



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

**INFORMATION
ON THE BANKING SYSTEM OF
THE FEDERATION OF BOSNIA AND HERZEGOVINA
AS OF 31. 12. 2012.**

Sarajevo, March 2013.

The Banking Agency of the Federation of BiH, as a regulatory authority conducting supervision of banks, developed the Information on the banking system of the Federation of BiH (as of 31.12.2012, based on final unaudited data) based on reports of banks and other information and data submitted by banks. Findings and data from on-site examinations and analysis performed at the Agency (off-site financial analysis) have also been included.

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I INTRODUCTION

The banking sector performance in 2012 is still under the impact of the financial and the economic crises, which spread over the majority of the economy in Europe and which did not only reflect on the banks and financial systems, but also real economy, and overall economic environment of a large number of countries. The recovery of the global economy has again slowed down, and uncertainty in regard to the future development of events is more and more present. The banking sector in F BiH in 2012 is stagnating, the balance sheet has a slight decline, credit activities slowed down, and continued is the increase of the poor quality loans, although with somewhat slower trend in comparison to the previous year. The sources of financing (deposits and loan obligations) also have a declining trend, and especially the foreign sources of financing, which the banks had as a financial support from their groups. In spite all the negative impacts, the banking sector has still remained stable, adequately capitalized, the citizens' savings kept the increasing trend, the liquidity is still satisfactory and the profitability improved.

As of 31.12.2012., there were 18 banks with banking license issued in the Federation of BiH, of which number one bank was under provisional administration (Postanska bank BH d.d. Sarajevo). The number of banka in comparison to 31.12.2011 is lower by one banks, Hercegovacka bank dd Mostar which licence was revoked. As of 31.12.2012., the number of employees in banks was 7.130, which is by 3,2% or 239 employee less than in comparison to 31.12.2011.

The aggregate balance sheet of the banking sector, as of 31.12.2012., amounted to 15 billion KM, representing a decrease by 1,8% or 272 million KM compared to the end of 2011. Loans, as a largest item of assets in banks in 2012 recorded a slight incline by 1,7% or 178 million KM and at the end of the year amounted to 10,67 billion KM or 71,1% of the balance sheet of the banks in FBiH. The loans to citizens are 5,08 billion KM or 47,6% of total loans, and loans to private companies are 5,14 billion KM or 48,2% of total loans.

The total nonperforming loans are 1,4 billion KM with participation in the total loans of 13,2%. The participation of the non performing loans in comparison to the total loans increased by 1,3 percent points in comparison to the end of 2011, when they were 11,9% of total loans. The participation of the non performing loans granted to legal entities in comparison to total loans to legal entities is 15,6% and the participation of nonperforming loans in total loans to citizens is 10,5%.

The cash funds are 3,96 billion KM or 26,4% of the balance sheet of banks in F BiH and is lower by 9,5% or 415 million KM in comparison to the end of 2011. The realized decline of cash funds primarily is a result of the decline of deposits and loan liabilities, and in a smaller part slight increase of loans and increase of investments in securities (treasuries and bonds of the governments).

Although the deposits recorded a decline in 2012 of 1,5% or 164 million KM, are still a dominant source of financing of banks in the Federation of BiH with the participation of 73,1% in total liabilities of banks. In the same period the saving deposits, as the most important segment of deposit and financial potential of the banks, maintained the positive trend of growth and at the end of 2012 were 5,76 billion KM, which is by 7,4% or 395 million KM higher than at the end of 2011.

The loan liabilities of banks as of 31.12.2012. were 1,14 billion KM or 7,6% of total sources of

financing and are lower in comparison to the end of 2011. by 178 million KM or 13,5%. In 2012. continued is the trend of decline of the debt of the banks from F BiH overseas, especially from parent groups. The funds received from the group (deposits, loans taken and subordinated debt) are 1,4 billion KM and are lower by 387 million KM or 22% in comparison to the end of 2011.

Capital as of 31.12. 2012. was 2,22 billion KM and it increased by 6,7% or 139 million KM in comparison to the end of 2011. The growth was mostly based on the current financial result – profit, additional capital and increase of reserves in one bank.

The regulatory capital was 2,19 billion KM and it increased by 3% or 70 million KM in comparison to the end of 2011, along with smaller changes in its structure.

The banking system capital adequacy rate, as one of the most important indicators of strength and banks' capital adequacy, as of 31.12. 2012 was 17,4%, which is by 0,4 percent points higher than at the end of 2011, but still significantly over the prescribed minimum (12%) and presents a satisfactory capitalization of the total system and a strong base and foundation for preservation of its security and stability.

Based on the unaudited data from the balance sheet for 2012, the banks in the Federation of BiH realized a positive financial result, profit in the amount of 112 million KM. A positive financial result of 128 million KM was realized by 14 banks, and losses in performance in the amount of 16,5 million KM were reported by four banks.

• **Growth and development of the banking sector and the ownership structure:** The following table gives a review of the changes in number and ownership structure of banks in the last five years.

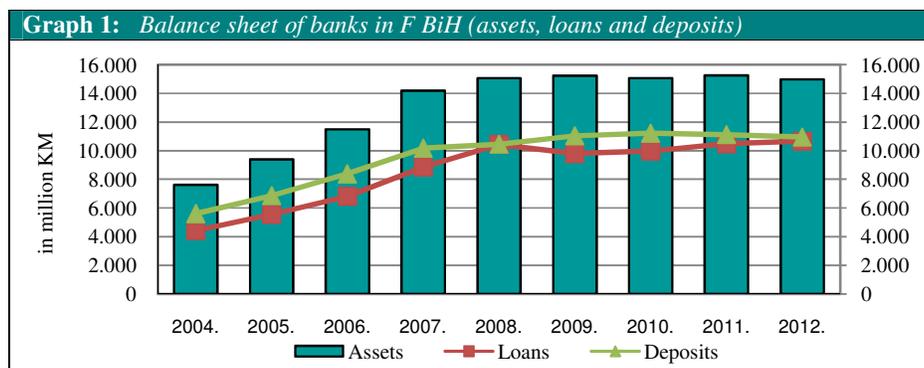
Table 1: Review of changes in number and ownership structure of banks			
	State banks	Private banks	TOTAL
31.12.2007.	3	19	22
Changes in 2008.			
-merger/acquisition		-1	-1
- revoked licenses ¹	-1		-1
31.12.2008.	2	18	20
In 2009. There were no changes			
31.12.2009.	2	18	20
Changes in 2010.			
-revoked licenses	-1		-1
31.12.2010.	1	18	19
In 2011. no changes			
31.12.2011.	1	18	19
Changes in 2012.			
-revoked licenses		-1	-1
31.12.2012.	1	17	18

Balance sheet

The banking sector in 2012, as in the previous four years, was characterized by stagnation, that is, minimum oscillations in the aggregate balance sheet, level of deposit funds in slight decline and credit sources, in most part the credit lines financed by the foreign credit institutions, have been declining, as a result of debt payment, that is the payment of past due liabilities and

¹ Development Bank of the F BiH, as of 01.07.2008., became a legal successor of the Investment Bank of the F BiH d.d. Sarajevo.

termination of the inflow of new investments from overseas. In the segment of lending continued is the positive trend of a slight increase from 2010 and 2011. The assets of banks realized a slight decline of 1,8% or 272 million KM and was 15 billion KM. Over the past four years, affected by the economic and financial crisis, the aggregate balance sheet ranged between 14,99 billion KM and 15,26 billion KM, or oscilated within +/- 270 million KM.



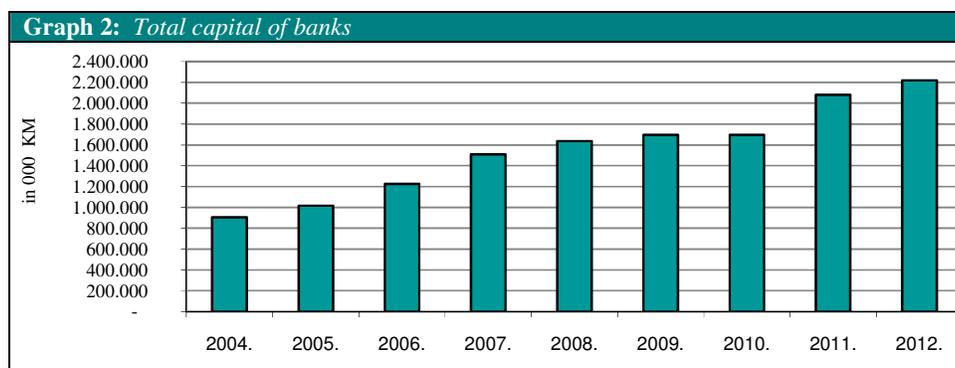
The minimum decline of the aggregate balance sheet of 2%, in comparison to 2011, is a result of decrease of deposits by 1,5% or 164 million KM, and loan liabilities by 13% or 178 million KM, while the total capital increased by 6,7% or 139 million KM.

In the assets of banks, the most significant item were the credit placements with participation of 71% that in 2012 increased by 178 million KM or 1,7%, amounting to 10,7 billion KM. The largest changes refer to two dominant sources. The loans to the citizens increased by 3% or 152 million KM, amounting to 5,14 billion KM with a participation of 48,2%, while the loans to citizens increased by 1% or 33 million KM and are 5,08 billion KM, which is 47,6 of total loans..

Cash funds decreased by 9,5% or 415 million KM, amounted to 3,96 billion KM, representing participation of 26,4% in the assets.

Deposits, with participation of 73,1%, amounting to 11 billion KM, still represent the most significant source of funding for banks in the FBiH.

Total capital of banks amounted to 2,2 billion KM (shareholders' was 1,2 billion KM), representing an increase of 6,7% or 139 million KM. There are two main reasons for such a high growth: the realized profit on the level of the system of 112 million KM and additional capitalisation of one bank.



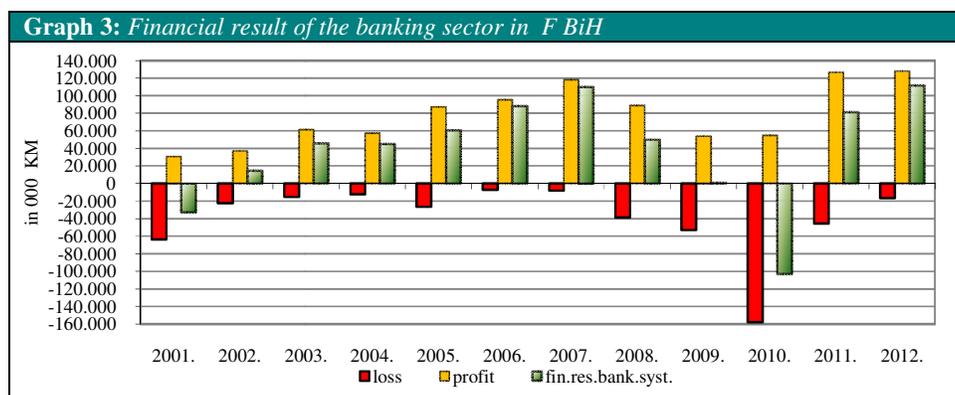
Income Statement

Since 2001, when the banking system reported loss of KM 33 million, a positive trend of the successful performance had begun that due to the global economic and financial crisis spreading was stopped in 2008, so there was the significant deterioration of profitability recorded in the entire banking system of the Federation of BiH. In 2010, as affected by an adverse influence of the crisis, profitability decline was the most significant. However, in 2011 and 2012, positive changes were recorded in the profitability segment, but it should be noted that the financial result of the overall system in the last several years had been under a key influence of three largest banks.

According to the final non-audited data for 2012, the banks in the Federation of BiH reported a positive financial result-profit in the amount of 112 million KM, which is the largest profit realized to date in the banking sector in the Federation of BiH. The reason for that is the decrease in value impairment and operating expenses.

Positive financial result was reported by 14 banks in total amount of 128 million KM, representing a decline of 1% or 1,4 million KM higher than in 2011 (16 banks), while four banks reported loss in the amount of 16,5 million KM, which is by 64% or 29 million KM less than the previous year.

Reason for improvement of the entire sector's profitability in 2012., is primarily the result of the lower level of impairment value, which had a high decline in comparison to the previous year, and one of the reasons is that the level of the non performing assets significantly declined at the end of 2011. (in one bank, as a part of the restructuring process of the overall performance, part of the non performing loans were transferred to another legal entity). However, trend in the deterioration of the assets, although slowed down, continued in 2012., which creates doubt that the value impairment in some banks were under estimated, and financial result over estimated.



Total income in 2012 amounted to 849 million KM, which is lower by 4% or 38 million in comparison to 2011. Net interest income was 540 million KM, with a growth rate of 6% or 32 million KM, as result of a higher decline in interest income (by 7% or 57 million KM) and decrease of interest expenses (by 8% or 25 million KM), and in the structure of total income the participation of the net interest income remained unchanged (64%). Operating income, as a second component of the total income, had a decline of 2% or 6 million KM and amounting to 309 million KM, which is almost the same participation of 36% as at the end of 2011. On the expenses side, the value impairment expenses declined by 24% or 46 million KM in comparison to the end of 2011, and amounted to a 145 million KM (17% of total income), that is why the total non interest expenses had a significant decline of 9% or 70 million KM, that is they were realized in the amount of 720 million KM.

Ownership structure: At the end of 2012, ownership structure of banks in the Federation of BiH was the following: one bank with majority state ownership, and of 17 banks with majority private ownership, six banks were majority owned by domestic legal entities and individuals (residents), and 11 banks were majority foreign owned. Based on the criteria of the owner-shareholder's home country, that is the criteria of direct or indirect majority ownership through the group members, at the end of 2012, the largest participation was recorded by banking groups and banks from Austria (53,6%), followed by Italian banks (16,1%), while other countries participated below 6,3%.

In 2012, participation of state, foreign and private domestic (resident) capital in total share capital had slight changes which as of 31.12.2012., was 1,2 billion KM. The participation of state capital remained the same 2,8%, declining by 0,4 percentual points. Foreign capital nominally increased by 22 million KM, that is one billion KM, and participation increased from 82,2% to 82,5%. Private capital (residents) declined by nine million KM, and was 165 million KM, and participation in total share capital decreased from 14,6% to 13,7%.

• **Concentrations and competition:** As for opportunities in the banking market of the Federation of BiH, where in order to compete for customers and greater market share banks enter into acquisitions and integration processes through mergers, upon finalization of such processes in the system, as estimated by some financial experts, there will remain 15 strong banks. Naimly, six to seven large foreign owned banks will control 90% of the market, in which they already have a sovereign rule, while smaller banks will profile as local and/ or regional character banks.

Four banks that still have dominant participation of 68,1% (at the end of 2011: 68,7%) hold the assets in the range of 1,3 billion KM to 3,8 billion KM. The largest number of banks (11) hold assets lower than 500 million KM and market participation of 16%, of which two banks hold the assets bellow 100 million KM, and a slight participation of 0,8%. Three banks hold assets between 500 million KM and one billion KM and participation of 15,9%.

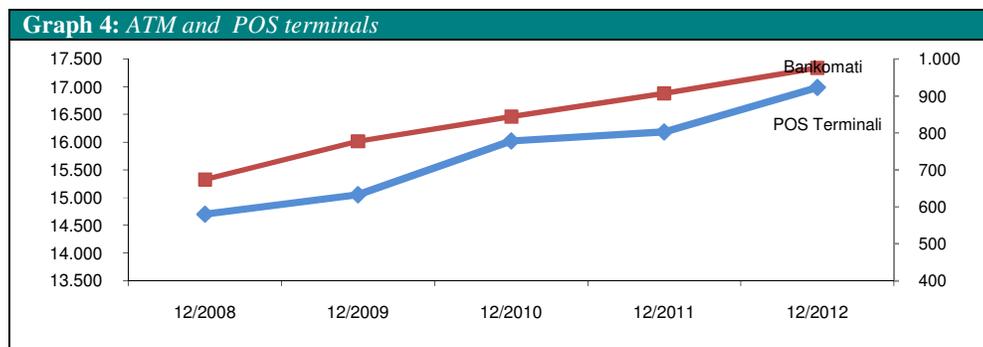
One of the indicators of concentration in banking system is the ratio of market concentration, that is, the concentration rate² (hereinafter: CR), which indicates total market participation of the largest institutions in the system in the approved relevant categories. The CR5 is an indicator of assets participation at the end of 2012 in the banking system of the Federation of BiH amounted to 74,2%, for loans 73,5% and deposits 74,5% (2011: 74,7%, 75,4% and 73,7%), but there is still dominant participation of the two largest banks in the system that „hold“ 50% of the market.

In the market „game“, banks use various instruments, from interest rate policy, organization improvement, personnel strengthening, to strong marketing approach and business network expansion, financial support by "parent" bank or group member banks.

Card-based operations of majority of banks in the Federation of BiH represent a significant business activity, primarily of credit character, which is reflected through more massive use of credit and debit cards and increased volume of non-cash payments.

During 2012, 69 new ATMs were installed, and, at the end of the year, their number was 976. Number of POS terminals has also increased by 805, so there was a total of 16,990 POS terminals at the end of 2012 which have the possibility to pay commodities by cards.

² Engl.: Concentration Ratio (CR), assigned according to the number of institutions included in the calculation.



II SUPERVISION OF BANKING SYSTEM

1. BANKING AGENCY

Banking Agency of the FBiH (FBA) has given its full contribution to the banking sector reform, although there have often been lack of understanding for the measures that were taken. As an independent and sovereign authority for bank supervision and licensing, the Agency was established in the second half of 1996 and its work, since the very beginning, has been directed towards a strong and stable banking system, as market-oriented and based on the international standards of performance and supervision of banks.

Law on Banking Agency sets out the main tasks of the Agency such as issuance of banking license, adoption of regulations, supervision of banks, microcredit organizations and leasing companies and measures to be taken in accordance with the Law, including initiation of provisional administration and liquidation in banks, that is, initiation of bankruptcy procedure over banks.

Based on the assessments conducted by domestic and international officials, the FBA has, over the past 16 years, achieved the high professional level, and its staff has obtained expertise and skills in the area of supervision through various educations in country and overseas.

The FBA has, over the past year, successfully acted towards banks in the Federation of BiH to better manage especially credit risk, and banks have been doing so in compliance with the prescribed minimum prudential criteria, taking into account the interests of all „stakeholders“, including their financial „soundness“.

The FBA, with the main purpose being protection of funds and interests of depositors, has introduced measures in 27 banks (provisional administrations, liquidations or bankruptcies), since its initiation up to the end of 2012, while provisional administration in one bank was introduced pursuant to the order of the High Representative of BiH. Provisional administration was introduced in 25 banks.

Of 27 banks in which the measures were taken, the procedure was finalized in 17 banks. As of 31.12.2012., there were 10 banks under the measures.

Of 27 banks with the measures initiated:

- Bankruptcy process at the authorized courts was initiated in ten banks, the bankruptcy process was completed in four banks. In six banks the bankruptcy process is still in place,
- Liquidation process was initiated in nine banks. Liquidation process was finalized in six banks (four banks paid out all liabilities towards their creditors and shareholders, and two banks were sold out). In three banks the liquidation procedure is in process.
- Four banks were integrated into other banks,
- Three banks were rehabilitated and continued operating. One bank was additionally capitalized and privatized, another bank was additionally capitalized, and the third bank was resolved, the bank management bodies were elected and the bank continued operating,
- Provisional administration in one bank is still in process.

2. BANKING SUPERVISION

Starting with the overall need of the macroeconomic and financial stability, in the year 1997, the Basel Committee for Bank Supervision adopted the twenty five core principles to be met in order for any supervisory system in banking to be efficient. The core principles are ‘de facto’ the minimum standards for solid prudent regulations and supervision of banks and the banking system.

Taking into account the significant changes in the global financial markets and regulatory environment, as well as lessons learned from the crises since the last revision in October of 2006, the Basel Committee in September of 2012 again revised the core principles. With this revision the core principles were merged with the core methodology principles (assessment methodology) into one comprehensive document. The number of core principles increased from 25 to 29, and they were reorganized into two groups: supervisory authorizations, responsibilities and functions (Principles 1-13) and prudential regulations and requirements, (Principles 14-29) which emphasize the importance of good corporate governance, risk management as well as the compliance with the regulatory standards.

The principles set minimum requirements to be fulfilled and, in many cases, they need to be supplemented by other measures in order to satisfy specific conditions or regulate risks of the financial system of a respective country. The principles refer to the prerequisites for effective bank supervision, issuance of banking licenses, prudential regulations and requirements, on-going bank supervision methods, necessary information, authorizations of supervisors and cross-border banking, corporative governance, risk management processes, internal controls and audits as well as the financial reporting and external audit.

Generally acceptable international principles, standards and practices for banking supervision that are being more broadly and consistently applied by the Agency, alongside with permanently intensified attention to striking and easily contagious causes of crisis situations, were major concern of the Agency for preparation and initiation of the available defense activities and measures as result of its own experiences, as well as “lessons learned” by many more developed and stronger, especially hit by the crisis, banking systems.

Regulations, their upgrading and extensibility, and operating decisions within the scope of its work, the Agency has been making, following all steps that were prescribed with main purpose that banks to maximum extent enable rule of law in their work, full implementation of the Agency's regulations and of all generally acceptable principles and practices for their prudent and successful work, especially under the circumstances of more present recession. In addition to the

noted, the main focus of all of the Agency's efforts has been directed towards capital strengthening of banks, improvement of their credit policies and their consistent implementation in practice, raising prudency at maximum possible level in terms of credit risk management that is still very dominant in our environment, as well as liquidity risk, as well as to strengthen capacities for potential crisis management. Along with the mentioned, the Agency has been continuously giving incentives to banks, especially those that are dominant in the system to strengthen their financial potentials and through additional special support by their foreign parent-banks.

Bank supervision was realized through the continuous processes of on-site and off-site banks examinations and indirect communication with the representatives of the management bodies and banks' governance, in order to synchronise and coordinate the activities on the stabilization of the banking sector in FBiH. Upon preparation of the examination reports, all banks subject to examination received orders to execute and eliminate determined deficiencies. The examinations determined that all banks were regularly and generally meeting the orders in a timely manner. Concrete, competent and professional approach by the supervision in the examination of banks has its purpose to further improve quality of banks performance, their profitability, solvency and safety in the performance, which is the mutual interest.

Important changes which happened in 2010 and 2011 with coming into effect of the Law on accounting and audit in the Federation of Bosnia and Herzegovina and in accordance with that the changes and additions to the Decision of the FBA which created the regulatory framework for banks to develop and present financial reports in compliance with the International accounting standards (IAS) and international financial reporting (IFR) reflected in the manner of assessment of the asset quality and level of loss in regard to credit risk. In 2012, the most significant and largest part of supervision was on the review and assessment of the complex process of implementation of the noted regulatory requirements in banks. All commercial banks were controlled in the segment of the first application of the IAS/IFR, in order to determine core irregularities and weaknesses and in order to standardize through the performance through examinations the entire process, establish the adequate control and secure that the banks receive good practice in assessing the credit risk.

At the beginning of 2012 into effect came the Decisions of the FBA which refer to the information system management and outsourcing in banks, and compliance of banks with the noted regulations was monitored through targeted examinations.

In 2012, the FBA with the International Monetary Fund and the Central bank of BiH and the Banking Agency of Republic Srpska continued and intensified the work on developing the skills for collection and analysis of „Financial Soundness Indicators“, as one of preconditions for strengthening and higher effectiveness of supervision over the entire financial, and not just banking sector. Also, continued is the development of the methodology and application of the “stress tests” for credit risk and impact on capital, based on the macroeconomic assumptions, as well as informing the banks about the results of the stress tests. Along with the IMF representatives, the Agency, within the realization of the obligation of the stand-by arrangement, regularly quarterly reviewed and analyzed the impact of the world economy and debt crises on local banking and financial sector, movements in the banking sector, banks' capital in F BiH, results of stress testing for banking system and individual banks, current regulatory and banking legal framework, implementation of the recommendations from previous IMF missions as well as planned changes in the regulatory framework.

With the Banking Agency of Republic Srpska and the Deposit Insurance of BiH, continued was the cooperation within the development of the regulatory framework, regular exchange of

information and common performance.

With the Association of banks in BiH realized is cooperation in regard to implementation of the regulatory solutions and suggestions for their revision, as well as in the process of developing new regulatory solutions.

As equal counterpart, the Agency participated in all activities implemented by the Group of Banking Supervisors for Central and Eastern Europe – „BSCEE“ that comprises supervisory institutions from 22 transition countries and Austria that receives special support from the Basel Committee for Banking Supervision. On the XXV BSCEE conference, FBA and the Banking Agency of Republic Srpska were chosen to preside the Group of bank examiners from Central and East Europe in 2013.

Due to the new wave of the crises in the euro zone which happened since the end of 2011, signs of the credit crises as well as the process of the lowering of the debt of the banking subsidiaries towards their parent banks, initiated is a so called “Vienna Initiative 2.0”. The goal of the “Vienna Initiative 2.0” is to: manage the process of payment of debt of the banking subsidiaries in the manner as to decrease the systemic risk for countries in which they perform, and establish a better coordination between states of the home countries and host countries, in order to secure that the potential problems of the over the border financial stability are resolved faster and to establish coordination of policies and actions, and especially in the area of supervision, which is in the best common interest of both the home and host countries. The FBA participated in the operations of the full forum of the “Vienna Initiative 2.0” as well as the workshop in regard to the preparation of the meetings of full forum.

In compliance with the requirements of Principle 13 (previous principle 25) from the list of „Core principles for effective bank supervision“ issued by the Basle Committee, the Agency, by the end of 2012, together with the Central Bank of BiH and Banking Agency of RS signed multilateral agreements with the supervisory bodies of the south east Europe: Albania, Greece, Macedonia, Rumunia, Bulgaria, Serbia, Montenegro and Cyprus and Memorandums of understanding with authorized supervisory bodies in Republic of Slovenia, Republic of Croatia, Republic of Serbia, Montenegro and Republic of Turkey. The Memorandum of understanding more closely defines: the share of information, on-site examination, requests for information and examinations, information safety, continuous cooperation and other provisions.

FBA in cooperation with the Banking Agency of RS and USAID's technical assistance in 2012, performed the analyses of the regulatory framework in F BiH and its compliance with the European directives in regard to the exchange of information and protection of confidentiality of information and initiation of the initiative for change and additions to the Law on Banking Agency F BiH, which the Parliament of the Federation of BiH adopted in September of 2012. With the listed changes created are bases for multilateral agreement with the supervisors from the countries members of EU, especially Italy and Austria.

In 2012, the Agency realized cooperation not only with the regulatory authorities of the countries-signatories of the memorandums of understanding, but with all other supervisory authorities of the countries in the closer and wider region. In addition, special forms of concrete work cooperation were realized through regional and bilateral meetings and regular information exchange regarding performance and condition of parent-banks and their „daughters“, that is, subsidiaries. Realized is a significant cooperation with the international financial institutions: IMF, SB, ECB etc, in regard to the information and analyses of the movements in the banking sector of F BiH, as well as the participation in the individual projects with an aim to strengthen the capacities for efficient bank supervision.

The USAID's Project of technical assistance to the financial sector of Bosnia and Herzegovina was initiated in 2008 under the name „Partnership for Advancing Reforms in Economy – „PARE“. In 2012, in accordance with the Strategy developed by the Agency for introduction of „International Convergence of Capital Measurement and Capital Standards“– Basel II and action plans, continued were the activities with an aim to revise, develop and improve the regulatory framework in compliance with the Basel principles, Basel capital framework and European banking directives, as well as the international institutions for bank supervision.

Based on the decision of the Parliament of the Federation of BiH in 2006, and later on „CARDS Program“ that was prepared by the European Central Bank experts and group of the European central banks, in 2012 the Agency was, in all occasions, supportive of the idea to consolidate banking supervision at state level, since it has recognized, with many pragmatic reasons, such organization of supervision over the main segment of the financial system, on the path to the European Union, would not be viable. The European experts also confirmed that: „banking supervision is actually organized at state level in the European countries under the roof of the central bank or outside of it“and that: „ ... membership to the European Union implies the establishment of a single banking market that leads to a single (consolidated) supervision“.

Growing aggressive globalization and banking industry development, the enhancement and evolution of supervisory principles, rules and standards, as well as more recent painful reflection of the global financial and economic crisis that „taught“ many lessons to everything and everyone it had influenced, has demonstrated that especially banking supervisors have to be constantly updated and should keep developing their knowledge, skills and instruments for more effective action when realizing their mission. For the same reasons, and in order to hire new, especially young people, in 2012 the Agency was taking care of such needs, and on its own and with assistance of many international and highly qualified and specialized institutions, it applied necessary education of its employees, that was conducted in the country and overseas, but also offered assistance, through specialized education, to other authorities and institutions in the Federation of BiH.

3. PREVENTION OF MONEY LAUNDERING AND TERRORISM FINANCING

The banking system assessment for 2012 was based on the assessment of banks as result of supervisory examinations of orders being met and analysis of banks' reports submitted to the Agency.

Based on the condition of banks in the previous period, control of implemented orders it was determined that the banks took actions in regard to correction of determined irregularities and implemented a larger part of the orders (53 issued orders, 31 implemented orders, 17 partially implemented and 5 not implemented orders in spite the actions taken in regard to their implementation) and based on the reports that the banks submit to the FBA, it can be concluded that the quality of the risk management is still satisfactory and that there are no reasons for supervisory concern in terms of the management of risk from money laundering and terrorism financing. The risk quantity remained moderate. Risk management quality that in banks' performance could arise as result of money laundering and terrorism financing (reputation risk, operating risk, legal risk, assets and deposits concentrations risk), in the banking sector of the Federation of Bosnia and Herzegovina, has, although it is still satisfactory, as in the previous period, an increasing trend.

1.1 Customer acceptance policy

Banks have established special registries of their customer profiles. Certain issue in regard to functioning of such registries appeared in terms of updating the data of customers that banks classify in different categories. However, it is especially important that banks have established and are applying the approach towards customers that is based on risk analysis that customers have for the bank, that is, that they define what type of customers are acceptable for the bank.

1.2. Customer identification policy

Banks have adopted customers' identification as core element of the «know your customer» standard. The customer identification policy is applied by banks when establishing business relationship with customers. However, there is still this problem of records updating that is used to document the establishment of such relationships with already established business relationships. Apart from the updating the documentation problem, there is a problem with the identification of sources of funding which the clients use for performing the transactions for paying the annuities for given loans and documenting the performance of this identification.

1.3. Accounting and transaction permanent monitoring policy

This policy is applied and there is fewer formal monitoring of the customers' accounts and transactions. In order to achieve the essential monitoring of the customers' accounts and transactions, and based on implementation of the «know your customer» policy, banks have defined the transaction limits per certain types of accounts and transactions; developed information systems to apply limits set in monitoring of accounts and transactions. The defined limits increasingly serve in the preventive monitoring of the accounts and transactions. However, there are problems in monitoring of transactions that are used to pay loan annuity and are a direct consequence of not performing the identification of sources of funds that are used with an aim to pay the annuities.

1.4. Money laundering and terrorism financing risk management policy

The elements of the mentioned policy are defined in the banks' programs. Reporting lines, both external and internal, are also defined.

Reporting: In 2012, banks reported of 240.477 transactions, representing 0,33% of total transactions realized in the banking system of the Federation of Bosnia and Herzegovina (71.154.032 transactions realized, according to the banks' data) with the value of 11.896.546 h/KM, representing 10,06% of total value of the transactions realized in the banking system of the Federation of Bosnia and Herzegovina (118.248.452 h/KM according to the banks' data). Number of reported transactions in 2012 decreased by 33,70%, in comparison to the prior year, while the value increased by 0,20%.

The following table presents the comparative schedule of number and value of reported transactions based on the transfer reporting method (prior to conducting, within deadline prescribed and after deadline prescribed):

Transfer value in 000 KM

Table 3: Comparative schedule of number and values of reported transfers							
No.	Description (of transfer)	Transfers in 2011.		Transfers in 2012.		%	
		Number	Value	Number	Value	Number	Value
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Total reported transfers (2+3+4)	362.919	11.874.402	240.477	11.896.546	66,30	100,20
2.	Transfers reported prior to conducting	19	20.324	7	3.993	36,80	19,60
3.	Transfers reported within deadline of 3 days	362.794	11.849.141	240.389	11.888.089	66,30	100,30
4.	Transfers reported following deadline of 3 days	106	4.937	81	4.464	76,40	90,40

In the structure of reported transactions, there is a notable decrease in the number (by 63,20%) and value (80,40%), of reported transactions prior to their conducting in comparison to the previous year. This leads to the conclusion that banks' actions related to prevention of money laundering and terrorism financing has changed and gained a declining trend. However, since the number (lower by 23,60%) and value (lower by 9,60%) of transfers reported after 3 days is declining, there was no change in the quality of the risk management in regard to the reporting segment. The number and value of transfers reported within the prescribed deadline significantly declined (by 33,70%), however the value of these transfers remained almost unchanged. This refers to the number and value of the total reported transfers.

Suspicious transactions: In their reports, banks marked 42 transfers as suspicious and they all refer to money laundering. There were no reported transfers related to suspicion of terrorism financing activities. The number of suspicious transfers increased by 48,20% in comparison to the previous year. The value of those transfers is 8,802 h/KM, representing 68,20% less than in comparison to prior year.

The following table presents the comparative schedule of the number and value of reported suspicions transactions based on the transfer reporting method (prior to conducting, within deadline prescribed and after deadline prescribed):

Value of transfer in 000 KM

Table 4: Comparative schedule of number and value of suspicious transfers reported							
No.	Suspicious transfers	Transfers in 2011.		Transfers in 2012.		%	
		No.	Value	No.	Value	No.	Value
1	2	3	4	5	6	7 (5/3)	8(6/4)
1.	Total reported transfers	81	27.664	42	8.802	51,80	31,80
2.	Transfers reported prior to conducting	19	20.324	6	3.876	31,60	19,10
3.	Transfers reported within deadline of 3 days	44	6.004	21	3.035	47,70	50,50
4.	Transfers reported following deadline of 3 days	18	1.336	15	1.891	83,30	141,60

The structure of reported suspicious transfers, as well as the structure of total reported transfers, supports above mentioned conclusions. Naimly, significant decline of the number and value of suspicious transactions reported prior to conducting was noted in comparison to the previous year. This, in the analyses of the suspicious transactions also, further indicates that the banks are acting less with preventive actions in regard to prevention of money laundering and terrorism financing. The decrease of the number (by 52,30%) and value (by 49,50%) of suspicious transactions reported within the deadline for reporting of three days, as well as the decline in the number (by 16,70%) of the reported suspicious transfers after the deadline of three days indicates that, in the follow up monitoring, far less suspicious transactions were detected in comparison to

the previous year, and confirms the assesment about the quality of the money laundering and terrorism financing activities risk management.

III BANKS' BUSINESS PERFORMANCE IN THE FEDERATION OF BIH

1. BANKING SECTOR STRUCTURE

1.1. Status, number and the business network

As of 31.12.2012, there were 18 banks with the banking license issued in the Federation of BiH. Number of banks is lower in comparison to 31.12.2011, since the license was revoked from Hercegovacka bank d.d. Mostar, and liquidation procedure initiated in the bank. 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 31.12.2012., there was one bank under provisional administration (Postanska banka BH d.d. Sarajevo).

In 2012, there was no significant expanding of the network of organizational units. Continued is the trend of expansion of the business units of banks, but in a significantly smaller volume than in previous years, mostly due to the financial crises. The banks performed reorganization of their networks of business units by increasing the changes in the organizational parts, organizational structure or address of the existing organizaitonal units, but also mergers and terminaiton of some organizational parts and all with an aim to rationalize the performance and decrease the performance expenses. There was a total of 167 such changes in the banks in the Federation of BiH (153 changes on the territory of the Federation of BiH, 13 in RS and one in Districk Brcko): established were 13 new organizational parts, 31 were terminated and changes happened in 123.

As of 31.12.2012., with the noted changes, all the banks had the a total of 585 organizational units which is a decrease by 3,6% in comparison to the previous year.

Number of organizational units of banks from Republic Srpska in the Federation of BiH slightly changed in comparison to 31.12.2011, when there were 22 organizational units, which is an increase of 13,6%.

As of 31. 12. 2012, 7 banks from the Federation of BiH had 51 organizational parts in Republic Srpska, and eight banks had 11 organizational units in Brcko District. Six banks from Republic Srpska had 25 organizational parts in the Federation.

As of 31.12.2012, all bank had the license for inter-bank transactions in the internal payment system and 16 banks were under the deposit insurance program.

1.2. Ownership structure

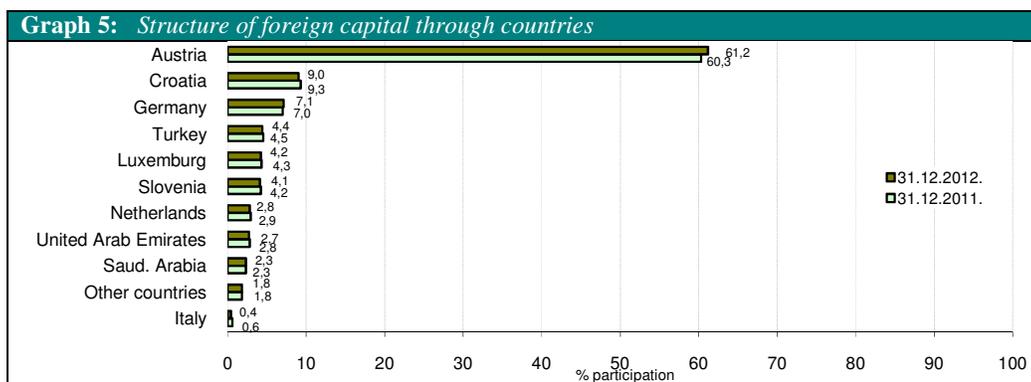
As of 31.12.2012., ownership structure in banks³ based on the available information and on-site visits to banks is the following:

- Private and majority private ownership 17 banks (94,4%)
- State and majority state ownership⁴ 1 banks (5,6%)

As of 12.31.2012, seven banks from the Federation of BiH, had 51 organizational parts in Republic Srpska, and eight banks had 11 organizational parts in Brcko District. Six banks in Republic Srpska had 25 organizational units in the Federation.

Of 17 banks with majority private ownership, six banks are majority owned by domestic legal entities and individuals (residents), while 11 banks have majority foreign ownership.

If only foreign capital is analyzed based on the criteria of the shareholders' home country, as of 31.12.2012., the condition is almost the same as at the end of 2011, as a result of additional capitalisation of two banks: the participation of the foreign capital in the ownership of shareholders from Austria increased from 60,3% to 61,2%, the participation of shareholders from Croatia declined from 9,3% to 9%, and Germany increased from 7% to 7,1%. Other countries had individual participation lower than 7%.

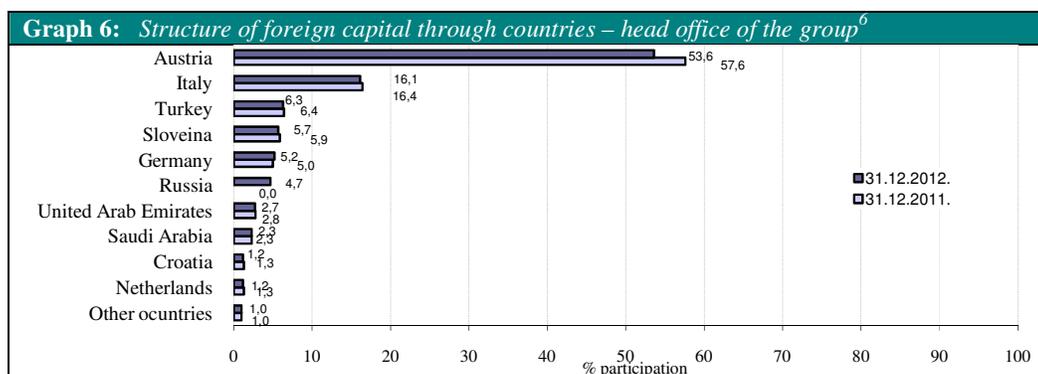


However, if capital correlations are taken into account the structure for foreign capital could be viewed according to the criteria of the parent-bank or the group's headquarter that has majority ownership (directly or indirectly over the group members) of the bank in the Federation of BiH. According to these criteria, situation had changed only slightly in relation to the end of 2011.: the participation of the banking groups and banks from Austria increased from 57,6% to 53,6%, the banks from Italy follow with the participation which declined from 16,4% to 16,1%, while other countries had individual participation lower than 6,3%, and Russian⁵ participation of 4,7% was recorded.

³ Bank classification criteria is ownership over banks' share capital.

⁴ State ownership refers to domestic state capital of BiH.

⁵ Russian bank Sberbank bought in 2012. Volksbank International from Austria, in which ownership is Volksbank BH d.d. Sarajevo.



The ownership structure could be viewed from the aspect of financial indicators, which is based on the value of total capital⁷.

-in 000 KM-

Table 5: Ownership structure based on the total capital

BANKS	31.12.2010.		31.12.2011. ⁸		31.12.2012.		RATIO	
	1	2	3	4	5 (3/2)	6 (4/3)		
State owned banks	46.586	3%	50.499	2%	51.114	2%	108	101
Private banks	1.650.039	97%	2.029.566	98%	2.167.574	98%	123	107
TOTAL	1.696.625	100%	2.080.065	100%	2.218.688	100%	123	107

In 2012, the total capital increased by 7% or 139 million KM, mostly due to the current financial result- profit and additional capital and increase of reserves in one bank.

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 6: Structure of ownership based on participation of state, private and foreign capital

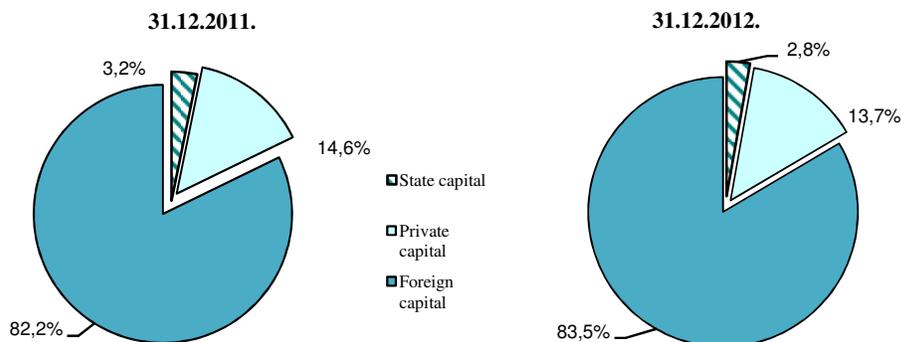
SHAREHOLDERS CAPITAL	31.12.2010.		31.12.2011.		31.12.2012.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
State capital	41.860	3,6	38.072	3,2	33.096	2,8	91	87
Private capital (residents)	163.074	13,9	174.088	14,6	164.603	13,7	107	95
Foreign capital (nonresident)	968.363	82,5	981.412	82,2	1.003.907	83,5	101	102
TOTAL	1.173.297	100,0	1.193.572	100,0	1.201.606	100,0	102	101

⁶ Apart from the countries which are the head countries of the parent groups which members are banks from F BiH, included are the countries from which are all other foreign shareholders of banks in F BiH.

⁷ Information from balance sheet – FBA schedule: shareholder's capital, premium issue, undistributed profit and reserves, and other capital (financial results of current period).

⁸ All data in the Information which refer to 31.12.2011 come from audited financial reports of banks (audit performed by an external auditor in 18 banks in F BiH).

Graph 7: Ownership structure (shareholders capital)



The share capital of banks in the Federation of BiH, in 2012, was higher by only 8 million KM or 0,7% in comparison to the end of 2011. The structure of the shareholder's capital slightly changed: state capital decreased by 5 million KM, private capital (resident) decreased by 9,5 million KM, and private (nonresident) capital increased by 22,5 million KM in comparison to the end of 2011.

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 the changes of the ownership structure.

Participation of the state capital in total share capital, as of 31.12.2012., was 2,8%, and it decreased by 0,4 per cent in comparison to 31.12.2011.

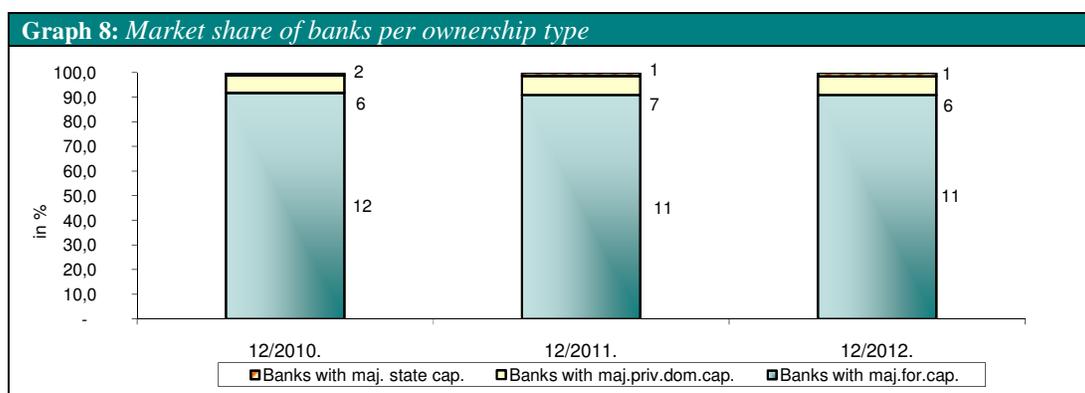
Participation of private capital (residents) in total share capital of 13,7% and is lower by 0,9 percent points in comparison to 31.12.2011. Nominal increase of 9,5 million KM is a result of a decrease by around 19,7 million KM, due to revoking of the license from one bank, and an increase by 10,2 million KM, that is around six million KM based on the additional capital in two banks and based on the turnover with state and foreign capital 4,2 million KM.

The participation of the private capital (nonresident) in the total shareholders capital increased by 1,3%. The nominal increase of 22,5 million KM refers to the increase through the additional capital of 22 million KM in two bank, and slightly through the turnover.

As of 31.12.2012., the market share of banks with majority foreign ownership was a high 91%, of banks with majority domestic private capital was 7,6%, and the share of banks with majority state capital was 1,4%.

- in %-

BANKS	31.12.2010.			31.12.2011.			31.12.2012.		
	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	1	2,7	1,1	1	2,4	1,3	1	2,3	1,4
Banks with majority private domestic capital	7	12,2	7,0	7	10,3	7,7	6	10,6	7,6
Banks with majority foreign capital	11	85,1	91,9	11	87,3	91,0	11	87,1	91,0
TOTAL	19	100,0	100,0	19	100,0	100,0	18	100,0	100,0



1.3. Employees

As of 31.12.2012., there was a total of 7.130 employees in the banks of the Federation of BiH, of that number 3% is in the banks with a majority state capital and 97% in private banks.

BANKS	NUMBER OF EMPLOYEES						RATIO	
	31.12.2010.		31.12.2011.		31.12.2012.		3/2	4/3
1	2	3	4	5	6	7	8	9
State banks	180	2%	177	2%	183	3%	98	103
Private banks	7.208	98%	7.192	98%	6.947	97%	100	97
TOTAL	7.388	100%	7.369	100%	7.130	100%	100	97
Number of banks	19		19		18		100	95

EDUCATION	NUMBER OF EMPLOYEES						RATIO	
	31.12.2010.		31.12.2011.		31.12.2012.		4/2	6/4
1	2	3	4	5	6	7	8	9
University qualifications	3.234	43,8%	3.401	46,1%	3.479	48,8%	105	102
Two-year post secondary school qualifications	696	9,4%	706	9,6%	667	9,3%	101	94
Secondary school qualifications	3.406	46,1%	3.218	43,7%	2.949	41,4%	94	92
Other	52	0,7%	44	0,6%	35	0,5%	85	80
TOTAL	7.388	100,0%	7.369	100,0%	7.130	100,0%	100	97

After the trend of the decreasing number of employees in the banking sector in FBiH recorded for the previous two years was stopped in 2011, the number of employees again started decreasing in 2012 by 3% or 239 employees, which is a result of the continued impact of the economic crises. Cumulatively, in last four years, in the period from 2009 -2012, the number of employees decreased from 7,997, at the end of 2008, to 7130 at the end of 2012, which is a decline by 11% or 867.

The trend of the increase of the employees' qualification structure through an increase of the number of employees with university qualifications continued in 2012, on one hand as a result of the increase of this category by 2% or 78 employees, and on the other due to the decrease of the number of employees with the high school diploma by 8% or 269 employees.

One of the indicators which impacts the evaluation of the performance of individual banks and banking system is the efficiency of employees, reported as a ratio of assets and the number of employees, that is amount of assets per employee. The higher the ratio the more efficient is the performance of both the banks and the entire system

BANKS	31.12.2010.			31.12.2011.			31.12.2012.		
	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	180	167.263	929	177	191.881	1.084	183	209.971	1.147
Private	7.208	14.908.434	2.068	7.192	15.071.438	2.096	6.947	14.781.079	2.128
TOTAL	7.388	15.075.697	2.041	7.369	15.263.319	2.071	7.130	14.991.050	2.103

At the end of the observed period there was a 2,1 million KM assets per employee, the same as at the end of 2011.

Assets (000 KM)	31.12.2010.	31.12.2011.	31.12.2012.
	Number of banks	Number of banks	Number of banks
Up to 500	0	0	0
500 to 1.000	7	4	3
1.000 to 2.000	6	9	10
2.000 to 3.000	5	5	4
Over 3.000	1	1	1
TOTAL	19	19	18

Analytical indicators of respective banks range from 593 thousand KM to 4,3 million KM of assets per an employee. Five banks have a better indicator than the one for the whole banking sector, and three largest banks in the system have one that exceeds 2,3 million KM.

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 capital⁹.

2.1. Balance sheet

The performance of the banking sector in FBiH in the past four years was under expressed influence of the economic and financial crises, which from the second half of 2011 was additionally enhanced with the negative impact of the debt crises in the wuro zone, as well as the poor economic condition in the real sector and overall economy in BiH. Still the banking sector succeeded to protect stability, security and adequate capital, but its growth and development slowed down, that is stopped, which is obvious from the data that at the end of 2008. (beginning of the crises is the IV quarter 2008.) balance sheet was 15,07 billion KM, and at the end of 2012. 15,0 billion KM, with small oscillations in that period. The inflow of funds from foreign credit lines has almost been stopped, and the existing credit sources are being decreased due to lack of payment of the past due liabilities. Also, the deposit sources are in a slight decline, mostly as a result of return of funds to original groups. Risks are increasing, especially the credit, which is why the banks took a number of measures and actions in regard to improvement of the system of risk management, especially in the segment of credit policies (approval, monitoring and risk measurement), which are much more conservative and rigorous, and all with an aim to stop the further increase of non performing receivables and negative trends, in the asset quality, but also in the total performance. Also, the majority of banks is implementing measures in regard to rationalization of expenses, especially operating, as well as the reorganization of the business network, which resulted in decline of the number of employees in banks in 2012.

Aggregate balance sheet of the banking sector, at the end of 2012., amounted to 15 billion KM, which presents a decrease by 1,8% or 272 million KM in comparison to end of 2011. Although in 2011, there were positive changes and improvements of certain indicators for the banking sector especially in the segment of profitability and there was the continuation of the incline of the citizens savings, on the other hand the decline of the balance sheet amount, very low credit growth, reduction in the financing sources (deposits and the loan liabilities) and consequently cash funds in the reviewed period in 2012, indicates that the impact of the crises is still evident, which can have negative effects on the key indicators of the banking system performance in the Federation of BiH.

⁹ Some state banks in their “full balance sheet” report passive and neutral items, which will be taken over by the state upon finalization of the privatization process. As of 31.12.2011., these items amounted to KM 671 million.

Table 12: Balance Sheet								
DESCRIPTION	31.12.2010.		31.12.2011.		31.12.2012.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
ASSETS:								
Cash funds	4.443.614	29,5	4.378.076	28,8	3.962.581	26,4	99	91
Securities ¹⁰	375.252	2,4	458.465	3,0	548.467	3,7	122	120
Placements to other banks	145.007	1,0	79.940	0,5	78.522	0,5	55	98
Loans	9.981.911	66,2	10.487.671	68,7	10.666.124	71,1	105	102
Loan loss provisions (LLP)	635.792	4,2	931.946	6,1	1.007.196	6,7	147	108
Loans – net value (loans minus LLP)	9.346.119	62,0	9.555.725	62,6	9.658.928	64,4	102	101
Business premises and other fixed	552.764	3,7	540.749	3,5	522.030	3,5	98	96
Other assets	212.941	1,4	250.364	1,6	220.522	1,5	118	88
TOTAL ASSETS	15.075.697	100,0	15.263.319	100,0	14.991.050	100,0	101	98
LIABILITIES:								
LIABILITIES								
Deposits	11.232.830	74,5	11.124.675	72,9	10.961.001	73,1	99	99
Borrowings from other banks	7.000	0,0	2.000	0,0	2.000	0,0	29	100
Loan Commitments	1.403.451	9,3	1.319.299	8,6	1.141.561	7,6	94	87
Other liabilities	735.791	4,9	737.280	4,9	667.800	4,5	100	91
CAPITAL								
Capital	1.696.625	11,3	2.080.065	13,6	2.218.688	14,8	123	107
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	15.075.697	100,0	15.263.319	100,0	14.991.050	100,0	101	98

Table 13: Assets of banks per ownership structure											
BANKS	31.12.2010.			31.12.2011.			31.12.2012.			RATIO	
	Number of banks	Assets (000 KM)		Number of banks	Assets (000 KM)		Number of banks	Assets (000 KM)			
1	2	3		4	5		6	7	8 (5/3)	9 (7/5)	
State	1	167.263	1%	1	191.881	1%	1	209.971	1%	115	109
Private	18	14.908.434	99%	18	15.071.438	99%	17	14.781.079	99%	101	98
TOTAL	19	15.075.697	100%	19	15.263.319	100%	18	14.991.050	100%	101	98

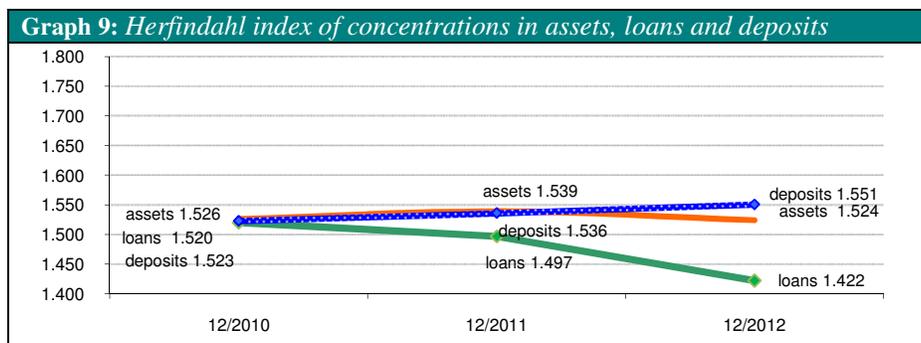
In 11 banks the assets are slightly higher than at the end of 2011, while in the remaining seven banks the assets declined, the decreasing rate was in the range from 1% to 17%. The largest nominal growth of 213 million KM or 6% had a bank which at the end of 2012 is on the first place in regard to the amount of assets, with a note that until the third quarter of 2012 it was on the second place. At the same time, due to the high decline of assets by 8% or 334 million KM, after the long term position as one of the largest banks and leader in the banking sector in FBiH, this bank at the end of 2012 got positioned on the second place.

Indicator of concentrations in the three most significant segments of banking performance, in assets, loans and deposits is the value of the Herffindahl index¹¹.

¹⁰ Trading securities and securities held to maturity.

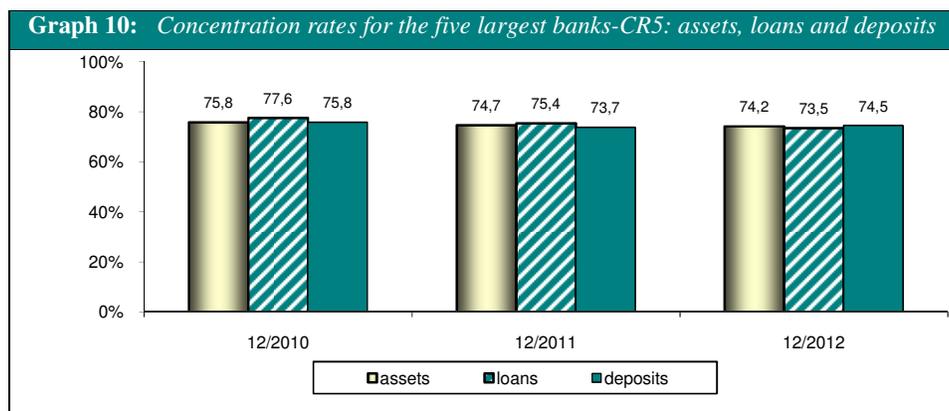
¹¹ It is also called the Hirschmann-Herfindahl index or HHI as calculated in the formula $HI = \sum_{j=1}^n (S_j)^2$,

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 at 10000 maximum.



At the end of 2012, the Herfindahl index in all three relevant categories (loans, deposits and assets) recorded very slight changes in the value: assets 1.524 units, deposits 1.422 and loans 1.551, indicating a moderate concentration¹². In comparison to the end of 2011, the indicators for assets and loans decreased: assets by 15, loans by 75, while deposits increased by 15 units.

Another indicator of concentration in the banking system is the ratio of market concentration, that is the concentration rate¹³ (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 decreased for market participation from 74,7% to 74,2%, loans from 75,4% to 73,5% and for deposits increased from 73,7% to 74,5%. In the past two years the CR value has slightly declined in all three categories, but there is still an evident dominance of five largest banks in the system that “hold” approximately 74% of the market, loans and deposits



The banking sector could be analyzed from the aspect of several groups established according to the asset size¹⁴. The changes in participation in comparison to the end of 2011 were recorded in all groups, with a note that the changes in the number and participation in the V group are a result of the revoking of licence from one of the banks from this group

The participation of the two largest banks in the system (Group I, both banks with assets higher than three billion KM), in the nine months of 2012 decreased from 49,7% to 48,8% , while the participation of the Group II 19,1% (two banks with assets between one and two billion KM)

¹² 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.

¹³ Engl.: concentration ratio (CR), assigned to the number of institutions included in the calculation.

¹⁴ Banks are divided into five groups depending on the assets size.

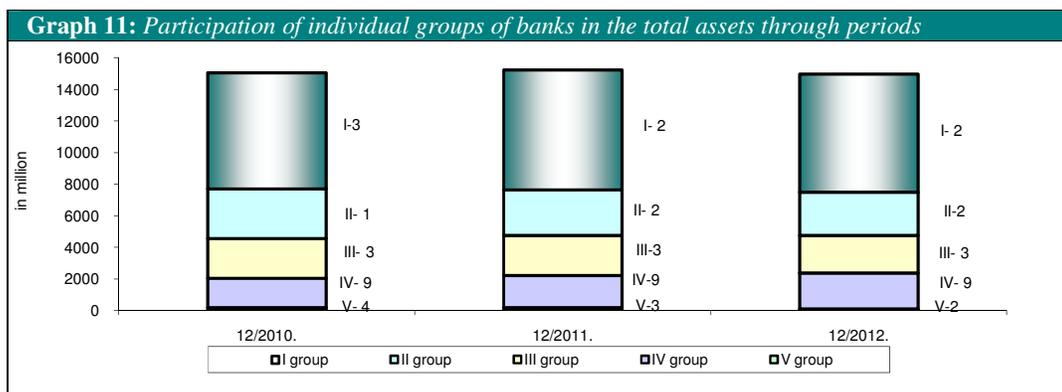
almost remained unchanged. The group III (three banks with the assets between 500 million KM and one billion KM) recorded a slight decline in the participation by 0,3 percentual points, that is 16,4. The participation of the Group IV of nine banks (with assets between 100 and 500 million KM) recorded an increase in participation from 1,5% to 14,9%. The number of banks in the last Group V (banks which have assets smaller than 100 million KM) decreased from three to two, and participation from 1,3% to 0,8%.still have an insignificant participation of 1,3%.

Although there happened slight changes in the participation of individual groups, it is evident that the four largest banks still have a high market participation of 68%.

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).

The participation of the two largest banks in the system (I group, both banks with assets over three billion KM) of 49,8% at the end of 2012, remained almost unchanged (increase by 0,1 percent point), while the participation of the II group (two banks with assets between one and two billion KM) decreased from 19% to 18,3%. In III group (three banks with assets between 500 million KM and one billion KM) recorded is an insignificant decline of participation of 0,8 percent points, or to 15,9%. The participation in IV group of nine banks (with banks' assets between 100 and 500 million KM), increased by 1,9 percent points and is 15,2%. In the last V group (the banks with assets lower than 100 million KM) the number of banks decreased from three to two, and participation from 1,3% to 0,8%.

Table 14: Participation of individual groups of banks in total assets through periods									
AMOUNT OF ASSETS	31.12.2010.			31.12.2011.			31.12.2012.		
	Amount	Partic. %	No. of banks	Amount	Partic. %	No. of banks	Amount	Partic. %	No. of banks
I- Over 2.000	7.348	48,8	2	7.596	49,7	2	7.476	49,8	2
II- 1000 to 2000	3.146	20,9	2	2.894	19,0	2	2.741	18,3	2
III- 500 to 1000	2.521	16,7	3	2.545	16,7	3	2.379	15,9	3
IV- 100 to 500	1.862	12,3	9	2.030	13,3	9	2.280	15,2	9
V- Under 100	199	1,3	3	198	1,3	3	115	0,8	2
TOTAL	15.076	100,0	19	15.263	100,0	19	14.991	100,0	18



The decline of the balance sheet amount by 1,8% or 272 million KM, or on the level of 15 billion KM at the end of 2012., is in most part the result of the decline of deposits by 1,5% or 164 million KM (if we exclude the impact of the bank from which the license was revoked, the decline of the deposits was 0,6% or 67 million KM) and the positive impact on the level of deposits had the inflow of funds in the amount of 79 million KM from the first payment in the stand-by arrangement with the IMF, which were granted to the Federation of BiH at the end of September 2012. The decline of the balance sheet amount is a result of the decrease of liabilities by 14% or 178 million KM, with a note that the assets were decreased due to the revoking of the license from one bank (the impact of around 84 million KM, and on deposits 97 million KM, and the impact on the entire capital is positive in the amount of 17 million KM). At the level of the system, only the total capital had a growth of 6,7 or 139 million KM.

The cash funds, after the decline of 9,5% or 415 million KM, at the end of 2012 were 3,96 billion KM. The realized decline is a result of the outflow of deposits, payment of loan liabilities and slight increase of the loans of 1,7% or 178 million KM, so the loans as of 31.12.2012 were 10,67 billion KM. The decline of the cash funds was in small part influenced by the increase in the investment in securities of 19,6% or 90 million KM, which as of 31.12.2012 were 548 million KM, which is only a participation of 3,7 in the assets.

The securities portfolio available for sale (a small part relates to trading portfolio) increased from 300 million to 375 million KM, and securities held to maturity from 158 million KM to 173 million KM. In the both portfolios there are securities issued by the Government of F BiH¹⁵ with a total value as of 31.12.2012 of 209 million KM, as well as the securities issued by the Government of RS in a total value of 28 million KM. Also, the banks in the trading portfolio have the shares which issuing parties are local companies, in a total amount of 9 million KM. The remaining part of portfolio of securities in the amount of around 302 million KM refers in the largest part to bonds of the countries from EU.

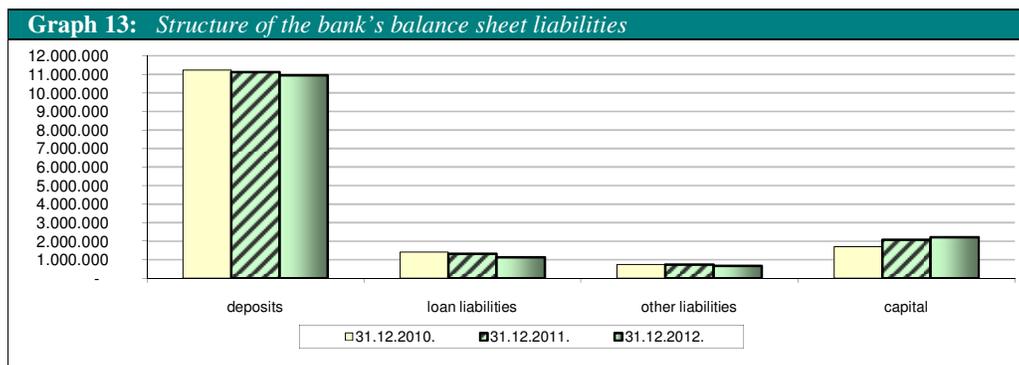
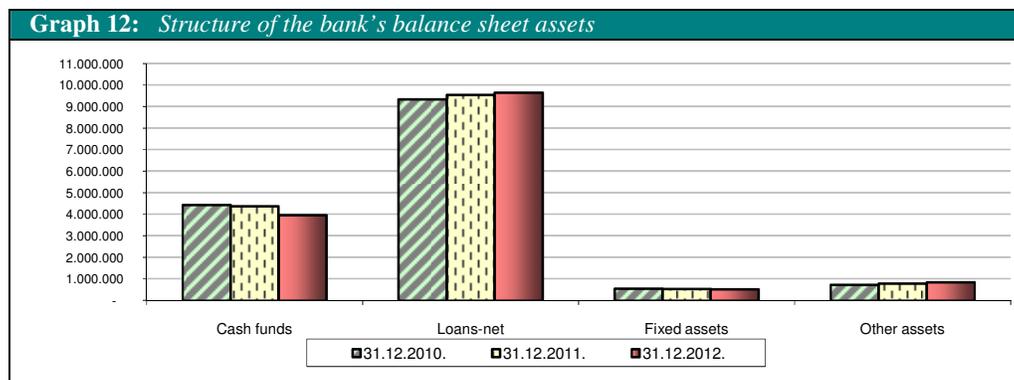
In 2012, the Government of the Federation of BiH issued two emissions of bonds (three issues: in February, March and April, all with the same maturity of six months) with a nominal value of 120 million KM (the purchasing price was 118,7 million KM), first three payments were due in 2012, while last two payments of a total nominal value of 60 million KM mature in May and June of 2013. At the end of 2012, their value was 59,5 million KM. Also, issued were three emissions of bonds (first in May in the amount of 80 million KM, maturity date three years, second in June and August, in the amount of a total 30 million KM, the maturity is five years,

¹⁵ All types of securities issued by the Government of FBiH.

and the third in September was 20 million KM with a maturity date two years) with the nominal value of 130 million KM. The banks purchased the bonds in the value of 123 million KM. The majority of the treasury bonds and securities was classified in the portfolio available for sale (154 million KM), and the remaining part in the portfolio held to maturity.

If the total securities portfolio (548 million KM) is viewed based on the exposure to a particular country, the largest is BiH (44,9%), then Romania (15,9%), France (8%), Austria (7,7%) etc.

The following graphs provide the structure of the most significant positions of the banks' balances.



In the structure of banks' balance sheet liabilities deposits in the amount of 11 billion KM and participation of 73,1% are still the dominant source of financing for banks in the Federation of BiH. After the decline of 13,5%, the credit liabilities in the amount of 1,14 billion KM decreased its participation from 8,6% to 7,6%, while the participation of capital, which as of 31.12.2012 was 2,22 billion KM increased from 13,6% to 14,8%.

The structure of assets, as well as the structure of sources, had slight changes related to two key assets items: increased participation of loans from 68,7% to 71,1% and a decrease of cash funds from 28,8% to 26,4%.

- in 000 KM-

Table 15: Banks cash funds								
CASH FUNDS	31.12.2010.		31.12.2011.		31.12.2012.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	370.414	8,3	371.309	8,5	411.726	10,4	100	111
Reserve accounts with CBBiH	2.592.920	58,4	2.351.811	53,7	2.130.626	53,8	91	91
Accounts with deposit institutions in BiH	670	0,0	20.618	0,5	1.930	0,0	3077	9
Accounts with deposit institutions abroad	1.479.322	33,3	1.633.479	37,3	1.417.857	35,8	110	87
Cash funds in collection process	288	0,0	859	0,0	442	0,0	298	51
TOTAL	4.443.614	100,0	4.378.076	100,0	3.962.581	100,0	99	91

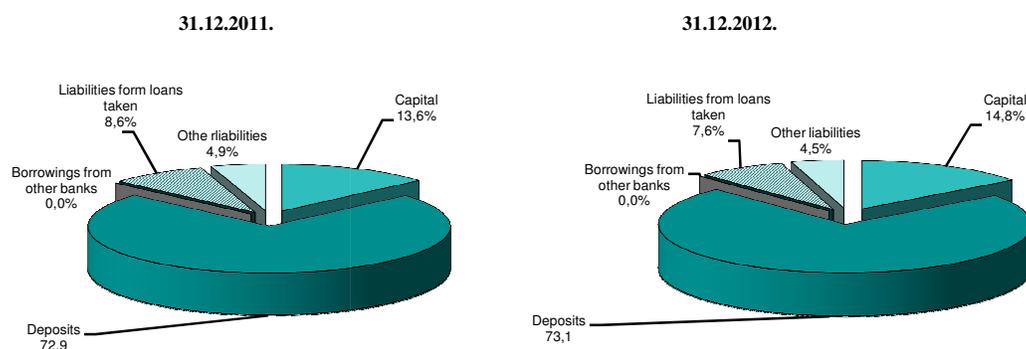
Cash funds of the banks on the reserve accounts of CBBiH in 2012, decreased by 9% or 221 million KM, amounting to 2,13 billion KM or 53,8% of total cash funds as of 31.12.2012., which is almost as at the end of 2011 (53,7%). Banks' funds on the accounts with the depository institutions abroad had a steep decline of 13% or 216 million KM, amounting to 1,42 billion KM or 35,8% of total cash funds (37,3% at the end of 2011). As of 31.12.2012, the banks had cash on hand and in vaults, after the increase by 11% or 40 million KM, in the amount of 412 million KM, which is 10,4% of the total cash funds.

The listed fluctuations had an impact on the change of the currency structure of the cash funds: the domestic currency participation in the reviewed period increased from 59,3% to 60,4%, and the participation of funds in foreign currency has decreased by the same amount of change.

2. 1. 1. Liabilities

Structure of liabilities (liabilities and capital) in the balance sheet of banks, as of 31.12.2012. is presented in the following graph:

Graph 14: Structure of banks liabilities



In the reviewed period, there were minor changes in the participation of two most significant sources of banks' financing: deposits and credit liabilities that is the increase of the deposit participation from 72,9% to 73,1% and decrease of the participation of loan liabilities from 8,6% to 7,6%.

Although the deposits in 2012 had a decline of 1,5% or 164 million KM, the participation just slightly changed, that is increased, so the deposits at the end of 2012 were 11 billion KM, and still are the most significant funding source of banks in the Federation of BiH. Second source,

per its size in the amount of 1,14 billion KM, are credit funds obtained, mostly, by banks through the debt with foreign financial institutions. In the last three years, due to the impact of the financial and economic crises, the banks had far less lending from abroad, and with the payment of the past due liabilities the net effect was the decrease of the credit liabilities (at the end of 2008, they were 2,18 billion KM). In 2012 they declined by 13,5% or 178 million KM. If subordinate debts of 122 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 8,4.

As of 31.12.2012., the highest bank commitments were towards the following creditors (seven of total 38), representing 74% of total credit commitments: European Investment Bank (EIB), European fund for Southeast Europe (EFSE), EBRD, UniCredit Bank Austria AG, Central Eastern European Finance Agency (CEEFA), EBRD, TC ZIRAAT BANKASI A.S. (Turkey) and Council of Europe Development Bank.

Capital, as of 31.12.2012, was 2,22 billion KM, which is by 6,7% or 139 million KM higher than at the end of 2011, and the increase was realised mostly based on the current financial result – profit and additional capital and increase of the reserves of one bank.

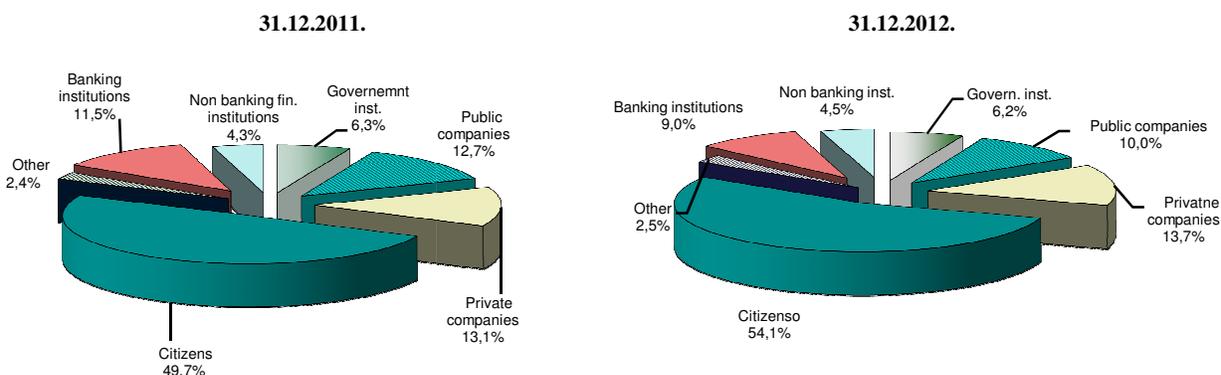
According to the data submitted by banks, out of total deposits at the end of the reviewing period in 2012, only 6% were deposits collected by organizational units of banks from the Federation of BiH operating in Republic Srpska and Brcko District.

- in 000 KM-

Table 12: Deposit structure by sectors¹⁶

DEPARTMENTS	31.12.2010.		31.12.2011.		31.12.2012.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	891.638	7,9	705.805	6,3	682.313	6,2	79	97
Public enterprises	1.332.748	11,9	1.413.686	12,7	1.090.870	10,0	106	77
Private enterprises and assoc.	1.487.509	13,2	1.462.767	13,1	1.501.232	13,7	98	103
Non-profit. organizations	1.674.576	14,9	1.280.463	11,5	981.562	9,0	76	77
Banking institutions	432.045	3,9	483.504	4,3	493.689	4,5	112	102
Citizens	5.144.607	45,8	5.530.461	49,7	5.933.071	54,1	107	107
Other	269.707	2,4	247.989	2,4	278.264	2,5	92	112
TOTAL	11.232.830	100,0	11.124.675	100,0	10.961.001	100,0	99	99

Graph 15: Deposits structure by sectors



¹⁶ Information from the attached form BS-D, each quarter submitted by banks with bbalance sheet - FBA format.

In 2012, there were minor changes in the deposits sector structure, which on one hand, were a result of the decrease of funds of the private and public institutions as well as banking institutions, and on the other hand the increase of citizens' deposits and private companies.

Although the impact of the economic and financial crises has been present for four years now, and the negative effects are visible in most segment of the banks' performance, it should be noted that in this period the citizens' deposits had a continuous growth, that is they increased from 4,18 billion KM (at the end of 2008) to the level of almost six billion as of 31.12.2012, which is a high increase of 42% or 1,75 billion KM. In 2012, the growth rate was, as the previous year, 7% or 402 million KM. The deposits of this sector with the amount of 5,93 billion KM due to the decline of deposits in other sectors increased its participation in the total deposits from 49,7% to 54,1% in the total deposits, so they are still the largest source of financing for banks in F BiH.

Second highest in the amount and participation in the sector sources are the deposits of the public companies, which in 2012 had high oscillations (in the first half of 2012 they had a steep decline by 16% or 241 million KM or from 1,46 billion KM to 1,22 billion KM, which was of concern and in the second half they increased by 23% or 279 million KM). Cumulatively in 2012 realized was a growth of 3% or 38 million KM, or the level of 1,5 billion KM, while the participation decreased from 13,1% to 13,7%.

The deposits of the public companies, after the banking institutions, had the largest decline of 23% or 323 million KM. The deposits of this sector are 1,09 billion KM or 10% of total deposits, which is by 2,7 percent points less than at the end of 2011.

The deposits of the banking institutions since the end of 2007, until the III quarter of 2011 were second highest sector source in the deposit potential of the banks. The growth trend was present until mid-2009, when they reached the highest amount of 2,29 billion KM and participation of 21,4% in the total deposits. After that, under the impact of the crises, decrease of the lending volume and surplus of liquidity, there was a withdrawal of deposit funds of the parent groups, which resulted in the decline of the participation. However, after the decline in the IV quarter of 2011 of 19% or 294 million KM, the participation declined to 11,5%, which was fourth largest sector participation at the end of 2011. In 2012, the declining trend continued with a declining rate of 23% or 299 million KM. Negative movements in the funds level of this sector in the largest part refer to the decrease of the debt, or the return of the funds to the parent groups in which ownership are the banks in the Federation of BiH.

At the end of 2012 the deposits of the banking institutions were 982 billion KM, which is 9% of total deposits. These funds decreased by 160 million KM in comparison to the credit liabilities, which, after the deposits, are second most important funding source for banks in F BiH. From the noted data it can be concluded that the debt of the banks from F BiH abroad has significantly decreased, especially deposit funds of the parent groups. Taken that the same decreasing trend is present in the credit liabilities also, the banks are again facing the problem of maintaining the maturity match, which is caused by unfavorable maturity of the local deposit funds, so in the coming period they need to secure better quality sources when it comes to maturity, in order to continue the growth trend of the credit placements.

It should be emphasized that 94% or 920 million KM of banking institutions' deposits refers to deposits of banks-members of groups (primarily shareholders). Financial support of the groups is present in eight banks in the Federation of BiH, with a concentration on four large banks. In this manner, in the previous period, the domestic banks-members of the groups receive financial support and have secured inflow of new funding sources by the group whose members they are.

If credit liabilities and subordinate debts (items in the supplementary capital) are added to these funds, the financial support the banks receive from their groups becomes higher (in ten banks), amounting to 1,4 billion KM or 9,3% of total liabilities of the banking sector as of 31.12.2012. In total deposits the funds from the group have a participation of 8,4 (decrease by 2,5% in comparison to the end of 2011), and in total credit liabilities 29% are short term liabilities towards the group (the participation is lower by 2,2 percentage points). In comparison to the end of 2011, these funds were reduced by 21,7% or 387 million KM, mostly from regular maturities (the deposits decreased by 23,9% or 289 million KM, loan liabilities by 19,2% or 79 million KM and subordinated loans by 12% or 19 million KM).

Since, due to the economic crises, the banks' credit activities have significantly decreased, which resulted with high liquidity, as well as the good capitalization of almost all banks in FBiH which are owned by foreign banks groups, in 2012 the trend of the decreasing of the exposure from the previous year continued, in the segment of the deposit sources, mostly in one bank, while the credit sources decreased based on the regular payment of matured liabilities.

Due to the unfavourable events in the economies of the countries from which are the owners of the banks from F BiH and problems with which those countries are faced, and consequently the financial system and the banking groups, as well as the announced measures which Austria plans to take with an aim to strengthen the sustainability of the business models of large internationally active banks, and with that maintain the country's credit rating¹⁷, it can be expected that the future financial support of the parent group will be more restricted, so the credit growth in the coming period in the Federation of BiH must be more financed from the growth of the local sources.

Under the conditions of crises and a more difficult access to the money market and new funds, the growth of the liquidity risk as a result of the deteriorating collection of the loans and growth of non-performing assets, unsatisfactory maturity structure of local deposit sources, expected continued decrease of foreign sources of funding, the problem of the unfavorable maturity structure of the funding sources, primarily deposits, as well as their growth, will be in the focus in majority of the banks in the coming period

Deposits of other sectors had also minor changes in the amount and participation, and the largest change had deposits of government institutions, after the decline by 3% or 24 million KM in the reviewing period. There should be noted two events which had an impact on the level of funds of this sector: negative influence of around 57 million KM due to the revoking of the license from one bank, and the inflow of funds of the first payment from the stand-by arrangement with IMF in the amount of 79,3 million KM. The deposits of the government institutions, as of 31.12.2012, are 682 million KM or 6,2 of total deposits.

Currency structure of deposits, at the end of the observed period, changed slightly deposits in foreign currencies (with the dominant participation of EURO) in the amount of 5,88 billion KM decreased its participation from 55% to 54% and deposits in domestic currency in the amount of 5,08 billion KM, which is a participation of 46% .

The structure of deposits based on the origin of the depositor at the end of 2012 was the following: residents' funds had the participation of 88,7%, non residents 11,3% (at the end of 2011.: 86,7% and 13,3%). The non residents deposits in last four years had a continuing decline,

¹⁷ The core of the measure is that the credit activity of the Austrian banks subsidiary in the Central, East and Southeast Europe (CESEE) in the future will be conditioned with strengthened and sustainable financing from local sources.

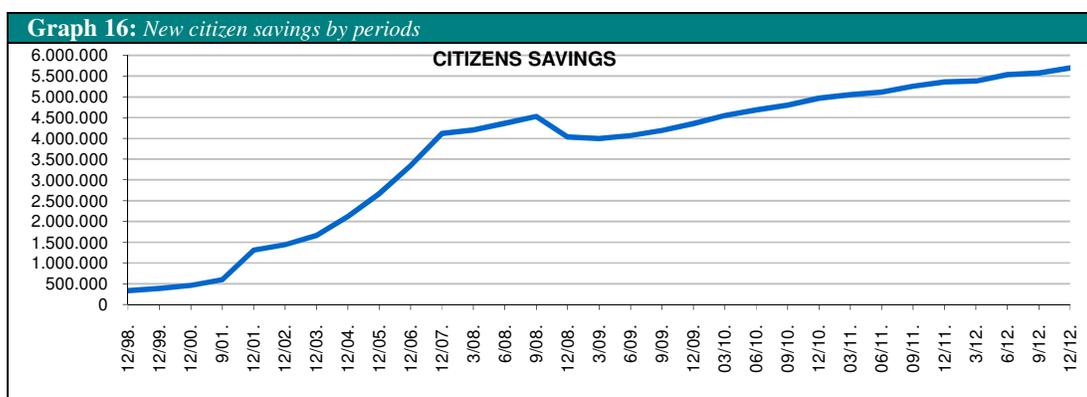
which is a result of withdrawal, or return of the parent deposits or member of the group, to which in most part the funds of non residents refer. The largest participation of 22,1% and a nominal amount of 2,31 billion KM the nonresident deposits had at the end of 2008.

Saving deposits, as the most significant segment of deposits and financial potential of banks in 2012, had an increase of 7,4% or 395 million KM and as of 31.12.2012 were 5,76 billion KM.

Table 17: New citizen savings by periods

BANKS	AMOUNT (IN 000 KM)			RATIO	
	31.12.2010.	31.12.2011.	31.12.2012.	3/2	4/3
1	2	3	4	5	6
State	47.148	50.259	58.050	107	116
Private	4.926.361	5.311.178	5.698.300	108	107
TOTAL	4.973.509	5.361.437	5.756.350	108	107

Graph 16: New citizen savings by periods



The largest three banks hold 68% of savings, while participation of six banks has an individual participation of less than 1%, representing only 3,5% of total savings in the system.

Savings deposits in local currency represent 35% and in foreign currency 65% of total savings amount

Table 18: Maturity structure of saving deposits of citizens through periods

BANKS	AMOUNT (IN 000 KM)			RATIO				
	31.12.2010.	31.12.2011.	31.12.2012.	3/2	4/3			
1	2	3	4	5	6			
Short term saving deposits	2.581.767	51,9%	2.606.732	48,6%	2.656.934	46,2%	101	102
Long term saving deposits	2.391.742	48,1%	2.754.705	51,4%	3.099.416	53,8%	115	113
TOTAL	4.973.509	100,0 %	5.361.437	100,0 %	5.756.350	100,0 %	108	107

The maturity structure of the savings deposits in comparison to the end of 2011 recorded a slight improvement, which is a result of the incline of the long term saving deposits by 13% or 345 million KM, which caused the change in the participation of these deposits that is an increase from 51, 4% to 53,8%.

Long term continuous growth and positive trends in the savings segment of banks in the F BiH are a result, on one hand, of the 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. After that there was an initiative to increase the amount of the insured deposit, so as of 01.04.2010., it was increased to 35.000 KM, and all taken measures were directed to decrease the impact of the global economic crises on the banking and economic system of the Federation of BiH and BiH.

As of 31.12.2012., there are a total of 16 banks included in the deposit insurance program in the Federation of BiH (they have a license by the Deposit Insurance Agency in BiH), and according to the submitted data 98% and of total savings.

The remaining two banks can not apply to be admitted since they do not qualify with the criteria prescribed by the Deposit Insurance Agency: one due to the existing composite rating, and two because they are under provisional administration.

2.1.2. Capital – strength and adequacy

Capital¹⁸ of banks in the Federation of BiH, as of 31.12.2012., amounted to 2,2 billion KM

-in 000 KM-

Table 19: Regulatory capital						
DESCRIPTION	31.12.2010.		31.12.2011.		31.12.2012.	RATIO
1	2		3		4	5 (3/2) 6 (4/3)
1.a.Core capital before deduction	1.885.159		2.008.081		1.913.841	107 95
1.1. Shareholders capital-common and permanent uncom.shares	1.170.468		1.190.482		1.198.516	102 101
1.2. Amount of emissions	136.485		136.485		136.485	100 100
1.3.Reserves and retained profit	578.206		681.114		578.840	118 85
1.b.Deductable items	313.321		353.960		189.991	113 54
1.1. Uncovered losses from previous years	92.058		251.187		120.740	273 48
1.2. Loss from the current year	157.933		45.512		16.505	29 36
1.3. treasury shares	81		81		156	100 193
1.4.. Amount of intangible assets	63.249		57.180		52.590	90 92
1. Core capital (1a-1b)	1.571.838	76%	1.654.121	78%	1.723.850	79% 105 104
2. Supplementary capital	489.986	24%	466.968	22%	467.092	21% 95 100
2.1.Shareholder capital- permanent priority cumul. shares	2.829		3.090		3.090	109 100
2.2. General reserves for loan losses	209.612		212.248		211.425	101 100
2.3. Amount of revised current profit	52.090		62.564 ¹⁹		67.243	120 107
2.4. Amount of subordinated debt up to 50% of the amount of core capital	159.056		139.754		120.264	88 86
2.5. Items of permanent character	66.399		49.312		65.070	74 132
3. Capital (1 + 2)	2.061.824	100%	2.121.089	100%	2.190.942	100% 103 103
4. Items deductible from capital	15.938		37.794		98.657	237 261
4.1. Bank's invest. In cap. of state leg. ent.over 5% of cor. cap.	15.938		18.408		3.043	116 17
4.2. Amount of lack. reserves for loan loss. based on reg. request	-		19.386		95.529	N/a 493
	-		-		85	N/a N/a
5. Net capital (3- 4)	2.045.886		2.083.295		2.092.285	102 100

In 2012, capital²⁰ increased by 3% or 70 million KM in comparison to 2011, while the changes in core and supplementary capital influenced the changes in the structure of regulatory capital. The core capital increased by 4% or 70 million KM, and participation from 78% to 79%, supplementary capital decreased from 22% to 21%

¹⁸ 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).

¹⁹ Based on final data eight banks included the amount of revised profit into supplementary, and two into core capital.

²⁰ The source of data is the quarterly Report on the balance of banks' capital (Form 1-Table A), prescribed by the Decision on minimum standards for managing banks' capital.

The core capital growth is a result in most part of the inclusion of the realized profit for 2011. After the implementation of the legal procedure in regard to the issuing and adopting the decisions by the assemblies of the banks, the realized profit for 2011, in the amount of 127 million KM (16 banks) was distributed as follows: 71% or 89 million KM into core capital (retained profit and reserves), three banks directed a part of the profit, in the amount of two million KM, towards partial coverage of previous losses, for coverage of lacking reserves for loan losses based on the regulatory request 17 million KM, while two banks allocated 19 million for pay out of dividends. Also, one bank retained profit to pay out dividends in the amount of 19 million KM.

The changes in the core capital were also influenced by the following: one bank had a direct payment in the reserves in the amount of 20 million KM, and in the second quarter additional capital in the amount of 20 million KM along with a simultaneous decrease of the reserves through a partial coverage of accumulated losses in the amount of 125 million KM. In the fourth quarter of 2012 two banks received additional capital in the amount of 6,8 million KM. The effect of the cease of operations of one bank in provisional administration on core capital is positive in the amount of 17,5 million KM. One bank included the audited profit for 2012 in the amount of 4,8 million KM into core capital.

Deductible items (which decrease the core capital) decreased by 164 million KM mostly from decrease of cumulated losses in four banks in the amount of 176 million KM (of this amount, 125 million KM refers to one bank, and the coverage is performed from reserves, and 47,8 million on the decrease based on the termination of the operations of one bank under provisional administration), decrease of current debt by 29 million KM and intangible property by 4,6 million KM.

Supplementary capital is almost unchanged, but with major changes in the structure: the 2011 profit of 62 million KM was transferred to core capital, subordinated debt (regular payments of past due liabilities) decreased by 19,4 million KM, while the items of the permanent character increased by 16 million KM (in one bank). Nine banks included the audited current profit in the amount of 67,2 million KM into supplementary capital, while four banks, in which the audit was not completed, did not include in the calculation of capital 56 million KM, which will have a positive impact on the capital and capital adequacy in the first quarter of 2013.

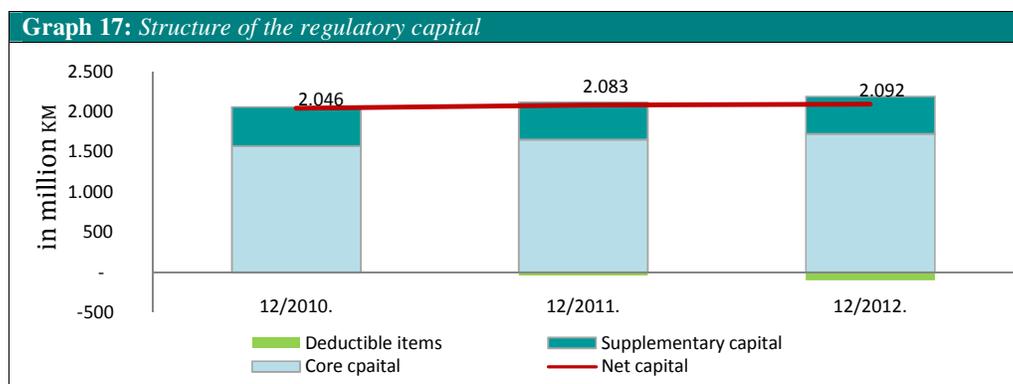
The change in the regulations includes in the items deductible from capital the new accrual item: lacking reserves for loan losses based on the regulatory request, which as of 31.12.2012 was 95,5 million KM, which is a difference between the needed regulatory reserves for loan losses in the balance and off -balance items²¹ and reserves for loan losses established from profit. Of total lacking reserves for loan losses based on the regulatory request in the amount of 111 million KM the banks reported 95,5 million KM against capital, which presents 86%²² of the total amount of lacking reserves for loan losses. Also, the banks, in compliance with the regulations of the FBA, and based on the decision of the assembly, from the current profit for 2011 or reserves allocated the lacking amount of the reserves for loan losses of 19 million KM, reported as of 31.12.2011. The influence of the termination of operations of one bank in provisional administration on

²¹ The bank reports the needed regulatory reserves when the value adjustment (based on the IAS) is lower than the accrued regulatory reserves, which is determined on the level of the individual debtors. This methodology the banks implemented as of 30.06.2012.

²² The bank were obliged to as of 30.06.2012 report, against capital, and according to the permitted dynamics, a minimum ¼ of lacking reserves for loan losses based on the regulatory request, determined for the reporting date.

capital is positive (deductible item: bank's investments in capital of other legal entities which exceed 5% of the amount of bank's core capital) in the amount of 15,9 million KM.

The following graph presents the structure of the regulatory capital.



Net capital, as a result of the above mentioned changes, but also of not including the entire profit for 2012 in the accrual of capital, increased by a slight 0,4% or 9 million KM, and as of 31.12.2012 was 2,06 billion KM.

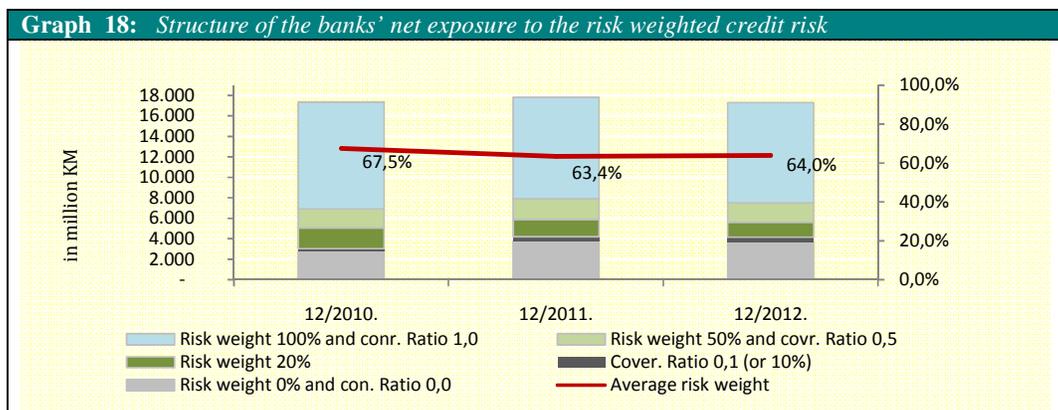
The adequacy of the capital level of individual banks, or the entire system, depends, on one side, on the level of net capital, and on the other, on the amount of the risk weighted assets.

The following table presents the structure of the net exposure of the banks to the risk weighted credit risk that is the conversion ratio for the off-balance sheet items.

-in 000 KM-

Table 20: Structure of the banks' net exposure to the risk weighted credit risk

DESCRIPTION	31.12.2010.	31.12.2011.	31.12.2012.	RATIO		
	1	2	3	4	5 (3/2)	6 (4/3)
TOTAL EXPOSURE (1+2):	17.354.697	17.814.140	17.311.011		103	97
1 Balance sheet assets	14.887.124	14.987.978	14.569.389		101	97
2. Off-balance sheet positions	2.467.573	2.826.162	2.741.622		115	97
DISTRIBUTION THROUGH RISK WEIGHTED RISKS AND CONVERSION RATIO						
Risk weight 0%	3.147.567	3.721.678	3.647.306		118	98
Risk weight 20%	1.640.802	1.674.585	1.460.689		102	87
Risk weight 50%	42.576	83.165	53.155		195	64
Risk weight 100%	10.056.179	9.508.550	9.408.239		95	99
Convers.ratio 0,0	0	54.529	51.131		N/a	94
Convers.ratio 0,1	220.264	445.006	449.627		202	101
Convers.ratio 0,5	1.923.685	1.938.361	1.867.703		101	96
Convers.ratio 1,0	323.624	388.266	373.161		120	96
RISK OF THE RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS	11.713.116	11.286.997	11.078.930		96	98
Average risk weight	67,5%	63,4%	64,0%		94	101



The total net exposure of the banks that is risk weighted in 2012 decreased by 3% or 503 million KM, which was in the most part influenced by the decline of the balance sheet items (mostly with the conversion ratio of 0 and 20%), and partially off balance sheet items (mostly with the conversion ratio of 0,5), which influenced that the risk of the risk weighted assets and credit equivalents has the same direction, in other words the decline of 2% or 208 million KM (from 11,29 billion KM to 11,08 billion KM).

The opposite movement from the risk weighted assets and loan equivalents had the risk weighted operating risk (POR), which increased by 1% and is 974 million KM. All of that resulted in decrease of total risk weighted risk by 2% or 200 million KM.

As of 31.12.2012, the participation of the risk weighted assets exposed to the credit risk was 92%, and operating risk 8%.

The capital level rate is presented as a ratio of capital to assets, and as of 31.12. 2012, it was 13,6%, which is by 0,6 percent points higher than at the end of 2011.

One of the most significant indicators of strength and adequacy of capital²³ of banks is the capital adequacy ratio, calculated as a ratio of net capital and risk weighted assets. As of 31.12.2012, this ratio was 17,4%, which is by 0,4 percent point higher than at the end of 2011. The capital adequacy is better than at the end of 2011 due to the decrease of total risk weighted risk by 2% or 200 million KM, and slight increase of the net capital which is a result of inclusion of the audited profit in 2012 (56% of total realized profit) into the accrual of capital in ten banks.

Although the banking sector performance has been for four years under a strong influence of the economic crises, that is the adverse macroeconomic and financial movements, in the countries of the euro zone, but also in the countries in the immediate neighborhood, as well as due to the slow economic recovery of the real sector and entire economy in BiH, the capital adequacy has been continuously kept above 16%, and the past two years is 17%, that is 17,4%. The reason for that is, on one hand, the stagnation of the credit growth and the decline of the total risk weighted risk, and on the other hand the banks maintained the most of their realized profit in the previous years in capital, and several banks improved the level of capital with additional capital injections. However, the problems in regard to the increase of the non performing placements and the part which is not covered with reserves for loan losses (net non performing assets) can in the coming period significantly impact the weakening of the capital base in some banks, if negative trends are continued in the asset quality and deterioration and increase of the nonperforming placements. That is visible from the following data: at the end of 2008, the net non performing

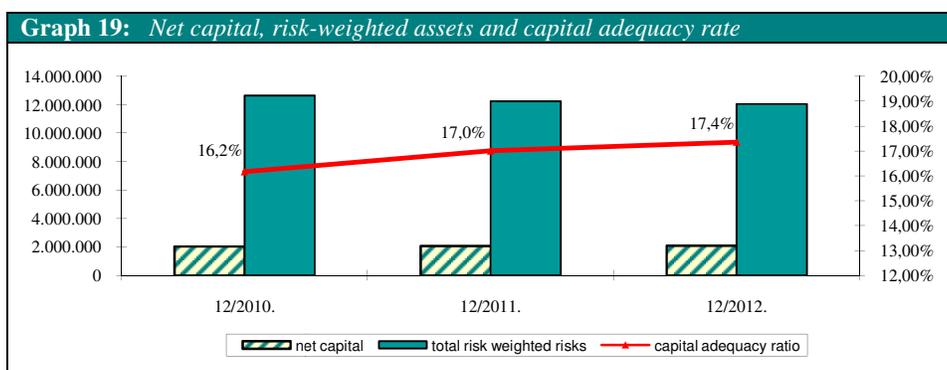
²³ By Law prescribed minimum capital adequacy rate is 12%.

assets were 197 million KM, and the ration (in comparison to the core capital) 13,2%, and at the end of 2012 the net non performing assets reached the amount of 437 million KM, and the ratio 25,4%. Also, based on the existing regulations the banks do not calculate the capital request for market differences, because of which the capital adequacy ratio is higher.

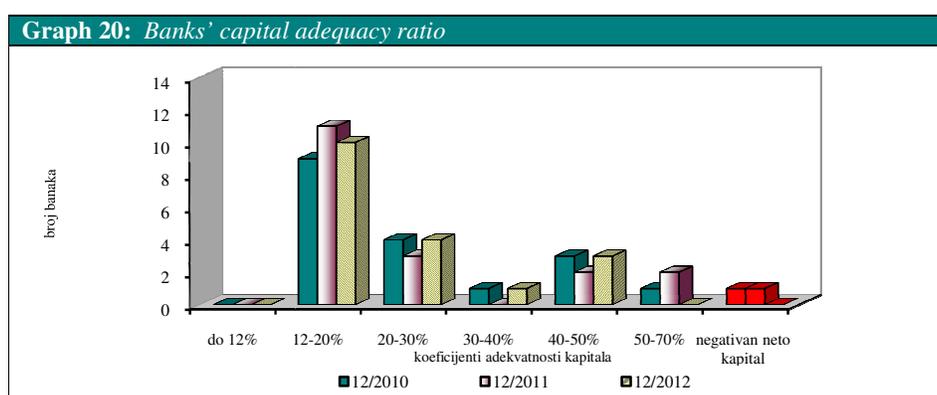
- 000 KM-

Table 21: Net capital, risk-weighted assets and capital adequacy rate

DESCRIPTION	31.12.2010.	31.12.2011.	31.12.2012.	RATIO	
1	2	3	4	5(3/2)	6(4/3)
1. NET CAPITAL	2.045.886	2.083.295	2.092.285	102	100
2. RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS	11.713.116	11.286.997	11.078.930	96	98
3. POR (RISK WEIGHTED OPERATING RISK)	942.707	965.932	974.201	102	101
4. TOTAL RISK WEIGHTED RISKS (2+3)	12.655.823	12.252.929	12.053.131	97	98
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/4)	16,2%	17,0%	17,4%	105	102



Capital adequacy rate of the banking system, as of 31.12.2012., was 17,4%, which is still much more than the minimum prescribed by the law (12%), representing satisfactory capitalization of the entire system and very strong basis and foundation to preserve its safety and stability.



All 18 banks in the FBiH, as of 31.12.2012., had the capital adequacy rate higher than minimum prescribed by the law of 12%. According to analytical data at the end of 2012, 14 banks recorded the capital adequacy rate lower than at the end of 2011, in the range from 0,1 to 28,8 percent points, while in four banks it recorded a better rate.

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

- 7 banks had the rate between 13,8% and 15,9%
- 3 banks had the rate between 16,1% and 18,0%,
- 4 banks had the rate between 21,0% and 21,9% and
- 4 banks had the rate between 37,2% and 47,9%

The FBA had, while performing the supervision of the performance and the financial condition of the banks in FBiH, in compliance with the legal authorities, and with the goal of strengthening the security of the individual banks and the entire system, ordered the banks to take appropriate actions aimed at strengthening of the capital base and securing that the capital is adequate, as well as the profile of the existing and potential exposure to all risks which are imminent for the banking operations. One of the measures which the FBA took, in order to maintain the capital base and soundness and stability of the banks, was issuing measures²⁴ for temporary restrictions to the banks and minimum conditions for the payment of dividends, discretion bonuses and payment of own shares by banks, with the implementation starting as of 31. 12. 2012.

The 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. Under the conditions of economic crises and the increase of the credit risk caused by the decline of the credit portfolio asset quality and through the increase of the non performing receivables, this requirement has a priority significance and is the reason why the segment of capital is under continuous enhanced supervision, in order to avoid threatening of the stability of the banks and erosion of the capital base to the level which could jeopardize not only the banks operations, but also the stability of the total banking system.

2.1.3. Assets and asset quality

Based on the Decision on minimum standards for managing the credit risk and banks' asset classification determined are criteria for evaluation of the exposure of the banks to the credit risk through evaluation of the quality of their assets and adequacy of reserves for loans and other losses in accordance with the risk of the placement and funds-items of the balance sheet and off balance items.

As the Law on accounting and the audit in the Federation of Bosnia and Herzegovina came into effect, the banks are obliged to starting as of 31. 12. 2011 develop and present financial reports in compliance with the International accounting standards (IAS) and International standards for financial reporting (ISFR). For the recognition and measurement of the financial assets and liabilities used is IAS 39 – Financial instruments, recording and measuring and IAS 37- Provisioning, potential liabilities and potential funds.

Therefore, in evaluating the exposure of the banks to the credit risk, the banks are still obliged to calculate the reserves for loan losses based on the Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks, credit risk and banks' asset classification,

²⁴ Decision on temporary restrictions and minimum conditions for payment of dividends, discretion bonuses and purchase of own shares by banks.

taking into account the already established value adjustments of the balance sheet assets and provisioning for losses for off balance sheet items which are recorded in the banks' books, as well as the RKG established from profit (on the accounts of capital)

-in 000 KM-

Table 22: Assets (balance and off balance), LLR according to the regulator and value adjustment based on IAS

	DESCRIPTION	31.12.2011.	31.12.2012.	RATIO
1.	Risk Assets ²⁵	13.376.110	13.286.139	99
2.	Calculated regulatory reserves for loan losses	1.294.757	1.370.342	106
3.	Provisioning value adjustment for off balance sheet items	1.039.529	1.092.251	105
4.	Needed regulatory reserves from profit for estimated losses	255.228	410.822	161
5.	Establishing regulatory reserves from profit for estimated losses	292.225	315.734	108
6.	Lacking amount of regulatory reserves from profit for estimated losses	19.386	111.310	574
7.	Non-risk items	5.787.457	5.580.448	96
8.	Total Assets (1+7)	19.163.567	18.866.587	98

The total assets with the off balance sheet items (assets)²⁶ of banks in F BiH as of 31.12.2012. were 18,9 billion KM and in relation to the end of 2011 was lower by 2% or 297 million KM. The risk assets are 13,3 billion KM and is lower by 1% or 90 million.

Non risk items are 5,6 billion KM or 30% of total assets with off balance sheet and they decreased by 4% or 207 million KM in comparison to the end of 2011.

Total accrued RKG according to the regulatory request are 1,4 billion KM, and established balance sheet assets adjustments of value and provisioning for losses on off-balance sheet items 1,1 billion KM. The needed regulatory reserves²⁷ are 411 million KM and are higher by 61% or 156 million KM. The established regulatory reserves from the profit are 316 million KM and are higher by 8% or 23 million KM, which is a result of coverage of the lacking amount of RKG reported as of 31.12.2011. The lacking amount of regulatory reserves²⁸ as of 31.12.2012 are 111 million KM.

²⁵Excluded is the amount of placements and potential liabilities of 173.301 h/KM secured by a cash deposit.

²⁶ Assets defined in Article 2. of the Decision on minimum standards for managing credit risk and asset classification of banks („Official Gazette of F BiH“, Number 3/03, 54/04, 68/05, 86/10, 6/11, 70/11, 85/11; 85/11- clean version).

²⁷ The needed regulatory reserves present a positive difference between the accrued RKG and value adjustments (accrued RKG are higher than the value adjustment).

²⁸ Lacking amount of regulatory reserves presents the positive difference between the needed and established RKG.

Table 23: Total assets, gross balance sheet assets, risk and non risk items of assets

DESCRIPTION	AMOUNT (in 000 KM)						RATIO	
	31.12.2010.	Struct. %	31.12.2011.	Struct. %	31.12.2012.	Struct. %	8 (4/2)	9 (6/4)
1.	2	3	4	5	6	7	8 (4/2)	9 (6/4)
Loans	9.244.429	86,4	9.364.121	85,4	9.352.585 ²⁹	85,2	101	100
Interest	51.348	0,5	109.696	1,0	86.650	0,8	214	79
Past due receivables	566.629	5,3	937.899	8,5	1.044.676	9,5	165	111
Receivables from paid guarantees	553	0,0	24.808	0,2	24.360	0,2	4486	98
Other placements	410.797	3,8	171.052	1,5	172.479	1,6	42	101
Other assets	427.890	4,0	371.127	3,4	291.903	2,7	87	79
1.RISK BALANCE SHEET ASSETS	10.701.646	100,0	10.978.703	100,0	10.972.653	100,0	103	100
2. NON RISK BALANCE SHEET ASSETS	5.035.264		5.290.275		5.084.537		105	96
3.GROSS BALANCE SHEET ASSETS (1+2)	15.736.910		16.268.978		16.057.190		103	99
4.RISK OFF BALANCE SHEET	2.352.092		2.397.407		2.313.486		102	96
5.NON RISK OFF BALANCE SHEET	0		497.182		495.911		n/a	100
6.TOTAL OFF BALANCE SHEET ITEMS (4+5)	2.352.092		2.894.589		2.809.397		123	97
7.RISK ASSETS WITH OFF BALANCE SHEET (1+4)	13.053.738		13.376.110		13.286.139		102	99
8. NON RISK ITEMS (2+5)	5.035.264		5.787.457		5.580.448		115	96
9. ASSETS WITH OFF BALANCE SHEET(3+6)	18.089.002		19.163.567		18.866.587		106	98

Gross balance sheet assets³⁰ is 16,1 billion KM, and is lower by 1% or 212 million KM, and the risk balance sheet assets is 11 billion KM which is 68% gross balance sheet assets and is on the same level in comparison to the end of 2011. Non risk balance sheet assets are 5,1 billion KM and is lower by 4% or 206 million KM. Off balance sheet risk items are 2,3 billion KM and are lower by 4% or 84 million KM and the non risk items are 496 million KM and they are at the same level as at the end of 2011.

The impact of the economic crises on the overall economy and industry in BiH is still present, which had a significant impact on the banks' operations that is the segment of lending. Loans as of 31.12.2012 were 10,7 billion KM, with a minimum growth of 2% or 178 million KM in comparison to the end of 2011, while the participation in the assets increased by 2,4 percent points and is 71,1%. In comparison to 2008, the loans, with smaller oscillations, in the period of four years realized a growth of 2% or 232 million KM.

In 2012, placed are a total of six billion KM in new loans, which is by 7% or 402 million KM higher than in comparison to the end of 2011. Of the total placed loans, loans in economy are 71%, and citizens 25%. Maturity structure of the newly granted loans has changed on behalf of the short term loans in comparison to the end of 2011. , the participation of the long term was 41%, and short term 59% (31.12.2011: long term 49%, short term 51%).

Three largest banks in the FBiH with credit amount of 6,1 billion KM have participation of 57% in total loans at the system level.

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

²⁹ Isključen iznos kredita od 156.539 hiljada KM pokriven novčanim depozitom (uključen u nerizičnu bilansnu aktivu).

³⁰ Data source: report on classification of the banks' balance sheet and off balance sheet items.

-in 000 KM-

Table 24: Loan structure by sectors

SECTORS	31.12.2010.		31.12.2011.		31.12.2012.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	8(4/2)	9(6/4)
1	2	3	4	5	6	7		
Government institutions	126.328	1,3	125.827	1,2	132.525	1,2	100	105
Public companies	238.105	2,4	257.547	2,4	251.233	2,4	108	98
Private entre. and comp.	4.815.426	48,2	4.989.796	47,6	5.141.359	48,2	104	103
Banking institutions	10.975	0,1	16.411	0,2	11.177	0,1	149	68
Non banking fin. inst.	37.235	0,4	40.978	0,4	41.661	0,4	110	102
Citizens	4.733.198	47,4	5.043.634	48,1	5.076.679	47,6	106	101
Other	20.644	0,2	13.478	0,1	11.490	0,1	65	85
TOTAL	9.981.911	100,0	10.487.671	100,0	10.666.124	100,0	105	102

In 2012 the loans sector structure slightly changed in comparison to the end of 2011. Loans granted to citizens increased by 1% or 33 million KM, amounting to 5,1 billion KM, which is a participation of 47,6% (at the end of 2011. 48,1%). Loans granted to private companies are higher by 3% or 152 million KM, and they are 5,1 billion KM or 48,2% of total loans (at the end of 2011. 47,6%).

The data submitted by banks, as of 31.12.2012., in the aspect of loan structure originated to citizens (based on the purpose), there is an increased participation of the loans granted for financing the consumer goods³¹, from 73% to 74%, while housing loans decreased from 24% to 23, and the remaining 3% have loans for SMEs and agriculture.

Three largest banks in the system financed 62% of total loans originated to citizens, and to private companies 52% of total loans to all sectors (31.12.2011: citizens 64,5%, private companies 52%).

Currency structure of loans: loans financed with currency clause had the highest participation of 65% or 6,9 billion KM (EUR: 6,6 billion KM or 96%, CHF: 287 million KM or 4%), loans in domestic currency of 35% or 3,7 billion KM, while loans in foreign currency had the lowest participation of only 1% or 105 million KM (EUR: 81 million KM or 77%, CHF: 10 million KM or 10%). The total amount of loans in CHF currency of 279 million KM is 2,6% of the total loan portfolio and almost the whole amount refers to one bank in the system.

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

Quality of assets and off-balance sheet risk items, general loan risk, potential loan losses by classification categories³² are presented in the following table:

³¹ Credit card operations included.

³² As regulated in the Article 22 of the Decision on Minimum Standards for Managing Credit Risk and Assets Classification in Banks, banks have to allocate and maintain reserves for general and special loan losses in percentages according to classification categories: A 2%, B 5% to 15%, C 16% to 40%, D 41% to 60% and E 100%.

Table 25: : Classification of assets, general credit risk (OKR) and potential credit loss (PKG)											
Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in%)										
	31.12.2010.			31.12.2011.			31.12.2012.			RATIO	
Clasif. assets	Partic. %	OKR PKG	Clasif. assets	Partic. %	OKR PKG	Clasif. assets	Partic. %	OKR PKG			
1	2	3	4	5	6	7	8	9	10	11(5/2)	12(8/5)
A	10.477.329	80,3	209.555	10.612.528	79,3	212.248	10.571.130	79,6	211.425	101	100
B	1.645.750	12,6	132.048	1.419.030	10,6	118.847	1.227.189	9,2	108.290	86	86
C	471.505	3,6	113.962	282.847	2,1	67.999	334.465	2,6	87.917	60	118
D	455.303	3,5	258.297	375.980	2,8	209.936	443.261	3,3	252.631	83	116
E	3.851	0,0	3.851	685.725	5,2	685.727	710.094	5,3	710.079	n/a	103
Risk ass. (A-E)	13.053.738	100,0	717.713	13.376.110	100,0	1.294.757	13.286.139	100,0	1.370.342	102	99
Classified (B-E)	2.576.409	19,7	508.158	2.763.582	20,7	1.082.509	2.715.009	20,4	1.158.917	107	98
Non-performing (C-E)	930.659	7,1	376.110	1.344.552	10,1	963.662	1.487.820	11,2	1.050.627	144	111
Non risk ass.³³	5.035.264			5.787.457			5.580.448			115	96
TOTAL (risk and non risk)	18.089.002			19.163.567			18.866.587			106	98

If an analysis of the risk assets quality is performed and the changes of the key indicators, it could be concluded, that in 2012 continued was the trend a slight deterioration in the most asset quality indicators. In some banks the indicators had slight oscillations (deterioration or improvement), that is: six banks have indicators of participation of the classified and non performing assets in relation to the risk assets more poor than the banking sector.

As of 31.12.2012, the classified assets were 2,7 billion KM, and non performing 1,5 billion KM (31.12.2011: 2,8 billion KM and 1,3 billion KM).

Classified assets (B-E) are lower by 2% or 49 million KM: B category decreased by 14% or 192 million KM, and (C-E) increased by 11% or 143 million KM.

The classified assets and risk assets ratio is 20,4%, which is by 0,3 percent points lower than at the end of 2011.

The most important indicator for the asset quality is the ratio of the nonperforming and risk assets. The review of the trend of this indicator in 2012, indicates that there is a slight deterioration, or an increase of 1,1 percent points and as of 31.12.2012. was 11,2%, and a core reason for that is the noted growth of the non performing assets of 11% in 2012. However, it should be taken with reserve, since the participation of category B is 9,2%, and there is doubt that a part of the placement reported in this category have more poor quality and should be categorized as non performing assets.

If we analyze the data for the past four years, in the period of the impact of the economic crises, on the real but also on the banking sector of BiH, especially of concern are the trends in the movement of the non performing and not collected placements, that is their continuous growth, which in the coming period could cause serious threat for the capital base in some banks and lead to erosion of capital on the level which can be a threat to their security and stability. The amount of nonperforming assets by the end of 2008 from 90 million KM (with included E category) increased to the end of 2012 by 84% or 681 million KM, or 1,49 billion KM, and the participation in the risk assets from 4,7% to 11,2%. In 2009 that is in the first year of the crises

³³ The items of assets, which in compliance with the Article 2.paragraph (2) of the Decision on the minimum standards for managing credit risk and banks' asset classification, do not classify the items on which, in compliance with the Article.22., paragraph (8) of the Decision do not calculate the reserves for OKG of 2%.

impact the growth of the non performing assets was 274 million, and the following 2010 recorded even stronger negative effects of the crises, which is obvious through the growth of the non performing assets of 466 million KM. In 2011 there was a decline 203 million KM, and the key reason is the transfer of a significant amount of nonperforming assets in one bank to another legal entity (524 million KM)³⁴. In 2012, as already noted, the growth of the poor performing assets continued, and was 143 million KM or 11%, and the participation at the end of 2012 was 11,2%.

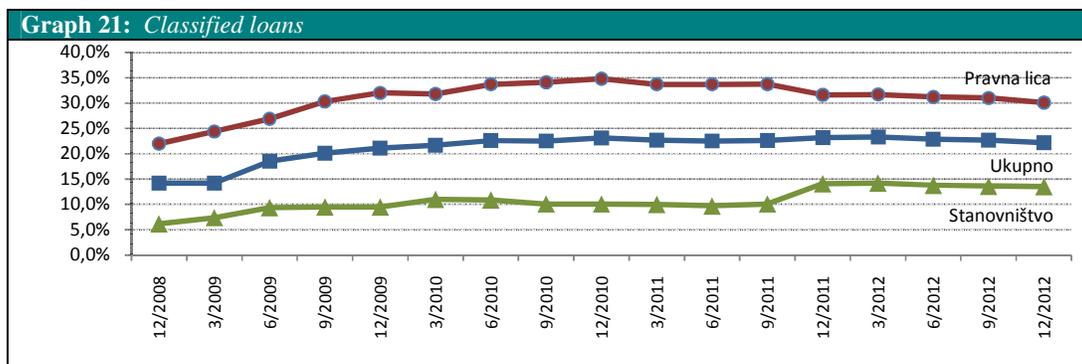
The analysis of data by sectors is based on the indicators of the quality of loans granted to the two most significant sectors: private companies and citizens. The two mentioned indicators for these sectors are significantly different and indicate higher loan risk exposure, and also the exposure to potential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

Table 26: Classification of loans originated to citizens and legal entities

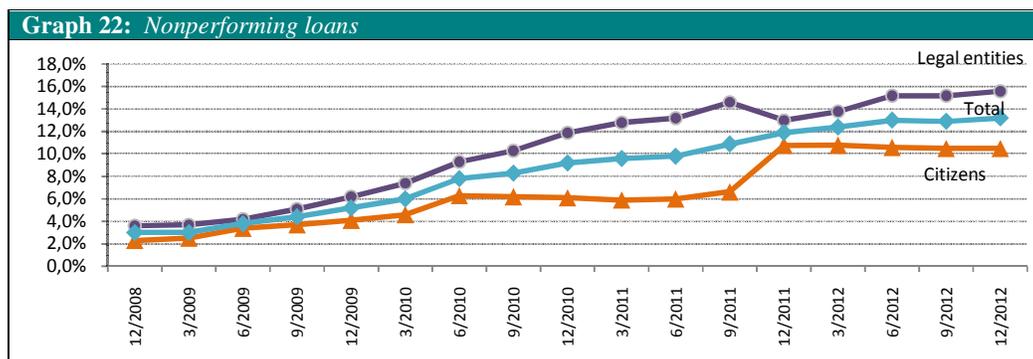
Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in %)												RATIO
	31.12.2011.						31.12.2012.						
	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	Partic.	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	Partic.	
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14(12/6)
A	4.334.673	85,94	3.722.420	68,38	8.057.093	76,82	4.391.603	86,50	3.905.972	69,88	8.297.575	77,82	103
B	164.427	3,26	1.014.460	18,64	1.178.887	11,24	150.247	2,97	811.632	14,52	961.879	8,99	82
C	128.876	2,56	143.447	2,63	272.323	2,60	97.021	1,91	225.638	4,04	322.659	3,09	118
D	156.974	3,11	207.674	3,81	364.648	3,48	162.781	3,20	268.430	4,80	431.211	3,98	118
E	258.685	5,13	356.035	6,54	614.720	5,86	275.027	5,42	377.773	6,76	652.800	6,12	106
TOTAL	5.043.635	100,0	5.444.036	100,0	10.487.671	100,00	5.076.679	100,0	5.589.445	100,0	10.666.124	100,00	102
Class. loans B-E	708.962	14,06	1.721.616	31,62	2.430.578	23,18	685.076	13,49	1.683.473	30,12	2.368.549	22,18	97
Non perfm. Loan C-E	544.535	10,80	707.156	13,00	1.251.691	11,93	534.829	10,53	871.841	15,60	1.406.670	13,19	112
		48,09		51,91		100,00		47,60		52,40		100,00	
Participation by sectors in classified loans, nonperforming loans and category B													
Classification B-E		29,17		70,83		100,00		28,92		71,08		100,00	
Non performing C-E		43,50		56,50		100,00		38,02		61,98		100,00	
Category B		13,95		86,05		100,00		15,62		84,38		100,00	

The asset quality indicators are slightly deteriorated in comparison to the end of the previous year, especially the participation of the nonperforming loans which increased by 1,3 percent points, as a result of the increase of the total nonperforming loans by 12,4% or 155 million KM, legal entities by 23% or 165 million KM, while the nonperforming loans to citizens had a decline of 2% or 10 million KM. The participation of the classified loans decreased to 22,2%, or one percent point due to the decrease of the B category by 18% or 217 million KM.

³⁴ Data for non performing assets for 2008. , 2009. and 2010. include E category also, which until 2011. was reported in teh off balance sheet.



As of 31.12.2012., of total loans originated to legal entities in the amount of 5,6 billion KM, 1,7 billion KM or 30% was classified in categories B to E, which is slightly lower participation than at the end of 2011, when it was 31,6%. This indicators is slightly better in loans originated to citizens, and in the listed categories classified is 13,5% or 685 million KM (709 million KM or 14,1% at the end of 2011) of total granted loans to citizens in the amount of 5,1 billion KM.



The most important indicator of the credit portfolio quality is the participation of the non performing loans. Under the impact of the economic crises in 2012. Continued is the growth of the participation of the non performing loans to the legal entities sector, while there was a stagnation for the citizens loans that is just a slight decrease. Of the total loans placed to legal entities the non performing loans are 15,6% or 872 million KM, which is by 2,6 percent points higher than at the end of 2011. (as of 31. 12. 2011 they were 707 million KM or 13% of total loans). For the citizens sector they are 10,5% or 535 million KM (31. 12. 2011.: 10,8% or 544 million KM).

A more detailed and thorough analyses is based on the data about the sector concentration of loans within the sector of legal entities (through sectors) and citizens (by purpose).

Table 27: Sector concentration of loans										
DESCRIPTION	AMOUNT (in 000 KM) AND PARTICIPATION (in %)								RATIO	
	31.12.2011				31.12.2012					
	Total loans		Nonperforming loans		Total loans		Nonperforming loans			
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %		
1	2	3	4	5 (4/2)	6	7	8	9 (8/6)	10 (6/2)	11 (8/4)
1. Loans to legal entities for:										
Agriculture (AGR)	104.521	1,0	37.087	35,5	109.873	1,0	31.431	28,6	105	85
Production (IND)	1.561.740	14,9	199.495	12,8	1.537.147	14,4	244.138	15,9	98	122
Construction (CON)	415.593	4,0	84.153	20,2	408.752	3,8	106.552	26,1	98	127
Trade (TRD)	2.227.415	21,2	248.672	11,2	2.318.167	21,7	309.230	13,3	104	124
Service (HTR)	126.460	1,2	25.849	20,4	166.485	1,6	23.453	14,1	132	91
Other ³⁵	1.008.307	9,6	111.900	11,1	1.049.021	9,8	157.037	15,0	104	140
TOTAL 1.	5.444.036	51,9	707.156	13,0	5.589.445	52,4	871.841	15,6	103	123
2. Loans to citizens for:										
General spending	3.675.747	35,0	316.640	8,6	3.738.655	35,1	312.755	8,4	102	99
Residence constructions	1.202.104	11,5	180.231	15,0	1.186.332	11,1	177.104	14,9	99	98
Entrepreneurs	165.784	1,6	47.664	28,8	151.692	1,4	44.970	29,6	91	94
TOTAL 2.	5.043.635	48,1	544.535	10,8	5.076.679	47,6	534.829	10,5	101	98
TOTAL (1. +2.)	10.487.671	100,0	1.251.691	11,9	10.666.124	100,0	1.406.670	13,2	102	112

The largest participation in total loans for legal entities have the sector of trade (21,7%) and production (14,4%), and in citizens sector the largest participation have loans for general spending (35,1%) and residence loans (11,1%), and the participations are almost the same as at the end of the previous year. The largest nominal growth of loan in 2012 was recorded by loans placed in the trade sector (4% or 91 million KM), and the loans given to the service sector was 32% or 40 million KM. The loans to the citizens sector in 2012 also had a slight growth of 1% or 33 million KM, which refers to loans for general spending, which had a growth of 2% or 63 million KM, while the loans to entrepreneurs and resident loans slightly declined.

The negative and strong influence of the economic crises is especially present in several key sectors, which is obvious from the indicators for the participation of the nonperforming loans. The agriculture sector, although with the smallest participation in the total loans of 1%, has the worse indicator of 28,6%, which is still somewhat better than at the end of the previous year, when it was 35,5%, and due to the decline of the non performing loans by 15% or six million KM.

The high increase of the loans was recorded in two sectors with the largest participation in total loans: in the sector of trade 24% or 61 million KM, and the participation increased from 11,2% to 13,3%, while in the production sector the growth was 22% or 45 million KM, which resulted with the increase of participation from 12,8% to 15,9%. The sector on which the crises had a strong impact is construction (participation in total loans at the end of 2012. was 3,8%), with the increase of nonperforming loans of 27% or 22 million KM and their participation from 20,2% to 26,1%.

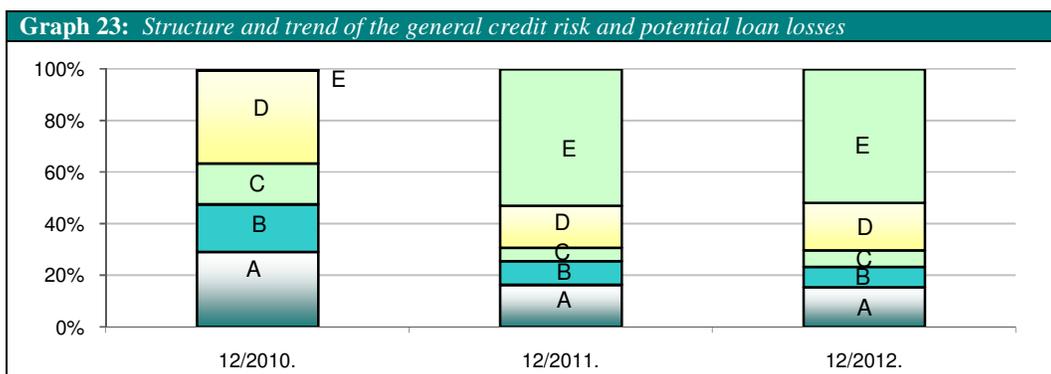
In the citizens sector the poorest non performing participation indicator of 29,6% (at the end 2011: 28,8%) have loans placed to entrepreneurs, which participation of 1,4% is the lowest participation in the total loans. A relatively high participation of nonperforming loans of 14,9% have resident loans, while in the loans for general spending the participation is lower and is 8,4%. In 2012, in the noted loans placed to the citizens recorded is a slight decline of

³⁵ Included are following sectors: traffic, storage and communication (TRC); financial performance (FIN); performance with real estate, lease and business services (RER); public governance and defense, obligatory social insurance (GOV) and othero.

nonperforming loans, which had an impact on the small change that is the decline of their participation.

The level of the general credit risk and assessed potential loan losses through categories of classification, determined in compliance with the criteria and methodology prescribed in the decisions of the FBA, their trend and the structure on the level of the banking sector are provided in the following table and graph.

Table 28: Structure and trend of the general credit risk and potential credit losses									
Classification category	AMOUNT (in 000 KM) AND STRUCTURE (in%)							RATIO	
	31.12.2010.		31.12.2011.		31.12.2012.		8 (4/2)	9 (6/4)	
	2	3	4	5	6	7			
A	209.555	29,2	212.248	16,4	211.425	15,5	101	100	
B	132.048	18,4	118.847	9,2	108.290	7,9	90	91	
C	113.962	15,9	67.999	5,2	87.917	6,4	60	129	
D	258.297	36,0	209.936	16,2	252.631	18,4	81	120	
E	3.851	0,5	685.727	53,0	710.079	51,8	n/a	104	
TOTAL	717.713	100,0	1.294.757	100,0	1.370.342	100,0	180	106	



Analyzing the level of the calculated RKG in total and through classification categories, in comparison to the end of 2011, the reserves for loan losses (for category A) and potential credit losses increased by 6% or 76 million KM and are 1,37 billion KM. Reserves for general credit risk (A category) are at the same level as in 2011, and the reserves for category B decreased by 9% or 11 million KM due to the decline of the same by 14% or 192 million KM and are 108 million KM. Due to the growth of the poor performing assets (C, D and E category) by 11% or 143 million KM, increased are the reserves for the poorest loans by 9% or 143 million KM, increased are the reserves for these most poor loans by 9% or 87 million KM, or at the level of 1,05 billion KM. Nominally, the largest growth of 43 million KM or 20% had the reserves for the category D, and the largest relative growth of 29% or 20 million had reserves for C category. Category E, with the coverage of reserves by 100%, had a growth of 4% or 24 million KM.

One of the most important asset quality indicators is the ratio of the potential credit losses (PKG) and risk assets with off balance sheet. This indicator is 8,7% and is by 0,6 percent points lower than in comparison to 2011.

In 2012, that banks had to, due to the continued decline of the asset quality and lack of collectability, calculate and allocate additional reserves for loan losses, which resulted with an increase in the average coverage for all categories of classified assets. As of 31.12. 2012 in average banks had allocated reserves for category B based on the rate of 8,8%, for C category

26,3%, D category 57,7% and E 100% (at the end of 2011.: B 8,4%, C 24,0%, D 55,8% and E 100%)³⁶.

In compliance with IAS/IFRS the banks are obliged to book the value impairments of property through expenses by establishing value adjustments for balance sheet items and provisioning for risk off balance sheet items (previously RKG).

The review of the total items of assets (balance and off-balance) and the default items, as well as the adequate value adjustments and provisioning (determined in compliance with the internal methodology of the banks which minimum elements are prescribed by the FBA) at the level of the banking sector are listed in the following table:

Table 29: Evaluation and validation of the risk items according to IAS 39 and IRS 37					
Description	AMOUNT (in 000 KM) AND PARTICIPATION (in%)				
	31.12.2011.		31.12.2012.		RATIO
	Amount	Participation	Amount	Participation	
1	2	3	4	5	6 (4/2)
1. RISK ASSETS (a+b)	13.376.110	100,00	13.286.139	100,0%	99
a) Default items	1.606.395	12,01%	1.729.182	13,01%	108
a.1. balance sheet default items	1.572.090		1.708.152		109
a.2. off balance sheet default items	34.305		21.030		61
b) Performing assets	11.769.715	87,99%	11.556.957	86,99%	98
1.1 TOTAL RISK ASSETS VALUE ADJUSTMENTS (a+b)	1.039.529	100,0%	1.092.251	100,0%	105
a) Value adjustment for default	883.835	85,02%	953.816	87,33%	108
a.1. Value adjustment of balance sheet default items	878.079		950.256		108
a.2. Reserves for off-balance sheet in default	5.756		3.560		62
b) Value adjustments for performing assets (IBNR ³⁷)	155.694	14,98%	138.435	12,67%	89
2. TOTAL LOANS (a+b)	10.487.671	100,0%	10.666.124	100,0%	102
a) Non-performing loans	1.494.247	14,25%	1.645.072	15,42%	110
b) Performing loans	8.993.424	85,75%	9.021.052	84,58%	100
2.1. LOANS VALUE ADJUSTMENT (a+b)	931.946	100,0%	1.007.196	100,0%	108
a) Default loans value adjustment	813.078	87,25%	898.649	89,22%	111
b) Performing loans value adjustment (IBNR loans)	118.868	12,75%	108.547	10,78%	91
Coverage of items in default	55,0%		55,2%		
Coverage of performing assets items	1,3%		1,2%		
Participation of default loans in total loans	7,8%		8,2%		

Participation of default loans in the total loans increased from 14,2% to 15,4%, and all items in default in the total risk assets from 12% to 13%.

The coverage of items in default with the correction of value is 55,2%, and items of performing assets 1,2%, and total value adjustment is 8,2% of risk assets (12/11: 7,8%).

Due to poor performing receivables trend that is the delays in collecting the past due loan liabilities from clients, there were activated some guarantees in a number of delinquent loans that

³⁶ Based on the Decision on minimum standards for managing the credit risk and banks asset classification, banks are obliged to calculate reserves for loan losses for classification categories in the following percentages: A-2%, B 5-15%, C 16-40%, D 41-60% and E 100%.

³⁷ IBNR (identified but not reported)-latent losses.

had this type of insurance, so the burden of payment of such loans fell on the guarantors. As of 31.12.2009., the FBA requires a report about the loans being repaid by the guarantor, in order to collect, monitor and analyze the data on loans that are being repaid by the guarantors. According to the banks' reports in F BiH as of 31.12. 2012., 2.809 guarantors in total repaid 12 million KM of the total granted amount of loans of 70 million KM (2,466 credit party), which is by 14% less in comparison to the amount of the payment by the guarantors as of 31.12. 2011. (14 million KM paid by 3.576 guarantors, while the amount of the total loans was 80 million KM – 3.122 credit parties). The amount of the remaining debt is 43 million KM (31. 12. 2011.: 47 million KM).

From the listed data it can be concluded that in 2012, the amount of loans paid by guarantors decreased, the balance of the remaining debt, as well as the amount of payments on the account of guarantors. The participation of loans and the number of credit parties being repaid by the guarantors in relation to the data for the entire system is low and amounts to only 0,38% and 0,20%.

With an aim to defer the negative effects of the global financial and economic crises, and taking care of maintaining the stability of the banking sector, the FBA at the end 2009, issued a Decision on temporary measures for reconstruction of loan liabilities of individuals and legal entities³⁸.

The main goal for issuing these temporary measures was to stimulate the banks to „revive“ credit activities, and restructuring the existing receivables, without increasing the price of the loan and expenses for the existing creditors, to help both the individuals and the legal entities to overcome the situation in which they are because of the effects of the economic crises (decrease in the repayment capability, for individuals due to the loss of jobs, late salaries, decrease in income etc., and for legal entities due to increased lack of liquidity, significant decrease of business activities, very difficult conditions in the real sector in general etc.).

Acting in accordance with the noted Decision, the banks in the Federation of in 2012, of a total received 438 requests for restructuring of loan liabilities approved 388 requests in a total amount of 73 million KM or 89%, which is by 9% less than in comparison to 2011. Of the total amount of granted restructured liabilities 71 million KM refer to legal entities, and 2,5 million KM to individuals.

Net effect on the reserves for loan losses on the bases of the performed restructuring is an increase of 262 thousand KM. It should be noted that there were some opposite movements, both increases and decreases of RKG on these bases, which at the end resulted with a noted net effect.

The restructured loans in 2012, in comparison to the total loans as of 31.12. 2012 have a participation of only 0,69% (for the legal entities sector in comparison to the portfolio of the legal entities this percent is 1,26%, while for citizens it is 0,05%).

From the noted data it can be concluded that the result is relatively modest, both in number and amount of the restructured loan liabilities, if it is compared both with entire credit portfolio and through the sectors (for legal entities and individuals).

Although the result and the effects of the implementation of the Decision are not significant, it is estimated that the coming into effect of such regulation was very important, that is such measures of temporary character in the conditions of financial and economic crises were necessary for both the financial and real sector in FBiH, and it had positive impact on the debtors (both individuals and legal entities) making easier the servicing of their debt in compliance with their payment

³⁸ “Official Gazette F BiH”, No.2/10.

capabilities. That is why the prolonging the implementation of the Decision until the end of 2012 is justifiable due to the fact that the effects of the crises are still present.

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.

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 30: Related entities transactions						
Description	D A T I K R E D I T I ³⁹			R A T I O		
	31.12.2010.	31.12.2011.	31.12.2012.	3/2	4/3	
	1	2	3	4	5	6
Shareholders over 5% of voting rights, subsidiaries and other related enterprises	84.600	131.962	156.861	156	119	
Supervisory Board and Audit Board members	375	400	617	107	154	
Bank Management	2.239	2.170	2.574	97	119	
TOTAL	87.214	134.532	160.052	154	119	
Potential and undertaken off-balance sheet liabilities	22.653	29.818	21.800	132	73	

In the observed period, credit exposures to persons related to banks increased by 19% and potential liabilities decreased by 27% due to the decreased exposure in one large banks. Based on the presented data, we could conclude that it is still 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. This has had a positive influence on this segment of operations, since the risk management quality in this segment has improved.

2.2. Profitability

Banks profitability, unlike other segments and business performance indicators of the banking sector in the Federation of BiH, in the past two years shows positive changes, profit in 2012 of 112 million KM is the highest amount realized thus far (second highest is the profit of 110 million KM from 2007.). It is not adequate to assess the profitability only through the level of the realized financial result, since other important factors should be taken into account which influence the sustainability and quality of earnings that is profit. Here it is important to emphasize the credit risk and negative trends in the asset quality in the last four years, which is noticeable through the increase of poor and placements that cannot be collected (non performing assets), which in 2012 increased by 11% or 143 million KM, and the participation was 11,2%. Although the banks took significant measures in regard to the decrease of the operating expenses, the most important factor which resulted with the improvement of the financial result in most of the banks in the past two years is the decrease of impairment provisions expenses (after the implementation of IAS 39 and 37, with initiated implementation as of 31. 12. 2011.), which is not in correlation with the noted data about the increase of poor loans, with a note that the trend is somewhat slower in the past two years. That leads to doubt if the value impairment in a number of banks was under assessed and that they are not on the adequate level. Also, the high amount of the net poor quality assets, or loans (amount not covered by the value impairment) in the coming period will have negative implications on the financial result of some banks, and consequently capital, due to potential new expenses for establishment of the value impairment for existing poor loans.

According to the data from the financial reports which show the banks' performance success, that is from the income statement for 2012, at the level of the banking sector in the Federation of BiH and realized is a positive financial result – profit in the amount of 111,7 million KM, which is in reference to the level of the system an increase of 37% or 30,4 million KM in comparison to 2011. The largest positive effect of 29,6 million KM on the financial results of the system, had the realization of a smaller loss in one bank which in 2011 performed with a high loss of 40,6

³⁹ Pored kredita, uključena i ostala potraživanja, deponovana sredstva i plasmani dioničarima (finansijskim institucijama) sa više od 5% glasačkih prava.

million KM (which then was 89% of the total realized loss on the level of the system), then a larger profit in banks which had a positive performance in the same period last year (10 banks, effect 13 million KM), also the decrease of loss in one small bank (effect 3,4 million KM). Simultaneously, four banks realized a lower profit (by 11,5 million KM), and two banks, which performed with positive results in 2011, in 2012 had a loss (effect 4,8 million KM). Analyzing individual banks through quarters during 2012, it can be concluded that during the first half of the year there were positive movements in regard to the realized profit in most of the banks, while in the other half, especially the last quarter, the realized profit was much lower, especially in larger banks.

The largest impact on the profitability of most of the banks is primarily a result of the implementation of a new methodological approach (implementation of the IAS 39 and IAS 37) which consequently had an impact on a lower level of value impairment. The larger decline of the non-interest expenses amortized the decrease of the total income, which had an impact on the realization of larger profit in comparison to the same period last year.

The positive financial result of 128 million KM was realized by 14 banks and it is larger by 1% or 1,4 million KM in comparison to 2011. Simultaneously, the performance loss in the amount of 16,5 million KM was reported by four banks decreasing by 64% or 29 million KM in comparison to 2011.

More detailed data are provided in the following table.

-000 KM-

Table 31: Realized financial result: profit/loss						
Description	31.12.2010.		31.12.2011.		31.12.2012.	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7
Loss	-157.933	5	-45.512	3	-16.504	4
Profit	54.957	14	126.754	16	128.173	14
Total	-102.976	19	81.242	19	111.669	18

Similar to other segments, this segment has also encountered concentrations: of total profit generated (128 million KM), 70% or 90 million was generated by two largest banks in the system, whose participation in the banking system assets was 50%. In the total loss of 16,5 million KM, refers to only one large bank which is in the foreign ownership, with asset participation of 9,4%, on the third place in the system, or 67,2% and 11 million KM (in the same period last year the loss of the bank was 41 million KM). Analytical data indicate that a total of 12 banks reported a better financial result (by 46 million KM), and six banks have worse results (by 16 million KM).

Based on the analytical data and the indicators for 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 is evident that the total profitability of the system improved in comparison to the previous year, and especially in large banks which carry the profitability and which realised a significantly higher profit than last year, which is primarily the result of the applied new methodological approach.

At the system level, total income was realized in the amount of 849 million KM with a declining rate of 4% or 38 million KM in relation to the same period 2011. Total noninterest bearing expenses were 720 million KM, with the decrease rate of 9% or 70 million KM which had a positive reflection to the overall financial result of the sector.

In spite the incline of the average interest bearing loans in almost all banks by 3,4%, the decrease of the average interest rates on loans had as a consequence the declining trend in the interest income. Although most of the banks recorded an increase in the interest income in comparison to the same period last year, as a result of the intensifying of lending activities, especially in the first half of 2012, but with a stagnating trend in third quarter, the lower interest income in three large banks, which carry the profitability, influenced the decrease on the level of the system. Interest income is 809 million KM, which is by 7% or 57 million KM lower than in the same period in 2011., and the participation in the structure of total income decreased from 97,7% to 95,3%. Interest income on loans, which recorded the largest nominal decline by 5% or 40 million KM, has the largest participation, as a result of decrease of average active loan rates for the reviewing period from 7,53% to 6,90%, with a decreased participation in the total income from 86,8% to 85,9%. In the structure of the interest income on loans, the largest part (54%) refers to interest income from loan placements to citizens, which in comparison to the previous year were lower by 2% and in total loan portfolio have a participation of 47,6%. The next is the interest income on loans given to private companies with participation of 42% and decrease by 10% in comparison to the past year and participation in the credit portfolio of 48,2%. Based on this it can be concluded that the citizens credit portfolio is still more profitable for banks and less risky taken the lower level of poor performing loans in the structure of loan placements, but also due to the interest rate on loan placements to citizens which in 2012 in average were higher by around 25% than the interest rate on credit companies. Also, it should be noted that after the interest income from loans, the second significant item with a negative impact on the interest income is the income from interest bearing accounts in deposit institutions, with a low participation of 0,5%, had a significant decline of 83% or 19,6 million KM, which is primarily a result of law fees on the obliged and above the obliged reserves at the Central bank of BiH.

Positive trend was recorded for the interest expenses, which had an insignificantly higher decline rate (-8%) in comparison to the declining rate of interest income (-7%), but nominal difference is significant: interest expenses decreased by 25 million KM and interest income by a high 57 million KM. The interest expenses are 270 million KM, and their participation in the structure of the total income decreased from 32,2% to 31,8%. Although the average interest bearing deposits decreased by 7,6%, interest expenses on deposit accounts which are 219 million KM, as a structurally largest item relatively and nominally in the amount of total interest expenses declined by 5% or 12 million KM, as a result of the change in the deposit base structure, and a large outflow of demand deposits influenced the larger participation of deposits which carry a larger interest rate, which resulted with the increase of average interest rates on deposits for the comparing period from 2,26% to 2,32%. The interest expenses on taken loans and other borrowings are 36,5 million KM and in reference to 2011 recorded a decline of 24% with a slight decline in participation from 5,4% to 4,3%.

As a result of decline of the interest expenses (-7%) and interest income (-8%), net interest income decreased by 6% or 32 million KM and is 540 million KM, with a decreased participation in the structure of the total income from 64,5% to 63,6% .

Operating income was 309 million KM and in relation to the same period 2011 declined by 2% or six million KM and their participation in the structure of the total income increased from 35,5% to 36,4%. Within the operating income the largest participation have the service fees which recorded an increase of 3% or five million KM.

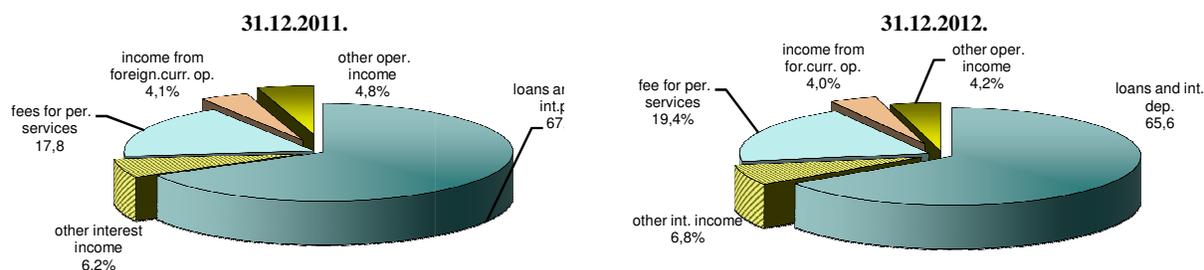
Total noninterest expenses are 720 million KM and in comparison to the same period in 2011 declined by 9% or 70 million KM, primarily as a result of a significant decline of value adjustment expenses At the same time, their participation in the structure of the total income

declined from 89,1% to 84,9%. The value adjustment expenses are 145 million KM and in comparison to the last year, declined by 24% or 46 million KM, which had a positive impact on the decrease of their participation in the structure of total income from 21,5% to 17,0%. The noted is primarily the result of the decrease of expenses of the value impairment in one bank (by around 44 million KM), due to transfer of a part of nonperforming loans to another legal entity of non banking sector at the end of 2011.

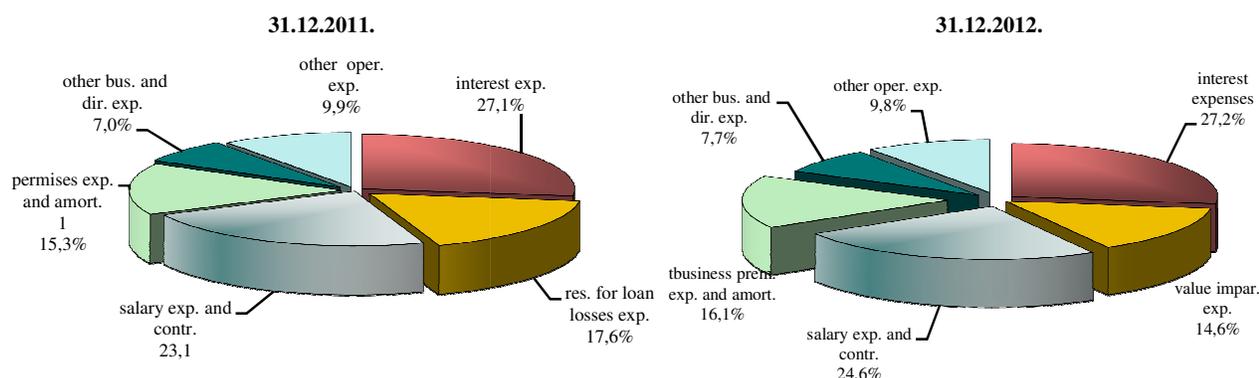
On the other hand the operating expenses, with the amount of 500 million KM and participation of 58,8% in the total income, also recorded a slight decline of 5% or 24 million KM, of which the salary and contribution expenses, as the largest item in the operating expenses, decreased by a 3% and are 243 million KM or 28,6% of the total income while the fixed assets expenses, on the same level, are 159 million KM which is the largest participation in the total income of 18,7%. In the period after the beginning of the crises, the banks took numerous measures to rationalize operating expenses, above all on the decrease of the operating expenses, which in part softened the negative impact of the interest income decline due to the decrease in the volume of the lending activities and decline of the credit portfolio quality.

- in 000 KM-

Structure of total income	31.12.2010.		31.12.2011.		31.12.2012.		RATIO	
	Amount	%	Amount	%	Amount	%	8 (4/2)	9 (6/4)
1	2	3	4	5	6	7		
I Interest income and similar income								
Interest bearing deposit accounts with depository institutions	14.388	1,2	23.545	2,0	3.991	0,4	164	17
Loans and leasing	778.690	65,7	769.774	65,1	729.602	65,2	99	95
Other interest income	63.450	5,4	73.365	6,2	75.831	6,8	116	103
TOTAL	856.528	72,3	866.684	73,3	809.424	72,4	101	93
II Operating income								
Service fees	204.173	17,2	210.795	17,8	216.711	19,4	103	103
Foreign exchange income	37.784	3,2	48.198	4,1	45.081	4,0	128	94
Other operating income	86.616	7,3	57.547	4,8	47.465	4,2	66	82
TOTAL	328.573	27,7	316.540	26,7	309.257	27,6	96	98
TOTAL INCOME (I + II)	1.185.101	100,0	1.184.224	100,0	1.118.681	100,0	100	94

Graph 24: Structure of total income

Structure of total expenses	31.12.2010.		31.12.2011.		31.12.2012.		RATIO	
	Amount	%	Amount	%	Amount	%	8 (4/2)/	9 (6/4)
1	2	3	4	5	6	7		
I Interest expenses and similar expenses								
Deposits	266.893	20,9	230.224	21,2	218.614	22,1	86	95
Liabilities for borrowings	43.536	3,4	47.831	4,4	36.520	3,7	110	76
Other interest expenses	15.344	1,2	16.502	1,5	14.508	1,5	108	88
TOTAL	325.773	25,5	294.557	27,1	269.642	27,2	90	92
II Total non-interest bearing expenses								
General loan risk and potential loan losses Provisioning	386.102	30,2	190.499	17,6	144.761	14,6	49	76
Salary expenses	242.690	19,0	250.783	23,1	243.133	24,6	103	97
Business premises and depreciation expenses	152.737	11,9	166.075	15,3	158.933	16,1	109	96
Other business and direct expenses	70.185	5,5	76.209	7,0	76.171	7,7	109	101
Other operating expenses	101.833	7,9	106.998	9,9	97.508	9,8	105	91
TOTAL	953.547	74,5	790.564	72,9	720.506	72,8	83	91
TOTAL EXPENSES (I + II)	1.279.320	100,0	1.085.121	100,0	990.148	100,0	85	91

Graph 25: Structure of total expenses

The following table provides the most significant ratios for the profitability assessment, productivity and banks' efficiency.

- in %-

RATIOS	31.12.2010.	31.12.2011.	31.12.2012.
Return on Average Assets	-0,68	0,54	0,75
Return on Average Total Capital	-6,15	4,63	5,14
Return on Average Equity	-8,81	6,87	9,40
Net Interest Income/Average Assets	3,49	3,79	3,62
Fee Income/Average Assets	2,16	2,09	2,07
Total Income/Average Assets	5,65	5,87	5,70
Operating and Direct Expenses ⁴⁰ /Average Assets	3,00	1,77	1,48
Operating Expenses/Average Assets	3,27	3,47	3,35
Total Non-interest Expenses/Average Assets	6,27	5,24	4,83

The analyses of the basic parameters for evaluation of the profitability, due to the higher amount of realized profit in comparison to the same period last year, ROAA (earnings on average assets) increased from 0,54% to 0,75% and ROAE (earnings on average shareholder capital) from 6,78 to 9,4%. However, the productivity of banks, measured with the relation of the total income and average assets (5,7%) also recorded a deterioration in comparison to the same period last year

⁴⁰ Expenses include provisions for potential loan losses.

(5,87%), due to decrease of total income (-4%). Also, noted should be the improvement, as a consequence of the significant decrease of value impairment (last year: loan losses reserve expenses), of the business and direct expenses on average assets, from 1,77% to 1,48%.

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, permanent increase of loan losses and loan risk, and will depend on effective management and operating income and expenses control. The existing slow down and decline of the economic activities influenced the decrease of the demand for loans, but also the restrictive approach on the side of the offer (banks) which will have a direct influence on the profitability of the entire banking system by the end of the year. 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. That is why the key factor is effectiveness and profitability of each bank's management quality and its business policy since this is the most direct way to affect its performance.

2.3. Risk-weighted nominal and effective interest rates

In order to increase 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 rate⁴¹ 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 discursive 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 prescribed⁴².

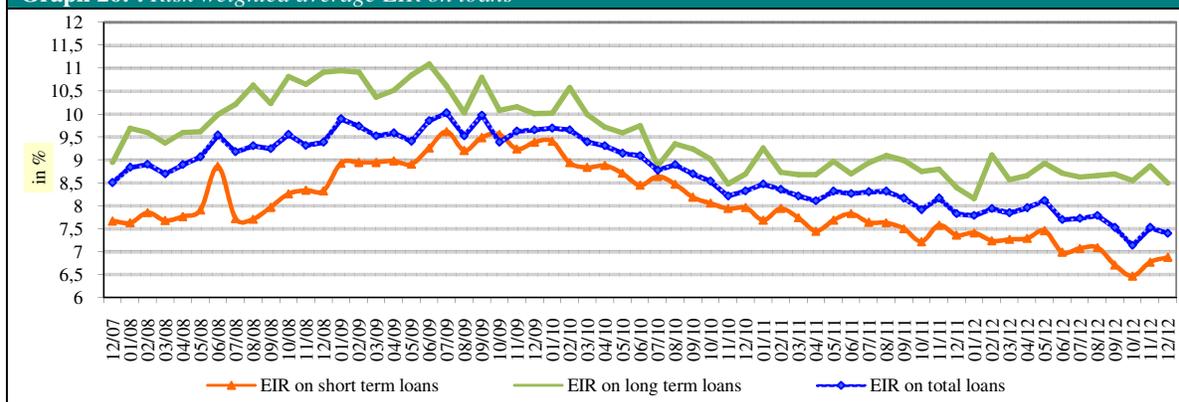
The following table presents risk-weighted nominal and effective interest rates (hereinafter: NIR and EIR) for loans on the banking system level for the two most important sectors (economy and citizens) for December of 2010, June and December of 2011 and June and December of 2012.

⁴¹ Decision on unified method of computation and disclosure of effective interest rates on loans and deposits ("Official Gazette of the FBiH", number 27/07).

⁴² 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.

Table 35 : Risk weighted average NIR and EIR on loans

DESCRIPTION	12/2010.		6/2011.		12/2011.		6/2012.		12/2012.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Risk-weighted interest rates for short-term loans	7,51	7,96	7,24	7,83	6,78	7,36	6,31	7,01	6,39	6,88
1.1. Economy	7,47	7,82	7,19	7,68	6,74	7,28	6,16	6,75	6,39	6,86
1.2. Citizens	8,67	12,65	8,74	12,64	8,66	11,89	7,74	10,94	8,46	10,89
2. Risk-weighted interest rates for long-term loans	7,91	8,69	7,76	8,7	7,57	8,4	7,71	8,67	7,66	8,50
2.1. Economy	7,34	7,82	7,17	7,67	6,96	7,59	6,77	7,46	6,73	7,22
2.2. Citizens	8,79	10,05	8,16	9,39	8,25	9,31	8,38	9,54	8,47	9,59
3. Total risk-weighted interest rates for loans	7,72	8,33	7,50	8,27	7,14	7,83	6,9	7,71	6,80	7,40
3.1. Economy	7,42	7,82	7,18	7,68	6,81	7,38	6,33	6,95	6,45	6,93
3.2. Citizens	8,78	10,18	8,19	9,54	8,27	9,44	8,35	9,61	8,47	9,69

Graph 26: : Risk weighted average EIR on loans

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 the computation of the loan price. That is the reason why the EIR represents a real loan price.

The trend of slight decline of the risk weighted EIR on loans continued in 2012, based on the implementation of the business policy of lower interest rates in some banks and stronger and stronger competition on the banking market in FBiH. The consequence was a significant migrations of clients of one bank into another and debt in banks which in their promotional offers had loans with lower interest rates, with a goal to terminate the loan liability in other banks. The decline of the interest rates was influenced by poor demand for loans and with that related limited loan capability of the existing and potential debtors.

Since several banks have access to new, more favorable, credit lines in sources, which are not entirely used, and which are placed with interest rates significantly lower than the current market, there can be expected further slight decline of risk weighted EIR or maintaining at the level from the end of 2012.

The continuous decline of the risk weighted EIR on loans is followed by a slight oscillation

during 2012, with the highest value recorded in May of 2012.(8,12%), and the lowest in October of 2012. (7,14%), while the risk weighted EIR in December of 2012 was 7,40%, which is the lowest value in the past five years.

Risk weighted interest rates on short term loans during 2012 recorded a somewhat higher oscillations, and within 0,99 percent points, while on the long term loans they were within 0,95 percent points.

Risk weighted EIR on short term loans in December of 2012 was 6,88%, which is by 0,48 percent points lower than in comparison to December of 2011, and that is the lowest level recorded in the reviewed time frame in past five years.

The risk weighted EIR on long term loans in December of 2012 was 8,50%, which is in comparison to December of 2011 higher by more than 0,1 percent point.

Interest rates for loans originated in the two most significant sectors: economy and citizens⁴³ in 2012 had the opposite direction. The risk weighted EIR for loans originated in the economy, although still with present oscillations within 1,02 percent points during 2012, it is still much lower than the EIR for loans to citizens, and it decreased from 7,38% in December 2011 to the level of 6,93% in December of 2012. In long term loans to economy in 2012 the decline was 0,37 percent points (from 7,59% to 7,22%), while EIR on short term loans had a larger downfall of 0,42 percent points (from 7,28 to 6,86).

The EIR on loans to citizens in December of 2012 was 9,69%, which is by 0,25 percent points higher than in December of 2011. The EIR on long term loans of this sector from December of 2011 when it was 9,31%, increased to 9,59% in December 2012. EIR on long term loans from the level in December of 2011 of 9,31% increased in December of 2012 to the level of 9,59%. EIR on short term loans in December of 2012 was 11,89%, which is by 1 percent point lower than in comparison to December 2011.

In comparison to the level from December of 2011, the most significant decline of EIR in December of 2012 was recorded in long term loans to citizens for entrepreneurship operations (from 14,05% to 10,86%) and short term loans to citizens with a general purpose spending (11,89% to 10,87%), and all other declines are lower than one percent points. In review for the same period, the most significant increase was recorded for long term loans to government and government institutions of 3,1 percent point (from 8,10% to 11,20%) and long term loans to banks and other financial institutions of 1,27 percent points (from 8,55% to 9,82%). The increase of EIR in other types of loans by purpose and maturity was 0,32 percent point.

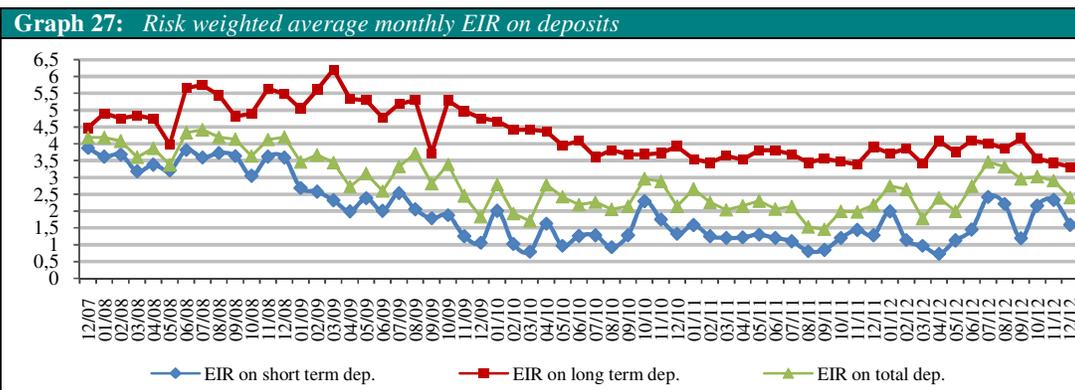
Also, reviewed for the period of five years, it is evident a moderate, but continuous decline of the risk weighted EIR on loans calculated on the annual level, in the economy, but also citizens, as can be seen from the following table:

⁴³ Based on the methodology of classification in sectors: entrepreneurs are included in the sector of citizens.

Table 36 : Risk-weighted average NIR and EIR on loans										
DESCRIPTION	2008.		2009.		2010.		2011.		2012.	
	NIR	EIR								
1	2	3	4	5	6	7	8	9	10	11
1. Risk-weighted interest rates for short-term loans	7,51	8,00	8,52	9,21	7,94	8,49	7,04	7,61	6,47	7,05
1.1. Economy	7,39	7,80	8,52	9,11	7,92	8,35	6,97	7,45	6,42	6,93
1.2. Citizens	11,41	14,50	10,00	13,15	9,07	12,79	9,08	12,41	8,40	11,50
2. Risk-weighted interest rates for long-term loans	9,16	9,99	9,51	10,55	8,46	9,35	7,97	8,84	7,85	8,29
2.1. Economy	8,22	8,73	8,29	9,17	7,90	8,35	7,39	7,89	6,98	7,65
2.2. Citizens	9,81	10,76	10,68	11,97	9,12	10,48	8,45	9,62	8,44	8,73
3. Total risk-weighted interest rates for loans	8,46	9,14	8,90	9,73	8,20	8,92	7,49	8,21	7,05	7,57
3.1. Economy	7,70	8,15	8,46	9,12	7,92	8,35	7,09	7,58	6,55	7,10
3.2. Citizens	9,88	10,92	10,62	12,06	9,11	10,60	8,49	9,77	8,43	8,88

Risk weighted NIR and EIR on time deposits, accrued based on the monthly reports, for the banking sector are shown in the following table:

Table 37 : Risk weighted average NIR and EIR on deposits										
DESCRIPTION	12/2010.		6/2011.		12/2011.		6/2012.		12/2012.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	12	13
1. Risk-weighted interest rates for short-term deposits	1,31	1,32	1,21	1,20	1,28	1,28	1,44	1,45	1,59	1,59
1.1. up to three months	0,97	0,97	1,01	1,01	0,91	0,91	0,48	0,48	1,28	1,28
1.2. up to one year	2,61	2,63	2,53	2,51	2,74	2,74	3,15	3,18	2,53	2,55
2. Risk weighted int. Rate on long term deposits	3,89	3,92	3,78	3,81	3,88	3,91	4,07	4,1	3,3	3,32
2.1. up to three years	3,78	3,80	3,64	3,65	3,73	3,75	4,01	4,03	3,17	3,19
2.2. over three years	4,48	4,57	4,52	4,61	4,56	4,61	4,57	4,76	4,42	4,46
3. Total risk weighted int. Rates on deposits	2,13	2,14	2,05	2,06	2,17	2,18	2,72	2,74	2,39	2,40



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

If compared to December 2011, risk-weighted EIR for total term deposits, in September of 2012, increased by 022 per cent (from 2,18% to 2,40%). Risk-weighted EIR on short term deposits in 2012 recorded movements within the high 1,69 percent points, with the largest rate in June in the amount of 2,42%, and lowest in April when it was 0,73%, while in December of 2012, was

1,59% (December 2011: 1,28%).

If analyzed is the movement of the interest rate on short term deposits through the maturity periods, EIR on time deposits of up to three months recorded an increase of 0,37 percent points in comparison to December level in 2011, which is 1,28%. The decrease is recorded by the interest rate on time deposits of up to one year, which in December of 2012 was 2,55% which is by 0,19 percent points lower in comparison to December 2011. Reviewed in the period of past five years, in the seventh month in 2009, the risk weighted EIR on short term deposits increased to 2,53%, and it is the largest recorded one concluded with December of 2012, or since that period the EIR had a tendency for decline, with the lowest recorded of 0,73% in April of 2012. The short term deposits are mainly reviewed as unstable source of financing due to the nature of its maturity, and as such are subject to high oscillations, even within one year, because of banks efforts to manage the assets and liabilities that is their funding sources in the most efficient way possible, and one of the instruments is the interest rate policy.

The risk weighted EIR on long term deposits in December of 2012 was 3,32% (December 2011: 3,91%) which is at the same time the lowest level during 2012, while the highest is recorded in September in the amount of 4,15%. Reviewed during past several periods, with the decline to 3,6% in the seventh month of 2010., the risk weighted EIR on long term deposits, apart from the sporadic oscillations, remained within the range between 3% and 4%.

Risk weighted EIR on long term time deposits up to three years is 3,19% which presents a decline of 0,56 percent points in comparison to the level of December 2011. The EIR on time deposits over three years in December of 2012 was 4,46%, which is by 0,15 percent points lower than in December of 2010, when it was 4,61%.

Average EIR on deposits to citizens was 2,98% in December 2012, and it decreased by 0,09 percent points in comparison to December of 2011, with the lowest rate recorded in March (2,78%), while the highest was in August (3,54%). In economy, the rates record higher values, in December of 2012, EIR on time deposits to economy was 4%, higher by a high 2,72 percent points in relation to December 2011. During 2012, the lowest level of 0,61% was in May, and the highest of 4,37% was recorded in July.

In the second half of 2012, there happened a decline in the newly accepted deposits from economy, especially short term, and they are on the lowest level when reviewed in the period of last four years, which as a consequence had a high increase of short term interest rates to economy, especially time deposits of one year (December 2011.: 2,05%, December 2012.: 3,49%), which at the end resulted with the average interest rates to economy (4%) being higher than the average citizens interest rates (2,98%).

Finally, the difference in EIR for economy and citizens derives from the structure of the time deposits. Namely, the deposits to economy are mostly for short terms up to three months (a small portion up to one year), and these deposits carry significantly lower interest rates. On the other hand, in the deposit structure of deposits over one year (the longest deposit is up to three years) dominating are the deposits to citizens.

If we review the risk weighted average annual interest rates on deposits, for the past five years, we can observe an obvious decline in the interest rates on both long term and short term deposits.

Table 38 : Risk-weighted average annual NIR and EIR on loans										
DESCRIPTION	12/2008.		12/2009.		12/2010.		12/2011.		12/2012.	
	NIR	EIR								
1	2	3	4	5	6	7	8	9	10	11
1. Risk-weighted interest rates for short-term loans	3,41	3,42	2,02	2,04	1,31	1,31	1,16	1,16	1,45	1,47
1.1. Economy	3,39	3,40	1,59	1,60	0,60	0,60	0,87	0,87	0,86	0,88
1.2. Citizens	3,47	3,48	3,76	3,79	2,79	2,79	2,53	2,53	2,55	2,57
2. Risk-weighted interest rates for long-term loans	5,00	5,02	4,77	4,80	4,00	4,02	3,59	3,63	3,78	3,81
2.1. Economy	4,93	4,95	5,25	5,29	3,90	3,92	3,47	3,50	3,69	3,71
2.2. Citizens	5,26	5,26	3,09	3,09	4,56	4,60	4,9	4,29	4,44	4,51
3. Total risk-weighted interest rates for loans	3,93	3,94	2,97	2,99	2,33	2,34	1,99	2,00	2,61	2,64

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

Table 39 : Risk-weighted average NIR and EIR on loans-overdrafts and demand deposits											
DESCRIPTION	12/2010.		6/2011.		12/2011.		6/2012.		12/2012.		
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	
1	2	3	4	5	6	7	8	9	12	13	
1. Risk-weighted interest rates for loans-overdrafts	8,29	8,29	8,87	9,03	8,73	8,86	8,40	8,53	8,43	8,57	
2. Risk-weighted interest rates for demand deposits	0,22	0,22	0,22	0,22	0,18	0,18	0,22	0,22	0,19	0,19	

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 December of 2012, was 8,57% (a decline of 0,29 per cent in comparison to December 2011), and 0,19% for demand deposits, which is almost unchanged in comparison to December 2011.

2.4. Liquidity

Liquidity risk management, along with credit risk, is one of the most compound and most important segments of banking operations. 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.

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. 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 also appeared with the beginning of the crises.

In the last quarter of 2008 the liquidity risk increased after the expansion of the global crises and its adverse impact on the financial and economic system in BiH. Although a part of the savings

was withdrawn and the trust in banks was impaired, it was evaluated that the banking system liquidity was not in danger in any given moment, since the banks in FBiH, due to regulatory requirements and proscribed limits, based on a conservative approach, had significant liquid funds and a good liquidity position.

In 2009 the adverse movements from the last quarter of 2008 were stopped, and general liquidity indicators were improved thanks to primarily decreased lending activity. In 2010 there was a slight deterioration of indicators, which with a smaller intensity continued in 2011. Somewhat larger deterioration of the indicators happened again in the first quarter of 2012, due to the decrease of cash funds based on the slight increase of lending activities and investments in securities, payment of loan liabilities and investments in securities, decrease of deposits, payment of credit liabilities, increase of uncollected receivables, which is a that with weaker oscillations continued until the end of 2012. Banks efforts to reach a relatively better profitability through a better allocation of the financial assets, with the trend of slight decline of deposits in 2011 and 2012, changes in the structure of deposit sources, as well as the trend of decrease of liabilities on loans taken and subordinated debt which has been present for a longer period of time, lead to a faster decline of liquid funds in comparison to the decrease of short term financial liabilities, decline of liquid funds participation in total assets and deterioration of the loan ratio in comparison to the deposits, loans taken and subordinated debt.

In spite the noted, the statement remains that liquidity of the banking system in the Federation of BiH is still good, with satisfactory participation of liquid assets in total assets and very good maturity match of the financial assets with the liabilities, with an improving trend in 2011 and 2012. However, since the financial crisis is still present worldwide which has an adverse reflection to the banking systems of certain European countries, which had a negative effect on certain European countries and parent banks in FBiH, it is estimated that liquidity risk still needs to be under enhanced supervision. In addition, we should have in mind the fact that impact of the crisis is still present in the real sector, adverse consequences are being reflected to the entire economy environment under which banks operate in BiH, resulting in delinquency of debtors in repayment of past due liabilities and increase of nonperforming claims, which is causing decrease in inflow of liquid assets of banks and conversion of the credit risk into liquidity risk. In that sense, one of most important impacts on the position of banks' liquidity in the coming period will be the capability of banks to adequately manage its assets, which supposes securing assets which has good performance and which quality secures that the banking loans along with the interest are repaid in compliance with the maturity deadlines.

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.

In the structure of financing sources of banks in the Federation of BiH, as of 31.12.2012., deposits still have the highest participation of 73,1%, followed by loans taken (including the subordinated debt⁴⁴ with participation of 8,8%). The loans taken with longer maturity, represent

⁴⁴ Subordinated debt – loans taken and permanent liabilities.

quality source for long term placements, and have made a significant contribution to maturity match between assets and liabilities, although there has been present a declining trend for a longer time.

On the other hand, the structure of deposits is considerably unfavourable⁴⁵, and after a long period of improvements, during 2010 had a slight deterioration, and that trend, with a slightly lower intensity, continued in 2011 and in the first quarter of 2012, upon which this negative trend was however stopped, which at the end of 2012 resulted with a somewhat more favourable maturity structure in comparison to 31.12.2011.

- in 000 KM-

Table 40: Maturity structure of deposits based on contracted maturity

DEPOSITS	31.12.2010.		31.12.2011.		31.12.2012.		Ratio	8(4/2)	9(6/4)
	Amount	Participation %	Amount	Participation %	Amount	Participation %			
1	2	3	4	5	6	7			
Savings and demand deposits	5.054.335	45,0	4.983.292	44,8	4.805.480	43,8	99	96	
Up to 3 months	344.926	3,1	433.030	3,9	267.199	2,5	126	62	
Up to 1 year	1.085.115	9,6	756.332	6,8	709.620	6,5	70	94	
1. Total short term	6.484.376	57,7	6.172.654	55,5	5.782.299	52,8	95	94	
Up to 3 years	2.832.507	25,2	3.272.641	29,4	3.576.903	32,6	116	109	
Over 3 years	1.915.947	17,1	1.679.380	15,1	1.601.799	14,6	88	95	
2. Total long term	4.748.454	42,3	4.952.021	44,5	5.178.702	47,2	104	105	
TOTAL (1 + 2)	11.232.830	100,0	11.124.675	100,0	10.961.001	100,0	99	99	

Total deposits in comparison to 31.12.2011, decreased by 1,5% or 164 million KM, mostly based on the decline of the deposits of the public companies by 23% or 323 million KM and banking institutions also by 23% or 299 million KM, which in part got compensated with the growth of the savings by 7% or 402 million KM. The maturity structure of deposits based on the contracted maturity is relatively good, with a participation of short term deposits of 52,8% and long term 47,2%. In comparison to the end of 2011, there is an evident slight improvement of the maturity due to the decrease of the participation of the short term deposits by 2,7 percentage points and for the same increase the long term deposits.

The listed changes in the maturity structure are a result of the decrease of the short term deposits by 6% or 390 million KM, mostly the demand deposits of public companies, government institutions and private companies, and time deposits of three months in the banking institutions sector.

The long term deposits increased slightly by 5% or 227 million KM, which is a result of the growth of the citizens deposits. It should be noted that in the long term deposits the dominating participation still have two sectors: citizens with an increased participation from 56,8% to 61,0% and banking institutions with decreased participation from 19,4% to 13,2%, although the public companies deposits are also a significant long term source with an increased participation from 11,5% to 12,1%. In the time deposits of one to three years the largest participation are the citizen deposits 65,6% , with a slight decline of the participation by 0,2 percentage points, deposits of the public entities 17,2% with an increased participation by 0,3 percentage points. In the period of over three years the largest participation of 50,8% have citizens deposits with the increased participation by 10,7 percentage points and the banking institutions deposits after a longer period and a present declining trend have a participation of 33% (at the end of 2011: 46,9%; 2010: 60,9%).

⁴⁵ According to the remaining maturity

Although the maturity structure of the deposits for the contracted maturity shows a slight improvement in the maturity, for the liquidity risk analyses more relevant is the maturity of deposits according to the remaining maturity, since it illustrates the balance of the deposits for the period from the reporting date to the maturity date, which is presented in the following table

- in 000 KM-

DEPOSITS	31.12.2010.		31.12.2011.		31.12.2012.		Ratio	
	Amount	Participation %	Amount	Participation %	Amount	Participation %	8(4/2)	9(6/4)
1	2	3	4	5	6	7		
Savings and demand deposits (up to 7 days)	5.377.075	47,9	5.184.070	46,6	4.941.325	45,1	96	95
7- 90 days	776.732	6,9	917.917	8,3	908.834	8,3	118	99
91 day to one year	2.240.255	19,9	2.219.322	19,9	2.278.639	20,8	99	103
1. Total short term	8.394.062	74,7	8.321.309	74,8	8.128.798	74,2	99	98
Up to 5 years	2.214.874	19,7	2.404.179	21,6	2.609.727	23,8	109	109
Over 5 years	623.894	5,6	399.187	3,6	222.476	2,0	64	56
2. Total long term	2.838.768	25,3	2.803.366	25,2	2.832.203	25,8	99	101
TOTAL (1 + 2)	11.232.830	100,0	11.124.675	100,0	10.961.001	100,0	99	99

Based on the data it can be concluded that the maturity structure of deposits in the remaining maturity is much more poor due to the high participation of the short term deposits of 74,2%, but it has a slight improvement trend in comparison to the end of 2011. Short term deposits declined by 2% or 193 million KM, with a decreasing participation by 0,6%, while long term deposits increased by 1% or 29 million KM, with an increase of participation from 25,2% to 25,8%. If we review the structure of the long term deposits, it is visible that deposits with the remaining maturity of up to 5 years are dominating (92,1% of long term deposits and 23,8% of total deposits), while the negative trend presents a more significant decrease of deposits with a remaining maturity of over five years in the last two years. If maturity data are compared through contracted and remaining maturity, it is clear that of 5,18 billion long term contracted deposits as of 31.12.2012 around 2,35 billion KM, or somewhat higher than 45% of long term contracted deposits, had a remaining maturity of less than one year.

In the existing maturity structure of deposits, as the largest financing sources of banks in the FBiH, there are increasingly higher limiting factors for credit growth, since banks' biggest need are placements of long term loans. Due to that, the banks are faced with the issue how to secure better quality sources in regard to maturity, especially due to the fact that the inflow of financial funds (borrowings) from abroad had significantly declined, from parent groups as well as from financial institutions – creditors, and local sources are in the largest part of a short term character.

In addition, the supervisory concern has become stronger due to the fact that the banks, lacking the good quality long term sources, with an aim to secure the compliance with the by law prescribed limitations in regard to maturity, have been approving short term loans which are further renewed, or closed with new short term placements, which basically means long term lending from short term sources. In that manner the true maturity of loans and matching with sources is concealed, which can present a serious problem in the coming period and potential danger for the liquidity position of the bank.

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 42: Loans maturity structure

LOANS	31.12.2010.		31.12.2011.		31.12.2012.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	8(4/2)	9(6/4)
1	2	3	4	5	6	7		
Past due claims and paid off-balance sheet liabilities	567.182	5,7	962.707	9,2	1.069.036	10,0	170	111
Short term loans	2.129.184	21,3	2.287.597	21,8	2.472.571	23,2	107	108
Long term loans	7.285.545	73,0	7.237.367	69,0	7.124.517	66,8	99	98
TOTAL LOANS	9.981.911	100,0	10.487.671	100,0	10.666.124	100,0	105	102

In 2012., the long term loans slightly increased by 2% or 113 million KM, short term loans recorded an increase of 8% or 185 million KM, while past due claims increased by 11% or 106 million KM. In the structure of the past due receivables 63% refer to private companies, 35% are citizens, and 2% are other sectors.

Sector analysis by maturity, in two most significant sectors, indicates that loans to citizens represent 84,0% of long term loans, and loans to private companies, of total originated loans, represent 48,8% of long term loans.

In the assets structure, as the most significant category, loans still have the highest participation of 71,1%, which has increased by 2,4 per cent in comparison to the end of 2011 due to a slight incline of assets by 1,7%. Cash funds decreased by 9% or 415 million KM and their participation, in comparison to the end of 2011., decreased from 28,7% to 26,4%.

The review of the basic liquidity indicators is presented in the following table. The transfer to the new regulation as of 31. 12. 2011 lead to a significant increase of the amount of total loans which had an impact on the deterioration of the indicators: loans in relation to the deposits and loans taken, in relation to the previous periods. However, in 2012 recorded was further deterioration of the liquidity indicators caused by the decrease in the cash funds due to the increase of credit activities and payment of past due loan liabilities. The ratio of the short term financial liabilities /total financial liabilities slightly improved due to the better maturity structure of the funding.

- in % -

Table 43: Liquidity ratios

Ratios	31.12.2010.	31.12.2011.	31.12.2012.
1	2	3	4
Liquid assets ⁴⁶ / Total assets	30,2	28,9	26,8
Liquid assets / Short term financial liabilities	50,8	49,0	46,2
Short term financial liabilities / Total financial liabilities	68,1	69,1	68,9
Loans / Deposits and Borrowings ⁴⁷	79,0	84,3	88,1
Loans / Deposits, borrowings and subordinate debts ⁴⁸	77,6	82,9	86,8

⁴⁶ Liquidity assets in the narrow sense: cash and deposits and other financial assets with maturity below three months, except inter-banking deposits.

⁴⁷ Empiric standards: below 70%-very solid, 71%-75%-satisfactory, 76%-80%-marginal to satisfactory, 81%-85%-insufficient, over 85%-critical.

⁴⁸ Prior ratio has been modified. Subordinated debts are included in the sources, which gives more realistic indicator.

Ratio loans to deposits and loans taken in 2012 deteriorated, and in ten banks (from the group of small and medium banks) was higher than 85% (critical level). On the other hand, in these banks that is a result of the structure of liabilities (relatively significant participation of capital), and on the other hand, higher participation of loans in assets. FBA direct special attention in the onsite controls to banks in which there were determined weaknesses in this business segment, and orders to banks to take measures and actions with a goal to improve the liquidity level and practices for funds sources management, that is securing a satisfactory liquidity position.

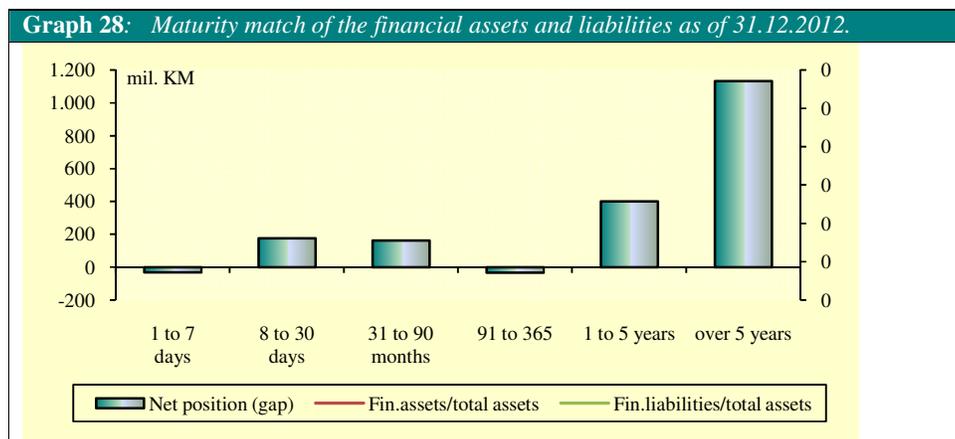
In 2011, banks were regularly meeting a commitment to maintain required reserves with the Central Bank of BiH. Required reserve, as significant instrument of monetary policy in BiH, under the Currency Board and financially underdeveloped market, represents the only instrument of monetary policy used 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.

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

- in 000 KM-

Table 44: Liquidity position – ten-day average and daily minimum					
	31.12.2010.	31.12.2011.	31.12.2012.	Ratio	
	Amount	Amount	Amount		
1	2	3	4	5(3/2)	6(4/3)
1. Average daily balance of cash assets	3.887.490	3.759.486	3.408.958	97	91
2. Minimum total daily balance of cash assets	3.585.319	3.550.990	3.149.188	99	89
3. Short term sources (accrual basis)	6.128.941	6.013.102	5.631.431	98	94
4. Liabilities:					
4.1. ten-day average 20% of Item 3	1.225.788	1.202.620	1.126.286	98	94
4.2. daily minimum 10% of Item 3	612.894	601.310	563.146	98	94
5. Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	2.661.702	2.556.866	2.282.672	96	89
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	2.972.425	2.949.680	2.586.042	99	88

If we review the maturity match of the remaining maturity of the total financial assets and liabilities, it can be concluded that the maturity is good and somewhat better than as of 31. 12. 2011.



At the end of 2012 the short term financial assets of the banks was higher than the short term liabilities by 272 million KM. In relation to the end of 2011 when the positive gap was 171 million KM, that is an increase of 101 million KM, which lead to an increase in the coverage ration of the short term liabilities from 101,9% to 103,1%.

The short term financial assets decreased by 2,2% while the short term financial liabilities by 3,3%. In the short term financial assets the cash funds recorded a decrease of 9,5% or 416 million KM and securities held to maturity of 5,2% or four million KM, and other financial assets 19,3% or 37 million KM, while the growth was recorded in loans which are higher by 4,2% or 172 million KM and assets for trade 24,9% or 75 million KM.. Financial assets of the remaining time to maturity date of over one year decreased by 1,2% or 66 million KM, mostly due to the decline of loans of 1,3% or 70 million KM.

On the liabilities side with a maturity date of up to one year, the largest decrease refers to deposits which decreased by 2,3% or 193 million KM and liabilities from loans taken by 37,0% or 143 million KM, as well as liabilities from the subordinated debt which decreased by 44,8% or 33 million KM, which lead to the total decrease of liabilities with the maturity deadline of one year by 3,3% or 300 million KM. The liabilities with the maturity date of over one year decreased slightly by 2,3% or 92 million KM, which is a consequence of a larger decrease of other financial liabilities, which declined by 64,5% or 100 million KM, which refers to liabilities on issued bonds in one bank which changed into the interval with the maturity of one year, and liabilities from loans taken and other borrowings, which are lower by 3,7% or 34 million KM, which is partly compensated by the growth of the deposits of 1% or 29 million KM and liabilities from subordinated debt, which are higher by 10,7% or 14 million KM.

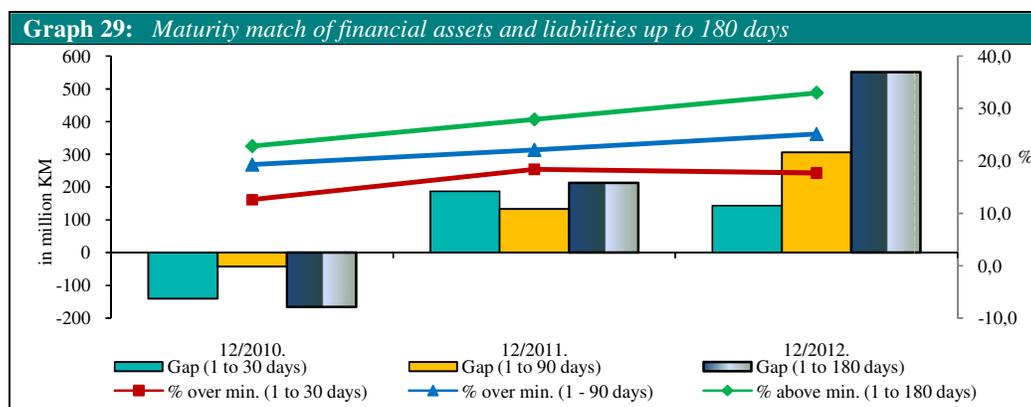
Apart from the mentioned prescribed minimum standards, monitoring of remaining maturity of financial assets and liabilities, according to the time scale, is of crucial significance for the liquidity position analysis. The time scale is from the aspect of prescribed minimum limits created based on time horizon up to 180 days.⁴⁹

⁴⁹ Decision on Changes and Amendments to Decision on Minimum Standards for Liquidity Risk Management in Banks (Official Gazette of the FBiH, number 88/07) dated of 01.01.2008. sets new percentages for maturity matching between financial assets and liabilities: minimum 85% of funding sources (used to be 100%) with maturity up to 30 days must be engaged in placements with maturity up to 30 days; minimum 80% of funding sources (used to be 100%) with maturity up to 90 days in placements with maturity up to 90 days and minimum 75% of funding sources (used to be 95%) with maturity up to 180 days in placements with maturity up to 180 days.

- in 000 KM -

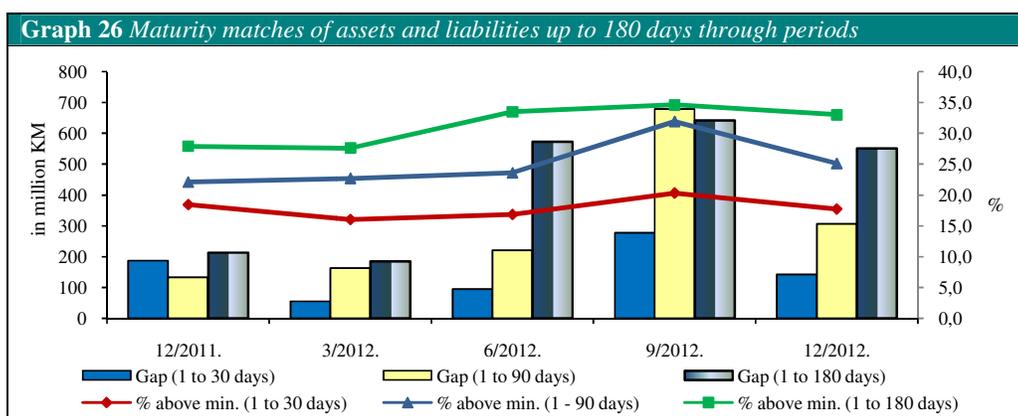
Table 45: Maturity of financial assets and liabilities up to 180 days					
Description	31.12.2010.	31.12.2011.	31.12.2012.	RATIO	
	Amount	Amount	Amount	5 (3/2)	6(4/3)
1	2	3	4	5 (3/2)	6(4/3)
I. 1-30 days					
1. Financial assets	5.674.836	5.748.473	5.489.850	101	96
2. Financial liabilities	5.816.147	5.561.192	5.346.575	96	96
3. Difference (+ or -) = 1-2	- 141.311	187.281	143.275	N/a	77
<i>Accrual of requirement in %</i>					
a) Performed %= Item 1 / Item 2	97,6%	103,4%	102,7%		
b) Required minimum %	85,0%	85,0%	85,0%		
Surplus (+) or shortage (-) = a - b	12,6%	18,4%	17,7%		
II. 1-90 days					
1. Financial assets	6.408.275	6.511.798	6.354.346	102	98
2. Financial liabilities	6.450.887	6.378.807	6.048.649	99	95
3. Difference (+ or -) = 1-2	- 42.612	132.991	305.697	N/a	230
<i>Accrual of requirement in %</i>					
a) Performed %= Item 1 / Item.2	99,3%	102,1%	105,1%		
b) Required minimum %	80,0%	80,0%	80,0%		
Surplus (+) or shortage (-) = a - b	19,3%	22,1%	25,1%		
III. 1-180 days					
1. Financial assets	7.343.882	7.522.305	7.454.148	102	99
2. Financial liabilities	7.509.597	7.308.881	6.902.899	97	94
3. Difference (+ or -) = 1-2	- 165.715	213.424	551.249	N/a	258
<i>Accrual of requirement in %</i>					
a) Performed %= Item 1 / Item.2	97,8%	102,9%	108,0%		
b) Required minimum %	75,0%	75,0%	75,0%		
Surplus (+) or shortage (-) = a - b	22,8%	27,9%	33,0%		

Based on the presented data it can be concluded that the banks as of 31.12. 2012 maintained the prescribed limitations and realized a better maturity match of the financial assets and liabilities in regard to the prescribed limits.



As of 31. 12. 2010 the amount of the financial liabilities was higher than the amount of the financial assets, in all their time intervals up to 180 days, upon which in 2011 there happened an improvement of the maturity match. At the end of 2011, the financial assets in all three time intervals was higher than the amount of the financial assets, and the realized percentages of the maturity match were above the prescribed minimum by 18,4% in the first interval, 22,1% in the second and 27,9% in the third. The maturity match improvement trend continued in 2012, and as of 31.12.2012 the financial assets were also higher than the financial liabilities in all three maturity intervals, with a somewhat higher improvement in liquidity positions in the intervals up to 90 and 180 days, while the positive gap in the interval up to 30 days is somewhat lower in comparison to 31.12.2011. The realized percentages of the maturity match are, as at the end of 2011, above the prescribed minimum, by 17,7% in the first interval, 25,1% in the second and

33,0% in the third interval. In the interval up to 180 days there happened a significant improvement in the second quarter of 2012, due to a somewhat larger increase of the financial assets, primarily loans, in comparison to the increase of the financial liabilities (deposits), and somewhat lower in the third quarter of 2012, due to a decrease of the financial liabilities (liabilities from loans taken and subordinated debt), while in the fourth quarter the growth of the financial liabilities, primarily deposits and liabilities from loans taken, lead to a slight decline in the positive gap. In the maturity interval of up to 90 days a more significant improvement was recorded in the third quarter due to an increase in loans and decrease in deposits and liabilities from loans taken and subordinated debt, while in the fourth quarter the gap significantly declined due to the growth of deposits. In the maturity interval up to 30 days, the decline of the positive gap is also recorded in the fourth quarter, due to the growth of deposits.



Based on all of the above presented indicators it may be concluded that the liquidity of the banking system of the Federation of BiH is still assessed 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, due to slower inflow of deposits, and, on the other side, poor inflow of liquid assets due to downfall in collection of loans, it should be emphasized that, in the forthcoming period, banks will have to pay more attention to the liquidity risk management by establishing and implementing liquidity policies, which will make sure that all matured liabilities of banks are timely realized, based on continuous planning of future liquidity needs, and taking into account changes in operating, economic, regulatory and other segments of business environment of banks.

The FBA will, both through reports and on-site examinations of banks, monitor how banks manage this risk, and whether they act in accordance with the adopted policies and programs

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

In their operations, banks are exposed to significant risks coming from potential losses in balance sheet and off-balance sheet items created as a result of price changes in the market. One of those risks is foreign exchange risk (FX) created as a result of changes of exchange rates and/or 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 – overall 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 Banks⁵⁰ 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.⁵¹

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 31.12.2012., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 13,4% or 2 billion KM (14,9% or 2,3 billion KM at the end of 2011). On the other hand, currency structure of liabilities is essentially different, since participation of liabilities in foreign currency is significantly higher and is 48,2% or 7,2 billion KM (50% or 7,6 billion KM at the end of 2011).

The following table presents structure and trend of financial assets and liabilities and foreign currency position for EUR as the most significant currency⁵² and total.

⁵⁰ "Official Gazette of F BiH", Number. 3/03, 31/03, 64/03, 54/04.

⁵¹ The Article 8. of the Decision on minimum standards for managing the capital of banks prescribes the limitations: for individual foreign currency position for EURO highest up to 30% of the core capital, for other currencies up to 20% and bank's foreign currency position highest up to 30%.

⁵² Source: Form 5-Foreign currency position.

Description	31.12.2011.				31.12.2012.				RATIO	
	EURO		TOTAL		EURO		TOTAL		EURO	TOTAL
	Amount	Participation %	Amount	Participation %	Amount	Participation %	Amount	Participation %	6/2	8/4
1	2	3	4	5	6	7	8	9	10	11
<i>I. Financial assets</i>										
1. Cash assets	1.251	15,8	1.783	20,2	1.050	13,8	1.568	18,6	84	88
2. Loans	70	0,9	93	1,1	39	0,5	57	0,7	56	61
3. Loans with currency clause	6.262	79,2	6.537	74,2	6.202	81,4	6.435	76,2	99	98
4. Other	323	4,1	394	4,5	325	4,3	383	4,5	101	97
Total (1+2+3+4)	7.906	100,0	8.807	100,0	7.616	100,0	8.443	100,0	96	96
<i>II. Financial liabilities</i>										
1. Deposits	5.424	71,5	6.108	73,6	5.220	70,1	5.888	72,3	96	96
2. Borrowings	1.225	16,2	1.254	15,1	1.058	14,2	1.079	13,3	86	86
3. Deposits and loans with currency clause	661	8,7	661	8,0	915	12,3	915	11,2	138	138
4. Other	271	3,6	277	3,3	250	3,4	259	3,2	92	94
Total (1+2+3+4)	7.581	100,0	8.300	100,0	7.443	100,0	8.141	100,0	98	98
<i>III. Off-balance sheet</i>										
1. Assets	239		241		153		153			
2. Liabilities	250		377		235		349			
<i>IV. Position</i>										
Long (amount)	314		371		90		106			
%	19,0%		22,4%		5,2%		6,2%			
Short										
%										
Limit	30%		30%		30%		30%			
Below limit	11,0%		7,6%		24,8%		23,8%			

If we analyze the structure of foreign currencies in the financial assets⁵³ we see a dominant participation of EUR of 70,4, which is lower than the participation as of 31.12.2011. (72,4%) due to a decrease of the nominal amount from 1,6 billion KM to 1,4 billion KM. Participation of EUR in the liabilities has slightly decreased from 90,6% to 90,3%, with a slight decline in the nominal amount from 6,9 billion KM to 6,5 billion KM.

However, calculation of the FX risk exposure also includes the amount of indexed items of assets (loans) and liabilities⁵⁴, which are especially significant in the assets (76,2% or 6,4 billion KM) and nominally in almost the same level as of 31.12.2011. (74,2% or 6,5 billion KM). Other foreign currency assets items represent 23,8% or 2 billion KM of which EUR items make 16,8% or 1,4 billion KM, and other currencies 7% or 0,6 billion KM (at the end of 2011, loans contracted with currency clause amounted to KM 6,5 billion with participation of 74,2%, and other items in EUR of 18,7% or 1,6 billion KM). Of total net loans (9,7 billion KM), 67% were contracted with currency clause, primarily tied to EUR (96,4%).

⁵³ 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).

³⁷ 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).

On the side of the sources, the structure of financial liabilities stipulates and determines the structure of financial assets, for each currency individually. In foreign currency liabilities (8,1 billion KM) items in EUR (primarily deposits) had the highest participation of 80,2% or 6,5 billion KM, while participation and amount of indexed liabilities was at minimum, amounting to 11,2% or one billion KM (at the end of 2011, participation of liabilities in EUR was 83,4% or 6,9 billion KM, while indexed liabilities were 8,0% or 0,7 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, in 2012, ranged within the prescribed limits. As of 31.12.2012., there were 14 banks with long foreign currency position, and four banks with short position. At the system level, long foreign currency position represented 6,2% of banks' core capital, which is lower by 23,8% than the limit. Individual foreign currency position for EURO was 5,2%, which is 24,8 percentual points less than permitted, with financial assets items being higher than financial liabilities (net long position).

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

IV CONCLUSIONS AND RECOMMENDATIONS

Banking sector of the Federation of BiH during the period of implementation of the reform has reached an enviable level. The upcoming activities should be aimed at preserving its stability as priority task in the current stressful conditions, and its further progress and development. These goals require continuous and vigilant engagement of all parts of the system, legislative and executive authorities, which is a prerequisite to create the most favorable economic environment that would be stimulating to both banks and consequently to the real sector of the economy and citizens.

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 effects to the banking sector of the FBiH caused by the global financial crisis,
- Continue 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, focusing on targeted examination of dominant risk segments of banking operations, which will make supervision more effective, in regard to:
 - Persist on capital strengthening of banks, especially those recording outstanding assets growth and decrease of the capital adequacy ratio,
 - Continue permanent monitoring of banks, primarily those with systemic importance to development of credit activities with the highest concentration of savings and other deposits in order to protect depositors,
 - Continue a systematic monitoring of banks' activities in prevention of money laundering and terrorism financing and improve cooperation with other supervisory and examination institutions,
 - 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,
 - 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, advancement of cooperation in regard to professional development, proposed changes of all legislative regulations that have become a limiting factor to banks' development, introduction of new products, collection of claims and fully involve in building up and functioning of the unified registry of irregular debtors – legal entities and citizens, with daily data update.

- 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;
- Make effort to 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 stronger involvement of other 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;
- Create and further develop the financial sector regulation related to the activity, status and performance of micro-credit organizations, leasing companies, insurance companies, etc.;
- Accelerate implementation of economic reform in the real sector in order to reach the level of the monetary and banking sector;
- Prepare for creation of legislative 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, etc.

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

- Full dedication to good quality and prudent performance, and actions to cope with the crisis impact that presently represents the greatest danger for banks and the real sector of the economy and citizens;
- Further capital strengthening and level of solvency proportional to the growth of assets and risk, higher profitability, 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 as fully independent in performing their duties and roles;
- Regular, updated and accurate submission of data to the Central Loan Registry and Unified Central Account Registry with the Central Bank of BiH.

Number: U.O.-50-2/13
Sarajevo, 02.04.2013.

ATTACHMENTS

- ATTACHMENT 1..... General data about banks in the F BiH**
- ATTACHMENT 2..... Legal framework for the performance of the Banking Agency of FBiH and banks in FBiH**
- ATTACHMENT 3..... Balance sheet of banks, FBA Schedule**
- ATTACHMENT 4..... Review of assets, loans, deposits and financial result of banks in F BiH**
- ATTACHMENT 5..... Citizens savings in the banks in F BiH**
- ATTACHMENT 6..... Report on asset classification and off-balance sheet items in the banks in F BiH**
- ATTACHMENT 7..... Income statement of banks in F BiH**
- ATTACHMENT 8..... Report on banks' capital adequacy in F BiH**
- ATTACHMENT 9..... Data on employees in the banks in F BiH**

ATTACHMENT 1

Banks in the Federation of Bosnia and Herzegovina - 31.12.2012.

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	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	036/444-444, fax:444-235	ALEXANDER PICKER
4	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Sarajevo	Obala Kulina bana 9a.	033/497-555, fax:497-589	ALMIR KRKALIĆ
5	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032/448-400, fax:448-501	SUVAD IBRANOVIĆ
6	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Ibrahima Mržljaka 3	037/771-253, fax:772-416	HASAN PORČIĆ
7	MOJA BANKA dd - SARAJEVO	Sarajevo	Kolodvorska no. 5.	033/720-070, fax:720-100	MIRZA HUREM
8	NLB BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/259-259, fax:250-596	ALMIR ŠAHINPAŠIĆ
9	POŠTANSKA BANKA BiH dd - SARAJEVO	Sarajevo	Put zivota 2.	033/564-000, fax: 564-050	Privr.upravitelj - Čamil Klepo - 14.08.2010.
10	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:664-175	AZEMINA GOLO
11	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Emerika Bluma 8.	033/250-950, fax:250-971	EDIN HRNJICA
12	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb.	033/755-010, fax: 213-851	MICHAEL MÜLLER
13	RAZVOJNA BANKA FEDERACIJE BIH	Sarajevo	Igmanska 1	033/277-900, fax: 668-952	RAMIZ DŽAFEROVIĆ
14	SPARKASSE BANK dd - SARAJEVO	Sarajevo	Zmaja od Bosne no. 7.	033/280-300, fax:280-230	SANEL KUSTURICA
15	TURKISH ZIRAAT BANK BOSNIA dd - SARAJEVO	Sarajevo	Dženetića Čikma no. 2.	033/252-230, fax: 252-245	ALI RIZA AKBAŞ
16	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:312-121	BERISLAV KUTLE
17	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	SENAD REDŽIĆ
18	VAKUFСКА BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	AMIR RIZVANOVIĆ
19	VOLKSBANK BH dd - SARAJEVO	Sarajevo	Fra Anđela Zvizdovića 1	033/295-601, fax:295-603	EDIN KARABEG

LEGAL FRAMEWORK OF THE BANKING AGENCY OF THE FBiH, BANKS, MICROCREDIT ORGANIZATIONS AND LEASING COMPANIES IN THE FEDERATION OF BIH

I. REGULATIONS REGULATING THE PERFORMANCE OF THE BANKING AGENCY OF FEDERATION OF BIH

Law on the Banking Agency of the Federation of (“Official Gazette of FBiH”, number. 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06, 48/08, 34/12 and 77/12),

- Statute of the Banking Agency of the Federation of BiH (“Official Gazette of FBiH”, number: 42/04),
- Guidelines for internal organization of the Banking Agency of the Federation of BiH (“Official Gazette of FBiH”, no. 46/09, 32/10 and 65/12).

II. REGULATIONS IN REGARD TO AUTHORITIES OF THE AGENCY'S PERFORMANCE

Laws

1. Law on Banks (“Official Gazette of the FBiH”, number 39/98,32/00, 48/01, 27/02, 41/02, 58/02, 13/03, 19/03 and 28/03)
2. Law on Microcredit organizations (“Official Gazette of the FBiH”, number: 59/06)
3. Law on Leasing („Official Gazette of the Federation of BiH number: 85/08 and 39/09)
4. Law on Development Bank of the Federation of BiH (“Official Gazette of the FBiH”, number: 37/08)
5. Law on deposit insurance in BiH („Official Gazette“, No. 20/02, 18/05, 100/08 and 75/09),
6. Law on foreign exchange operations (“Official Gazette FBiH”, number: 47/10),
7. Law on prevention of money laundering and terrorism financing activities (“Official Gazette BiH“, number: 53/09).

Decisions of the Banking Agency regulating banks' operations

1. Decision on minimum standards for information system management in the banks in BiH („Official Gazette of FBiH“, number:1/12),
2. Decision on minimum standards for managing outsourcing („Official Gazette of FBiH“, number: 1/12),
3. Decision on the form of reports which the banks submit to the Banking Agency of the Federation BiH (Official Gazette of FBiH, number: 110/12),
4. Guidelines for licensing and other consents by the Banking Agency of FBiH (“Official Gazette of FBiH”, no. 46/11 – Revised text and 48/12),
5. Decision on minimum standards for banks risk concentration management (“Official Gazette of FBiH”, number: 48/12- revised text) ,
6. Decision on minimum standards for managing banks' capital (“Official Gazette of FBiH”, number: 48/12- revised text),
7. Decision on minimum standards for managing banks' foreign currency risk (“Official Gazette of FBiH”, number: 48/12- revised text),
8. Decision on minimum volume, form and content of the program and reports about

- the economic-financial audit of banks (“Official Gazette of FBiH”, number: 48/12-revised text),
9. Decision on unified manner for accrual and reporting of effective interest rate on loans and deposits (“Official Gazette of FBiH”, number: 48/12-revised text),
 10. Decision on determining service fees for Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of FBiH“, number: 48/12-revised text),
 11. Decision o minimum standards for activities of banks in regard to prevention of money laundering and terrorism financing activities (“Official Gazette of FBiH”, number: 48/12) ,
 12. Decision o minimum standards for managing banks liquidity risk (“Official Gazette of FBiH”, no. 48/12-revised text and 110/12) ,
 13. Decision on minimum standards for managing the credit risk and asset classification of banks („Official Gazette of FBiH“, no. 85/11-revised text i 33/12-correction),
 14. Decision on conditions and manner for banks actions in regard to the clients’ complaints („Official Gazette of FBiH“, number: 32/10),
 15. Decision on temporary measures for restructuring of loan liabilities of individuals and legal entities in banks („Official Gazette of FBiH“, number: 2/10, 86/10, 1/12 and 111/12),
 16. Decision on minimum standards for managing banks operating risk („Official Gazette of FBiH“, no. 6/08 and 40/09),
 17. Criterion for internal rating of banks by the Banking Agency of FBiH (“Official Gazette of FBiH”, no. 3/03 i 6/03 corr.),
 18. Decision on reporting about unsound clients which are considered as special credit risk for banks (“Official Gazette of FBiH”, number: 3/03),
 19. Decision on conditions when the bank is considered insolvent (“Official Gazette of FBiH”, number: 3/03),
 20. Decision on minimum standards for documenting loan activities in banks (“Official Gazette of FBiH”, number: 3/03),
 21. Decision o minimum standards for performance with the entities related to the bank (“Official Gazette of FBiH”, number: 3/03),
 22. Decision on supervision of the banks and actions of the Banking Agency of the Federation of BiH (“Official Gazette of FBiH”, number: 3/03),
 23. Decision on minimum standards for internal and external audit in banks (“Official Gazette of FBiH”, number: 3/03),
 24. Decision on the procedure for determining receivables and asset and liabilities distribution during bank’s liquidation (“Official Gazette of FBiH”, number: 3/03),
 25. Decision on minimum standards for internal control system in banks (“Official Gazette of FBiH”, number: 3/03),
 26. Decision on accrual of interest and fees for inactive accounts (“Official Gazette of FBiH”, number: 7/03),
 27. Decision on the amount and conditions for loan approval to the bank’s employees (“Official Gazette of FBiH”, no. 7/03 and 83/08),
 28. Decision on the statement about the property condition (“Official Gazette of FBiH”, number: 3/03),
 29. Decision on minimum standards for managing market risks in banks („Official Gazette of FBiH“, no. 55/07, 81/07, 6/08, 52/08 and 79/09).

Decisions of the Banking Agency regulating micro credit organizations Operations

1. Decision on Requirements and Procedure for Issuance and Revoking of License and

- Other Approvals to Microcredit Organizations („Official Gazette of the Federation of BiH“, number: 27/07 and 46/11)
2. Decision on Requirements and Procedure for Issuance of License and Consent to Acquire Ownership Share by Investing and Transferring Property of Microcredit Foundation („Official Gazette of the Federation of BiH“, number: 27/07)
 3. Decision on Requirements and Procedure for Issuance of License to Microcredit Foundations Created as a Result of Changed Form of Microcredit Organizations („Official Gazette of the Federation of Bah“, number: 27/07)
 4. Decision on Supervision of Microcredit Organizations („Official Gazette of the Federation of BiH“, number: 27/07)
 5. Decision on Form and Content of Reports Microcredit Organizations Submit to the Banking Agency of the Federation of BiH and Reporting Deadlines („Official Gazette of the Federation of BiH“, number: 27/07 and 110/12)
 6. Decision on Level and Method of Establishing and Maintaining Loan Loss Reserves of Microcredit Organizations („Official Gazette of the Federation of BiH“, number: 27/07)
 7. Decision on Other General Requirements for Microcredit Organizations („Official Gazette of the Federation of BiH“, number: 27/07 and 46/11)
 8. Decision on Unified Method of Accrual and Declaration of Effective Interest rate on Loans and Deposits („Official Gazette of the Federation of BiH“, number: 27/07, 46/09 and 46/11)
 9. Decision on conditions and manner for performance of micro credit organization in regard to the complaints of clients („Official Gazette of Federation of BiH“, number: 32/10), .
 10. Decision on Fees Microcredit Organizations Pay to the Banking Agency of the Federation of BiH („Official Gazette of the Federation of BiH“, number: 46/11)
 11. Decision on minimum standards for micro credit organizations activities in regard to prevention of money laundering and terrorism financing activities (“Official Gazette of FBiH”, number: 48/12

Decisions of the Banking Agency regulating leasing companies operations

1. Decision on form and content of reporting that the leasing companies submit to the Banking Agency of Federation of BiH and reporting deadlines („Official Gazette of the Federation of BiH“, number: 46/09, 48/12 and 110/12),
2. Decision on conditions and procedure for issuing and revoking the license for performing leasing operations („Official Gazette of the Federation of BiH“, number: 46/09) ,
3. Decision on condition and procedure for issuing and revoking approval to a leasing company („Official Gazette of the federation of BiH“, No. 46/09. 46/11),
4. Decision on unified manner and method for accrual and reporting of effective interest rate for financial leasing contracts („Official Gazette of the Federation of BiH“, number: 46/09),
5. Decision on unified manner and method for reporting the leasing fees in regard to the operating leasing (“Official Gazette of FBiH”, no. 46/09 and 48/12),
6. Decision on minimal amount and manner for allocation, managing and maintaining the reserves for losses and managing the leasing company risks („Official Gazette of the Federation of BiH“, number: 46/09),
7. Decision on supervision of leasing companies („Official Gazette of the Federation of BiH“, number: 46/09),
8. Decision on the fees that the leasing companies pay to the Banking Agency of Federation of BiH („Official Gazette of the Federation of BiH“, number: 46/09 and 46/11).
9. Decision on conditions and manner for performance of the leasing company in regard to

the complaints of the users of the elasing services (“Official Gazette of FBiH”, number: 48/12),

10. Decision on minimum standards of the leasing company's activities in prevention of money laundering and terrorism financing („Official Gazette of the Federation of BiH“, number: 48/12).

Other regulations:

Development Bank FBiH

1. Decision on criteria and manner for implementation of the supervision of the performance of the Development Bank of FBiH, (“Official Gazette of FBiH”, no. 57/08, 77/08 and 62/10),
2. Decision on determining the amount of fees for performing the supervision over Development Bank of FBiH, (“Official Gazette of FBiH”, number: 65/09).

Foreign exchange operations

1. Guidelines for procedure for opening and holding of foreign currency accounts and foreign currency saving investments of residents in the bank (“Official Gazette of FBiH”, number: 56/10),
2. Guidelines about the conditions and manner for opening, holding and closing accounts in a non resident bank (“Official Gazette of FBiH”, number:56/10),
3. Guidelines about the manner, deadlines and forms for reporting about the credit operations with abroad (“Official Gazette of FBiH”, number:79/10),
4. Decision on taking out cash and checks (“Official Gazette of FBiH”, number: 58/10),
5. Decision on conditions and manner for performing foreign exchange office operations (“Official Gazette of FBiH”, no. 58/10 and 49/11),
6. Decision on conditions for issuing approval for opening a foreign currency account abroad (“Official Gazette of F BiH”, number: 58/10),
7. Decision on payment, collection and transfer in foreign currency and foreign cash (“Official Gazette of FBiH”, number: 58/10),
8. Decision on manner and conditions under which the residents in their operations with non residents can collect a payment or perform a payment in foreign currency cash and cash in convertible marks (“Official Gazette of FBiH”, number: 58/10),
9. Instructions about the structure and use of the International number of bank account (IBAN) (“Official Gazette of FBiH”, number: 4//07).

Prevention of money laundering

1. Guidelines about the evaluation of risk, data, information, documentation, identification methods and other minimum indicators necessary for efficient implementation of the provisions of the Law on prevention of money laundering and terrorism financing („Official Gazette of BIH“, number: 93/09),
2. Instruction for filling the forms and electronic input of data for the registration of cash transaction by clients („Official Gazette of BIH“, number: 22/11).

III. OTHER LAWS AND REGULATIONS FBiH

1. Law on obligations (“Official Gazette of RBiH” no. 2/92, 13/93 and 13/94, „Official Gazette of FBiH“, no. 29/03 and 42/11),
2. Law on payment transactions (“Official Gazette of FBiH”, no. 32/00 and 28/03),
 - 2.1. Instructions on manner in which the bank is obliged to report to clients – treasury and out of budget funds (“Official Gazette of FBiH”, no. 55/00 and 2/01),
 - 2.2. Instructions on form and content of orders for payment and procedures for implementation of the payment transactions (“Official Gazette of FBiH”, no. 55/00, 2/01, 45/02, 7/04 and 11/04),
 - 2.3. Instructions for opening and closing accounts for performing payment transactions and record keeping (“Official Gazette of FBiH”, no. 55/00, 61/05 and 62/11),
 - 2.4. Instructions about the liability of the bank during opening of the bank account for performing internal payment transactions (“Official Gazette of FBiH”, no.56/00, 9/01, 28/01 and 46/03),
 - 2.5. Instructions for establishing Unified registry of account holders in commercial banks, content and manner for keeping the registry of accounts in the Federation of BiH (“Official Gazette of FBiH”, number: 14/01),
 - 2.6. Instructions about the structure of accounts for performing payment transactions (“Official Gazette of FBiH”, number: 52/00),
 - 2.7. Instructions about the manner of payment on and of the blocked accounts, which are kept in the Payment Bureau of FBiH (“Official Gazette of FBiH”, no. 2/01 and 46/03),
3. Law on termination of Law on internal payment system („Official Gazette of FBiH“, number: 56/04),
4. Law on check (“Official Gazette of FBiH”, number: 32/00),
5. Law on bond (“Official Gazette of FBiH”, no. 32/00 and 28/03),
6. Law on amount of default interest rate (“Official Gazette of FBiH”, no. 27/98 and 51/01),
7. Law on the amount of default interest rate on non performing loans (“Official Gazette of FBiH”, no. 56/04, 68/04, 29/05 and 48/11),
8. Law on the amount of the default interest on public income (“Official Gazette of FBiH”, no. 48/01, 52/01 and 42/06),
9. Law on commercial companies (“Official Gazette of FBiH” no. 23/99, 45/00, 2/02, 6/02, 29/03, 68/05, 91/07, 84/08, 88/8-corr., 7/09-corr. and 63/10),
10. Law on taking over of shareholders companies („Official Gazette of FBiH“, number: 7/06),
11. Law on registration of business subjects in FBiH (“Official Gazette of FBiH”, no. 27/05, 68/05 and 43/09),
12. Law on public companies („Official Gazette of FBiH“, no. 8/05, 81/08, 22/09 and 109/12),
13. Law on the liquidation procedure (“Official Gazette of FBiH”, number: 29/03),
14. Law on bankruptcy procedure (“Official Gazette of FBiH”, no. 29/03, 32/04 and 42/06),
15. Law on debt, borrowings and guarantees in FBiH („Official Gazette of FBiH“, no. 86/07, 24/09 and 44/10) ,
 - 15.1. Instructions on records of the foreign debt in FBiH (“Official Gazette of FBiH”, number: 14/08),
 - 15.2. Instructions on needed documentation for issuing a previously approval to the borough, municipality or town for borrowing or issuing a guarantee based on

- internal debt (“Official Gazette of FBiH”, number: 14/08),
- 15.3. Instructions for additional documentation and information needed in the procedure for making the decision in regard to issuing a guarantee in FBiH and percent of the premium and fees for issuing guarantees (“Official Gazette of F BiH”, number: 14/08),
 - 15.4. Instructions for record keeping of guarantees in FBiH (“Official Gazette of FBiH”, number: 14/08),
 - 15.5. Decision on conditions and procedures for emission of bonds in FBiH (“Official Gazette of FBiH”, number: 31/12),
 - 15.6. Decision on conditions and procedure for emission of treasury bonds in FBiH (“Official Gazette of FBiH”, number: 88/12),
 16. Law on accounting and audit in FBiH (“Official Gazette of FBiH”, number: 83/09),
 17. Law on classification of operations in FBiH (“Official Gazette of FBiH”, no. 64/07 and 80/11),
 18. Law on classification of profession in FBiH (“Official Gazette of FBiH”, number: 111/12),
 - 18.1. Decision on standard classification of profession in FBiH (“Official Gazette of FBiH”, no. 40/04, 26/09 and 40/09),
 19. Law on securities market (“Official Gazette of FBiH”, no. 85/08 and 109/12),
 20. Law on registry of securities (“Official Gazette of FBiH”, no. 39/98, 36/99 and 33/04),
 21. Law on securities commission (“Official Gazette of FBiH” no. 39/98, 36/99 and 33/04),
 22. Law on labor (“Official Gazette of FBiH”, no. 43/99, 32/00 and 29/03),
 23. Law on employees council (“Official Gazette of FBiH”, number: 38/04),
 24. Law on employing foreigners (“Official Gazette of F BiH”, number: 111/12),
 25. Law on investment funds (“Official Gazette of FBiH”, number: 85/08),
 26. Law on companies for managing funds and investment funds (“Official Gazette of FBiH”, no. 41/98, 36/99, 36/00, 27/02, 44/02, 50/03 and 70/04) ,
 27. Law on companies for insurance in private insurance (“Official Gazette of FBiH”, number: 24/05 and 36/10) ,
 28. Law on mediation in private insurance (“Official Gazette of FBiH”, number: 22/05 and 8/10) ,
 29. Law on tax management in Federation of BiH (“Official Gazette of FBiH”, no. 33/02, 28/04, 57/09, 40/10, 29/11 and 27/12),
 30. Law on income taxes (“Official Gazette of FBiH”, no. 97/07, 14/08-corr. and 39/09),
 31. Law on salary taxes (“Official Gazette of FBiH”, no. 10/08, 9/10 and 44/11),
 32. Law on contributions (“Official Gazette of FBiH”, no. 35/98, 54/00, 16/01, 37/01, 1/02, 17/06 and 14/08),
 33. Law on collection and partial write off of past due and not collected contributions for social insurance (“Official Gazette of FBiH”, no. 25/06 and 57/09),
 34. Law on unified system for registration of controls and collection of contributions (“Official Gazette of FBiH”, no. 42/09 and 109/12),
 35. Law on opening balance sheet of companies and banks (“Official Gazette of FBiH”, no. 12/98, 40/99, 47/06, 38/08 and 65/09),
 36. Law on audit of the privatization of the state capital in the commercial companies and banks (“Official Gazette of FBiH”, number: 55/12),
 37. Law on determination and realization of the citizens in the privatization process (“Official Gazette of FBiH”, no. 27/97, 8/99, 45/00, 54/00, 7/01, 32/01, 27/02, 57/03, 44/04, 79/07, 65/09, 48/11 and 111/12),
 38. Law on determination and manner for paying internal liabilities FBiH (“Official

- Gazette of FBiH”, no. 66/04, 49/05, 5/06, 35/06, 31/08, 32/09, 65/09 and 42/11),
39. Law on payment of liabilities based on the account of the old foreign currency savings in FBiH (“Official Gazette of FBiH”, no. 62/09 and 42/11),
 40. Law on associations and foundations (“Official Gazette of FBiH”, number: 45/02),
 41. Law on turnover and similar activities (“Official Gazette of FBiH”, no. 35/09 and 42/11),
 42. Law on expropriation (“Official Gazette of FBiH”, no.70/07, 36/10 and 25/12),
 43. Law on termination of the Law on construction (“Official Gazette of FBiH”, number: 55/02),
 44. Law on construction land in FBiH (“Official Gazette of FBiH”, number: 67/05),
 45. Law on temporary limitation of disposition with the state property FBiH (“Official Gazette of FBiH”, no. 20/05, 17/06, 62/06, 40/07, 70/07, 94/07 and 41/08),
 46. Law on freedom of access to information in FBiH („Official Gazette of FBiH“, no. 32/01 and 48/11),
 47. Law on violations FBiH (“Official Gazette of F BiH”, no. 31/06 and 37/10-corr.),
 48. Law on notaries (“Official Gazette of FBiH”, number: 45/02),
 49. Law on court experts (“Official Gazette of FBiH”, no. 49/05 and 38/08),
 50. Law on property legal relations (“Official Gazette of FBiH”, no. 06/9 and 29/03),
 51. Law on agencies and internal services for protection of people and property (“Official Gazette of FBiH”, number: 78/08),
 52. Law on land books FBiH (“Official Gazette of FBiH”, no. 58/02, 19/03 and 54/04),
 53. Law on foreign investments (“Official Gazette of FBiH”, no. 61/01 and 50/03),
 54. Law on agent procedure (“Official Gazette of FBiH”, number: 49/07),
 55. Law on treasury FBiH (“Official Gazette of FBiH”, no. 58/02, 19/03 and 79/07),
 56. Law on Government FBiH („Official Gazette of FBiH“, no. 1/94, 8/95, 58/02, 19/03, 2/06 and 8/06),
 57. Law on federal prosecution FBiH (“Official Gazette of FBiH”, no. 42/02 and 19/03),
 58. Law on courts in FBiH ("Official Gazette of FBiH", no. 38/05, 22/06, 63/10 and 72/10-corr.),
 59. Law on enforcement proceedings (“Official Gazette of FBiH”, no. 32/03, 52/03, 33/06, 39/06- corr, 39/09, 74/11 and 35/12),
 60. Law on temporary postponement of collection of receivable based on the enforcement Decision against the budget of FBiH (“Official Gazette of FBiH”, no. 9/04 and 30/04),
 61. Law on provisional administration (“Official Gazette of FBiH”, no. 2/98 and 48/99),
 62. Law on administrative disputes (“Official Gazette of FBiH”, number: 9/05),
 63. Law on court proceedings (“Official Gazette of FBiH”, no. 53/03, 73/05 and 19/06),
 64. Law on out of court proceedings („Official Gazette of FBiH“, no. 2/98, 39/04 and 73/05),
 65. Criminal code Law FBiH („Official Gazette of FBiH“, no. 36/03, 37/03, 21/04, 69/04, 18/05, 42/10 and 42/11),
 66. Law on criminal procedure FBiH (“Official Gazette of FBiH”, no. 35/03, 37/03, 56/03, 78/04, 28/05, 55/06, 27/07, 53/07, 9/09 and 12/10),
 67. Law on performing criminal sanctions in FBiH ("Official Gazette of FBiH", no. 44/98, 42/99, 12/09 and 42/11),
 68. Law on conflict of interest in the government bodies in FBiH (“Official Gazette of FBiH”, number: 70/08),
 69. Law on the financial-information agency ("Official Gazette of FBiH", number: 80/11),
 70. Law on fiscal systems ("Official Gazette of FBiH", number: 81/09),

71. Law on banks' privatization ("Official Gazette of FBiH", no. 12/98, 29/00, 37/01 and 33/02),
72. Law on archives material in Federation of BiH ("Official Gazette of FBiH", number: 45/02),
 - 72.1. Decision on organization and manner for performing the archive operations in legal entities in the Federation of BiH ("Official Gazette of FBiH", number: 12/03),
73. Law on recognizing public documents on the territory of FBiH ("Official Gazette of FBiH", number: 4/98),
74. Law on strike ("Official Gazette of F BiH", number: 14/00),
75. Collective contract for the financing sector ("Official Gazette of FBiH", number: 48/00).

IV. OTHER LAWS AND REGULATIONS BiH

1. Law on Central Bank of BiH ("Official Gazette in BiH", no. 1/97, 29/02, 8/03, 13/03, 14/03, 9/05, 76/06 and 32/07),
2. Law on protection of consumers in BiH („Official Gazette BiH“, number: 25/06),
3. Law on supervision of the market in BiH ("Official Gazette BiH", no. 45/04, 44/07 and 102/09),
4. Law on competition („Official Gazette of BiH“, no. 48/05, 76/07 and 80/09),
5. Law on policy for direct foreign investments in BiH ("Official Gazette BiH", no. 4/98, 17/98, 13/03 and 48/10),
6. Law on protection of personal data („Official Gazette BiH“, no. 49/06, 76/11 and 89/11-corr.),
7. Law on protection of confidential information („Official Gazette BiH“, no. 54/05 and 12/09),
8. Law on electronic signature („Official Gazette BiH“, number: 91/06),
 - a. Decision on bases for use of the electronic signature and providing notarization service („Official Gazette BiH“, number: 21/09),
9. Law on classification operation in BiH („Official Gazette BiH“, no. 76/06, 100/08 and 32/10),
10. Law on borrowing, debt and guarantees BiH („Official Gazette BiH“, no. 52/05 and 103/09),
 - a. Decision which grants issuing of state guarantees („Official Gazette BiH“, number: 85/10),
11. Law on payment of liabilities based on the accounts of old foreign currency savings („Official Gazette BiH“, no. 28/06, 76/06, 72/07 and 97/11),
12. Law on accounting and audit in BiH ("Official Gazette BiH", number: 42/04),
13. Law on establishment and manner for settlement of the internal debt BiH ("Official Gazette BiH", number: 44/04),
14. Framework law on pledges ("Official Gazette BiH", no. 28/04 and 54/04),
15. Law on taxes on added value ("Official Gazette BiH", no. 9/05, 35/05 and 100/08),
16. Law on public bids BiH („Official Gazette BiH“, no. 49/04, 19/05, 52/05, 94/05, 8/06, 24/06, 70/06, 12/09 and 60/10),
17. Law on customs fee ("Official Gazette BiH", number: 58/12),
18. Law on customs violations BiH ("Official Gazette BiH", number: 88/05),
19. Law on patents ("Official Gazette BiH", number: 53/10),
20. Law on freedom of access to the information in BiH ("Official Gazette BiH", no. 28/00, 45/06, 102/09 and 62/11),
21. Law on the unified identification number ("Official Gazette BiH", no. 32/01, 63/08 and 103/11),

22. Law on association and foundations in BiH (“Official Gazette BiH“, no. 32/01, 42/03, 63/08 and 76/11),
23. Law on temporary limitation of disposition with the state property of BiH (“Official Gazette BiH“, no. 18/05, 29/06, 85/06, 32/07, 41/07, 74/07, 99/07 and 58/08),
24. Law on use and protection of the title BiH (“Official Gazette BiH“, no. 30/03, 42/04, 50/08 and 76/11),
25. Law on the fiscal council in BiH („Official Gazette BiH“, number: 63/08),
26. Law on treasury institutions in BiH (“Official Gazette BiH“, no. 27/00 and 50/08),
27. Law on agent procedure (“Official Gazette BiH“, number: 37/04),
28. Law on transfer of agent operations to the agent association (“Official Gazette BiH“, number: 52/05),
29. Law on forced collection of indirect taxes (“Official Gazette BiH“, no. 89/05 and 62/11),
30. Law on violations (“Official Gazette BiH“, no. 41/07 and 18/12),
31. Law on the court of BiH (“Official Gazette BiH“, no. 49/09-revised text, 74/09-corr. and 97/09),
32. Law on high court and prosecution council of BiH (“Official Gazette BiH“, no. 35/02, 39/03, 42/03, 10/04, 25/04, 93/05, 32/07 and 48/07),
33. Law on prosecution BiH (“Official Gazette BiH“, no. 49/09-revised text and 97/09),
34. Law on provisional administration (“Official Gazette BiH“, no. 29/02, 12/04, 88/07 and 93/09),
35. Law on administrative disputes BiH (“Official Gazette BiH“, no. 19/02, 88/07, 83/08 and 74/10),
36. Law on criminal procedure in front of the Court of BiH (“Official Gazette BiH“, no. 36/04 and 84/07),
37. Law on executive procedure in front of the court of BiH (“Official Gazette BiH“, number: 18/03),
38. Law on temporary postponement of collection of receivable based on the performed Decision against the budget institutions of BiH and international liabilities in BiH (“Official Gazette BiH“, no. 43/03 and 43/04),
39. Criminal Law BiH (“Official Gazette BiH“, no. 3/03, 32/03, 37/03, 54/04, 61/04, 30/05, 53/06, 55/06, 32/07 and 8/10),
40. Law on criminal procedure in BiH (“Official Gazette BiH“, no. 3/03, 32/03, 36/03, 26/04, 63/04, 13/05, 48/05, 46/06, 76/06, 29/07, 32/07, 53/07, 76/07, 15/08, 58/08, 12/09, 16/09 and 93/09),
41. Law on conflict of interest in the institutions of power in BiH (“Official Gazette BiH“, no. 13/02, 16/02, 14/03, 12/04, 63/08 and 18/12),
42. Law on archive materials and archives BiH (“Official Gazette BiH“, number: 16/01).

ATTACHMENT 3

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

in 000 KM

No.	DESCRIPTION	31.12.2010.	31.12.2011.	31.12.2012.
ASSETS				
1.	Cash funds and deposit accounts at depository institutions	4.443.614	4.378.076	3.962.581
1a	Cash and non-interest deposit accounts	452.188	528.721	625.188
1b	Interest deposit accounts	3.991.426	3.849.355	3.337.393
2.	Trading securities	233.178	300.228	375.032
3.	Placements in other banks	145.007	79.940	78.522
4.	Loans, receivables in leasing and past due receivables	9.981.911	10.487.671	10.666.124
4a	Loans	9.414.597	9.524.844	9.597.034
4b	Receivables on leasing	132	120	54
4c	Past due receivables - loans and leasing	567.182	962.707	1.069.036
5.	Securities held until maturity	142.074	158.237	173.435
6.	Premises and other fixed assets	521.625	503.802	491.907
7.	Other real estate	31.139	36.947	30.132
8.	Investments in non-consolidated related enterprises	44.753	42.186	24.756
9.	Other assets	193.609	281.891	254.710
10.	MINUS: Reserves for potential losses	661.213	1.005.659	1.066.140
10a	Value adjustment on the items position 4 in Assets	635.792	931.946	1.007.196
10b	Value adjustment on the position of Assets except position 4 *	25.421	73.713	58.944
11.	TOTAL ASSETS	15.075.697	15.263.319	14.991.050
LIABILITIES				
12.	Deposits	11.232.830	11.124.675	10.961.001
12a	Interest deposits	10.134.101	10.128.147	9.281.938
12b	Non-interest deposits	1.098.729	996.528	1.679.063
13.	Loans - past due	1.723	1.762	1.752
13a	Balance of payable loans, unpaid	0		
13b	Unpaid - called for payment off-balance sheet items	1.723	1.762	1.752
14.	Loans from other banks	7.000	2.000	2.000
15.	Payables to Government	0		
16.	Payables on loans and other borrowings	1.403.451	1.319.299	1.141.561
16a	payable within one year	381.305	387.585	244.160
16b	payable longer than one year	1.022.146	931.714	897.401
17.	Subordinated debts and subordinated bonds	226.847	206.159	186.675
18.	Other liabilities	507.221	529.359	479.373
19.	TOTAL LIABILITIES	13.379.072	13.183.254	12.772.363
CAPITAL				
20.	Permanent priority shares	25.028	26.059	26.059
21.	Common shares	1.148.269	1.167.513	1.175.547
22.	Exchange premium	136.485	136.485	136.485
22a	On permanent priority shares	8.420	8.420	8.420
22b	On common shares	128.065	128.065	128.065
23.	Unallocated profit and capital reserves	489.557	376.102	453.269
24.	Foreign exchange differences	0		
25.	Other capital	-102.714	81.681	111.594
26.	Reserves for loan losses established from profit		292.225	315.734
27.	TOTAL CAPITAL (20. to 25.)	1.696.625	2.080.065	2.218.688

28.	TOTAL LIABILITIES AND CAPITAL (19 +26)	15.075.697	15.263.319	14.991.050
	PASSIVE AND NEUTRAL SUB BALANCE	659.059	671.241	661.321
	AGGREGATE BALANCE SHEET AMOUNT	15.734.756	15.934.560	15.652.371

*In 2010.: reserves for loan losses

ATTACHMENT 4

**REVIEW OF ASSETS, LOANS, DEPOSITS AND FINANCIAL RESULT OF
BANKS IN F BiH as of 31.12.2012.**

in 000 KM

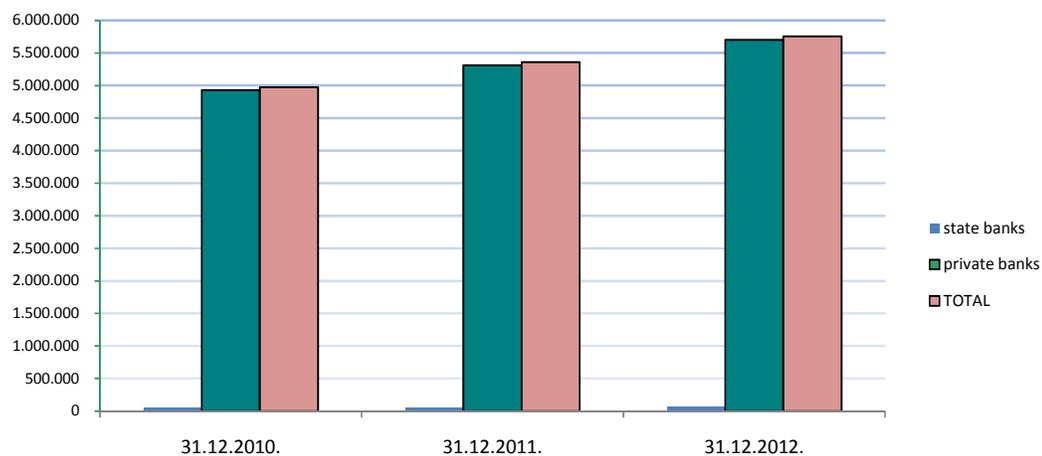
N o.	BANK	Assets		Loans		Deposits		Financial result
		Amount	%	Amount	%	Amount	%	Amount
1	BOR BANKA dd SARAJEVO	265.878	1,77%	209.071	1,96%	143.610	1,31%	2.523
2	BBI BANKA dd SARAJEVO	428.762	2,86%	278.438	2,61%	315.372	2,88%	2.624
3	HYPO ALPE-ADRIA-BANK dd MOSTAR	1.411.588	9,42%	988.305	9,27%	961.340	8,77%	-11.084
4	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	1.329.113	8,87%	1.117.798	10,48%	885.647	8,08%	15.584
5	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	189.240	1,26%	93.333	0,88%	136.398	1,24%	1.992
6	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	65.101	0,43%	36.880	0,35%	40.513	0,37%	1.141
7	MOJA BANKA dd SARAJEVO	159.158	1,06%	115.059	1,08%	133.686	1,22%	-1.671
8	NLB TUZLANSKA BANKA dd TUZLA	797.320	5,32%	618.627	5,80%	610.665	5,57%	4.830
9	POŠTANSKA BANKA doo SARAJEVO	50.378	0,34%	25.902	0,24%	38.179	0,35%	-993
10	PRIVREDNA BANKA dd SARAJEVO	210.027	1,40%	152.474	1,43%	160.905	1,47%	-2.756
11	PROCREDIT BANK dd SARAJEVO	333.832	2,23%	283.292	2,66%	242.049	2,21%	843
12	RAIFFEISEN BANK BH dd SARAJEVO	3.714.336	24,78%	2.423.230	22,72%	2.754.807	25,13%	36.528
13	SPARKASSE BANK d.d. SARAJEVO	901.197	6,01%	769.215	7,21%	776.718	7,09%	7.010
14	TURKISH ZIRAAT BANK dd SARAJEVO	229.087	1,53%	152.179	1,43%	115.749	1,06%	665
15	UNION BANKA dd SARAJEVO	209.971	1,40%	100.085	0,94%	151.973	1,39%	613
16	UNI CREDIT BANKA BH dd SARAJEVO	3.761.804	25,09%	2.541.516	23,83%	2.788.592	25,44%	53.450
17	VAKUFСКА BANKA dd SARAJEVO	254.255	1,70%	181.243	1,70%	192.318	1,75%	207
18	VOLKSBANK BH dd SARAJEVO	680.033	4,54%	579.477	5,43%	512.480	4,68%	163
	TOTAL	14.991.050	100%	10.666.124	100%	10.961.001	100%	111.669

ATTACHMENT 5

NEW CITIZEN SAVINGS BY PERIODS IN THE BANKS IN FBiH

in 000 KM

	31.12.2010.	31.12.2011.	31.12.2012.
State banks	47.148	50.259	58.050
Private banks	4.926.361	5.311.178	5.698.300
TOTAL	4.973.509	5.361.437	5.756.350



ATTACHMENT 6

**CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS IN BANKS
IN FBiH as of 31.12.2012.**

-- CLASSIFICATION OF ACTIVE BALANCE SHEET ITEMS

in 000 KM

No.	BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	2.196.726	260.207	10.661	3.588	1.389	2.472.571
2.	Long-term loans	5.964.292	647.459	254.533	159.744	10.525	7.036.553
3.	Other placements	168.620	2.404	5	110	1.340	172.479
4.	Interest accrued	38.955	8.169	3.990	7.999	27.537	86.650
5.	Past due receivables	48.520	54.116	57.146	267.254	617.640	1.044.676
6.	Receivables on guarantees paid	72	98	319	625	23.246	24.360
7.	Other assets	259.523	4.822	3.512	1.178	22.868	291.903
8.	TOTAL BALANCE SHEET ASSETS WHICH IS CLASSIFIED (total of positions from 1.to 7. – base for accrual of regulatory reserves for loan losses)	8.676.708	977.275	330.166	440.498	704.545	11.129.192
9.	ACCRUED REGULATORY RESERVES FOR LOAN LOSSES ON BALANCE SHEET ASSETS	170.405	92.357	86.844	251.214	704.543	1.305.363
10.	VALUE ADJUSTMENT OF BALANCE SHEET ASSETS	101.890	81.280	84.286	180.469	618.215	1.066.140
11.	NEEDED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS	102.449	53.537	31.743	94.758	86.355	368.842
12.	ESTABLISHED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS	84.769	41.339	25.629	79.400	48.018	279.155
13.	LACKING AMOUNT OF REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS						105.220
14.	BALANCE SHEET ASSETS WHICH IS NOT CLASSIFIED(gross bookkeeping value)						4.927.998
15.	TOTAL BALANCE SHEET ASSETS (gross bookkeeping value)						16.057.190

REVIEW OF ASSETS OF THE BALANCE SHEET WHICH IS NOT CLASSIFIED AND AMOUNTS OF THE PLACEMENTS SECURED BY A CASH DEPOSIT

14.a	Cash in treasury and cash funds on the account of Central bank of BiH, gold and other precious metals	2.543.889
14.b	Demand funds and time deposits up to one month on the accounts in banks with a determined investment rating	1.366.591
14.c	Tangible and non-tangible property	514.719
14.d	Gained financial and material assets in process of collection of receivables during one year of acquisition	5.910
14.e	Treasury shares	75
14.f	Claims for overpaid tax liabilities	13.917
14.g	Securities intended for trading	157.549
14.h	Receivables from the Government of BiH, Government of FBiH and Government of RS, securities emission by the Government of BiH, Government of FBiH and Government of RS and receivables secured by their unconditional guarantees payable at first call	325.348
	TOTAL position 14	4.927.998

8a.	Amount of placements secured by cash deposits	156.539
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ATTACHMENT 6A

**CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS IN BANKS
IN FBiH
as of 31.12.2012.**

- CLASSIFICATION OF OFF-BALANCE SHEET ITEMS -

in 000 KM

No.	OFF BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Guarantees payable	352.948	46.900	1.489	26		401.363
2.	Performing guarantees	466.002	119.988	410	1.025	173	587.598
3.	Unsecured LoC	46.758	12.006				58.764
4.	Irrevocable loans	1.219.208	70.306	2.400	1.594	877	1.294.385
5.	Other potential liabilities	12.339	714		118	4.499	17.670
6.	TOTAL OFF BALANCE SHEET ITEMS CLASSIFIED (total of positions 1 to 5 – base for accrual of regulatory reserves for loan losses)	2.097.255	249.914	4.299	2.763	5.549	2.359.780
7.	ACCRUED REGULATORY RESERVES FOR LOAN LOSSES ON OFF BALANCE SHEET ITEMS	41.020	15.933	1.073	1.417	5.536	64.979
8.	PROVISIONING FOR LOSSES FOR OFF BALANCE SHEET ITEMS	16.986	2.730	748	627	5.020	26.111
9.	NEEDED REGULATORY RESERVES FRO PROFIT FOR ESTIMATED LOSSES ON OFF BALANCE SHEET ITEMS	25.982	13.872	715	895	516	41.980
10.	ESTABLISHED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ITEMS	22.130	12.216	728	1.364	141	36.579
11.	LACKING AMOUNT OF REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF BALANCE SHEET ITEMS						6.848
12.	OFF BALANCE SHEET ITEMS WHICH ARE NOT CLASSIFIED						449.617
13.	TOTAL OFF BALANCE SHEET ITEMS						2.809.397
6a.	Amount of potential liabilities secured by cash deposit						46.294

ATTACHMENT 7
INCOME STATEMENT OF BANKS IN THE FBiH - FBA SCHEDULE

in 000 KM

No.	DESCRIPTION	31.12.2010.	31.12.2011.	31.12.2012.
1.	INTEREST INCOME AND EXPENSES			
a)	Interest income and similar income			
1)	Interest bearing deposit accounts in deposit institutions	14.388	23.545	3.991
2)	Placements to other banks	4.920	5.529	3.436
3)	Loans and leasing operations	778.690	769.774	729.602
4)	Securities held to maturity	4.311	5.663	6.564
5)	Equities	26	909	186
6)	Receivables from paid off-balance sheet liabilities	0		0
7)	Other interest income and similar income	54.193	61.264	65.645
8)	TOTAL INTEREST INCOME AND SIMILAR INCOME	856.528	866.684	809.424
b)	Interest expenses and similar expenses			
1)	Deposits	266.893	230.224	218.614
2)	Loans taken from other banks	16	4	149
3)	Loans taken – past due liabilities	0	0	0
4)	Liabilities from loans taken and other borrowings	43.536	47.831	36.520
5)	Subordinated debt and subordinated bonds	11.821	12.086	10.997
6)	Other interest expenses and similar expenses	3.507	4.412	3.362
7)	TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES	325.773	294.557	269.642
c)	NET INTEREST AND SIMILAR INCOME	530.755	572.127	539.782
2.	OPERATING INCOME			
a)	Income from foreign exchange operations	37.784	48.198	45.081
b)	Loan reimbursements	5.361	6.918	7.674
c)	Reimbursement for off balance sheet operations	25.682	24.933	24.781
d)	Reimbursements for performed services	173.130	178.944	184.256
e)	Income from trading	585	368	1.139
f)	Other operating income	86.031	55.681	46.326
g)	TOTAL OPERATING INCOME a) do f)	328.573	315.042	309.257
3.	NON-INTEREST EXPENSES			
a)	Business and direct expenses			
1)	Expenses for assets impairment value, provisioning for potential liabilities and other value adjustments*	386.102	190.499	144.761
2)	Other business and direct expenses	70.185	76.209	76.171
3)	TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)	456.287	266.708	220.932
b)	Operating expenses			
1)	Salary and contributions expenses	242.690	250.783	243.133
2)	Business premises expenses, other fixed assets and overhead	152.737	166.075	158.933
3)	Other operating expenses	101.833	106.998	97.508
4)	TOTAL OPERATING EXPENSES 1) to 3)	497.260	523.856	499.574
c)	TOTAL NON INTEREST EXPENSES	953.547	790.564	720.506
4.	PROFIT BEFORE TAXES	64.209	142.117	145.003
5.	LOSS	158.428	45.512	16.470
6.	TAXES	9.252	15.872	16.736
7.	INCOME FROM INCREASE OF DELAYED TAX FUNDS AND DECLINE OF THE DELAYED TAX LIABILITIES	495	607	60

8.	LOSS FROM DECLINE OF DELAYED TAX FUNDS AND INCREASE OF DELAYED TAX LIABILITIES	0	98	188
9.	NET-PROFIT 4. - 6.	54.957	126.754	128.173
10.	NET-LOSS 4. - 6.	-157.933	-45.512	16.504
11.	FINANCIAL RESULT	-102.976	81.242	111.669

*Based on the old methodology (up to 2011.) position: general credit risk and potential loan losses reserves expenses

ATTACHMENT 8
REPORT ON CAPITAL BALANCE AND ADEQUACY IN BANKS IN FBiH
ACTIVE BALANCE

in 000 KM

No.	O P I S	31.12.2010.	31.12.2011.	31.12.2012.
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	1.157.918	1.177.932	1.185.966
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	136.485	136.485	136.485
1.4.	General regulatory reserves (reserves as regulated by the Law)	183.807	192.752	101.836
1.5.	Other reserves not related to assets quality assessment	228.867	262.501	309.179
1.6.	Retained - undistributed income from previous years	165.532	225.861	167.825
1.a.	TOTAL (from 1.1. to 1.6.)	1.885.159	2.008.081	1.913.841
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	92.058	251.187	120.740
1.8.	Losses from current year	157.933	45.512	16.505
1.9.	Book value of treasury shares owned by the bank	81	81	156
1.10.	Amount of intangible assets	63.249	57.180	52.590
1.b.	TOTAL (from 1.7.to 1.10.)	313.321	353.960	189.991
1.	AMOUNT OF CORE CAPITAL: (1.a.-1.b.)	1.571.838	1.654.121	1.723.850
2	BANK'S SUPPLEMENTARY CAPITAL			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	2.829	3.090	3.090
2.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. And rights	0		
2.3.	General reserves for losses on loans from class. A - performing assets	209.612	212.248	211.425
2.4.	Accrued income for current year audited and confirmed by external auditor	52.090	62.564	67.243
2.5.	Income under FBA's temporary restriction on distribution	0	0	
2.6.	Subordinated debts, the most 50% of core capital	159.056	139.754	120.264
2.7.	Hybrid convertible items - the most 50% of core capital	0	0	
2.8.	Items-permanent liabilities without repayment duty	66.399	49.312	65.070
2.	AMOUNT OF SUPPLEMENTARY CAPITAL: (from 2.1. to 2.8.)	489.986	466.968	467.092
3	ITEMS DEDUCTIBLE 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	15.938	18.408	3.043
3.3.	Receivables from shareholders for significant voting shares - approved aside from regulations	0	0	85
3.4.	VIKR to shareholders with significant voting shares in the bank without FBA's permission	0	0	0
3.5.	AMOUNT OF ITEMS DEDUCTIBLE FROM BANK'S CAPITAL (3.1. to 3.4.)		19.386	95.529
3.	AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)	15.938	37.794	98.657
A.	RISK FROM RISK-WEIGHTED ASSETS AND CREDIT EQUIVALENTS	2.045.886	2.083.295	2.092.285
B.	POR (RISK-WEIGHTED OPERATING RISK)	11.713.116	11.286.997	11.078.930

C.	PTR (RISK-WEIGHTED MARKET RISK)	942.707	965.932	974.201
D.	TOTAL RISK-WEIGHTED RISKS B+C+D	0	0	0
E.	NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100	12.655.823	12.252.929	12.053.131
F.	NET CAPITAL RATIO (CAPITAL ADEQUACY) (A.:E.) X 100	16,2%	17,00%	17,36%

ATTACHMENT 9

DATA ON EMPLOYEES IN THE FBiH BANKS

No.	BANK	31.12.2010.	31.12.2011.	31.12.2012.
1	BOR BANKA dd SARAJEVO	54	57	62
2	BOSNA BANK INTERNATIONAL dd Sarajevo	207	235	247
3	HERCEGOVACKA BANKA dd MOSTAR	75	72	
4	HYPO ALPE ADRIA BANK dd MOSTAR	568	647	579
5	INTESA SANPAOLO BANKA dd BiH	519	525	537
6	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	178	173	166
7	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	67	71	71
8	MOJA BANKA dd SARAJEVO	143	171	151
9	NLB TUZLANSKA BANKA dd TUZLA	474	471	456
10	POŠTANSKA BANKA dd SARAJEVO	91	90	85
11	PRIVREDNA BANKA dd SARAJEVO	211	191	179
12	PROCREDIT BANK dd SARAJEVO	501	427	344
13	RAIFFEISEN BANK BH dd SARAJEVO	1.630	1.576	1,552
14	SPARKASSE BANK dd SARAJEVO	426	432	452
15	TURKISH ZIRAAT BANK dd SARAJEVO	150	158	171
16	UNION BANKA dd SARAJEVO	180	177	183
17	UNI CREDIT BANKA BH dd MOSTAR	1.362	1.338	1,305
18	VAKUFSKA BANKA dd SARAJEVO	222	229	230
19	VOLKSBANK BH dd SARAJEVO	330	329	360
	TOTAL	7.388	7.369	7,130