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

INFORMATION
ON BANKING SYSTEM OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
As of 12/31/04

Sarajevo, March 2005

Banking Agency of the Federation of BiH, as regulatory institution performing supervision of banks, has completed information on the banking system in the Federation of BiH (as of December 31st 2004, as of non-audited information) based on the reports of banks, and other reports and information submitted by banks. The information also includes findings and information attained during on-site examinations and analysis performed in the Agency (off-site examination).

CONTENTS

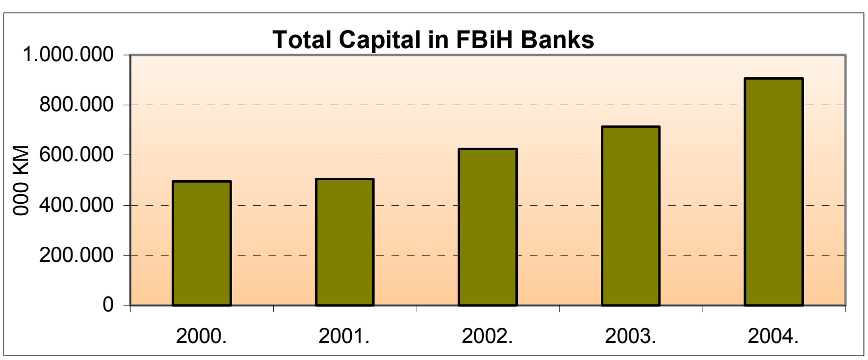
I INTRODUCTION

Banking sector in the Federation of BiH has maintained and improved existing trends and situation characteristic for past five years, especially during last two years. The growth trend continued; business indicators improved; capital base of the whole system became stronger; new foreign investments were attracted; deposits increased; credit portfolios enlarged; risks were controlled and reduced; stability of the whole sector was improved; network of organizational units was expanded; new products were introduced; competition was fortified; higher level of working quality was achieved; international operational and examinational standards were applied.

In 2003 and 2004, the most significant changes could be summarized as growth of large banks, growth in general, positioning in the market and intensified competition.

• ***Growth of larger banks and decreasing number of small banks***: Although all preparations were completed in 2002, Raiffeisen Bank started its operations in BiH and united "under the same roof" Sarajevo and Mostar Raiffeisen Bank, sisters from Austrian family. At the same time, LT Gospodarska Bank Sarajevo was set up by merging Gospodarska Bank Sarajevo and LT Komercijalna Bank from Livno. Another "family" arrangement was created in middle 2004. Universal Bank from Sarajevo and Zagrebačka Bank BH from Mostar, both owned by Zagrebačka Bank Zagreb, merged into UniCredit Zagrebačka Bank with head office in Mostar. Finally, HVB Central Profit Bank started operation on 10/01/04. It was "born" from merging HVB and Central Profit Bank, both owned by Bank Austria. We already received notice about merging of Hypo Alpe Adria Bank from Mostar and bank with same name from Banja Luka, both owned by "mother bank" from Klagenfurt. It will be the very first merging of banks that come from two BiH entities.

• ***Growth in general***: At the end of 2000, 37 banks had banking license in F BiH, and there were 24 banks at the end of 2004. Inverted to this reduction, all other indicators increased in the observed period. By the analysis given by respectable London financial magazine, The Banker, among 50 banks from Central Europe two banks from F BiH have recorded the fastest growth of capital, assets and income in period 2001, 2002 and 2003.



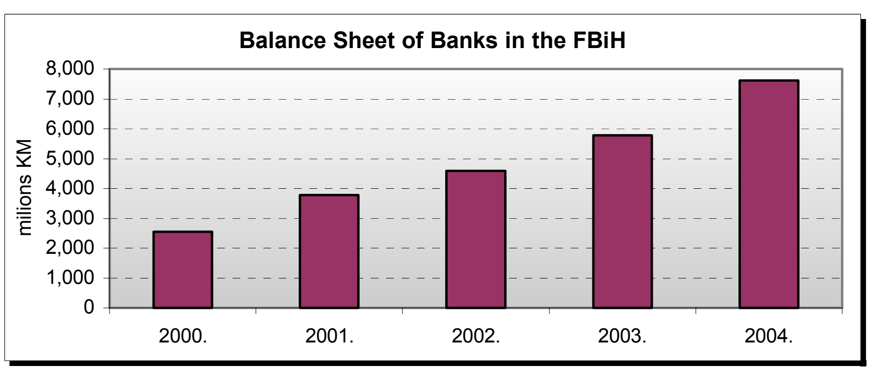
• ***Positioning***: Taking better positions and taking up larger part of the market is process which lasts for several years and it enters final phase now. It is logical that there are some fluctuations, but they are getting less significant in time and changes are now represented in small percentages. For example, participation of foreign capital in share capital at the end of 2002 was 66.7% (KM 360 million), at the end of 2003 it increased to 68.2% (KM 408 million) and at the end of last year it "returned" to 64.7% (KM 492 million). At the same time, domestic private capital decreased from participation of 20.5% to 17.5% while state increased from 12.8 to 17.8%. This resulted from provision of additional capital in Investment Bank of the F BiH. If we observe assets, banks which are completely or predominantly owned by foreign investors, hold 78.9% out of total banking ownership at the end of 2003, and at the end of 2004 their participation was 79.2% out of total KM 7.6 billion of assets. If we compare same indicators to other countries, we find that participation of foreign ownership in banks is 95 in Slovakia, 91 in Croatia, 84 in Czech Republic, 80 in Bulgaria, 76 in Hungary and 38% in Slovenia.

In F BiH, eight banks are completely owned by foreign owners and they have KM 377.4 million of capital, in two banks major owners are foreign investors (KM 91 million) and in nine banks participation of foreign capital is between .1 and 42% and their total capital is KM 24 million.

• ***Competition***: Strengthening and stabilization of the sector and its parts, solution of internal weaknesses and staff and organizational improvement resulted in more competition in market. Although opinion that interest rates are (too) high is not uncommon, the fact is that the rates are slowly, but definitely, getting lower and getting closer to lowest possible level. On the other hand, the battle for attraction of deposits is visible, especially if we speak of long-term deposits by offering lucrative interest rates and other advantages offered by banks. The ratio between passive and active interest rates is getting close to the acceptable level and there is not much room for offering “cheaper” loans, as we know that deposits are still predominant funding source in banks. Although banks increased their debts abroad, banks from our country are still not in the position to provide new investments due to their unfortunate credit rating abroad. Banks had credit liabilities of KM 851 million at the end of 2004, which is larger by 44% in comparison to previous year. The major part of banks’ credit lines is used for maturity adjustments of assets and liabilities. Anyhow, in the contest for clients, banks use new products such as issuance of cards or approving loans without guarantors, introduction of earmarked savings, housing loans, etc. Banks encourage more popular use of debit and credit cards as non-cash payment possibility. Banks invest significant effort and assets to increase this type of products. Only during last year they installed 97 new ATM and there are total 222 ATMs. AT the same time, number of POS terminals increased by 1,635 so it is possible to make payment of for goods in 5,587 POS.

Balance Sheet

By temporary information, total balance sheet in banks in the Federation of BiH was KM 7.6 billion as of 12/31/04. In comparison to previous year it represents growth of 32% or KM 1.8 million.
In last five years, that is, in period from beginning of 2000 to end of 2004, balance sheet assets in banks increased by three times! Thanks to this growth, for the first time one of our banks took 41st position among 100 biggest banks in Central and Eastern Europe.



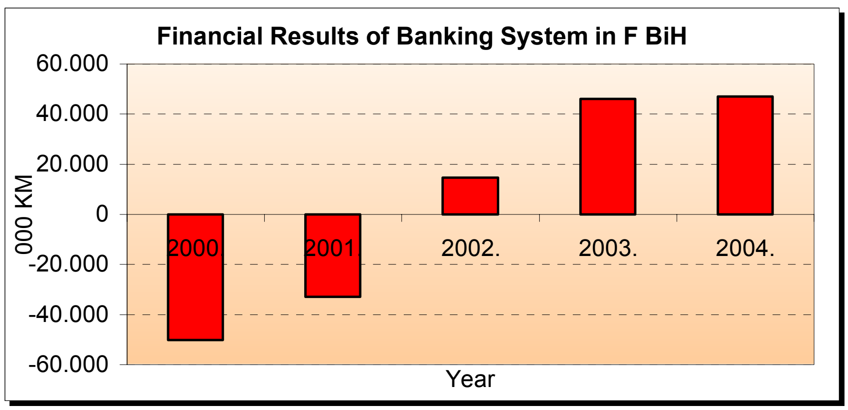
Balance Sheet, that is, assets in Balance Sheet are getting close to common European standard. Commonly used indicator of banks’ strength is assets against GDP. In developed countries bank assets are twice or more times larger then GDP. In countries in transition the results are more modest. So, total assets in banks in Bulgaria are 50% of GDP, in Poland are 66% of, in Hungary 78%, in Croatia and Czech Republic little bit over 100%. By these criteria, banking sector in the Federation of BiH has decent results because assets were 90% of GDP in 2004.

The growth of balance sheet resulted from growth of deposits by KM 1.3 million or 31%, borrowings of KM 262 million which represents growth of 44% in comparison to the previous year and growth of capital by KM 193 million or 27%.

Total deposits, as major source of financial potential, reached KM 5.6 billion, and that is over 60% of estimated GDP. In other countries that ratio was: 40% in Poland and Hungary, 60% in Croatia and Czech Republic and 67% in Slovakia.

Income Statement

By final non-audited information, the whole banking system earned income of KM 47.1 million which is larger by 2.4% or 1.1 million in comparison to year 2003. Aside from this, 18 banks earned income of KM 57.7 million, and six reported loss of total KM 10.6 million.



Total net income was KM 490.6 million in 2004 or 6% more than in 2003. In the income structure, the participation of net interest income from 51.8% in 2003 to 54.4% in 2004. It was obvious that growth of interest income (11%) was not followed by credit placements (28%). Main reasons for these trends were decreased interest rates, that is, credit margins, written off receivables and significant amount of suspended interest.

II TRANSITION OF THE BANKING SYSTEM

Reform process, transformation, rehabilitation and consolidation of banking sector in the Federation of BiH is reaching final phase. It is necessary to emphasize that it was completed without any public investments. Based on some estimation, other transition countries approved large assets for above-mentioned purposes: in Croatia 27, in Czech Republic 25, Hungary 13 and in Poland 13 percent of GDP.

The key element of financial sector in the Federation of BiH is still with banking system; therefore stability of the system is important economical reconstruction in whole. A decade after the war, we can make conclusion that consolidation process of the banking system has reached the end:

- majority of problems inherited from previous system and induced by the war were eliminated,

- three quarters out of total number of banks are privately owned now,
- we are expecting finalization of privatization process in remaining banks owned by the state by the end of 2005,
- foreign investors own 64.8% of share capital in the system,
- arrival of foreign investors introduced more competition, contemporary know-how, new banking products;
- capital base in banks was strengthened, efficiency and effectiveness of banking operations was improved and is closer and closer to international standards
- international supervision formats were accepted and implemented, management of risks was improved etc.

Unfortunately, successful transformation of banking industry was not followed by changes in other sectors, especially in the core economy sector, which is still stagnating. If reconstruction of other sectors continues to be slow, it could be obstacle of further development of banking. Slow recovery process of economy brings danger of multiple consequences, which will, if trends remain the same, affect banking as well.

The weakest link is privatization of state owned banks. There are still six banks owned by the state in the system. Those banks have stagnated for last two or three years because they were unable to catch up with changes in the market. It is the last minute to finalize the process, by privatization, liquidation or bankruptcy of those banks.

1. RESTRUCTURING

It is indisputable that number of banks in the Federation of BiH will continue to decrease, although that process will slow down in comparison to the previous period. There are indications that more merging will occur and more foreign investors will invest.

If we observe size of assets, there were radical changes in the system. The list of banks, listed by size of assets, displayed large variety. Three banks own assets larger then a billion of KM, and the largest of them owns eighty times more assets than the smallest bank in the system. To be more precise, the largest bank in the system owns over two billions of KM, and on the other hand, there are eight banks in the Federation of BiH with assets under KM 50 million.

2. BANKING AGENCY

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

Since the leading objective of the Agency is to protect money and interests of depositors, Banking Agency of the Federation of BiH set up provisional administration in 22 banks in period between foundation of the Agency until end of 2003. High Representative set up provisional administration in one bank. There are still 5 banks with provisional administration currently and those procedures should be completed soon. Provisional administration was successfully resolved in three cases by merging of those banks, liquidation procedures were instituted in 9 banks, out of that number, three liquidations were completed without negative outcome for depositors and minimum disadvantages for shareholders, and one resulted in merging. The Agency filed requests for bankruptcy procedure in six banks, court accepted requests and legal procedure is currently undergoing. Liquidation procedure is currently going on in four banks. In 2004, the FBA set up provisional administration in one bank because the bank did not provide obligatory capital.

3. PAYMENT SYSTEM

Banks continued successfully to execute all payment system procedures, which was one of the most complex and significant elements of the reform.

Upon information of Central Bank BiH, banks in the Federation of BiH have performed almost 36.5 billion of transactions in the Federation of BiH with total value over KM 50 billion.

Out of that, 23.5 million were transactions within banks with total value of KM 27.5 billion, and they also have performed 13 million of payments with other banks with total value of KM 23 billion. Therefore, out of total number, 64% were transactions within banks, and 36% were transactions with other banks. By value, 54.5% were transactions within banks, and 45.5% were transactions with other banks.

For the whole Bosnia and Herzegovina, banks in the Federation of BiH have performed 68% of total transactions within banks and 62% of transactions with other banks. By value, banks in the Federation of BiH have executed 61% of transfers within banks and 74% of transfers with other banks in the whole payment transfer in BiH.

Individual participation of banks in payment transactions accounts in Central Bank of BiH ranges between 0.02 and 14.53 by number and between 0.04 and 14.03 by value of transactions.

4. MONEY LAUNDERING AND TERRORISM FINANCING

The quantity of money laundering risk and financing of terrorism in the banking system has decreasing trend and it can be considered as moderate. Managing of this risk is getting better and currently is satisfactory. Therefore, there are no reasons for special supervisory concern in banking system of the Federation of Bosnia and Herzegovina regarding exposure to money laundering and terrorism financing in the banking sector.

Full scope and targeted examinations and reviews of reports submitted by banks to the Agency displayed that banks have adopted minimum standards for prevention of money laundering and terrorism financing and passed policies as regulated by the Decision of the FBA on Minimum Standards for Prevention of Money Laundering and Terrorism Financing in Banks. As it is regulated by the Decision, banks have passed Programs for Implementation of Activities for Prevention of Money Laundering and Terrorism Financing. The obligatory parts were following policies:

- Policy on acceptance of clients,
- Policy on identification of clients,
- Policy on continuous monitoring of accounts and transactions,
- Policy on management of money laundering and terrorism financing risks.

Banks also appointed coordinators for compliance of bank's activities to requests regulating money laundering combat and terrorism financing, and, in order to increase abilities and efficiency of staff, prepared comprehensive guidelines which include laws and regulations which set up prevention of money laundering and terrorism financing. In order to eliminate operational risks, subsequent from money laundering and terrorism financing (reputation, operational risk, legal risk, assets and deposits concentration risk) numerous banks paid special attention to those risks and established sections in its organizational structure whose main task is to comply bank's operations to above mentioned regulations.

Banks should apply policies they set up. But, the implementation level was different in banks.

Reporting to the Agency was satisfactory. Banks have reported to the Agency 132,591 transactions, and that represents 0.36% of total transactions in the whole banking system of the Federation of Bosnia and Herzegovina. Total value of reported transactions was KM 7,415,252,763.00, and that represents 14.7% of total value transactions in the whole banking system of the Federation of Bosnia and Herzegovina. Banks have reported 234 transactions before they were executed (0.18% of total reported transactions) with value of KM 12,769,077.00 (0.20% of total transactions). The majority of reported transfers were transfers which banks reported after they have executed them, reported within regulated time line. The number of those transfers was 128,730 or 97.08% with value of KM 7,303,704,984.00 or 98.5% of value of total reported transfers. Banks have reported on transfers after the regulated time line for reporting. There were 3,627 transfers of that kind or 2.75% of value of KM 98,778,701.00 or 1.3% of value of total reported transfers. Other indicators from banks reports (number and value of transfers: stopped by Financial Police, executed after approval of Financial Police, executed after deadline of 48 hours, without request for additional information) display that reporting process was satisfactory.

The training of staff, as significant element of policy for managing money laundering and terrorism financing risks, was not continuous process in the whole banking system although all banks paid significant attention to this subject, as it was regulated by the Decision.

Irregularities and violation of the Law found during examinations were sanctioned by regulated actions, from setting up orders for correction of found irregularities and violation of laws up to filing criminal and civil code charges.

5. BANKING SUPERVISION

In order to promote and secure whole macroeconomic and financial stability, the Basle Committee adopted twenty-five core principles in 1997, which should be respected in order to have efficient supervisory system.

The core principles are minimum actions to be implemented and in many cases it is necessary to supplement them with other actions in order to comply with specific conditions and regulate risks of financial systems in particular countries. The principles regulate conditions for efficient supervision of banks, licensing, prudence, methods for continuing supervision of banks, necessary information, official authorization of supervisors and banking with other countries.

Legal and regulatory framework for banking operations in Federation of BiH is adjusted to international standards. The Law on Changes and Additions to the Banking Law set in August 2002 provides in Article 69 that "The regulations passed by the Agency… are based on the core principles for supervision of banks as regulated by the Basle Committee for supervision of banks." While preparing and adopting regulations implemented from the beginning of 2003, FBA adjusted to those standards. The regulations also include some of the standards from European banking directives.

III OPERATIONAL PERFORMANCE IN BANKS OF THE FEDERATION OF BiH

1. STRUCTURE OF BANKING SECTOR

1.1. Status, Number and Operational Network

As of 12/31/04, 24 banks[1] had banking licenses in the Federation of BiH. In comparison to 12/31/03, number of licensed banks is smaller by three. Two of those were merged to other banks and in one bank there was liquidation procedure initiated.

Provisional administrator was instituted in five banks as of 12/31/04 (Hercegovačka Bank dd Mostar, UNA Bank dd Bihac, Ljubljanska Bank dd Sarajevo, Poštanska Bank BiH d.d Sarajevo and Privredna Bank d.d. Sarajevo).

Schedule 1: *Changes of Number and Ownership Structure of Banks*

	State Banks	Private Banks	TOTAL
12/31/02	6	23	29
Changes in 2003 :			
- change of ownership structure	+1	-1	
-new licenses		+1	+1
- merging		-3	-3
12/31/03	7	20	27
Changes in 2004 :			
-revoked licenses	-1		
- merging		-2	
12/31/04	6	18	24

In 2004, banks tried to expand network of their organizational parts. Banks in the Federation of BiH have founded 45 new organizational parts, out of which, four are in RS. In comparison to 12/31/03, when banks constituted of 394 organizational parts, it is growth of 11.4%.

As of 12/31/04, eleven banks from the Federation of BiH had 27 organizational part in Republic of Srpska and 10 in Brčko District. In comparison to the 12/31/03, when banks from the Federation of BiH had 25 organizational parts in Republic of Srpska and Brčko District, the growth at the end of 2004 represents growth by 48%. At the same time, number of organizational parts of banks from Republic of Srpska in the Federation of BiH increased from eight to nine, that is, as of 12/31/04, three banks from Republic of Srpska had nine organizational parts in the Federation of BiH.

The license for internal payment operations was issued to 24 banks as of 12/31/04. Only 15 banks had deposit insurance.

[1] Starting form 09/30/04, financial results include information from Hercegovačka Bank d.d. Mostar (in period from April 2001 when Provisional Administrator was instituted in Hercegovačka Bank until 09/30/04 information for the whole banking system did not include results from this bank).

1.2. Ownership structure

As of 12/31/04, ownership structure in banks[2] was evaluated upon available information and insight in banks[3] and it was as follows:

- Private and predominately privately owned 18 banks (75%)
- State and predominately owned by state 6 banks (25%).

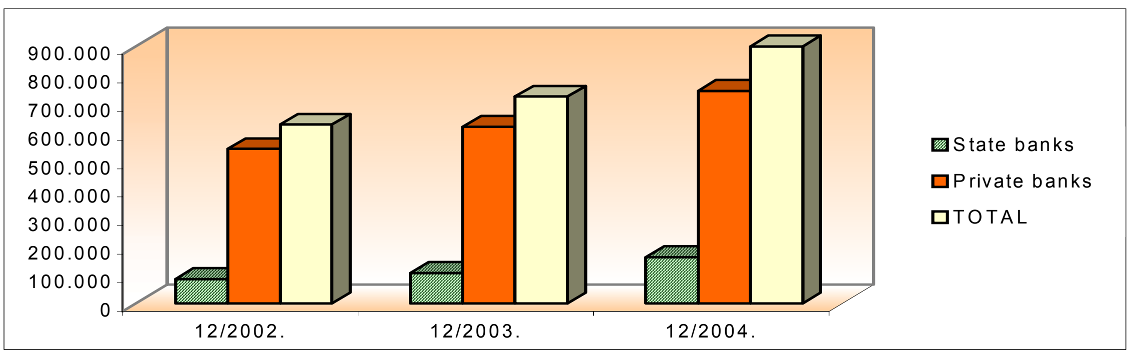
Ownership structure can be observed from aspect of financial results, which is by the value of total capital[4].

Schedule 2: *Ownership Structure by Total Capital*

-In mill. KM-

BANKS	12/31/01		12/31/02		12/31/03		RATIO	
							3/2	4/3
1	2		3		4		5	6
State banks	85,491	14%	106,105	15%	161,915	18%	124	153
Private banks	540,305	86%	607,430	85%	744,741	82%	112	123
TOTAL	625,796	100%	713,535	100%	906,656	100%	114	127

Graph 1: *Schedule of Ownership Structure (total capital)*



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

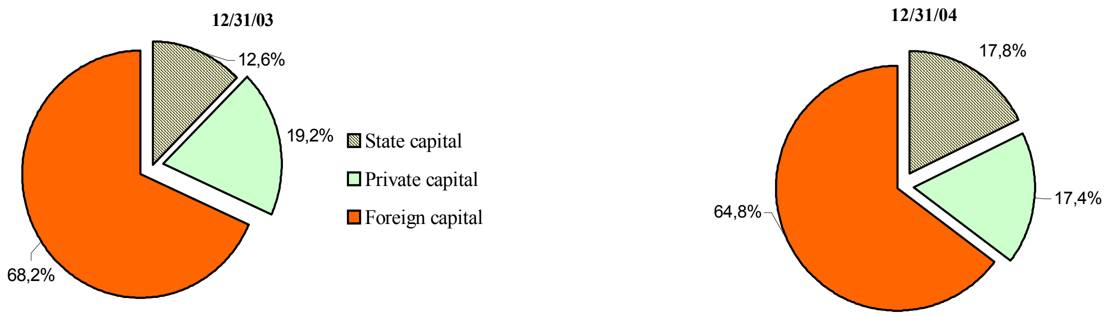
Schedule 3: *Ownership structure by participation of state, private and foreign capital*

-In 000 KM-

SHARE CAPITAL	12/31/02		12/31/03		12/31/04		INDEX	
	Amount	Participation %	Amount	Participation %	Amount	Participation %	5/3	7/5
1	3	4	5	6	7	8	9	10
State capital	69,249	12.8	75,636	12.6	135,350	17.8	109	179
Private capital (residents)	110,605	20.5	115,411	19.2	132,785	17.4	104	115
Foreign capital (non-residents)	360,758	66.7	408,882	68.2	493,227	64.8	113	121
TOTAL	540,612	100.0	599,929	100.0	761,362	100.0	111	127

[2] Classification of banks by type of ownership refers to shareholders capital in banks.
[3] General overview of ownership structure in banks in the F BiH as of 12/31/04 resulted from received reports, and registration at authorized courts (changes in capital and shareholders structure).
[4] Information from Balance sheet - FBA schedule: shareholders capital, shares issued, undistributed income and reserves and other capital (financial results of current period).

Graph 2: *Ownership Structure (share capital)*



Analysis of ownership structure in banks - shareholders capital - shows the best changes and trends occurred in the banking system in the Federation of BiH, it is visible in changed ownership structure.

Participation of state capital in total share capital in banks as of 12/31/04 was 17.8% or higher by 5.2% in comparison to 12/31/03. Participation of remaining, state owned capital, in privately owned banks was under 1% or KM 1.2 million.

Major changes in the ownership structure in 2004 were related to participation of state capital because Government of the Federation of BiH increased capital in Investment Bank of the Federation BIH.

In comparison to 12/31/03, participation of privately owned capital (residents) in total capital for whole banking sector decreased from 19.2% to 17.4%, also participation of foreign capital decreased from 68.2% to 64.8%.

Changes of ownership structure significantly showed to participation, that is, market share and position of banks sorted by major ownership of share capital. Integration of individual institutions was made in order to achieve better market positions, and they resulted in concentration of larger banks in banking sector, decreased number of banks, and more severe competition.

Schedule 4: *Participation of banks by ownership*[5]

In%

BANKS	12/31/02			12/31/03			12/31/04		
	Part. in total capital	Part. in total assets	Number of banks	Part. in total capital	Part. in total assets	Number of banks	Part. in total capital	Part. in total assets	Number of banks
1	2	3	4	5	6	7	8	9	10
Banks with predominantly state capital	13.7	7.5	6	14.9	6.4	7	17.9	4.9	6
Banks with predominantly private domestic capital	21.0	16.7	8	19.7	14.7	7	16.8	15.8	8
Banks with predominantly foreign capital	65.3	75.8	14	65.4	78.9	12	65.3	79.3	10
TOTAL	100.0	100.0	28	100.0	100.0	26	100.0	100.0	24

[5] By predominant ownership (over 50%).

1.3. Staff

There were total of 5,686 employees as of 12/31/04 in banks in the Federation BiH. Out of total number, 9% worked in banks with predominantly state capital and 91% in privately owned banks.

Schedule 5: *Staff in banks in the F BiH*

BANKS	NUMBER OF EMPLOYEES						INDEX	
	12/31/02		12/31/03		12/31/04		3:2	4:3
1	2		3		4		5	6
State banks	558	11%	549	10%	490	9%	98	89
Private banks	4,543	89%	4,845	90%	5,197	91%	107	107
TOTAL	5,101	100%	5,394	100%	5,687	100%	106	105
Number of banks	28		26		24			

In 2004, number of employees increased by 5% or 293 persons and the growth relates only to privately owned banks. In state banks number of employees significantly decreased, by 11% or 60 employees and that resulted from closing of one bank, as well as from decreased number of employees in three banks with provisional administration.

Schedule 6: *Educational structure of staff*

EDUCATION	NUMBER OF EMPLOYEES			INDEX	
	12/31/02	12/31/03	12/31/04	3:2	4:3
1	2	3	4	5	6
University education - degree	1,683	1,847	2,016	110	109
University education	533	546	596	102	109
High school	2,665	2,825	2,962	106	105
Other	220	176	113	80	64
TOTAL	5,101	5,394	5,687	106	105

Structure of staff by educational background changed in comparison to the end of 2003. So participation of employees with university education – degree increased (by 1.2%) and with university degree by (.4%), while participation of staff from category "other" (lower education) decreased by 1.3%. The major participation is still with staff with employees with high school education - 52%.

One of the indicators of the success in the banking sector and any bank individually, is ratio between assets and number of staff, that is, assets against an employee. The larger ratio, the better position of banks' operations and the system in whole.

Schedule 7: *Assets/employees*

BANKS	12/31/02			12/31/03			12/31/04		
	Number of staff	Assets (000 KM)	Assets/ Employe e	Number of staff	Assets (000 KM)	Assets/ employee	Number of staff	Assets (000 KM)	Assets/ employee
State	558	345,299	619	549	369,974	674	490	373,064	766
Private	4,543	4,242,567	934	4,845	5,402,076	1,115	5,197	7,240,657	1,393
TOTAL	5,101	4,587,866	899	5,394	5,772,050	1,070	5,687	7,613,721	1,339

Per each employee there was approximately KM 1.34 million of assets at the end of 2004. The ratio was much better in privately owned banks, which is to be expected since state owned banks were stagnating or had decreased number of operations.

Schedule 8: *Assets/employees by groups*

Assets (000 KM)	12/31/02	12/31/03	12/31/04
	Number of banks	Number of banks	Number of banks
Up to 500	12	9	7
500 to 1.000	5	5	5
1.000 to 1.500	8	9	4
1.500 to 2.000	3	3	7
Over 2.000	-	1	1
TOTAL	28	26	24

Individual analytical results for banks were between KM 151 thousands up to KM 2,8 million of assets per an employee. Nine banks out of total number of banks had this ratio batter than the ratio for whole banking sector. Other banks had way worse indicators, and seven banks had assets per an employee under KM 500 thousands which implies that they have excessive number of staff in comparison to assets. That results in larger operational costs and has negative impact to profitability in those banks.

2. FINANCIAL RESULTS OF BANKING OPERATIONS

Control of banks through analysis of banks' reports is executed by review of reports regulated by the Agency and reports for other institutions. Those reports represent database of three groups of information:

1. Information on Balance Sheet set for all banks (by IMF and FBA format) submitted monthly, including quarterly attachments to balance sheet - FBA schedule containing more detailed information on money assets, loans, deposits and off balance sheet items, and basic statistical information,
2. Information on solvency in banks, information on capital and capital adequacy, assets classification, risk concentration, liquidity, exposure to foreign currency risk, based on the reports regulated by the FBA (quarterly) and
3. Information on operational results in banks (balance sheet - FBA format) and reports on cash flows, submitted to FBA quarterly.

Aside from above listed reports, data base includes information from additional reports requested by the Agency from banks in order to have the best conditions for monitoring banks' operations in the Federation of BiH. Also, database includes reports on audit prepared by independent auditor, and all other information relevant for rating of operational results for each bank individually and banking system in whole.

As it is regulated by the Law on Opening Balance in Banks, banks with predominantly state capital have to report to the Agency "complete" balance sheet which would be sectioned by: passive, neutral and active sub-balance. In order to have realistic indicators of banks' operational results in Federation of BiH, all further analysis of banking system will be based on information from active sub-balance for banks with predominantly state capital[6].

[6] Some state owned banks reported passive and neutral items in their "complete" balance, which will be taken over by the state upon the finalization of privatization process.

2.1. Balance sheet

Based on the balance sheets submitted by banks as of 12/31/04, total balance sheet in banks in the Federation of BiH was KM 7.6 billion, which is more by 32% or KM 1.8 billion in comparison to 12/31/03. During last three years assets in banks in the Federation BiH have moderate and stable growth ratio. In 2003, growth was larger by four percents in comparison to 2002 when assets increased by 22% and in comparison to the end of 2003, the growth ratio was larger by six percentage.

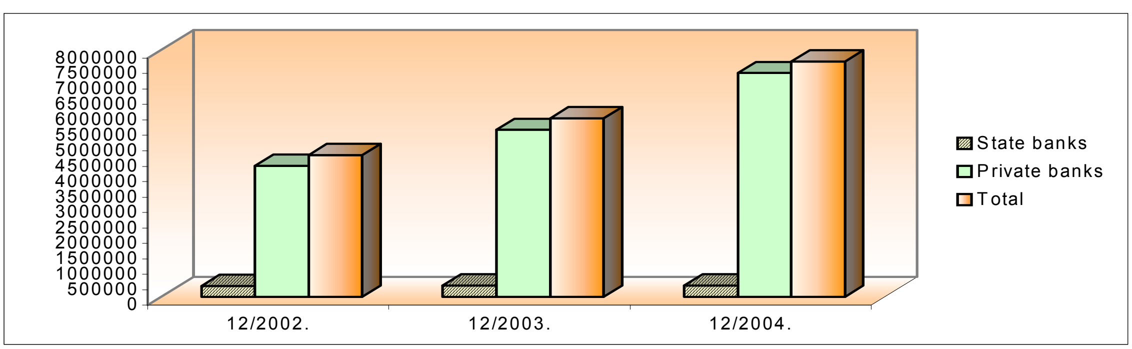
Schedule 9: *Balance Sheet*

DESCRIPTION	AMOUNT (in 000 KM)			INDEX	
	12/31/02	12/31/03	12/31/04	3/2	4/3
1	2	3	4	5	6
ASSETS:					
Money assets	1,595,154	2,059,285	2,859,489	129	139
Securities	73,150	25,017	19,430	34	78
Placements in other banks	19,952	36,369	81,624	182	224
Loans – net	2,504,415	3,238,270	4,185,522	129	129
Premises and other fixed assets	295,578	304,680	298,566	103	98
Other assets	99,617	108,429	169,090	109	156
TOTAL ASSETS	**4,587,866**	**5,772,050**	**7,613,721**	**126**	**132**
LIABILITIES:					
PAYABLES					
Deposits	3,524,555	4,292,709	5,602,238	122	131
Loans from other banks	3,352	3,779	3,329	113	88
Loan payables	313,009	589,012	850,833	188	144
Other liabilities	121,154	173,015	250,665	143	145
CAPITAL					
Capital	625,796	713,535	906,656	114	127
TOTAL LIABILITIES (PAYABLES AND CAPITAL)	**4,587,866**	**5,772,050**	**7,613,721**	**126**	**132**

Schedule 10: *Assets in Banks by Ownership Structure*

BANKS	12/31/02		12/31/03		12/31/04		INDEX	
							3/2	4/3
1	2		3		4		5	6
State Banks	345,299	8%	369,974	6%	373,064	5%	107	101
Private Banks	4,242,567	92%	5,402,076	94%	7,240,657	95%	127	134
TOTAL	4,587,866	100%	5,772,050	100%	7,613,721	100%	126	132

Graph 3: *Assets in Banks by Ownership Structure:*



Assets in banks with predominantly state capital was increased by only 1% or KM 3 million, while privately owned banks had growth of assets ratio of 34% or KM 1.8 billion. That resulted in changed participation of those two sectors. Privately owned banks participated with 95% and state banks with 5% and participation of 9% in total number of staff in banking sector in 2004.

Analysis of individual analytical data in banks displayed that only four banks under provisional administration had decreased assets in 2004, while other 20 banks recorded growth of assets. Growth ratios were between 4% and 87%. Only four banks had growth ration under 10%, while 10 banks had growth ratio larger than 30%. Nevertheless, we should emphasize that out of total growth of balance sheet, 75% or KM 1.4 billion was with five largest banks in the system.

If we analyze banking system from the aspect of assets size and particular groups within this frame, it is possible to make conclusion that changes resulted from merging of banks and growth of assets in majority of banks. This reflected the most on the biggest banks in the system (banks with assets over KM 500 million – Group I). On the other hand, number and assets in smaller banks (assets under KM 100 million) in absolute amount and as participation still has decreasing trend. This can be considered as positive trend in the growing and developing process of the banking sector.

Due to integration processes (merging of Universal Bank d.d. Sarajevo to Zagrebačka Bank d.d. Mostar and HVB Bank d.d. Sarajevo to Central Profit Bank d.d. Sarajevo) and including high growth ratio (of over 35%) of banks from group I (assets over KM 500 million), number of banks in this group increased from three to four. At the same time, participation of this group in the whole system increased by 18% (from 49.9% to 67.9%) and that represents high concentration. The biggest bank in the Federation of BiH has assets of approx. KM 2 billion, and it takes up 27% of the market. Two more banks had assets over KM 1 billion at the end of 2004, while bank which takes fourth position by size had assets of KM .7 billion. Number of banks from group II (assets between KM 300 and 500 million) remained unchanged (two banks), but their participation significantly decreased (from 16.4% to 9.2%). Changes in number and participation occurred in group III (assets between KM 100 and 300 million - the group with biggest number of banks). Although number of banks in this group increased (from eight to nine), participation decreased as in other three groups (except from group I) by considerable 4.9 percents (from 22% to 17.5%). Last two groups (assets under KM 100 million) experienced decreased number of banks by four due to growth of assets in three banks and their transfer to another group and revoking of banking license of one bank. Their participation in banking sector was only 5.4%. It is possible to make a conclusion that the predominant problem is still unfinished privatization process of state banks which participated in whole banking system with only 5% at the end of 2004.

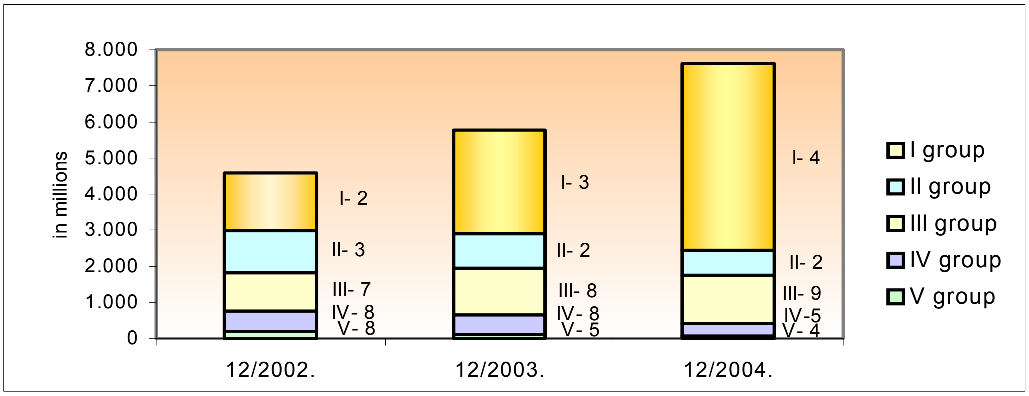
Following schedule presents amount and participation of particular group of banks[7] in time line (amounts are in million of KM):

Schedule 11: *Participation of particular groups of banks in total assets in periods*

ASSETS	12/31/02			12/31/03			12/31/04		
	Amount	Particip. %	Number of banks	Amount	Particip. %	Number of banks	Amount	Particip. %	Number of banks
I- Over 500	1,606	35.0	2	2,882	49.9	3	5,166	67.9	4
II- 300 to 500	1,163	25.3	3	945	16.4	2	701	9.2	2
III- 100 to 300	1,072	23.4	7	1,293	22.4	8	1,335	17.5	9
IV- 50 to 100	543	11.8	8	554	9.6	8	342	4.5	5
V- Less then 50	204	4.5	8	98	1.7	5	70	0.9	4
TOTAL	4,588	100.0	28	5,772	100.0	26	7,614	100.0	24

[7] **Banks are divided in five groups, by size of assets.**

Graph 4: *Participation of particular groups of banks in total assets in timeline*



The growth of balance sheet mainly resulted from growth of deposits (by 31% or KM 1,310 million), growth of borrowings (by 44% or KM 262 million) and capital (by 27% or KM 193 million). The capital increased from growth of capital in one state bank by KM 73 million, current income and provision of additional capital from external source in six banks with total amount of KM 111 million (KM 94 million were growth of share capital and 17 million were paid in for shares).

Assets (property) in banks recorded major growth ratio with money assets (39% or KM 800 million) and loans[8] (28% or KM 974 million).

Following schedule and graphs display comparable schedule of essential balance sheet items in assets and liabilities in active balance sheet:

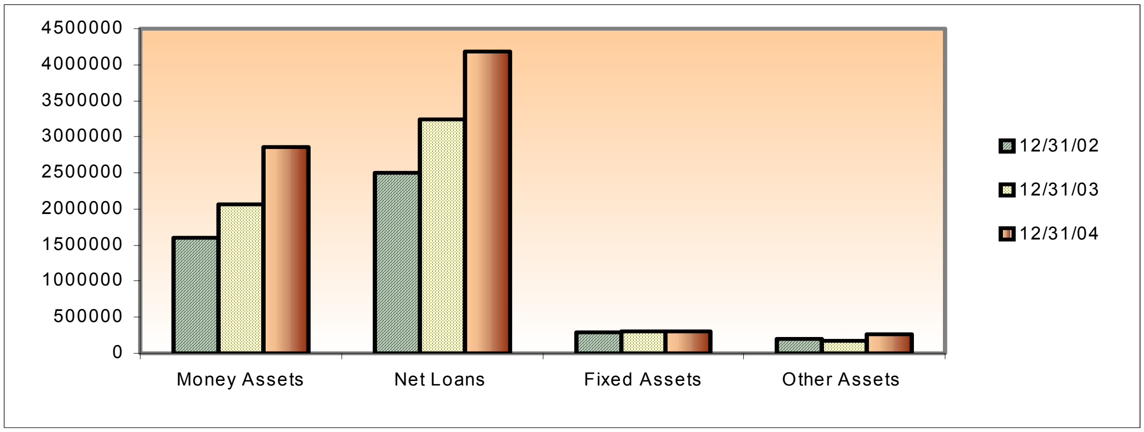
Schedule 12: *Balance sheet structure*

- In % -

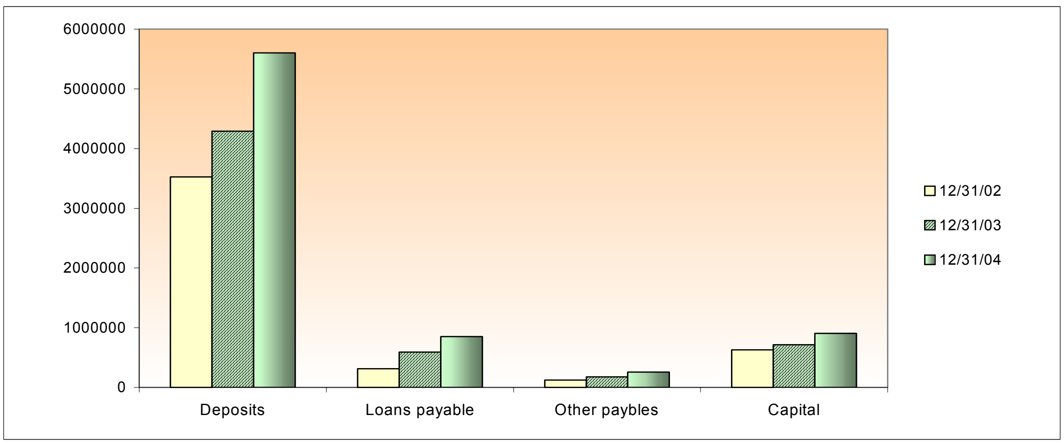
DESCRIPTION	PARTICIPATION		
	12/31/02	**12/31/03**	**12/31/04**
ASSETS:			
Money assets	34.8	35.7	37.6
Securities	1.6	0.4	0.2
Placements in other banks	0.4	0.6	1.1
Loans – net	54.6	56.1	55.0
Premises and other fixed assets	6.4	5.3	3.9
Other assets	2.2	1.9	2.2
TOTAL ASSETS	100.0	100.0	100.0
LIABILITIES:			
PAYABLES			
Deposits	76.8	74.4	73.6
Loans from other banks	0.1	0.1	0.1
Loan payables	6.8	10.2	11.2
Other liabilities	2.6	2.9	3.2
CAPITAL			
Capital	13.6	12.4	11.9
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	100.0	100.0	100.0

[8] Gross loans (information from balance sheet).

Graph 5: *Assets Structure in Balance Sheet in Banks*



Graph 6: *Liabilities Structure in Balance Sheet in Banks*



Changes in structure of balance sheet liabilities in banks and participation of the most significant balance sheet categories in financial potential remained the same as in the previous period. Although deposits participated with 73.6% and they are still predominant part of financial resources in banks, the participation is decreasing. Participation of capital also decreased in 2004, by 0.5% (from 12.4% to 11.9%). On the other hand, liabilities on loan payables increased by one percent.

The assets structure in banks recorded further growth of money assets by 1.9 percent, while loans participation dropped by 1.1 percent.

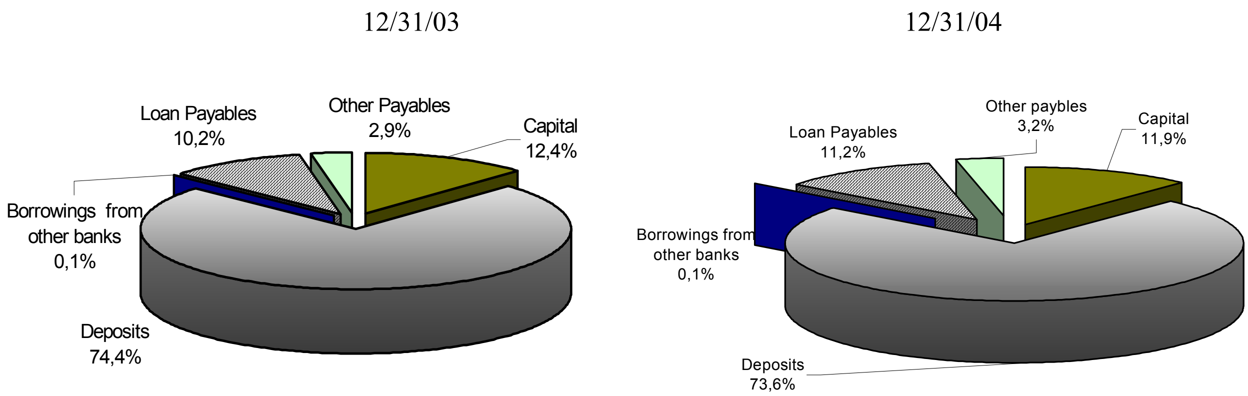
Banks in the Federation of BiH still had significant amount of money assets deposited at depository institutions abroad of KM 1.4 billion (majority in Euros) or 49.5% of total money assets. That is less by six percent in comparison to the end of 2003. That resulted in growth of participation of money assets at reserve accounts at Central Bank of BiH (from 34.9% to 41.2%) and it was KM 1,178 million at the end of 2004. That represents growth of 64% or KM 458 million in comparison to end of 2003. Banks had 7.5% of cash in vaults and counters or KM 216 million.

The changes influenced currency structure, that is, participation of foreign currency was reduced from 61% to 54%, and domestic currency participation increased from 39% to 46%. These changes predominately resulted from changed regulations on obligatory reserves for banks deposited at Central Bank of BiH, and regulations on adjustment of foreign currency balances in banks with limits set up by Decision on Minimum Standards for Managing Foreign Exchange Risk in Banks.

2.1.1. Liabilities

As of 31/12/04, structure of liabilities (liabilities and capital) in balance sheet of banks can be overviewed from following graph:

Graph 7: *Structure of liabilities in banks:*



The most significant change in the structure of liabilities was decreased participation of deposits by 0.8% and capital by 0.5 percent, while participation of loan payables increased by 1 percent.

In 2004, banks continued borrowing abroad, but still significantly less in comparison to last year when loan payables increased by 88% and in 2004 that growth was 44%. By this, banks substantially resolved problem of mismatch between maturity in assets and liabilities, that is, maturity adjustment of assets, liabilities and off balance sheet items which represented significant liquidity risk for banks. Long-term credit lines resulted in improved maturity adjustment of funds, and at the same time, banks ensured new long-term funds for financing clients. Analytical data by banks displayed that approximately 49% of those funds were loaned to banks by their owners (banks shareholders), and remaining assets were provided by borrowing funds from international financial market by using credit lines approved by international and domestic financial institutions. Three major creditors, with 51% out of total borrowings were: Raiffeisen Zentralbank Osterreich A.G. (RZB), European Bank for Reconstruction and Development (EBRD) and Kreditanstalt fur Wiederaufbau (KfW).

In reporting period, deposits increased by 31% or KM 1,310 million, while in 2003 they increased by 22% or KM 768 million. This growth was recorded only in privately owned banks (growth ratio of 34% or KM 1,385 million), while in state banks deposits were decreased by 35% or KM 75 million.

Participation of deposits in liabilities in privately owned banks was 75% and in state banks 38%.

Based on information reported by banks, out of total deposits only 4.7% were deposits collected by organizational parts of the banks from the Federation of BiH operating in Republic Srpska and Brcko District as of 12/31/04.

Improving trend of maturity adjustments in deposit structure is continued in 2004 as well. Growth ratio of long-term deposits was significantly higher (55%) in comparison to short-term deposits (19%). This resulted in changed maturity structure, that is, participation of long-term deposits increased from 30.9% to 36.7%. This is very important indicator of positive changes in the banking sector.

Schedule 13: *Maturity adjustment of deposits*

\- In 000 KM-

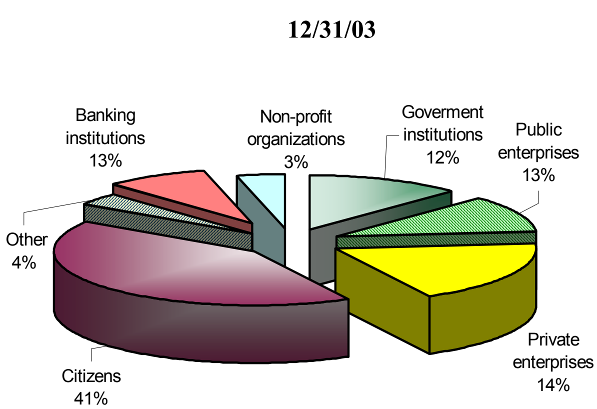
DEPOSITS	12/31/02		12/31/03		12/31/04		RATIO	
	Amount	Particip .%	Amount	Particip. %	Amount	Particip %	4/2	6/4
1	2	3	4	5	6	7	8	9
Savings and demand deposits	2,012,241	57.1	2,215,925	51.6	2,663,052	47.5	110	120
Up to 3 months	317,862	9.0	303,203	7.1	389,396	7.0	95	128
Up to 1 year	349,586	9.9	447,952	10.4	490,685	8.8	128	110
1. Total short-term	2,679,689	76.0	2,967,080	69.1	3,543,133	63.3	110	119
Up to 3 years	416,718	11.8	715,648	16.7	1,367,882	24.4	172	191
Over 3 years	428,148	12.2	609,981	14.2	691,223	12.3	143	113
2. Total long-term	844,866	24.0	1,325,629	30.9	2,059,105	36.7	157	155
TOTAL (1 + 2)	3,524,555	100.0	4,292,709	100.0	5,602,238	100.0	122	131

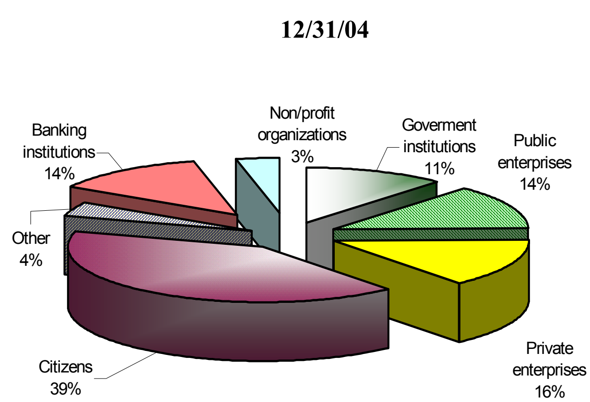
Schedule 14: *Structure of deposits by depositors*[9]

In 000 KM

DEPOSITS BY	12/31/02		12/31/03		12/31/04		RATIO	
	Amount	Particip .%	Amount	Particip. %	Amount	Particip %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	440,778	12.5	498,132	11.6	599,060	10.7	113	120
Public enterprises	388,271	11.0	567,677	13.2	783,256	14.0	146	138
Private enterprises and assoc.	658,076	18.7	607,046	14.1	877,731	15.7	92	145
Non-profit. Organizations	135,849	3.9	147,606	3.5	180,204	3.2	109	122
Banking institutions	296,215	8.4	557,166	13.0	808,112	14.4	188	145
Citizens	1,480,946	42.0	1,737,238	40.5	2,173,228	38.8	117	125
Other	124,420	3.5	177,844	4.1	180,647	3.2	143	102
TOTAL	3,524,555	100.0	4,292,709	100.0	5,602,238	100.0	122	31

Graph 8: *Structure of deposits by depositors*





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[9] **Information from attached form BS-D submitted by banks each quarter with Balance sheet - FBA format.**

Analysis by sectors, in comparison to previous year, displays significant growth in 2004. The major growth was with deposits of private enterprises (45% or KM 271 million) and banking institutions (45% or KM 251 million), while citizens deposits increased by 25% or KM 436 million and public enterprises by 38% or KM 215 million. We should emphasize the positive trend of private enterprises deposits, as well as moderate and stable growth of citizens' deposits.

Some changes occurred in share of deposits by sectors, that is, banks recorded growth of deposits of private enterprises by 1.6 percent, banking institutions by 1.4 and public enterprises by 0.8 percent. At the same time, participation of citizens' deposits decreased by 1.7 percent, this sector still represents major participation in total deposits of 38.8%.

Out of total deposits, 42% or KM 2,347 million was in domestic currency and 58% or KM 3,255 million was in foreign currencies. In comparison to the end of 2003, relatively, participation of domestic currency increased by 1 percent.

Savings, as the most significant part of deposit potential and general potential of banks maintained growing trend in 2004. Savings increased by 28% or KM 461 million, which represents growth of 12 percent in comparison to previous year. Only two banks had minor decrease of savings, and other banks recorded growth. In five banks, growth ratio was between 10% and 20%, while in 13 banks savings increased by over 20%. Out of total growth of savings, 81% or KM 374 million was with five biggest banks in the system.

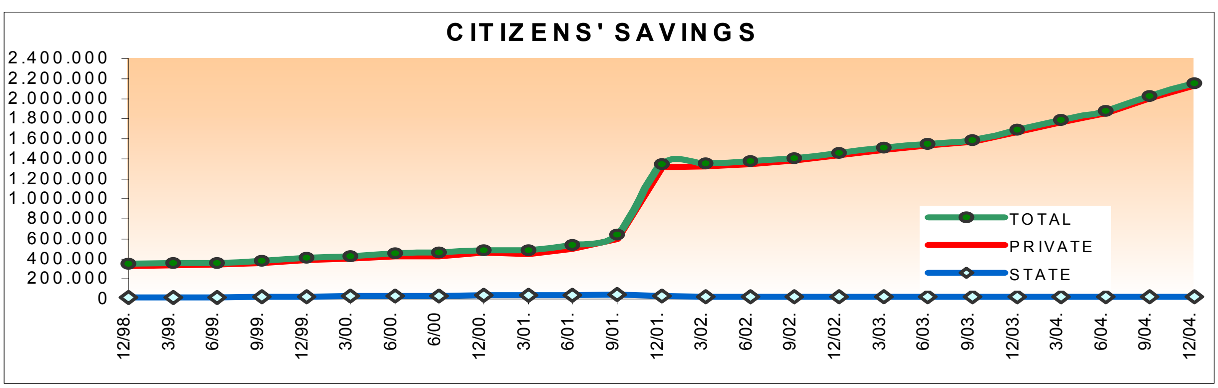
Viewed by sectors, almost all the savings are held with private banks, that is, only 1.1% of total savings is held on the accounts on five state banks.

Schedule 15: *New citizens' savings in time line*

- In 000 KM-

BANKS	AMOUNT (IN 000 KM)			RATIO	
	12/31/02	12/31/03	12/31/04	3/2	4/3
1	2	3	4	5	6
State	22,072	20,758	22,342	94	108
Private	1,414,814	1,645,991	2,105,167	116	128
TOTAL	1,436,888	1,666,749	2,127,509	116	128

Graph 9: *New citizens' savings in time line*



As in other segments, we should emphasize a strong concentration of savings with few banks, since 71% of total savings is held by three largest banks, that is, 94.6% of total savings is deposited with ten private banks.

Out of total amount of savings, 29.3% are savings in domestic currency and 70.7% are in foreign currency. This ratio was way better, domestic currency participation was higher (44.3%), at the end of 2003.

Schedule 16: *Citizens' savings maturity adjustments in time line*

BANKS	AMOUNT (IN 000 KM)						RATIO	
	12/31/02		12/31/03		12/31/04		3/2	4/3
1	2		3		4		5	6
Short-term savings	1,139,707	79.3%	1,228,261	73.7%	1,360,285	63.9%	108	111
Long-term savings	297,181	20.7%	438,489	26.3%	767,224	36.1%	147	175
TOTAL	1,436,888	100.0%	1,666,749	100.0%	2,127,509	100.0%	116	128

Maturity adjustment of savings, as well as total deposits, recorded positive trend, mainly due to continuing improvement of banking sector in whole, and regained trust in banks and that resulted in faster growth of long-term savings. We should especially mention stability and high growth ratio of long-term savings. That is good indicator for positive future trends.

Aside from activities implemented by FBA, growth of savings in banks in F BiH resulted from deposit insurance system, which was implemented in January 2001 immediately after the inception of the Deposit Insurance Agency of F BiH. The Law on Deposit Insurance in Banks in BiH was passed in August 2002 and shortly after that the Deposit Insurance Agency for BiH was founded. 15 banks from the Federation of BiH became part of the deposit insurance program and received certificate on deposit insurance. Analytical information on level of deposits by banks indicate that in those banks there was 94% deposited out of total deposits and 97% out of total savings. The admission of banks in the deposit insurance system for the Federation of BiH is entering the closing phase because within nine remaining banks which don't have certificate, six are state banks and they cannot apply for certificate (they don't have appropriate ownership structure) because of regulations set up by the Deposit Insurance Agency. The safety of deposits is guaranty and incentive for further growth of savings, not only in those banks but also in all other banks.

2.1.2. Capital -Strength and Adequacy

Capital[10] of banks in the Federation of BiH was KM 1,035 million as of 12/31/04.

Schedule 17: *Regulatory capital*

-In 000 KM-

DESCRIPTION		12/31/02		12/31/03		12/31/04		RATIO	
								3/2	4/3
1		2		3		4		5	6
STATE BANKS									
1.	Core capital before reduction			122,937		163,061			
2.	Offsetting items			17,687		2,607			
a)	Core capital (1-2)	101,783	96%	105,250	97%	160,454	98%	103	153
b)	Additional capital	3,879	4%	3,061	3%	3,639	2%	79	119
c)	**Capital (a + b)**	105,662	100%	108,311	100%	164,093	100%	103	152
PRIVATE BANKS									
1.	Core capital before reduction			584,221		743,860			
2.	Offsetting items			34,311		87,071			
a)	Core capital (1-2)	536,203	85%	549,910	75%	656,789	75%	103	119
b)	Additional capital	95,910	15%	183,681	25%	214,478	25%	192	117
c)	**Capital (a + b)**	632,113	100%	733,591	100%	871,267	100%	116	119
Total									
1.	Core capital before reduction			707,158		906,921			
2.	Offsetting items			51,998		89,678			
a)	Core capital (1-2)	637,986	86%	655,160	78%	817,243	79%	103	125
b)	Additional capital	99,789	14%	186,742	22%	218,117	21%	187	117
c)	**Capital (a + b)**	737,775	100%	841,902	100%	1,035,360	100%	114	123

New capital accrual methodology became effective as of 12/31/03[11] and by that regulation core and net capital were reported on more realistic basis, which is especially important from the aspect of calculation of bank's exposure to risks, primarily in loan risk concentrations.

In 2004, capital[12] increased by KM 193 million or 23% in comparison to year 2003, which is result of increase in core capital by KM 162 million, and additional capital by KM 31 million.

Growth of core capital is mainly based on growth of share capital by KM 162.5 million (even with decreased share capital by KM 27 million resulted from closing of a bank under provisional administration and negative effect of merging of two banks). Cash payments into share capital – provision of additional capital were KM 94 million. Further growth of core capital resulted from payments over share value of KM 16 million and retained income of KM 21 million.

Offsetting items (influencing decrease in core capital) increased by KM 38 million due to uncovered losses from previous years of KM 17 million[13], intangible assets of KM 27 million, while current losses decreased by KM 5 million and treasury shares by KM one million.

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

[11] The Decision on Changes and Additions to the Decision on Minimum Standards for Managing Capital in Banks ("Official Gazette F BiH", no. 18/03).

[12] Source of data is quarterly Report on Capital Positions in Banks (Form 1-Schedule A) regulated by the Decision on Minimum Standards for Managing Capital in Banks.

[13] Uncovered losses experienced the most significant changes after Hercegovačka Bank was included to reports with its KM 23.8 million and covered losses from reserves of approximately KM 11 million.

Significant changes occurred in additional capital (growth of general reserves for loan losses of KM 23 million, including income from nine banks confirmed by external audit of total KM 39 million, and growth of subordinated debts of KM 26 million, also, decreasing of subordinated debts by redistribution of income in 2003 to core capital of KM 45 million and permanent liabilities of KM 10 million) resulted in decreasing of additional capital by total KM 31 million.

Above-mentioned changes influenced structure of regulatory capital, that is, core capital participation increased by one percent from 78% to 79%.

Above-mentioned changes had positive effect to net capital that was increased by 20.9% or KM 176 million. Therefore, as of 12/31/04, total net capital was KM 1,016 million (KM 852 million in private banks and KM 164 million in state banks).

Ratio between capital and assets, that is, capitalization rate in banks as of 12/31/04, was 13.2%, which is less by 0.8% in comparison to the end of 2003, which means that the assets growth was not adequately followed by the capital growth.

Capital adequacy ratio calculated as net capital against risk weighted assets was 18.6% for the whole banking sector, which is less by 0.9% in comparison to the end of 2003. Decreased capital adequacy ratio resulted from above mentioned reason, although two large banks provided additional capital of KM 64 million. Also significant declination of capital adequacy ratio was moderated by including additional KM 26 million of subordinated debt.

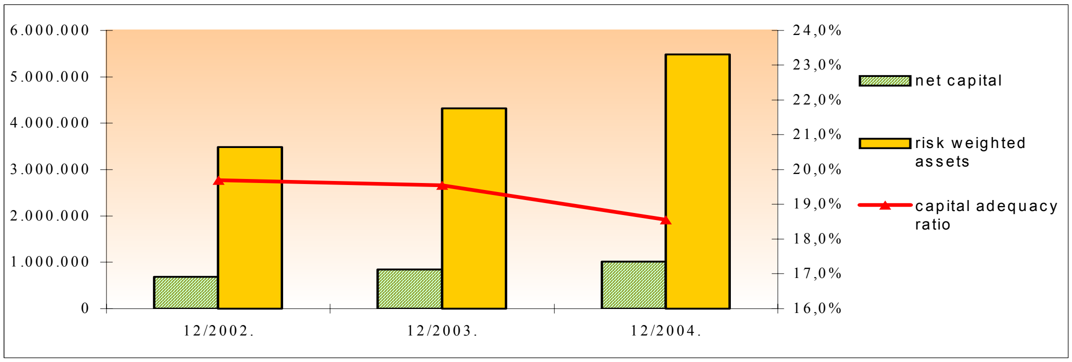
Drop of ratio for the whole system resulted also from continuing drop of capital adequacy ratio in private banks. It was 16.4% as of 12/31/04, which is lower by 1.8% in comparison to the end of 2003.

While conducting supervision of operations and financial positions of banks in the F BiH as regulated by the Law, FBA issued orders to banks to undertake actions for strengthening of capital base and provision of adequate capital in order to strengthen safety in banks individually and in the banking system in whole.

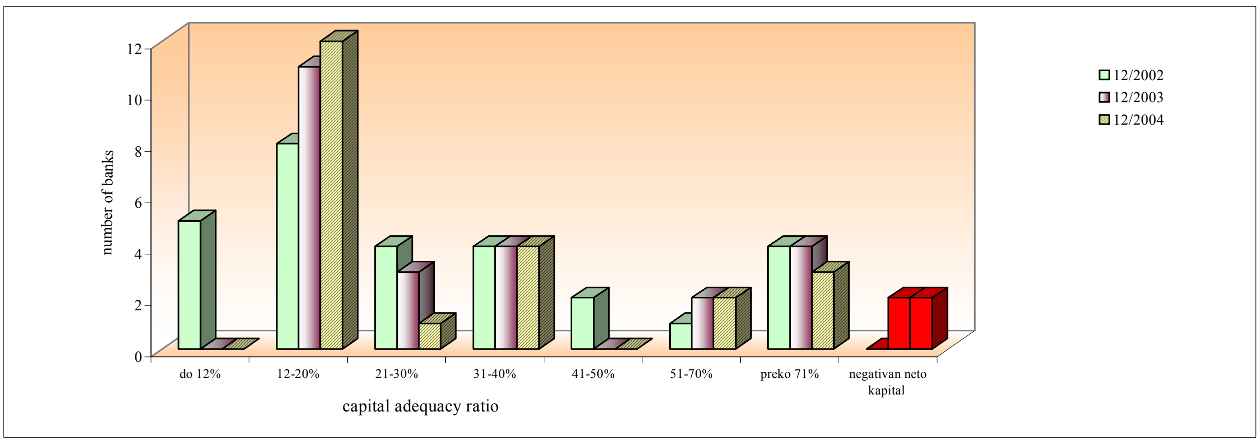
Schedule 18: *Net capital, Risk Weighted Assets and Capital Adequacy Ratio*

DESCRIPTION	12/31/02	12/31/03	12/31/04	RATIO	
				3/2	4/3
1	2	3	4	5	6
NET CAPITAL	687,576	840,605	1,016,333	122	121
RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS RISK	3,489,810	4,306,774	5,478,655	123	127
NET CAPITAL RATE (CAPITAL ADEQUACY)	19.7%	19.5%	18.6%	99	95

Graph 10: *Net capital, Risk Weighted Assets and Capital Adequacy Ratio*



Graph 11: *Capital adequacy ratio in banks*



Out of total 24 banks in F BiH, as of 12/31/04, 22 banks had capital adequacy ratio higher than regulatory minimum of 12% (five banks over 50%), while two banks (under provisional administration) had negative capital adequacy ratio.

In second group (ratio between 12% and 20%) there were 12 banks, while three had ratio between 21% and 40%. But, four largest banks by size of assets (which participate with 68% in total assets of the banking sector) had capital adequacy ratio slightly over the regulatory minimum (between 13.5% and 14.4%).

Any further growth of risk assets has to be followed by adequate growth of capital, and duty of banks is to adopt program for managing capital and to monitor implementation of the program in order to maintain size and quality of capital at least within regulatory minimums.

Further strengthening of capital base will be priority task in majority of banks, especially after implementation of new capital recording format. This is especially important for the largest banks in the system. FBA will pass appropriate decisions necessary to strengthen capital base in banks and that will guaranty their stability and safety.

2.1.3. Assets and Asset Quality

The Decision on Minimum Standards for Managing Credit Risk and Assets Classification in Banks (the decision) regulates criteria for assessment of banks' risk exposure by means of evaluating their assets' quality and adequacy of their reserves for loan and other losses by placements and balance and off-balance sheet risk item.

Gross assets[14] in the balance sheet in banks in the Federation of BiH were KM 7.9 billion as of 12/31/04, which is higher by 31% or KM 1,877 million in comparison to end of 2003, while off-balance sheet risk items were KM 1,047 million and they increased by 40% or KM 297 million.

Total assets, including off-balance sheet items (assets)[15], were 8.9 billion of KM and they increased by 32% in comparison to end year 2003.

Schedule 19: *Assets, off balance sheet items and potential loan losses in active balance sheet*

In 000 KM

DESCRIPTION	AMOUNT (in 000 KM)						RATIO	
	12/31/02	Structure %	12/31/03	Structure %	12/31/04	Structure %	4:2	6:4
1.	2.	3.	4.	5.	6	7	8	9
Loans	2,527,745	52.7	3,272,569	54.5	4,209,441	53.5	129	129
Interest	25,897	0.5	26,395	0.4	29,856	0.4	102	113
Past due receivables	156,351	3.3	171,821	2.9	209,218	2.7	110	122
Receivables on paid guarantees	7,486	0.1	5,353	0.1	5,026	0.1	72	94
Other placements	68,945	1.4	50,906	0.9	40,811	0.4	76	80
Other assets	2,006,672	42.0	2,468,073	41.2	3,377,845	42.9	123	137
TOTAL ASSETS	4,793,096	100.0	5,995,117	100.0	7,872,197	100.0	125	131
OFF BALANCE SHEET	693,300		749,382		1,046,809		108	140
BALANCE AND OFF BALANCE SHEET	5,486,396		6,744,499		8,919,006		123	132
General credit risk and potential loan losses	228,522		247,369		282,586		108	114
Allocated general and special reserves for loan losses	224,641		247,411		285,270		110	115

Out of total assets with off-balance sheet, non-risk items participate with KM 3,2 billion or 35%. This resulted from large growth of money assets KM 800 million or 39% more in comparison to the end of 2003.

The growth of money assets (mainly derived from growth of deposits which increased by KM 1,310 million or 31%) resulted in changes of risk assets structure. Participation of money assets in total assets increased from 35.7% to 37.6% with decreased participation of credit placements from 59.8% to 58.1%, although credit placements were higher by KM 974 million or 28% in comparison to the end of 2003.

Analysis of assets structure changes in banks displayed that in six banks (out of that number, four were under provisional administration) recorded reduction of credit placements, six banks had growth of loans over 30%, while growth ratio was between 2% and 28% in remaining banks. Total growth of credit placements in three largest banks in the F BiH was KM 538 million or 55% of total growth.

Analysis of loan portfolio structure by industries brings conclusion that placements decreased in sector of public enterprises by 6%, while placements to other sectors increased. The biggest nominal growth was to private enterprises (34% or KM 493 million) and participation of those placements in the whole structure increased by 2% and it was 43.7%. The significant growth of placements was recorded in placements to citizens in 2004, although growth ratio was less by 5%

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[14] Source of data: Report on Assets Classification in Balance Sheet and Off-Balance Sheet.

[15] Assets, as defined in the Article 2 of the Decision on Minimum Standards for Managing Credit Risk and Assets Classification in banks.

in comparison to 2003. Loans approved to citizens nominally increased by KM 464 million, which is 28% in comparison to 2003 although their participation in total loans decreased by 0.2%.

Changed structure of industries participation in total structure of loans is presented in following schedule:

Schedule 20: *Structure of loans by sectors*

-In 000 KM-

SECTORS	12/31/02		12/31/03		12/31/04		RATIO	
	Amount	Participation %	Amount	Participation %	Amount	Participation %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	30,194	1.1	24,526	0.7	34,348	0.8	81	140
Public enterprises	247,603	9.2	217,587	6.3	203,697	4.6	88	94
Private enterprises and assoc.	1,078,795	40.1	1,439,009	41.7	1,932,203	43.7	133	134
Non-profit. Organizations	2,834	0.1	3,015	0.1	3,619	0.1	106	120
Banking institutions	46,439	1.7	33,281	1.0	34,082	0.7	72	102
Citizens	1,262,146	46.9	1,676,325	48.6	2,139,700	48.4	133	128
Other	23,571	0.9	55,999	1.6	76,036	1.7	238	136
TOTAL	2,691,582	100.0	3,449,742	100.0	4,423,685	100.0	128	128

As in deposits, we should emphasize that maturity structure of loans maintained positive trend of growth that increased by 28% in the reporting period. But, long-term loans had growth ratio of 29% that resulted in growth of their participation in total loans (from 72.4% to 72.8%). Analysis by sectors displayed that 91% of loans approved to citizens and 57% to private enterprises are long-term.

Schedule 21: *Maturity Structure of Loans*

-In 000 KM-

LOANS	12/31/02		12/31/03		12/31/04		RATIO	
	Amount	Participation %	Amount	Participation %	Amount	Participation %	4/2	6/4
1	2	3	4	5	6	7	8	9
Past due Receivables and Off-Balance Sheet Liabilities Paid	163,837	6.1	177,174	5.1	214,244	4.8	109	121
Short-term Loans	620,572	23.0	776,014	22.5	991,183	22.4	125	128
Long-term Loans	1,907,173	70.9	2,496,554	72.4	3,218,258	72.8	131	129
TOTAL LOANS	2,691,582	100.0	3,449,742	100.0	4,423,685	100.0	128	128

Above reported changes had effect to maturity adjustment of assets and liabilities, that is, had positive effect to mismatch in maturity adjustments of particular items of assets and liabilities. This mainly resulted from activities and actions implemented by banks, upon FBA's orders, in second half of 2003 and first quarter of 2004. Anyhow, some banks still have maturity mismatch of remaining past due financial assets and liabilities. The FBA has issued order with time lines for correction of found irregularities.

Since placements - loans are the part of assets with highest risk, the quality of loans represents one of the most significant factors of stability and success of business. Quality rating of assets is actually assessment of credit risk in banks, that is, identification of potential loan losses that are recognized as provisions for loan losses.

Quality of assets and off-balance sheet, general credit risk and potential loan losses are presented, by classification categories[16], in following schedule:

Schedule 22: *Classification of Assets, General Credit Risk (GCR) and Potential Loan Losses (PLL) and Off-Balance Sheet Items (assets written off and interest suspended)*

Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in %)									RATIO	
	12/31/02			12/31/03			12/31/04				
	Asses classif.	Particip. %	GCR PLL	Asses classif.	Particip. %	GCR PLL	Asses classif.	Particip. %	GCR PLL	5/2	8/5
1	2	3	4	5	6	7	8	9	10	11	12
A	4,713,349	85.9	60,161	5,881,803	87.2	70,974	7,880,355	88.4	94,492	125	134
B	482,988	8.8	42,037	563,498	8.4	46,657	730,737	8.2	53,633	117	130
C	148,267	2.7	40,676	152,581	2.3	44,593	144,732	1.6	42,287	103	95
D	134,419	2.5	78,275	139,311	2.0	77,839	162,299	1.8	91,294	104	117
E	7,373	0.1	7,373	7,306	0.1	7,306	883	0.0	880	99	12
TOTAL	5,486,396	100.0	228,522	6,744,499	100.0	247,369	8,919,006	100	282,586	123	132
OFF-BALANCE SHEET											
E	298,356	75.1		341,166	79.8		342,565	83.3		114	100
Susp. interest	99,063	24.9		86,205	20.2		68,680	16.7		87	80
TOTAL	397,419	100.0		427,371	100.0		411,245	100		108	96

If we make analysis of assets quality with off-balance sheet items included, it is possible to notice that there was decrease in classified assets (B to E) by 1.2% in total assets although it increased by KM 176 million or 20% in 2004. The major growth of KM 167 million or 30% was with assets classified as B (mainly loan placements), but participation of this category decreased by 0.2 percent. Poor quality assets in the balance sheet increased by 3% or KM nine million in this period, and category C decreased by 5% or eight million KM. At the same time, banks charged off from balance sheet into off-balance sheet, that is, charged off receivables of KM 57,4 million and suspended interest of total KM 13.9 million. In 2004, permanent charge off of assets items was KM 18.9 million, and permanent charge off of suspended interest was KM 9 million. At the same time, banks collected earlier charged off assets of total KM 26.6 million, and collected suspended interest was KM eight million in this period, which had positive influence to banks' profitability.

At the end of 2004, charged off assets were KM 342 million and it is almost the same as at the end of 2003. While total suspended interest was KM 69 million, which is less by 20% of KM 17.5 million in comparison to the end of 2003.

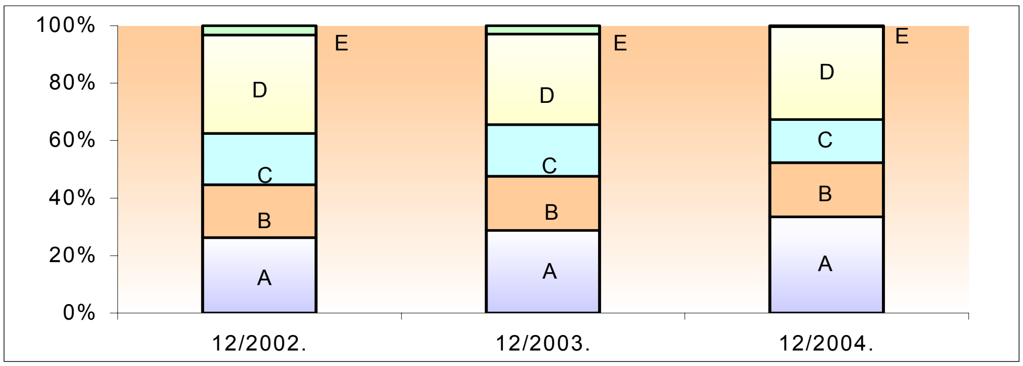
Level of general loan risk and estimated losses by classification, determined upon criteria and methodology regulated by the FBA's decisions, their trends and structure for the whole banking sector are presented in the following schedule and graph:

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

Schedule 23: *Structure and trend of General Credit Risk and Potential Loan Losses*

Classification	AMOUNT (in 000 KM) and STRUCTURE (in %)						RATIO	
	12/31/02		12/31/03		12/31/04		4/2	6/4
1	2	3	4	5	6	7	8	9
A	60,161	26.3	70,974	28.7	94,492	33.4	118	133
B	42,037	18.4	46,657	18.9	53,633	18.9	111	115
C	40,676	17.8	44,593	18.0	42,287	15.0	110	95
D	78,275	34.3	77,839	31.5	91,294	32.4	97	117
E	7,373	3.2	7,306	2.9	880	0.3	84	12
TOTAL	228,522	100.0	247,369	100.0	282,586	100.0	107	114

Graph 12: *Structure and Trend of General Credit Risk and Potential Loan Losses*



Based on reports from banks, banks have allocated reserves for loan losses as regulated by laws and assessed levels of credit risk.

In comparison to the end of 2003, analysis of the reserves allocated, in general and by classification category, displayed that reserves for general credit risk and potential loan losses increased by 14% and were KM 283 million or 3.2% of total assets, including off-balance sheet. In 2004, banks allocated average reserves for category B of 7.3%, for C 29.2%, for D 57.8% and E 100%, which can be considered satisfactory.

Assets quality analysis, that is, analysis of loan portfolios in banks individually, as well as on site examinations in banks showed that key risk in banks is still credit risk, therefore problem loans approved to legal entities (enterprises).

The FBA initiated corrective actions in banks with problem assets, banks had to prepare program for improvement of existing practices for managing credit risk, that is, assets quality. Also, they have to decrease existing concentrations, resolve poor assets and prevent any further deterioration of assets. FBA continuously monitors implementation of those actions through follow-up procedures based on reports and other documentation submitted by banks, as well as during on site examinations in banks.

Transactions with Related Entities

While operating, banks are exposed to different risks, among the most significant operations are transactions with related entities.

The Agency has initiated, in accordance with Basle Principles, prudence principles and requirements regulating operations with related entities of the bank[17]. That is also regulated by the Decision on Minimum Standards for Bank Operations with Related Entities that regulated in detail modes and conditions operations with related entities. The Decision and the Law regulate the duty of the Managing Board of the Bank, which has to adopt, upon the proposal of the General Manager, special policies regulating operations with related entities and to monitor application of those policies.

The decision of FBA regulate special set of reports showing transactions with one part of related entities, including loans and potential and accepted off-balance liabilities (guarantees, letters of credit, accepted loan payables) since those represent the most often and the riskiest type of transactions between banks and their related entities. The set of reports includes information on loans approved to following categories of related entities:

- shareholders with more than 5% of voting shares,
- members of the Managing Board and senior management in the bank and
- Subsidiaries and other enterprises significantly related to the bank.

Schedule 24: *Transactions with Related Entities*

000 KM

Description	APPROVED LOANS			RATIO	
	12/31/02	12/31/03	12/31/04	3/2	4/3
1	2	3	4	5	6
Shareholders with over then 5% of voting shares, subsidiaries and other significantly related enterprises	59,241	37,050	40,084	63	108
Members of the Managing Board	315	388	141	123	36
Managerial Staff and employees of the bank	2,699[18]	1,670	2,392	62	139
TOTAL	62,255	39,108	42,617	63	109
POTENTIAL AND ACCEPTED OFF-BALANCE SHEET LIABILITIES	6,684	8,689	3,235	130	37

The Agency pays special attention (during on-site examinations) on banking operations with related entities. FBA examiners issue on-site orders for elimination of found oversights, give dead lines for and start legal procedures. Part of those activities is monitoring and supervision of execution of ordered corrective actions.

2.2. Profitability

As reported in balance sheets for end of 2004, banks in the Federation of BiH earned positive financial result - income of KM 47.1 million, which is more by 2.4% or KM 1.1 million in comparison to 2003.

Positive financial result was reported by 18 banks of total KM 57.7 million, which is less by 6% or KM 3.7 million in comparison to 2003. At the same time, six banks reported operational loss (one state and five privately owned) of KM 10.6 million, which is less by KM 4.8 million in comparison to 2003.

More detailed information is presented in the following schedule:

[17] Article 39, item 2 of the Changes and Additions to the Law on Banks defines term “entities related to the bank”. Now it excludes staff of the bank.
[18] Without loans originated to bank employees as regulated by the Changes to the Law on Banks.

Schedule 25: *Income/loss Earned*

- 000 KM-

Date/Description	Whole system		Private banks		State banks	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
12/31/02						
Loss	-22,531	9	-15,436	7	-7,095	2
Income	37,267	19	34,242	15	3,025	4
Total	14,736	28	18,806	22	-4,070	6
12/31/03						
Loss	-15,384	8	-14,823	6	-561	2
Income	61,375	18	58,543	12	2,832	5
Total	45,991	26	43,720	19	2,271	7
12/31/04						
Loss	-10,572	6	-10,080	5	-492	1
Income	57,694	18	54,360	13	3,334	5
Total	47,121	24	44,279	18	2,842	6

Individual analytical information from banks, as well as indicators for quality rating (financial results - income/loss and ratios used for estimation of profitability, productivity and efficiency of operations, including other parameters for rating of operations) lead to conclusion that general profitability of the system is good although financial result was higher by only KM 1.1 million in comparison to previous year. Individual profitability in majority of banks has moderate improving trend and it can be rated as satisfactory, especially in few larger banks (six large banks earned income of KM 43.6 million which represents 92.5% of total income in banking system).

From aspect of financial results, 14 banks had better financial results in 2004 than in 2003, out of that number, nine banks had increased income, three banks had positive income (year before they recorded negative income) and two banks recorded loss in 2004, but significantly lower in comparison to 2003.

10 remaining banks had slightly worse financial results than in 2003. In this group two banks were under provisional administration. Six banks earned income slightly lower than year before, and we can expect that this trend will be stopped in 2005 and that they will earn better financial results. At the end, it is possible to say that there were some more severe profitability problems in two privately owned banks which have to undertake adequate measures and activities in order to improve this part of their operations, so new losses would not further deprive their capital. The FBA ordered this in those banks after full-scope examination of business in those banks.

As in other segments, this one is characterized by concentrations: out of total income (KM 57.7 million) 64.5% or KM 37.2 million was in three largest banks, while 79.2% or KM 8.4 million of total loss (KM 10.6 million) was earned in three private banks.

In 2004, total net revenue was KM 490.6 million and it is higher by 6% in comparison to 2003, while total non-interest bearing expenses were KM 441.5 million and they were higher by 7% then in 2003.

In the structure of total income, net interest income still has growing trend (in 2004 it was 54.4% and in 2003 it was 51.8%), and participation of operating income decreased from 48.2 to 45.7%.

But, net interest income with growth of 11% in comparison to same period last year, including interest income growth of 17%, did not follow growth of credit placements (increased by 28%) and growth of interest bearing assets (average growth of 25.5%). The major reasons for that are drop of interest rates and interest margin, high participation of loan-term loans in the structure of loan portfolio, but also, growth of poor (non interest bearing) assets (3%) and write offs (KM 57.4 million) with significant amount of suspended interest (13.9 million) and permanent write offs of interest as regulated by authorized institution (KM 9 million).

On the other hand, banks recorded significant growth of interest expense than income with constant growth of their participation in total interest bearing income (from 28.9% to 32.4%). This resulted from significant growth of interest expenses for borrowings and loans (79,1%) and deposits (27,6%), due to faster growth of interest bearing sources for loans (loans and borrowings increased by 44% and deposits by 31%).

In 2004, operating income was KM 224 million and higher by KM 1.2 million in comparison to 2003, but their participation in total income[19] decreased from 39,8 to 36,2%.

The growth of total non-interest expenses was significantly faster (growth ratio 7%) in comparison to growth of operating income, this mainly resulted to growth of operating expenses of 11% (salaries, premises and fixed assets expenses etc). Participation of non-interest expenses in total income increased by 1%.

Following schedules display the trend and structure of total income and expenses:

Schedule 22: *Structure of total income*

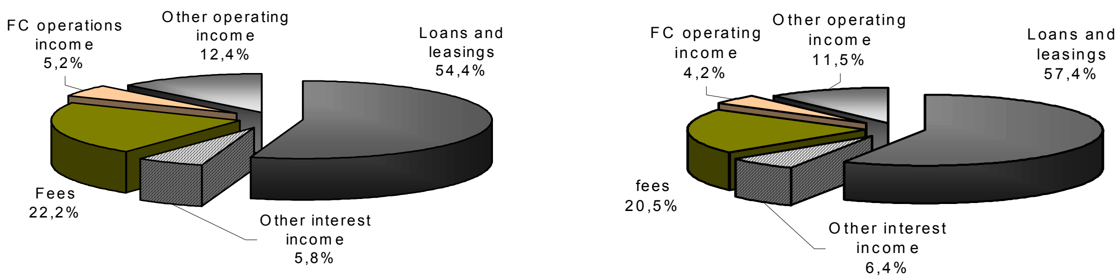
-in 000 KM-

Structure of total revenue	12/31/02		12/31/03		12/31/04		RATIO	
	Amount	%	Amount	%	Amount	%	4/2	5/6
1	2	3	4	5	6	7	8	9
I Interest income and similar types of income								
Interest bearing deposit accounts with depository institutions	32,913	6.6	24,485	4.4	27,530	4.5	101	112
Loans and lease financing	229,962	46.2	304,464	54.4	354,721	57.4	143	117
Other interest income and all other similar income	5,050	1.0	7,748	1.4	12,102	1.9	80	156
TOTAL	267,925	53.8	336,697	60.2	394,360	63.8	134	117
II Operating income								
Services Fees	120,525	24.2	124,053	22.2	126,582	20.5	103	102
Foreign Exchange Revenue	40,843	8.2	28,968	5.2	26,257	4.2	71	91
Other operational income	68,683	13.8	69,779	12.4	71,154	11.5	102	102
TOTAL	230,051	46.2	222,800	39.8	223,993	36.2	97	101
TOTAL INCOME (I+II)	497,975	100.0	559,497	100.0	618,353	100.0	112	111

[19] From Income Statement: represents sum of net interest income (difference between interest income and expenses) and operating income.

Graph 13: *Structure of Total Income*

31.12.2003. **31.12.2004.**



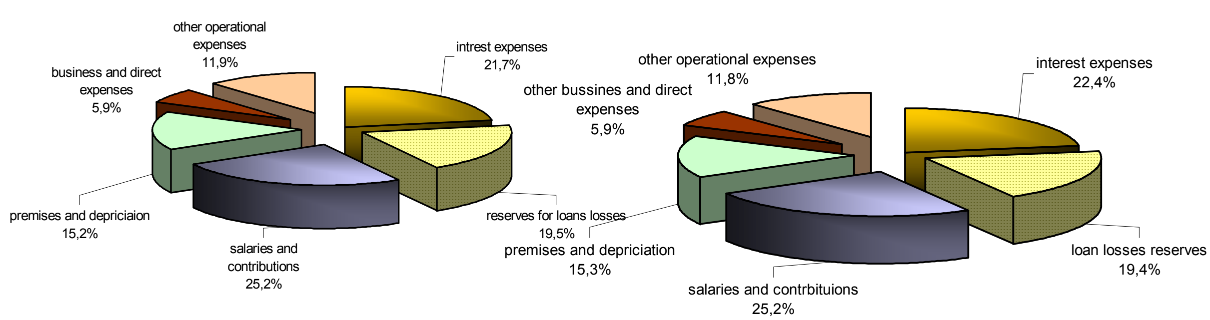
Schedule 27: *Structure of Total Expenses*

- in 000 KM-

	Structure of total expenses	12/31/02		12/31/03		09/30/04		RATIO	
		Amount	%	Amount	%	Amount	%	4/2	5/6
	1	2	3	4	5	6	7	8	9
I	**Interest expenses and other similar expenses**								
	Deposits	59,702	12.4	79,808	15.6	101,848	17.9	134	128
	Obligations based on loans and other borrowings	15,903	3.3	12,828	2.5	22,979	4.0	81	179
	Other interest expenses	2,297	0.5	4,605	0.9	2,893	0.5	200	63
	TOTAL	77,902	16.2	97,241	19.0	127,720	22.4	125	131
II	**II Total non-interest bearing expenses**								
	Costs of reserves for general credit risk & potential loan and other losses	124,331	25.9	113,354	22.2	110,322	19.4	91	97
	Costs of salaries and benefits	120,262	25.0	133,912	26.2	143,631	25.2	111	107
	Costs of business premises and depreciation	64,604	13.5	74,777	14.6	86,902	15.3	116	116
	Other operating and direct expenses	28,544	5.9	31,693	6.2	33,505	5.9	111	106
	Other operating expenses	64,986	13.5	60,246	11.8	67,154	11.8	93	111
	TOTAL	402,727	83.8	413,982	81.0	441,514	77.6	103	107
	TOTAL EXPENSES (I + II)	480,629	100.0	511,223	100.0	569,234	100.0	106	111

Graph 14: *Structure of total expenses*

31.12.2003. **31.12.2004.**



In the structure of total expenses, we should mention decreased participation of provisions for loans and other losses from 22.2% to 19.4%, and at the same time decreased in comparison to year 2003 by 2.7%. This partially resulted from changed reporting methodology (net principle) and, on the other hand, some banks still don't make realistic estimation of potential loan losses and don't allocate adequate reserves for loan losses.

Interest expenses increased by 30,5% in comparison to 2003 and their participation in total expenses increased from 19% to 22.4%. This mainly resulted from growth of total interest bearing deposits of 33.5%, growth of time deposits of 44.9% and growth of loan payables by 44%.

Following schedules display the most significant ratios necessary to assess profitability, productivity and efficiency in banks:

Schedule 28: *Profitability, Productivity and Efficiency Ratios by Periods*

-In % -

RATIOS	12/31/02	12/31/03	12/31/04
Return on Average Assets	0.36	0.88	0.72
Return on Average Total Capital	2.57	6.76	5.75
Return on Average Share Capital	3.00	8.17	6.89
Net Interest Income/Average Assets	4.66	4.60	4.08
Fee Income/Average Assets	5.77	4.27	3.43
Total Income/Average Assets	10.43	8.88	7.51
Operating and Direct Expanses[19]/Average Assets	3.85	2.79	2.20
Operating Expenses/Average Assets	6.16	5.17	4.55
Total Non-interest Expanses/Average Assets	10.00	7.95	6.76

Schedule 29: *Profitability, Productivity and Efficiency Ratios As Of 12/31/04*

-In % -

RATIOS	12/31/04		
	STATE BANKS	PRIVATE BANKS	AVERAGE IN F BiH
Return on Average Assets	0.79	0.72	0.72
Return on Average Total Capital	1.69	6.80	5.75
Return on Average Share Capital	1.99	8.19	6.89
Net Interest Income/Average Assets	3.63	4.11	4.08
Fee Income/Average Assets	7.21	3.21	3.43
Total Income/Average Assets	10.84	7.31	7.51
Operating and Direct Expanses/Average Assets	4.02	2.09	2.20
Operating Expenses/Average Assets	5.63	4.49	4.55
Total Non-interest Expanses/Average Assets	9.65	6.59	6.76

Analysis of basic indicators of profitability displayed that, although income in 2004 was slightly higher than in 2003, profitability has not been improved. Two most significant indicators of profitability: ROAA (return on average assets) of 0.72% and ROAE (return on average equity/share capital) of 6.89% were slightly lower in comparison to last year

Productivity of banks, measured as ratio of total income and average assets, as well as earned net income and operating income per a unit of average assets, are also poor due to, on one side, further more rapid growth in assets than in total income (net interest and operating income), and, on the other side, significant participation of non-interest bearing assets.

[19] Expenses include provisions for potential loan losses.

Efficiency of banks' operations, measured as ratio of assets per employee, that is, by growth ratio of 26%, improved. This resulted from faster growth of assets (2003 it was 26% in 2004 it was 23%) than growth of employees (2003 it was 17% in 2004 it was 5%).

Profitability of banks in the next period will still depend on assets quality, that is, bank's exposure to loan risk, and effective operating expenses management. This means that the key element of effectiveness and profitability in a bank is a good quality management and business policy, because these result in the most direct influence on its performances.

Also, new market conditions will force banks to adopt new concepts of operational policies adjusted to competitive banking striving for maximum profit, providing stability and adequate management and control of all operational risks in the bank, and above all, credit risk. But, taking place in international financial business and market will expose banks to larger market risks: interest rate risk, foreign exchange risk and price risk. Earning more profit from retained income as internal source of funding in banks would provide stronger capital and increase base for further development and growth.

III. CONCLUSION

Consolidation and stabilization of banking sector in the Federation of BiH have reached satisfactory level and up coming activities should provide further progress and development of the system. On that account, continuous engagement of all parts of the system, regulatory and administrative authorities in order to provide the most favorable environment in economy which would be stimulating to banks and vice versa to economy.

In order to achieve above-mentioned goals, further involvement of authorized institutions and entities in Bosnia and Herzegovina and the Federation of BiH will be necessary in order to:

- Speeding up implementation of the reform process in the core sector in order to achieve level attained by monetary and banking system;
- Finalization of privatization process in state banks, that is, resolving their status;
- Conclusion and annexation of regulations for sector of finance, the regulations referring to operation or status of micro credit institutions, BOR and Investment Bank in the Federation of BiH d.d. Sarajevo etc;
- Improving environment for bank operations in whole Bosnia and Herzegovina;
- Accelerating implementation of special court sections for economy;
- Implementation of more efficient procedures for collection of collateral;
- Passing the Law on Protection of Creditors and implementing greater and defined duties of debtors;
- Further improvement of legal framework for banking system and sector of finance, starting from Basle Principles and European banking directives;
- Supporting activities for founding banking agency on the state level, "under umbrella" of Central Bank etc.

The Banking Agency of the Federation of BiH in future will:

- Maintain a continuous supervision of banks, on-site and off-site;
- Finalize remaining provisional and liquidation administrations in banks;
- Insist on strengthening of capital in banks, especially those banks which have recorded growth above average;
- Implement special supervision in banks with large savings and other types of deposits in order to protect depositors

- Further develop regulations under authority of the Agency starting from Basle Principles and incorporating European Directives, as part of preparation process for becoming part of European Union;
- Initiate further education of members in Supervisory Boards in banks;
- Work on continuous education and training of Agency staff;
- Maintain continuity of control of payment system;
- Continue effective monitoring of banks activities for prevention of money laundering and financing of terrorism, and enhance cooperation with other supervisory and examiners institutions;
- Provide effective operation of new informational system for early warning and prevention of weaknesses in banks;
- Improve cooperation with Association of banks;
- Establish cooperation with supervisory institutions in countries whose natives are investors in our country
- Take active part in preparations for establishment of banking agency at the state level, "under umbrella of CB BiH"
- Organize counseling and provide technical assistance in implementation of banking laws and regulations, etc

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

- Further strengthen capital in correlation with growth of assets;
- Improve quality of assets;
- Adopt and implement new principles for operations, policies and procedures adjusted to competitive market conditions;
- Strengthen internal control systems and establish internal audits, and provision of their independence;
- Faster development of credit/debit card operations and electronic banking;
- Development of examination procedures and IT improvement;
- Training and staff improvement;
- Maintaining prevention of money laundering and terrorism financing by implementation of adopted policies and procedures;
- Improvement of Bankers Association, etc.