



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

INFORMATION
ON BANKING SYSTEM OF
THE FEDERATION OF BOSNIA AND HERZEGOVINA
As of June 30th, 2009

Sarajevo, August 2009

Information on banking system of the Federation of BiH (as of June 30th, 2009) 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 half of 2009, adverse effects of the global economic and financial crisis have been more expressed in the Federation of BiH that could be observed through deterioration of asset quality (increase of credit risk and credit losses), and more apparent downfall of profitability. On the other hand, stability and safety of the banking system has been preserved by strengthening capital base and capital adequacy, satisfactory liquidity position, and participation of cash funds in the assets, as well as by hindering adverse trends in the segment of citizen deposits as result of many measures and activities undertaken, primarily by FBA and the Central Bank, contributing to confidence in the banking system being preserved.

As of 30.06.2009., there were 20 banks with banking license issued in the Federation of BiH (UNA bank d.d. Bihać and Hercegovacka bank d.d. Mostar under provisional administration). There were 7.889 employees employed by banks in the FBiH.

The aggregate balance sheet of banks in the FBiH, as of 30.06.2009., was 15,07 billion KM, which was the same as at the end of 2008, as expected in regard to the adverse effect of the crisis to the overall economy of BiH. Three largest banks still have the highest participation in total assets of 65,8%.

Capital, over the first six months of 2009, has been increased by 1% or 29 million KM, of which 23 million KM refers to inflow of new capital based on additional capitalization of two banks. Regulatory capital of banks in the FBiH, as well as net capital, maintains almost the same level of two billion KM, while capital adequacy rate has been increased to 16,6% (16,4% in 2008).

Credit placements, over the first six months of 2009, recorded downfall of 1% or 99 million KM (10,3 billion KM as of 30.06.2009.), while downfall in credit portfolio quality should be expected in the upcoming period as well. Credit placements to private companies amount to 4,8 billion KM (the amount remained at the same level as of 31.12.2008.), while credit placements to citizens have decreased by 3%, amounting to five billion KM. In order to overcome financial crisis, Government of the FBiH entered into credit indebtedness with four banks, so loans to the government institutions have increased by 198% or 153 million KM.

Deposits with participation of 71,1% and amount of 10,7 billion KM still represent the most significant source of funding for banks in the FBiH. Citizen deposits, following downfall of 1% or 40 million KM over the first three months of 2009, have recorded in the second quarter a slight rise of 1% or 35 million KM (at the end of the first six months of 2009, they amounted to 4,22 billion KM). Strong impact of the crisis and adverse outcome in 2009 were present in the sector of private companies, whose deposits decreased by 6% or 94 million KM (from 1,49 billion KM at the end of 2008 to 1,4 billion KM).

Following slight downfall of savings over the first quarter of 2009 of 0,9% or 38 million KM, the second quarter recorded increase of 1,8% or 73 million KM. As of 30.06.2009., savings amounted to 4,07 billion KM.

Banks in the Federation of BiH, at the end of the first six months of 2009, generated profit of 14,8 million (significant decrease of 49% or 14,2 million KM if compared to the same period of 2008). Positive financial result of 35,6 million KM was reported by 13 banks (less by 33,2% or 15,9 million KM if compared to same period of 2008), while seven banks reported loss of 20,8 million KM.

Although effects of the global financial crisis have been apparent in the banking sector since beginning of the fourth quarter of 2008, stronger impact and adverse effects were recorded in the second quarter of 2009 through downfall of asset quality of banks, primarily of credit portfolio, that is deterioration in collection of past due claims, an increase of bad placements, resulting by increase of loan losses and loan loss provisions, significantly impacting earnings to decrease. It might be expected this trend will continue, and it will be more stressed out in the second half of this year and the next year, having in mind condition and problems the real sector of the economy is facing, which in return has its repercussion with certain time suspension to the banking sector and asset quality of banks.

Generally, due to the above mentioned, the key importance is given to banks in the Federation of BiH to more realistically evaluate the quality of credit placements and establish adequate loan loss reserves, as especially insisted by the FBA, and to stop further deterioration of earnings through an improved management and internal cost controlling.

II BUSINESS PERFORMANCE OF BANKS IN THE FEDERATION OF BIH

1. STRUCTURE OF THE BANKING SECTOR

1.1. Status, number and business network

As of 30.06.2009., there were 20 banks with the banking license issued in the Federation of BiH. Number of banks remained as of 31.12.2008. There is a special law regulating establishment and work of Development Bank of the Federation of BiH, Sarajevo, which is a legal successor of the Investment Bank of the Federation of BiH d.d. Sarajevo as of 01.07.2008.

As of 30.06.2009., there were two banks under provisional administration (UNA bank d.d. Bihać and Hercegovska bank d.d. Mostar).

Over the first six months of 2009, banks have continued expanding the network of their organizational units, at a lower level. At the same time, some banks had to close their organizational units, that is, they reorganized and merged their organizational units for purpose of cost cutting. Consequently, as of 30.06.2009., there were total 646 organizational units of banks from the Federation of BiH. In comparison to 31.12.2008., with 650 organizational units of banks, this represents a downfall of 0,6%.

As of 30.06.2009., seven banks from the Federation of BiH had 56 organizational units in Republic Srpska, and nine banks had 17 organizational units in District Brčko. Five banks from Republic Srpska had 19 organizational units in the Federation of BiH (one organizational unit was opened, and three were closed).

The license for inter-bank transactions in the internal payment system was issued to all banks as of 30.06.2009. There were 14 banks under deposit insurance program.

1.2. Ownership structure

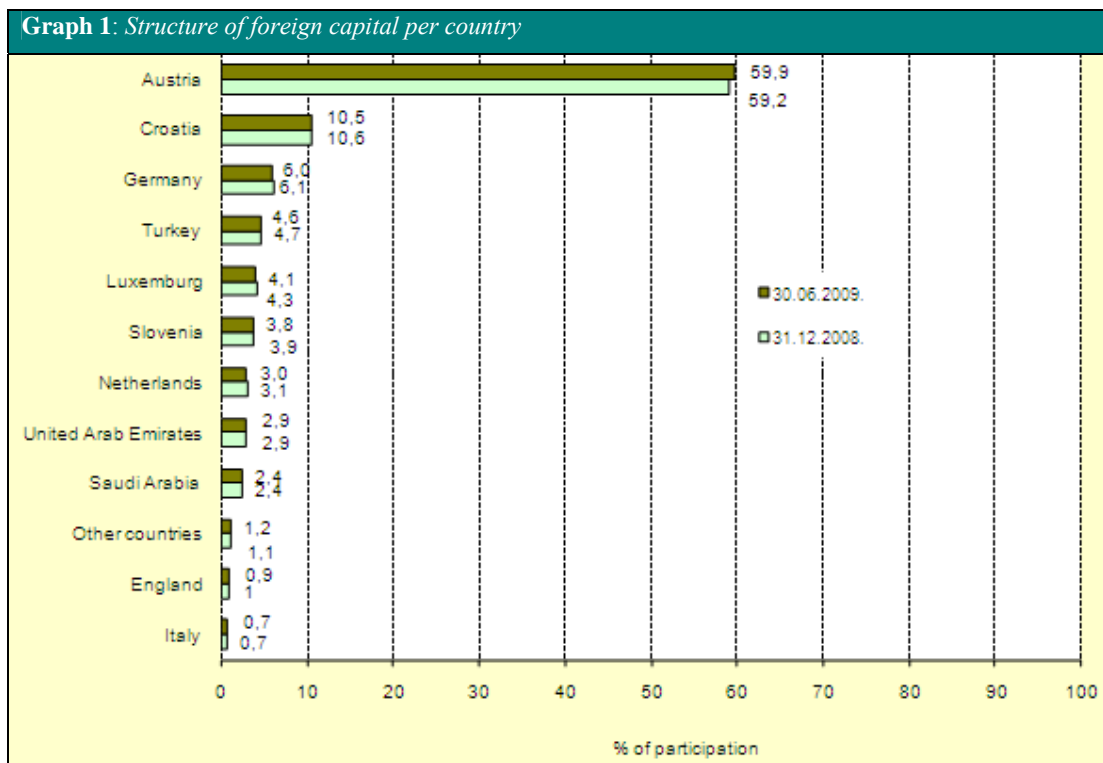
As of 30.06.2009., ownership structure in banks¹ was assessed based on the available information and on-site visits to banks², which is the following:

¹ Bank classification criteria is ownership over banks' share capital.

- Private and majority private ownership 18 banks (90%)
- State and majority state ownership³ 2 banks (10%)

Six banks, of 18 banks with majority private ownership, are majority owned by domestic legal entities and individuals (residents), while 12 banks have majority foreign ownership.

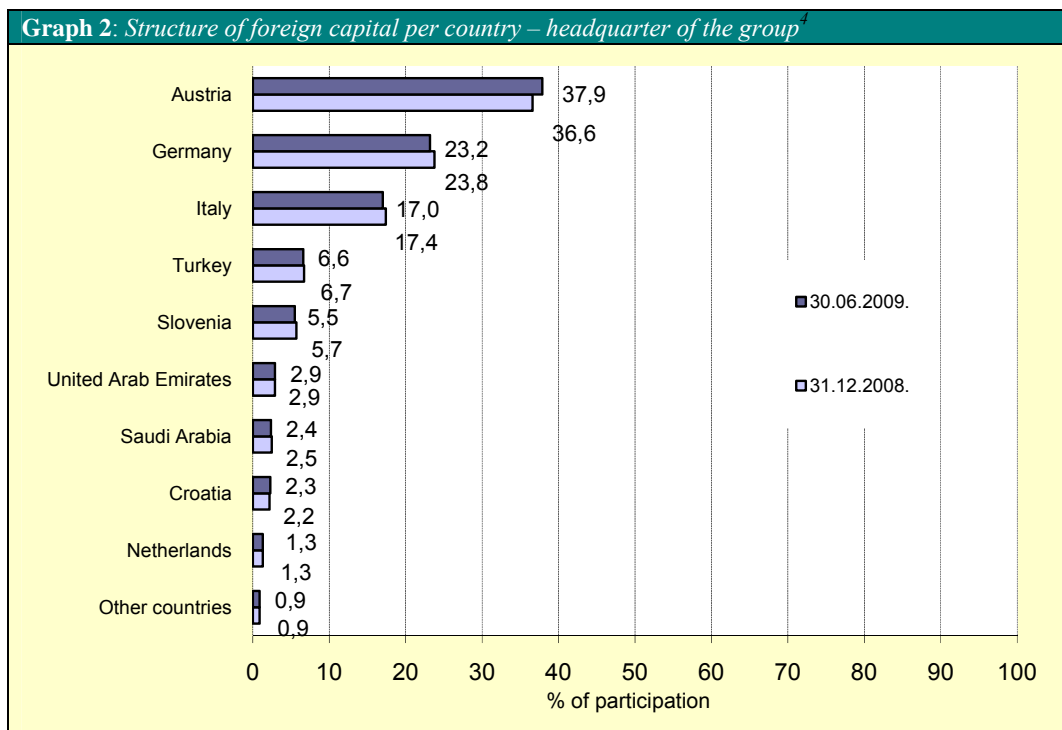
If only foreign capital is analyzed according to the criteria of the shareholder's home country, as of 30.06.2009., the shareholders from Austria owned 59,9% of foreign capital, which is higher by 0,7 per cent than at the end of 2007. The shareholders from Croatia owned 10,5% of foreign capital, while other countries participated less than 7%.



If capital correlations are taken into account, the structure of foreign capital could be viewed according to the criteria of the parent-bank or the group's headquarter that has majority ownership (directly or indirectly over the group members) of the bank in the Federation of BiH. According to these criteria, situation as of 30.06.2009. has insignificantly changed in relation to the end of 2008. Banking groups and banks from Austria recorded the highest participation (37,9%), followed by the German banks with participation of 23,2%, and the Italian banks with 17,0%. Other countries participate below 6,6%.

² General overview of ownership structure of banks in the F BiH, as of 30.06.2009., resulted from received documentation, and registrations at authorized courts (changes in capital and shareholders structure).

³ State ownership refers to domestic state capital of BiH.

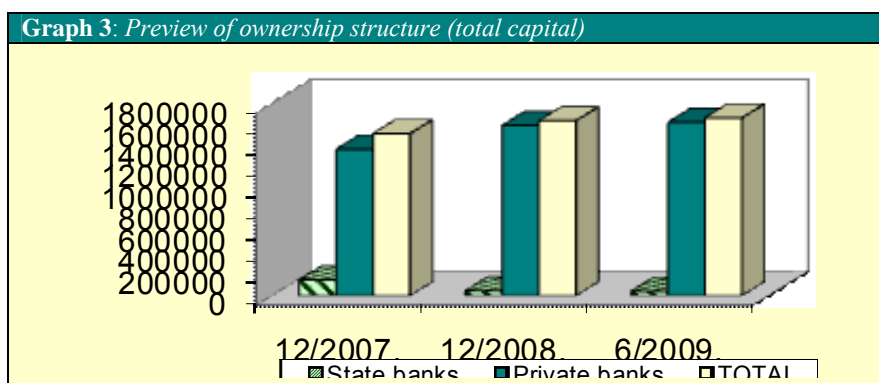


The ownership structure could be viewed from the aspect of financial indicators, which is based on the value of total capital⁵.

-in 000 KM-

Table 1: Ownership structure by total capital

BANKS	31.12.2007.		31.12.2008.		30.06.2009.		RATIO	
	1	2	3	4	5	6	3/2	4/3
State banks	147.022	10%	42.593	3%	41.806	3%	29	98
Private banks	1.363.020	90%	1.593.251	97%	1.622.978	97%	117	102
TOTAL	1.510.042	100%	1.635.844	100%	1.664.784	100%	108	102



⁴ 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.

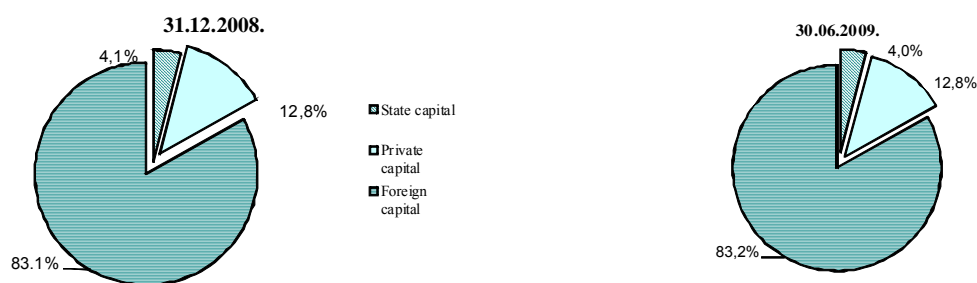
⁵ Information from balance sheet - FBA schedule: shareholder's capital, premium issue, undistributed profit and reserves, and other capital (financial results of current period).

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

- in 000 KM-

SHARE CAPITAL	31.12.2007.		31.12.2008.		30.06.2009.		RATIO	
	Amount	Participation %	Amount	Participation %	Amount	Participation %	5/3	7/5
	1	2	3	4	5	6	7	8
State capital	133.582	12,8	46.100	4,1	46.100	4,0	35	100
Private capital (residents)	135.728	13,0	142.469	12,8	145.995	12,8	105	102
Foreign capital (nonresidents)	775.912	74,2	929.447	83,1	951.040	83,2	120	102
CAPITAL	1.045.222	100,0	1.118.016	100,0	1.143.135	100,0	107	102

Graph 4: Ownership structure (share capital)



Share capital of banks in the Federation of BiH, over the first six months of 2009, has increased by 2,2% or 25,1 million KM based on additional capitalization of three banks, of which 22,1 million KM relates to nonresidents and three million KM to residents.

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

Participation of state capital in total share capital, as of 30.06.2009., was 4,0 %, representing decrease by 0,1 per cent in comparison to 31.12.2008.

Participation of private capital (residents) in total share capital of 12,8% remained at the same level, although it increased nominally by 3,5 million KM based on share trading between residents and nonresidents in the amount of 0,5 million KM, and purchase of shares from additional capitalization of three banks by domestic buyers of three million KM.

Participation of foreign capital increased from 83,1% to 83,2%, representing an increase in absolute amount of 21,6 million KM: additional capitalization of 22,1 million KM in three banks, and by the mentioned share trading between residents and nonresidents in four banks the participation has decreased by 0,5 million KM.

As of 30.06.2009., market share of banks with majority foreign ownership was high 94,1%, banks with majority domestic private capital was 4,7%, and the share of banks with majority state capital was 1,2%.

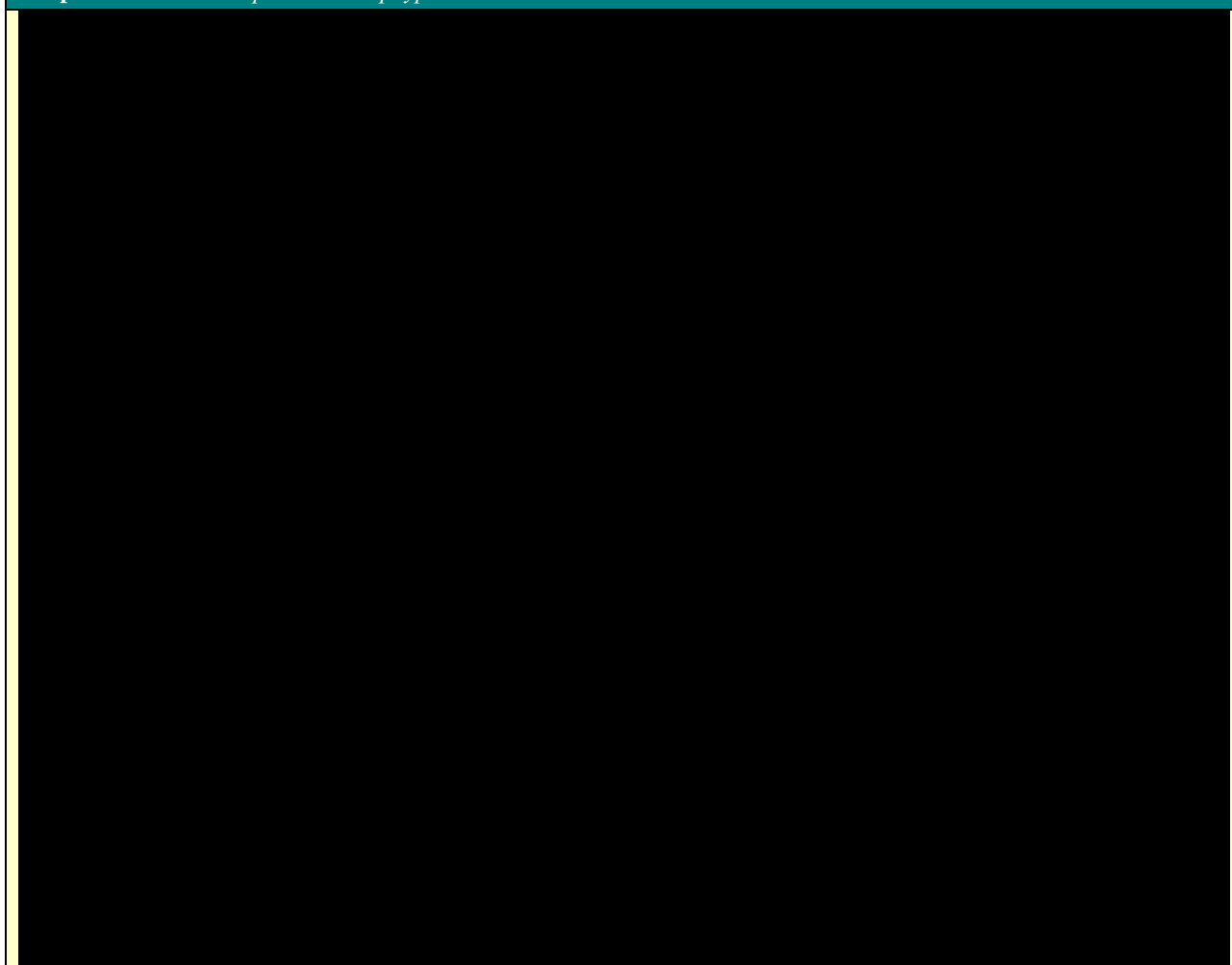
Integration processes from the past period have been performed with purpose of stronger market positioning, resulting by the largest banks becoming larger, decreased number of banks, and intensified competition. Such processes should result by strengthening of the resulting bank, and increased concentrations in the banking sector of the Federation of BiH.

- in %-

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

BANKS	31.12.2007.			31.12.2008.			30.06.2009.		
	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	3	9,7	2,7	2	2,6	1,3	2	2,5	1,2
Banks with majority private domestic capital	7	10,9	4,9	6	10,5	4,4	6	10,4	4,7
Banks with majority foreign capital	12	79,4	92,4	12	86,9	94,3	12	87,1	94,1
TOTAL	22	100,0	100,0	20	100,0	100,0	20	100,0	100,0

Graph 5: Market share per ownership type



1.3. Employees

In banks of the FBiH, as of 30. 06. 2009., there were total of 7.889 employees, of which 3% by banks with majority state capital and 97% by private banks.

Table 4: Bank employees in the FBiH

BANKS	NUMBER OF EMPLOYEES						RATIO	
	31.12.2007.		31.12.2008.		30.06.2009.		3:2	4:3
1	2	3	4	5	6	7	8	9
State banks	342	5%	234	3%	234	3%	68	100
Private banks	7.019	95%	7.763	97%	7.655	97%	111	99
TOTAL	7.361	100%	7.997	100%	7.889	100%	109	99
Number of banks	22		20		20		91	100

Over the first six months of 2009, number of employees in banks of the FBiH has slightly decreased by 1% or 108 employees, resulting from impact of the economic crisis to the banking sector of the F BiH that is primarily related to one bank where number of employees decreased by 97 or 11%.

Table 5: Qualification structure of employees

EDUCATION	NUMBER OF EMPLOYEES						RATIO	
	31.12.2007.		31.12.2008.		30.06.2009.		4:2	6:4
1	2	3	4	5	6	7	8	9
University qualifications	2.725	37,0%	3.007	37,6%	3.055	38,1%	110	102
Two-year post secondary school qualifications	799	10,8%	861	10,8%	816	10,5%	107	95
Secondary school qualifications	3.759	51,1%	4.054	50,7%	3.942	50,5%	108	97
Other	78	1,1%	75	0,9%	76	0,9%	96	100
TOTAL	7.361	100,0%	7.997	100,0%	7.889	100,0%	108	99

The employees' qualification structure, over longer period of time, has been recording a slight trend of improvement, that is, increased participation of the employees with university qualifications, indicating that banking tasks and services are becoming more complex and sophisticated requiring highly professional and educated staff.

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

Table 6: Assets per an employee

BANKS	31.12.2007.			31.12.2008.			30.06.2009.		
	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	342	381.036	1.114	234	189.254	809	234	174.454	745
Private	7.019	13.814.886	1.968	7.763	14.882.787	1.917	7.655	14.894.455	1.946
TOTAL	7.361	14.195.922	1.929	7.997	15.072.041	1.885	7.889	15.068.909	1.910

At the end of the first six months of 2009, there was 1,90 million KM of assets per an employee at the level of the banking system, which is slightly lower than at the end of 2007. This indicator is much better with the private bank sector, which is expected, having in mind stagnation or decreased volume of business activities of state banks, and, consequently, excessive number of employees.

Table 7: Assets per an employee by groups			
Assets (000 KM)	31.12.2007.	31.12.2008.	30.06.2009.
	Number of banks	Number of banks	Number of banks
Up to 500	2	2	2
500 do 1.000	7	9	7
1.000 do 2.000	7	3	5
2.000 do 3.000	4	5	5
Over 3.000	2	1	1
TOTAL	22	20	20

Analytical indicators of respective banks range from 250 thousand KM to 3,8 million KM of assets per an employee. The indicator of six banks is better than the one for the whole banking sector, and the indicator of three largest banks in the system exceeds 2,3 million KM.

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 capital⁶.

⁶ Some state banks in their “full balance sheet” report passive and neutral items, which will be taken over by the state upon finalization of the privatization process. As of 30.06.2008., these items amounted to KM 623 million.

2.1. Balance sheet

Aggregate balance sheet of the banking sector, following slight decrease of 0,3% in the first quarter of 2009, amounted to 15,07 billion KM as of 30. 06. 2009., the same as at the end of 2008. Having in mind impact of the global economic and financial crisis and its adverse effects to the overall economy of BiH, these changes and trends in the banking sector have been expected. However, already in the first half of 2008, there was some deceleration to the growth of the banking sector's assets, so the growth had been 5%, while in the second half of the year, after expansion of the crisis to BiH, the growth was only 1%, and the annual growth rate of 6% was significantly lower than previous years (2007 - 12,3%, 2006 - 23,5%).

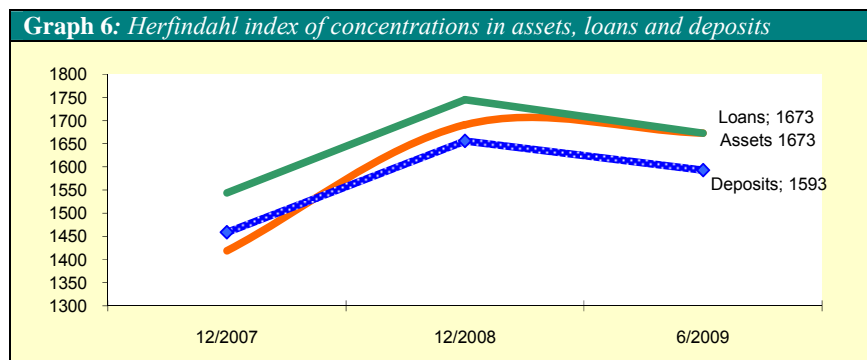
Table 8: Balance sheet					
DESCRIPTION	AMOUNT (in 000 KM)			RATIO	
	31.12.2007.	31.12.2008.	30.06.2009.	3/2	4/3
1	2	3	4	5	6
ASSETS:					
Cash funds	4.894.973	4.207.559	4.029.999	86	96
Securities ⁷	48.565	18.553	17.479	38	94
Placements to other banks	69.314	90.415	368.873	130	408
Loans	8.874.984	10.434.332	10.335.239	118	99
Loan loss provisions (LLP)	334.139	381.215	432.931	114	114
Loans – net value (loans minus LLP)	8.540.845	10.053.117	9.902.308	118	98
Business premises and other fixed assets	405.116	467.507	514.369	115	110
Other assets	237.109	232.753	235.881	98	101
TOTAL ASSETS	14.195.922	15.069.904	15.068.909	106	100
LIABILITIES:					
LIABILITIES					
Deposits	10.190.977	10.461.841	10.719.050	103	102
Borrowings from other banks	3.289	3.089	3.089	94	100
Loan Commitments	1.856.471	2.176.594	1.901.889	117	98
Other liabilities	635.143	792.536	780.097	125	99
CAPITAL					
Capital	1.510.042	1.635.844	1.664.784	108	102
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	14.195.922	15.069.904	15.068.909	106	100

Table 9: Assets of banks based on the ownership structure											
BANKS	31.12.2007.			31.12.2008.			30.06.2009.			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	8	9	
State	3	381.036	3%	2	187.157	1%	2	174.454	1%	49	93
Private	19	13.814.886	97%	18	14.882.747	99%	18	14.894.455	99%	108	100
TOTAL	22	14.195.922	100%	20	15.069.904	100%	20	15.068.909	100%	106	100

The assets of nine banks have decreased in comparison to the end of 2008, while the remaining 11 banks recorded increase. Three largest banks in the system recorded minimum changes in their assets, which is, the largest bank recorded growth of 0,5%, and remaining two recorded negative rate of 0,5% and 5,0% respectively.

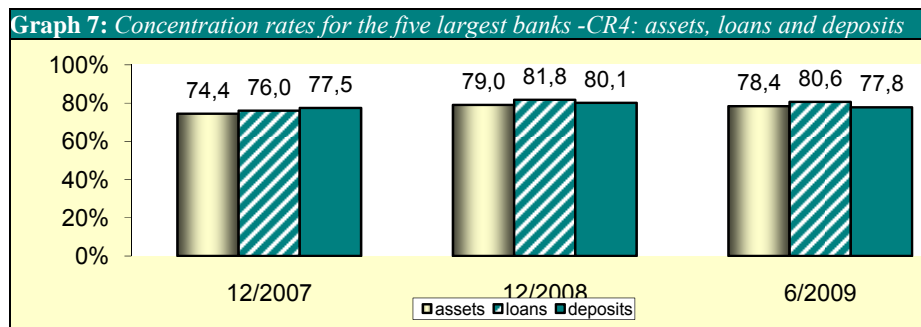
⁷ Trading securities and securities held to maturity.

Indicator of concentrations in the three most significant segments of banking performance, in assets, loans, and deposits, is the value of The Herfindahl index⁸.



Over the observing period, the Herfindahl index of concentrations in assets, loans and deposits has recorded a slight downfall (18, 72 and 63 units), so their value, as of 30.06.2009., was 1.673 units per assets and loans, and 1.593 units per deposits, which is presenting a moderate concentration⁹.

Another indicator of concentration in the banking system is the ratio of market concentration, that is, the concentration rate¹⁰ (hereinafter: CR), which indicates total market participation of the largest institutions in the system per relevant categories: assets, loans and deposits. The CR5 for market participation, loans and deposits of the five largest banks in the system, as of 30.06.2009., was 78,4%, 80,6% and 77,8% respectively, which was slightly lower than at the end of 2008. The situation has almost not changed over the past several years, and there is dominant participation of the five largest banks in the system „holding“ approximately 80% of the market, loans and deposits.



The banking sector could be analyzed from the aspect of several groups established according to the asset size¹¹. Some groups have gone under minor changes in terms of participation, as result of changes in assets of banks and number of banks in Groups IV and V.

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

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

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

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

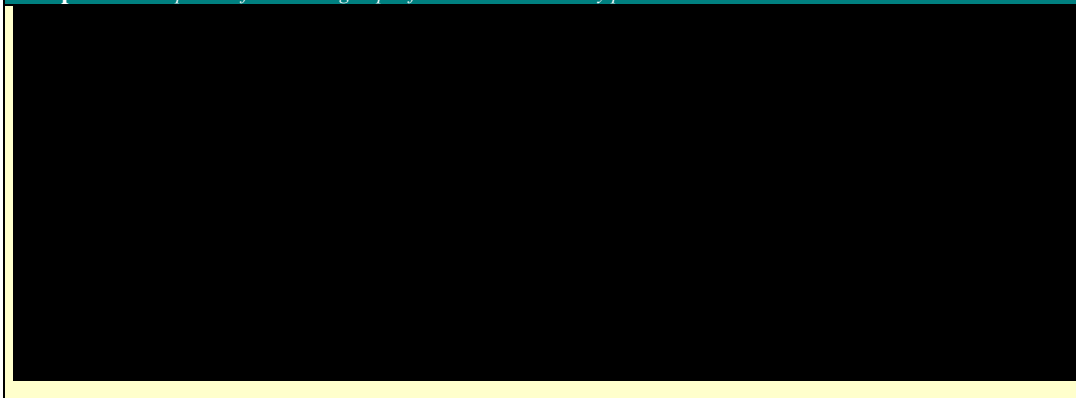
¹¹ Banks are divided into five groups depending on their asset size.

Three largest banks (Group I) still maintain the highest participation of 65,8% that has been decreased by 0,8 per cent in comparison to the end of 2008. Participation of one bank in Group II has been increased from 6,7% to 7,2%, while participation of three banks in Group III of 14,5% (assets between 500 million KM and one billion KM) remained the same. The largest Group IV of eight banks, with assets between 100 and 500 million KM, has decreased participation from 10,8% to 10,4% due to one bank moving to Group V, resulting by changes in number of banks (from four to five) and participation of this group (from 1,4% to 2,1%).

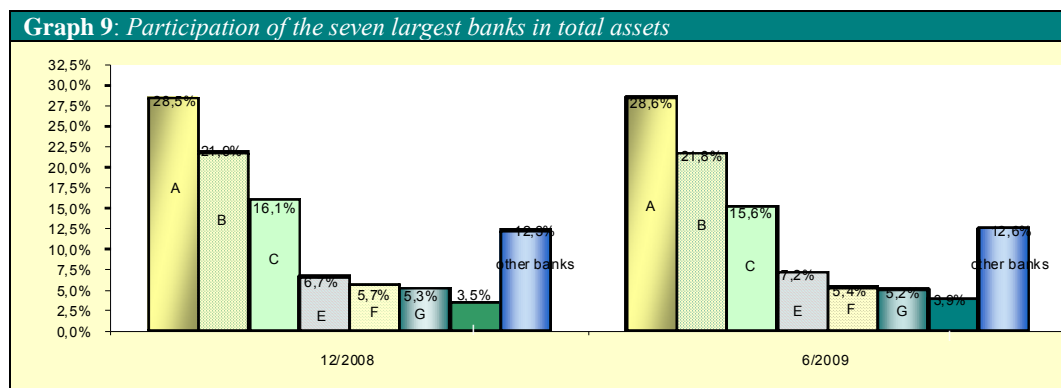
The following table presents a preview of amounts and participations of individual groups of banks in total assets by periods (amounts presented in KM millions).

ASSETS	31.12.2007.			31.12.2008.			30.06.2009.		
	Amount	Particip %	No. of banks	Amount	Particip %	No. of banks	Amount	Particip %	No. of banks
I- Over 2.000	8.203	57,8	3	10.036	66,6	3	9.920	65,8	3
II- 1000 to 2000	1.409	9,9	1	1.017	6,7	1	1.081	7,2	1
III- 500 to 1000	2.392	16,8	3	2.180	14,5	3	2.189	14,5	3
IV- 100 to 500	1.741	12,3	8	1.627	10,8	9	1.568	10,4	8
V- Below 100	451	3,2	7	210	1,4	4	311	2,1	5
TOTAL	14.196	100,0	22	15.070	100,0	20	15.069	100,0	20

Graph 8: Participation of individual groups of banks in total assets by periods



The following graph presents the structure and participation trend of the seven largest banks¹² in the banking system of the Federation of BiH.



¹² Banks are market with letters A to G.

Although the aggregate balance sheet at the end of the first six months of 2009 remained at the same level as at the end of 2008, it should be emphasized that certain changes have occurred in the banks' liabilities. Deposit growth of 2% or 257 million KM and decrease of credit liabilities by 13% or 275 million primarily result from replacement of credit liabilities by deposit funds in one bank of 200 million KM, so deposits have in reality increased only by 0,5% or 57 million KM, and credit liabilities have decreased by 3% or 75 million KM. Deposits, as of 30. 06. 2009., amounted to 10,7 billion KM, and credit liabilities amounted to 1,9 billion KM. Over the observing period, capital of banks have increase by 2% or 29 million KM, amounting to 1,66 billion KM.

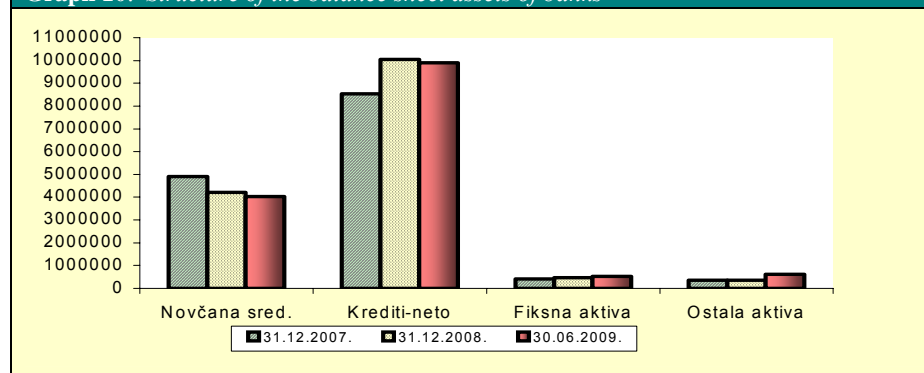
The most significant changes in the assets of banks are the following: decrease of cash funds by 4% or 178 million KM (from 4,21 billion KM to 4,03 billion KM), which is directly related to an increase of placements to other banks by 279 million KM or 308% (from 90 million KM to 369 million KM). Such changes result from decreased credit activities of banks in 2009. Over the first six months of 2009, loans decreased by 1% or 99 million KM, amounting to 10,34 billion KM as of 30.06.2009.

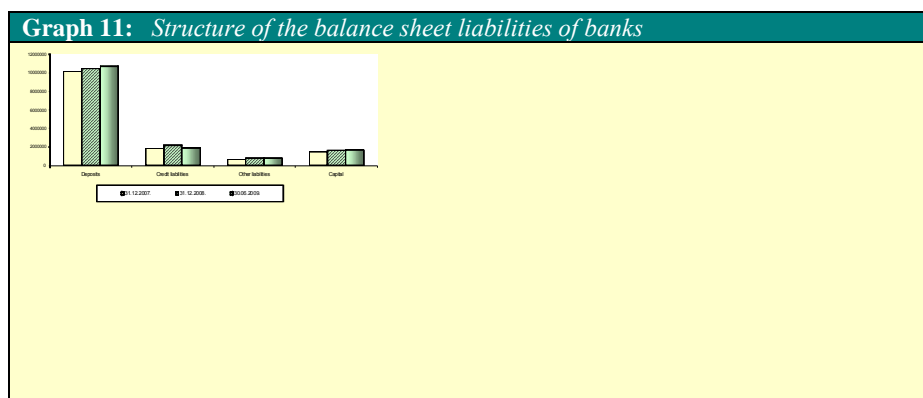
The following table and graph presents the structure of the most significant balance sheet positions of banks.

- in % -

DESCRIPTION	PARTICIPATION		
	31.12.2007.	31.12.2008.	30.06.2009.
ASSETS:			
Cash funds	34,5	27,9	26,7
Securities	0,3	0,2	0,1
Placements to other banks	0,5	0,6	2,4
Loans	62,5	69,2	68,6
Loan loss reserves (LLR)	2,4	2,6	2,9
Loans- net value (loans minus LLR)	60,1	66,6	65,7
Business premises and other fixed assets	2,9	3,1	3,4
Other assets	1,7	1,6	1,7
TOTAL ASSETS	100,0	100,0	100,0
LIABILITIES:			
LIABILITIES			
Deposits	71,8	69,4	71,1
Borrowings from other banks	0,0	0,0	0,0
Loan commitments	13,1	14,4	12,6
Other liabilities	4,5	5,3	5,3
CAPITAL			
Capital	10,6	10,9	11,0
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	100,0	100,0	100,0

Graph 10: Structure of the balance sheet assets of banks





In the structure of banks' balance sheet liabilities, from the aspect of the most significant balance sheet categories, deposits of KM 10,7 billion and participation of 71,1% still represent a dominant source of financing for banks in the Federation of BiH. Participation of credit liabilities have decreased from 14,4% to 12,6%, and participation of capital increased from 10,9% to 11,0%.

Changes of the assets structure, as well as, of the liabilities structure were the following: decreased participation of loans from 69,2% to 68,6% and cash funds from 27,9% to 26,7%, and increased participation of placements to other banks from 0,6% to 2,4%.

Table 12: Cash funds of banks

CASH FUNDS	31.12.2007.		31.12.2008.		30.06.2009.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	311.436	6,4	344.618	8,2	387.137	9,6	111	112
Reserve accounts with CBBiH	2.805.568	57,3	2.228.687	53,0	2.047.613	50,8	79	92
Accounts with deposit institutions in BiH	12.304	0,3	12.341	0,3	14.723	0,4	100	119
Accounts with deposit institutions abroad	1.764.757	36,0	1.621.449	38,5	1.579.976	39,2	92	97
Cash funds in collection process	908	0,0	464	0,0	550	0,0	51	119
TOTAL	4.894.973	100,0	4.207.559	100,0	4.029.999	100,0	86	96

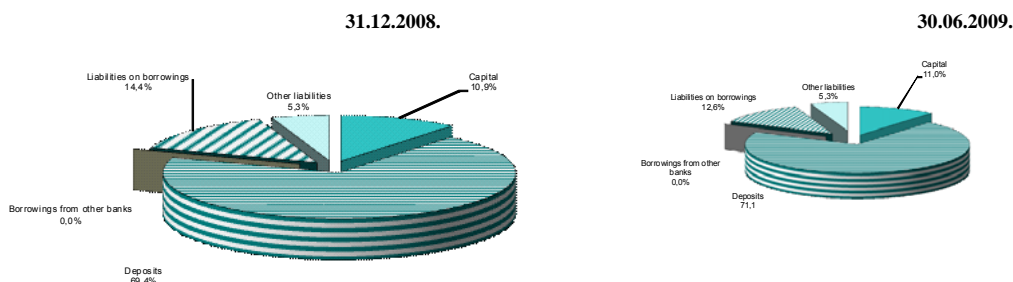
Cash funds of banks on the reserve account of the CBBH, over the first six months of 2009, have decreased by 8% or 181 million KM, amounting to 2,05 billion KM or 50,8% of total cash funds as of 30.06.2009., representing the participation decrease of 2,2 per cent in comparison to the end of 2008. Banks' funds on the accounts with depository institutions abroad have also decreased by 3% or 41 million KM, amounting to 1,58 billion KM or 39,2% of total cash funds as of 30.06.2009. (38,5% at the end of 2008). Banks have increased their cash on hand and in vaults by 12% or 42 million KM. At the end of the observing period, those funds amounted to 387 million KM, representing 9,6% of total cash funds (8,2% at the end of 2008).

Participation of domestic currency in the currency structure of cash funds, over the observing period, have decreased from 57,9% to 57,6%, while participation of funds in foreign currency have increased by the same amount of change.

2. 1. 1. Liabilities

Structure of liabilities (liabilities and capital) in the balance sheet of banks, as of 31.12.2008. and 30.06.2009., is presented in the following graph:

Graph 12: Liabilities structure of banks



Over the first six months of 2009, participation of the two most significant funding sources of banks (deposits and credit liabilities) has changed primarily due to business transaction of replacing credit sources by deposit in one bank (these are the funds of parent bank), that is, participation of deposits has increased from 69,4% to 71,1%, and credit liabilities have decreased from 14,4% to 12,6%.

Deposits participating with 71,1% or 10,7 billion KM still represent the most significant funding source of banks in the Federation of BiH. Second source, per its size, are credit funds obtained by banks through indebtedness with foreign financial institutions. Over the year of 2009, credit funds have decreased by 13% or 275 million KM, of which 200 million KM had been withdrawn and replaced by deposit, and the remaining amount refers to payment of past due liabilities. If subordinate debts of 201 million KM, which were withdrawn by banks to strengthen capital base and capital adequacy, are added to credit liabilities than participation of total credit funds in the sources would be 13,9% (15,8% at the end of 2008).

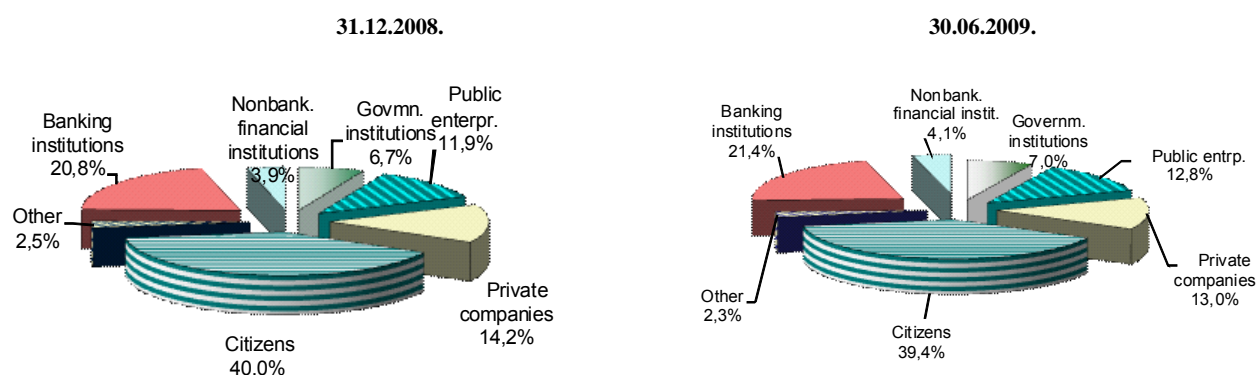
Capital, over the first six months of 2009, has increased by 1% or 29 million KM, of which an inflow of new capital from additional capitalization of two banks amounts to 23 million KM.

As of 30.06.2009., the highest bank commitments were towards the following creditors (seven of total 49), representing 69% of total credit commitments: Raiffeisen Zentralbank Osterreich A.G. (RZB), European Investment Bank (EIB), Central Eastern Europe Finance Agency (CEEFA), ComercBank AG Frankfurt, European fund for Southeast Europe (EFSE), Bank Polska OPIEKI, and Council of Europe Development Bank.

According to the data submitted by banks, out of total deposits as of 30.06.2009, only 5% were deposits collected by organizational units of banks from the Federation of BiH operating in Republic Srpska and Brčko District.

- in 000 KM-

SECTORS	31.12.2007.		31.12.2008.		30.06.2009.		INDEX	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	1.171.095	11,5	701.520	6,7	747.770	7,0	60	107
Public enterprises	1.126.838	11,1	1.245.793	11,9	1.368.750	12,8	111	110
Private enterprises and assoc.	1.554.693	15,3	1.490.130	14,2	1.396.173	13,0	96	94
Non-profit. organizations	1.548.619	15,2	2.172.860	20,8	2.292.718	21,4	140	106
Banking institutions	334.575	3,3	403.295	3,9	435.600	4,1	121	108
Citizens	4.202.161	41,2	4.181.882	40,0	4.216.961	39,4	100	101
Other	252.996	2,4	266.361	2,5	261.078	2,3	105	98
TOTAL	10.190.977	100,0	10.461.841	100,0	10.719.050	100,0	103	102

Graph 13: Deposit structure by sectors

Over the first six months of 2009, adverse changes of the last 2008 quarter in the segment of deposits sources were stopped, which is especially important for citizen deposits, which after downfall of 1% or 40 million KM over the three months of 2009, recorded a slight increase in the second quarter of 2%, so for the six months the recorded increase was 1% or 35 million KM. At the end of the observing period, citizen deposits in the amount of 4,22 billion KM and participation of 39,4% in total deposits, citizen deposits still represent the major funding source of banks in the Federation of BiH.

Slight recovery and moderate growth are present in deposits of the sector of government institutions (7% or 46 million KM) and public companies (10% or 123 million KM), which is significant for these two sectors due to strong downfall in the last quarter of the past year. The government institutions deposits at the end of the first six months of 2009 amounted to 748 million KM or 7% of total deposits (0,3 per cent higher than at the end of 2008), while public enterprises record 1,37 billion KM, representing 12,8% of total deposits (increase of 0,9 per cent).

However, under strong influence of crisis and adverse consequences in 2009, deposit segment is apparent in the sector of private companies whose deposits decreased by 6% or 94 million KM (from 1,49 billion KM to 1,4 billion KM), and their participation in total deposits decreased from 14,2% to 13%.

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

Moderate growth of 6% or 120 million KM was recorded by banking institutions' deposits that in the amount of 2,3 billion KM and participation of 21,4% are the second rated in deposit sources of banks by sectors. Following this increase, the banking institutions' deposits, as of 30.06.2009., are higher by 391 million KM than credit liabilities, which are the second rated funding source, after deposits, of banks in the Federation of BiH.

It should be emphasized that 97% or 2,23 billion KM of banking institutions' deposits refers to deposits of banks-members of groups (primarily shareholders). Financial support of the groups (banking and nonbanking financial institutions) exists through deposits in 20 banks of the Federation of BiH in the amount of 2,27 billion KM, which is concentrated in the four largest banks (88%), with one bank representing 44% of total deposits received from the group. In this way, domestic banks-members of the groups receive financial support and have secured inflow of new funding sources. On the other hand, this is creating higher concentrations in the sources, which is directly correlated with the increase of liquidity risk and reliance on risk management at the group level such bank belongs to, through impact on profitability, since these are very expensive sources. If credit liabilities and subordinate debts (loans and deposits in supplementary capital) are added to these funds, the financial support of the member banks received from the group becomes higher, amounting to 3,35 billion KM or 22% of total liabilities of the banking sector as of 30.06.2009.

As part of the activities taken to mitigate an impact of the global financial crisis, the FBA (in October 2008), apart from other additional measures, asked the banks-members of the groups to submit a confirmation from their owners that the existing sources of funds received from their groups (loans and deposits) would not be withdrawn, as well as an information on short term planning from their owners in order to calm down the pressure on liquidity and maintain liquidity of their banks in the Federation of BiH.

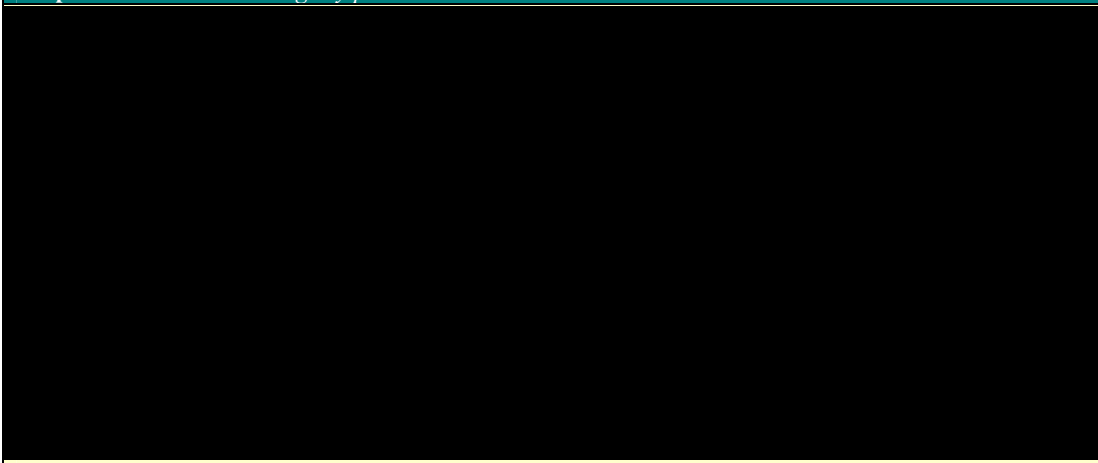
Under the support of IMF and other financial institutions, the FBA has been involved in activities related to signing of the Memorandum of Understanding with parent-banks from the European Union countries whose daughter-banks operate in the territory of BiH, so called "Vienna Initiative".

Currency structure of deposits, at the end of the first six months of 2009, was the following: deposits in foreign currencies (with dominant participation of EURO) in the amount of 6,6 billion KM participated with 61,6% (60% at the end of 2008) and deposits in domestic currency in the amount of 4,1 billion KM participated with 38,4% (40% at the end of 2008).

Saving deposits, as the most significant segment of deposits and financial potential of banks, following many years of stable and continuous growth, have decreased in the fourth quarter of 2008 by 11% or 494 million KM. The most significant withdrawal was recorded in October. After this period, the condition has stabilized.

Following slight downfall of savings in the first quarter of 2009 of 0,9% or 38 million KM, the second quarter recorded an increase of 1,8% or 73 million KM, resulting by the semi-annual growth rate of 0,9% or 35 million KM and savings amount of 4,07 billion KM.

BANKS	AMOUNT (in 000 KM)			RATIO	
	31.12.2007.	31.12.2008.	30.06.2009.	3/2	4/3
1	2	3	4	5	6
State	30.469	32.481	32.431	107	100
Private	4.086.820	4.003.184	4.038.479	98	101
TOTAL	4.117.289	4.035.665	4.070.910	98	101

Graph 14: New citizen savings by periods

The largest three banks hold 72,7% of savings, while participation of eight banks is respectively below 1%, representing only 3,7% of total savings in the system.

Savings deposits in local currency represent 30% and in foreign currency 70% of total savings amount.

Table 15: Maturity structure of citizen saving deposits by periods

BANKS	AMOUNT (in 000 KM)						RATIO	
	31.12.2007.		31.12.2008.		30.06.2009.		3/2	4/3
1	2	3	4	5	6			
Short term saving deposits	2.174.863	52,8%	2.119.669	52,5%	2.030.637	49,9%	97	96
Long term saving deposits	1.942.426	47,2%	1.915.996	47,5%	2.040.273	50,1%	99	106
TOTAL	4.117.289	100,0 %	4.035.665	100,0 %	4.070.910	100,0 %	98	101

Although relative and nominal changes in savings, over the observing period, has been insignificant, the maturity structure has still changed, that is, the increasing trend of long term savings' participation has continued. Such changes result from long term savings' increase of 6% or 124 million KM, and deterioration of short term savings by 4% or 89 million KM, so their participation remained at the same percentage of 50% as of 30.06.2009.

Long term continuous growth and positive trends in the savings segment of banks in the F BiH result, on the one hand, from strengthening of safety and stability of the overall banking system, giving the key importance to the existence of functional, effective and efficient banking supervision conducted by the FBA, and, on the other hand, deposit insurance system with the main purpose to increase stability of the banking, that is, financial sector and protection of savers. In December 2008, with purpose to preserve citizens' trust in safety and stability of the banking system in BiH, the amount of insured deposit increased to KM 20.000. 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 97% of total deposits and 98% of total savings deposited in these banks. As for remaining banks, four of them cannot apply to be accepted since they do not qualify with the criteria prescribed by the Deposit Insurance Agency: two state owned banks due to their ownership structure, one private bank with participation of state capital exceeding 10%, and one private bank under provisional administration, while two banks are currently in process of acceptance to the insurance program. When an initiative made by the Deposit Insurance Agency gets to be realized that has been accepted by the Council of Ministers, banks with private ownership over 10% will get a chance to apply to become members of the

deposit insurance. At the same time, there is an initiative made to raise the insured deposit to 50.000 KM, and all the activities undertaken have been directed to reduce an impact of the global economic crisis on the banking and the entire economic system of the FBiH and BiH.

2.1.2. Capital – strength and adequacy

Capital¹⁴ of banks in the FBiH, as of 30.06.2009., amounted to two billion KM.

-in 000 KM-

Table 16: Regulatory capital

DESCRIPTION	31.12.2007.	31.12.2008.	30.06.2009.	RATIO	
				3/2	4/3
1	2	3	4	5	6
STATE BANKS					
1. Core capital before reduction	145.802	44.852	44.884	31	101
2. Offsetting items	2.018	2.752	3.500	136	127
a) Core capital (1-2)	143.784	42.100	41.384	29	98
b) Supplementary capital	6.017	1.335	1.247	22	93
c) Capital (a + b)	149.801	43.435	42.631	29	98
PRIVATE BANKS					
1. Core capital before reduction	1.316.424	1.610.692	1.680.992	122	104
2. Offsetting items	124.137	170.030	160.424	137	94
a) Core capital (1-2)	1.192.287	1.440.662	1.520.568	121	106
b) Supplementary capital	531.057	574.370	490.183	108	85
c) Capital (a + b)	1.723.344	2.015.032	2.010.751	117	100
Total					
1. Core capital before reduction	1.462.226	1.655.544	1.725.876	113	104
2. Offsetting items	126.155	172.782	163.924	137	95
a) Core capital (1-2)	1.336.071	1.482.762	1.561.952	111	105
b) Supplementary capital	537.074	575.705	491.430	107	85
c) Capital (a + b)	1.873.145	2.058.467	2.053.382	110	100

Over the first six months of 2009, capital¹⁵ remained at almost the same level as at the end of 2008. More specifically, it has been decreased by only five million KM, although there were some changes in core and supplementary capital, as reflected to the structure of regulatory capital. The core capital has been increased by 5% or 79 million KM, and supplementary capital has decreased by 15% or 84 million KM.

The core capital growth is primarily based on a distribution of the 2008 profit to the capital. Following implementation of the legal procedure related to adoption of a decision by the assembly of banks concerning distribution of an audited profit, the profit generated in 2008 (five banks reported loss of 39 million KM) in the amount of 88 million (15 banks) was distributed 94,3% to the core capital (reserves or retained-undistributed profit of 88,6% and 5,7% to cover losses). Four banks have made decision to pay out dividends in total amount of five million KM, representing approximately 5,7% of the profit.

The core capital growth, aside from the mentioned, has been significantly influenced by an increase of the shareholders' capital based on an inflow of new, green capital – additional capitalization, in the amount of 23 million KM in two banks.

Offsetting items (that reduce the core capital) have decreased by nine million KM, primarily based on a partial coverage of the uncovered losses of 30 million KM, along with an increase of current loss in the amount of 21 million KM.

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

¹⁵ 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.

Supplementary capital has decreased by 84 million KM, with major changes in the structure: the 2008 profit of 75 million KM has been moved to the core capital, general loan loss reserves have decreased by 14 million KM, and subordinate debts by 10 million KM.

The mentioned changes have not significantly influenced the structure of regulatory capital, so participation of core capital has increased from 72% to 76%, while supplementary capital has decreased from 28% to 24%.

Net capital, as well as the regulatory capital, remained at almost the same level, that is, it has been decreased by only five million KM, amounting to two billion KM as of 30.06.2009.

Capitalization rate of banks, expressed as a capital to assets ratio, as of 30.06.2009., was 13,2%, representing a decrease of only 0,1 per cent compared to the end of 2008.

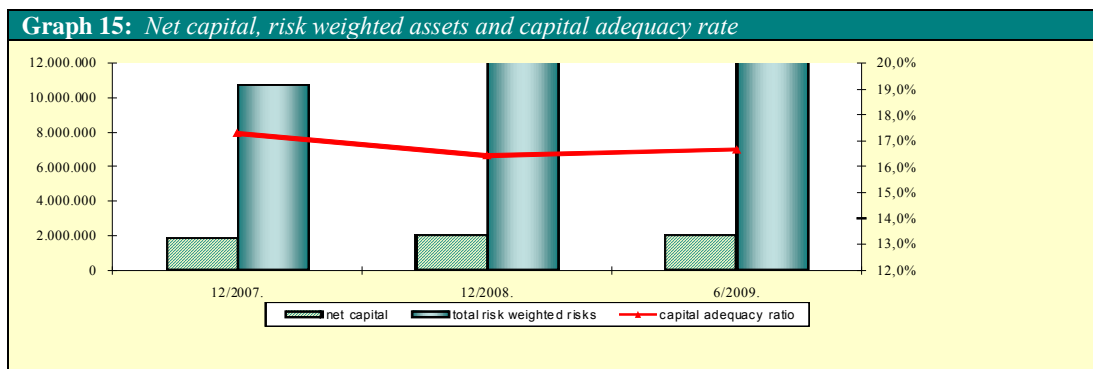
One of the most significant indicators of capital strength and adequacy¹⁶ of banks is capital adequacy ratio calculated as ratio of net capital and risk weighted assets. As of 30.06.2009., this ratio at the banking system level was 16,6%, which is higher by 0,2 per cent than at the end of 2008. The reason was a decrease of total risk weighted risk, primarily of the credit one, from 12,4 billion KM to 12,2 billion KM, that is, 2% or 195 million KM. Reason to this was primarily a decrease of risky off-balance sheet items, and, to some extent, downfall of credit activities of banks in 2009 and of the overall credit portfolio.

In process of conducting supervision of operations and financial positions of banks in the FBiH, as regulated by the Law, the FBA issues orders to banks to undertake actions for strengthening of capital base and provision of adequate capital in order to improve safety of both banks individually and the entire banking system, according to the level and profile of existing and potential exposure to all risks relevant to the banking operations. One of the measures is also a requirement imposed on banks not to distribute the profit they generate to pay out dividends, but to rather strengthen their capital base.

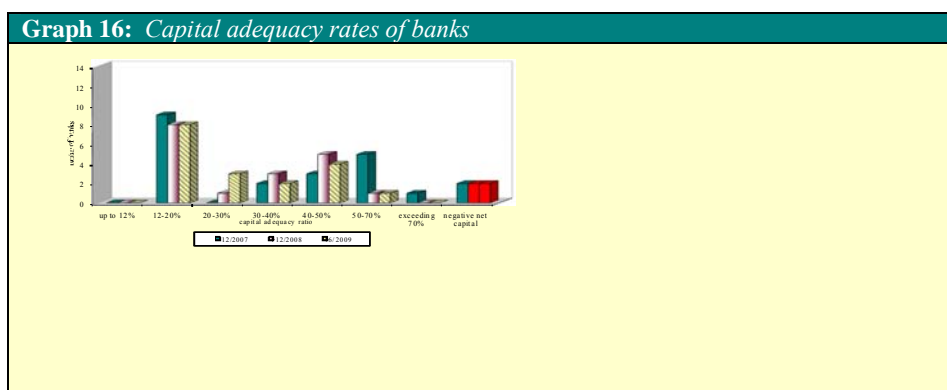
- 000 KM-

O P I S	31.12.2007.	31.12.2008.	30.06.2009.	RATIO	
				3/2	4/3
1	2	3	4	5	6
1. NET CAPITAL	1.857.109	2.042.431	2.037.346	110	100
2. RISK WEIGHED ASSETS AND CREDIT EQUIVALENTS	10.740.880	12.301.441	12.088.649	115	98
3. POR (RISK WEIGHTED OPERATING RISK)	-	130.975	148.881	-	114
4. TOTAL RISK WEIGHTED RISKS (2+3)	10.740.880	12.432.416	12.237.530	116	98
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/4)	17,3%	16,4%	16,6%	95	102

¹⁶ The Law prescribes minimum capital adequacy rate of 12%.



Implementation of Decision on Minimum Standards for Operating Risk Management in banks became effective as of 31.12.2008.¹⁷ Banks have been required to add the amount of risk weighted operating risk to the risk of risk weighted assets and credit equivalents that are to establish minimum capital adequacy as hedging from operating risk losses. As of 30.06.2009., capital requirement as coverage for operating risk for banks in the Federation of BiH, calculated in accordance with the methodology prescribed, amounted to 18 million KM, while the operating risk weight was KM 149 million, which has additionally reduced the net capital rate to smaller degree, that is, the capital adequacy rate (by only 0,3 per cent).



The global financial crisis effects have not adversely influenced the capital adequacy rate that following additional capitalization and an increase from the 2008 profit has increased by 1,4 per at the banking system level, if compared to 30.09.2008., amounting to 16,6% as of 30.06.2009.

Of total 20 banks in the FBiH, as of 30.06.2009., capital adequacy rate of 18 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 10 banks has been lower than at the end of 2008, two banks recorded the same rate, while in six banks capital adequacy has been better than at the end of 2008, of which in two banks this was the result of additional capitalization realized in the second half of 2009.

Preview of capital adequacy rates of 18 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 the three largest banks from 13,1% to 15%,
- Nine banks had the rate between 21% and 50%,

¹⁷ "Official Gazette of the FBiH", number 6/08.

- One bank 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, especially due to changes in business and operating environment under which banks in the Federation operate, because of the global financial crisis expansion to the area of our country and adverse effects this crisis may have on the banking sector and the entire economy of BiH. 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)¹⁸ of banks in the FBiH, as of 30.06.2009., amounted to 17,9 billion KM, which is lower by insignificant 1% or 184 million KM than at the end of 2008. Gross assets¹⁹ amounted to 15,5 billion KM, remaining at almost the same level as of the previous year.

-in 000 KM-

DESCRIPTION	AMOUNT (in 000 KM)						RATIO	
	31.12.2007.	Struct. %	31.12.2008.	Struct. %	30.06.2009.	Struct. %	4:2	6:4
1.	2	3	4	5	6	7	8	9
Loans	8.660.761	59,6	10.200.089	65,9	9.937.245	64	118	97
Interests	53.512	0,4	59.564	0,4	64.846	0,4	111	109
Past due claims	210.585	1,4	231.890	1,5	396.045	2,6	110	171
Claims for paid guarantees	3.638	0,0	2.353	0,0	1.949	0,0	65	83
Other placements	61.910	0,4	39.393	0,3	39.533	0,3	64	100
Other assets	5.552.875	38,2	4.938.021	31,9	5.080.614	32,7	89	103
TOTAL ASSETS	14.543.281	100,0	15.471.310	100,0	15.520.232	100,0	106	100
OFF-BALANCE SHEET	2.453.214		2.582.093		2.349.595		105	91
ASSETS WITH OFF-BALANCE SHEET	16.996.495		18.053.403		17.869.827		106	99
RISK ASSETS WITH OFF-BALANCE SHEET	11.624.445		13.304.610		13.012.595		114	98
General loan risk and Potential loan losses	409.833		461.839		507.424		113	110
General and Special loan loss reserves already established	409.895		461.687		507.085		113	110

¹⁸ Assets defined by Article 2 of Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks.

¹⁹ Data source: Report on classification of balance sheet assets and off-balance sheet items of banks.

Non-risk items amount to 4,9 billion KM or 27% of total assets with off-balance sheet, and they increased by 2% in comparison to the end of 2008. On the other hand, risk assets with off-balance sheet items amount to 13 billion KM, and they decreased by 2% or 292 million KM over the first six months of 2009.

A spill over of the global economic crisis to the area of BiH in the fourth quarter of 2008 has reflected on this business segment of banks and their key activity, which is lending. In the last quarter of 2008, banks have significantly decreased and limited growth of their placements, so the increase was insignificant 1% or 59 million KM, so, over the first six months of 2009, credit placements²⁰ recorded a downfall of 1% or 99 million KM. As of 30.06.2009., these items amounted to 10,3 billion KM and their participation in the assets was 68,6%. It is obvious that banks, according to their business plans, record a minimum growth of credit portfolio in 2009, while the new placements will be financed from the repayment of the prior placements. Limiting factors to the credit growth, on the one hand, is availability of the new sources, that is, their increase, and, on the other hand, an increasing adverse impact of the crisis to the overall economy in BiH, and deterioration of condition in the real sector. All the mentioned leads to a conclusion that financial crisis and recession of domestic economy has a significant influence to this business segment of the banking sector, so it should be expected in the upcoming period to see more increasing adverse impacts and effects, especially through a deterioration of the credit portfolio quality, increase of bad placements, and consequently credit losses, which will have an adverse reflection to the financial result of banks.

The FBA has been involved in the activities aimed at signing of the Memorandum of Understanding with parent-banks from the European Union countries whose daughter-banks operate in the territory of BiH, so called „Vienna Initiative“, which will secure additional financial funds for lending to the real sector, since any deterioration of the economy could adversely reflect to the rating of daughter-banks, and consequently weaken the rating of parent banks.

Although an impact of the crisis to the credit portfolio of banks in the Federation was less obvious in the first quarter of 2009, it could be stated it was more expressed in the second quarter due to a deepening of the crisis and deterioration of entire economic condition in BiH. This was primarily reflected through an increase of past due claims and growth rate of 17% in the last quarter of 2008, while the growth over the first six months of 2009 was 71%, and an increase of participation in total loans from 2,3% to 3,9%.

Three largest banks in the FBiH with credit amount of seven billion KM have participation of 67% in total loans at the system level.

In the aspect of sectors to which banks originate their loans, at the end of the first six months of 2009, loans originated to private companies remained at almost the same level as of 31.12.2008., amounting to 4,8 billion KM or 46,8% of total loans. Loans originated to citizens have decreased by 3% or 168 million KM, amounting to five billion KM, representing participation of 48,2%. According to the data submitted by banks as of 30.06.2009., in the aspect of loan structure originated to citizens (based on the purpose), do not record any change over longer period of time, that is, the highest participation of approx. 71,7% have loans originated to finance consumer goods²¹, 24,3% have housing loans, and remaining 4% have loans for SMEs and agriculture.

²⁰ Short term and long term loans, past due claims, and claims based on paid-called for payment guarantees.

²¹ Including card based operations.

As for other sectors with total participation of 5%, major change has been recorded with government institutions. However, in order to overcome the existing financial crisis, Government of the FBiH has credit indebtedness with four banks in the FBiH, so loans to the government institutions have increased by 198% or 153 million KM

Three largest banks in the system financed 67% of total loans originated to citizens, which remained at the same level as at the end of 2008, and the other sector recorded two per cent lower than the previous year.

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

-in 000 KM-

Table 19: Structure of loans per sectors								
SECTORS	31.12.2007.		31.12.2008.		30.06.2009.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	32.556	0,4	76.964	0,7	229.550	2,2	236	298
Public enterprises	211.465	2,4	175.424	1,7	189.607	1,8	83	108
Private enterprises and assoc.	3.998.141	45,0	4.881.525	46,8	4.836.523	46,8	122	99
Banking institutions	26.768	0,3	5.805	0,1	7.271	0,1	22	125
Non-banking financial instit.	114.084	1,3	105.352	1,0	63.236	0,6	92	60
Citizens	4.461.965	50,3	5.146.919	49,3	4.978.746	48,2	115	97
Other	30.005	0,3	42.343	0,4	30.306	0,3	141	72
TOTAL	8.874.984	100,0	10.434.332	100,0	10.335.239	100,0	118	99

Currency structure of loans has also been unchanged for longer period: loans financed with currency clause had the highest participation of 74% or 7,7 billion KM, loans in domestic currency of 24% or 2,5 billion KM, while loans in foreign currency had the lowest participation of only 2% or 180 million KM.

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 categories²² and off-balance sheet items are presented in the following table:

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

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

Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in%)									RATIO	
	31.12.2007.			31.12.2008.			30.06.2009.			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
A	9.876.208	85,0	197.719	11.534.782	86,7	230.749	10.838.557	83,3	216.685	117	94
B	1.478.711	12,7	105.446	1.446.504	10,9	103.385	1.773.856	13,6	135.238	98	123
C	143.658	1,2	35.717	165.309	1,2	40.558	217.390	1,7	54.819	115	131
D	122.003	1,1	67.086	154.168	1,2	83.300	178.945	1,4	96.835	126	116
E	3.865	0,0	3.865	3.847	0,0	3.847	3.847	0,0	3.847	99	100
Risk assets (A-E)	11.624.445	100,0	409.833	13.304.610	100,0	461.839	13.012.595	100,0	507.424	114	98
Nonrisk assets²³	5.372.050			4.748.793			4.857.232			88	102
TOTAL	16.996.495			18.053.403			17.869.827			106	99
OFF-BALANCE SHEET ITEMS											
	430.069	90,1		429.419	89,0		445.419	89,0		99	104
Susp. interest	46.929	9,9		54.479	11,0		54.617	11,0		116	100
TOTAL	476.998	100,0		483.898	100,0		500.036	100,0		101	103

Risk assets with off-balance sheet items (A-E) amounted to 13 billion KM, and, over the first six months of 2009, these items decreased by 2% or 292 million KM. Non-risk items amounted to 4,9 billion KM. These items increased by 2%, if compared to the end of 2008.

If an analysis of the risk assets quality is performed, we see, over the observing period, a stronger downfall of asset quality and its deterioration as an impact of the economic crisis and an increase of nonpayable claims, that is, delinquency of customers to pay past due loan liabilities. Classified assets (B – E), in comparison to the end of 2008, recorded a significant growth of 23% or 404 million KM (9% or 159 million KM in the first quarter), primarily due to an increase of special mentioned placements (category B) of 23% or 327 million KM, while nonperforming assets (C-E) increased by 24% or 77 million KM. However, over the same period, the assets were charged off (write off to the off-balance sheet) in the amount of 48 million KM. Classified assets, as of 30.06.2009., amounted to two billion KM, and nonperforming assets were 400 million KM. Good assets (category A) decreased by 6% or 696 million KM, amounting to 10,8 billion KM.

As result of the mentioned, the indicators of asset quality expressed as ratio, that is, participation of individual categories in risky assets have deteriorated in comparison to the end of 2008. This is raising a concern, especially since more adverse effects are expected to happen over the upcoming quarters. The classified assets to risky assets ratio has deteriorated by 3,4 per cent due to an increase of classified assets (23%) and downfall of risky assets (2%) in comparison to the end of 2008, which is currently representing 16,7%.

If an analysis is performed of only the ratio and trend of nonperforming assets and risk assets, as of 30.06.2009., this ratio was 3,1%, which is still relatively low ratio, and, if compared to the end of 2008, it is higher by 0,7 per cent. However, if we take into account that participation of category B in the risk assets is 13,6% (10,9% at the end of 2008), raising doubt that portion of placements reported under this category deteriorated in quality and should be categorized as nonperforming assets, that is, some banks still practice not to timely establish adequate loan loss provisioning (as confirmed through on-site examinations, resulting by insufficient loan loss

²³ 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%.

reserves), we could make conclusion that the assets quality still have a decreasing trend. This represents a key importance that banks more realistically evaluate quality of their placements and establish adequate loan loss reserves, especially due to the fact that under an impact of the crisis delinquency concerning payment of past due claims should increase, provisioning should increase, and so earnings of banks should decrease, so portion of bad loans is hidden through the highest increase of category B.

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

Table 21: Classification of loans originated to citizens and legal entities

Classification categories	AMOUNT (in 000 KM) AND PARTICIPATION (in %)												RATIO
	31.12.2008.						30.06.2009.						
	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	Partic. %	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	Partic. %	
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14
A	4.825.655	93,76	4.125.626	78,03	8.951.281	85,79	4.525.646	90,90	3.902.247	72,85	8.427.893	81,54	94
B	203.799	3,96	971.260	18,37	1.175.059	11,26	285.454	5,73	1.232.201	23,00	1.517.655	14,68	129
C	71.580	1,39	84.803	1,60	156.383	1,50	107.452	2,16	105.318	1,97	212.770	2,07	136
D	45.885	0,89	105.724	2,00	151.609	1,45	60.194	1,21	116.727	2,18	176.921	1,71	117
E	0	0,00	0	0,00	0	0,00	0	0,00	0	0,00	0	0,00	0
TOTAL	5.146.919	100,00	5.287.413	100,00	10.434.332	100,00	4.978.746	100,00	5.356.493	100,00	10.335.239	100,00	99
Classified loans B-E	321.264	6,24	1.161.787	21,97	1.483.051	14,21	453.100	9,07	1.454.246	27,17	1.907.346	18,45	129
Nonperforming loans C-E	117.465	2,28	190.527	3,60	307.992	2,95	167.646	3,37	222.045	4,14	389.691	3,77	126
Loan structure		49,33		50,67		100,00		49,15		50,85		100,00	
Participation by sectors in classified loans, nonperforming loans and category B:													
Classification B-E		21,66		78,34		100,00		23,75		76,25		100,00	
Nonperforming C-E		38,14		61,86		100,00		43,02		56,98		100,00	
Category B		17,34		82,66		100,00		18,80		81,20		100,00	

As of 30.06.2009., of total loans originated to legal entities in the amount of 5,4 billion KM, 1,4 billion KM or 27% was classified in categories B to E (1,2 billion KM or 22% at the end of 2008), while of total loans originated to citizens in the amount of 5 billion KM, classification categories B to E represent 453 million KM or 9% (321 million KM or 6,2% at the end of 2008).

Of loans finance to legal entities, 222 million KM was classified as nonperforming loans or 4% of total loans originated to this sector (as of 31.12.2008., these items amounted to 190 million KM or 3,6%). Nonperforming loans, in the sector of citizens, amounted to 168 million KM or 3,4% of total loans originated to this sector (as of 31.12.2008., these items amounted to 117 million KM or 2%), as result of high growth rate of 43% over the observing period.

The observed indicators of the quality of loans originated to legal entities and citizens, as well as already stated indicators of the quality of total risky assets, show a decreasing trend in 2009, especially in the second quarter, which is primarily a result of growth in categories B and C in both sectors, especially in the sector of citizens (in the sector of citizens category B 48%, category C 50%, and the legal entities 25% and 24% respectively), resulting by an increase of participation , primarily of category B (in citizens from 3,96% to 5,73%, and in legal entities from 18,37% to 23,00%), as well as other indicators for those two sectors and the entire loan portfolio have deteriorated.

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.

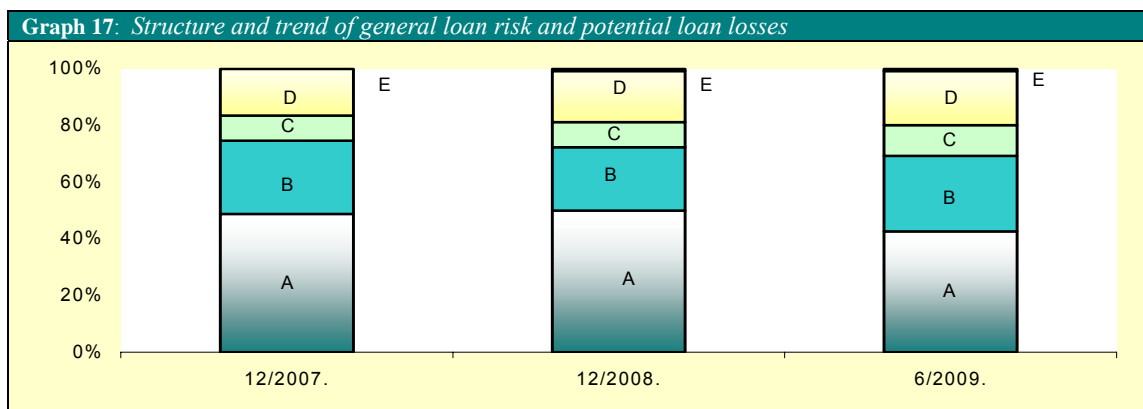
-000 KM-

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 31.12.2008.	95.693	8.860	331.586	45.619	427.279	54.479
<i>Changes in 2009:</i>						
- new charge offs (current year)	31.943	4.462	16.211	3.250	48.154	7.712
- payments made in the current year	8.571	2.184	12.815	2.841	21.386	5.025
- permanent charge off	860	91	9.452	2.458	10.312	2.549
Balance as of 30.06.2009.	118.205	11.047	327.670	43.570	445.875	54.617

Balance of the charged off assets, as of 30.06.2009., was 446 million KM, representing an increase of 4%, if compared to the end of 2008, while balance of suspended interest remained at the same level (54 million KM).

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	
	31.12.2007.		31.12.2008.		30.06.2009.		4/2	6/4
	2	3	4	5	6	7	8	9
A	197.719	48,2	230.793	50	216.685	42,7	117	94
B	105.446	25,7	103.385	22,4	135.238	26,6	98	131
C	35.717	8,7	40.558	8,8	54.819	10,8	114	135
D	67.086	16,4	83.300	18,0	96.835	19,1	124	116
E	3.865	1,0	3.847	0,8	3.847	0,8	100	100
TOTAL	409.833	100,0	461.883	100,0	507.424	100,0	113	110



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

Based on an analysis of the established provisions, in total amount and by classification categories, if compared to the end of 2008, general loan risk and potential loan loss provisions have increased by 10%, amounting to 507 million KM, while relative ratio of risky assets and off-balance sheet items has increased from 3,47% to 3,9% compared to the end of 2008. As of 30.06.2009., banks in average allocated for category B 7,6%, for category C 25,2%, category D 54% and E 100%.

The asset quality analysis, that is, the loan portfolio analysis of individual banks, as well as on-site examinations at banks, indicate loan risk as still dominant risk with majority of banks, raising a concern that some banks still have inadequate management practices, that is, evaluation, measuring, monitoring, and control of loan risk and assets classification, which was determined in on-site examinations through significant amount of insufficient loan loss reserves that banks have established based on the orders issued by the FBA. However, this is not adding to an essential resolution of the problem.

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

Transactions with related entities

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

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

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

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

-000 KM-

Table 24: Transactions with related entities					
Description	ORIGINATED LOANS ²⁴			RATIO	
	31.12.2007.	31.12.2008.	30.06.2009.	3/2	4/3
	1	2	3	4	5
Shareholders over 5% of voting rights, subsidiaries and other related enterprises	26.083	26.823	21.124	103	79
Supervisory Board and Audit Board members	145	304	349	210	115
Bank Management	2.355	2.315	2.201	98	95
TOTAL	28.583	29.442	23.674	108	80
Potential and undertaken off-balance sheet liabilities	1.936	10.304	10.653	532	103

While level of transactions with the mentioned categories of related entities that are subject to reporting had increased in 2008, especially of potential and undertaken liabilities based on guarantees issued for “sister” leasing companies in BiH (two banks), over the first six months of 2009, a decrease was recorded of potential liabilities, primarily due to expiration of the mentioned guarantees of one related entity. Based on the presented data, we could conclude this is a small amount of loans-guarantees operations with related entities, and the level of risk is low. The FBA pays special attention (in on-site examinations) to banks' operations with related entities, especially in assessing identification system and monitoring of risk exposure to related entities operations. The FBA on-site examiners issue orders for elimination of determined weaknesses within certain deadlines and initiate violation procedures. Part of these 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 in this segment has improved.

2.2. Profitability

According to the income statement data, banks in the Federation of BiH, at the end of the first six months of 2009, realized a positive financial result-profit in the amount of 14,8 million KM, which at almost the same level as at the end of the first quarter of 2009 (14,6 million KM). If compared to the same period last year, this represents a significant decline of 49% or 14,2 million KM, that is, it represents 30% of the profit generated in 2008.

Positive financial result of KM 90,1 million was generated by 16 banks, which is higher by 23,7% or KM 28 million than in the same period in 2007, while four banks reported loss of KM 38,2 million, which is higher by 3,7 times or KM 30,0 million than prior year.

It should be noted that proportion of total financial result to the comparative period last year has been influenced by exclusion of Investment Bank of the Federation of BiH from the system of commercial banks, which was reregistered, based on the Law on Development Bank of the FBiH, to Development Bank of the FBiH (for the first six months of 2008 profit of this Bank was 1,8 million KM), as well as a profit capitalization of one bank in the amount of 1,8 million KM as of 01.03.2008. (transfer to the capital account), which was merged to another bank as of 29.02.2008.

High oscillations in the presented financial results at the sector level for the comparative periods over the past three years have been subject to the stock exchange movements related to changes

²⁴ Apart from loans, it includes other claims, deposited funds and the placements to shareholders (financial institutions) exceeding 5% of voting rights.

of prices in securities trading, such as high profit in 2007, that is, high expenses in 2008, while an impact of such changes in 2009 has been at minimum, or almost insignificant.

More detailed information is presented in the following table:

-000 KM-

Table 25: Financial result reported: profit/loss

Date/Description	At the system level		State banks		Private banks	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
30.06.2007.						
Loss	-2.224	4	-	-	-2.224	4
Profit	83.265	19	3.146	3	80.119	16
Total	81.041	23	3.146	3	77.895	20
30.06.2008.						
Loss	-24.324	6	-3	1	-24.321	5
Profit	53.279	15	2.219	2	51.060	13
Total	28.955	21	2.216	3	26.739	18
30.06.2009.						
Loss	-20.800	7	-756	1	-20.044	6
Profit	35.584	13	401	1	35.183	12
Total	14.784	20	-355	2	15.139	18

Similar to other segments, this segment has also encountered concentrations: of total profit generated (36 million KM), three banks in the system reported 49% or 30 million KM, realizing assets participation in the banking system of 55,9%, while total loss of 21 million KM referred to seven banks (six private banks and one state owned), of which 70% or 15 million KM was generated by only two banks. Analytical data indicate that total of 12 banks reported worst financial result (by 25 million KM), while eight banks reported better result (by 12 million KM).

The financial result of state owned banks does not have any significant influence to the overall profitability of the banking sector.

An analysis of profitability at the system level, taking into account that the financial result has been mainly under an influence of the financial result-profit/loss realized by one bank, that was, as stated, primarily related to securities trading, along with changes in number of banks (exclusion from the system of one bank), a conclusion should be that profitability has declined over the past three years, with a significant deterioration in 2009. On the one side, the reason would be a slower growth of net interest income, as result of faster growth of interest expenses than interest income, along with decreased credit activities in 2009. The level of operating income, following period of stagnation, shows a decreasing trend for the observing period. As result of the mentioned, there is an increase of total income at minimum rate, which is insufficient to cover a sufficient amount of profit (after coverage of non-interest bearing expenses) with majority of banks that has primarily been an internal source of capital base strengthening of banks.

On the other hand, loan loss provisions are high, recording a significant increase in 2009 (increasing credit risk and decreasing credit portfolio quality primarily), followed by increasing employees and business premises and fixed assets costs (expansion of organization units network), although in 2009 total operating expenses remained at almost the same level as in the first six months of 2008.

At the system level, total income was realized in the amount of 401 million KM, which is slightly higher than in the same period last year (1% or four million KM). Total noninterest bearing expenses were 385 million KM, and growth rate was 6% or 21 million KM. If compared to the same period in 2008/2007, it represents a decline of seven index points.

An analysis of the structure of total income and changes in the most significant categories indicates a positive trend, with a growth rate in interest-bearing income of 5%, and further increase of its participation in the structure of total income (from 62,9% to 65,2%), while participation of operating income has decreased from 37,1% to 34,8%.

Total interest income amounts to 470 million KM, and, if compared to the same period last year, it shows an increase of 5% or 23 million KM, and its participation in total income increased from 112,6% to 117,1%. While loan interest income increased by 14% or 53 million KM (average loan amount has raised by 11%), amounting to 431 million KM or 107,4% of total income, interest-bearing account income with depository institutions has recorded a significant downfall of 64% or 29 million, and their participation has decreased from 11,3% to 3,9%.

On the other hand, if compared to the growth rate of interest income (5%), interest expenses have recorded a slightly faster growth of 6%, but in absolute amount this is a smaller amount (11 million KM). Interest expenses amount to 208 million KM, and their participation in the structure of total income has increased from 49,7% to 51,9%. In the structure of interest expenses, an emphasis should be given to a high growth of 15% or 20 million KM of interest-bearing expenses on deposits. These expenses, amounting to 155 million KM, participate in total income of 38,6%, which is higher by 4,7 per cent than in the first six months of 2008. Interest bearing expenses on borrowings have decreased by 20% or 10 million KM, and their participation also decreased from 13,1% to 10,4%.

Although interest expenses show a relatively higher growth than interest income, still in absolute amount interest income records a higher increase, resulting by growth rate of net interest income of 5% or 12 million KM. As of 30.06.2009., net interest income amounted to 261 million KM.

Operating income amounts to 140 million KM, and, if compared to the prior year, it records a downfall of 5% or seven million KM, and a decrease in the structure of total income from 37,1% to 34,8%. This downfall is primarily related to a downfall of other operating income.

Total noninterest expenses, as of 30.06.2009., amounted to 385 million KM, representing an increase of 6% or 21 million KM, if compared to the same period last year, while their participation in the structure of total income has increased from 91,7% to 95,9%.

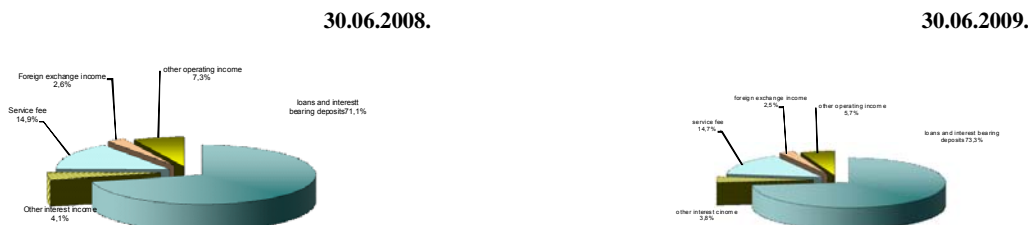
It should be emphasized, however, that within noninterest expenses, other operating expenses recorded both nominally and relatively an extreme downfall of 34% or 23 million KM, amounting to 46 million KM, and their participation in the structure of total income has decreased from 17,6% to 11,5% (primarily related to the effects of securities trading). An opposite trend and changes, that is, a significant growth of 21% or 17 million KM was recorded by loan loss provisions, which, at the end of the observing period, amounted to 102 million KM, followed by salary and contribution costs with the rate of 10% (amounting to 127 million KM), and fixed assets costs of 77 million KM, showing an increase of 14%.

Trend and structure of total income and expenses is presented in the following tables and graphs:
- in 000 KM-

Structure of total income	30.06.2007.		30.06.2008.		30.06.2009.		RATIO	
	Amount	%	Amount	%	Amount	%	4/2	6/4
1	2	3	4	5	6	7	8	9
I Interest income and similar income								
Interest bearing deposit accounts with depository institutions	44.365	8,0	44.935	7,6	15.979	2,6	101	36
Loans and leasing	323.891	58,8	377.643	63,5	430.843	70,7	117	114
Other interest income	18.675	3,4	24.406	4,1	22.991	3,8	131	94
TOTAL	386.931	70,2	446.984	75,2	469.813	77,1	116	105

II Operating income								
Service fees	87.735	15,9	88.325	14,9	90.002	14,7	101	102
Foreign exchange income	15.571	2,8	15.371	2,6	14.948	2,5	99	97
Other operating income	60.714	11,0	43.489	7,3	34.794	5,7	72	80
TOTAL	164.020	29,8	147.185	24,8	139.744	22,9	90	95
TOTAL INCOME (I + II)	550.951	100,0	594.169	100,0	609.557	100,0	108	103

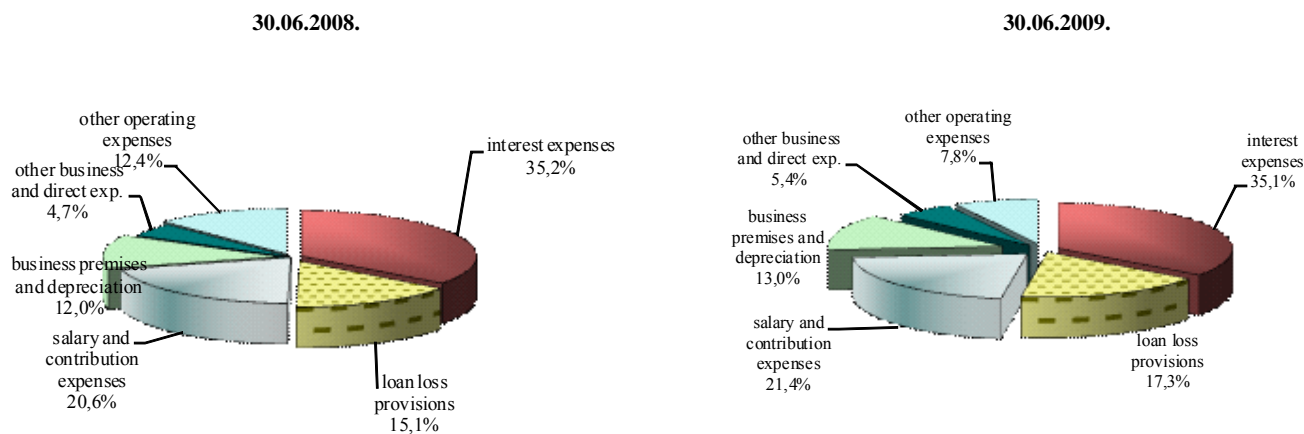
Graph 18: Structure of total income



- in 000 KM-

Table 27: Structure of total expenses									
Structure of total expenses	30.06.2007.		30.06.2008.		30.06.2009.		RATIO		
	Amount	%	Amount	%	Amount	%	4/2	6/4	
1	2	3	4	5	6	7	8	9	
I Interest expenses and similar expenses									
Deposits	105.257	22,4	134.545	24,0	155.019	26,1	128	115	
Liabilities for borrowings	37.457	8,0	52.099	9,3	41.825	7,0	139	80	
Other interest expenses	6.220	1,3	10.657	1,9	11.644	2,0	171	109	
TOTAL	148.934	31,7	197.301	35,2	208.488	35,1	132	106	
II Total non-interest bearing expenses									
General loan risk and potential loan losses Provisioning	80.230	17,1	84.775	15,1	102.401	17,3	106	121	
Salary expenses	102.979	21,9	115.610	20,6	126.942	21,4	112	110	
Business premises and depreciation expenses	59.549	12,7	67.602	12,0	76.865	13,0	113	114	
Other business and direct expenses	26.898	5,7	26.318	4,7	32.304	5,4	98	123	
Other operating expenses	51.320	10,9	69.669	12,4	46.290	7,8	136	66	
TOTAL	320.976	68,3	363.974	64,8	384.802	64,9	113	106	
TOTAL EXPENSES (I + II)	469.910	100,0	561.275	100,0	593.290	100,0	119	106	

Graph 19: Structure of total expenses



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

- in %-

Table 28: Ratios of profitability, productivity and effectiveness by periods			
RATIOS	30.06.2007.	30.06.2008.	30.06.2009.
Return on Average Assets	0,66	0,21	0,10
Return on Average Total Capital	6,25	1,93	0,90
Return on Average Equity	8,90	2,79	1,31
Net Interest Income/Average Assets	1,94	1,79	1,74
Fee Income/Average Assets	1,34	1,05	0,93
Total Income/Average Assets	3,28	2,84	2,67
Operating and Direct Expenses ²⁵ /Average Assets	0,87	0,79	0,90
Operating Expenses/Average Assets	1,75	1,81	1,66
Total Non-interest Expenses/Average Assets	2,62	2,60	2,56

-in %-

Table 29: Ratios of profitability, productivity and effectiveness as of 30.06. 2009.			
RATIOS	30.06. 2009.		
	STATE BANKS	PRIVATE BANKS	AVERAGE IN THE FBiH
Return on Average Assets	-0,19%	0,10%	0,10%
Return on Average Total Capital	-0,84%	0,94%	0,90%
Return on Average Equity	-1,04%	1,39%	1,31%
Net Interest Income/Average Assets	1,15%	1,74%	1,74%
Fee Income/Average Assets	2,69%	0,91%	0,93%
Total Income/Average Assets	3,84%	2,65%	2,67%
Operating and Direct Expenses/Average Assets	0,70%	0,90%	0,90%
Operating Expenses/Average Assets	3,33%	1,64%	1,66%
Total Non-interest Expenses/Average Assets	4,03%	2,54%	2,56%

Based on the analysis of general parameters for assessment of profitability quality, we could conclude that profitability of the entire system has deteriorated, as seen by a downfall of ROAA (Return on Average Assets) from 0,21% to 0,10%, and ROAE (Return on Average Equity) from 1,93% to 0,90%. In addition, productivity of banks, measured as ratio of total income and average assets, continues with decreasing trend (from 2,84% to 2,67%) as result of faster growth of the average total assets than total income, that is, minimum growth of total income for the observing periods over the past three years.

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.

Under a more deteriorated performance conditions of banks, and due to adverse effects of the economic and financial crisis to the banking sector in the FBiH, profitability of banks, in the forthcoming period, will mostly depend on deterioration of asset quality, that is, increase of loan losses and loan risk due to delinquency of past due liabilities (loans) both by companies and citizens, and will depend on effective management and operating income and expenses controlling with purpose of their reduction. In addition, profit of banks, that is, financial result will mostly depend on price and interest rate risk, both in the sources and price changes in funding sources of banks, and possibility to realize interest rate margin sufficient to cover all non-interest bearing expenses, and, eventually, to provide for satisfactory profit on the invested capital for bank owners.

²⁵ Expenses include provisions for potential loan losses.

2.3. Risk-weighted nominal and effective interest rates

In order to increase a transparency, and to make easy a comparability of conditions of banks in process of originating loans and accepting deposits and protection of customers through a transparent disclosure of loan expenses versus deposit income, and, in accordance with the international standards, criteria and practices in other countries, the FBA, as of 01.07.2007., prescribed unified method of computation and disclosure of effective interest rate²⁶ for all banks that have their seat in the Federation of BiH, and their organizational units, regardless of the territory in which they operate, including organizational units of the banks operating in the Federation of BiH. Effective interest rate represents a real relative price of a loan, that is, an income generated from a deposit, expressed as per cent at the annual level.

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

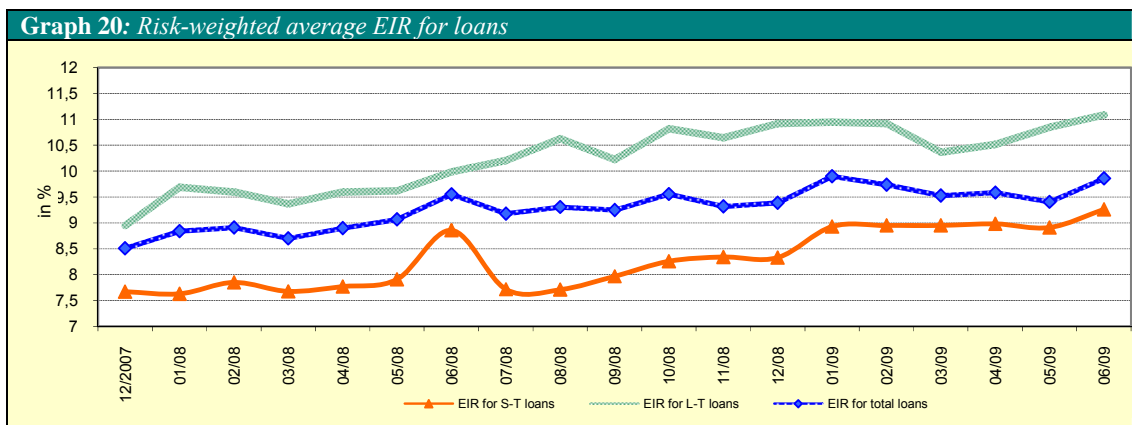
Banks are obliged to monthly report to the FBA of risk-weighted nominal and effective interest rates on loans and deposits originated or accepted within the reporting month, in accordance with the methodology prescribed²⁷.

The following table presents risk-weighted nominal and effective interest rates (hereinafter: NIR and EIR) for loans on the banking system level for the two most important sectors (economy and citizens) for December of 2007, and, for March, June, September, and December of 2008, and March 2009:

Table 30: Risk-weighted average NIR and EIR for loans														
DESCRIPTION	31.12.2007.		31.03.2008.		30.06.2008.		30.09.2008.		31.12.2008.		31.03.2009.		30.06.2009	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Risk-weighted interest rates for short-term loans	7,34	7,67	7,14	7,68	7,51	8,86	7,61	7,97	7,82	8,33	8,37	8,95	8,41	9,26
1.1. Economy	7,19	7,45	7,03	7,40	7,39	8,76	7,45	7,73	7,74	8,19	8,31	8,80	8,40	9,10
1.2. Citizens	11,22	13,47	11,73	15,03	10,83	13,60	11,70	15,17	10,25	13,04	9,43	12,27	10,03	13,94
2. Risk-weighted interest rates for long-term loans	8,23	8,83	8,71	9,37	9,22	9,99	9,37	10,23	9,95	10,92	9,37	10,37	9,92	11,09
2.1. Economy	7,49	7,85	8,16	8,56	8,16	8,60	8,34	8,82	8,33	8,92	8,02	8,96	8,70	9,62
2.2. Citizens	8,93	9,75	9,15	10,00	9,91	10,88	10,11	11,20	11,16	12,54	11,03	12,10	10,82	12,20
3. Total risk-weighted interest rates for loans	7,86	8,51	8,10	8,70	8,56	9,55	8,61	9,25	8,69	9,39	8,78	9,53	8,91	9,86
3.1. Economy	7,31	7,62	7,52	7,91	7,70	8,70	7,77	8,12	7,88	8,37	8,23	8,85	8,45	9,19
3.2. Citizens	9,05	9,96	9,24	10,16	9,95	10,99	10,17	11,34	11,09	12,58	10,88	12,12	10,75	12,34

²⁶ Decision on unified method of computation and disclosure of effective interest rates on loans and deposits (“Official Gazette of the FBiH”, number 27/07).

²⁷ Guidelines for implementation of Decision on unified method of computation and disclosure of effective interest rates on loans and deposits and Guidelines for computation of risk-weighted nominal and effective interest rate.



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

The risk-weighted EIR for loans, as opposed to 2008, with major oscillations in changes of interest rates and an increasing trend recorded in the second half of the year, the first quarter of 2009 recorded interest rates changing in both directions. In April and May, there was certain stabilization and insignificant changes, while an increase was recorded again in June. In June 2009, an average EIR was 9,86%, which was higher by 0,47 per cent than in December 2008.

The risk-weighted EIR for short-term loans, in June 2009, was 9,26%, which was higher by 0,93 per cent in comparison to December 2008.

The risk-weighted EIR for long-term loans, in June 2009, was 11,09%, which was higher by 0,17 per cent than in December 2008.

Interest rates for loans originated to the two most significant sectors: economy and citizens²⁸, over the observing period of 2009, have been changing in both directions. However, the risk weighted EIR for loans originated to the economy, although still much lower than the EIR for loans to citizens, have increased from 8,37% (in December 2008) to the level of 9,19% (in June 2009). Loans originated to citizens have decreased from 12,58% (in December 2008) to 12,34% (in June 2009).

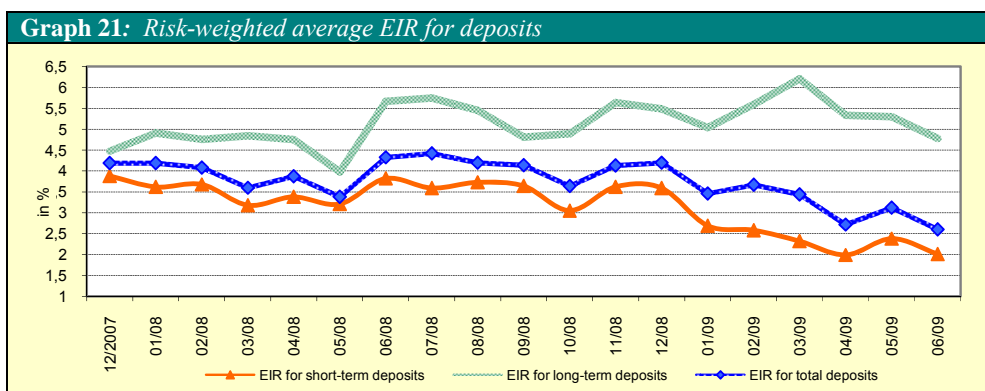
An analysis of the risk-weighted EIR changes for short-term and long-term loans, for the two mentioned sectors, indicates an increase of the EIR for loans originated to the economy: December 2008 compared to June 2009 – an increase of EIR for short term loans was 0,91 per cent, that is, from 8,19% to 9,1%, and for long-term loans from 8,92% to 9,62%, representing an increase of 0,71 per cent. As for loans originated to citizens, the changes have been recorded in both directions: for short-term loans the EIR has increased by 0,9 per cent, that is, from 13,04% to 13,94%, and for long-term loans the EIR has decreased from 12,54% to 12,2% or by 0,34 per cent.

Risk-weighted NIR and EIR for term deposits, computed based on monthly statements, for the banking sector are presented in the following table:

²⁸ Based on the methodology of classification in sectors: entrepreneurs are included in the sector of citizens.

Table 31: Risk-weighted average NIR and EIR for deposits

DESCRIPTION	31.12.2007.		31.03.2008.		30.06.2008.		30.09.2008.		31.12.2008.		31.03.2009.		30.06.2009.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Risk-weighted interest rates for short-term loans	3,87	3,88	3,18	3,18	3,82	3,82	3,63	3,63	3,59	3,59	2,30	2,32	1,99	2,01
1.1. up to 3 months	3,85	3,85	3,16	3,16	3,94	3,94	3,48	3,48	3,48	3,49	2,19	2,21	1,74	1,74
1.2. up to 1 year	3,92	3,92	3,21	3,22	3,60	3,60	3,79	3,83	4,13	4,14	2,90	2,91	3,80	3,95
2. Risk-weighted interest rates for long-term loans	4,48	4,48	4,83	4,85	5,67	5,67	4,78	4,81	5,48	5,49	6,17	6,21	4,72	4,78
2.1. up to 3 years	4,65	4,66	4,67	4,69	5,49	5,49	4,64	4,67	5,41	5,42	6,21	6,25	4,58	4,66
2.2. over 3 years	4,32	4,33	5,12	5,13	6,46	6,47	5,31	5,31	6,34	6,33	5,64	5,66	6,14	6,11
3. Total risk-weighted interest rates for deposits	4,18	4,19	3,59	3,60	4,33	4,33	4,11	4,14	4,20	4,20	3,42	3,44	2,57	2,60



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

If compared to December 2008, risk-weighted EIR for total term deposits, in June 2009, decreased by 1,6 per cent (from 4,2% to 2,6%). The same changes were recorded in the EIR for short-term and long-term deposits: EIR for short-term deposits has decreased from 3,59% to 2,01%, and EIR for long-term loans has decreased 5,49% to 4,78%. It should be pointed out that a reason of the mentioned downfall in the short-term deposits is a downfall of EIR for term deposits up to three months (from 3,49% to 1,74%). The long-term deposits have been influenced by a decrease of EIR for term deposits up to three years (from 5,42% to 4,66%) and over three years (from 6,33% to 6,11%).

Although loans originated to the economy and citizens show significant differences in interest rates, this difference is smaller in interest rates for deposits. In June 2009, banks paid to the economy slightly lower interest rates for term deposits than to citizens (2,12% and 3,42%), which was much lower than in December 2008 (4,09% and 4,54%). The reason for this significant decline of EIR for the economy deposits was a decline of the EIR for short-term deposits, that is, changes in the maturity structure, since majority of the economy deposits (in June 2009) had the term up to three months for which the EIR was 1,19% (3,49% in December 2008). The EIR for short-term citizen deposits has increased from 2,84% (December 2008) to 3,05% in June 2009. At the same time, in June 2009, the risk-weighted EIR for long-term economy deposits was 6,16%, and the citizens of 3,75% (in December from 6,13% to 5,31%).

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

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

DESCRIPTION	31.12.2007.		31.03.2008.		30.06.2008.		30.09.2008.		31.12.2008.		31.03.2009.		30.06.2009.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Risk-weighted interest rates for loans-overdrafts	8,89	9,01	8,49	8,62	8,59	8,58	8,42	8,57	8,62	8,81	8,29	8,29	8,56	9,00
2. Risk-weighted interest rates for demand deposits	0,37	0,37	0,42	0,42	0,41	0,41	0,41	0,41	0,40	0,40	0,39	0,39	0,40	0,40

The EIR for the above items of assets and liabilities, in general, should be equal to the nominal interest rate.

The risk-weighted EIR for total loans in overdrafts for the banking sector, in June 2009, was 9,00% (an increase of 0,19 per cent in comparison to December 2008), and 0,40% for demand deposits, which was the same as in December 2008.

2.4. 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 confidence in banking system of any country, as well as its stability and safety.

Under normal circumstances of banks' performance and stable environment, until the global financial and economic crisis occurred, liquidity risk has had a secondary significance, that is, credit risk was first priority and management systems established, that is, identification, measurement, and control of such risks were under continuous supervision with purpose of its enhancement and improvement. It should be emphasized, however, that during the course of its performance, a correlation of all risks that any bank is or may be exposed to is very high.

Along with turbulences in the financial market due to the global crisis, liquidity risk has rapidly increased and the risk management has become a key factor for normal operating of a bank, as well as timely meeting of past due liabilities and maintenance of a long term position of a bank in regard of its solvency and capital base.

Over the last quarter of 2008, following a spillover of the global crisis and its adverse impact to the financial and economic system in BiH, the liquidity risk has increased. Although there was a withdrawal of some portion of saving deposits and undermined confidence to banks, an estimate was made that there was no time of the banking system's liquidity being harmed, since all banks in the FBiH, due to regulatory requirements and limits prescribed, had significant liquid assets and sound liquidity position.

Adverse changes over the last quarter of 2008 were stopped in 2009, and main liquidity indicators have recorded some insignificant changes, so the statement remains that liquidity of the banking system in the Federation of BiH is sound, with a satisfactory participation of liquid assets in total assets, and coverage of short term liabilities by liquid assets. However, since the financial crisis is still present worldwide that has an adverse reflection to the banking systems of the European countries that provide financial support to our banks through deposit and credit funding, an estimate is that liquidity risk is still increasing. Additional concern is raised by the fact that an impact of the crisis is increasing to the real sector, and its adverse consequences will reflect to the entire economic environment in which bank in BiH operate.

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

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

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

In the structure of financing sources of banks in the Federation of BiH, as of 30.06.2009., deposits still have the highest participation of 71,1% that have increased, over the observing period, by 2% or 257 million KM. The next item are borrowings (including subordinated debts²⁹) with participation of 14,3% with longer maturity, representing quality source for long term placements, and have made a significant contribution to maturity match between assets and liabilities.

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

- in 000 KM-

Table 33: Maturity structure of deposits

DEPOSITS	31.12.2007.		31.12.2008.		30.06.2009.		RATIO	
	Amount	Parti. %	Amount	Partic. %	Amount	Part. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Savings and demand deposits	4.747.689	46,6	4.186.764	40,0	4.179.402	39,0	88	100
Up to 3 months	430.784	4,2	460.100	4,4	466.217	4,3	107	101
Up to 1 year	1.045.768	10,3	979.516	9,4	727.196	6,8	94	74
1. Total S-T	6.224.241	61,1	5.626.380	53,8	5.372.815	50,1	90	95
Up to 3 years	2.722.927	26,7	3.018.766	28,9	3.282.399	30,6	111	109
Over 3 years	1.243.809	12,2	1.816.695	17,3	2.063.836	19,3	146	114
2. Total L-T	3.966.736	38,9	4.835.461	46,2	5.346.235	49,9	122	111
TOTAL (1 + 2)	10.190.977	100,0	10.461.841	100,0	10.719.050	100,0	103	102

Analysis of maturity structure of deposits in two main groups, if compared to 2008, shows a decrease of short term deposits participation by 3,7 per cent, and by the same percentage an increase of long term deposits, so their participation, at the end of the first six months of 2009, was 50,1% and 49,9% respectively. Major influence to this change was made by replacement of credit funds by long term deposit of one bank (201 million KM).

Total short term deposits, if compared to 2008, declined by 254 million KM or 5%, observing that in the fourth quarter of 2008, the decline was 634 million KM or 10%. This downfall primarily relates to deposits up to one year that have decreased by 26%, so their participation in total deposits has decreased from 9,4% to 6,8%. Demand deposits and deposits up to three months, both nominally and relatively, have recorded insignificant changes, so demand deposits still have the highest participation of 39% in total deposits, while deposits up to three months have the lowest participation of 4,3%. In total demand deposits, the highest participation is still recorded by citizen deposits (37%), which, in comparison to 2008, have decreased by 111 million KM or 7%.

²⁹ Subordinated debts: borrowings and permanent liabilities

Total long term deposits in 2009 increased by 511 million KM or 11%. It should be emphasized that of long term deposits, two sectors show dominant participation: citizens of 39,3% and banking institutions of 37,7%. Citizen deposits in term deposits up to three years show the highest participation of 50,5% (51,8% at the end of 2008), while banking institutions' deposits over three years show the highest participation of 71,1% (70% at the end of 2008).

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

-in 000 KM-

Table 34: Maturity structure of loans

LOANS	31.12.2007.		31.12.2008.		30.06.2009.		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	214.223	2,4	234.178	2,2	397.994	3,8	109	170
Short term loans	1.719.297	19,4	2.337.206	22,4	2.399.877	23,2	136	103
Long term loans	6.941.464	78,2	7.862.948	75,4	7.537.368	72,9	113	96
TOTAL LOANS	8.874.984	100,0	10.434.332	100,0	10.335.239	100,0	118	99

Over the observing period of 2009, long term loans have decreased by 4% or 326 million KM (since loans originated to citizens have the highest participation in the structure of long term loans, it should be pointed out that only a decrease in this segment represents 242 million KM), short term loans have recorded an insignificant increase of 3% or 63 million, while past due claims have increased by 71% or 164 million KM (private companies represent 134 million KM, citizens represent 27 million KM, and other sectors recorded decrease of one million KM). In the structure of past due claims, 75% are private companies, 18% are citizens, and 7% are other sectors.

Sectorial analysis by maturity, in two most significant sectors, indicates that loans to citizens represent 91% of long term loans, and loans to private companies, of total originated loans, represent 58% of long term loans.

In the assets structure, as the most significant category, loans still have the highest participation of 68,6%, which has decreased by 0,6 per cent in comparison to the end of 2008 due to a decline of loans of 1% or 99 million KM. Cash funds have decreased by 4% or 178 million KM, and their participation decreased from 27,9% to 26,7%.

In 2009, banks were regularly meeting a commitment to maintain required reserves with the Central Bank of BiH. The required reserve rate, as of 11.10.2008., decreased to 14% with purpose to enable additional liquidity for banks. In addition, with the same purpose, the CBBiH's decision has been to change basis of the required reserve's computation, so the funds borrowed from nonresidents, based on the contracts signed after 01.11.2008., would not be subject to the basis for computation. As of 01.01.2009., a differentiated required reserve rate has been introduced with regard to the maturity of sources (10% for long term and 14% for short term). Required reserve, as significant instrument of monetary policy in BiH, under the Currency Board and financially underdeveloped market, represents the only instrument of monetary policy used to realize monetary control, in sense of stopping fast credit growth from the past years, and decrease multiplications, as well as an increase of banks' liquidity under an impact of the crisis

and intensified outflow of funds from banks that in BiH was experienced after 01.10.2008. On the other hand, implementation of regulation on foreign exchange risk and maintenance of currency adjustment within prescribed limits, also significantly influence the amount of funds banks maintain on the reserve account with the Central Bank in domestic currency, which provides for high liquidity of individual banks and the banking sector.

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

- in % -

Table 35: Liquidity ratios			
Ratios	31.12.2007.	31.12.2008.	30.06.2009.
1	2	3	4
Liquid assets ³⁰ / Total assets	34,5	28,2	28,5
Liquid assets / Short term financial liabilities	58,1	51,2	50,8
Short term financial liabilities / Total financial liabilities	67,3	62,9	63,9
Loans / Deposits and Borrowings ³¹	73,7	82,6	81,9
Loans / Deposits, borrowings and subordinate debts ³²	72,2	80,9	80,3

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

- in 000 KM-

Table 36: Liquidity position – ten-day average and daily minimum					
Description	31.12.2007.	31.12.2008.	30.06.2009.	RATIO	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6
1. Average daily balance of cash assets	3.974.722	3.687.406	3.763.503	93	102
2. Minimum total daily balance of cash assets	3.686.972	3.310.173	3.354.126	90	101
3. Short term sources (accrual basis)	6.094.193	5.821.848	5.374.927	96	92
4. Liabilities:					
4.1. ten-day average 20% of Item 3	1.218.839	1.164.370	1.074.985	96	92
4.2. daily minimum 10% of Item 3	609.419	582.185	537.493	96	92
5. Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	2.755.883	2.523.036	2.688.518	92	107
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	3.077.553	2.727.988	2.816.633	89	103

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.³³

³⁰ Liquidity assets in the narrow sense: cash and deposits and other financial assets with maturity below three months, except inter-banking deposits.

³¹ Empiric standards: below 70%-very solid, 71%-75%-satisfactory, 76%-80%-marginal to satisfactory, 81%-85%-insufficient, over 85%-critical.

³² Prior ratio has been modified. Subordinated debts are included in the sources, which gives more realistic indicator.

³³ Decision on Changes and Amendments to Decision on Minimum Standards for Liquidity Risk Management in Banks (Official Gazette of the FBiH, number 88/07) dated of 01.01.2008. sets new percentages for maturity matching between financial assets and liabilities: minimum 85% of funding sources (used to be 100%) with maturity up to 30 days must be engaged in placements with maturity up to 30 days; minimum 80% of funding sources (used to be 100%) with maturity up to 90 days in placements with maturity up to 90 days and minimum 75% of funding sources (used to be 95%) with maturity up to 180 days in placements with maturity up to 180 days.

- in 000 KM -

Table 37: Maturity match between financial assets and liabilities up to 180 days					
Description	31.12.2007.	31.12.2008.	30.06.2009.	RATIO	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6
I. 1- 30 days					
1. Financial assets	5.678.451	5.132.568	5.152.726	90	100
2. Financial liabilities	5.291.774	4.759.714	4.754.837	90	100
3. Difference (+ or -) = 1-2	386.677	372.854	397.889	96	108
<i>Accrual of requirement in %</i>					
a) Performed %= Item 1 / Item 2	107,3 %	107,8%	108,4%		
b) Required minimum %	100,0%	85,0 %	85,0 %		
Surplus (+) or shortage (-) = a - b	7,3%	22,8 %	23,4 %		
II. 1-90 days					
1. Financial assets	6.283.942	5.897.755	6.122.386	94	104
2. Financial liabilities	5.957.300	5.438.078	5.497.313	91	101
3. Difference (+ or -) = 1-2	326.642	459.677	625.073	140	137
<i>Accrual of requirement in %</i>					
a) Performed %= Item 1 / Item.2	105,5%	108,5 %	111,4 %		
b) Required minimum %	100,0%	80,0%	80,0%		
Surplus (+) or shortage (-) = a - b	5,5%	28,5 %	31,4 %		
III. 1-180 days					
1. Financial assets	7.032.175	7.004.751	7.191.862	100	103
2. Financial liabilities	6.861.962	6.474.248	6.415.445	94	99
3. Difference (+ or -) = 1-2	170.213	530.503	776.417	310	147
<i>Accrual of requirement in %</i>					
a) Performed %= Item 1 / Item.2	102,5%	108,2 %	112,1 %		
b) Required minimum %	95,0%	75,0 %	75,0 %		
Surplus (+) or shortage (-) = a - b	7,5%	33,2 %	37,1 %		

Based on the presented data, we may conclude that banks, as of 30.06.2009., were able to meet the required limits, and have managed to realize better maturity match between financial assets and financial liabilities in relation to the limits prescribed.

Based on the above presented indicators, it may be assessed that liquidity of the banking system of the Federation of BiH, at the end of the first six months of 2009, was satisfactory. However, the liquidity risk in majority of banks was assessed low or moderate, it is quite obvious that the risk trend is increasing. Since this segment of performance and level of liquidity risk exposure correlates to credit risk, having in mind the effects of global financial crisis expansion in BiH and an impact to the banking sector of the FBiH (primarily through a stronger pressure on banks' liquidity), on one side, through outflow of deposits and deterioration of deposit basis, and, on the other side, through a drained inflow of liquid funds due to the expected downfall of loan collection in 2009, it should be emphasized that, in the forthcoming period, banks will have to pay more attention to the liquidity risk management by establishing and implementing liquidity policies, which will make sure that all matured liabilities of banks are timely realized, based on continuous planning of future liquidity needs, and taking into account changes in operating, economic, regulatory and other segments of business environment of banks. The FBA will, both through reports and on-site examinations of banks, monitor how banks manage this risk, and whether they act in accordance with the adopted policies and programs.

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

In their operations, banks are exposed to significant risks coming from potential losses in balance sheet and off-balance sheet items created as a result of price changes in the market. One of those risks is foreign exchange risk (FX) created as a result of changes of exchange rates and/or 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 Banks³⁴ 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.³⁵

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

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

According to the balance as of 30.06.2009., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 15,1% or 2,3 billion KM (13,6% or 2 billion KM at the end of 2008). On the other hand, currency structure of liabilities is essentially different, since participation of liabilities in foreign currency is significantly higher of 58,5% or 8,8 billion KM (57,9% or 8,7 billion KM at the end of 2008).

The following table presents structure and trend of financial assets and liabilities and foreign currency position for EUR as the most significant currency³⁶ and total:

³⁴ Official Gazette of the FBiH, number 3/03, 31/03, 64/03, 54/04.

³⁵ 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%.

³⁶ Source: Form 5-Foreign currency position.

-in million KM-

Table 38: Foreign currency adjustment of financial assets and liabilities (EUR and total)										
Description	31.12.2008.				30.06.2009.				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	1.213	14,2	1.738	18,2	1.498	17,2	1.951	20,2	123	112
2. Loans	149	1,8	185	1,9	136	1,6	173	1,8	91	93
3. Loans with currency clause	7.075	83,0	7.505	78,7	6.964	79,8	7.366	76,3	98	98
4. Other	83	1,0	110	1,2	134	1,5	159	1,7	161	144
Total (1+2+3+4)	8.520	100,0	9.538	100,0	8.732	100,0	9.648	100,0	102	101
<i>II. Financial liabilities</i>										
1. Deposits	5.333	65,5	6.292	68,7	5.725	68,6	6.611	71,2	107	105
2. Borrowings	2.045	25,1	2.095	22,9	1.811	21,7	1.850	19,9	88	88
3. Deposits and loans with currency clause	434	5,3	433	4,7	471	5,6	471	5,1	108	109
4. Other	332	4,1	339	3,7	341	4,1	348	3,8	103	103
Total (1+2+3+4)	8.144	100,0	9.159	100,0	8.348	100,0	9.280	100,0	102	101
<i>III. Off-balance sheet</i>										
1. Assets	71		73		55		63			
2. Liabilities	350		358		376		378			
<i>IV. Position</i>										
Long (amount)	96		94		64		52			
%	6,5%		6,4%		4,1%		3,3%			
Short										
%										
Limit	30%		30%		30%		30%			
Below limit	23,5%		23,6%		25,9%		26,7%			

If we analyze the structure of foreign currencies, we see a dominant participation of EUR in the financial assets³⁷, which, over the first six months of 2009, has increased (from 71,1% to 77,5%), along with an increase of nominal amount from 1,4 billion to 1,8 billion KM. Participation of EUR in the liabilities has increased from 88,4% to 89,49%, or nominally from 7,7 billion KM to 7,9 billion KM.

However, calculation of the FX risk exposure also includes the amount of indexed items of assets (loans) and liabilities³⁸, which is especially significant in the assets (76,3% or 7,4 billion KM) this is slightly lower in relation to 31.12.2008. (78,7% or 7,5 billion KM). Other foreign currency assets items represent 23,7% or 2,3 billion KM, of which EUR items make 18,3% or 1,8 billion KM, and other currencies 5,3% or 0,5 billion KM (at the end of 2008, loans contracted with currency clause amounted to KM 7,5 billion with participation of 78,7%, and other items in EUR of 15,1% or 1,4 billion KM). Of total net loans (9,5 billion KM), 77,5% were contracted with currency clause, primarily tied to EUR (94,5%).

On the other hand, the structure of financial liabilities stipulates and determines the structure of financial assets, for each currency respectively. In foreign currency liabilities (9,2 billion KM) items in EUR (primarily deposits) had the highest participation of 84,9% or 7,9 billion KM, while participation and amount of indexed liabilities was at minimum, amounting to 5,1% or 0,5 billion KM (at the end of 2008, participation of liabilities in EUR was 84,2% or 7,7 billion KM, while indexed liabilities were 4,7% or 0,3 billion KM).

³⁷ 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).

³⁸ 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).

Observed by banks and overall on the level of the banking system of the FBiH, we can conclude that foreign exchange risk exposure of banks and the system, over the first six months of 2009, ranged within the prescribed limits.

As of 30.06.2009., there were 13 banks with long foreign currency position, and 7 with short position. At the system level, long foreign currency position represented 3,3% of banks' core capital, which is lower by 26,7% than the limit. Individual foreign currency position for EUR was 4,1%, with financial assets items being higher than financial liabilities (long position), representing a decline of 25,9% than the limit.

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

IV CONCLUSIONS AND RECCOMENDATIONS

Consolidation and stabilization of banking sector of the Federation of BiH has reached an enviable level, so 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:

- Take measures and activities within its powers to overcome and mitigate adverse impact to the banking sector of the FBiH caused by the global financial crisis,
- Continue, as so far, implementing activities, from the scope of its authority, to consolidate supervision on state level,
- Proceed with a continues supervision of banks through on-site and off-site examinations, emphasizing targeted examination of dominant risk segments of banking operations, which will make supervision more effective, in regard to:
 - Continue a 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, the Basle Capital Accord, and the European Banking Directives, as part of BiH's preparation to join the European Union,
 - Maintain continuity in payment system examinations,
 - Establish and expand cooperation with home country supervisors of the investors present in the banking sector of the FBiH, and other countries in order to have more effective supervision,
 - Improve cooperation with the Banks Association in all banking performance segments, organization of counseling and professional assistance in the area of implementation of banking laws and regulations, etc.,

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

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

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

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

- Further capital strengthening, proportional to the growth of assets and risk, higher profitability, solvency, more consistent implementation of adopted policies and procedures in the area of prevention of money laundering and terrorism financing, and safety and protection of money in banks and in transportation, in accordance with laws and regulations;
- Strengthen internal control systems and internal audit functions, 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.

Number: U.O.- 15-3/09.
Sarajevo, 23.09.2009.

ATTACHMENTS

ATTACHMENT 1..... General data about banks in the FBiH

ATTACHMENT 2..... Balance sheet of banks, FBA Schedule

ATTACHMENT 3..... Citizen savings in banks of the FBiH

**ATTACHMENT 4..... Report on changes in balance sheet
assets and off-balance sheet risk items**

ATTACHMENT 5..... Income statement of banks

ATTACHMENT 6..... Report on capital balance and adequacy

ATTACHMENT 7..... Information about employees in banks of the F BiH

ATTACHMENT 1

Banks in the Federation of Bosnia and Herzegovina - 30.06.2009.

	BANK	Address		Telephone	Director
1	ABS BANKA dd - SARAJEVO	Sarajevo	Trampina 12/V1	033/280-300, fax:280-230	GERHARD MAIER
2	BOSNA BANK INTERNATIONAL dd – SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	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	Nadbiskupa Ćule bb.	036/332-901, fax:332-903	Prov.Admin. - Nikola Fabijanić - 16.04.2007.
6	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	036/444-444, fax:444-235	PETAR JURČIĆ
7	INTESA SANPAOLO BANKA DD BiH	Sarajevo	Obala Kulina bana 9a	033/497-555, fax:497-589	ALMIR KRKALIĆ
8	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032/448-400, fax:448-501	SUVAD IBRANOVIĆ
9	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Ibrahima Mržljaka 3.	037/771-253, fax:772-416	ŠABAN ZULIĆ Acting Director
10	NLB TUZLANSKA BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/259-259, fax:250-596	ALMIR ŠAHINPAŠIĆ
11	POŠTANSKA BANKA BiH dd - SARAJEVO	Sarajevo	Put zivota 2	033/564-000, fax: 564-050	ADNAN ZUKIĆ
12	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:664-175	AZRA ČOLIĆ
13	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Emerika Bluma 8.	033/250-950, fax:250-971	RUMYANA VELICHKOVA TODOROVA Acting Director
14	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb.	033/755-010, fax: 213-851	MICHAEL MÜLLER
15	RAZVOJNA BANKA FEDERACIJE BiH	Sarajevo	Igmanska 1	033/277-900, fax: 668-952	RAMIZ DŽAFEROVIĆ
16	TURKISH ZIRAAT BANK BOSNIA dd - SARAJEVO	Sarajevo	Dženetića Čikma br. 2.	033/252-230, fax: 252-245	KENAN BOZKURT
17	UNA BANKA dd - BIHAĆ	Bihać	Bosanska 25	037/222-400, fax: 222-331	Prov.Admin. - Stjepan Blagović - 01.05.2005.
18	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:312-121	BERISLAV KUTLE
19	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	ESAD BEKTEŠEVIĆ
20	VAKUFСКА BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	AMIR RIZVANOVIĆ

21	VOLKSBANK BH dd - SARAJEVO	Sarajevo	Fra Andela Zvizdovića 1	033/295-601, fax:295-603	REINHOLD KOLLAND
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ATTACHMENT 2

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

in 000 KM

	DESCRIPTION	31.12.2007.	31.12.2008.	30.06.2009.
	ASSETS			
1.	Cash funds and deposit accounts at depository institutions	4.894.973	4.207.559	4.029.999
1a	Cash and non-interest deposit accounts	349.241	417.601	466.678
1b	Interest bearing deposit accounts	4.545.732	3.789.958	3.563.321
2.	Trading securities	44.361	10.923	9.839
3.	Placements to other banks	69.314	90.415	368.873
4.	Loans, receivables in leasing and past due receivables	8.874.984	10.434.332	10.335.239
4a	Loans	8.660.593	10.199.933	9.937.094
4b	Receivables on leasing	168	221	151
4c	Past due receivables - loans and leasing	214.223	234.178	397.996
5.	Securities held to maturity	4.204	7.630	7.640
6.	Premises and other fixed assets	363.270	442.739	483.447
7.	Other real estate	41.846	24.768	30.922
8.	Investments in non-consolidated related enterprises	34.390	40.732	41.278
9.	Other assets	215.938	212.212	212.995
10.	MINUS: Reserves for potential losses	347.358	401.406	451.323
10a	Reserves on item 4 in Assets	334.139	381.215	432.931
10b	Reserves on Assets except item 4	13.219	20.191	18.392
11.	TOTAL ASSETS	14.195.922	15.069.904	15.068.909
	LIABILITIES			
12.	Deposits	10.190.977	10.461.841	10.719.050
12a	Interest bearing deposits	9.368.121	9.586.215	9.808.237
12b	Non-interest bearing deposits	822.856	875.626	910.813
13.	Borrowings - past due	7.376	3.025	2.706
13a	Balance of payable loans, unpaid	0	0	0
13b	Unpaid - called for payment off-balance sheet items	7.376	3.025	2.706
14.	Loans from other banks	3.289	3.089	3.089
15.	Payables to Government	0	0	0
16.	Payables on loans and other borrowings	1.856.471	2.176.594	1.901.889
16a	payable within one year	357.425	793.837	635.277
16b	payable longer than one year	1.499.046	1.382.757	1.266.612
17.	Subordinated debts and subordinated bonds	242.791	267.737	257.566
18.	Other liabilities	384.976	521.774	519.825
19.	TOTAL LIABILITIES	12.685.880	13.434.060	13.404.125
	CAPITAL			
20.	Permanent priority shares	26.224	26.136	25.028
21.	Common shares	1.018.997	1.091.879	1.117.592
22.	Shares issued	94.739	152.892	151.610
22a	Permanent priority shares	8.332	8.420	8.420
22b	Common shares	86.407	144.472	143.190
23.	Undistributed income and capital reserves	260.146	307.465	351.831
24.	Currency exchange rate difference	0	0	0
25.	Other capital	109.936	57.472	18.723
26.	TOTAL CAPITAL (20. TO 25.)	1.510.042	1.635.844	1.664.784
27.	TOTAL LIABILITIES AND CAPITAL (19+26)	14.195.922	15.069.904	15.068.909

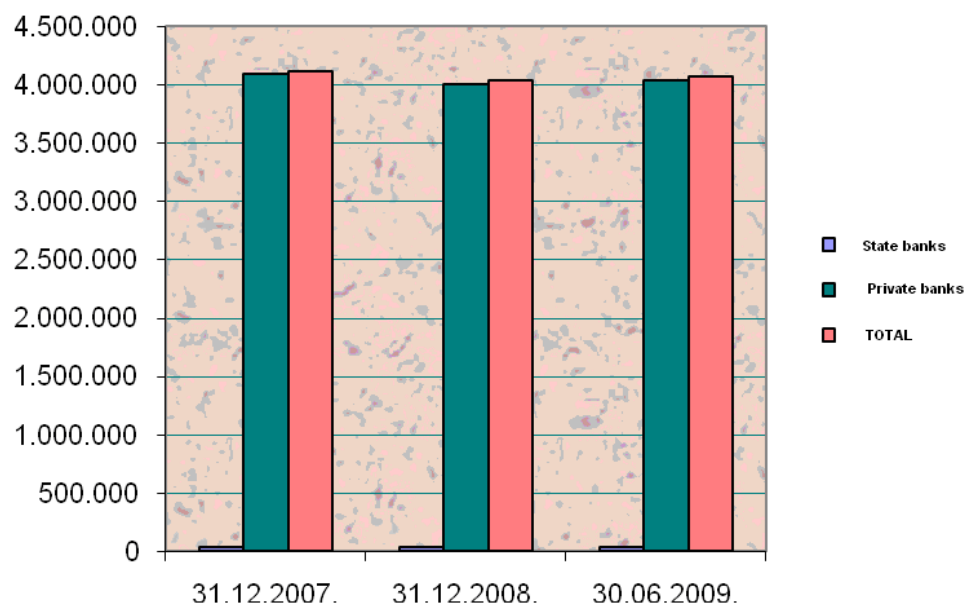
PASSIVE AND NEUTRAL SUBBALANCE	606.788	626.468	625.905
TOTAL BALANCE SHEET IN BANKS	14.802.710	15.696.372	15.068.909

ATTACHMENT 3

NEW CITIZEN SAVINGS BY PERIODS

in 000 KM

	31.12.2007.	31.12.2008.	30.06.2009.
State banks	30.469	32.481	32.431
Private banks	4.086.820	4.003.184	4.038.479
TOTAL	4.117.289	4.035.665	4.070.910



ATTACHMENT 4

CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS
as of 30.06.2009.

- ACTIVE BALANCE SHEET -

In 000 KM

	BALANCE SHEET ASSETS AND OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	2.025.961	358.868	13.487	1.561	0	2.399.877
2.	Long-term loans	6.284.120	1.026.426	149.249	77.573	0	7.537.368
3.	Other placements	35.116	4.210	175	32	0	39.533
4.	Interest accrued	45.285	19.558	3	0	0	64.846
5.	Past due receivables	117.485	131.880	48.966	97.714	0	396.045
6.	Receivables on guarantees paid	327	481	1.068	73	0	1.949
7.	Other assets	5.064.347	8.507	2.734	1.179	3.847	5.080.614
8.	TOTAL ACTIVE BALANCE SHEET	13.572.641	1.549.930	215.682	178.132	3.847	15.520.232
	a) Guarantees payable	304.053	50.703	981	676	0	356.413
9.	b) Performing guarantees	479.272	102.182	281	26	0	581.761
10.	Unsecured LoC	30.484	10.583	0	0	0	41.067
11.	Irrevocable loans	1.289.577	60.453	446	111	0	1.350.587
12.	Other potential liabilities	19.762	5	0	0	0	19.767
13.	TOTAL OFF-BALANCE SHEET	2.123.148	223.926	1.708	813	0	2.349.595
14.	TOTAL BALANCE AND OFF-BALANCE SHEET (8+13)	15.695.789	1.773.856	217.390	178.945	3.847	17.869.827
15.	General credit risk and potential loan losses (#14 x % of loss)	216.685	135.238	54.819	96.835	3.874	507.451
16.	Allocated general reserves (A) and special reserves (B, C, D, E)	216.341	135.243	54.819	96.835	3.874	507.112
17.	MORE (LESS) of the allocated reserves (#16 - 15) +or -	-344	5	0	0	0	-339

ATTACHMENT 5

INCOME STATEMENT

In 000 KM

ELEMENTS	PERFORMED 30.06. 2008.		PERFORMED 30.06.2009.		RATIO 4 : 2
	Amount	Partic.in total income	Amount	Partic.in total income	
INCOME					
Interest income	446.984	113%	469.813	117%	105
Interest expenses	197.301	50%	208.488	52%	106
Net interest income	249.683	63%	261.325	65%	105
Fee income and other operating income	147.185	37%	139.744	35%	95
TOTAL INCOME	396.868	100%	401.069	100%	101
EXPENSES					
Reserves for potential losses	84.775	21%	102.401	26%	121
Salaries and contribution expenses	115.610	29%	126.942	32%	110
Fixed assets and overhead expenses	67.602	17%	76.865	19%	114
Other expenses	95.987	24%	78.594	20%	82
TOTAL EXPENSES (without interests)	363.974	92%	384.802	96%	106
NET INCOME BEFORE TAX	32.894	8%	16.267	4%	49
Income Tax	3.939	1%	1.483	0%	0
NET INCOME	28.955	7%	14.784	4%	51

ATTACHMENT 6

**COMPARATIVE SCHEDULE OF CAPITAL BALANCE AND ADEQUACY
ACTIVE SUB-BALANCE SHEET**

in 000 KM

	DESCRIPTION	31.12.2007.	31.12.2008.	30.06.2009.
1	BANK'S CORE CAPITAL			
1.a.	Share capital, reserves and income			
1.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	1.029.756	1.102.636	1.127.755
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	94.739	152.892	151.610
1.4.	General regulatory reserves (reserves as regulated by the Law)	65.945	84.319	76.396
1.5.	Other reserves not related to assets quality assessment	128.882	168.927	196.937
1.6.	Retained - undistributed income from previous years	130.354	134.220	160.628
1.a.	TOTAL (1.1. to 1.6.)	1.462.226	1.655.544	1.725.876
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	65.908	73.464	82.324
1.8.	Losses from current year	8.156	38.938	20.800
1.9.	Book value of treasury shares owned by the bank	2	81	595
1.10.	Amount of intangible assets	52.089	60.299	60.205
1.b.	TOTAL (1.7. to 1.10.)	126.155	172.782	163.924
1.	AMOUNT OF CORE CAPITAL: (1.a.-1.b.)	1.336.071	1.482.762	1.561.952
2	BANK'S SUPPLEMENTARY CAPITAL			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	2.917	2.829	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	197.782	230.596	216.341
2.4.	Accrued income for current year audited and confirmed by external auditor	93.945	74.543	14.694
2.5.	Income under FBA's temporary restriction on distribution	0	0	0
2.6.	Subordinated debts, the most 50% of core capital	191.575	211.360	201.189
2.7.	Hybrid convertible items - the most 50% of core capital	0	0	0
2.8.	Items-permanent liabilities without repayment duty	50.855	56.377	56.377
2.	AMOUNT OF SUPPLEMENTARY CAPITAL: (2.1. to 2.8.)	537.074	575.705	491.430
3	OFFSETTING ITEMS FROM BANK'S CAPITAL			
3.1.	Part of invested share capital that according to FBA's assessment represents accepted and overestimated value	0	0	0
3.2.	Investments in capital of other legal entities exceeding 5% of bank's core capital	16.036	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
3.	AMOUNT OF OFFSETTING ITEMS FROM BANK'S CAPITAL (3.1. to 3.4.)	16.036	16.036	16.036
A.	AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)	1.857.109	2.042.431	2.037.346
B.	RISK FROM RISK-WEIGHTED ASSETS AND CREDIT EQUIVALENTS	10.740.880	12.301.441	12.088.649
C.	POR (RISK-WEIGHTED OPERATING RISK)		130.975	148.881

D.	PTR (RISK-WEIGHTED MARKET RISK)		0	0
E.	TOTAL RISK-WEIGHTED RISKS B+C+D	10.740.880	12.432.416	12.237.530
F.	NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100	17,3%	16,4%	16,6%

ATTACHMENT 7

NUMBER OF EMPLOYEES BY BANKS

Ord. No.	BANK	31.12.2007.	31.12.2008.	30.06.2009.
1	ABS BANKA dd SARAJEVO	326	379	419
2	BOR BANKA dd SARAJEVO	42	45	47
3	BOSNA BANK INTERNATIONAL dd Sarajevo	145	171	175
4	FIMA BANKA dd SARAJEVO	101	149	148
5	HERCEGOVACKA BANKA dd MOSTAR	93	87	83
6	HVB CENTRAL PROFIT BANKA dd SARAJEVO	465		
7	HYPO ALPE ADRIA BANK dd MOSTAR	550	626	614
8	INTESA SANPAOLO BANKA dd BiH	479	501	503
9	INVESTICIJSKA BANKA FBiH SARAJEVO	104		
10	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	154	179	183
11	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	65	67	67
12	NLB TUZLANSKA BANKA dd TUZLA	472	507	490
13	POŠTANSKA BANKA dd SARAJEVO	97	119	116
14	PRIVREDNA BANKA dd SARAJEVO	163	175	184
15	PROCREDIT BANK dd SARAJEVO	831	888	791
16	RAIFFEISEN BANK BH dd SARAJEVO	1.543	1.745	1.711
17	TURKISH ZIRAAT BANK dd SARAJEVO	129	149	149
18	UNA BANKA dd BIHAĆ	59	59	58
19	UNI CREDIT BANKA BH dd MOSTAR	840	1.418	1.420
20	UNION BANKA dd SARAJEVO	179	175	176
21	VAKUFСКА BANKA dd SARAJEVO	184	204	213
22	VOLKSBANK BH dd SARAJEVO	340	354	342
	TOTAL	7.361	7.997	7.889