



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

I N F O R M A T I O N

**ON THE BANKING SYSTEM OF
THE FEDERATION OF BOSNIA AND HERZEGOVINA
As of September 30th, 2009**

Sarajevo, November 2009

Information on the banking system of the Federation of BiH (as of September 30th, 2009) is prepared by the Banking Agency of the Federation of BiH (Agency), as a regulatory authority conducting supervision of banks, based on banks' reports, and other information and data submitted by banks. Findings and data from on-site examinations and analysis performed at the Agency (off-site financial analysis) have also been included.

I INTRODUCTION 1

II BUSINESS PERFORMANCE OF BANKS IN THE FEDERATION OF BIH 2

1. STRUCTURE OF THE BANKING SECTOR	
1.1. Status, number and business network	3
1.2. Ownership structure	3
1.3. Employees	7
2. FINANCIAL INDICATORS OF THE PERFORMANCE	
2.1. Balance sheet	9
2.1.1. Liabilities	14
2.1.2. Capital – strength and adequacy	19
2.1.3. Assets and asset quality	22
2.2. Profitability	29
2.3. Risk-weighted nominal and effective interest rates	34
2.4. Liquidity	37
2.5. Foreign exchange risk	42

III CONCLUSION 45

ATTACHMENTS

I INTRODUCTION

In the nine months of the 2009, the banking sector in the Federation of BiH displayed a level of soundness and successfully responded to the client demands, which certainly contributed to perseverance of the trust between the banks and clients inspite of the strong adverse effects of the world's economic crisis. Although the majority of banks in FBA have good liquidity positions (confirmed by the fact that the banks keep funds significantly over the obliged reserve amount), the level of the banks' credit activities has decreased due to the lack of good quality projects, as well as due to the decrease in spending. In mid 2009, with an aim to hinder the adverse effects of the economic crisis, the Management board of FBA adopted the Decision on temporary renegotiation of citizens' credit liabilities in the banks which opened space for resolving the problems of numerous individuals that have not been able to service their credit liabilities in a regular manner. FBA is analyzing the possibility for reprogramming the loans for economy which should have positive effects on profitability and banks credit activity, and the clients will have an opportunity to overcome the liquidity issues in the period of the financial crisis and recession as well as releasing certain part of the funds to be used for maintenance of the business activity.

Encourages the fact that the banks in BiH, that are in the ownership of the foreign groups, have been implementing the "Vienna Initiative", that is the agreement for the continuation of financing the citizens and economy of Bosnia and Herzegovina, and therefore maintaining the exposure in relation to financing the capital on the level of 31.12.2008. This is of great importance for the overall performance security of the banking sector in FBiH. Upon the initial signing of the Memorandum by six parent banks, the "Vienna Initiative" was joined by three more banks. Recently, the first so called stress test was performed in BiH with the assistance from IMF. The results indicate that in the period up to now there has not been a need for parent-banks to provide additional capital for their daughter-banks in BiH.

Even after the impact of the global financial crisis, the business model of the banking sector in the Federation of BiH, which is based on the conservative approach to commercial banking, proved very successful in 2009, too, helping our banks go by without major difficulties in the performance even in the times of crisis. Nevertheless, the banking sector is alert to the fact that the crisis is still not behind us, and that the banks in the Federation of BiH will perform for a while longer with increased attention directed to credit risk (it is important that the banks establish adequate loan loss reserves due to increased delay in collection of past due claims), as well as that they will effectively manage and control the operating expenses in order to decrease them.

As of 30.09.2009., there were 20 banks with banking license issued in the Federation of BiH and two banks are under the provisional administration (UNA bank d.d. Bihać and Hercegovska bank d.d. Mostar). The banks continued with the expansion of their organizational units, but in a significantly decreased volume (the banks from the Federation of BiH have a total of 646 organizational units). Evident is the domination of five largest banks in the system that 'hold' around 80% of the market, loans and deposits.

The aggregate balance sheet of banks in the Federation of BiH, for the first nine months of 2009, is 15,3 billion KM, which is for 2% or 230 million KM higher than at the end of 2008 (the change is owing to funds received from the first payment proceeds from the stand by agreement approved for BiH by IMF).

Regulatory capital, over the first three quarters of 2009, decreased for 1% or 26 million KM in relation to 2008, and as of 30.09.2009., as well as net capital, is two billion KM. Core capital increased for 5% or 69 million KM, and the additional capital decreased for 16% or 95 million KM. The increase in the core capital is mainly due to inclusion of the income generated in 2008 (one of FBA's supervisory measures is the request for banks to direct the generated income towards strengthening the capital basis and not towards payment of dividends).

Fourteen banks have higher assets when compared to the end of 2008, while the remaining 6 banks recorded a downfall (nine banks have assets between 100 and 500 million KM). The most important change in the banks assets is the increase of cash funds for 14% or 594 million KM (from 4,2 billion KM to 4,8 billion KM), mostly a consequence and result of the restrictive credit policies of banks and decrease in the credit activity in 2009, as well as thanks to the inflow of funds from the first payment from the stand-by agreement with IMF. For the nine months of 2009, credit placements decreased for 5% or 496 million KM and as of 30.09.2009., they were 9,94 billion KM (new placements are mostly financed from the collection of the previous ones).

Deposits with participation of 71,7% and amount of 11 billion KM still represent the most significant source of funding for banks in the FBiH. Positive movements are of special importance for citizen deposits that in the nine months of 2009, increased for 5% or 153 million KM (at the end of the observed period they are 4,33 billion KM). After the adverse impact of the crisis and the downfall of 6% or 94 million KM in the first half of 2009, the sector of private companies realized an increase in the third quarter of 1% or 88 million KM.

Following slight downfall of savings in the first quarter of 2009, the second and third quarter recorded increase of 3,9 or 156 million KM on the nine month level. As of 30.09.2009., savings amounted to 4,19 billion KM, conclusively confirming the preserving of the confidence in the banks, as well as the security and stability of the banking sector in the Federation of BiH.

Banks in the Federation of BiH, for the nine months of 2009, generated profit of 22,5 million KM (significant decrease of 60% or 34,4 million KM if compared to the same period of 2008). Positive financial result of 58,4 million KM was reported by 12 banks (less by 34,7% or 30,9 million KM if compared to the same period of 2008), while eight banks reported loss of 35,8 million KM.

At the end, we can conclude that the adverse movements from the last quarter of 2008., have been stopped in the 2009., furthermore, the core liquidity indicators, due mainly to decreased credit activity, have improved and the capital levels of the system as a whole are satisfactory. On the other hand, in the coming period, due to limited access and availability of new sources, deterioration of the condition in the real sector and plunge of the overall economic activity and macroeconomic indicators, expected is stagnation or minimal increase of banking sector assets followed by continued decrease in the credit portfolio quality, increase in the poor performing loans and therefore credit losses, which will all adversely reflect on the banks' financial result.

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 30.09.2009., there were 20 banks with the banking license issued in the Federation of BiH. Number of banks remained the same as of 31.12.2008. There is a special law regulating establishment and work of the Development Bank of the Federation of BiH, Sarajevo which is a legal successor of the Investment Bank of the Federation of BiH d.d., Sarajevo, as of 01.07.2008.

As of 30.09.2009., there were two banks under provisional administration (UNA bank d.d. Bihac and Hercegovacka banka d.d. Mostar).

Over the three quarters of 2009, the banks continued expanding the network of their organizational units, but at a significantly 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 30.09.2009., the banks from the Federation of BiH had a total of 646 organizational units. This represents a downfall of 0,6% when compared to 31.12.2008., as of which date the banks had 650 organizational units.

As of 30.09.2009., seven banks from the Federation of BiH had 55 organizational units in Republic Srpska and nine banks had 14 organizational units in District Brcko. Five banks from Republic Srpska had 17 organizational units in the Federation of BiH (one organizational unit was opened, and five were closed).

As of 30.09.2009., all the banks had the license for inter-bank transactions in the internal payment system and 14 banks were under the deposit insurance program.

1.2. Ownership structure

As of 30.09.2009., ownership structure in banks¹ based on the available information and on-site visits to banks² is the following:

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

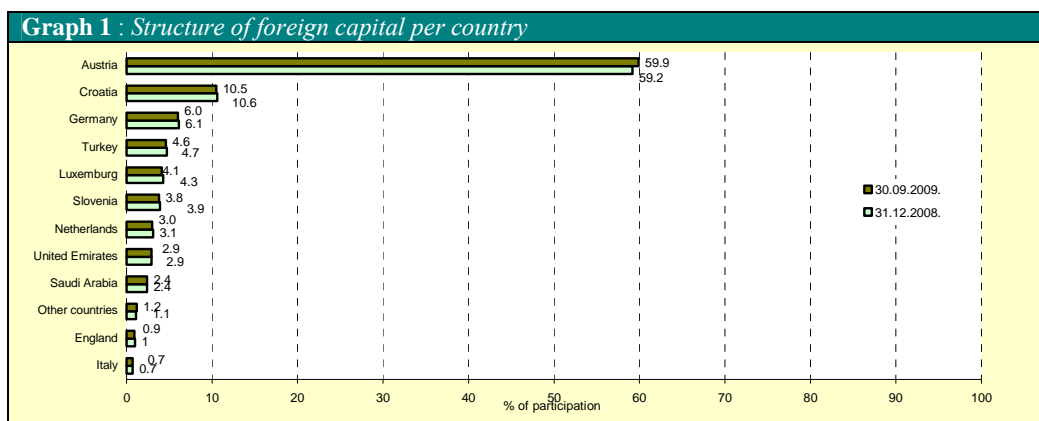
Six banks, of 18 banks with majority private ownership, are majority owned by domestic legal entities and individuals (residents) while 12 banks have majority foreign ownership.

If only foreign capital is analyzed to the criteria of the shareholders' home country, as of 30.09.2009., the shareholders from Austria owned 59,9% of foreign capital, which is higher by 0,7 per cent than at the end of 2008. The shareholders from Croatia owned 10,5% of foreign capital, while other countries participated less than 7%.

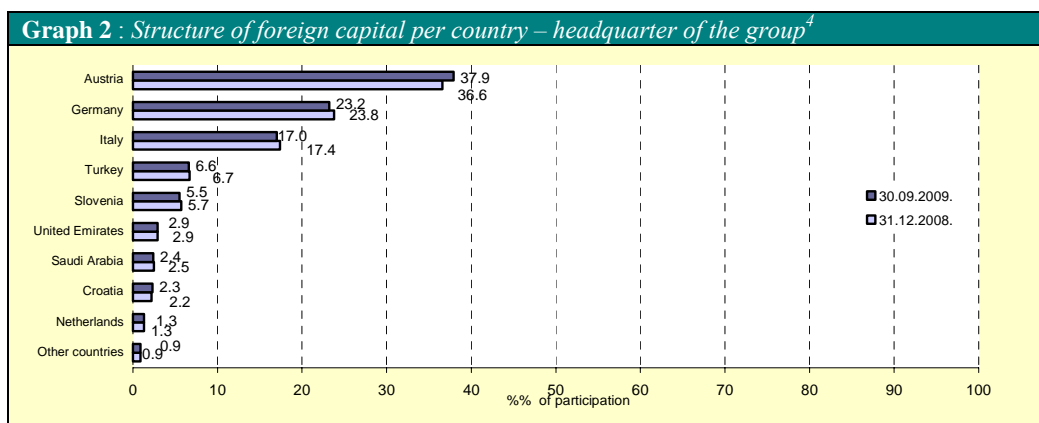
¹ Bank classification criteria is ownership over banks' share capital.

² The ownership structure of banks in the FBiH as of 30.09.2009., 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.



However, if capital correlations are taken into account the structure for foreign capital could be viewed according to the criteria of the parent-bank or the group's headquarter that has majority ownership (directly or indirectly over the group members) of the bank in the Federation of BiH. According to these criteria, situation as of 30.09.2009. has insignificantly changed in relation to the end of 2008. Banking groups and banks from Austria recorded the highest participation (37,9%), followed by German banks with participation of 23,2%, and the Italian banks with 17,0%. Other countries participate below 6,6%.



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

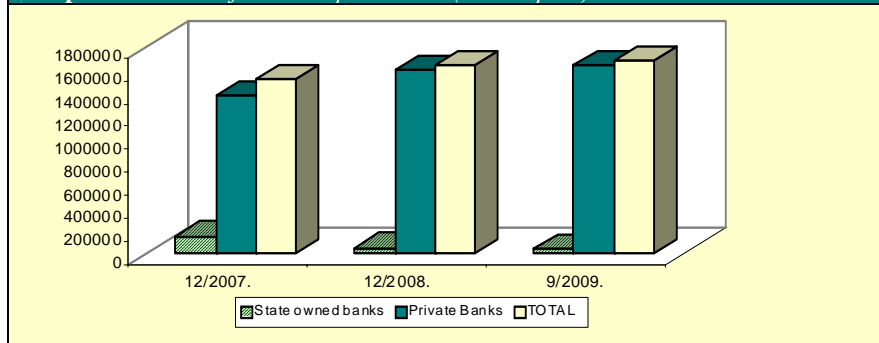
BANKS	31.12.2007.	31.12.2008.	30.09.2009.	RATIO				
				3/2	4/3			
1	2	3	4	5	6			
State banks	147.022	10%	42.593	3%	41.931	2%	29	98
Private banks	1.363.020	90%	1.593.251	97%	1.636.421	98%	117	103

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 shareholders of the banks from the F BiH 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).

TOTAL	1.510.042	100%	1.635.844	100%	1.678.352	100%	108	103
-------	-----------	------	-----------	------	-----------	------	-----	-----

Graph 3 : Preview of ownership structure (total capital)



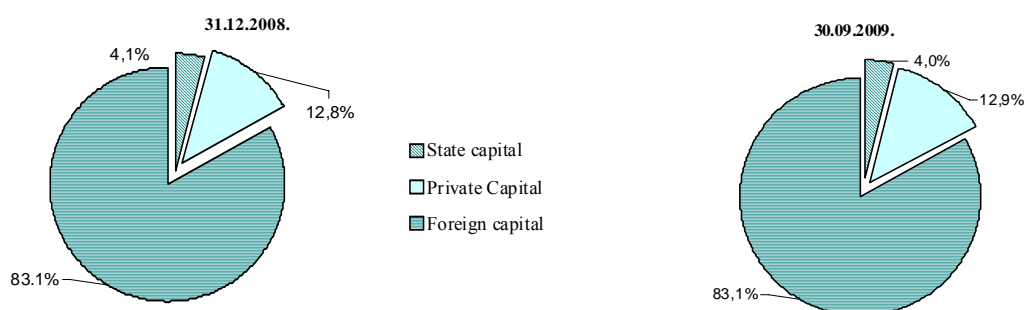
Analysis of participation by state, private and foreign capital in the share capital of banks shows more precise picture of the capital ownership structure in banks of the Federation of BiH.

- in 000 KM-

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

SHARE CAPITAL	31.12.2007.		31.12.2008.		30.09.2009.		RATIO	
	Amount	Participation %	Amount	Participation %	Amount	Participation %	5/3	7/5
1	2	3	4	5	6	7	8	9
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	147.382	12,9	105	103
Foreign capital (nonresident)	775.912	74,2	929.447	83,1	951.346	83,1	120	102
TOTAL	1.045.222	100,0	1.118.016	100,0	1.144.828	100,0	107	102

Graph 4: Ownership structure (share capital)



The share capital of banks in the Federation of BiH, over the nine months of 2009, has increased by 2,4% or 26,8 million KM based on additional capitalization of four banks, of which 21,9 million KM relates to nonresidents and 4,9 million KM to residents.

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

Participation of the state capital in total share capital as of 30.09.2009. was 4,0 % representing a decrease by 0,1 per cent in comparison to 31.12.2008.

Participation of private capital (residents) in total share capital of 12,9% is representing a 0,2 per cent increase in comparison to 31.12.2008. Nominal increase of 4,9 million KM was 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 (of which one bank had a technical emission – capital increase due to retained income) by domestic buyers of 4,4 million KM.

Participation of foreign capital remained in a relative amount unchanged from 31.12.2008. In absolute amount it increased for 21,9 million KM: additional capitalization of 22,4 million KM in four banks, while the mentioned share trading between residents and nonresidents decreased the participation by 0,5 million KM.

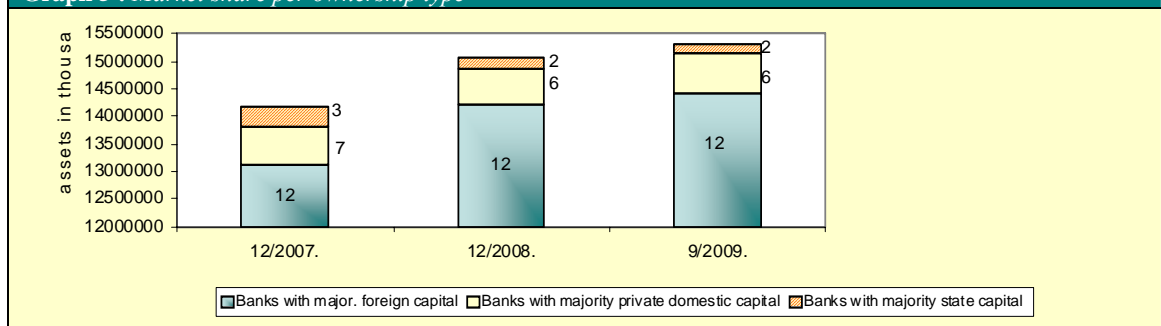
As of 30.09.2009., the market share of banks with majority foreign ownership was a high 94,2%, of banks with majority domestic private capital was 4,7%, and the share of banks with majority state capital was 1,1%.

Integration processes from the past period have been performed with a purpose of establishing stronger market positioning, and they resulted in a further enlargement of the largest banks, decreased number of banks as well as in an intensified competition. Such processes lead to the strengthening of the resulting bank, but also to an increase of concentrations in the banking sector in the Federation of BiH.

- in %-

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

BANKS	31.12.2007.			31.12.2008.			30.09.2009.		
	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	1,1
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	94,2
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

As of 30.09.2009., there was a total of 7.808 employees in the banks of the Federation of BiH, of that number 3% is in the banks with a majority state capital and 9% in private banks.

Table 4 : Bank employees in the FBiH

BANKS	NUMBER OF EMPLOYEES						RATIO	
	31.12.2007.		31.12.2008.		30.09.2009.		3:2	4:3
1	2	3	4	5	6	7	8	9
State banks	342	5%	234	3%	236	3%	68	100
Private banks	7.019	95%	7.763	97%	7.572	97%	111	98
TOTAL	7.361	100%	7.997	100%	7.808	100%	109	98
Number of banks	22		20		20		91	100

One of the consequences of the adverse effects of the economic crisis on the banking sector of the Federation of BiH is the decrease in the number of employees in the first nine months of 2009 for 2% or 189 employees. That decrease is primarily related to one bank where the number of employees decreased by 155 or 18%.

Table 5 : Qualification structure of employees

EDUCATION	NUMBER OF EMPLOYEES						RATIO	
	31.12.2007.		31.12.2008.		30.09.2009.		4:2	6:4
1	2	3	4	5	6	7	8	9
University qualifications	2.725	37,0%	3.007	37,6%	3.096	39,6%	110	103
Two-year post secondary school qualifications	799	10,8%	861	10,8%	805	10,3%	107	93
Secondary school qualifications	3.759	51,1%	4.054	50,7%	3.840	49,2%	108	95
Other	78	1,1%	75	0,9%	67	0,9%	96	89
TOTAL	7.361	100,0%	7.997	100,0%	7.808	100,0%	108	98

Although, over a longer period of time the employees' qualification structure has recorded a slight trend of improvement through an increase of the number of employees with university qualifications, the negative trends of decrease of employees, mostly of those with secondary school qualifications, have also had a positive effect on the qualification structure.

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

Table 6 : Assets per employee

BANKS	31.12.2007.			31.12.2008.			30.09.2009.		
	No. of empl.	Assets (000 KM)	Assets per empl.	No. of empl.	Assets (000 KM)	Assets per empl.	No. of empl.	Assets (000 KM)	Assets per empl.
State	342	381.036	1.114	234	187.157	800	236	166.776	707
Private	7.019	13.814.886	1.968	7.763	14.882.747	1.917	7.572	15.133.395	1.998
TOTAL	7.361	14.195.922	1.929	7.997	15.069.904	1.884	7.808	15.300.171	1.960

At the end of the third quarter of 2009, there was a 1,96 million KM of assets per employee on the level of the banking system. This indicator is significantly better with the private bank sector,

as expected taken the stagnation or the decreased volume of activities of state banks and their consequent excessive number of employees.

Table 7 : Assets per employee by groups			
Assets (000 KM)	31.12.2007.	31.12.2008.	30.09.2009.
	Number of banks	Number of banks	Number of banks
Up to 500	2	2	2
500 to 1.000	7	9	7
1.000 to 2.000	7	3	5
2.000 to 3.000	4	5	5
Over 3.000	2	1	1
TOTAL	22	20	20

Analytical indicators of respective banks range from 245 thousand KM to 3,8 million KM of assets per employee. Six banks have a better indicator than the one for the whole banking sector, and three banks in the system have one that exceeds 2,4 million KM.

Finally, we can say that the banks have made a significant progress in improving the quality and conditions in which they offer their services to clients, legal entities and individuals, as well as the conditions under which they offer services and finance clients.

2. FINANCIAL INDICATORS OF BANKS' PERFORMANCE

Examination of banks based on reports is performed through using the reports prescribed by the FBA and the reports of other institutions creating a database constructed of three sources of information:

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

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

In accordance with the provisions of Law on Opening Balance Sheet of Banks, banks with majority state owned capital have to report to the FBA "full" balance sheet divided into: passive, neutral and active sub-balance sheet. In order to obtain realistic indicators of banks' performance in the Federation of BiH, all further analysis of the banking system will be based on the indicators from the active sub-balance sheet of banks with majority state owned 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 30.09.2009., these items amounted to KM 618 million.

2.1. Balance sheet

The impact of the global economic crisis and its negative effects on the overall economy of BiH, as well as further deterioration of the condition of the real sector has influenced the banking sector and the key performance indicators. Growth stagnation is a result of the restricted access to financing sources, both deposit and credit. The significant structural changes in the assets are only due to banks' new business strategies that are adopted for more difficult performance conditions and the state of the environment characterized by restricted or minimal growth, strengthened focus on liquidity and credit risk, implementation of restrictive credit policies resulting in decrease of credit portfolio and has as an aim decrease of risk assets and maintenance of adequate levels of capital. On the other hand, the result is an increase in liquid funds and good liquidity of the banking sector.

Aggregate balance sheet of the banking sector as of 30.09.2009., amounted to 15,3 billion KM, 2% or 230 million KM higher than the end of 2008. After slight quarterly oscillations in the 2009, and with assets that at the end of the first half of 2009., was close to the level of 2008., the third quarter the condition displayed a positive change due to the funds received from the first payment of proceeds from the agreement IMF approved for BiH in July of 2009. An amount of about 270 million KM was allocated to the Federation of BiH from the total amount of the first proceeds. Taken the mentioned influence, such movements and trends in the banking sector have been expected.

Table 8 : Balance sheet					
DESCRIPTION	AMOUNT (in 000 KM)			RATIO	
	31.12.2007.	31.12.2008.	30.09.2009.	3/2	4/3
1	2	3	4	5	6
ASSETS:					
Cash funds	4.894.973	4.207.559	4.801.550	86	114
Securities ⁷	48.565	18.553	53.411	38	288
Placements to other banks	69.314	90.415	152.190	130	168
Loans	8.874.984	10.434.332	9.938.754	118	95
Loan loss provisions (LLP)	334.139	381.215	442.661	114	116
Loans – net value (loans minus LLP)	8.540.845	10.053.117	9.496.093	118	95
Business premises and other fixed assets	405.116	467.507	520.851	115	111
Other assets	237.109	232.753	276.076	98	119
TOTAL ASSETS	14.195.922	15.069.904	15.300.171	106	102
LIABILITIES:					
LIABILITIES					
Deposits	10.190.977	10.461.841	10.968.210	103	105
Borrowings from other banks	3.289	3.089	3.089	94	100
Loan Commitments	1.856.471	2.176.594	1.807.443	117	83
Other liabilities	635.143	792.536	843.077	125	106
CAPITAL					
Capital	1.510.042	1.635.844	1.678.352	108	103

⁷ Trading securities and securities held to maturity.

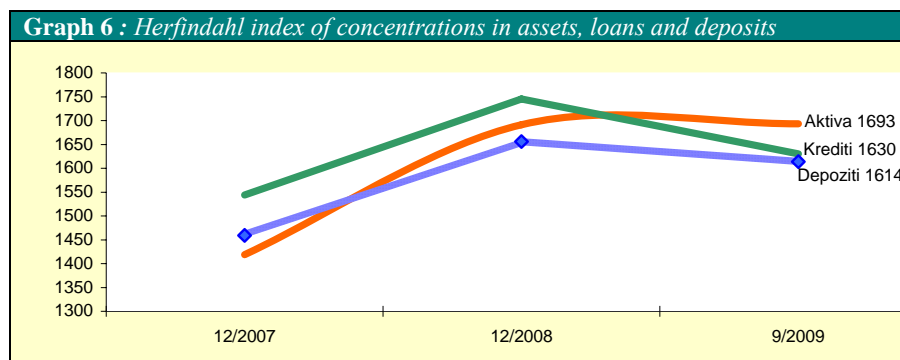
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	14.195.922	15.069.904	15.300.171	106	102
--	-------------------	-------------------	-------------------	------------	------------

Table 9: Assets of banks based on the ownership structure

BANKS	31.12.2007.			31.12.2008.			30.09.2009.			RATIO	
	No. banks	Assets (000 KM)	%	No. banks	Assets (000 KM)	%	No. banks	Assets (000 KM)	%	5/3	7/5
1	2	3	4	5	6	7	8	9			
State	3	381.036	3%	2	187.157	1%	2	166.776	1%	49	89
Private	19	13.814.886	97%	18	14.882.747	99%	18	15.133.395	99%	108	102
TOTAL	22	14.195.922	100%	20	15.069.904	100%	20	15.300.171	100%	106	102

The assets of 14 banks have increased in comparison to the end of 2008, while remaining 6 banks recorded a decrease. Three largest banks in the system recorded minimum changes in their assets, that is two recorded an increase of 2,5% and 4%, and the third a decrease of 5,8%.

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



Over the observed period the Herfindahl index of concentrations in assets loans and deposits has recorded a slight downfall of 115 and 42 units, while for assets it is on the same level as at the end of 2008. Their value as of 30.09.2009., was 1.693 for assets, 1630 for loans and 1.614 units for deposits, indicating 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 the total market participation of the largest institutions in the system per relevant chosen categories: assets, loans and deposits. The CR5 for market participation, loans and deposits of the five largest banks in the system as of 30.09.2009., was 78,5%, 76,7% and 78% respectively which for market participation and

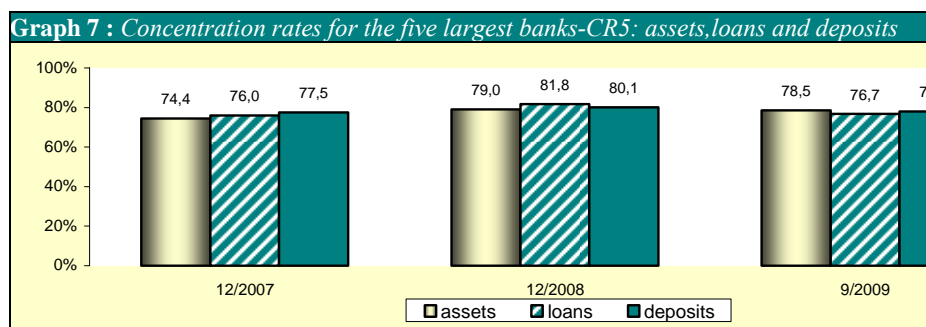
⁸ It is also called the Hirschmann-Herfindahl index or HHI as calculated in the formula $HI = \sum_{j=1}^n (S_j)^2$,

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

deposits is slightly lower than at the end of 2008., and in the segment of credits the participation decreased for 5,1%. The situation has almost not changed over the past several years, and dominant is the position of five largest banks in the system that 'hold' 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. The minor changes in relation to the end of 2008 refer to the participation of certain groups which is a result of changes of assets of the larger number of banks.

Three largest banks (Group I) still maintain the highest participation of 66,2%, that has been decreased by 0,4 per cent in comparison to the end of 2008. One bank (Group II) increased its participation from 6,7% to 7%, while the participation of 14,7 % of three banks in Group III (assets between 500 million KM and one billion KM) increased for 0,2 per cent. The largest group IV consisting of nine banks with assets between 100 and 500 million KM, decreased its participation from 10,8% to 10,7% , and the Group V (four banks) still has the minimal participation of 1,4%.

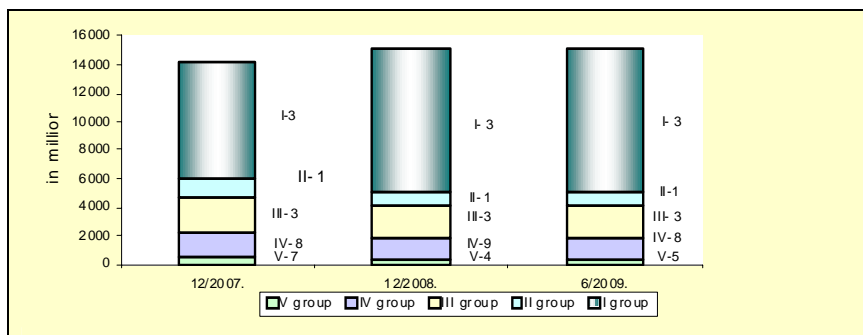
The following table presents a preview of amounts and participations of individual groups of banks in total assets by periods (amounts presented in KM millions).

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

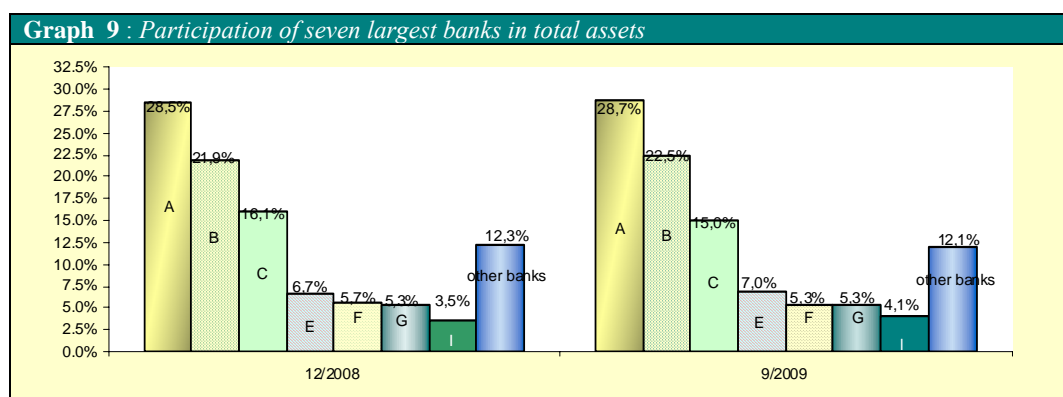
ASSETS	31.12.2007.			31.12.2008.			30.09.2009.		
	Amount	Partic. %	No. of banks	Amount	Partic. %	No. of banks	Amount	Partic. %	No. of banks
I- Over 2.000	8.203	57,8	3	10.036	66,6	3	10.127	66,2	3
II- 1000 to 2000	1.409	9,9	1	1.017	6,7	1	1.072	7,0	1
III- 500 to 1000	2.392	16,8	3	2.180	14,5	3	2.250	14,7	3
IV- 100 to 500	1.741	12,3	8	1.627	10,8	9	1.632	10,7	9
V- Under 100	451	3,2	7	210	1,4	4	219	1,4	4
TOTAL	14.196	100,0	22	15.070	100,0	20	15.300	100,0	20

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

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



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



The slight increase of the aggregate balance sheet amount in the nine months of 2009, of 2% or 230 million has been financed from the increase of deposits of 5% or 506 million KM. However, it has to be emphasized that of that amount around 270 million KM refers to funds received through the first payment of proceeds from IMF, 200 million is the result of replacement of loan liabilities with deposits at one of the banks, while the remaining amount is the realistic increase of deposits for only 36 million KM or 0,3%. Loan liabilities decreased for 17% or 369 million, of that 200 million were transferred to deposits, and the remaining amount of 169 million KM presents the realistic decrease of 7,8%. As of 30.09.2009., deposits were 11 billion KM, and loan liabilities 1,8 billion KM. In the observed period, the capital of banks increased for 3% or 43 million KM and was 1,7 billion KM.

The most significant change in the assets of banks is the increase of cash funds from 14% to 594 million KM (from 4,2 billion KM to 4,8 billion KM). Such movements are mostly the consequence and the result of the banks' restrictive loan policies and the decrease of loan activities in 2009, as well as due to the inflow of the cash funds from the first payment of proceeds from the agreement with IMF. For nine months of 2009, loans decreased for 5% or 496 million KM amounting to 9,94 billion KM as of 30.09.2009.

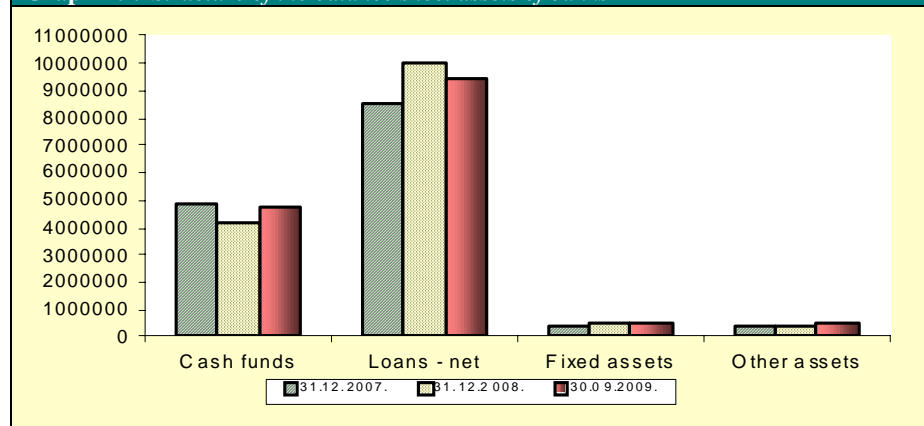
The following table and graph present the structure of the most significant balance sheet positions of banks.

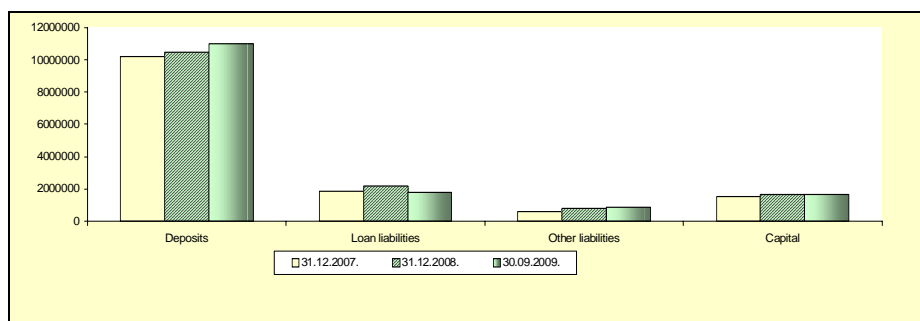
¹² Banks are marked with letters from A to I.

- in % -

Table 11 : Bank's balance structure

DESCRIPTION	PARTICIPATION		
	31.12.2007.	31.12.2008.	30.09.2009.
ASSETS:			
Cash funds	34,5	27,9	31,5
Securities	0,3	0,2	0,3
Placements to other banks	0,5	0,6	1,0
Loans	62,5	69,2	65,0
Loan loss reserves (LLR)	2,4	2,6	3,0
Loans net value (loans minus LLR)	60,1	66,6	62,0
Business premises and other fixed assets	2,9	3,1	3,4
Other assets	1,7	1,6	1,8
TOTAL ASSETS	100,0	100,0	100,0
LIABILITIES :			
LIABILITIES			
Deposits	71,8	69,4	71,7
Borrowings from other banks	0,0	0,0	0,0
Loan commitments	13,1	14,4	11,8
Other liabilities	4,5	5,3	5,5
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**Graph 11 : Structure of the balance sheet liabilities of banks**



In the structure of banks' balance sheet liabilities from the aspect of the most significant balance sheet categories, deposits in the amount of 11 billion KM and participation of 71,7% are still the dominant source of financing for banks in the Federation of BiH. Participation of credit liabilities has decreased from 14,4% to 11,8%, and participation of capital increased from 10,9% to 11,0%.

The structure of assets, as well as the structure of liabilities, had slight changes, as follows: further decreased participation of loans from 69,2% to 65% and an increase of cash funds from 27,9% to 31,4%.

Table 12 : Cash funds of banks

CASH FUNDS	31.12.2007.		31.12.2008.		30.09.2009.		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	353.134	7,4	111	102
Reserve accounts with CBBiH	2.805.568	57,3	2.228.687	53,0	2.419.345	50,3	79	109
Accounts with deposit institutions in BiH	12.304	0,3	12.341	0,3	12.773	0,3	100	104
Accounts with deposit institutions abroad	1.764.757	36,0	1.621.449	38,5	2.015.702	42,0	92	124
Cash funds in collection process	908	0,0	464	0,0	596	0,0	51	128
TOTAL	4.894.973	100,0	4.207.559	100,0	4.801.550	100,0	86	114

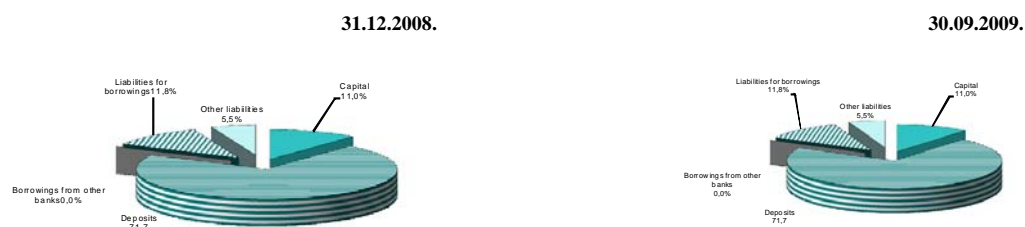
In the observed period of 2009, cash funds of the banks on the reserve accounts of CBBiH, increased for 2% or 191 million KM, amounting to 2,4 billion KM or 50,3% of total cash funds as of 30.09.2009., representing the participation decrease of 2,7 per cent in relation to the end of 2008. Banks' funds on the accounts with the depository institutions abroad have also increased by 24% or 394 million KM, amounting to two billion KM or 42% of total cash funds as of 30.09.2009., (38,5% at the end of 2008). The banks have increased their cash on hand and in vaults by 2% or eight million KM. At the end of the observing period, those funds amounted to 353 million KM, representing 7,4% of total cash funds (8,2 at the end of 2008.).

Over the observing period, the participation of domestic currency in the currency of cash funds has decreased from 57,9% to 55,6%, while the participation of funds in foreign currency has 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 30.09.2009. is presented in the following graphs:

Graph 12 : Liabilities structure of banks



In the observed period of 2009, participation of the two most significant finding sources of banks (deposits and credit liabilities), has changed primarily due to the business transaction of replacing credit sources with the deposit in one bank (these are the funds of parent bank), then also due to the growth of deposits with the payment of the proceeds from the agreement with IMF, as well as due to the decrease of credit liabilities through collection of past due loans. Deposit participation increased from 69,4% to 71,7%, and the credit liabilities have decreased from 14,4% to 11,8%.

Deposits participating with 71,7% or 11 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 the debt with foreign financial institutions. In 2009, credit funds have decreased by 17% or 369 million KM, of which 200 million KM had been withdrawn and replaced by deposit, and the remaining amount refers to payment off past due liabilities. If subordinate debts of 188 million KM, which were withdrawn by banks to strengthen capital base and capital adequacy, are added to credit liabilities then the participation of total credit funds in the sources would be 13% (15,8% at the end of 2008.).

Capital, over the three quarters of 2009, has increased by 3% or 43 million KM, of which the amount of 28,6 million KM refers to an inflow of new capital from additional capitalization of two banks.

As of 30.09.2009., 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 European Finance Agency (CEEFA), ComercBank AG Frankfurt, European fund for Southeast Europe (EFSE), Council of Europe Development Bank (EBRD).

According to the data submitted by banks, out of total deposits as of 30.09.2009., only 5,7% were deposits collected by organizational units of banks from the Federation of BiH operating in Republic Srpska and Brcko District.

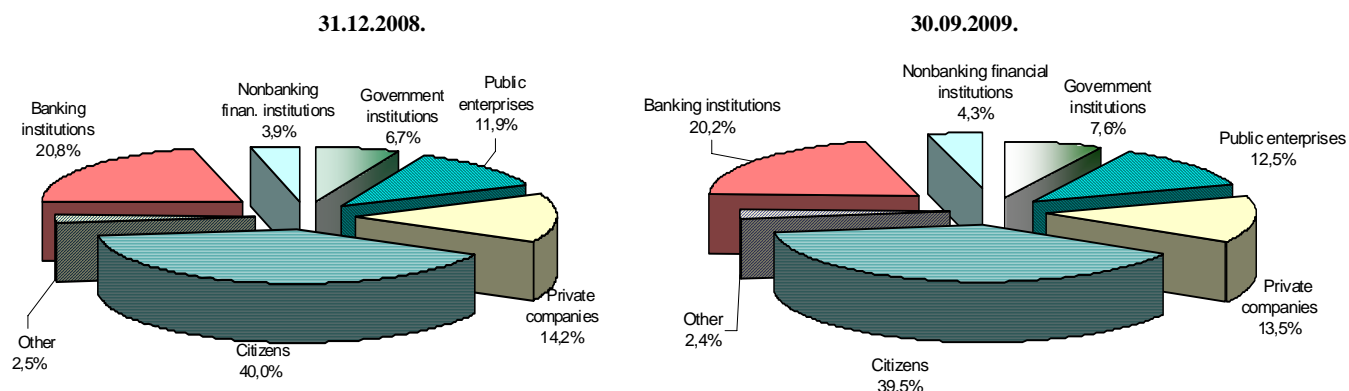
- in 000 KM-

SECTORS	31.12.2007.		31.12.2008.		30.09.2009.		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	834.514	7,6	60	119
Public enterprises	1.126.838	11,1	1.245.793	11,9	1.370.754	12,5	111	110

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

Private enterprises and assoc.	1.554.693	15,3	1.490.130	14,2	1.482.210	13,5	96	99
Non-profit. organizations	1.548.619	15,2	2.172.860	20,8	2.215.081	20,2	140	102
Banking institutions	334.575	3,3	403.295	3,9	464.253	4,3	121	115
Citizens	4.202.161	41,2	4.181.882	40,0	4.334.631	39,5	100	104
Other	252.996	2,4	266.361	2,5	266.767	2,4	105	100
TOTAL	10.190.977	100,0	10.461.841	100,0	10.968.210	100,0	103	105

Graph 13 : Deposit structure by sectors



The positive movements in the third quarter in the segment of deposit sources are visible in the majority of sectors, and it is significant for citizen deposits which in the nine months of 2009, increased for 5% or 153 million KM. At the end of the observing period, citizen deposits, with the amount of 4,33 billion KM and participation of 39,5% in total deposits, still represent the largest funding source of banks in the Federation of Bosnia and Herzegovina.

Moderate growth is present in deposits of the sector of government institutions (19% or 133 million KM) and public companies (10% or 125 million KM). A note to this is that these two sectors recorded a significant downfall in the last quarter of the past year. The government institutions deposits at the end of the ninth month of 2009, amounted to 835 million KM or 7,6% of total deposits (0,9 per cent higher than at the end of 2008), while public enterprises amounted to 1,37 billion KM, representing 12,5% of total deposits (increase of 0,6 per cent).

The biggest impact and adverse consequences in 2009, were in the real sector, which is the sector of private companies. One of the negative effects of the economic crisis in the segment of deposits in the first half of the year was the decrease of 6% or 94 million KM, while an increase of 1% or 88 million KM was realized in the third quarter, and that then resulted in a minimal negative rate of 1% or 8 million KM for the nine month period. The nominal deposits of this sector remained on almost the same level of 1,48 billion KM as of the end of 2008, while the participation in total deposits was decreased from 14,2% to 13,5%.

The deposits of the banking institutions realized a moderate growth of 2% or 42 million KM, so with an amount of 2,2 billion KM and participation of 20,2% they represent the second rated in the deposit sources of banks by sectors. Following this increase, the banking institutions'

deposits, as of 30.09.2009., are higher by 408 million KM than credit liabilities, which are the second rated funding source after deposits for banks in the Federation of BiH.

It should be emphasized that 96% or 2,13 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) through deposits in the amount of 2,17 billion KM is present in 10 banks in the Federation of BiH, with a concentration on four large banks (89%), with one bank representing 44% of total deposits received from the group. In this manner, the 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 level of the bank's group, as well as an impact on the profitability as these are expensive sources. If credit liabilities and subordinate debts (loans and deposits in supplementary capital) are added to these funds, the financial support the banks received from their groups becomes higher, amounting to 3,16 billion KM or 21% of total liabilities of the banking sector as of 30.09.2009.

As part of activities taken to mitigate the impact of the global financial crisis, the FBA (in October 2008), in addition to other 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 related to subsiding the pressure on liquidity and safeguarding their banks liquidity in the Federation of BiH.

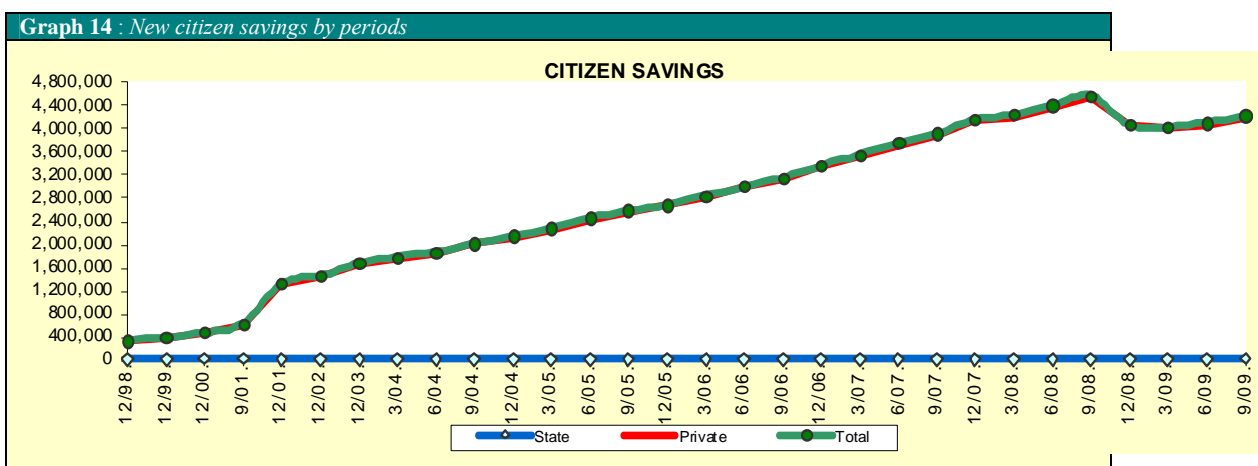
Under the support of IMF and other financial institutions, the FBA has been involved in activities related to signing of the Memorandum of Understanding with parent-banks from the European Union countries whose daughter-banks operate in the territory of BiH, the so called "Vienna Initiative".

Currency structure of deposits, at the end of the third quarter of 2009, was the following: deposits in foreign currencies (with the dominant participation of EURO) in the amount of 6,6 billion KM participated with 60,5% (60% at the end of 2008) and deposits in domestic currency in the amount of 4,3 billion KM participated with 39,5% (40% at the end of 2008).

Saving deposits, as the most significant segment of deposits and financial potential of banks, following many years of a 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 stabilized and in 2009, part of the deposits was returned to banks.

Following a slight downfall of savings in the first quarter of 2009, of 0,9% or 38 million KM, the saving deposits recorded an increase in the second and third quarter recorded, resulting in an increase of 3,9 or 156 million KM for the nine months. The savings as of 30.09.2009., amounted to 4,19 billion KM and compared to the same period in 2008, (when it was 4,53 billion KM) the amounts presents 92,5% or 8% less. That confirms that the confidence in the banks and the security and stability of the banking sector have been preserved.

BANKS	AMOUNT (IN 000 KM)			RATIO	
	31.12.2007.	31.12.2008.	30.09.2009.	3/2	4/3
1	2	3	4	5	6
State	30.469	32.481	33.382	107	103
Private	4.086.820	4.003.184	4.158.416	98	104
TOTAL	4.117.289	4.035.665	4.191.798	98	104



The largest three banks hold 72,7% of savings, while participation of eleven has an individual participation of less than 1%, representing only 5,7% of total savings in the system.

Savings deposits in local currency represent 29% and in foreign currency 70% of total savings amount.

Table 15 : Maturity structure citizen saving deposits by periods

BANKS	AMOUNT (IN 000 KM)				RATIO			
	31.12.2007.		31.12.2008.		30.09.2009.			
1	2	3	4	5	6			
Short term saving deposits	2.174.863	52,8%	2.119.669	52,5%	2.003.117	47,8%	97	95
Long term saving deposits	1.942.426	47,2%	1.915.996	47,5%	2.188.681	52,2%	99	114
TOTAL	4.117.289	100,0 %	4.035.665	100,0 %	4.191.798	100,0 %	98	104

The savings maturity structure changed, that is, the trend of the participation increase of long-term savings is continuing. Such changes are a result of the growth of the long-term savings of 14% or 273 million KM, and the decrease of the short-term savings for 5% or 117 million KM. As of 30.09.2009., their participation was 52,2% and 47,8% respectively.

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 depositors. In December 2008, with purpose to preserve citizens' trust in safety and stability of

the banking system in BiH, the amount of insured deposit increased to KM 20.000. 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. Upon the change of the Law on the deposit insurance in the banks in BiH¹⁴ and elimination of the ownership criteria (participation of private and state capital), of the remaining banks four can not apply to be admitted since they do not qualify with the criteria prescribed by the Deposit Insurance Agency: two banks due to the existing overall rating, two (one private and one state) are under provisional administration, while there are two more banks that can apply to for the admission to the insurance program. 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

Capital¹⁵ of banks in the Federation of BiH, as of 30.09.2009., amounted to two billion KM.

-in 000 KM-

Table 16 : Regulatory capital									
DESCRIPTION	31.12.2007.		31.12.2008.		30.09.2009.		RATIO		
	1	2	3	4	5	6	3/2	4/3	
STATE BANKS									
1. Core capital before reduction	145.802		44.852		44.895		31	100	
2. Offsetting items	2.018		2.752		3.609		136	131	
a) Core capital (1-2)	143.784	96%	42.100	97%	41.286	97%	29	98	
b) Supplementary capital	6.017	4%	1.335	3%	1.304	3%	22	98	
c) Capital (a + b)	149.801	100%	43.435	100%	42.590	100%	29	98	
PRIVATE BANKS									
1. Core capital before reduction	1.316.424		1.610.692		1.686.803		122	105	
2. Offsetting items	124.137		170.030		176.633		137	104	
a) Core capital (1-2)	1.192.287	69%	1.440.662	72%	1.510.170	76%	121	105	
b) Supplementary capital	531.057	31%	574.370	28%	479.498	24%	108	83	
c) Capital (a + b)	1.723.344	100%	2.015.032	100%	1.989.668	100%	117	99	
Total									
1. Core capital before reduction	1.462.226		1.655.544		1.731.698		113	105	
2. Offsetting items	126.155		172.782		180.242		137	104	
a) Core capital (1-2)	1.336.071	71%	1.482.762	72%	1.551.456	76%	111	105	
b) Supplementary capital	537.074	29%	575.705	28%	480.802	24%	107	84	
c) Capital (a + b)	1.873.145	100%	2.058.467	100%	2.032.258	100%	110	99	

Over the first three quarters of 2009, capital¹⁶ decreased by 1% or 26 million KM in relation to 2008, while the changes in core and supplementary capital reflected on the structure of regulatory capital. The core capital increased by 5% or 69 million KM, and supplementary capital decreased by 16% or 95 million KM.

The core capital growth is primarily based on a distribution of the 2008, profit to the capital. Following the 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 off 39 million KM) in the amount off 88 million KM (15 banks) was

¹⁴ „Official Gazette of BiH“ No.75/09.

¹⁵ Regulatory capital as defined by Article 8 and 9 of Decision on Minimum Standards for Capital Management in Banks (Official Gazette of the Federation of BiH, 3/03, 18/03, 53/06, 55/07, 81/07, 6/08).

¹⁶ Data source is the quarterly Report on Capital Positions of Banks (Form 1-Schedule A) regulated by the Decision on Minimum Standards for Managing Capital in Banks.

distributed 94,3% to the core capital (reserves or retained-undistributed profit of 88,6% and 5,7% to cover losses). Four banks made a 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 influenced by an increase of the additional capitalization that is the inflow of new, green capital in the amount of 28, 5 million KM in four banks.

Offsetting items (that reduce the core capital) have increased for seven million KM, primarily based on the increase of the current loss (36 million KM), along with a decrease due to partial coverage of the uncovered losses of 30 million KM.

Supplementary capital decrease by 95 million KM, with major changes in the structure: the 2008., profit of 75 million KM moved to the core capital, general loan loss reserves have decreased by 22 million KM, and subordinate debts by 23 million KM, while the permanent character items increased by 10 million KM.

The mentioned changes influenced the structure of the regulatory capital, so participation of core capital has increased from 72% to 76%, while the supplementary capital has decreased from 28% to 24%.

Net capital, as well as the regulatory capital, has been decreased by 26 million KM amounting to two billion KM as of 30.09.2009.

Capitalization rate of banks, expressed as a capital to assets ratio, as of 30.09.2009. was 12,9%, representing a decrease of 0,4 per cent compared to the end of 2008.

One of the most significant indicators of capital strength and adequacy¹⁷ of banks is capital adequacy ratio calculated as a ratio of net capital and risk weighted assets. As of 30.09.2009. this ratio at the banking system level was 16,8% which is higher by 0,4 per cent than at the end of 2008. The reason was the decrease o total risk weighted risk, primarily of the credit one, from 12,4 billion KM to 12 billion KM that is 4% or 441 million KM.. The reason for this was primarily the decrease of banks' credit activities and therefore the decrease of the total credit portfolio, as well as the decrease of the.

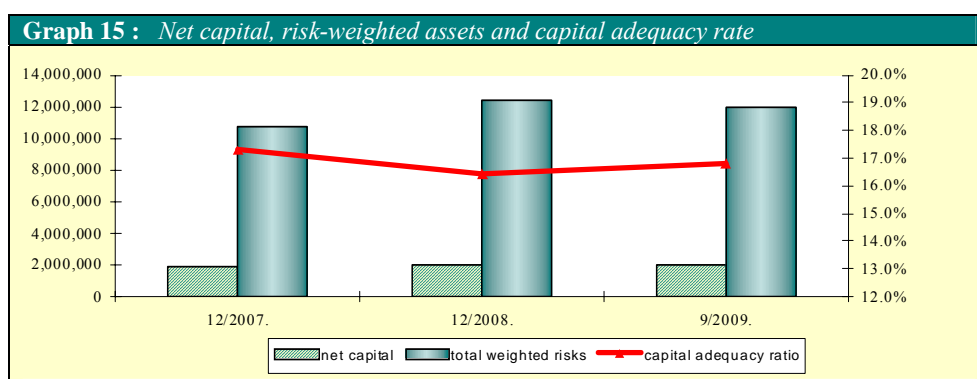
In process of conducting supervision of operations and financial positions of banks in the FBiH, as regulated by the Law, the FBA issues orders to banks to undertake actions for strengthening of capital base and provision of adequate capital in order to improve safety of both banks individually and the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

- 000 KM-

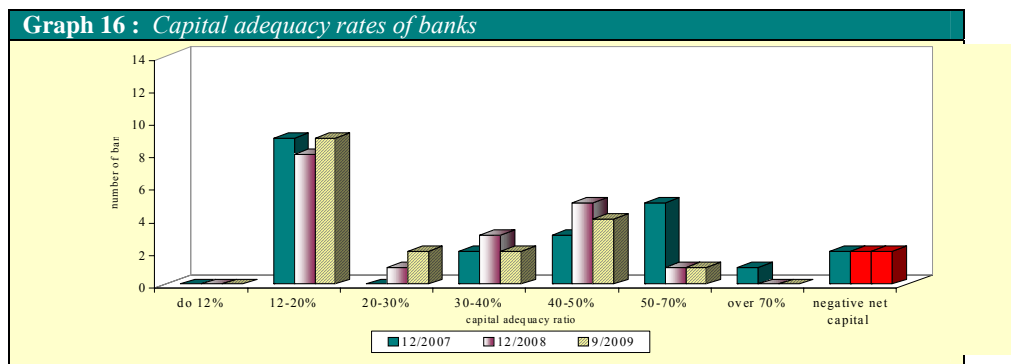
Table 17 : Net capital, risk-weighted assets and capital adequacy rate					
DESCRIPTION	31.12.2007.	31.12.2008.	30.09.2009.	RATIO	
				3/2	4/3

¹⁷ The Law prescribes minimum capital adequacy rate of 12%.

	1	2	3	4	5	6
1. NET CAPITAL		1.857.109	2.042.431	2.016.222	110	99
2. RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS		10.740.880	12.301.441	11.842.894	115	96
3. POR (RISK WEIGHTED OPERATING RISK)		-	130.975	148.884	-	114
4. TOTAL RISK WEIGHTED RISKS (2+3)		10.740.880	12.432.416	11.991.778	116	96
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/4)		17,3%	16,4%	16,8%	95	102



Implementation of Decision on Minimum Standards for Operating Risk Management in banks became effective as of 31.12.2008.¹⁸ 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 30.09.2009., 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).



¹⁸ "Official Gazette of F BiH", number: 6/08.

The global financial crisis effects have net adversely influenced the capital adequacy rate which after the additional capitalization from the generated profit in 2008, and decrease off the risk assets by 4% at the banking system level, if compared to 30.09.2008., by 1,6 per cent and amounting to 16,8% as of 30.09.2009.

Of total 20 banks in the FBiH, as of 30.09.2009., 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 first 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:

- Nine banks had the rate between 12,5% and 20%, and the three largest banks from 13,6% to 15,3%,
- Eight banks had the rate between 21% and 50%,
- 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 the 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)¹⁹ of banks in the FBiH as of 30.09.2009., amounted to 18 billion KM, the same as at the end of 2008. Gross assets²⁰ in the amount of 15,8 billion KM is higher by 2% or 292 million KM than the previous year.

Off-balance sheet risk items amounted to 2,3 billion KM and are lower by 11% or 292 million KM.

- in 000 KM-

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

¹⁹ Assets defined by Article 2 of Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks („Official Gazzette of FBiH“, number 3/03, 54/04, 68/05).

²⁰ Data source: Report on classification of balance sheet assets and off-balance sheet items of banks.

DESCRIPTION	AMOUNT (in 000 KM)						RATIO	
	31.12.2007.	Struct. %	31.12.2008.	Struct. %	30.09.2009.	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	9.523.492	60,4	118	93
Interests	53.512	0,4	59.564	0,4	61.662	0,4	111	103
Past due claims	210.585	1,4	231.890	1,5	414.038	2,7	110	179
Claims for paid guarantees	3.638	0,0	2.353	0,0	1.224	0,0	65	52
Other placements	61.910	0,4	39.393	0,3	84.189	0,5	64	214
Other assets	5.552.875	38,2	4.938.021	31,9	5.678.931	36	89	115
TOTAL ASSETS	14.543.281	100,0	15.471.310	100,0	15.763.536	100,0	106	102
OFF-BALANCE SHEET	2.453.214		2.582.093		2.292.068		105	89
ASSETS WITH OFF-BALANCE SHEET	16.996.495		18.053.403		18.055.604		106	100
RISK ASSETS WITH OFF-BALANCE SHEET	11.624.445		13.304.610		12.698.813		114	95
General loan risk and Potential loan losses	409.833		461.839		517.841		113	112
General and Special loan loss reserves already established	409.895		461.687		517.861		113	112

Non-risk items amount to 5,4 billion KM or 30% of total assets with off-balance sheet, and they increased by 13% in comparison to the end of 2008. On the other hand, risk assets with off-balance sheet items amount to 12,7 billion KM, and they decreased by 5% or 606 million KM .

The impact and negative consequences of the global financial and economic crisis in 2009, are increasingly more apparent in banks operation, as a result of the transfer of crisis from real to the banking sector, with the largest impact on banks' key operation and that is the segment of lending and asset quality. In the last quarter of 2008, banks have significantly decreased and limited growth of their placements, so over three quarters of 2009, credit placements recorded a downfall of 5% or 496 million KM. As of 30.06.2009., these items amounted to 9,9 billion KM and their participation in the assets was 63%. For nine months of 2009, there were 38% less placements when compared to the same period last year and the new placements are mainly financed through repayment of the previous placements. Limiting factor 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, 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 months 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 79% and their participation in total loans 2,3 %and 4,2 %.

Although, a significant downfall of loans was realized on the level of the system of 5% or 496 million KM, the analytical data from the banks indicate that this is mainly due to decrease of loans by 14% or 409 million KM in the largest bank in the system. Eight other banks recorded a

smaller downfall in loan portfolio and eleven banks have an increase in loans of 223 million KM.

Three largest banks in the FBiH with credit amount of 6,5 billion KM have participation of 66% in total loans at the system level.

In the aspect of sectors to which banks originate their loans, as of 30.09.2009., loans originated to private companies decreased for 165 million KM amounting to 4,7 billion KM or 47,5% of total loans. Loans originated to citizens have decreased by 5% or 264 million KM, amounting to 4,9 billion KM, representing participation of 49,1%. The data submitted by banks as of 30.09.2009., 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. 71,9% have loans originated to finance consumer goods²¹, 24,5% have housing loans, and remaining 3,6% have loans for SMEs and agriculture.

As for other sectors, with total participation of 3%, major change has been recorded with non-government institutions, where the loans decreased from 105 million Km to 54 million KM.

Three largest banks in the system financed 67% of total loans originated to citizens, and to private companies 65% of total loans to all sectors, which for citizens sector remains 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.		30.09.2009.		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	73.437	0,7	236	95
Public enterprises	211.465	2,4	175.424	1,7	177.409	1,8	83	101
Private enterprises and assoc.	3.998.141	45,0	4.881.525	46,8	4.716.959	47,5	122	97
Banking institutions	26.768	0,3	5.805	0,1	7.014	0,1	22	121
Non-banking financial instit.	114.084	1,3	105.352	1,0	53.863	0,5	92	51
Citizens	4.461.965	50,3	5.146.919	49,3	4.883.141	49,1	115	95
Other	30.005	0,3	42.343	0,4	26.931	0,3	141	64
TOTAL	8.874.984	100,0	10.434.332	100,0	9.938.754	100,0	118	95

Currency structure of loans has also been unchanged for longer period: loans financed with currency clause had the highest participation of 76% or 7,5 billion KM, loans in domestic currency of 23% or 2,3 billion KM, while loans in foreign currency had the lowest participation of only 2% or 161 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.

²¹ Short- term operation included.

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:

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.			30.09.2009.			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	10.428.095	82,1	208.584	117	90
B	1.478.711	12,7	105.446	1.446.504	10,9	103.385	1.818.860	14,3	133.959	98	126
C	143.658	1,2	35.717	165.309	1,2	40.558	235.030	1,9	56.790	115	142
D	122.003	1,1	67.086	154.168	1,2	83.300	212.926	1,7	114.660	126	138
E	3.865	0,0	3.865	3.847	0,0	3.847	3.902	0,0	3.848	99	101
Risk assets (A-E)	11.624.445	100,0	409.833	13.304.610	100,0	461.839	12.698.813	100,0	517.841	114	95
Nonrisk assets²³	5.372.050			4.748.793			5.356.791			88	113
TOTAL	16.996.495			18.053.403			18.055.604			106	100
OFF-BALANCE SHEET ITEMS											
	430.069	90,1		429.419	89,0		475.066	89,0		99	111
Susp. interest	46.929	9,9		54.479	11,0		57.919	11,0		116	111
TOTAL	476.998	100,0		483.898	100,0		532.985	100,0		101	111

Risk assets with off-balance sheet items (A-E) amounted to 13 billion KM, and, as of 30.09.2009., decreased by 5% or 606 million KM. Non-risk items amounted to 5,4 billion KM. These items increased by 13 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 non-payable 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 28 or 501 million KM, primarily due to an increase of special mentioned placements (category B) of 26% or 372 million KM, while nonperforming assets (C-E) increased by 40% or 129 million KM. Furthermore, over the same period, the assets were charged off (write off to the off-balance sheet) in the amount of 90 million KM (for six months of 2009, the amount was 48 million KM). Classified assets, as of 30.09.2009., amounted to two billion KM, and nonperforming assets

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%.

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%.

were 452 million KM. Good assets (category A) decreased by 10% or one billion KM, amounting to 10,4 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 4,6 per cent due to an increase of classified assets (28%) and downfall of risky assets (5%) in comparison to the end of 2008, which is currently representing 17,9%.

If an analysis is performed of only the ratio and trend of nonperforming assets and risk assets, as of 30.09.2009., this ratio was 3,6%, which is still relatively low ratio, and, if compared to the end of 2008, it is higher by 1,2 per cent. However, if we take into account that participation of category B in the risk assets is 14,3% (10,9% at the end of 2008), then the raising doubt that portion of placements reported under this category deteriorated in quality and should be categorized as nonperforming assets, in other words that some banks still practice not to timely establish adequate loan loss provisioning (as confirmed through on-site examinations, resulting by insufficient loan loss reserves), it can be concluded that the assets quality still has a decreasing trend. That is why it is of 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 increase, provisioning increases, and the earnings of banks decrease, and therefore a portion of bad loans hides 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.					30.09.2009.							
	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	Partic. %	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	Partic. %	12/6
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	4.417.728	90,47	3.523.993	69,70	7.941.721	79,91	89
B	203.799	3,96	971.260	18,37	1.175.059	11,26	283.296	5,80	1.272.003	25,16	1.555.299	15,65	132
C	71.580	1,39	84.803	1,60	156.383	1,50	104.225	2,14	127.390	2,52	231.615	2,33	148
D	45.885	0,89	105.724	2,00	151.609	1,45	77.892	1,59	132.227	2,62	210.119	2,11	139
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	4.883.141	100,0	5.055.613	100,0	9.938.754	100,00	95
Classified loans B-E	321.264	6,24	1.161.787	21,97	1.483.051	14,21	465.413	9,53	1.531.620	30,29	1.997.033	20,09	135
Nonperforming loans C-E	117.465	2,28	190.527	3,60	307.992	2,95	182.117	3,73	259.617	5,13	441.734	4,44	143
Loan structure	49,33		50,67		100,00		49,13		50,87		100,00		
Participation by sectors in classified loans, nonperforming loans and category B:													
Classification B-E	21,66		78,34		100,00		23,30		76,70		100,00		
Nonperforming C-E	38,14		61,86		100,00		43,23		56,77		100,00		
Category B	17,34		82,66		100,00		18,21		81,79		100,00		

As of 30.09.2009., of total loans originated to legal entities in the amount of 5 billion KM, 1,5 billion KM or 30% 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 4,9 billion KM, classification

categories B to E represent 465 million KM or 9,5% (321 million KM or 6,2% at the end of 2008).

Of loans finance to legal entities, 260 million KM was classified as nonperforming loans or 5% 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 182 million KM or 3,7% 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 41% 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 third 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 39%, category C 46%, and the legal entities 31% and 50% respectively), resulting by an increase of participation , primarily of category B (in citizens from 3,96% to 5,8%, and in legal entities from 18,37% to 25,16%), 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.

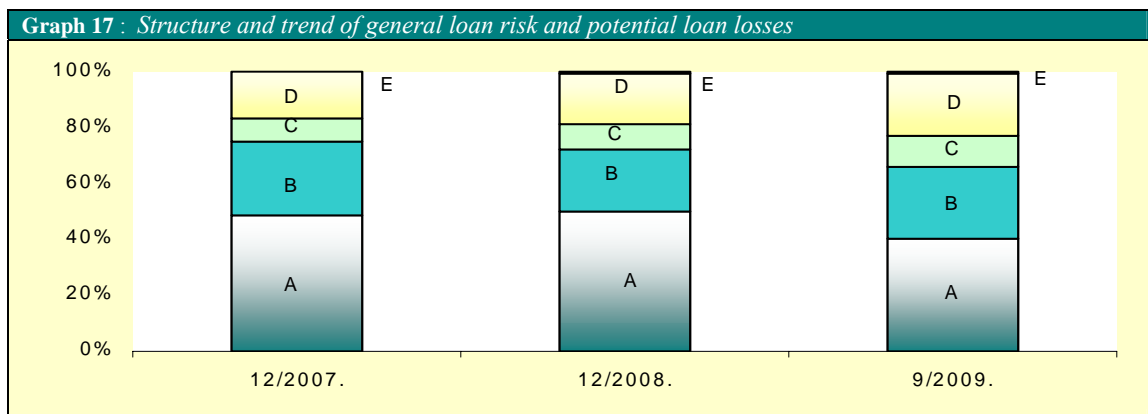
-000 KM-

DESCRIPTION	CITIZENS		LEGAL ENTITIES		TOTAL	
	Charged off assets	Suspended interest	Charged off assets	Charged off assets	Suspended interest	Charged off assets
1	2	3	4	5	6	7
Opening balance as of 31.12.2008.	95.693	8.860	333.170	43.456	428.863	52.316
<i>Changes in 2009:</i>						
- new charge offs (current year)	52.102	7.746	38.229	7.454	90.331	15.200
- payments made in the current year	14.617	3.896	16.143	2.541	30.760	6.437
- permanent charge off	976	97	12.392	3.063	13.368	3.160
Balance as of 30.06.2009.	132.202	12.613	342.864	45.306	475.066	57.919

Balance of the charged off assets, as of 30.09.2009., (475 million KM), and the suspended interest (58 million KM) generated an increase of 10% if compared to the end of 2008. There was a significant assets charge-off in the third quarter and it is twice as big as the write-off from the first two quarters of 2009.

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.		30.09.2009.		4/2	6/4
	1	2	3	4	5	6	7	8
A	197.719	48,2	230.793	50	208.584	40,3	117	90
B	105.446	25,7	103.385	22,4	133.959	25,9	98	130
C	35.717	8,7	40.558	8,8	56.790	11	114	140
D	67.086	16,4	83.300	18,0	114.660	22	124	138
E	3.865	1,0	3.847	0,8	3.848	0,8	100	100
TOTAL	409.833	100,0	461.883	100,0	517.841	100,0	113	112



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 12%, amounting to 518 million KM, while relative ratio of risky assets and off-balance sheet items have increased from 3,47% to 4,1% compared to the end of 2008. As of 30.09.2009., banks in average allocated for category B 7,4%, for category C 24,22%, 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.	30.09.2009.	3/2	4/3	
1	2	3	4	5	6	
Shareholders over 5% of voting rights, subsidiaries and other related enterprises	26.083	26.823	20.086	103	75	
Supervisory Board and Audit Board members	145	304	311	210	102	
Bank Management	2.355	2.315	2.079	98	90	
TOTAL	28.583	29.442	22.476	108	76	
Potential and undertaken off-balance sheet liabilities	1.936	10.304	6.781	532	66	

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 observed period in 2009, a decrease was recorded of potential loan liabilities towards entities related to banks, primarily due to expiration of the mentioned guarantees of one related entity. Based on the presented data, we could conclude that it is a question of a small amount of loans-guarantees operations with related entities, and the level of risk is low. The FBA pays special attention (in on-site examinations) to banks' operations with related entities, especially in assessing identification system and monitoring of risk exposure to related entities operations. The FBA on-site examiners issue orders for elimination of determined weaknesses within certain deadlines and initiate violation procedures. 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, for nine months of 2009, realized a positive financial result-profit²⁵ in the amount of 22,5 million KM, which at

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

level of the system is a significant decrease of 60% or 34,3 million KM when compared to the same period last year reaching to only 43% of the profit generated in 2008, so it can be concluded that there was a deterioration in this segment of operation in most of the banks in the Federation of BiH .

Positive financial result of KM 58,4 million was generated by 12 banks, which is less by 34,7% or KM 30,9 million than in the same period in 2008. At the same time eight banks reported loss of KM 35,8 million, which is higher by 10% or KM 3,3 million than the same period in 2008.

Detailed data is shown in the following table:

- in 000 KM-

Table 25 : Financial result reported: profit/loss						
Date/Description	At the system level		State banks		Private banks	
	Amount	Number of banks	Amount		Amount	Number of banks
30.09.2007.						
Loss	-4.008	4	-	-	-4.008	4
Profit	117.395	18	4.906	3	112.489	15
Total	113.387	22	4.906	3	108.481	19
30.09.2008.						
Loss	-32.508	6	-	-	-32.508	6
Profit	89.304	14	2.656	2	86.648	12
Total	56.796	20	2.656	2	54.140	18
30.09.2009.						
Loss	-35.809	8	-870	1	-34.939	7
Profit	58.353	12	629	1	57.724	11
Total	22.544	20	-241	2	22.785	18

Similar to other segments, this segment has also encountered concentrations: of total profit generated (58,4 million KM), three banks in the system (of which two are the largest and the actual carriers of profitability) reported 84,3% or 49,2 million KM, realizing assets participation in the banking system of 56,5%, while of the total loss (35,8 million KM) 70,4% or 25,2 million KM is generated by two banks with participation in assets of 17,3% (41,7% or 14,9 million KM is generated by only one bank, which is, with assets participation of 15,0%, rated third in the system. Analytical data indicate that total of 13 banks reported worse financial result (by 40 million KM), while eight banks reported slightly better result (by 10,4 million KM).

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

Based on the analytical data and the indicators of the quality evaluation of the profitability (the amount of the generated financial result – profit/loss and ratios used for evaluation of profitability productivity and efficiency of operation as well as other parameters related to evaluation of operation) it can be concluded that the profitability has declined the past year with

²⁵ During the year the banks do not report the tax liability in the income statement, unless there is an external audit of financial reports, so the data in majority of banks refers to loss/income before taxes (gross income/loss).

significant deterioration in 2009. Generally in the system, and especially at large banks that generate the profitability, the actual generated income is smaller as a result of the total income at minimum rate which is not sufficient to (after covering for the non-interest bearing expenses) provide for a satisfactory profit amount in most of the banks, and that has, up to now, primarily been an internal source of strengthening of banks' capital base.

At the system level, total income was realized in the amount of 60,8 million KM, which is, when compared to the same period last year, higher only by 1,1 million KM. Total noninterest bearing expenses were 581,3 million KM, and growth rate was 7% or 37,0 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 slow but positive trend, with a growth rate in interest-bearing income that has 64,8% of total income (63,2% in the same period in 2008), while the participation of operating income has decreased from 36,8% to 35,2%.

Total interest income amounts to 636 million KM, and, if compared to the same period last year, it shows an increase of 1% or 3,7 million KM, and its participation in total income increased slightly from 114,4% to 114,8%. While loan interest income increased by 8% or 48,9 million KM (average loan amount has raised by 8%), amounting to 640 million KM or 105,7% of total income, interest-bearing account income with depository institutions has recorded a significant downfall of 70% or 47,2 million KM, and their participation has decreased from 11,1% to 3,3%.

On the other hand, if compared to the insignificant growth rate of interest income (1%), interest expenses have recorded a slight downfall of 2% or seven million KM. Interest expenses amount to 302,9 million KM, and their participation in the structure of total income has decreased from 51,3% to 50,0%. In the structure of interest expenses, an emphasis should be given to the growth of 7% or 15 million KM of interest-bearing expenses on deposits. These expenses, amounting to 228,8 million KM, participate in total income of 37,8%, which is higher by 2,5 per cent than in the same period of last year. Interest bearing expenses on borrowings have decreased by 27% or 21,7 million KM, and their participation also decreased from 13,2% to 9,6%.

Net interest income in the amount of 392,9 million KM has a growth rate of 3% or 10,8 million KM with an increase in participation in the total income structure from 63,2% to 64,9%.

Operating income amounts to 213 million KM, and, if compared to the prior year, it records a downfall of 4% or 9,7 million KM, and a decrease in the structure of total income from 36,8% to 35,2%. This downfall is primarily related to a downfall of other operating income.

Total noninterest expenses had a faster growth (7%) than the net interest income (3%) and they amount to 581,3 million KM for the observed period, which represents an increase of 37 million KM if compared to the same period last year. At the same time, their participation in the structure of total income has increased from 90% to 95,9%.

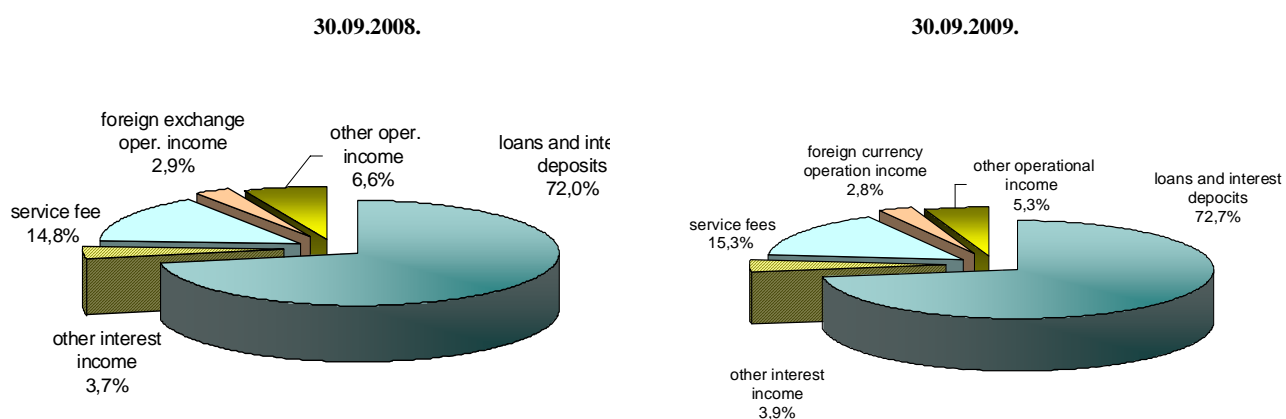
Within the noninterest expenses, only other operating expenses recorded a downfall of 30% or 28 million KM, and their participation in the structure of total income has decreased from 15,6% to 11%. An opposite trend and changes, that is, a significant growth of 32% or 39,1 million KM was recorded by loan loss provisions, which, at the end of the observing period, amounted to 161,2 million KM, with an increase in the structure of total income from 20,2% to 26,6%, followed by salary and contribution costs with the rate of 8% or 13,2 million KM (amounting to 188,1 million KM), and business premises and fixed assets costs of 115,6 million KM, showing an increase of 7% or 7,8 million KM%.

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

- in 000 KM-

Structure of total income	30.09.2007.		30.09.2008.		30.09.2009.		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	87.402	10,6	67.208	7,4	19.974	2,2	77	30
Loans and leasing	481.167	58,4	591.322	64,6	640.202	70,5	123	108
Other interest income	34.588	4,2	33.504	3,7	35.607	3,9	97	106
TOTAL	603.157	73,2	692.034	75,7	695.783	76,6	115	101
II Operating income								
Service fees	121.960	14,8	135.647	14,8	138.627	15,3	111	102
Foreign exchange income	24.925	3,0	27.003	2,9	25.667	2,8	108	95
Other operating income	73.714	9,0	59.993	6,6	48.668	5,3	81	81
TOTAL	220.599	26,8	222.643	24,3	212.962	23,4	101	96
TOTAL INCOME (I + II)	823.756	100,0	914.677	100,0	908.745	100,0	111	99

Graph 18 : Structure of total income

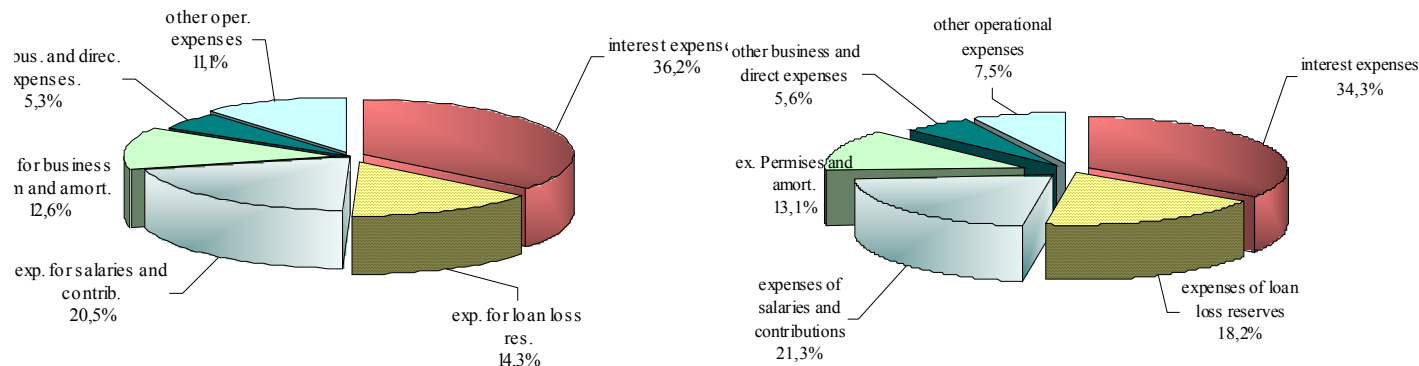


- in 000 KM-

Structure of total expenses	30.09.2007.		30.09.2008.		30.09.2009.		RATIO	
	Amount	%	Amount	%	Amount	%	4/2	6/4
1	2	3	4	5	6	7	8	9
I Interest expenses and similar expenses								
Deposits	162.332	22,8	213.720	25,0	228.752	25,9	132	107
Liabilities for borrowings	59.478	8,4	79.893	9,3	58.135	6,6	134	73
Other interest expenses	9.062	1,3	16.320	1,9	16.009	1,8	180	98
TOTAL	230.872	32,5	309.933	36,2	302.896	34,3	134	98
II Total non-interest bearing expenses								
General loan risk and potential loan losses Provisioning	119.073	16,8	122.045	14,3	161.193	18,2	102	132
Salary expenses	154.162	21,7	174.920	20,5	188.083	21,3	113	108
Business premises and depreciation expenses	89.211	12,5	107.796	12,6	115.613	13,1	121	107
Other business and direct expenses	41.270	5,8	44.922	5,3	49.802	5,6	109	111
Other operating expenses	75.781	10,7	94.605	11,1	66.584	7,5	125	70
TOTAL	479.497	67,5	544.288	63,8	581.275	65,7	113	107

TOTAL EXPENSES (I + II)	710.369	100,0	854.221	100,0	884.171	100,0	120	104
----------------------------------	---------	-------	---------	-------	---------	-------	-----	-----

Graph 19 : Structure of total expenses



30.09.2008.

30.09.2009.

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

- in % -

RATIOS	30.09.2007.	30.09.2008.	30.09.2009.
Return on Average Assets	0,91	0,40	0,15
Return on Average Total Capital	8,61	3,88	1,36
Return on Average Equity	11,17	5,83	1,99
Net Interest Income/Average Assets	2,98	2,69	2,59
Fee Income/Average Assets	1,77	1,57	1,41
Total Income/Average Assets	4,75	4,26	4,00
Operating and Direct Expenses/Average Assets	1,28	1,18	1,39
Operating Expenses/Average Assets	2,56	2,66	2,44
Total Non-interest Expenses/Average Assets	3,84	3,83	3,84

- in % -

RATIOS	30.09. 2009.		
	STATE BANKS	PRIVATE BANKS	AVERAGE IN THE FBiH
Return on Average Assets	-0,13	0,15	0,15
Return on Average Total Capital	-0,57	1,41	1,36
Return on Average Equity	-0,71	2,08	1,99
Net Interest Income/Average Assets	1,71	2,60	2,59
Fee Income/Average Assets	3,88	1,38	1,41
Total Income/Average Assets	5,59	3,98	4,00
Operating and Direct Expenses/Average Assets	1,00	1,40	1,39
Operating Expenses/Average Assets	4,72	2,42	2,44
Total Non-interest Expenses/Average Assets	5,73	3,81	3,84

26 Expenses include provisions for potential loan losses.

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 0,40% to 0,15%, and ROAE (Return on Average Equity) from 5,83% to 1,99%. In addition, productivity of banks, measured as ratio of total income and average assets, continues with decreasing trend (from 4,26% to 4,00%) 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 two 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.

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 rate²⁷ 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 prescribed²⁸.

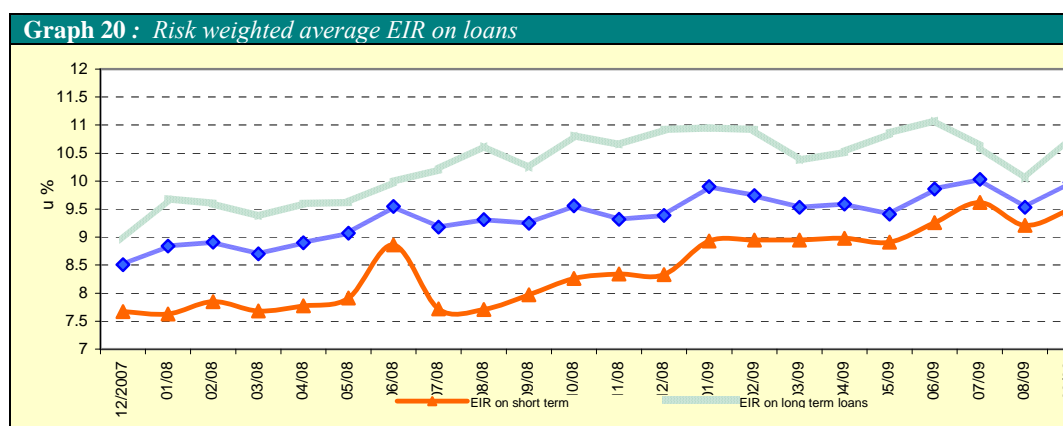
The following table presents risk-weighted nominal and effective interest rates (hereinafter: NIR and EIR) for loans on the banking system level for the two most important sectors (economy and

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

²⁸ 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.

citizens) for December of 2007, and, for June and December of 2008, and March, June and September of 2009:

DESCRIPTION	31.12.2007.		30.06.2008.		31.12.2008.		31.03.2009.		30.6.2009		30.09.2009.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1. Risk-weighted interest rates for short-term loans	7,34	7,67	7,51	8,86	7,82	8,33	8,37	8,95	8,41	9,26	8,77	9,49
1.1. Economy	7,19	7,45	7,39	8,76	7,74	8,19	8,31	8,8	8,4	9,1	8,71	9,16
1.2. Citizens	11,22	13,47	10,83	13,6	10,25	13,04	9,43	12,27	10,03	13,94	9,81	13,31
2. Risk-weighted interest rates for long-term loans	8,23	8,83	9,22	9,99	9,95	10,92	9,37	10,37	9,92	11,09	9,7	10,8
2.1. Economy	7,49	7,85	8,16	8,6	8,33	8,92	8,02	8,96	8,7	9,62	8,77	9,64
2.2. Citizens	8,93	9,75	9,91	10,88	11,16	12,54	11,03	12,1	10,82	12,2	10,57	11,87
3. Total risk-weighted interest rates for loans	7,86	8,51	8,56	9,55	8,69	9,39	8,78	9,53	8,91	9,86	9,12	9,98
3.1. Economy	7,31	7,62	7,7	8,7	7,88	8,37	8,23	8,85	8,45	9,19	8,73	9,27
3.2. Citizens	9,05	9,96	9,95	10,99	11,09	12,58	10,88	12,12	10,75	12,34	10,59	12,08



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 three quarters of 2009 recorded slight interest rates changing in both directions, but staying within 0,62%, the highest level being in July of 2009, (10,04%), and the lowest in May of 2009 (9,41%). In the ninth months of 2009, an average EIR was 9,98%, which was higher by 0,59 per cent than in December of 2008.

The risk-weighted EIR for short-term loans, in September 2009, was 9,49%, which was higher by 1,16 per cent in comparison to December 2008.

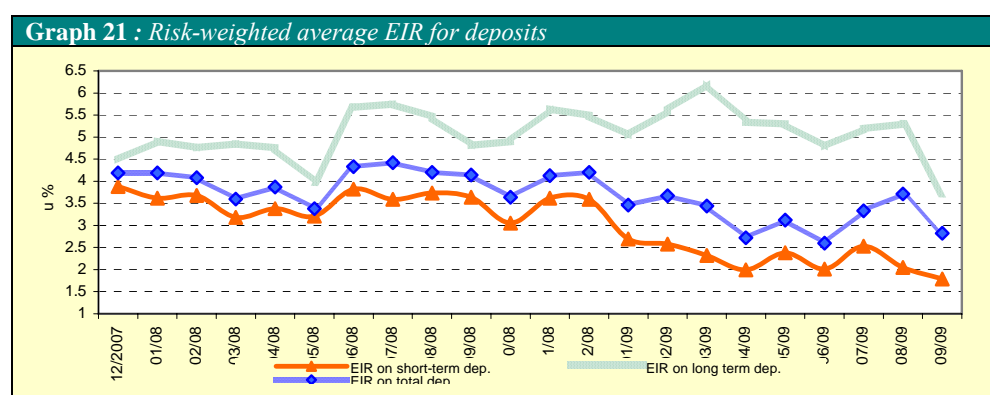
The risk-weighted EIR for long-term loans, in September 2009, was 10,80%, which was higher by 0,12 per cent than in December 2008.

Interest rates for loans originated in the two most significant sectors: economy and citizens²⁹, over the observing period of 2009, have been changing in opposite directions. However, the risk weighted EIR for loans originated in the economy, although still much lower than the EIR for loans to citizens, had a growth trend, for both short-term and long-term loans. In comparison to December of 2008, EIR for short-term loans increased for 0,97 per cent (from 8,19 to 9,16), while the increase for the long term loans was 0,72 per cent, that is from 8,92% to 9,64%. The total interest rate for loans to economy increased for 8,37% from December of 2008. to 9,27% in September of 2009.

EIR on short term loans to citizens in the first half of 2009, had a growth trend (from 13,04% in December 2008, to 13,94% in June 2009), but at the end of the third quarter realized a decrease to 13,31%. In the ninth months of 2009, EIR for long term loans to the same sector has been 11,8%, after the December level 2008, of 12,54% and the downfall of 0,67 per cent. The total EIR for loans to citizens in the compared period, in December 2008 and September 2009, decreased from 12,58 to 12,09%.

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

DESCRIPTION	31.12.2007.		30.06.2008.		31.12.2008.		31.03.2009.		30.06.2009.		30.9.2009	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Risk-weighted interest rates for short-term loans	3,87	3,88	3,82	3,82	3,59	3,59	2,3	2,32	1,99	2,01	1,79	1,79
1.1. up to 3 months	3,85	3,85	3,94	3,94	3,48	3,49	2,19	2,21	1,74	1,74	0,88	0,88
1.2. up to 1 year	3,92	3,92	3,6	3,6	4,13	4,14	2,9	2,91	3,8	3,95	3,63	3,64
2. Risk-weighted interest rates for long-term loans	4,48	4,48	5,67	5,67	5,48	5,49	6,17	6,21	4,72	4,78	3,7	3,72
2.1. up to 3 years	4,65	4,66	5,49	5,49	5,41	5,42	6,21	6,25	4,58	4,66	5,24	5,28
2.2. over 3 years	4,32	4,33	6,46	6,47	6,34	6,33	5,64	5,66	6,14	6,11	2,13	2,13
3. Total risk-weighted interest rates for deposits	4,18	4,19	4,33	4,33	4,2	4,2	3,42	3,44	2,57	2,6	2,8	2,82



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.

²⁹ Based on the methodology of classification in sectors: entrepreneurs are included in the sector of citizens.

If compared to December 2008, risk-weighted EIR for total term deposits, in September 2009, decreased by 1,38 per cent (from 4,2% to 2,82%). 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 1,79%, and EIR for long-term loans has decreased 5,48% to 3,72%. 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 0,88%). The long-term deposits have been influenced by a decrease of EIR for term deposits up to three years (from 6,33% to 2,13%) due to a long term deposit of the foreign mother-bank at another bank in the amount off 166 million KM under very low interest rate (only 1,82%). This deposit represented 45% of the total long term deposits, that is 24% of all the new time deposits in September of 2009, and that is why it had the biggest impact on the decrease of interest rates of both long-term and total deposits in that month.

In September 2009, banks paid to the economy slightly lower interest rates for term deposits than to citizens (2,48% and 4,14% respectively), 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 (around 80%) in September of 2009, had the term up to three months for which the EIR was 0,6% (3,49% in December 2008). At the same time, there have been a significant increase of the EIR for economy deposits of three months to a year, where the interest rate increased from 0,11% (December of 2008), to 4,35% (September of 2009).

The EIR for short-term citizen deposits has decreased from 2,84% (December 2008) to 2,56% in September 2009.

In September of 2009, the risk-weighted EIR for long-term economy deposits was 5,62%, and the citizens 5,06% (in December 6,13% and 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:

DESCRIPTION	31.12.2007.		30.06.2008.		31.12.2008.		31.03.2009.		30.06.2009.		30.09.2009	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	12	14	15	8	9	10	11	10	11
1. Risk-weighted interest rates for loans-overdrafts	8,89	9,01	8,59	8,58	8,62	8,81	8,29	8,29	8,56	9,00	8,71	8,72
2. Risk-weighted interest rates for demand deposits	0,37	0,37	0,41	0,41	0,40	0,40	0,39	0,39	0,40	0,40	0,42	0,42

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 September 2009, was 8,72% (an increase of 0,09 per cent in comparison to December 2008), and 0,42% 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 the confidence in the banking system of any country, as well as its stability and safety.

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

The adverse changes from 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 which has an adverse reflection to the banking systems of certain European countries, and since majority of banks in FBiH are owned by European banking groups that provide financial support to our banks through deposit and credit funding, it is estimated that liquidity risk still needs to be under enhanced supervision. 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 banks 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 30.09.2009., deposits still have the highest participation of 71,7% that have increased, over the observing period, by 5% or 506 million KM. The next item are borrowings (including the subordinated debt³⁰) with participation of 13,5% with longer maturity, representing quality source for long

³⁰ Subordinated debt – borrowings and permanent liabilities.

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.		30.09.2009.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Past due claims and paid off-balance sheet liabilities	4.747.689	46,6	4.186.764	40,0	4.317.078	39,4	88	103
Short term loans	430.784	4,2	460.100	4,4	378.195	3,4	107	82
Long term loans	1.045.768	10,3	979.516	9,4	837.013	7,6	94	85
TOTAL LOANS	6.224.241	61,1	5.626.380	53,8	5.532.286	50,4	90	98
Past due claims and paid off-balance sheet liabilities	2.722.927	26,7	3.018.766	28,9	3.429.245	31,3	111	114
Short term loans	1.243.809	12,2	1.816.695	17,3	2.006.679	18,3	146	110
Long term loans	3.966.736	38,9	4.835.461	46,2	5.435.924	49,6	122	112
TOTAL LOANS	10.190.977	100,0	10.461.841	100,0	10.968.210	100,0	103	105

Analysis of maturity structure of deposits in two main groups, if compared to 2008, shows a decrease of short term deposits participation by 3,4 per cent, and by the same percentage an increase of long term deposits, so their participation, as of 30.09.2009., 50,4% and 49,6% respectively. Major influence to this change was made by replacement of credit funds by long term deposit of one bank.

Total short term deposits, if compared to 2008, declined by 94 million KM or 2%, observing that in the fourth quarter of 2008, the decline was 634 million KM or 10%. This downfall primarily relates to deposits up to three months that have decreased by 18%, with a simultaneous decrease of participation from 4,4% to 3,4% and the deposits of one year decrease by 15% and their participation in the total deposits decreased from 9,4 to 7,6% while the demand deposits increased by 3%. Demand deposits still have the highest participation of 39,4% in total deposits, while deposits up to three months have the lowest participation of 3,4%. In total demand deposits, the highest participation is still recorded by citizen deposits (36%), which, in comparison to 2008, have decreased by 108 million KM or 7%.

Total long term deposits in 2009 increased by 600 million KM or 12%. It should be emphasized that of long term deposits, two sectors show dominant participation: citizens of 41,4% and banking institutions of 35,2%. Citizen deposits in term deposits up to three years show the highest participation of 52,6% (51,8% at the end of 2008), while banking institutions' deposits over three years show the highest participation of 70,9% (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.		30.09.2009.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Past due claims and paid off-balance sheet liabilities	214.223	2,4	234.178	2,2	415.262	4,2	109	177
Short term loans	1.719.297	19,4	2.337.206	22,4	2.173.347	21,8	136	93
Long term loans	6.941.464	78,2	7.862.948	75,4	7.350.145	74,0	113	93
TOTAL LOANS	8.874.984	100,0	10.434.332	100,0	9.938.754	100,0	118	95

Over the observing period of 2009, long term loans have decreased by 7% or 513 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 351 million KM), short term loans have also recorded a decrease by 7% or 164 million KM, while past due claims have increased by 79% or 182 million KM (private companies represent 154 million KM, citizens represent 30 million KM, non-banking financial organizations and government institutions five million KM, and other sectors recorded a decrease of seven million KM). In the structure of past due claims, 76% are private companies, 18% are citizens, and 6% are other sectors.

Sector analysis by maturity, in two most significant sectors, indicates that loans to citizens represent 90% 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 65%, which has decreased by 4,2 per cent in comparison to the end of 2008 due to a decline of loans of 5% or 496 million KM. Cash funds have decreased by 14% or 594 million KM, and their participation from 27,9% to 31,4%.

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) and as of 01.05.2009., the rate for long term deposits and borrowings decreased to 7%. 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.	30.09.2009.
1	2	3	4

Liquid assets ³¹ / Total assets	34,5	28,2	32,0
Liquid assets / Short term financial liabilities	58,1	51,2	54,9
Short term financial liabilities / Total financial liabilities	67,3	62,9	66,3
Loans / Deposits and Borrowings ³²	73,7	82,6	77,8
Loans / Deposits, borrowings and subordinate debts ³³	72,2	80,9	76,3

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-

	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	3.809.048	93	103
2. Minimum total daily balance of cash assets	3.686.972	3.310.173	3.566.515	90	108
3. Short term sources (accrual basis)	6.094.193	5.821.848	5.396.724	96	93
4. Liabilities:					
4.1. ten-day average 20% of Item 3	1.218.839	1.164.370	1.079.345	96	93
4.2. daily minimum 10% of Item 3	609.419	582.185	539.672	96	93
5. Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	2.755.883	2.523.036	2.729.703	92	108
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	3.077.553	2.727.988	3.026.843	89	111

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.³⁴

- in 000 KM -

Description	31.12.2007.	31.12.2008.	30.09.2009.	INDEX	
	Amount	Amount	Amount	3/2	4/3

³¹ Liquidity assets in the narrow sense: cash and deposits and other financial assets with maturity below three months, except inter-banking deposits.

³² Empiric standards: below 70%-very solid, 71%-75%-satisfactory, 76%-80%-marginal to satisfactory, 81%-85%-insufficient, over 85%-critical.

³³ Prior ratio has been modified. Subordinated debts are included in the sources, which gives more realistic indicator.

³⁴ 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.

	1	2	3	4	5	6
I. 1- 30 days						
1. Financial assets		5.678.451	5.132.611	5.916.318	90	115
2. Financial liabilities		5.291.774	4.762.949	5.015.591	90	105
3. Difference (+ or -) = 1-2		386.677	369.662	900.727	96	244
<i>Accrual of requirement in %</i>						
a) Performed %= Item 1 / Item 2		107,3 %	107,8%	118,0%		
b) Required minimum %		100,0%	85,0 %	85,0 %		
Surplus (+) or shortage (-) = a - b		7,3%	22,8 %	33,0 %		
II. 1-90 days						
1. Financial assets		6.283.942	5.897.798	6.691.903	94	113
2. Financial liabilities		5.957.300	5.440.491	5.779.866	91	106
3. Difference (+ or -) = 1-2		326.642	457.307	912.037	140	199
<i>Accrual of requirement in %</i>						
a) Performed %= Item 1 / Item.2		105,5%	108,4 %	115,8 %		
b) Required minimum %		100,0%	80,0%	80,0%		
Surplus (+) or shortage (-) = a - b		5,5%	28,4 %	35,8 %		
III. 1-180 days						
1. Financial assets		7.032.175	7.004.794	7.631.712	100	109
2. Financial liabilities		6.861.962	6.476.649	6.526.496	94	101
3. Difference (+ or -) = 1-2		170.213	528.145	1.105.216	310	209
<i>Accrual of requirement in %</i>						
a) Performed %= Item 1 / Item.2		102,5%	108,2 %	116,9%		
b) Required minimum %		95,0%	75,0 %	75,0 %		
Surplus (+) or shortage (-) = a - b		7,5%	33,2 %	41,9 %		

Based on the presented data, we may conclude that banks, as of 30.09.2009., 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 all of the above presented indicators, it may be concluded that the negative movements from the last quarter of 2008 have been stopped, and there is an apparent trend of improvement, so the liquidity of the banking system of the Federation of BiH is evaluated as satisfactory. Since this segment of performance and level of liquidity risk exposure correlates to credit risk, having in mind the effects of global financial crisis expansion in BiH and an impact to the banking sector of the FBiH (primarily through a stronger pressure on banks' liquidity), on one side, 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.

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

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

individual foreign currency position or all currencies together used by a bank in its operations – 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 Banks³⁵ 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.³⁶

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

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

According to the balance as of 30.09.2009., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 16,4% or 2,5 billion KM (13,5% 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 57,2% 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 currency³⁷ and total.

-in million KM-

Table 38: Foreign currency adjustment of financial assets and liabilities (EUR and total)										
Descriptions	31.12.2008.				30.09.2009.				RATIO	
	EURO		TOTAL		EURO		TOTAL		EURO	TOTAL
	Amou nt	Partic. %	Amou nt	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	1.708	19,4	2.152	22,2	141	124
2. Loans	149	1,8	185	1,9	118	1,3	151	1,6	79	82
3. Loans with currency clause	7.075	83,0	7.505	78,7	6.798	77,3	7.184	74,0	96	96
4. Other	83	1,0	110	1,2	174	2,0	211	2,2	210	192
Total (1+2+3+4)	8.520	100,0	9.538	100,0	8.798	100,0	9.698	100,0	103	102
<i>II. Financial liabilities</i>										
1. Deposits	5.333	65,5	6.292	68,7	5.760	68,5	6.630	71,0	108	105
2. Borrowings	2.045	25,1	2.095	22,9	1.721	20,5	1.759	18,9	84	84
3. Deposits and loans with currency clause	434	5,3	433	4,7	575	6,8	575	6,2	132	133

³⁵ "Official Gazette of F BiH", Number. 3/03, 31/03, 64/03, 54/04.

³⁶ 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 a bank up to 30%.

³⁷ Source: Form 5-Foreign currency position.

4.Other	332	4,1	339	3,7	353	4,2	366	3,9	106	108
Total (1+2+3+4)	8.144	100,0	9.159	100,0	8.409	100,0	9.330	100,0	103	102
<i>III. Off-balance sheet</i>										
1.Assets	71		73		65		74			
2.Liabilities	350		358		410		411			
<i>IV. Position</i>										
Long (amount)	96		94		44		32			
%	6,5%		6,4%		2,8%		2,0%			
Short										
%										
Limit	30%		30%		30%		30%			
Below limit	23,5%		23,6%		27,2%		28,0%			

If we analyze the structure of foreign currencies, we see a dominant participation of EUR in the financial assets³⁸, which, over the first six months of 2009, has increased (from 71,1% to 79,6%), along with an increase of nominal amount from 1,4 billion to two billion KM. Participation of EUR in the liabilities has slightly increased from 88,4% to 89,5%, or nominally from 7,7 billion KM to 7,8 billion KM.

However, calculation of the FX risk exposure also includes the amount of indexed items of assets (loans) and liabilities³⁹, which is especially significant in the assets (74% or 7,2 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 26% or 2,5 billion KM, of which EUR items make 20,6% or two billion KM, and other currencies 5,4% 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), 77,8% were contracted with currency clause, primarily tied to EUR (94,6%).

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

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 30.09.2009., there were 11 banks with long foreign currency position, and 9 with short position. At the system level, long foreign currency position represented 2% of banks' core capital, which is lower by 28% than the limit. Individual foreign currency position for EUR was 2,8%, with financial assets items being higher than financial liabilities (long position), representing a decline of 27,2% 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

³⁸ 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).

³⁹ 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).

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 CONCLUSION AND RECOMMENDATIONS

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 further development of regulation based on the Basle Principles, the Basle Capital Accord, and the European Banking Directives, as part of BiH's preparation to join the European Union,
 - 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 improve the business environment, as accepted by the Economic Social Council in the territory of the FBiH in December 2008, pursuant to the document issued by the FBiH Government;
- Realize the conclusion made by the Federation of BiH Parliament to establish banking supervision on state level;
- Form an opinion about status of state (Federal) banks;
- Define and further develop the financial sector regulation 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 the 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 work on further developing legal regulation for the banking sector and financial system based on the Basle Principles, the Basle Capital Accord, and the European Banking Directives,
 - Establish specialized court departments for economy,
 - Establish more efficient process for realization of pledges,
 - Adopt law on protection of creditors and full responsibility of debtors,
 - Adopt law or improve existing legislation regulating the area of safety and protection of money in banks and in transportation.

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.- 17-3/09.
Sarajevo, 22.12.2009.

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 - 30.09.2009.godine

No.	BANK	Address		Telephone	Director
1	BOSNA BANK INTERNATIONAL dd - SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	AMER BUKVIĆ
2	BOR BANKA dd - SARAJEVO	Sarajevo	Obala Kulina bana 18	033/663-500, fax:278-550	HAMID PRŠEŠ
3	FIMA BANKA dd - SARAJEVO	Sarajevo	Kolodvorska br. 5.	033/720-070, fax:720-100	EDIN MUFTIĆ
4	HERCEGOVAČKA BANKA dd MOSTAR	Mostar	Nadbiskupa Ćule bb.	036/332-901, fax:332-903	Prov. Admin. - Nikola Fabijanić - 16.04.2007.
5	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	036/444-444, fax:444-235	PETAR JURČIĆ
6	INTESA SANPAOLO BANKA DD BiH	Sarajevo	Obala Kulina bana 9a	033/497-555, fax:497-589	ALMIR KRKALIĆ
7	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032/448-400, fax:448-501	SUVAD IBRANOVIĆ
8	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Ibrahima Mržljaka 3.	037/771-253, fax:772-416	ŠABAN ZULIĆ Acting Director
9	NLB TUZLANSKA BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/259-259, fax:250-596	ALMIR ŠAHINPAŠIĆ
10	POŠTANSKA BANKA BiH dd - SARAJEVO	Sarajevo	Put zivota 2	033/564-000, fax: 564-050	ADNAN ZUKIĆ

11	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:664-175	AZRA ČOLIĆ
12	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Emerika Bluma 8.	033/250-950, fax:250-971	RUMYANA VELICHKOVA TODOROVA Acting Director
13	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb.	033/755-010, fax: 213-851	MICHAEL MÜLLER
14	RAZVOJNA BANKA FEDERACIJE BiH	Sarajevo	Igmanska 1	033/277-900, fax: 668-952	RAMIZ DŽAFEROVIĆ
15	SPARKASSE BANK dd - SARAJEVO	Sarajevo	Trampina 12/VI	033/280-300, fax:280-230	SANEL KUSTURICA
16	TURKISH ZIRAAT BANK BOSNIA dd - SARAJEVO	Sarajevo	Dženetića Čikma br. 2.	033/252-230, fax: 252-245	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

ATTACHEMENT 2

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

in 000 KM

Ord. No.	DESCRIPTION	31.12.2007.	31.12.2008.	30.09.2009.
	ASSETS			
1.	Cash funds and deposit accounts at depository institutions	4.894.973	4.207.559	4.801.550
1a	Cash and non-interest deposit accounts	349.241	417.601	407.037
1b	Interest bearing deposit accounts	4.545.732	3.789.958	4.394.513
2.	Trading securities	44.361	10.923	10.221
3.	Placements to other banks	69.314	90.415	152.190
4.	Loans, receivables in leasing and past due receivables	8.874.984	10.434.332	9.938.754
4a	Loans	8.660.593	10.199.933	9.523.344
4b	Receivables on leasing	168	221	148
4c	Past due receivables - loans and leasing	214.223	234.178	415.262
5.	Securities held to maturity	4.204	7.630	43.190
6.	Premises and other fixed assets	363.270	442.739	490.174
7.	Other real estate	41.846	24.768	30.677
8.	Investments in non-consolidated related enterprises	34.390	40.732	41.359
9.	Other assets	215.938	212.212	255.421
10.	MINUS: Reserves for potential losses	347.358	401.406	463.365
10a	Reserves on item 4 in Assets	334.139	381.215	442.661
10b	Reserves on Assets except item 4	13.219	20.191	20.704
11.	TOTAL ASSETS	14.195.922	15.069.904	15.300.171
	LIABILITIES			
12.	Deposits	10.190.977	10.461.841	10.968.210

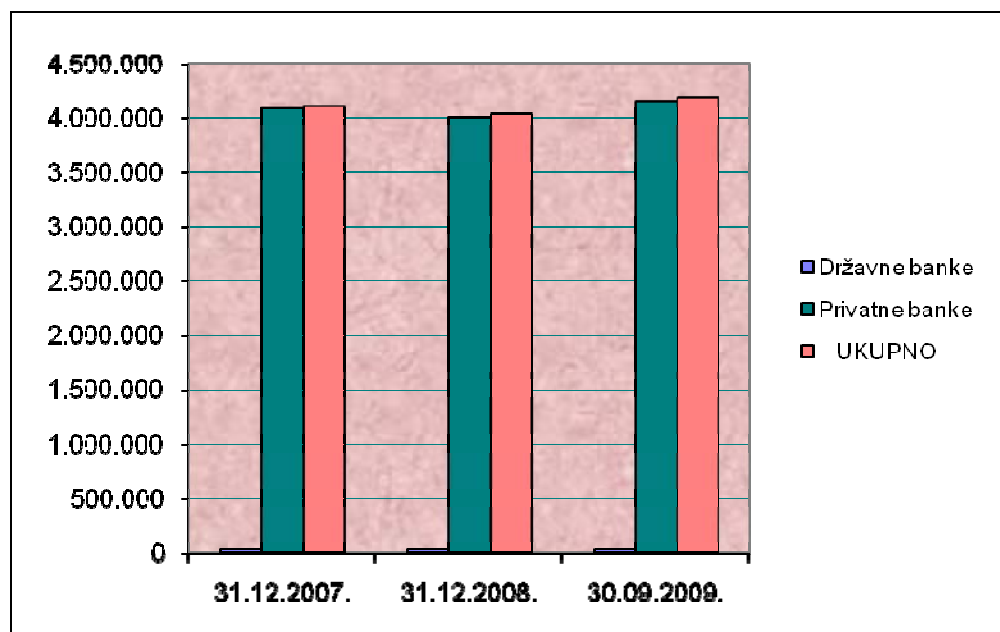
12a	Interest bearing deposits	9.368.121	9.586.215	10.094.743
12b	Non-interest bearing deposits	822.856	875.626	873.467
13.	Borrowings - past due	7.376	3.025	2.692
13a	Balance of payable loans, unpaid	0	0	0
13b	Unpaid - called for payment off-balance sheet items	7.376	3.025	2.692
14.	Loans from other 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	1.807.443
16a	payable within one year	357.425	793.837	669.318
16b	payable longer than one year	1.499.046	1.382.757	1.138.125
17.	Subordinated debts and subordinated bonds	242.791	267.737	254.831
18.	Other liabilities	384.976	521.774	585.554
19.	TOTAL LIABILITIES	12.685.880	13.434.060	13.621.819
	CAPITAL			
20.	Permanent priority shares	26.224	26.136	25.082
21.	Common shares	1.018.997	1.091.879	1.119.287
22.	Shares issued	94.739	152.892	151.738
22a	Permanent priority shares	8.332	8.420	8.420
22b	Common shares	86.407	144.472	143.318
23.	Undistributed income and capital reserves	260.146	307.465	350.781
24.	Currency exchange rate difference	0	0	0
25.	Other capital	109.936	57.472	31.518
26.	TOTAL CAPITAL (20. TO 25.)	1.510.042	1.635.844	1.678.352
27.	TOTAL LIABILITIES AND CAPITAL (19+26)	14.195.922	15.069.904	15.300.171
	PASSIVE AND NEUTRAL SUB BALANCE	606.788	626.468	617.727
	TOTAL BALANCE SHEET IN BANKS	14.802.710	15.696.372	15.917.898

ATTACHEMENT 3

NEW CITIZEN SAVINGS BY PERIODS

in 000 KM

	31.12.2007.	31.12.2008.	30.09.2009.
State banks	30.469	32.481	33.382
Private banks	4.086.820	4.003.184	4.158.416
TOTAL	4.117.289	4.035.665	4.191.798



ATTACHEMENT 4

CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS
as of 30.09.2009.

- ACTIVE BALANCE SHEET -

in 000 KM

Ord. No.	BALANCE SHEET ASSETS AND OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	1.761.415	400.292	7.726	3.914	0	2.173.347
2.	Long-term loans	6.056.132	1.034.595	165.198	94.220	0	7.350.145
3.	Other placements	79.895	4.089	30	175	0	84.189

4.	Interest accrued	43.420	18.238	1	3	0	61.662
5.	Past due receivables	123.769	120.412	57.872	111.985	0	414.038
6.	Receivables on guarantees paid	405	0	819	0	0	1.224
7.	Other assets	5.662.548	8.520	2.752	1.264	3.847	5.678.931
8.	TOTAL ACTIVE BALANCE SHEET	13.727.584	1.586.146	234.398	211.561	3.847	15.763.536
	a) Guarantees payable	301.421	52.690	24	847	12	354.994
9.	b) Performing guarantees	463.321	99.895	35	417	11	563.679
10.	Unsecured LoC	31.224	15.369	0	0		46.593
11.	Irrevocable loans	1.247.551	64.711	423	101	32	1.312.818
12.	Other potential liabilities	13.785	49	150	0	0	13.984
13.	TOTAL OFF-BALANCE SHEET	2.057.302	232.714	632	1.365	55	2.292.068
14.	TOTAL BALANCE AND OFF-BALANCE SHEET (8+13)	15.784.886	1.818.860	235.030	212.926	3.902	18.055.604
15.	General credit risk and potential loan losses (#14 x % of loss)	208.584	133.959	56.790	114.660	3.848	517.841
16.	Allocated general reserves (A) and special reserves (B, C, D, E)	208.600	133.963	56.790	114.660	3.848	517.861
17.	MORE (LESS) of the allocated reserves (#16 - 15) +or -	16	4	0	0	0	20

ATTACHEMENT 5

INCOME STATEMENT

in 000 KM

ELEMENTS	PERFORMED 30.09. 2008.		PERFORMED 30.09.2009.		RATIO 4 : 2
	Amount	Partic. in total income	Amount	Partic. in total income	
INCOME					
Interest income	692.034	115%	695.783	115%	101
Interest expenses	309.933	51%	302.896	50%	98

Net interest income	382.101	63%	392.887	65%	103
Fee income and other operating income	222.643	37%	212.962	35%	96
TOTAL INCOME	604.744	100%	605.849	100%	100
EXPENSES					
Reserves for potential losses	122.045	20%	161.193	27%	132
Salaries and contribution expenses	174.920	29%	188.083	31%	108
Fixed assets and overhead expenses	107.796	18%	115.613	19%	107
Other expenses	139.527	23%	116.386	19%	83
TOTAL EXPENSES (without interests)	544.288	90%	581.275	96%	107
NET INCOME BEFORE TAX	60.456	10%	24.574	4%	41
Income Tax	3.660	1%	2.030	0%	0
NET INCOME	56.796	9%	22.544	4%	40

ATTACHEMENT 6

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

in 000 KM

Ord. No.	DESCRIPTION	31.12.2007.	31.12.2008.	30.09.2009.
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	1.129.450
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	151.738
1.4.	General regulatory reserves (reserves as regulated by the Law)	65.945	84.319	76.451
1.5.	Other reserves not related to assets quality assessment	128.882	168.927	202.147
1.6.	Retained - undistributed income from previous years	130.354	134.220	159.362
1.a.	TOTAL (1.1. to 1.6.)	1.462.226	1.655.544	1.731.698
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	35.809
1.9.	Book value of treasury shares owned by the bank	2	81	595
1.10.	Amount of intangible assets	52.089	60.299	61.514
1.b.	TOTAL (1.7. to 1.10.)	126.155	172.782	180.242
1.	AMOUNT OF CORE CAPITAL: (1.a.-1.b.)	1.336.071	1.482.762	1.551.456
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	208.600
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	188.302
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	66.377
2.	AMOUNT OF SUPPLEMENTARY CAPITAL: (2.1. to 2.8.)	537.074	575.705	480.802
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	2.016.222
B.	RISK FROM RISK-WEIGHTED ASSETS AND CREDIT EQUIVALENTS	10.740.880	12.301.441	11.842.894
C.	POR (RISK-WEIGHTED OPERATING RISK)		130.975	148.884
D.	PTR (RISK-WEIGHTED MARKET RISK)		0	0
E.	TOTAL RISK-WEIGHTED RISKS B+C+D	10.740.880	12.432.416	11.991.778
F.	NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100	17,3%	16,4%	16,8%

ATTACHEMENT 7

NUMBER OF EMPLOYEES BY BANKS

Ord. No.	BANK	31.12.2007.	31.12.2008.	30.09.2009.
1	BOR BANKA dd SARAJEVO	42	45	47
2	BOSNA BANK INTERNATIONAL dd Sarajevo	145	171	177
3	FIMA BANKA dd SARAJEVO	101	149	143
4	HERCEGOVACKA BANKA dd MOSTAR	93	87	78
5	HVB CENTRAL PROFIT BANKA dd SARAJEVO	465		
6	HYPO ALPE ADRIA BANK dd MOSTAR	550	626	611
7	INTESA SANPAOLO BANKA dd BiH	479	501	510

8	INVESTICIJSKA BANKA FBiH SARAJEVO	104		
9	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	154	179	177
10	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	65	67	67
11	NLB TUZLANSKA BANKA dd TUZLA	472	507	488
12	POŠTANSKA BANKA dd SARAJEVO	97	119	116
13	PRIVREDNA BANKA dd SARAJEVO	163	175	190
14	PROCREDIT BANK dd SARAJEVO	831	888	733
15	SPARKASSE BANK dd SARAJEVO	326	379	425
16	RAIFFEISEN BANK BH dd SARAJEVO	1.543	1.745	1.690
17	TURKISH ZIRAAT BANK dd SARAJEVO	129	149	151
18	UNA BANKA dd BIHAĆ	59	59	58
19	UNI CREDIT BANKA BH dd MOSTAR	840	1.418	1.418
20	UNION BANKA dd SARAJEVO	179	175	178
21	VAKUFСКА BANKA dd SARAJEVO	184	204	212
22	VOLKSBANK BH dd SARAJEVO	340	354	339
	TOTAL	7.361	7.997	7.808