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

I N F O R M A T I O N

ON THE BANKING SYSTEM OF THE FEDERATION OF BOSNIA AND HERZEGOVINA AS OF 30. 06. 2012.

Sarajevo, August 2012

The Banking Agency of the Federation of BiH, as a regulatory authority conducting supervision of banks, developed the Information on the banking system of the Federation of BiH (as of 30.06.2012) based on reports of banks and other information and data submitted by banks. Findings and data from on-site examinations and analysis performed at the Agency (off-site financial analysis) have also been included.

I INTRODUCTION

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

As of 30.06.2012., there were 19 banks with banking license issued in the Federation of BiH, of which number two banks were under provisional administration. As of 30.06.2012., the number of employees in banks was 7.330, which is by 0,5% or 39 employee less than in comparison to 31.12.2011.

The aggregate balance sheet of the banking sector, as of 30.06.2012., amounted to 14,9 billion KM, representing a decrease by 2% or 458 million KM compared to the end of 2011. After the decline of 3% or 456 million KM in the first quarter of this year, which was the largest quarterly decline in the last three years, there was a slight incline of the aggregate balance sheet of 1% or 168 million KM, which cummulatively resulted with a lower decline rate for the first six month in 2010.

In the first quarter of 2012, the structure of assets had smaller changes related to two key items: increase of the loan participation from 68,6% to 70,7% and decline of cash funds from 28,8% to 26,4%. The increase of the participation of the loans in assets is, above all, the result of decline of cash funds in the assets and slight credit growth of 1.2% or 126 million KM. The loans at the end of the half year reached the level of 10,54 billion KM.

The cash funds recorded a significant decline of 10% or 450 million KM and at the end of the first quarter were 3,93 billion KM. The realized decline was primarily a result of outflow of deposits, and in a smaller part slight increase of loans and increase of investments in securities.

Although the deposits in the first quarter of 2012 declined by 2,6% or 285 million KM, with the amount of 10,77 billion KM or 72,3% participation in the structure of liabilities are still a dominant source of financing of banks in the Federation of BiH. Loan liabilities as the second largest source of financing for banks in the F BiH, also recorded a decline of 5% or 66 million KM and at the end of the first half of the year are 1,25 billion KM and with a participation of 8,4% in the liabilities structure. In the past three years, due to the impact of the financial and economic crises, the banks had borrowed much less abroad, and with the payment of the past due liabilities these sources significantly decreased (at the end of 2008 they were 2,17 billion KM)

Saving deposits, as the most significant segment of the deposit and financial potential of the banks in 2012 had an incline of 3,3% or 175 million KM and as of 30. 06. 2012 were 5,54 billion KM.

Capital as of 30. 06. 2012. was 2,15 billion KM and it was larger by 3,4% or 71 million KM than at the end of 2011, mostly based on the current financial result - profit. Regulatory capital was 2,1 billion KM and it remained at the same level in comparison to the end of 2011.

The banking system capital adequacy rate, as one of the most important indicators of strength and banks' capital adequacy, as of 30. 06. 2012 was 16,9%, which is by 0,2% less than at the end of 2011, and still significantly over the prescribed minimum (12%) and presents a satisfactory capitalization of the total system and a strong base and foundation for preservation of its security and stability.

In the first half of 2012, on the level of the banking system of the FBiH, realized is a positive financial result in the amount of 71 million KM. A positive financial result of 77 million KM was realized by 16 banks, and losses in performance in the amount of six million KM were reported by three banks.

II BANKS' BUSINESS PERFORMANCE IN THE FEDERATION OF BIH

1. BANKING SECTOR STRUCTURE

1.1. Status, number and the business network

As of 30.06.2012, there were 19 banks with the banking license issued in the Federation of BiH. Number of banks is the same as of 31.12.2011. There is a special law regulating establishment and work of the Development Bank of the Federation of BiH, Sarajevo which is a legal successor of the Investment Bank of the Federation of BiH d.d., Sarajevo, as of 01.07.2008.

As of 30.06.2012., there were two banks under provisional administration (Hercegovačka banka d.d. Mostar and Postanska banka BH d.d. Sarajevo).

In the first half of 2012, there was no significant expanding of the network of organizational units. Continued is the trend of expansion of the business units of banks, but in a significantly smaller volume than in previous years, mostly due to the financial crises. The banks performed reorganization of their networks of business units by increasing the changes in the organizational parts, organizational structure or adderss of the existing organizaitonal units, and all with an aim to rationalize the performance and decrease the performance expenses. There were 45 such changes, all in the banks in the Federation of BiH (44 changes on the territory of the Federation of BiH and one in RS).

As of 30.06.2012., with the noted changes, all the banks had the a total of 602 organizational units which is a decline of 1,6% in comparison to the previous year.

The number of the organizational units of banks from Republic Srpska in the Federation of BiH (23) remained the same in comparison to 31.12.2012.

As of 30. 06. 2012, only 7 banks from the Federation of BiH had 52 organizational parts in Republic Srpska, and eight banks had 11 organizational units in Brcko District. Six banks from Republic Srpska had 23 organizational parts in the Federation.

As of 30.06.2012, all bank had the license for inter-bank transactions in the internal payment system and 16 banks were under the deposit insurance program.

1.2. Ownership structure

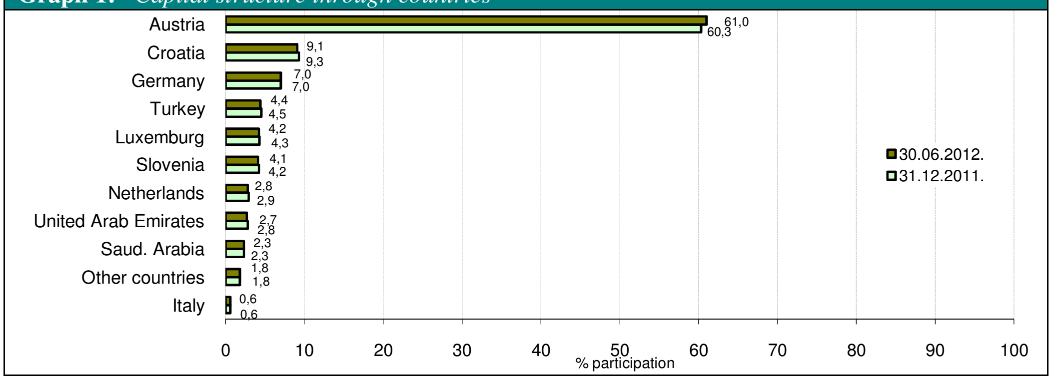
As of 30.06.2012., ownership structure in banks[1] based on the available information and on-site visits to banks[2] is the following:

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

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

If only foreign capital is analyzed based on the criteria of the shareholders' home country, as of 30.06.2012., the condition only slightly changed in comparison to the end of 2011, as a result of the additional capital of ne of the banks: participaiton of the foreign capital in the ownership of shareholders from Austria increased from 60% to 61%, the participation of shareholders from Croatia declined from 9,3% to 9,1%, while other countries had individual participation of less than 7%.

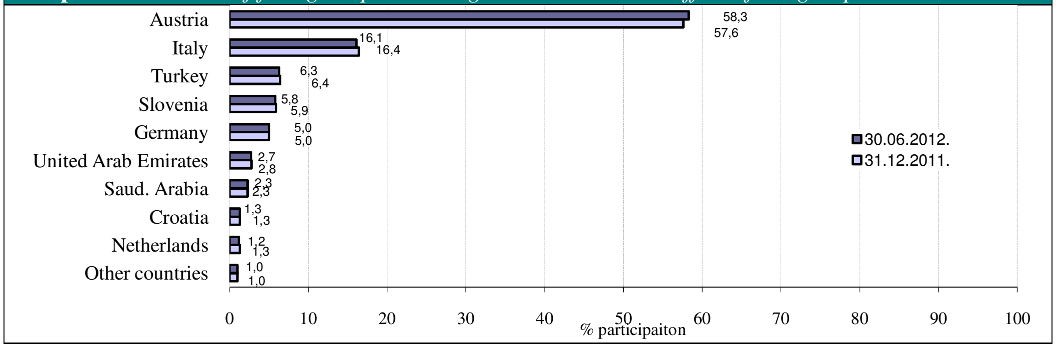
Graph 1: *Capital structure through countries*



However, if capital correlations are taken into account the structure for foreign capital could be viewed according to the criteria of the parent-bank or the group's headquarter that has majority ownership (directly or indirectly over the group members) of the bank in the Federation of BiH. According to these criteria, situation had changed only slightly in relation to the end of 2011.: the participation of the banking groups and banks from Austria increased from 57,6% to 58,3%, the banks from Italy follow with the participation which declined from 16,4% to 16,1%, while other countries had individual partiicpation 6,3%.

[1] Bank classification criteria are ownership over banks' share capital.
[2] The ownership structure of banks in the FBiH as of 31.12.2009., resulted from received documentation and registrations at authorized courts (changes in capital and shareholders structure.
[3] State ownership refers to domestic state capital of BiH.

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



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

-in 000 KM-

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

BANKS	31.12.2010.		31.12.2011.		30.06.2012.		RATIO	
1	2		3		4		5 (3/2)	6 (4/3)
State banks	46.586	3%	50.499	2%	50.892	2%	108	101
Private banks	1.650.039	97%	2.032.521	98%	2.099.942	98%	123	103
TOTAL	1.696.625	100%	2.083.020	100%	2.150.834	100%	123	103

In the first half of 2012, the total capital increased by 3% or 71 million KM, mostly due to the current financial result- profit and additional capital and increase of reserves in one bank.

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

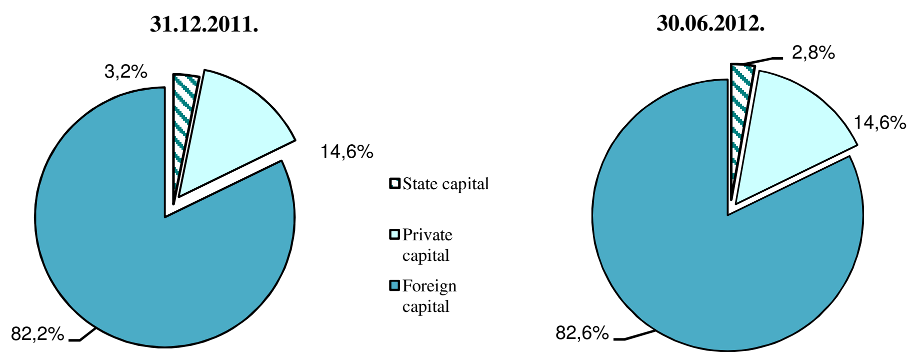
- in 000 KM-

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

SHAREHOLDERS CAPITAL	31.12.2010. Amount	31.12.2010. Participation %	31.12.2011. Amount	31.12.2011. Participation %	30.06.2012. Amount	30.06.2012. Participation	RATIO 4/2	RATIO 6/4
1	2	3	4	5	6	7	8	9
State capital	41.860	3,6	38.072	3,2	33.096	2,8	91	87
Private capital (residents)	163.074	13,9	174.088	14,6	177.720	14,6	107	102
Foreign capital (nonresident)	968.363	82,5	981.412	82,2	1.002.756	82,6	101	102
TOTAL	1.173.297	100,0	1.193.572	100,0	1.213.572	100,0	102	102

[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).

Graph 3: *Ownership structure (shareholders capital)*



The share capital of banks in the Federation of BiH, in the first half of 2012, was higher by 20 million KM or 1,7% in comparison to the end of 2011. The structure of the shareholder's capital slightly changed: state capital decreased by 4,9 million KM, private capital (resident) increased by 3,6 million KM, and private (nonresident) capital increased by 21,3 million KM in comparison to the end of 2011.

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

Participation of the state capital in total share capital, as of 30.06.2012., was 2,8%, and it decreased by 0,4 per cent in comparison to 31.12.2011.

Participation of private capital (residents) in total share capital of 14,6% is the same as on 31.12.2011. Nominal increase of 3,6 million KM relates to the increase based on the turnover with the state capital in banks, and slightly based on the turnover with the non-residents.

The participation of the private capital (nonresident) in the total shareholders capital increased by 0,4%. The nominal increase of 21,3 million KM refers to the increase through the additional capital of 20 million KM in one bank, and slightly through the turnover.

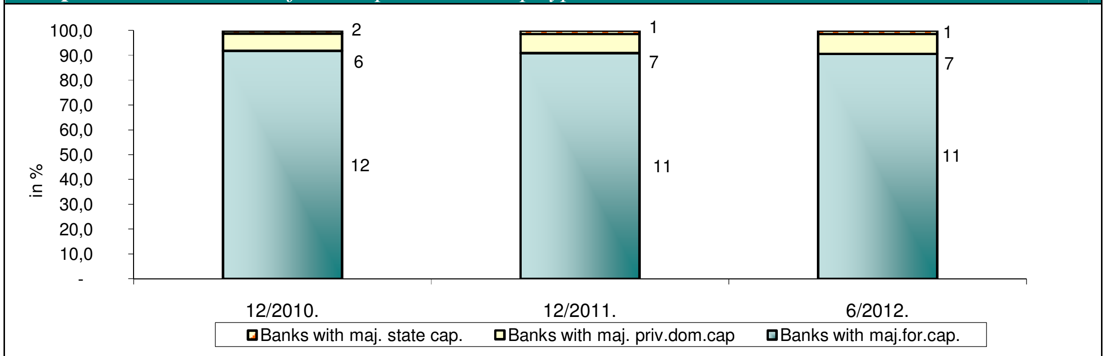
As of 30.06.2012., the market share of banks with majority foreign ownership was a high 90,7%, of banks with majority domestic private capital was 8,0%, and the share of banks with majority state capital was 1,3%.

- in %-

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

BANKS	31.12.2010.			31.12.2011.			30.06.2012.		
	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	2,7	1,1	1	2,4	1,3	1	2,4	1,3
Banks with majority private domestic capital	7	12,2	7,0	7	10,3	7,7	7	10,0	8,0
Banks with majority foreign capital	11	85,1	91,9	11	87,3	91,0	11	87,6	90,7
TOTAL	19	100,0	100,0	19	100,0	100,0	19	100,0	100,0

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



1.3. Employees

As of 30.06.2012., there was a total of 7.330 employees in the banks of the Federation of BiH, of that number 2% is in the banks with a majority state capital and 98% in private banks. In the first half of 2012, the number of employees decreased by 1% or 39.

Table 47: *Employees in banks in FBiH*

B A N K S	NUMBER OF EMPLOYEES						RATIO	
	31.12.2010.		31.12.2011.		30.06.2012.		3/2	4/3
1	2		3		4		5	6
State banks	180	2%	177	2%	176	2%	98	99
Private banks	7.208	98%	7.192	98%	7.154	98%	100	99
TOTAL	7.388	100%	7.369	100%	7.330	100%	100	99
Number of banks	19				19		100	100

Table 5: *Qualification structure of the employees*

EDUCATION	NUMBER OF EMPLOYEES						RATIO	
	31.12.2010.		31.12.2011.		30.06.2012.		4/2	6/4
1	2	3	4	5	6	7	8	9
University qualifications	3.234	43,8%	3.401	46,1%	3.489	47,6%	105	103
Two-year post secondary school qualifications	696	9,4%	706	9,6%	691	9,4%	101	98
Secondary school qualifications	3.406	46,1%	3.218	43,7%	3.110	42,4%	94	97
Other	52	0,7%	44	0,6%	40	0,6%	85	91
TOTAL	7.388	100,0%	7.369	100,0%	7.330	100,0%	100	99

The trend of the increase of the employees' qualification structure through an increase of the number of employees with university qualifications continued in the first half of 2012, on one hand as a result of the increase of this category by 3% or 88 employees, and on the other due to the decrease of the number of employees with the high school diploma by 3% or 108 employees.

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

Table 6: *Asset per employee*									
BANKS	**31.12.2010.**			**31.12.2011.**			**30.06.2012.**		
	No. of empl.	**Assets (000 KM)**	**Assets per empl.**	**No. of empl.**	**Assets (000 KM)**	**Assets per empl.**	**No. of empl.**	**Assets (000 KM)**	**Assets per empl.**
State	180	167.263	929	177	191.881	1.084	176	200.908	1.142
Private	7.208	14.908.434	2.068	7.192	14.997.277	2.085	7.154	14.700.089	2.055
TOTAL	7.388	15.075.697	2.041	7.369	15.189.158	2.061	7.330	14.900.997	2.033

At the end of the observed period there was a two million KM assets per employee on the level of the banking system. The slight decrease of the indicators for private sector is a consequence of the decrease of assets.

Table 7 *Assets per employee by groups*			
Assets (000 KM)	**31.12.2010.**	**31.12.2011.**	**30.06.2012.**
	Number of banks	**Number of banks**	**Number of banks**
Up to 500	0	0	0
500 to 1.000	7	4	4
1.000 to 2.000	6	9	9
2.000 to 3.000	5	5	5
Over 3.000	1	1	1
TOTAL	19	19	19

Analytical indicators of respective banks range from 580 thousand KM to 4,1 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 2,2 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].

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

2.1. Balance sheet

Aggregate balance sheet of the banking sector, as of 30.06.2012., amounted to 14,9 billion KM, which presents a decrease by 2% or 288 million KM in comparison to end of 2011. After the decline of 3% or 456 million KM in the first quarter, which was the highest quarterly decline in the last three years, in the second quarter there happened a slight incline of the balance sheet amount of 1% or 168 million KM, which cumulatively resulted with a lower rate for the six months of 2012. Although in 2011, there were positive changes and improvements of certain indicators for the banking sector especially in the segment of lending and profitability and there was the continuation of the incline of the citizens savings, the relatively high decline of the balance sheet amount in the first half of 2012, indicates that the impact of the crises is still evident, which can have negative effects on the key indicators of the banking system performance in the Federation of BiH.

- 000 KM-

Table 8: *Balance Sheet*

DESCRIPTION	31.12.2010.		31.12.2011.		30.06.2012.		RATIO	
	AMOUNT	Participation %	AMOUNT	Participation %	AMOUNT	Participation %		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
ASSETS:								
Cash funds	4.443.614	29,5	4.378.076	28,8	3.928.549	26,4	99	90
Securities[7]	375.252	2,4	458.465	3,0	532.526	3,6	122	116
Placements to other banks	145.007	1,0	79.940	0,5	104.742	0,7	55	131
Loans	9.981.911	66,2	10.413.416	68,6	10.539.125	70,7	104	101
Loan loss provisions (LLP)	635.792	4,2	931.151	6,1	983.690	6,6	146	106
Loans – net value (loans minus LLP)	9.346.119	62,0	9.482.265	62,5	9.555.435	64,1	101	101
Business premises and other fixed assets	552.764	3,7	540.749	3,6	525.669	3,5	98	97
Other assets	212.941	1,4	249.663	1,6	254.076	1,7	117	102
TOTAL ASSETS	**15.075.697**	**100,0**	**15.189.158**	**100,0**	**14.900.997**	**100,0**	**101**	**98**
LIABILITIES:								
LIABILITIES								
Deposits	11.232.830	74,5	11.050.514	72,8	10.765.586	72,3	98	97
Borrowings from other banks	7.000	0,0	2.000	0,0	3.500	0,0	29	175
Loan Commitments	1.403.451	9,3	1.319.299	8,7	1.253.227	8,4	94	95
Other liabilities	735.791	4,9	737.280	4,8	727.850	4,9	100	99
CAPITAL								
Capital	1.696.625	11,3	2.080.065	13,7	2.150.834	14,4	123	103
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**15.075.697**	**100,0**	**15.189.158**	**100,0**	**14.900.997**	**100,0**	**101**	**98**

Table 9: *Assets of banks per ownership structure*

BANKS	31.12.2010.			31.12.2011.			30.06.2012.			RATIO	
	Number of banks	Assets (000 KM)		Number of banks	Assets (000 KM)		Number of banks	Assets (000 KM)			
1	2	3		4	5		6	7		8 (5/3)	9(7/5)
State	1	167.263	1%	1	191.881	1%	1	200.908	1%	115	105
Private	18	14.908.434	99%	18	14.997.277	99%	18	14.700.089	99%	101	98
TOTAL	19	15.075.697	100%	19	15.189.158	100%	19	14.900.997	100%	101	98

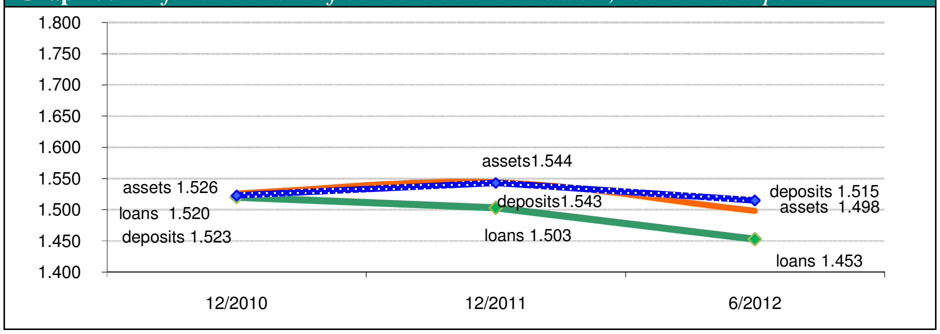
In 10 banks the assets are slightly higher than at the end of 2011, while in the remaining nine banks the assets declined, the decreasing rate was in the range from 0,4% to 10%, with a note

[7] Trading securities and securities held to maturity.

that the largest bank in the system had a relatively significant downfall of assets of 6,3% or 257 million KM.

Indicator of concentrations in the three most significant segments of banking performance, in assets, loans and deposits is the value of the Herfffindahl index[8].

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



At the end of the first half of 2012, the Herfindahl index in all three relevant categories (loans, deposits and assets) recorded very slight changes in the value: assets 1.498 units, deposits 1.515 and loans 1.453, indicating a moderate concentration[9]. In comparison to the end of 2011, all the indicators decreased: assets by 46, deposits by 28 and loans by 50 units.

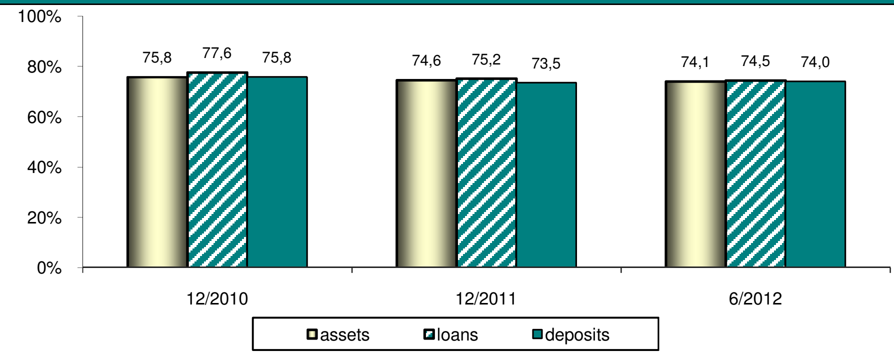
Another indicator of concentration in the banking system is the ratio of market concentration, that is the concentration rate[10] (hereinafter: CR), which indicates the total market participation of the largest institutions in the system per relevant chosen categories: assets, loans and deposits. The CR5 decreased for market participation from 74,6% to 74,1%, loans from 75,2% to 74,5% and for deposits increased from 73,5% to 74%. In the past two years the CR value has slightly declined in all three categories, but there is still an evident dominance of five largest banks in the system that "hold" approximately 74% of the market, loans and deposits

[8] 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.

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

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

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[11]. The largest changes in comparison to the end of 2011 refer to the participation of four largest banks (group I and II) and IV the most numerous group of nine banks.

The participation of the two largest banks in the system (Group I, both banks with assets higher than three billion KM), in the first half of 2012 decreased from 50% to 48,9% , while the participation of the Group II (two banks with assets between one and two billion KM) increased from 18,6% to 19,2%. The group III (three banks with the assets between 500 million KM and one billion KM) recorded a slight delcine in the participation by 0,3 percentual points, that is 16,5. The participation of the Group IV of nine banks (with assets between 100 and 500 million KM) recorded an increase in participaiton from 13,3% to 14%. The last Group V (three banks which have assets smaller than 100 million KM) still have an insigificant participation of 1,3%.

Although there happened slight changes in the participation of individual groups, it is evident that the four largest banks still have a high market participaiton of 68%.

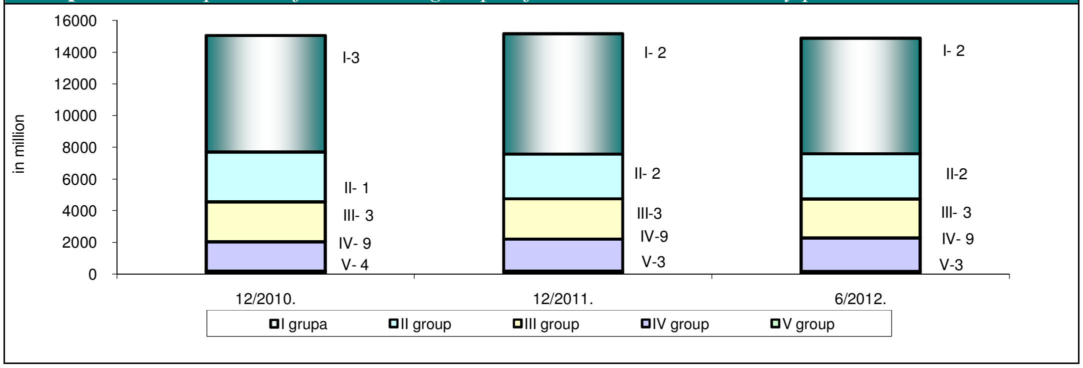
The following table presents a preview of amounts and participations of individual groups of banks in total assets by periods (amounts presented in KM millions).

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

AMOUNT OF ASSETS	31.12.2010.			31.12.2011.			30.06.2012.		
	Amount	Partic. %	No. of banks	Amount	Partic. %	No. of banks	Amou nt	Partic. %	No. of banks
I- Over 2.000	7.348	48,8	2	7.596	50,0	2	7.289	48,9	2
II- 1000 to 2000	3.146	20,9	2	2.820	18,6	2	2.858	19,3	2
III- 500 to 1000	2.521	16,7	3	2.545	16,8	3	2.453	16,5	3
IV- 100 to 500	1.862	12,3	9	2.030	13,3	9	2.105	14,0	9
V- Under 100	199	1,3	3	198	1,3	3	196	1,3	3
TOTAL	15.076	100,0	19	15.189	100,0	19	14.901	100,0	19

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

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



The decline of the balance sheet amount by 2% or 288 million KM, or on the level of 14,9 billion KM at the end of the first half of 2012., it is the result of the decline of deposits by 2,6% or 285 million KM, and loan liabilities by 5% or 66 million KM. Only, the total capital had an increase by 3,4% or 71 million KM.

The cash funds, after the decline of 10,3% or 450 million KM, at the end of the reviewing period were 3,93 billion KM. The realized decline is a result of the outflow of deposits, and in a smaller part due to the increase of the loans of 1,2% or 126 million KM, so the loans as of 30.06.2012 were 10,54 billion KM. The decline of the cash funds was in small part influenced by the increase in the investment in securities of 16,2% or 74 million KM, which as of 30.06.2012 were 533 million KM, which is only a participation of 3,6 in the assets.

The securities portfolio available for sale increased from 300 million to 352 million KM, and securities held to maturity from 158 million KM to 180 million KM. In the both portfolios there are securities issued by the Government of F BiH[12] with a total value as of 30.06.2012 of 182,4 million KM. After the maturity in March and May of 2012, the treasury bonds issued by the Government in 2011 (two emissions: in September and in November, a total of 90 million KM), which were purchased by banks in the amount of around 80 million KM, the banks also bought all the bonds issued by the Government of FBiH in 2012 (three emissions: in February, March and April), of the nominal value of 60 million KM (the purchasing price was 59,3 million KM). Also, the Government of the Federation of BiH issued two emissions of bonds (in May and June of 2012) with the nominal value of 110 million KM, of which sold were 97,2 million KM. The banks purchased the bonds in the value of 96,2 million KM (purchasing price 96,1 million KM). The majority of the treasury bonds and securities was classified in the portfolio available for sale (124,1 million KM), and the remaining part in the portfolio held to maturity. The rest of the portfolios of the securities in the banks are in most part the securities of the EU countries.

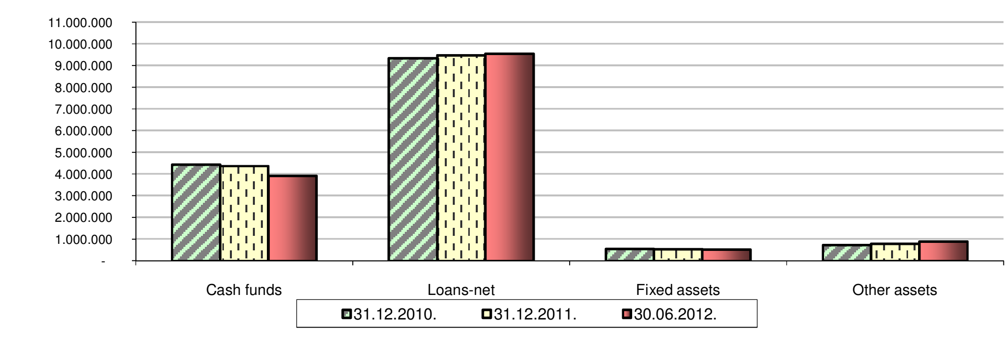
Also, placements to other banks recorded an increase by a high 31% or 25 million KM, as of 30. 06. 2012 they were 105 million KM. The banks still try to, under the conditions of the decreased volume of lending, realize additional income by placing the surplus of liquid funds, placing them as time deposits in foreign banks and investing in securities.

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

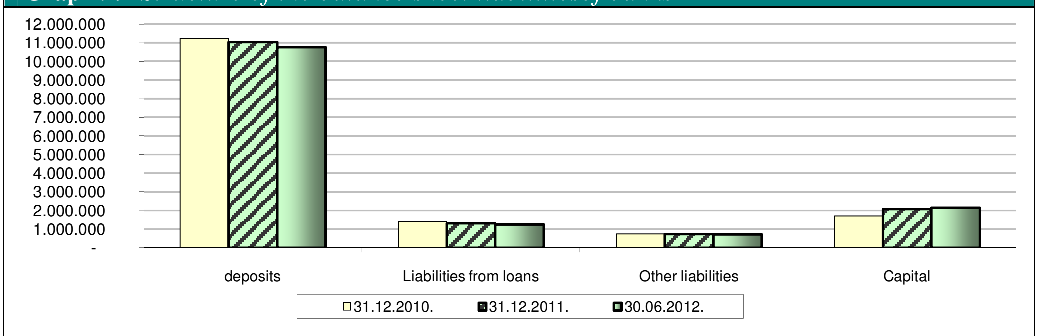
---

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

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



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



In the structure of banks' balance sheet liabilities deposits in the amount of 10,77 billion KM and participation of 72,3% are still the dominant source of financing for banks in the Federation of BiH. After the decline of 5%, the credit liabilities in the amount of 1,25 billion KM decreased its participation from 8,7% to 8,4%, while the participation of capital, which as of 30.06.2012 was 2,15 billion KM increased from 13,7% to 14,4%.

The structure of assets, as well as the structure of sources, had slight changes related to two key assets items: increased participation of loans from 68,6% to 70,7% and a decrease of cash funds from 28,8% to 26,4%

- in 000 KM-

Table 11: *Cash funds of banks*

CASH FUNDS	31.12.2010.		31.12.2011.		30.06.2012.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	370.414	8,3	371.309	8,5	342.720	8,7	100	92
Reserve accounts with CBBiH	2.592.920	58,4	2.351.811	53,7	2.038.629	51,9	91	87
Accounts with deposit institutions in BiH	670	0,0	20.618	0,5	4.704	0,1	3077	23
Accounts with deposit institutions abroad	1.479.322	33,3	1.633.479	37,3	1.542.067	39,3	110	94
Cash funds in collection process	288	0,0	859	0,0	429	0,0	298	50
TOTAL	4.443.614	100,0	4.378.076	100,0	3.928.549	100,0	99	90

Cash funds of the banks on the reserve accounts of CBBiH, in the reviewed period, decreased by 13% or 313 million KM, amounting to 2,04 billion KM or 51,9% of total cash funds as of 30.06.2012., representing the participation decrease of 1,8 per cent in relation to the end of 2011. Banks' funds on the accounts with the depository institutions abroad had a steep decline of

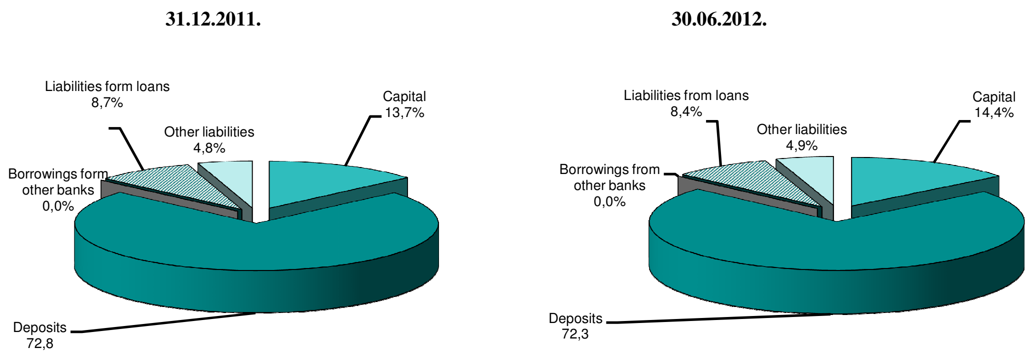
6% or 91 million KM, amounting to 1,54 billion KM or 39,3% of total cash funds (37,3% at the end of 2011). As of 30.06.2012, the banks had cash on hand and in vaults in the amount of 343 million KM, which is 8,7% of the total cash funds.

The listed fluctuations had an impact on the change of the currency structure of the cash funds: the domestic currency participation in the reviewed period decreased from 59,3% to 57,8%, and the participation of funds in foreign currency has decreased by the same amount of change.

2. 1. 1. Liabilities

Structure of liabilities (liabilities and capital) in the balance sheet of banks, as of 30.06.2012. is presented in the following graph:

Graph 10: *Banks' liabilities structure*



In the reviewed period, there were minor changes in the participation of two most significant sources of banks' financing: deposits and credit liabilities that is the decrease of the deposit participation from 72, 8% to 72, 3% and participation of loan liabilities from 8, 7% to 8, 4%.

The main reason for the increase of deposits participation is their decline by 2,6% or 285 million KM, so that at the end of the reviewing period they were 10,77 billion KM, and still represent the most significant funding source of banks in the Federation of BiH. Second source, per its size in the amount of 1,25 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, in the first half of 2012 by 5% or 66 million KM. If subordinate debts of 133 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 9,3.

Capital, as of 30.06.2012, was 2,15 billion KM, which is by 3,4% or 71 million KM higher than at the end of 2011, and the increase was realised mostly based on the current financial result – profit.

As of 30.06.2012., the highest bank commitments were towards the following creditors (seven of total 40), representing 68% of total credit commitments: European Investment Bank (EIB), European fund for Southeast Europe (EFSE), EBRD, UniCredit Bank Austria AG, Central Eastern European Finance Agency (CEEFA), ComercBank AG Frankfurt and Council of Europe Development Bank.

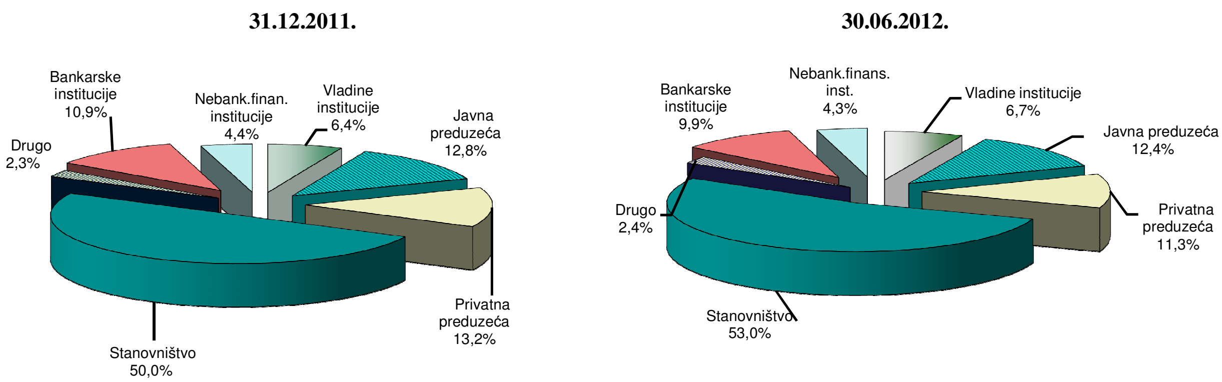
According to the data submitted by banks, out of total deposits at the end of the reviewing period in 2012, only 7% were deposits collected by organizational units of banks from the Federation of BiH operating in Republic Srpska and Brcko District.

- in 000 KM-

Table 12: *Deposit structure by sectors*[13]

DEPARTMENTS	31.12.2010.		31.12.2011.		30.06.2012.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	891.638	7,9	705.805	6,4	717.164	6,7	79	102
Public enterprises	1.332.748	11,9	1.413.686	12,8	1.335.809	12,4	106	94
Private enterprises and assoc.	1.487.509	13,2	1.462.767	13,2	1.221.923	11,3	98	84
Non-profit. organizations	1.674.576	14,9	1.206.302	10,9	1.060.630	9,9	72	88
Banking institutions	432.045	3,9	483.504	4,4	468.466	4,3	112	97
Citizens	5.144.607	45,8	5.530.461	50,0	5.702.699	53,0	107	103
Other	269.707	2,4	247.989	2,3	258.895	2,4	92	104
TOTAL	11.232.830	100,0	11.050.514	100,0	10.765.586	100,0	98	97

Graph 11: *Deposit structure by sectors*



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

The continuity in the growth of the citizens' deposits was maintained in the first half of 2012, with the growth rate of 3% or 172 million KM. The deposits of this sector with the amount of 5,7 billion KM due to the decline of deposits in other sectors increased its participation in the total deposits from 50% to 53% in the total deposits, so they are still the largest source of financing for banks in F BiH.

Second highest in the participation in the sector sources are the deposits of the public companies, although in the reviewing period they declined by ^% or 78 million KM. The deposits of this sector are 1,34 billion KM or 12,4% of total deposits.

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

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

The deposits of the banking institutions since the end of 2007, until the III quarter of 2011 were second highest sector source in the deposit potential of the banks. The growth trend was present until mid-2009, when they reached the highest amount of 2,29 billion KM and participation of 21,4% in the total deposits. After that, under the impact of the crises, decrease of the lending volume and surplus of liquidity, there was a withdrawal of deposit funds of the parent groups, which resulted in the decline of the participation. However, after the decline in the IV quarter of 2011 of 23% or 368 million KM, the participation declined to 10,9%, which was fourth largest sector participation at the end of 2011. In the first half of 2012, the declining trend continued with a declining rate of 12% or 146 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 half of 2012 the deposits of the banking institutions were 1,06 billion KM, which is 9,9% of total deposits. These funds decreased by 193 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 93% or 985 million KM of banking institutions' deposits refers to deposits of banks-members of groups (primarily shareholders). Financial support of the groups is present in eight banks in the Federation of BiH, with a concentration on four large banks. In this manner, in the previous period, the domestic banks-members of the groups receive financial support and have secured inflow of new funding sources by the group whose members they are. If credit liabilities and subordinate debts (items in the supplementary capital) are added to these funds, the financial support the banks receive from their groups becomes higher (in ten banks), amounting to 1,47 billion KM or 9,1% of total liabilities of the banking sector as of 30.06.2012. In comparison to the end of 2011, these funds were reduced by 13,2% or 150 million KM, credit liabilities by 18,7% or 77 million KM and subordinated loans by 4,8% or eight million KM.

Under the support of IMF and other financial institutions, the FBA has been involved in activities related to signing of the Memorandum of Understanding with parent-banks from the European Union countries whose daughter-banks operate in the territory of BiH, the so called "Vienna Initiative", by which the parent banks have taken the obligation to maintain the exposure in Bosnia and Herzegovina at the level from 31.12.2008., during the IMF program (2009 -2012), taken into account the availability of adequate credit possibilities in BiH within the defined good practices for managing the credit risk, capital and liquidity. Since, due to the economic crises, the banks' credit activities have significantly decreased, which resulted with high liquidity, as well as the good capitalization of almost all banks in FBiH which parent banks signed the "Vienna Initiative", in 2012 the trend of the decreasing of the exposure from the previous year continued, in the segment of the deposit sources, mostly in one bank, while the credit sources decreased based on the regular payment of matured liabilities. Due to the unfavourable events in the economies of the countries from which are the owners of the banks from F BiH and problems with which those countries are faced, and consequently the financial system and the banking groups, as well as the announced measures which Austria plans to take with an aim to strengthen the sustainability of the business models of large internationally active banks, and with that maintain the country's credit rating[14], it can be expected that the future financial support of the parent group will be more restricted, so the credit growth in the coming period in the Federation of BiH must be more financed from the growth of the local sources.

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

Deposits of other sectors had also declined, and emhpasized should be the deposits of government institutions, after the decline by 9% or 60 million KM, at the end of the second quarter they recorded an incline of 11% or 72 million. Cumulatively, for the six months, realized is a slight increase of 2% or 11 million KM, and as of 30.06.2012 the amount is 717 million KM or 6,7% of total deposits.

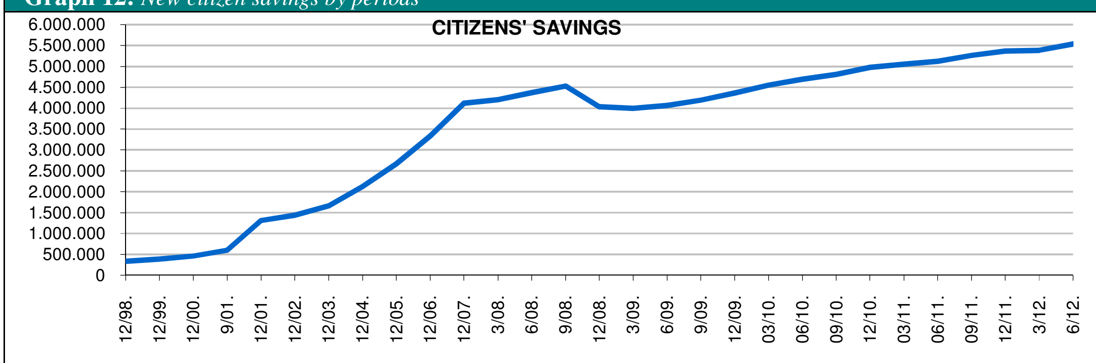
Currency structure of deposits, at the end of the observed period, changed slightly deposits in foreign currencies (with the dominant participation of EURO) in the amount of 5,86 billion KM decreased its participation from 55% to 54% and deposits in domestic currency in the amount of 4,91 billion KM, which is a participation of 46% .

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

Table 13: *New citizen savings by periods*

BANKS	AMOUNT (IN 000 KM)			RATIO	
	31.12.2010.	**31.12.2011.**	**30.06.2012.**	**3/2**	**4/3**
1	2	3	4	5	6
State	47.148	50.259	53.332	107	106
Private	4.926.361	5.311.178	5.483.337	108	103
TOTAL	4.973.509	5.361.437	5.536.669	108	103

Graph 12: *New citizen savings by periods*



The largest three banks hold 70% of savings, while participation of seven banks has an individual participation of less than 1%, representing only 3,6% of total savings in the system.

---

[14] 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.

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

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

BANKS	AMOUNT (IN 000 KM)						RATIO	
	31.12.2010.		31.12.2011.		30.06.2012.		3/2	4/3
1	2		3		4		5	6
Short term saving deposits	2.581.767	51,9%	2.606.732	48,6%	2.639.293	47,7%	101	101
Long term saving deposits	2.391.742	48,1%	2.754.705	51,4%	2.897.376	52,3%	115	105
TOTAL	4.973.509	100,0 %	5.361.437	100,0 %	5.536.669	100,0 %	108	103

The maturity structure of the savings deposits in comparison to the end of 2011 recorded a slight improvement, which is a result of the incline of the long term saving deposits by 5% or 143 million KM, which caused the change in the participation of these deposits that is an increase from 51, 4% to 52, 3%.

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

As of 30.06.2012., there are a total of 16 banks included in the deposit insurance program in the Federation of BiH (they have a license by the Deposit Insurance Agency in BiH), and according to the submitted data 97% of total deposits and 98% of total savings.

The remaining three 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[15] of banks in the Federation of BiH, as of 30.06.2012., amounted to 2,1 billion KM.

[15] Regulatory capital as defined by Article 8 and 9 of Decision on Minimum Standards for Capital Management in Banks (Official Gazette of the Federation of BiH, 3/03, 18/03, 53/06, 55/07, 81/07, 6/08).
[17] Data source is the quarterly Report on Capital Positions of Banks (Form 1-Schedule A) regulated by the Decision on Minimum Standards for Managing Capital in Banks.

-in 000 KM-

Table 15: *Regulatory capital*

DESCRIPTION	31.12.2010.		31.12.2011.		30.06.2012.		RATIO	
1	2		3		4		5 (3/2)	6 (4/3)
1.a.Core capital before deduction	1.885.159		2.008.081		1.953.717		107	97
1.1. Shareholders capital-common and permanent uncom.shares	1.170.468		1.190.482		1.210.482		102	102
1.2. Amount of emissions	136.485		136.485		136.485		100	100
1.3.Reserves and retained profit	578.206		681.114		606.750		118	89
1.b.Deductable items	313.321		353.960		246.659		112	70
1.1. Uncovered losses from previous years	92.058		251.187		188.533		272	75
1.2. Loss from the current year	157.933		45.512		5.800		27	13
1.3. treasury shares	81		81		81		100	100
1.4.. Amount of intangible assets	63.249		57.180		52.245		90	91
1. Core capital (1a-1b)	**1.571.838**	**76%**	**1.654.121**	**78%**	**1.707.058**	**81%**	105	103
2. Supplementary capital	**489.986**	**24%**	**466.576**	**22%**	**413.097**	**19%**	96	89
2.1.Shareholder capital- permanent priority cumul. shares	2.829		3.090		3.090		109	100
2.2. General reserves for loan losses	209.612		211.856		211.652		101	100
2.3. Amount of revised current profit	52.090		62.564[16]		0		120	N/a
2.4. Amount of subordinated debt up to 50% of the amount of core	159.056		139.754		131.950		88	94
capital	66.399		49.312		66.405		76	135
2.5. Items of permanent character	**2.061.824**	**100%**	**2.120.697**	**100%**	**2.120.155**	**100%**	103	100
3. Capital (1 + 2)								
	15.938		**37.794**		**76.332**		238	202
4. Items deductible from capital	15.938		18.408		18.408		116	100
4.1. Bank's invest. In cap. of state leg. ent.over 5% of cor. cap.	-		19.386		57.924		N/a	299
4.2. Amount of lack. reserves for loan loss. based on reg. request								
	2.045.886		**2.082.903**		**2.043.823**		102	98
5. Net capital (3- 4)								

In the first half of 2012, capital[17] remained at the same level as in 2011, while the changes in core and supplementary capital influenced the changes in the structure of regulatory capital. The core capital increased by 3% or 53 million KM, and participation from 78% to 81%, supplementary capital decreased by the same amount or 11%, and the participation decreased from 22% to 19% .

The core capital growth is a result in most part of the inclusion of the realized profit for 2011. After the implementation of the legal procedure in regard to the issuing and adopting the decisions by the assemblies of the banks, the realized profit for 2011, in the amount of 127 million KM (16 banks) was distributed as follows: 71% or 89 million KM into core capital (retained profit and reserves), three banks directed a part of the profit, in the amount of two million KM, towards partial coverage of previous losses, for coverage of lacking reserves for loan losses based on the regulatory request 17 million KM, while two banks allocated 19 million for pay out of dividends. Also, one bank retained profit to pay out dividends in the amount of 19 million KM. The changes in the core capital were also influenced by the following: one bank had a direct payment in the reserves in the amount of 20 million KM, and in the second quarter additional capital in the amount of 20 million KM along with a simultaneous decrease of the reserves through a partial coverage of accumulated losses in the amount of 105 million KM. In 2011 three banks realized losses in the amount of 45,5 million KM.

Deductible items (which decrease the core capital) decreased by 107 million KM mostly from decrease of cumulated losses in four banks in the amount of 108 million KM (of this amount, 105 million KM refers to one bank, and the coverage is performed from reserves), intangible property by 5 million KM and increase of current debt by 6 million KM.

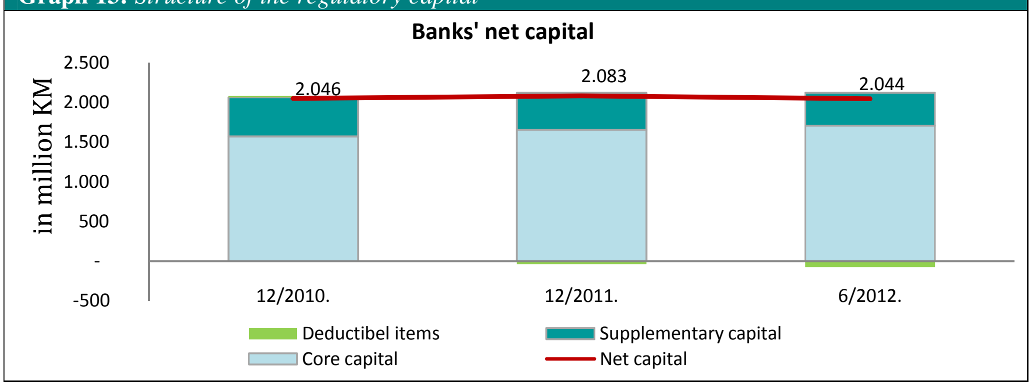
[16] Based on final data, eight banks included the amount of the audited profit into supplementary capital and two banks included it into core capital.

Supplementary capital decreased by 53 million KM, with major changes in the structure: the 2011 profit of 62 million KM was transferred to core capital, subordinated debt (regular payments of past due liabilities) decreased by seven million KM, while the items of the permanent character increased by 17 million KM (in one bank). During the year, the current unaudited profit is not allocated in the calculation of capital, which also influenced the decrease of the supplementary capital.

The change in the regulations includes in the items deductible from capital the new accrual item: lacking reserves for loan losses based on the regulatory request, which as of 30.06. 2012 was 58 million KM, which is a difference between the needed regulatory reserves for loan losses in the balance and off -balance items[18] and reserves for loan losses established from profit. Of total lacking reserves for loan losses based on the regulatory request in the amount of 112,6 million KM the banks reported 58 million KM against capital, which presents 51%[19] of the total amount of lacking reserves for loan losses. Also, the banks, in compliance with the regulations of the FBA, and based on the decision of the assembly, from the current profit for 2011 or reserves allocated the lacking amount of the reserves for loan losses of 19 million KM, reported as of 31.12.2011..

The following graph presents the structure of the regulatory capital.

Graph 13: *Structure of the regulatory capital*



Net capital, as a result of the above mentioned changes, decreased by 2% or 39 million KM, and as of 30.06.2012 was 2,04 billion KM.

The banks' capital level rate is expressed as a ratio of capital and assets and as of 30.06. 2012., it was 13,3%, which is by 0,2% higher than at the end of 2011.

One of the most significant indicators of capital strength and adequacy[20] of banks is capital adequacy ratio calculated as a ratio of net capital and risk weighted assets. As of 30.06.2012., this ratio at the banking system level was 16,9% which is higher by 0,2% than at the end of 2011. Although the total risk weighted risks decreased by 1% or 69 million KM, the capital adequacy is lower due to the noted decrease of the net capital.

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

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

[20] The Law prescribes minimum capital adequacy rate of 12%.

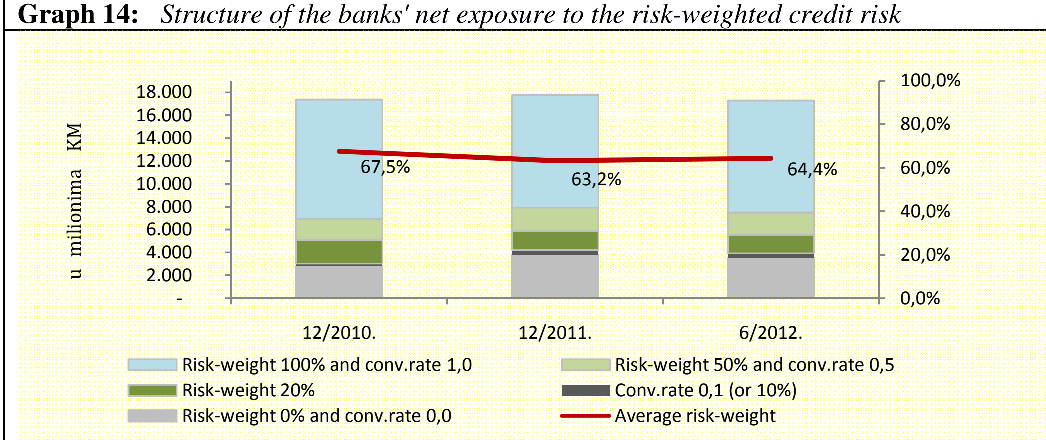
The following table presents the structure of the net exposure of the banks to the risk weighted credit risk that is the conversion ratio for the off-balance sheet items.

-in 000 KM-

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

DESCRIPTION	31.12.2010.	31.12.2011.	30.06.2012.	INDEKS	
1	2	3	4	5 (3/2)	6 (4/3)
TOTAL EXPOSURE (1+2):	**17.354.697**	**17.743.519**	**17.289.584**	102	97
1 Balance sheet assets	14.887.124	14.917.357	14.521.048	100	97
2. Off-balance sheet positions	2.467.573	2.826.162	2.768.536	115	98
DISTRIBUTION THROUGH RISK WEIGHTED RISKS AND CONVERSION RATIO					
Risk weight 0%	3.147.567	3.721.678	3.438.664	118	92
Risk weight 20%	1.640.802	1.674.585	1.615.039	102	96
Risk weight 50%	42.576	83.165	67.460	195	81
Risk weight 100%	10.056.179	9.437.929	9.399.885	94	100
Convers.ratio 0,0	0	54.529	59.303	N/a	109
Convers.ratio 0,1	220.264	445.006	428.791	202	96
Convers.ratio 0,5	1.923.685	1.938.361	1.886.590	101	97
Convers.ratio 1,0	323.624	388.266	393.852	120	101
	11.713.116	**11.216.376**	**11.136.647**	**96**	**99**
RISK OF THE RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS	**67,5%**	**63,2%**	**64,4%**	**94**	**102**

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



The total net exposure of the banks that is risk weighted in the first half of 2012 decreased by 3% or 454 million KM, which was in the most part influenced by the decline of the balance sheet items (mostly with the conversion ratio of 0 and 20%), and partially off balance sheet items (mostly with the conversion ratio of 0,5), which influenced that the risk of the risk weighted assets and credit equivalents has the same direction, in other words the decline of 80 million KM (from 11,22 billion KM to 11,14 billion KM). This was mostly influence by the deduction in funds the banks keep at CBBiH (risk weight 0%). On the other hand, risk weighted operating risk (POR) increased by 11 million KM, and is 977 million KM. All of that resulted in decrease of total risk weighted risk by 1% or 69 million KM.

As of 30.06.2012, the participation of the risk weighted assets exposed to the credit risk was 92%, and operating risk 8%.

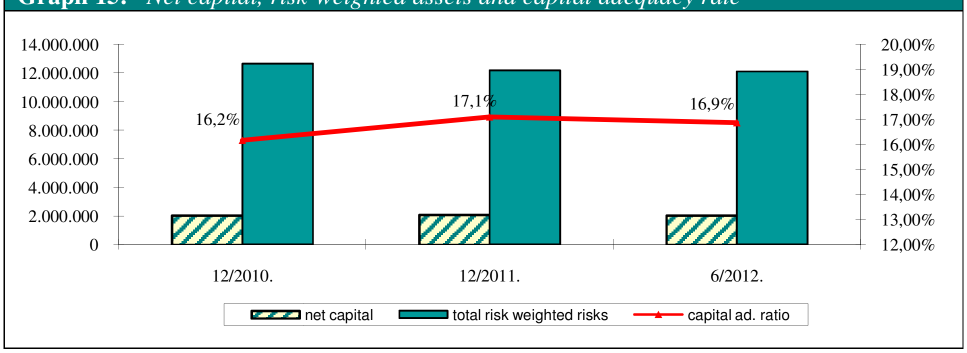
In process of conducting supervision of operations and financial positions of banks in the FBiH, as regulated by the Law, the FBA issues orders to banks to undertake actions for strengthening of capital base and provision of adequate capital in order to improve safety of both banks individually and the entire banking system, according to the level and profile of existing and potential exposure to all risks relevant to the banking operations. Under the conditions of economic crisis and the increase of the loan risk caused by the decline of the credit portfolio quality, this request has a priority and that is why the segment of capital is under a continuous enhanced supervision. One of the measures is also a recommendation to banks not to distribute the 2011 profit they generated to pay out dividends, but to rather strengthen their capital base.

- 000 KM-

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

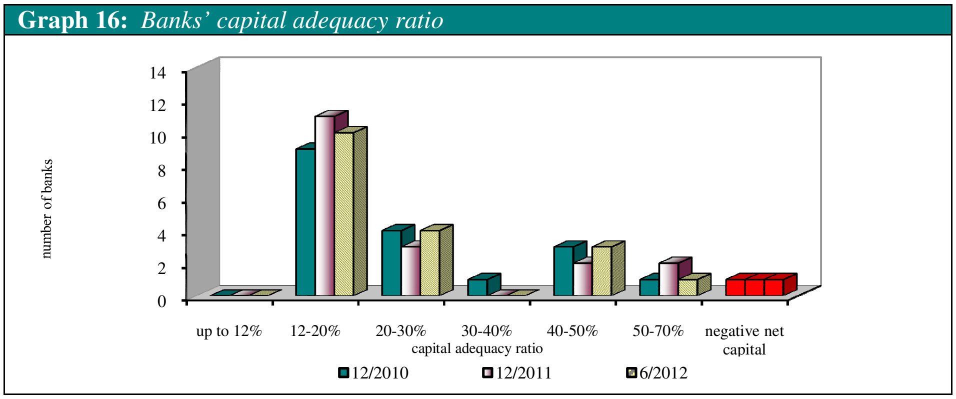
DESCRIPTION	31.12.2010.	31.12.2011.	30.06.2012.	RATIO	
1	2	3	4	5(3/2)	6(4/3)
1. NET CAPITAL	2.045.886	2.082.903	2.043.823	102	98
2. RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS	11.713.116	11.216.376	11.136.647	96	99
3. POR (RISK WEIGHTED OPERATING RISK)	942.707	965.932	977.024	102	101
4. TOTAL RISK WEIGHTED RISKS (2+3)	12.655.823	12.182.308	12.113.671	96	99
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/ 4)	16,2%	17,1%	16,9%	106	99

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



Capital adequacy rate of the banking system, as of 30.06.2012., was 16,9%, 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*



Of total 19 banks in the FBiH, as of 30.06.2012., capital adequacy rate of 18 banks was higher than minimum prescribed by the law of 12%, one bank, which is under provisional administration, has the capital adequacy rate under the minimum, that is a negative adequacy rate. According to analytical data at the end of the first quarter of 2012, 13 banks recorded the capital adequacy rate lower than at the end of 2011, in the range from 0,1 to eight percent points, in one bank it remained unchanged , while in five banks it recorded a better rate.

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

- 13 banks had the rate between 12,9% and 21,7%
- six banks had the rate between 22,9% and 45,6%,
- one bank had the rate of 58,9%.

The further strengthening of capital base will be priority task in majority of banks as it has been the case so far, especially in the largest banks of the system, which is necessary to strengthen stability and safety of both banks and the entire banking system, especially due to changes in business and operating environment under which banks in the Federation operate, because of the global financial crisis expansion to the area of our country and adverse effects this crisis may have on the banking sector and the entire economy of BiH. After the beginning of the crises, due to the deterioration of the loan portfolio and increase of the reserve expenses for loan losses, which had a significant impact on the downfall of the profitability of all banks in the system, the bank's capital has been under increased supervisory review, in order to avoid the endangering the banks' stability and capital base erosion to the level that would jeopardize not only the operations of the banks, but also impact the stability of the total banking system

2.1.3. Assets and asset quality

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

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

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

-in 000 KM-

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

	DESCRIPTION	31.12.2011.	30.06.2012.	Ratio
1.	RISK ASSETS[21]	13.301.153	13.311.352	100
2.	CALCULATED REGULATORY RESERVES FOR LOAN LOSSES	1.290.421	1.343.381	104
3.	PROVISIONING VALUE ADJUSTMENT FOR OFF BALANCE SHEET	1.038.733	1.089.705	105
4.	NEEDED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED	251.688	391.683	156
5.	ESTABLISHING REGULATORY RESERVES FROM PROFIT FOR	292.225	311.390	106
6.	LACKING AMOUNT OF REGULATORY RESERVES FROM PROFIT FOR	19.386	112.563	580
7.	NON-RISK ITEMS	5.787.457	5.489.144	95
8.	TOTAL ASSETS (1+7)	19.088.610	18.800.496	98

The total assets with the off balance sheet items (assets)[22] of banks in F BiH as of 30.06. 2012. were 18,8 billion KM and in relation to the end of 2011 was lower by 2% or 288 million KM. The risk assets are 13,3 billion KM which is at the same level as at the end of 2011.

Non risk items are 5,5 billion KM or 29% of total assets with off balance sheet and they decreased by 5% or 298 million KM in comparison to the end of 2011.

Total accrued RKG according to the regulatory request are 1,3 billion KM, and established balance sheet assets adjustments of value and provisioning for losses on off-balance sheet items 1,1 billion KM. The needed regulatory reserves[23] are 392 million KM and are higher by 56% or 140 million KM. The established regulatory reserves from the profit are 311 million KM and are higher by 6% or 19 million KM, which is a result of coverage of the lacking amount of RKG reported as of 31.12.2011. The lacking amount of regulatory reserves[24] as of 30.06.2012 are 113 million KM.

---

[21] Excluded is the amount of placements and potential liabilities of 173.301 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).

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

Table 19: *Total assets, gross balance sheet assets, risk and non risk items of the assets*								
DESCRIPTION	**AMOUNT(in 000 KM)**						**RATIO**	
	31.12.2010.	**Struct. %**	**31.12.2011.**	**Struct.%**	**30.06.2012.**	**Struct.. %**		
1.	2	3	4	5	6	7	8 (4/2)	9 (6/4)
Loans	9.244.429	86,4	9.292.751	85,2	9.291.996[25]	84,8	101	100
Interest	51.348	0,5	108.993	1,0	103.801	0,9	212	95
Past due receivables	566.629	5,3	935.014	8,6	969.947	8,8	165	104
Receivables from paid guarantees	553	0,0	24.808	0,2	30.251	0,3	4486	122
Other placements	410.797	3,8	171.052	1,6	214.109	2,0	42	125
Other assets	427.890	4,0	371.128	3,4	346.933	3,2	87	93
1.RISK BALANCE SHEET ASSETS	10.701.646	100,0	10.903.746	100,0	10.957.037	100,0	102	100
2. NON RISK BALANCE SHEET ASSETS	5.035.264		5.290.275		5.001.347		105	94
3.GROSS BALANCE SHEET ASSETS (1+2)	15.736.910		16.194.021		15.958.384		103	98
4.RISK OFF BALANCE SHEET	2.352.092		2.397.407		2.354.315		102	98
5.NON RISK OFF BALANCE SHEET	0		497.182		487.797		n/a	98
6.TOTAL OFF BALANCE SHEET ITEMS (4+5)	2.352.092		2.894.589		2.842.112		123	98
7.RISK ASSETS WITH OFF BALANCE SHEET (1+4)	13.053.738		13.301.153		13.311.352		102	100
8. NON RISK ITEMS (2+5)	5.035.264		5.787.457		5.489.144		115	95
9. ASSETS WITH OFF BALANCE SHEET(3+6)	18.089.002		19.088.610		18.800.496		106	98

Gross balance sheet assets[26] is 15,96 billion KM, and is lower by 2% or 236 million KM, and the risk balance sheet assets is 11billion KM which is 69% gross balance sheet assets and is at the same level as at the end of 2011. Non risk balance sheet assets are five billion KM and is lower by 6% or 289 million KM. Off balance sheet risk items are 2,3 billion KM and no risk items 488 million KM and they are lower by 2% in comparison to 2011.

The impact of the economic crises on the overall economy and industry in BiH is still present, therefore until the end of 2012 a significant credit growth in the segment of lending as a key activity of the bank is not expected, which is confirmed with the data for the half of 2012. As of 30.06. 2012., the loans were 10,5 billion KM, with a growth of 1% or 126 million KM in comparison to the end of 2011, while the participation in the assets increased by 2,1% and is 70,7%.

In the first half of 2012, placed are a total of 2,8 billion KM in new loans, which is by 3% or 82 million KM higher than in comparison to the same period in 2011. Of the total placed loans, loans in economy are 68%, and citizens 27%. Maturity structure of the newly granted loans has changed on behalf of the short term loans in comparison to the end of 2011. , the participation of the long term was 45%, and short term 55% (31.12.2011: long term 49%, short term 51%).

Three largest banks in the FBiH with credit amount of 6,1 billion KM have participation of 58% 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:

[25]Excluded amount of loans of 153,137 thousand KM covered with teh cash deposit (included in the non-risk balance assets).
[26] Data source: report on classification of the banks' balance sheet and off balance sheet items.

-in 000 KM-

Table 20: *Sector structure of loans*

DEPARTMENTS	31.12.2010. Amount	Partic. %	31.12.2011. Amount	Partic. %	30.06.2012. Amount	Partic. %	RATIO	
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Government institutions	126.328	1,3	125.827	1,2	108.530	1,0	100	86
Public companies	238.105	2,4	257.547	2,5	255.301	2,4	108	99
Private entre. and comp.	4.815.426	48,2	4.917.787	47,2	5.022.220	47,7	102	102
Banking institutions	10.975	0,1	16.411	0,2	13.971	0,1	149	85
Non banking fin. inst.	37.235	0,4	40.978	0,4	40.167	0,4	110	98
Citizens	4.733.198	47,4	5.041.388	48,4	5.084.693	48,2	106	101
Other	20.644	0,2	13.478	0,1	14.243	0,2	65	106
TOTAL	9.981.911	100,0	10.413.416	100,0	10.539.125	100,0	104	101

In the first half of 2012, the loans sector structure slightly changed in comparison to the end of 2011. Loans granted to citizens increased by 1% or 43 million KM, amounting to 5,1 billion KM, which is a participation of 48,2% (at the end of 2011. 48,4%). Loans granted to private companies are higher by 2% or 104 million KM, and they are five billion KM or 47,7% of total loans (at the end of 2011. 47,2%).

The data submitted by banks, as of 30.06.2012., in the aspect of loan structure originated to citizens (based on the purpose), the loan participation remained the same, for financing the consumer goods[27] is 73, housing loans 24%, and the remaining 3% have loans for SMEs and agriculture.

Three largest banks in the system financed 61% of total loans originated to citizens, and to private companies 55% of total loans to all sectors (31.12.2011: citizens 61%, private companies 56%).

Currency structure of loans: loans financed with currency clause had the highest participation of 65% or 6,8 billion KM (EUR: 6,5 billion KM or 96%, CHF: 279 million KM or 4%), loans in domestic currency of 34% or 3,6 billion KM, while loans in foreign currency had the lowest participation of only 1% or 128 million KM (EUR: 100 million KM or 78%, CHF: 13 million KM or 10%). The total amount of loans in CHF currency of 292 million KM is 2,8% of the total loan portfolio and almost the whole amount refers to one bank in the system.

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

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

[27] Credit cardoperations 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%.

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

Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in%)									RATIO	
	31.12.2010.			31.12.2011.			30.06.2012.				
	Clasif. assets	Partic. %	OKR PKG	Clasif. assets	Partic. %	OKR PKG	Clasif. assets	Partic. %	OKR PKG		
1	2	3	4	5	6	7	8	9	10	11(5/2)	12(8/5)
A	10.477.329	80,3	209.555	10.592.899	79,6	211.856	10.582.490	79,5	211.652	101	100
B	1.645.750	12,6	132.048	1.364.861	10,3	115.600	1.276.889	9,6	110.174	83	93
C	471.505	3,6	113.962	282.478	2,1	67.899	355.129	2,7	84.658	60	126
D	455.303	3,5	258.297	375.540	2,8	209.689	375.132	2,8	215.226	82	100
E	3.851	0,0	3.851	685.375	5,2	685.377	721.712	5,4	721.671	n/a	105
Risk ass. (A-E)	13.053.738	100,0	717.713	13.301.153	100,0	1.290.421	13.311.352	100,0	1.343.381	102	100
Classified (B-E)	2.576.409	19,7	508.158	2.708.254	20,4	1.078.565	2.728.862	20,5	1.131.729	105	101
Non-performing (C-E)	930.659	7,1	376.110	1.343.393	10,1	962.965	1.451.973	10,9	1.021.555	144	108
Non risk ass.[29]	5.035.264			5.787.457			5.489.144			115	95
TOTAL (risk and non risk)	18.089.002			19.088.610			18.800.496			106	98

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

As of 30.06.2012, the classified assets were 2,7 billion KM, and non performing 1,4 billion KM (31.12.2011: 2,7 billion KM and 1,3 billion KM).

Classified assets (B – E) is by 1% or 21 million KM higher than last year, the category B decreased by &% or 88 million KM, and nonperforming assets (C-E) increased by 8% or 109 million KM.

The classified and risk assets are 20,8% which is by 0,4% more than at the end of 2011.

If an analysis is performed of only the ratio and trend of nonperforming assets and risk assets, as of 30.06.2012., this ratio also increased by only 0,8% and is 10,9%, which is still relatively low ratio. However, it should be taken with reserve, taken that the participation of category B in the risk assets is 9,6%, and the doubt that portion of placements reported under this category deteriorated in quality and should be categorized as nonperforming 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.

The classified and risk asset ratio is 20,5%, which is by 0,1 percent points higher than at the end of 2011.

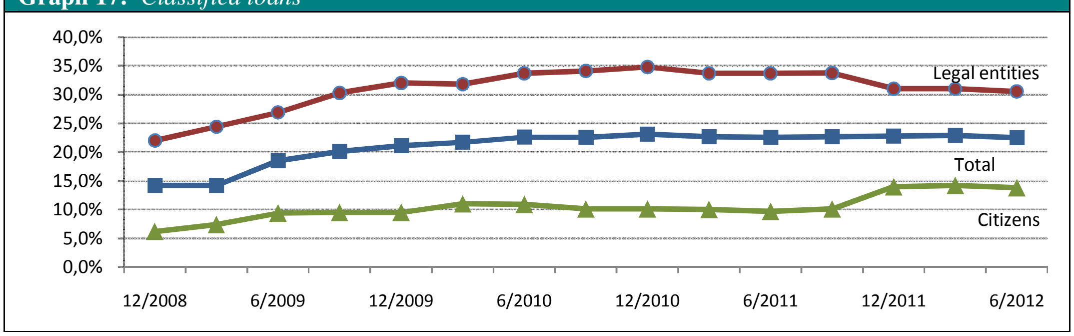
[29] The items of assets, which in compliance with the Article 2.paragraph (2) of the Decision on the minimum standards for managing credit risk and banks' asset classification, do not clasify the items on which, in compliance with the Article.22., paragraph (8) of the Decision do not calcualte the reserves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

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

Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in%)												RATIO
	31.12.2011.						30.06.2012.						
	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	TOTAL Partic.	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	TOTAL Partic.	
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14(12/6)
A	4.333.709	85,96	3.703.925	68,95	8.037.634	77,19	4.383.353	86,21	3.787.806	69,44	8.171.159	77,53	102
B	164.303	3,26	960.946	17,89	1.125.249	10,81	160.844	3,16	852.025	15,62	1.012.869	9,61	90
C	128.507	2,55	143.447	2,66	271.954	2,61	108.253	2,13	231.367	4,24	339.620	3,22	125
D	156.535	3,10	207.674	3,87	364.209	3,49	159.645	3,14	203.743	3,74	363.388	3,45	100
E	258.335	5,13	356.035	6,63	614.370	5,90	272.598	5,36	379.491	6,96	652.089	6,19	106
TOTAL	5.041.389	100,0	5.372.027	100,0	10.413.416	100,00	5.084.693	100,0	5.454.432	100,0	10.539.125	100,00	101
Class. loans B-E	707.680	14,04	1.668.102	31,04	2.375.782	22,81	701.340	13,79	1.666.626	30,55	2.367.966	22,47	100
Non perfm. Loan C-E	543.377	10,78	707.156	13,16	1.250.533	12,00	540.496	10,63	814.601	14,93	1.355.097	12,86	108
		48,39		51,61		100,00		48,25		51,75		100,00	
Participation by sectors in classified loans, nonperforming loans and category B													
Classification B-E		29,79		70,21		100,00		29,62		70,38		100,00	
Non performing C-E		43,46		56,54		100,00		39,89		60,11		100,00	
Category B		14,60		85,40		100,00		15,88		84,12		100,00	

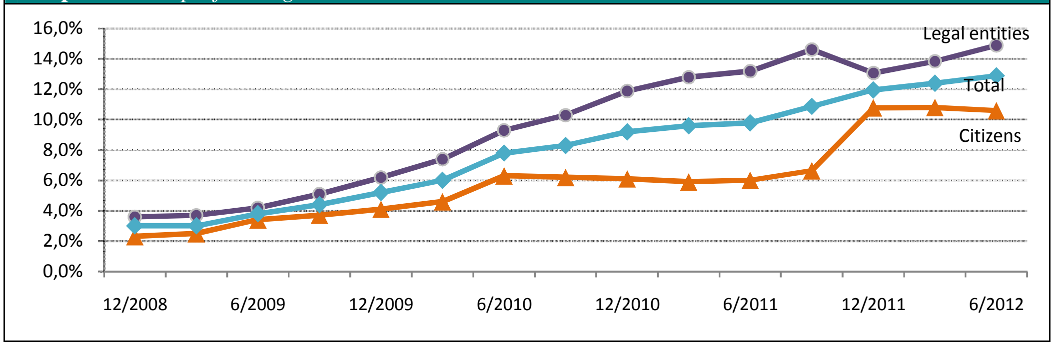
The asset quality indicators are slightly deteriorated in comparison to the end of the previous year, especially the participation of the nonperforming loans which increased by 1%, as a result of the increase of the total nonperforming loans by 8% or 105 million KM, legal entities by 15% or 107 million KM, while the nonperforming loans to citizens had a decline of 1% or three million KM.

Graph 17: *Classified loans*



As of 30.06.2012., of total loans originated to legal entities in the amount of 5,4 billion KM, 1,7 billion KM or 31% (at the end of 2011 the same) was classified in categories B to E, while of total loans originated to citizens in the amount of 5,1 billion KM, the listed classification categories represent 13,8% or 701 million KM (708 million KM or 14,04% at the end of 2011).

Graph 18: *Nonperforming loans*



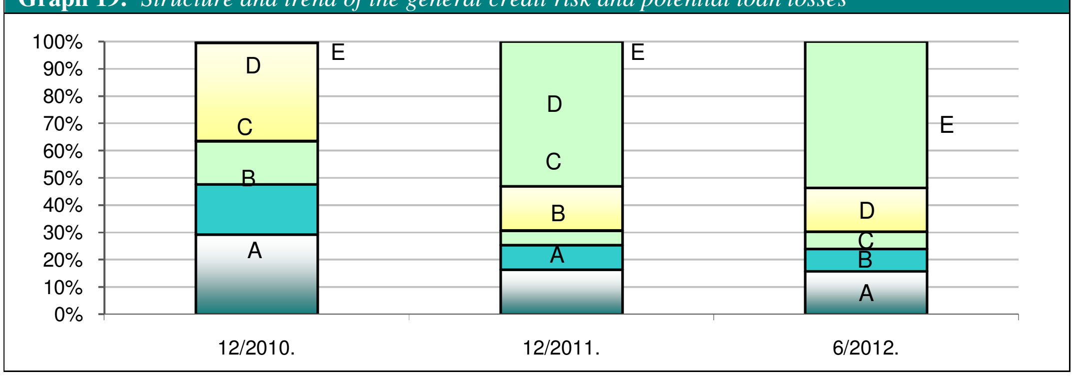
Of loans finance to legal entities, 815 million KM was classified as nonperforming loans or 14,93 of total loans originated to this sector (as of 31.12.2011., these items amounted to 707 million KM or 13,16% of total loans). Nonperforming loans, in the sector of citizens, amounted to 10,63 million KM or 540% (as of 31.12.2011., these items amounted to 543 million KM or 10,78).

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

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

Classification category	AMOUNT (in 000 KM) AND STRUCTURE (in%)						RATIO	
	31.12.2010.		31.12.2011.		30.06.2012.			
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
A	209.555	29,2	211.856	16,4	211.652	15,8	101	100
B	132.048	18,4	115.600	9,0	110.174	8,2	88	95
C	113.962	15,9	67.899	5,3	84.658	6,3	59	125
D	258.297	36,0	209.689	16,2	215.226	16,0	81	103
E	3.851	0,5	685.377	53,1	721.671	53,7	n/a	105
TOTAL	717.713	100,0	1.290.421	100,0	1.343.381	100,0	180	104

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



Analyzing the level of the calculated RKG in total and through classification categories, in comparison to the end of 2011, the reserves for loan losses (for category A) and potential credit losses increased by 4% or 53 million KM and are 1,3 billion KM. Reserves for general credit risk (A category) are at the same level as at the end of 2011, and the reserves for category B decreased by 5% or 5,4 million KM due to the decline of the same by 6% or 88 million KM. Due to the growth of the poor performing assets (C and D category) by 8% or 109 million KM, increased are the reserves for the poorest loans by 6% or 59 million KM. Nominally, the largest growth of 36 million KM was in the category E.

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 8,5% and is by 0,4 percent points lower than in comparison to 2011.

As of 30. 06. 2012 in average banks had allocated reserves for category B based on the rate of 8,6%, for C category 23,8%, D category 57,4% and E 100% (at the end of 2011.: B 8,5%, C 24,0%, D 55,8% and E 100%).

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

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

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

Description	AMOUNT (in 000 KM)AND PARTICIPATION (in%)				RATIO
	31.12.2011.		30.06.2012.		
	TOTAL		TOTAL		
	Amount	Participation	Amount	Particip.	
1	2	3	4	5	6 (4/2)
1. RISK ASSETS (a+b)	**13.301.153**	**100,0%**	**13.311.352**	**100,0%**	100
a) Default items	**1.555.476**	11,7%	**1.715.486**	12,9%	110
a.1. balance sheet default items	1.521.171		1.671.697		110
a.2. off balance sheet default items	34.305		43.789		128
b) Performing assets	**11.745.677**	88,3%	**11.595.866**	87,1%	99
1.1 TOTAL RISK ASSETS VALUE ADJUSTMENTS (a+b)	**1.038.733**	**100,0%**	**1.089.705**	**100,0%**	105
a) Value adjustment for default	**883.151**	85,0%	**924.057**	84,8%	105
a.1. Value adjustment of balance sheet default items	877.395		918.510		105
a.2. Reserves for off-balance sheet in default	5.756		5.547		96
b) Value adjustments for performing assets (IBNR[30])	155.582	15,0%	165.648	15,2%	106
2. TOTAL LOANS (a+b)	**10.413.416**	**100,0%**	**10.539.125**	**100,0%**	101
a) Non-performing loans	1.443.853	13,9%	1.605.847	15,2%	111
b) Performing loans	8.969.563	86,1%	8.933.278	84,8%	100
2.1. LOANS VALUE ADJUSTMENT (a+b)	**931.151**	**100,0%**	**983.690**	**100,0%**	106
a) Default loans value adjustment	812.394	87,3%	862.999	87,7%	106
b) Performing loans value adjustment (IBNR loans)	118.757	12,7%	120.691	12,3%	102
Coverage of items in default	**56,8%**		**53,9%**		
Coverage of performing assets items	**1,3%**		**1,4%**		
Participation of default loans in total loans	**13,9%**		**15,2%**		

Participation of default loans in the total loans increased from 13,9% to 15,2%, and all items in default in the total risk assets from 11,7% to 12,9%.

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

The coverage of items in default with the correction of value is 53,9%, and items of performing assets 1,4%, and total value adjustment is 8,2% of risk assets (12/11: 7,8%).

Due to poor performing receivables trend that is the delays in collecting the past due loan liabilities from clients, there were activated some guarantees in a number of delinquent loans that had this type of insurance, so the burden of payment of such loans fell on the guarantors. As of 31.12.2009., the FBA requires a report about the loans being repaid by the guarantor, in order to collect, monitor and analyze the data on loans that are being repaid by the guarantors. According to the banks' reports in F BiH as of 30.06. 2012., 3.027 guarantors in total repaid 12,1 million KM of the total granted amount of loans of 71 million KM (2,636 credit party), which is by 14% less in comparison to the amount of the payment by the guarantors as of 31.12. 2011. (14 million KM paid by 3.576 guarantors, while the amount of the total loans was 80 million KM – 3.122 credit parties). The amount of the remaining debt is 42 million KM (31. 12. 2011.: 47 million KM). From the listed data it can be concluded that in the first half of 2012, the amount of loans paid by guarantors decreased, the balance of the remaining debt, as well the amount of payments on the account of guarantors. The participation of loans and the number of credit parties being repaid by the guarantors in relation to the data for the entire system is low and amounts to only 0,40% and 0,22%.

With an aim to defer the negative effects of the global financial and economic crises, and taking care of maintaining the stability of the banking sector, the FBA at the end 2009, issued a Decision on temporary measures for reconstruction of loan liabilities of individuals and legal entities[31].

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

Acting in accordance with the noted Decision, the banks in the Federation of in the first half of 2012, of a total received 128 requests for restructuring of loan liabilities approved 106 requests in a total amount of 37 million KM or 83%, which is by 15% more than in comparison to the first quarter of 2011. Of the total amount of granted restructured liabilities 36 million KM refer to legal entities, and one million KM to individuals.

Net effect on the reserves for loan losses on the bases of the performed restructuring is an increase of 100 thousand KM. It should be noted that there were some opposite movements, both increases and decreases of RKG on these bases, which at the end resulted with a noted net effect.

The restructured loans in the first half of 2012, in comparison to the total loans as of 30. 06. 2012 have a participation of only 0,35% (for the legal entities sector in comparison to the portfolio of the legal entities this percent is 0,65%, while for citizens it is 0,03%).

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).

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

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

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

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

Transactions with related entities

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

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

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

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

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

-000 KM-

Table 25: *Related entities transactions*

Description	ORIGINATED LOANS[32]			RATIO	
	31.12.2010.	31.12.2011.	30.06.2012.	3/2	4/3
1	2	3	4	5	6
Shareholders over 5% of voting rights, subsidiaries and other related enterprises	84.600	131.962	108.642	156	82
Supervisory Board and Audit Board members	375	400	498	107	124
Bank Management	2.239	2.170	2.403	97	111
TOTAL	87.214	134.532	111.497	154	83
Potential and undertaken off-balance sheet liabilities	22.653	29.818	22.897	132	77

In the observed period, credit exposures to persons related to banks decreased by 17% and potential liabilities by 23% due to the decreased exposure in two large banks. Based on the presented data, we could conclude that it is still a question of a small amount of loans-guarantees operations with related entities, and the level of risk is low. The FBA pays special attention (in on-site examinations) to banks' operations with related entities, especially in assessing identification system and monitoring of risk exposure to related entities operations. The FBA on-site examiners issue orders for elimination of determined weaknesses within certain deadlines and initiate violation procedures. This has had a positive influence on this segment of operations, since the risk management quality in this segment has improved.

2.2. Profitability

According to the data from the income statement, at the level of the banking sector in the Federation of BiH in the first half of 2012 realized is a positive financial result – profit in the amount of 71 million KM, which is in reference to the level of the system an increase of 49% or 23 million KM in comparison to the same period in 2011. The realization of a larger profit in banks which had a positive performance in the same period last year had a positive effect on the financial result of the system (effect 12 million KM), especially noticeable in larger banks (effect seven million KM), also the realization of a significantly lower loss in banks which in the same period last year had a negative performance (effect 7,5 million KM) as well the realization of profit in banks which had a negative performance (effect 4,5 million KM).

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

The positive financial result of 77 million KM was realized by 16 banks and it is larger by 19% or 12 million KM than in comparison to the same period in 2011. Simultaneously, the performance loss in the amount of six million KM was reported by three banks decreasing by 66% or 11 million KM in comparison to the same period in 2011.

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

More detailed data are provided in the following table.

-000 KM-

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

Description	30.06.2010.		30.06.2011.		30.06.2012.	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2		3	4	5	6
Loss	-90.052	7	-17.161	6	-5.800	3
Profit	22.336	13	64.828	13	76.965	16
Total	**-67.716**	**20**	**47.667**	**19**	**71.165**	**19**

Similar to other segments, this segment has also encountered concentrations: of total profit generated (77 million KM), 70% or 54 million was generated by two largest banks in the system, whose participation in the banking system assets was 49%. In the total loss of 5,8 million KM, 89,6% or 5,2% refers to only one large bank which is in the foreign ownership, with asset participation of 9,8% on the third place in the system (in the same period last year the loss of the bank was 12,3 million KM). Analytical data indicate that a total of 16 banks reported a better financial result (by 24 million KM), and three banks have worse results (by 1 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.

At the system level, total income was realized in the amount of 417 million KM with a declining rate of 7% or 32 million KM in relation to the same period 2011. Total noninterest bearing expenses were 346 million KM, with the decrease rate of 14% or 55 million KM which had a positive reflection to the overall financial result of the sector.

In spite the incline of the interest bearing loans in almost all banks by 3%, 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 403 million KM, which is by 5% or 20 million KM lower than in the same period in 2011., and the participation in the structure of total income increased from 94,4% to 96,7%. Interest income, which decreased by 4% or 13 million KM, has the largest participation, and the participation in the total income increased from 84% to 87,2%, as a result of decrease of average active loan rates for the reviewing period from 3,73% to 3,48%. Income from interest bearing accounts in deposit institutions, with a low participation of 0,7%, had a significant decline of 77% or ten 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 (-6%) in comparison to the declining rate of interest income (-5%). The interest expenses are 135 million KM, and their participation in the structure of the total income increased from 32,4% to 32,4%. Interest expenses on deposits, which are 107 million KM, as a structurally largest item relatively and nominally in the amount of total interest expenses declined by 6% or six million KM, primarily as a result of the decrease of average interest bearing deposits by 6%. The interest expenses on taken loans and other borrowings are 21 million KM and in reference to the same period in 2011 recorded a decline of 8% with a slight decline in participation from 5,1% to 5,0%.

As a result of decline of the interest expenses (-6%) and interest income (-5%), net interest income decreased by 4% or 11 million KM and is 268 million KM, with an increased participation in the structure of the total income from 62,2% to 64,2% .

Operating income was 149 million KM and in relation to the same period 2011 declined by 12% or 21 million KM and their participation in the structure of the total income declined from 37,8% to 35,8%. In most part it is a result of the new methodology, since according to the old methodology the income from collection of previously written off receivables in the balance sheet were reported on the position of other operating income, which according to the new methodology are treated on the position of value adjustment expenses (income from decrease of provisioning). Within the operating income the largest participation have the service fees which recorded an increase of 3% or three million KM.

Total noninterest expenses are 346 million KM and in comparison to the same period in 2011 declined by 14% or 55 million KM, primarily as a result of a significant decline of value adjustment expenses, that is according to the old methodology expenses of reserves for loan losses. At the same time, their participation in the structure of the total income declined from 89,4% to 82,9%. The value adjustment expenses are 63 million KM and in comparison to the same period last year, based on the old methodology the reserve expenses for loan losses, declined by 45% or 52 million KM, which had a positive impact on the decrease of their participation in the structure of total income from 25,6% to 15,0%.

On the other hand the operating expenses, with the amount of 248 million KM and participation of 59,4% in the total income, also recorded a decline of 1% or four million KM, of which the salary and contribution expenses, as the largest item in the operating expenses, decreased by a slight 1% and are 124 million KM or 29,8% of the total income while the fixed assets expenses, after a slight incline of 2%, are 80 million KM which is the largest participation in the total income of 19,1%.
Trend and structure of total income and expenses is presented in the following tables and graphs:

- in 000 KM-

Table 27: *Structure of the total income*

Structure of total income	30.06.2010.		30.06.2011.		30.06.2012.		RATIO	
	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	7.040	1,2	12.392	2,1	2.789	0,5	176	23
Loans and leasing	389.360	67,9	377.293	63,6	363.885	65,9	97	96
Other interest income	30.063	5,2	33.930	5,7	36.719	6,6	113	108
TOTAL	426.463	74,3	423.615	71,4	403.393	73,0	99	95
II Operating income								
Service fees	97.906	17,1	101.415	17,1	104.173	18,9	104	103
Foreign exchange income	15.999	2,8	19.976	3,4	21.294	3,8	125	107
Other operating income	33.097	5,8	48.374	8,1	23.742	4,3	146	49
TOTAL	147.002	25,7	169.765	28,6	149.209	27,0	115	88
TOTAL INCOME (I + II)	573.465	100,0	593.380	100,0	552.602	100,0	103	93

Graph 20: *Structure of total income*

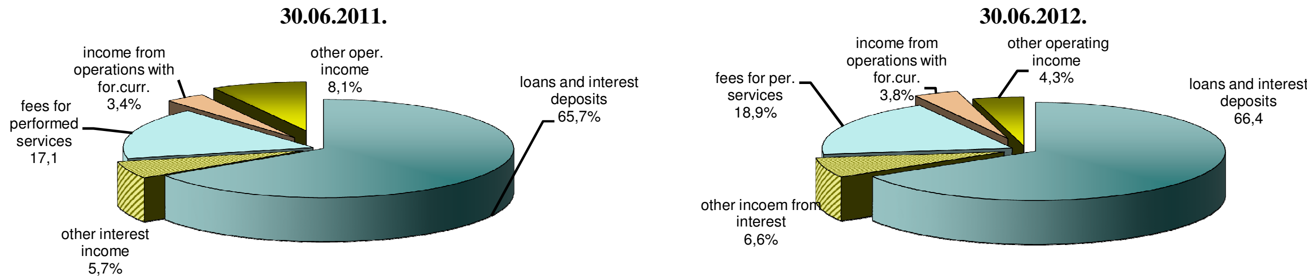
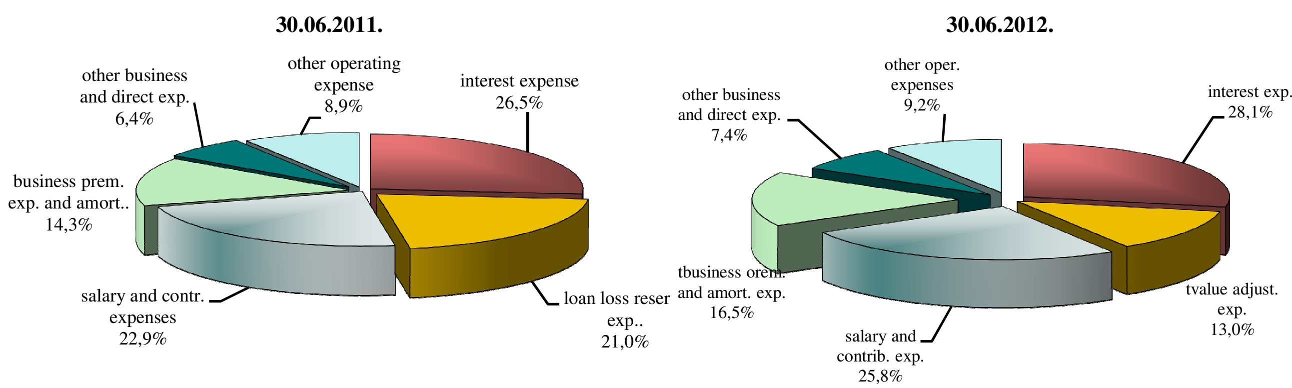


Table 28: *Structure of total expenses*

Structure of total expenses	30.06.2010.		30.06.2011.		30.06.2012.		RATIO	
	Amount	%	Amount	%	Amount	%		
1	2	3	4	5	6	7	8 (4/2)/	9 (6/4)
I Interest expenses and similar expenses								
Deposits	140.230	21,9	113.539	20,8	107.092	22,2	81	94
Liabilities for borrowings	21.931	3,4	22.775	4,2	20.852	4,3	104	92
Other interest expenses	7.708	1,2	8.088	1,5	7.376	1,5	105	91
TOTAL	169.869	26,5	144.402	26,5	135.320	28,1	85	94
II Total non-interest bearing expenses								
General loan risk and potential loan losses Provisioning	193.149	30,1	114.725	21,0	62.728	13,0	59	55
Salary expenses	122.521	19,1	125.005	22,9	124.146	25,8	102	99
Business premises and depreciation expenses	75.196	11,7	78.087	14,3	79.630	16,5	104	102
Other business and direct expenses	32.142	5,1	34.845	6,4	35.403	7,4	108	102
Other operating expenses	48.265	7,5	48.629	8,9	44.175	9,2	101	91
TOTAL	471.273	73,5	401.291	73,5	346.082	71,9	85	86
TOTAL EXPENSES (I + II)	641.142	100,0	545.693	100,0	481.402	100,0	85	88

Graph 21: *Structure of total expenses*



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

- in %-

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

RATIOS	30.06.2010.	30.06.2011.	30.06.2012.
Return on Average Assets	-0,44	0,32	0,48
Return on Average Total Capital	-4,10	2,76	3,36
Return on Average Equity	-5,81	4,05	5,93
Net Interest Income/Average Assets	1,68	1,86	1,80
Fee Income/Average Assets	0,96	1,13	1,00
Total Income/Average Assets	2,64	3,00	2,80
Operating and Direct Expanses33/Average Assets	1,47	1,00	0,66
Operating Expenses/Average Assets	1,61	1,68	1,67
Total Non-interest Expanses/Average Assets	3,08	2,68	2,33

The analyses of the basic parameters for evaluation of the profitability, due to the higher amount of realized profit in comparison to the same period last year, ROAA (earnings on average assets) increased from 0,32% to 0,48% and ROAE (earnings on average shareholder capital) from 4,05 to 5,93%. However, the productivity of banks, measured with the relation of the total income and average assets (2,80%) also recorded a deterioration in comparison to the same period last year (3,00%), due to decrease of total income (-7%), as well as, although slight, decline of the average assets (-1%). Also, noted should be the improvement, as a consequence of the significant decrease of value adjustment expenses (last year: loan losses reserve expenses), of the business and direct expenses on average assets, from 1,00% to 0,66%.

Under a more deteriorated performance conditions of banks, and due to adverse effects of the economic and financial crisis to the banking sector in the FBiH, profitability of banks, in the forthcoming period, will mostly depend on deterioration of asset quality, that is, permanent increase of loan losses and loan risk, and will depend on effective management and operating income and expenses control. Banks will have to increase the level of lending activities, not only to ensure increase of interest income, but to utilize their social core function of the collected financial assets allocation to the economic flows and the economy in compliance with the standards of prudent performance and sound practices of risk management, primarily of credit risk. However, considered should be the possible influence that the announcement of the Austrian regulator for the 'daughter' banks could have (the market participation of the Austrian banks in the FBiH banking system is 47%) that the increase of loans will be linked to the increase of the local deposits. That would cause an enhanced competition of the banks for the local deposits, which would result with the increase of prices of the funding sources with the direct pleasure on the profitability of the banks and active interest rates.

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.

33 Expenses include provisions for potential loan losses.

2.3. Risk-weighted nominal and effective interest rates

In order to increase transparency, and to make easy a comparability of conditions of banks in process of originating loans and accepting deposits and protection of customers through a transparent disclosure of loan expenses versus deposit income, and, in accordance with the international standards, criteria and practices in other countries, the FBA, as of 01.07.2007., prescribed unified method of computation and disclosure of effective interest rate[34]for all banks that have their seat in the Federation of BiH, and their organizational units, regardless of the territory in which they operate, including organizational units of the banks operating in the Federation of BiH. Effective interest rate represents a real relative price of a loan, that is, an income generated from a deposit, expressed as per cent at the annual level.

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

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

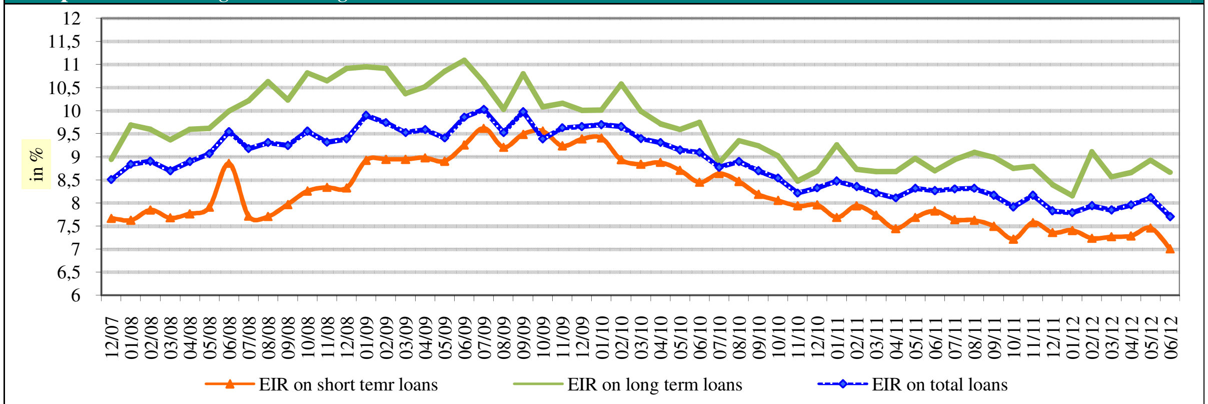
The following table presents risk-weighted nominal and effective interest rates (hereinafter: NIR and EIR) for loans on the banking system level for the two most important sectors (economy and citizens) for December of 2010, March, June and December of 2011 and March and June of 2012.

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

DESCRIPTION	12/2010		3/2011.		6/2011.		12/2011.		3/2011.		6/2012.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Risk-weighted interest rates for short-term loans	7,51	7,96	7,18	7,74	7,27	7,86	6,78	7,36	6,60	7,27	6,31	7,01
1.1. Economy	7,47	7,82	7,15	7,63	7,19	7,68	6,74	7,28	6,54	7,15	6,16	6,75
1.2. Citizens	8,67	12,65	7,9	11,81	9,40	12,80	8,66	11,89	8,67	11,73	7,74	10,94
2. Risk-weighted interest rates for long-term loans	7,91	8,69	7,87	8,68	7,82	8,75	7,57	8,40	7,72	8,57	7,71	8,67
2.1. Economy	7,34	7,82	7,37	7,81	7,17	7,67	6,96	7,59	6,62	7,10	6,77	7,46
2.2. Citizens	8,79	10,05	8,49	9,57	8,26	9,46	8,25	8,51	8,50	9,59	8,38	9,54
3. Total risk-weighted interest rates for loans	7,72	8,33	7,54	8,22	7,55	8,31	7,14	7,83	7,45	7,85	6,9	7,71
3.1. Economy	7,42	7,82	7,22	7,69	7,18	7,68	6,81	7,38	6,56	7,14	6,33	6,95
3.2. Citizens	8,78	10,18	8,39	9,66	8,32	9,64	8,27	8,69	8,51	9,71	8,35	9,61

[34] Decision on unified method of computation and disclosure of effective interest rates on loans and deposits (“Official Gazette of the FBiH”, number 27/07).
[35] Guidelines for implementation of Decision on unified method of computation and disclosure of effective interest rates on loans and deposits and Guidelines for computation of risk-weigthed nominal and effective interest rate.

Graph 22: *Risk weighted average EIR on loans*



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

In June 2012, the risk weighted EIR on loans was 7,71%, which lower than the level in December when it was 7,83, and the same is a result of slight oscillations of value of EIR on loans in the range from 0,41% during the first six months in 2012, with the highest value recorded in May 8,12%, and lowest in June 7,71%.

The risk-weighted EIR for long-term loans, in the first half of 2012 recorded larger oscilations (within 0,95%) than on the short term (within 0,45%)

The risk-weighted EIR for short-term loans, in June of 2012, was 7,01%, which was lower by 0,35 per cent in comparison to December 2011, while the risk weighted EIR on long term loans was 8,67%, which is in comparison to the December of 2011 higher by 0,27%.

Interest rates for loans originated in the two most significant sectors: economy and citizens[36], in the reviewed period in 2011, recorded slight oscilations. The risk weighted EIR for loans originated in the economy, although still much lower than the EIR for loans to citizens, decreased from 7,38% in December 2011 to the level of 6,95% in June 2012. The declining trend on risk weighted EIR on loans granted to economy was recorded for the short term (from 7,28% to 6,75%) and long term loans (from 7,28% to 6,75%), and the long term loans (from 7,59% to 7,46%).

EIR on loans to citizens in June of 2011 was 9,61%, which is by 0,92 percent points higher than in comparison to December of 2011. The increasing trend of the risk weighted EIR on loans granted to citizens was recorded in long term loans (from 8,51% to 9,54%) with a somewhat more explicit oscillation within 1,13% in comparison to the range of the oscillations for the short term loans (within 0,77%), with a present decline of the risk weighted EIR in short term loans by 0,95% in comparison to the level from December 2011, and the same is 10,94%..

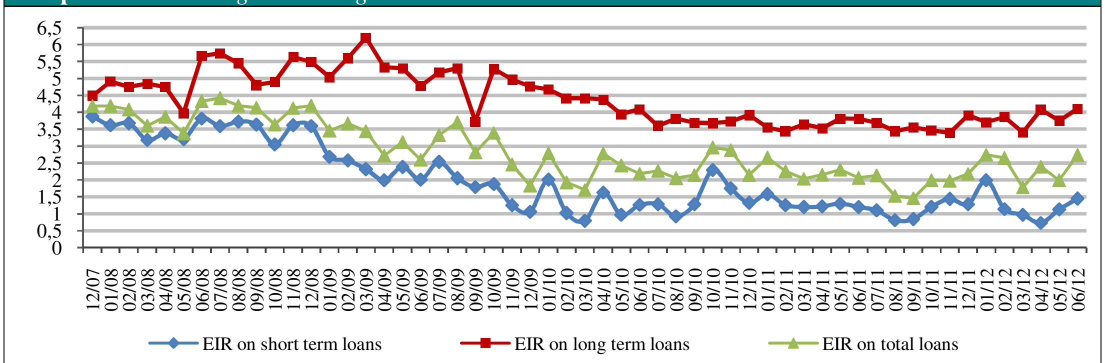
Risk weighted NIR and EIR for time deposits, calculated based on the monthly reports, for the banking sector, are presented in the following table:

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

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

DESCRIPTION	12/2010.		3/2011.		6/2011.		12/2011.		3/2012.		6/2012.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Risk-weighted interest rates for short-term loans	1,31	1,32	1,2	1,2	1,21	1,20	1,28	1,28	0,97	0,97	1,44	1,45
1.1. Economy	0,97	0,97	0,96	0,96	1,01	1,01	0,91	0,91	0,64	0,64	0,48	0,48
1.2. Citizens	2,61	2,63	2,19	2,19	2,53	2,51	2,74	2,74	1,77	1,77	3,15	3,18
2. Risk-weighted interest rates for long-term loans	3,89	3,92	3,63	3,65	3,78	3,81	3,88	3,91	3,39	3,41	4,07	4,1
2.1. Economy	3,78	3,80	3,55	3,56	3,64	3,65	3,73	3,75	3,23	3,24	4,01	4,03
2.2. Citizens	4,48	4,57	4,18	4,26	4,52	4,61	4,56	4,61	4,30	4,40	4,57	4,76
3. Total risk-weighted interest rates for loans	2,13	2,14	2,04	2,04	2,05	2,06	2,17	2,18	1,77	1,78	2,72	2,74

Graph 23: *Risk weighted average EIR on loans*



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

If compared to December 2011, risk-weighted EIR for total term deposits, in June 2012, increased by 0,56 per cent (from 2,18% to 2,74%). Risk-weighted EIR on short term deposits oscilated within 1,26%, and in June of 2012 it was 1,45%, which is by 0,17% more than the level in December of 2011. Risk weighted EIR on long term deposits also is in a slight incline, in June of 2012 was 4,1%, which is by 0,19% lower than in December of 2011, with a recorded oscilation within 0,69%.

In regard to interest on long term deposits, the largest decrease is a result of the increase of EIR on time deposits over three years, and that is for deposits of banks and other financial organizations (from 3,59% to 5,41%), and with the highest decline in deposits to economy of 1,32 percent points (from 4,67% to 3,35%).

In June of 2012 the banks paid to economy lower interest rates on time deposits (1,75%) than citizens (2,98%). The interest rates on citizen deposits are lower in comparison to December of 2011 (2011: 3,07%), while they are higher for the economy (2011: 1,75).

The difference in EIR for economy and citizens derives from the structrue of the time depostis. Naimly, the deposits to economy are mostly for short terms up to three months (a small portion up to one year), and these depostis carry significantly lower interest rates. On the other hand, in the deposit structure of deposits over one year (the longest deposit is up to three years) dominiating are the deposits to citizens.

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

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

DESCRIPTION	12/2010.		6/2011.		12/2011.		3/2012.		6/2012.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	12	13
1. Risk-weighted interest rates for loans-overdrafts	8,29	8,29	8,87	9,03	8,73	8,86	8,45	8,56	8,40	8,53
2. Risk-weighted interest rates for demand deposits	0,22	0,22	0,22	0,22	0,18	0,18	0,32	0,32	0,22	0,22

The EIR for the above items of assets and liabilities, in general, should be equal to the nominal interest rate. The risk-weighted EIR for total loans in overdrafts for the banking sector, in June of 2012, was 8,53% (an increase of 0,33 per cent in comparison to December 2011), and 0,22% for demand deposits, which was higher by 0,04 per cent in comparison to December 2011.

2.4. Liquidity

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

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

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

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

In 2009 the adverse movements from the last quarter of 2008 were stopped, and general liquidity indicators were improved thanks to primarily decreased lending activity. In 2010 there was a slight deterioration of indicators, which with a smaller intensity continued in 2011 and in the first quarter of 2012, due to the decrease of cash funds based based on the slight increase of lending atcivities and investments in securities, payment of loan liabilities and investmenets in securities, decrease of deposits, payment of credit liabilities, increase of uncollected receivables and slight deterioration of the maturity structure of sources of funding. In spite of that, in the second quarter of 2012 this negative trend was stopped, and the liquidity indicators somewhat improved in comparison to the end of the first quarter, as a consequence of stopping the cash funds decreasing trend, with a slight inclien of deposits and loan liabilities. Although better than at the end of the first quarter, the indicators are still somewhat worse than at the end of 2011.

In spite the noted, the statement remains that liquidity of the banking system in the Federation of BiH is still good, with satisfactory participation of liquid assets in total assets and coverage of short term liabilities by liquid assets. However, since the financial crisis is still present worldwide which has an adverse reflection to the banking systems of certain European countries, which had a negative effect on certain European countries and parent banks in FBiH, it is estimated that liquidity risk still needs to be under enhanced supervision. In addition, we should have in mind the fact that impact of the crisis is still present in the real sector, adverse consequences are being reflected to the entire economy environment under which banks operate in BiH, resulting in delinquency of debtors in repayment of past due liabilities and increase of nonperforming claims, which is causing decrease in inflow of liquid assets of banks and conversion of the credit risk into liquidity risk.

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

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

In the structure of financing sources of banks in the Federation of BiH, as of 30.06.2012., deposits still have the highest participation of 72,2%, followed by loans taken (including the subordinated debt[37] with participation of 9,7%). The loans taken with longer maturity, represent quality source for long term placements, and have made a significant contribution to maturity match between assets and liabilities.

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

- in 000 KM-

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

DEPOSITS	31.12.2010.		31.12.2011.		30.06.2012.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and demand deposits	5.054.335	45,0	4.983.292	45,1	4.751.588	44,2	99	95
Up to 3 months	344.926	3,1	433.030	3,9	131.778	1,2	126	30
Up to 1 year	1.085.115	9,6	756.233	6,8	896.815	8,3	70	119
1. Total short term	6.484.376	57,7	6.172.555	55,8	5.780.181	53,7	95	94
Up to 3 years	2.832.507	25,2	3.222.092	29,2	3.424.600	31,8	114	106
Over 3 years	1.915.947	17,1	1.655.867	15,0	1.560.805	14,5	86	94
2. Total long term	4.748.454	42,3	4.877.959	44,2	4.985.405	46,3	103	102
TOTAL (1 + 2)	11.232.830	100,0	11.050.514	100,0	10.765.586	100,0	98	97

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

[38] According to the remaining maturity

Total deposits in comparison to 31.12.2011, decreased by 3% or 285 million KM, mostly based on the decline of the deposits of private companies by 16% or 241 million KM and banking institutions by 12% or 146 million KM. The maturity structure of deposits based on the contracted maturity is relatively good, with a participation of short term deposits of 53,7% and long term 46,3%. In comparison to the end of 2011, there is an evident slight improvement of the maturity due to the decrease of the participation of the short term deposits by 2,1 percentual points and for the same increase the long term deposits.

The listed changes in the maturity structure are a result of the decrease of the short term deposits by 6% or 392 million KM, mostly the demand deposits and time deposits of three months in the sector of banking institutions, private company sector and public companies, while the long term deposits slightly increased by 2% or 107 million which is a result of increase fo citiziens deposits.

It should be noted that in the long term deposits the dominating participation still have two sectors: citizens with an increased participation from 57,7% to 59,3% and banking institutions with decreased participation from 18,1% to 14,6%. The deposits of public companies are also a significant long term source with an increase in participation from 11,6% to 13,0%. In the time deposits of one to three years the largest participation are the citizen deposits 65,1% , with a note that due to the slower incline of these deposits than total deposits of one to three years, there was a slight decline of the participation by 1,3 percent points, while in the period of over three years the largest participation of 46,6% have citizens deposits with the increased participation of six percent points and the banking institutions deposits after a longer period and a present declining trend have a somewhat lower participation of 36,7(at the end of 2011: 46,1%; 2010: 60,9%).

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

- in 000 KM-

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

DEPOSITS	31.12.2010.		31.12.2011.		30.06.2012.		RATIO	
	Amount	Participation %	Amount	Participation %	Amount	Participation %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and demand deposits (up to 7 days)	5.377.075	47,9	5.184.070	46,9	4.919.995	45,7	96	95
7- 90 days	776.732	6,9	917.917	8,3	761.866	7,1	118	83
91 day to one year	2.240.255	19,9	2.219.223	20,1	2.365.869	22,0	99	107
1. Total short term	8.394.062	74,7	8.321.210	75,3	8.047.730	74,8	99	97
Up to 5 years	2.214.874	19,7	2.330.117	21,1	2.361.246	21,9	105	101
Over 5 years	623.894	5,6	399.187	3,6	356.610	3,3	64	89
2. Total long term	2.838.768	25,3	2.729.304	24,7	2.717.856	25,2	96	100
TOTAL (1 + 2)	11.232.830	100,0	11.050.514	100,0	10.765.586	100,0	98	97

Based on the data it can be concluded that the maturity structure of deposits in the remaining maturity is much more poor due to the high participation of the short term deposits of 74,8%, but it has a slight improvement trend in comparison to the end of 2011. Short term deposits declined by 3% or 273 million KM, with a decreasing participation by 0,5%, while long term deposits decreased by 0,4% or 11 million KM, with an increase of participation from 24,7% to 25,2%. 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 (86,9% of long term deposits and 21,9% of total deposits). If maturity data are compared through contracted and remaining maturity, it is clear that of 4,99 billion long term contracted deposits as of 30.06.2012 around 2,27 billion KM had a remaining maturity of less than one year.

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

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

-in 000 KM-

Table 35: *Maturity structure of loans*

LOANS	31.12.2010.		31.12.2011.		30.06.2012.		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	567.182	5,7	959.822	9,2	1.000.198	9,5	169	104
Short term loans	2.129.184	21,3	2.285.804	22,0	2.356.534	22,4	107	103
Long term loans	7.285.545	73,0	7.167.790	68,8	7.182.393	68,1	98	100
TOTAL LOANS	9.981.911	100,0	10.413.416	100,0	10.539.125	100,0	104	101

In the reviewed period in 2012., the long term loans increased by a slight 0,2% or 15 million KM, short term loans recorded an increase of 3% or 71 million KM, while past due claims increased by 4% or 40 million KM. In the structure of the past due receivables 63% refer to private companies, 34% are citizens, and 3% are other sectors.

Sector analysis by maturity, in two most significant sectors, indicates that loans to citizens represent 84,9% of long term loans, and loans to private companies, of total originated loans, represent 50,5% of long term loans.

In the assets structure, as the most significant category, loans still have the highest participation of 70,7%, which has increased by 212 per cent in comparison to the end of 2011 due to a slight decrease of assets by 2% while the loans realized a slight incline of 1,2%. Cash funds decreased by 10% or 450 million KM and their participation, in comparison to the end of 2011., decreased from 28,8% to 26,4%.

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

- in % -

Table 36: *Liquidity ratios*

Ratios	31.12.2010.	31.12.2011.	30.06.2012.
1	2	3	4
Liquid assets[39] / Total assets	30,2	29,0	26,6
Liquid assets / Short term financial liabilities	50,8	49,1	45,8
Short term financial liabilities / Total financial liabilities	68,1	69,5	68,8
Loans / Deposits and Borrowings[40]	79,0	84,2	87,7
Loans / Deposits, borrowings and subordinate debts[41]	77,6	82,8	86,3

In 2011, banks were regularly meeting a commitment to maintain required reserves with the Central Bank of BiH. Required reserve, as significant instrument of monetary policy in BiH, under the Currency Board and financially underdeveloped market, represents the only instrument of monetary policy used to realize monetary control, in sense of stopping fast credit growth from the past years, and decrease multiplications, as well as an increase of banks' liquidity under an impact of the crisis and intensified outflow of funds from banks that in BiH was experienced after 01.10.2008. On the other hand, implementation of regulation on foreign exchange risk and maintenance of currency adjustment within prescribed limits, also significantly influence the amount of funds banks maintain on the reserve account with the Central Bank in domestic currency, which provides for high liquidity of individual banks and the banking sector.

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

-in 000 KM-

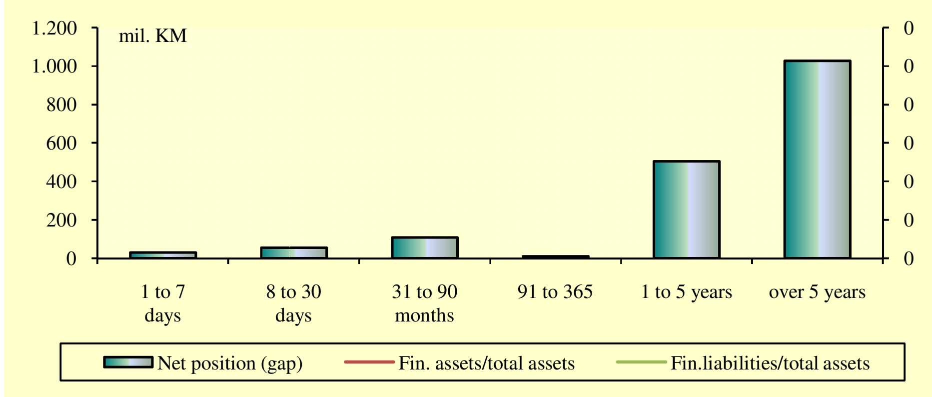
Table 37: *Liquidity position – ten-day average and daily minimum*

	31.12.2010.	31.12.2011.	30.06.2012.	RATIO	
	Amount	Amount	Amount		
1	2	3	4	5(3/2)	6(4/3)
1. Average daily balance of cash assets	3.887.490	3.759.486	3.406.855	97	91
2. Minimum total daily balance of cash assets	3.585.319	3.550.990	3.231.752	99	91
3. Short term sources (accrual basis)	6.128.941	6.013.102	5.761.032	98	96
4.Liabilities:					
4.1. ten-day average 20% of Item 3	1.225.788	1.202.620	1.152.206	98	96
4.2. daily minimum 10% of Item 3	612.894	601.310	576.103	98	96
5.Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	2.661.702	2.556.866	2.254.649	96	88
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	2.972.425	2.949.680	2.655.649	99	90

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

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

Graph 24: *Maturity match of the financial assets and liabilities as of 30.06.2012.*



At the end of the first half of 2012 the short term financial assets of the bank was higher than the short term liabilities by 204 million KM. In relation to the end of 2011 when the positive gap was 136 million KM, that is an increase of 68 million KM, which lead to an increase in the coverage ration of the short term liabilities from 101,5% to 102,4%.

The short term financial assets decreased by 2,8% while the short term financial liabilities by 3,6%. In the short term financial assets the cash funds recorded a decrease of 10,3% or 450 million KM and securities held to maturity of 11,7% or eight million KM. Financial assets of the remaining time to maturity date of over one year decreased by 0,5% or 26 million KM, mostly due to the decline of loans of 1,0% or 53 million KM.

On the liabilities side with a maturity date of up to one year, the deposits decreased by 3,3% or 273 million KM and liabilities from loans taken by 17,2% or 67 million KM, which lead to the total decrease of liabilities with the maturity deadline of one year by 3,6% or 323 million KM.. The liabilities with the maturity date of over one year decreased slightly by 0,4% or 15 million KM, mostly influenced by the decline of deposits of 0,4% or 11 million KM.

Apart from the mentioned prescribed minimum standards, monitoring of remaining maturity of financial assets and liabilities, according to the time scale, is of crucial significance for the liquidity position analysis. The time scale is from the aspect of prescribed minimum limits created based on time horizon up to 180 days.[42]

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

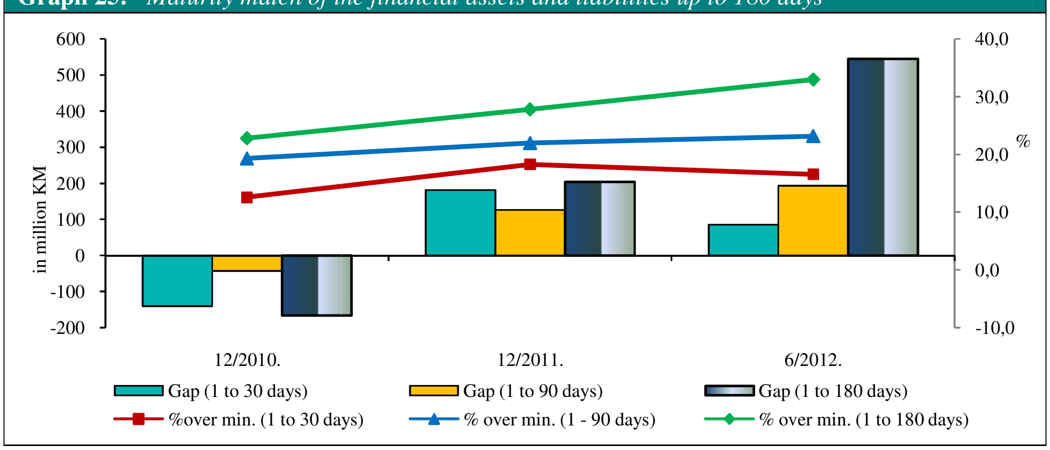
-in 000 KM -

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

Description	31.12.2010. Amount	31.12.2011. Amount	30.06.2012. Amount	RATIO	
1	2	3	4	5 (3/2)	6(4/3)
I. 1- 30 days					
1. Financial assets	5.674.836	5.741.184	5.460.035	101	95
2. Financial liabilities	5.816.147	5.559.908	5.375.348	96	97
3. Difference (+ or -) = 1-2	- 141.311	181.276	84.687	N/a	47
Accrual of requirement in %					
a) Performed %= Item 1 / Item 2	97,6%	103,3%	101,6%		
b) Required minimum %	85,0%	85,0%	85,0%		
Surplus (+) or shortage (-) = a – b	12,6%	18,3%	16,6%		
II. 1-90 days					
1. Financial assets	6.408.275	6.503.132	6.259.664	101	96
2. Financial liabilities	6.450.887	6.377.523	6.066.849	99	95
3. Difference (+ or -) = 1-2	- 42.612	125.609	192.815	N/a	154
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	99,3%	102,0%	103,2%		
b) Required minimum %	80,0%	80,0%	80,0%		
Surplus (+) or shortage (-) = a – b	19,3%	22,0%	23,2%		
III. 1-180 days					
1. Financial assets	7.343.882	7.511.493	7.309.105	102	97
2. Financial liabilities	7.509.597	7.307.597	6.764.575	97	93
3. Difference (+ or -) = 1-2	- 165.715	203.896	544.530	N/a	267
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	97,8%	102,8%	108,0%		
b) Required minimum %	75,0%	75,0%	75,0%		
Surplus (+) or shortage (-) = a – b	22,8%	27,8%	33,0%		

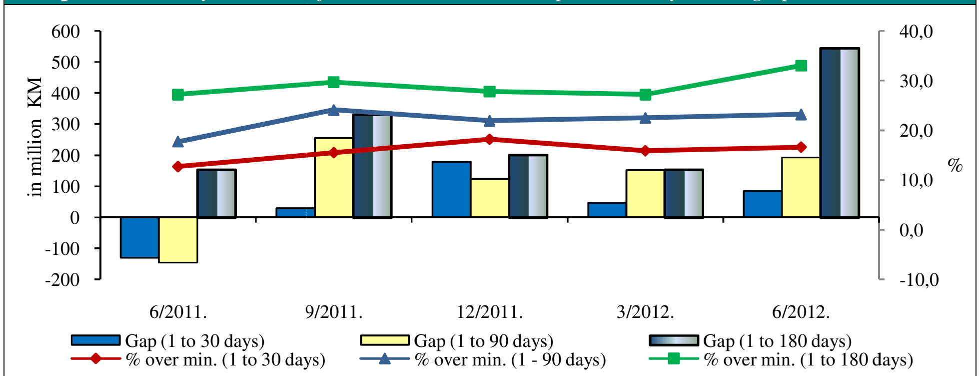
Based on the presented data it can be concluded that the banks as of 30. 06. 2012 maintained the prescribed limitations and realized a better maturity match of the financial assets and liabilities in regard to the prescribed limits.

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



As of 31. 12. 2010 the amount of the financial liabilities was higher than the amount of the financial assets, in all their time intervals up to 180 days, upon which in 2011 there happened an improvement of the maturity match. At the end of 2011, the financial assets in all three time intervals was higher than the amount of the financial assets, and the realized percentages of the maturity match were above the prescribed minimum by 18,3% in the first interval, 21,9% in the second and 27,8% in the third. At the end of the first half of 2012 the financial assets were also higher than the financial liabilities in all three intervals, but there happened a slight deterioration of the liquidity position of up to 30 and up to 180 days, due to a larger decrease of the financial assets (mostly cash funds) than the financial liabilities (mostly deposits). In the intervals up to 180 days there happened an improvement in the second quarter of 2012, due to a somewhat larger increase of the financial assets, primarily loans, in comparison to the increase of the financial liabilities (deposits), and the effect is better as the maturity interval is increasing.

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



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

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

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

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

In order to enable application and implementation of prudential principles in foreign exchange activities of banks and to decrease influence of foreign exchange risk to their profitability, liquidity and capital, the FBA has issued Decision on Minimum Standards for Foreign Exchange Risk Management in Banks[43] that regulates minimum standards for adoption and implementation of programs, policies and procedures for undertaking, monitoring, control and management of

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

foreign exchange risk, and restrictions prescribed for opened individual and overall foreign exchange position (long or short), calculated in relation to the amount of bank's core capital. [44]

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

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

According to the balance as of 30.06.2012., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 14,6% or 2,2 billion KM (14,9% or 2,3 billion KM at the end of 2011). On the other hand, currency structure of liabilities is essentially different, since participation of liabilities in foreign currency is significantly higher and is 49,4% or 7,4 billion KM (49,8% or 7,6 billion KM at the end of 2011).

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

[44] The Article 8. of the Decision on minimum standards for managing the capital of banks prescribes the limitations: for individual foreign currency position for EURO highest up to 30% of the core capital, for other currencies up to 20% and bank's foreign currency position highest up to 30%.
[45] Source: Form 5-Foreign currency position.

-in million KM-

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

Description	31.12.2011.				31.03.2012.				RATIO	
	EURO		TOTAL		EURO		TOTAL		EURO	TOTAL
	Amount	Participation %	Amount	Participation %	Amount	Participation %	Amount	Participation %	6/2	8/4
1	2	3	4	5	6	7	8	9	10	11
I. Financial assets										
1. Cash assets	1.251	15,9	1.783	20,4	1.191	15,4	1.657	19,3	95	93
2. Loans	70	0,9	93	1,1	48	0,6	69	0,8	69	74
3.Loans with currency clause	6.207	79,1	6.464	74,0	6.153	79,4	6.394	74,7	99	99
4. Other	322	4,1	393	4,5	360	4,6	445	5,2	112	113
Total (1+2+3+4)	7.850	100,0	8.733	100,0	7.752	100,0	8.565	100,0	99	98
II. Financial liabilities										
1. Deposits	5.369	71,3	6.034	73,4	5.201	67,8	5.866	70,0	97	97
2. Borrowings	1.225	16,3	1.254	15,3	1.160	15,1	1.185	14,1	95	94
3.Deposits and loans with currency clause	661	8,8	661	8,0	1.021	13,3	1.021	12,2	154	154
4.Other	271	3,6	277	3,3	291	3,8	312	3,7	107	113
Total (1+2+3+4)	7.526	100,0	8.226	100,0	7.673	100,0	8.384	100,0	102	102
III. Off-balance sheet										
1.Assets	239		241		242		282			
2.Liabilities	249		377		206		334			
IV.Position										
Long (amount)	314		371		115		129			
%	19,0%		22,4%		6,8%		7,6%			
Short										
%										
Limit	30%		30%		30%		30%			
Below limit	11,0%		7,6%		23,2%		22,4%			

If we analyze the structure of foreign currencies in the financial assets[46] we see a dominant participation of EUR of 73,7, which is somewhat higher in comparison to the participation as of 31.12.2011. (72,4%) with maintaining the nominal amount on almost the same level of 1,6 billion KM. Participation of EUR in the liabilities has slightly decreased from 90,8% to 90,3%, with decline in nominal amount from 6,9 billion KM to 6,7 billion KM.

However, calculation of the FX risk exposure also includes the amount of indexed items of assets (loans) and liabilities[47], which are especially significant in the assets (74% or 6,4 billion KM) nominally somewhat lower than in relation to 31.12.2011. (74% or 6,5 billion KM). Other foreign currency assets items represent 25,3% or 2,2 billion KM, of which EUR items make 18,6% or 1,6 billion KM, and other currencies 6,7% or 0,6 billion KM (at the end of 2011, loans contracted with currency clause amounted to KM 6,5 billion with participation of 74%, and other items in EUR of 18,8% or 1,6 billion KM). Of total net loans (9,6 billion KM), 66,9% were contracted with currency clause, primarily tied to EUR (96,2%).

On the side of the sources, the structure of financial liabilities stipulates and determines the structure of financial assets, for each currency individually. In foreign currency liabilities (8,4

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

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

billion KM) items in EUR (primarily deposits) had the highest participation of 79,3% or 6,7 billion KM, while participation and amount of indexed liabilities was at minimum, amounting to 12,2% or one billion KM (at the end of 2011, participation of liabilities in EUR was 83,5% or 6,9 billion KM, while indexed liabilities were 8,0% or 0,7 billion KM).

Observed by banks and overall on the level of the banking system of the FBiH, we can conclude that foreign exchange risk exposure of banks and the system, in the first half of 2012, ranged within the prescribed limits. As of 30.06.2012., there were 15 banks with long foreign currency position, and four banks with short position. At the system level, long foreign currency position represented 7,6% of banks' core capital, which is lower by 22,4% than the limit. Individual foreign currency position for EURO was 6,8%, which is 23,2 percentual points less than permitted, with financial assets items being higher than financial liabilities (net long position).

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

IV CONCLUSIONS AND RECOMMENDATIONS

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

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

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

- Establish and expand cooperation with home country supervisors of the investors present in the banking sector of the FBiH, and other countries in order to have more effective supervision,
- Improve cooperation with the Banks Association in all banking performance segments, organization of counseling and professional assistance in the area of implementation of banking laws and regulations, advancement of cooperation in regard to professional development, proposed changes of all legislative regulations that have become a limiting factor to banks' development, introduction of new products, collection of claims and fully involve in building up and functioning of the unified registry of irregular debtors – legal entities and citizens, with daily data update.

• Continuous operational development of the IT system for early warning and prevention in elimination of weaknesses in banks;
• Work on continuous education and training of staff;
• Make effort to accelerate finalization of the remaining provisional administrations and liquidations based on the conclusion made by the Management Board;
• Particularly, accelerate resolution of unsettled issues with the Government of BiH in relation to the Provisional Administration of Hercegovačka Bank d.d. Mostar related to terminal Dretelj.

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

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

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

• Full dedication to good quality and prudent performance, and actions to cope with the crisis impact that presently represents the greatest danger for banks and the real sector of the economy and citizens;
• Further capital strengthening and level of solvency proportional to the growth of assets and risk, higher profitability, more consistent implementation of adopted policies and procedures in the area of prevention of money laundering and terrorism financing, and safety and protection of money in banks and in transportation, in accordance with laws and regulations;
• Strengthen internal control systems and internal audit functions as fully independent in

performing their duties and roles;

- Regular, updated and accurate submission of data to the Central Loan Registry and Unified Central Account Registry with the Central Bank of BiH.

Number: U.O.- 43-2/12
Sarajevo,04.09.2012.

ATTACHMENTS

ATTACHMENT 1

Banks in the Federation of Bosnia and Herzegovina - 30.06.2012.

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

ATTACHMENT 2

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

In 000 KM

No.	DESCRIPTION	31.12.2010.	31.12.2011.	30.06.2012.
	ASSETS			
1.	Cash funds and deposit accounts at depository institutions	4.443.614	4.378.076	3.928.549
1a	Cash and non-interest deposit accounts	452.188	528.721	482.697
1b	Interest deposit accounts	3.991.426	3.849.355	3.445.852
2.	Trading securities	233.178	300.228	352.156
3.	Placements in other banks	145.007	79.940	104.742
4.	Loans, receivables in leasing and past due receivables	9.981.911	10.413.416	10.539.125
4a	Loans	9.414.597	9.453.474	9.538.870
4b	Receivables on leasing	132	120	57
4c	Past due receivables - loans and leasing	567.182	959.822	1.000.198
5.	Securities held until maturity	142.074	158.237	180.370
6.	Premises and other fixed assets	521.625	503.802	487.287
7.	Other real estate	31.139	36.947	38.382
8.	Investments in non-consolidated related enterprises	44.753	42.186	39.465
9.	Other assets	193.609	281.189	288.308
10.	MINUS: Reserves for potential losses	661.213	1.004.863	1.057.387
10a	Value adjustment on the items position 4 in Assets	635.792	931.151	983.690
10b	Value adjustment on the position of Assets except position 4 *	25.421	73.712	73.697
11.	**TOTAL ASSETS**	**15.075.697**	**15.189.158**	**14.900.997**
	LIABILITIES			
12.	Deposits	11.232.830	11.050.514	10.765.586
12a	Interest deposits	10.134.101	10.053.986	9.316.448
12b	Non-interest deposits	1.098.729	996.528	1.449.138
13.	Loans - past due	1.723	1.762	1.803
13a	Balance of payable loans, unpaid	0		
13b	Unpaid - called for payment off-balance sheet items	1.723	1.762	1.803
14.	Loans from other banks	7.000	2.000	3.500
15.	Payables to Government	0		
16.	Payables on loans and other borrowings	1.403.451	1.319.299	1.253.227
16a	payable within one year	381.305	387.585	320.740
16b	payable longer than one year	1.022.146	931.714	932.487
17.	Subordinated debts and subordinated bonds	226.847	206.159	198.355
18.	Other liabilities	507.221	529.359	527.692
19.	**TOTAL LIABILITIES**	**13.379.072**	**13.109.093**	**12.750.163**
	CAPITAL			
20.	Permanent priority shares	25.028	26.059	26.059
21.	Common shares	1.148.269	1.167.513	1.187.513
22.	Exchange premium	136.485	136.485	136.485
22a	On permanent priority shares	8.420	8.420	8.420
22b	On common shares	128.065	128.065	128.065
23.	Unallocated profit and capital reserves	489.557	376.102	418.222
24.	Foreign exchange differences	0		
25.	Other capital	-102.714	81.681	71.165
26.	Reserves for loan losses established from profit		292.225	311.390
27.	**TOTAL CAPITAL (20. to 25.)**	**1.696.625**	**2.080.065**	**2.150.834**
28.	**TOTAL LIABILITIES AND CAPITAL (19 +26)**	**15.075.697**	**15.189.158**	**14.900.997**
	PASSIVE AND NEUTRAL SUB BALANCE	**659.059**	**671.241**	**680.337**
	AGGREGATE BALANCE SHEET AMOUNT	**15.734.756**	**15.860.399**	**15.581.334**

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

ATTACHMENT 3

REVIEW OF ASSETS, LOANS, DEPOSITS AND FINANCIAL RESULT OF BANKS IN F BiH as of 30.06.2012.

in 000

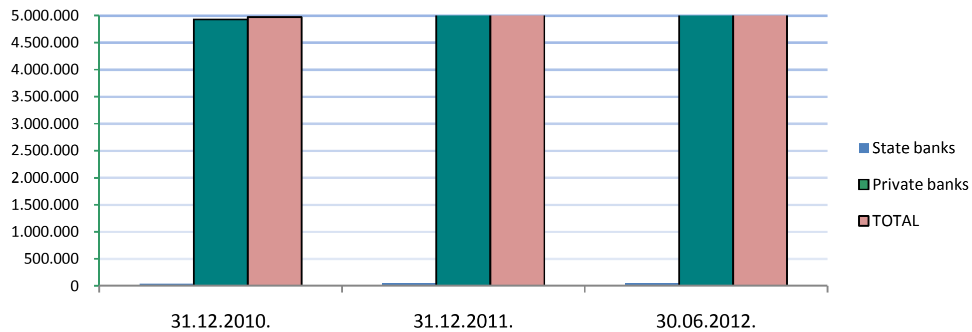
No.	BANK	Assets		Loans		Deposits		Financial result
		Amount	%	Amount	%	Amount	%	Amount
1	BOR BANKA dd SARAJEVO	246.413	1,65%	196.681	1,87%	123.762	1,15%	1.074
2	BBI BANKA dd SARAJEVO	380.975	2,56%	235.487	2,23%	263.620	2,45%	611
3	HERCEGOVAČKA BANKA dd MOSTAR	84.000	0,56%	22.691	0,22%	96.871	0,90%	-493
4	HYPO ALPE-ADRIA-BANK dd MOSTAR	1.457.000	9,78%	974.893	9,25%	1.000.684	9,30%	-5.194
5	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	177.466	1,19%	94.785	0,90%	125.243	1,16%	1.160
6	INTESA SANPAOLO BANKA dd BiH	1.400.866	9,40%	1.158.916	11,00%	863.643	8,02%	8.280
7	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	61.549	0,41%	37.888	0,36%	37.633	0,35%	137
8	MOJA BANKA dd SARAJEVO	158.294	1,06%	118.879	1,13%	130.710	1,21%	17
9	NLB TUZLANSKA BANKA dd TUZLA	815.057	5,47%	639.350	6,07%	624.571	5,80%	3.004
10	POŠTANSKA BANKA doo SARAJEVO	50.964	0,34%	28.779	0,27%	38.126	0,35%	-113
11	PRIVREDNA BANKA dd SARAJEVO	214.435	1,44%	149.545	1,42%	152.041	1,41%	394
12	PROCREDIT BANK dd SARAJEVO	313.721	2,11%	280.125	2,66%	221.335	2,06%	71
13	RAIFFEISEN BANK BH dd SARAJEVO	3.791.470	25,44%	2.473.966	23,47%	2.797.122	25,98%	24.335
14	SPARKASSE BANK d.d. SARAJEVO	893.307	5,99%	750.854	7,12%	770.272	7,15%	4.252
15	TURKISH ZIRAAT BANK dd SARAJEVO	167.469	1,12%	86.906	0,82%	83.945	0,78%	625
16	UNION BANKA dd SARAJEVO	200.908	1,35%	85.762	0,81%	142.891	1,33%	394
17	UNI CREDIT BANKA BH dd SARAJEVO	3.497.118	23,47%	2.489.112	23,62%	2.532.067	23,52%	29.660
19	VAKUFSKA BANKA dd SARAJEVO	245.493	1,65%	179.261	1,70%	183.877	1,71%	229
18	VOLKSBANK BH dd SARAJEVO	744.492	5,00%	535.245	5,08%	577.173	5,36%	2.722
	TOTAL	**14.900.997**	100%	**10.539.125**	100%	**10.765.586**	100%	**71.165**

ATTACHMENT 4

NEW CITIZEN SAVINGS BY PERIODS IN THE BANKS IN FBiH

in 000 KM

	31.12.2010.	31.12.2011.	30.06.2012.
State banks	47.148	50.259	53.332
Private banks	4.926.361	5.311.178	5.483.337
TOTAL	**4.973.509**	**5.361.437**	**5.536.669**



ATTACHMENT 4A

NEW CITIZEN SAVINGS IN THE BANKS IN FBiH

in 000 KM

No.	BANK	31.12.2010.	31.12.2011.	30.06.2012.
1	BBI BANKA dd SARAJEVO	53.122	65.319	72.072
2	BOR BANKA dd SARAJEVO	3.280	8.230	10.082
3	HERCEGOVAČKA BANKA dd MOSTAR	7.591	7.580	7.587
4	HYPO ALPE-ADRIA-BANK dd MOSTAR	580.171	635.926	634.747
5	INTESA SANPAOLO BANKA dd BiH	243.196	266.219	279.925
6	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	36.474	42.559	44.952
7	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	31.671	32.845	33.575
8	MOJA BANKA dd SARAJEVO	41.060	54.032	61.391
9	NLB TUZLANSKA BANKA dd TUZLA	285.665	317.795	318.758
10	POŠTANSKA BANKA doo SARAJEVO	7.723	7.023	6.753
11	PRIVREDNA BANKA dd SARAJEVO	56.301	70.469	73.458
12	PROCREDIT BANK dd SARAJEVO	118.752	126.672	132.984
13	RAIFFEISEN BANK BH dd SARAJEVO	1.635.848	1.743.475	1.773.406
14	SPARKASSE BANK d.d. SARAJEVO	182.925	232.428	253.489
15	TURKISH ZIRAAT BANK dd SARAJEVO	49.947	45.550	46.792
16	UNI CREDIT BANKA BH dd SARAJEVO	1.327.415	1.381.028	1.446.778
17	UNION BANKA dd SARAJEVO	47.148	50.259	53.332
18	VAKUFSKA BANKA dd SARAJEVO	59.999	69.810	71.583
19	VOLKSBANK BH dd SARAJEVO	205.221	204.218	215.005
	TOTAL	**4.973.509**	**5.361.437**	**5.536.669**

ATTACHMENT 5

CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS IN BANKS IN FBiH AS OF 30.06.2012.

- CLASSIFICATION OF ACTIVE BALANCE SHEET ITEMS -

in 000 KM

No.	BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	2.052.709	277.593	23.893	1.237	1.102	2.356.534
2.	Long-term loans	5.959.725	675.854	251.545	140.336	61.139	7.088.599
3.	Other placements	212.609	37	52	64	1.347	214.109
4.	Interest accrued	40.834	9.501	4.529	7.367	41.570	103.801
5.	Past due receivables	64.654	59.408	63.882	221.728	560.275	969.947
6.	Receivables on guarantees paid	277	15	300	86	29.573	30.251
7.	Other assets	314.204	8.604	758	1.684	21.683	346.933
8.	**TOTAL BALANCE SHEET ASSETS WHICH IS CLASSIFIED (total of positions from 1.to 7. – base for accrual of regulatory reserves for loan losses)**	**8.645.012**	**1.031.012**	**344.959**	**372.502**	**716.689**	**11.110.174**
9.	**ACCRUED REGULATORY RESERVES FOR LOAN LOSSES ON BALANCE SHEET ASSETS**	**169.838**	**93.980**	**82.608**	**213.873**	**716.648**	**1.276.947**
10.	**VALUE ADJUSTMENT OF BALANCE SHEET ASSETS**	**103.861**	**87.862**	**86.538**	**150.174**	**628.940**	**1.057.375**
11.	**NEEDED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS**	**104.368**	**48.244**	**31.410**	**78.529**	**87.504**	**350.055**
12.	**ESTABLISHED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS**	**65.836**	**41.931**	**22.938**	**84.187**	**59.919**	**274.811**
13.	**LACKING AMOUNT OF REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS**						**107.017**
14.	BALANCE SHEET ASSETS WHICH IS NOT CLASSIFIED(gross bookkeeping value)						4.848.210
15.	TOTAL BALANCE SHEET ASSETS (gross bookkeeping value)						15.958.384

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	2.382.740
14.b	Demand funds and time deposits up to one month on the accounts in banks with a determined investment rating	1.499.681
14.c	Tangible and non-tangible property	510.180
14.d	Gained financial and material assets in process of collection of receivables during one year of acquisition	3.549
14.e	Treasury shares	
14.f	Claims for overpaid tax liabilities	11.741
14.g	Securities intended for trading	152.999
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	287.320
	TOTAL position 14	**4.848.210**
8a.	Amount of placements secured by cash deposits	153.137

ATTACHMENT 5A

CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS IN BANKS IN FBiH
As of 30.06.2012.

- CLASSIFICATION OF OFF-BALANCE SHEET ITEMS -

in '000 KM

No.	OFF BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Guarantees payable	368.777	53.188	147	46	15	422.173
2.	Performing guarantees	479.039	90.355	2.215	718	7	572.334
3.	Unsecured LoC	54.720	8.957				63.677
4.	Irrevocable loans	1.233.018	92.510	7.808	1.748	619	1.335.703
5.	Other potential liabilities	13.770	867		118	4.382	19.137
6.	**TOTAL OFF BALANCE SHEET ITEMS CLASSIFIED (total of positions 1 to 5 – base for accrual of regulatory reserves for loan losses)**	**2.149.324** **41.814**	**245.877** **16.194**	**10.170** **2.050**	**2.630** **1.353**	**5.023** **5.023**	**2.413.024** **66.434**
7.	**ACCRUED REGULATORY RESERVES FOR LOAN LOSSES ON OFF BALANCE SHEET ITEMS**	**20.817**	**2.938**	**2.824**	**1.035**	**4.716**	**32.330**
8.	**PROVISIONING FOR LOSSES FOR OFF BALANCE SHEET ITEMS**	**25.179**	**14.383**	**1.136**	**622**	**308**	**41.628**
9.	**NEEDED REGULATORY RESERVES FRO PROFIT FOR ESTIMATED LOSSES ON OFF BALANCE SHEET ITEMS**	**22.177**	**12.324**	**544**	**1.384**	**150**	**36.579**
10.	**ESTABLISHED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ITEMS**	**368.777**	**53.188**	**147**	**46**	**15**	**422.173**
11.	**LACKING AMOUNT OF REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF BALANCE SHEET ITEMS**						**5.730**
12.	OFF BALANCE SHEET ITEMS WHICH ARE NOT CLASSIFIED						429.088
13.	TOTAL OFF BALANCE SHEET ITEMS						2.842.112
6a.	Amount of potential liabilities secured by cash deposit						58.709

ATTACHMENT 6

INCOME STATEMENT OF BANKS IN F BiH

in 000 KM

ELEMENTS	PERFORMED 30.06.2011.		PERFORMED 30.06.2012.		RATIO 4 / 2
	Amount	Participation in the total income	Amount	Participation in total income	
INCOME					
Interest income	423.615	94%	403.393	97%	95
Interest expenses	144.402	32%	135.320	32%	94
Net interest income	279.213	62%	268.073	64%	96
Fee income and other operating income	169.765	38%	149.209	36%	88
TOTAL INCOME	**448.978**	**100%**	**417.282**	**100%**	**93**
EXPENSES					
Value adjustment*	114.725	26%	62.728	15%	55
Salaries and contribution expenses	125.005	28%	124.146	30%	99
Fixed assets and overhead expenses	78.087	17%	79.630	19%	102
Other expenses	83.474	19%	79.578	19%	95
TOTAL EXPENSES (without interests)	401.291	89%	346.082	83%	86
NET INCOME BEFORE TAX	47.687	11%	71.200	17%	149
Income Tax	-20		-35		175
NET INCOME	**47.667**	**11%**	**71.165**	**17%**	**149**

*In 2010.: reserves for loan losses

ATTACHMENT 7

REPORT ON CAPITAL BALANCE AND ADEQUACY IN BANKS IN FBiH

ACTIVE BALANCE

In 000 KM

No.	DESCRIPTION	31.12.2010.	31.12.2011.	30.06.2012.
1	**BANK'S CORE CAPITAL**			
1.a.	Share capital, reserves and income			
1.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	1.157.918	1.177.932	1.197.932
1.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. And rights	12.550	12.550	12.550
1.3.	Issued shares income at share payments	136.485	136.485	136.485
1.4.	General regulatory reserves (reserves as regulated by the Law)	183.807	192.752	116.174
1.5.	Other reserves not related to assets quality assessment	228.867	262.501	310.464
1.6.	Retained - undistributed income from previous years	165.532	225.861	180.112
1.a.	**TOTAL (from 1.1. to 1.6.)**	**1.885.159**	**2.008.081**	**1.953.717**
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	92.058	251.187	188.533
1.8.	Losses from current year	157.933	45.512	5.800
1.9.	Book value of treasury shares owned by the bank	81	81	81
1.10.	Amount of intangible assets	63.249	57.180	52.245
1.b.	**TOTAL (from 1.7.to 1.10.)**	**313.321**	**353.960**	**246.659**
1.	**AMOUNT OF CORE CAPITAL: (1.a.-1.b.)**	**1.571.838**	**1.654.121**	**1.707.058**
2	**BANK'S SUPPLEMENTARY CAPITAL**			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	2.829	3.090	3.090
2.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. And rights	0	0	0
2.3.	General reserves for losses on loans from class. A - performing assets	209.612	211.856	211.652
2.4.	Accrued income for current year audited and confirmed by external auditor	52.090	62.564	0
2.5.	Income under FBA's temporary restriction on distribution	0	0	0
2.6.	Subordinated debts, the most 50% of core capital	159.056	139.754	131.950
2.7.	Hybrid convertible items - the most 50% of core capital	0	0	0
2.8.	Items-permanent liabilities without repayment duty	66.399	49.312	66.405
2.	**AMOUNT OF SUPPLEMENTARY CAPITAL: (from 2.1. to 2.8.)**	**489.986**	**466.576**	**413.097**
3	**ITEMS DEDUCTABLE FROM BANK'S CAPITAL**			
3.1.	Part of invested share capital that according to FBA's assessment represents accepted and overestimated value	0	0	0
3.2.	Investments in capital of other legal entities exceeding 5% of bank's core capital	15.938	18.408	18.408
3.3.	Receivables from shareholders for significant voting shares - approved aside from regulations	0	0	0
3.4.	VIKR to shareholders with significant voting shares in the bank without FBA's permission	0	0	0
3.5.	**AMOUNT OF ITEMS DEDUCTABLE FROM BANK'S CAPITAL (3.1. to 3.4.)**		**19.386**	**57.924**
3.	**AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)**	**15.938**	**37.794**	**76.332**
A.	**RISK FROM RISK-WEIGHTED ASSETS AND CREDIT EQUIVALENTS**	**2.045.886**	**2.082.903**	**2.043.823**
B.	**POR (RISK-WEIGHTED OPERATING RISK)**	**11.713.116**	**11.216.376**	**11.136.647**
C.	**PTR (RISK-WEIGHTED MARKET RISK)**	**942.707**	**965.932**	**977.024**
D.	**TOTAL RISK-WEIGHTED RISKS B+C+D**	**0**	**0**	**0**
E.	**NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100**	**12.655.823**	**12.182.308**	**12.113.671**
F.	**NET CAPITAL RATIO (CAPITAL ADEQUACY) (A.:E.) X 100**	**16,2%**	**17,1%**	**16,9%**

ATTACHMENT 8

NUMBER OF EMPLOYEES BY BANKS

No.	BANK	31.12.2010.	31.12.2011.	30.06.2012.
1	BOR BANKA dd SARAJEVO	54	57	60
2	BOSNA BANK INTERNATIONAL dd Sarajevo	207	235	240
3	HERCEGOVACKA BANKA dd MOSTAR	75	72	72
4	HYPO ALPE ADRIA BANK dd MOSTAR	568	647	641
5	INTESA SANPAOLO BANKA dd BiH	519	525	534
6	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	178	173	173
7	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	67	71	71
8	MOJA BANKA dd SARAJEVO	143	171	168
9	NLB TUZLANSKA BANKA dd TUZLA	474	471	454
10	POŠTANSKA BANKA dd SARAJEVO	91	90	88
11	PRIVREDNA BANKA dd SARAJEVO	211	191	186
12	PROCREDIT BANK dd SARAJEVO	501	427	409
13	RAIFFEISEN BANK BH dd SARAJEVO	1.630	1.576	1.562
14	SPARKASSE BANK dd SARAJEVO	426	432	448
15	TURKISH ZIRAAT BANK dd SARAJEVO	150	158	161
16	UNI CREDIT BANKA BH dd MOSTAR	1.362	1.338	1.316
17	UNION BANKA dd SARAJEVO	180	177	176
18	VAKUFSKA BANKA dd SARAJEVO	222	229	230
19	VOLKSBANK BH dd SARAJEVO	330	329	341
	TOTAL	**7.388**	**7.369**	**7.330**