



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

I N F O R M A T I O N
ON THE BANKING SYSTEM OF
THE FEDERATION OF BOSNIA AND HERZEGOVINA
AS OF 31. 12. 2011.

Sarajevo, March 2012.

Information on the banking system of the Federation of BiH (as of 31.12.2011., based on final, unaudited data) is prepared by the Banking Agency of the Federation of BiH, as a regulatory authority conducting supervision of banks, based on reports of banks, and other information and data submitted by banks. Findings and data from on-site examinations and analysis performed at the Agency (off-site financial analysis) have also been included.

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I INTRODUCTION

The performance of the banking sector in 2011., as in the previous year, was still under the conditions of the financial and economic crises, and the positive changes in the first half of the year were slowed down by the events in the Euro zone. The large

The uncertainty around the development of the debt crises and the deterioration of the forecasts for growth in the eurozone had an impact on the slowing down of the economic growth and deterioration of the macroeconomic conditions in BiH. Although the growth and the development of the banking sector are stagnating, and foreign financing sources have a decreasing trend, it is estimated that the stability, security and liquidity of the entire system are satisfactory, and in 2011 noted are some positive movements, of which the most important are: reviving the credit activities and slight growth of loans, continued growth of the citizens savings, improvement of profitability in majority of banks and consequential strengthening of the capital base, as well as slowing down of the negative trends in the asset quality segment.

As of 31.12.2011., there were 19 banks with banking license issued in the Federation of BiH, of which number two banks were under provisional administration (Hercegovačka bank d.d. Mostar and Postanska bank BH d.d. Sarajevo). As of 31.12.2011., the number of employees in banks was 7.369, slightly in decline (19 employees or 0,2%) in comparison to the end of 2010.

In the analyses of the movements and changes in the most significant balance sheet categories noted should be two key events in 2011, which had a significant impact on the entire system performance indicators: coming into effect of the Law on accounting and audit in FBiH and in reference to that the changes of the Agency's regulations, according to which the banks are obliged to develop and present the reports in compliance with the International accounting standards (IAS) and International standards for financial reporting (IAFR) and implementation of the restructuring project in one large bank, through transfer of a significant amount of non-performing assets to another legal entity.

The aggregate balance sheet of the banking sector, as of 31.12.2011., amounted to 15,2 billion KM, representing an increase by 1% or 115 million KM compared to the end of 2010. The loans, as the largest item in the banks' balance sheet, recorded an increase of 4% or 432 million KM, and at the end of the year amounted to 10,4 billion KM or 68,6% of the banks' balance sheet in FBiH.

Cash funds are 4,38 billion KM and declined by 1% or 65 million KM in comparison to the end of 2010.

In 2010, there was a change in the participation of the two most significant financing sources of banks, the deposits and credit liabilities - the deposits declined from 74,5% to 72,8% and the credit liabilities from 9,3% to 8,7%. The main reason for the decline in participation of these two financing sources are the decline in deposits in 2011 by 1,6% or 182 million KM and credit liabilities by 6% or 84 million KM. In the same period the savings, as the most important segment in the deposit and financial potential of banks, maintained the positive growth trend and at the end of 2011 amounted to 5,36 billion KM, which is by 8% or 388 million KM higher than at the end of 2010.

Net capital of banks in the FBiH, as well as regulatory capital, due to the influences of the noted regulations and implementation of the IAS/ ISFI increased by 2% or 41 million KM and as of

31/12/2011 amounted to 2,1 billion KM. As of 31/12/2011, the capital adequacy ratio, as one of the most important indicators of strength and adequacy of banks' capital, was 17,1% at the banking system level, which is higher than the legal minimum (12%) and presents a satisfactory capitalisation of the total system and a strong base for preserving its security and stability.

Based on the data from the balance sheet for 2011, the banks in the Federation of BiH, realised a positive financial result, profit of 84 million KM. Positive financial result was realized by 15 banks in the total amount of 127 million KM, while four banks realized loss in the amount of 43 million KM.

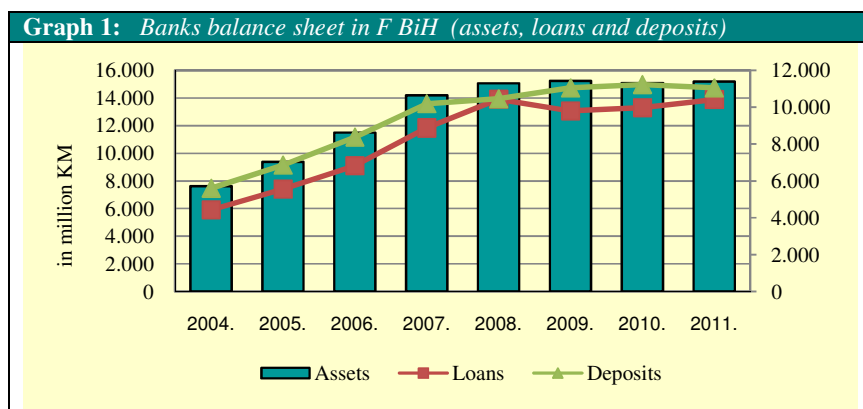
• **Growth and development of the banking sector and the ownership structure:** The following table gives a review of the changes in number and ownership structure of banks in the last five years.

Table 1: Review of changes in number and ownership structure of banks			
	State banks	Private banks	TOTAL
31.12.2006.	5	18	23
Changes in 2007.:			
-merger/acquisition		-1	-1
- changes in the owner. struct.	-2	+2	
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	18	19
31.12.2010.	1	18	19
In 2011. there were no changes			
31.12.2011.	1	18	19

Balance sheet

The banking sector in 2011, as in the previous two years, was characterized by stagnation, that is, minimum growth of the aggregate balance sheet and a continuation of the positive slight growth of credit activities from 2010. The assets of banks recorded an minimal growth of 1% or 115 million KM, reaching the amount of 15,2 billion KM. Over the past three years, affected by the economic and financial crisis, the aggregate balance sheet ranged between 15,07 billion KM and 15,2 billion KM, or oscilated within +/- 130 million KM.

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.



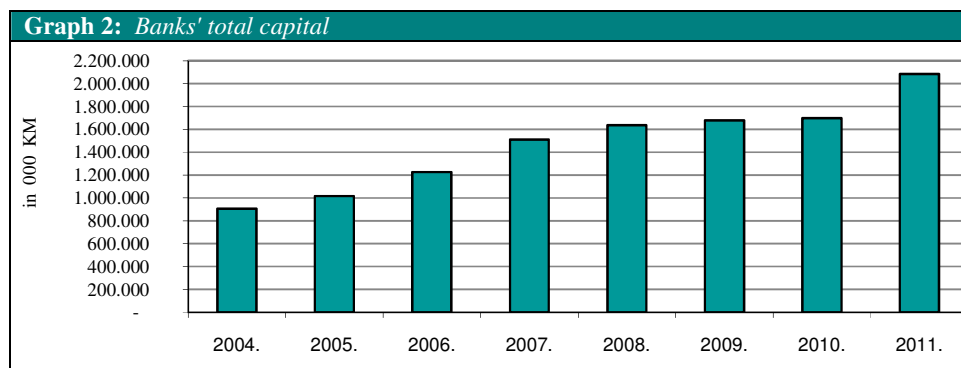
The minimum growth of the aggregate balance sheet of only 1%, in comparison to 2010, is, exclusively, a result of transfer to the new methodology, as the banks implemented the new IAS 39 in regard to the recognition and measurement of the financial property and liabilities as of 31/12/2011, which had a positive impact on the aggregate balance sheet. In the sources the deposits decreased by 2% or 182 million KM and loan liabilities by 6% or 84 million KM.

In the assets of banks, the most significant item were credit placements with participation of 66,2% that in 2010 were increased by 185 million KM or 2%, amounting to 10 billion KM. The largest changes refer to two dominant sources. The loans to the citizens increased by 6% or 308 million KM, amounting to 5 billion KM with a participation of 48,4%, while the loans to private enterprises increased by 2% or 102 million KM amounting to 4,9 billion which is 47,2% of total loans.

Cash funds decreased by 1% or 65 million KM, amounted to 4,38 billion KM, representing participation of 28,8% in the assets.

Deposits, with participation of 72,8%, amounting to 11 billion KM, still represent the most significant source of funding for banks in the FBiH.

Total capital of banks amounted to 2,1 billion KM (shareholders' was 1,19 billion KM), representing an increase of 23% or 386 million KM. There are two main reasons for such a high growth: after the changes in the regulations and methodology a new item was included in the total capital (reserves for loan losses established from rprofit) of 292 million KM, as well as the realized profit on the level of the system of 84 million KM.



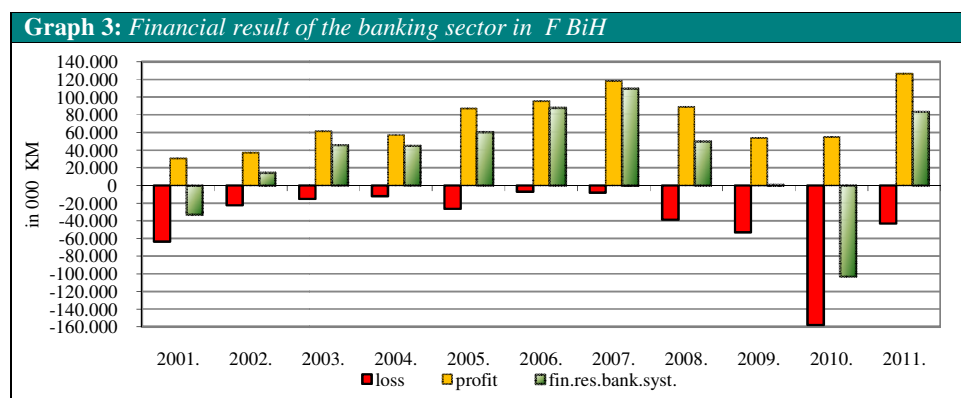
Income Statement

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, 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 one bank.

According to the final non-audited data for 2011, the banks in the Federation of BiH reported a positive financial result-profit in the amount of 84 million KM, which is, after the year 2006 and 2007, (88 million KM and 110 million KM) the third largest profit realized to date in the banking sector in the Federation of BiH.

Positive financial result was reported by 15 banks in total amount of 127 million KM, representing a decline of 131% or 72 million KM higher than in 2009 (14 banks), while four banks reported loss in the amount of 43 million KM, which is by 73% or 105 million KM less than the previous year.

Reason for improvement of the entire sector's profitability in 2011., is, on one hand, the growth of the net interest income as a result of the significant decline in the interest expenses and on the other, the value adjustment expenses had a large decline in comparison to the provisioning expenses for loan losses at the end of 2010, with a note that it is not a question of a change in methodology (it is not of key value), but the trend in the deterioration of the asset quality in 2011 significantly slowed down, which had as a result lower value adjustment expenses.



Total income in 2011 amounted to 889 million KM, which was higher by 3% or 29 million in comparison to 2010. Net interest income was 572 million KM, with a relatively high growth rate of 8% or 41 million KM, as result of increase in interest income (by 1% or 10 million KM) and decrease of interest expenses (by 10% or 31 million KM), and in the structure of total income the participation of the net interest income increased from 62% to 64%. Operating income, as a second component of the total income, had a decline of 4% or 12 million KM and a decrease of participation from 38% to 36% amounting to 317 million KM. On the expenses side, the value adjustment expenses declines by 51% or 196 million KM in comparison to the provisioning expenses for the loan losses at the end of 2010 and amounted to a 190 million KM (a high 21% of total income), that is they were realized in the amount of 790 million KM.

• **Ownership structure:** At the end of 2011, ownership structure of banks in the Federation of BiH was the following: one bank with majority state ownership, and of 18 banks with majority private ownership, seven 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 2011, the largest participation was recorded of banking groups and banks from Austria (57,6%), followed by Italian banks (16,4%), while other countries participated below 6,5%.

In 2011, participation of state, foreign and private domestic (resident) capital in total share capital had slight changes which as of 31.12.2011., was 1,194 million KM. The participation of state capital remained the same 3,2%, declining by 0,4%. Foreign capital nominally increased by 13 million KM, that is 981 million KM, and participation declined from 82,5% to 82,2%. Private capital (residents) increased by 11 million KM, and was 174 million KM, and participation in total share capital increased from 13,9% to 14,6%.

• **Concentration 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 68,6% (at the end of 2010 69,7%) hold the assets in the range of 1,3 billion KM to four billion KM. Three banks have assets between 500 million KM and one billion KM and participation of 16,8%. Majority of banks (12) hold the assets bellow 500 million KM, with market participation of 14,6%, of which three banks have the assets bellow 100 million KM and a slight participation of 1,3%.

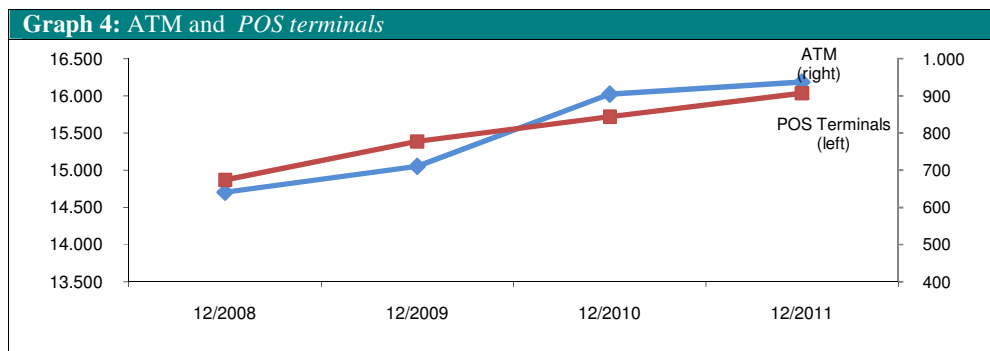
One of the indicators of concentration in banking system is the ratio of market concentration, that is, the concentration rate² (hereinafter: CR), which indicates total market participation of the largest institutions in the system. The CR5 is an indicator of assets participation of the five largest banks, which at the end of 2011 in the banking system of the Federation of BiH amounted to 74,6% (75,8% in 2010), 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 2011, 63 new ATMs were installed, and, at the end of the same year, their number was 907. Number of POS terminals has also increased by 162, so there was a total of 16.185 POS terminals at the end of 2011 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 14 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 2011, 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 14 banks. As of 31.12.2011., there were 13 banks under the measures.

Of 27 banks with the measures initiated:

- Bankruptcy process at the authorized courts was initiated in eight banks,
- Liquidation process was initiated in ten 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),
- 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 two banks 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 same principles were revised and published in the new form in 2006. By this revision, the Basle Committee has brought the core principles up to date, made them more clear and concise, additionally developed some already existing and added some new ones, and generally made them closer to the new international capital framework for banks – Basel II.

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.

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. Apart from the mentioned, the main focus of all of the Agency's efforts have 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 - on site and off site bank examinations was conducted upon the plan and program for 2010. 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.

In 2011, the Agency continued and intensified its work with the International Monetary Fund and the Central Bank of BiH, along with initiation of concrete analytical activities, aimed at 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.

During 2010, the Agency implemented changes and additions to the regulations with an aim to comply with the Law on accounting and the relevant regulations and banks’ obligations to develop the financial reports in compliance with the International accounting standards (IAS) and international financial reporting (IFR).

During 2011, the Agency, upon the initiative of the Association of banks in BiH and after a discussion of the matter, implemented changes and additions to the regulations with an aim to comply with the Law on accounting and the relevant regulations and banks’ obligations to develop the financial reports in compliance with the International accounting standards (IAS) and international financial reporting (IFR). Performed are changes in the regulations with an aim to secure a different regulatory treatment for the banks’ receivables from the state and entity governments, and extended are the temporary measures for the restructuring of the loan obligations of individuals and legal entities in the banks.

Expended is the existing regulatory framework, through adopting regulations in reference to the information system management in the banks, outsourcing and risks generated from that segment of banks' performance.

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 20 transition countries and Austria that receives special support from the Basel Committee for Banking Supervision.

In compliance with the requirements of Principle 25 from the list of „Core principles for effective bank supervision“ issued by the Basle Committee, the Agency, by the end of 2010, 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 sloesly defines: the share of information, on-site examination, requests for information and examinations, information safety, continuous cooperation and other provisions.

In 2011, 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 2011, 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.

During 2011., the Agency actively participated in the realization of the program “Strengthening of the macro and micro prudential supervision in the countries candidates for EU members and countries that are potential candidates for membership in EU”. The program is created by the European Central Bank and 13 national central banks of the Eurosystem. The program includes joint activities of the Central bank of BiH, Banking Agency of RS and Banking Agency of FBiH in cooperation with regulatory institutions of 7 countries candidates for EU membership and potential candidates for membership in EU (apart from BiH, the following countries also participate in the project: Albania, Montenegro, Croatia, Kosovo, Macedonia, Serbia, Turkey).

In 2011 the program was realized through the Component II which covered the bilateral cooperation with the partner national central banks: France, in the supervision process and within it the risk evaluation, and Portugal, on the project of client protection, as a Component II, which referred to the technical exercises of simulation with the focus on the cross border cooperation.

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 2010 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 2011 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. At the same time, the Agency 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 2011 was based on the assessment of banks as result of supervisory examinations conducted in terms of banks' compliance to the standards for prevention of money laundering and terrorism financing, follow-up examinations of orders being met, and analysis of banks' reports submitted to the Agency.

Based on the findings determined in the examinations of the compliance of the performance, control of implemented orders as well as based on the reports that the banks submit to the Agency, it was determined that there are no reasons for supervisory concern in terms of the management of risk from money laundering and terrorism financing. 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 an increasing trend and is satisfactory, in comparison to the previous year when it was marginal satisfactory and had an opposite trend. Namely, in 6 examinations of the compliance of the performance of banks with the standards for prevention of money laundering and terrorism financing activities, the risk management quality was satisfactory and border line satisfactory in 2 banks.

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 2011, banks reported of 362.919 transactions, representing 0,50% of total transactions realized in the banking system of the Federation of Bosnia and Herzegovina (71.641.905 transactions realized, according to the banks' data) with the value of 11.874.402 h/KM, representing 10,43% of total value of the transactions realized in the banking system of the Federation of Bosnia and Herzegovina (113.808.532 h/KM according to the banks' data). Number of reported transactions in 2011 increased by 19,60%, in comparison to the prior year, while the value increased by 4,50%.

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 2: Comparative schedule of number and values of reported transfers							
No.	Description (of transfer)	Transfers in 2010.		Transfers in 2011.		%	
		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)	303.542	11.364.176	362.919	11.874.402	119,60	104,50
2.	Transfers reported prior to conducting	11	7.360	19	20.324	172,70	276,10
3.	Transfers reported within deadline of 3 days	303.352	11.341.940	362.794	11.849.141	119,60	104,50
4.	Transfers reported following deadline of 3 days	179	14.876	106	4.937	59,20	33,20

In the structure of reported transactions, there is a notable increase in the number (72,70%) and value (76,10%), 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 have gained a significant increasing trend. This evaluation, that the quality of the risk management is related to the reporting segment is supported by the trend in the number (less than 40,80%) and the value (less than 66,80%) of the transfers reported in the prescribed deadline for reporting. The number and value of transfers reported before and after the deadline prescribed indicates to an increasing preventive character of taken actions in prevention of money laundering and terrorism financing, that is a decreased need for corrective measures based on follow up of transactions and business performance of clients. The number and value of reported transfers within the deadline prescribed has the same trend as the number and value of the total reported transfers.

Suspicious transactions: In their reports, banks marked 81 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 65,30% in comparison to the previous year. The value of those transfers is 27.664 h/KM, representing 67,70% more than in comparison to prior year.

The following table presents the comparative schedule of the number and value of reported suspicious 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 value of suspicious transfers reported							
No.	Suspicious transfers	Transfers in 2010.		Transfers in 2011.		%	
		No.	Value	No.	Value	No.	Value
1	2	3	4	5	6	7 (5/3)	8(6/4)
1.	Total reported transfers	49	16.494	81	27.664	165,30	167,70
2.	Transfers reported prior to conducting	9	7.144	19	20.324	211,10	284,50
3.	Transfers reported within deadline of 3 days	20	2.232	44	6.004	220,00	269,00
4.	Transfers reported following deadline of 3 days	20	7.118	18	1.336	90,00	18,80

The structure of reported suspicious transfers, as well as the structure of total reported transfers, supports above mentioned conclusions. Namely, significant increase of the number (111,10%) and value (184,50%) of suspicious transactions reported prior to conducting was noted. This, in the analyses of the suspicious transactions also, further indicates that the banks improved significantly their preventive actions in regard to prevention of money laundering and terrorism financing. The decrease of the number (10,00%), in comparison to prior year, and value (81,20%) of transfers reported following the deadline for reporting also indicates that banks practiced more preventive follow up of the transactions and clients, and less corrective measures. The increase in the number (110,00%) and value (169,00%) of the transfers reported within three days, further improves the risk management quality, since the follow up monitoring time has decreased, and more performed within three days, and less performed in the longer period of time since the moment the transaction was performed.

III BUSINESS PERFORMANCE OF BANKS IN THE FEDERATION OF BIH

1. STRUCTURE OF THE BANKING SECTOR

1.1. Status, number and business network

In 2011, there were 19 banks with the banking license issued in the Federation of BiH. Number of banks is the same as of 31.12.2010. There is a special law regulating establishment and work of the Development Bank of the Federation of BiH, Sarajevo which is a legal successor of the Investment Bank of the Federation of BiH d.d., Sarajevo, as of 01.07.2008.

As of 30.12.2011., there were two banks under provisional administration (Hercegovačka banka d.d. Mostar and Postanska banka BH d.d. Sarajevo).

In 2011, there was no significant expanding of the network of organizational units. A 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 organizational units, and all with an aim to rationalize the performance and decrease the performance expenses. There were 35 such changes (34 by banks in the Federation of BiH and by one bank in Republic Srpska).

In the Federation of BiH terminated were 10 organizational units from the Federation and one bank in Republic Srpska. Simultaneously, the banks in the Federation of BiH established 11 new organizational parts on the territory of the Federation, and banks from Republic Srpska established two new organizational parts in the Federation of BiH.

As of 31.12.2010., with the noted changes, all the banks had the a total of 612 organizational units which is an increase of 0,2% in comparison to the previous year.

Number of organizational units of banks from Republic Srpska in the Federation of BiH increased from 21 to 22, or by 4,8%.

As of 31. 12. 2011, only 7 banks from the Federation of BiH had 56 organizational parts in Republic Srpska, and nine banks had 12 organizational units in Brcko District. Six banks from Republic Srpska had 22 organizational parts in the Federation. Changed was only the number of the organizational parts of banks from the Republic Srpska on the territory of the Federation of BiH.

As of 31.12.2011, 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 31.12.2011., ownership structure in banks³ based on the available information and on-site visits to banks⁴ is the following:

- Private and majority private ownership 18 banks (94,7%)
- State and majority state ownership⁵ 1 banks (5,3%)

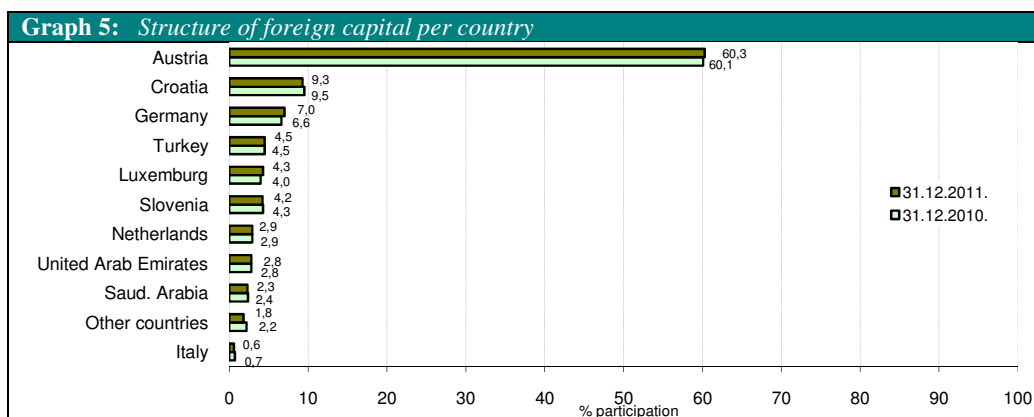
Seven banks, of 18 banks with majority private ownership, are majority owned by domestic legal entities and individuals (residents), while 11 banks have majority foreign ownership.

If only foreign capital is analyzed based on the criteria of the shareholders' home country, as of 31.12.2011., the condition is almost the same as at the end of 2010: shareholders from Austria owned 60,3% of foreign capital, the shareholders from Croatia owned 9,3% of foreign capital, while other countries participated less than 7%.

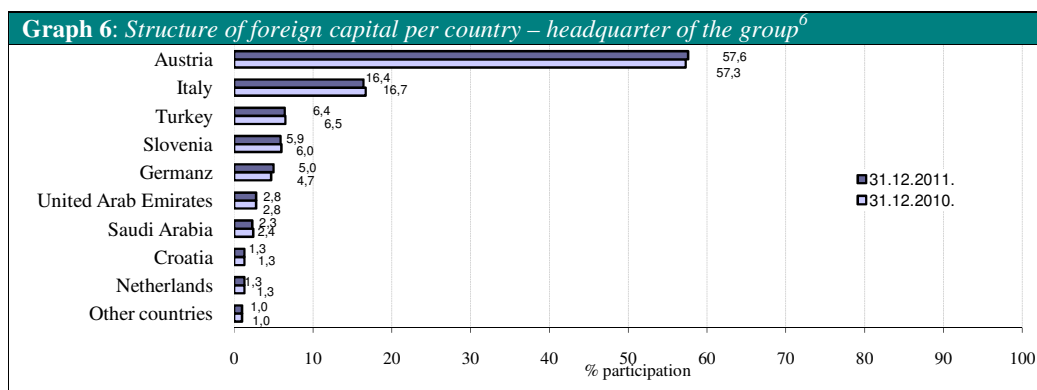
³ Bank classification criteria is ownership over banks' share capital.

⁴ The ownership structure of banks in the FBiH as of 31.12.2009., resulted from received documentation and registrations at authorized courts (changes in capital and shareholders structure).

⁵ State ownership refers to domestic state capital of BiH.



However, if capital correlations are taken into account the structure for foreign capital could be viewed according to the criteria of the parent-bank or the group's headquarter that has majority ownership (directly or indirectly over the group members) of the bank in the Federation of BiH. According to these criteria, situation had not changed insignificantly in relation to the end of 2010.: banking groups and banks from Austria with participation of 57,6%, banks from Italy with participation of 16,4%, while other countries participate below 6,5%.



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 4: Ownership structure by total capital

BANKS	31.12.2010.		31.12.2011.		RATIO			
	1	2	New method	Old method	3	4	5 (3/2)	6 (4/2)
State banks	46.586	3%	50.499	2%	47.388	3%	108	102
Private banks	1.650.039	97%	2.032.521	98%	1.782.270	97%	123	108
TOTAL	1.696.625	100%	2.083.020	100%	1.829.658	100%	123	108

⁶ Apart from the country of the headquarters of the parent-group whose members are the banks from the F BiH, the countries of all other shareholders of the banks from the F BiH are also included.

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

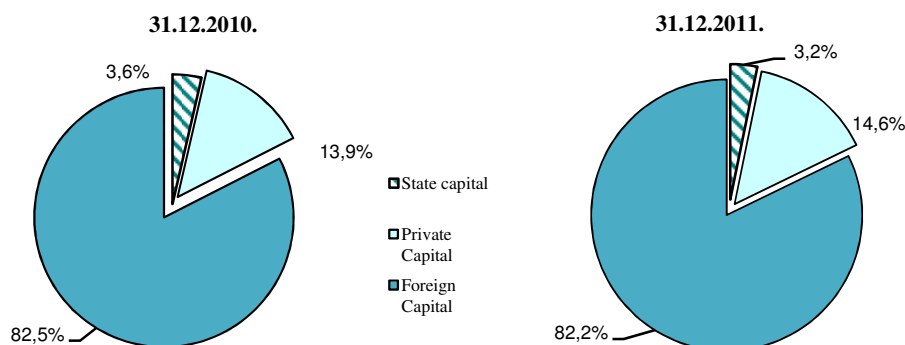
Although the total capital increased by a significant 23% or 386 million KM, mostly due to the changes in the regulations and consequently the methodology, the change to recording and measuring the financial property in compliance with the IAS 39, the ownership structure remained almost unchanged.

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 5: Ownership structure by participation of state private and foreign capital								
SHAREHOLDERS CAPITAL	31.12.2009.		31.12.2010.		31.12.2011.		RATIO	
	Amount	Participation %	Amount	Participation %	Amount	Participation %	5/3	7/5
1	2	3	4	5	6	7	8	9
State capital	41.860	3,6	41.860	3,6	38.072	3,2	100	91
Private capital (residents)	153.365	13,1	163.074	13,9	174.088	14,6	106	107
Foreign capital (nonresident)	975.943	83,3	968.363	82,5	981.412	82,2	99	101
TOTAL	1.171.168	100,0	1.173.297	100,0	1.193.572	100,0	100	102

Graph 7: Ownership structure (share capital)



The share capital of banks in the Federation of BiH, in 2011, increased by 20,3 million KM or 1,7% in relation to 31/12/2010. The structure of the shareholder's capital slightly changed: state capital decreased by 3,8 million KM, private capital (resident) increased by 11 million KM, and private (nonresident) capital increased by 13,1 million KM.

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 31.12.2011., was 3,2%, and it decreased by 0,4 per cent in comparison to 31.12.2010.

Participation of private capital (residents) in total share capital of 14,6% represents a 0,7 per cent increase in comparison to the end of 2010. Nominal increase of 11 million KM was based on the increase based on the turnover with the state capital in banks, and slightly based on the turnover with the non-residents, total in seven banks in the net amount of 6,1 million KM while from the internal capitalization (from reserves) the shareholder capital in one bank increased by 2,3 million KM, and through the emission of common shares at other banks the capital of

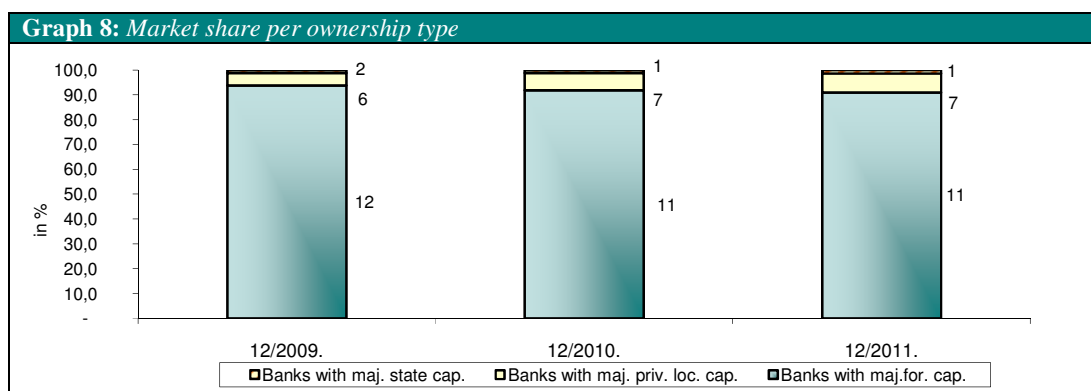
residents increased by 2,6 million KM.

Participation of foreign capital (nonresidents) in total share capital increased by 13,1 million KM, while the participation in the total shareholder capital decreased by 0,3 per cent in comparison to 31.12.2009. This increase was due to the new shares in three banks, and slightly from the turnover with residents in nine banks. As of 31.12.2011., the market share of banks with majority foreign ownership was a high 91,0%, of banks with majority domestic private capital was 7,7%, and the share of banks with majority state capital was 1,3%.

- in %-

Table 6: Market share of banks per ownership type (majority owned capital)

BANKS	31.12.2009.			31.12.2010.			31.12.2011.		
	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	2	2,5	1,1	1	2,7	1,1	1	2,4	1,3
Banks with majority private domestic capital	6	10,7	5,0	7	12,2	7,0	7	10,3	7,7
Banks with majority foreign capital	12	86,8	93,9	11	85,1	91,9	11	87,3	91,0
TOTAL	20	100,0	100,0	19	100,0	100,0	19	100,0	100,0



1.3. Employees

As of 31.12.2011., there was a total of 7.369 employees in the banks of the Federation of BiH, of that number 2% is in the banks with a majority state capital and 98% in private banks.

Table 7: Bank employees in the FBiH

BANKS	NUMBER OF EMPLOYEES					RATIO		
	31.12.2009.		31.12.2010.		31.12.2011.		3/2	4/3
1	2	3	4	5	6	7	8	
State banks	231	3%	180	2%	177	2%	78	98
Private banks	7.425	97%	7.208	98%	7.192	98%	97	100
TOTAL	7.656	100%	7.388	100%	7.369	100%	97	100
Number of banks	20		19		19		95	100

In 2011, the trend of decreasing of the number of employees as one of the negative effects of the economic crises on the banking sector was stopped, the number of employees is just slightly lower (by 19).

Table 8: Qualification structure of employees								
EDUCATION	NUMBER OF EMPLOYEES						RATIO	
	31.12.2009.	31.12.2010.	31.12.2011.	4/2	6/4	8	9	
1	2	3	4	5	6	7	8	9
University qualifications	3.104	40,5%	3.234	43,8%	3.401	46,1%	104	105
Two-year post secondary school qualifications	774	10,1%	696	9,4%	706	9,6%	90	101
Secondary school qualifications	3.719	48,6%	3.406	46,1%	3.218	43,7%	92	94
Other	59	0,8%	52	0,7%	44	0,6%	88	85
TOTAL	7.656	100,0%	7.388	100,0%	7.369	100,0%	97	100

The trend of the increase of the employees' qualification structure through an increase of the number of employees with university qualifications continued in 2011, on one hand as a result of the increase of this category by 5% or 167 employees, and on the other due to the decrease of the number of employees with the high school diploma by 6% or 188 employees.

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

Table 9: Assets per employee									
BANKS	31.12.2009.			31.12.2010.			31.12.2011.		
	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	231	161.619	700	180	167.263	929	177	191.881	1.084
Private	7.425	15.074.741	2.030	7.208	14.908.434	2.068	7.192	14.998.845	2.085
TOTAL	7.656	15.236.360	1.990	7.388	15.075.697	2.041	7.369	15.190.726	2.061

At the end of the observed period there was a two million KM assets per employee on the level of the banking system. The slight increase of the indicators for both sectors is a consequence of the increase of assets in 2011.

Table 10: Assets per employee by groups						
Assets (000 KM)	31.12.2009.		31.12.2010.		31.12.2011.	
	Number of banks		Number of banks		Number of banks	
Up to 500	1		0		0	
500 to 1.000	8		7		4	
1.000 to 2.000	5		6		9	
2.000 to 3.000	5		5		5	
Over 3.000	1		1		1	
TOTAL	20		19		19	

Analytical indicators of respective banks range from 580 thousand KM to 3,8 million KM of assets per an employee. Six banks have a better indicator than the one for the whole banking sector, and three largest banks in the system have one that exceeds 2,2 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 capital⁸.

2.1. Balance sheet

The performance of the banking sector of the Federation of BiH in 2011., as in the previous two years, was under the impact of the global economic crisis and recession, and positive changes in the first half of year slowed down due to the events in the euro zone, the escalation of the debt crises, which also had an effect on the slowing down of the economic growth and the deterioration in the macroeconomic conditions in BiH. Although, the growth and the development of the banking sector is stagnating, and foreign financing sources have a decreasing trend, it is estimated that the stability, security and the liquidity of the entire system are satisfactory, and in 2011 recorded are some positive changes, of which the most important are: reviving of the credit activities and a slight increase of loans, continuous increase of citizens saving deposits, improvement of profitability in the majority of banks and consequently the strengthening of capital base, and slowing down of the negative trends in the asset quality segment.

In the analyses of the movements and changes in the most important balance sheet categories: balance sheet, loans, deposits and capital, there are two key events that need to be noted which had the largest impact on the indicators of the entire system performance:

- Change of the FBA's regulations, in regard to the coming into effect of the Law on accounting and audit in the F BiH and implementation of the IAS 39 in recording and measuring the financial assets and liabilities in the banks starting as of 31.12.2011 (new methodology) and
- Implementation of a restructuring project in one large bank, through the transfer of a significant amount of non-performing assets to another legal entity.

Aggregate balance sheet of the banking sector, as of 31.12.2011., amounted to 15,2 billion KM, 1% or 115 million KM higher than at the end of 2010. In order to evaluate the impact of the noted events, it should be noted that the effect of the transfer to the new methodology (in further

⁸ 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.

reading: IAS) as of 31.12.2011, was the increase increase of the aggregate balance sheet amount by 221 million KM⁹. If analyzed is the change in the balance sheet according to the previous methodology, in comparison to 2010, there was a decline of 0,7% or 106 million KM. The largest negative impact on the aggregate balance sheet amount of the entire system had the change at the mentioned bank, which assets in 2011 declined by around 380 million KM (according to the previous methodology 451 million KM), which in the most part refers to the implementation of the loan portfolio restructuring project in the mentioned bank.

- 000 KM-

DESCRIPTION	31.12.2010.		31.12.2011.				RATIO	
	AMOUNT	Partic. %	AMOUNT	Partic. %	AMOUNT	Partic. %	8 (4/2)	9 (6/2)
	1	2	3	4	5	6		
ASSETS:								
Cash funds	4.443.614	29,5	4.378.076	28,8	4.378.076	29,1	99	99
Securities ¹⁰	375.252	2,4	458.465	3,0	458.465	3,1	122	122
Placements to other banks	145.007	1,0	79.940	0,5	79.940	0,7	55	55
Loans	9.981.911	66,2	10.413.416	68,6	9.799.029	65,4	104	98
Loan loss provisions (LLP)	635.792	4,2	929.579	6,1	522.319	3,5	146	82
Loans – net value (loans minus LLP)	9.346.119	62,0	9.483.837	62,5	9.276.710	61,9	101	99
Business premises and other fixed assets	552.764	3,7	540.749	3,6	540.749	3,6	98	98
Other assets	212.941	1,4	249.659	1,6	235.710	1,6	117	111
TOTAL ASSETS	15.075.697	100,0	15.190.726	100,0	14.969.650	100,0	101	99
LIABILITIES:								
LIABILITIES								
Deposits	11.232.830	74,5	11.050.514	72,8	11.050.514	73,8	98	98
Borrowings from other banks	7.000	0,0	2.000	0,0	2.000	0,0	29	29
Loan Commitments	1.403.451	9,3	1.319.299	8,7	1.319.299	8,8	94	94
Other liabilities	735.791	4,9	735.893	4,8	768.179	5,2	100	104
CAPITAL								
Capital	1.696.625	11,3	2.083.020	13,7	1.829.658	12,2	123	108
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	15.075.697	100,0	15.190.726	100,0	14.969.650	100,0	101	99

BANKS	31.12.2010.			31.12.2011.			RATIO	
	No. banks	Assets (000 KM)	No. banks	Assets (000 KM) New method	Assets (000 KM) Old method	7 (5/3)	8(6/3)	
	1	2	3	4	5			6
State	1	167.263	1%	1	191.881	1%	115	113
Private	18	14.908.434	99%	18	14.998.845	99%	101	99
TOTAL	19	15.075.697	100%	19	15.190.726	100%	101	99

The assets of majority of banks (14) were higher than at the end of 2009, ranging from 1% to 35%. The remaining five banks recorded the aggregate balance sheet decline from 0,4% to 17%. Of the three largest banks in the system two recorded the decline of 17,1% and 11,2%, while the third listed bank recorded a growth of 4,3% or 150 million KM.

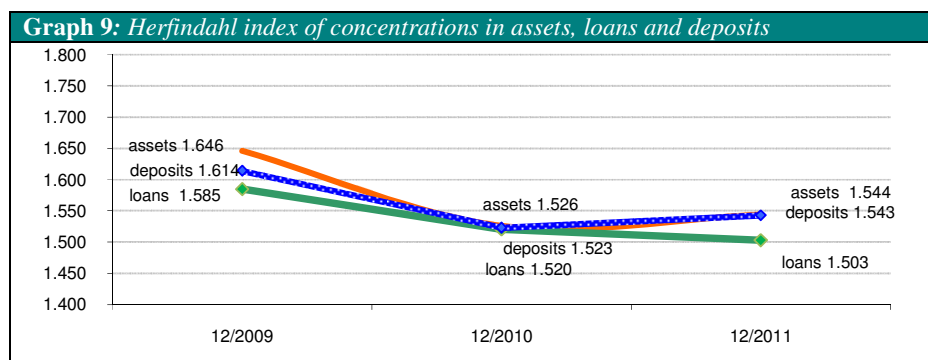
The analytical data in reference to the changes in the banks' assets indicate that at 13 banks realized was an increase of a total of 596 million KM, while in the other six banks (including the two banks under the provisional administration) the level of assets declined by 480 million KM

⁹ The amount refers to the difference between the value adjustment for the balance sheet items and the loan loss reserves according to the regulatory request (value adjustment is lower, which resulted with a higher amount of net assets).

¹⁰ Trading securities and securities held to maturity.

(of which 379 million KM refer to only one bank), and the rate of the decline was within the range of 0,5% to 8%, with a note that in one bank the assets declined for a high 20%.

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



At the end of 2011, the Herfindahl index in all three relevant categories (loans, deposits and assets) recorded almost the same value: assets 1.544 units, loans 1.543 deposits 1.503, indicating a moderate concentration¹². In comparison to the end of 2010, the asset and deposit indicators increased (by 18 and 20), and for loans decreased by 17 units.

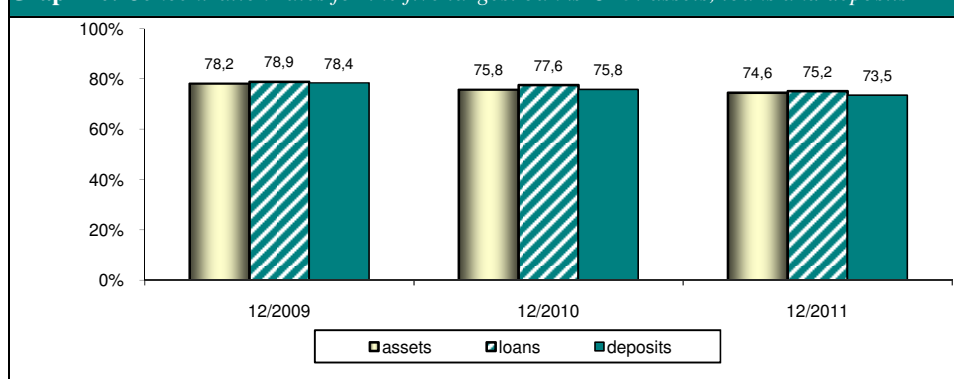
Another indicator of concentration in the banking system is the ratio of market concentration, that is the concentration rate¹³ (hereinafter: CR), which indicates the total market participation of the largest institutions in the system per relevant chosen categories: assets, loans and deposits. The CR5 decreased for all three categories: market participation from 75,8% to 74,6%, loans from 77,6% to 75,2% and deposits from 75,8% to 73,5%. 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

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 maximum at 10000.

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.

Graph 10: Concentration rates for the five largest banks-CR5: assets, loans and deposits

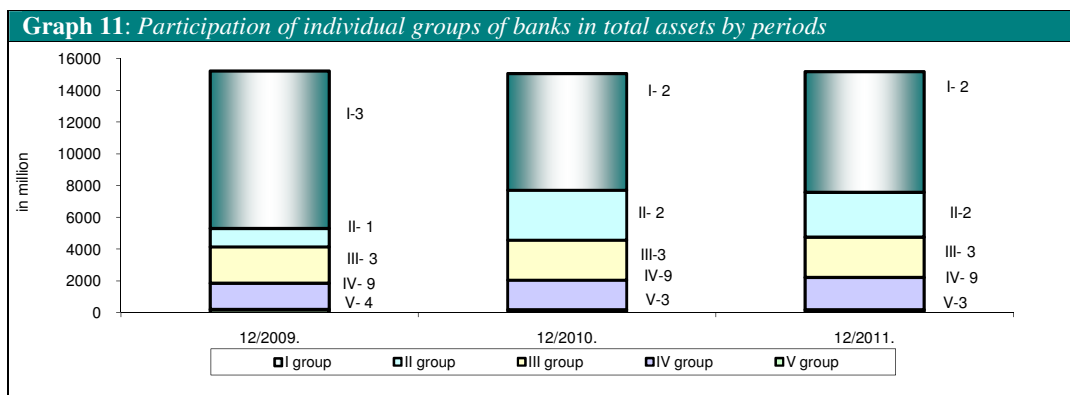
The banking sector could be analyzed from the aspect of several groups established according to the asset size¹⁴. The minor changes in relation to the end of 2010 refer to the participation of two groups of targets banks in the system, which is a result of the decrease of assets in one of the banks from the II group.

The participation of the two largest banks in the system (Group I, both banks with assets higher than three billion KM), at the end of 2011, was 50% , while the participation of the Group II (two banks with assets between one and two billion KM) decreased from 20,9% to 18,6%. The remaining 15 banks 'hold' around 30% of the market, of which three banks from the Group II (assets between 500 million KM and one billion KM) have a participation of 16,8%, and Group IV of nine banks (with assets between 100 and 500 million KM) also recorded an increase in participaiton from 12,3% to 13,3%. The last Group V (three banks which have assets smaller than 100 million KM) still have an insignificant participation of 1,3%.

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

Table 13: Participation of individual groups of banks in total assets through periods									
ASSETS	31.12.2009.			31.12.2010.			31.12.2011.		
	Amount	Partic. %	No. of banks	Amount	Partic. %	No. of banks	Amount	Partic. %	No. of banks
I- Over 2.000	9.912	65,1	3	7.348	48,8	2	7.597	50,0	2
II- 1000 to 2000	1.165	7,6	1	3.146	20,9	2	2.821	18,6	2
III- 500 to 1000	2.293	15,1	3	2.521	16,7	3	2.545	16,8	3
IV- 100 to 500	1.648	10,8	9	1.862	12,3	9	2.030	13,3	9
V- Bellow 100	218	1,4	4	199	1,3	3	198	1,3	3
TOTAL	15.236	100,0	20	15.076	100,0	19	15.191	100,0	19

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



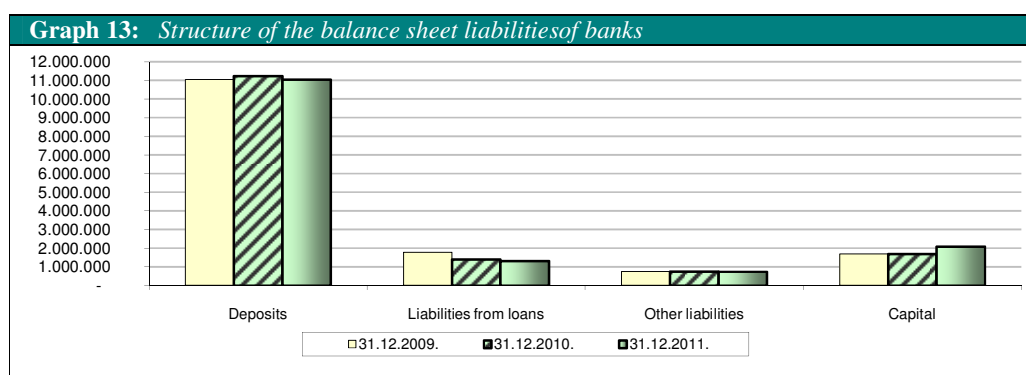
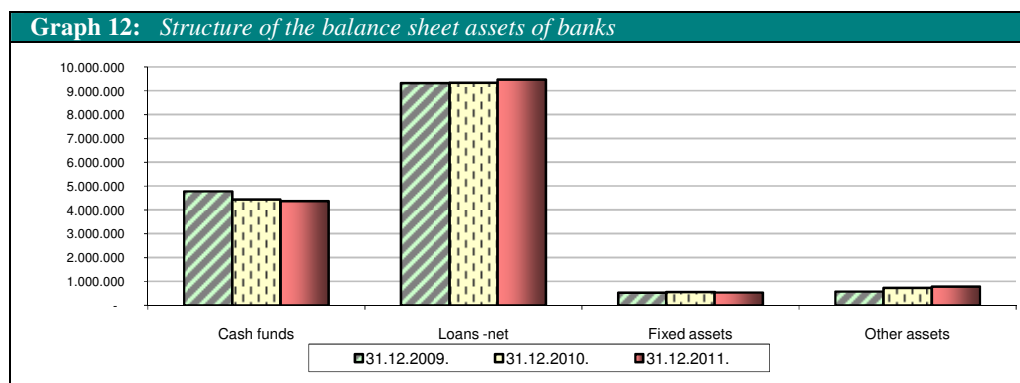
In 2011, the aggregate balance sheet realized an increase of 1% or 115 million KM (according to the old methodology realized was a decline of 0,7% or 106 million KM). The most important passive items are: deposits and credit liabilities declined in 2011, deposits declined by 1,6% or 182 million KM, and loan liabilities by 6% or 84 million KM. On the other hand, and the total capital realized a significant growth of 23% or 386 million KM. There are two main reasons for this high growth of the total capital: including in the items of capital the amount of 292 million KM which refers to reserves for loan losses established from profit¹⁵ and realized profit on the level of the system in the amount of 84 million KM.

In the assets the cash funds in the amount of 4,38 billion KM are lower by 1,5% or 65 million KM in reference to the end of 2010. The securities portfolio (in the most part debt) after the growth of 22% or 83 million KM, at the end of 2011 was 458 million KM. Namely, the banks purchased the largest treasury bond issued by the Government of F BiH (two emissions: in September and November of 2011), that is of the total issued treasury bonds in nominal value of 90 million KM, the banks purchased 80,3 million KM based on the nominal value, while the sale price was 79,5 million KM. The most part the banks classified in the portfolio available for sale (51,3 million KM), and the rest in portfolio held to maturity.

The slight credit growth from the last three quarters of 2010 continued in 2011, which is encouraging and is an indicator of the intensifying of the credit activities of banks. After the growth of 4% or 432 million KM, as of 31. 12. 2011 the loans reached the amount of 10,4 billion KM. However, the impact of the implementation of the new methodology would be taken into account, which is why the loans are higher by 614 million KM, and that is the amount of the written off loans from the off-balance sheet-E category rebooked into the balance sheet as of 31. 12. 2011. The growth structure of 432 million KM is the following: in 15 banks the loans increased by 1.068 million KM, and in four banks decreased by 636 million KM (622 million KM refer to one bank). In accordance with the previous methodology the loans had a decline of 2% or 183 million KM and are 9,8 billion KM. The decline of 183 million KM is a result of loan growth of 532 million KM in 13 banks and a decrease of 715 million in six banks (668 million KM refer to one bank). Therefore, if we would exclude the influence of one bank, it can be concluded that the remaining 18 banks realized a credit growth of 12,7% or 1,1 billion KM, that is in accordance with the previous methodology (excluded is the impact of the E category) the growth was 5,8% or 485 million KM.

¹⁵ The banks were obliged to, after the first evaluation and determination of the value of the financial assets in accordance with the IAS 39, transfer the difference, between the amount of to that date established reserves in accordance with the regulatory request and the value adjustment and according to IAS, to the accounts of capital as reserves for loan losses established from profit.

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



In the structure of banks' balance sheet liabilities from the aspect of the most significant balance sheet categories, deposits in the amount of 11,05 billion KM and participation of 72,8% are still the dominant source of financing for banks in the Federation of BiH. After the decline of 6%, the credit liabilities in the amount of 1,31 billion KM decreased its participation from 9,3% to 8,7%, while the participation of capital, which as of 31.12.2011 was 2,08 billion KM increased from 11,3% to 13,7%.

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 66,2% to 68,6% and a decrease of cash funds from 29,5% to 28,8%

- in 000 KM-

Table 14: Bank's cash funds

CASH FUNDS	31.12.2009.		31.12.2010.		31.12.2011.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	355.419	7,4	370.414	8,3	371.309	8,5	104	100
Reserve accounts with CBBiH	2.455.505	51,4	2.592.920	58,4	2.341.604	53,5	106	90
Accounts with deposit institutions in BiH	441	0,0	670	0,0	30.825	0,7	152	4601
Accounts with deposit institutions abroad	1.970.473	41,2	1.479.322	33,3	1.633.479	37,3	75	110
Cash funds in collection process	463	0,0	288	0,0	859	0,0	62	298
TOTAL	4.782.301	100,0	4.443.614	100,0	4.378.076	100,0	93	99

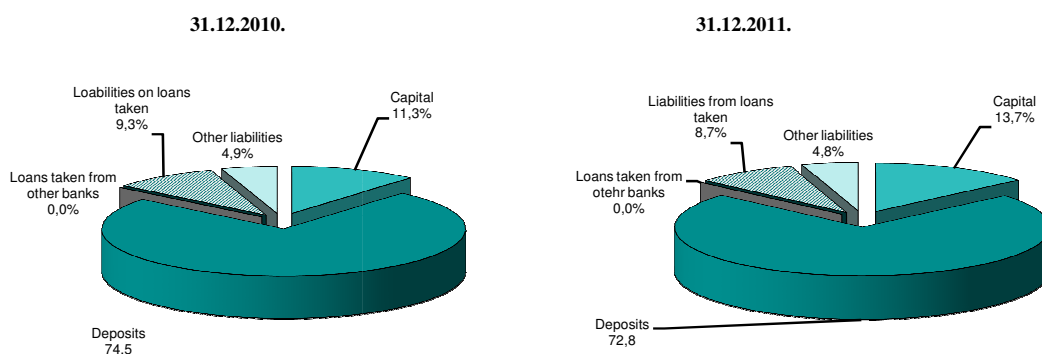
Cash funds of the banks on the reserve accounts of CBBiH, in 2011, decreased by 10% or 251 million KM, amounting to 2,34 billion KM or 53,5% of total cash funds as of 31.12.2011., representing the participation decrease of 4,9 per cent in relation to the end of 2010. Banks' funds on the accounts with the depository institutions abroad have increased by 10% or 154 million KM, amounting to 1,63 billion KM or 37,3% of total cash funds (33,3% at the end of 2010). As of 31.12.2011, the banks had cash on hand and in vaults in the amount of 371 million KM, which is 8,5% 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 decreased from 63,7% to 59,3%, and the participation of funds in foreign currency has increased by the same amount of change.

2. 1. 1. Liabilities

Structure of liabilities (liabilities and capital) in the balance sheet of banks, as of 31.12.2011. is presented in the following graph:

Graph 14: Structure of bank's liabilities



In 2011, there were changes in the participation of two most significant sources of banks' financing: deposits and credit liabilities, that is the decrease of the deposit participation from 74,5% to 72,8% and participation of loan liabilities from 9,3% to 8,7%.

The main reason for the increase of deposits participation is their decline in 2011 by 1,6% or 182 million KM, and at the end of 2011 they were 11,05 billion KM, and still represent the most significant funding source of banks in the Federation of BiH. Second source, per its size in the amount of 1,32 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, in 2011 by 6% or 84 million KM. If subordinate debts of 140 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 9,6.

Capital, as of 31.12.2011, was 2,1 billion KM, which is by 23% or 386 million KM higher than at the end of 2010, and the increase was realised based on the following: the new item of capital due to the change in the methodology (reserves for loan losses established from profit) in the amount of 292 million KM, current financial result – profit of 84 million KM and performed capitalisation of three banks.

As of 31.12.2011., the highest bank commitments were towards the following creditors (seven of

total 40), representing 71% of total credit commitments: European Investment Bank (EIB), European fund for Southeast Europe (EFSE), Central Eastern European Finance Agency (CEEFA), EBRD, UniCredit Bank Austria AG, ComercBank AG Frankfurt and Council of Europe Development Bank.

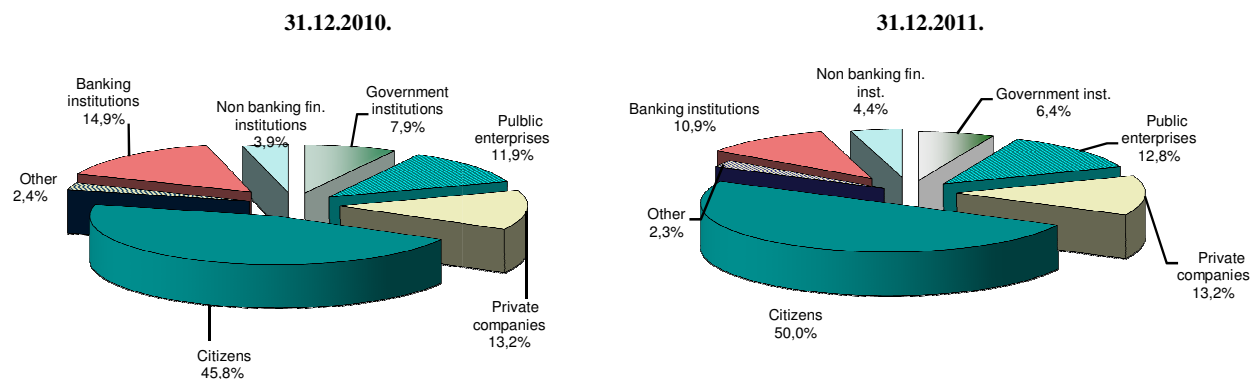
According to the data submitted by banks, out of total deposits at the end of 2011, only 6,7% were deposits collected by organizational units of banks from the Federation of BiH operating in Republic Srpska and Brcko District.

- in 000 KM-

Table 15: Deposit structure by sectors¹⁶

SECTORS	31.12.2009.		31.12.2010.		31.12.2011.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	839.926	7,6	891.638	7,9	705.805	6,4	106	79
Public enterprises	1.400.839	12,7	1.332.748	11,9	1.413.686	12,8	95	106
Private enterprises and assoc.	1.403.465	12,7	1.487.509	13,2	1.462.767	13,2	106	98
Non-profit. organizations	2.120.143	19,2	1.674.576	14,9	1.206.302	10,9	79	72
Banking institutions	509.769	4,6	432.045	3,9	483.504	4,4	85	112
Citizens	4.506.881	40,8	5.144.607	45,8	5.530.461	50,0	114	107
Other	264.845	2,4	269.707	2,4	247.989	2,3	102	92
TOTAL	11.045.868	100,0	11.232.830	100,0	11.050.514	100,0	102	98

Graph 15: Deposit structure by sectors



In 2011 there were minor changes in the deposits sector structure, which on one hand, were mostly a result of the growth of citizens and public enterprises deposits, and on the other, the decrease of funds of banking and government institutions.

The continuity in the growth of the citizens deposits was maintained in 2011, although the growth rate of 7% in comparison with the rate in 2010 was lower by 50%, and in the absolute amount realized was the growth of 386 million KM (in 2010, 638 million KM). The deposits of this sector with the amount of 5,53 billion KM reached the participation of 50% in the total deposits, so they are still the largest source of financing for banks in F BiH.

The largest change was recorded in the deposits of the banking institutions, which until the III quarter of 2011 were second highest sector source in the deposit potential of the banks. However, after the decline in the 4th quarter by 23% or 368 million KM, there was a decline in

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

the participation to 10,9%. The negative movements on the level of funds of this sector, in most part refer to the decrease of debt, that is the return of funds to the groups in which ownership are the banks in the Federation of BiH. In the last two years recorded is a declining trend, in 2010 the deposits of this sector decreased by 21% or 445 million KM, and in 2011 by 28% or 468 million KM, and around 86% of total decline for the years in question refers to one large bank. The decrease of deposits in this bank in the 4th quarter of 2011 of around 450 million KM is related to the implementation of the its entire performance restructuring.

At the end of 2011 the deposits of the banking institutions were 1,2 billion KM, which is 10,9% of total deposits. These funds decreased by 113 million KM in comparison to the credit liabilities (at the end of 2010 they were higher by 271 million KM), 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 1,13 billion KM of banking institutions' deposits refers to deposits of banks-members of groups (primarily shareholders). Financial support of the groups is present in nine banks in the Federation of BiH, with a concentration on four large banks (59%). 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 1,71 billion KM or 11,2% of total liabilities of the banking sector as of 31.12.2011. In comparison to the end of 2010, these funds were reduced by 572 million KM or 25,1% (deposits decreased by 29,6% or 478 million KM, credit liabilities by 74 million KM or 15,2% and subordinated loans by 21 million or 11,3%).

Under the support of IMF and other financial institutions, the FBA has been involved in activities related to signing of the Memorandum of Understanding with parent-banks from the European Union countries whose daughter-banks operate in the territory of BiH, the so called "Vienna Initiative", by which the parent banks have taken the obligation to maintain the exposure in Bosnia and Herzegovina at the level from 31.12.2008., during the IMF program (2009 -2012), taken into account the availability of adequate credit possibilities in BiH within the defined good practices for managing the credit risk, capital and liquidity. 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 parent banks signed the "Vienna Initiative", in 2011 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

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.

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.

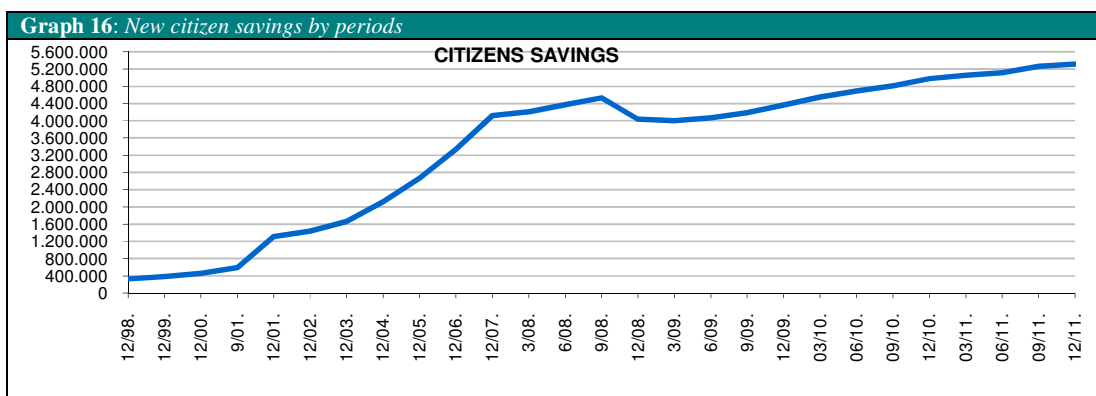
Deposits of other sectors had minor changes: growth of the private enterprises' deposits, after a decline of 21% or 186 million KM, at the end of 2011, were 706 million KM, which is 6,4% of total deposits. The public enterprises' deposits, after an increase of 6% or 81 million KM, as of 31.12.2011, amounted to 1,41 billion KM, while the participation increased from 11,9% to 12,8%. Relatively significant changes in the deposits of government institutions (decline) and public enterprises (growth) are a result of allocation and transfer of funds of around 90 million KM from the account of the Federal Ministry of finance to the account of one public enterprise.

Deposits of private enterprises, with larger oscillations during the year (significant decrease in the first two quarters of 2011 of 11% or a high 169 million KM, and in the second half of the year the growth of 11% or 144 million KM), in 2011 they decreased by 2% or 25 million KM and as of 31. 12. 2011, with the amount of 1,46 billion KM maintained the same participation of 13,2%.

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 6 billion KM decreased its participation from 58% to 55% and deposits in domestic currency in the amount of five billion KM participated with 45% .

Saving deposits, as the most significant segment of deposits and financial potential of banks, continued the positive growth trend in 2011 with a rate of 7,8% or 388 million KM and as of 31.12.2011 were 5,36 billion KM. In comparison to 2010, the growth is somewhat lower, that is the rate is lower by 6,1 percentual point, which is a nominal 224 million KM.

Table 16: New citizen savings by periods					
BANKS	AMOUNT (in 000 KM)			RATIO	
	31.12.2009.	31.12.2010.	31.12.2011.	3/2	4/3
1	2	3	4	5	6
State	35.275	47.148	50.259	134	107
Private	4.325.928	4.926.361	5.311.178	114	108
TOTAL	4.361.203	4.973.509	5.361.437	114	108



The largest three banks hold 70% of savings, while participation of seven banks has an individual participation of less than 1%, representing only 3,6% of total savings in the system.

Savings deposits in local currency represent 32% and in foreign currency 68% of total savings amount.

Table 17: : Maturity structure citizen saving deposits by periods

BANKS	AMOUNT (in 000 KM)			RATIO				
	31.12.2009.		31.12.2010.	31.12.2011.	3/2	4/3		
1	2	3	4	5	6			
Short term saving deposits	2.054.197	47,1%	2.581.767	51,9%	2.606.732	48,6%	126	101
Long term saving deposits	2.307.006	52,9%	2.391.742	48,1%	2.754.705	51,4%	104	115
TOTAL	4.361.203	100,0 %	4.973.509	100,0 %	5.361.437	100,0 %	114	108

The maturity structure of the savings deposits slightly improved. The participation of the long term deposits, after the growth of 15% or 363 million KM, increased from 48,1% to 51,4%, while the short term decreased from 51,9% to 48,6%.

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 31.12.2011., 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 97,2% of total deposits and 98,4% of total savings are in these banks.

The remaining three 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 31.12.2011., amounted to 2,1 billion KM.

-in 000 KM-

Table 18: Regulatory capital								
DESCRIPTION	31.12.2010.	31.12.2011.		RATIO				
		New method	Old method	5 (3/2)	6 (4/2)			
1	2	3	4	5 (3/2)	6 (4/2)			
1.a.Core capital before deduction	1.885.159	2.008.081	2.012.248	107	107			
1.1. Shareholders capital-common and permanent uncom.shares	1.170.468	1.190.482	1.190.482	102	102			
1.2. Amount of emissions	136.485	136.485	136.485	100	100			
1.3.Reserves and retained profit	578.206	681.114	685.281	118	119			
1.b.Deductable items	313.321	351.004	315.489	112	101			
1.1. Uncovered losses from previous years	92.058	250.611	250.611	272	272			
1.2. Loss from the current year	157.933	43.132	7.617	27	5			
1.3. treasury shares	81	81	81	100	100			
1.4.. Amount of intangible assets	63.249	57.180	57.180	90	90			
1. Core capital (1a-1b)	1.571.838	76%	1.657.077	80%	1.696.759	78%	105	108
2. Supplementary capital	489.986	24%	468.030	20%	476.315	22%	96	97
2.1.Shareholder capital- permanent priority cumul. shares	2.829	3.090	3.090	109	109			
2.2. General reserves for loan losses	209.612	211.862	220.384	101	105			
2.3. Amount of revised current profit	52.090	62.574 ¹⁹	62.337	120	120			
2.4. Amount of subordinated debt up to 50% of the amount of core capital	159.056	139.754	139.754	88	88			
2.5. Items of permanent character	66.399	50.750	50.750	76	76			
3. Capital (1 + 2)	2.061.824	100%	2.125.107	100%	2.173.074	100%	103	105
4. Items deductible from capital	15.938	37.873	18.408	238	115			
4.1. Investments of the bank in capital of other legal entities over 5% of core capital	15.938	18.408	18.408	115	115			
4.2. Amount of lacking reserves for loan losses on regulatory request	-	19.465	-	N/a	N/a			
5. Net capital (3- 4)	2.045.886	2.087.234	2.154.666	102	105			

In 2011, capital²⁰ increased by 3% or 63 million KM in comparison to 2010, while the changes in core and supplementary capital influenced the changes in the structure of regulatory capital. The core capital increased by 5% or 85 million KM, and participation from 76% to 80%, supplementary capital decreased by 4% or 22 million KM which caused the decline of the participation from 24% to 20% .

The core capital growth is a result in most part of the inclusion of the realized profit for 2010 in the amount of 49 million KM in the retained profit and reserves. After implementation of the legal procedure for adopting and implementing decisions on allocation of the revised profit by the banks' Assembly, the realized profit for 2010 in the amount of 49 million KM (14 banks) was 90% allocated into core capital (one bank directed the profit for a partial coverage of previous losses) Three banks had allocated a part of profit in the amount of 4,8 million KM into repayment of dividends, and one bank adopted a decision to pay a dividend from the retained earnings in the amount of 157,9 million KM.

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).

¹⁷ Data source is the quarterly Report on Capital Positions of Banks (Form 1-Schedule A) regulated by the Decision on Minimum Standards for Managing Capital in Banks.

¹⁹ According to the final data 8 banks included the amount of the audited profit in the supplementary, and two in core capital.

In the second and third quarter of 2011, after in the first quarter there was no additional capital from external sources, three banks had additional capital in the amount of 17,6 million KM. One bank had increased its shareholders capital by 2,6 million KM through internal additional capitalization (from reserves).

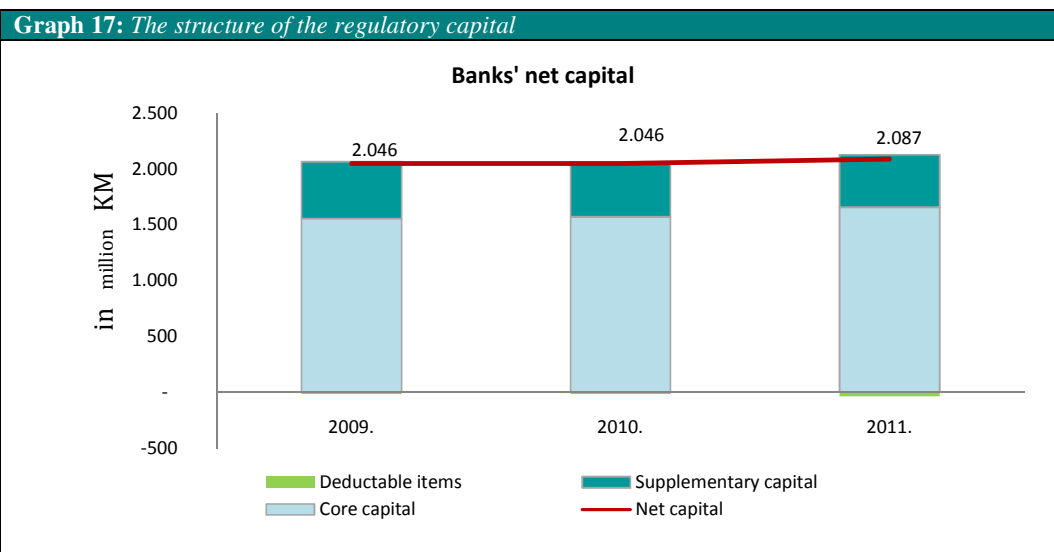
The core capital has additionally increased by 53,4 million KM, which is the amount of the revised profit in 2011 realized in two banks.

Deductible items (which decrease the core capital) increased by 37,7 million KM mostly from increase of the current loss (which is 43 million KM), with a simultaneous decrease of intangible property by six million KM. According to the previous methodology the deductible items increased by 2,2 million KM, which in total refers to the item "current year loss".

Supplementary capital decreased by 22 million KM, with major changes in the structure: the 2010 profit of 52 million KM that was included in the additional capital at the end of 2010, was moved to the core capital, the subordinate debt (regular payments of the past due liabilities) and items of permanent character decreased by 34,9 million KM, while items of general loan loss provisions (ORKG) increased by 2,5 million KM. During the year the current unaudited profit does not go into the accrual of capital, which also influenced the decrease of supplementary capital. However, noted should be the influence of the transfer to the new methodology, since due to the changes to the Decision on the minimum standards for managing the credit risk and asset classification and decreased base for ORKG accrual for assets classified in the category A, good assets, based on the new methodology the ORKG decreased by 8,5 million KM. As of 31.12.2011 eight banks included current revised profit in the accrual of supplementary capital in the amount of 62,6 million KM, while in six banks, which realized a profit in a total amount of 10,8 million KM, the capital is not included.

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. 2011 was 19,4 million KM, which is a difference between the total accrued reserves based on the regulatory request and a total of the amounts of the value adjustment of the balance sheet assets and provisioning for losses for off balance sheet items, and reserves for loan losses established from profit. At the end of the business year, the bodies of the bank have an obligation to, when making a decision about the allocation of the profit, secure the funds for the lacking RKG according to the regulatory request before paying out the dividends (except for the priority shares) or any other payment from profit, or from the available capital reserves which can be used for such purpose.

The following graph presents the structure of the regulatory capital



Net capital, as the regulatory, due to the influence of the noted changes in regulations and implementation of the IAS and inclusion of the audited profit for 2011, increased by 2% or 41 million KM and as of 31. 12. 2011 was 2,1 billion KM.

The banks' capital level rate is expressed as a ratio of capital and assets and as of 31.12. 2011., it was 13,1%, at the same level as at the end of 2010.

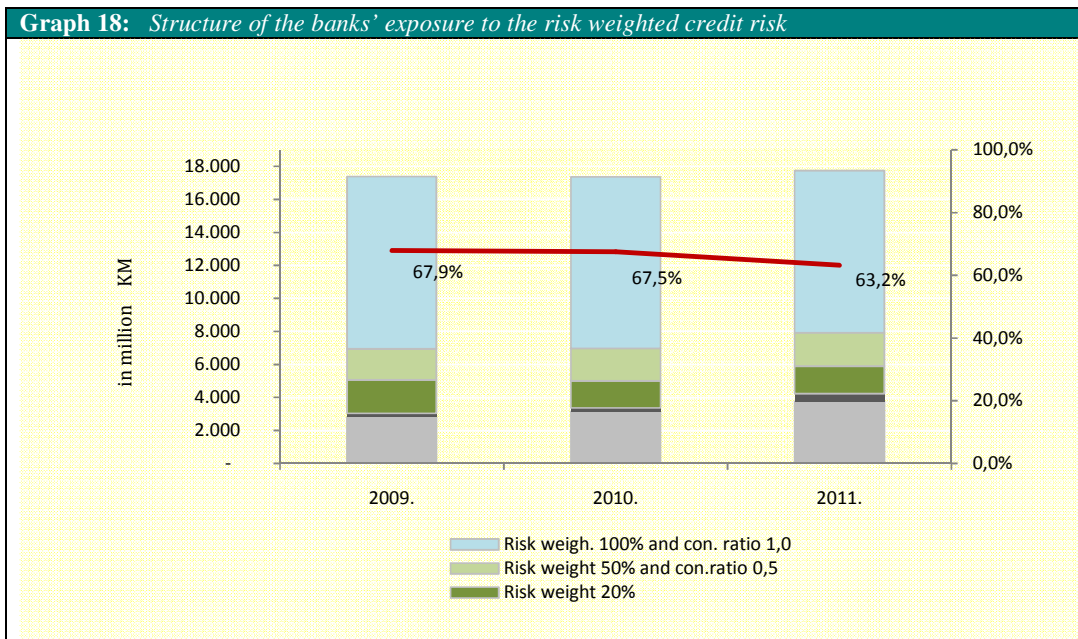
One of the most significant indicators of capital strength and adequacy²¹ of banks is capital adequacy ratio calculated as a ratio of net capital and risk weighted assets. As of 31.12.2011., this ratio at the banking system level was 17,1% which is lower by 0,9% than at the end of 2010., due to the decrease of the total risk weighted risks by 4% or 473 million KM and increase of capital by 2% or 41 million KM.

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-

DESCRIPTION	31.12.2009.	31.12.2010.	31.12.2011.	RATIO		
	1	2	3	4	5 (3/2)	6 (4/3)
TOTAL EXPOSURE (1+2):	17.365.860	17.354.697	17.743.664	100	102	
1 Balance sheet assets	14.996.473	14.887.124	14.917.399	99	100	
2. Off-balance sheet positions	2.369.387	2.467.573	2.826.265	104	115	
DISTRIBUTION THROUGH RISK WEIGHTED RISKS AND CONVERSION RATIO						
Risk weight 0%	2.818.501	3.147.567	3.721.678	112	118	
Risk weight 20%	2.035.902	1.640.802	1.674.585	81	102	
Risk weight 50%	50.633	42.576	83.165	84	195	
Risk weight 100%	10.091.437	10.056.179	9.437.971	100	94	
Convers.ratio 0,0	0	0	54.529	N/a	N/a	
Convers.ratio 0,1	218.339	220.264	445.006	101	202	
Convers.ratio 0,5	1.813.163	1.923.685	1.938.449	106	101	
Convers.ratio 1,0	337.885	323.624	388.281	96	120	
RISK OF THE RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS	11.790.234	11.713.116	11.216.477	99	96	
Average risk weighted risk	67,9%	67,5%	63,2%	N/a	N/a	

²¹ The Law prescribes minimum capital adequacy rate of 12%.



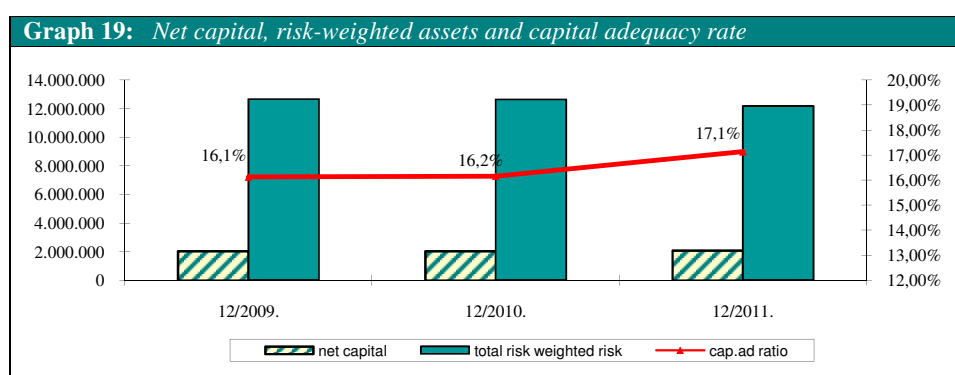
Although the total net exposure of the banks that is risk weighted in 2011 increased by 2% or 389 million KM, which was in the most part influenced by the growth of the off-balance sheet items (mostly with the conversion ratio of 0,1), the risk of the risk weighted assets and credit equivalents had an opposing direction, a decline of 496 million KM (from 11,71 billion KM to 11,22 billion KM), and there are two core reasons: due to the changes in the regulations the items which are risk weighted with zero increased, and at the same time the items which are risk weighted with the 100% risk decreased, as well as restructuring of the credit portfolio in one bank, that is the decrease of the net loans on those bases by around 360 million KM, which is neutralized with the growth of the credit portfolio in other banks. The change in the methodology exclusively reflects the risk weighted items of assets, so according to the previous methodology, as of 31.12.2011, the risk of the risk weighted assets and credit equivalents increased by 504 million KM and is 11,72 billion KM. On the other hand, risk weighted operating risk (POR) increased by 23 million KM (and is 966 million KM), which all together resulted with a decrease of the total weighted risk by 4% or 473 million KM.

At the end of 2011, the participation of the risk weighted assets exposed to the credit risk was 92%, and operating risk 8%.

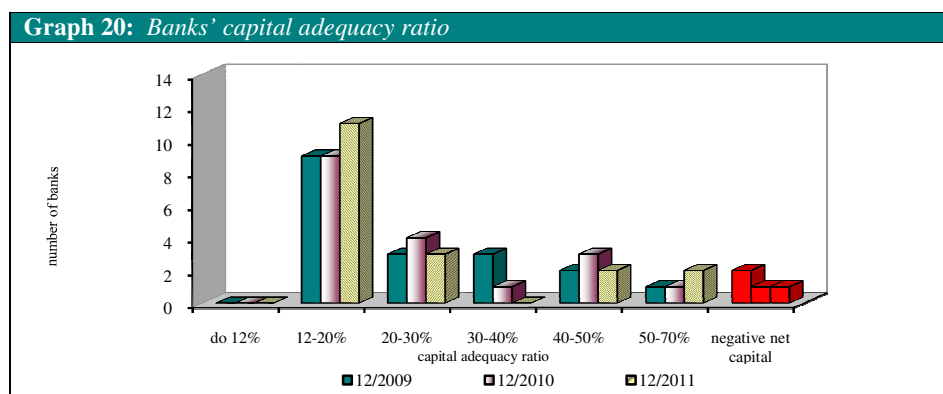
In process of conducting supervision of operations and financial positions of banks in the FBiH, as regulated by the Law, the FBA issues orders to banks to undertake actions for strengthening of capital base and provision of adequate capital in order to improve safety of both banks individually and the entire banking system, according to the level and profile of existing and potential exposure to all risks relevant to the banking operations. Under the conditions of economic crisis and the increase of the loan risk caused by the decline of the credit portfolio quality, this request has a priority and that is why the segment of capital is under a continuous enhanced supervision. One of the measures is also a recommendation to banks not to distribute the 2011 profit they generated to pay out dividends, but to rather strengthen their capital base.

- 000 KM-

DESCRIPTIONS	31.12.2009.	31.12.2010.	31.12.2011.		RATIO		
			New method	Old method	6(3/2)	7(4/3)	8(5/3)
1	2	3	4	5			
1. NET CAPITAL	2.046.414	2.045.886	2.087.234	2.154.666	100	102	105
2. RISK WEIGHTED ASSETS AND CREDIT EQUIVALENTS	11.790.234	11.713.116	11.216.477	11.720.303	99	96	100
3. POR (RISK WEIGHTED OPERATING RISK)	882.928	942.707	965.932	965.932	107	102	102
4. TOTAL RISK WEIGHTED RISKS (2+3)	12.673.162	12.655.823	12.182.409	12.686.235	100	96	100
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/4)	16,1%	16,2%	17,1%	16,9%	101	106	104



Capital adequacy rate of the banking system, as of 31.12.2011., was 17,1%, 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.



Of total 19 banks in the FBiH, as of 31.12.2011., capital adequacy rate of 18 banks was higher than minimum prescribed by the law of 12%, one bank, which is under provisional administration, has the capital adequacy rate under the minimum (10,3%), that is a negative adequacy rate. According to analytical data at the end of 2011, five banks recorded the capital adequacy rate lower than prior year, in the range from 1,9 to 7,4%, while 13 banks recorded better rate.

Review of capital adequacy rates of 18 banks in comparison to the minimum prescribed by the law of 12% is the following:

- 11 banks had the rate between 13,7% and 19,7%
- six banks had the rate between 23,2% and 53,2%,
- one bank had the rate between of 66,0%.

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. After the beginning of the crises, due to the deterioration of the loan portfolio and increase of the reserve expenses for loan losses, which had a significant impact on the downfall of the profitability of all banks in the system, the bank's capital has been under increased supervisory review, in order to avoid the endangering the banks' stability and capital base erosion to the level that would jeopardize not only the operations of the banks, but also impact the stability of the total banking system

2.1.3. Assets and asset quality

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.

The most important changes that had a significant impact on the asset quality indicators are:

- changes in reference to recording the E category: assets and suspended interest classified in the category E and recorded in the off balance sheet, is rebooked into the balance sheet and reported in the balance sheet as of 31. 12. 2011. ;
- changed manner for establishing reserves for loan losses (in further reading RKG) for risk balance sheet and off balance sheet items. According to the new methodology the banks are obliged to perform the asset value evaluation in compliance with the IAS/ISFR and impairments of value record through expenses establishing value adjustments for balance sheet items and provisioning for risk balance sheet items, while regulatory RKG are kept as accrual category;
- the change of the FBA's regulations in the part that refers to defining the items which are classified, or which are exposed to the credit risk and items that are not classified.

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, 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), which were created during the first evaluation and validation of the banks' financial items in compliance with MRS 39 and MRS 37, different from the RKG value adjustments and provisioning that were established

earlier for the off-balance sheet items.

If the amount of the accrued RKG based on the regulatory request is higher than the total amount of the value adjustments of the balance sheet assets and provisioning for losses for off-balance sheet items and already established RKG, this difference the banks are obliged to treat as lacking RKG in compliance with FBA's request. The noted amount of the lacking RKG on the regulatory request presents an item deductible from banks' capital.

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

In order to better understand the impact of the noted changes on the asset quality indicators for particular items and indicators listed will be the noted data and the data according to the old methodology.

-in 000 KM-

Table 21: Assets (balance and off-balance), RKG according to the regulator and value adjustments according to IAS	
OPIS	31.12.2011.
1. RISK ASSETS ²²	13.301.153
2. CALCULATED REGULATORY RESERVES FOR LOAN LOSSES	1.290.421
3. PROVISIONING VALUE ADJUSTMENT FOR OFF BALANCE SHEET ITEMS	1.037.061
4. NEEDED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES	253.360
5. ESTABLISHING REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES	292.214
6. LACKING AMOUNT OF REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES	19.465
7. NON-RISK ITEMS	5.787.457
8. TOTAL ASSETS (1+7)	19.088.610

The total assets with the off balance sheet items (assets)²³ of banks in F BiH as of 31. 12. 2011. were 19,1 billion KM and in relation to the end of 2010 was higher by 6% or one billion KM (according to the old methodology the total assets would be 18 billion KM, declined by 1% or 127 million KM). The risk assets are 13,3 billion KM and they increased by 2% or 247 million KM. There are two key events that influenced the risk assets, on one side the increase of 681 million KM (E category) and a decrease of 426 million KM (the effects of the changes to the regulations in defining the items which are classified). If we exclude the noted effects, the risk assets according to the previous methodology would remain at the same level. However, we should take into account the effect of restructuring the assets of one large bank in the system which transferred a significant amount of assets to another legal entity and in such manner influenced the decrease of the risk assets for four perceptual points.

Non risk items are 5,8 billion KM or 30% of total assets with off balance sheet and they increased by 15% or 752 million KM in comparison to the end of 2010, mostly due to the change in the regulations (items of assets which are not classified), which influenced the increase of the non risk items by 871 million KM (balance by 426 million KM, and off-balance by 445

²²Excluded is the amount of placements and potential liabilities of 173.301 h/KM secured by a cash deposit.

²³ 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).

million KM), as well as the decline of the items which previously were non risk items by around 119 million KM. Based on the old methodology they would have a decline of 2%.

Total accrued RKG according to the regulatory request are 1,3 billion KM, and established balance sheet assets adjustments of value and provisioning for losses on off-balance sheet items one billion KM. The difference of 253 million KM is the amount of needed regulatory reserves, which are compared with already established regulatory reserves from profit (at the level of the system 292 million KM) in each individual bank, which resulted with a lacking amount of regulatory reserves²⁴ of 19 million KM²⁵, which the banks are obliged to cover from current profit during the distribution of the profit for 2011 or from other reserves which can be used for that purpose.

Table 22: Total assets, gross balance sheet assets, risk and non risk assets

DESCRIPTION	AMOUNT(in 000 KM)						RATIO	
	31.12.2010.	Struct. %	31.12.2011.			Struct. %		
			New method	Struct. %	Old method		Struct. %	
1.	2	3	4	5	6	7	8 (4/2)	9 (6/2)
Loans	9.244.429	86,4	9.292.751	85,2	9.276.630 ²⁶	87,1	101	100
Interest	51.348	0,5	108.647	1,0	56.669	0,5	212	110
Past due receivables	566.629	5,3	935.014	8,6	401.810	3,8	165	71
Receivables from paid guarantees	553	0,0	24.808	0,2	728	0,0	4486	132
Other placements	410.797	3,8	171.052	1,6	446.167	4,2	42	109
Other assets	427.890	4,0	371.474	3,4	470.957	4,4	87	110
1.RISK BALANCE SHEET ASSETS	10.701.646	100,0	10.903.746	100,0	10.652.961	100,0	102	100
2. NON RISK BALANCE SHEET ASSETS	5.035.264		5.290.275		4.864.323		105	97
3.GROSS BALANCE SHEET ASSETS (1+2)	15.736.910		16.194.021		15.517.284		103	99
4.RISK OFF BALANCE SHEET	2.352.092		2.397.407		2.392.674		102	102
5.NON RISK OFF BALANCE SHEET	0		497.182		52.180		n/a	n/a
6.TOTAL OFF BALANCE SHEET ITEMS (4+5)	2.352.092		2.894.589		2.444.854		123	104
7.RISK ASSETS WITH OFF BALANCE SHEET (1+4)	13.053.738		13.301.153		13.045.635		102	100
8. NON RISK ITEMS (2+5)	5.035.264		5.787.457		4.916.503		115	98
9. ASSETS WITH OFF BALANCE SHEET(3+6)	18.089.002		19.088.610		17.962.138		106	99

Gross balance sheet assets²⁷ is 16,2 billion KM, and is higher by 3% or 457 million KM (according to the previous methodology would have a decline of 1%), a risk balance sheet assets which is 11billion KM which is by 67,3% gross balance sheet assets, higher by 2% than at the end of 2010. (according to the previous methodology is the same). Non risk balance sheet assets are 5,3 billion KM with a growth of 5% or 255 million KM (according to the previous methodology a decline of 3%). Off balance sheet risk items according to both the new and old methodology are 2,4 billion KM and they are higher by 2% in comparison to 2010. The non risk off balance sheet is 497 million KM (according to the previous methodology it is 52 million KM).

²⁴ Lacking amount of regulatory reserves included only the amount reported as a positive difference between the needed and established RKG.

²⁵ Deductible item in the accrual of the regulatory capital.

²⁶ Excluded amount of the loan of 119,860 thousand KM covered by a cash deposit (excluded into the non risk balance sheet assets).

²⁷ Data source: report on classification of the banks' balance sheet and off balance sheet items.

After the negative trends in 2009 and 2010 in the segment of lending as a key activity of the banks due to the impact of the global financial and economic crises in BiH and deterioration of the condition in the real sector, decrease of citizen spending, but also banks' more restrictive and prudent policy in lending, in 2011, the positive trend from the second half of 2010 continued. As of 31.12. 2011., the loans were 10,4 billion KM, with participation in the assets of 68,6%, which is 2,4 percent in relation to the end of 2010.

However, if excluded is the effect of application of the IAS 39, that is category E (written off loans) which is booked from the off balance sheet into the balance sheet, the loans record a decline of 2% or 183 million KM, with a participation in assets of 65,4%. The noted decline of loans was mostly influenced by one large bank in the system which decrease of loans had a negative effect on the growth rate of loans on the level of the system of seven percent points. If the impact of this bank is excluded, which on the other hand had a positive effect on the asset quality indicators, for the remaining banks the asset quality ratio still have a deteriorating trend through the increase of poor performing loans, but in a smaller volume than the previous year.

U 2011. placed are a total of 5,6 billion KM in new loans, which is by 13% or 665 million KM higher than in comparison to 2010. . Of the total placed loans, loans in economy are 69%, and citizens 28,6%. Maturity structure of the newly granted loans has insignificantly changed on behalf of the short term loans in comparison to the end of 2010. , the participation of the long term was 49%, and short term 51% (31.12.2010: the same participation of 50%).

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

Three largest banks in the FBiH with credit amount of 6,1 billion KM have participation of 59% 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:

- in 000 KM-

DEPARTMENTS	31.12.2010.		31.12.2011.				RATIO	
	Amount	Partic. %	New method		Old method			
			Amount	Partic. %	Amount	Partic. %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Government institutions	126.328	1,3	125.827	1,2	125.827	1,3	100	100
Public companies	238.105	2,4	257.547	2,5	257.547	2,6	108	108
Private entre. and comp.	4.815.426	48,2	4.917.787	47,2	4.561.721	46,6	102	95
Banking institutions	10.975	0,1	16.411	0,2	16.411	0,2	149	149
Non banking fin. inst.	37.235	0,4	40.978	0,4	40.978	0,4	110	110
Citizens	4.733.198	47,4	5.041.388	48,4	4.783.066	48,8	106	101
Other	20.644	0,2	13.478	0,1	13.479	0,1	65	65
TOTAL	9.981.911	100,0	10.413.416	100,0	9.799.029	100,0	104	98

From the aspect of sectors to which banks originate their loans, the movements in 2011, can be evaluated as positive due to increase of loans originated to private companies, as well as a slight increase of placements to citizens, after in 2010, and in the first quarter of 2011 they recorded a decline of 1%. In comparison to the end of 2010, the loans to private companies are higher by

2% or 102 million KM (according to the old methodology the decline is 5% or 254 million KM due to exclusion of the category E and the already mentioned effect of restructuring in one banks of 527 million KM by which amount the loans in this sector declined), and they amount to 4,9 billion KM or 47,2% of total loans (48,2% at the end of 2010). Loans to citizens increased by 6% or 308 million KM (according to the old methodology the increase is 1% or 50 million KM), and they amount to 5 billion KM, with a participation of 48,4% (47,4% at the end of 2010).

The data submitted by banks, as of 31.12.2011., in the aspect of loan structure originated to citizens (based on the purpose), record an increase of loans granted to finance consumer goods²⁸ from 72 to 73, while housing loans declined from 25% to 24, and the remaining 3% have loans for SMEs and agriculture.

Three largest banks in the system financed 61% of total loans originated to citizens, and to private companies 56% of total loans to all sectors (for citizens sector 65,4% at the end of 2010, and 59% for private companies).

Currency structure of loans: loans financed with currency clause had the highest participation of 66% or 6,9 billion KM (EUR: 6,6 billion KM or 96%, CHF: 290 million KM or 4%), loans in domestic currency of 33% or 3,4 billion KM, while loans in foreign currency had the lowest participation of only 1% or 147 million KM (EUR: 119 million KM or 81%, CHF: 15 million KM or 10%). The total amount of loans in CHF currency of 305 million KM is 3% 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 categories²⁹ and off-balance sheet items are presented in the following table:

Table 24: Classification of assets, general credit risk (OKR) and potential credit loss (PKG)												
Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in%)										RATIO	
	31.12.2010.			31.12.2011.								
				New method			Old method					
	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(8/2)	
A	10.477.329	80,3	209.555	10.593.224	79,6	211.862	11.019.176	84,5	220.384	101	105	
B	1.645.750	12,6	132.048	1.365.077	10,3	115.911	1.365.077	10,5	116.124	83	83	
C	471.505	3,6	113.962	282.081	2,1	67.798	282.081	2,1	67.798	60	60	
D	455.303	3,5	258.297	375.474	2,8	209.551	375.474	2,9	209.551	82	82	
E	3.851	0,0	3.851	685.297	5,2	685.299	3.827	0,0	3.827	n/a	99	
Risk ass. (A-E)	13.053.738	100,0	717.713	13.301.153	100,0	1.290.421	13.045.635	100,0	617.684	102	100	
Classified (B-E)	2.576.409	19,7	508.158	2.707.929	20,4	1.078.559	2.026.459	15,5	397.300	105	79	
Non-performing (C-E)	930.659	7,1	376.110	1.342.852	10,1	962.648	661.382	5,1	281.176	144	71	
Non risk ass.³⁰	5.035.264			5.787.457			4.916.503			115	98	
TOTAL (risk and non risk)	18.089.002			19.088.610			17.962.138			106	99	

²⁸ Credit card operations included.

²⁹ 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%.

³⁰ 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, Odluke o minimalnim standardima za upravljanje kreditnim rizikom i klasifikaciju aktive banaka, 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%.

If an analysis of the risk assets quality is performed, it could be concluded, that in 2011, there was a slight downfall of asset quality and the reason is exclusively the inclusion of the items classified as category E. However, if we exclude the effects of the changes to the methodology, a significant improvement of the asset quality indicators could be noted. The largest impact had one bank, which in the restructuring process transferred a significant amount of poor performing assets to another legal entity, and in such manner decreased at the system level following indicators of the participation in the risk assets: classified and poor performing assets for three percent points and PKG for 1,4 percent point. In the other banks the indicators has slight oscillations (deterioration or improvement), that is: five banks have indicators of the classified in relation to the risk assets more poor than the banking sector (without category E six banks), and six banks have participation of the poor performing assets in relation to the risk assets worse than the banking sector (without the category E three banks).

As of 31.12.2011, the classified assets were 2,7 billion KM, and non performing 1,3 billion KM (31.12.2010: 2,6 billion KM and 931 million KM) According to the previous methodology they are two billion KM, that is 661 million KM.

Classified assets (B – E) is by 5% higher than last year, the category B was decreased by 17% or 281 million KM, and nonperforming assets (C-E) increased by 44% or 412 million KM. If we exclude the effects of the application of the methodology, both classified and poor performing assets would be less by 21% and 29% respectfully, exclusively due to the noted effect of transfer of poor performing asset of one bank.

As result of the mentioned, the indicators of asset quality expressed as ratio, that is, participation of individual categories in risky assets slightly deteriorated in comparison to the end of 2010. The classified assets to risky assets ratio is 20,4%, which is by 0,7 percent points higher than at the end of 2010. If the data for 2010 are adjusted and category E included, the noted ratio would be 23,8%, so it is realistically lower, at the end of 2011, by 3,4%. The participation of the classified assets, without category E, in the risk assets at the end of 2011 is 15,5% (12/10:19,75).

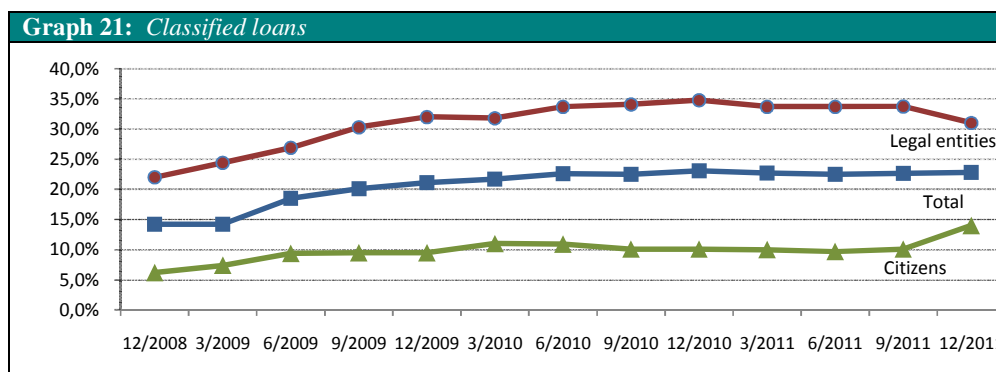
If an analysis is performed of only the ratio and trend of nonperforming assets and risk assets, as of 31.12.2010., this ratio also slightly deteriorated and was 10,1%, which is still relatively low ratio, and, if compared to the end of 2010, it is higher by 2,9 per cent. If we take into account the category E (the written off placements) the noted ratio is significantly higher and is 11,8%, so realistically, at the end of 2011, it is lower by 1,7%. If we analyze the trend of the poor performing assets without the category E, the noted ratio is better, 5,1% (12/10: 7,1%). However, it should be taken with reserve, taken that the participation of category B in the risk assets is 10,5%, and the doubt that portion of placements reported under this category deteriorated in quality and should be categorized as nonperforming assets.

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.

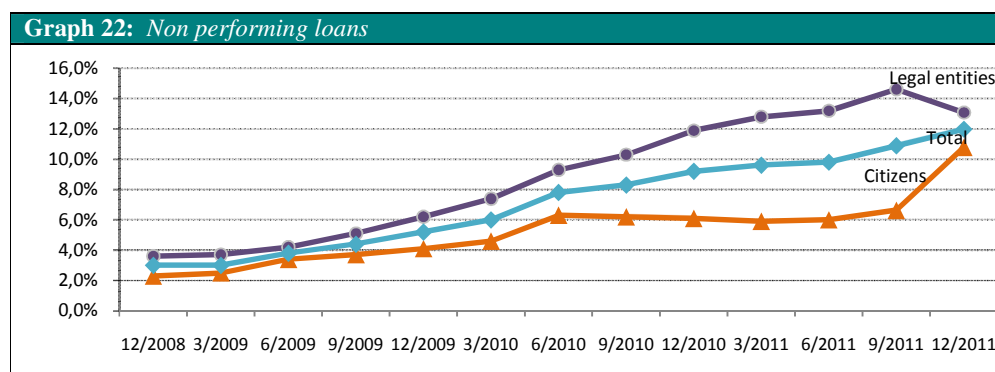
Table 25: Classification of loans originated to citizens and legal entities

Classification category	AMOUNT (in 000 KM)AND PARTICIPATION (in%)													RATIO
	31.12.2010.						31.12.2011.							
	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	TOTAL Partic.	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	TOTAL Partic.		
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14(12/6)	
A	4.257.408	89,95	3.422.650	65,21	7.680.058	76,94	4.333.709	85,97	3.704.037	68,95	8.037.747	77,19	105	
B	185.851	3,93	1.201.981	22,94	1.387.832	13,90	164.303	3,26	961.222	17,89	1.125.525	10,81	81	
C	125.114	2,65	336.038	6,36	461.152	4,62	128.579	2,55	143.050	2,66	271.628	2,61	58	
D	164.826	3,47	288.042	5,49	452.868	4,54	156.475	3,10	207.653	3,87	364.128	3,49	80	
E	1	0,00	0	0,00	1	0,00	258.322	5,12	356.066	6,63	614.388	5,90	n/a	
TOTAL	4.733.200	100,0	5.248.711	100,0	9.981.911	100,00	5.041.388	100,0	5.372.028	100,0	10.413.416	100,00	104	
Class.loans B-E	475.792	10,05	1.826.061	34,79	2.301.853	23,06	707.679	14,04	1.667.991	31,04	2.375.669	22,81	103	
TOTAL	289.941	6,13	624.080	11,89	914.021	9,16	543.376	10,78	706.769	13,16	1.250.144	12,00	137	
		47,42		52,58		100,00		48,39		51,61		100,00		
Participation by sectors in classified loans, nonperforming loans and category B														
Classification B-E		20,67		79,33		100,00		29,79		70,21		100,00		
NPL C-E		31,72		68,28		100,00		43,46		56,54		100,00		
Category B		13,39		86,61		100,00		14,60		85,40		100,00		

Due to rebooking the category E (written off loans) from the off balance sheet to balance sheet the asset quality indicators in 2011 were more poor than in comparison to the previous year, a special participation of poor performing loans, as a result of increase of total poor performing loans by 37% or 336 million KM, legal entities by 13% or 83 million KM and citizens by 87% or 253 million KM, which brought to an increase in poor performing loans from 9,16% to 12%, and had a negative impact on other indicators for these two sectors and the total credit portfolio. According to the previous methodology (without category E) the indicators are significantly better, that is the participation of the poor performing loans is 6,5% due to the decline of the poor performing loans by 278 million or 30% (mostly legal entities by 273 million KM or 44%). However, again should be noted the enormous impact of one bank on the entire banking system, that is the improvement of noted indicators (through transfer of a significant amount of poor performing loans to another legal entity), especially on the indicator of participation of the poor performing loans which improved by four percent points.



As of 31.12.2011., of total loans originated to legal entities in the amount of 5,4 billion KM, 1,7 billion KM or 31% (at the end of 2010: 34,8% and 1,8 billion KM) was classified in categories B to E (according to the previous methodology: 26,2% or 1,3 billion KM), while of total loans originated to citizens in the amount of five billion KM, the listed classification categories represent 708 million KM or 14%, and according to the previous methodology 9,4% or 449 million KM (476 million KM or 10,05% at the end of 2010).



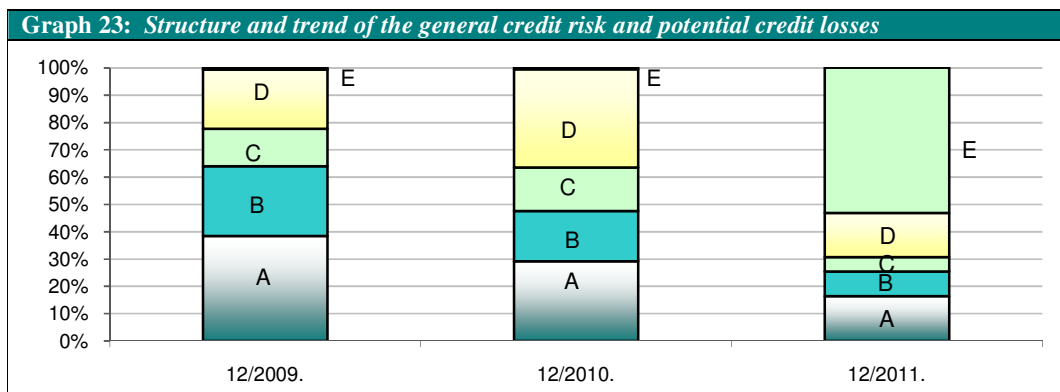
Of loans finance to legal entities, 801 million KM was classified as nonperforming loans or 14,62% of total loans originated to this sector (as of 31.12.2010., these items amounted to 624 million KM or 11,89%). Nonperforming loans, in the sector of citizens, amounted to 320 million KM or 6,63% (as of 31.12.2010., these items amounted to 290 million KM or 6,13).

Of the loans placed to legal entities as poor performing loans classified is 13,2% or 707 million KM (according to the previous methodology 7,0% or 351 million KM) of total loans granted to this sector (as of 31. 12. 2010. they were 624 million KM, which is 11,89% of total loans). For the citizen sector they are 10,8% or 543 million KM, and according to the previous methodology they are much lower (6% or 285 million KM), which is almost the same as in comparison to the previous year (31. 12. 2010: 6,13% or 290 million KM). A slight deterioration of this indicator for both sectors is a result of the implementation of the new methodology (E category), while, if the indicator calculated in the previous methodology is compared at the end of 2011, an improvement is evident, which is, as it was noted on several occasion earlier, mostly influenced by the decrease of poor performing loans in one bank

The level of the credit risk and estimated potential credit losses through classification categories, determined in compliance with the criteria and methodology prescribed in the FBA's decisions, their trend and structure on the banking sector level are given in the following table and graph:

Table 26: Structure and trend of the general credit risk and potential credit losses

Classification Category	AMOUNT (in 000 KM) STRUCTURE (in%)							RATIO	
	31.12.2010.		31.12.2011.						
	2	3	New method.		Old method		8 (4/2)	9 (6/2)	
1	2	3	4	5	6	7	8 (4/2)	9 (6/2)	
A	209.555	29,2	211.862	16,4	220.384	35,7	101	105	
B	132.048	18,4	115.911	9,0	116.124	18,8	88	88	
C	113.962	15,9	67.798	5,3	67.798	11,0	59	59	
D	258.297	36,0	209.551	16,2	209.551	33,9	81	81	
E	3.851	0,5	685.299	53,1	3.827	0,6	n/a	99	
TOTAL	717.713	100,0	1.290.421	100,0	617.684	100,0	180	86	



Analyzing the level of the calculated RKG in total and through classification categories, in comparison to the end of 2010, the reserves for loan losses (for category A) and potential credit losses are almost twice as high (80% or 573 million KM) and are 1,3 billion KM. Three key events had an effect on RKG: E category is lifted from the off-balance sheet into balance sheet, and RKG is calculated for the 100% amount and that increased the RKG by 681 million KM, next the change of the FBA regulations, that is the items of assets which are considered risky, which influenced the decrease of RKG for category A by 8,5 million KM, and finally the noted asset restructuring process in one bank which significantly impacted the decline of RKG. Taking into account the noted, RKG according to the previous methodology have a decline of 14% or 100 million KM: reserves for general credit risk (A category) are higher by 5% or 11 million KM, due to the growth of the credit portfolio of 5,8% or 485 million KM (in 18 banks). RKG for category B, due to its decrease by 278 million KM, mostly through the reclassification into more poor categories, decreased by 12% or 16 million KM. Due to the decline of the poor performing assets (C and D category) by 29% or 270 million KM (according to the previous methodology), decreased are the reserves for the poorest loans by 25% or 95 million KM, exclusively due to the transaction performed in the listed bank.

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 8,1% and is by 0,7 percent points lower than in comparison to 2010 (according to the previous methodology it is almost three times lower 3% and is by 0,9 percent points lower in comparison to the end of 2010).

As of 31. 12. 2011 in average banks had allocated reserves for category B based on the rate of 8,5%, for C category 24,0%, D category 55,8% and E 100% (at the end of 2010.: B 8%, C 24,2%, D 56,7% and E 100%).

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 27: Evaluation and validation of the risk items according to IAS 39 and IRS 37

Description	AMOUNT (in 000 KM) AND PARTIC. (in%)			
	31.12.2011.			
	Citizens	Legal entities	TOTAL	
Amount			Partic.	
1	2	3	4 (2+3)	5
1. RISK ASSETS (a+b)	n/a	n/a	13.301.153	100,0%
a) Default items	472.449	906.786	1.379.235	10,4%
a.1. balance sheet default items	468.027	880.744	1.348.771	
a.2. off balance sheet default items	4.422	26.042	30.464	
b) Performing assets	n/a	n/a	11.921.918	89,6%
1.1 TOTAL RISK ASSETS VALUE ADJUSTMENTS (a+b)	n/a	n/a	1.037.061	100,0%
a) Value adjustment for default	264.956	484.406	749.362	72,3%
a.1. Value adjustment of balance sheet default items	263.482	479.052	742.534	
a.2. Reserves for off-balance sheet in default	1.474	5.354	6.828	
b) Value adjustments for performing assets (IBNR ³¹)	n/a	n/a	287.699	27,7%
2. TOTAL LOANS (a+b)	5.041.388	5.372.028	10.413.416	100,0%
a) Non-performing loans	457.740	874.075	1.331.815	12,8%
b) Performing loans	4.583.648	4.497.953	9.081.601	87,2%
2.1. LOANS VALUE ADJUSTMENT (a+b)	n/a	n/a	929.579	100,0%
a) Default loans value adjustment	254.744	446.548	701.292	75,4%
b) Performing loans value adjustment (IBNR loans)	n/a	n/a	228.287	24,6%
Coverage of items in default	56,1%	53,4%	54,3%	
Coverage of performing assets items	-	-	2,4%	
Participation of default loans in total loans	9,1%	16,3%	12,8%	

Of total risk assets, default items are 10,4% or 1,4 billion KM (legal entities 907 million KM, and citizens 472 million KM), and items of performing assets 89,6% or 11,9 billion KM. The total value adjustments are one billion KM, of which the items in default (non performing liabilities) are 72,3% or 749 million KM, and performing assets 27,7% or 288 million KM (IBNR). The coverage with the value adjustment of items in default is 54,3%, and performing assets items 2,4%, and total value adjustments are 7,8% of the risk assets, which is less than the indicators of risk asset coverage with the accrued regulatory reserves for loan losses which is 9,7%.

Participation of default loans in the total loans is 12,8% (for legal entities 16,3%, and citizens 9,1%), and all items in default in the total risk assets 10,4% and is insignificantly higher than the participation of the poor performing assets according to the regulator (10,1%), which is a result of internal methodologies in most of the banks, which when evaluating the value adjustments of the balance sheet items and provisioning for risk items of the off-balance sheet, as a base for accrual use the receivable on client level, in spite the fact that not all receivables are fully in the status of default, but just parts of them.

³¹ IBNR (identified but not reported)-latent losses.

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 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. 2011., 3.576 guarantors in total repaid 14 million KM of the total granted amount of loans of 80 million KM (3.122 credit party), which is by 7% less in comparison to the amount of the payment by the guarantors as of 31. 12. 2010. (15 million KM paid by 3.767 guarantors, while the amount of the total loans was 101 million KM – 3.192 credit parties). The amount of the remaining debt is 47 million KM (31. 12. 2010.: 63 million KM). From the listed data it can be concluded that in 2011, the amount of loans paid by guarantors decreased, the balance of the remaining debt, as well the amount of payments on the account of guarantors, which was mostly influenced by the return of a significant amount of repayment of loans by principal debtor. 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 0,45% and 0,25%.

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 entities³².

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 2011, of a total received 466 requests for restructuring of loan liabilities approved 435 requests in a total amount of 80 million KM or 93%, which is by 37% less in comparison to 2010. Of the total amount of granted restructured liabilities 78 million KM refer to legal entities, and 2 million KM to individuals.

Net effect on the reserves for loan losses on the bases of the performed restructuring is an increase of 539 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 for 2011, in comparison to the total loans as of 31. 12. 2011 have a participation of only 0,77% (for the legal entities sector in comparison to the portfolio of the legal entities this percent is 1,45%, while for citizens it is 0,04%).

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

³² “Official Gazette F BiH”, No.2/10.

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 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. However, this is not adding to an essential resolution of the problem.

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

Transactions with related entities

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

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

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

The set of prescribed reports include data on loans originated to the following categories of related entities:

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

-000 KM-

Table 28: Transactions with related entities					
Description	ORIGINATED LOANS ³³			RATIO	
	31.12.2009.	31.12.2010.	31.12.2011.	3/2	4/3
	1	2	3	4	5
Shareholders over 5% of voting rights, subsidiaries and other related enterprises	29.191	84.600	131.962	290	156
Supervisory Board and Audit Board members	470	375	400	80	107
Bank Management	2.193	2.239	2.170	102	97
TOTAL	31.854	87.214	134.532	274	154
Potential and undertaken off-balance sheet liabilities	5.137	22.653	29.818	441	132

In the observed period, credit exposures to persons related to banks increased by 54 due to the increase of the exposure in the two large banks, and potential liabilities by 32%. Based on the presented data, we could conclude that it is a question of a small amount of loans-guarantees operations with related entities, and the level of risk is low. The FBA pays special attention (in on-site examinations) to banks' operations with related entities, especially in assessing identification system and monitoring of risk exposure to related entities operations. The FBA on-site examiners issue orders for elimination of determined weaknesses within certain deadlines and initiate violation procedures. Part of these activities is also to monitor and supervise implementation of the issued orders in the follow up procedure. This has had a positive influence on this segment of operations, since the risk management quality in this segment has improved.

2.2. Profitability

As it was previously noted, two key events had a significant impact on all the banking system performance indicators: one side, there was the change in regulations, and on the other implemented was the credit portfolio restructuring project in one large bank.

The effects of the mentioned events on the balance sheet can be viewed in the context of comparison of the new and old methodology with the data for the previous year, as well as analyses of the reality of the profitability indicators trend for 2011. More specifically, the change in the regulations brought along following changes related to profitability:

- Application of the IAS 39 and IRS 37, the value adjustment of the risk assets, provisioning for potential liabilities and other value adjustments are expenses in the income statement, while the reserves for the loan losses in compliance with the regulatory request are an accrual category, that is their establishment is not on the expenses of the income statement;
- Income profit which is calculated on non performing assets is recognized in compliance with the IAS/ISFR;
- The structural change for the collection of the E category (according to the old methodology the collection of the previously written off receivables) is not an item which is reported within other operating income, but as a decrease in reserving, which is reflected in the income statement on the position of the value adjustment expenses.
- For the nine months of 2011, according to the income statements, the banks in the Federation of BiH realized a positive financial result – profit in the amount of 41,5 million KM, while in the same period in 2010, there was loss generated on the level of the banking sector in the amount of 58,7 million KM. The biggest effect on the realization of the positive result on the level of the banking system had the significant increase of profit in

³³ Apart from loans, it includes other claims, deposited funds and the placements to shareholders (financial institutions) exceeding 5% of voting rights.

banks that had positive performance in the same period last year (for about 61 million KM), especially in two largest banks in the system which carry the profitability, as well as decrease of a high loss in one bank (by around 29 million KM) which in the same period last year was by 25 million KM higher than the loss on the level of the system, as well as decrease of losses in other banks that previously had a negative performance.

According to the data from the financial report which shows the success of the banks' performance, that is the income statement for 2011, at the level of the banking sector in the Federation of BiH realized is a positive financial result – profit in the amount of 84 million KM, while based on the audited data for 2010, a high loss was realized in the amount of 103 million KM. The largest effect on the realization of the positive financial result on the level of the banking sector is the decrease of high loss in one bank (by around 101 million KM), which in 2010 was by 36 million KM higher than the loss on the level of the system, and further a significant increase of profit in banks in the system which had positive performance last year (for 73 million KM), especially in two largest banks in the system which carry the profitability, as well as realization of profit in banks which performed negatively (effect 15 million KM). Analyzing, through quarters, during 2011 the individual banks, it can be concluded that up to the 4th quarter there were present positive movements in the sense of growth of the realized profit in most of the banks, while in the last quarter the realized profit was far less, especially in the large banks, while in one bank it significantly decreased.

If we analyze the impact of the new methodology, it should be noted that it is negative. That is, according to the old methodology at the level of the overall system the profit is 122 million KM, and the difference of 38 million KM, by which amount the profit according to the new methodology is lower, is a net result of the amount of the increase of the profit in the mentioned bank of 53 million KM (according to the old methodology the reserves for loan losses for the loan portfolio, which is transferred to another legal subject, would be an income in the income statement) and the amount of 15 million KM which is the difference in the financial result of the banks according to the old methodology. Therefore, it can be concluded that the change in the regulation has a significant impact on the financial result of most of the banks, and the effects are significant only in one bank.

While the interest income recorded a modest growth, interest expenses recorded a significant decline which resulted in increase of the net interest income resulting in the growth of total income, and further influencing the improvement of profitability, while on the other hand, a decline of value adjustment expenses was recorded in comparison to the expense of reserves for loan losses at the end of 2010.

Positive financial result of 127 million KM was generated by 15 banks, which is higher by 131% or 72 million KM than in 2010. According to the old methodology, 15 banks have a positive financial result of 130 million KM and it is more than twice higher or 75 million KM than in 2010. It is necessary, here, to emphasize the influence of one bank in which the difference in the financial results according to two methodologies is completely opposite (according to the new methodology it is a loss, and the old one a profit). That bank implemented a restructuring project, through a transfer of a significant amount of nonperforming assets to another legal entity. Simultaneously, the loss in performance in the amount of 43 million KM was reported by 4 banks and it is lower by 73% or 115 million KM in comparison to 2010, while according to the old methodology the loss in performance in the amount of eight million KM was reported in four banks and it is lower by 95% or 150 million KM.

Detailed data is shown in the following table:

-000 KM-

Table 29: Financial result reported: profit/loss								
Description	31.12.2009.		31.12.2010.		31.12.2011.			
	Amount	Number of banks	Amount	Number of banks	New method		Old method	
					Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7	8	9
Loss	-52.966	7	-157.933	5	-43.060	4	-7.617	4
Profit	53.773	13	54.957	14	126.692	15	129.541	15
Total	807	20	-102.976	19	83.632	19	121.924	19

Similar to other segments, this segment has also encountered concentrations: of total profit generated (126,7 million KM), 74% or 93,8 million was generated by two largest banks in the system, whose participation in the banking system assets was 50%. In the total loss of 43 million KM, 37,8 million KM or 87,5% refers to only one large bank which is in the foreign ownership, with asset participation of 9,7% on the third place in the system (in the same period last year the loss of the bank was 138,7 million KM). Analytical data indicate that a total of five banks reported significantly deteriorated financial result (by two million KM), and 14 banks have better results (by 189 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.

At the system level, total income was realized in the amount of 889 million KM (according to the old methodology 920 million KM) with an increasing rate of 3% or 29 million KM in relation to 2010. Total noninterest bearing expenses were 790 million KM (according to the old methodology 783 million KM), with the decrease rate of 17% or 164 million KM which had a positive reflection to the overall financial result of the sector.

Evident is intensifying of credit activates in majority of banks during 2011, which resulted in increase of the average loans by 4%, however, on the other hand the decrease of the average interest rate on loan resulted in the presence of the stagnation on the level of the interest income. Interest income in 2011 was realized in the amount of 867 million KM, which is by 1% or 10 million KM higher than in 2010, and the participation in the structure of the total income decreased from 99,7% to 97,4%. The largest participation belongs to the interest income which decreased by 1% or nine million KM, and the participation from 90,6% to 86,5% as a result of a decrease of average active interest rates on loans for the observing period from 7,92% to 7,53%. According to the old methodology, the amount of the interest income on loans is 747 million KM and in comparison to 2010 declined by 4% or 32 million KM. In this position evident is the difference between the two methodologies, and the difference refers to the effect of the application of IAS/IFRS (unwinding) in four banks in the amount of 23 million KM. In the structure of the interest income the largest part (53%) refers to the interest income from credit placements to citizens, which in comparison to the previous year declined by 4%, and in a total credit portfolio have a participation of 48%. Follows the interest income on loans granted to private companies with a participation of 44% and growth of 1% in comparison to the previous year and participation in the credit portfolio of 47%. Based on this, it can be concluded that the credit portfolio of citizens is still more profitable for banks and less risky, taken the lower level of poor performing loans in the structure of the credit placements, but also due to the higher

interest rates on loans granted to citizens, which in 2011, in average were higher by around 2,2 percent points than the interest rates on loans to companies. Income from interest bearing accounts in deposit institutions had a significant growth of 64% or nine million KM, and their participation increased from 1,7% to 2,6%.

Positive trend was recorded for the interest expenses, which had a significantly higher decline rate (10%) in comparison to the declining rate of interest income (1%). The interest expenses are 294 million KM, and their participation in the structure of the total income declined from 37,9% to 33,1%. Interest expenses on deposits, as a structurally largest item of the interest expenses, declined by 14% or 37 million KM, primarily as a result of the decrease of average interest bearing deposits by 0,6% as well as interest rates on short term and long term deposits. The average interest rate on deposits declined from 2,6% to 2,26%, while in 2009 it was 3,07%. The largest decline of the deposit expenses was recorded for citizens (13% or 17, million KM). In 2011, after the significant decline of the interest expenses on taken loans and other borrowings in the last year (41%), which was due to regular payments, and in part due to payments before the due date (which the banks were performing in order to decrease the expenses caused by high liquidity), they recorded a growth of 10% or four million, with an insignificant decrease in participation from 5,1% to 5,4%.

As a result of decline of the interest expenses (-10%) and interest income which is stagnating (1%), net interest income increased by 8% or 41 million KM and is 572 million KM (according to the previous methodology 549 million KM), with an increased participation in the structure of the total income from 61,8% to 64,3% .

Operating income was 317 million KM and in relation to 2010 declined by 4% or 12 million KM and their participation in the structure of the total income declined from 38,2% to 35,6%. According to the old methodology the operating income would be 371 million KM, and the difference of 54 million KM would be the amount of collected previously written off receivables, which according to the new methodology are no longer an item of other operating income, but are treated on the position of value adjustment expenses (income from decrease of provisioning). Within the operating income the largest participation have the service fees which recorded an increase of 3% or six million KM.

Total noninterest expenses are 790 million KM and in comparison to 2010 declined by 17% or 164 million KM, primarily as a result of a significant decline of value adjustment expenses, that is according to the old methodology expenses of reserves for loan losses. At the same time, their participation in the structure of the total income declined from 111% to 89%.

After a significant increase in 2010, in comparison to the same period in 2009 (63%), in 2011 the reserve expenses for loan losses, or according to the new methodology the value adjustment expense, nominally and relatively had a significant decline of 51% or 196 million KM (in comparison to the previous methodology, that decline is significant also: 53% or 203 million KM), and were 190 million KM, and their participation in the structure of the total income significantly declined from 44,9% to 21,3%. The operating expenses had the opposite trend and movements with a growth rate of 4% or 18 million KM, of which the fixed asset had a growth of 3% and are 158 million KM, and salary expenses and contributions a growth of 3% and are 251 million KM.

The number of employees on the level of the banking system, in comparison to 2010, declined by 19, and on the other side the assets of banks increased by 115 million KM, therefore the assets per employee, at the level of the system, is slightly higher (by 1%).

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

- in 000 KM-

Table 30: Structure of total income								
Structure of total income 1	31.12.2010.		31.12.2011.				RATIO	
			New method		Old method			
	Amount	%	Amount	%	Amount	%	8 (4/2)	9 (6/2)
I Interest income and similar income	2	3	4	5	6	7	8 (4/2)	9 (6/2)
Interest bearing deposit accounts with depository institutions								
Loans and leasing	14.388	1,2	23.545	2,0	23.545	1,9	164	164
Other interest income	778.690	65,7	769.774	65,1	746.849	61,5	99	96
TOTAL	63.450	5,4	73.365	6,2	73.365	6,0	116	116
II Operating income	856.528	72,3	866.684	73,3	843.759	69,6	101	99
Service fees								
Foreign exchange income	204.173	17,2	210.795	17,8	210.795	17,4	103	103
Other operating income	37.784	3,2	48.198	4,1	48.198	4,0	128	128
TOTAL	86.616	7,3	57.547	4,8	111.768	9,2	66	129
TOTAL INCOME (I + II)	328.573	27,7	316.540	26,7	370.761	30,5	96	113
Structure of total income	1.185.101	100,0	1.183.224	100,0	1.214.520	100,0	100	102

Graph 24: Structure of total income

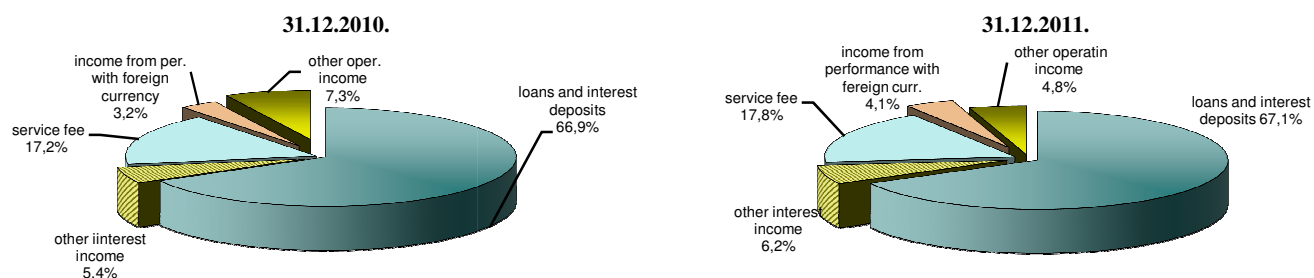
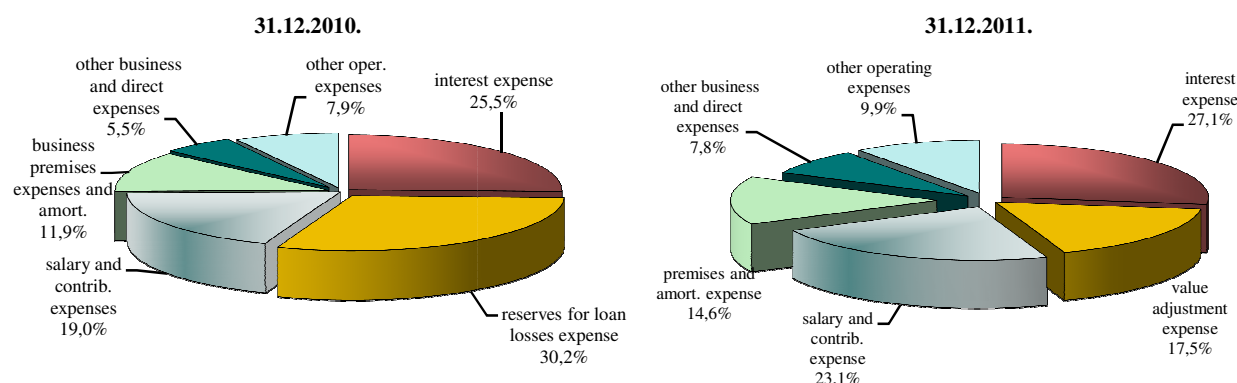


Table 31: Structure of total expenses

Structure of total expenses 1	31.12.2010.		31.12.2011.				RATIO	
			New method		Old method			
	Amount	%	Amount	%	Amount	%	8 (4/2)	9 (6/2)
I Interest expenses and similar expenses	2	3	4	5	6	7	8 (4/2)	9 (6/2)
Deposits								
Liabilities for borrowings	266.893	20,9	230.224	21,2	230.224	21,4	86	86
Other interest expenses	43.536	3,4	47.831	4,4	47.831	4,5	110	110
TOTAL	15.344	1,2	16.502	1,5	16.502	1,5	108	108
II Total non-interest bearing expenses	325.773	25,5	294.557	27,1	294.557	27,4	90	90
General loan risk and potential loan losses								
Provisioning								
Salary expenses	386.102	30,2	189.809	17,5	182.780	16,9	49	47
Business premises and depreciation expenses	242.690	19,0	250.783	23,1	250.783	23,3	103	103
Other business and direct expenses	152.737	11,9	157.786	14,6	157.786	14,7	103	103
Other operating expenses	70.185	5,5	84.327	7,8	84.327	7,8	120	120
TOTAL	101.833	7,9	106.966	9,9	106.966	9,9	105	105
TOTAL EXPENSES (I + II)	953.547	74,5	789.671	72,9	782.642	72,6	83	82
Structure of total expenses	1.279.320	100,0	1.084.228	100,0	1.077.199	100,0	85	84

Graph 25: Structure of total expenses

In the following tables listed are the most significant ratios for evaluation of profitability, productivity and effectiveness of banks.

- in %-

RATIOS	31.12.2009.	31.12.2010.	31.12.2011.	
			New method	Old method
Return on Average Assets	0,01	-0,68	0,55	0,81
Return on Average Total Capital	0,05	-6,15	4,77	6,96
Return on Average Equity	0,07	-8,53	7,07	10,31
Net Interest Income/Average Assets	3,44	3,49	3,79	3,64
Fee Income/Average Assets	1,94	2,16	2,10	2,46
Total Income/Average Assets	5,38	5,65	5,89	6,10
Operating and Direct Expenses ³⁴ /Average Assets	2,01	3,00	1,82	1,77
Operating Expenses/Average Assets	3,33	3,27	3,42	3,42
Total Non-interest Expenses/Average Assets	5,34	6,27	5,23	5,19

The analyses of the basic parameters for evaluation of the profitability quality is leading us to conclude that the profitability of the total system is significantly better, the realized profit in comparison to the previous year, when loss was reported at the level of the system, resulted in positive key indicators of profitability: ROAA (earnings on average assets) is 0,55% (according to the previous methodology 0,81%) and ROAE (earnings on average shareholder capital) which is 7,07% (according to previous methodology 10,31%). The same indicators were negative last year, due to reported high loss at the system level of 103 million KM. The productivity of banks, measured with the relation of the total income and average assets (5,89%) also improved in comparison to the same period last year (5,65%), due to increase of total income (3%) in comparison to the average assets which slightly decreased (1%). Also, noted should be the significant decrease of business and direct expenses on average assets (from 3,00% to 1,82%), which is a consequence of significant decrease of value adjustment expenses (previous year: loan loss reserve expenses).

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, although the banks reached the maximum on the side of the

³⁴ Expenses include provisions for potential loan losses.

expenses, and further reductions might have negative effects on efficiency and overall business performance. Banks will have to increase the level of lending activities, not only to ensure increase of interest income, but to utilize their social core function of the collected financial assets allocation to the economic flows and the economy in compliance with the standards of prudent performance and sound practices of risk management, primarily of credit risk. However, considered should be the possible influence that the announcement of the Austrian regulator for the ‘daughter’ banks could have (the market participation of the Austrian banks in the FBiH banking system is 47%) that the increase of loans will be linked to the increase of the local deposits. That would cause an enhanced competition of the banks for the local deposits, which would result with the increase of prices of the funding sources with the direct pleasure on the profitability of the banks and active interest rates.

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 rate³⁵ 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 prescribed³⁶.

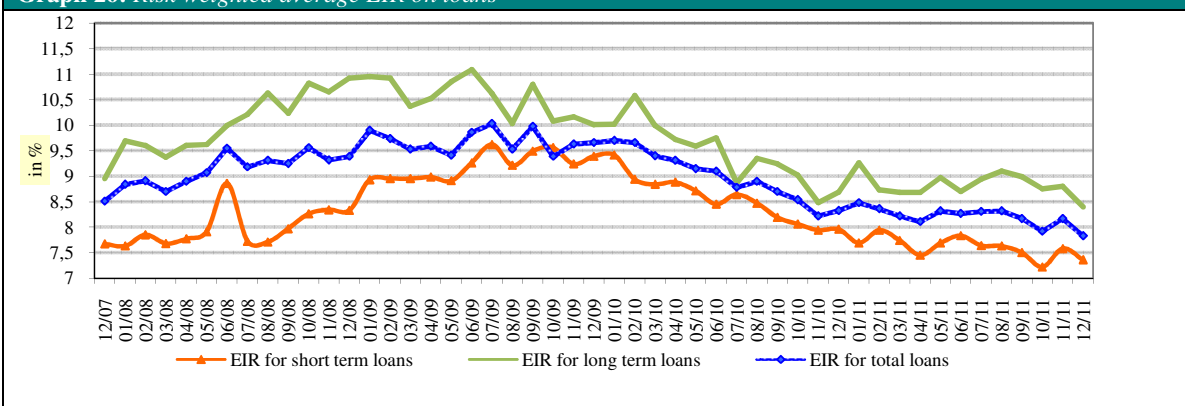
The following table presents risk-weighted nominal and effective interest rates (hereinafter: NIR and EIR) for loans on the banking system level for the two most important sectors (economy and citizens) for December of 2009, Juner and December of 2010 and 2011:

³⁵ Decision on unified method of computation and disclosure of effective interest rates on loans and deposits (“Official Gazette of the FBiH”, number 27/07).

³⁶ 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 33 Risk-weighted average NIR and EIR on loans

DESCRIPTION	31.12.2009.		30.06.2010.		31.12.2010		30.06.2011.		31.12.2011.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1. Risk-weighted interest rates for short-term loans	8,55	9,39	7,90	8,45	7,51	7,96	7,27	7,86	6,78	7,36
1.1. Economy	8,51	9,27	7,86	8,34	7,47	7,82	7,19	7,68	6,74	7,28
1.2. Citizens	9,51	12,9	8,97	12,28	8,67	12,65	9,40	12,80	8,66	11,89
2. Risk-weighted interest rates for long-term loans	9,16	10,00	8,89	9,75	7,91	8,69	7,82	8,75	7,57	8,40
2.1. Economy	8,46	9,15	8,40	8,90	7,34	7,82	7,17	7,67	6,96	7,59
2.2. Citizens	10,21	11,32	9,35	10,56	8,79	10,05	8,26	9,46	8,25	8,51
3. Total risk-weighted interest rates for loans	8,82	9,66	8,40	9,10	7,72	8,33	7,55	8,31	7,14	7,83
3.1. Economy	8,50	9,23	8,04	8,53	7,42	7,82	7,18	7,68	6,81	7,38
3.2. Citizens	10,17	11,42	9,34	10,64	8,78	10,18	8,32	9,64	8,27	8,69

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 risk-weighted EIR for loans continued its decreasing trend during 2011 with an interest rate lower by around 0,3 to 0,6 percentual points, with slight oscillations during the year. The risk weighted EIR in December of 2011 was 7,83%, which is the lowest value not only in 2011, but in past four years, while the largest was recorded in January of 2011 (8,55%) with significant oscillations in March (decline of 0,23%), and October (decline of 0,25%).

During the 2011, higher oscillations are recorded by the EIR for long-term loans, within 0,94%, than the short term that oscillated within 0,76%.

The risk-weighted EIR for short-term loans, in December 2011, was 7,36%, which was lower by 0,6 per cent in comparison to December 2010, and if viewed in a time line for the past four years, a lower EIR was recorded only in October of 2011 (7,22%).

The risk-weighted EIR for long-term loans, in December 2011, was 8,49%, which was lower by 0,29 per cent in comparison to December of 2010, and overall the lowest in the last four years.

Interest rates for loans originated in the two most significant sectors: economy and citizens³⁷, in 2011, had the decreasing trend. The risk weighted EIR for loans originated in the economy, although still much lower than the EIR for loans to citizens, decreased from 7,82% in December 2010 to the level of 7,38% in December 2011, and in the last four years it was lower only in October of 2011 (7,23%). As for long term loans in 2011, downfall was 0,23 per cent (from 7,82% to 7,59%), while EIR for short-term loans recorded a larger downfall of 0,54 per cent (from 7,82% to 7,28%).

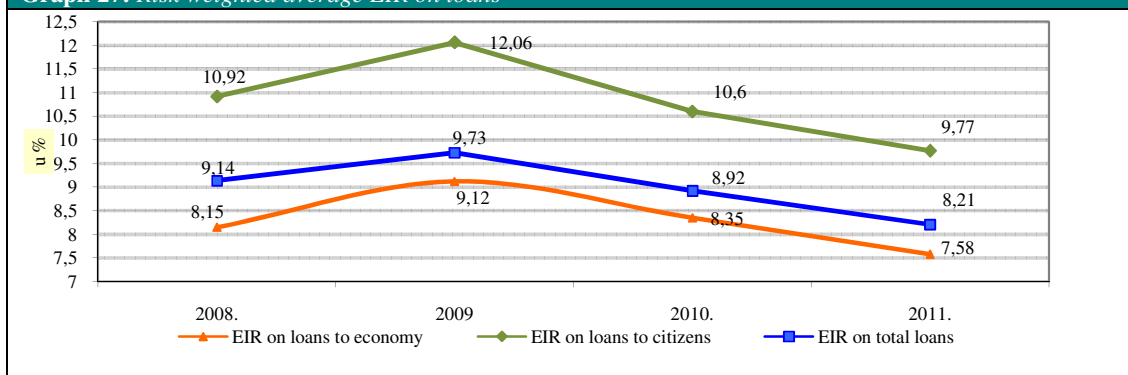
EIR on loans to citizens in December of 2011 was 8,69%, which is by 1,49 percent points lower than in comparison to December of 2010, and it is at the same time the lowest recorded interest rate since December of 2007, while in 2011 the highest rate of 10,63% was recorded in January. The EIR on long term loans placed in the same sector, form the level in December of 2010 of 10,05% declined to 8,51% in December of 2011. EIR on short term loans in December of 2011 was 11,89%, which is by 0,76 percent points lower than in comparison to December of 2010.

If analyzed are the changes in the average annual EIR on loans³⁸ in the period of the last four years, after 2009, evident is a moderate, but continuous decline, for both the economy and the citizens.

Table 34: Risk-weighted average annual NIR and EIR on loans

DESCRIPTION	31.12.2008.		31.12.2009.		31.12.2010.		31.12.2011.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9
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
1.1. Economy	7,39	7,80	8,52	9,11	7,92	8,35	6,97	7,45
1.2. Citizens	11,41	14,50	10,00	13,15	9,07	12,79	9,08	12,41
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
2.1. Economy	8,22	8,73	8,29	9,17	7,90	8,35	7,39	7,89
2.2. Citizens	9,81	10,76	10,68	11,97	9,12	10,48	8,45	9,62
3. Total risk-weighted interest rates for loans	8,46	9,14	8,90	9,73	8,20	8,92	7,49	8,21
3.1. Economy	7,70	8,15	8,46	9,12	7,92	8,35	7,09	7,58
3.2. Citizens	9,88	10,92	10,62	12,06	9,11	10,60	8,49	9,77

Graph 27: Risk weighted average EIR on loans



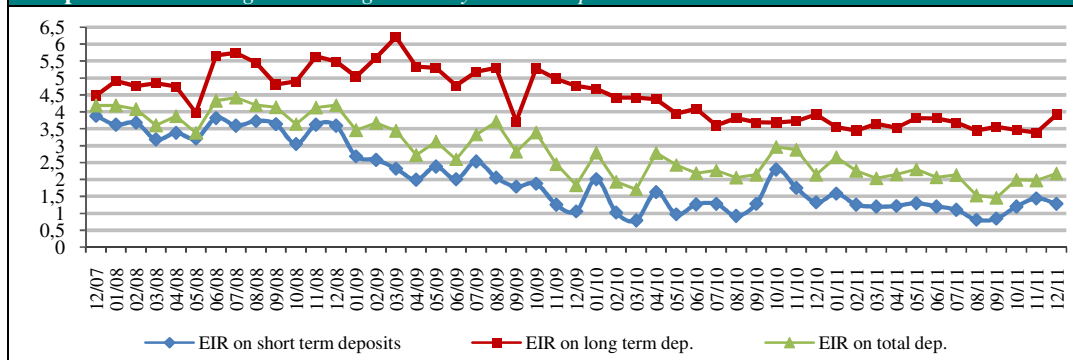
Risk weighted EIR and NIR on time deposits, calculated based on the monthly reports, for the banking sector are shown in the following table.

³⁷ Based on the methodology of classification in sectors: entrepreneurs are included in the sector of citizens.

³⁸ Methodology for the accrual of the average risk weighted annual EIR (for 12 months) is the same as the EIR on the monthly level.

Table 35: Risk-weighted average monthly NIR and EIR on deposits

DESCRIPTION	31.12.2009.		30.06.2010.		31.12.2010.		30.06.2011.		31.12.2011.	
	NIR	EIR	NIR	EIR	NIR	NIR	EIR	NIR	EIR	NIR
	2	3	4	5	6	7	8	9	12	13
1. Risk-weighted interest rates on short term deposits	1,06	1,06	1,26	1,26	1,31	1,32	1,21	1,20	1,28	1,28
1.1. up to 3 months	0,72	0,72	0,39	0,39	0,97	0,97	1,01	1,01	0,91	0,91
1.2. up to 1 year	2,90	2,91	3,25	3,26	2,61	2,63	2,53	2,51	2,74	2,74
2. Risk-weighted interest rates on long term deposits	4,75	4,77	4,08	4,09	3,89	3,92	3,78	3,81	3,88	3,91
2.1. up to 3 years	4,72	4,74	3,86	3,87	3,78	3,80	3,64	3,65	3,73	3,75
2.2. over 3 years	5,12	5,13	5,45	5,47	4,48	4,57	4,52	4,61	4,56	4,61
3. Total risk-weighted interest rates on deposits	1,82	1,83	2,19	2,19	2,13	2,14	2,05	2,06	2,17	2,18

Graph 28: Risk-weighted average monthly EIR on deposits

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 2010, risk-weighted EIR for total term deposits, in December 2011, increased by 0,04 per cent (from 2,14% to 2,18%). Risk-weighted EIR on short term deposits in 2011 shows fluctuations within 0,77 per cent, with the highest in January when it was 1,58 per cent, the lowest in September 0,81%, and in December of 2011 it was 1,28% (December 2010: 1,32).

If we analyze the changes in the interest rate on short term time deposits in regard to maturity, EIR on time deposits up to three months recorded a decline of 0,06 percent points in comparison to the level in December of 2010, and it is 0,91%. The average interest rate on time deposits of up to one year is 2,74%, which is by 0,11 percent points higher than in comparison to December of 2010.

Risk weighted EIR on long term deposits, apart from the slight oscillations during 2011 within 0,53 percent, remained almost unchanged and is 3,91% (December 2010: 3,92%).

Risk weighted EIR on long term time deposits up to three years is 3,75% which presents a decline of only 0,05 percent points in comparison to the level of December 2010. The EIR on time deposits over three years in December of 2011 was 4,61%, which is a low 0,04 percent points higher than in December of 2010, when it was 4,57%. Analyzed through sectors and maturity, the higher oscillations were recorded in interest rates on deposits of the government and government institutions for the period of up to three years (December 2010.: 0,0%, December 2011.: 4,98%), while for the time deposits for over three years the most significant oscillations were recorded for EIR on bank and other financial organizations deposits (December

2010.: 5,22%, December 2011.: 3,59%).

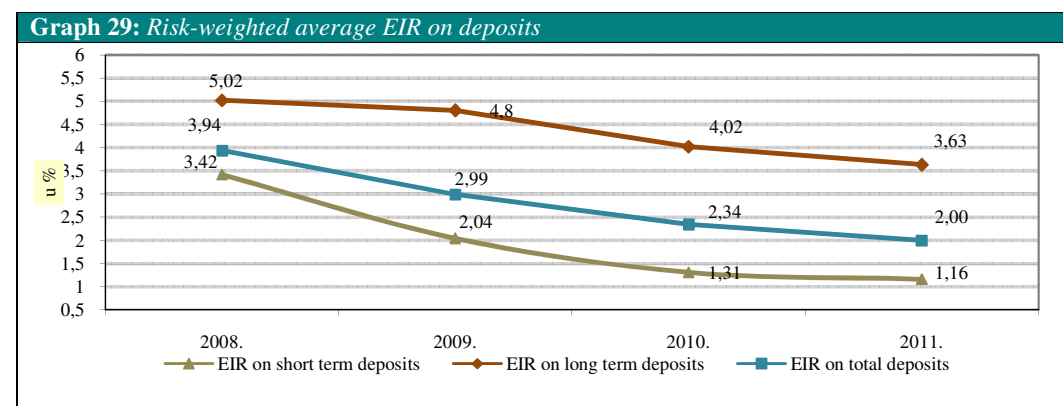
Average EIR on deposits to citizens was 3,07% in December 2011, and it increased by 0,13% in comparison to December of 2010, with the lowest rate recorded in June (2,57%), while the highest was in July (3,22%). In December of 2011, EIR on time deposits to economy was 1,28%, lower by 1,27% in relation to December 2010. During 2011, the lowest level of 0,69% was in August, and the highest of 2,77% was recorded in January.

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 four years, we can observe an obvious decline in the interest rates on both long term and short term deposits.

Table 36: Risk-weighted average NIR and EIR on deposits

DESCRIPTION	31.12.2008.		31.12.2009.		31.12.2010.		31.12.2011.	
	NIR	EIR	NIR	EIR	NIR	NIR	EIR	NIR
1	2	3	4	5	6	7	8	9
1. Risk-weighted interest rates on short term deposits	3,41	3,42	2,02	2,04	1,31	1,31	1,16	1,16
1.1. up to 3 months	3,39	3,40	1,59	1,60	0,60	0,60	0,87	0,87
1.2. up to 1 year	3,47	3,48	3,76	3,79	2,79	2,79	2,53	2,53
2. Risk-weighted interest rates on long term deposits	5,00	5,02	4,77	4,80	4,00	4,02	3,59	3,63
2.1. up to 3 years	4,93	4,95	5,25	5,29	3,90	3,92	3,47	3,50
2.2. over 3 years	5,26	5,26	3,09	3,09	4,56	4,60	4,9	4,29
3. Total risk-weighted interest rates on deposits	3,93	3,94	2,97	2,99	2,33	2,34	1,99	2,00



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 37: Risk-weighted average NIR and EIR on loans-overdrafts and demand deposits

DESCRIPTION	31.12.2009.		30.06.2010.		31.12.2010.		30.06.2011.		31.12.2011.	
	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	8,96	8,96	8,83	8,84	8,29	8,29	9,25	9,38	8,73	8,86
2. Risk-weighted interest rates for demand deposits	0,41	0,41	0,23	0,23	0,22	0,22	0,22	0,22	0,18	0,18

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 2011, was 8,86% (an increase of 0,57 per cent in comparison to December 2010), and 0,18% for demand deposits, which was lower by 0,04 per cent in comparison to December 2010.

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. It should be emphasized, however, that during the course of its performance, a correlation of all risks that any bank is or may be exposed to is very high.

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

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 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. In spite of that, 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 coverage of short term liabilities by liquid assets. However, since the financial crisis is still present worldwide which has an adverse reflection to the banking systems of certain European countries, and since majority of banks in FBiH are owned by the European banking groups that provide financial support to our banks through deposit and credit funding, it is estimated that liquidity risk still needs to be under enhanced supervision.

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.

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 31.12.2011., deposits still have the highest participation of 72,7%, followed by loans taken (including the subordinated debt³⁹) with participation of 10,1% with longer maturity, representing quality source for long term placements, and have made a significant contribution to maturity match between assets and liabilities.

On the other hand, the structure of deposits is considerably unfavourable⁴⁰, and after a long period of improvements, during 2010 had a slight deterioration, and that trend, with a slightly lower intensity, continued in 2011.

- in 000 KM-

Table 38: Maturity structure of deposits based on contracted maturity								
DEPOSITS	31.12.2009.		31.12.2010.		31.12.2011.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and demand deposits	4.490.845	40,7	5.054.335	45,0	4.983.292	45,1	113	99
Up to 3 months	322.763	2,9	344.926	3,1	433.030	3,9	107	126
Up to 1 year	833.089	7,5	1.085.115	9,6	756.233	6,8	130	70
1. Total short term	5.646.697	51,1	6.484.376	57,7	6.172.555	55,8	115	95
Up to 3 years	3.292.619	29,8	2.832.507	25,2	3.222.092	29,2	86	114
Over 3 years	2.106.552	19,1	1.915.947	17,1	1.655.867	15,0	91	86
2. Total long term	5.399.171	48,9	4.748.454	42,3	4.877.959	44,2	88	103
TOTAL (1 + 2)	11.045.868	100,0	11.232.830	100,0	11.050.514	100,0	102	98

The maturity structure of deposits based on the contracted maturity is relatively good, with a participation of short term deposits of 55,8% and long term 44,2%. In comparison to 2010, there is an evident slight improvement of the maturity due to the decrease of the participation of the short term deposits by 1,9 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 5% or 312 million KM and a simultaneous increase of the long term deposits by 3% or 130 million KM.

³⁹ Subordinated debt – loans taken and permanent liabilities.

⁴⁰ According to the remaining maturity

It should be noted that in the long term deposits the dominating participation still have: citizens with an increased participation from 51,6% to 57,7% and banking institutions with decreased participation from 27,4% to 18,1% (the cause is the decrease of parent deposits in one bank by 440 million KM). In the time deposits of one to three years the largest participation are the citizen deposits 66,4% , with a note that, due to a slower growth of these deposits have deposit to citizens, with a note that due to the slower incline of these deposits than total deposits of one to three years, there was a slight decline of the participation by 0,7 percent points, while in the period of over three years the largest participation of 46% still have the banking institutions (at the end of 2010: 60,9%).

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-

Table 39: Deposit structure based on the remaining maturity

DEPOSITS	31.12.2009.		31.12.2010.		31.12.2011.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	8(4/2)	9(6/4)
1	2	3	4	5	6	7		
Savings and demand deposits (up to 7 days)	4.597.259	41,7	5.377.075	47,9	5.184.070	46,9	117	96
7- 90 days	819.715	7,4	776.732	6,9	917.917	8,3	95	118
91 day to one year	2.654.201	24,0	2.240.255	19,9	2.219.223	20,1	84	99
1. Total short term	8.071.175	73,1	8.394.062	74,7	8.321.210	75,3	104	99
Up to 5 years	2.427.463	22,0	2.214.874	19,7	2.330.117	21,1	91	105
Over 5 years	547.230	5,0	623.894	5,6	399.187	3,6	114	64
2. Total long term	2.974.693	26,9	2.838.768	25,3	2.729.304	24,7	95	96
TOTAL (1 + 2)	11.045.868	100,0	11.232.830	100,0	11.050.514	100,0	102	98

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 75,3%, but it has a slight increasing trend. Short term deposits declined by 1% or 73 million KM, with an increased participation by 0,6%, while long term deposits decreased by 4% or 109 million KM, with a decreased participation from 25,3% to 24,7%. 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 (81% of long term deposits and 21% of total deposits). If maturity data are compared through contracted and remaining maturity, it is clear that of 4,88 billion long term contracted deposits as of 31.12.2011 around 2,15 billion KM 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 F BiH, 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.

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-

LOANS	31.12.2009.		31.12.2010.		31.12.2011.		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	354.200	3,6	567.182	5,7	959.822	9,2	160	169
Short term loans	2.159.008	22,0	2.129.184	21,3	2.285.804	22,0	99	107
Long term loans	7.283.592	74,4	7.285.545	73,0	7.167.790	68,8	100	98
TOTAL LOANS	9.796.800	100,0	9.981.911	100,0	10.413.416	100,0	102	104

In 2011., the long term loans decreased by 2% or 118 million KM, short term loans recorded an increase of 7% or 157 million KM, while past due claims increased by 69% or 393 million KM. The significant increase of the past due receivables is a result of the transfer to the new methodology of reporting the balance sheet positions in compliance with the requests of IAS, that is the rebooking of the loans into category E from off-balance sheet records to the position of the past due receivables, and the increase of the past due loans and consequently of total loans is compensated through the decrease of the part of past due and not due portfolio in one bank. In the structure of the past due receivables 63% refer to private companies, 33% are citizens, and 4% are other sectors.

Sector analysis by maturity, in two most significant sectors, indicates that loans to citizens represent 85,3% of long term loans, and loans to private companies, of total originated loans, represent 51,1% of long term loans.

In the assets structure, as the most significant category, loans still have the highest participation of 68,6%, which has increased by 2,4 per cent in comparison to the end of 2010 due to a slight growth of loans of 4% or 432 million KM. Cash funds decreased by 1% or 66 million KM and their participation, in comparison to the end of 2010., decreased from 29,5% to 28,8%.

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. In that respect, the table presents the comparative data based on the new and old methodology.

- in % -

Ratios 1	31.12.2010.	31.12.2011.	
		New method	Old method
	2	3	4
Liquid assets ⁴¹ / Total assets			
Liquid assets / Short term financial liabilities	30,2	29,0	29,4
Short term financial liabilities / Total financial liabilities	50,8	49,1	49,0
Loans / Deposits and Borrowings ⁴²	68,1	69,5	69,5
Loans / Deposits, borrowings and subordinate debts ⁴³	79,0	84,2	79,2
Ratios	77,6	82,8	77,9

⁴¹ Liquidity assets in the narrow sense: cash and deposits and other financial assets with maturity below three months, except inter-banking deposits.

⁴² Empiric standards: below 70%-very solid, 71%-75%-satisfactory, 76%-80%-marginal to satisfactory, 81%-85%-insufficient, over 85%-critical.

⁴³ Prior ratio has been modified. Subordinated debts are included in the sources, which gives more realistic indicator.

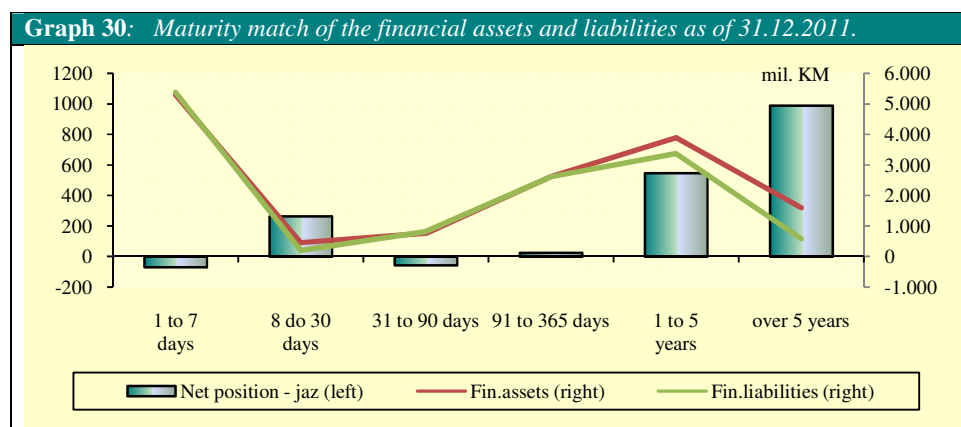
In 2011, banks were regularly meeting a commitment to maintain required reserves with the Central Bank of BiH. The required reserve rate, as of 11.10.2008., decreased to 14% with purpose to enable additional liquidity for banks. In addition, with the same purpose, the CBBiH's decision has been to change basis of the required reserve's computation, so the funds borrowed from nonresidents, based on the contracts signed after 01.11.2008., would not be subject to the basis for computation. 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-

Description	31.12.2009.	31.12.2010.	31.12.2011.	RATIO	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6
1. Average daily balance of cash assets	3.789.107	3.887.490	3.759.486	103	97
2. Minimum total daily balance of cash assets	3.341.965	3.585.319	3.550.990	107	99
3. Short term sources (accrual basis)	5.431.143	6.128.941	6.013.102	113	98
4. Liabilities:					
4.1. ten-day average 20% of Item 3	1.086.229	1.225.788	1.202.620	113	98
4.2. daily minimum 10% of Item 3	543.114	612.894	601.310	113	98
5. Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	2.702.878	2.661.702	2.556.866	98	96
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	2.798.851	2.972.425	2.949.680	106	99

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. 2010.



At the end of 2011 the short term financial assets of the bank was higher than the short term liabilities by 139 million KM. In relation to the end of 2010 when the positive gap was 18 million KM, that is an increase of 121 million KM, which lead to an increase in the coverage ration of the short term liabilities to 102%.

The short term financial assets increased by 1,4% while the short term financial liabilities remained almost unchanged. In the short term financial assets the loans recorded an increase of 2,7% or 110 million KM, of which the most part is in the interval of up to 180 days, then securities held to maturity and trading assets 41,1% or 109 million KM, and other financial assets 33% or 48 million KM. In cash funds and deposits in other deposit institutions recorded is a decline of 2,1% or 95 million KM, and cash placements 38,9% or 43 million KM. Financial assets of the remaining time to maturity date of over one year decreased by 2,9% or 165 million KM, mostly due to the decline of loans of 2,4% or 131 million KM.

On the liabilities side with a maturity date of up to one year, the deposits decreased by 1% or 73 million KM, which was compensated with the growth of the subordinated debt by 83% or 34 million KM and other financial liabilities by 30% or 46 million KM. The liabilities with the maturity date of over one year decreased by 6,2% or 261 million KM, mostly influenced by the decline of deposits of 4% or 109 million KM, of loans take 9% or 90 million KM and subordinated debt 30% or 55 million KM.

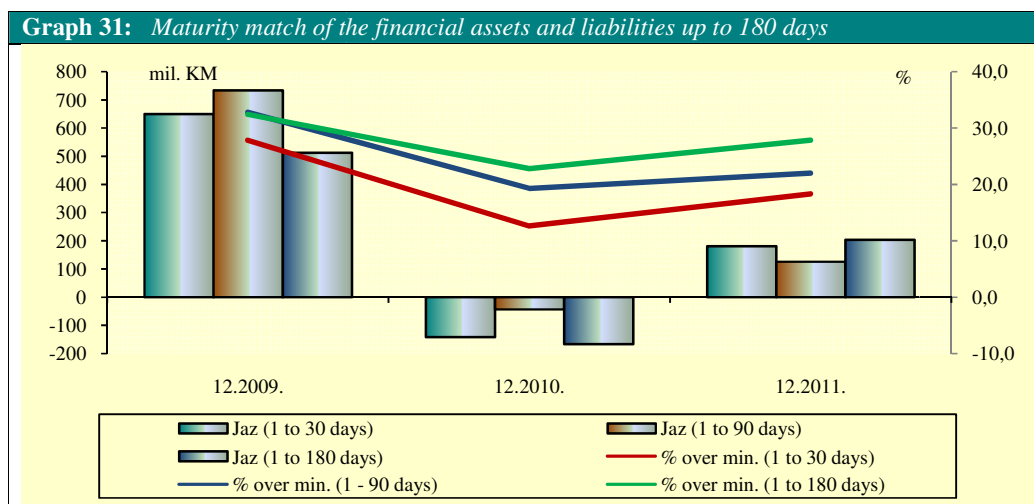
Apart from the mentioned prescribed minimum standards, monitoring of remaining maturity of financial assets and liabilities, according to the time scale, is of crucial significance for the liquidity position analysis. The time scale is from the aspect of prescribed minimum limits created based on time horizon up to 180 days.⁴⁴

- in 000 KM -

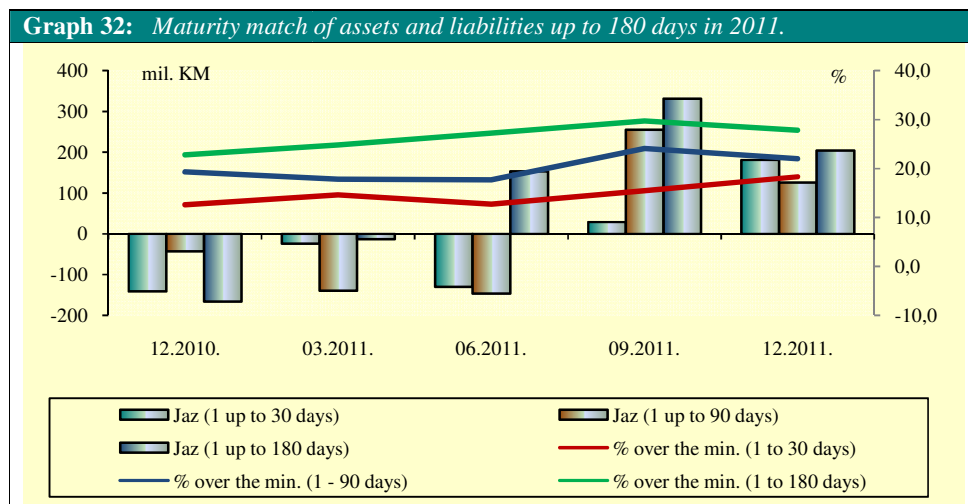
Table 43: Maturity of financial assets and liabilities up to 180 days					
Description	31.12.2009.	31.12.2010.	31.12.2011.	RATIO	
	Amount	Amount	Amount		
1	2	3	4	5 (3/2)	6(4/3)
I. 1-30 days					
1. Financial assets	5.719.878	5.674.836	5.741.184	99	101
2. Financial liabilities	5.070.291	5.816.147	5.559.908	115	96
3. Difference (+ or -) = 1-2	649.587	- 141.311	181.276	N/a	N/a
<i>Accrual of requirement in %</i>					
a) Performed %= Item 1 / Item 2	112,8%	97,6%	103,3%		
b) Required minimum %	85,0 %	85,0%	85,0%		
Surplus (+) or shortage (-) = a - b	27,8 %	12,6%	18,3%		
II. 1-90 days					
1. Financial assets	6.479.395	6.408.275	6.503.132	99	101
2. Financial liabilities	5.745.023	6.450.887	6.377.523	112	99
3. Difference (+ or -) = 1-2	734.372	- 42.612	125.609	N/a	N/a
<i>Accrual of requirement in %</i>					
a) Performed %= Item 1 / Item.2	112,8 %	99,3%	102,0%		
b) Required minimum %	80,0%	80,0%	80,0%		
Surplus (+) or shortage (-) = a - b	32,8%	19,3%	22,0%		
III. 1-180 days					
1. Financial assets	7.469.752	7.343.882	7.511.493	98	102
2. Financial liabilities	6.956.965	7.509.597	7.307.597	108	97
3. Difference (+ or -) = 1-2	512.787	- 165.715	203.896	N/a	N/a
<i>Accrual of requirement in %</i>					
a) Performed %= Item 1 / Item.2	107,4%	97,8%	102,8%		
b) Required minimum %	75,0 %	75,0%	75,0%		
Surplus (+) or shortage (-) = a - b	32,4%	22,8%	27,8%		

⁴⁴ 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.

Based on the presented data it can be concluded that the banks as of 31. 12. 2011 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. During the first quarter of 2011 the amount of the amount of the financial assets in all three time intervals up to 180 was higher than the amount of the financial assets, while in the second quarter there was a slight improvement and the financial assets in the interval up to 180 days was somewhat higher than the financial liabilities, in most part as a consequence of the increase of the credit items and securities held to maturity presented in the time interval up to 180 days, with a simultaneous decrease of items of the financial liabilities, mostly liabilities from loans taken. Finally in the third quarter (eighth and ninth month) the financial assets were somewhat higher in all three time intervals up to 180 days, mostly as a result of increase of the cash funds and banks placements, while the financial liabilities up to 180 days were kept at the approximately same level. In the last quarter of 2011, there were no significant changes, there was a slight increase in the financial assets in all three time intervals due to the increase of the cash funds, and the financial liabilities increased somewhat more up to 180 days, which as of 31. 12. 2011 lead to an insignificantly more poor position of the liquidity up to 180 days, but a better position in the interval up to 30 days.



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 Banks⁴⁵ 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.

⁴⁵ "Official Gazette of F BiH", Number. 3/03, 31/03, 64/03, 54/04.

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 31.12.2011., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 14,9% or 2,3 billion KM (14,8% or 2,2 billion KM at the end of 2010). On the other hand, currency structure of liabilities is essentially different, since participation of liabilities in foreign currency is significantly higher and is 49,8% or 7,6 billion KM (53,6% or 8,1 billion KM at the end of 2010).

The following table presents structure and trend of financial assets and liabilities and foreign currency position for EUR as the most significant currency⁴⁶ and total.

- in million KM-

Description	31.12.2010.				31.12.2011.				RATIO	
	EURO		TOTAL		EURO		TOTAL		EURO	TOTAL
	Partic. %	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	8/4
1	2	3	4	5	6	7	8	9	10	11
<i>I. Financial assets</i>										
1. Cash assets	1.195	14,6	1.637	18,0	1.251	15,9	1.783	20,5	105	109
2. Loans	72	0,9	104	1,1	70	0,9	93	1,1	97	89
3.Loans with currency clause	6.508	79,6	6.868	75,5	6.208	79,1	6.465	73,7	95	94
4. Other	401	4,9	489	5,4	322	4,1	393	4,7	80	80
Total (1+2+3+4)	8.176	100,0	9.098	100,0	7.851	100,0	8.734	100,0	96	96
<i>II. Financial liabilities</i>										
1. Deposits	5.552	71,6	6.424	74,1	5.369	71,3	6.034	73,4	97	94
2. Borrowings	1.328	17,1	1.363	15,7	1.225	16,3	1.254	15,2	92	92
3.Deposits and loans with currency clause	584	7,5	584	6,8	661	8,8	661	8,1	113	113
4. Other	288	3,8	296	3,4	270	3,6	275	3,3	93	93
Total (1+2+3+4)	7.752	100,0	8.667	100,0	7.525	100,0	8.224	100,0	97	95
<i>III. Off-balance sheet</i>										
1.Assets	26		28		239		241			
2.Liabilities	435		438		249		378			
<i>IV.Position</i>										
Long (amount)	16		21		316		373			
%	1,0%		1,3%		19,1%		22,5%			
Short										
%										
Limit	30%		30%		30%		30%			
Below limit	29,0%		28,7%		10,9%		7,5%			

If we analyze the structure of foreign currencies in the financial assets⁴⁷ we see a dominant participation of EUR of 72,4, which decreased somewhat in comparison to the participation as of

⁴⁶ Source: Form 5-Foreign currency position.

31.12.2010. (74,8%) with slight decline in nominal amount from 1,7 billion KM to 1,6 billion KM. Participation of EUR in the liabilities has slightly increased from 88,7% to 90,7%, with decline in nominal amount from 7,2 billion KM to 6,9 billion KM.

However, calculation of the FX risk exposure also includes the amount of indexed items of assets (loans) and liabilities⁴⁸, which are especially significant in the assets (74,0% or 6,5 billion KM) this is slightly lower in relation to 31.12.2010. (75,5% or 6,9 billion KM). Other foreign currency assets items represent 26,0% or 2,3 billion KM, of which EUR items make 18,8% or 1,6 billion KM, and other currencies 7,2% or 0,6 billion KM (at the end of 2010, loans contracted with currency clause amounted to KM 6,9 billion with participation of 75,5%, and other items in EUR of 18,3% or 1,7 billion KM). Of total net loans (9,5 billion KM), 68,2% were contracted with currency clause, primarily tied to EUR (96,0%).

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 (8,2 billion KM) items in EUR (primarily deposits) had the highest participation of 83,5% or 6,9 billion KM, while participation and amount of indexed liabilities was at minimum, amounting to 8,0% or 0,7 billion KM (at the end of 2010, participation of liabilities in EUR was 82,7% or 7,2 billion KM, while indexed liabilities were 6,7% or 0,6 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 2011, ranged within the prescribed limits, with temporary short term defiances by some banks that lead to FBA taking measures in order to establish compliance. As of 31.12.2011., there were 13 banks with long foreign currency position, and six banks with short position (two banks had the defiance of the limitations). At the system level, long foreign currency position represented 22,5% of banks' core capital, which is lower by 7,5% than the limit. Individual foreign currency position for EURO was 19,11%, which is 10,9 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.

⁴⁷ 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).

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,
 - 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,
 - Maintain continuity in payment system examinations,
 - 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;
- Particularly, accelerate resolution of unsettled issues with the Government of BiH in relation to the Provisional Administration of Hercegovачka Bank d.d. Mostar related to terminal Dretelj.

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;
- Form an opinion about status of banks owned by the Federation of BiH;
- 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.

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- 39-2-S/12
Sarajevo, 28.03.2012.

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 - 31.12.2011.

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	HERCEGOVAČKA BANKA dd - MOSTAR	Mostar	Nadbiskupa Čule bb	036/332-901, fax:332-903	Provisional adminstrator - Nikola Fabijanić - 16.04.2007.
4	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	036/444-444, fax:444-235	MICHAEL VOGT
5	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032/448-400, fax:448-501	SUVAD IBRANOVIĆ
6	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Sarajevo	Obala Kulina bana 9a.	033/497-555, fax:497-589	ALMIR KRKALIĆ
7	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Ibrahima Mržljaka 3	037/771-253, fax:772-416	HASAN PORČIĆ
8	MOJA BANKA dd - SARAJEVO	Sarajevo	Kolodvorska br. 5.	033/720-070, fax:720-100	OGNJEN SAMARDŽIĆ
9	NLB TUZLANSKA BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/259-259, fax:250-596	ALMIR ŠAHINPAŠIĆ
10	POŠTANSKA BANKA BiH dd - SARAJEVO	Sarajevo	Put zivota 2.	033/564-000, fax: 564-050	Provisional administrator - Stjepan Jovičić - 05.10.2010.
11	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:664-175	AZEMINA GOLO
12	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Emerika Bluma 8.	033/250-950, fax:250-971	FRIEDER WOEHRMANN
13	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb.	033/755-010, fax: 213-851	MICHAEL MÜLLER
14	RAZVOJNA BANKA FEDERACIJE BIH	Sarajevo	Igmanska 1	033/277-900, fax: 668-952	RAMIZ DŽAFEROVIĆ
15	SPARKASSE BANK dd - SARAJEVO	Sarajevo	Zmaja od Bosne br. 7.	033/280-300, fax:280-230	SANEL KUSTURICA
16	TURKISH ZIRAAT BANK BOSNIA dd - SARAJEVO	Sarajevo	Dženetića Čikma br. 2.	033/252-230, fax: 252-245	Acting director - Ozcan Asanoglu
17	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:312-121	BERISLAV KUTLE
18	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	ESAD BEKTEŠEVIĆ
19	VAKUFСКА BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	AMIR RIZVANOVIĆ
20	VOLKSBANK BH dd - SARAJEVO	Sarajevo	Fra Anđela Zvzdovića 1	033/295-601, fax:295-603	REINHOLD KOLLAND

ATTACHMENT 2

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

Laws of the FBiH

Basic laws regulating work of the Banking Agency of the FBiH, banking, microcredit and leasing sectors

1. Law on Banking Agency of the Federation of BiH (“Official Gazette of the FBiH”, number 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06, 48/08)
2. 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)
3. Law on Microcredit organizations (“Official Gazette of the FBiH”, number: 59/06)
4. Law on Leasing („Official Gazette of the Federation of BiH number: 85/08 and 39/09)
5. Law on Development Bank of the Federation of BiH (“Official Gazette of the FBiH”, number: 37/08)
6. Decree on Criteria and Supervision Method of Development Bank of the FBiH, (“Official Gazette of the FBiH”, number: 57/08)

Other Laws

1. Law on Enterprises (“Official Gazette of the FBiH” number 23/99, 45/00, 2/02, 6/02, 29/03 and 68/05, 91/07, 84/08 and 63/10)
2. Law on Taking Over Public Limited Companies („Official Gazette of the FBiH“, number: 7/06)
3. Law on Financial Operations (“Official Gazette of the F BiH”, number 2/95, 14/97, 13/00 and 29/00)
4. Law on Foreign Exchange Operations (“Official Gazette of the F BiH”, number: 47/10)
5. Law on Bill of Exchange (“Official Gazette of the F BiH”, number 32/00, 28/03)
6. Law on Check (“Official Gazette of the F BiH”, number: 32/00)
7. Law on Obligations (“Official Gazette of RBiH” number 2/92, 13/93, Official Gazette of the FBiH number: 29/03 and 42/11)
8. Law on Opening Balance Sheet of Enterprises and Banks (“Official Gazette of the FBiH”, number 12/98, 40/99, 47/06, 38/08 and 65/09)
9. Law on Securities Market (“Official Gazette of the FBiH”, number: 85/08)
10. Law on Investment Funds (“Official Gazette of the FBiH”, number: 85/08)
11. Law on Securities Market (“Official Gazette of the FBiH”, number: 85/08)
12. Law on Securities Register (“Official Gazette of the FBiH”, number 39/98 and 36/99),
13. Law on Securities Commission (“Official Gazette of the FBiH” number 39/98 and 36/99)
14. Law on Payment Transactions (“Official Gazette of the FBiH”, number 32/00, 28/03)
15. Law on Termination of Law on Internal Payment System („Official Gazette of the FBiH“, number: 56/04)
16. Law on Accounting and Audit in the FBiH (“Official Gazette of the F BiH”, number: 83/09)

17. Law on rate amount of deferred interest on unpaid debt (“Official Gazette of the FBiH”, number: 56/04, 68/04, 29/05 and 48/11)
18. Law on Determination and Fulfillment Method of Internal Liabilities of the F BiH (“Official Gazette of the F BiH”, number 66/04, 49/05, 35/06, 31/08, 32/09, 65/09 and 42/11)
19. Law on Determination and Fulfillment of Citizen Claims from Privatization Process (“Official Gazette of the F BiH”, number 27/97, 8/99, 45/00, 54/00, 7/01, 32/01, 27/02, 57/03, 44/04, 79/07, 65/09 and 48/11),
20. Law on Debt, Indebtedness and Guarantees in the FBiH („Official Gazette of the FBiH“, number: 86/07, 24/09 and 44/10)
21. Law on Treasury of the FBiH (“Official Gazette of the FBiH”, number: 19/03)
22. Law on Registration of Legal Entities in the FBiH (“Official Gazette of the FBiH”, number 27/05 and 68/05)
23. Law on Classification of Activities in the FBiH (“Official Gazette of the FBiH”, number: 64/07)
24. Law on Foreign Exchange Operations (“Official Gazette of the FBiH”, number: 35/98)
25. Law on Audit (“Official Gazette of the F BiH”, number: 32/05)
26. Law on Property-Legal Relationships (“Official Gazette of the FBiH”, number 06/9 and 29/03)
27. Law on Land Books in the F BiH (“Official Gazette of the F BiH”, number 19/03 and 54/04)
28. Law on Profit Tax (“Official Gazette of the F BiH”, number: 97/07)
29. Law on Salary Tax (“Official Gazette of the F BiH”, number: 10/08, 9/10 and 44/11)
30. Law on Contributions (“Official Gazette of the F BiH”, number 35/98, 54/00, 16/01, 37/01, 1/02 and 17/06 and 14/08)
31. Law on Foreign Investments (“Official Gazette of the F BiH”, number 61/01 and 50/03)
32. Labor Law (“Official Gazette of the F BiH”, number 43/99, 32/00 and 29/03)
33. Law on Conflict of Interest in the Government Bodies in the F BiH (“Official Gazette of the F BiH”, number: 70/08)
34. Law on Violations of the FBiH (“Official Gazette of the F BiH”, number: 31/06)
35. Law on Courts in the F BiH (“Official Gazette of the F BiH”, number 38/95, 22/06 and 63/10)
36. Law on Courts in the Federation of BiH (“Official Gazette of the F BiH”, number 38/95, 22/06 and 63/10)
37. Law on Appraisers (“Official Gazette of the F BiH”, number 49/05 and 38/08)
38. Law on Free Access to Information in the FBiH („Official Gazette of the FBiH“, number: 32/01 and 48/11)
39. Law on Expropriation (“Official Gazette of the FBiH”, number: 70/07)
40. Law on Administrative Disputes („Official Gazette of the FBiH“, number: 9/05)
41. Law on Government of the F BiH („Official Gazette of the FBiH“, number 1/94, 8/95, 58/02, 19/03, 2/06 and 8/06)
42. Law on Bankruptcy Proceeding (“Official Gazette of the F BiH”, number 29/03, 32/04, 42/06),
43. Law on Liquidation Proceeding (“Official Gazette of the FBiH”, number: 29/03),
44. Law on Executive Proceeding (“Official Gazette of the F BiH”, number 32/03 and 33/06, 39/06-correction and 39/09),
45. Law on Civil Proceeding (“Official Gazette of the FBiH”, number 53/03, 73/05 and 19/06),
46. Law on Extrajudiciary Proceeding („Official Gazette of the FBiH“, number 2/98, 39/04, 73/05)
47. Law on Administrative Proceeding (“Official Gazette of the FBiH”, number: 2/98 and 48/99)

48. Criminal Law of the Federation of BiH (“Official Gazette of the FBiH”, number 36/03, 37/03, 21/04, 69/04 and 18/05, 42/10 and 42/11)
49. Law on implementation of criminal sanctions in the Federation of Bosnia and Herzegovina (“Official Gazette of the Federation of BiH”, number 44/98, 42/99, 12/09 and 42/11)
50. Law on criminal proceedings (“Official gazette of the FBiH”, number 35/03, 37/03, 56/03, 78/04, 28/05, 55/06, 27/07, 53/07, 9/09 and 12/10)
51. Law on Classification of Activities in the Federation of BiH (“Official Gazette of the FBiH”, number 64/07 and 80/11)
52. Law on Registration of Business Entities in the Federation of BiH (“Official Gazette of the FBiH”, number 27/05, 68/05, and 43/09)
53. Law on Tax Administration in the Federation of BiH (“Official Gazette of the FBiH”, number 33/02, 28/04, 57/09 and 140/10)
54. Law on Implementation of Penal Sanctions in the Federation of BiH (“Official Gazette of the FBiH”, number 44/98, 42/99 and 12/09)
55. Law on Crafts and Similar Activities (“Official Gazette of the FBiH”, number 35/09 and 42/11)
56. Law on Tourist-Catering Activity (“Official Gazette of the FBiH”, number 19/09 and 28/03)
57. Law on Trading (“Official Gazette of the FBiH”, number 64/04)
58. Law on Unified System of Control Registry and Collection of Contributions (“Official Gazette of the FBiH”, number 42/09)
59. Law on Payment of Liabilities based on Old Foreign Currency Savings in the Federation of BiH (“Official Gazette of the FBiH”, number 62/09 and 42/11)
60. Law on Determination and Payment Method of Internal Liabilities of the Federation of BiH (“Official Gazette of the FBiH”, number 66/04, 49/05, 35/06, 31/08, 32/09 and 65/09)
61. Law on financial- information agency ("Official Gazette of the Federation of BiH", Number: 80/11),
62. Law on agent activities in private insurance (“Official Gazette BiH“, No. 22/05 and 8/10),
63. Law on companies for insurance in private insurance (“Official gazette BiH“, No. 24/05 and 36/10).

Other regulations

1. Guidelines to Open and Close Accounts to Perform Payment Transactions and Records („Official Gazette of the Federation of BiH“, Number: 55/00, 61/05),
2. Guidelines on Conditions and Proceeding to Transporting Cash, Securities and Securities Registered as Foreign Currencies („Official Gazette of FBiH“, Number: 35/00).

Laws of BiH

1. Law on Prevention of Money Laundering (“Official Gazette of BiH“, number: 53/09)
2. Law on Deposit Insurance in BiH („Official Gazette of BiH“, number 20/02, 18/05, 100/08, and 75/09)
3. Law on Central Bank of BiH (“Official Gazette of BiH”, number 1/97, 29/02, 8/03, 13/03, 14/03, 9/05, 76/06)
4. Law on Competition („Official Gazette of the FBiH“, number 48/05, 76/07, and 80/09)
5. Law on Consumer Protection in BiH („Official Gazette of BiH“, number: 25/06)
6. Law on Protection of Personal Data („Official Gazette of BiH“, number: 49/06 and 76/11)

7. Law on Electronic Signature („Official Gazette of BiH“, number: 91/06)
8. Law on Classification of Activities in BiH („Official Gazette of BiH“, number 76/06 and 100/08)
9. Law on Meeting Liabilities for Old Foreign Currency Savings („Official Gazette of BiH“, number 28/06, 76/06, 72/07 and 97/11)
10. Law on Temporary Postponement of Execution of Claims from Executive Decision against Budget of the Institutions of Bosnia and Herzegovina and International Liabilities of Bosnia and Herzegovina (“Official Gazette of BiH“, number 43/03 and 43/04)
11. Law on Accounting and Audit of Bosnia and Herzegovina (“Official Gazette of BiH“, number: 42/04)
12. Law on Temporary Suspension of Disposal of State Property of BiH (“Official Gazette of BiH“, number: 32/07)
13. Law on Supervision over the Markets in BiH (“Official Gazette of BiH“, number 45/04 and 44/07)
14. Law on Central Records and Data Exchange (“Official Gazette of BiH“, number 16/02 and 32/07)
15. Law on Indirect Taxation (“Official Gazette of BiH“, number 52/04 and 32/079)
16. Law on Treasury of Institutions of BiH («Official Gazette of BiH», number 27/00)
17. Law on Violations (“Official Gazette of BiH“, number: 41/07)
18. Roof Law on Pledges (“Official Gazette of BiH“, number 27/04 and 54/04)
19. Law on Value Added Tax (“Official Gazette of BiH“, number 9/05 and 35/05 and 100/08)
20. Law on Electronic Legal and Business Turnover (“Official Gazette of BiH“, number: 88/07)
21. Law on Conflict of Interest in the Government Institutions of Bosnia and Herzegovina (“Official Gazette of BiH“, number 16/02,12/04 and 63/08)
22. Law on Courts of Bosnia and Herzegovina (“Official Gazette of BiH“, number 29/00, 16/02, 24/02, 3/02, 37/03, 4/04 and 9/04, 32/07)
23. Law on High Court and Judicial Council (“Official Gazette of BiH“, number 15/02, 26/02, 35/02, 42/03, 10/04 and 32/07)
24. Law on Judiciary of Bosnia and Herzegovina (“Official Gazette of BiH“, number 42/03, 9/04 and 35/04)
25. Criminal Law of BiH (“Official Gazette of BiH“, number 37/03, 61/04, 30/05, 53/06, 55/06 and 32/07)
26. Law on Administrative Disputes of BiH (“Official Gazette of BiH“, number 19/02, 83/08 and 88/07 and 74/10)
27. Law on Criminal Proceeding of Bosnia and Herzegovina (“Official Gazette of BiH“, number 36/03, 26/04, 76/06, 32/07, 76/07, 15/08 and 58/08)
28. Law on Administrative Proceeding (“Official Gazette of BiH“, number 29/02 and 12/04, 88/07)
29. Law on Civil Proceeding before the Courts of Bosnia and Herzegovina (“Official Gazette of BiH“, number 36/04, 84/07);
30. Law on Civil Proceeding („Official Gazette of BiH“, number: 53/03);
31. Law on Mediation (“Official Gazette of BiH“, number: 37/04);
32. Law on Public Supplies of BiH („Official Gazette of BiH“, number 49/04, 19/05, 52/05, 8/06, 24/06, 70/06, 12/09 and 60/10)
33. Law on Customs Tariffs (“Official Gazette of BiH“, number 1/98, 5/98, 7/98, 22/98, 31/02, 32/04, 48/05, 76/06, and 39/09)
34. Law on the unified personal number (“Official Gazette of BiH“, number: 32/01 and 63/08, 103/11)
35. Law on use and protection of the BiH title (“Official Gazette of BiH“, number: 30/03, 42/04, 50/08 and 76/11)
36. Law on patents (“Official Gazette of BiH“, number: 53/10)
37. Law on procedure for forced collection of indirect taxation (“Official Gazette of BiH“

number: 89/05 and 62/11).

Other regulations

1. Guidelines on Data, Information, Records, Identification Methods and Minimum Other Indicators for Effective Implementation of the Provisions of the Law on Prevention of Money Laundering („Official gazette of BiH“, Number: 17/05),
2. Conclusion on Authentic Interpretation of Laws, Other Regulations and General Acts (“Official Gazette of BiH“, Number: 24/04).

DECISION OF THE BANKING AGENCY OF THE FEDERATION OF BIH REGULATING WORK OF BANKS

1. Decision on Bank Supervision and Actions of the Banking Agency of the Federation of BiH (“Official Gazette of the F BiH”, number 3/03)
2. Decision on Minimum Standards for Capital Management in Banks (“Official Gazette of the F BiH”, number 3/03, 18/03, 53/06, 55/07, 81/07, 6/08, 86/10, 70/11)
3. Decision on Minimum Standards for Loan Risk and Assets Classification Management in Banks (“Official Gazette of the F BiH”, number 3/03, 12/04, 88/07, 6/08, 86/10, 6/11, 70/11 and 85/11, 85/11 cleared version)
4. Decision on Minimum Standards for Risk Concentration Management in Banks (“Official Gazette of the F BiH”, number 3/03, 6/03 correct., 18/03, 64/03, 1/06, 46/11 and 70/11)
5. Decision on Minimum Standards for Liquidity Risk Management in Banks (“Official Gazette of the F BiH”, number 3/03, 12/04, 88/07, 6/08)
6. Decision on Minimum Standards for Foreign Exchange Risk Management in Banks (“Official Gazette of the F BiH”, number 3/03, 31/03, 64/03, 54/04)
7. Decision on Minimum Standards for Activities of Banks in Prevention of Money Laundering and Terrorism Financing (“Official Gazette of the F BiH”, number 3/03, 18/04, 5/05, 13/05)
8. Decision on Financial Disclaimer (“Official Gazette of the F BiH”, number 3/03)
9. Decision on Minimum Standards for Operations with Related Entities in Banks (“Official Gazette of the F BiH”, number 3/03)
10. Decision on Minimum Standards for Documenting Loan Activities in Banks (“Official Gazette of the F BiH”, number 3/03)
11. Decision on Minimum Standards for Internal Control System in Banks (“Official Gazette of the F BiH”, number 3/03)
12. Decision on Minimum Standards for Internal and External Audit in Banks (“Official Gazette of the F BiH”, number 3/03)
13. Decision on Conditions when Bank is Considered Insolvent (“Official Gazette of the F BiH”, number 3/03)
14. Decision on Procedure for Determination of Claims and Distribution of Assets and Liabilities in Liquidation of Banks (“Official Gazette of the F BiH”, number 3/03)
15. Decision on Reporting Forms Submitted by Banks to the Banking Agency of the Federation of BiH (“Official Gazette of the F BiH”, number 3/03, 18/03, 52/03, 64/03 correct., 6/04, 14/04, 54/04, 5/05, 43/07, 55/07, 81/07, 88/07, 6/08, 86/10, 70/11 and 1/12)
16. Decision on Reporting about Non-performing Customers Considered a Special Loan

- Risk (“Official Gazette of the F BiH”, number 3/03)
17. Decision on Minimum Scope in Form and Content of Program and Reporting about Economic-Financial Audit in Banks (“Official Gazette of the F BiH”, number 3/03, 64/03 and 85/11)
 18. Internal Rating Criteria of Banks performed by the Banking Agency of the Federation of BiH (“Official Gazette of the F BiH”, number 3/03, 6/03 correct.)
 19. Decision on temporary measures for restructuring credit liabilities of individuals and legal entities in banks (“Official Gazette of BiH”, number 20/10, 86/10 and 1/12)
 20. Decision on closer conditions and manner of bank’s performance on the client’s complaint (“Official Gazette of Federation of BiH”, number 32/10)
 21. Decision on Interest and Fee Accrual for Dormant Accounts (“Official Gazette of the F BiH”, number 7/03)
 22. Decision on Amount and Conditions for Origination of Loans to Bank Employees (“Official Gazette of the F BiH”, number 7/03 and 83/08)
 23. Guidelines for Licensing and Other Approvals Issued by the Banking Agency of the Federation of the F BiH”, 6/08 cleaned text, 46/11)
 24. Decision on Minimum Standards for Market Risks Management in Banks (“Official Gazette of the Federation of BiH“, number: 55/07, 81/07, 6/08 and 52/08 and 79/09)
 25. Decision on Unified 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)
 26. Decision on Minimum Standards for Operating Risk Management in Banks („Official Gazette of the FBiH“, number: 6/08 and 40/09).
 27. Decision on Temporary Measures for Renegotiation of Citizen and Legal Entities’ Credit Liabilities (“Official Gazette of the FBiH”, number 02/10 and 1/12)
 28. Decision on determining fees of the Banking Agency of the Federation of Bosnia and Herzegovina (“Official Gazette of FBiH”, number 37/98, 5/99, 59/06, 10/07 and 46/11)
 29. Decision on Determining Level of Fees to Conduct Supervision of Development Bank of the Federation of BiH (“Official Gazette of the FBiH”, 65/09)
 30. Decision on minimum standards for managing information system in banks in BiH (“Official Gazette of Federation of BiH”, number: 1/12)
 31. Decision on minimum standards for managing externalisation (“Official Gazette of Federation of BiH” number: 1/12).

DECISIONS OF THE BANKING AGENCY OF THE FEDERATION OF BIH REGULATING WORK OF MICROCREDIT ORGANIZATIONS

1. 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)
2. 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)
3. 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)
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)

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 Fees Microcredit Organizations Pay to the Banking Agency of the Federation of BiH („Official Gazette of the Federation of BiH“, number: 27/07)
9. 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).

DECISIONS OF THE BANKING AGENCY OF THE FEDERATION OF BIH REGULATING WORK OF LEASING COMPANIES

1. 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) ,
2. 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),
3. 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: 46/09),
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 accrual and reporting of effective interest rate for financial leasing contracts („Official Gazette of the Federation of BiH“, number: 46/09),
6. 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),
7. 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),
8. Decision on supervision of leasing companies („Official Gazette of the Federation of BiH“, number: 46/09),
9. 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).

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

ATTACHMENT 3

in 000 KM

No.	DESCRIPTION	31.12.2009.	31.12.2010.	31.12.2011.
	ASSETS			
1.	Cash funds and deposit accounts at depository institutions	4.782.301	4.443.614	4.378.076
1a	Cash and non-interest deposit accounts	490.171	452.188	528.721
1b	Interest deposit accounts	4.292.130	3.991.426	3.849.355
2.	Trading securities	12.884	233.178	300.228
3.	Placements in other banks	111.019	145.007	79.940
4.	Loans, receivables in leasing and past due receivables	9.796.800	9.981.911	10.413.416
4a	Loans	9.442.455	9.414.597	9.453.474
4b	Receivables on leasing	145	132	120
4c	Past due receivables - loans and leasing	354.200	567.182	959.822
5.	Securities held until maturity	106.273	142.074	158.237
6.	Premises and other fixed assets	503.157	521.625	503.802
7.	Other real estate	25.753	31.139	36.947
8.	Investments in non-consolidated related enterprises	42.693	44.753	42.186
9.	Other assets	336.287	193.609	281.189
10.	MINUS: Reserves for potential losses	480.807	661.213	1.003.295
10a	Value adjustment on the items position 4 in Assets	458.803	635.792	929.579
10b	Value adjustment on the position of Assets except position 4 *	22.004	25.421	73.716
11.	TOTAL ASSETS	15.236.360	15.075.697	15.190.726
	LIABILITIES			
12.	Deposits	11.045.868	11.232.830	11.050.514
12a	Interest deposits	10.180.008	10.134.101	10.053.986
12b	Non-interest deposits	865.860	1.098.729	996.528
13.	Loans - past due	2.744	1.723	1.762
13a	Balance of payable loans, unpaid	0	0	0
13b	Unpaid - called for payment off-balance sheet items	2.744	1.723	1.762
14.	Loans from other banks	3.089	7.000	2.000
15.	Payables to Government	0	0	0
16.	Payables on loans and other borrowings	1.771.978	1.403.451	1.319.299
16a	payable within one year	678.608	381.305	387.585
16b	payable longer than one year	1.093.370	1.022.146	931.714
17.	Subordinated debts and subordinated bonds	250.483	226.847	206.159
18.	Other liabilities	484.500	507.221	527.972
19.	TOTAL LIABILITIES	13.558.662	13.379.072	13.107.706
	CAPITAL			
20.	Permanent priority shares	25.028	25.028	26.059
21.	Common shares	1.145.627	1.148.269	1.167.513
22.	Shares issued	143.725	136.485	136.485
22a	Permanent priority shares	8.420	8.420	8.420
22b	Common shares	135.305	128.065	128.065
23.	Undistributed income and capital reserves	358.480	489.557	376.621
24.	Currency rate difference	0	0	0
25.	Other capital	4.838	-102.714	84.128
26.	TOTAL CAPITAL (20. TO 25.)			292.214
27.	TOTAL LIABILITIES AND CAPITAL (19+26)	1.677.698	1.696.625	2.083.020
28.	PASSIVE AND NEUTRAL SUBBALANCE	15.236.360	15.075.697	15.190.726
	TOTAL BALANCE SHEET IN BANKS	622.094	659.059	671.241
	CAPITAL	15.859.732	15.734.756	15.861.967

*in 2009. and 2010.: reserves for loan losses

ATTACHMENT 4

**REVIEW OF ASSETS, LOANS, DEPOSITS AND FINANCIAL RESULT OF
BANKS IN F BiH as of 31.12.2011.**

in 000 KM

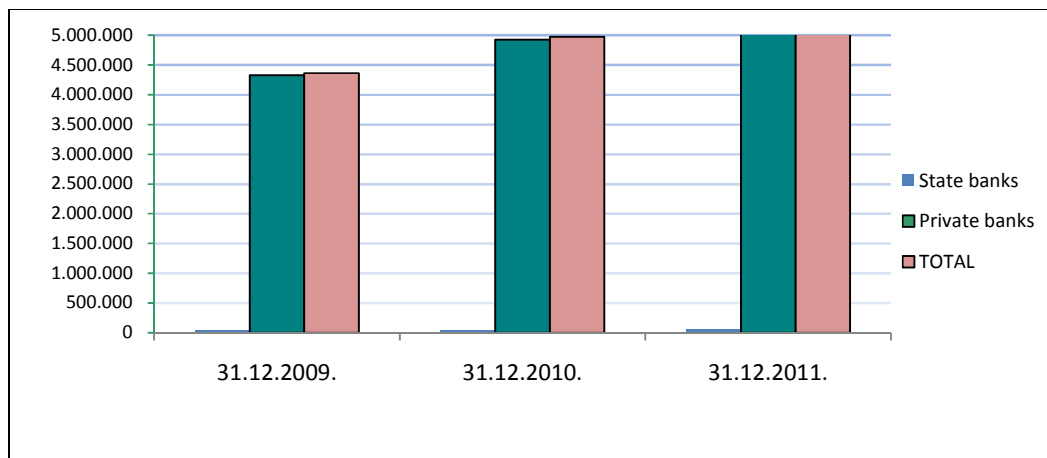
N o.	BANK	Assets		Loans		Deposits		Financial result
		Amount	%	Amount	%	Amount	%	Amount
		1	BOR BANKA dd SARAJEVO	217.261	1,43%	170.211	1,63%	93.282
2	BBI BANKA dd SARAJEVO	338.117	2,23%	210.200	2,02%	265.997	2,4%	2.078
3	HERCEGOVAČKA BANKA dd MOSTAR	84.325	0,56%	16.431	0,16%	96.899	0,9%	-480
4	HYPO ALPE-ADRIA-BANK dd MOSTAR	1.480.351	9,75%	1.028.241	9,87%	1.057.618	9,6%	-37.762
5	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	188.956	1,24%	95.896	0,92%	137.704	1,2%	1.951
6	INTESA SANPAOLO BANKA dd BiH	1.341.053	8,83%	1.093.509	10,50%	822.302	7,4%	10.308
7	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	61.511	0,40%	34.160	0,33%	37.175	0,3%	814
8	MOJA BANKA dd SARAJEVO	150.562	0,99%	119.833	1,15%	122.833	1,1%	57
9	NLB TUZLANSKA BANKA dd TUZLA	907.079	5,97%	641.441	6,16%	710.094	6,4%	3.409
10	POŠTANSKA BANKA doo SARAJEVO	52.158	0,34%	32.916	0,32%	38.955	0,4%	-4.890
11	PRIVREDNA BANKA dd SARAJEVO	226.160	1,49%	150.995	1,45%	174.030	1,6%	302
12	PROCREDIT BANK dd SARAJEVO	313.429	2,06%	270.622	2,60%	207.501	1,9%	532
13	RAIFFEISEN BANK BH dd SARAJEVO	4.048.059	26,65%	2.554.036	24,53%	2.946.418	26,7%	43.853
14	SPARKASSE BANK d.d. SARAJEVO	819.826	5,40%	675.986	6,49%	694.802	6,3%	6.391
15	TURKISH ZIRAAT BANK dd SARAJEVO	160.407	1,06%	77.814	0,75%	87.702	0,8%	925
16	UNION BANKA dd SARAJEVO	191.881	1,26%	65.786	0,63%	133.757	1,2%	697
17	UNI CREDIT BANKA BH dd SARAJEVO	3.548.431	23,36%	2.479.193	23,81%	2.587.228	23,4%	49.984
18	VOLKSBANK BH dd SARAJEVO	817.969	5,38%	526.017	5,05%	654.404	5,9%	4.012
19	VAKUFСКА BANKA dd SARAJEVO	243.191	1,60%	170.129	1,63%	181.813	1,6%	72
	TOTAL	15.190.726	100,0%	10.413.416	100,0%	11.050.514	100,0%	83.632

ATTACHMENT 5

NEW CITIZEN SAVINGS BY PERIODS IN THE BANKS IN FBiH

in 000 KM

	31.12.2009.	31.12.2010.	31.12.2011.
State banks	35.275	47.148	50.259
Private banks	4.325.928	4.926.361	5.311.178
TOTAL	4.361.203	4.973.509	5.361.437



ATTACHMENT 6

**CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS IN
BANKS IN FBiH
as of 31.12.2011.**

- ACTIVE BALANCE SHEET -

in 000 KM

No.	BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	1.944.549	317.384	15.603	7.466	802	2.285.804
2.	Long-term loans	5.980.956	723.564	211.880	154.105	56.302	7.126.807
3.	Other placements	168.587	8	48	67	2.342	171.052
4.	Interest accrued	39.769	9.865	2.047	4.988	51.978	108.647
5.	Past due receivables	70.968	84.308	44.063	202.471	533.204	935.014
6.	Receivables on guarantees paid	290	269	83	86	24.080	24.808
7.	Other assets	351.695	5.862	661	1.400	11.856	371.474
8.	TOTAL BALANCE SHEET ASSETS WHICH IS CLASSIFIED (total of positions from 1.to 7. – base for accrual of regulatory reserves for loan losses)	8.556.814	1.141.260	274.385	370.583	680.564	11.023.606
9.	ACCRUED REGULATORY RESERVES FOR LOAN LOSSES ON BALANCE SHEET ASSETS	168.738	101.842	66.351	206.876	680.566	1.224.373
10.	VALUE ADJUSTMENT OF BALANCE SHEET ASSETS	100.912	72.960	85.124	155.205	589.095	1.003.296
11.	NEEDED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS	67.826	28.882	-18.773	51.671	91.471	221.077
12.	ESTABLISHED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS	75.979	38.503	-9.308	71.205	82.413	258.792
13.	LACKING AMOUNT OF REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS						19.375
14.	BALANCE SHEET ASSETS WHICH IS NOT CLASSIFIED(gross bookkeeping value)						5.170.415
15.	TOTAL BALANCE SHEET ASSETS (gross bookkeeping value)						16.194.021

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	2.724.872
14.b	Demand funds and time deposits up to one month on the accounts in banks with a determined investment rating	1.581.465
14.c	Tangible and non tangible property	526.554
14.d	Gained financial and material assets in process of collection of receivables during one year of acquisition	5.023
14.e	Treasury shares	0
14.f	Claims for overpaid tax liabilities	14.061
14.g	Securities intended for trading	153.877
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	164.563
	TOTAL position 14	5.170.415
8a.	Amount of placement of the secured cash deposit	119.860

ATTACHMENT 6A

**CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS IN
BANKS IN FBiH
As of 31.12.2011.**

- CLASSIFICATION OF OFF-BALANCE SHEET ITEMS -

in '000 KM

No.	OFF BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Guarantees payable	359.362	67.274	639	430	0	427.705
2.	Performing guarantees	484.946	97.657	214	1.600	0	584.417
3.	Unsecured LoC	39.585	9.795	0	0	0	49.380
4.	Irrevocable loans	1.308.797	48.250	6.843	2.752	351	1.366.993
5.	Other potential liabilities	15.760	841	0	109	4.382	21.092
6.	TOTAL OFF BALANCE SHEET ITEMS CLASSIFIED (total of positions 1 to 5 – base for accrual of regulatory reserves for loan losses)	2.208.450	223.817	7.696	4.891	4.733	2.449.587
7.	ACCRUED REGULATORY RESERVES FOR LOAN LOSSES ON OFF BALANCE SHEET ITEMS	43.124	14.069	1.447	2.675	4.733	66.048
8.	PROVISIONING FOR LOSSES FOR OFF BALANCE SHEET ITEMS	22.320	4.350	1.339	1.201	4.555	33.765
9.	NEEDED REGULATORY RESERVES FRO PROFIT FOR ESTIMATED LOSSES ON OFF BALANCE SHEET ITEMS	20.804	9.719	108	1.474	178	32.283
10.	ESTABLISHED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ITEMS	21.666	10.000	162	1.479	115	33.422
11.	LACKING AMOUNT OF REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF BALANCE SHEET ITEMS						1.019
12.	OFF BALANCE SHEET ITEMS WHICH ARE NOT CLASSIFIED						445.002
13.	TOTAL OFF BALANCE SHEET ITEMS						2.894.589
6a.	Amount of potential liabilities secured with cash deposit						52.180

ATTACHMENT 7

INCOME STATEMENT

in 000 KM

ELEMENTS	PERFORMED 31.12. 2010.		PERFORMED 31.12.2011.		RATIO 4 / 2
	Amount	Partic. in total income	Amount	Partic. in total income	
INCOME					
Interest income	856.528	96%	866.684	98%	101
Interest expenses	325.773	37%	294.557	33%	90
Net interest income	530.755	60%	572.127	64%	108
Fee income and other operating income	328.573	37%	316.540	36%	96
TOTAL INCOME	859.328	100%	888.667	100%	103
EXPENSES					
Value adjustment*	386.102	43%	189.809	21%	49
Salaries and contribution expenses	242.690	27%	250.783	28%	103
Fixed assets and overhead expenses	152.737	17%	157.786	18%	103
Other expenses	172.018	19%	191.293	22%	111
TOTAL EXPENSES (without interests)	953.547	107%	789.671	89%	83
NET INCOME BEFORE TAX	-94.219		98.996		
Income Tax	8.757		15.364		
NET INCOME	-102.976		83.632		

*In 2010: reserves for loan losses

ATTACHMENT 8
COMPARATIVE SCHEDULE OF CAPITAL BALANCE AND ADEQUACY IN
BANKS IN FBiH
ACTIVE SUB-BALANCE SHEET

in 000 KM

No.	DESCRIPTION	31.12.2009.	31.12.2010.	31.12.2011.
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	1.155.790	1.157.918	1.177.932
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	143.725	136.485	136.485
1.4.	General regulatory reserves (reserves as regulated by the Law)	78.317	183.807	192.752
1.5.	Other reserves not related to assets quality assessment	201.758	228.867	262.501
1.6.	Retained - undistributed income from previous years	161.562	165.532	225.861
1.a.	TOTAL (from 1.1. to 1.6.)	1.753.702	1.885.159	2.008.081
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	82.324	92.058	250.611
1.8.	Losses from current year	52.966	157.933	43.132
1.9.	Book value of treasury shares owned by the bank	595	81	81
1.10.	Amount of intangible assets	63.119	63.249	57.180
1.b.	TOTAL (from 1.7.to 1.10.)	199.004	313.321	351.004
1.	AMOUNT OF CORE CAPITAL: (1.a.-1.b.)	1.554.698	1.571.838	1.657.077
2	BANK'S SUPPLEMENTARY CAPITAL			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	2.829	2.829	3.090
2.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. And rights	0	0	0
2.3.	General reserves for losses on loans from class. A - performing assets	205.254	209.612	211.862
2.4.	Accrued income for current year audited and confirmed by external auditor	49.186	52.090	62.574
2.5.	Income under FBA's temporary restriction on distribution	0	0	0
2.6.	Subordinated debts, the most 50% of core capital	184.093	159.056	139.754
2.7.	Hybrid convertible items - the most 50% of core capital	0	0	0
2.8.	Items-permanent liabilities without repayment duty	66.390	66.399	50.750
2.	AMOUNT OF SUPPLEMENTARY CAPITAL: (from 2.1. to 2.8.)	507.752	489.986	468.030
3	OFFSETTING ITEMS FROM BANK'S CAPITAL			
3.1.	Part of invested share capital that according to FBA's assessment represents accepted and overestimated value	0	0	0
3.2.	Investments in capital of other legal entities exceeding 5% of bank's core capital	16.036	15.938	18.408
3.3.	Receivables from shareholders for significant voting shares - approved aside from regulations	0	0	0
3.4.	VIKR to shareholders with significant voting shares in the bank without FBA's permission	0	0	0
3.5.	AMOUNT OF OFFSETTING ITEMS FROM BANK'S CAPITAL (3.1. to 3.4.)			19.465
3.	AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)	16.036	15.938	37.873
A.	RISK FROM RISK-WEIGHTED ASSETS AND CREDIT EQUIVALENTS	2.046.414	2.045.886	2.087.234
B.	POR (RISK-WEIGHTED OPERATING RISK)	11.790.234	11.713.116	11.216.477
C.	PTR (RISK-WEIGHTED MARKET RISK)	882.928	942.707	965.932
D.	TOTAL RISK-WEIGHTED RISKS B+C+D	0	0	0
E.	NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100	12.673.162	12.655.823	12.182.409
F.	Part of invested share capital that according to FBA's assessment represents accepted and overestimated value	16,4%	16,2%	17,1%

ATTACHMENT 9

NUMBER OF EMPLOYEES BY BANKS

No.	BANK	31.12.2009.	31.12.2010.	31.12.2011.
1	BOR BANKA dd SARAJEVO	51	54	57
2	BOSNA BANK INTERNATIONAL dd Sarajevo	185	207	235
3	HERCEGOVACKA BANKA dd MOSTAR	77	75	72
4	HYPO ALPE ADRIA BANK dd MOSTAR	600	568	647
5	INTESA SANPAOLO BANKA dd BiH	514	519	525
6	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	174	178	173
7	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	68	67	71
8	MOJA BANKA dd SARAJEVO	133	143	171
9	NLB TUZLANSKA BANKA dd TUZLA	473	474	471
10	POŠTANSKA BANKA dd SARAJEVO	111	91	90
11	PRIVREDNA BANKA dd SARAJEVO	195	211	191
12	PROCREDIT BANK dd SARAJEVO	662	501	427
13	RAIFFEISEN BANK BH dd SARAJEVO	1.669	1.630	1.576
14	SPARKASSE BANK dd SARAJEVO	426	426	432
15	TURKISH ZIRAAT BANK dd SARAJEVO	152	150	158
16	UNA BANKA dd BIHAĆ	56	-	-
17	UNI CREDIT BANKA BH dd MOSTAR	1.389	1.362	1.338
18	UNION BANKA dd SARAJEVO	175	180	177
19	VAKUFСКА BANKA dd SARAJEVO	212	222	229
20	VOLKSBANK BH dd SARAJEVO	334	330	329
	TOTAL	7.656	7.388	7.369