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

I N F O R M A T I O N

ON BANKING SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
AS OF JUNE 30, 2007

Sarajevo, August 2007

Banking Agency of the Federation of BiH, as a regulatory authority performing bank supervision, prepared Information on banking system of the Federation of BiH (as of June 30, 2007) based on reports of banks, and other information and data submitted by banks. We also included findings and data resulting from on-site examinations and analysis performed by the Agency (off-site financial analysis).

I. INTRODUCTION

In the first half of 2007, the banking sector of the Federation of BiH has maintained positive trends of growth, development, stabilization and strengthening from the past period. Banks have continued expanding their organizational network. As of 30.06.2007., there were 20 privately owned banks, and three state owned banks. In order to increase market positioning, there have been many integration processes, which made the largest banks become larger, number of banks decreased, and competition became more intensified. By the end of 2007, it is expected to see another integration process finalized (one was finalized as of 31. 07. 2007.- LT Gospodarska banka d.d. Sarajevo was merged to Upi banka d.d. Sarajevo).

Aggregate balance sheet of banks in the Federation of BiH, as of 30.06.2007., was 12,9 billion, which is higher by 12% or KM 1,4 billion than at the end of 2006. Four largest banks make 62% or KM 870 million of total growth realized. The ownership structure of state banks has changed after longer period of time (upon additional capitalization two banks moved to the group of banks with majority private capital). This has caused decrease in the assets of state banks by 15% or KM 73 million. Market share of banks with majority foreign ownership increased by 1,3%, amounting to 94,3% as of 30.06.2007., and the state capital participation decreased from 4,1 to 3,1%.

Observed by balance sheet positions in sources, deposit potential increased by KM 981 million or 12%, borrowings by 19% or KM 264 million. Significant growth of credit placements was recorded, so in six months of 2007, they increased by KM 990 million or by 15%, and cash funds by KM 441 million or by 10%.

Deposits, in the amount of 9,4 billion and with participation of 72,5%, represent a dominant source of financing for banks in the Federation of BiH. In deposits, we should especially point out the increase of savings, which in 2007 increased by 11,4% or KM 382 million, reaching the amount of KM 3,7 billion, which is the result and assurance of increasing confidence in the banking system.

Banks primarily financed citizens and, if compared to the end of 2006, those placements increased to KM 527 million or 15%, while loans to private companies increased by 411 million or by 14%. As for the structure of citizen loans by their purpose, loans originated to finance consumer goods (including card-based operations) recorded the highest participation of approximately 70%, housing loans with 24%, and loans to crafts industry, small business and agriculture represent remaining 6%. In the first half of 2007, long term loans increased by 16% or KM 835 million, and short term by 9% or KM 116 million. In the balance sheet liabilities structure of banks, a slow trend of gradual downfall in participation of deposits and growth of credit liabilities continues.

The indicators of successful performance of banks in the first half of 2007 are satisfactory; profit on the system level was KM 81 million, representing a significant increase of 81% or KM 36 million in comparison to the same period in 2006. Profit of KM 83,3 million was generated by 19 banks, while four banks reported loss in total amount of KM 2,2 million. All key financial indicators of profitability, analyzed by bank ownership as criteria, show that private banks operate as more cost-efficient, more productive and more effective, which provides for their competitive advantage if compared to state banks, pushing for a need to finalize privatization of remaining state banks.

Capital of banks in the FBiH, as of 30.06. 2007., amounted to KM 1.603 million. In the first half of 2007, capital increased by KM 130 million or by 9%, of which state capital increased by KM 123 million or 11%, and additional by seven million KM or 2%. Increase of share capital has significantly influenced the growth of core capital as a result of inflow of new, green capital – additional capitalization of KM 43,6 million in three banks.

We may conclude that banks, as of 30.06.2007., were complied with the prescribed limits, and have realized better maturity adjustment between financial assets and liabilities if compared to the prescribed limits, but still somewhat deteriorated if compared to the end of 2006, which was caused by stronger growth of credit placements in the first half of 2007, primarily of long term.

II. BUSINESS PERFORMANCE OF BANKS IN THE FEDERATION OF BIH

1. STRUCTURE OF THE BANKING SECTOR

1.1. Status, number and business network

As of 30. 06. 2007., there were 23 banks with the banking license issued in the Federation of BiH. Number of banks remained as of 31. 12. 2006. Approval was issued for a status change of integration of LT Gospodarska banka d.d. Sarajevo into UPI bank d.d. Sarajevo as of 31.07.2007., so as of 01. 08. 2007. there would be 22 banks in the Federation of BiH. In addition, provisional administration in Poštanska banka BiH d.d. Sarajevo will be terminated as of 01.07.2007.

As of 30. 06. 2007., there were four banks under provisional administration (UNA banka d.d. Bihać, Hercegovačka banka d.d. Mostar, Poštanska banka BiH d.d. Sarajevo and Privredna banka d.d. Sarajevo).

In the first half of 2007, banks continued expanding the network of their organizational units. Banks from the Federation of BiH have founded 28 new organizational units, 20 of which in the Federation of BiH, seven in Republic Srpska and one in District Brčko. If compared to 31.12.2006., when banks had 492 organizational units, this represents an increase of 5,7%.

As of 30. 06. 2007., seven banks from the Federation of BiH had 41 organizational units in Republic Srpska, and 11 banks had 13 organizational units in District Brčko. Six banks from Republic Srpska had 18 organizational units in the Federation of BiH (an organizational unit of one bank from RS was closed in the FBiH, and a new one of another bank was opened).

The license for inter-bank-transactions in internal payment system was issued to all banks as of 30. 06. 2007. There were 15 banks with deposit insurance.

1.2. Ownership structure

As of 30.06.2007., ownership structure in banks[1] was assessed based on the available information and on-site visits to banks[2], which is the following:

- Private and majority private ownership 20 banks (87%)
- State and majority state ownership[3] 3 banks (13%)

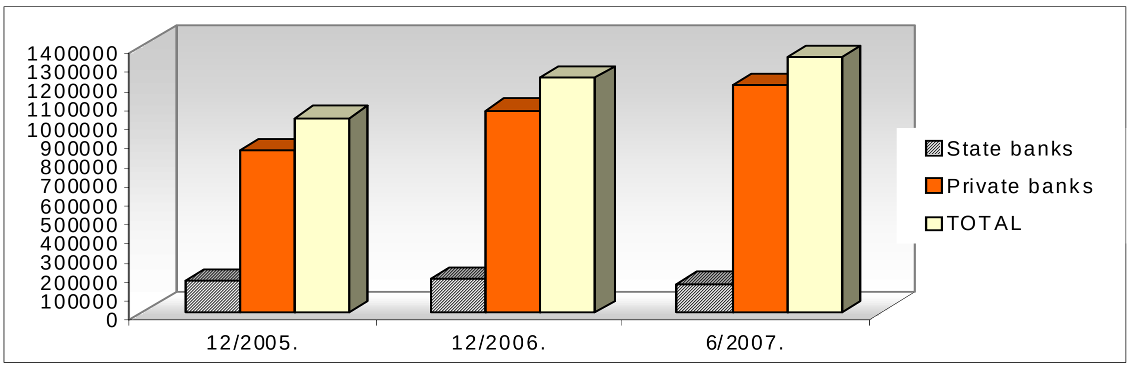
[1] Classification criteria of banks by type of ownership is ownership over share capital of banks.
[2] General overview of ownership structure of banks in the F BiH as of 12/31/05 resulted from received documentation, and registrations at authorized courts (changes in capital and shareholders structure).
[3] State ownership refers to domestic state capital of BiH.

The ownership structure could be viewed from the aspect of financial results, which is, by the value of total capital [4].

Table 1: *Ownership structure by total capital* -in 000 KM-

BANKS	31.12.2005.		31.12.2006.[5]		30.06.2007.		RATIO 3/2	RATIO 4/3
1	2		3		4		5	6
State banks	166.494	16%	170.680	14%	147.130	11%	103	86
Private banks	850.223	84%	1.055.905	86%	1.189.347	89%	124	113
T O T A L	1.016.717	100%	1.226.585	100%	1.336.477	100%	121	109

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



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

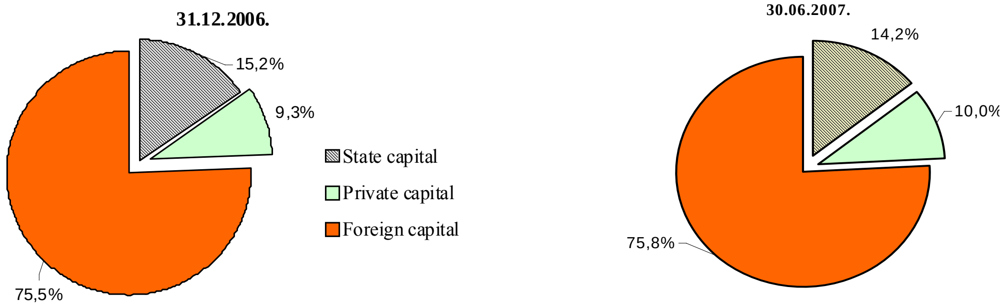
Table 2: *Ownership structure by participation of state, private and foreign capital*

- in 000 KM-

SHARE CAPITAL	31.12.2005. Amount	31.12.2005. Partic. %	31.12.2006. Amount	31.12.2006. Partic. %	30.06.2007. Amount	30.06.2007. Partic. %	RATIO 5/3	RATIO 7/5
1	3	4	5	6	7	8	9	10
State capital	135.344	16,9	135.019	15,2	133.251	14,2	100	99
Private capital (residents)	103.026	12,9	83.077	9,3	93.863	10,0	81	113
Foreign capital (non-residents)	561.117	70,2	670.695	75,5	708.929	75,8	120	106
TOTAL	799.487	100,0	888.791	100,0	936.043	100,0	111	105

[4] Information from balance sheet - FBA schedule: shareholders capital, premium issue, undistributed profit and reserves, and other capital (financial results of current period).
[5] All data from this Information referring to 31.12.2006. come from the audited financial statements of banks (audit performed by an external auditor in 22 banks of the F BIH).

Graph 2: *Ownership structure (share capital)*



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

Participation of state capital in total share capital, as of 30. 06. 2007., was 14,2% and it was lower by 1% if compared to the end of 2006, due to loss coverage in one bank against state capital that afterwards in privatization through additional capitalization changed its ownership structure and became a bank with majority private capital.

If compared to the end of 2006, participation of private capital (residents) in total share capital of the banking sector has increased from 9,3% to 10%, that is, by KM 10,8 million, as a result of the following: sale of nonresident shares to domestic buyers (residents) in total amount of approximately KM 3,6 million (with four banks); sale of resident shares to foreign investors in the amount of approximately KM 7,8 million (with four banks); and purchase of shares through additional capitalization in three banks of KM 15 million by domestic buyers (of which one bank had „technical issue“ that is increase of share capital of KM 0,4 million from its provisions), upon which the ownership structure in two banks was changed (from majority state capital to a bank with majority private domestic capital). Participation of foreign capital has increased from 75,5% to 75,8% or KM 38,2 million. Participation growth of foreign capital of 0,3% happened due to the following: additional capitalization performed in the amount of KM 34 million[6] in five banks (two as foreign owned and three majority owned by residents) and above mentioned share trading between residents and nonresidents in eight banks (net effect in capital was increase by KM 4,2 million), resulting by change in the ownership structure in one bank and one bank became a majority foreign owned bank.

Changes in the ownership structure reflected on participation in share capital, that is, market share and position of banks grouped by majority ownership as criteria. Market share of banks with majority foreign ownership increased by 1,3%, amounting to 94,3% as of 30.06.2007. Market share of banks with majority domestic private capital was 2,6%, which is lower by 0,3% than at the end of 2006. Participation of state capital has also decreased from 4,1% to 3,1% as of 30.06.2007.

Integration processes from the past period were performed with purpose of stronger market positioning, resulting by concentrations in the banking sector by largest banks becoming larger, decreased number of banks, and intensified competition. In the upcoming period, that is, by the end of 2007, it is expected to see finalization of another integration process (note: one integration process was finalized as of 31.07.2007.), which led, on one side, to decreased

[6] Amount referring to nonresidents, while the overall increase of share capital based on additional capitalization – issue of shares, including the internal one – from provisioning of KM 0,7 million, amounted to im 49 million in five banks.

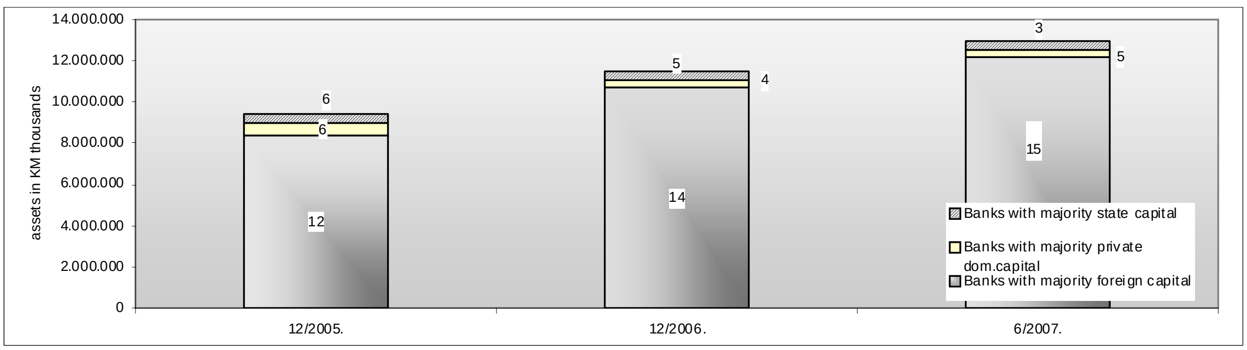
number of banks by two, and on the other side, to strengthening of their resulting banks and further concentrations in the banking sector of the Federation of BiH.

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

- in %-

BANKS	31.12.2005.			31.12.2006.			30.06.2007.		
	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. in total assets
1	2	2	3	7	5	6	10	8	9
Banks with majority state capital	6	16,4	4,5	5	13,9	4,1	3	11,0	3,1
Banks with majority private domestic capital	6	8,0	6,5	4	3,7	2,9	5	4,1	2,6
Banks with majority foreign capital	12	75,6	89,0	14	82,4	93,0	15	84,9	94,3
TOTAL	24	100,0	100,0	23	100,0	100,0	23	100,0	100,0

Graph 3: *Market share by ownership type*



1.3. Staff

As of 30.06.2007., there were total of 7.055 employees employed by banks in the Federation of BiH, of which 5% by banks with majority state capital and 95% by private banks.

Table 4: *Bank employees in the FBiH*

B A N K S	NUMBER OF EMPLOYEES						RATIO	
	31.12.2005.		31.12.2006.		30.06.2007.		3:2	4:3
1	2		3		4		5	6
State banks	475	8%	423	6%	343	5%	89	81
Private banks	5.540	92%	6.183	94%	6.712	95%	112	109
T O T A L	6.015	100%	6.606	100%	7.055	100%	110	107
Number of banks	24		23		23			

In the first half of 2007, number of employees increased by 7% or 449 employees, but only in private banks.

Table 5: *Qualification structure of employees*

EDUCATION	NUMBER OF EMPLOYEES						RATIO	
	31.12.2005.		31.12.2006.		30.06.2007.		4:2	6:4
1	2	3	4	5	6	7	8	9
University qualifications	2.165	36,0%	2.408	36,5%	2.580	36,6%	111	107
Two-year post secondary school qualifications	642	10,7%	714	10,8%	783	11,1%	111	110
Secondary school qualifications	3.102	51,6%	3.391	51,3%	3.609	51,1%	109	106
Other	106	1,7%	93	1,4%	83	1,2%	88	89
TOTAL	6.015	100%	6.606	100,0%	7.055	100,0%	110	107

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

Table 6: *Assets per an employee*

BANKS	31.12.2005.			31.12.2006.			30.06.2007.		
	No. of empl.	Assets (000 KM)	Assets per an empl.	No. of empl.	Assets (000 KM)	Assets per an empl.	No. of empl.	Assets (000 KM)	Assets per an empl.
State	475	422.680	890	423	474.793	1.122	343	402.219	1.173
Private	5.540	8.956.027	1.617	6.183	11.023.562	1.783	6.712	12.507.840	1.864
TOTAL	6.015	9.378.707	1.559	6.606	11.498.355	1.741	7.055	12.910.059	1.830

At the end of first semiannual in 2007, there was KM 1,83 million of assets per an employee on the level of the banking system. This indicator is much better with the private bank sector, which is expected, having in mind stagnation or decreased volume of business activities of state banks, and, consequently, excessive number of employees.

Table 7: *Assets per an employee by groups*

Assets (000 KM)	31.12.2005.	31.12.2006.	31.03.2007.
	Number of banks	Number of banks	Number of banks
Up to 500	5	5	5
500 to 1.000	7	7	5
1.000 to 1.500	3	3	4
1.500 to 2.000	3	1	2
Over 2.000	6	7	7
TOTAL	24	23	23

Analytical indicators of respective banks range from KM 327 thousand to KM 3,6 million of assets per employee. The indicator of eight banks is better than the one for the whole banking sector, and the indicator for four largest banks in the system exceeds KM 2,4 million. And finally, we could say that conditions under which banks service their customers, both legal entities and citizens, as well as conditions under which banks finance their customers, have improved.

2. FINANCIAL INDICATORS OF BANKS' PERFORMANCE

Examination of banks based on reports is performed in the way to use the reports prescribed by the FBA and the reports of other institutions, representing database of three groups of information:

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

Aside from the mentioned standardized reports, the database includes the information obtained from additional reporting requirements prescribed by the FBA in order to have the best conditions for monitoring and analysis of banks' performance in the Federation of BiH. The database also includes audit reports of financial statements of banks prepared by independent auditor, as well as all other information relevant to the assessment of performances of individual banks and the entire banking system.

In accordance with the provisions of Law on Opening Balance Sheet of Banks, banks with majority state owned capital have to report to the FBA "full" balance sheet divided into: passive, neutral and active sub-balance sheet. In order to get realistic indicators of banks' performance in the Federation of BiH, all further analysis of the banking system will be based on the indicators from the active sub-balance sheet of banks with majority state owned capital[7].

2.1. Balance sheet

Aggregate balance sheet of banks in the Federation of BiH, according to the balance sheets submitted as of 30.06.2007. amounted to KM 12,9 billion, which is higher by 12% or KM 1,4 billion than at the end of 2006. Growth rate of 8% or KM 755 million was realized in the same period last year.

[7] Some state banks in their "full balance sheet" report passive and neutral items, which will be taken over by the state upon finalization of the privatization process. As of 12/31/2005, these items amounted to KM 680 million.

Table 8: *Balance sheet*

DESCRIPTION	AMOUNT (in 000 KM)			RATIO	
	31.12.2005.	31.12.2006.	30.06.2007.	3/2	4/3
1	2	3	4	5	6
ASSETS:					
Cash funds	3.533.700	4.286.202	4.726.751	121	110
Securities[8]	20.010	45.922	48.519	229	106
Placements to other banks	68.811	105.390	82.552	153	78
Loans	5.545.077	6.820.154	7.809.985	123	115
Loan loss provisions (LLP)	260.155	288.433	311.291	111	108
Loans – net value (loans minus LLP)	5.284.922	6.531.721	7.498.694	124	115
Business premises and other fixed assets	306.637	341.671	354.662	111	104
Other assets	164.628	187.449	198.881	114	106
TOTAL ASSETS	**9.378.708**	**11.498.355**	**12.910.059**	**123**	**112**
LIABILITIES:					
LIABILITIES					
Deposits	6.864.048	8.379.322	9.360.577	122	112
Borrowings from other banks	2.912	2.890	2.900	99	100
Loan Commitments	1.152.910	1.420.944	1.684.542	123	119
Other liabilities	342.121	467.931	525.563	134	112
CAPITAL					
Capital	1.016.717	1.226.585	1.336.477	121	109
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**9.378.708**	**11.498.355**	**12.910.059**	**123**	**112**

Table 9: *Assets of banks by ownership structure*

BANKS	31.12.2005.		31.12.2006.		30.06.2007.		RATIO	
							3/2	4/3
1	2		3		4		5	6
State banks	422.680	5%	474.793	4%	402.219	3%	112	85
Private banks	8.956.028	95%	11.023.562	96%	12.507.840	97%	123	113
TOTAL	9.378.708	100%	11.498.355	100 %	12.910.059	100%	123	112

After longer period of time, we can see some changes in the ownership structure of state banks, that is, two banks, upon additional capitalization being finalized, moved to the group of banks with majority private capital. This ha led to a decrease of the state banks' assets by 15% or KM 73 million, so their participation in aggregate assets of the banking sector is down to only 3%.

Analytical data by banks show that in the observed time the assets of five banks experienced a slight downfall or increase from 1% to 4%. Majority of banks (14) experienced assets growth between 6% and 20%, while four banks had somewhat higher growth rate of the aggregate balance sheet (between 23% and 30%).

The largest bank in the system experienced assets growth per rate higher than the one for the entire banking system, while other three banks from the group of „big four" had lower growth rates than the rate reported on the system level, and they ranged from 6% to 10%. Four largest banks make 62% or KM 870 million of the aggregate balance sheet growth of the banking sector.

[8] Trading securities and securities held to maturity.

If the banking system is analized from the aspect of assets size and certain groups within that frame, we can see there is still high concentration, that is, participation of four largest banks in the system of 68,2%. There have been some smaller changes within individual groups as for number of banks and their participation, which is the result of assets growth of majority of banks.

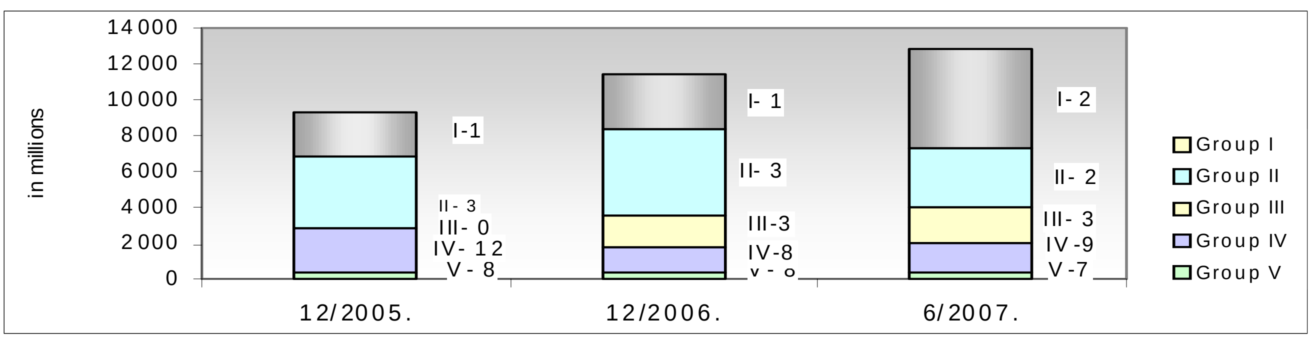
The most significant change in the observed period time occurred with the first two groups of largest banks. Second largest banks by assets size (assets exceeding two billion KM) moved to the first group that for long time had counted only one-largest bank in the system, which caused some increase of participation in the group I from 26,9% to 43,2%, that is, decrease of participation in the group II (also two banks) from 41,2% to 25%. Although at the end of first six months of 2007 participation of four largest banks was high of 68,2%, it is still lower by 0,8% if compared to the end of 2006. Third group of banks (three banks with assets between 0,5 and one billion KM) increased participation from 15% to 15,7%. Number of banks in the group IV increased from eight to nine, that is, as a result of moving one bank from the group V, which caused some changes in participation of approximately one percentage in those two groups. At the end, we can conclude there is still a number of smaller banks (seven, four of which are under provisional administration and one bank started operating at the end of 2006) with total assets of KM 372 million and participation of only 2,9%. We should expect that the status of most of these banks will resolve by the end of 2007, through integration processes with other banks or sale to strategic investors in order to create preconditions for their further growth and development, and in that regard certain activities have already been initiated and implemented.

The following table presents amounts and participations of individual groups of banks[9] in total assets in time line (amounts in million KM):

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

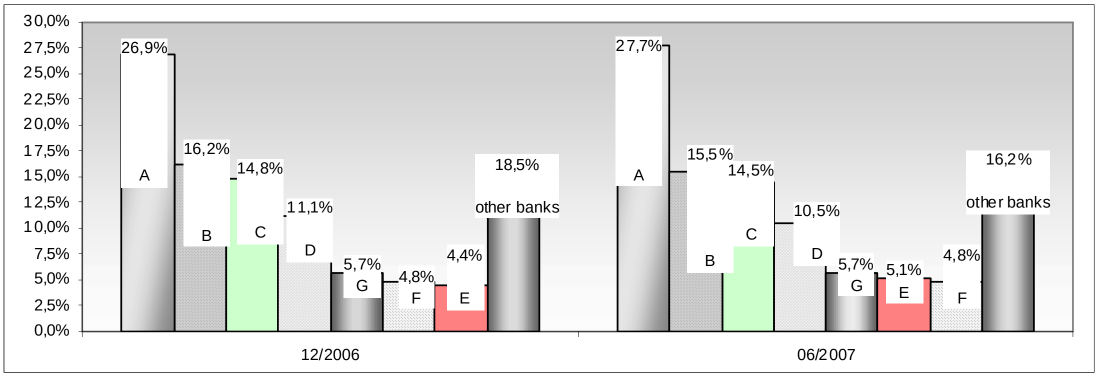
ASSETS	31.12.2005.			31.12.2006.			30.06.2007.		
	Amount	Particip %	No. of banks	Amount	Particip %	No. of banks	Amount	Particip %	No. of banks
I- Over 2.000	2.495	26,6	1	3.098	26,9	1	5.582	43,2	2
II- 1000 to 2000	3.996	42,6	3	4.836	42,1	3	3.224	25,0	2
III- 500 to 1000	0	0,0	0	1.723	15,0	3	2.022	15,7	3
IV- 100 to 500	2.504	26,7	12	1.382	12,0	8	1.710	13,2	9
V- Below 100	384	4,1	8	459	4,0	8	372	2,9	7
TOTAL	9.379	100,0	24	11.498	100,0	23	12.910	100,0	23

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



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

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



The aggregate balance sheet growth in sources has been financed mostly by deposit growth (by 12% or KM 981 million), then borrowings (by 19% or KM 264 million) and capital (by 9% or KM 110 million).

In the assets, cash funds increased by 10% or KM 441 million, and loans by 15% or KM 990 million.

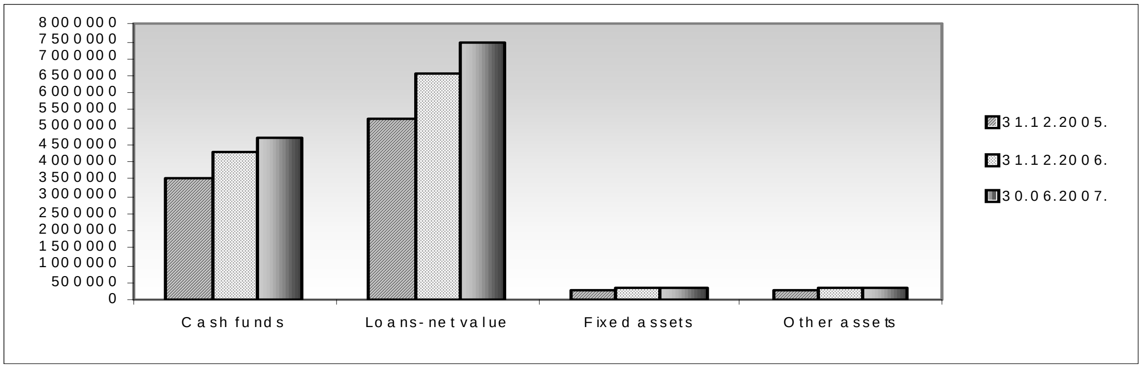
The following table and graphs present the structure of the most significant balance sheet positions of banks.

Table 11: *Structure of balance sheet of banks* - in % -

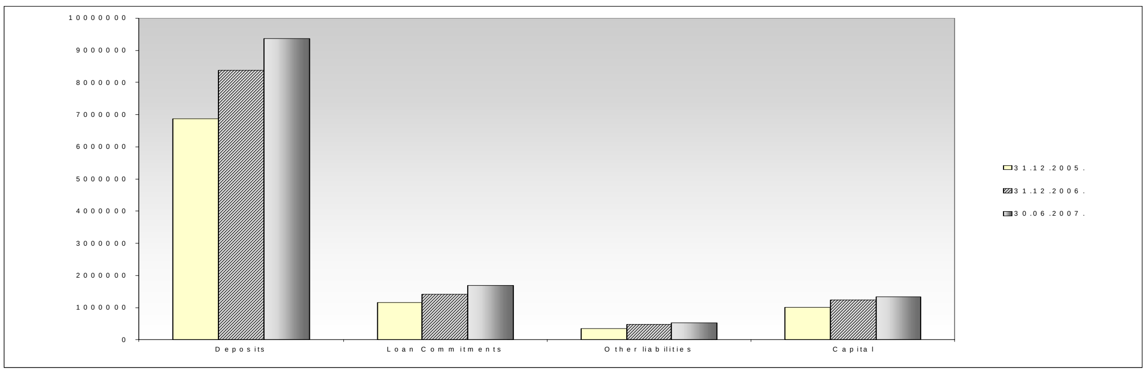
DESCRIPTION	PARTICIPATION		
	31.12.2005.	**31.12.2006.**	**30.06.2007.**
ASSETS:			
Cash funds	37,7	37,3	36,6
Securities	0,2	0,4	0,4
Placements to other banks	0,7	0,9	0,6
Loans	59,1	59,3	60,5
Loan loss reserves (LLR)	2,8	2,5	2,4
Loans- net value (loans minus LLR)	56,3	56,8	58,1
Business premises and other fixed assets	3,3	3,0	2,7
Other assets	1,8	1,6	1,6
TOTAL ASSETS	100,0	100,0	100,0
LIABILITIES:			
LIABILITIES			
Deposits	73,2	72,9	72,5
Borrowings from other banks	0,0	0,0	0,0
Loan commitments	12,3	12,3	13,0
Other liabilities	3,7	4,1	4,1
CAPITAL			
Capital	10,8	10,7	10,4
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	100,0	100,0	100,0

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

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



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



Similar trend from previous years has continued in the balance sheet liabilities structure of banks, from the aspect of the most significant balance sheet categories, which is the trend of slow downfall in participation of deposits and growth of loan commitments. Deposits in the amount of 9,4 billion and their participation of 72,5% represent a dominant source of financing.

There have also been smaller changes in the assets structure. Although in the observed period cash funds increased by 10%, primarily as a result of moderate deposit growth, their participation has decreased from 37,3% to 36,6%. Reason for this is a significant credit growth of 15%, which is mainly financed from deposit and credit sources, which is why gross loans reached the amount of KM 7,8 billion and participation of 60,5% as of 30.06.2007.

Table 12: *Cash funds of banks*

CASH FUNDS	31.12.2005.		31.12.2006.		30.06.2007.		INDEX	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	231.874	6,6	241.561	5,6	242.671	5,1	104	100
Reserve accounts with CBBiH	1.679.194	47,5	2.258.035	52,7	2.564.361	54,4	134	114
Accounts with deposit institutions in BiH	24.241	0,7	21.354	0,5	21.248	0,4	88	100
Accounts with deposit institutions abroad	1.596.932	45,2	1.764.210	41,2	1.897.418	40,1	111	108
Cash funds in collection process	1.459	0,0	1.042	0,0	1.053	0,0	71	101
TOTAL	3.533.700	100,0	4.286.202	100,0	4.726.751	100,0	121	110

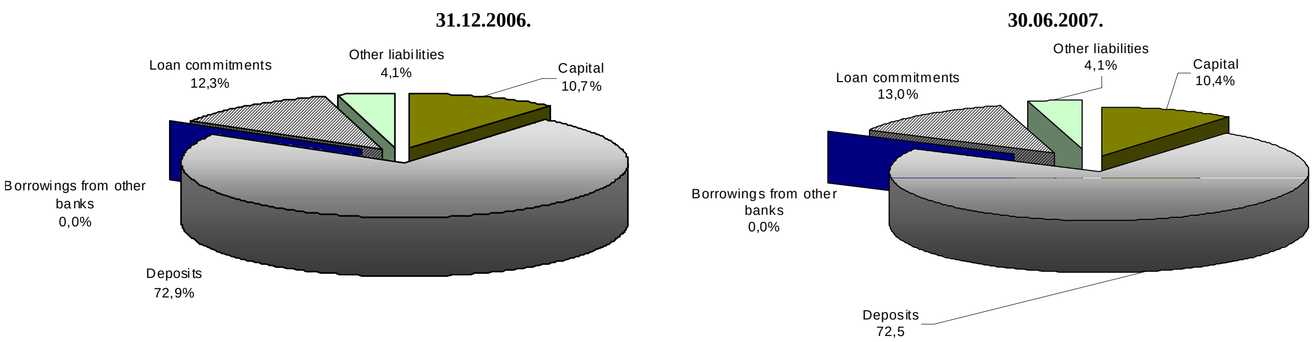
In the second half of 2007, cash funds of banks in the Federation of BiH on the reserve accounts with the Central Bank of BiH increased by 10%, amounting to KM 2,6 billion or 54,4% of total cash funds as of 30.06.2007., which is higher by 1,7% than at the end of 2006. Banks held on the accounts with depository institutions abroad total of KM 1,9 billion, (most of it in EUR) or 40,1% of total cash funds (41,2% at the end of 2006). Banks' funds held as cash in vaults and tellers amounted to KM 243 million or 5,1% of total funds as of 30.06.2007., while the absolute amount remained almost the same and participation decreased by 0,5% if compared to the end of 2006.

Currency structure changes in regard to further growth of domestic currency participation has continued in the observed period, that is, participation of domestic currency has increased from 56,0 to 57,7%, resulting by decrease in participation of funds in foreign currency.

2. 1. 1. Liabilities

As of 30.06.2007. structure of liabilities (liabilities and capital) in the balance sheet of banks is presented in the following graph:

Graph 8: *Liabilities structure of banks*



Deposit potential in the amount of KM 9,4 billion and participation of 72,5% is still the most significant source of financing for banks in the Federation of BiH, although there is a slight trend of decrease in their participation (0,4% in the first half of 2007). Second most important source of financing are credit funds, and banks' indebtness in the first six months of 2007 increased by KM 264 million or 19%. These liabilities of KM 1,7 billion have reached 13% of participation in liabilities (0,6% higher than at the end of 2006). If we add up subordinated loans of KM 172 million, which banks have borrowed to strengthen their capital base and capital adequacy, to these liabilities, then total credit funds in the sources participate with 14,4%. Capital has increased in the amount of KM 110 million or 9%, amounting to KM 1,34 billion and participation of 10,4% as of 30.06.2007.

As of 30.06.2007., the highest bank commitments were towards the following creditors (seven of total 57), representing 77% of total credit commitments: Raiffeisen Zentralbank Osterreich A.G. (RZB), OEWAG Wien, European Investment Bank (EIB), European fund for Southeast Europe (EFSE), ComercBank AG Frankfurt, Bank Polska OPIEKI and International Finance Corporation (IFC).

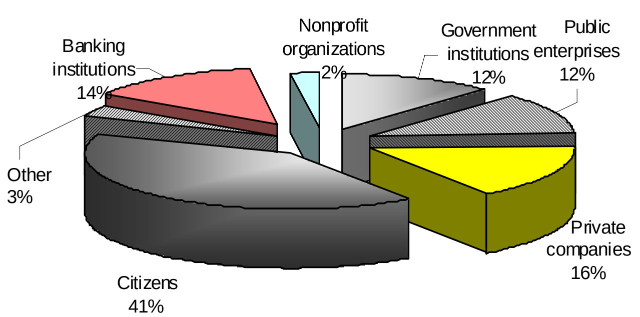
In the first half of 2007, deposits increased by KM 981 million or 12%. As earlier, the increase primarily comes from the private bank sector.

Based on information reported by banks, out of total deposits only 4,4% were deposits collected by organizational parts of the banks from the Federation of BiH operating in Republic Srpska and Brcko District as of 30.06.2007.

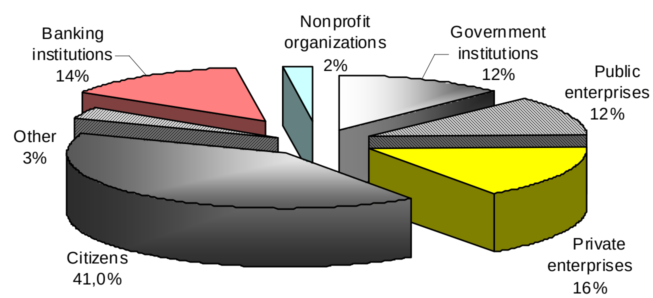
Table 13: Deposit structure by sectors[11] - in 000 KM-

SECTORS	31.12.2005.		31.12.2006.		30.06.2007.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	733.881	10,7	1.033.902	12,3	1.159.043	12,4	141	112
Public enterprises	806.321	11,7	996.110	11,9	1.136.411	12,1	124	114
Private enterprises and assoc.	1.066.022	15,5	1.342.538	16,0	1.483.833	15,9	126	111
Non-profit. organizations	169.005	2,5	193.009	2,3	202.470	2,2	114	105
Banking institutions	1.102.161	16,1	1.136.450	13,6	1.273.299	13,6	103	112
Citizens	2.717.081	39,6	3.403.443	40,6	3.795.253	40,5	125	112
Other	269.577	3,9	273.870	3,3	310.268	3,3	102	113
TOTAL	6.864.048	100,0	8.379.322	100,0	9.360.577	100,0	122	112

Graph 9: *Deposit structure by sectors*



31.12.2006.



30.06.2007.

Analysis by sectors shows that in the first six months of 2007 the highest nominal growth of 12% was reported by the most significant sector – citizen deposits in the amount of KM 392 million, reaching the amount of KM 3,8 billion, while their participation of 40,5% remained almost the same as at the end of 2006. Private companies deposits, with their increase of 11% or KM 141 million, arrived at KM 1,5 billion and participation of 15,9%. Growth rate of 12% was reported by government and banking institutions deposits, representing an increase in absolute amount of KM 125 million, that is, KM 137 million. These two sectors maintained the same participations as at the end of 2006 (12,4%, that is, 13,6%). Public enterprises deposits had the highest growth rate of 14% or KM 140 miliona KM i povećanje učešća sa 11,9% na 12,1%.

Currency structure of deposits has slightly changed in favor of domestic currency, that is, deposits in foreign currency (dominant participation of EUR) of KM 5,1 billion participated with 54,2% (55,8% at the end of 2006), while deposits in domestic currency arrived at KM 4,3 billion and participation of 45,8% (44,2% at the end of 2006).

Savings deposits, as the most significant deposit and financial potential of banks, continued with moderate and stable growth in 2007, that is, their increase was 11,4% or KM 382 million,

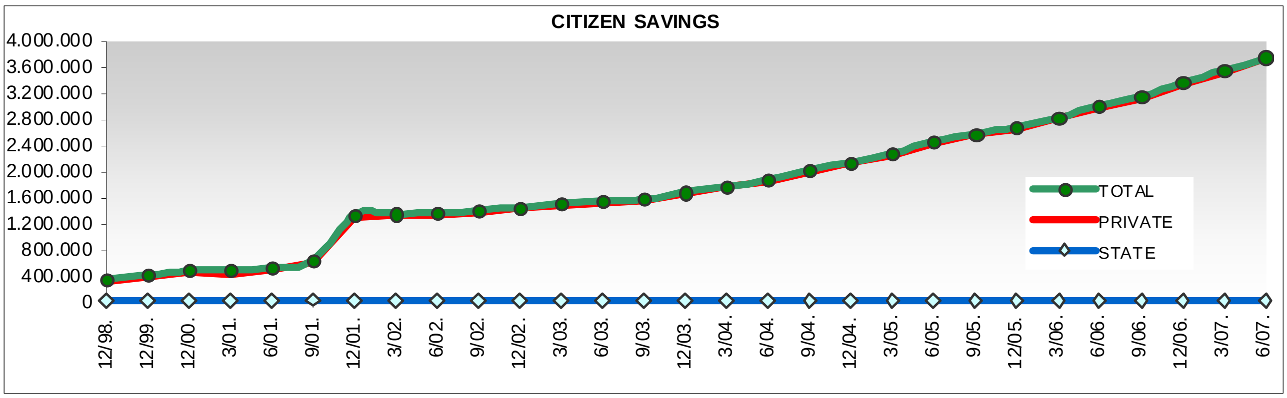
[11] Information from attached form BS-D submitted by banks each quarter with balance sheet - FBA format.

arriving at KM 3,7 billion. Of the overall increase generated, four largest banks in the system make 63% or KM 240 million.

Table 14: New citizen savings by periods - in 000 KM-

BANKS	AMOUNT (in 000 KM)			RATIO	
	31.12.2005.	31.12.2006.	30.06.2007.	3/2	4/3
1	3	3	4	5	6
State	26.886	31.723	27.954	118	88
Private	2.638.391	3.308.413	3.694.565	125	112
TOTAL	2.665.277	3.340.136	3.722.519	125	111

Graph 10: *New citizen savings by periods*



As in other segments, there is an obvious strong concentration of savings in larger banks, since four largest banks hold 74,2% of total savings.

Out of total savings, 34% saving deposits in domestic currency and 66% are saving deposits in foreign currency.

Table 15: *Maturity structure of citizen saving deposits by periods*

BANKS	AMOUNT (in 000 KM)						RATIO	
	31.12.2005.		31.12.2006.		30.06.2007.		3/2	4/3
1	3		3		4		5	6
S-T savings deposits	1.567.617	58,8%	1.851.173	55,4%	2.036.427	54,7%	118	110
L-T savings deposits	1.097.660	41,2%	1.488.963	44,6%	1.686.092	45,3%	136	113
TOTAL	2.665.277	100,0%	3.340.136	100,0%	3.722.519	100,0 %	125	111

Maturity structure of savings deposits, as well as of the overall deposits, indicates a positive trend of changes, which is the result of permanent improvement of the banking sector's condition and strengthening of its safety and stability. This is especially reflected through the improvement of maturity structure of both savings and total deposits, and the emphasis should be on continuity and high level of growth rate of long term savings deposits, which caused that their participation in total savings deposits is closer to 50%.

Aside from a functional and thank effective banking supervision conducted by the FBA, deposit insurance system is also of significance for the growth of savings in banks of the FBiH, with their main goal being increase of stability of the banking, that is, financial sector and protection of savers. There is total 15 banks from the Federation of BiH accepted to the deposit insurance program, and according to the submitted data, there is total 96% of total deposits and 98% of total savings deposited in these banks. As for remaining banks, seven of them cannot apply to be accepted since they do not qualify with the criteria prescribed by the Deposit Insurance Agency: three state owned due to their ownership structure, one private banks with participation of state capital exceeding 10%, and three private banks under provisional administration, while a new bank that started operating as of October 2006 has to initiate the procedure to be accepted to the insurance program.

2.1.2. Capital – strength and adequacy

Capital[12] of banks in the FBiH, as of 30.06.2007., amounted to KM 1.603 million.

Table 16: *Regulatory capital* -in 000 KM-

O P I S		31.12.2005.		31.12.2006.		30.06.2007.		RATIO	
								3/2	4/3
1		2		3		4		5	6
STATE BANKS									
1.	Core capital before reduction	166.737		169.829		145.526		102	86
2.	Offsetting items	4.200		5.034		1.598		120	32
a)	Core capital (1-2)	162.537	96%	164.795	95%	143.928	98%	101	87
b)	Additional capital	7.107	4%	9.370	5%	3.252	2%	132	35
c)	**Capital (a + b)**	169.644	100%	174.165	100%	147.180	100%	103	85
PRIVATE BANKS									
1.	Core capital before reduction	828.196		1.029.002		1.173.353		124	114
2.	Offsetting items	98.341		104.704		105.228		106	101
a)	Core capital (1-2)	729.855	72%	924.298	71%	1.068.125	73%	127	116
b)	Additional capital	290.758	28%	374.448	29%	388.096	27%	129	104
c)	**Capital (a + b)**	1.020.613	100%	1.298.746	100%	1.456.221	100%	127	112
Total									
1.	Core capital before reduction	994.933		1.198.831		1.318.879		120	110
2.	Offsetting items	102.541		109.738		106.826		107	97
a)	Core capital (1-2)	892.392	75%	1.089.093	74%	1.212.053	76%	122	111
b)	Additional capital	297.865	25%	383.818	26%	391.348	24%	129	102
c)	**Capital (a + b)**	1.190.257	100%	1.472.911	100%	1.603.401	100%	124	109

For the first six months of 2007, capital[13] increased by 9% or KM 130 million, of which core capital increased by 11% or KM 123 million, and additional capital by 2% or seven million KM.

Growth of core capital primarily comes from the reallocated profit in 2006. Upon implementation of the official procedure for adoption of decision on allocation of audited profit by the assembly, profit generated in 2006 (17 banks) in the amount of KM 95,3 million was allocated 85% in core capital (in reserves or retained-undivided profit). Five banks adopted decision to pay out dividend in total amount of KM 14 million, which is approximately 15% of the profit generated on the banking system level.

Increase of the core capital, apart from the above mentioned, has been significantly influenced by the increase of share capital based on the inflow of new, green capital – additional capitalization of KM 43,6 million in three banks.

Offsetting items (causing decrease of core capital) have decreased by KM 2,9 million (four banks covered their losses in total amount of KM 3,3 million, current loss was KM 2,2 million, and intangible assets were decreased by KM 1,8 million).

[12] Regulatory capital is defined by Article 8 and 9 in the Decision on Minimum Standards for Managing Capital
[13] Data source is quarterly Report on Capital Positions in Banks (Form 1-Schedule A) regulated by the Decision on Minimum Standards for Managing Capital in Banks.

Additional capital increased by only KM 7,5 million, along with some more significant changes in the structure: profit from 2006 of KM 85 million was transferred to core capital, and one bank included its current audited profit of KM 17,8 million in the additional capital, while the following additional capital items have increased: general loan loss provisions by KM 22,7 million, subordinated debt by KM 32,7 million (three banks), and liabilities of permanent nature in one bank of KM 20 million.

The mentioned changes influenced the structure of regulatory capital, so participation of core capital increased from 74% to 76%, and additional capital decreased from 26% to 24%.

Net capital, the same as regulatory capital, had the same growth in absolute and relative amount of 9% or KM 130 million, amounting to KM 1,6 billion as of 30.06.2007.

Capitalization rate of banks, expressed as ratio between capital and assets as of 30.06.2007., was 12,1%, which is lower by 0,4% if compared to the end of 2006.

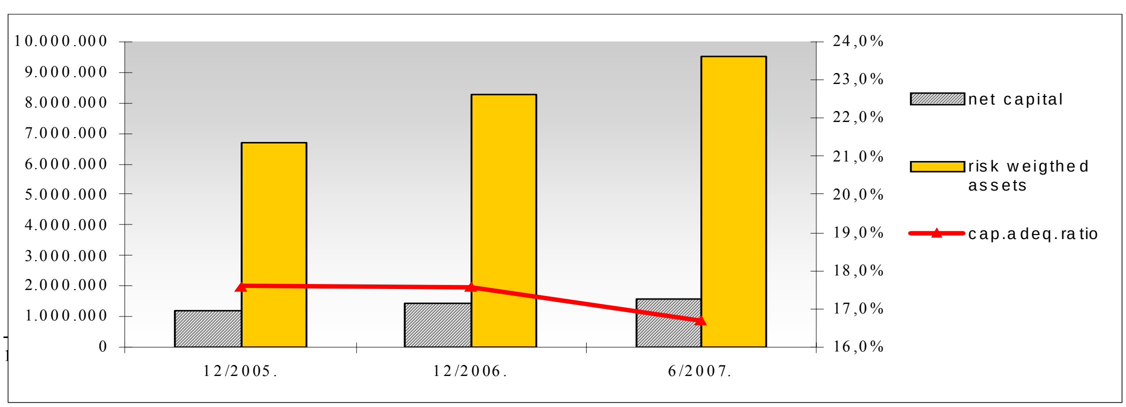
One of the most significant indicators of capital strength and adequacy[14] of banks is capital adequacy ratio calculated as ratio between net capital and risk weighted assets. As of 30.06.2007., this ratio at the system level was 16,7%, which is lower by 0,9% than at the end of 2006. This is relatively significant downfall, but it was to expect due to the following two reasons: higher growth rates of risk assets (15%) than net capital (9%), and calculation methodology for capital adequacy during the year, that is, the current profit generated not being included. If the nonaudited profit for the first six months of 2007 is included in the calculation, capital adequacy would be 17,4%.

While conducting supervision of operations and financial positions of banks in the F BiH as regulated by the Law, the FBA has 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 entire banking system, according to the level and profile of existing and potential exposure to all risks relevant to the banking operation.

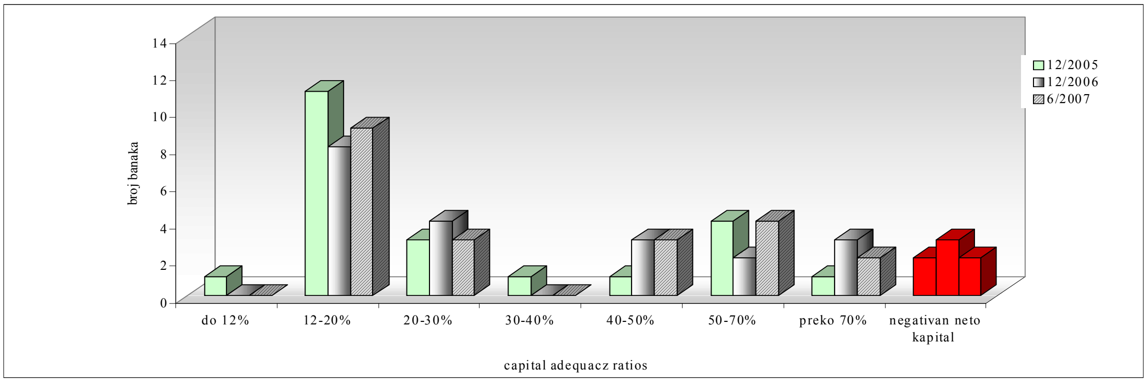
Table 17: *Net capital, risk weighted assets and capital adequacy rate* - 000 KM -

DESCRIPTION	31.12.2005.	31.12.2006.	30.06.2007.	RATIO	
				3/2	4/3
1	2	3	4	5	6
NET CAPITAL	1.173.022	1.455.675	1.586.165	124	109
RISK WEIGTHED ASSETS AND CREDIT EQUIVALENTS	6.681.510	8.282.086	9.499.898	124	115
NET CAPITAL RATE (CAPITAL ADEQUACY)	17,6%	17,6%	16,7%	100	95

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



Graph 12: *Capital adequacy rate of banks*



Of total 23 banks in the FBiH as of 30.06.2007., 21 banks had capital adequacy ratio higher than minimum prescribed by the law of 12%, and two banks, under provisional administration, had capital adequacy ratio bellow 12%, that is, negative adequacy ratio.

Review of capital adequacy ratios of 21 banks in comparison to the minimum prescribed by the law of 12% is the following:

- Nine banks with the rate between 12,5% and 20%, and four largest banks from 12,5% to 15,9%,
- Six banks with the rate between 21% and 50%,
- Four banks have rate between 51% and 70%,
- Two banks have rate higher than 70%.

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

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

2.1.3. Assets and assets quality

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

Gross assets[15] of the balance sheet of banks in the FBiH, as of 30.06.2007., amounted to KM 13,2 billion, which is higher by 12% or KM 1,4 billion than at the end of 2006. Off-balance sheet risk items amounted to KM 2,1 billion, representing an increase of 17% or KM 305 million.

Total assets with off-balance sheet items (assets)[16] amounted to KM 15,4 billion, which is higher by 13% if compared to the end of 2006.

Table 18: *Assets, off-balance sheet items and potential loan losses* -in 000 KM-

DESCRIPTION	AMOUNT (in 000 KM)						RATIO	
	31.12.2005.	Struct. %	31.12.2006.	Struct. %	30.06.2007.	Struct. %	4:2	6:4
1.	2	3	4	5	6	7	8	9
Loans	5.326.900	55,2	6.609.302	56,0	7.559.907	57,0	124	114
Interests	37.531	0,4	36.210	0,3	44.440	0,4	96	123
Past due claims	214.045	2,2	206.720	1,8	246.537	1,9	97	119
Claims for paid guarantees	4.132	0,0	4.132	0,0	3.541	0,0	100	86
Other placements	23.950	0,2	47.739	0,4	55.528	0,4	199	116
Other assets	4.050.650	42,0	4.893.407	41,5	5.323.186	40,3	121	109
TOTAL ASSETS	9.657.208	100,0	11.797.510	100,0	13.233.139	100,0	122	112
OFF-BALANCE SHEET	1.391.183		1.826.980		2.131.894		131	117
ASSETS WITH OFF-BALANCE SHEET	11.048.391		13.624.490		15.365.033		123	113
RISK ASSETS WITH OFF-BALANCE SHEET	7.091.338		8.871.314		10.204.708		125	115
General loan risk and Potential loan losses	313.873		343.737		375.290		110	109
General and Special loan loss reserves already established	314.175		345.067		377.217		110	109

Non-risk items amount to KM 5,2 billion or 34% of total assets with off-balance sheet, and they increased by 9% if compared to the end of 2006, which is primarily the result of the cash funds increase. On the other hand, risk assets with off-balance sheet amount to KM 10,2 billion and they increased by 15% or KM 1,3 billion in the first six months of 2007.

Credit placements[17], if compared to 2006, increased by 15% or KM 990 million, arriving at KM 7,8 billion and participation of 60,5%. Past-due claims increased by 19%, and their participation in the assets structure increased from 1,8% to 1,9%.

Analytical data by banks show that two banks (both under provisional administration) reported a slight decrease of credit placements (total of KM 1,5 million). Six banks reported the growth rate of credit placements between 2% and 10%, the growth rate of 11 banks ranged from 10% to 30%, and for the remaining four, growth rate was higher than 30%.

Four largest banks in the FBiH increased their credit placements by KM 592 million, representing 60% of the overall increase on the banking system level. As of 30.06.2007., four largest banks with their credits amounting to KM 5,45 billion have participation of 70% of total loans.

Based on the analysis of loan structure by sectors, we can see that placements to citizens increased the most of KM 527 million or 15%, causing increase of their participation from

[15] Data source: Report on classification of balance sheet assets and off-balance sheet items of banks.
[16] Assets defined by Article 2 of Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks.
[17] Short term and long term loans, past due claims and claims based on paid-called for payment guarantees.

50,9% to 51,2%. Loans to private companies increased by 14% or KM 411 million, while their participation decreased from 44,4% to 44,1%. According to the data submitted by banks, as of 30.06.2007., from the aspect of citizen loan structure by purpose, the highest participation of approximately 70% had loans originate to finance consumer goods[18], 24% had housing loans, and remaining 6% had loans for SMEs and agriculture.

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

Four largest banks in the system financed 70% of total loans originated to citizens, which is lower by 2% if compared to the end of 2006, while the same indicator for the private company sector is 71%, which is lower by 1% if compared to the end of 2006.
Changes in participation of individual sectors in the overall structure of loans are presented in the following table:

Table 19: *Structure of loans by sectors* -in 000 KM-

SECTORS	31.12.2005.		31.12.2006.		30.06.2007.		RATIO	
	Amount	Partic %	Amount	Partic %	Amount	Partic %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	35.513	0,6	27.084	0,4	28.352	0,4	76	105
Public enterprises	188.143	3,4	192.394	2,8	205.319	2,6	102	107
Private enterprises and assoc.	2.446.358	44.1	3.029.964	44,4	3.440.736	44,1	124	114
Non-profit organizations	9.276	0,2	18.088	0,3	19.277	0,2	195	107
Banking institutions	33.123	0,5	28.445	0,4	22.695	0,3	86	80
Citizens	2.784.053	50,2	3.471.829	50,9	3.998.739	51,2	125	115
Other	48.611	1,0	52.350	0,8	94.872	1,2	108	181
TOTAL	5.545.077	100,0	6.820.154	100,0	7.809.985	100,0	123	115

As for currency structure of loans, the highest participation of 72% or KM 5,6 billion have loans financed with currency clause, then loans in domestic currency of 25% or KM 1,9 billion, and smallest participation of only 3% or KM 242 million had loans in foreign currency.

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

Quality of assets and off-balance sheet risk items, general loan risk, potential loan losses by classification categories[19] and off-balance sheet items are presented in the following table:

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

Table 20: *Assets classification, general loan risk (GLR), potential loan losses (PLL) and off-balance sheet items (assets charged off and suspended interest)*

- 000 KM -

Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in %)									RATIO	
	31.12.2005.			31.12.2006.			30.06.2007.				
	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL	5/2	8/5
1	2	3	4	5	6	7	8	9	10	11	12
A	5.943.367	83,8	118.864	7.513.553	84,7	150.390	8.650.873	84,8	173.039	126	115
B	831.403	11,7	62.512	1.073.906	12,1	79.451	1.279.933	12,5	94.776	129	119
C	157.310	2,2	41.915	147.718	1,7	36.574	150.344	1,5	36.601	94	102
D	159.224	2,3	90.551	135.980	1,5	77.181	123.522	1,2	70.844	85	91
E	34	0,0	31	157	0,0	141	36	0,0	30	462	23
Risk assets (A-E)	7.091.338	100,0	313.873	8.871.314	100,0	343.737	10.204.708	100,0	375.290	125	115
No risk assets[20]	3.957.053			4.753.176			5.160.325			120	109
TOTAL	11.048.391			13.624.490			15.365.033			123	113
OFF-BALANCE SHEET ITEMS											
E	385.601	87,6		409.108	89,7		412.178	90,2		106	101
Suspended interest	54.426	12,4		46.546	10,3		44.989	9,8		86	97
TOTAL	440.027	100,0		455.654	100,0		457.167	100,0		104	100

Risk assets with off-balance sheet items (A-E) amount to KM 10,2 billion and they increased by 15% or KM 1,3 billion, and non-risk items amount to KM 5,2 billion, and they increased by 9% if compared to the end of 2006, which is primarily the result of the cash funds increase.

If we analyze the quality of risk assets, we see an increase of classified assets (B-E) by 14% or KM 196 million, exclusively due to the growth of special mentioned placements (category B) by 19% or KM 206 million, so at the end of the first six months of 2007, category B amounted to KM 1,28 billion, and classified assets KM 1,55 billion. Poor quality assets (C-E) were lower by 4% or KM 10 million, amounting to KM 274 million as of 30.06.2007. However, we have to say that in the same period the charged off assets were KM 38 million. The assets quality indicators expressed as ratio, that is, participation of individual categories in risk assets have insignificantly changed, as a result of the above mentioned. The ratio of classified assets and risk assets, if compared to the end of 2006, is lower by 0,1%, amounting to 15,2%, due to a slightly faster growth of risk assets (15%) than classified assets (14%).
If we analyze the ratio and trend of only poor quality assets and risk assets, this ratio as of 30.06.2007. was 2,7% that is relatively low ratio, but it has improved by 0,5% if compared to the end of 2006. However, if we also take into account the increase of category B of 19% and its participation of 12,5% in the risk assets, along with a doubt that portion of placements reported under this category have worst quality and should be placed under the category of poor quality assets, we could say there is a slight trend of deterioration in the assets quality. That is why it is of key importance that banks more realistically evaluate the quality of placements and establish adequate loan loss reserves, especially for the fact that these are new loans with long maturity (especially citizen loans), so the issues related to the assets quality are not timely detected, that is, they are in some way hidden through the highest increase of category B.

The analysis of analytical data by sectors is based on the indicators of loan quality grated to the two most significant sectors: private companies and citizens. The two mentioned indicators for

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

these sectors are significantly different and indicate higher loan risk exposure, and also the exposure to potential loan risk with the loans originated to legal entities, along with slight trend of improvement for these parameters.

As of 30.06.2007., of total loans granted to legal entities in the amount of KM 3,8 billion, KM one billion or 27,2% was classified in the categories B to E (KM 950 million or 28,4% at the end of 2006), while of total loans granted to citizens in the amount of KM 4 billion, KM 233 million or 5,8% was classified in the categories B to E (KM 178 million or 5% at the end of 2006).

Poor quality assets granted to legal entities amount to KM 190 million or 5% of total loans granted to this sector (KM 206 million or 6,1% as of 31.12.2006.). Poor quality loans granted to citizens amount to KM 77 million or 1,9% of total loans granted to this sector (KM 69 million or 2% as of 31.12.2006.).

Although there is a trend of improvement in the two loan quality indicators observed (legal entities), and fairly deteriorated indicator of classified loans to total loans was noted with the loans granted to citizens, in order to get some more realistic assessment we should also take into account the amount of loans that banks, in the observed period, have charged off in the off-balance sheet. In the first six months of 2007, banks charged off claims (primarily loans) of KM 38 million (citizen loans of KM 4,6 million) and suspended interest of KM 4,3 million (citizens KM 1,2 million). In the same period, there was also permanent charge off of the assets items of KM 10,2 million and suspended interest of KM one million. Banks succeeded in the same period to collect earlier charged off assets of KM 25 million and KM 4,8 million of suspended interest, which has positively reflected on their profitability.

At the end of first six months of 2007, balance of the charged off assets was KM 412 million, representing an increase of 1% if compared to the end of 2006., while the balance of suspended interest was KM 45 million, representing a decrease of 3% if compared to the end of 2006.

Of total charged off assets, the charged off assets based on loans granted to citizens was KM 62 million or 15%, and seven million KM or 16% based on suspended interest.

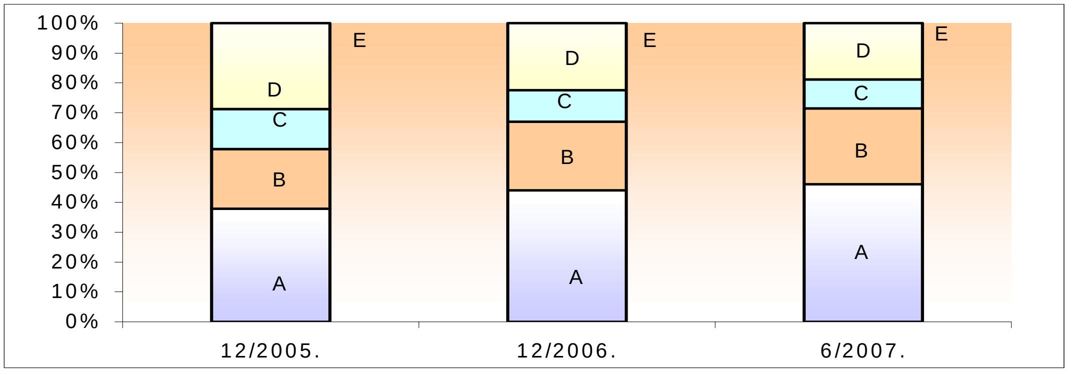
Level of general loan risk and potential loan losses by classification categories, as determined in accordance with the criteria and methodology prescribed by the FBA's Decisions, their trend and structure on the level of banking sector is presented in the following table and graph.

Table 21: *Structure and trend of general loan risk and potential loan losses*

- 000 KM -

Classification category	AMOUNT (in 000 KM) AND STRUCTURE (in%)						RATIO	
	31.12.2005.		31.12.2006.		30.06.2007.		4/2	6/4
1	2	3	4	5	6	7	8	9
A	118.884	37,9	150.390	43,8	173.039	46,1	127	115
B	62.517	19,9	79.451	23,1	94.776	25,3	127	119
C	41.954	13,4	36.574	10,6	36.601	9,8	87	100
D	90.465	28,8	77.181	22,5	70.844	18,8	85	92
E	31	0,0	141	0,0	30	0,0	455	21
TOTAL	313.851	100,0	343.737	100,0	375.290	100,0	110	109

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



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

Based on the analysis of the established provisions, in total amount and by classification categories, if compared to the end of 2006, general loan risk and potential loan loss provisions are higher by 9%, amounting to KM 375 million, that is 3,7% of risk assets with off-balance sheet, which is lower by 0,2% if compared to the end of 2006. As of 30.06.2007., banks in average allocated for category B 7,4%, for category C 24,3%, category D 59% and E 100%.

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

The FBA has ordered corrective measures to those banks whose assets quality was rated poor by the examination in sense of preparation of the operating program that has to contain action plan aimed to improve existing practices for loan risk management, that is, assets quality management, decrease of existing concentrations and resolution of the poor quality assets issue and prevention of their further deterioration. Implementation of the FBA's orders is continuously monitored in the follow-up procedure based on reports and other documentation submitted by banks, which are checked through targeted on-site examinations.

Transactions with related entities

While operating, banks are exposed to different types of risks, but the most significant is the risk of transactions with related entities of banks.
In accordance with the Basle Standards, the FBA has established certain prudential principles and requirements related to transactions with related entities of banks[21], which is regulated in Decision on Minimum Standards for Bank's Operations with Related Entities, prescribing requirements and method of operations with related entities. The Decision and Law on Banks regulate the duty of Supervisory Board of a bank, which has to adopt, upon the proposal of the

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

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

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

Table 22: *Transactions with related entities* -000 KM-

Description	LOANS GRANTED			RATIO	
	31.12.2005.	31.12.2006.	30.06.2007.	3/2	4/3
1	2	3	4	5	6
Shareholders over 5% of voting rights, subsidiaries and other enterprises related to a bank through capital	28.520	21.333	24.854	75	117
Supervisory Board members	101	38	68	39	179
Bank Management and employees	2.663	1.962	1.946	74	99
TOTAL	31.284	23.333	26.868	75	115
Potential and undertaken off-balance sheet liabilities	911	1.072	6.101	118	569

Although in the first six months of 2007, credit exposure of banks towards related entities has increased in some way (loans of 15% or KM four million, and potential and undertaken off-balance sheet liabilities by 469% or KM five million), based on reporting data we can conclude this would be a small amount of loans granted to legal entities, and in general level of risk is low. The FBA pays a special attention (in on-site examinations) to banks' operations with related entities. The FBA on-site examiners issue orders for elimination of determined weaknesses within certain deadlines and initiate violation procedures, and part of the activity is also to monitor and supervise implementation of the issued orders. This has had a positive influence on this segment of operations, since the level of transactions with related entities is decreasing, causing decrease in risk exposure to those entities.

2.2. Profitability

According to the income statement data, banks in the Federation of BiH, at the end of first six months of 2007, reported positive financial result/profit in the amount of KM 81 million, representing a significant increase on the system level of 81% or KM 36 million if compared to the same period in 2006, and arriving at 92% of profit generated in 2006.

Positive financial result of KM 83,3 million was generated by 19 banks, which is higher by 56,5% or KM 30 million than in the same period in 2006. At the same time, performance loss of KM 2,2 million was reported by four banks, which is lower by 73,7% or KM 6,2 million if compared to the same period in 2006.

More detailed information is presented in the following table:

Table 23: *Financial result reported: profit/loss* -000 KM-

Date/Description	Banking system		Private banks		State banks	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
30.06.2005.						
Loss	-5.936	6	-5.500	3	-436	3
Profit	39.830	18	36.969	15	2.861	3
Total	33.894	24	31.469	18	2.425	6
30.06.2006.						
Loss	-8.451	9	-5.523	5	-2.928	4
Profit	53.219	15	51.451	13	1.768	2
Total	44.768	24	45.928	18	-1.160	6
30.06.2007.						
Loss	-2.224	4	-2.224	4	-	-
Profit	83.265	19	80.119	16	3.146	3
Total	81.041	23	77.895	20	3.146	3

Similar to other segments, this one too has its concentrations: of total profit generated (KM 83,3 million) 77,4% or KM 64,4 million was generated by four largest banks in the system, with 68,2% of assets participation in the system; while total loss (KM 2,2 million) was reported by four primarily small private banks (of which two under provisional administration) with only 2,5% of assets participation in the system. Financial result of state banks do does not have any significant influence on the overall profitability of the banking sector.

Based on analytical data, as well as parameters for evaluation of profitability quality (level of realized financial result – profit / loss and ratios used for evaluation of profitability, productivity and effectiveness of performance, and other parameters related to evaluation of performance), we can conclude that improvement of the general profitability of the system comes from the overall increasing trend and stabilization of the banking sector.

Total income realized on the system level was KM 402 million with the growth rate of 25% or KM 80,7 million, representing an increase of 10 index points if compared to the same period last year. Total noninterest bearing expenses amount to KM 321 million with growth rate of 16% or KM 44,4 million and if compared to last year this represents growth of four index points, which has positively reflected on the overall result of the financial sector.

If we analyze the structure of total income and changes in the most significant categories, we may conclude that participation of net interest income is still increasing, representing 59,2% of total income (57,2% in same period of 2006), while participation of operating income has decreased from 42,8% to 40,8%.

Total interest income amount to KM 386,9 million, and if compared to the same period last year, it has increased by 31% or KM 92,6 million, which is higher by nine index points. In the total income structure, their participation increased from 91,6% to 96,3%. Positive trend is the result of faster growth of interest income than the growth of average interest bearing assets, that is, a continuous growth of credit placements and their relatively good quality, improvement in practices of free cash funds management and, based on that, significant growth of interest rates on funds with depository institutions, as well as implementation of the IAS 18 provisions.

On the other hand, if compared to the growth rate of interest income, interest expenses recorded faster growth, that is, the rate of 35%, amounting to KM 148,9 million. In addition, their participation in the structure of overall income increased from 34,4% to 37,1% if compared to the same period last year. If compared to the growth of average interest bearing sources (rate of 26%), the expenses had faster growth as a result of continuous growth of credit commitments (primarily foreign indebtness) and term deposits, as well as trend of growth in interest rates on deposits and borrowings.

Due to faster growth interest expenses, net interest income of KM 238,0 million had slightly lower growth rate (30% or KM 54,2 million) than interest income. However, their participation in the structure of total income has increased from 57,2% to 59,2%.

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

Operating income amount to KM 164 million and they have growth slower than net interest income, that is, they increased by 19% or KM 26,4 million if compared to the same period last year, and their participation in the structure of total income decreased from 42,8% to 40,8%. The growth rate of operating income was significantly influenced by decrease of fee income, as a result of changes in the accounting policies in the segment of treatment and recognition methodology for fee income related to loans (applied on all banks as of the end of 2006). Within operating income, nominally and in percentages, if compared to the same period last year, the highest growth was realized in securities trading income (from KM 564 thousand to KM 16.191 thousand), and for now this type of activity has been performed by a small number of banks, primarily large banks in the system.

Positive trend is noted with total noninterest bearing expenses amounting to KM 321 million, which, if compared to the same period last year, increased by 16% or KM 44,4 million. At the same time, their participation in the structure of total income decreased from 86,1% to 79,8%.

Within noninterest bearing expenses, nominally the highest increase represented salary and contribution expenses of KM 13 million and rate of 14% (number of employees increased by 7% in the first six months of 2007), then other operating expenses of KM 11,5 million and rate of 29% (largest bank in the system represents KM 6,7 million of this growth), and loan loss provisions of KM 10,8 million and rate of 16%.

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

Table 24 : *Structure of total income* - in 000 KM-

Structure of total income	30.06.2005.		30.06.2006.		30.06.2007.		RATIO	
	Amount	%	Amount	%	Amount	%	4/2	6/4
1	2	3	4	5	6	7	8	9
I Interest income and similar type of income								
Interest bearing deposit accounts with depository institutions	20.426	5,6	28.904	6,7	44.365	8,0	142	153
Loans and leasing	214.601	59,0	256.716	59,4	323.891	58,8	120	126
Other interest income	6.787	1,9	8.636	2,0	18.675	3,4	127	216
TOTAL	241.814	66,5	294.256	68,1	386.931	70,2	122	131
II Operating income								
Service fees	73.699	20,3	81.983	19,0	87.602	15,9	111	107
Foreign exchange income	13.680	3,8	14.275	3,3	15.571	2,8	104	109
Other operating income	34.349	9,4	41.313	9,6	60.847	11,1	120	147
TOTAL	121.728	33,5	137.571	31,9	164.020	29,8	113	119
TOTAL INCOME (I + II)	363.542	100,0	431.827	100,0	550.951	100,0	119	128

Graph 14: *Structure of total income*

30.06.2006. **30.06.2007.**

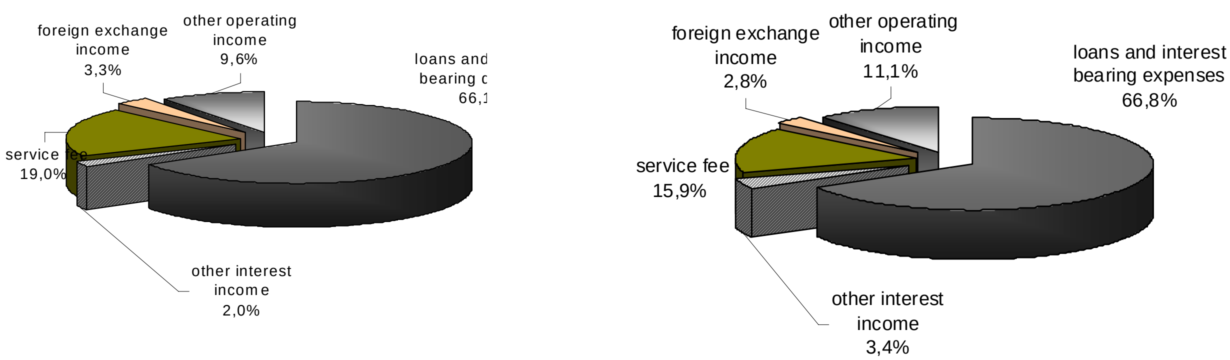
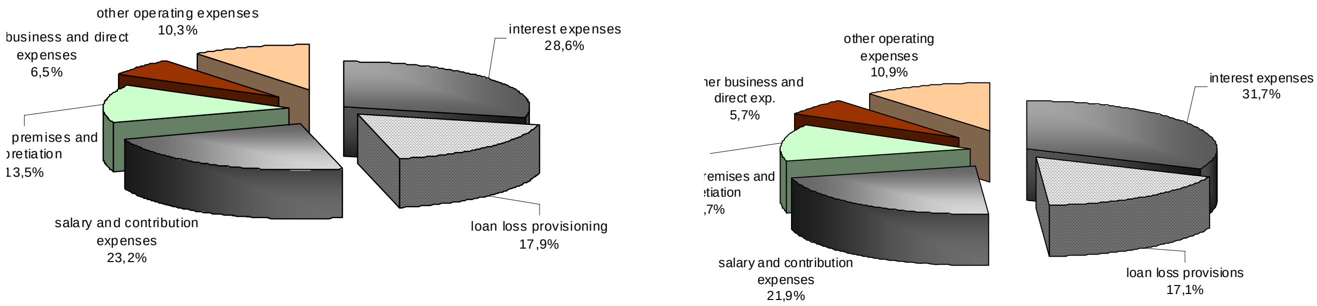


Table 25: *Structure of total expenses* - in 000 KM-

Structure of total expenses	30.06.2005.		30.06.2006.		30.06.2007.		RATIO	
	Amount	%	Amount	%	Amount	%	4/2	6/4
1	2	3	4	5	6	7	8	9
I Interest expenses and similar expenses								
Deposits	63.839	19,4	80.770	20,9	105.276	22,4	127	130
Liabilities for borrowings	17.125	5,2	25.182	6,5	37.457	8,0	147	149
Other interest expenses	2.670	0,8	4.537	1,2	6.201	1,3	170	137
TOTAL	83.634	25,4	110.489	28,6	148.934	31,7	132	135
II Total non-interest bearing expenses								
General loan risk and potential loan losses Provisioning	66.585	20,2	69.454	17,9	80.230	17,1	104	116
Salary expenses	80.154	24,3	89.964	23,2	102.979	21,9	112	114
Business premises and depreciation expenses	45.882	13,9	52.245	13,5	59.549	12,7	114	114
Other business and direct expenses	16.654	5,1	25.068	6,5	26.898	5,7	151	107
Other operating expenses	36.739	11,1	39.839	10,3	51.320	10,9	108	129
TOTAL	246.014	74,6	276.570	71,4	320.976	68,3	112	116
TOTAL EXPENSES (I + II)	329.648	100,0	387.059	100,0	469.910	100,0	117	121

Graph 15: *Structure of total expenses*

30.06.2006. **30.06.2007**



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

Table 26: *Ratios of profitability, productivity and effectiveness by periods* -in %-

RATIOS	30.06.2005.	30.06.2006.	30.06.2007.
Return on Average Assets	0,43	0,46	0,66
Return on Average Total Capital	3,64	4,23	6,25
Return on Average Equity	4,44	5,51	8,89
Net Interest Income/Average Assets	2,00	1,88	1,94
Fee Income/Average Assets	1,54	1,41	1,34
Total Income/Average Assets	3,54	3,29	3,28
Operating and Direct Expanses22/Average Assets	1,05	0,97	0,87
Operating Expenses/Average Assets	2,06	1,86	1,75
Total Non-interest Expanses/Average Assets	3,11	2,83	2,62

Table 27: *Ratios of profitability, productivity and effectiveness as of 30.06. 2007.*

-in %-

RATIOS	30.06. 2007.		
	STATE BANKS	PRIVATE BANKS	AVERAGE IN FbiH
Return on Average Assets	-0,60	0,70	0,66
Return on Average Total Capital	-1,52	7,24	6,25
Return on Average Equity	-1,83	10,55	8,89
Net Interest Income/Average Assets	1,89	1,95	1,94
Fee Income/Average Assets	2,52	1,30	1,34
Total Income/Average Assets	4,40	3,25	3,28
Operating and Direct Expanses/Average Assets	1,39	0,86	0,87
Operating Expenses/Average Assets	2,16	1,73	1,75
Total Non-interest Expanses/Average Assets	3,56	2,59	2,62

Analysis of some general parameters for assessment of profitabilityy quality indicates that apart from higher amount of profit that is realized in comparison to last year and ROAA (Return on Average Assets) of 0,66% and ROAE (Return on Average Equity) of 8,89%,

22 Expenses include provisions for potential loan losses.

productivity of banks, measured as ratio between total income and average assets (3,28%), has still not improved. On contrary, it has maintained on the same level, due to, one side, faster growth of average total assets than average interest bearing assets, and, on the other side, slower growth of operating income.

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

Profitability of banks in the coming period will mostly depend on assets quality, that is, banks' exposure to credit risk, and effective management and control of operating expenses of largest banks, especially those with mutual expenses of the group (head office), which are very high and significantly effect financial result of those banks. That is why, the key factor of effectiveness and profitability of each bank is management quality and business policy the management is following and bank development and growth strategy, since that is the most direct way to influence its performance.

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

2.3. Liquidity

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

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

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.

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

In the structure of financing sources of banks in the Federation of BiH as of 30.06.2007., the highest participation of 72,5% still have deposits and borrowings (including subordinated debts) of 14,4% with longer maturity, representing quality sources for long term placements, and have made a significant contribution to maturity adjustment between assets and liabilities.

On the other hand, majority structure of deposits is considerably unfavorable, although it has been some time that we have improving trend.

Table 28: *Maturity structure of deposits* - in 000 KM-

DEPOSITS	31.12.2005.		31.12.2006.		30.06.2007.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Savings and demand deposits	3.264.937	47,5	4.079.002	48,7	4.488.709	48,0	125	110
Up to 3 months	408.679	6,0	293.735	3,5	304.392	3,3	72	104
Up to 1 year	541.832	7,9	745.994	8,9	1.001.447	10,6	137	135
1. Total S-T	4.215.448	61,4	5.115.731	61,1	5.794.548	61,9	121	113
Up to 3 years	1.709.665	24,9	2.212.076	26,4	2.445.794	26,1	129	111
Over 3 years	938.935	13,7	1.051.515	12,5	1.120.280	12,0	112	107
2. Total L-T	2.648.600	38,6	3.263.591	38,9	3.566.029	38,1	123	109
TOTAL (1 + 2)	6.864.048	100,0	8.379.322	100,0	9.360.577	100,0	122	112

Maturity structure analysis of the two main groups, if compared to 2006, shows that sort term deposits had fairly faster growth (13% or KM 679 million) than long term (9% or KM 302 million).

Within short term deposits, if compared to 2006, the highest nominal growth of KM 410 million (growth rate of 10%) was realized by demand deposits, while term deposits from 3 months to one year had the highest growth rate (35% or KM 255 million). The highest participation in total demand deposits is still maintained by citizen deposits (35,7%) that have increased bz 13% or KM 190 million in comparison to 2006.

We should emphasize that in long term deposits, there are two sectors with dominant participation: citizens of 45% and banking institutions of 25,5%, with moderate trend of decrease of their participation due to the increase of participation of public and private companies deposits (from 16,8% to 21,8%). Citizen deposits represent the highest participation of 60,1% of term deposits up to 3 years (58,4% at the end of 2006), while banking institutions deposits have the highest participation of 63,9% over three years (62,9% at the end of 2006).

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

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

LOANS	31.12.2005.		31.12.2006.		30.06.2007.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Pastdue claims and paid off-balance sheet liabilities	218.177	3,9	210.852	3,1	250.078	3,2	97	119
Short term loans	1.134.850	20,5	1.360.381	19,9	1.476.204	18,9	120	109
Long term loans	4.192.050	75,6	5.248.921	77,0	6.083.704	77,9	125	116
TOTAL LOANS	5.545.077	100,0	6.820.154	100,0	7.809.986	100,0	123	115

In first six months of 2007, long term deposits increased by 16% or KM 835 million (loans originated to citizens represent 60% or KM 501 million of the generated growth), and short term by 9% or KM 116 million (private companies make 91,5% or KM 106 million).

Sectorial analysis by maturity indicates that long term loans represent 91% of total loans originated to citizens and 63% of loans originated to private companies, which is approximately on the same level as at the end of 2006.

In the assets structure, as the most significant category, loans still have the highest participation of 60,5%, with constant increasing trend which has been supported by deposit growth (13%) and long term borrowings (19%).

In 2006, banks were regularly meeting required reserves with the Central Bank of BiH.[23] Through the required reserve as the most significant instrument of monetary policy, in BiH under the environment of Currency Board and relatively financially underdeveloped market, required reserve as the most significant instrument of monetary policy is used to meet a primary monetary purpose, that is, monetary control, in sense of stopping fast credit growth from the past years and decrease multiplications. On the other hand, implementation of regulation on foreign exchange risk and maintenance of currency adjustment within prescribed limits also significantly influence the amount of funds banks keep on the reserve account with the Central Bank in domestic currency, which provides for high liquidity of individual banks and the banking sector, although that is adversely reflected on profitability of banks.

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

Table 30: *Liquidity ratios* - in % -

Ratios	31.12.2005.	31.12.2006.	30.06.2007.
1	2	3	4
Liquid assets[24] / Total assets	37,8	37,4	36,7
Liquid assets / Short term financial liabilities	63,9	62,2	62,6
Short term financial liabilities / Total financial liabilities	66,9	68,0	66,2
Loans / Deposits and borrowings[25]	69,2	69,6	70,7
Loans / Deposits, borrowings and subordinated debts[26]	68,0	68,5	69,5

In the first six months of 2007, a trend of slight deterioration of general liquidity indicators quality has continued, primarily due to faster growth of credit placements, but could still say that liquidity position of the banking system of the Federation of BiH is good, with satisfactory participation of liquid assets in total assets and coverage of short-term liabilities by liquid assets, while structural indicator of participation of short term liabilities in total financial liabilities has slightly improved if compared to the end of 2006. The last two indicators, expressed as ratio between loans and financing sources (deposits and borrowings), are also very good and they are in accordance with feasible standard.

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

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

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

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

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

Table 31: *Liquidity position –ten-day average and daily minimum* - in 000 KM-

Description	31.12.2005.	31.12.2006.	30.06.2007.	RATIO	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6
1. Average daily balance of cash assets	2.687.043	3.478.292	3.701.580	129	106
2. Minimum total daily balance of cash assets	2.371.336	3.201.670	3.472.207	135	108
3. Short term sources (accrual basis)	4.165.268	5.135.086	5.662.888	123	110
4.Liabilities:					
4.1. ten-day average 20% of Item 3	833.054	1.027.017	1.132.578	123	110
4.2. daily minimum 10% of Item 3	416.527	513.509	566.289	123	110
5.Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	1.853.989	2.451.275	2.569.002	132	105
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	1.954.809	2.688.161	2.905.918	138	108

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

Table 32: *Maturity adjustment of financial assets and liabilities up to 180 days*

-000 KM-

Description	31.12.2005.	31.12.2006.	30.06.2007.	RATIO	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6
I. 1- 30 days					
1. Financial assets	4.051.257	5.111.825	5.415.586	126	106
2. Financial liabilities	3.668.868	4.622.017	4.948.675	126	107
3. Difference (+ or -) = 1-2	382.389	489.808	466.911	128	95
Accrual of requirement in %					
a) Performed %= Item 1 / Item 2	110,4%	110,60%	109,40 %		
b) Required minimum %	100,0%	100,00%	100,00%		
Surplus (+) or shortage (-) = a - b	10,4%	10,60%	9,40%		
II. 1-90 days					
1. Financial assets	4.559.015	5.622.934	5.914.532	123	105
2. Financial liabilities	4.150.956	5.104.149	5.478.902	123	107
3. Difference (+ or -) = 1-2	408.059	518.785	435.630	127	84
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	109,8%	110,20%	108,00%		
b) Required minimum %	100,0%	100,00%	100,00%		
Surplus (+) or shortage (-) = a - b	9,8%	10,20%	8,0%		
II. 1-180 days					
1. Financial assets	5.091.381	6.246.116	6.599.406	123	106
2. Financial liabilities	4.598.836	5.661.218	6.187.045	123	109
3. Difference (+ or -) = 1-2	492.545	584.898	412.361	119	71
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	110,7%	110,3%	106,7%		
b) Required minimum %	95,0%	95,0%	95,0%		

Surplus (+) or shortage (-) = a - b	15,7%	15,30%	11,70%

As we can see from the schedule, as of 30.06.2007. banks were compliant with the prescribed limits, and have realized better maturity adjustment between financial assets and liabilities in relation to the prescribed limits, but still slightly deteriorated if compared to the end of 2006. The main reason is stronger growth of credit placements (long term primarily) in the first six months of 2007.

Liquidity of the banking system of the Federation of BiH, based on the presented indicators, is high, which is a result of existing restrictive regulation. Since this segment of performance and level of liquidity risk exposure is in correlation with credit risk, and having in mind increasing trend and level of credit risk, banks will in future have to pay more attention to liquidity risk management through establishment and implementation of liquidity policies, which will make sure that all matured liabilities of banks are timely realized, based on continuous planning of future liquidity needs and taking into account changes in operating, economic, regulatory and other segments of business environment of banks. The FBA will both through reports and on-site examination in banks monitor how banks manage this risk and if they acted in accordance with the adopted policies and programs.

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

While operating banks are exposed to significant risks coming from potential losses in balance sheet and off-balance sheet items created as a result of price changes in the market. One of those risks is foreign exchange risk (FX) created as a result of changes of exchange rates and/or imbalance in assets, liabilities and off-balance sheet items of the same currency – individual foreign currency position or all currencies together used by a bank in its operations – total foreign currency position of bank.
In order to enable implementation of prudential principles in foreign exchange activities of banks and to decrease influence of foreign exchange risk to their profitability, liquidity and capital, the FBA issued Decision on Minimum Standards for Foreign Exchange Risk Management in Banks that regulates minimum standards for adoption and implementation of programs, policies and procedures for undertaking, monitoring, control and management of foreign exchange risk, 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.[27]

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

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

According to the balance as of 30.06.2007., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 17,9% or KM 2,3 billion (20,8% or KM 2,4 billion at the end of 2006). On the other hand, currency structure of

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

liabilities is different, since participation of liabilities in foreign currency is significantly higher of 53,3% or KM 6,9 billion (53,5% or KM 6,2 billion at the end of 2006).

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

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

Description	31.12.2006.				30.06.2007.				RATIO	
	EUR		TOTAL		EUR		TOTAL		EUR	TOTAL
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	6/2	8/4
1	2	3	4	5	6	7	8	9	10	11
I. Financial assets										
1. Cash assets	1.335	21,5	1.876	27,2	1.528	21,8	1.984	25,7	114	106
2. Loans	325	5,2	376	5,5	146	2,1	214	2,8	45	57
3.Loans with currency clause	4.434	71,4	4.507	65,3	5.248	75,0	5.424	70,1	118	120
4. Other	117	1,9	138	2,0	80	1,1	112	1,4	68	81
Total (1+2+3+4)	6.211	100,0	6.897	100,0	7.002	100,00	7.733	100,00	113	112
II. Financial liabilities										
1. Deposits	3.951	68,5	4.576	71,1	4.197	65,8	4.989	69,2	106	109
2. Borrowings	1.327	23,0	1.362	21,1	1.596	25,0	1.629	22,6	120	120
3.Deposits and loans with currency clause	284	4,9	284	4,4	329	5,1	329	4,5	116	116
4.Other	208	3,6	218	3,4	260	4,1	266	3,7	125	122
Total (1+2+3+4)	5.770	100,0	6.440	100,0	6.381	100,00	7.213	100,0	111	112
III. Off-balance sheet										
1.Assets	16		20		15		121			
2.Liabilities	377		380		502		513			
IV.Position										
Long (amount)	79		97		133		127			
%	7,3%		8,9%		11,00%		10,40%			
Short										
%										
Limit	30%		30%		30%		30%			
Below limit	22,7%		21,1%		19,00%		19,60%			

If we analyze the structure of foreign currencies, we see a dominant participation of EUR in the financial assets[29], which in 2007 was increased by 1,5 index points (from 74,4% to 75,9%), maintaining nominal growth of 1,8 billion, while decreased in the liabilities from 89,1% to 87,9%, even there was increase from KM 5,5 billion to KM 6,1 billion.

However, the calculation of the FX risk exposure also includes the amount of indexed assets items (loans) and liabilities[30], which is especially important in the assets (70,1% or KM 5,4 billion) with continuous increasing trend, which is partially the result of the increase of foreign borrowings as financing source in bank's liabilities structure that is becoming more and more significant (credit liabilities with subordinated debts amount to KM 1,9 billion with participation of 14,4%). Other foreign currency assets items make 29,9% or KM 2,3 billion, of

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

which EUR items make 22,7% or KM 1,8 billion, and other currencies 7,2% or KM 0,6 billion (at the end of 2006, loans contracted with currency clause amounted to KM 4,5 billion with participation of 65,3%, and other items in EURO of 25,8% or KM 1,8 billion). Of total net loans (KM 7,5 billion), 72,3% were contracted with currency clause (69% at the end of 2006), primarily tied to EURO (96,8%).

On the other hand, the structure of financial liabilities stipulates and determines the structure of financial assets, for each currency respectively. Items in EUR (primarily deposits) had the highest participation in foreign currency liabilities (KM 7,2 billion) of 83,9% or KM 6,0 billion, while participation and amount of indexed liabilities was minimum, amounting to 4,6% or KM 0,3 billion (at the end of 2006, participation of liabilities in EUR was 85,2% or KM 5,5 billion, and indexed liabilities were 4,4% or KM 0,3 billion).

Observed by banks and overall on the level of the banking system of the FBiH, we can conclude that, in the first six months of 2007, banks were exposed to the FX risk within prescribed limits.

As of 30.06.2007., there were 18 banks with long foreign currency position, and five with short position, so on the system level long foreign currency position represented 10,4% of banks' core capital, which is lower by 19,6% than the limit. Individual foreign currency position for EUR was 11% where financial assets items were higher than financial liabilities (long position), which is lower by 19% than the limit.

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.

III. CONCLUSION

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

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

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

- Based on a documented material, specialized and professionally processed in the Banks Association of BiH, and through the Ministry of Finance of the Federation of BiH, it is necessary to accelerate the activities in order to:
  - Continuously build up legal regulation for banking sector and financial system based on Basle Principles and European Banking Directives,
  - Establish specialized court departments for economy,
  - Establish more efficient process for realization of pledges,
  - Adopt law on protection of creditors and full responsibility of debtors,
  - Adopt law or improve existing legislation regulating the area of safety and protection of money in banks and in transportation.

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

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

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

- Further capital strengthening, proportional to the growth of assets and risk, higher profitability, solvency, more consistent implementation of adopted policies and procedures in the area of prevention of money laundering and terrorism financing, and safety and protection of money in banks and in transportation, in accordance with laws and regulations,
- Strengthen internal control systems and establish internal audits, which will be fully independent in their work,
- Constant improvement of cooperation with the Banks Association in the area of professional development, change all laws and regulations which have become a limiting factor in bank development, introduction of new products, collection of claims and active

involvement in the establishment of unified registry of irregular debtors – legal entities and individuals;

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

ATTACHMENTS

ATTACHMENT 2

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

ACTIVE SUB-BALANCE SHEET

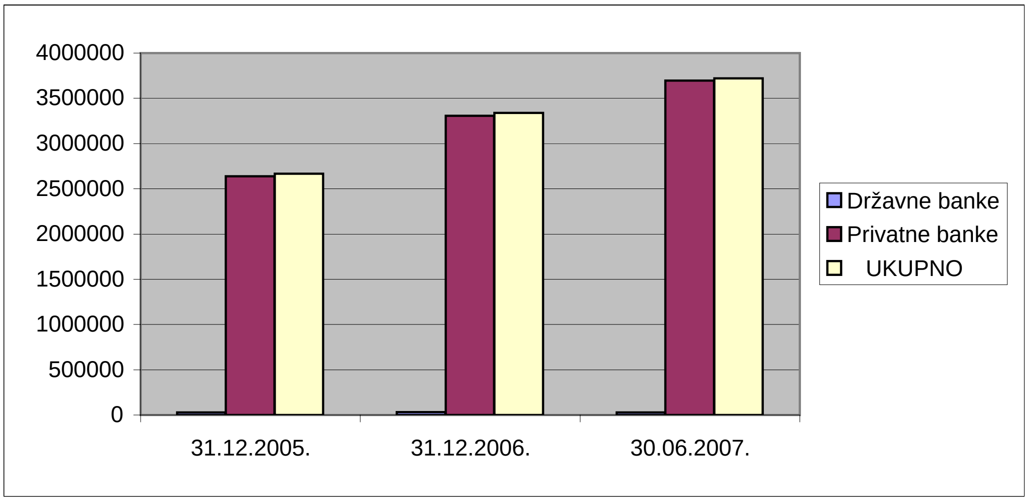
000 KM

No.	DESCRIPTION	31.12.2005.	31.12.2006.	30.06.2007.
	ASSETS			
1.	Cash funds and deposit accounts at depository institutions	3.533.700	4.286.202	4.726.751
1a	Cash and non-interest deposit accounts	1.167.310	1.514.758	1.700.188
1b	Interest deposit accounts	2.366.390	2.771.444	3.026.563
2.	Trading securities	13.625	41.121	43.455
3.	Placements in other banks	68.811	105.390	82.552
4.	Loans, receivables in leasing and past due receivables	5.545.077	6.820.154	7.809.985
4a	Loans	5.326.708	6.609.122	7.559.733
4b	Receivables on leasing	192	180	174
4c	Past due receivables - loans and leasing	218.177	210.852	250.078
5.	Securities held until maturity	6.385	4.801	5.064
6.	Premises and other fixed assets	275.276	314.012	321.271
7.	Other real estate	31.361	27.659	33.391
8.	Investments in non-consolidated related enterprises	28.750	27.679	30.004
9.	Other assets	154.222	170.492	180.666
10.	MINUS:Reserves for potential losses	278.499	299.155	323.080
10a	Reserves on item 4 in Assets	260.155	288.433	311.291
10b	Reserves on Assets except item 4	18.344	10.722	11.789
11.	**TOTAL ASSETS**	9.378.708	11.498.355	12.910.059
	LIABILITIES			
12.	Deposits	6.864.048	8.379.322	9.360.577
12a	Interest deposits	6.114.978	7.529.517	8.509.100
12b	Non-interest deposits	749.070	849.805	851.477
13.	Loans - past due	8.308	7.802	7.460
13a	Balance of payable loans, unpaid			
13b	Unpaid - called for payment off-balance sheet items	8.308	7.802	7.460
14.	Loans from other banks	2.912	2.890	2.900
15.	Payables to Government			
16.	Payables on loans and other borrowings	1.152.910	1.420.944	1.684.542
16a	payable within one year	241.955	196.381	184.812
16b	payable longer than one year	910.955	1.224.563	1.499.730
17.	Subordinated debts and subordinated bonds	132.429	145.079	177.799
18.	Other liabilities	201.384	315.733	340.304
19.	**TOTAL LIABILITIES**	8.361.991	10.271.770	11.573.582
	CAPITAL			
20.	Permanent priority shares	26.280	30.180	30.180
21.	Common shares	773.205	858.610	905.864
22.	Shares issued	29.975	71.130	71.130
22a	Permanent priority shares	532	8.332	8.332
22b	Common shares	29.443	62.798	62.798
23.	Undistributed income and capital reserves	130.440	172.581	248.262
24.	Currency rate difference	0	0	0
25.	Other capital	56.817	94.084	81.041
26.	TOTAL CAPITAL (20. TO 25.)	1.016.717	1.226.585	1.336.477
27.	**TOTAL LIABILITIES AND CAPITAL (19+26)**	**9.378.708**	**11.498.355**	**12.910.059**
	PASSIVE AND NEUTRAL SUBBALANCE	**680.040**	**641.164**	**631.505**
	TOTAL BALANCE SHEET IN BANKS	**10.058.748**	**12.139.519**	**13.541.564**

NEW CITIZEN SAVINGS BY PERIODS

000 KM

	31.12.2005.	31.12.2006.	30.06.2007.
State banks	26.886	31.723	27.594
Private banks	2.638.391	3.308.413	3.694.565
TOTAL	2.665.277	3.340.136	3.722.159



ATTACHMENT 4

CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS
as of 30.06.2007.

- ACTIVE BALANCE SHEET -

000 KM

Ord. No.	BALANCE SHEET ASSETS AND OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	1.199.340	263.083	12.608	1.173		1.476.204
2.	Long-term loans	5.244.291	668.191	113.944	57.267	10	6.083.703
3.	Other placements	53.571	1.918	29	10		55.528
4.	Interest accrued	33.960	10.480				44.440
5.	Past due receivables	95.342	71.585	19.855	59.755		246.537
6.	Receivables on gurantees paid	240	59	0	3.242		3.541
7.	Other assets	5.314.466	5.312	1.911	1.477	20	5.323.186
8.	TOTAL ACTIVE BALANCE SHEET	11.941.210	1.020.628	148.347	122.924	30	13.233.139
9.	a) Guarantees payable	241.525	52.800	588	9		294.922
	b) Performing guarantees	394.585	105.433	434	266		500.718
10.	Unsecured LoC	72.913	29.091	302			102.306
11.	Unrevokable loans	1.156.879	71.981	673	323	6	1.229.862
12.	Other potential liabilities	4.086					4.086
13.	TOTAL OFF-BALANCE SHEET	1.869.988	259.305	1.997	598	6	2.131.894
14.	TOTAL BALANCE AND OFF-BALANCE SHEET (8+13)	13.811.198	1.279.933	150.344	123.522	36	15.365.033
15.	General credit risk and potential loan losses (#14 x % of loss)	173.039	94.776	36.601	70.844	30	375.290
16.	Allocated general reserves (A) and special reserves (B, C, D, E)	172.927	94.776	36.601	72.883	30	377.217
17.	**MINUS (PLUS) allocated reserves (#16 - 15) +or -**	**-112**	**0**	**0**	**2.039**	**0**	**1.927**

ATTACHMENT

INCOME STATEMENT

000 KM

ELEMENTS	PERFORMED 30.06. 2006.		PERFORMED 30.06.2007.		RATIO 4 : 2
	Amount	partic. in total income	Amount	partic.in total income	
1	2	3	4	5	6
INCOME					
Interest income	294.256	91%	386.931	96%	131
Interest expense	110.489	34%	148.934	37%	135
Net interest income	183.767	57%	237.997	59%	130
Fee income	137.571	43%	164.020	41%	119
TOTAL INCOME	321.338	100%	402.017	100%	125
EXPENSES					
Reserves for potential losses	69.454	22%	80.230	20%	116
Salaries and payables with salary	89.964	28%	102.979	26%	114
Fixed assets and overhead expense	52.245	16%	59.549	15%	114
Other expense	64.907	20%	122.986	19%	189
TOTAL EXPENSES	276.570	86%	320.976	80%	116
NET INCOME BEFORE TAXES	44.768	14%	81.041	20%	181
Taxes	0		0		
NET INCOME	44.768	14%	81.041	20%	181

ATTACHMENT 6

COMPARABLE SCHEDULE OF CAPITAL BALANCE AND ADEQUACY

ACTIVE SUB-BALANCE SHEET

000 KM

Pos.	DESCRIPTION	12./2005.	12./2006.	06./2007.
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	784.085	873.390	920.644
1.2.	Share capital - comm. & perm. prior. non-cumul. shares-invested posses. & rights	12.550	12.550	12.550
1.3.	Issued shares income at share payments	29.975	71.130	71.130
1.4.	General regulatory reserves (reserves as regulated by the Law)	41.801	61.228	75.666
1.5.	Other reserves not related to assets quality assessment	49.583	86.990	107.117
1.6.	Retained - undistributed income from previous years	76.939	93.543	131.772
1.a.	TOTAL (from 1.1. to 1.6.)	994.933	1.198.831	1.318.879
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	34.741	62.603	66.292
1.8.	Losses from current year	26.376	7.030	2.224
1.9.	Book value of treasury shares owned by the bank			
1.10.	Amount of intangible assets	41.424	40.105	38.310
1.b.	TOTAL (from 1.7.to 1.10.)	102.541	109.738	106.826
1.	**AMOUNT OF CORE CAPITAL: (1.a.-1.b.)**	**892.392**	**1.089.093**	**1.212.053**
2	**BANK'S ADDITIONAL CAPITAL**			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	2.850	2.850	2.850
2.2.	Share capital - comm. & perm. prior. non-cumul. shares-invested posses. & rights	0	0	0
2.3.	General reserves for losses on loans from class. A - performing assets	119.163	150.200	172.927
2.4.	Accrued income for current year audited and confirmed by external auditor	43.423	85.689	17.772
2.5.	Income under FBA's temporary restriction on distribution	0	0	0
2.6.	Subordinated debts, the most 50% of core capital	126.632	139.251	171.969
2.7.	Hybrid convertible items - the most 50% of core capital	0	0	0
2.8.	Items-permanent liabilities without repayment duty	5.797	5.828	25.830
2.	**AMOUNT OF ADDITIONAL CAPITAL: (2.1. to 2.8.)**	**297.865**	**383.818**	**391.348**
3	**OFFSETTING ITEMS FROM BANK'S CAPITAL**			
3.1.	Part of invested share capital that according to FBA's assessment represents accepted a	0	0	0
3.2.	Investments in capital of other legal entities exceeding 5% of bank's core capital	17.235	17.236	17.236
3.3.	Receivables from shareholders for significant voting shares - approved aside from regu	0	0	0
3.4.	VIKR to shareholders with significant voting shares in the bank without FBA's permis	0	0	0
3.	**AMOUNT OF OFFSETTING ITEMS FROM BANK'S CAPITAL (3.1. to 3.4.)**	**17.235**	**17.236**	**17.236**
A	AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)	1.173.022	1.455.675	1.586.165
B.	RISK FROM RISK-WEIGHTED ASSETS AND LOAN EQUIVALENTS	6.681.510	8.282.086	9.499.898
C.	NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100	17,6%	17,6%	16,7%

ATTACHMENT 6

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

000 KM

Pos.	DESCRIPTION	12./2005.	12./2006.	06./2007.
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	784.085	873.390	920.644
1.2.	Share capital - comm. & perm. prior. non-cumul. shares-invested posses. & rights	12.550	12.550	12.550
1.3.	Issued shares income at share payments	29.975	71.130	71.130
1.4.	General regulatory reserves (reserves as regulated by the Law)	41.801	61.228	75.666
1.5.	Other reserves not related to assets quality assessment	49.583	86.990	107.117
1.6.	Retained - undistributed income from previous years	76.939	93.543	131.772
1.a.	TOTAL (from 1.1. to 1.6.)	994.933	1.198.831	1.318.879
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	34.741	62.603	66.292
1.8.	Losses from current year	26.376	7.030	2.224
1.9.	Book value of treasury shares owned by the bank			
1.10.	Amount of intangible assets	41.424	40.105	38.310
1.b.	TOTAL (from 1.7.to 1.10.)	102.541	109.738	106.826
1.	**AMOUNT OF CORE CAPITAL: (1.a.-1.b.)**	**892.392**	**1.089.093**	**1.212.053**
2	**BANK'S ADDITIONAL CAPITAL**			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	2.850	2.850	2.850
2.2.	Share capital - comm. & perm. prior. non-cumul. shares-invested posses. & rights	0	0	0
2.3.	General reserves for losses on loans from class. A - performing assets	119.163	150.200	172.927
2.4.	Accrued income for current year audited and confirmed by external auditor	43.423	85.689	17.772
2.5.	Income under FBA's temporary restriction on distribution	0	0	0
2.6.	Subordinated debts, the most 50% of core capital	126.632	139.251	171.969
2.7.	Hybrid convertible items - the most 50% of core capital	0	0	0
2.8.	Items-permanent liabilities without repayment duty	5.797	5.828	25.830
2.	**AMOUNT OF ADDITIONAL CAPITAL: (2.1. to 2.8.)**	**297.865**	**383.818**	**391.348**
3	**OFFSETTING ITEMS FROM BANK'S CAPITAL**			
3.1.	Part of invested share capital that according to FBA's assessment represents accepted a	0	0	0
3.2.	Investments in capital of other legal entities exceeding 5% of bank's core capital	17.235	17.236	17.236
3.3.	Receivables from shareholders for significant voting shares - approved aside from regu	0	0	0
3.4.	VIKR to shareholders with significant voting shares in the bank without FBA's permis	0	0	0
3.	**AMOUNT OF OFFSETTING ITEMS FROM BANK'S CAPITAL (3.1. to 3.4.)**	**17.235**	**17.236**	**17.236**
A	AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)	1.173.022	1.455.675	1.586.165
B.	RISK FROM RISK-WEIGHTED ASSETS AND LOAN EQUIVALENTS	6.681.510	8.282.086	9.499.898
C.	NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100	17,6%	17,6%	16,7%