



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

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**INFORMATION**  
**ON BANKING SYSTEM OF**  
**THE FEDERATION OF BOSNIA AND HERZEGOVINA**  
**As of March 31<sup>st</sup>, 2008**

Sarajevo, May 2008

Information on banking system of the Federation of BiH (as of March 31st, 2008) is prepared by the Banking Agency of the Federation of BiH, as a regulatory authority conducting supervision of banks, based on reports of banks, and other information and data submitted by banks. Findings and data from on-site examinations and analysis performed at the Agency (off-site financial analysis) have also been included.

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## I INTRODUCTION

Over the first three months of 2008, banking sector of the Federation of BiH, as expected, has had slower growth, while maintaining positive development trends from prior periods. After HVB Central Profit Bank d.d. Sarajevo had integrated into UniCredit Bank d.d. Mostar, there were 21 banks with the banking license in the Federation of BiH as of 01.03.2008. As of 31.03.2008., there were three banks under provisional administration (Una bank d.d. Bihać, Hercegovačka bank d.d. Mostar and Privredna bank Sarajevo d.d. Sarajevo). Banks continued expanding the network of their organizational units. Out of 16 newly established units of banks from the FBiH, three were opened in Republic Srpska.

As a result of the mentioned integration, in the first quarter of 2008, concentration in assets, loans and deposits significantly increased. There is obvious domination of the five largest banks in the system that „hold“ approximately 80% of the market (74,4% at the end of 2007), of loans and deposits. Aggregate balance sheet in the Federation of BiH, as of 31.03.2008., was KM 14,3 billion, which is higher by 1% or KM 114 million if compared to the end of 2007. The balance sheet growth is primarily financed in the sources by the growth of borrowings (by 4% or KM 73 million), and capital (by 1% or KM 12 million), while deposits remained almost the same as at the end of 2007.

Loans amounting to KM 9,4 billion as of 31.03.2008. recorded a very strong growth in the assets (if compared to 2007 they increased by 6% or KM 548 million), which has directly reflected on downfall of cash funds by 8% or KM 388 million, amounting to KM 4,5 billion. Loans to private companies increased by 8%, and to citizens by 5%. In the structure of total loans, loans to citizens participated of 49,8%, and to companies of 45,6%. From the aspect of loan structure by purpose, it has been longer period of time with no changes, that is, segment of loans of approximately 30% was placed as production support, that is, apartment building, small business (undertaking) and agriculture.

In the liabilities structure, a slow trend of downfall has continued in deposits and credit commitment increase. With the amount of KM 10,2 billion and participation of 71%, deposits still represent dominant source of banks' financing in the Federation of BiH. Second significant source of financing are credit funds with participation of 14,7%, and capital with participation of 10,7%.

As for changes in the structure of deposits by sectors, the highest growth (22% or 215 million) was recoded by public enterprise deposits (amount of KM 1,2 billion as of 31.03.2008. participated of 11,9%). Citizen deposits increased by 3% or KM 121 million, and have reached the amount of KM 4,3 billion and participation of 42,5%. Significant downfall of deposits was recorded in public institutions by 23% or KM 299 million (with the amount of one billion they had participation of 9,8%), and private companies whose deposits significantly decreased (by 9% or KM 145 million). Savings deposits in 2008 continued growing moderately, that is, they increased by 2,2% or KM 89 million, reaching the amount of KM 4,2 billion.

Regulatory capital of banks in the FBiH that remained at the level of last year amounted to KM 1,9 billion as of 31.03.2008. Core capital increased by 8% or KM 105 million, and additional capital decreased by 20% or KM 106 million. Growth of core capital, coming from the inflow of new, green capital-additional capitalization, was KM 7,3 million in one bank.

The profit generated over three months of 2008, if compared to the same period in 2007, was significantly lower, that is, of KM 4,2 million, which is primarily the result of a huge loss reported by one bank. Positive financial result of KM 22,6 million was reported by 16 banks, while five banks reported loss in their performance of KM 18,4 million.

## 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 31.03.2008., there were 21 banks with the banking license issued in the Federation of BiH. Number of banks has decreased by one if compared to 31.12.2007. Approval was issued for a status change of integration of HVB Central Profit Bank d.d. Sarajevo to UniCredit Zagrebačka bank d.d. Mostar that has also changed the name into UniCredit Bank d.d. Mostar, resulting by 21 banks in the Federation of BiH as of 01.03.2008.

As of 31.03.2008., there were three banks under provisional administration (UNA bank d.d. Bihać, Hercegovska bank d.d. Mostar and Privredna bank Sarajevo d.d. Sarajevo).

Over the first quarter of 2008, banks have continued expanding the network of their organizational units. Banks from the Federation of BiH have founded 16 new organizational units, while at the same time three organizational units have closed. Of the newly established, three were opened in Republic Srpska. If compared to 31.12.2007., when banks had 569 organizational units, the mentioned represents an increase of 2,3%.

As of 31.03.2008., seven banks from the Federation of BiH had 54 organizational units in Republic Srpska, and 11 banks had 15 organizational units in District Brčko. Six banks from Republic Srpska had 22 organizational units in the Federation of BiH.

The license for inter-bank transactions in the internal payment system was issued to all banks as of 31.03.2008. There were 14 banks with deposit insurance program.

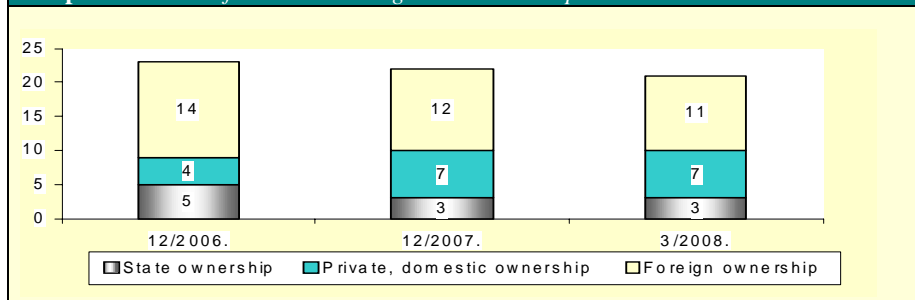
#### 1.2. Ownership structure

As of 31.03.2008., ownership structure in banks<sup>1</sup> was assessed based on the available information and on-site visits to banks<sup>2</sup>:

- Private and majority private ownership 18 banks (86%)
- State and majority state ownership<sup>3</sup> 3 banks (14%)

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

**Graph 1: Number of banks according to the ownership structure**

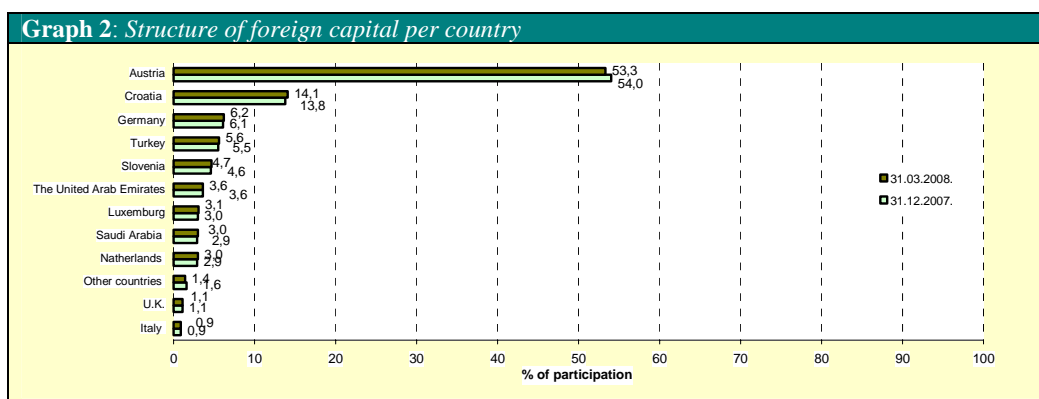


<sup>1</sup> Criteria for bank by ownership type are ownership over banks' share capital.

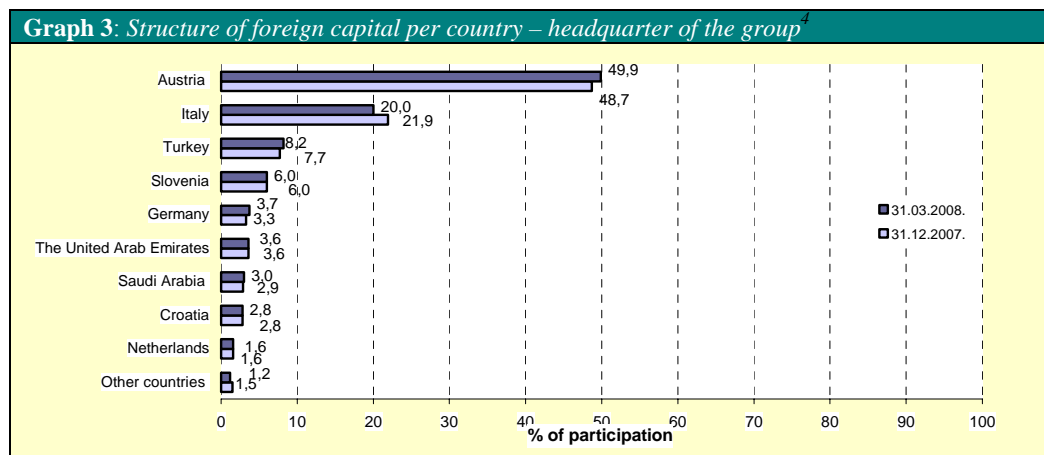
<sup>2</sup> General overview of ownership structure of banks in the F BiH as of 31.03.2008. resulted from received documentation, and registrations at authorized courts (changes in capital and shareholders structure).

<sup>3</sup> State ownership refers to domestic state capital of BiH.

If only foreign capital is analyzed based on the criteria of the shareholder's home country, 53,3% of foreign capital was owned by the shareholders from Austria, followed by 14,1% shareholders from Croatia, while other countries participated below 10% as of 31.03.2008.



If we, however, take into account the capital correlation, we could take the criteria of headquarter of the parent institution or the group that have majority ownership (direct or indirect through the group members) over banks in the Federation of BiH. According to this criteria as of the first quarter of 2008, there was also majority participation of banking groups and banks from Austria (49,9%), followed by the Italian banks with participation of 20%. Other countries recorded participation below 10%.



The ownership structure could be viewed from the aspect of financial indicators, which is based on the value of total capital<sup>5</sup>.

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

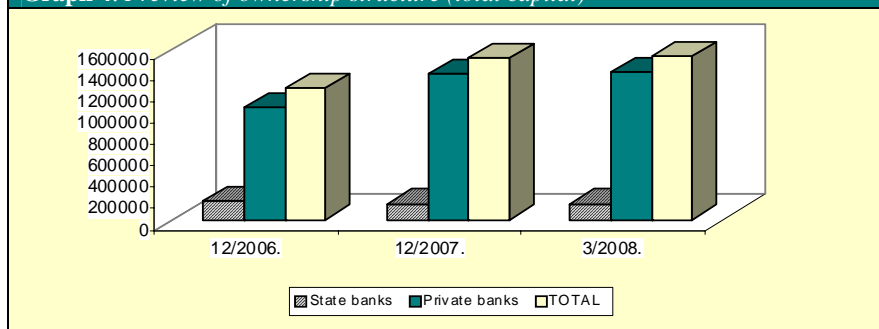
<sup>5</sup> Information from balance sheet - FBA schedule: shareholders capital, premium issue, undistributed profit and reserves, and other capital (financial results of current period).

-in 000 KM-

**Table 1: Ownership structure by total capital**

BANKS	31.12.2006.		31.12.2007.		31.03.2008.		RATIO	
	1	2	3	4	5	6	3/2	4/3
State banks	170.680	14%	147.022	10%	148.664	10%	86	101
Private banks	1.055.905	86%	1.370.996	90%	1.381.339	90%	130	101
TOTAL	1.226.585	100%	1.518.018	100%	1.530.003	100%	124	101

**Graph 4: Preview of ownership structure (total capital)**



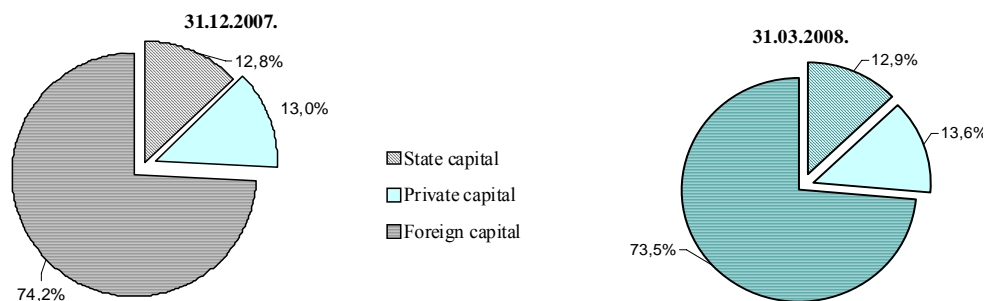
Analyzing participation of state, private and foreign capital in the share capital of banks, we get more precise picture of the capital ownership structure in banks of the Federation of BiH.

- in 000 KM-

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

SHARE CAPITAL	31.12.2006.		31.12.2007.		31.03.2008.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	5/3	7/5
1	3	4	5	6	7	8	9	10
State capital	135.019	15,2	133.582	12,8	133.582	12,9	99	100
Private capital (residents)	83.077	9,3	135.728	13,0	140.809	13,6	163	104
Foreign capital (nonresidents)	670.695	75,5	775.912	74,2	760.058	73,5	116	98
TOTAL	888.791	100,0	1.045.222	100,0	1.034.449	100,0	118	99

**Graph 5: Ownership structure (share capital)**



Share capital of banks in the Federation of BiH, over the first quarter of 2008, has decreased by 1% or KM 10,8 million. In one bank, share capital increased through additional capitalization in the amount of KM 7,3 million, of which participation of nonresidents was KM 1,5 million, and

of residents was KM 5,8 million. Status change of one bank's integration (with majority foreign participation in capital) to the other bank that is also with majority foreign participation in capital, with the amount of capital lower than the nominal amount (the difference in favor of the issue exchange premium), has caused decrease of the share capital of nonresidents.

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

Participation of state capital in total share capital, as of 31.03.2008., was 12,9%, which is the same as of the end of 2007.

If compared to the end of 2007, participation of private capital (residents) in total share capital of the banking sector has increased from 13% to 13,6%, that is, by KM 5,1, as a result of the following: share trading between residents and nonresidents (with five banks) has caused decrease of KM 0,7 million as net effect, and increase caused by purchase of shares through additional capitalization in one bank of KM 5,8 million by a domestic buyer.

Participation of foreign capital decreased from 74,2% to 73,5%, that is, by KM 15,8 million as a result of the following: additional capitalization caused increase of KM 1,5 million in one bank, above mentioned share trading between residents and nonresidents in five banks (net effect on foreign capital is increase by KM 0,7 million), and decrease of KM 18,1 million in process of integration of two banks.

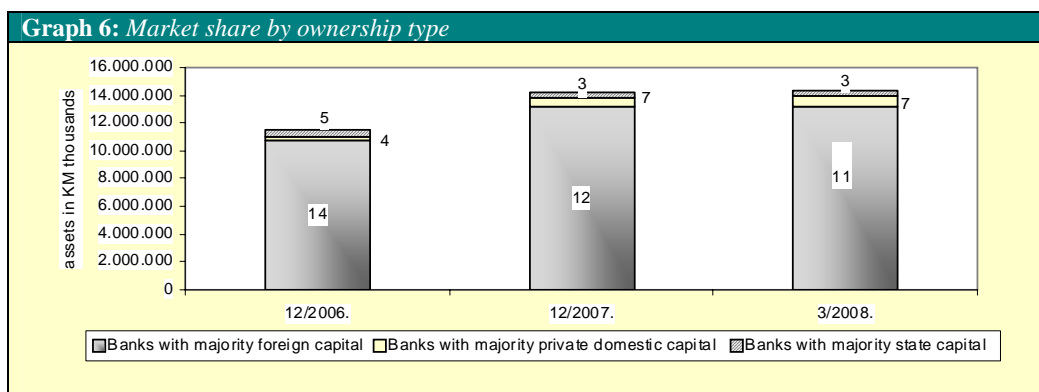
Changes in the ownership structure reflected on participation, that is, market share and position of banks grouped by majority ownership in share capital as criteria. Market share of banks with majority foreign ownership decreased by 0,3%, but still representing the high position of 92,1% as of 31.03.2008. Market share of banks with majority domestic private capital was 5%, which is higher by 0,1% than at the end of 2007. Participation of state capital increased from 2,7% to 2,9%.

Integration processes from the past period were performed with purpose of stronger market positioning, resulting by concentrations in the banking sector by largest banks becoming larger, decreased number of banks, and intensified competition. Over the observed period, one integration process has been finalized (status change of integration) as of 29.02.2008. Such processes should result by decreased number of banks, strengthening of the resulting bank and further concentrations in the banking sector of the Federation of BiH.

- in %-

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

BANKS	31.12.2006.			31.12.2007.			31.03.2008.		
	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. in total assets
1	2	3	4	5	6	7	8	9	10
Banks with majority state capital	5	13,9	4,1	3	9,7	2,7	3	9,7	2,9
Banks with majority private domestic capital	4	3,7	2,9	7	10,9	4,9	7	11,9	5,0
Banks with majority foreign capital	14	82,4	93,0	12	79,4	92,4	11	78,4	92,1
TOTAL	23	100,0	100,0	22	100,0	100,0	21	100,0	100,0



### 1.3. Staff

In banks of the FBiH, as of 31.03.2008., there were total of 7.650 employees, of which 4% in banks with majority state capital, and 96% in private banks.

**Table 4: Bank employees in the FBiH**

BANKS	NUMBER OF EMPLOYEES						RATIO	
	31.12.2006.		31.12.2007.		31.03.2008.		3:2	4:3
1	2	3	4	5	6	7	8	9
State banks	423	6%	342	5%	338	4%	81	99
Private banks	6.183	94%	7.019	95%	7.312	96%	114	104
TOTAL	6.606	100%	7.361	100%	7.650	100%	111	104
Number of banks	23		22		21			

Over the first quarter of 2008, number of employees increased by 4% or 289 employees, but only in private banks.

**Table 5: Qualification structure of employees**

EDUCATION	NUMBER OF EMPLOYEES						RATIO	
	31.12.2006.		31.12.2007.		31.03.2008.		4:2	6:4
1	2	3	4	5	6	7	8	9
University qualifications	2.408	36,5%	2.725	37,0%	2.873	37,6%	113	105
Two-year post secondary school qualifications	714	10,8%	799	10,8%	828	10,8%	112	104
Secondary school qualifications	3.391	51,3%	3.759	51,1%	3.870	50,6%	111	103
Other	93	1,4%	78	1,1%	79	1,0%	84	101
TOTAL	6.606	100,0%	7.361	100,0%	7.650	100,0%	111	104

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	31.12.2006.			31.12.2007.			31.03.2008.		
	No. of empl.	Assets (000 KM)	Assets per an empl.	No. of empl.	Assets (000 KM)	Assets per an empl.	No. of empl.	Assets (000 KM)	Assets per an empl.
State	423	474.793	1.122	342	381.036	1.114	338	407.136	1.205
Private	6.183	11.023.562	1.783	7.019	13.822.471	1.969	7.312	13.910.571	1.902
TOTAL	6.606	11.498.355	1.741	7.361	14.203.507	1.930	7.650	14.317.707	1.872



At the end of first quarter of 2008, there was KM 1,87 million of assets per an employee at the level of the banking system, which is slightly lower than at the end of 2007, as a result of higher growth rate of employees' number over the banking system assets. 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.

Assets (000 KM)	31.12.2006.	31.12.2007.	31.03.2008.
	Number of banks	Number of banks	Number of banks
Up to 500	5	2	2
500 to 1.000	7	7	8
1.000 to 2.000	4	7	6
2.000 to 3.000	6	4	4
Over 3.000	1	2	1
TOTAL	23	22	21

Analytical indicators of respective banks range from KM 325 thousand to four million KM of assets per an employee. The indicator of seven banks is better than the one for the whole banking sector, and the indicator of three largest banks in the system exceeds KM 1,9 million.

And finally, we could say that conditions under which banks service their customers, both legal entities and citizens, as well as conditions under which banks offer their services and finance their customers, have significantly improved in terms of quality.

## 2. FINANCIAL INDICATORS OF BANKS' PERFORMANCE

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

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

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

In accordance with the provisions of Law on Opening Balance Sheet of Banks, banks with majority state owned capital have to report to the FBA "full" balance sheet divided into: passive, neutral and active sub-balance sheet. In order to get realistic indicators of banks' performance in the Federation of BiH, all further analysis of the banking system will be based on the indicators from the active sub-balance sheet of banks with majority state owned capital<sup>6</sup>.

<sup>6</sup> Some state banks in their "full balance sheet" report passive and neutral items, which will be taken over by the state upon finalization of the privatization process. As of 31.03.2008., these items amounted to KM 591 million.

## 2.1. Balance sheet

Aggregate balance sheet of banks in the Federation of BiH, according to the balance sheets submitted as of 31.03.2008. amounted to KM 14,3 billion, which is higher by 1% or KM 114 million than at the end of 2007. This is the lowest quarterly growth rate that has been generated in the last three years, which was to expect since this is the first quarter of the year, and since in 2007 the banking system has already generated a significant growth.

<b>Table 8: Balance sheet</b>						
DESCRIPTION	AMOUNT (in 000 KM)			RATIO		
	31.12.2006.	31.12.2007.	31.03.2008.	3/2	4/3	
1	2	3	4	5	6	
<b>ASSETS:</b>						
Cash funds	4.286.202	4.895.107	4.506.608	114	92	
Securities <sup>7</sup>	45.922	48.565	36.767	106	76	
Placements to other banks	105.390	69.314	62.499	66	90	
Loans	6.820.154	8.875.003	9.423.163	130	106	
Loan loss provisions (LLP)	288.433	329.128	355.404	114	108	
Loans – net value (loans minus LLP)	6.531.721	8.545.163	9.067.759	131	106	
Business premises and other fixed assets	341.671	406.567	409.045	119	101	
Other assets	187.449	238.826	235.029	127	98	
<b>TOTAL ASSETS</b>	<b>11.498.355</b>	<b>14.203.507</b>	<b>14.317.707</b>	<b>124</b>	<b>101</b>	
<b>LIABILITIES:</b>						
<b>LIABILITIES</b>						
Deposits	8.379.322	10.190.977	10.170.776	122	100	
Borrowings from other banks	2.890	3.289	3.289	114	100	
Loan Commitments	1.420.944	1.856.471	1.929.188	131	104	
Other liabilities	468.614	634.752	684.451	135	108	
<b>CAPITAL</b>						
Capital	1.226.585	1.518.018	1.530.003	124	101	
<b>TOTAL LIABILITIES (LIABILITIES AND CAPITAL)</b>	<b>11.498.355</b>	<b>14.203.507</b>	<b>14.317.707</b>	<b>124</b>	<b>101</b>	

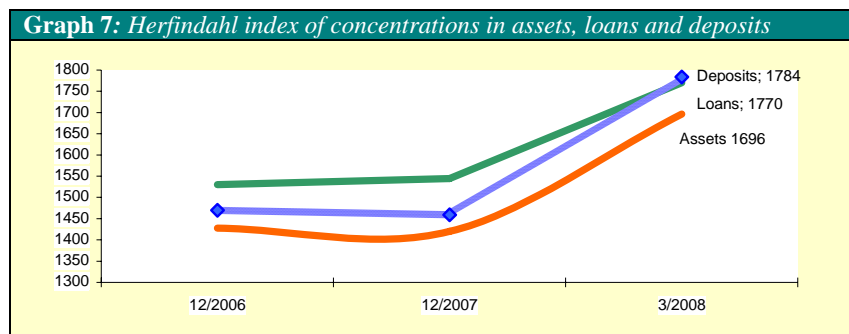
<b>Table 9: Assets of banks based on the ownership structure</b>											
BANKS	31.12.2006.		31.12.2007.		31.03.2008.		RATIO				
	Number of banks	Assets (000 KM)	Number of banks	Assets (000 KM)	Number of banks	Assets (000 KM)	5/3	7/5			
1	2	3	4	5	6	7	8	9			
State	5	474.793 4%	3	381.036 3%	3	407.136 3%	80	107			
Private	18	11.023.562 96%	19	13.822.471 97%	18	13.910.571 97%	125	101			
<b>TOTAL</b>	<b>23</b>	<b>11.498.355 100%</b>	<b>22</b>	<b>14.203.507 100%</b>	<b>21</b>	<b>14.317.707 100%</b>	<b>124</b>	<b>101</b>			

Over the observed period, majority of banks have recorded a slight increase of the aggregate balance sheet; the assets of nine banks were lower than at the end of 2007 (between 1% and 5%), three relatively small banks recorded increase of assets of approximately 10%, and only one bank (assets below KM 100 million) recorded a significant growth of the balance sheet total of 42%.

<sup>7</sup> Trading securities and securities held to maturity.

Two of the three largest banks in the system recorded growth rate of 0,9% and 4,1%, while the assets of the third bank were lower by 2,7% or KM 96 million than at the end of 2007. The amount of KM 29 million or 26% of the aggregate growth of the balance sheet sum of the banking sector refers to these banks.

Indicator of concentrations in the three most significant segments of banking performance in assets, loans, and deposits, is the value of the Herfindahl index<sup>8</sup>.



Over the first quarter of 2008, the Herfindahl indexes for concentration of assets and deposits have increased vastly (by 276, 226 and 325 units) and as of 31.03.2008. their values were 1.696, 1.770 and 1.784 units. The reason of this increase of concentration indicators is integration of two banks that was performed in the third month of 2008. Since these are the two large banks in the system, the mentioned indicators have had a huge increase, and have reached the amount of 1.800 units, which is, according to the standard, the marginal value of moderate concentration, that is, the HHI value over this amount is an indicator of high concentration<sup>9</sup>.

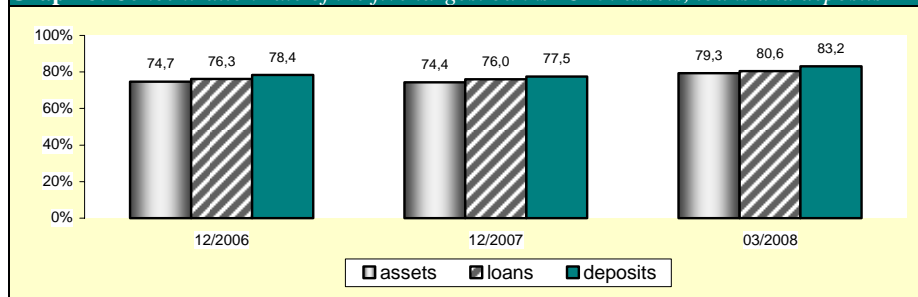
Second indicator of concentration in the banking system is the ratio of market concentration, that is, the concentration rate<sup>10</sup> (hereinafter: CR), which indicates total market participation of the largest institutions in the system in the selected relevant categories: in assets, loans and deposits. The CR5 of market participation for loans and deposits of the five largest banks in the system were 79,3%, 80,6% and 83,2% at the end of the first quarter in 2008, and the increase in comparison to the end of 2007 was the result of including another bank to the group of the five largest banks in the system, after integration of two banks from this group in the first quarter of 2008. Domination of the five largest banks in the system is obvious. They „hold“ approximately 80% of the market (74,4% at the end of 2007), of loans and deposits.

<sup>8</sup> It is also called the Hirschmann-Herfindahl index or HHI as calculated in the formula  $HI = \sum_{j=1}^n (S_j)^2$ ,

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

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

<sup>10</sup> Engl.: Concentration Ratio (CR), assigned according to the number of institutions included in the calculation.

**Graph 8: Concentration rate of the five largest banks -CR5: assets, loans and deposits**

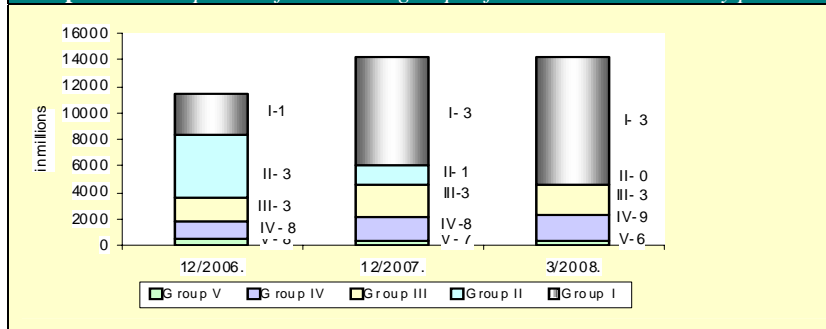
We can also analyze the banking sector from the aspect of several groups, as formed upon the assets size<sup>11</sup>. Individual groups recorded smaller changes as for the number of banks and their participation, as a result of assets growth in majority of banks and completion of the integration process in one bank.

At the end of first quarter of 2008, and after integration of two banks (as of 31.12.2007. these banks were in groups I and II), three largest banks in the system (group I) still have dominant participation of 67,4%. Number and participation of the group II has not changed (three banks and participation of 6,8%). The largest group IV (nine banks) with the assets ranging between KM 100 and 500 million has increased by another bank, whose assets exceed KM 100 million, which resulted by increase of this group's participation from 12,3% to 13,2%. Decrease in number and participation of the last group of six small banks continues in 2008.

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

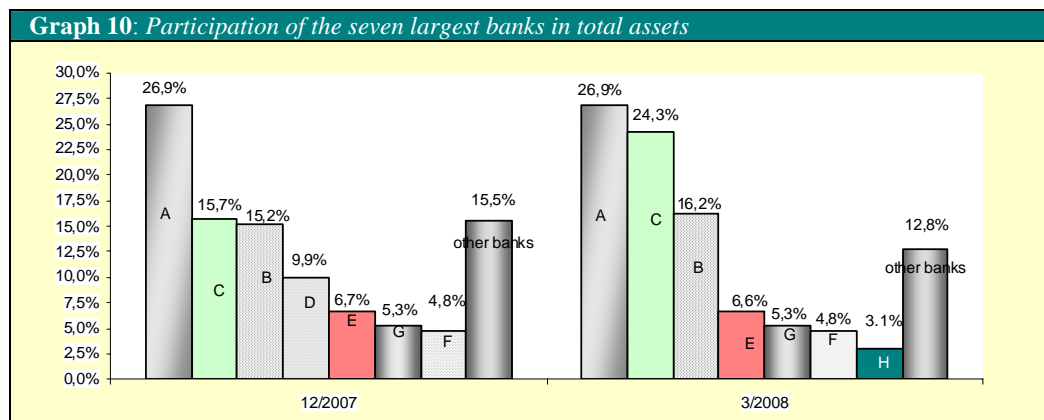
**Table 10: Participation of individual groups of banks in total assets through periods**

ASSETS	31.12.2006.			31.12.2007.			31.03.2008.		
	Amount	Particip %	No. of banks	Amount	Particip %	No. of banks	Amount	Particip %	No. of banks
I- Over 2.000	3.098	26,9	1	8.207	57,8	3	9.645	67,4	3
II- 1000 to 2000	4.836	42,1	3	1.409	9,9	1	0	0	0
III- 500 to 1000	1.723	15,0	3	2.393	16,8	3	2.399	16,8	3
IV- 100 to 500	1.382	12,0	8	1.742	12,3	8	1.894	13,2	9
V- Below 100	459	4,0	8	453	3,2	7	380	2,6	6
TOTAL	11.498	100,0	23	14.204	100,0	22	14.318	100,0	22

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

<sup>11</sup> Banks are divided into five groups, depending on the assets size.

The following graph presents the structure and participation trend of the seven largest banks<sup>12</sup> in the banking system of the Federation of BiH:



Growth of the balance sheet sum (1% or KM 114 million) in the sources has been primarily financed by borrowings growth (by 4% or KM 73 million), and capital (by 1% or KM 12 million), while this is the first time that deposits, after long period of time, recorded slight downfall of 0,2% or KM 20 million.

The highest relative and nominal growth (6% or KM 548 million) of the assets was recorded in loans, which as of 31.03.2008. amounted to KM 9,4 billion, which is directly, correlated with the downfall of cash funds of 8% or KM 388 million (amounting to KM 4,5 billion as of 31.03.2008.).

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

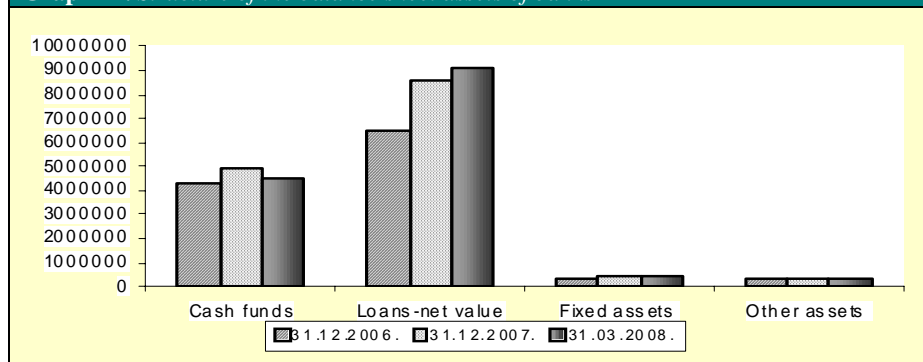
**Table 11: Balance sheet structure of banks**

DESCRIPTION	PARTICIPATION		
	31.12.2006.	31.12.2007.	31.03.2008.
<b>ASSETS:</b>			
Cash funds	37,3	34,5	31,5
Securities	0,4	0,3	0,2
Placements to other banks	0,9	0,5	0,4
Loans	59,3	62,5	65,8
Loan loss reserves (LLR)	2,5	2,3	2,5
Loans- net value (loans minus LLR)	56,8	60,2	63,3
Business premises and other fixed assets	3,0	2,8	2,9
Other assets	1,6	1,7	1,7
<b>TOTAL ASSETS</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<b>LIABILITIES:</b>			
<b>LIABILITIES</b>			
Deposits	72,9	71,7	71,0
Borrowings from other banks	0,0	0,0	0,0
Loan commitments	12,3	13,1	13,5
Other liabilities	4,1	4,5	4,8
<b>CAPITAL</b>			
Capital	10,7	10,7	10,7

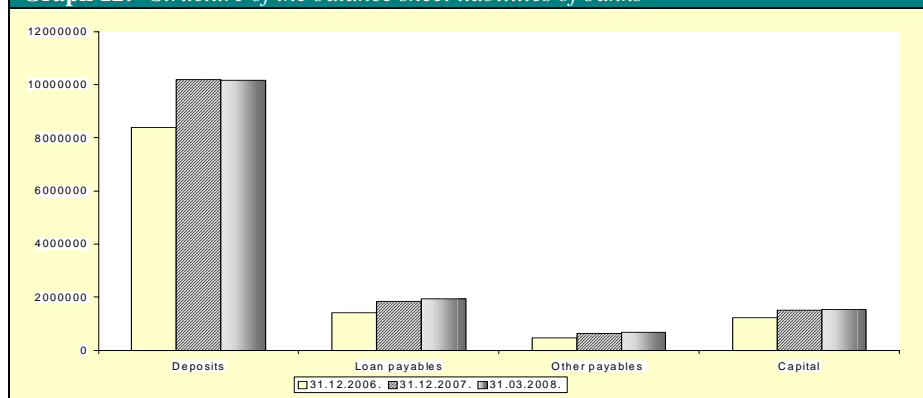
<sup>12</sup> Banks are market with letters A to G.

<b>TOTAL LIABILITIES (LIABILITIES AND CAPITAL)</b>	100,0	100,0	100,0
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**Graph 11: Structure of the balance sheet assets of banks**



**Graph 12: Structure of the balance sheet liabilities of banks**



In the structure of the balance sheet liabilities of banks, from the aspect of the most significant balance sheet categories, the trend of previous periods has continued, which is a slow trend of downfall in participation of deposits and growth of loan payables. With the amount of KM 10,2 billion and participation of 71%, deposits still represent a dominant source of financing.

Changes in the assets structure are the result of greater growth of loans over the first three months of 2008, that is, increases of their participation from 62,5% to 65,8%, while participation of cash funds decreased from 34,5% to 31,5%.

**Table 12: Cash funds of banks**

CASH FUNDS	31.12.2006.		31.12.2007.		31.03.2008.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	241.561	5,6	311.436	6,4	281.402	6,3	129	90
Reserve accounts with CBBiH	2.258.035	52,7	2.805.634	57,3	2.663.786	59,1	124	95
Accounts with deposit institutions in BiH	21.354	0,5	12.304	0,3	1.089	0,0	58	9
Accounts with deposit institutions abroad	1.764.210	41,2	1.764.825	36,0	1.559.419	34,6	100	88
Cash funds in collection process	1.042	0,0	908	0,0	912	0,0	87	0
<b>TOTAL</b>	<b>4.286.202</b>	<b>100,0</b>	<b>4.895.107</b>	<b>100,0</b>	<b>4.506.608</b>	<b>100,0</b>	<b>114</b>	<b>92</b>

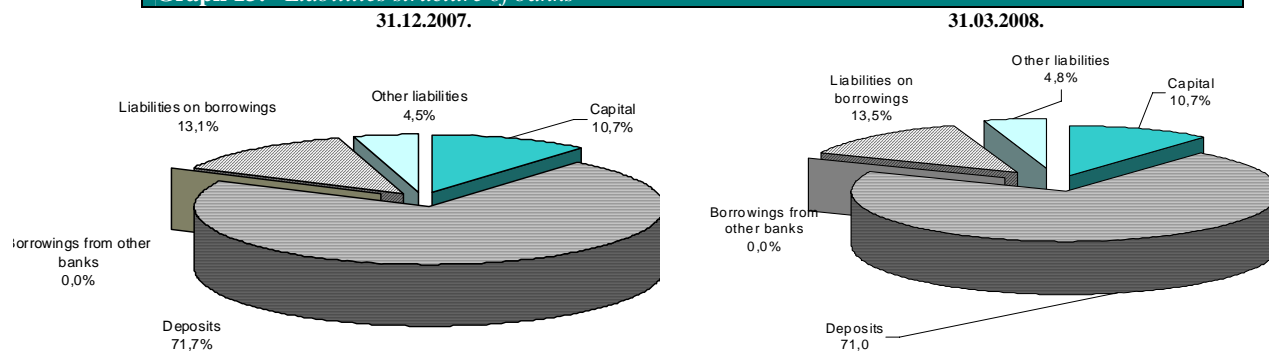
At the end of the first quarter of 2008, cash funds of banks in the Federation of BiH on the reserve accounts with the Central Bank of BiH decreased by 5%, amounting to KM 2,66 billion or 59,1% of total cash funds, which is higher by 1,8% than at the end of 2007. As of 01.01.2008., required reserve rate increased from 15% to 18%. Banks' funds maintained at the accounts of depository institutions abroad also decreased by 12% or KM 205 million, amounting to KM 1,56 billion or 34,6% of total cash funds at the end of the observed period (36,1% at the end of 2007). Banks' funds held as cash in vaults and tellers amounted to KM 281 million as of 31.03.2008., representing 6,2% of total cash funds, which is lower by 0,1% than at the end of 2007.

Currency structure changes in regard to further growth of domestic currency participation have continued in the observed period, that is, participation of domestic currency has increased from 61,4% to 63,6%, resulting by decrease in participation of funds in foreign currency.

### 2. 1. 1. Liabilities

Structure of liabilities (liabilities and capital) in the balance sheet of banks as of 31.03.2008. is presented in the following graph:

**Graph 13: Liabilities structure of banks**



Over the first quarter of 2008, we still have this trend from previous periods of changing structure of banks' liabilities, that is, decrease in participation of deposits and increase in participation of loan payables. However, after longer period of time, we have recorded a slight downfall of deposits in nominal amount of KM 20 million, but still with participation of 71% and amount of KM 10,2 billion, deposits represent the most significant source of financing for banks in the Federation of BiH. Second most significant source of financing is credit funds, while banks' indebtedness over the observed period has increased by KM 73 million or 4%. These liabilities with the amount of KM 1,9 billion have reached participation in liabilities of 13,5% (0,4% higher than at the end of 2007). If we add to these liabilities the subordinated loans of KM 177 million, which banks have borrowed to strengthen their capital and capital adequacy, then total credit funds in the sources would have participation of 14,7%. Capital has increased by KM 12 million or 1%, amounting to KM 1,5 billion as of 31.03.2008., representing participation of 10,7%.

At the end of the first quarter of 2008, the highest bank commitments came from following creditors (seven of total 56), representing 68,3% of total credit commitments: Raiffeisen Zentralbank Osterreich A.G. (RZB), OEWAG Wien, ComercBank AG Frankfurt, European Investment Bank (EIB), European fund for Southeast Europe (EFSE), Bank Polska OPIEKI and International Finance Corporation (IFC).

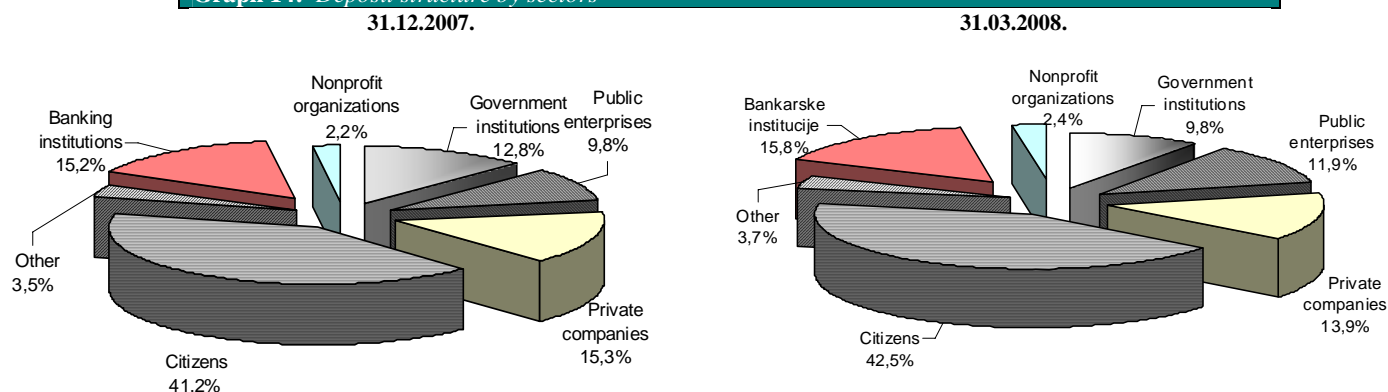
According to the data submitted by banks, out of total deposits only 4,6% were deposits collected by organizational units of banks from the Federation of BiH operating in Republic Srpska and Brčko District as of 31.03.2008.

- in 000 KM-

**Table 13: Deposit structure by sectors<sup>13</sup>**

SECTORS	31.12.2006.		31.12.2007.		31.03.2008.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	1.033.902	12,3	1.300.485	12,8	1.001.310	9,8	126	77
Public enterprises	996.110	11,9	997.448	9,8	1.213.018	11,9	100	122
Private enterprises and assoc.	1.342.538	16,0	1.554.693	15,3	1.409.423	13,9	116	91
Non-profit. organizations	193.009	2,3	225.866	2,2	239.406	2,4	117	106
Banking institutions	1.136.450	13,6	1.548.619	15,2	1.602.827	15,8	136	104
Citizens	3.403.443	40,6	4.202.161	41,2	4.323.274	42,5	123	103
Other	273.870	3,3	361.705	3,5	381.518	3,7	132	105
TOTAL	8.379.322	100,0	10.190.977	100,0	10.170.776	100,0	122	100

**Graph 14: Deposit structure by sectors**



Over the three months of 2008, there have been some changes in the structure of deposits by sectors, although the level of deposits remained almost unchanged in comparison to the end of last year. The highest relative and nominal growth (22% or KM 215 million) was recorded in deposits of public enterprises, arriving at participation of 11,9% with the amount of KM 1,2 billion at the end of first quarter of 2008. Citizen deposits increased by 3% or KM 121 million to the amount of KM 4,3 billion and participation of 42,5%. Two sectors recorded significant downfall of deposits: public institutions by 23% or KM 299 million, and with the amount of KM one billion they recorded participation of 9,8%, which is lower by 3% in comparison to the end of 2007. The second sector are private companies, whose deposits also significantly decreased (by 9% or KM 145 million), and their participation decreased from 15,3% to 13,9%, amounting to KM 1,4 billion at the end of the observed period.

After longer period of time, currency structure has changed in favor of foreign currency, that is, deposits in foreign currency (with dominant participation of EUR) in the amount of KM 5,7 billion recorded participation of 56,2% (55% at the end of 2007), while deposits in domestic currency in the amount of KM 4,5 billion recorded participation of 43,8% (45% at the end of 2007).

<sup>13</sup> Information from the attached form BS-D submitted by banks each quarter with balance sheet - FBA format.

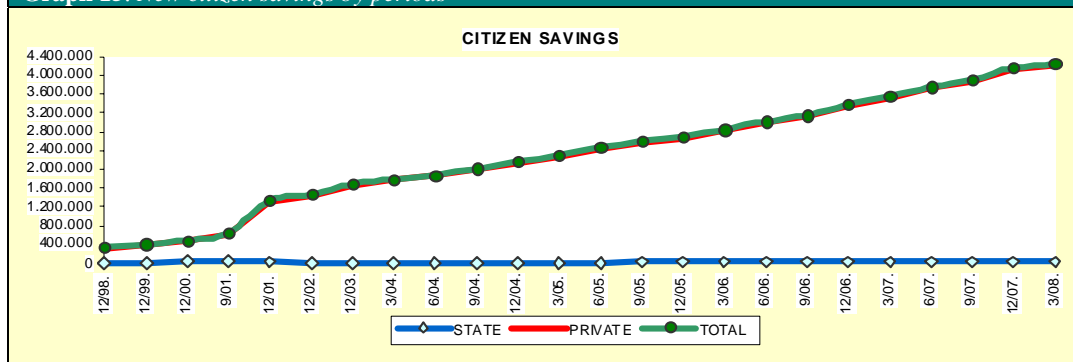


Savings deposits, as the most significant deposit and financial potential of banks, continued with moderate and stable growth in 2008, that is, their increase was 2,2% or KM 89 million, arriving at KM 4,2 billion. Of the overall increase generated, three largest banks in the system make 41% or KM 36 million.

**Table 14: New citizen savings by periods**

BANKS	AMOUNT (in 000 KM)			RATIO	
	31.12.2006.	31.12.2007.	31.03.2008.	3/2	4/3
1	3	3	4	5	6
State	31.723	30.469	31.848	96	104
Private	3.308.413	4.086.820	4.174.197	124	102
TOTAL	3.340.136	4.117.289	4.206.045	123	102

**Graph 15: New citizen savings by periods**



Three largest banks in the system hold 74,1% of savings, while 10 banks show participation below 1%, representing only 4,5% of total savings in the system.

Savings deposits in domestic currency represent 34%, while in foreign currency 66% of total savings.

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

BANKS	AMOUNT (in 000 KM)			RATIO	
	31.12.2006.	31.12.2007.	31.03.2008.	3/2	4/3
1	3	3	4	5	6
Short term savings deposits	1.851.173	2.174.863	2.335.288	117	107
Long term savings deposits	1.488.963	1.942.426	1.870.757	130	96
TOTAL	3.340.136	4.117.289	4.206.045	123	102

Over the first quarter of 2008, in the maturity structure of savings deposits, participation of long term deposits has slightly declined, which is the result of their decrease by 3,7% or KM 72 million. At the same time, we have had a strong increase of term deposits up to one year of 36,5% or KM 183 million, while demand deposits decreased by 1,3% or KM 22 million, causing increase of participation of short term deposits from 52,8% to 55,5%.

Significant growth and positive trends in the segment of savings in banks of the FBiH are primarily the result of, on one side, strengthening of safety and stability of the overall banking system, giving the key importance to the existence of functional, effective and efficient banking supervision conducted by the FBA, and, on the other side, deposit insurance system with the main purpose to increase stability of the banking, that is, financial sector and protection of savers. There is total 14 banks from the Federation of BiH that were accepted to the deposit insurance program, and according to the submitted data, there is total 96% of total deposits and 98% of total savings deposited in these banks. As for remaining banks, six of them cannot apply

to be accepted since they do not qualify with the criteria prescribed by the Deposit Insurance Agency: three state owned banks due to their ownership structure, one private bank with participation of state capital exceeding 10%, and two private banks under provisional administration, while one bank is currently in process of acceptance to the insurance program.

### 2.1.2. Capital - strength and adequacy

Capital<sup>14</sup> of banks in the FBiH, as of 31.03.2008., amounted to KM 1,9 billion.

-in 000 KM-

Table 16: Regulatory capital						
DESCRIPTION	31.12.2006.	31.12.2007.	31.03.2008.	RATIO		
				3/2	4/3	
1	2	3	4	5	6	
<b>STATE BANKS</b>						
1. Core capital before reduction	169.829	145.802	148.984	86	102	
2. Offsetting items	5.034	2.018	2.111	40	105	
a) Core capital (1-2)	164.795	143.784	146.873	87	102	
b) Supplementary capital	9.370	6.017	3.579	64	59	
c) <b>Capital ( a + b)</b>	174.165	149.801	150.452	86	100	
<b>PRIVATE BANKS</b>						
1. Core capital before reduction	1.029.002	1.318.778	1.438.858	128	109	
2. Offsetting items	104.704	125.212	143.762	120	115	
a) Core capital (1-2)	924.298	1.193.566	1.295.096	129	109	
b) Supplementary capital	374.448	536.007	432.009	143	81	
c) <b>Capital ( a + b)</b>	1.298.746	1.729.573	1.727.105	133	100	
<b>Total</b>						
1. Core capital before reduction	1.198.831	1.464.580	1.587.842	122	108	
2. Offsetting items	109.738	127.230	145.873	116	115	
a) Core capital (1-2)	1.089.093	1.337.350	1.441.969	123	108	
b) Supplementary capital	383.818	542.024	435.588	141	80	
c) <b>Capital ( a + b)</b>	1.472.911	1.879.374	1.877.557	128	100	

Over the first quarter of 2008, capital<sup>15</sup> remained almost at the same level as at the end of 2008, that is, it has been decreased by only two million KM, although some significant changes happened in the core capital and supplementary capital, causing changes in the structure of regulatory capital. Core capital increased by 8% or KM 105 million, and supplementary capital decreased by 20% or KM 106 million.

Growth of core capital is primarily based on adding up the profit reported for 2007 of KM 111 million to retained profit and reserves, then the inflow of new, green capital-additional capitalization of KM 7,3 million in one bank with realization of the exchange premium of eight million KM. At the same time, as a result of the status change of integration of two banks, share capital decreased by KM 18 million by which the exchange premium of the resulting bank has increased.

Offsetting items (causing decrease of core capital) have increased by KM 18,6 million, mainly as a result of the current loss of KM 18,4 million.

Supplementary capital decreased by KM 106 million, along with some more significant changes in the structure: profit reported for 2007 of KM 99 million was transferred to core capital, general reserves for loan losses increased by KM 12 million, while the following items of supplementary capital, based on the FBA's approval, decreased in two banks: subordinated debts by KM 15 million and permanent liabilities of KM 4,5 million.

The mentioned changes have influenced the structure of regulatory capital, so participation of core capital increased from 71% to 77%, and supplementary capital decreased from 29% to 23%.

<sup>14</sup> Regulatory capital as defined by Article 8 and 9 of Decision on Minimum Standards for Capital Management in Banks (Official Gazette of the Federation of BiH, number 3/03, 18/03, 53/06, 55/07, 81/07, 6/08).

<sup>15</sup> Data source is quarterly Report on Capital Positions of Banks (Form 1-Schedule A) regulated by the Decision on Minimum Standards for Managing Capital in Banks.

Regulatory capital remained at the level which is almost the same as of 31.12.2007. with minimum decline, and the same trend was recorded with net capital that as of 31.03.2008. was also unchanged, amounting to KM 1,9 billion.

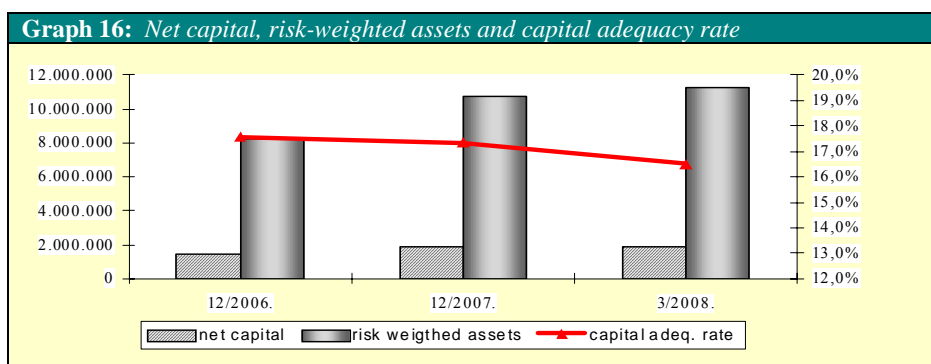
Capitalization rate of banks, expressed as ratio between capital and assets, as of 31.03.2008., was 12,8%, which is lower by 0,1% if compared to the end of 2007.

One of the most significant indicators of capital strength and adequacy<sup>16</sup> of banks is capital adequacy ratio calculated as ratio between net capital and risk weighted assets. As of 31.03.2008., this ratio at the system level was 16,5%, which is lower by 0,7% than at the end of 2007. The cause of this downfall is primarily higher growth rate realized in the risk weighted assets of 5%, while net capital remained at the same level.

While conducting supervision of operations and financial positions of banks in the FBiH as regulated by the Law, the FBA has been issuing orders to banks to undertake actions for strengthening of capital base and provision of adequate capital in order to strengthen safety in banks individually and in the entire banking system, according to the level and profile of existing and potential exposure to all risks relevant to the banking operation.

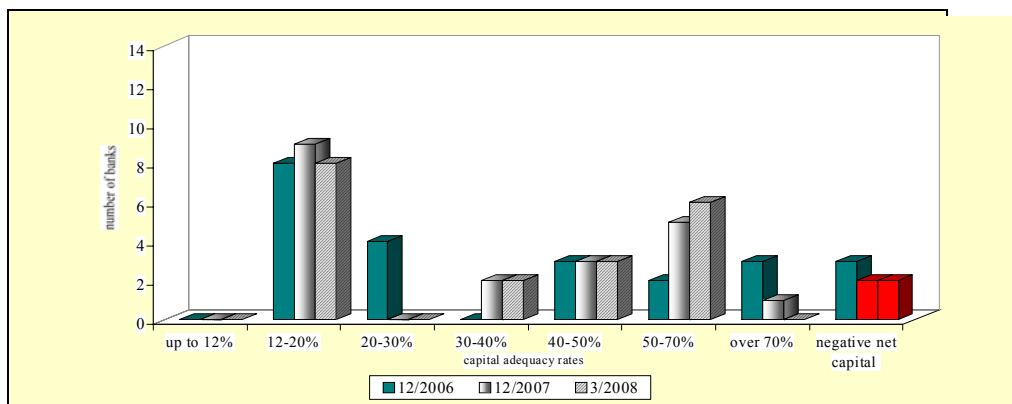
- 000 KM -

<b>Table 17: Net capital, risk-weighted assets and capital adequacy rate</b>					
DESCRIPTION	31.12.2006.	31.12.2007.	31.03.2008.	RATIO	
				3/2	4/3
1	2	3	4	5	6
NET CAPITAL	1.455.675	1.863.338	1.861.521	128	100
RISK WEIGHED ASSETS AND CREDIT EQUIVALENTS	8.282.086	10.747.145	11.286.286	130	105
NET CAPITAL RATE (CAPITAL ADEQUACY)	17,6%	17,3%	16,5%	98	95



**Graph 17: Capital adequacy rates of banks**

<sup>16</sup> The Law prescribes minimum capital adequacy rate of 12%.



Of total 21 banks in the FBiH as of 31.03.2008., capital adequacy rate of 19 banks was higher than minimum prescribed by the law of 12%, while two banks, under provisional administration, recorded capital adequacy rate below 12%, that is, negative adequacy rate. The rate of individual banks was moving in both ways: capital adequacy of four banks was better than at the end of 2007, of which in one bank this was the result of additional capitalization performed in the first quarter of 2008, while 17 banks recorded downfall of capital adequacy.

Preview of capital adequacy rates of 20 banks in comparison to the minimum prescribed by the law of 12% is the following:

- Eight banks had the rate between 12,5% and 20%, and three largest banks from 12,3% to 14,7%,
- Five banks had the rate between 21% and 50%,
- Six banks had the rate between 51% and 70%.

Further strengthening of capital base will be priority task in majority of banks as it has been the case so far, especially in the largest banks of the system, which is necessary to strengthen stability and safety of both banks and the entire banking system. Following bank expansion and performing regular supervision of this segment, when acting towards banks, depending on the evaluation of their capital adequacy and risk profile, the FBA 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.

### 2.1.3. Assets and asset quality

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

Total assets with off-balance sheet items (assets)<sup>17</sup> of banks in the FBiH, as of 31.03.2008. was KM 17,2 billion, which is higher by 1% or KM 203 million than at the end of 2007.

Gross assets<sup>18</sup> of the balance sheet amounted to KM 14,7 billion, which is higher by 1% or KM 139 million than at the end of 2007. Off-balance sheet risk items amounted to KM 2,5 billion, representing an increase by 3% or KM 64 million.

-in 000 KM-

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

DESCRIPTION	AMOUNT (in 000 KM)					RATIO		
	31.12.2006.	Struct. %	31.12.2007.	Struct. %	31.03.2008.	Struct. %	4:2	6:4
1.	2	3	4	5	6	7	8	9
Loans	6.609.302	56,0	8.660.769	59,6	9.211.470	62,7	131	106
Interests	36.210	0,3	53.522	0,4	54.226	0,5	148	101
Past due claims	206.720	1,8	210.596	1,4	207.670	1,4	102	99
Claims for paid guarantees	4.132	0,0	3.638	0,0	4.023	0,0	88	111
Other placements	47.739	0,4	61.907	0,4	49.304	0,3	130	80
Other assets	4.893.407	41,5	5.556.224	38,2	5.159.107	35,1	114	93
<b>TOTAL ASSETS</b>	<b>11.797.510</b>	<b>100,0</b>	<b>14.546.656</b>	<b>100,0</b>	<b>14.685.800</b>	<b>100,0</b>	<b>123</b>	<b>101</b>
<b>OFF-BALANCE SHEET</b>	<b>1.826.980</b>		<b>2.453.626</b>		<b>2.517.208</b>		<b>134</b>	<b>103</b>
<b>ASSETS WITH OFF-BALANCE SHEET</b>	<b>13.624.490</b>		<b>17.000.282</b>		<b>17.203.008</b>		<b>125</b>	<b>101</b>
<b>RISK ASSETS WITH OFF-BALANCE SHEET</b>	<b>8.871.314</b>		<b>11.628.220</b>		<b>12.255.159</b>		<b>131</b>	<b>105</b>
General loan risk and Potential loan losses	343.737		405.717		430.555		118	106
General and Special loan loss reserves already established	345.067		405.691		431.069		118	106

Non-risk items amount to KM 4,9 billion or 29% of total assets with off-balance sheet, and they decreased by 8% in comparison to the end of 2007, which is primarily the result of cash funds decrease. On the other hand, risk assets with off-balance sheet amount to KM 12,3 billion, and they increased by 5% or KM 627 million over the three months of 2008.

Credit placements<sup>19</sup> increased by 6% or KM 548 million in comparison to 2007, arriving at KM 9,4 billion and participation in the assets structure of 65,8%. Past-due claims decreased by 1%, and their participation in the assets structure was 1,5%.

Three largest banks in the FBiH increased their credit placements by KM 345 million, representing 63% of total increase at the level of the banking sector, so, as of 31.03.2008., three largest banks with loans of KM 6,5 billion had participation of 69% in total loans at the system level.

From the aspect of sectors to which banks have originated loans, we should emphasize that positive trend of 2007 has remained over the first quarter of 2008, that is, lending to private companies was higher than lending to citizens. Placements to private companies recorded

<sup>17</sup> Assets defined by Article 2 of Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks (Official Gazette of the FBiH, number 3/03, 54/04, 68/05).

<sup>18</sup> Data source: Report on classification of balance sheet assets and off-balance sheet items of banks.

<sup>19</sup> Short term and long term loans, past due claims and claims based on paid-called for payment guarantees.

increase of 8% or KM 301 million, which has increased their participation from 45,1% to 45,6%. Slightly lower growth of 5% or KM 232 million was recorded in loans to citizens, while their participation decreased from 50,3% to 49,8%. According to data submitted by banks as of 31.03.2008., from the aspect of citizen loan structure by purpose, it has been longer period of time without changes, that is, the highest participation of approximately 70% was recorded in loans originated to finance consumer goods<sup>20</sup>, followed by housing loans of 24%, and remaining 6% were loans to small crafts and small business and agriculture.

Other sectors recorded smaller changes in nominal and relative amount.

Three largest banks in the system financed 69% of total loans originated to citizens, and 70% to private companies, which for both sectors is unchanged in comparison to the end of 2007.

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

-in 000 KM-

SECTORS	31.12.2006.		31.12.2007.		31.03.2008.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	27.084	0,4	32.556	0,4	33.381	0,4	120	103
Public enterprises	192.394	2,8	211.465	2,4	196.070	2,1	110	93
Private enterprises and assoc.	3.029.964	44,4	3.998.141	45,0	4.299.299	45,6	132	108
Non-profit organizations	28.445	0,4	26.768	0,3	28.599	0,3	94	107
Banking institutions	52.279	0,8	114.084	1,3	131.682	1,4	218	115
Citizens	3.471.829	50,9	4.461.984	50,3	4.693.821	49,8	129	105
Other	18.159	0,3	30.005	0,3	40.311	0,4	165	134
TOTAL	6.820.154	100,0	8.875.003	100,0	9.423.163	100,0	130	106

Currency structure of loans has also been unchanged for longer period of time: loans financed with currency clause had the highest participation of 73% or KM 6,8 billion, loans in domestic currency of 25% or KM 2,4 billion, and loans in foreign currency had the lowest participation of only 2% or KM 198 million.

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

Quality of assets and off-balance sheet risk items, general loan risk, potential loan losses by classification categories<sup>21</sup> and off-balance sheet items are presented in the following table:

Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in %)									RATIO	
	31.12.2006.			31.12.2007.			31.03.2008.			5/2	8/5
	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL		
1	2	3	4	5	6	7	8	9	10	11	12
<b>A</b>	7.513.553	84,7	150.390	9.886.443	85,0	197.924	10.476.940	85,5	209.349	132	106
<b>B</b>	1.073.906	12,1	79.451	1.476.856	12,7	105.268	1.481.101	12,1	105.107	138	100

<sup>20</sup> Including card based operations.

<sup>21</sup> As regulated in the Article 22 of the Decision on Minimum Standards for Managing Credit Risk and Assets Classification in Banks, banks have to allocate and maintain reserves for general and special loan losses in percentages according to classification categories: A 2%, B 5% to 15%, C 16% to 40%, D 41% to 60% and E 100%.

<b>C</b>	147.718	1,7	36.574	143.068	1,2	35.602	149.931	1,2	37.500	97	105
<b>D</b>	135.980	1,5	77.181	121.815	1,1	66.885	145.631	1,2	77.043	90	120
<b>E</b>	157	0,0	141	38	0,0	38	1.556	0,0	1.556	24	4095
<b>Risk assets (A-E)</b>	8.871.314	100,0	343.737	11.628.220	100,0	405.717	12.255.159	100,0	430.555	131	105
<b>Nonrisk assets<sup>22</sup></b>	4.753.176			5.372.062			4.947.849			113	92
<b>TOTAL</b>	13.624.490			17.000.282			17.203.008			125	101
<b>OFF-BALANCE SHEET ITEMS</b>											
	409.108	89,7		430.048	90,1		429.928	89,1		105	100
<b>Susp. Interest</b>	46.546	10,3		46.919	9,9		52.691	10,9		101	112
<b>TOTAL</b>	455.654	100,0		476.967	100,0		482.619	100,0		105	101

Risk assets with off-balance sheet items (A-E) amount to KM 12,3 billion. They increased by 5% or KM 627 million. Non-risk items amount to KM 4,9 billion, and they decreased by 8% in comparison to the end of 2007, as a result of the cash funds decrease.

If we analyze the quality of risk assets, we notice further increase of classified assets (B-E) which, over the three months of 2008, increased by 2% or KM 36 million, due to the growth of substandard assets (category C) of 5% or KM seven million and doubtful assets (category D) by 20% or KM 24 million, while the special mentioned placements (category B) remained at the level of 2007. Classified assets, as of 31.03.2008., amounted to KM 1,8 billion. Poor quality assets (C-E) increased by 12% or KM 32 million, amounting to KM 297 million at the end of the first quarter of 2008, noting that in the same period there was the assets charge off (write off to the off-balance sheet) of KM 54 million. The assets quality indicators expressed as ratio, that is, participation of individual categories in risk assets have changed, which is the result of the above mentioned. The ratio of classified assets and risk assets, due to faster growth of risk assets (5%) than classified assets (2%) has slightly improved, and, if compared to the end of 2007, it is lower by 0,5%, amounting to 14,5%.

If we analyze only the ratio and trend of poor quality assets and risky assets, as of 31.03.2008., it was 2,4%, which is relatively low ratio, and, if compared to the end of 2007, it is higher by 0,1%. However, if we take into account that participation of category B in risky assets amounts to 12%, expressing doubt that portion of placements reported under this category have worst quality and should be placed under the category of poor quality assets, that is, some banks practice not to timely establish adequate loan loss provisioning (as confirmed through on-site examinations, resulting by insufficient loan loss reserves), we could make conclusion there is still a slight trend of deterioration in the assets quality. That is why it is of key importance that banks more realistically evaluate quality of placements and establish adequate loan loss reserves, especially for the fact that these are new loans with long maturity (especially citizen loans), so the issues related to the assets quality have not been timely detected, that is, they are in some way hidden through the highest increase of category B.

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

<b>Table 21: Classification of loans originated to citizens and legal entities</b>											
Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in%)										RATIO 11/6
	31.12.2007.					31.03.2008.					
	Citizens	Partic. %	Legal entities	Partic. %	TOTAL	Citizens	Partic. %	Legal entities	Partic. %	TOTAL	
1	2	3	4	5	6 (2+4)	7	8	9	10	11 (7+9)	12
<b>A</b>	4.176.207	93,60	3.276.108	74,24	7.452.315	4.379.948	93,31	3.546.113	75,36	7.944.061	107

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



<b>B</b>	199.186	4,46	968.764	21,95	1.167.950	213.211	4,54	977.441	20,67	1.190.652	102
<b>C</b>	56.213	1,26	81.672	1,85	137.885	62.849	1,34	83.661	1,77	146.510	106
<b>D</b>	30.360	0,68	86.475	1,96	116.835	36.284	0,77	104.127	2,20	140.411	120
<b>E</b>	18	0,00	0	0,00	18	1.529	0,04	0	0,00	1.529	8494
<b>TOTAL</b>	4.461.984	100,00	4.413.019	100,00	8.875.003	4.693.821	100,00	4.729.342	100,00	9.423.163	106
<b>Classified assets (B-E)</b>	285.777	6,40	1.136.911	25,76	1.422.688	313.873	6,69	1.165.229	24,64	1.479.102	104
<b>Poor quality assets (C-E)</b>	86.591	1,94	168.147	3,81	254.738	100.662	2,14	187.788	3,97	288.450	113
<b>Loan structure</b>		50,28		49,72	100,00		49,81		50,19	100,00	
<b>Participation by sectors in classified assets, poor quality assets and category B:</b>											
<b>Classification B-E</b>		20,09		79,91	100,00		21,22		78,78	100,00	
<b>Poor quality C-E</b>		33,99		66,01	100,00		34,90		65,10	100,00	
<b>Category B</b>		17,05		82,95	100,00		17,91		82,09	100,00	

As of 31.03.2008., of total loans originated to legal entities in the amount of KM 4,7 billion, KM 1,2 billion or 24,6% was classified in categories B to E (KM 1,1 billion or 25,8% at the end of 2007), and of total loans originated to citizens in the amount of KM 4,7 billion, KM 314 million or 6,7% was classified in categories B to E (KM 286 million or 6,4% at the end of 2007).

Poor quality assets represent KM 188 million or 4,0% of all the loans originated to legal entities (as of 31.12.2007., they amounted to KM 168 million or 3,8%). As for the sector of citizens, loans classified as poor quality represent KM 101 million or 2% of total loans originated to this sector (as of 31.12.2007, they amounted to KM 87 million or 2%).

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

-000 KM-

DESCRIPTION	CITIZENS		LEGAL ENTITIES		TOTAL	
	Charged off assets	Suspended interest	Charged off assets	Suspended interest	Charged off assets	Suspended interest
1	2	3	4	5	6	7
Opening balance as of 31.12.2007.	57.715	6.695	331.227	39.003	388.942	45.698
<i>Changes in 2008:</i>						
- new charge offs (current year)	3.378	1.017	51.039	7.989	54.417	9.006
- payments made in the current year	2.146	525	8.086	1.178	10.232	1.703
- permanent charge off	89	29	3.110	281	3.199	310
Balance as of 31.03.2008.	58.858	7.158	371.070	45.533	429.928	52.691

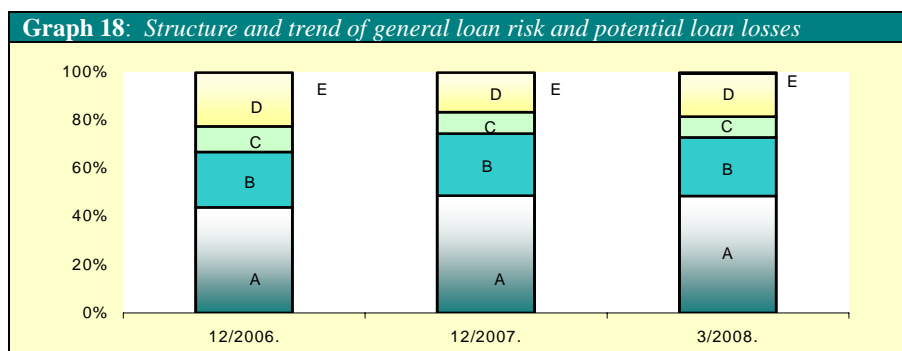
Balance of the charged off assets as of 31.03.2008. was KM 430 million and it is at the level of 2007, while the balance of suspended interest was KM 53 million and it was higher by 12% if compared to the end of 2007.

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

Classification category	AMOUNT (in 000 KM) AND STRUCTURE (in%)						RATIO	
	31.12.2006.		31.12.2007.		31.03.2008.		4/2	6/4
1	2	3	4	5	6	7	8	9
<b>A</b>	150.390	43,8	197.924	48,8	209.349	48,6	132	106
<b>B</b>	79.451	23,1	105.268	25,9	105.107	24,4	132	100
<b>C</b>	36.574	10,6	35.602	8,8	37.500	8,7	97	105



<b>D</b>	77.181	22,5	66.885	16,5	77.043	17,9	87	115
<b>E</b>	141	0,0	38	0,0	1.556	0,4	27	4095
<b>TOTAL</b>	343.737	100,0	405.717	100,0	430.555	100,0	118	106



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

Based on the analysis of the established provisions, in total amount and by classification categories, if compared to the end of 2007, general loan risk and potential loan loss provisions have increased by 6%, amounting to KM 431 million, that is, 3,5% of risk assets with off-balance sheet, the same as at the end of 2007. As of 31.03.2008., banks in average allocated for category B 7,1%, for category C 25%, category D 52,9% and E 100%.

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

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

### *Transactions with related entities*

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

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

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

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

-000 KM-

<b>Table 24: Transactions with related entities</b>					
Description	ORIGINATED LOANS <sup>23</sup>			RATIO	
	31.12.2006.	31.12.2007.	31.03.2008.	3/2	4/3
1	2	3	4	5	6
Shareholders over 5% of voting rights, subsidiaries and other related enterprises	21.333	26.083	80.299	122	308
Supervisory Board and Audit Board members	38	145	203	382	140
Bank Management	1.962	2.355	2.295	120	97
TOTAL	23.333	28.583	82.797	123	290
Potential and undertaken off-balance sheet liabilities	1.072	1.936	2.823	180	146

Based on reporting data we can conclude this would be a small amount of loans granted to the mentioned categories of legal entities, so, in general, level of risk is low. The FBA pays special attention (in on-site examinations) to banks' operations with related entities. The FBA on-site examiners issue orders for elimination of determined weaknesses within certain deadlines and initiate violation procedures, and part of the activities is also to monitor and supervise implementation of the issued orders in the follow up procedure. This has had a positive influence on this segment of operations, since the risk management quality has improved; level of transactions with related entities has decreased, causing decrease in risk exposure to these entities.

## 2.2. Profitability

According to the data from income statement, banks in the Federation of BiH, in the first quarter of 2008, reported positive financial result-profit of KM 4,2 million, representing a significant decrease of 93% or KM 51,7 million at the system level if compared to the same period of 2007.

Positive financial result of KM 22,6 million was generated by 16 banks, which is lower by 60,2% or KM 34,2 million if compared to the same period of 2007. At the same time, five banks reported loss of KM 18,4 million, which is higher by KM 17,6 million if compared to the comparative period of 2007.

More detailed information is presented in the following table:

<sup>23</sup> It includes, apart from loans, other claims, deposited funds and placements to shareholders (financial institutions) with voting rights exceeding 5%.

<b>Table 25: Financial result reported: profit/loss</b>						
<b>Date/Description</b>	<b>At the system level</b>		<b>State banks</b>		<b>Private banks</b>	
	<b>Amount</b>	<b>No. of banks</b>	<b>Amount</b>	<b>Amount</b>	<b>No. of banks</b>	<b>Amount</b>
31.03.2006.						
Loss	-2.898	7	-873	4	-2.025	3
Profit	31.487	17	417	2	31.070	15
Total	28.589	24	-456	6	29.045	18
31.03.2007.						
Loss	-868	4	-365	2	-503	2
Profit	56.796	19	2.072	2	54.724	17
Total	55.928	23	1.707	4	54.221	19
31.03.2008.						
Loss	-18.419	5	-99	1	-18.320	4
Profit	22.611	16	1.741	2	20.870	14
Total	4.192	21	1.642	3	2.550	18

Similar to other segments, there are concentrations in this segment: of total profit generated (KM 22,6 million) 55% or KM 12,4 million was generated by the two largest banks in the system, whose participation in the banking system assets is 51,2%, while total loss (KM 18,4 million) refers to five banks (four private and one state owned). The highest loss of KM 15,3 million, representing 83,1% of the loss reported at the system level, refers to one private bank that, with its participation in assets of 16,2% holds third position in the system. The loss reported by this bank is the result of extremely high expenses caused by securities trading.

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

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

Total income realized on the system level was KM 186,4 million, which is lower by 11% or KM 22,9 million if compared to the same period last year. Total noninterest bearing expenses amount to KM 182,2 million, with growth rate of 19% or KM 28,9 million that has negatively reflected on the overall financial result of the sector.

If we analyze the structure of total income and changes in the most significant categories, we may conclude that although the growth rate of net interest income is only 3%, its participation is still increasing in the structure of total income (from 55,4% to 63,7%), while participation of operating income has decreased from 44,6% to 36,3%.

Total interest income amounts to KM 212,7 million, and if compared to the same period last year, it has increased by 13% or KM 24,1 million. In the structure of total income, its participation increased from 90,1% to 114,1%. Apart from this, total interest income has been increasing slower than the average interest bearing assets (122%). In credit placements with the average growth of 23%, interest income growth by 13% is mainly the result of downfall of interest rates on loans.

Income that comes from the reserve accounts with the Central Bank of BiH has increased by only 9%, although the average balance of the funds increased by 22% due to the increased required reserve (from 15% to 18% as of 01.01.2008.).

On the other hand, if compared to the growth of interest income, interest expenses recorded faster growth, that is, the rate of 29% or KM 21 million, amounting to KM 93,8 million, and their participation in the structure of total income has increased from 34,7% to 50,4% in comparison to the same period last year.

Growth of interest expenses based on deposits of 25% is the result of faster growth of term and interest-bearing deposits (22%) than total deposits (15%) and trend of increased interest rates on term deposits. Increase of long term credit indebtedness of banks, primarily from foreign financial institutions of 19%, subordinated debts of 49%, and increased reference interest rates, Euribor and Libor, have caused the increase of interest expenses for borrowings by 48%.

Although due to faster growth of interest expenses, net interest income of KM 118,8 million recorded lower growth rate (3% or KM 3,0 million) than interest income, its participation in the structure of total income has still increased from 55,4% to 63,7%.

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

Operating income amounts to KM 67,6 million and, if compared to the prior year, it records a slight deterioration of 28% or KM 25,8 million and decrease in the structure of the overall income from 44,6% to 36,3%. This deterioration is mainly caused by already mentioned oscillation in the securities trading income (huge price changes in the securities market) of one bank and partially due to changes in the reporting methodology, that is, treatment and recognition of fee income related to loans over effective interest rate as interest-bearing income.

Negative trend of faster growth (in comparison to the components of the overall income) is noted with non-interest bearing expenses, amounting to KM 182,2 million, and if compared to the same period last year, they are higher by 19% or KM 28,9 million, and their participation in the structure of total income has increased from 73,3% to 97,7%.

Within non-interest bearing expenses, both nominally and relatively the highest growth of 70% was recorded in other operating expenses, amounting to KM 39,9 million, and their participation in the structure of total income increased from 11,2% to 21,4% (including negative effects of securities trading), followed by salaries and contribution expenses of KM 55,2 million and growth rate of 11% (number of employees increased by 7%), and loan loss provisioning of KM 43 million and growth rate of 13%.

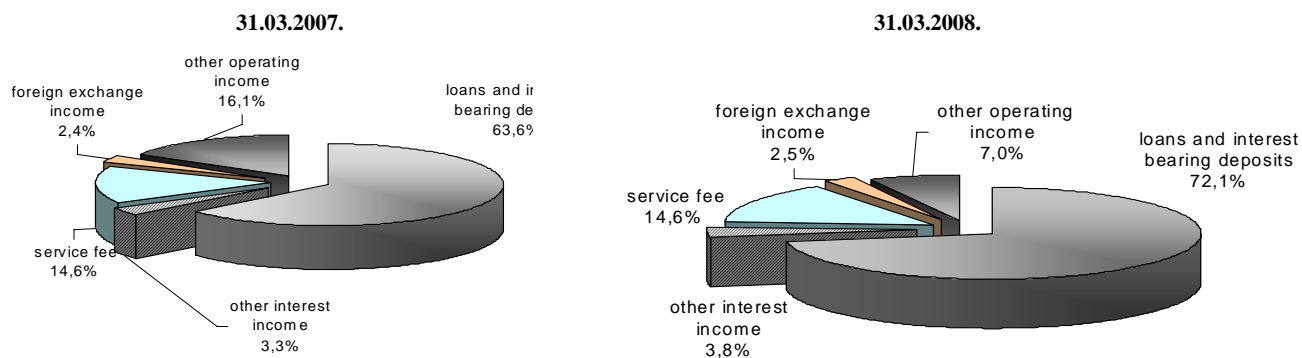
Trend and structure of total income and expenses is presented in the following tables and graphs:

in 000 KM-

Structure of total income	31.03.2006.		31.03.2007.		31.03.2008.		RATIO	
	Amount	%	Amount	%	Amount	%	4/2	6/4
1	2	3	4	5	6	7	8	9
<b>I Interest income and similar type of income</b>								
Interest bearing deposit accounts with depository institutions	13.413	6,5	22.071	7,8	23.970	8,6	165	109
Loans and leasing	125.219	60,6	157.206	55,8	178.035	63,5	126	113
Other interest income	4.172	2,0	9.326	3,3	10.732	3,8	224	115
<b>TOTAL</b>	<b>142.804</b>	<b>69,1</b>	<b>188.603</b>	<b>66,9</b>	<b>212.737</b>	<b>75,9</b>	<b>132</b>	<b>113</b>
<b>II Operating income</b>								

Service fees	38.866	18,8	41.031	14,6	40.940	14,6	106	100
Foreign exchange income	6.265	3,0	6.859	2,4	7.022	2,5	109	102
Other operating income	18.794	9,1	45.528	16,1	19.679	7,0	242	43
<b>TOTAL</b>	<b>63.925</b>	<b>30,9</b>	<b>93.418</b>	<b>33,1</b>	<b>67.641</b>	<b>24,1</b>	<b>146</b>	<b>72</b>
<b>TOTAL INCOME (I + II)</b>	<b>206.729</b>	<b>100,0</b>	<b>282.021</b>	<b>100,0</b>	<b>280.378</b>	<b>100,0</b>	<b>136</b>	<b>99</b>

Graph19: Structure of total income

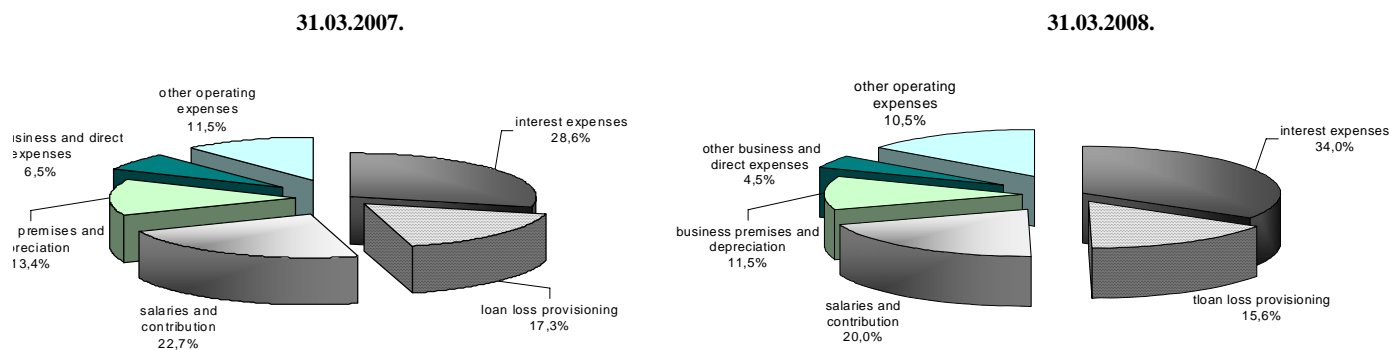


- in 000 KM-

Table 27: Structure of total expenses

Structure of total expenses	31.03.2006.		31.03.2007.		31.03.2008.		RATIO	
	Amount	%	Amount	%	Amount	%	4/2	6/4
1	2	3	4	5	6	7	8	9
<b>I Interest expenses and similar expenses</b>								
Deposits	39.646	22,3	50.857	22,5	63.612	23,0	128	125
Liabilities for borrowings	11.253	6,3	18.207	8,1	25.161	9,1	167	138
Other interest expenses	1.350	0,7	3.676	1,6	5.202	1,9	272	142
<b>TOTAL</b>	<b>52.249</b>	<b>29,3</b>	<b>72.740</b>	<b>32,2</b>	<b>93.975</b>	<b>34,0</b>	<b>139</b>	<b>129</b>
<b>II Total non-interest bearing expenses</b>								
General loan risk and potential loan losses Provisioning	29.382	16,5	38.158	16,9	43.013	15,6	130	113
Salary expenses	42.960	24,1	49.798	22,0	55.236	20,0	116	111
Business premises and depreciation expenses	25.073	14,1	29.277	12,9	31.681	11,5	117	108
Other business and direct expenses	9.477	5,3	12.663	5,6	12.389	4,5	134	98
Other operating expenses	18.999	10,7	23.457	10,4	39.892	14,4	123	170
<b>TOTAL</b>	<b>125.891</b>	<b>70,7</b>	<b>153.353</b>	<b>67,8</b>	<b>182.211</b>	<b>66,0</b>	<b>122</b>	<b>119</b>
<b>TOTAL EXPENSES (I + II)</b>	<b>178.140</b>	<b>100,0</b>	<b>226.093</b>	<b>100,0</b>	<b>276.186</b>	<b>100,0</b>	<b>127</b>	<b>122</b>

Graph 20: Structure of total expenses



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

- in %-

<b>Table 28: Ratios of profitability, productivity and effectiveness by periods</b>			
<b>RATIOS</b>	<b>31.03.2006.</b>	<b>31.03.2007.</b>	<b>31.03.2008</b>
Return on Average Assets	0,30	0,47	0,03
Return on Average Total Capital	2,71	4,38	0,29
Return on Average Equity	3,53	6,19	0,42
Net Interest Income/Average Assets	0,95	0,97	0,89
Fee Income/Average Assets	0,67	0,78	0,51
Total Income/Average Assets	1,62	1,76	1,40
Operating and Direct Expenses <sup>24</sup> /Average Assets	0,41	0,43	0,42
Operating Expenses/Average Assets	0,91	0,86	0,95
Total Non-interest Expenses/Average Assets	1,32	1,29	1,37

-in %-

<b>Table 29: Ratios of profitability, productivity and effectiveness as of 31.03. 2008.</b>			
<b>RATIOS</b>	<b>31.03. 2008.</b>		
	<b>STATE BANKS</b>	<b>PRIVATE BANKS</b>	<b>AVERAGE IN THE FBiH</b>
Return on Average Assets	0,42	0,02	0,03
Return on Average Total Capital	1,11	0,20	0,29
Return on Average Equity	1,35	0,29	0,42
Net Interest Income/Average Assets	0,99	0,89	0,89
Fee Income/Average Assets	0,85	0,50	0,51
Total Income/Average Assets	1,84	1,39	1,40
Operating and Direct Expenses/Average Assets	0,34	0,42	0,42
Operating Expenses/Average Assets	1,08	0,95	0,95
Total Non-interest Expenses/Average Assets	1,42	1,37	1,37

Analysis of some general parameters for assessment of banks' profitability, with significantly lower profit generated in comparison to the same period last year, we see that ROAA (return on average assets) has declined from 0,47% to 0,03% and ROAE (return on average equity) from 6,19% to 0,42%. Productivity of banks, measured as ratio between total income and average assets (1,40%), is also bad in comparison to the same period last year (1,76%), mainly due to the extreme decline of operating income and faster increase of interest and non-interest bearing expenses.

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.

Regardless of relatively bad profitability indicators in the first quarter of 2008, it is realistic to expect improvement in the upcoming period, primarily through the increase of income in majority of banks. However, profitability of banks will still mostly depend on asset quality, that is, bank's exposure to credit risk, and effective management and control of operating income and expenses, and in majority of banks, as experience show, especially related to the securities trading activity. In addition, banks' profit, that is, financial result will be mainly under influence of price and interest rate risk, both in sources and price changes of financing sources of banks

<sup>24</sup> Expenses include provisions for potential loan losses.

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

### 2.3. Liquidity

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

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

The mentioned regulation represents a framework 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 31.03.2008. deposits and borrowings still have the highest participation of 71% (including subordinated debts<sup>25</sup>) of 15,1%, with longer maturity, representing quality sources for long term placements, and have made a significant contribution to maturity adjustment between assets and liabilities. On the other hand, majority structure of deposits is considerably unfavorable, although it has been some time of improving trend.

- in 000 KM-

DEPOSITS	31.12.2006.		31.12.2007.		31.03.2008.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Savings and demand deposits	4.079.002	48,7	4.747.689	46,6	4.608.026	45,3	116	97
Up to 3 months	293.735	3,5	430.784	4,2	453.295	4,5	147	105
Up to 1 year	745.994	8,9	1.045.768	10,3	1.162.241	11,4	140	111
1. Total S-T	5.115.731	61,1	6.224.241	61,1	6.223.562	61,2	122	100
Up to 3 years	2.212.076	26,4	2.722.927	26,7	2.611.654	25,7	123	96
Over 3 years	1.051.515	12,5	1.243.809	12,2	1.335.560	13,1	118	107
2. Total L-T	3.263.591	38,9	3.966.736	38,9	3.947.214	38,8	122	100
TOTAL (1 + 2)	8.379.322	100,0	10.190.977	100,0	10.170.776	100,0	122	100

Analysis of maturity structure of deposits in two main groups, if compared to 2007, indicates minor changes, that is, increase in participation of short term deposits by 0,1% and decrease of

<sup>25</sup> Subordinated debts: borrowings and permanent liabilities



long term deposits by the same percentage, so their participation was 61,2% and 38,8% at the end of the first quarter of 2008.

Within short term deposits, if compared to 2007, nominal downfall of KM 140 million or 3% was realized by demand deposits, which at the same time had the highest participation of 45,3% in total deposits, while deposits up to three months increased by KM 22 million or 5%, and deposits up to one year increased by KM 116 million or 11%. The highest participation in total demand deposits is still maintained by citizen deposits (37,3%) that have decreased by 1,5% or KM 27 million in comparison to 2007.

We should emphasize that in long term deposits, there are two sectors with dominant participation: citizens of 48,5% and banking institutions of 27,6%, with a slight trend of increase in their participation in the first quarter of 2008 (from 25,6% to 27,6%). Citizen deposits represent the highest participation of 62,7% in term deposits up to 3 years (62% at the end of 2007), while banking institutions deposits have the highest participation of 65,9% over three years (64,4% at the end of 2007).

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

-in 000 KM-

**Table 31: Maturity structure of loans**

LOANS	31.12.2006.		31.12.2007.		31.03.2008.		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	210.852	3,1	214.234	2,4	211.693	2,3	102	99
Short term loans	1.360.381	19,9	1.719.297	19,4	1.933.272	20,5	126	112
Long term loans	5.248.921	77,0	6.941.472	78,2	7.278.198	77,2	132	105
<b>TOTAL LOANS</b>	<b>6.820.154</b>	<b>100,0</b>	<b>8.875.003</b>	<b>100,0</b>	<b>9.423.163</b>	<b>100,0</b>	<b>130</b>	<b>106</b>

Over the first quarter of 2008, long term loans increased by 5% or KM 337 million (loans originated to citizens represent 67,5% or KM 227 million), while short term loans increased by 12% or KM 214 million (loans originated to private companies represent 74% or KM 159 million).

Analysis of sectors by maturity indicates that long term loans represent 91,8% of total loans originated to citizens and 62,7% of loans originated to private companies, with a decreasing trend (64,5% at the end of 2007).

In the assets structure, loans, as the most significant category, have the highest participation of 65,8%, with constant increasing trend, amounting to a relatively high 6% or KM 548 million for the first quarter of 2008, which has been financed from deposit<sup>26</sup> and credit sources. Cash funds decreased by KM 388 million or 8%, as well as their participation from 34,5% to 31,5%.

<sup>26</sup> Decision on Changes and Amendments to Decision on Minimum Standards for Liquidity Risk Management of Banks („Official Gazette of the FBiH“, number 88/07) dated of 01.01.2008. sets the new percentages for maturity matching between financial assets and liabilities: at minimum 85% (it was 100% earlier) of sources with maturity up to 30 days engage in placements (assets instruments) with maturity up to 30 days; at minimum 80% (it was 100%



In the first quarter of 2007, banks were regularly meeting required reserves with the Central Bank of BiH.<sup>27</sup> Required reserve, as the most significant instrument of monetary policy in BiH under the Currency Board and relatively financially underdeveloped market, is the only instrument of monetary policy that is used to maintain a monetary control in sense of stopping fast credit growth from the past years and to decrease multiplications. On the other hand, implementation of regulation on foreign exchange risk and maintenance of currency adjustment within prescribed limits is also of significant influence on amount of funds banks keep on the reserve account with the Central Bank in domestic currency, which provides for high liquidity of individual banks and the banking sector.

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

- in % -

<b>Table 32: Liquidity ratios</b>			
<b>Ratios</b>	<b>31.12.2006.</b>	<b>31.12.2007.</b>	<b>31.03.2008.</b>
1	2	3	4
Liquid assets <sup>28</sup> / Total assets	37,4	34,5	31,5
Liquid assets / Short term financial liabilities	62,2	58,1	53,2
Short term financial liabilities / Total financial liabilities	68,0	67,3	67,2
Loans / Deposits and borrowings <sup>29</sup>	69,6	73,7	77,9
Loans / Deposits, borrowings and subordinated debts <sup>30</sup>	68,5	72,2	76,5

Over the three months of 2008, a trend of slight deterioration of general liquidity indicators quality has continued, primarily due to further growth of credit placements. If compared to 2007, almost all observed indicators have had a negative change between 3 and 5%. However, we 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 2007. The last two indicators, expressed as ratio between loans and financing sources (deposits and borrowings) have deteriorated and are assessed as marginal to satisfactory.

All banks continuously meet prescribed minimum over the average, requirement of ten-day average of 20% in relation to short-term sources, and daily minimum of 10% according to the same basis, which is presented in the following table.

- in 000 KM-

<b>Table 33: Liquidity position – ten-day average and daily minimum</b>					
<b>Description</b>	<b>31.12.2006.</b>	<b>31.12.2007.</b>	<b>31.03.2008.</b>	<b>RATIO</b>	
	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>3/2</b>	<b>4/3</b>
1	2	3	4	5	6

earlier) of sources with maturity up to 90 days engage in placements (assets instruments) with maturity up to 90 days; and at minimum 75% (it was 95% earlier) of sources with maturity up to 180 days engage in placements (assets instruments) with maturity up to 180 days.

<sup>27</sup> According to Decision on Changes to the Decision of Determination and Maintenance of Required Reserves and Fee to the Reserve Amount (Official Gazette of the FBiH, 89/07), since 01.01.2008., the required reserve has increased to 18% (it was 15% from 01.12.2005. to 31.12.2005.).

<sup>28</sup> Liquidity assets in the narrow sense: cash and deposits and other financial assets with maturity below three months, except inter-banking deposits.

<sup>29</sup> Empiric standards: below 70%-very solid, 71%-75%-satisfactory, 76%-80%-marginal to satisfactory, 81%-85%-insufficient, over 85%-critical.

<sup>30</sup> Prior ratio has been modified. Subordinated debts are included in the sources, which gives more realistic indicator.

1. Average daily balance of cash assets	3.478.292	3.974.722	3.615.269	114	91
2. Minimum total daily balance of cash assets	3.201.670	3.686.972	3.362.297	115	91
3. Short term sources (accrual basis)	5.135.086	6.094.193	6.277.328	119	103
4. Liabilities:					
4.1. ten-day average 20% of Item 3	1.027.017	1.218.839	1.255.466	119	103
4.2. daily minimum 10% of Item 3	513.509	609.419	627.733	119	103
5. Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	2.451.275	2.755.883	2.359.803	112	86
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	2.688.161	3.077.553	2.734.564	114	89

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

- in 000 KM -

<b>Table 34: Maturity adjustment of financial assets and liabilities up to 180 days</b>					
Description	31.12.2006.	31.12.2007.	31.03.2008.	RATIO	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6
I. 1- 30 days					
1. Financial assets	5.111.643	5.685.911	5.341.788	111	94
2. Financial liabilities	4.626.466	5.291.774	5.527.725	114	105
3. Difference (+ or -) = 1-2	485.177	394.137	-185.937	81	
Accrual of requirement in %					
a) Performed %= Item 1 / Item 2	110,5%	107,4 %	96,6 %		
b) Required minimum %	100,0%	100,0%	85,0 %		
Surplus (+) or shortage (-) = a – b	10,5%	7,4%	11,6 %		
II. 1-90 days					
1. Financial assets	5.622.709	6.291.403	5.953.502	112	95
2. Financial liabilities	5.107.109	5.957.300	6.202.305	117	104
3. Difference (+ or -) = 1-2	515.600	334.103	-248.803	65	
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	110,1%	105,6%	96,0 %		
b) Required minimum %	100,0%	100,0%	80,0%		
Surplus (+) or shortage (-) = a – b	10,1%	5,6%	16,0 %		
II. 1-180 days					
1. Financial assets	6.245.949	7.039.638	6.708.796	113	95
2. Financial liabilities	5.662.698	6.861.962	7.152.389	121	104
3. Difference (+ or -) = 1-2	583.251	177.676	-443.593	30	
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	110,3%	102,6%	93,8 %		
b) Required minimum %	95,0%	95,0%	75,0 %		
Surplus (+) or shortage (-) = a – b	15,3%	7,6%	18,8 %		

Based on the above presented, we may conclude that as of 31.03.2008., banks were compliant with the prescribed limits, and have realized better maturity adjustment between financial assets and liabilities in relation to the prescribed limits.

Liquidity of the banking system of the Federation of BiH, based on the presented indicators, is satisfactory. Although it has been assessed in majority of banks that liquidity risk is low or medium, it is obvious that the risk trend is increasing. Since this segment of performance and level of liquidity risk exposure is in correlation with credit risk, while having in mind the increasing trend and level of credit risk, banks in future will 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 these risks is foreign exchange risk (FX) created as a result of changes of exchange rates and/or imbalance in assets, liabilities and off-balance sheet items of the same currency – individual foreign currency position or all currencies together used by a bank in its operations – total foreign currency position of a bank.

In order to enable application and implementation of prudential principles in foreign exchange activities of banks and to decrease influence of foreign exchange risk to their profitability, liquidity and capital, the FBA has issued Decision on Minimum Standards for Foreign Exchange Risk 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.<sup>31</sup>

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

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

According to the balance as of 31.03.2008., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 13,5% or KM 1,9 billion (at the end of 2007, 15,6% or KM 2,2 billion). On the other hand, currency structure of liabilities is essentially different, since participation of liabilities in foreign currency is significantly higher of 54,9% or KM 7,9 billion (at the end of 2007, 53,9% or KM 7,6 billion).

The following table presents structure and trend of financial assets and liabilities and foreign currency position for EUR as the most significant currency<sup>32</sup> and total:

-in KM millions -

<b>Table 35: Foreign currency adjustment of financial assets and liabilities (EUR and total)</b>										
Description	31.12.2007.				31.03.2008.				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>I. Financial assets</i>										
1. Cash assets	1.330	17,7	1.882	22,3	1.130	15,0	1.640	19,2	85	87
2. Loans	157	2,1	205	2,4	141	1,9	186	2,2	90	91
3. Loans with currency clause	5.910	78,9	6.233	73,8	6.203	82,1	6.593	77,3	105	106

<sup>31</sup> Article 8 of Decision on Minimum Standards for Capital Management of Banks determines limits for individual foreign currency position in EUR up to 30% of core capital, for other currencies up to 20% and foreign currency of bank up to 30%.

<sup>32</sup> Source: Form 5-Foreign currency position.

4. Other	98	1,3	130	1,5	79	1,0	110	1,3	81	85
Total (1+2+3+4)	7.495	100,0	8.450	100,0	7.553	100,0	8.529	100,0	101	101
<i>II. Financial liabilities</i>										
1. Deposits	4.632	65,8	5.518	69,0	4.735	66,0	5.660	69,3	102	103
2. Borrowings	1.752	24,9	1.806	22,6	1.827	25,5	1.880	23,0	104	104
3. Deposits and loans with currency clause	341	4,8	341	4,3	311	4,3	311	3,8	91	91
4. Other	315	4,5	325	4,1	305	4,2	317	3,9	97	98
Total (1+2+3+4)	7.040	100,0	7.990	100,0	7.178	100,0	8.168	100,0	102	102
<i>III. Off-balance sheet</i>										
1. Assets	38		41		7		25			
2. Liabilities	429		431		363		364			
<i>IV. Position</i>										
Long (amount)	64		70		19		22			
%	4,8%		5,2%		1,3%		1,5%			
Short										
%										
Limit	30%		30%		30%		30%			
Below limit	25,2%		24,8%		28,7%		28,5%			

If we analyze the structure of foreign currencies, we see a dominant participation of EUR in the financial assets<sup>33</sup>, which in the first quarter of 2008 decreased by 1,8 index points (from 71,5% to 69,7%) along with decrease of nominal amount from KM 1,6 billion to 1,4 billion. Participation of EUR in the liabilities has also decreased from 87,6% to 87,4% even there has been increase of nominal amount from KM 6,7 billion to KM 6,9 billion.

However, calculation of the FX risk exposure also includes the amount of indexed assets items (loans) and liabilities<sup>34</sup>, which is especially important in the assets (77,3% or KM 6,6 billion) that has a continuous increasing trend which is partially the result of the increase of foreign borrowings as financing source in bank's liabilities structure that is becoming more important. Other foreign currency assets items represent 22,7% or KM 1,9 billion, of which EUR items make 15,8% or KM 1,4 billion and other currencies of 6,9% or KM 0,5 billion (at the end of 2007, loans contracted with currency clause amounted to KM 6,2 billion with participation of 73,8%, and other items in EUR of 18,7% or KM 1,6 billion). Of total net loans (KM 9,1 billion) 73% were contracted with currency clause (at the end of 2006, 69%), primarily tied to EUR (94%).

On the other hand, the structure of financial liabilities stipulates and determines the structure of financial assets, for each currency respectively. Items in EUR (primarily deposits) had the highest participation in foreign currency liabilities (KM 8,2 billion) of 84,1% or KM 6,9 billion, while participation and amount of indexed liabilities was at minimum, amounting to 3,8% or KM 0,3 billion (at the end of 2006, participation of liabilities in EUR was 83,8% or KM 6,7 billion, and indexed liabilities were 4,3% or KM 0,3 billion).

Observed by banks and overall on the level of the banking system of the FBiH, we may conclude that foreign exchange risk exposure of banks and the system in the first quarter of 2008 ranged within the prescribed limits. However, if compared to 2007, it has improved due to increase of core capital of 7%.

As of 31.03.2008., there were 13 banks with long foreign currency position, and 8 with short position, so on the system level long foreign currency position represented 1,5% of banks' core capital, which is lower by 28,5% than the limit. Individual foreign currency position for EUR

<sup>33</sup> 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).

<sup>34</sup> 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).

was 1,3% where financial assets items were higher than financial liabilities (long position), which is lower by 28,7% than the limit.

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

### III CONCLUSIONS AND RECCOMENDATIONS

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

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

- Continue, as so far, implementing activities, from the scope of its authority, related to consolidation of supervision on state level,
- Proceed with a continues supervision of banks through on-site and off-site examinations, emphasizing targeted examination of dominant risk segments of banking operations, which will make supervision more effective and in that regard to:
  - Continue systematic monitoring of banks' activities in prevention of money laundering and terrorism financing and improve cooperation with other supervisory and examination institutions,
  - Persist on capital strengthening of banks, especially those recording outstanding assets growth,
  - Continue permanent monitoring of banks with the highest concentration of savings and other deposits in order to protect depositors,
  - Continue working on development of regulation based on the Basle Principles and European Directives as part of the BiH's preparation to join the European Union,
  - Based on Law of Development Bank of the Federation of BiH, prepare draft sub-legislation in order to regulate operations of the mentioned bank, which will be adopted by the Government of the Federation of BiH,
  - Maintain continuity in payment system examinations,
  - Establish and expand cooperation with home country supervisors of the investors present in the banking sector of the F BiH, and other countries in order to have more effective supervision,
  - Improve cooperation with the Banks Association in all banking performance segments, organization of counseling and professional assistance in the area of implementation of banking laws and regulations, etc.,

- Continuous operational development of the new IT system for early warning and prevention in eliminating weaknesses in banks,
- Work on a continuous education and training of staff,
- Finalize remaining provisional administrations and liquidations based on the conclusion made by the Management Board as of 29. 03. 2006.

It is also necessary to have further involvement of authorized institutions and bodies of Bosnia and Herzegovina and the Federation of BiH in order to:

- Realize the conclusion made by the Federation of BiH Parliament to establish banking supervision on state level,
- Finalize privatization process of two state banks,
- Define and build on regulation for financial sector related to the activity, status and performance of micro-credit organizations, leasing companies, insurance companies, transition of Investment Bank of the Federation of BiH d.d. Sarajevo into Development Bank of the Federation of BiH etc.,
- Accelerate implementation of economic reform in the real sector in order to reach the level of monetary and banking sector,
- Based on a documented material, specialized and professionally processed in the Banks Association of BiH, and through the Ministry of Finance of the Federation of BiH, it is necessary to accelerate the activities in order to:
  - Continuously build on legal regulation for banking sector and financial system based on Basle Principles and European Banking Directives,
  - Establish specialized court departments for economy,
  - Establish more efficient process for realization of pledges,
  - Adopt law on protection of creditors and full responsibility of debtors,
  - Adopt law or improve existing legislation regulating the area of safety and protection of money in banks and in transportation.

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

- Further capital strengthening, proportional to the growth of assets and risks, higher profitability, solvency, more consistent implementation of adopted policies and procedures in the area of prevention of money laundering and terrorism financing, and safety and protection of money in banks and in transportation, in accordance with laws and regulations,
- Strengthen internal control systems and establish internal audits, which will be fully independent in their work,
- Constant improvement of cooperation with the Banks Association in the area of professional development, change all laws and regulations which have become a limiting factor in bank development, introduction of new products, collection of claims and active involvement in the establishment of unified registry of irregular debtors – legal entities and individuals;
- Regular and updated submission of data to the Central Loan Registry and Unified Central Account Registry with the Central Bank of BiH.

## ATTACHMENTS

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

**ATTACHMENT 1**

**Banks in the Federation of BiH as of 31.03.2008.**

<b>Ord. No.</b>	<b>BANK</b>	<b>Address</b>	<b>Telephone</b>	<b>Director</b>	
1	ABS BANKA dd – SARAJEVO	Sarajevo	Trampina 12/VI	033/280-300, fax:280-230	ZUKIĆ ADNAN
2	BOSNA BANK INTERNATIONAL dd – SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:472-159	AMER BUKVIĆ
3	BOR BANKA dd – SARAJEVO	Sarajevo	Obala Kulina bana 18	033/663-500, fax:278-550	HAMID PRŠEŠ
4	FIMA BANKA dd – SARAJEVO	Sarajevo	Kolodvorska br. 5.	033/720-070, fax:720-100	EDIN MUFTIĆ
5	HERCEGOVAČKA BANKA dd MOSTAR	Mostar	Kneza Domagoja bb.	036/332-901, fax:332-908	Prov. Admin. - Nikola Fabijanić - 16.04.2007.
6	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	036/444-200, fax:444-235	PETAR JURČIĆ
7	INVESTICIJSKA BANKA FEDERACIJE BIH	Sarajevo	Paromlinska bb	033/277-900, fax:668-952	RAMIZ DŽAFEROVIĆ
8	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032/401-804, fax:246-187	Acting Director - SUVAD IBRANOVIĆ
9	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Ibrahima Mržljaka 3.	032/401-804, fax:264-187	HASAN PORČIĆ
10	NLB TUZLANSKA BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/259-259, fax:250-596	ALMIR ŠAHINPAŠIĆ
11	POŠTANSKA BANKA BiH - SARAJEVO	Sarajevo	Branilaca Sarajeva 20/XI	033/212-993, fax:210-007	DŽENAMIR ABAZA
12	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:277-798	Prov. Admin. – Maruf Burnazović - 17.07.2006.
13	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Emerika Bluma 8.	033/250-950, fax:250-971	PETER MÖLDERS
14	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Danijela Ozme 3	033/287-100, fax: 213-851	MICHAEL MÜLLER
15	TURKISH ZIRAAT BANK BOSNIA dd - SARAJEVO	Sarajevo	Ferhadija 29	033/254-050, fax: 254-051	KENAN BOZKURT
16	UNA BANKA dd - BIHAĆ	Bihać	Bosanska 25	037/322-400, fax: 322-331	Prov. Admin. - Stjepan Blagović - 01.05.2005.
17	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-121, fax:312-123	BERISLAV KUTLE
18	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	ESAD BEKTEŠEVIĆ
19	UPI BANKA dd - SARAJEVO	Sarajevo	Obala Kulina bana 9a.	033/497-555, fax:497-589	ALMIR KRKALIĆ
20	VAKUFСКА BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	AMIR RIZVANOVIĆ
21	VOLKSBANK BH dd - SARAJEVO	Sarajevo	Fra Anđela Zvizdovića 1	033/295-601, fax:295-603	REINHOLD KOLLAND



## BALANCE SHEET OF BANKS IN THE FBiH - FBA SCHEDULE

## ACTIVE SUB-BALANCE SHEET

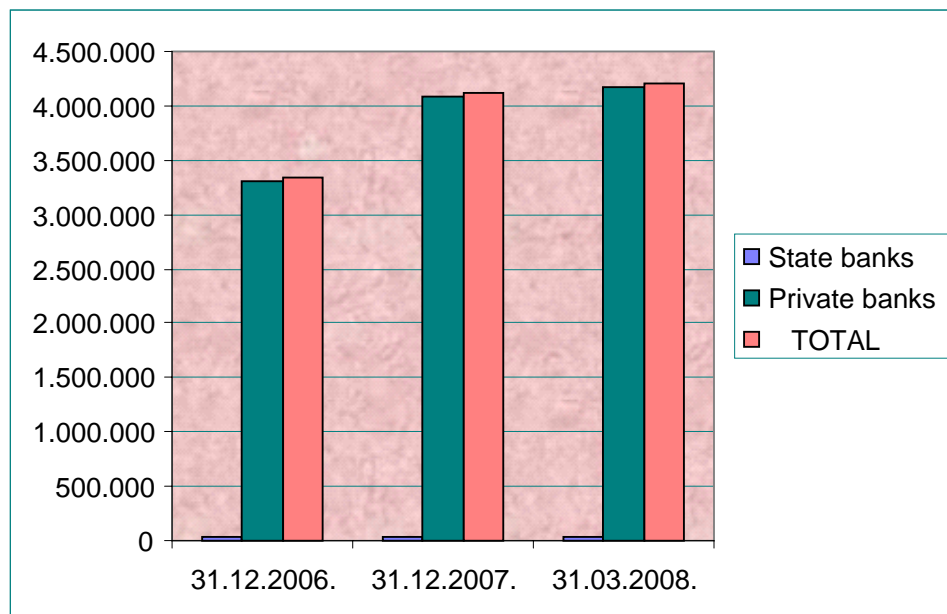
in 000 KM

Ord. No.	DESCRIPTION	31.12.2006.	31.12.2007.	31.03.2008.
	ASSETS			
1.	Cash funds and deposit accounts at depository institutions	4.286.202	4.895.107	4.506.608
1a	Cash and non-interest deposit accounts	1.514.758	349.375	313.141
1b	Interest deposit accounts	2.771.444	4.545.732	4.193.467
2.	Trading securities	41.121	44.361	32.682
3.	Placements in other banks	105.390	69.314	62.499
4.	Loans, receivables in leasing and past due receivables	6.820.154	8.875.003	9.423.163
4a	Loans	6.609.122	8.660.601	9.211.304
4b	Receivables on leasing	180	168	166
4c	Past due receivables - loans and leasing	210.852	214.234	211.693
5.	Securities held until maturity	4.801	4.204	4.085
6.	Premises and other fixed assets	314.012	364.721	367.529
7.	Other real estate	27.659	41.846	41.516
8.	Investments in non-consolidated related enterprises	27.679	34.387	34.456
9.	Other assets	170.492	217.712	213.262
10.	MINUS: Reserves for potential losses	299.155	343.148	368.093
10a	Reserves on item 4 in Assets	288.433	329.875	355.404
10b	Reserves on Assets except item 4	10.722	13.273	12.689
<b>11.</b>	<b>TOTAL ASSETS</b>	<b>11.498.355</b>	<b>14.203.507</b>	<b>14.317.707</b>
	LIABILITIES			
12.	Deposits	8.379.322	10.190.977	10.170.776
12a	Interest deposits	7.529.517	9.368.276	9.259.412
12b	Non-interest deposits	849.805	822.701	911.364
13.	Loans - past due	7.802	7.376	7.243
13a	Balance of payable loans, unpaid	0	0	0
13b	Unpaid - called for payment off-balance sheet items	7.802	7.376	7.243
14.	Loans from other banks	2.890	3.289	3.289
15.	Payables to Government	0	0	0
16.	Payables on loans and other borrowings	1.420.944	1.856.471	1.929.188
16a	payable within one year	196.381	357.425	391.067
16b	payable longer than one year	1.224.563	1.499.046	1.538.121
17.	Subordinated debts and subordinated bonds	145.079	242.791	223.253
18.	Other liabilities	315.733	384.585	453.955
<b>19.</b>	<b>TOTAL LIABILITIES</b>	<b>10.271.770</b>	<b>12.685.489</b>	<b>12.787.704</b>
	CAPITAL			
20.	Permanent priority shares	30.180	26.224	26.136
21.	Common shares	858.610	1.018.997	1.008.312
22.	Shares issued	71.130	94.739	120.814
22a	Permanent priority shares	8.332	28.123	28.211
22b	Common shares	62.798	66.616	92.603
23.	Undistributed income and capital reserves	172.581	262.894	368.702
24.	Currency rate difference	0	0	0
25.	Other capital	94.084	115.164	6.039
<b>26.</b>	<b>TOTAL CAPITAL (20. TO 25.)</b>	<b>1.226.585</b>	<b>1.518.018</b>	<b>1.530.003</b>
<b>27.</b>	<b>TOTAL LIABILITIES AND CAPITAL (19+26)</b>	<b>11.498.355</b>	<b>14.203.507</b>	<b>14.317.707</b>
	<b>PASSIVE AND NEUTRAL SUBBALANCE</b>	<b>641.164</b>	<b>606.752</b>	<b>591.049</b>
	<b>TOTAL BALANCE SHEET IN BANKS</b>	<b>12.139.519</b>	<b>14.810.259</b>	<b>14.908.756</b>

## NEW CITIZEN SAVINGS BY PERIODS

in 000 KM

	31.12.2006.	31.12.2007.	31.03.2008.
State banks	31.723	30.469	31.848
Private banks	3.308.413	4.086.820	4.174.197
<b>TOTAL</b>	<b>3.340.136</b>	<b>4.117.289</b>	<b>4.206.045</b>



**ATTACHMENT 4**

**CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS  
as of 31.03.2008.**

**- ACTIVE SUB-BALANCE SHEET -**

in 000 KM

Ord. No.	BALANCE SHEET ASSETS AND OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	1.601.503	321.599	6.529	3.639	2	<b>1.933.272</b>
2.	Long-term loans	6.265.488	826.025	118.328	67.132	1.225	<b>7.278.198</b>
3.	Other placements	46.685	1.739	38	842	0	<b>49.304</b>
4.	Interest accrued	45.324	8.901	0	0	0	<b>54.225</b>
5.	Past due receivables	76.316	43.028	21.652	66.372	302	<b>207.670</b>
6.	Receivables on guarantees paid	754	0	1	3.268	0	<b>4.023</b>
7.	Other assets	5.147.598	7.035	1.983	2.471	20	<b>5.159.107</b>
<b>8.</b>	<b>TOTAL ACTIVE BALANCE SHEET</b>	<b>13.183.668</b>	<b>1.208.327</b>	<b>148.531</b>	<b>143.724</b>	<b>1.549</b>	<b>14.685.799</b>
	a) Guarantees payable	364.734	37.495	306	1.372	0	<b>403.907</b>
9.	b) Performing guarantees	422.164	126.747	603	163	0	<b>549.677</b>
10.	Unsecured LoC	55.805	21.741	0	299	0	<b>77.845</b>
11.	Irrevocable loans	1.394.888	86.791	491	72	7	<b>1.482.249</b>
12.	Other potential liabilities	3.530	0	0	0	0	<b>3.530</b>
<b>13.</b>	<b>TOTAL OFF-BALANCE SHEET</b>	<b>2.241.121</b>	<b>272.774</b>	<b>1.400</b>	<b>1.906</b>	<b>7</b>	<b>2.517.208</b>
<b>14.</b>	<b>TOTAL BALANCE AND OFF-BALANCE SHEET (8+13)</b>	<b>15.424.789</b>	<b>1.481.101</b>	<b>149.931</b>	<b>145.630</b>	<b>1.556</b>	<b>17.203.007</b>
15.	General credit risk and potential loan losses (#14 x % of loss)	209.349	105.107	37.500	77.043	1.556	<b>430.555</b>
16.	Allocated general reserves (A) and special reserves (B, C, D, E)	209.863	105.107	37.500	77.043	1.556	<b>431.069</b>
<b>17.</b>	<b>MORE (LESS) of the allocated reserves (#16 - 15) +or -</b>	<b>514</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>514</b>

## INCOME STATEMENT

in 000 KM

ELEMENTS	PERFORMED 31.03. 2007.		PERFORMED 31.03.2008.		RATIO 4 : 2
	Amount	Particip. in total income	Amount	Particip. in total income	
<b>INCOME</b>					
Interest income	188.603	90%	212.737	114%	113
Interest expenses	72.740	35%	93.975	50%	129
Net interest income	115.863	55%	118.762	64%	103
Fee income and other operating income	93.418	45%	67.641	36%	72
<b>TOTAL INCOME</b>	<b>209.281</b>	<b>100%</b>	<b>186.403</b>	<b>100%</b>	<b>89</b>
<b>EXPENSES</b>					
Reserves for potential losses	38.158	18%	43.013	23%	113
Salaries and contribution expenses	49.798	24%	55.236	30%	111
Fixed assets and overhead expenses	29.277	14%	31.681	17%	108
Other expenses	36.120	17%	52.281	28%	145
<b>TOTAL EXPENSES (without interests)</b>	<b>153.353</b>	<b>73%</b>	<b>182.211</b>	<b>98%</b>	<b>119</b>
NET INCOME BEFORE TAX	55.928	27%	4.192	2%	7
Income Tax					
<b>NET INCOME</b>	<b>55.928</b>	<b>27%</b>	<b>4.192</b>	<b>2%</b>	<b>7</b>

## ATTACHMENT 6

## COMPARATIVE SCHEDULE OF CAPITAL BALANCE AND ADEQUACY

## ACTIVE SUB-BALANCE SHEET

in 000 KM

Ord. No.	DESCRIPTION	31.12.2006.	31.12.2007.	31.03.2008.
<b>1</b>	<b>BANK'S CORE CAPITAL</b>			
1.a.	Share capital, reserves and income			
1.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	873.390	1.029.756	1.019.072
1.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. and rights	12.550	12.550	12.550
1.3.	Issued shares income at share payments	71.130	94.739	120.814
1.4.	General regulatory reserves (reserves as regulated by the Law)	61.228	65.942	74.904
1.5.	Other reserves not related to assets quality assessment	86.990	128.882	165.802
1.6.	Retained - undistributed income from previous years	93.543	132.711	194.700
<b>1.a.</b>	<b>TOTAL ( from 1.1. to 1.6.)</b>	<b>1.198.831</b>	<b>1.464.580</b>	<b>1.587.842</b>
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	62.603	65.514	74.065
1.8.	Losses from current year	7.030	8.261	18.419
1.9.	Book value of treasury shares owned by the bank		2	83
1.10.	Amount of intangible assets	40.105	53.453	53.306
<b>1.b.</b>	<b>TOTAL (from 1.7.to 1.10.)</b>	<b>109.738</b>	<b>127.230</b>	<b>145.873</b>
<b>1.</b>	<b>AMOUNT OF CORE CAPITAL: ( 1.a.-1.b.)</b>	<b>1.089.093</b>	<b>1.337.350</b>	<b>1.441.969</b>
<b>2</b>	<b>BANK'S SUPPLEMENTARY CAPITAL</b>			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	2.850	2.917	2.829
2.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. and rights	0	0	0
2.3.	General reserves for losses on loans from class. A - performing assets	150.200	197.899	209.863
2.4.	Accrued income for current year audited and confirmed by external auditor	85.689	98.778	0
2.5.	Income under FBA's temporary restriction on distribution	0	0	0
2.6.	Subordinated debts, the most 50% of core capital	139.251	191.575	176.540
2.7.	Hybrid convertible items - the most 50% of core capital	0	0	0
2.8.	Items-permanent liabilities without repayment duty	5.828	50.855	46.356
<b>2.</b>	<b>AMOUNT OF SUPPLEMENTARY CAPITAL: (from 2.1. to 2.8.)</b>	<b>383.818</b>	<b>542.024</b>	<b>435.588</b>
<b>3</b>	<b>OFFSETTING ITEMS FROM BANK'S CAPITAL</b>			
3.1.	Part of invested share capital that according to FBA's assessment represents accepted and overestimated value	0	0	0
3.2.	Investments in capital of other legal entities exceeding 5% of bank's core capital	17.236	16.036	16.036
3.3.	Receivables from shareholders for significant voting shares - approved aside from regulations	0	0	0
3.4.	VIKR to shareholders with significant voting shares in the bank without FBA's permission	0	0	0
<b>3.</b>	<b>AMOUNT OF OFFSETTING ITEMS FROM BANK'S CAPITAL (3.1. to 3.4.)</b>	<b>17.236</b>	<b>16.036</b>	<b>16.036</b>
<b>A</b>	<b>AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)</b>	<b>1.455.675</b>	<b>1.863.338</b>	<b>1.861.521</b>
<b>B.</b>	<b>RISK FROM RISK-WEIGHTED ASSETS AND LOAN EQUIVALENTS</b>	<b>8.282.086</b>	<b>10.747.145</b>	<b>11.286.286</b>
<b>C.</b>	<b>NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100</b>	<b>17,6%</b>	<b>17,3%</b>	<b>16,5%</b>

## ATTACHMENT 7

## NUMBER OF EMPLOYEES BY BANKS

Ord. No.	BANK	31.12.2006.	31.12.2007.	31.03.2008.
1	ABS BANKA dd SARAJEVO	297	326	344
2	BOSNA BANK INTERNATIONAL dd Sarajevo	104	145	158
3	BOR BANKA dd SARAJEVO	40	42	45
4	FIMA BANKA dd SARAJEVO	58	101	128
5	HVB CENTRAL PROFIT BANKA dd SARAJEVO	476	465	
6	HERCEGOVACKA BANKA dd MOSTAR	98	93	92
7	HYPO ALPE ADRIA BANK dd MOSTAR	492	550	572
8	INVESTICIJSKA BANKA FBiH SARAJEVO	84	104	105
9	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	163	154	160
10	KOMERCIJALNO INVESTICIONA BANKA dd V. KLADUŠA	66	65	65
11	LT GOSPODARSKA BANKA BANKA dd SARAJEVO	196		
12	NLB TUZLANSKA BANKA dd TUZLA	479	472	478
13	PROCREDIT BANK dd SARAJEVO	595	831	858
14	POŠTANSKA BANKA dd SARAJEVO	63	97	104
15	PRIVREDNA BANKA dd SARAJEVO	170	163	163
16	RAIFFEISEN BANK BH dd SARAJEVO	1.348	1.543	1.641
17	TURKISH ZIRAAT BANK dd SARAJEVO	108	129	146
18	UNA BANKA dd BIHAĆ	61	59	58
19	UNION BANKA dd SARAJEVO	175	179	175
20	UPI BANKA dd SARAJEVO	233	479	491
21	UNI CREDIT ZAGREBACKA BANKA BH dd MOSTAR	840	840	1.336
22	VAKUFСКА BANKA dd SARAJEVO	175	184	185
23	VOLKSBANK BH dd SARAJEVO	285	340	346
	<b>TOTAL</b>	<b>6.606</b>	<b>7.361</b>	<b>7.650</b>