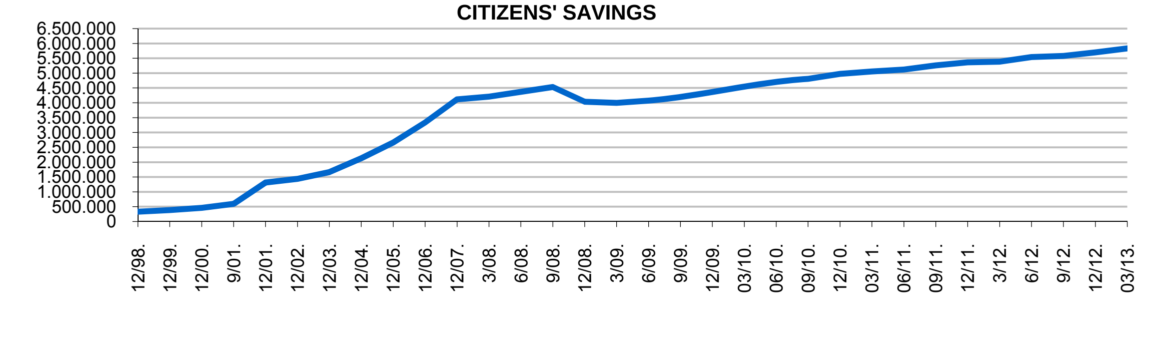
Saving deposits, as the most significant segment of deposits and financial potential of banks in the three months of 2013, had an increase of 2,3% or 135 million KM and as of 31.03.2013 were 5,89 billion KM.

Table 13: *New citizens savings through periods*

BANKS	AMOUNT (IN 000 KM)			RATIO	
	31.12.2011.	31.12.2012.	31.03.2013.	3/2	4/3
1	2	3	4	5	6
State	50.259	58.050	61.038	116	105
Private	5.311.178	5.698.300	5.830.517	107	102
TOTAL	5.361.437	5.756.350	5.891.555	107	102

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

Graph 12: *New citizen savings by periods*



The largest three banks hold 67% of savings, while participation of six banks has an individual participation of less than 1%, representing only 3,8% of total savings in the system.

Savings deposits in local currency represent 35% and in foreign currency 65% of total savings amount

Table 14: *Maturity structure of saving deposits of citizens through periods*

BANKS	AMOUNT (IN 000 KM)						RATIO	
	31.12.2011.		31.12.2012.		31.03.2013.		3/2	4/3
1	2		3		4		5	6
Short term saving deposits	2.606.732	48,6%	2.656.934	46,2%	2.697.934	45,8%	102	102
Long term saving deposits	2.754.705	51,4%	3.099.416	53,8%	3.193.621	54,2%	113	103
TOTAL	5.361.437	100,0 %	5.756.350	100,0 %	5.891.555	100,0 %	107	102

The positive changes in the maturity structure of deposits continued in the first quarter of 2013, with the increase of the long term deposits by 3% or 94 million KM, while the short term realized an increase of 2% or 41 million KM, which caused the change in the participation of long term deposits from 53,84% to 54,2%.

Long term continuous growth and positive trends in the savings segment of banks in the F BiH are a result, on one hand, of the strengthening of safety and stability of the overall banking system, giving the key importance to the existence of functional, effective and efficient banking supervision conducted by the FBA, and, on the other hand, deposit insurance system with the main purpose to increase stability of the banking, that is, financial sector and protection of depositors. In December 2008, with purpose to preserve citizens' trust in safety and stability of the banking system in BiH, the amount of insured deposit increased to KM 20.000. After that there was an initiative to increase the amount of the insured deposit, so as of 01.04.2010., it was increased to 35.000 KM, and all taken measures were directed to decrease the impact of the global economic crises on the banking and economic system of the Federation of BiH and BiH.

As of 31.03.2013., there are a total of 16 banks included in the deposit insurance program in the Federation of BiH (they have a license by the Deposit Insurance Agency in BiH), and according to the submitted data 98% and of total savings.

The remaining two banks can not apply to be admitted since they do not qualify with the criteria prescribed by the Deposit Insurance Agency: one due to the existing composite rating, and two because they are under provisional administration.

2.1.2. Capital – strength and adequacy

Capital[16] of banks in the Federation of BiH, as of 31.03.2013., amounted to 2,2 billion KM

-in 000 KM-

Table 15: *Regulatory capital*

DESCRIPTION	31.12.2011.		31.12.2012.		31.03.2013.		RATIO	
1	2		3		4		5 (3/2)	6 (4/3)
1.a.Core capital before deduction	2.008.081		1.913.841		1.943.442		95	102
1.1. Shareholders capital-common and permanent uncom.shares	1.190.482		1.198.516		1.198.516		101	100
1.2. Amount of emissions	136.485		136.485		136.485		100	100
1.3.Reserves and retained profit	681.114		578.840		608.441		85	105
1.b.Deductable items	353.960		190.893		191.348		54	100
1.1. Uncovered losses from previous years	251.187		120.740		138.146		48	114
1.2. Loss from the current year	45.512		17.407		2.379		36	14
1.3. treasury shares	81		156		156		193	100
1.4.. Amount of intangible assets	57.180		52.590		50.667		92	96
1. Core capital (1a-1b)	**1.654.121**	**78%**	**1.722.948**	**79%**	**1.752.094**	**78%**	104	102
2. Supplementary capital	**466.968**	**22%**	**467.092**	**21%**	**487.796**	**22%**	100	104
2.1.Shareholder capital- permanent priority cumul. shares	3.090		3.090		3.090		100	100
2.2. General reserves for loan losses	212.248		211.425		211.972		100	100
2.3. Amount of revised current profit	62.564		67.243		90.984		107	135
2.4. Amount of subordinated debt up to 50% of the amount of core capital	139.754		120.264		117.530		86	98
2.5. Items of permanent character	49.312		65.070		64.220		132	99
3. Capital (1 + 2)	**2.121.089**	**100%**	**2.190.040**	**100%**	**2.239.890**	**100%**	103	102
4. Items deductible from capital	**37.794**		**98.657**		**125.212**		261	127
4.1. Bank's invest. In cap. of state leg. ent.over 5% of cor. cap.	18.408		3.043		3.043		17	100
4.2. Amount of lack. reserves for loan loss. based on reg. request	19.386		95.529		122.169		493	128
	-		85		0		N/a	N/a
5. Net capital (3- 4))	**2.083.295**		**2.091.383**		**2.114.678**		100	101

In the first quarter of 2013, capital[17] increased by 2% or 50 million KM in comparison to 2012, while the changes in core and supplementary capital influenced the changes in the structure of regulatory capital. The core capital increased by 2% or 29 million KM, and participation decreased from 79% to 78%, while the increase of the supplementary was 4% or 21 million KM, and the participation increased from 21% to 22%.

The core capital growth is a result in most part based on the partial inclusion of the realized profit for 2012 in the amount of 36 million KM (14 banks realized a profit for 2012, in the amount of 128 million KM, while four banks realized a loss in the amount of 17,4 million KM, which is on the level of the system a net profit of 111 million KM), while the larger part of profit was included in the supplementary capital until the completion of the legal procedure for issuing the decision on allocation of profit for 2012 by the Banks' Assembly.

Deductible items (which decrease the core capital) decreased by 455 thousand KM mostly from decrease of cumulated losses in four banks in the amount of 2,4 while the intangible property decreased by 1,9 million KM.

Due to the noted increase of the supplementary capital there happened major changes in the structure: the 2012 profit of 36 million KM was transferred to core capital, and in four banks (in a total amount of 91 million KM) was reported in the supplementary capital. The subordinated debt decreased by 2,7 million KM, while the items of the permanent character decreased by 850 thousand KM (in one bank).

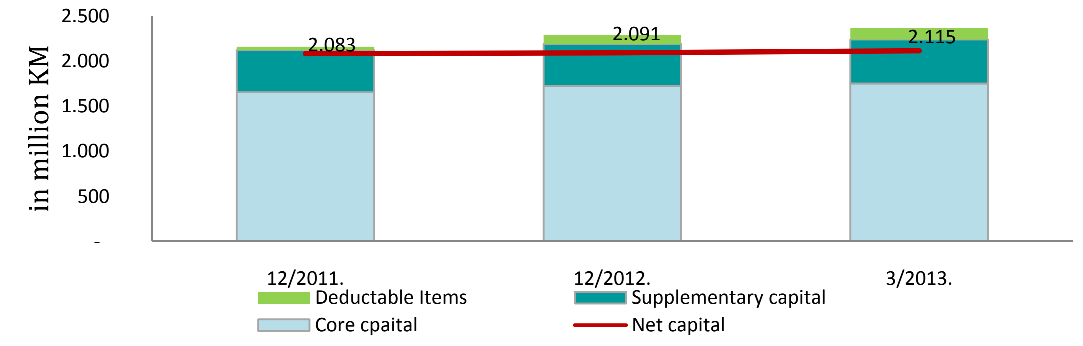
[16] Regulatory capital as defined by Article 8 and 9 of Decision on Minimum Standards for Capital Management in Banks (Official Gazette of the Federation of BiH, 3/03, 18/03, 53/06, 55/07, 81/07, 6/08).

[17] The source of data is the quarterly Report on the balance of banks' capital (Form 1-Table A), prescribed by the Decision on minimum standards for managing banks' capital.

The change in the regulations includes in the items deductible from capital the new accrual item: lacking reserves for loan losses based on the regulatory request (the difference between the needed regulatory reserves for loan losses in the balance and off -balance items[18] and reserves for loan losses established from profit), which as of 31.03.2013 was 122 million KM, which is by 28% or 27 million KM higher than at the end of 2012.

The following graph presents the structure of the regulatory capital.

Graph 13: *Structure of the regulatory capital*



Net capital, as a result of the above mentioned changes, and especially the negative impact of the increase of the amount of the lacking RLL, had an increase by a slight 1% or 23 million KM, and as of 31.03.2013 was 2,11 billion KM.

The adequacy of the capital level of individual banks, or the entire system, depends, on one side, on the level of net capital, and on the other, on the total the risk weighted risks (risk weighted assets and risk weighted operating risk).

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

-in 000 KM-

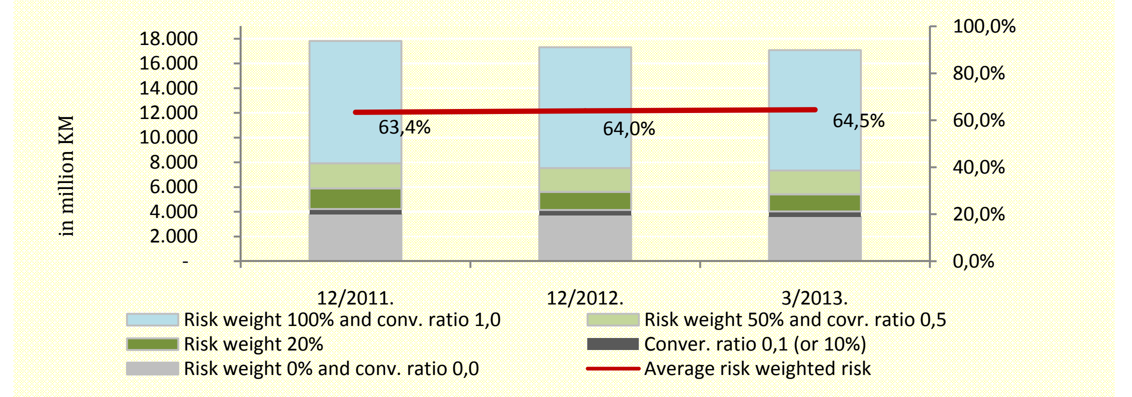
Table 16: *Structure of the banks' net exposure to the risk weighted credit risk*

DESCRIPTION	31.12.2011.	31.12.2012.	31.03.2013.	RATIO	
1	2	3	4	5 (3/2)	6 (4/3)
TOTAL EXPOSURE (1+2):	**17.814.140**	**17.311.011**	**17.070.924**	97	99
1 Balance sheet assets	14.987.978	14.569.389	14.359.067	97	99
2. Off-balance sheet positions	2.826.162	2.741.622	2.711.857	97	99
DISTRIBUTION THROUGH RISK WEIGHTED RISKS AND CONVERSION RATIO					
Risk weight 0%	3.721.678	3.647.306	3.553.652	98	97
Risk weight 20%	1.674.585	1.460.689	1.391.944	87	95
Risk weight 50%	83.165	53.155	48.696	64	92
Risk weight 100%	9.508.550	9.408.239	9.364.775	99	100
Convers.ratio 0,0	54.529	51.131	41.951	94	82
Convers.ratio 0,1	445.006	449.627	428.152	101	95
Convers.ratio 0,5	1.938.361	1.867.703	1.872.082	96	100
Convers.ratio 1,0	388.266	373.161	369.672	96	99

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

RISK OF THE RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS	**11.286.997**	**11.078.930**	**11.016.040**	**98**	**99**
Average risk weight	**63,4%**	**64,0%**	**64,5%**	**101**	**101**

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



The total net exposure of the banks that is risk weighted in the first quarter of 2013 decreased by 1% or 240 million KM, which was in the most part influenced by the decline of the balance sheet items (mostly with the conversion ratio of 0 and 20%), and partially off balance sheet items (mostly with the conversion ratio of 0,1), which influenced that the risk of the risk weighted assets and credit equivalents has the same direction, that is the decline of 1% or 63 million KM (from 11,08 billion KM to 11,02 billion KM), while the average risk weight increased from 64% to 64,5%..

The opposite movement from the risk weighted assets and loan equivalents had the risk weighted operating risk (POR), which increased by 1% and is 986 million KM. All of that resulted in a slight decrease of total risk weighted risks.

As of 31.03.2013, the participation of the risk weighted assets exposed to the credit risk was 92%, and operating risk 8%.

The capital level rate is presented as a ratio of capital to assets, and as of 31.03. 2013, it was 14,1%, which is by 0,5 percent points higher than at the end of 2012.

One of the most significant indicators of strength and adequacy of capital[19] of banks is the capital adequacy ratio, calculated as a ratio of net capital and risk weighted assets. As of 31.03.2012, this ratio was 17,6%, which is by 0,2 percent point higher than at the end of 2012. The capital adequacy is better than at the end of 2012 due to the decrease of total risk weighted risk by 1% or 23 million KM, and slight increase of the net capital which is a result of inclusion of the audited profit in 2012 into the accrual of capital and slight decrease of total risk weighted risks.

Although the banking sector performance has been for four years under a strong influence of the economic crises, that is the adverse macroeconomic and financial movements, in the countries of the euro zone, but also in the countries in the immediate neighborhood, as well as due to the slow economic recovery of the real sector and entire economy in BiH, the capital adequacy has been continuously kept above 16%, and the past two years above 17%. The reason for that is, on one hand,

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

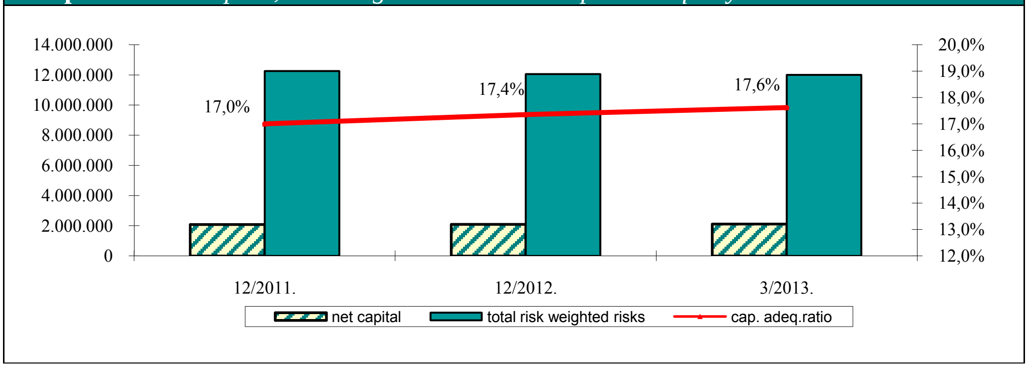
the stagnation of the credit growth and the decline of the total risk weighted risk, and on the other hand the banks maintained the most of their realized profit in the previous years in capital, and several banks improved the level of capital with additional capital injections. However, the problems in regard to the increase of the non performing placements and the part which is not covered with reserves for loan losses (net non performing assets) can in the coming period significantly impact the weakening of the capital base in some banks, if negative trends are continued in the asset quality and deterioration and increase of the nonperforming placements. That is visible from the following data: at the end of 2008, the net non performing assets were 197 million KM, and the ration (in comparison to the core capital) 13,2%, and at the end of the first quarter of 2013 the net non performing assets reached the amount of 438 million KM, and the ratio 25%. Also, based on the existing regulations the banks do not calculate the capital request for market differences, because of which the capital adequacy ratio is higher.

- 000 KM-

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

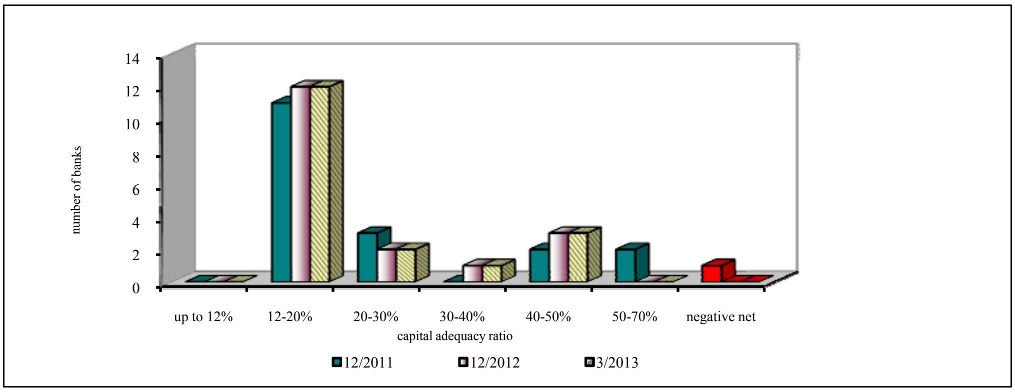
DESCRIPTION	31.12.2011.	31.12.2012.	31.03.2013.	RATIO	
1	2	3	4	5(3/2)	6(4/3)
1. NET CAPITAL	2.083.295	2.091.383	2.114.678	100	101
2. RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS	11.286.997	11.078.930	11.016.040	98	99
3. POR (RISK WEIGHTED OPERATING RISK)	965.932	974.201	985.616	101	101
4. TOTAL RISK WEIGHTED RISKS (2+3)	12.252.929	12.053.131	12.001.656	98	100
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/ 4)	17,0%	17,4%	17,6%	102	101

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



Capital adequacy rate of the banking system, as of 31.03.2013., was 17,6%, which is still much more than the minimum prescribed by the law (12%), representing satisfactory capitalization of the entire system and very strong basis and foundation to preserve its safety and stability.

Graph 16: *Banks' capital adequacy ratio*



All 18 banks in the FBiH, as of 31.03.2013., had the capital adequacy rate higher than minimum prescribed by the law of 12%. According to analytical data at the end of the first quarter of 2013, 13 banks recorded the capital adequacy rate lower than at the end of 2012, in the range from 0,1 to 3,5 percent points, in three banks it recorded a better rate, and two banks have the same rate as at the end of 2012.

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

- 8 banks had the rate between 13,2% and 15,8%
- 4 banks had the rate between 16,8% and 18,7%,
- 2 banks had the rate between 20,5% and 22,1% and
- 4 banks had the rate between 33,8% and 49,1%.

The FBA had, while performing the supervision of the performance and the financial condition of the banks in FBiH, in compliance with the legal authorities, and with the goal of strengthening the security of the individual banks and the entire system, ordered the banks to take appropriate actions aimed at strengthening of the capital base and securing that the capital is adequate, as well as the profile of the existing and potential exposure to all risks which are imminent for the banking operations. One of the measures which the FBA took, in order to maintain the capital base and soundness and stability of the banks, was issuing measures[20] for temporary restrictions to the banks and minimum conditions for the payment of dividends, discretion bonuses and payment of own shares by banks, with the implementation starting as of 31. 12. 2012.

The further strengthening of capital base will be priority task in majority of banks as it has been the case so far, especially in the largest banks of the system, which is necessary to strengthen stability and safety of both banks and the entire banking system, especially due to changes in business and operating environment under which banks in the Federation operate, because of the global financial crisis expansion to the area of our country and adverse effects this crisis may have on the banking sector and the entire economy of BiH. Under the conditions of economic crises and the increase of the credit risk caused by the decline of the credit portfolio asset quality and through the increase of the non performing receivables, this requirement has a priority significance and is the reason why the segment of capital is under continuous enhanced supervision, in order to avoid threatening of the stability of the banks and erosion of the capital base to the level which could jeopardize not only the banks operations, but also the stability of the total banking system.

2.1.3. Assets and asset quality

[20] Decision on temporary restrictions and minimum conditions for payment of dividends, discretion bonuses and purchase of own shares by banks.

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

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

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

-in 000 KM-

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

	DESCRIPTION	31.12.2011.	31.12.2012.	31.03.2013.	RATIO	
	1	2	3	4	5(3/2	6(4/3)
1.	Risk Assets[21]	13.376.110	13.286.139	13.397.781	99	101
2.	Calculated regulatory reserves for loan losses	1.294.757	1.370.342	1.394.851	106	102
3.	Provisioning value adjustment for off balance sheet items	1.039.529	1.092.251	1.110.420	105	102
4.	Needed regulatory reserves from profit for estimated	255.228	410.822	423.112	161	103
5.	Establishing regulatory reserves from profit for estimated	292.225	315.734	315.734	108	100
6.	Lacking amount of regulatory reserves from profit for	19.386	111.310	122.169	574	110
7.	Non-risk items	5.787.457	5.580.448	5.271.841	96	94
8.	TOTAL ASSETS (1+7)	19.163.567	18.866.587	18.669.622	98	99

The total assets with the off balance sheet items (assets)[22] of banks in F BiH as of 31.03. 2013. were 18,7 billion KM and in relation to the end of 2012 was lower by 1% or 197 million KM. The risk assets are 13,4 billion KM and is lower by 1% or 112 million.

Non risk items are 5,3 billion KM or 28% of total assets with off balance sheet and they decreased by 6% or 309 million KM in comparison to the end of 2012.

Total accrued RKG according to the regulatory request are 1,4 billion KM, and established balance sheet assets adjustments of value and provisioning for losses on off-balance sheet items 1,1 billion KM. The needed regulatory reserves[23] are 423 million KM and are higher by 3% or 12 million KM. The established regulatory reserves from the profit are 316 million KM and are at the same level, which is a result of change of regulation, that is the lacking amount of RKG reported at the end of the business year (starting as of 31.12.2012) is not covered on behalf of profit, but still presents a

[21]Excluded is the amount of placements and potential liabilities of 202.833 h/KM secured by a cash deposit.

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

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

deductable item from capital and influences the calculation of the capital adequacy rate. The lacking amount of regulatory reserves[24] as of 31.03.2013 are 122 million KM, and are higher by 10% or 11 million KM in comparison to the end of 2012..

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

DESCRIPTION	Amount (in 000 KM)						RATIO	
	31.12.2011.	Struct. %	31.12.2012.	Struct.%	31.03.2013.	Struct.%		
1.	2	3	4	5	6	7	8 (4/2)	9 (6/4)
Loans	9.364.121	85,4	9.347.370	85,2	9.322.510[25]	84,1	100	100
Interest	109.696	1,0	86.650	0,8	89.229	0,8	79	103
Past due receivables	937.899	8,5	1.049.891	9,5	1.089.631	9,8	111	104
Receivables from paid guarantees	24.808	0,2	24.360	0,2	24.135	0,2	98	99
Other placements	171.052	1,5	172.479	1,6	213.147	1,9	101	124
Other assets	371.127	3,4	291.903	2,7	348.680	3,2	79	119
1.RISK BALANCE SHEET ASSETS	10.978.703	100,0	10.972.653	100,0	11.087.332	100,0	100	101
2. NON RISK BALANCE SHEET ASSETS	5.290.275		5.084.537		4.803.677		96	94
3.GROSS BALANCE SHEET ASSETS (1+2)	16.268.978		16.057.190		15.891.009		99	99
4.RISK OFF BALANCE SHEET	2.397.407		2.313.486		2.310.449		96	99
5.NON RISK OFF BALANCE SHEET	497.182		495.911		468.164		100	94
6.TOTAL OFF BALANCE SHEET ITEMS (4+5)	2.894.589		2.809.397		2.778.613		97	99
7.RISK ASSETS WITH OFF BALANCE SHEET (1+4)	13.376.110		13.286.139		13.397.781		99	101
8. NON RISK ITEMS (2+5)	5.787.457		5.580.448		5.271.841		96	94
9. ASSETS WITH OFF BALANCE SHEET(3+6)	19.163.567		18.866.587		18.669.622		98	99

Gross balance sheet assets[26] is 15,9 billion KM, and is lower by 1% or 166 million KM, and the risk balance sheet assets is 11,1 billion KM which is 70% gross balance sheet assets and is higher by 1% or 115 million KM in comparison to the end of 2011. Non risk balance sheet assets are 4,8 billion KM and is lower by 6% or 281 million KM. Off balance sheet risk items are 2,3 billion KM and are lower by 1% or 3 million KM and the non risk items are 468 million KM and they are lower by 6% or 28 million KM in comparison to the end of 2012.

The impact of the economic crises on the overall economy and industry in BiH is still present, which had a significant impact on the banks' operations that is the segment of lending. In 2012 realized was a minimum growth of loans of 2% or 178 million KM, and in the first quarter of 2013 the increase was a slight 0,2% or 22 million KM. As of 31.03.2013 the loans were 10,7 billion KM, while the participation in the assets increased by 1,1 percent points and is 72,2%.

In the first quarter of 2013, placed is a total of 1,5 billion KM in new loans, which is by 27% or 325 million KM higher than in comparison to the same period last year. Of the total placed loans, loans in economy are 71%, and citizens 24%. Maturity structure of the newly granted loans has remained unchanged in comparison to the end of 2012: the long term was 41%, the short term 59%.

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

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

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[24] Lacking amount of regulatory reserves presents the positive difference between the needed and established RKG.
[25] Isključen iznos kredita od 166.523 hiljada KM pokriven novčanim depozitom (uključen u nerizičnu bilansnu aktivu).
[26] Data source: report on classification of the banks' balance sheet and off balance sheet items.

- in 000 KM-

Table 20: *Loan structure by sectors*

DEPARTMENTS	31.12.2011. Amount	Partic. %	31.12.2012. Amount	Partic. %	31.03.2013. Amount	Partic. %	RATIO	
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Government institutions	125.827	1,2	132.525	1,2	144.635	1,4	105	109
Public companies	257.547	2,4	251.233	2,4	277.293	2,6	98	110
Private entre. and comp.	4.989.796	47,6	5.141.359	48,2	5.124.648	47,9	103	100
Banking institutions	16.411	0,2	11.177	0,1	13.044	0,1	68	117
Non banking fin. inst.	40.978	0,4	41.661	0,4	46.401	0,4	102	111
Citizens	5.043.634	48,1	5.076.679	47,6	5.067.080	47,4	101	100
Other	13.478	0,1	11.490	0,1	14.747	0,2	85	128
TOTAL	10.487.671	100,0	10.666.124	100,0	10.687.848	100,0	102	100

In the first quarter of 2013 the loans sector was unchanged in comparison the end of 2012. Loans granted to citizens and private companies are at the same level. The loans to citizens are 5,1 billion KM, which is a participation of 47,4% (at the end of 2012., 47,6%). Loans granted to private companies are 5, 1 billion KM or 47,9% of total loans (at the end of 2012. 48,2%).

Based on the data submitted by banks, as of 31.03.2013., in the aspect of loan structure originated to citizens (based on the purpose), there is unchanged participation of the loans granted for financing the consumer goods[27], from 74%, while the housing loans is 23%, and the remaining 3% have loans for SMEs and agriculture.

Three largest banks in the system financed 62% of total loans originated to citizens, and to private companies 51% of total loans to all sectors (31.12.2012: citizens 62%, private companies 52%).

Currency structure of loans: loans financed with currency clause had the highest participation of 65% or 6,9 billion KM (EUR: 6,6 billion KM or 96%, CHF: 259 million KM or 4%), loans in domestic currency of 34% or 3,7 billion KM, while loans in foreign currency had the lowest participation of only 1% or 110 million KM (EUR: 86 million KM or 79%, CHF: 10 million KM or 9%). The total amount of loans in CHF currency of 270 million KM is 2,5% of the total loan portfolio and almost the whole amount refers to one bank in the system.

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

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

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

CLASSIFICATION CATEGORY	AMOUNT (in 000 KM) AND PARTICIPATION (in%) 31.12.2011. Clasif. assets	Partic. %	OKR PKG	31.12.2012. Clasif. assets	Partic. %	OKR PKG	31.03.2013. Clasif. assets	Partic. %	OKR PKG	RATIO	
1	2	3	4	5	6	7	8	9	10	11(5/2)	12(8/5)
A	10.612.528	79,3	212.248	10.571.130	79,6	211.425	10.598.433	79,1	211.972	100	100
B	1.419.030	10,6	118.847	1.227.189	9,2	108.290	1.292.724	9,6	114.365	86	105

[27] Credit card operations included.

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

C	282.847	2,1	67.999	334.465	2,6	87.917	316.904	2,4	82.533	118	95
D	375.980	2,8	209.936	443.261	3,3	252.631	465.995	3,5	262.273	116	105
E	685.725	5,2	685.727	710.094	5,3	710.079	723.725	5,4	723.708	103	102
Risk ass. (A-E)	13.376.110	100,0	1.294.757	13.286.139	100,0	1.370.342	13.397.781	100,0	1.394.851	99	101
Classified (B-E)	2.763.582	20,7	1.082.509	2.715.009	20,4	1.158.917	2.799.348	20,9	1.182.879	98	103
Non-performing (C-E)	1.344.552	10,1	963.662	1.487.820	11,2	1.050.627	1.506.624	11,2	1.068.514	111	101
Non risk ass.[29]	5.787.457			5.580.448			5.271.841			96	94
TOTAL (risk and non risk)	19.163.567			18.866.587			18.669.622			98	99

If an analysis of the risk assets quality is performed and the changes of the key indicators, it could be concluded, that in the first quarter of 2013 there were no significant changes, all the asset quality indicators are almost on the same level as at the end of 2012, but continued are the negative trends for the previous period, through the growth, before all, the category B, as well as the non performing assets, and the deterioration of the structure itself of the non performing assets and migration of items into the more poor classification categories. In some banks the indicators had slight oscillations (deterioration or improvement), that is: seven banks have indicators of participation of the classified and non performing assets in relation to the risk assets more poor than the banking sector and six banks have a participation of non performing loans in comparison to the risk assets more poor than the banking sector.

As of 31.03.2013, the classified assets were 2,8 billion KM, and non performing 1,5 billion KM (31.12.2012: 2,7 billion KM and 1,5 billion KM).

Classified assets (B-E) are higher by 3% or 84 million KM: B category increased by 5% or 65 million KM, and (C-E) increased by 1% or 19 million KM.

The classified assets and risk assets ratio is 20,4%, which is by 0,5 percent points lower than at the end of 2012.

The most important indicator for the asset quality is the ratio of the nonperforming and risk assets, and in comparison to the end of the previous year it is unchanged and is 11,2%, and the basic reason is an insignificant increase of non performing assets of 1% or 19 million KM (in 2012 the increase of non performing assets was 143 million KM or 115). However, it should be taken with reserve, since the participation of category B is 9,6%, and there is doubt that a part of the placement reported in this category have more poor quality and should be categorized as non performing assets.

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

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

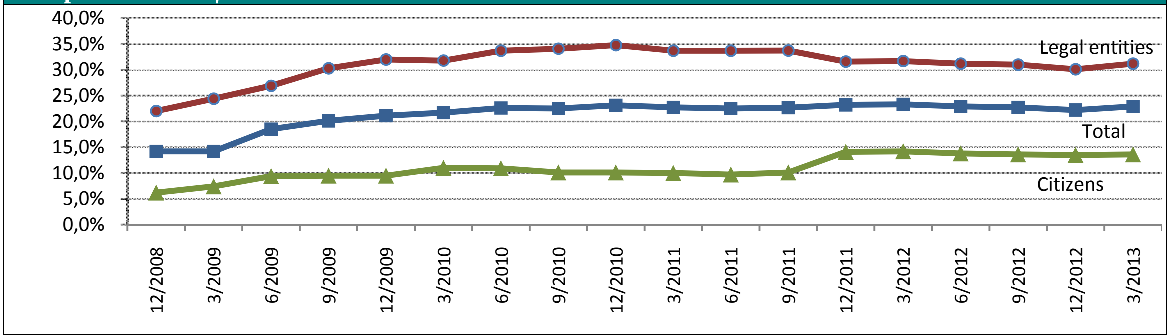
Classification category	AMOUNT(in 000 KM) AND PARTICIPATION (in%)												RATIO
	31.12.2012.						31.03.2013.						
	Citizens	Part. %	Legal entities	Part. %	TOTAL Amount	TOTAL Part.	Citizens	Part. %	Legal entities	Part. %	TOTAL Amount	TOTAL Part.	
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14(12/6)
A	4.391.603	86,50	3.905.972	69,88	8.297.575	77,82	4.375.881	86,36	3.867.690	68,81	8.243.571	77,13	99
B	150.247	2,97	811.632	14,52	961.879	8,99	163.298	3,22	858.659	15,28	1.021.957	9,56	106
C	97.021	1,91	225.638	4,04	322.659	3,09	85.009	1,68	218.075	3,88	303.084	2,84	94

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

D	162.781	3,20	268.430	4,80	431.211	3,98	162.768	3,21	290.666	5,17	453.434	4,24	105
E	275.027	5,42	377.773	6,76	652.800	6,12	280.124	5,53	385.678	6,86	665.802	6,23	102
TOTAL	5.076.679	100,0	5.589.445	100,0	10.666.124	100,00	5.067.080	100,0	5.620.768	100,0	10.687.848	100,00	100
Class. loans B-E	685.076	13,49	1.683.473	30,12	2.368.549	22,21	691.199	13,64	1.753.078	31,19	2.444.277	22,87	103
Non perfm. Loan C-E	534.829	10,53	871.841	15,60	1.406.670	13,19	527.901	10,42	894.419	15,91	1.422.320	13,31	101
		47,60		52,40		100,00		47,40		52,60		100,00	
Participation by sectors in classified loans, nonperforming loans and category B													
Classification B-E		28,92		71,08		100,00		28,28		71,72		100,00	
Non performing C-E		38,02		61,98		100,00		37,11		62,89		100,00	
Category B		15,62		84,38		100,00		15,98		84,02		100,00	

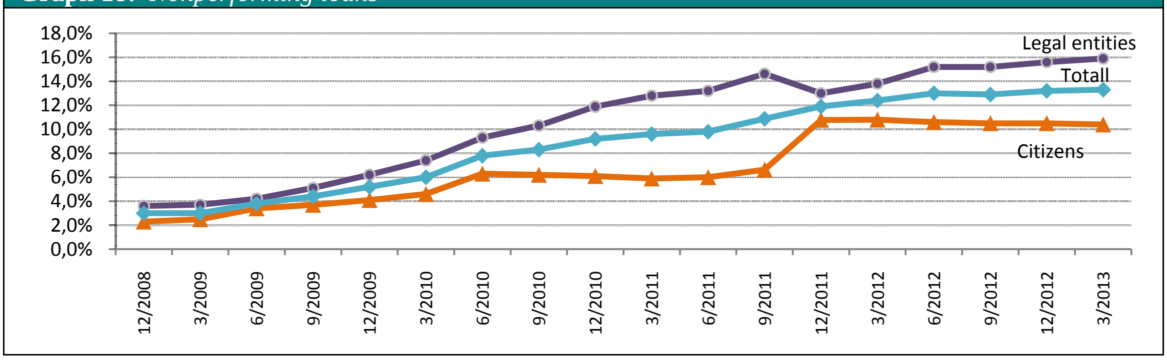
The asset quality indicators are slightly deteriorated in comparison to the end of the previous year, the participation of the nonperforming loans which increased slightly, as a result of the increase of the total nonperforming loans by 1% or 16 million KM, legal entities by 2,6% or 23 million KM, while the nonperforming loans to citizens had a decline of 1,3% or seven million KM. The participation of the classified loans increased to 22,9%, or 0,7 percent points due to the decrease of the B category by 6% or 60 million KM.

Graph 17: *Classified loans*



As of 31.03.2013., of total loans originated to legal entities in the amount of 5,6 billion KM, a high 31,2% or 1,7 billion KM was classified in categories B to E, which is an increase by 1,1 percent point in comparison to the end of 2012, while of total granted loans to citizens in the amount of 5,1 billion KM, in the listed categories classified is 13,6% or 691 million KM (685 million KM or 13,5% at the end of 2012) of total granted loans to citizens in the amount of 5,1 billion KM.

Graph 18: *Nonperforming loans*



The most important indicator of the credit portfolio quality is the participation of the non performing loans. Of the total loans placed to legal entities the non performing loans are 63% (at the end of 2012: 62%) and to citizens 37%. In the first quarter of 2013 continued is the increase of the participation of the non performing loans in the sector of legal entities, as a result of the noted increase by 2,6%, while for the citizens sector there happened a stagnation, that is a slight decrease. Of total loans placed to legal entities 15,9% or 894 million refer to non performing loans, which is by 0,3 percent points higher than at the end of 2012. For the citizens sector the same are 10,4% or 528 million KM, which is by 0,1 percent point lower than as of 31.12.2012..

A more detailed and thorough analyses is based on the data about the sector concentration of loans within the sector of legal entities (through sectors) and citizens (by purpose).

Table 23: *Sector concentration of loans*

DESCRIPTION	AMOUNT (in 000 KM) AND PARTICIPATION (in %)								RATIO	
	31.12.2012.				31.03.2013.					
	Total loans		Non performing loans		Total loans		Non performing loans			
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %		
1	2	3	4	5 (4/2)	6	7	8	9 (8/6)	10 (6/2)	11 (8/4)
1. Loans to legal entities for:										
Agriculture (AGR)	109.873	1,0	31.431	28,6	110.953	1,0	30.971	27,9	101	99
Production (IND)	1.537.147	14,4	244.138	15,9	1.528.449	14,3	254.104	16,6	99	104
Construction (CON)	408.752	3,8	106.552	26,1	407.992	3,8	116.622	28,6	100	109
Trade (TRD)	2.318.167	21,7	309.230	13,3	2.304.121	21,6	313.039	13,6	99	101
Service (HTR)	166.485	1,6	23.453	14,1	166.336	1,6	22.737	13,7	100	97
Other[30]	1.049.021	9,8	157.037	15,0	1.102.917	10,3	156.946	14,2	105	100
TOTAL 1.	5.589.445	52,4	871.841	15,6	5.620.768	52,6	894.419	15,9	101	103
2. Loans to citizens for:										
General spending	3.738.655	35,1	312.755	8,4	3.738.304	35,0	312.092	8,3	100	100
Residence constructions	1.186.332	11,1	177.104	14,9	1.178.754	11,0	171.744	14,6	99	97
Entrepreneurs	151.692	1,4	44.970	29,6	150.022	1,4	44.065	29,4	99	98
TOTAL 2.	5.076.679	47,6	534.829	10,5	5.067.080	47,4	527.901	10,4	100	99
TOTAL (1. +2.)	**10.666.124**	**100,0**	**1.406.670**	**13,2**	**10.687.848**	**100,0**	**1.422.320**	**13,3**	**100**	**101**

The largest participation in total loans for legal entities have the sector of trade (21,6%) and production (14,3%), and in citizens sector the largest participation have loans for general spending (35,0%) and residence loans (11,0%), and the participations are almost the same as at the end of the previous year.

The negative and strong influence of the economic crises is especially present in several key sectors, which is obvious form the indicators for the participation of the nonperforming loans. At the end of 2012, the agriculture sector, although with the smallest participation in the total loans of 1%, has the worse indicator of 28,6%, however the situation at the end of the first quarter changed, thus the largest participation of the non performing loans of 28,6% belongs to construction sector, which in total loans has a low participation of only 3,8%. This sector had the largest increase of the non performing loans in the first quarter of 9% or 10 million KM.

In the first quarter of 2013, the high increase of the loans was recorded in two sectors with the largest participation in total loans: in the sector of production by 4% or 10 million KM, and the participation increased from 15,9% to 16,6%, trade by 1% or four million KM, and the participation increased by 0,3 percent points, that is 13,6%.

In the citizens sector the poorest non performing participation indicator of 29,4% (at the end 2012: 29,6%) have loans placed to entrepreneurs, with low participation of 1,4% in total loans. A relatively

[30] Included are following sectors: traffic, storage and communication (TRC); financial performance (FIN); peformance with real estate, lease and business services (RER); public governance and defense, obligatory social insurance (GOV) and othero.

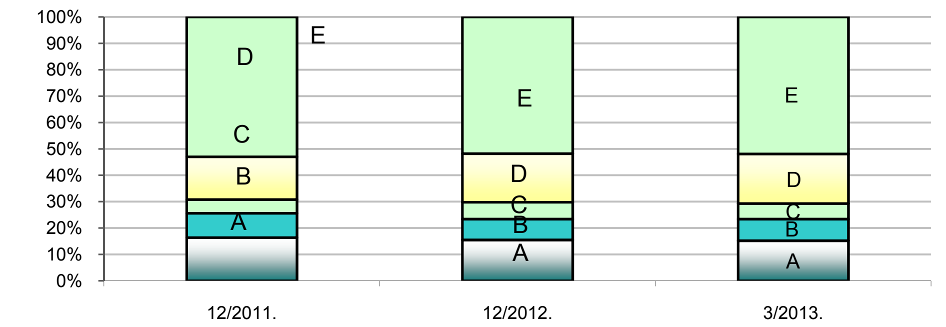
high participation of nonperforming loans of 14,6% have resident loans, while in the loans for general spending the participation is lower and is 8,3%. In the first quarter of 2013, in the noted loans placed to the citizens recorded is a slight decline of nonperforming loans or stagnation, which had an impact on the small change that is the decline of their participation.

The level of the general credit risk and assessed potential loan losses through categories of classification, determined in compliance with the criteria and methodology prescribed in the decisions of the FBA, their trend and the structure on the level of the banking sector are provided in the following table and graph.

Table 24: *Structure and trend of the general credit risk and potential credit losses*

Classification category	AMOUNT (in 000 KM) AND STRUCTURE (in%)						RATIO	
	31.12.2011.		31.12.2012.		31.03.2013.			
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
A	209.555	29,2	211.425	15,5	211.972	15,2	100	100
B	132.048	18,4	108.290	7,9	114.365	8,2	91	106
C	113.962	15,9	87.917	6,4	82.533	5,9	129	94
D	258.297	36,0	252.631	18,4	262.273	18,8	120	104
E	3.851	0,5	710.079	51,8	723.708	51,9	104	102
TOTAL	717.713	100,0	1.370.342	100,0	1.394.851	100,0	106	102

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



Analyzing the level of the calculated RLL in total and through classification categories, in comparison to the end of 2012, the reserves for general loan losses (for category A) and potential credit losses increased by 2% or 24 million KM and are 1,4 billion KM. Reserves for general credit risk are at the same level of 212 million KM as at the end of 2012, and the reserves for category B increased by 6% or six million KM due to the increase of the same by 5% or 65 million KM and are 114 million KM. Due to the growth of the poor performing assets (C, D and E category) by 1% or 19 million KM, increased are the reserves for the poorest loans by 2% or 18 million KM, that is on the level of 1,07 billion KM. Nominally, the largest growth of 14 million KM or 2% had the reserves for the category E, and the largest relative growth of 4% or 10 million had reserves for D category, while the reserves for category C reported a decline by 6% or five million KM. The noted fluctuation of loan loss reserves indicates the constant deterioration of the credit portfolio, which is a result of further impact of the economic crises on the real sector.

One of the most important asset quality indicators is the ratio of the potential credit losses (PKG) and risk assets with off balance sheet. This indicator is 8,8% and is on the same level as at the end of 2012.

As of 31.03.2013, in average banks had allocated reserves for category B based on the rate of 8,8%, for C category 26,0%, D category 56,3% and E 100% (at the end of 2012.: B 8,8%, C 26,3%, D 57%

and E 100%)[31].

In compliance with IAS/IFRS the banks are obliged to book the value impairments of property through expenses by establishing value adjustments for balance sheet items and provisioning for risk off balance sheet items (previously RKG).

The review of the total items of assets (balance and off-balance) and the default items, as well as the adequate value adjustments and provisioning (determined in compliance with the internal methodology of the banks which minimum elements are prescribed by the FBA) at the level of the banking sector are listed in the following table:

Table 25: *Evaluation and validation of the risk items according to IAS 39 and IRS 37*

Description	AMOUNT (in 000 KM) AND PARTICIPATION (in%)				RATIO
	31.12.2012.		31.03.2013.		
	Amount	Participation	Amount	Participation	
1	2	3	4	5	6 (4/2)
1. RISK ASSETS (a+b)	**13.286.139**	**100,00%**	**13.397.781**	**100,00%**	101
a) Default items	**1.729.182**	13,01%	**1.728.147**	12,90%	100
a.1. balance sheet default items	1.708.152		1.709.585		100
a.2. off balance sheet default items	21.030		18.562		88
b) Performing assets	**11.556.957**	86,99%	**11.669.634**	87,10%	101
1.1 TOTAL RISK ASSETS VALUE ADJUSTMENTS (a+b)	**1.092.251**	**100,00%**	**1.110.420**	**100,00%**	102
a) Value adjustment for default	**953.816**	87,33%	**960.965**	86,54%	101
a.1. Value adjustment of balance sheet default items	950.256		957.170		101
a.2. Reserves for off-balance sheet in default	3.560		3.795		107
b) Value adjustments for performing assets (IBNR[32])	138.435	12,67%	149.455	13,46%	108
2. TOTAL LOANS (a+b)	**10.666.124**	**100,00%**	**10.687.848**	**100,00%**	100
a) Non-performing loans	1.645.072	15,42%	1.646.974	15,41%	100
b) Performing loans	9.021.052	84,58%	9.040.874	84,59%	100
2.1. LOANS VALUE ADJUSTMENT (a+b)	**1.007.196**	**100,00%**	**1.023.220**	**100,00%**	102
a) Default loans value adjustment	898.649	89,22%	904.441	88,39%	101
b) Performing loans value adjustment (IBNR loans)	108.547	10,78%	118.779	11,61%	109
Coverage of items in default	**55,2%**		**55,6%**		
Coverage of performing assets items	**1,2%**		**1,3%**		
Participation of default loans in total loans	**8,2%**		**8,3%**		

Participation of default loans in the total loans of 15,4%, as well as the participation of all items in default in the total risk assets of 13% are at the same level as at the end of 2012..

The coverage of items in default with the correction of value increased from 55,2%, to 55,6% of items of performing assets by 0,1 percent point, that is on the level of 1,3%, and the coverage of risk assets with the total value adjustment is 8,3% of risk assets (at the end of 2012: 8,2).

Due to poor performing receivables trend that is the delays in collecting the past due loan liabilities from clients, there were activated some guarantees in a number of delinquent loans that had this type of insurance, so the burden of payment of such loans fell on the guarantors.

[31] Based on the Decision on minimu standards for managing the credit risk and banks asset classification, banks are obliged to calculate reserves for loan losses for clasification categories in the following percentages: A-2%, B 5-15%, C 16-40%, D 41-60% and E 100%.
[32] IBNR (identified but not reported)-latent losses.

As of 31.12.2009., the FBA requires a report about the loans being repaid by the guarantor, in order to collect, monitor and analyze the data on loans that are being repaid by the guarantors. According to the banks' reports in F BiH as of 31.03. 2012., 2.494 guarantors in total repaid 11,5 million KM of the total granted amount of loans of 66 million KM (2,197 credit party), which is by 4% less in comparison to the amount of the payment by the guarantors as of 31.12. 2011. (12 million KM paid by 2.823 guarantors, while the amount of the total loans was 70 million KM – 2.479 credit parties). The amount of the remaining debt is 39 million KM (31. 12. 2012.: 41 million KM).

From the listed data it can be concluded that in the first quarter of 2013, the amount of loans paid by guarantors decreased, the balance of the remaining debt, as well the amount of payments on the account of guarantors. The participation of loans and the number of credit parties being repaid by the guarantors in relation to the data for the entire system is low and amounts to only 0,37% and 0,18%.

With an aim to defer the negative effects of the global financial and economic crises, and taking care of maintaining the stability of the banking sector, the FBA at the end 2009, issued a Decision on temporary measures for reconstruction of loan liabilities of individuals and legal entities[33].

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

Acting in accordance with the noted Decision, the banks in the Federation of BiH in the first quarter of 2013, of a total received 124 requests for restructuring of loan liabilities approved 115 requests in a total amount of 7,5 million KM or 93%, which is by 52% less than in comparison to the same period in 2012. Of the total amount of granted restructured liabilities 7,2 million KM refer to legal entities, and 298 thousand KM to individuals.

Net effect on the reserves for loan losses on the bases of the performed restructuring is a decrease of 18 thousand KM. It should be noted that there were some opposite movements, both increases and decreases of RKG on these bases, which at the end resulted with a noted net effect.

The restructured loans, in compliance with the listed Decision, in the first quarter of 2013, in comparison to the total loans as of 31.03. 2013 have a participation of only 0,67% (for the legal entities sector in comparison to the portfolio of the legal entities this percent is 0,13%, while for citizens it is 0,01%).

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

Although the result and the effects of the implementation of the Decision are not significant, it is estimated that the coming into effect of such regulation was very important, that is such measures of temporary character in the conditions of financial and economic crises were necessary for both the financial and real sector in FBiH, and it had positive impact on the debtors (both individuals and legal entities) making easier the servicing of their debt in compliance with their payment capabilities. That is why the prolonging the implementation of the Decision in 2013 is justifiable due to the fact that the effects of the crises are still present.

[33] “Official Gazette F BiH”, No.2/10.

The asset quality analysis, that is, the loan portfolio analysis of individual banks, as well as on-site examinations at banks, indicate loan risk as still dominant risk with majority of banks, raising a concern that some banks still have inadequate management practices, that is, evaluation, measuring, monitoring, and control of loan risk and assets classification, which was determined in on-site examinations through significant amount of insufficient loan loss reserves that banks have established based on the orders issued by the FBA.

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

Transactions with related entities

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

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

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

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

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

-000 KM-

Table 26: *Related entities transactions*

Description	LOANS GRANTED[34]			RATIO	
	31.12.2011.	31.12.2012.	31.03.2013.	3/2	4/3
1	2	3	4	5	6
Shareholders over 5% of voting rights, subsidiaries and other related enterprises	131.962	156.861	138.319	119	88
Supervisory Board and Audit Board members	400	617	614	154	100
Bank Management	2.170	2.574	4.199	119	163

[34] In addition to loans, included are other receivables, deposited funds and placements to shareholders (financial institutions) with more than 5% voting rights.

TOTAL	134.532	160.052	143.132	119	89
Potential and undertaken off-balance sheet liabilities	29.818	21.800	14.699	73	67

In the observed period, credit exposures to persons related to banks decreased by 11% and potential liabilities by 33% due to the decreased exposure in one large banks. Based on the presented data, we could conclude that it is still a question of a small amount of loans-guarantees operations with related entities, and the level of risk is low. The FBA pays special attention (in on-site examinations) to banks' operations with related entities, especially in assessing identification system and monitoring of risk exposure to related entities operations. The FBA on-site examiners issue orders for elimination of determined weaknesses within certain deadlines and initiate violation procedures. This has had a positive influence on this segment of operations, since the risk management quality in this segment has improved.

2.2. Profitability

According to the data from the income statement, on the level of the banking system in the Federation of BiH, in the first quarter of 2013, realized is a positive financial result – profit in the amount of 42,3 million KM, which is in reference to the level of the system an increase of 37% or 11,4 million KM in comparison to the same period last year. Positive effect on the financial results of the system, had the realization of a larger profit in banks which had a positive performance in the same period last year (effect 9,6 million KM), especially in one large bank which belongs to the group of banks which are carriers of profitability and one smaller bank, which realized a significantly higher profit in comparison to the same period last year, when it performed with minimum profit, as well as realization of profit in banks which last year performed with losses (effect five million KM) especially of one bank which in the same period last year performed with a significant loss. On the other hand the negative effect of around three million KM is a result of a lower profit in some banks and a realized loss in four banks.

The largest impact on the profitability of most of the banks is primarily a result of the implementation of a new methodological approach (implementation of the IAS 39 and IAS 37) which consequently had an impact on a lower level of value impairment. The larger decline of the non-interest expenses amortized the decrease of the total income, which had an impact on the realization of larger profit in comparison to the same period last year.

The positive financial result of 44,7 million KM was realized by 14 banks and it is larger by 26% or 9,1 million KM in comparison to the same period last year. Simultaneously, the performance loss in the amount of 2,4 million KM was reported by four banks decreasing by 49% or 2,3 million KM in comparison to the same period last year.

More detailed data are provided in the following table.

-000 KM-

Table 27: *Realized financial result: profit/loss*

Description	31.03.2011.		31.03.2012.		31.03.2013.	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7
Loss	-11.386	7	-4.654	7	-2.379	4
Profit	34.170	12	35.600	12	44.710	14
Total	**22.784**	**19**	**30.946**	**19**	**42.331**	**18**

Similar to other segments, this segment has also encountered concentrations: of total profit generated (45 million KM), 74% or 33 million was generated by two largest banks in the system, whose participation in the banking system assets was 49%. In the total loss of 2,4 million KM, to one smaller bank with lower participation of assets in the system refer 6,1% or 1,4 million KM. Analytical data indicate that a total of nine banks reported a better financial result (by 14 million KM), and nine banks have worse results (by three million KM).

Based on the analytical data and the indicators for the quality evaluation of the profitability (the amount of the generated financial result – profit/loss and ratios used for evaluation of profitability productivity and efficiency of operation as well as other parameters related to evaluation of operation) it is evident that the total profitability of the system improved in comparison to the previous year, and especially in large banks which carry the profitability and which realised a significantly higher profit than last year, which is primarely the result of the applied new methodological approach.

However, it is not adequate to assess the profitability only through the level of the realized financial result, since other important factors should be taken into account which influence the sustainability and quality of earnings that is profit. Here it is important to emphasize the credit risk and negative trends in the asset quality in the last four years, which is noticeable through the increase of poor and placements that cannot be collected, which is not in correlation with the decrease of the value adjustment expenses (after the implementation of the IAS 39 and 37), which presents the most important factor which resulted with the improvement of the financial result in majority of banks in the past two years (after the implementation of the IAS 39 and 37), and which is not in correlation with the noted data about the increase of poor loans. That leads to doubt if the value impairment in a number of banks was under assessed and that they are not on the adequate level.

At the system level, total income was realized in the amount of 205 million KM which is almost unchanged in comparison to the same period last year. Total noninterest bearing expenses are 163 million KM, with the decrease rate of 7% or 12 million KM in comparison to the same period last year, which had a positive reflection on the overall financial result of the sector.

In spite the incline of the average interest bearing loans in almost all banks by 1,7%, the decrease of the average interest rates on loans had as a consequence the declining trend in the interest income. Although most of the banks recorded an increase in the interest income in comparison to the same period last year, as a result of the intensifying of lending activities, the lower interest income in three large banks, which carry the profitability, influenced the decrease on the level of the system. Interest income is 194 million KM, which is by 5% or nine million KM lower than in the same period last year, and the participation in the structure of total income decreased from 98,9% to 94,7%. Interest income on loans, which recorded the largest nominal decline by nine million KM or 5%, has the largest participation, as a result of decrease of average active loan rates for the reviewing period from 1,76% to 1,65%, with a decreased participation in the total income from 89,4% to 85,4%. Also, it should be noted that after the interest income from loans, the second significant item with a negative impact on the interest income is the income from interest bearing accounts in deposit institutions, with a low participation of 0,2%, and a significant decline of 0,2% or 1,1 million KM, which is primarily a result of law fees on the obliged and above the obliged reserves at the Central bank of BiH.

Positive trend was recorded for the interest expenses, which had an insignificantly higher decline rate (-11%) in comparison to the declining rate of interest income (-5%), but nominal difference is significant: interest expenses decreased by eight million KM and interest income by a nine million KM. The interest expenses are 61 million KM, and their participation in the structure of the total income decreased from 32,6% to 29,9%. Although the average interest bearing deposits decreased by 7,2%, interest expenses on deposit accounts which are 52 million KM, as a largest item relatively and nominally in the amount of total interest expenses declined by 4% or two million KM, as a result of the deposit base structure, and a large outflow of demand deposits influenced the larger participation of deposits which carry a larger interest rate, which resulted with a slight increase of average interest rates on deposits for the comparing period from 0,56% to 0,58%. The interest expenses on taken loans and other borrowings are six million KM and in reference to the same period last year recorded a decline of 46%, with a decline in the participation from 5,3% to 2,9%.

As a result of decline of the interest expenses (-5%) and interest income (-11%), net interest income decreased by 1% or 1,5 million KM and is 133 million KM, with a decreased participation in the structure of the total income from 64,3% to 64,8% .

Operating income was 72 million KM and in relation to the same period last year increased by 1% and their participation in the structure of the total income increased from 34,7% to 35,2%. Within the operating income the largest participation have the service fees which recorded an increase of 4% or two million KM.

Total noninterest expenses are 163 million KM and in comparison to the same period last year declined by 7% or 12 million KM, primarily as a result of a significant decline of value adjustment expenses At the same time, their participation in the structure of the total income declined from 85% to 79,4%. The value adjustment expenses are 29 million KM and in comparison to the last year, declined by 19% or seven million KM, and in comparison to the same period last year they are lower by 19% or seven million KM, which had a positive impact on the decrease of their participation in the structure of total income from 17,5% to 14,3%.

On the other hand the operating expenses, with the amount of 117 million KM and participation of 57% in the total income, also recorded a slight decline of 4% or four million KM, of which the salary and contribution expenses, as the largest item in the operating expenses, decreased by a 2% and are 60 million KM or 29,3% of the total income, while the fixed assets expenses, after the decline of 6% or two million KM are 37 million KM, which is the participation in the total income of 17,8%. In the period after the beginning of the crises, the banks took numerous measures to rationalize operating expenses, above all on the decrease of the operating expenses, which in part softened the negative impact of the interest income decline due to the decrease in the volume of the lending activities and decline of the credit portfolio quality.

The trend and structure of the total income and expenses is presented in the following table and graphs:

- in 000 KM-

Table 28: *Total income structure*

Structure of total income	31.03.2011.		31.03.2012.		31.03.2013.		RATIO	
	Amount	%	Amount	%	Amount	%		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
I Interest income and similar income								
Interest bearing deposit accounts with depository institutions	4.570	1,6	1.553	0,6	451	0,2	34	29
Loans and leasing	188.076	64,3	183.981	66,9	175.161	65,9	98	95
Other interest income	15.990	5,4	18.099	6,6	18.124	6,8	113	100
TOTAL	208.636	71,3	203.633	74,0	194.223	72,9	98	95
II Operating income								
Service fees	49.067	16,8	49.859	18,1	51.736	19,4	102	104
Foreign exchange income	8.355	2,8	8.629	3,1	8.631	3,2	103	100
Other operating income	26.532	9,1	12.997	4,7	11.800	4,5	49	91
TOTAL	83.954	28,7	71.485	26,0	72.167	27,1	85	101
TOTAL INCOME (I + II)	292.590	100,0	275.118	100,0	266.390	100,0	94	97

Graph 20: *Structure of total income*

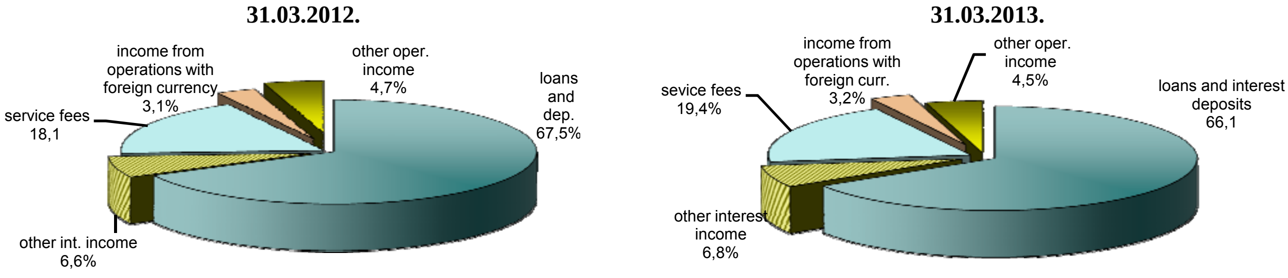
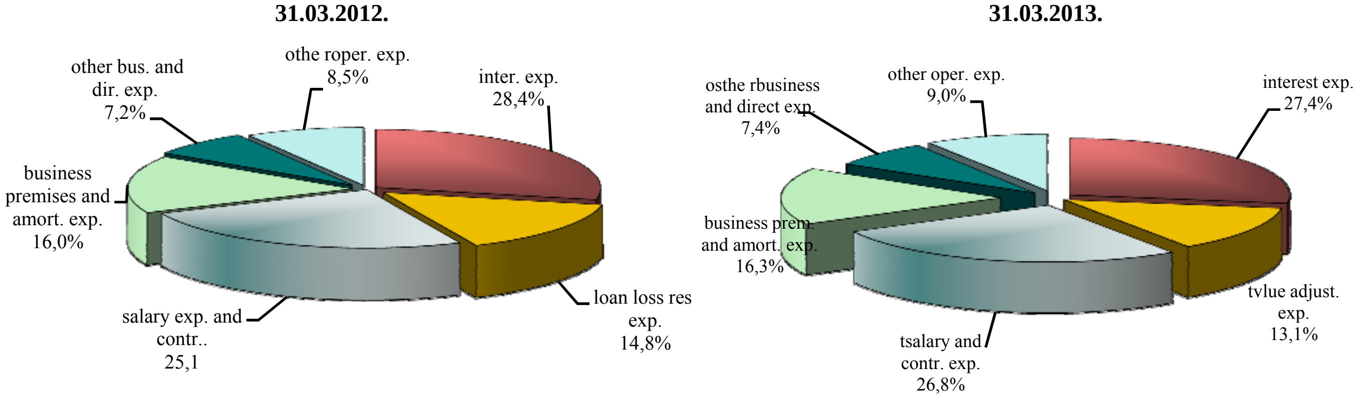


Table 29: *Structure of total expenses*

Structure of total expenses	31.03.2011. Amount	%	31.03.2012. Amount	%	31.03.2013. Amount	%	RATIO	
1	2	3	4	5	6	7	8 (4/2)/	9 (6/4)
I Interest expenses and similar expenses								
Deposits	56.808	21,0	54.352	22,3	52.428	23,5	96	96
Liabilities for borrowings	10.600	3,9	10.868	4,5	5.923	2,6	112	50
Other interest expenses	4.200	1,6	4.026	1,6	3.007	1,3	96	75
TOTAL	71.608	26,5	69.246	28,4	61.358	27,4	99	89
II Total non-interest bearing expenses								
Impairment provisions for risk assets, provisioning for potential liab. and other time reconc. [35]	55.688	20,6	36.098	14,8	29.273	13,1	65	81
Salary expenses	62.702	23,3	61.225	25,1	60.053	26,8	98	98
Business premises and depreciation expenses	38.648	14,3	39.052	16,0	36.570	16,3	101	94
Other business and direct expenses	16.336	6,1	17.727	7,2	16.644	7,4	109	94
Other operating expenses	24.824	9,2	20.824	8,5	20.161	9,0	84	97
TOTAL	198.198	73,5	174.926	71,6	162.701	72,6	88	93
TOTAL EXPENSES (I + II)	269.806	100,0	244.172	100,0	224.059	100,0	90	92

Graph 21: *Structure of total expenses*



The following table provides the most significant ratios for the profitability assessment, productivity and banks' efficiency.

[35] Based on the previous methodology : General credit risk reserve expenses and potential loan losses.

- in %-

Table 30: *Ratios of profitability, productivity and effectiveness by periods*

RATIOS	31.03.2011.	31.03.2012.	31.03.2013.
Return on Average Assets	0,15	0,21	0,29
Return on Average Total Capital	1,33	1,47	1,89
Return on Average Equity	1,94	2,59	3,52
Net Interest Income/Average Assets	0,92	0,90	0,90
Fee Income/Average Assets	0,56	0,48	0,49
Total Income/Average Assets	1,48	1,38	1,39
Operating and Direct Expanses36/Average Assets	0,48	0,36	0,31
Operating Expenses/Average Assets	0,85	0,81	0,79
Total Non-interest Expanses/Average Assets	1,33	1,17	1,10

The analyses of the basic parameters for evaluation of the profitability, due to the higher amount of realized profit in comparison to the same period last year, ROAA (earnings on average assets) increased from 0,21% to 0,29% and ROAE (earnings on average shareholder capital) from 2,59 to 3,52%. The productivity of banks, measured with the relation of the total income and average assets (1,39%) slightly improved in comparison to the comparative period last year (1,38%) since the total income is almost at the same level as last year in comparison to the average assets which is slightly lower (-1%). Also, noted should be the improvement, as a consequence of the decrease of value impairment, of the business and direct expenses on average assets, from 0,36% to 0,31%.

Under a more deteriorated performance conditions of banks, and due to adverse effects of the economic and financial crisis to the banking sector in the FBiH, profitability of banks, in the forthcoming period, will mostly depend on deterioration of asset quality, that is, permanent increase of loan losses and loan risk, and will depend on effective management and operating income and expenses control. The existing slow down and decline of the economic activities influenced the decrease of the demand for loans, but also the restrictive approach on the side of the offer (banks) which will have a direct influence on the profitability of the entire banking system by the end of the year. In addition, profit of banks, that is, financial result will mostly depend on price and interest rate risk, both in the sources and price changes in funding sources of banks, and possibility to realize interest rate margin sufficient to cover all non-interest bearing expenses, and, eventually, to provide for satisfactory profit on the invested capital for bank owners. That is why the key factor is effectiveness and profitability of each bank's management quality and its business policy since this is the most direct way to affect its performance.

2.3. Risk-weighted nominal and effective interest rates

In order to increase transparency, and to make easy a comparability of conditions of banks in process of originating loans and accepting deposits and protection of customers through a transparent disclosure of loan expenses versus deposit income, and, in accordance with the international standards, criteria and practices in other countries, the FBA, as of 01.07.2007., prescribed unified method of computation and disclosure of effective interest rate[37]for all banks that have their seat in the Federation of BiH, and their organizational units, regardless of the territory in which they operate, including organizational units of the banks operating in the Federation of BiH. Effective interest rate

36 Expenses include provisions for potential loan losses.

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

represents a real relative price of a loan, that is, an income generated from a deposit, expressed as per cent at the annual level.

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

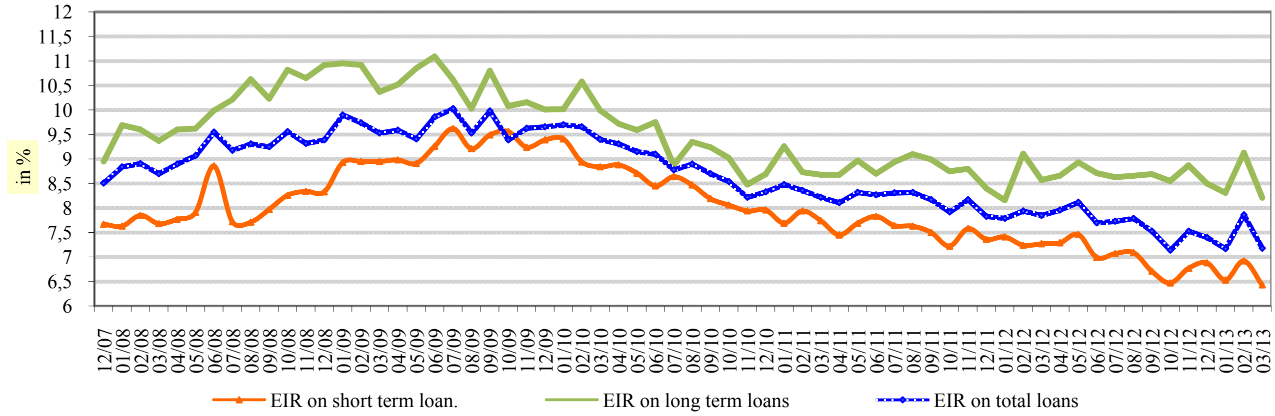
Banks are obliged to monthly report to the FBA of risk-weighted nominal and effective interest rates on loans and deposits originated or accepted within the reporting month, in accordance with the methodology prescribed[38].

The following table presents risk-weighted nominal and effective interest rates (hereinafter: NIR and EIR) for loans on the banking system level for the two most important sectors (economy and citizens) for December of 2011, March, June, September and December of 2012 and March of 2013.

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

DESCRIPTION	12/2011.		03/2012.		06/2012.		09/2012.		12/2012.		03/2013.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Risk-weighted interest rates for short-term loans	6,78	7,36	6,60	7,27	6,31	6,99	6,29	6,71	6,39	6,88	6,06	6,43
1.1. Economy	6,74	7,28	6,54	7,15	6,29	6,93	6,30	6,66	6,39	6,86	6,12	6,46
1.2. Citizens	8,66	11,89	8,67	11,73	7,73	10,88	8,23	11,55	8,46	10,89	8,58	10,90
2. Risk-weighted interest rates for long-term loans	7,57	8,40	7,72	8,57	7,71	8,71	7,72	8,69	7,66	8,50	7,48	8,21
2.1. Economy	6,96	7,59	6,62	7,10	6,82	7,41	6,83	7,60	6,73	7,22	6,40	6,72
2.2. Citizens	8,25	9,31	8,50	9,59	8,39	9,54	8,43	9,57	8,47	9,59	8,37	9,46
3. Total risk-weighted interest rates for loans	7,14	7,83	7,45	7,85	6,91	7,70	6,88	7,53	6,80	7,40	6,66	7,18
3.1. Economy	6,81	7,38	6,56	7,14	6,41	7,03	6,43	6,89	6,45	6,93	6,19	6,53
3.2. Citizens	8,27	9,44	8,51	9,71	8,36	9,61	8,42	9,68	8,47	9,69	8,38	9,55

Graph 22: *Risk weighted average EIR on loans*



When analyzing the trend of interest rates, it is relevant to monitor risk-weighted EIR, while a difference in the risk-weighted NIR is exclusively the result of fees and provisions paid to banks for

[38] Guidelines for implementation of Decision on unified method of computation and disclosure of effective interest rates on loans and deposits and Guidelines for computation of risk-weigthed nominal and effective interest rate.

originated loans, which is included in the computation of the loan price. That is the reason why the EIR represents a real loan price.

In the first quarter of 2013, the risk weighted interest rates on short term loans recorded oscillations within 0,69 percent points, lower by 0,22 percent points and in comparison to the level from December of 2012 is 7,18%.

The risk weighted EIR on long term loans recorded higher oscillations, and within 0,92 percent points, than the short term, which were within 0,49 percent points.

Risk weighted EIR on short term loans in March of 2013 was 6,43%, which is by 0,45 percent points lower than in comparison to December of 2012, while the risk weighted EIR on long term loans was 8,21% which is in comparison to September 2012 lower by 0,29 percent points.

Interest rates for loans originated in the two most significant sectors: economy and citizens[39] in the reviwed period in 2013 recorded a declining trend. The risk weighted EIR for loans originated in the economy, still lower EIR on loans to citizens, decreased from 6,93% from December of 2012 to the level of 6,53% in March of 2013. The declining trend of the risk weighted EIR was recorded in the short term loans (from 6,86 to 6,46%) and long term loans (from 7,22% to 6,72%) granted to economy.

The EIR on loans to citizens in March of 2013 was 9,55%, which is by 0,14 percent points lower than in comparison to December of 2012. Similar like in legal entities, the risk weighted EIR on loans granted to citizens have a declining trend in short term (from 10,89% to 10,90%) and long term (from 9,59% to 9,46%) loans.

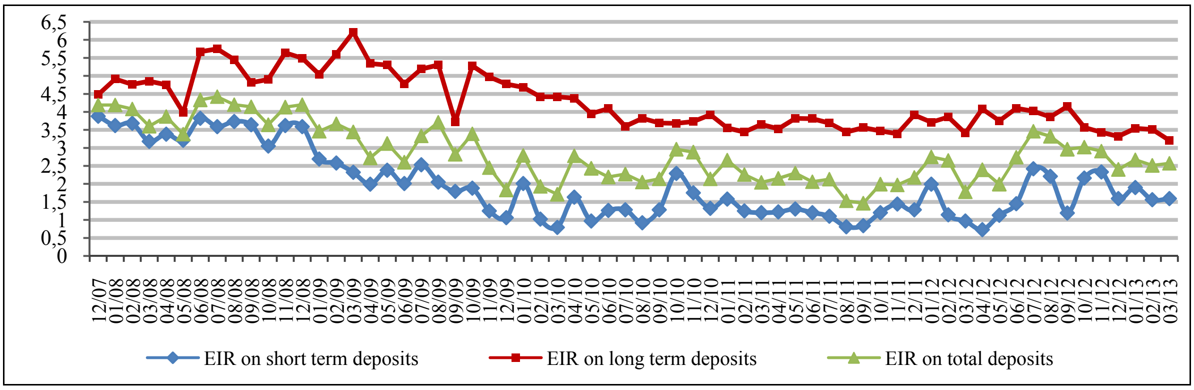
Risk weighted NIR and EIR on time deposits, calculated based on the monthly reports, for the banking sector are presented in the following table:

Table 32 : *Risk weighted average NIR and EIR on deposits*

DESCRIPTION	12/2011.		3/2012.		6/2012.		9/2012.		12/2012.		3/2013.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Risk-weighted interest rates for short-term deposits	1,28	1,28	0,97	0,97	1,44	1,45	1,18	1,19	1,59	1,59	1,57	1,59
1.1. up to three months	0,91	0,91	0,64	0,64	0,48	0,48	0,87	0,87	1,28	1,28	1,26	1,26
1.2. up to one year	2,74	2,74	1,77	1,77	3,15	3,18	1,87	1,9	2,53	2,55	1,98	2,02
2. Risk weighted int. Rate on long term deposits	3,88	3,91	3,39	3,41	4,07	4,1	4,12	4,15	3,30	3,32	3,18	3,21
2.1. up to three years	3,73	3,75	3,23	3,24	4,01	4,03	4,08	4,10	3,17	3,19	3,03	3,06
2.2. over three years	4,56	4,61	4,30	4,40	4,57	4,76	4,41	4,50	4,42	4,46	4,01	4,04
3. Total risk weighted int. Rates on deposits	2,17	2,18	1,77	1,78	2,72	2,74	2,94	2,96	2,39	2,40	2,55	2,57

Graph 23: : *Risk weighted average monthly EIR on deposits*

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



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

If compared to December 2012, risk-weighted EIR for total term deposits, in March of 2013, increased by 0,17 percent points (from 2,40% to 2,57%).

Risk-weighted EIR on short term deposits in the first quarter of 2013 recorded low oscilations, and is 1,59%, which is on the same level as in December of 2012.

The risk weighted EIR on long term deposits is in slight decline, in March of 2013 was 3,21% which is lower by 0,11 percent points in comparison to December of 2012, with a recorded increase of 0,22 percent points in January 2013.

In the second half of 2012 till March 2013, there happened a decline in the newly accepted deposits from economy in the reporting period (month), especially short term, and they are on the lowest level when reviewed in the period of last four years, which as a consequence had a high decrease of short term interest rates to economy, especially time deposits of one year (December 2012.: 3,49%, March 2013.: 1,9%). On the other hand, the citizen time deposits are much higher, especially the long term, and the same are a significant source of financing for the long term placements in the real sector and citizens. That is why the banks' interest rate policies have been adjusted and conditioned with the existing structure of sources, and the interest rates on the citizens time deposits are lower than for the economy deposits, while the situation is reverse for the loans. In march of 2013, the average interest rate on deposits to economy (3,92%, in December 2012. 4%) are higher than the average interest rates on citizen deposits (2,79%, in December 2012. 2,98%).

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

Table 33 : *Risk-weighted average NIR and EIR on loans-overdrafts and demand deposits*

DESCRIPTION	12/2011.		3/2012.		6/2012.		9/2012.		12/2012.		3/2013.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Risk-weighted interest rates for loans-overdrafts	8,73	8,86	8,45	8,56	8,40	8,53	8,42	8,56	8,43	8,57	8,52	8,67
2. Risk-weighted interest rates for demand deposits	0,18	0,18	0,32	0,32	0,22	0,22	0,22	0,22	0,19	0,19	0,19	0,19

The EIR for the above items of assets and liabilities, in general, should be equal to the nominal interest rate. The risk-weighted EIR for total loans in overdrafts for the banking sector, in March 2013, was 8,67% (an incline of 0,1 per cent in comparison to December 2012), and 0,19% for demand deposits, which is the same level as in December 2012.

2.4. Liquidity

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

Under normal circumstances of banks' performance and stable environment, until the global financial and economic crisis occurred, liquidity risk has had a secondary significance, that is, credit risk was first priority and management systems established, that is, identification, measurement, and control of such risks were under continuous supervision with purpose of its enhancement and improvement.

Along with turbulences in the financial market due to the global crisis, liquidity risk has rapidly increased and the risk management has become a key factor for normal operating of a bank, as well as timely meeting of past due liabilities and maintenance of a long term position of a bank in regard of its solvency and capital base. It should be emphasized, however, that during the course of its performance, a correlation of all risks that any bank is or may be exposed to also appeared with the beginning of the crises.

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

In 2009 the adverse movements from the last quarter of 2008 were stopped, and general liquidity indicators were improved thanks to primarily decreased lending activity. In 2010 there was a slight deterioration of indicators, which with a smaller intensity continued in 2011. Somewhat larger deterioration of the indicators happened again in the first quarter of 2012, due to the decrease of cash funds based on the slight increase of lending atcivities and investments in securities, payment of loan liabilities and investmenets in securities, decrease of deposits, payment of credit liabilities, increase of uncollected receivables, which is a that with weaker oscilations continued until the end of 2012. The first quarter of 2013 characterised the continuation of the mild deterioration of the indicators, caused by the outflow of deposits, payment of past due loan liabilities and continuation of the increase of the past due not collected receivables.

Banks efforts to reach a relatively better profitability through a better allocation of the financial assets, with the trend of slight decline of deposits since 2011. changes in the structure of deposit sources, as well as the trend of decrease of liabilities on loans taken and subordinated debt which has been present for a longer period of time, lead to a faster decline of liquid funds in comparison to the decrease of short term financial liabilities, decline of liquid funds participation in total assets and deterioration of the loan ratio in comparison to the deposits, loans taken and subordinated debt.

In spite the noted, the statement remains that liquidity of the banking system in the Federation of BiH is still good, with satisfactory participation of liquid assets in total assets and very good maturity match of the financial assets with the liabilities, with and improving trend since the end of 2010. However, since the financial crisis is still present worldwide which has an adverse reflection to the banking systems of certain European countries, which had a negative effect on certain European countries and parent banks in FBiH, it is estimated that liquidity risk still needs to be under enhanced supervision. In addition, we should have in mind the fact that impact of the crisis is still present in the real sector, adverse consequences are being reflected to the entire economy environment under which banks operate in BiH, resulting in delinquency of debtors in repayment of past due liabilities and increase of nonperforming claims, which is causing decrease in inflow of liquid assets of banks and conversion of the credit risk into liquidity risk. In that sense, one of most important impacts on the position of banks' liquidity in the coming period will be the capability of banks to adequately manage its assets, which supposes securing assets which has good performance and which quality secures that the banking loans along with the interest are repaid in compliance with the maturity deadlines.

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

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

In the structure of financing sources of banks in the Federation of BiH, as of 31.03.2013., deposits still have the highest participation of 72,9%, followed by loans taken (including the subordinated debt[40] with participation of 8,4%). The loans taken with longer maturity, represent quality source for long term placements, and have made a significant contribution to maturity match between assets and liabilities, although there has been present a declining trend for a longer time.

On the other hand, the structure of deposits is considerably unfavourable[41], and after a long period of improvements, during 2010 had a slight deterioration, and that trend, with a slightly lower intensity, continued in 2011 and in the first quarter of 2012, upon which this negative trend was however stopped, which at the end of 2012 resulted with a somewhat more favourable maturity structure which continued in the first quarter of 2013.

- in 000 KM-

Table 34: *Maturity structure of deposits based on contracted maturity*

DEPOSITS	31.12.2011.		31.12.2012.		31.03.2013.		RATIO	
	Amount	Participation %	Amount	Participation %	Amount	Participation %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and demand deposits	4.983.292	44,8	4.805.480	43,8	4.722.332	43,8	96	98
Up to 3 months	433.030	3,9	267.199	2,5	143.931	1,3	62	54
Up to 1 year	756.332	6,8	709.620	6,5	748.800	6,9	94	106
1. Total short term	6.172.654	55,5	5.782.299	52,8	5.615.063	52,0	94	97
Up to 3 years	3.272.641	29,4	3.576.903	32,6	3.535.524	32,7	109	99
Over 3 years	1.679.380	15,1	1.601.799	14,6	1.648.436	15,3	95	103
2. Total long term	4.952.021	44,5	5.178.702	47,2	5.183.960	48,0	105	100
TOTAL (1 + 2)	11.124.675	100,0	10.961.001	100,0	10.799.023	100,0	99	99

Total deposits in comparison to 31.12.2012, decreased by 1,5% or 162 million KM, mostly based on the decline of the deposits of the public companies by 8% or 120 million KM, government institutions by 17% or 116 million KM and banking institutions aso by 11% or 107 million KM, which in part got

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

[41] According to the remaining maturity

compasated with the growth of the citizen savings by 2% or 134 million KM and public companies by 3% or 35 million KM. The maturity structure of deposits based on the contracted maturity is relatively good, with a participation of short term deposits of 52,0% and long term 48,0%. In comparison to the end of 2012, there is an evident slight improvement of the maturity due to the decrease of the participation of the short term deposits by 0,8 percentual points and for the same increase the long term deposits.

The listed changes in the maturity structure are a result of the decrease of the short term deposits by 3% or 167 million KM, mostly the demand deposits of public companies, government institutions and private ocmpanies, and time depostis of three months in the banking institutions sector.

The long term deposits are at the level as on 31.12.2012, and a more significant increase was recorded in public companies' deposits of three years, which is compensated with the long term citizens' deposits. It should be noted that in the long term deposits the dominating participation still have two sectors: citizens with an increased participation from 61,0% to 62,8% and banking institutions, which after a longer period, recorded a very slight increase of participation from 13,2% to 13,4%. In addition to the listed sectors, a significant long term source are the public companies deposits with an decreased participation from 12,1% to 10,1%. In the time deposits of one to three years the largest participation of 67,8% have the citizen deposits, with an increase of participation by 2,2 percent points, then the deposits of the public entities 14,4% with an decreased participation by 2,8 percent points. In the period of over three years the largest participation of 52,0% have citizens deposits with the increased participation by 1,2 percent points and the banking institutions deposits after a longer period and a present declining trend have a participation of 32,05 (at the end of 2012: 33,0%; 2011: 46,9%, 2010: 60,9%).

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

- in 000 KM-

Table 35: *Maturity structure of deposits by the remaining maturity*

DEPOSITS	31.12.2011.		31.12.2012.		31.03.2013.		RATIO	
	Amount	Participation %	Amount	Participation %	Amount	Participation %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and demand deposits (up to 7 days)	5.184.070	46,6	4.941.325	45,1	4.836.190	44,8	95	98
7- 90 days	917.917	8,3	908.834	8,3	838.590	7,8	99	92
91 day to one year	2.219.322	19,9	2.278.639	20,8	2.246.651	20,8	103	99
1. Total short term	8.321.309	74,8	8.128.798	74,2	7.921.431	73,4	98	97
Up to 5 years	2.404.179	21,6	2.609.727	23,8	2.660.990	24,6	109	102
Over 5 years	399.187	3,6	222.476	2,0	216.602	2,0	56	97
2. Total long term	2.803.366	25,2	2.832.203	25,8	2.877.592	26,6	101	102
TOTAL (1 + 2)	11.124.675	100,0	10.961.001	100,0	10.799.023	100,0	99	99

Based on the data it can be concluded that the maturity structure of deposits in the remaining maturity is much more poor due to the high participation of the short term deposits of 73,4%, but it has a slight improvement trend. In comparison to the end of 2012, the short term deposits declined by 3% or 207 million KM, with a decreasing participation by 0,8 percent points, while long term deposits increased by 2% or 45 million KM, with an increase of participation from 25,8% to 26,6%. If we review the structure of the long term deposits, it is visible that deposits with the remaining maturity of up to 5 years are dominating (92,5% of long term deposits and 24,6% of total deposits), while the negative trend and the more significant decline in the past two years of deposits with a remaining maturity of over five years. If maturity data are compared through contracted and remaining maturity, it is clear that of 5,18 billion long term contracted deposits as of 31.03.2013 around 2,3 billion KM, or somewhat higher than 44% of long term contracted deposits, had a remaining maturity of less than one year.

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

In addition, the supervisory concern has become stronger due to the fact that the banks, lacking the good quality long term sources, with an aim to secure the compliance with the by law prescribed limitations in regard to maturity, have been approving short term loans which are further renewed, or closed with new short term placements, which basically means long term lending from short term sources. In that manner the true maturity of loans and matching with sources is concealed, which can present a serious problem in the coming period and potential danger for the liquidity position of the bank.

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

-in 000 KM-

Table 36: *Loans maturity structure*

LOANS	31.12.2011.		31.12.2012.		31.03.2013.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Past due claims and paid off-balance sheet liabilities	962.707	9,2	1.074.251	10,1	1.113.766	10,4	112	104
Short term loans	2.287.597	21,8	2.472.571	23,2	2.456.439	23,0	108	99
Long term loans	7.237.367	69,0	7.119.302	66,7	7.117.643	66,6	98	100
TOTAL LOANS	10.487.671	100,0	10.666.124	100,0	10.687.848	100,0	102	100

In the first quarter of 2013., there were no changes recorded in regard to the amount of the long term loans, while the short term loans recorded a slight decline of 1% or 16 million KM. The past due receivables increased by 4% or 40 million KM. In the structure of the past due receivables 63% refer to private companies, 35% are citizens, and 2% are other sectors.

Sector analysis by maturity, in two most significant sectors, indicates that loans to citizens represent 84,0% of long term loans, and loans to private companies, of total originated loans, represent 48,6% of long term loans.

In the assets structure, as the most significant category, loans still have the highest participation of 72,2%, which has increased by 1,1 percent point in comparison to the end of 2012 due to a slight decrease of assets by 1%, while the loans are at the level of 31.12.2012. Cash funds decreased by 6% or 233 million KM and their participation, in comparison to the end of 2012., decreased from 26,4%

to 25,2%.

The review of the basic liquidity indicators is presented in the following table. The transfer to the new regulation as of 31. 12. 2011 lead to a significant increase of the amount of total loans which had an impact on the deterioration of the indicators: loans in relation to the deposits and loans taken, in relation to the previous periods. However, in 2012 recorded was further deterioration of the liquidity indicators caused by the decrease in the cash funds due to the increase of credit activities and payment of past due loan liabilities. The ratio of the short term financial liabilities /total financial liabilities slightly improved due to the better maturity structure of the funding. In the first quarter of 2013, continued is the trend of the decline of cash funds due to the decline of deposits and payment of past due loan liabilities, which lead to further deterioration of the liquidity indicators.

- in % -

Table 37: *Liquidity ratios*

Ratios	31.12.2011.	31.12.2012.	31.03.2013.
1	2	3	4
Liquid assets[42] / Total assets	28,9	26,8	25,4
Liquid assets / Short term financial liabilities	49,0	46,2	44,4
Short term financial liabilities / Total financial liabilities	69,1	68,9	68,3
Loans / Deposits and Borrowings[43]	84,3	88,1	90,1
Loans / Deposits, borrowings and subordinate debts[44]	82,9	86,8	88,7

Ratio loans to deposits and loans taken in 2012 deteriorated and that trend continued in the first quarter of 2013. As of 31.03.2013, this indicator in eleven banks was higher than 85% (critical level). On one hand, in these banks that is a result of the structure of liabilities (relatively significant participation of capital), and on the other hand, higher participation of loans in assets. FBA directs special attention in the onsite controls to banks in which there were determined weaknesses in this business segment, and orders to banks to take measures and actions with a goal to improve the liquidity level and practices for funds sources management, that is securing a satisfactory liquidity position.

In the first quarter of 2013, the banks were regularly meeting a commitment to maintain required reserves with the Central Bank of BiH. Required reserve, as significant instrument of monetary policy in BiH, under the Currency Board and financially underdeveloped market, represents the only instrument of monetary policy used to realize monetary control, in sense of stopping fast credit growth from the past years, and decrease multiplications, as well as an increase of banks' liquidity under an impact of the crisis and intensified outflow of funds from banks that in BiH was experienced after 01.10.2008. On the other hand, implementation of regulation on foreign exchange risk and maintenance of currency adjustment within prescribed limits, also significantly influence the amount of funds banks maintain on the reserve account with the Central Bank in domestic currency, which provides for high liquidity of individual banks and the banking sector.

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

- in 000 KM-

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

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

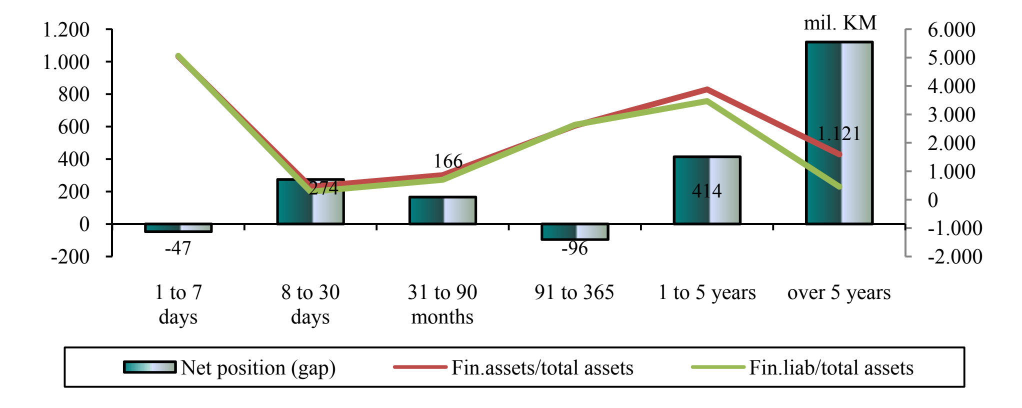
[44] Prior ratio has been modified. Subordinated debts are included in the sources, which gives more realistic indicator.

Table 38: *Liquidity position – ten-day average and daily minimum*

	31.12.2011. Amount	31.12.2012. Amount	31.03.2013. Amount	RATIO	
1	2	3	4	5(3/2)	6(4/3)
1. Average daily balance of cash assets	3.759.486	3.408.958	3.272.233	91	96
2. Minimum total daily balance of cash assets	3.550.990	3.149.188	3.068.716	89	97
3. Short term sources (accrual basis)	6.013.102	5.631.431	5.632.431	94	100
4.Liabilities:					
4.1. ten-day average 20% of Item 3	1.202.620	1.126.286	1.126.485	94	100
4.2. daily minimum 10% of Item 3	601.310	563.146	563.243	94	100
5.Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	2.556.866	2.282.672	2.145.748	89	94
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	2.949.680	2.586.042	2.505.473	88	97

If we review the maturity match of the remaining maturity of the total financial assets and liabilities, it can be concluded that the maturity is good and somewhat better than as of 31. 12. 2012.

Graph 24: *Maturity match of the financial assets and liabilities as of 31.03.2013*



At the end of the first quarter of 2013 the short term financial assets of the banks was higher than the short term liabilities by 298 million KM. In relation to the end of 2012 when the positive gap was 276 million KM, that is an increase of 7,8% or 22 million KM, which lead to an increase in the coverage ration of the short term liabilities from 103,2% to 103,5%.

The short term financial assets decreased by 2,1% while the short term financial liabilities by 2,4%. In the short term financial assets the cash funds recorded a decrease of 5,9% or 233 million KM and cash borrowings to other banks 8,1% or six million KM, while the increase was recorded in assets for trade11,6% or 43 million KM, and securities held to maturity of 11,9% or eighth million KM. The financial assets of the remaining deadline over one year has just slightly increased by 0,3% or 14 million KM, due to the slight increase of securities held to maturity and loans.

On the liabilities side with a maturity date of up to one year, the largest decrease refers to deposits which decreased by 2,6% or 207 million KM and liabilities from loans taken which decreased by 17,0% or 42 million KM, which along with the increase of other financial liabilities of 13,6% or 37 million KM lead to the total decrease of liabilities with the maturity deadline of one year by 2,4% or 210 million KM. The liabilities with the maturity date of over one year decreased slightly by 0,3% or 10 million KM, which is a consequence of a increase of deposits by 1,6% or 45 million KM, along with the decrease of liabilities on loans taken by 3,6% or 33 million KM and liabilities on subordinated debt, which are lower by 3,3% or five million KM.

Apart from the mentioned prescribed minimum standards, monitoring of remaining maturity of financial assets and liabilities, according to the time scale, is of crucial significance for the liquidity position analysis. The time scale is from the aspect of prescribed minimum limits created based on time horizon up to 180 days.[45]

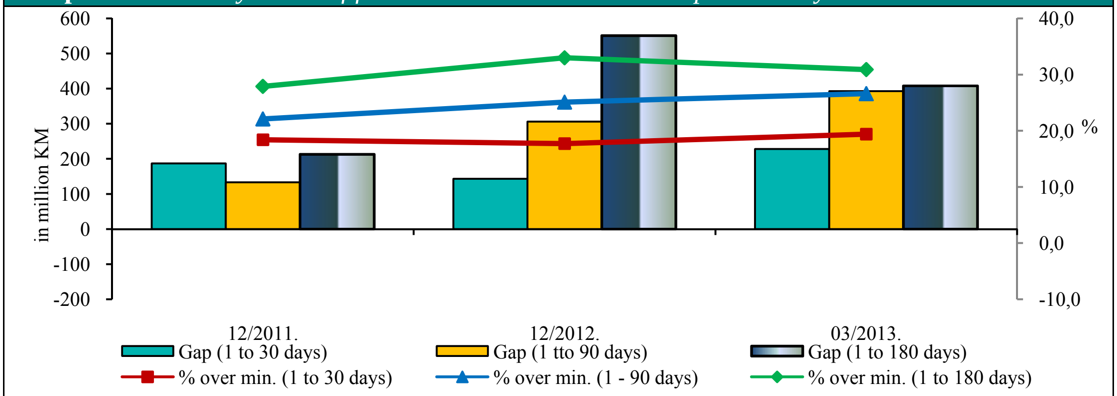
- in 000 KM -

Table 39: *Maturity of financial assets and liabilities up to 180 days*

Description	31.12.2011. Amount	31.12.2012. Amount	31.03.2013. Amount	RATIO	
1	2	3	4	5 (3/2)	6(4/3)
I. 1- 30 days					
1. Financial assets	5.748.473	5.489.850	5.430.781	96	99
2. Financial liabilities	5.561.192	5.346.575	5.202.972	96	97
3. Difference (+ or -) = 1-2	187.281	143.275	227.809	77	159
Accrual of requirement in %					
a) Performed %= Item 1 / Item 2	103,4%	102,7%	104,4%		
b) Required minimum %	85,0%	85,0%	85,0%		
Surplus (+) or shortage (-) = a – b	18,4%	17,7%	19,4%		
II. 1-90 days					
1. Financial assets	6.511.798	6.354.346	6.323.328	98	100
2. Financial liabilities	6.378.807	6.048.649	5.929.968	95	98
3. Difference (+ or -) = 1-2	132.991	305.697	393.360	230	129
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	102,1%	105,1%	106,6%		
b) Required minimum %	80,0%	80,0%	80,0%		
Surplus (+) or shortage (-) = a – b	22,1%	25,1%	26,6%		
III. 1-180 days					
1. Financial assets	7.522.305	7.454.148	7.289.868	99	98
2. Financial liabilities	7.308.881	6.902.899	6.882.164	94	100
3. Difference (+ or -) = 1-2	213.424	551.249	407.704	258	74
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	102,9%	108,0%	105,9%		
b) Required minimum %	75,0%	75,0%	75,0%		
Surplus (+) or shortage (-) = a – b	27,9%	33,0%	30,9%		

Based on the presented data it can be concluded that the banks as of 31.03. 2013 maintained the prescribed limitations and realized a better maturity match of the financial assets and liabilities in regard to the prescribed limits.

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

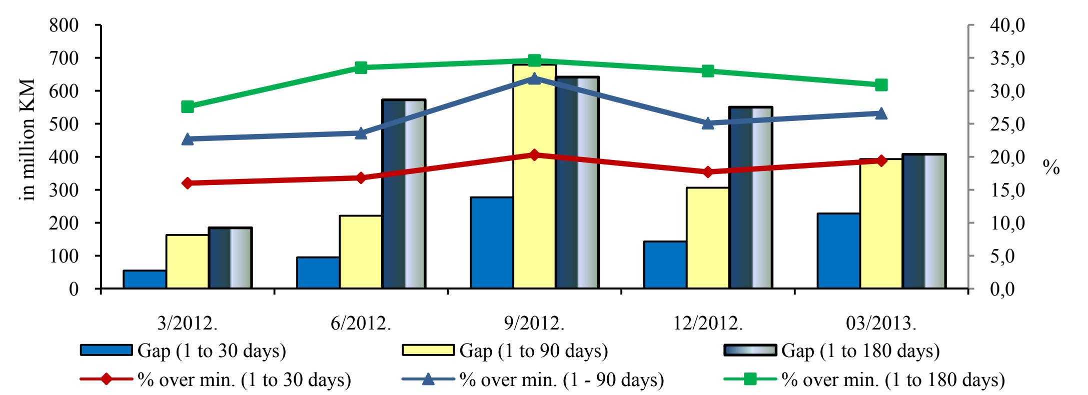


As of 31. 12. 2010 the amount of the financial liabilities was higher than the amount of the financial assets, in all their time intervals up to 180 days, upon which in 2011 there happened an improvement of the maturity match. At the end of 2011, the financial assets in all three time intervals was higher

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

than the amount of the financial assets, and the realized percentages of the maturity match were above the prescribed minimum by 18,4% in the first interval, 22,1% in the second and 27,9% in the third. The maturity match improvement trend continued in 2012, and as of 31.12.2012 the financial assets were also higher than the financial liabilities in all three maturity intervals, with a somewhat higher improvement in liquidity positions in the intervals up to 90 and 180 days, while the positive gap in the interval up to 30 days is somewhat lower in comparison to 31.12.2011. The realized percentages of the maturity match are, as at the end of 2011, above the prescribed minimum, by 17,7% in the first interval, 25,1% in the second and 33,0% in the third interval. In the first quarter of 2013, the improvement was recorded in the maturity interval of up to 30 days, due to a somewhat larger increase of the financial assets, primarily loans, in comparison to the decrease of the financial liabilities (primarily deposits and liabilities on acquired loans), in comparison to the decrease of the financial assets, primarily cash funds, which is in part compensated by the increase of loans and assets for trade, and in the interval of up to 90 days, in order to have somewhat higher decrease of financial liabilities (deposits), while simultaneously recorded is only a slight decrease of financial assets. Somewhat more positive gap is realized in the maturity interval of up to 180 days, due to decline of cash funds. The realized percentages of the maturity match are above the prescribed minimum, that is in the first interval by 19,4%, and second by 26,6% and the third by 30,9%..

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



Based on all of the above presented indicators it may be concluded that the liquidity of the banking system of the Federation of BiH is still assessed as satisfactory. Since this segment of performance and level of liquidity risk exposure correlates to credit risk, having in mind the effects of global financial crisis expansion in BiH and an impact to the banking sector of the FBiH (primarily through a stronger pressure on banks' liquidity), on one side, due to slower inflow of deposits, and, on the other side, poor inflow of liquid assets due to downfall in collection of loans, it should be emphasized that, in the forthcoming period, banks will have to pay more attention to the liquidity risk management by establishing and implementing liquidity policies, which will make sure that all matured liabilities of banks are timely realized, based on continuous planning of future liquidity needs, and taking into account changes in operating, economic, regulatory and other segments of business environment of banks.

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

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

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

In order to enable application and implementation of prudential principles in foreign exchange activities of banks and to decrease influence of foreign exchange risk to their profitability, liquidity and capital, the FBA has issued Decision on Minimum Standards for Foreign Exchange Risk Management in Banks[46] that regulates minimum standards for adoption and implementation of programs, policies and procedures for undertaking, monitoring, control and management of foreign exchange risk, and restrictions prescribed for opened individual and overall foreign exchange position (long or short), calculated in relation to the amount of bank's core capital. [47]

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

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

According to the balance as of 31.03.2013., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 13,2% or around two billion KM (at the end of 2012 13,4% or two billion KM at the end of 2012). On the other hand, currency structure of liabilities is essentially different, since participation of liabilities in foreign currency is significantly higher and is 47,7% or 7,1 billion KM (48,2% or 7,2 billion KM at the end of 2012).

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

-in million KM-

Table 40: *Foreign currency adjustment of financial assets and liabilities (EUR and total))* [48]

Description	31.12.2012.				31.03.2013.				RATIO	
	EURO		TOTAL		EURO		TOTAL		EURO	TOTAL
	Amount	Participation %	Amount	Participation %	Amount	Participation %	Amount	Participation %	6/2	8/4
1	2	3	4	5	6	7	8	9	10	11
I. Financial assets										
1. Cash assets	1.050	13,8	1.568	18,6	949	12,5	1.446	17,2	90	92
2. Loans	39	0,5	57	0,7	48	0,6	65	0,8	123	114
3.Loans with currency clause	6.202	81,4	6.435	76,2	6.242	82,0	6.468	76,8	101	101
4. Other	325	4,3	383	4,5	371	4,9	442	5,2	114	115
Total (1+2+3+4)	7.616	100,0	8.443	100,0	7.610	100,0	8.421	100,0	100	100
II. Financial liabilities										
1. Deposits	5.220	70,1	5.888	72,3	5.111	70,0	5.774	72,2	98	98

[46] "Official Gazette of F BiH", Number. 3/03, 31/03, 64/03, 54/04.
[47] The Article 8. of the Decision on minimum standards for managing the capital of banks prescribes the limitations: for individual foreign currency position for EURO highest up to 30% of the core capital, for other currencies up to 20% and bank's foreign currency position highest up to 30%.
[48] Source: Form 5-Foreign currency position.

2. Borrowings	1.058	14,2	1.079	13,3	988	13,5	1.007	12,6	94	93
3.Deposits and loans with currency clause	915	12,3	915	11,2	940	12,9	940	11,7	103	103
4.Other	250	3,4	259	3,2	263	3,6	281	3,5	105	108
Total (1+2+3+4)	7.443	100,0	8.141	100,0	7.302	100,0	8.002	100,0	98	98
III. Off-balance sheet										
1.Assets	153		153		135		140			
2.Liabilities	235		349		284		385			
IV.Position										
Long (amount)	90		106		159		174			
%	5,2%		6,2%		9,1%		9,9%			
Short										
%										
Limit	30%		30%		30%		30%			
Below limit	24,8%		23,8%		20,9%		20,1%			

If we analyze the structure of foreign currencies in the financial assets[49] we see a dominant participation of EUR of 70%, which is lower than the participation as of 31.12.2012. (70,4%) due to a slight decrease of the nominal amount from 1,41 billion KM to 1,37 billion KM. Participation of EUR in the liabilities has slightly decreased from 90,3% to 90,1%, with a slight decline in the nominal amount from 6,5 billion KM to 6,4 billion KM.

However, calculation of the FX risk exposure also includes the amount of indexed items of assets (loans) and liabilities[50], which are especially significant in the assets (76,8% or 6,4 billion KM). Other foreign currency assets items represent 23,2% or around two billion KM with the structure: items in EURO 16,2% or 1,4 billion KM, and other currencies 7% or 0,6 billion KM (at the end of 2012, loans contracted with currency clause amounted to 6,4 billion KM with participation of 76,2%, and other items in EUR of 16,8% or 1,4 billion KM). Of total net loans (9,7 billion KM),around 67% were contracted with currency clause, mostly tied to EUR (96,5%).

On the side of the sources, the structure of financial liabilities stipulates and determines the structure of financial assets, for each currency individually. In foreign currency liabilities (8,0 billion KM) items in EUR (primarily deposits) had the highest participation of 79,5% or 6,4 billion KM, while participation and amount of indexed liabilities was at minimum, amounting to 11,7% or one billion KM (at the end of 2012, participation of liabilities in EUR was 80,2% or 6,5 billion KM, while indexed liabilities were 11,2% or one billion KM).

Observed by banks and overall on the level of the banking system of the FBiH, we can conclude that foreign exchange risk exposure of banks and the system, in the first quarter of 2013, ranged within the prescribed limits. As of 31.03.2013., there were 13 banks with long foreign currency position, and five banks with short position. At the system level, long foreign currency position represented 9,9% of banks' core capital, which is lower by 20,1% than the limit. Individual foreign currency position for EURO was 9,1%, which is 20,9 percentual points less than permitted, with financial assets items being higher than financial liabilities (net long position).

Although in the environment of the Currency Board banks are not exposed to foreign exchange risk in the most significant currency EUR, they are still required to operate within prescribed limits for

[49] Source: Form 5-Foreign currency position: portion of financial assets (in foreign currencies denominated in KM). According to the methodology, financial assets are expressed based on net principle (reduced by loan loss reserves).
[37] In order to protect from changes of the exchange rate banks contract certain items of assets (loans) and liabilities with currency clause (regulation allow only two-way currency clause).

individual currencies and for total foreign currency position and to daily manage this risk in accordance with adopted programs, policies, procedures and plans.

IV CONCLUSIONS AND RECOMMENDATIONS

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

With an aim to build additional resilience of the banks in the Federation of BiH against potentially more severe situations of crises, the FBA at the beginning of 2013, issued the Decision on temporary limitations and minimum conditions for payment of dividends, discretion bonuses and purchase of own shares by banks, with which the pay out of the dividends is tied to the existence of a capital protection amortized in the amount of 2,5% in comparison to the prescribed minimal capital adequacy rate and the banks' core capital rate in comparison to the risk assets. Within the realization of the activities on the implementation of the Strategy, that is the Audit Strategy for the implementation of the international agreement for capital measurement and capital standards (Basel II), FBA in cooperation with the Banking Agency of Republic Srpska, and with the technical support from USAID prepared working drafts : Decision on politics and practice for reimbursement to bank's employees, Decision on assessment of the suitability of the bank's bodies' members and Decision on vigilant performance by the bank's bodies members. The noted drafts are sent for public debate in banks through the Bankers association in BiH.

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

- Take measures and activities within its powers to overcome and mitigate adverse effects to the banking sector of the FBiH caused by the global financial crisis,
- Continue implementing activities, from the scope of its authority, to consolidate supervision on state level,
- Proceed with a continues supervision of banks through on-site and off-site examinations, focusing on targeted examination of dominant risk segments of banking operations, which will make supervision more effective, in regard to:
    - Persist on capital strengthening of banks, especially those recording outstanding assets growth and decrease of the capital adequacy ratio,
    - Continue permanent monitoring of banks, primarily those with systemic importance to development of credit activities with the highest concentration of savings and other deposits in order to protect depositors,
    - Continue a systematic monitoring of banks' activities in prevention of money laundering and terrorism financing and improve cooperation with other supervisory and examination institutions,
    - Continue working on further development of regulation based on the Basle Principles, the Basle Capital Accord, and the European Banking Directives, as part of BiH’s preparation to join the European Union,
    - Establish and expand cooperation with home country supervisors of the investors present in the banking sector of the FBiH, and other countries in order to have more effective supervision,
    - Improve cooperation with the Banks Association in all banking performance segments,

organization of counseling and professional assistance in the area of implementation of banking laws and regulations, advancement of cooperation in regard to professional development, proposed changes of all legislative regulations that have become a limiting factor to banks' development, introduction of new products, collection of claims and fully involve in building up and functioning of the unified registry of irregular debtors – legal entities and citizens, with daily data update.

- Continuous operational development of the IT system for early warning and prevention in elimination of weaknesses in banks;
- Work on continuous education and training of staff;
- Make effort to accelerate finalization of the remaining provisional administrations and liquidations based on the conclusion made by the Management Board;

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

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

Banks, as the most important part of the system, have to concentrate their actions to:
- Full dedication to good quality and prudent performance, and actions to cope with the crisis impact that presently represents the greatest danger for banks and the real sector of the economy and citizens;
- Further capital strengthening and level of solvency proportional to the growth of assets and risk, higher profitability, more consistent implementation of adopted policies and procedures in the area of prevention of money laundering and terrorism financing, and safety and protection of money in banks and in transportation, in accordance with laws and regulations;
- Strengthen internal control systems and internal audit functions as fully independent in performing their duties and roles;
- Regular, updated and accurate submission of data to the Central Loan Registry and Unified Central Account Registry with the Central Bank of BiH.

Number: U.O.-52-2/13
Sarajevo, 04.06.2013.

ATTACHMENTS

ATTACHMENTS

ATTACHMENT 1

Banks in the Federation of Bosnia and Herzegovina - 31.03.2013.

No.	BANK	Address		Telephone	Director
1	BOR BANKA dd - SARAJEVO	Sarajevo	Obala Kulina bana 18	033/278-520, fax:278-550	HAMID PRŠEŠ
2	BOSNA BANK INTERNATIONAL dd - SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	AMER BUKVIĆ
3	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	036/444-444, fax:444-235	ALEXANDER PICKER
4	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Sarajevo	Obala Kulina bana 9a.	033/497-555, fax:497-589	ALMIR KRKALIĆ
5	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032/448-400, fax:448-501	SUVAD IBRANOVIĆ
6	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuš a	Ibrahima Mržljaka 3	037/771-253, fax:772-416	HASAN PORČIĆ
7	MOJA BANKA dd - SARAJEVO	Sarajevo	Kolodvorska br. 5.	033/586-870, fax:586-880	MIRZA HUREM
8	NLB BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/259-259, fax:250-596	ALMIR ŠAHINPAŠIĆ
9	POŠTANSKA BANKA BiH dd - SARAJEVO	Sarajevo	Put zivota 2.	033/564-000, fax: 564-050	Privr.upravitelj - Ćamil Klepo - 14.08.2010.
10	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:664-175	AZEMINA GOLO
11	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Emerika Bluma 8.	033/250-950, fax:250-971	EDIN HRNJICA
12	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb.	033/755-010, fax: 213-851	MICHAEL MÜLLER
13	RAZVOJNA BANKA FEDERACIJE BIH	Sarajevo	Igmanska 1	033/724-930, fax: 668-952	RAMIZ DŽAFEROVIĆ
14	SBERBANK BH dd - SARAJEVO	Sarajevo	Fra Anđela Zvizdovića 1	033/295-601, fax:263-832	EDIN KARABEG
15	SPARKASSE BANK dd - SARAJEVO	Sarajevo	Zmaja od Bosne br. 7.	033/280-300, fax:280-230	SANEL KUSTURICA
16	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:312-121	BERISLAV KUTLE
17	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	SENAD REDŽIĆ
18	VAKUFSKA BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	AMIR RIZVANOVIĆ
19	ZIRAATBANK BH dd - SARAJEVO	Sarajevo	Dženetića Čikma br. 2.	033/252-230, fax: 252-245	ALI RIZA AKBAŞ

ATTACHMENT 2

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

in 000 KM

No.	DESCRIPTION	31.12.2011.	31.12.2012.	31.03.2013.
	ASSETS			
1.	Cash funds and deposit accounts at depository institutions	4.378.076	3.962.581	3.729.782
1a	Cash and non-interest deposit accounts	528.721	625.188	508.510
1b	Interest deposit accounts	3.849.355	3.337.393	3.221.272
2.	Trading securities	300.228	375.032	418.392
3.	Placements in other banks	79.940	78.522	72.287
4.	Loans, receivables in leasing and past due receivables	10.487.671	10.666.124	10.687.848
4a	Loans	9.524.844	9.591.819	9.574.030
4b	Receivables on leasing	120	54	52
4c	Past due receivables - loans and leasing	962.707	1.074.251	1.113.766
5.	Securities held until maturity	158.237	173.435	188.958
6.	Premises and other fixed assets	503.802	491.907	488.743
7.	Other real estate	36.947	30.123	30.854
8.	Investments in non-consolidated related enterprises	42.186	24.756	23.177
9.	Other assets	281.891	254.710	250.968
10.	MINUS: Reserves for potential losses	1.005.659	1.066.140	1.083.431
10a	Value adjustment on the items position 4 in Assets	931.946	1.007.196	1.023.220
10b	Value adjustment on the position of Assets except position 4 *	73.713	58.944	60.211
11.	**TOTAL ASSETS**	**15.263.319**	**14.991.050**	**14.807.578**
	LIABILITIES			
12.	Deposits	11.124.675	10.961.001	10.799.023
12a	Interest deposits	10.128.147	9.281.938	9.082.768
12b	Non-interest deposits	996.528	1.679.063	1.716.255
13.	Loans - past due	1.762	1.752	1.776
13a	Balance of payable loans, unpaid			
13b	Unpaid - called for payment off-balance sheet items	1.762	1.752	1.776
14.	Loans from other banks	2.000	2.000	2.000
15.	Payables to Government			
16.	Payables on loans and other borrowings	1.319.299	1.141.561	1.067.499
16a	payable within one year	387.585	244.160	202.621
16b	payable longer than one year	931.714	897.401	864.878
17.	Subordinated debts and subordinated bonds	206.159	186.675	183.941
18.	Other liabilities	529.359	480.275	496.069
19.	**TOTAL LIABILITIES**	**13.183.254**	**12.773.264**	**12.550.308**
	CAPITAL			
20.	Permanent priority shares	26.059	26.059	11.959
21.	Common shares	1.167.513	1.175.547	1.189.647
22.	Exchange premium	136.485	136.485	136.485
22a	On permanent priority shares	8.420	8.420	8.420
22b	On common shares	128.065	128.065	128.065
23.	Unallocated profit and capital reserves	376.102	453.269	561.189
24.	Foreign exchange differences			
25.	Other capital	81.681	110.692	42.256
26.	Reserves for loan losses established from profit	292.225	315.734	315.734
27.	**TOTAL CAPITAL (20. to 25.)**	**2.080.065**	**2.217.786**	**2.257.270**
28.	**TOTAL LIABILITIES AND CAPITAL (19 +26)**	**15.263.319**	**14.991.050**	**14.807.578**
	PASSIVE AND NEUTRAL SUB BALANCE	**671.241**	**661.321**	**666.999**
	AGGREGATE BALANCE SHEET AMOUNT	**15.934.560**	**15.652.371**	**15.474.577**

ATTACHMENT 3

REVIEW OF ASSETS, LOANS, DEPOSITS AND FINANCIAL RESULT OF BANKS IN F BiH as of 31.03.2013.

in 000 KM

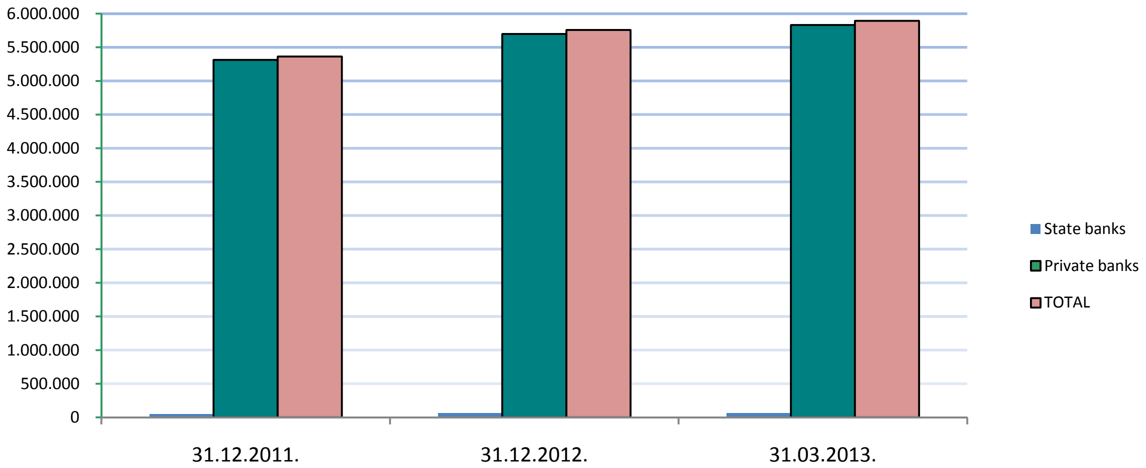
No.	BANK	Assets		Loans		Deposits		Financia l result
		Amount	%	Amount	%	Amount	%	Amount
1	BOR BANKA dd SARAJEVO	299.439	2,02%	214.952	2,01%	179.984	1,67%	194
2	BBI BANKA dd SARAJEVO	402.860	2,72%	292.908	2,74%	288.993	2,68%	316
3	HYPO ALPE-ADRIA-BANK dd MOSTAR	1.396.292	9,43%	953.325	8,92%	947.119	8,77%	909
4	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	1.297.234	8,76%	1.094.214	10,24%	851.926	7,89%	2.991
5	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	178.494	1,21%	89.072	0,83%	125.158	1,16%	363
6	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	65.720	0,44%	39.846	0,37%	41.192	0,38%	114
7	MOJA BANKA dd SARAJEVO	163.296	1,10%	119.388	1,12%	136.355	1,26%	-316
8	NLB TUZLANSKA BANKA dd TUZLA	785.482	5,30%	616.505	5,77%	601.750	5,57%	1.466
9	POŠTANSKA BANKA dd SARAJEVO	50.134	0,34%	24.511	0,23%	38.071	0,35%	-216
10	PRIVREDNA BANKA dd SARAJEVO	211.342	1,43%	149.822	1,40%	151.970	1,41%	-1.442
11	PROCREDIT BANK dd SARAJEVO	336.945	2,28%	291.694	2,73%	241.274	2,23%	-405
12	RAIFFEISEN BANK BH dd SARAJEVO	3.661.195	24,73%	2.400.501	22,46%	2.753.639	25,50%	18.756
13	SBERBANK BH dd SARAJEVO	734.101	4,96%	613.322	5,74%	565.674	5,24%	1.447
14	SPARKASSE BANK d.d. SARAJEVO	937.017	6,33%	780.617	7,30%	808.375	7,49%	1.991
15	UNION BANKA dd SARAJEVO	212.727	1,44%	106.111	0,99%	155.154	1,44%	338
16	UNI CREDIT BANKA BH dd SARAJEVO	3.554.364	24,00%	2.545.079	23,81%	2.579.295	23,88%	14.146
17	VAKUFSKA BANKA dd SARAJEVO	270.375	1,83%	185.558	1,74%	208.642	1,93%	3
18	ZIRAATBANK BH dd SARAJEVO	250.561	1,69%	170.423	1,59%	124.452	1,15%	1.676
	TOTAL	**14.807.578**	100%	**10.687.848**	100%	**10.799.023**	100%	**42.331**

ATTACHMENT 4

NEW CITIZEN SAVINGS BY PERIODS IN THE BANKS IN FBiH

in 000 KM

	31.12.2011.	31.12.2012.	31.03.2013.
State banks	50.259	58.050	61.038
Private banks	5.311.178	5.698.300	5.830.517
TOTAL	**5.361.437**	**5.756.350**	**5.891.555**



ATTACHMENT 5

CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS IN BANKS IN FBiH as of 31.03.2013.

- CLASSIFICATION OF ACTIVE BALANCE SHEET ITEMS -

in 000 KM

No.	BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	2.155.302	282.214	13.380	4.054	1.489	2.456.439
2.	Long-term loans	5.937.104	683.744	235.271	166.505	9.970	7.032.594
3.	Other placements	209.318	2.388	8	102	1.331	213.147
4.	Interest accrued	38.772	9.522	4.335	8.359	28.241	89.229
5.	Past due receivables	66.116	55.709	54.277	282.678	630.851	1.089.631
6.	Receivables on guarantees paid		290	156	197	23.492	24.135
7.	Other assets	312.242	6.233	5.748	1.498	22.959	348.680
8.	**TOTAL BALANCE SHEET ASSETS WHICH IS CLASSIFIED (total of positions from 1.to 7. – base for accrual of regulatory reserves for loan losses)**	**8.718.854**	**1.040.100**	**313.175**	**463.393**	**718.333**	**11.253.855**
9.	**ACCRUED REGULATORY RESERVES FOR LOAN LOSSES ON BALANCE SHEET ASSETS**	**171.049**	**97.853**	**81.630**	**260.932**	**718.329**	**1.329.793**
10.	**VALUE ADJUSTMENT OF BALANCE SHEET ASSETS**	**106.508**	**89.174**	**80.841**	**179.877**	**627.032**	**1.083.432**
11.	**NEEDED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS**	**101.633**	**53.152**	**30.959**	**104.588**	**91.275**	**381.607**
12.	**ESTABLISHED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS**	**85.454**	**38.649**	**25.928**	**79.986**	**49.255**	**279.272**
13.	**LACKING AMOUNT OF REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS**						**116.025**
14.	BALANCE SHEET ASSETS WHICH IS NOT CLASSIFIED(gross bookkeeping value)						**4.637.154**
15.	TOTAL BALANCE SHEET ASSETS (gross bookkeeping value)						**15.891.009**

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

14.a	Cash in treasury and cash funds on the account of Central bank of BiH, gold and other precious metals	2.381.092
14.b	Demand funds and time deposits up to one month on the accounts in banks with a determined investment rating	1.236.510
14.c	Tangible and non-tangible property	509.454
14.d	Gained financial and material assets in process of collection of receivables during one year of acquisition	5.917
14.e	Treasury shares	
14.f	Claims for overpaid tax liabilities	9.734
14.g	Securities intended for trading	156.284
14.h	Receivables from the Government of BiH, Government of FBIH and Government of RS, securities emission by the Government of BiH, Government of FBiH and Government of RS and receivables secured by their unconditional guarantees payable at first call	338.163
	TOTAL position 14	**4.637.154**
8a.	Amount of placements secured by cash deposits	166.523

ATTACHMENT 5A

CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS IN BANKS IN FBiH
as of 31.03.2013.

- CLASSIFICATION OF OFF-BALANCE SHEET ITEMS -

in 000 KM

No.	OFF BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Guarantees payable	353.279	37.794	577	35		391.685
2.	Performing guarantees	458.264	110.563	661	1.018	173	570.679
3.	Unsecured LoC	46.594	7.674				54.268
4.	Irrevocable loans	1.216.776	95.878	2.491	1.431	720	1.317.296
5.	Other potential liabilities	11.201	715		118	4.499	16.533
6.	**TOTAL OFF BALANCE SHEET ITEMS CLASSIFIED (total of positions 1 to 5 – base for accrual of regulatory reserves for loan losses)**	**2.086.114**	**252.624**	**3.729**	**2.602**	**5.392**	**2.350.461**
7.		**40.923**	**16.512**	**903**	**1.341**	**5.379**	**65.058**
8.	**ACCRUED REGULATORY RESERVES FOR LOAN LOSSES ON OFF BALANCE SHEET ITEMS**	**17.497**	**2.947**	**866**	**651**	**5.027**	**26.988**
9.	**PROVISIONING FOR LOSSES FOR OFF BALANCE SHEET ITEMS**	**25.683**	**14.184**	**498**	**788**	**352**	**41.505**
10.	**NEEDED REGULATORY RESERVES FRO PROFIT FOR ESTIMATED LOSSES ON OFF BALANCE SHEET ITEMS**	**22.010**	**12.376**	**563**	**1.369**	**144**	**36.462**
11.	**ESTABLISHED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ITEMS**						**7.154**
12.	**LACKING AMOUNT OF REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF BALANCE SHEET ITEMS**						**428.152**
13.	OFF BALANCE SHEET ITEMS WHICH ARE NOT CLASSIFIED						**2.778.613**
6a.	**Amount of potential liabilities secured by cash deposit**						**40.012**

ATTACHMENT 6

INCOME STATEMENT OF BANKS IN THE FBiH - FBA SCHEDULE

in 000 KM

No.		DESCRIPTION	31.03.2011.	31.03.2012.	31.03.2013.
1.		**INTEREST INCOME AND EXPENSES**			
	a)	Interest income and similar income			
	1)	Interest bearing deposit accounts in deposit institutions	4.570	1.553	451
	2)	Placements to other banks	1.169	1.148	487
	3)	Loans and leasing operations	188.076	183.981	175.161
	4)	Securities held to maturity	1.516	1.494	1.917
	5)	Equities	1	153	151
	6)	Receivables from paid off-balance sheet liabilities	0	0	0
	7)	Other interest income and similar income	13.304	15.304	16.056
	8)	**TOTAL INTEREST INCOME AND SIMILAR INCOME**	208.636	203.633	194.223
	b)	Interest expenses and similar expenses			
	1)	Deposits	56.808	54.352	52.428
	2)	Loans taken from other banks	60	1	16
	3)	Loans taken – past due liabilities	0	0	0
	4)	Liabilities from loans taken and other borrowings	10.540	10.867	5.907
	5)	Subordinated debt and subordinated bonds	2.925	3.001	2.270
	6)	Other interest expenses and similar expenses	1.275	1.025	737
	7)	**TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES**	71.608	69.246	61.358
	c)	**NET INTEREST AND SIMILAR INCOME**	**137.028**	**134.387**	**132.865**
2.		**OPERATING INCOME**			
	a)	Income from foreign exchange operations	8.355	8.629	8.631
	b)	Loan reimbursements	1.451	1.388	1.546
	c)	Reimbursement for off balance sheet operations	6.351	5.885	6.026
	d)	Reimbursements for performed services	41.265	42.586	44.164
	e)	Income from trading	256	164	2.155
	f)	Other operating income	26.276	12.833	9.645
	g)	**TOTAL OPERATING INCOME a) do f)**	83.954	71.485	72.167
3.		**NON-INTEREST EXPENSES**			
	a)	Business and direct expenses			
	1)	Expenses for assets impairment value, provisioning for potential liabilities and other value adjustments*	55.688	36.098	29.273
	2)	Other business and direct expenses	16.336	17.727	16.644
	3)	**TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)**	72.024	53.825	45.917
	b)	Operating expenses			
	1)	Salary and contributions expenses	62.702	61.225	60.053
	2)	Business premises expenses, other fixed assets and overhead	38.648	39.052	36.570
	3)	Other operating expenses	24.824	20.824	20.161
	4)	**TOTAL OPERATING EXPENSES 1) to 3)**	126.174	121.101	116.784
	c)	**TOTAL NON INTEREST EXPENSES**	**198.198**	**174.926**	**162.701**
4.		**PROFIT BEFORE TAXES**	**34.170**	**35.600**	**44.710**
5.		**LOSS**	**11.386**	**4.654**	**2.379**
6.		**TAXES**	**0**	**0**	**0**
7.		**INCOME FROM INCREASE OF DELAYED TAX FUNDS AND DECLINE OF THE DELAYED TAX LIABILITIES**	**0**	**0**	**0**
8.		**LOSS FROM DECLINE OF DELAYED TAX FUNDS AND INCREASE OF DELAYED TAX LIABILITIES**	**0**	**0**	**0**
9.		**NET-PROFIT 4. - 6.**	**34.170**	**35.600**	**44.710**
10.		**NET-LOSS 4. - 6.**	**11.386**	**4.654**	**2.379**
11.		**FINANCIAL RESULT**	**22.784**	**30.946**	**42.331**

*Based on the old methodology (up to 2011.) position: general credit risk and potential loan losses reserves expenses

ATTACHMENT 7

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

in 000 KM

No.	DESCRIPTION	31.12.2011.	31.12.2012.	31.03.2013.
1	**BANK'S CORE CAPITAL**			
1.a.	Share capital, reserves and income			
1.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	1.177.932	1.185.966	1.185.966
1.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. And rights	12.550	12.550	12.550
1.3.	Issued shares income at share payments	136.485	136.485	136.485
1.4.	General regulatory reserves (reserves as regulated by the Law)	192.752	101.836	100.768
1.5.	Other reserves not related to assets quality assessment	262.501	309.179	309.230
1.6.	Retained - undistributed income from previous years	225.861	167.825	198.443
1.a.	**TOTAL (from 1.1. to 1.6.)**	**2.008.081**	**1.913.841**	**1.943.442**
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	251.187	120.740	138.146
1.8.	Losses from current year	45.512	16.505	2.379
1.9.	Book value of treasury shares owned by the bank	81	156	156
1.10.	Amount of intangible assets	57.180	52.590	50.667
1.b.	**TOTAL (from 1.7.to 1.10.)**	353.960	189.991	191.348
1.	**AMOUNT OF CORE CAPITAL: (1.a.-1.b.)**	**1.654.121**	**1.723.850**	**1.752.094**
2	**BANK'S SUPPLEMENTARY CAPITAL**			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	3.090	3.090	3.090
2.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. And rights			
2.3.	General reserves for losses on loans from class. A - performing assets	212.248	211.425	211.972
2.4.	Accrued income for current year audited and confirmed by external auditor	62.564	67.243	90.984
2.5.	Income under FBA's temporary restriction on distribution			
2.6.	Subordinated debts, the most 50% of core capital	139.754	120.264	117.530
2.7.	Hybrid convertible items - the most 50% of core capital			
2.8.	Items-permanent liabilities without repayment duty	49.312	65.070	64.220
2.	**AMOUNT OF SUPPLEMENTARY CAPITAL: (from 2.1. to 2.8.)**	**466.968**	**467.092**	**487.796**
3	**ITEMS DEDUCTABLE FROM BANK'S CAPITAL**			
3.1.	Part of invested share capital that according to FBA's assessment represents accepted and overestimated value			
3.2.	Investments in capital of other legal entities exceeding 5% of bank's core capital	18.408	3.043	3.043
3.3.	Receivables from shareholders for significant voting shares - approved aside from regulations		85	
3.4.	VIKR to shareholders with significant voting shares in the bank without FBA's permission			
3.5.	**AMOUNT OF ITEMS DEDUCTABLE FROM BANK'S CAPITAL (3.1. to 3.4.)**	19.386	95.529	122.169
3.	**AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)**	**37.794**	**98.657**	**125.212**
A.	**RISK FROM RISK-WEIGHTED ASSETS AND CREDIT EQUIVALENTS**	**2.083.295**	**2.092.285**	**2.114.678**
B.	**POR (RISK-WEIGHTED OPERATING RISK)**	**11.286.997**	**11.078.930**	**11.016.040**
C.	**PTR (RISK-WEIGHTED MARKET RISK)**	**965.932**	**974.201**	**985.616**
D.	**TOTAL RISK-WEIGHTED RISKS B+C+D**			
E.	**NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100**	**12.252.929**	**12.053.131**	**12.001.656**
F.	**NET CAPITAL RATIO (CAPITAL ADEQUACY) (A.:E.) X 100**	**17,00%**	**17,36%**	**17,6%**

ATTACHMENT 8

DATA ON EMPLOYEES IN THE FBiH BANKS

No.	BANK	31.12.2011.	31.12.2012.	31.03.2012.
1	BOR BANKA dd SARAJEVO	57	62	63
2	BOSNA BANK INTERNATIONAL dd Sarajevo	235	247	254
3	HERCEGOVACKA BANKA dd MOSTAR	72		
4	HYPO ALPE ADRIA BANK dd MOSTAR	647	579	578
5	INTESA SANPAOLO BANKA dd BiH	525	537	536
6	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	173	166	167
7	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	71	71	72
8	MOJA BANKA dd SARAJEVO	171	151	156
9	NLB TUZLANSKA BANKA dd TUZLA	471	456	452
10	POŠTANSKA BANKA dd SARAJEVO	90	85	84
11	PRIVREDNA BANKA dd SARAJEVO	191	179	179
12	PROCREDIT BANK dd SARAJEVO	427	344	341
13	RAIFFEISEN BANK BH dd SARAJEVO	1.576	1.552	1.542
14	SBERBANK BH dd SARAJEVO	329	360	386
15	SPARKASSE BANK dd SARAJEVO	432	452	466
16	UNION BANKA dd SARAJEVO	177	183	186
17	UNI CREDIT BANKA BH dd MOSTAR	1.338	1.305	1.290
18	VAKUFSKA BANKA dd SARAJEVO	229	230	227
19	ZIRAAT BANK dd SARAJEVO	158	171	196
	TOTAL	**7.369**	**7.130**	**7.175**