



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

**INFORMATION
ON BANKING SYSTEM OF
THE FEDERATION OF BOSNIA AND HERZEGOVINA
As of December 31st, 2008**

Sarajevo, March 2009

Information on banking system of the Federation of BiH (as of December 31st, 2008 upon the final non-audited 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

Banking sector in the Federation of BiH, over a very turbulent year of 2008, due to the spillover effect of the global economic and financial crisis in BiH, which became more apparent in the fourth quarter, has succeeded in the business sense to maintain a positive trend of growth and has confirmed that loans and deposits represent core products of our banks whose stability is secured by highly liquid reserves and position of a debtor and not a creditor in the unstable markets.

The established regulatory framework regulating performance of banks, especially in the segment of credit and liquidity risks, along with the effective supervision of banks and control mechanism in the area of legitimacy of their work; implementation of regulations and maintenance of the standards that have been set forth; as well as improvements in the management and governance quality in majority of banks; are some key factors that have contributed that the banking sector, under such newly created and difficult conditions of bank performance, especially in the last quarter of 2008, as the time when the crisis expands and moves to other sectors and economic subjects, remains stable, safe, solvent and liquid.

At the end of 2008, there were 20 banks with the banking license issued in the F BiH. This number is lower by two banks in comparison to the end of 2007: HVB Central Profit Bank d.d. Sarajevo was integrated into UniCredit Zagrebačka bank d.d. Mostar (the new name of the Bank is UniCredit Bank d.d. Mostar), while the special law regulates establishment and work of Development Bank of the FBiH Sarajevo, that has become a legal successor of Investment Bank of the F BiH d.d. Sarajevo since 01.07.2008.

The Banking Agency of the FBiH (FBA), dated on 12.09.2008., issued a resolution to finalize the provisional administration process in Privredna bank d.d. Sarajevo, while provisional administration is still in place at UNA bank d.d. Bihać and Hercegovska bank d.d. Mostar.

Banks have continued expanding the network of their organizational units, alongside with the number of employees that at the end of 2008 increased to total number of employees of 7.991.

Integration processes have been implemented in function of stronger market positioning, resulting by the largest banks becoming larger; decreased number of banks; and strengthening of capital base; more intensified competition and increased concentration in the banking sector of the F BiH.

The aggregate balance sheet of banks at the end of 2008 was KM 15,1 billion, with apparent domination of the five largest banks in the system that „hold“ approximately 80% of the market (74,4% at the end of 2007) of loans and deposits. Growth of the aggregate balance sheet in its sources has been financed primarily by the growth of borrowings, deposits and capital.

Regulatory capital of banks in the FBiH, as of 31.12.2008., amounted to two billion KM. Increase of banks' core capital in 2008, as based on the inflow of new, green capital through additional capitalization of eight banks (in the amount of 179 million KM and the premium on issue of 41 million KM), and supplementary capital (general loan loss reserves, subordinate debts and permanent items), on one side, has mitigated the influence of the status change of the Investment Bank of the F BiH and exclusion of this bank's data from the banking system indicators after 01.07.2008., and on the other side, by increasing strength and adequacy of capital base of individual banks, trend of increasing stability and safety of both banks and the entire system has continued.

It is quite encouraging that, under the newly created difficult financial conditions, domestic banks in the FBiH, owned by foreign banking groups, have received a significant financial

support from the Groups through long-term and short-term/revolving credit lines, deposits, new standby arrangements and finally through inflow of new capital that just in the fourth quarter of 2008 amounted to KM 130 million, which has strengthened capital base of individual banks and the banking sector in the F BiH.

At the beginning of October, under the influence of the expanding global financial crisis, pressure on banks in the FBiH increased, while certain portion of citizen savings deposits withdrew. However, the condition was stabilized very soon, amounting to four billion KM at the end of 2008 (three largest banks hold 72,6% of savings). In order to preserve the confidence of our citizens in safety and stability of the banking system in BiH, in December 2008 the amount of deposit insurance increased to KM 20.000.

At the end of 2008, positive financial result-profit was generated at the system level of KM 52 million, representing a decrease of high 52,8% or KM 58 million if compared to 2007.

The profit has decreased due to the influence of the following: slower growth of interest income and downfall of credit activities in the last quarter of 2008, as well as growth of interest expenses or financing sources expenses of banks.

During 2008, the most explicit changes could be summarized as slower growth of the system, downfall of profitability and significantly lower profit at the level of the sector, followed by decreased number of banks through integration processes, resulting by higher concentration in three key segments of banking performance (assets, loans and deposits), strengthening of capital base, inflow of new foreign investments and deposits funds and additional capitalization, resulting by changes in the ownership structure and participation of state, foreign and private domestic (resident) capital in the overall equity.

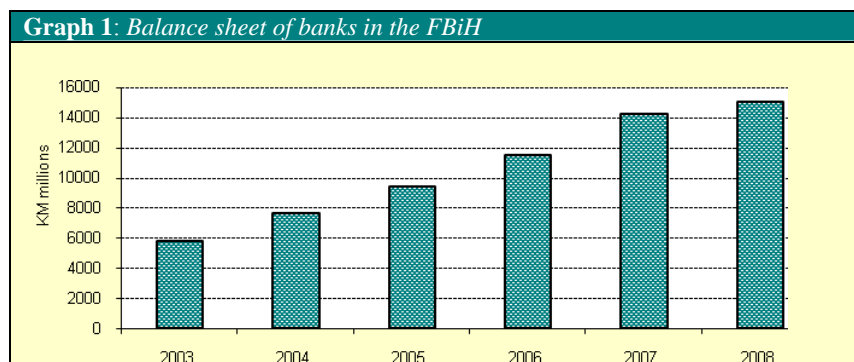
• *Growth and development of the banking sector and ownership structure:* The following table presents changes in the number and ownership structure of banks over the last five years.

Table 1: Review of changes in the number and ownership structure of banks			
	State banks	Private banks	TOTAL
31.12. 2003.	7	20	27
Changes in 2004:			
- licenses revoked	-1		-1
- merger with/integration into		-2	-2
31.12.2004.	6	18	24
No changes in 2005.			
31.12. 2005.	6	18	24
Changes in 2006:			
- licenses revoked	-1		-1
- new licenses		+1	+1
- merger with/integration into		-1	-1
31.12.2006.	5	18	23
Changes in 2007:			
- merger with/integration into		-1	-1
- ownership structure changes	-2	+2	
31.12.2007.	3	19	22
Changes in 2008			
- merger with/integration into		-1	-1
- licenses revoked ¹	-1		-1
31.12.2008.	2	18	20

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.

Balance sheet

Unlike previous years, all significant indicators of the banking sector performance recorded low to moderate growth in 2008. The banks' assets recorded growth of 6% or KM 876 million, reaching the amount of KM 15,1 billion. Over the past five years or in the period from the beginning of 2004 to the end of 2008, the aggregate balance sheet of the system increased by more than 2,5 times.



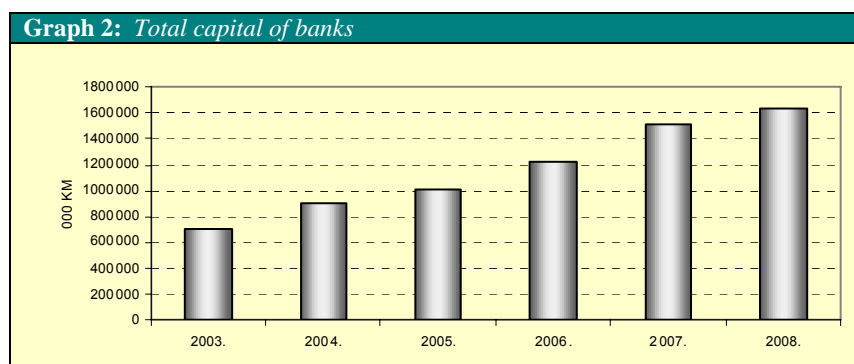
Growth of the aggregate balance sheet in the sources is primarily generated by increase of borrowings by KM 320 million or 17%, capital by KM 129 million or 9% and deposits by KM 271 million, representing an increase of only 3%, if compared to 2007.

The most significant item in the assets of banks with participation of 69,2% is credit placements, which in 2008 jump to 1,6 billion or 18%, reaching the amount of KM 10,4 billion. In 2008, the highest lending activity of banks was recorded towards private companies and citizens that at the same time represent two dominant sectors with total participation of 96,1%.

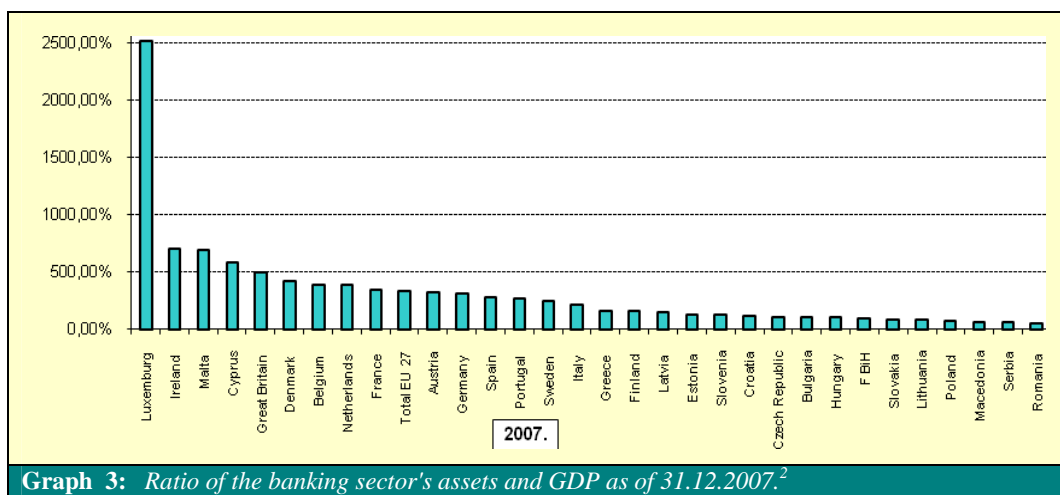
Cash funds decreased by 14% or KM 687 million, that has been caused primarily by growth of loans, amounting to KM 4,2 billion, which represents participation of 27,9% in the assets.

Deposits, with participation of 69,4% and amount of KM 10,5 billion, are still the most significant source of financing for banks in the FBiH.

Total capital of banks amounted to KM 1,6 billion (shareholders' was KM 1,1 billion), representing an increase of 9%. The mentioned capital increase is primarily caused by inflow of new, green capital – additional capitalization in eight banks of KM 220 million. If compared to 2007, this represents an increase of 21% or KM 38 million.



One of the indicators of strength and development of a country's banking system is ratio between assets and Gross Domestic Product (GDP). In developed countries, assets are twice or more higher than their GDP, while in transition countries this indicator is below 100%. According to these criteria, the banking sector of the Federation of BiH has solid performance, and according to the data for 2007, the assets reached 103,3% of the GDP for the FBiH.



Graph 3: Ratio of the banking sector's assets and GDP as of 31.12.2007.²

Income statement

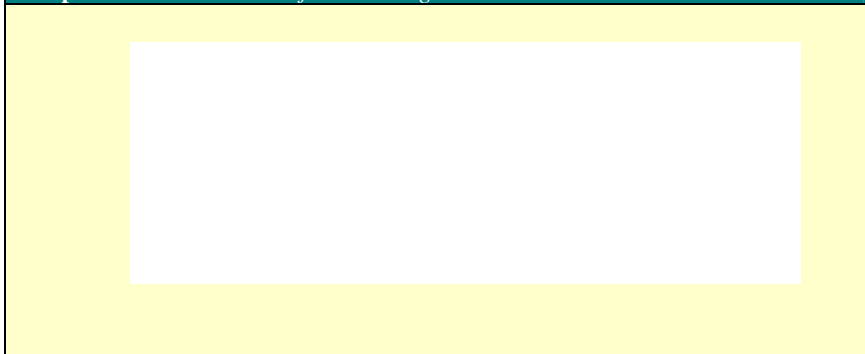
Since 2001, when the banking system reported loss of KM 33 million, a positive trend of a successful performance has begun that due to the global economic and financial crisis spreading was stopped in 2008, so we recorded a significant deterioration of profitability of the entire banking system in the Federation of BiH.

As derived from the final non-audited data for 2008, banks in the Federation of BiH reported positive financial result-profit of KM 52 million, which is lower by significant 52,8% or KM 58 million than in 2007. The reason of deterioration in performance of the entire sector in 2008 was that profit generated at the system level in general, and especially by large banks that carry out the profitability, was increasing at slower pace or was lower with majority of banks as a result of extremely high growth, primarily due to interest-bearing and non-interest-bearing expenses to total income, as well as somewhat slower growth of interest-bearing income due to deterioration of lending activities in the fourth quarter of 2008. Adverse financial result, however, is mainly related to enormously high loss from securities trading activity of one bank that two years ago had extremely high securities trading income. In addition, slower growth of the overall, including interest-bearing assets of the banking sector (especially in the fourth quarter of 2008), resulted by slower growth of interest income.

Positive financial result was reported by 16 banks in total amount of KM 90,1 million, which is lower by 23,7% or KM 28 million than in 2007 (18 banks), while four banks reported loss of KM 38,2 million, which is higher by 3,7 times or KM 30 million than prior year.

² Source of the ECB data: EU Banking Structures, October 2008; for Croatia, Macedonia and Serbia: annual reports of these countries on their banking conditions, that is, financial systems.

Graph 4: *Financial result of the banking sector in the FBiH*



In 2008, total income amounted to KM 837 million, representing an increase of 3% if compared to 2007. Due to faster growth of interest expenses, net interest income increased by only 2% or KM 8,1 million, which made participation of net interest income remain at the same level in the structure of total income of 62% (62,9% in 2007) and operating income of 38% (37,1% in 2007).

- **Ownership structure:** Ownership structure of banks in the Federation of BiH at the end of 2008 was the following: two banks with majority state ownership; of 18 banks in majority private ownership, six banks were majority owned by domestic legal entities and individuals (residents), while 12 banks were majority foreign owned.

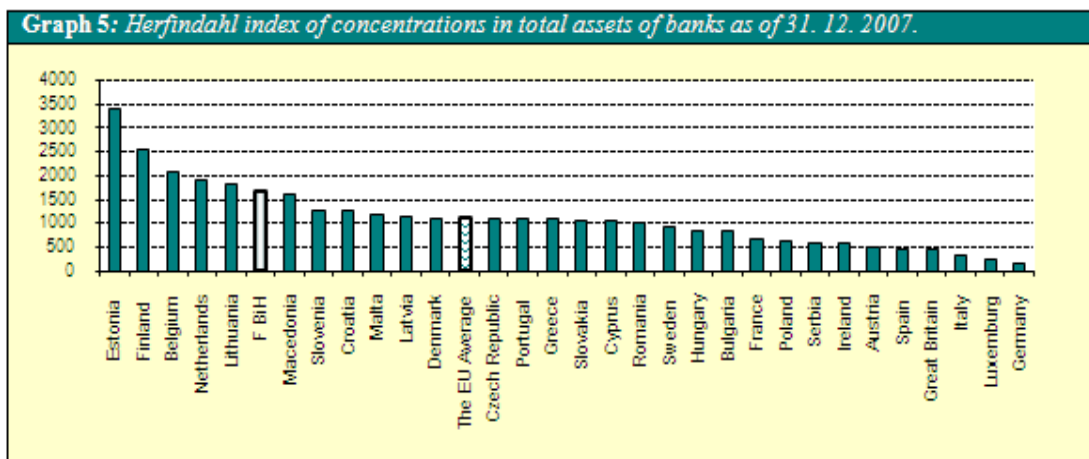
According to the criteria of the owner-shareholder's home country or criteria of direct or indirect majority ownership through the members of the group, the banking groups and banks from Austria recorded the highest participation at the end of 2008 (36,6%), followed by the German banks (23,8%) and the Italian banks (17,4%), while other countries recorded participation below 10%.

In 2008, there were changes made in the participation of state, foreign and private domestic (residents) capital in total share capital. Participation of state capital has decreased from 12,8% to 4,1%. Foreign capital has nominally increased by KM 153,5 million, primarily as a result of additional capitalization with eight banks. The participation has increased from 74,2% to 83,1%. Due to substantially higher increase of the nonresident capital, relative participation of the residents in total share capital has decreased from 13% to 12,8%.

- **Concentrations and competition:** As for opportunities in the banking market of the Federation of BiH, where in order to struggle for customers and greater market share banks enter into acquisitions and integration processes through mergers, upon finalization of such processes in the system, the estimate of some financial experts is there will remain 15 to 20 strong banks. However, five to six large foreign owned banks will control 90% of the market, in which they already sovereign rule, while smaller banks will profile as local character banks.

Three banks that still have dominant participation of 66,6% hold the assets exceeding two billion KM. Majority of banks (13) hold the assets below 500 million KM, of which four banks have the assets below 100 million KM. Three banks hold the assets between 500 million KM and one billion KM, while the assets one bank was slightly higher than one billion KM.

The Herfindahl index³ shows the level to which the banking system is being concentrated or whether any concentrations are being present or not. At the end of 2008, as a measure of market concentration in the balance sheet assets of the banking system of the Federation of BiH, this index was 1.691 units (1.419 as of 31.12.2007.). If compared to other countries (E.U. and countries of the region⁴) and generally acceptable standards, this index is acceptable, that is, the concentration is moderate⁵ with increasing trend.



Second indicator of concentration in the banking system is the ratio of market concentration, that is, the concentration rate⁶ (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 2007 in the banking system of the Federation of BiH amounted to 79% (74,4% as of 31.12.2007.), but there is still dominant participation of the three largest banks in the system that „hold“ 66,6% of the market. If compared to other countries in the E.U.⁷ and countries in the region, the five largest banks in the banking system of the Federation of BiH still have a very high participation, which has increased in 2008 by 4,6% due to inclusion of another bank in the five largest banks based on finalization of integration process of two banks from this group in the first quarter of 2008.

³ It is also called the Hirschmann-Herfindahl index or HHI as calculated in the formula $HI = \sum_{j=1}^n (S_j)^2$,

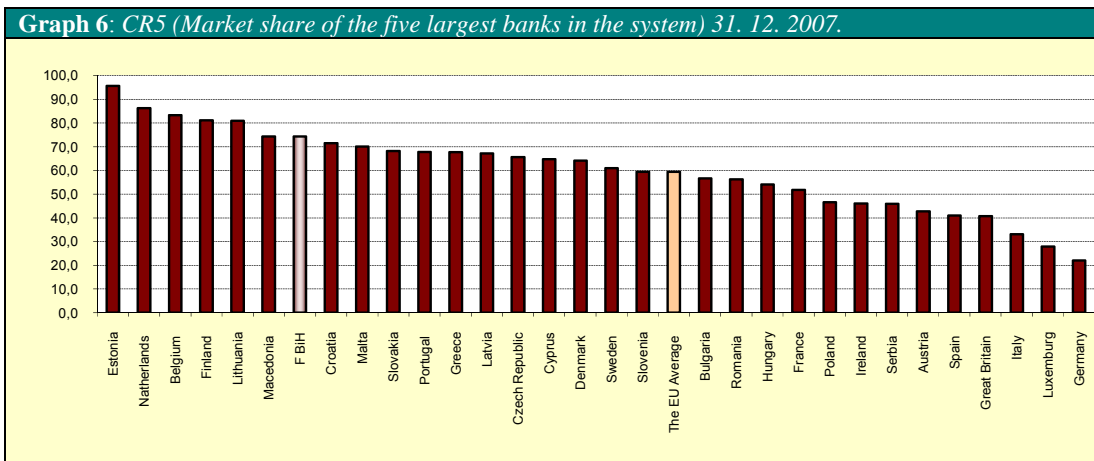
representing the sum of square of percentage shares of concrete values (e.g. assets, deposits, loans,...) of all market participants in the system. We should mention that the index is not linearly increasing, and the value of e.g. 3000 does not mean the concentration in the system is 30%. Hypotetically,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

⁴ Source of data ECB: EU Banking Structures, October 2007., and for Croatia, Macedonia and Serbia annual reports of these countries on their banking conditions, that is, financial systems.

⁵ 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.

⁶ Engl.: Concentration Ratio (CR), assigned according to the number of institutions included in the calculation.

⁷ The same as number 2).

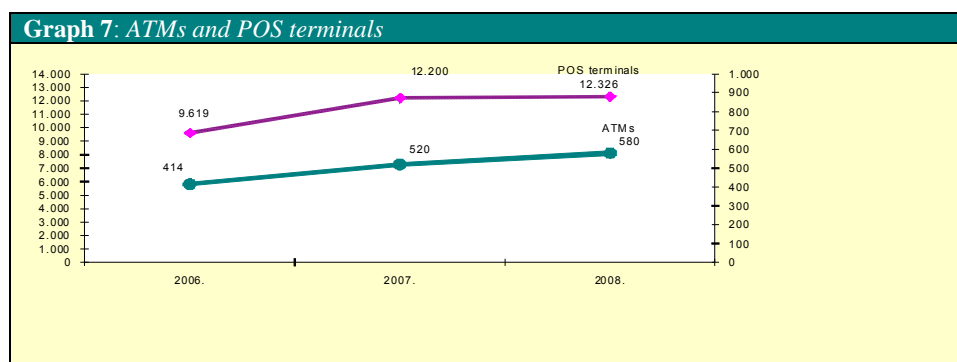


As part of their preparation for better market positioning, banks, apart from public subscription of shares, banks have initiated collecting financial assets through issue of bonds in 2008, which was successfully completed in two banks that was at the same time confirmation of confidence in the banking system, its safety and stability. On the other hand, expansion and business development raise new risks in banks, which has to be followed by adequate increase of capital in banks.

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 2008, 60 new ATMs were installed, and, at the end of the same year, their number has increased to 580. Number of POS terminals has also increased by 126, so there was total of 12.326 POS terminals at the end of 2008 with possibility to pay commodities by cards.



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 from 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 12 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 abroad.

The FBA has, over the past years, successfully acted towards banks in the Federation of BiH to manage credit risk especially with the best quality, and banks have been applying 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 25 banks (provisional administrations, liquidations or bankruptcies), from its initiation to the end of 2008, while provisional administration in one bank was introduced pursuant to the order of the High Representative of BiH. There have been 23 banks with provisional administration being introduced.

Of 26 banks in which the measures have been taken, the procedure was completed in 12 banks. As of 31.12.2008., there were 14 banks under the measures.

Of 26 banks with the measures initiated:

- Bankruptcy process at the authorized courts was initiated in seven banks,
- Liquidation process was initiated in ten banks. Liquidation process was finalized in five banks (four banks paid out all liabilities towards their creditors, and one bank was sold out),
- Four banks were integrated with other banks,
- Three banks have been rehabilitated and continued operating. Two banks have been additionally capitalized and privatized, and the third one was resolved, the bank management bodies have been elected and it continued operating,
- Provisional administration process in two banks is still pending. It is expected that the provisional administration in one bank will be finalized in 2009.

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.

Legislation and regulations for bank performance in the Federation of BiH are consistent with the international standards. Law on Changes and Amendments to the Law on Banks, dated of August 2002, determines (Article 69) that “The regulations issued by the Agency ... are based on the core principles for bank supervision issued by the Basel Committee for Bank Supervision”. The FBA has fully met this standard while preparing and adopting its regulations applied since the beginning of 2003, along with some standards of the European Banking Directives that have been built in.

Bank supervision - on site and off site bank examinations have been conducted upon plan and program for 2008. 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.

As for the plans for 2009, the FBA will keep offering a strong support to the consolidation of bank supervision on state level, since it has recognized it as the only right way to the stronger and more effective supervisory role in development of the financial sector for the whole country. Development of the banking system in BiH has arrived at such level (bank expansion to both entities, mutual owners) of having a consolidated banking market that needs consolidated laws and consolidated supervision.

The above has been confirmed in the recent conclusions of the International Monetary Fund (IMF), concretely stating the following: “BiH needs consolidated, independent and effective bank supervision, at the Central Bank of BiH or as a separate agency, which would strengthen the financial sector and be beneficial to the economy and both entities. However, as all other measures of the economic politics, this decision is also a hostage of domestic politics”.

As for the reasons of creating the Basel II, it should be pointed out that the Basel I, or more precisely “The International Capital Accord (of banks)”, over the recent years, has been generally accepted worldwide and it has a positive effect on the level of capital in banks around the world, but for us the most importantly is that it has influenced the banks, that is, the banking system in the Federation of BiH. When presented as the international experience, this framework has even stopped the trends of capital downfall worldwide, and its implementation in the Federation of BiH has raised compliments for the positive trends. However, due to its negative

side of „egalitarianism“ in evaluation of credit risk especially, which was a bad side of this framework (that was primarily an impediment in strong and highly complex and sophisticated banks), this framework has not succeeded fully and adequately to address all important issues of banking prudence and capital management.

Due to all the mentioned reasons, the Basel Committee, after a long period of research and analysis and several different proposals and consultation papers, in 2004 and the final version at the end of 2006, published its New Capital Accord – that is Basel II, which represents a completely new concept for capital adequacy computation of banks, that is, the new overall approach for risk management and bank supervision.

The Basel I and Basel II in the European Union have been implemented or are in the implementation process in the form of its Directives for credit institutions. Our country is certainly striving for membership in the European Union, so it is required until that moment to make preparations for adoption of the Basel II through the form of special EU Directives. This has created a commitment for the FBA, as a regulatory and supervisory authority for banks in the Federation of BiH, to initiate preliminary steps to create and prepare its own role, along with readiness of banks, to function under the framework set by the regime of the Basel II.

In realizing this commitment, the FBA has already in 2008 implemented some preparation activities and adopted the document called „The Strategy to Introduce International Convergence and Capital Standards“.

Due to the systemic significance and a need for the multi-institutional state approach to this strategy, in the process of its preparation at the level of Bosnia and Herzegovina, apart from the FBA, there were some other state and entity institutions involved, such as USAID through its project of technical assistance to the financial sector in Bosnia and Herzegovina called Partnership for Advancing Reforms in Economy – „PARE“.

3. COMBAT AGAINST MONEY LAUNDERING AND TERRORISM FINANCING

The banking system assessment for 2008 is based on the assessment of banks that results from the examinations conducted in the area of the banks' compliance to the prevention of money laundering and terrorism financing standards, along with the follow-up examinations of orders issued and analysis of statements submitted by banks to the Agency.

1. Condition of banks

Examinations of the banks' compliance to the prevention of money laundering and terrorism financing standard and the follow-up examinations and statements submitted by banks to the Agency reveal no reason for the supervisory concern in the area of the money laundering and terrorism financing risk management. The quality of risks management that could arise in banking performance as result of money laundering and terrorism financing (reputation risk, operating risk, legal risk, assets and deposits concentration risk) in the banking sector of the Federation of Bosnia and Herzegovina is satisfactory, which during the current year has also developed into increasing trend. The main reason of such assessment is being higher level of quality of the money laundering risks that could result from development and offer of specific banking products in the area of placements (investment loans to citizens). However, significant number of banks has additionally defined their policies and procedures related to identification of funding sources used by the customers to pay loan installments, minimizing the possibility to include funds from illegal sources to legal cash flows to a reasonable measure. Additional reason of such supervisory assessment is the risk quantity, which has retained within moderate level, starting to record a decreasing trend during the year.

- 1.1 Customer's Acceptance Policy:* Customer's acceptance criteria have been defined as basis for banks to establish their special customer's profile registries. Banks face certain problems related to functioning of such registries when trying to update data on customers classified in the riskiest groups. It is extremely important, however, to say that banks have adopted and are implementing the customer's approach based on risk analysis that customers impose on a specific bank.
- 1.2 Customer Identification Policy:* Banks have adopted customer's identification as general standard element of the «Know Your Customer». Banks apply the customer identification policy when establishing business relationships with customers. However, there is still the problem related to updating of the records supporting establishment of such relationships when business relationship is already established.
- 1.3 Continuous Monitoring of Accounts and Transactions Policy:* This policy is being applied and there is less formal monitoring of customer's accounts and transactions. In order to reach the essential monitoring of customer accounts and transactions, banks have started, based on the «Know Your Customer » Policy, preparing the list of customers with the transactions exceeding of KM 30.000,00 or more to be excluded from the reporting requirement, which should eventually result by reporting of suspicious customer transactions. However, during the year the Financial Intelligence Unit informed the banks that should no longer apply such lists in their work and to start reporting about customer's transactions whose transactions of KM 30.000,00 or more have been excluded from the reporting requirement that resulted by reporting of large and repeated transactions of well established customers. This notification of the Financial Intelligence Unit that is not based on the Law on Prevention of Money Laundering and Terrorism Financing and the Rules of Procedure (for implementation of the Law) has diverted focus of banks from the essential issue of money laundering, allowing formal reporting practice to be introduced, which will in a long run result by formal compliance of banks. It is worth mentioning that banks started additional defining of transaction limits by specific types of accounts and transactions, development of certain IT solutions allowing implementation of the limits established to monitor accounts and transactions, so in case of suspicion about money laundering and terrorism financing, the limits defined become to serve as prevention and not only as subsequent monitoring of accounts and transactions.
- 1.4 Money Laundering and Terrorism Financing Risk Management Policy:* Elements of the mentioned policy have been defined in the programs of banks. They define reporting lines, both external and internal.

Reporting: In 2008, banks reported of 304.178 transactions that represents 0,50% of total transactions performed in the banking system of the Federation of Bosnia and Herzegovina (59.231.075 transactions performed according to data submitted by banks) in the value of KM 10.886.870 thousands/KM, representing 9,35% of total value of transactions performed in the banking system of the Federation of Bosnia and Herzegovina (116.354.054 thousands/KM according to data submitted by banks). Number of transfers that were reported in 2008 increased by 15%, if compared to prior year, while their value increased by 16%.

The table below presents a comparative schedule of number and value of reported suspicious transactions according to the reporting method of transfers (before execution, during deadline set and after deadline set):

Transfer value in 000 KM

Table 2: Comparative schedule of number and value of reported suspicious transactions							
1	Description (name of transfer)	Transfers in 2007		Transfers in 2008		%	
		Number	Value	Number	Value	Number	Value
2	3	4	5	6	7 (5/3)	8 (6/4)	
1.	Total reported transfers (2+3+4)	264.776	9.390.720	304.178	10.886.870	115	116
2.	Transfers reported before execution	19	3.543	9	6.150	47	173,5
3.	Transfers reported within 3 days	263.853	9.347.838	303.958	10.869.257	115	116
4.	Transfers reported after deadline of 3 days	904	39.339	211	11.463	23	29

The structure of reported transfers indicates a downfall in number of reported transfers before their execution (47% in comparison to the prior year), while their value increased by 73,5%. This implies conclusion that the number of transfers was the primary factor based on which banks concluded about suspicious or unusual transfer. Number and value of transfers reported within deadline set has the same trend as the number and value of total reported transfers. Number and value of transfers reported after deadline set for reporting reconfirmed the statement made in the segment „Continuous monitoring of accounts and transactions policy“ that banks applied the „know your customer“ principle in monitoring of account and transactions, especially in the area of monitoring of accounts and transactions related to payments of past due loan installments. This also implies that in process of conducting supervision in 2008 the Agency determined a significantly smaller number of not reported suspicious transactions, which resulted by smaller number of issued orders to report such transactions as suspicious.

Suspicious transactions: Banks reported of 40 suspicious transactions that represents only 17% of the prior year. Value of such transfers is 24.439 thousands/KM, representing 76,5% of the prior year.

The table below presents a comparative schedule of number and value of reported suspicious transactions according to the reporting method of transfers (before execution, during deadline set and after deadline set):

Transfer value in 000 KM

Table 3: Comparative schedule of number and value of reported suspicious transactions							
1	Suspicious transactions	Transfers in 2007		Transfers in 2008		%	
		Number	Value	Number	Value	Number	Value
2	3	4	5	6	7 (5/3)	8(6/4)	
1.	Total reported transfers	235	31.954	40	24.439	17	76,5
2.	Transfers reported before execution	16	3.518	7	6.108	44	173,5
3.	Transfers reported within 3 days	9	12.697	7	15.653	78	123
4.	Transfers reported after deadline of 3 days	210	15.739	26	2.678	12	17

The structure of reported suspicious transactions reconfirms the above statements. We have noted, however, a downfall in number of suspicious transfers that had been reported prior to their execution (17% if compared to prior year), while at the same time their increase in value by 73,5% was recorded. This further means that amount of transfers was one of decisive reasons for suspicion that certain transaction was related to money laundering and terrorism financing. Number (12% in comparison to the prior year) and value (17% in comparison to the same year) indicate that banks have developed adequate policies and procedures for monitoring, so there are less transactions that, by themselves or upon the Agency's order, are subject to reporting after deadline set for their reporting.

III. BUSINESS PERFORMANCE OF BANKS IN THE FEDERATION OF BIH

1. STRUCTURE OF THE BANKING SECTOR

1.1. Status, number and business network

As of 31.12.2008., there were 20 banks with the banking license issued in the Federation of BiH. Number of banks has decreased by two if compared to 31.12.2007. The approval was granted for status change of integration between HVB Central Profit Bank d.d. Sarajevo and UniCredit Zagrebačka bank d.d. Mostar, which changed name to UniCredit Bank d.d. Mostar. The integration process completed on 29.02.2008. There is special law that regulates establishment and work of the Development Bank of the Federation of BiH Sarajevo that is a legal successor of the Investment Bank of the Federation of BiH d.d. Sarajevo dated of 01.07.2008.

As of 31.12.2008., there were two banks under provisional administration (UNA bank d.d. Bihac and Hercegovska bank d.d. Mostar).

In 2008, banks continued expanding the network of their organizational units. Banks from the Federation of BiH opened 81 new organizational units. As of 31.12.2008., they had total of 650 organizational units. Of the newly established units, four were opened in Republic Srpska and two in District Brčko. If compared to 31.12.2007., banks recorded 569 organizational units, which represents an increase of 14,2%.

As of 31.12.2008., seven banks from the Federation of BiH had 58 organizational units in Republic Srpska, while 11 banks had 17 organizational units in District Brčko. Six banks from Republic Srpska had 22 organizational units in the Federation of BiH (a new organizational unit has been opened; one was closed).

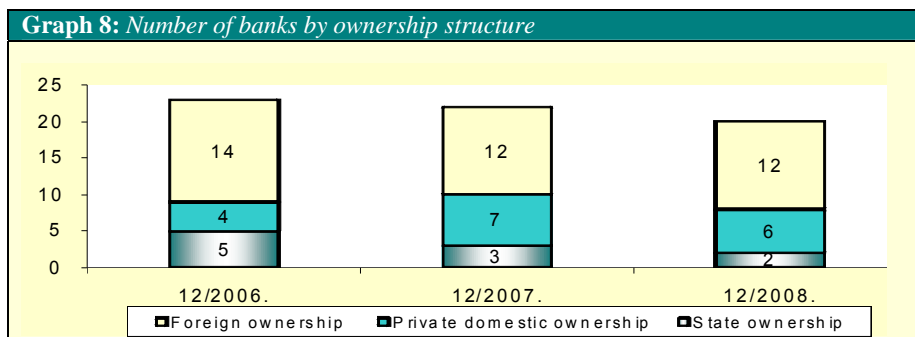
The license for inter-bank transactions in the internal payment system was issued to all banks as of 31.12.2008. There were 14 banks under deposit insurance program.

1.2. Ownership structure

As of 31.12.2008., ownership structure in banks⁸ was assessed based on the available information and on-site visits to banks⁹, which is the following:

- Private and majority private ownership 18 banks (90%)
- State and majority state ownership¹⁰ 3 banks (10%)

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

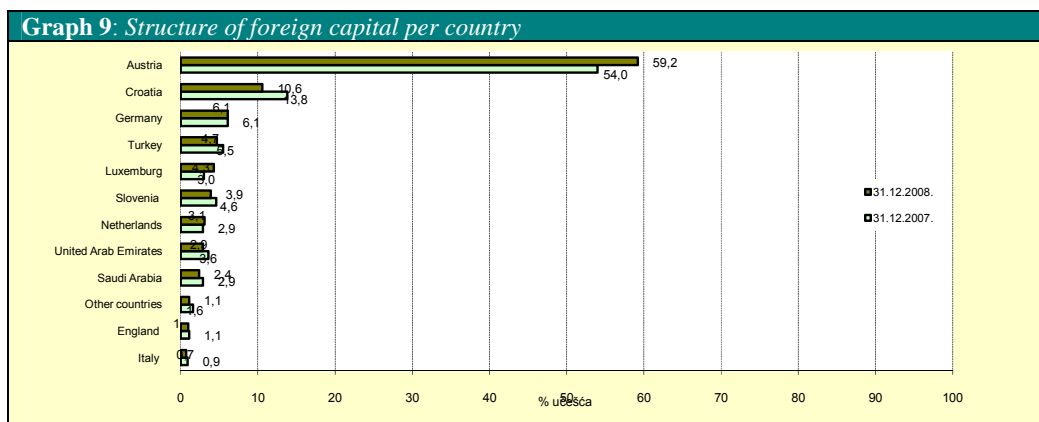


⁸ Bank classification criteria is ownership over banks' share capital.

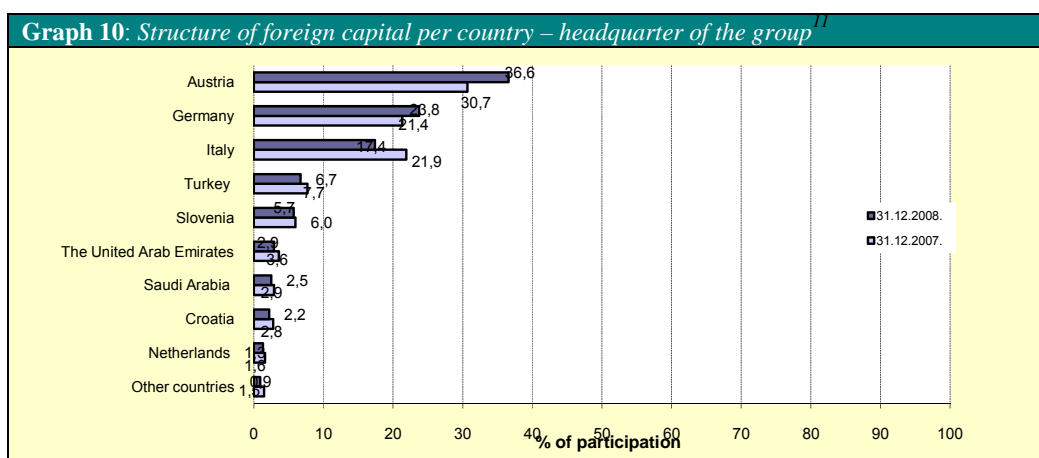
⁹ General overview of ownership structure of banks in the F BiH, as of 31.12.2008., resulted from received documentation, and registrations at authorized courts (changes in capital and shareholders structure).

¹⁰ State ownership refers to domestic state capital of BiH.

If only foreign capital is analyzed according to the criteria of the shareholder's home country, as of 31.12.2008., the shareholders from Austria owned 59,2% of foreign capital which is higher by 5,2 per cent than at the end of 2007. The shareholders from Croatia owned 10,6% of foreign capital, while other countries participated less than 7%.



If capital correlations are taken into account, the structure of foreign capital could be viewed according to the criteria of the parent-bank or the group's headquarter that has majority ownership (directly or indirectly over the group members) of the bank in the Federation of BiH. According to this criteria, as of 31.12.2008., banking groups and banks from Austria also recorded the highest participation (36,6%), followed by the German banks with participation of 23,8%, and the Italian banks with 17,4%. Other countries participate below 6,7%.



The banking groups and banks from Austria still show the highest participation according to both mentioned criteria. The capital of banks from Austria increased over 2008 as well, primarily as result of additional capitalization of KM 99 million in two banks majority owned by the banks from Austria, representing 46% of total value of the additional capitalization performed in eight banks over 2008. This was the same reason of increase in participation of banks with the parent banks coming from Germany¹².

¹¹ Apart from the country of the headquarter of the parent-group whose members are the banks from the F BiH, the countries of all other foreign shareholders of the banks from the FBiH are also included.

¹² If compared to previous data, there is a change made related to Hypo Group Alpe Adria (parent company is Hypo Alpe-Adria International AG, Klagenfurt-Austria that is 100% owner of Hypo Alpe Adria Bank d.d. Mostar), with Bayerische Landesbank-BayernLB becoming its majority owner in 2007, that has become part of the banking group with majority shareholder's ownership from Germany.

The ownership structure could be viewed from the aspect of financial indicators, which is based on the value of total capital¹³.

-in 000 KM-

Table 4: Ownership structure by total capital

BANKS	31.12.2006.		31.12.2007.		31.12.2008.		RATIO	
	1	2	3	4	5	6	3/2	4/3
State banks	170.680	14%	147.022	10%	44.690	3%	86	30
Private banks	1.055.905	86%	1.363.020	90%	1.594.092	97%	129	117
TOTAL	1.226.585	100%	1.510.042	100%	1.638.782	100%	123	109

Graph 11: Preview of ownership structure (total capital)



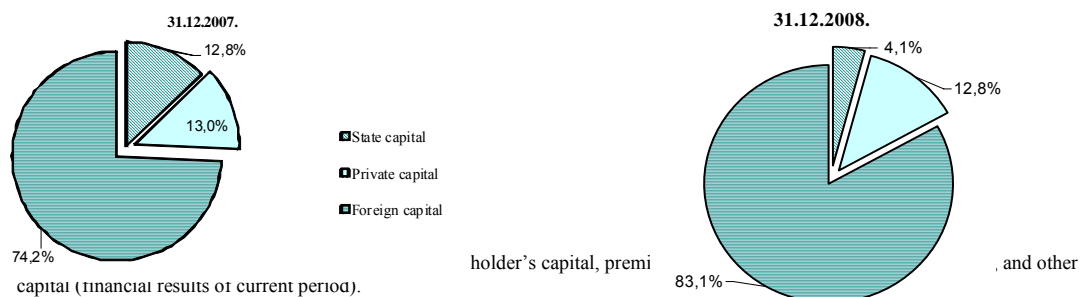
Analysis of participation by state, private and foreign capital in the share capital of banks shows more precise picture of the capital ownership structure in banks of the Federation of BiH.

- in 000 KM-

Table 5: Ownership structure by participation of state, private and foreign capital

SHARE CAPITAL	31.12.2006.		31.12.2007.		31.12.2008.		RATIO	
	Amount	Participation %	Amount	Participation %	Amount	Participation %	5/3	7/5
1	3	4	5	6	7	8	9	10
State capital	135.019	15,2	133.582	12,8	46.100	4,1	99	35
Private capital (residents)	83.077	9,3	135.728	13,0	142.469	12,8	163	105
Foreign capital (nonresidents)	670.695	75,5	775.912	74,2	929.447	83,1	116	120
CAPITAL	888.791	100,0	1.045.222	100,0	1.118.016	100,0	118	107

Graph 12: Ownership structure (share capital)



Share capital of banks in the Federation of BiH, over 2008, has increased by 7% or KM 72,8 million. The major changes are the following: computation of share capital no longer includes the share capital of the Development Bank of the Federation of BiH Sarajevo of KM 87,5 million; share capital of eight banks increased through additional capitalization by KM 178,3 million (green money of KM 177,2 million), of which the nonresidents make KM 168,9 million, and the residents of KM 9,4 million; status change of integration of one bank to another (both with majority foreign participation in capital), with capital amount less than the nominal (the difference in favor of the issue premium), resulted by decrease of share capital of the nonresidents by KM 18,1 million.

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

Participation of state capital in total share capital, as of 31.12.2008., was 4,1 %, representing decrease of 8,7%, if compared to the end of 2007.

If compared to the end of 2007, relative participation of private capital (residents) in total share capital has decreased from 13% to 12,8%. However, the absolute amount has increased by KM 6,7 million. Due to significantly higher increase of the nonresidents' capital relative participation of residents had downfall of 0,2 per cent. The residents' participation was influenced by changes in turnover of shares between residents and nonresidents (participation decreased by approximately KM 2,7 million) and purchase of shares from additional capitalization of four banks by domestic buyers (participation increased by approximately KM 9,4 million).

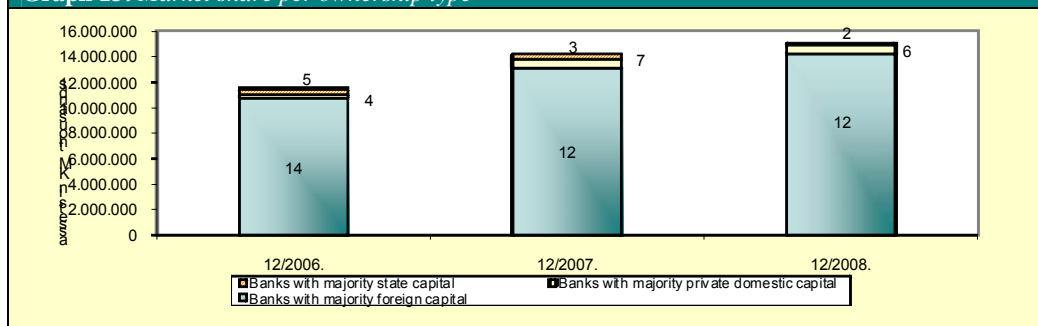
Participation of foreign capital increased from 74,2% to 83,1% or by KM 153,5 million based on the following: additional capitalization of KM 168,9 million in eight banks, above mentioned trading of shares between residents and nonresidents in eight banks (net effect on foreign capital was increase by KM 2,7 million) and decrease of KM 18,1 million through integration process of two banks.

Participation or market shares and positions of banks grouped per criteria of majority ownership in share capital have changed primarily due to exclusion of the Development Bank of the Federation of BiH Sarajevo. The market share of banks with majority foreign ownership, as of 31.12.2008., amounted to the high 94,3%, banks with majority domestic private capital was 4,4%, and share of banks with majority state capital was 1,3%.

Integration processes from the past period have been performed with purpose of stronger market positioning, resulting by concentrations in the banking sector and largest banks becoming larger, decreased number of banks and intensified competition. Over the observed period, one integration process was finalized (status change of integration of HVB Central Profit Bank d.d. Sarajevo to UniCredit Bank d.d. Mostar) as of 29.02.2008. Such processes should result by decreased number of banks, strengthening of the resulting bank and further concentrations in the banking sector of the Federation of BiH.

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

BANKS	31.12.2006.			31.12.2007.			31.12.2008.		
	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. in total assets	No. of banks	Partic. in total capital	Partic. in total assets
1	2	2	3	7	5	6	10	8	9
Banks with majority state capital	5	13,9	4,1	3	9,7	2,7	2	2,7	1,3
Banks with majority private domestic capital	4	3,7	2,9	7	10,9	4,9	6	10,5	4,4
Banks with majority foreign capital	14	82,4	93,0	12	79,4	92,4	12	86,8	94,3
TOTAL	23	100,0	100,0	22	100,0	100,0	20	100,0	100,0

Graph 13: Market share per ownership type

1.3. Staff

As of 31.12.2008., there were total of 7.991 employees employed by banks in the Federation of BiH, of which 3% by banks with majority state capital and 97% by private banks.

Table 7: Bank employees in the FBiH

BANKS	NUMBER OF EMPLOYEES						RATIO	
	31.12.2006.		31.12.2007.		31.12.2008.		3:2	4:3
1	2	3	4	5	6	5	6	
State banks	423	6%	342	5%	234	3%	81	68
Private banks	6.183	94%	7.019	95%	7.757	97%	114	111
TOTAL	6.606	100%	7.361	100%	7.991	100%	111	109
Number of banks	23		22		20		96	91

Number of employees in banks of the F BiH, over 2008, has increased by 9% or 630 employees. Due to transformation of the Investment Bank of the FBiH into the Development Bank of the F BiH, as of 01.07.2008., number of employees decreased in state banks by 108 employees, while number of employees increased in private banks by 738 or 11%.

Table 8: Qualification structure of employees								
EDUCATION	NUMBER OF EMPLOYEES						RATIO	
	31.12.2006.		31.12.2007.		31.12.2008.		4:2	6:4
1	2	3	4	5	6	7	8	9
University qualifications	2.408	36,5%	2.725	37,0%	3.002	37,6%	113	110
Two-year post secondary school qualifications	714	10,8%	799	10,8%	859	10,8%	112	107
Secondary school qualifications	3.391	51,3%	3.759	51,1%	4.055	50,7%	111	108
Other	93	1,4%	78	1,1%	75	0,9%	84	96
TOTAL	6.606	100,0%	7.361	100,0%	7.991	100,0%	111	108

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

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

Table 9: Assets per an employee									
BANKS	31.12.2006.			31.12.2007.			31.12.2008.		
	No. of empl.	Assets (000 KM)	Assets per an empl.	No. of empl.	Assets (000 KM)	Assets per an empl.	No. of empl.	Assets (000 KM)	Assets per an empl.
State	423	474.793	1.122	342	381.036	1.114	234	189.254	809
Private	6.183	11.023.562	1.783	7.019	13.814.886	1.968	7.757	14.882.787	1.919
TOTAL	6.606	11.498.355	1.741	7.361	14.195.922	1.929	7.991	15.072.041	1.886

At the end of 2008, there was KM 1,89 million of assets per an employee at the level of the banking system, which is slightly lower than at the end of 2007. This indicator is much better with the private bank sector, which is expected, having in mind stagnation or decreased volume of business activities of state banks, and, consequently, excessive number of employees.

Table 10: Assets per an employee by groups						
Assets (000 KM)	31.12.2006.		31.12.2007.		31.12.2008.	
	Number of banks		Number of banks		Number of banks	
Up to 500	5		2		2	
500 to 1.000	7		7		9	
1.000 to 2.000	4		7		3	
2.000 to 3.000	6		4		5	
Over 3.000	1		2		1	
TOTAL	23		22		20	

Analytical indicators of respective banks range from KM 298 thousand to KM 3,9 million of assets per an employee. The indicator of six banks is better than the one for the whole banking sector, and the indicator for three largest banks in the system exceeds KM 2,3 million.

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

2. FINANCIAL INDICATORS OF BANKS' PERFORMANCE

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

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

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

In accordance with the provisions of Law on Opening Balance Sheet of Banks, banks with majority state owned capital have to report to the FBA “full” balance sheet divided into: passive, neutral and active sub-balance sheet. In order to get realistic indicators of banks' performance in the Federation of BiH, all further analysis of the banking system will be based on the indicators from the active sub-balance sheet of banks with majority state owned capital¹⁴.

2.1. Balance sheet

Aggregate balance sheet of banks in the Federation of BiH, according to the balance sheets submitted as of 31.12.2008. amounted to KM 15,1 billion, which is higher by 6% or KM 876 million than at the end of 2007. Following several years of stable and mainly moderate growth over 20% (it was 23% over the past three years), the aggregate balance sheet of banks has recorded significantly lower growth in 2008. The main reason of the growth rate downfall results from the global economic and financial crisis effect and its negative effects on the BiH's financial sector that is the FBiH's banking system. Over 2008, both quarterly and cumulative growth rates indicated a substantially slower growth. In the last quarter, after the crisis spillover in BiH and increased withdrawal of savings deposits, we have for the first time recorded negative growth rate of 0,9% and the annual positive growth of 6%, which has been assessed satisfactory since the growth continuity of the past years has been maintained.

¹⁴ 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 31.12.2008., these items amounted to KM 626 million.

Table 11: Balance sheet					
DESCRIPTION	AMOUNT (in 000 KM)			RATIO	
	31.12.2006.	31.12.2007.	31.12.2008.	3/2	4/3
1	2	3	4	5	6
ASSETS:					
Cash funds	4.286.202	4.894.973	4.207.559	114	86
Securities ¹⁵	45.922	48.565	18.553	106	38
Placements to other banks	105.390	69.314	90.415	66	130
Loans	6.820.154	8.874.984	10.434.332	130	118
Loan loss provisions (LLP)	288.433	334.139	385.042	116	115
Loans – net value (loans minus LLP)	6.531.721	8.540.845	10.049.290	131	118
Business premises and other fixed assets	341.671	405.116	469.647	119	116
Other assets	187.449	237.109	236.577	126	100
TOTAL ASSETS	11.498.355	14.195.922	15.072.041	123	106
LIABILITIES:					
LIABILITIES					
Deposits	8.379.322	10.190.977	10.461.841	122	103
Borrowings from other banks	2.890	3.289	3.089	114	94
Loan Commitments	1.420.944	1.856.471	2.176.594	131	117
Other liabilities	468.614	635.143	791.735	136	125
CAPITAL					
Capital	1.226.585	1.510.042	1.638.782	123	109
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	11.498.355	14.195.922	15.072.041	123	106

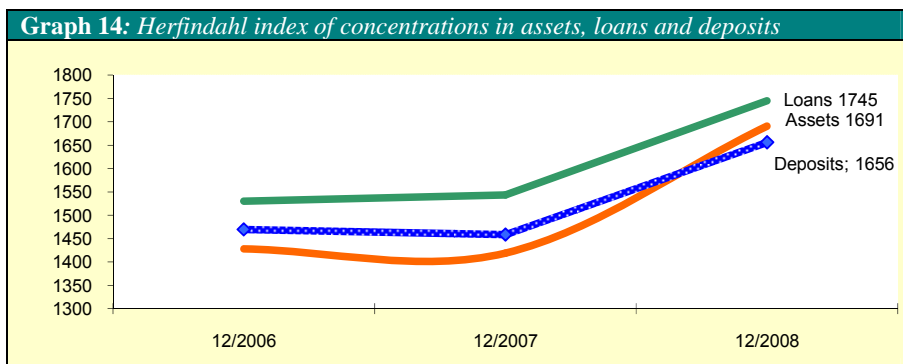
Table 12: Assets of banks based on the ownership structure											
BANKS	31.12.2006.		31.12.2007.		31.12.2008.		RATIO		5/3	7/5	
	Number of banks	Assets (000 KM)	Number of banks	Assets (000 KM)	Number of banks	Assets (000 KM)					
1	2	3	4	5	6	7	8	9			
State	5	474.793	4%	3	381.036	3%	2	189.254	1%	80	50
Private	18	11.023.562	96%	19	13.814.886	97%	18	14.882.787	99%	125	108
TOTAL	23	11.498.355	100%	22	14.195.922	100%	20	15.072.041	100%	123	106

Following three quarters of 2008 with moderate balance sheet growth, majority of banks recorded deterioration of assets in the last quarter resulting by the cumulative growth of 6%. The balance sheet increase of eight banks amounted between 5% and 15%; the assets of five banks was lower than at the end of 2007 (between 1% and 11%); three banks recorded relatively high growth rate (between 20% and 25%), and only two banks realized high assets growth of 56% and 117% (assets amounting to KM 338 million and KM 52 million at the end of 2007).

Two of three largest banks in the system recorded the growth rate of 12,6% and 9,3%, while the third bank that went through the statutory change of integration in the first quarter of 2008 recorded the assets deterioration by 7,4% in comparison to the aggregate data at the end of 2007. Only two banks make 79% or KM 688 million of total growth of the banking sector's aggregate balance sheet.

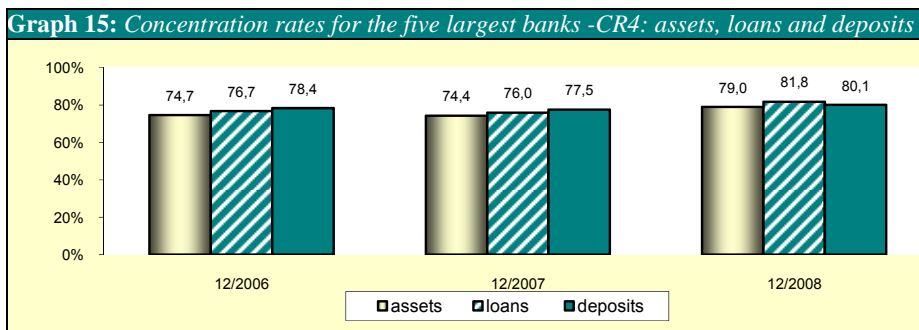
Indicator of concentrations in the three most significant segments of banking performance, in assets, loans, and deposits, is the value of the Herfindahl index.

¹⁵ Trading securities and securities held to maturity.



The Herfindahl index of concentrations in assets, loans and deposits has significantly increased over 2008 (by 272, 201 and 197 units) and their value, as of 31.12.2008., amounted to 1.691, 1.745 and 1.656 units. The reason of this concentration increase was integration of two banks that took place in March 2008. Since those were two large banks in the system, the mentioned indicators recorded high increase and have come close to the amount of 1.800 units, which, according to the standard, is a marginal value of moderate concentration, that is, the HHI value over such amount is an indicator of high concentration.

Second indicator of concentration in any banking system is a ration of market concentration, that is, concentration rate (hereinafter: CR), indicating total participation of largest institutions in the system in the selected relevant categories: assets, loans and deposits. The CR5 for market participation, loans and deposits of the five largest banks in the system, at the end of 2008, were 79%, 81,8% and 80,1%. The increase in comparison to the end of 2007 comes from adding another bank to the group of the five largest banks in the system after integration of two banks from this group in the first quarter of 2008. There is obvious domination of five largest banks in the system, „holding“ approximately 80% of the market (74,4% at the end of 2007), of loans and deposits.



The banking sector could be analyzed in the aspect of several groups formed per assets size¹⁶. There were minor changes in individual groups as for number of banks and participation, as result of assets growth with several smaller banks, finalization of statutory change of integration of one bank and no longer including the data for the Investment bank of the FBiH, after its transformation to the Development Bank of the FBiH as of 01.07.2008.

Following integration of two banks (as of 31.12.2007. the banks were included in the groups I and II), three largest banks (group I) increased their participation to 66,6%. One bank from group II had participation of 6,7%, while three banks in group III (assets between KM 500 and

¹⁶ Banks are divided into five groups, depending on the assets size.

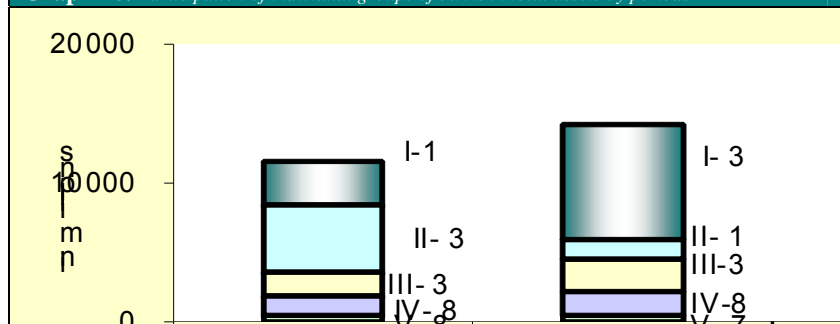
1.000 million) had participation of 14,5%. The largest group IV of nine banks, with assets amounting between KM 100 and 500 million, had participation of 10,8%. The number of small banks in the last group V decreased in 2008 from seven to four (two banks under provisional administration) and their market share was only 1,4%.

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

Table 13: Participation of individual groups of banks in total assets through periods

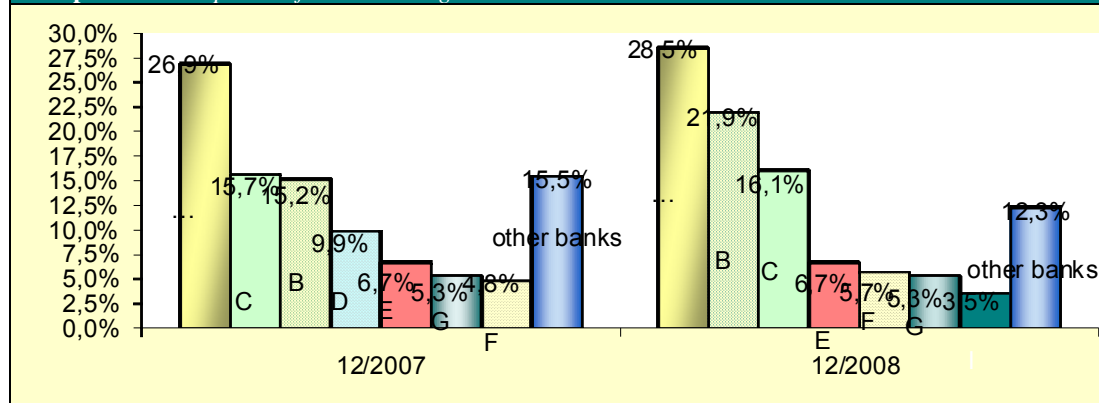
ASSETS	31.12.2006.			31.12.2007.			31.12.2008.		
	Amount	Particip %	No. of banks	Amount	Particip %	No. of banks	Amount	Particip %	No. of banks
I- Over 2.000	3.098	26,9	1	8.203	57,8	3	10.036	66,6	3
II- 1000 to 2000	4.836	42,1	3	1.409	9,9	1	1.017	6,7	1
III- 500 to 1000	1.723	15,0	3	2.392	16,8	3	2.180	14,5	3
IV- 100 to 500	1.382	12,0	8	1.741	12,3	8	1.627	10,8	9
V- Below 100	459	4,0	8	451	3,2	7	212	1,4	4
TOTAL	11.498	100,0	23	14.196	100,0	22	15.072	100,0	20

Graph 16: Participation of individual groups of banks in total assets by periods



The following graph presents the structure and participation trend of the seven largest banks¹⁷ in the banking system of the Federation of BiH.

Graph 17: Participation of the seven largest banks in total assets



Growth of the aggregate balance sheet of 6% or KM 876 million in the sources has been primarily financed by borrowings (by 17% or KM 320 million), deposits recorded growth of 3% or KM 271 million, while capital increased by 9% or KM 129 million.

¹⁷ Banks are market with letters A to G.

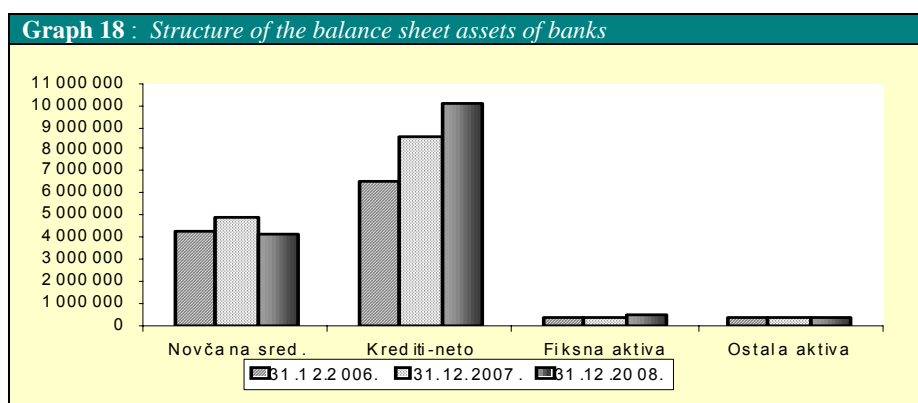
Following quarterly growth rate of 6% and 8% over the first six months of 2008, credit placements decreased in the second six months of the year; the quarterly jump was 2% in the third and only 1% in the fourth quarter, representing the cumulative growth for 2008 of relatively high 18% or KM 1,56 billion as of 31. 12. 2008. Loans amounted to KM 10,4 billion. Cash funds decreased by 14% or KM 687 million (KM 4,2 billion as of 31.12.2008.) primarily due to credit growth.

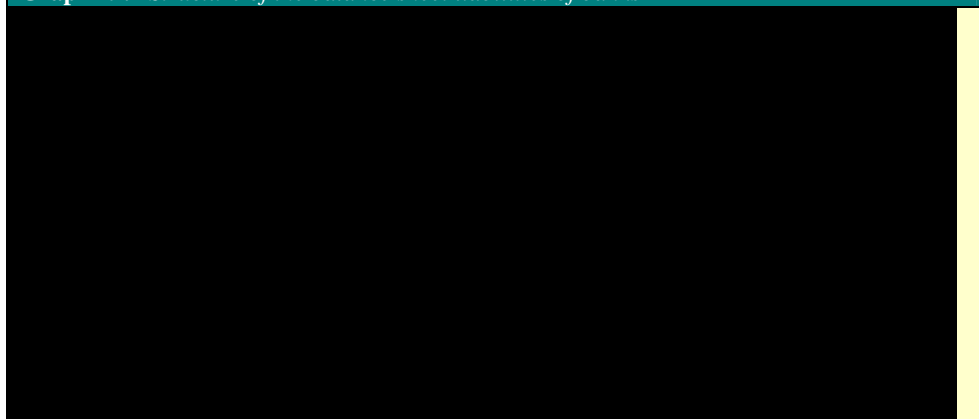
The following table and graph presents the structure of the most significant balance sheet positions of banks.

- in % -

Table 14: Balance sheet structure of banks

DESCRIPTION	PARTICIPATION		
	31.12.2006.	31.12.2007.	31.12.2008.
ASSETS:			
Cash funds	37,3	34,5	27,9
Securities	0,4	0,3	0,2
Placements to other banks	0,9	0,5	0,6
Loans	59,3	62,5	69,2
Loan loss reserves (LLR)	2,5	2,4	2,6
Loans- net value (loans minus LLR)	56,8	60,1	66,6
Business premises and other fixed assets	3,0	2,9	3,1
Other assets	1,6	1,7	1,6
TOTAL ASSETS	100,0	100,0	100,0
LIABILITIES:			
LIABILITIES			
Deposits	72,9	71,8	69,4
Borrowings from other banks	0,0	0,0	0,0
Loan commitments	12,3	13,1	14,4
Other liabilities	4,1	4,5	5,3
CAPITAL			
Capital	10,7	10,6	10,9
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	100,0	100,0	100,0



Graph 19: Structure of the balance sheet liabilities of banks

In the structure of banks' balance sheet liabilities, from the aspect of the most significant balance sheet categories, deposits of KM 10,5 billion and participation of 69,4% (lower by 2,4 per cent than at the end of 2007) still represents dominant source of financing for banks in the Federation of BiH. Participation of credit commitments have increased from 13,1% to 14,4%, and capital from 10,6% to 10,9%.

Changes in the assets structure result from further increase of loans over 2008, which has reflected an increase of their participation from 62,5% to 69,2%, alongside with decrease of participation of cash funds from 34,5% to 27,9%.

Table 15 : Cash funds of banks

CASH FUNDS	31.12.2006.		31.12.2007.		31.12.2008.		INDEX	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	241.561	5,6	311.436	6,4	344.618	8,2	129	111
Reserve accounts with CBBiH	2.258.035	52,7	2.805.568	57,3	2.228.687	53	124	79
Accounts with deposit institutions in BiH	21.354	0,5	12.304	0,3	12.341	0,3	58	100
Accounts with deposit institutions abroad	1.764.210	41,2	1.764.757	36,0	1.621.449	38,5	100	92
Cash funds in collection process	1.042	0,0	908	0,0	464	0,0	87	51
TOTAL	4.286.202	100,0	4.894.973	100,0	4.207.559	100,0	114	86

Decreasing trend of cash funds (10% over the nine months of 2008) has continued over the last quarter, primarily due to increased outflow of citizen deposits (downfall of 4,5%), representing total of 14% or KM 687 million in 2008.

Major decrease of 21% or KM 577 million was recorded in cash funds of banks on the reserve account with the CB BH, amounting to KM 2,23 billion or 53% of total cash funds at the end of 2008. The total amount decreased by 4,3 per cent if compared to the end of 2007. It should be emphasized that the required reserve rate has decreased since 11. 10. 2008. from 18% to 14%. Following substantial decrease of banks' funds on the accounts of depository institutions abroad over the nine months of 2008 (25% or KM 447 million), the fourth quarter recorded increase of 23% or KM 303 million, primarily from the new credit indebtedness abroad, which on the annual level results by negative rate of 8% or KM 143 million. At the end of 2008, these funds amounted to KM 1,62 billion or 38,5% of total cash funds (36% at the end of 2007). As of 31.12.2008., in safe deposit boxes and tellers banks maintained total of 345 million, representing

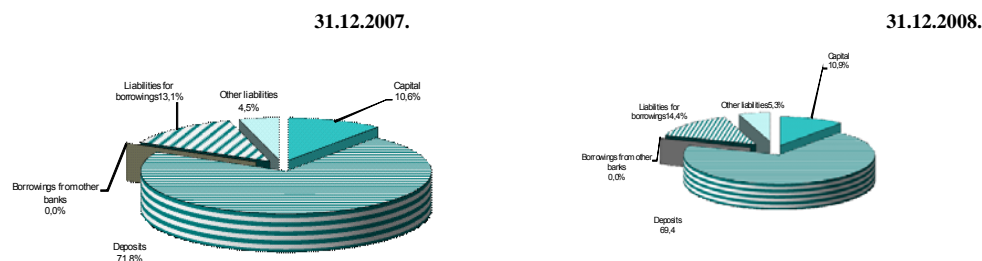
8,2% of total cash funds. If compared to the end of 2007, it represents an increase of 1,8 per cent.

The mentioned changes have reflected on currency structure of cash funds. Participation of domestic currency, over the observing period, has decreased from 61,4% to 57,9%, while participation of funds in foreign currency has increased as caused by the same change.

2. 1. 1. Liabilities

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

Graph 20: Liabilities structure of banks



Trend of participation changes of the two most significant funding items of banks, deposits and credit commitments, after a minor oscillation in the third quarter, has continued in 2008: deterioration in deposit participation and credit growth. There was growth realized in deposits of only 3%, while credit commitments increased by 17%, which resulted by changes in the liabilities structure of banks, that is, deterioration of deposit participation by 2,4 per cent and increase of credit commitments participation by 1,3 per cent. With participation of 69,4% and amount of KM 10,5 billion, deposits still represent the most significant funding source of banks in the Federation of BiH. Following high growth in 2007, credit indebtedness of banks in 2008 recorded moderate growth of 17% or KM 320 million. These commitments with the amount of KM 2,2 billion show participation in the liabilities of 14,4%. If we add subordinate loans of KM 211 million to the liabilities mentioned, which were withdrawn by banks with purpose of strengthening capital base and capital adequacy, total credit funds in the sources have participation of 15,8%.

Capital increase of banks, in 2008, based on inflow of new green capital – additional capitalization of eight banks, and profit generated in 2008, has diminished an influence of statutory change of the Investment Bank of the FBiH and not including the data of this bank in the banking system indicators (since 01.07.2008.). Net effect of the mentioned changes at the system level is total capital growth by 9% or KM 129 million, amounting to KM 1,64 billion and participation of 10,9% as of 31.12.2008.

Banks, as of 31.12.2008., the highest bank commitments came from following creditors (eight of total 50), representing 71% of total credit commitments: Raiffeisen Zentralbank Osterreich A.G. (RZB), European Investment Bank (EIB), Steirische Sparkasse, ComercBank AG Frankfurt, European fund for Southeast Europe (EFSE), Bank Polska OPIEKI and Council of Europe Development Bank.

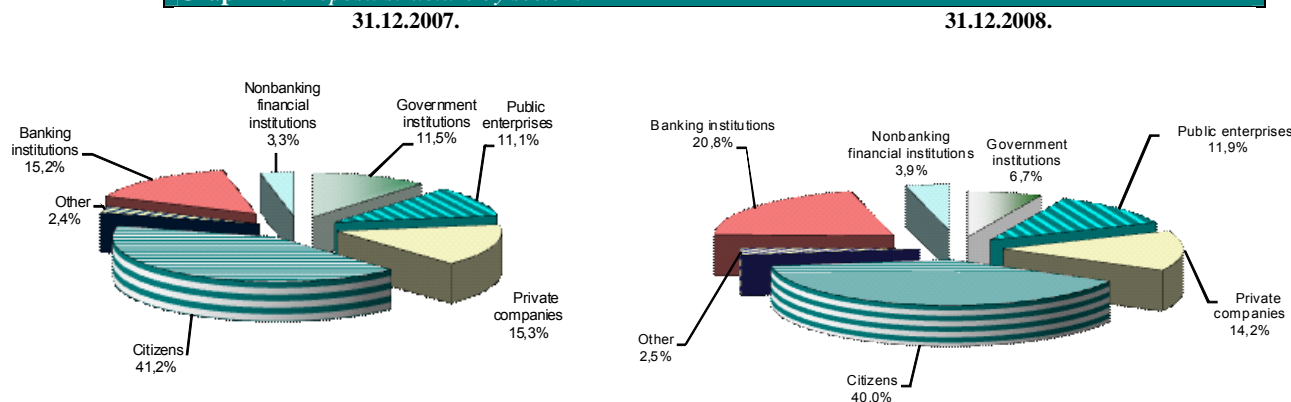
According to the data submitted by banks, out of total deposits, only 5% were deposits collected by organizational units of banks from the Federation of BiH operating in Republic Srpska and Brčko District as of 31.12.2008.

- in 000 KM-

Table 16: Deposit structure by sectors¹⁸

SECTORS	31.12.2006.		31.12.2007.		31.12.2008.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Governmental institutions	1.033.902	12,3	1.171.095	11,5	701.520	6,7	113	60
Public enterprises	996.110	11,9	1.126.838	11,1	1.245.793	11,9	113	111
Private enterprises and assoc.	1.342.538	16,0	1.554.693	15,3	1.490.130	14,2	116	96
Non-profit. organizations	1.136.450	13,6	1.548.619	15,2	2.172.860	20,8	136	140
Banking institutions	260156	3,1	334.575	3,3	403.295	3,9	129	121
Citizens	3.403.443	40,6	4.202.161	41,2	4.181.882	40,0	123	100
Other	206.723	2,5	252.996	2,4	266.361	2,5	122	105
TOTAL	8.379.322	100,0	10.190.977	100,0	10.461.841	100,0	122	103

Graph 21: Deposit structure by sectors



Under the influence of the global economic and financial crisis on BiH, that is, the F BiH, deposits of most sectors (exceptions are banking institutions and nonbanking financial institutions) recorded negative growth rate in the fourth quarter of 2008, that is, downfall between 18% (by which deposits of government institutions decreased) and 5% (majority of other sectors). Although, deposits on the annual level of 2008 increased by 3% or KM 271 million, deposits of government institutions recorded a significant drop by 40% or KM 470 million, while decreasing trend had been initiated in the last quarter of 2008. This has resulted by downfall of their participation in 2008 from 11,5% to 6,7%. Substantially lower downfall (4%) was recorded in private companies' deposits, which had negative reflection on participation. As of 31.12.2008., they amounted to KM 1,5 billion or 14,2%.

On the other hand, for the first time after so many years of growth citizens' deposits remained at the same level as at the end of 2007. Although over the first nine months of 2008 they recorded growth of 11%, withdrawal of savings deposits occurred in the fourth quarter, causing decrease by 11%. At the end of 2008, with the amount of KM 4,2 billion and participation of 40% in total deposits, citizen deposits were still the most significant funding source of banks in the Federation of BiH.

¹⁸ Information from the attached form BS-D submitted by banks each quarter with balance sheet - FBA format.

Deposits of two most significant sectors (public enterprises and banking institutions) increased by 11% or KM 119 million, that is, 40% or KM 624 million. High growth of the banking institutions' deposits from the past has continued in 2008, more intensive in the second half when the increase was 24% or KM 423 million. At the end of 2008, these items amounted to KM 2,2 billion, representing 20,8% of total deposits and the second most significant deposit source of funding for banks in the Federation of BiH. It should be pointed out that 97,5% or KM 2,1 billion of the banking institutions' deposits relates to the deposits of banks from the groups (mainly of shareholders). There are 11 banks in the Federation of BiH that receive financial support from the group. However, there is concentration in three large banks (82%), of which 48% of total deposits received from the group refer to only one bank, and 19% and 15% to the remaining two. In this way, domestic banks receive financial support and assurance of new inflow of funds for financing by the group as member banks. On the other hand, we face with creation of higher concentrations in the sources, which is directly related to the liquidity risk increase and dependence of the risk management at the group level of the member bank, as well as influence on profitability, since those are the most expensive sources. If credit liabilities and subordinate debts (loans and deposits in supplementary capital) are added up to these funds, financial support of the banks from the group is increasing to KM 3,44 billion or 23% of total liabilities of the banking sector as of 31.12.2008. If, further on, we add up share capital, participation in the liabilities raises up to 29%.

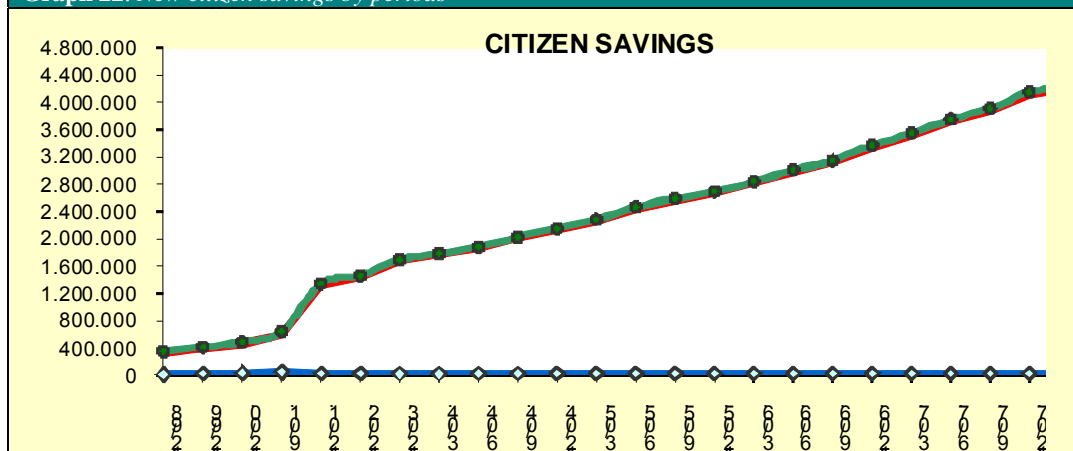
Special encouragement comes from the fact that under newly created difficult financial and market conditions, with international financial markets and borrowings among financial institutions being almost stopped from functioning due to mistrust and increasing liquidity risk, as result and consequence of the global financial crisis, domestic banks in the Federation of BiH owned by foreign banking groups have received a significant financial support from the groups through a long term and short term/revolving credit line (increase in the fourth quarter of KM 277 million), deposits (increased in the fourth quarter by KM 208 million), new stand by arrangements and, finally, through inflow of new green capital, which only over the last three months of 2008 amounted to KM 130 million, capital base of individual banks and the entire banking sector of the Federation of BiH has been strengthened.

Following longer period of time, in 2008 currency structure of deposits changed in favor of foreign currency, that is, deposits in foreign currency (with dominant participation of EUR) amounted to KM 6,3 billion with participation of 60% (55% at the end of 2007), while deposits in domestic currency amounted to KM 4,2 billion with participation of 40% (45% at the end of 2007).

Savings deposits, as the most significant segment of deposit and financial potential of banks, following several years of stable and continuous growth (including three quarters of 2008) were decreased in the fourth quarter by 11% or KM 494 million. After 30.09.2008. or at the beginning of October, as spillover effect of the global financial and economic crisis, banks in the Federation of BiH were under stronger pressure and withdrawal of one portion of citizens' savings deposits. More significant withdrawal occurred in October. Passed this date, the condition stabilized and, in November, savings decreased by 1,9%, while in December savings increased by 3,7%. In 2008, savings deposits of citizens recorded total downfall of 2% or KM 82 million. At the end of 2008, they amounted to KM four billion.

Table 17: New citizen savings by periods

BANKE	AMOUNT (in 000 KM)			RATIO	
	31.12.2006.	31.12.2007.	31.12.2008.	3/2	4/3
1	3	3	4	5	6
State	31.723	30.469	32.481	96	107
Private	3.308.413	4.086.820	4.003.184	124	98
TOTAL	3.340.136	4.117.289	4.035.665	123	98

Graph 22: New citizen savings by periods

Three largest banks hold 72,6% of savings, while individual participation of 11 banks is below 1%, amounting to only 5,5% of total savings in the system.

Of total savings amount, 32% are savings deposits in domestic currency and 68% in foreign currency.

Table 18: Maturity structure of citizen saving deposits by periods

BANKS	AMOUNT (in 000 KM)			RATIO				
	31.12.2006.	31.12.2007.	31.12.2008.	3/2	4/3			
1	3	3	4	5	6			
Short term savings deposits	1.851.173	55,4%	2.174.863	52,8%	2.119.669	52,5%	117	97
Long term savings deposits	1.488.963	44,6%	1.942.426	47,2%	1.915.996	47,5%	130	99
TOTAL	3.340.136	100,0%	4.117.289	100,0%	4.035.665	100,0%	123	98

Under the influence of stronger outflow of citizen deposits in the fourth quarter of 2008, when one portion of savings was withdrawn before term, that is, term contract was terminated (although downfall of short term savings was higher than long term savings), maturity structure of savings deposits at the end of 2008 insignificantly changed in favor of the long term, and this trend continued in the first month of 2009.

Long term continuous growth and positive trends in the savings segment of banks in the F BiH result, on one side, strengthening of safety and stability of the overall banking system, giving the key importance to the existence of functional, effective and efficient banking supervision conducted by the FBA, and, on the other side, deposit insurance system with the main purpose to increase stability of the banking, that is, financial sector and protection of savers. Having in mind what was happening in the fourth quarter of 2008 with purpose of preserving citizens' trust in safety and stability of the banking system in BiH, in December 2008 the amount of insured deposit increased to KM 20.000. However, having in mind general economic and financial condition in BiH and in the Federation of BiH, as well as stronger adverse impact of the global crisis in the real sector and economy in our country, further downfall of deposits that is expected

as realistic is no longer matter of mistrust of savers in the banking system and fear for safety of their savings, but rather an existential issue and spending of the accumulated savings because of very difficult economic conditions that citizens of the Federation of BiH are faced with.

There is total 14 banks from the Federation of BiH that were accepted to the deposit insurance program, and according to the submitted data, there is total 97% of total deposits and 98% of total savings deposited in these banks. As for remaining banks, four of them cannot apply to be accepted since they do not qualify with the criteria prescribed by the Deposit Insurance Agency: two state owned banks due to their ownership structure, one private bank with participation of state capital exceeding 10%, and one private banks under provisional administration, while two banks are currently in process of acceptance to the insurance program.

2.1.2. Capital - strength and adequacy

Capital¹⁹ of banks in the FBiH, as of 31.12.2008., amounted to two billion KM.

-in 000 KM-

Table 19: Regulatory capital						
DESCRIPTION	31.12.2006.	31.12.2007.	31.12.2008.	RATIO		
				3/2	4/3	
1	2	3	4	5	6	
STATE BANKS						
1. Core capital before reduction	169.829	145.802	44.852	86	31	
2. Offsetting items	5.034	2.018	1.991	40	99	
a) Core capital (1-2)	164.795	143.784	42.861	97%	87	
b) Supplementary capital	9.370	6.017	1.378	3%	23	
c) Capital (a + b)	174.165	149.801	44.239	100%	86	
PRIVATE BANKS						
1. Core capital before reduction	1.029.002	1.316.424	1.610.692	128	122	
2. Offsetting items	104.704	124.137	170.030	119	137	
a) Core capital (1-2)	924.298	1.192.287	1.440.662	72%	129	
b) Supplementary capital	374.448	531.057	574.370	28%	142	
c) Capital (a + b)	1.298.746	1.723.344	2.015.032	100%	133	
Total						
1. Core capital before reduction	1.198.831	1.462.226	1.655.544	122	113	
2. Offsetting items	109.738	126.155	172.021	115	136	
a) Core capital (1-2)	1.089.093	1.336.071	1.483.523	72%	123	
b) Supplementary capital	383.818	537.074	575.748	28%	140	
c) Capital (a + b)	1.472.911	1.873.145	2.059.271	100%	127	

Over the year 2008, capital²⁰ increased by 10% or KM 186 million in comparison to 2007, of which core capital increased by 11% or KM 147 million, and supplementary capital increased by 7% or KM 39 million, resulting by the following regulatory capital structure at the end of 2008: 72% of core capital and 28% of supplementary capital.

Growth of core capital primarily comes from the inflow of new, green capital – additional capitalization of KM 179 million in eight banks with the issue premium realized of KM 41 million. At the same time, in the status change of integration between two banks share capital decreased by KM 18 million by which the issue premium of the resulting bank has increased. Status change of the Investment Bank of the FBiH that is its transformation to the Development Bank of the FBiH (as of 01.07.2008) had major influence to decrease of share or core capital, resulting by decrease of core capital by KM 105 million.

Increase of the core capital has been significantly influenced by the increase of reserves and retained not distributed profit of KM 118,1 million. Upon implementation of legal procedure for adoption of decision on allocation of the audited profit by the assemblies, the profit generated in

¹⁹ Regulatory capital as defined by Article 8 and 9 of Decision on Minimum Standards for Capital Management in Banks.

²⁰ Data source is quarterly Report on Capital Positions of Banks (Form 1-Schedule A) regulated by the Decision on Minimum Standards for Managing Capital in Banks.

2007 (18 banks, while four banks reported loss of KM 8,2 million) of KM 118,1 million was distributed 71% in core capital (in reserves or retained – not distributed profit). Six banks have made decision to pay out dividends in total amount of KM 33,3 million that represents approximately 29% of the profit generated, with two banks allocating additional KM 8,4 million for dividend from retained profit. One bank has directed portion of the profit generated in 2008 to core capital (KM 4 million), and other banks to pay dividend in the same amount.

Offsetting items (that reduce core capital) have increased by KM 46 million, primarily based on current loss amounting to KM 38 million.

Supplementary capital increased by KM 39 million along with some more significant changes in the structure: profit from 2007 of KM 94 million was transferred to core capital, and 11 banks included their current audited profit of KM 74,5 million in the supplementary capital; general loan loss reserves increased by KM 33 million; subordinate debts increased by KM 20 million and liabilities of permanent nature increased by KM 6 million.

The mentioned changes have not significantly influenced the structure of regulatory capital, so participation of core capital increased by only one per cent (from 71% to 72%), and supplementary capital decreased by the same per cent.

Net capital, as well as regulatory capital, had the same absolute and relative growth of 10% or KM 186 million as of 31.12.2008., amounting to KM 2 billion.

Capitalization rate of banks, expressed as ratio of capital and assets, as of 31.12.2008., was 13,3%, representing improvement by 0,4 per cent if compared to the end of 2007.

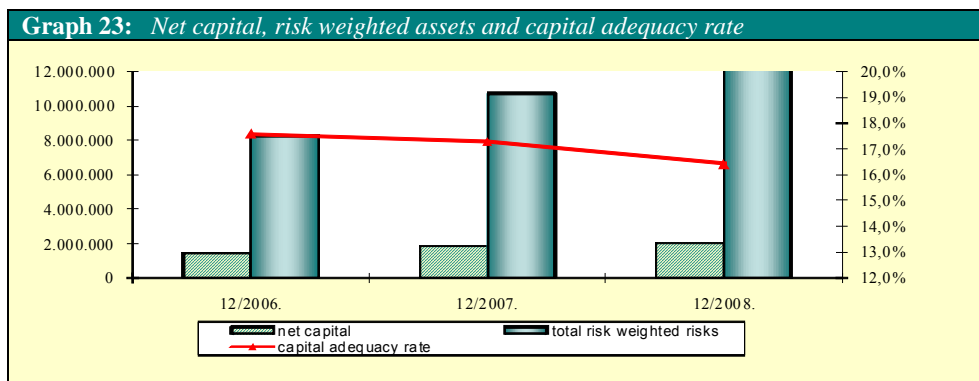
One of the most significant indicators of capital strength and adequacy²¹ of banks is capital adequacy ratio calculated as ratio of net capital and risk weighted assets. As of 31.12.2008., this ratio at the system level was 16,4%, which is lower by 0,9 per cent than at the end of 2007. Such downfall was expected due to the following: growth rate of risky assets was higher (16%) than net capital (10%), followed by number of banks decreasing by one (Investment Bank of the FBiH that had high capital adequacy rate).

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

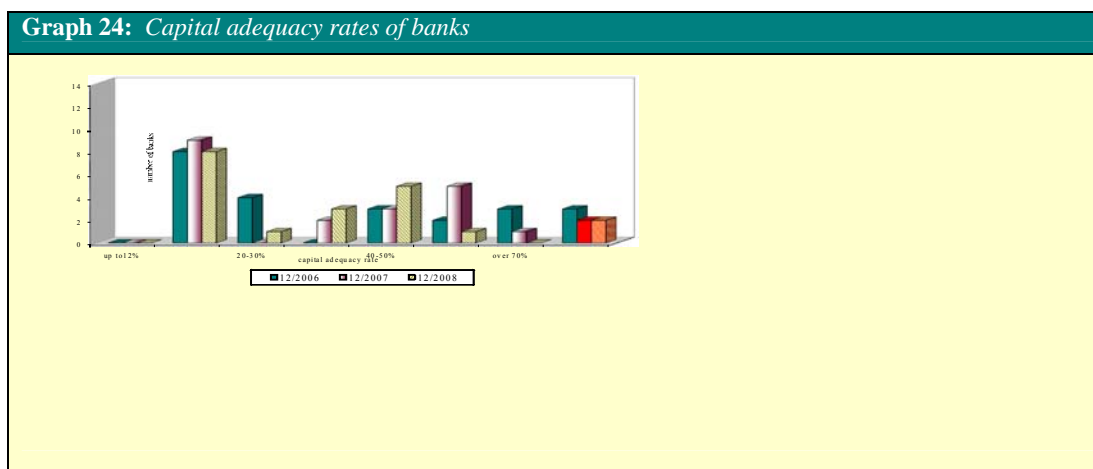
- 000 KM-

DESCRIPTION	31.12.2006.	31.12.2007.	31.12.2008.	RATIO	
				3/2	4/3
1	2	3	4	5	6
1. NET CAPITAL	1.455.675	1.857.109	2.043.235	128	110
2. RISK WEIGHED ASSETS AND CREDIT EQUIVALENTS	8.282.086	10.740.880	12.303.578	130	115
3. POR (RISK WEIGHTED OPERATING RISK)	-	-	130.975	-	-
4. TOTAL RISK WEIGHTED RISKS (2+3)	8.282.086	10.740.880	12.434.553	130	116
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/ 4)	17,6%	17,3%	16,4%	98	95

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



Implementation of Decision on Minimum Standards for Operating Risk Management in banks became effective as of 31.12.2008.²² Banks have been required to add the amount of risk weighted operating risk to the risk of risk weighted assets and credit equivalents that are to establish minimum capital adequacy as hedging from operating risk losses as of 31.12.2008. Capital requirement as coverage for operating risk for banks in the Federation of BiH, calculated in accordance with the methodology prescribed, amounted to KM 15,7 million, while the operating risk weight was KM 131 million, which has additionally reduced net capital rate in minor degree, that capital adequacy rate (by only 0,2 per cent).



Of total 20 banks in the FBiH as of 31.12.2008., capital adequacy rate of 18 banks was higher than minimum prescribed by the law of 12%, while two banks, under provisional administration, recorded capital adequacy rate below 12%, that is, negative adequacy rate. The rate of banks' (12) has been lower than at the end of 2007; seven banks had better capital adequacy than at the end of 2007, of which in five banks this was the result of additional capitalization performed in 2008.

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

- Eight banks had the rate between 12,5% and 20%, and three largest banks from 13,3% to 14,8%,
- Eight banks had the rate between 21% and 50%,
- Two banks had the rate between 51% and 70%.

²² "Official Gazette of the FBiH", number 6/08.

Further strengthening of capital base will be priority task in majority of banks as it has been the case so far, especially in the largest banks of the system, which is necessary to strengthen stability and safety of both banks and the entire banking system, especially due to changes in business and operating environment under which banks in the Federation operate, because of the global financial crisis expansion to the area of our country and adverse effects this crisis may have on the banking sector and the entire economy of BiH. Following bank expansion and performing regular supervision of this segment, when acting towards banks, depending on the evaluation of their capital adequacy and risk profile, the FBA takes different corrective and supervisory measures, such as: adoption of strategy to maintain certain level of capital and plan which will provide for quantity and quality (structure) of that capital in accordance with the nature and complexity of bank's present and future business activities and undertaken and potential risk, then intensified supervision and monitoring of bank, request to supply additional capital in order to strengthen capital base, limitation and decrease of credit risk exposure with some concentrations, monitoring of capital plan implementation, especially for additional capital supplied from external resources, supervision of compliance and implementation of the ordered measures, etc.

2.1.3. Assets and asset quality

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

Total assets with off-balance sheet items (assets)²³ of banks in the FBiH, as of 31.12.2008., amounted to KM 18 billion, which is higher by 6% or one billion than at the end of 2007.

Gross assets²⁴ of the balance sheet amounted to KM 15,5 billion, which is higher by 6% or KM one billion than at the end of 2007. Off-balance sheet risk items amounted to KM 2,6 billion, representing an increase of 5% or KM 132 million.

-in 000 KM-

DESCRIPTION	AMOUNT (in 000 KM)						RATIO	
	31.12.2006.	Struct. %	31.12.2007.	Struct. %	31.12.2008.	Struct. %	4:2	6:4
	1.	2	3	4	5	6	7	8
Loans	6.609.302	56,0	8.660.761	59,6	10.200.089	65,9	131	118
Interests	36.210	0,3	53.512	0,4	59.564	0,4	148	111
Past due claims	206.720	1,8	210.585	1,4	231.890	1,5	102	110
Claims for paid guarantees	4.132	0,0	3.638	0,0	2.353	0	88	65
Other placements	47.739	0,4	61.910	0,4	39.393	0,3	130	64
Other assets	4.893.407	41,5	5.552.875	38,2	4.940.201	31,9	113	89
TOTAL ASSETS	11.797.510	100,0	14.543.281	100,0	15.473.490	100,0	123	106
OFF-BALANCE SHEET	1.826.980		2.453.214		2.582.093		134	105
ASSETS WITH OFF-BALANCE SHEET	13.624.490		16.996.495		18.055.583		125	106
RISK ASSETS WITH OFF-BALANCE SHEET	8.871.314		11.624.445		13.306.790		131	114
General loan risk and Potential loan losses	343.737		409.833		461.883		119	113
General and Special loan loss reserves already established	345.067		409.895		461.730		119	113

²³ Assets defined by Article 2 of Decision on Minimum Standards for Loan Risk Management and Assets Classification of Banks.

²⁴ Data source: Report on classification of balance sheet assets and off-balance sheet items of banks.

Non-risk items amount to KM 4,7 billion or 26% of total assets with off-balance sheet, and they decreased by 12% in comparison to the end of 2007, which is primarily the result of the cash funds downfall. On the other hand, risk assets with off-balance sheet items amounted to KM 13,3 billion and they increased by 14% or KM 1,7 billion over the year of 2008.

Credit placements²⁵, over 2008, recorded moderate growth of 18% or KM 1,56 billion, reaching the amount of KM 10,4 billion and participation of 69% in the assets structure. This is the lowest growth rate over the past six years, if compared to prior year 2007, credit growth has deteriorated by 12 per cent or KM 496 million. The global economic crisis spill over the area of BiH in the fourth quarter of 2008 reflected on this business segment of banks and their key activity, which is lending. Over the first three quarters, credit placements recorded moderate growth of 17% or KM 1,5 billion, resulting by significant decrease and limited growth of new placements by banks in the fourth quarter. Therefore, the increase was only 1% or KM 59 million. Adverse impact of the crisis in credit portfolio of banks in the Federation of BiH at the end of 2008 reflected through increase of past due claims. While the first three quarters of 2008 recorded significant downfall (decrease by 6%), in the fourth quarter these items jump to 17%, reporting growth of 10% at the annual level and increase in the assets structure from 1,3% to 1,5%.

Three largest banks in the FBiH increased their credit placements by KM 969 million, representing 62% of the overall increase at the banking system level, amounting to KM 7,1 billion as of 31.12.2008. Their participation in total loans was 68%.

If viewed from the aspect of sectors to which banks originated loans in 2008, positive trend from 2007 has maintained with more lending to private companies than citizens. Although in the last quarter of 2008 overall credit growth was only 1% or KM 59 million, loans to private companies increased by 2% or KM 116 million, and loans to citizens decreased by 1% or KM 34 million. Annual growth rate of loans to private companies was 22% or KM 883 million, which has increased their participation from 45% to 46,8%. Slightly lower growth of 15% or KM 685 million was recorded in loans to citizens, and their participation decreased from 50,3% to 49,3%. According to the data submitted by banks as of 31.12.2008., from the aspect of loan structure originated to citizens (looking at the purpose) there have been no changed over longer period of time, that is, the highest participation of approx. 71% had loans originated to finance consumer goods²⁶, 24% had housing loans, and remaining 5% had loans for SMEs and agriculture.

As for other sectors, with total participation of 3,9%, two had extremely high credit growth rates in 2008, but nominally this is not significant: government institutions of 136% or KM 44 million and nonprofit organizations of 42% or KM 12 million, which has insignificantly had some bearing on changes in participation of those sectors in the overall loan structure by sectors.

Three largest banks in the system financed 67% of total loans originated to citizens, which is higher by 7% if compared to the end of 2007, and 70% to private companies, which is higher by six per cent than at the end of 2007.

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

²⁵ Short term and long term loans, past due claims and claims based on paid-called for payment guaranteses.

²⁶ Including card based operations.

-in 000 KM-

SECTORS	31.12.2006.		31.12.2007.		31.12.2008.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	27.084	0,4	32.556	0,4	76.964	0,7	120	236
Public enterprises	192.394	2,8	211.465	2,4	175.424	1,7	110	83
Private enterprises and assoc.	3.029.964	44,4	3.998.141	45,0	4.881.525	46,8	132	122
Banking institutions	28.445	0,4	26.768	0,3	5.805	0,1	94	22
Non-banking financial instit.	52.279	0,8	114.084	1,3	105.352	1,0	218	92
Citizens	3.471.829	50,9	4.461.965	50,3	5.146.919	49,3	129	115
Other	18.159	0,3	30.005	0,3	42.343	0,4	165	141
TOTAL	6.820.154	100,0	8.874.984	100,0	10.434.332	100,0	130	118

Currency structure of loans has also been unchanged for longer period: loans financed with currency clause had the highest participation of 74% or KM 7,8 billion, loans in domestic currency of 24% or KM 2,5 billion, while loans in foreign currency had the lowest participation of only 2% or KM 195 million.

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

Quality of assets and off-balance sheet risk items, general loan risk, potential loan losses by classification categories²⁷ and off-balance sheet items are presented in the following table:

Classification category	AMOUNT (in 000 KM) AND PARTICIPATION (in%)									RATIO	
	31.12.2006.			31.12.2007.			31.12.2008.			5/2	8/5
	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL	Assets classif.	Partic. %	GLR PLL		
1	2	3	4	5	6	7	8	9	10	11	12
A	7.513.553	84,7	150.390	9.876.208	85,0	197.719	11.536.962	86,7	230.793	131	117
B	1.073.906	12,1	79.451	1.478.711	12,7	105.446	1.446.504	10,9	103.385	138	98
C	147.718	1,7	36.574	143.658	1,2	35.717	165.309	1,2	40.558	97	115
D	135.980	1,5	77.181	122.003	1,1	67.086	154.168	1,2	83.300	90	126
E	157	0,0	141	3.865	0,0	3.865	3.847	0,0	3.847	2462	99
Risk assets (A-E)	8.871.314	100,0	343.737	11.624.445	100,0	409.833	13.306.790	100,0	461.883	131	114
Nonrisk assets²⁸	4.753.176			5.372.050			4.748.793			113	88
TOTAL	13.624.490			16.996.495			18.055.583			125	106
OFF-BALANCE SHEET ITEMS											
	409.108	89,7		430.069	90,1		427.279	89		105	99
Susp. interest	46.546	10,3		46.929	9,9		54.479	11		101	116
TOTAL	455.654	100,0		476.998	100,0		481.758	100,0		105	101

Risk assets with off-balance sheet items (A-E) amounted to KM 13,3 billion. These items increased by 14% or KM 1,7 billion. Non-risk items amounted to KM 4,7 billion. These items

²⁷ 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%.

²⁸ Assets items that are not, according to Article 22, Paragraph 7 of Decision on Minimum Standards for Bank Credit Risk and Assets Classification Management, subject to accrual of general loan loss provisions of 2%.

increased by 12%, if compared to the end of 2007, which is primarily the result of the cash funds deterioration.

If quality of risk assets is analyzed, we could see that classified assets (B – E), in comparison to the end of 2007, recorded minimum growth of 1% or KM 22 million due to the growth of substandard assets (category C) of 15% or KM 22 million, followed by doubtful assets (category D) of 26% or KM 32 million, while special mentioned placements (category B) decreased by 2% or KM 32 million. Classified assets, as of 31.12.2008., amounted to KM 1,8 billion. Poor quality assets (C-E) increased by 20% or KM 54 million, amounting to KM 323 million. However, we have to mention that over the same period the assets were charged off (write off to the off-balance sheet) in the amount of KM 62 million. The assets quality indicators expressed as ratio, that is, participation of individual categories in risk assets have insignificantly changed, as a result of the above mentioned. The ratio of classified assets and risk assets, if compared to the end of 2007, was lower by 1,7%, amounting to 13,3%, due to faster growth of risk assets (14%) than classified assets (1%).

If we only analyze ratio and trend of poor quality and risk assets, as of 31.12.2008., we get the ratio of 2,4%, which is relatively low ratio. If compared to the end of 2007, it shows the ratio is lower by 0,1 per cent. However, if we take into account that participation of category B in risk assets amounts to 11%, raising doubt that portion of placements reported under this category has deteriorated in quality that should be categorized as poor quality assets, that is, some banks practice not to timely establish adequate loan loss provisioning (as confirmed through on-site examinations, resulting by insufficient loan loss reserves), we could make conclusion that deterioration in the assets quality continues. This represents a key importance that banks more realistically evaluate quality of placements and establish adequate loan loss reserves, especially for the fact that these are new loans with long maturity (especially citizen loans), so the issues related to the assets quality have not been timely detected, that is, they are in some way hidden through the highest increase of category B.

The analysis of data by sectors is based on the indicators of 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 24: Classification of loans originated to citizens and legal entities

Classification categories	AMOUNT (in 000 KM) AND PARTICIPATION (in %)												RATIO 12/6
	31.12.2007.						31.12.2008.						
	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	Partic.	Citizens	Partic. %	Legal entities	Partic. %	TOTAL Amount	Partic.	
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14
A	4.176.207	93,60	3.273.549	74,18	7.449.756	83,94	4.825.655	93,76	4.125.626	78,03	8.951.281	85,79	120
B	199.186	4,46	970.657	22,00	1.169.843	13,18	203.799	3,96	971.260	18,37	1.175.059	11,26	100
C	56.100	1,26	82.244	1,86	138.344	1,56	71.580	1,39	84.803	1,60	156.383	1,50	113
D	30.454	0,68	86.569	1,96	117.023	1,32	45.885	0,89	105.724	2,00	151.609	1,45	129
E	18	0,00	0	0,00	18	0	0	0	0	0	0	0	0
TOTAL	4.461.965	100,00	4.413.019	100,00	8.874.984	100,00	5.146.919	100,00	5.287.413	100,00	10.434.332	100,00	118
Loans classified B-E	285.758	6,40	1.139.470	25,82	1.425.228	16,06	321.264	6,24	1.161.787	21,97	1.483.051	14,21	104
Poor quality loans C-E	86.572	1,94	168.813	3,83	255.385	2,88	117.465	2,28	190.527	3,60	307.992	2,95	121
Loan structure	50,28		49,72		100,00		49,33		50,67		100,00		
Participation by sectors in classified loans, poor quality loans and category B:													
Classification B-E	20,05		79,95		100,00		21,66		78,34		100,00		
Poor quality C-E	33,90		66,10		100,00		38,14		61,86		100,00		
Category B	17,03		82,97		100,00		17,34		82,66		100,00		

As of 31.12.2008., of total loans originated to legal entities in the amount of KM 5,3 billion, KM 1,2 billion or 22% was classified in categories B to E (KM 1,1 billion or 25,8% at the end of 2007), while of total loans originated to citizens in the amount of KM 5,1 billion, classification categories B to E represent KM 321 million or 6,24% (KM 286 million or 6,4% at the end of 2007).

Of loans finance to legal entities, KM 190 million was classified as poor quality loans or 3,6% of total loans originated to this sector (as of 31.12.2007., these items amounted to KM 169 million or 3,8%). Poor quality loans, in the sector of citizens, amounted to KM 117 million or 2,3% of total loans originated to this sector (as of 31.12.2007., these items amounted to KM 87 million or 2%).

The observed indicators of quality of loans originated to legal entities are slightly better in comparison to 2007. As for citizens, ratio of classified and total loans is slightly better, while participation of poor quality loans has increased. In order to make more realistic assessment we should take into account the amount of loans that banks have, in the meantime, charged off to the off-balance sheet, which is presented in the following table.

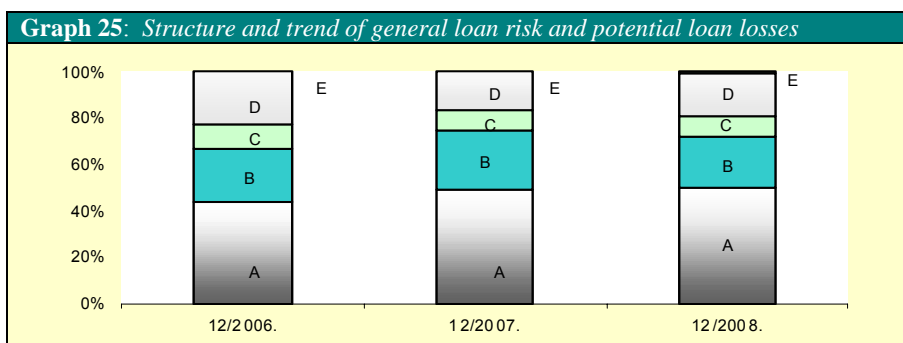
-000 KM-

DESCRIPTION	CITIZENS		LEGAL ENTITIES		TOTAL	
	Charged off assets	Suspended interest	Charged off assets	Suspended interest	Charged off assets	Suspended interest
1	2	3	4	5	6	7
Opening balance as of 31.12.2007.	66.060	7.187	364.009	39.742	430.069	46.929
<i>Changes in 2008:</i>						
- new charge offs (current year)	46.109	6.037	15.729	33.900	61.838	39.937
- payments made in the current year	16.247	4.279	37.408	13.405	53.655	17.684
- permanent charge off	229	85	10.744	14.618	10.973	14.703
Balance as of 31.12.2008.	95.693	8.860	331.586	45.619	427.279	54.479

Balance of the charged off assets as of 31.12.2008. was KM 427 million, which has declined by 1% if compared to the end of 2007, while balance of suspended interest was higher by 16%, amounting to KM 54 million.

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

Classification category	AMOUNT (in 000 KM) AND STRUCTURE (in %)						RATIO	
	31.12.2006.		31.12.2007.		31.12.2008.		4/2	6/4
1	2	3	4	5	6	7	8	9
A	150.390	43,8	197.719	48,2	230.793	50	131	117
B	79.451	23,1	105.446	25,7	103.385	22,4	133	98
C	36.574	10,6	35.717	8,7	40.558	8,8	98	114
D	77.181	22,5	67.086	16,4	83.300	18,0	87	124
E	141	0,0	3.865	1,0	3.847	0,8	2.741	100
TOTAL	343.737	100,0	409.833	100,0	461.883	100,0	119	113



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

Based on the analysis of the established provisions, in total amount and by classification categories, if compared to the end of 2007, general loan risk and potential loan loss provisions have increased by 13%, amounting to KM 462 million or in relative ratio of 3,5% of risk assets with off-balance sheet, remaining at the same level as at the end of 2007. As of 31.12.2008., banks in average allocated for category B 7,1%, for category C 24,5%, category D 54% and E 100%.

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

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

Transactions with related entities

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

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

The FBA Decisions prescribe a special set of reports, including transactions with one segment of related entities, such as loans and potential and undertaken off-balance sheet liabilities

(guarantees, letters of credit, undertaken loan commitments) as the most frequent and the most riskiest form of transactions between a bank and related entities. The set of prescribed reports include data on loans originated to the following categories of related entities:

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

-000 KM-

Description	ORIGINATED LOANS ²⁹			RATIO	
	31.12.2006.	31.12.2007.	31.12.2008.	3/2	4/3
1	2	3	4	5	6
Shareholders over 5% of voting rights, subsidiaries and other related enterprises	21.333	26.083	26.823	122	103
Supervisory Board and Audit Board members	38	145	304	382	210
Bank Management	1.962	2.355	2.315	120	98
TOTAL	23.333	28.583	29.442	123	108
Potential and undertaken off-balance sheet liabilities	1.072	1.936	10.304	180	532

Although the level of transactions with the mentioned categories of related entities has increased over 2008, which are subject to reporting, especially potential and undertaken liabilities based on guarantees issued for “sister” leasing companies in BiH (two banks), we could draw a conclude this would be a small amount of loans-guarantees operations with related entities and the level of risk is low. The FBA pays special attention (in on-site examinations) to banks' operations with related entities, especially in assessing identification system and monitoring of risk exposure to related entities operations. The FBA on-site examiners issue orders for elimination of determined weaknesses within certain deadlines and initiate violation procedures. Part of these activities is also to monitor and supervise implementation of the issued orders in the follow up procedure. This has had a positive influence on this segment of operations, since the risk management quality in this segment has improved.

2.2. Profitability

According to the final non-audited data from the financial statements, showing the achievement of banks' performance, that is, income statement for 2008, banks in the Federation of BiH have realized positive financial result – profit in the amount of KM 52,0 million, representing a significant decline in comparison to 2007 of 52,8% or KM 58 million (the effect of decline in only one bank was KM 36,1 million). Therefore, we could draw a conclusion that majority of banks in the Federation experienced deterioration in this segment of performance. We should point out that deterioration of the financial result had the effect on the following: capitalized profit of one bank (one bank was integrated into another as of 29.02.2008.) over two months of 2008 was KM 1,8 million (in the capital accounts as of 01.03.2008.), exclusion of the Investment Bank of the F BiH from the system of commercial banks, which, based on Law on Development Bank of the FBiH, was reregistered into the Development Bank of the FBiH (profit of this bank in 2007 was KM 2,8 million). If we exclude the influence of these two banks, we get a realistic downfall of total profit of KM 53,4 million or 49,8%.

²⁹ Apart from loans, it includes other claims, deposited funds and the placements to shareholders (financial institutions) exceeding 5% of voting rights.

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

More detailed information is presented in the following table:

-000 KM-

Table 28: Financial result reported: profit/loss

Date/Description	At the system level		State banks		Private banks	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
31.12.2006.						
Loss	-7.030	5	-2.603	3	-4.427	2
Profit	95.287	18	3.134	2	92.153	16
Total	88.257	23	531	5	87.726	18
31.12.2007.						
Loss	-8.156	4	-420	1	-7.736	3
Profit	118.092	18	3.182	2	114.910	16
Total	109.936	22	2.762	3	107.174	19
31.12.2008.						
Loss	-38.177	4	-	-	-38.177	4
Profit	90.144	16	1.800	2	88.344	14
Total	51.967	20	1.800	2	50.167	18

Similar to other segments, there are also concentrations in this segment: of total profit generated (KM 90,1 million), two largest banks in the system reported 64,7% or KM 58,3 million, realizing assets participation in the banking system of 50,4%. Out of total loss (KM 38,2 million), only one bank with foreign ownership, realizing assets participation of 16,1% (third in the system), reported KM 19,0 million. The loss reported by this bank resulted by extremely high securities trading expenses.

Financial result of state banks does not have any significant influence on the overall profitability of the banking sector. Unlike previous years, two state banks reported positive financial result for 2008.

Based on analytical data, as well as parameters for evaluation of quality in profitability (level of realized financial result – profit/loss and ratios used for evaluation of profitability, productivity and effectiveness of performance, and other parameters related to evaluation of performance), the overall system profitability has significantly deteriorated in comparison to previous years. Generally in the system, and especially in large banks that carry on profitability, the reported profit was increasing slower or was lower in majority of banks as a result of extremely high growth of primarily interest-bearing and non-interest-bearing expenses to total income, as well as, to some extent, slower growth of interest-bearing income due to credit activity downfall in the fourth quarter of 2008. However, adverse financial result, as mentioned, primarily comes from enormous securities trading loss in one bank. We should point out that this bank reported extremely high income on this basis two years ago. In addition, slower increase of the overall, including interest-bearing assets of the banking sector (especially in the fourth quarter of 2008) resulted by significantly slower increase of interest income.

Total income generated at the system level was KM 837 million, with growth rate of 3% or KM 25 million in comparison to 2007. Total non-interest bearing expenses were KM 762 million, with growth rate of 11% or KM 77 million that had adverse reflection on the overall financial result of the sector.

Total interest income amounted to KM 946 million. If compared to the same period last year, it represents an increase of 13% or KM 112 million. In the structure of total income, their

participation increased from 103% to 113%. Positive trend results from faster growth of interest income than average interest-bearing assets, that is, continuous growth of credit placements (although, in the fourth quarter of 2008, loans recorded minimum growth of 1% or KM 58 million) and their relatively good quality, increasing trend of interest rates and implementation of the IAS 18 provisions.

Interest income from loans increased by 22% (although they realistically followed average growth of credit portfolio of 25% based on the capitalized income of the bank that went under statutory change of integration), while their participation in total income increased from 82,1% (if compared to previous year) to 97,5%. As part of this, interest-bearing income from credit placements to citizens recorded the highest participation of 49,1% that in total credit portfolio participated with 49,3%, followed by interest for loans originated to private companies with participation in interest income of 39,4% and participation in loan portfolio of 46,8%. Based on the mentioned, we should conclude that loan portfolio of citizens is still profitable for banks and less risky, taking into account lower level of poor quality assets in the structure of loan placements, and due to substantially higher level of interest rates for loans to citizens, which, in 2008, increased in average from 30% to 50% than loans to companies.

On the other hand, if compared to the growth rate of interest income, interest expenses recorded faster growth, that is, the rate was 32% or KM 103 million, amounting to KM 427 million. In addition, their participation in the structure of total income increased from 39,9% to 51% in comparison to the same period last year. Interest expenses recorded faster increasing trend as result of continuous growth of credit commitments (primarily indebtedness abroad) and term deposits, as well as increasing trend of interest rates for deposits and borrowings.

Increase of interest expenses for deposits results from faster increase of term and interest-bearing deposits (15%) than total deposits (3%). As part of total deposits, related to the most recent changes in the financial markets, demand deposits recorded major downfall. Increase of long term credit indebtedness of banks, primarily with foreign financial institutions („parent“ banks or associated banks from the group and in the financial market with other creditors) of 17%, followed by the funds from subordinate debts of 10%, as well as increase of the reference rate of Euribor and Libor in 2008, resulted by increase of interest expenses for borrowings of 38%. The sources of foreign financial institutions (deposits, loans, subordinate debts) represent the most expensive sources for banks, since, in the structure of interest-bearing sources, they participate of approximately 35%, while interest expenses, for the same basis, represent approximately 50% of total interest expenses.

Due to faster growth of interest expenses, net interest income increased by only 2% or KM 8,1 million, so, in the structure of total income, it maintained almost the same participation of net interest income of 62% in total income (62,9% in 2007), and operating income of 38% (37,1% in 2007).

Operating income amounts to KM 318 million, increasing per rate of 6% faster than net interest income, that is, they increased by KM 17 million and their participation in the structure of total income (increased from 37,1% to 38%) has not substantially changed. As part of operating income, fees-based growth, both nominally and in per cent, was KM 18 million or 10,6%. However, enormous downfall of trading income from KM 14 million to three million KM, due to major changes in the securities market, adversely reflected to the level of operating income.

Total non-interest-bearing expenses recorded faster growth (11%) than total income (3%). As of 31.12.2008., these figures amounted to KM 762 million, which was KM 77 million up on the comparable figures for the previous year. At the same time, their participation in the structure of total income increased from 84,4% to 91,1%. However, if we compare their relative and nominal growth in 2007, compared to 2006 (17% or KM 98,1 million), we could draw a conclusion that banks well managed non-interest bearing expenses; growth rate was even lower by six per cent,

while the main cause of bad financial result was decrease of total income, with significant downfall in operating income for trading activities, that is, increase of operating expenses for the same activities, as well as net interest income for the above reasons.

Within non-interest bearing expenses, the highest nominal growth was recorded by other operating expenses of KM 147 million that have increased by KM 41 million or 39%. Within other operating expenses, negative effects in securities trading were recorded with three banks (last year banks recorded profit in trading activity) of KM 24 million, which has substantially adversely reflected on the system profit in 2008. Second important item of operating expenses are head office expenses of banks owned by foreign banking groups, which are related to parent banks and/or members of the group, amounting to KM 28 million (KM 29 million in 2007).

The business premises and fixed assets expenses amounted to KM 151,3 million with growth rate of 21% or KM 26 million and participation in total income of 18,1%. The salaries and contribution expenses with growth rate of 11% or KM 23 million amounted to KM 243 million, representing 29,1% of total income.

Oscillations in certain periods over the past two years, reported through the income or expenses realized, both nominally and relatively, demonstrate a substantial influence of market risk coming from this business segment to the financial result of both banks involved in such activities and of the entire banking system.

Positive trend was reported under loan loss provisions, which, if compared to 2007, decreased by 12% or KM 21 million, if assessed from the aspect of impact on earnings. On the other hand, there is a concern that some banks, in order to realize better annual financial result, inadequately assess their credit risk and establish insufficient loan loss provisions, that is, a possibility of hidden loan losses with certain number of banks.

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

- in 000 KM-

Table 29: Structure of total income									
Structure of total income	31.12.2006.		31.12.2007.		31.12.2008.		RATIO		
	Amount	%	Amount	%	Amount	%	4/2	6/4	
1	2	3	4	5	6	7	8	9	
I Interest income and similar income									
Interest bearing deposit accounts with depository institutions	66.234	7,2	121.966	10,8	84.585	6,7	184	69	
Loans and leasing	541.538	59,0	666.417	58,7	816.338	64,6	123	122	
Other interest income	22.402	2,4	46.141	4,0	45.254	3,6	206	98	
TOTAL	630.174	68,6	834.524	73,5	946.177	74,8	132	113	
II Operating income									
Service fees	162.502	17,7	168.362	14,8	186.242	14,7	104	111	
Foreign exchange income	32.578	3,6	33.054	2,9	35.063	2,8	101	106	
Other operating income	93.030	10,1	99.404	8,8	96.740	7,6	107	97	
TOTAL	288.110	31,4	300.820	26,5	318.045	25,2	104	106	
TOTAL INCOME (I + II)	918.284	100,0	1.135.344	100,0	1.264.222	100,0	124	111	

Graph 26: Structure of total income

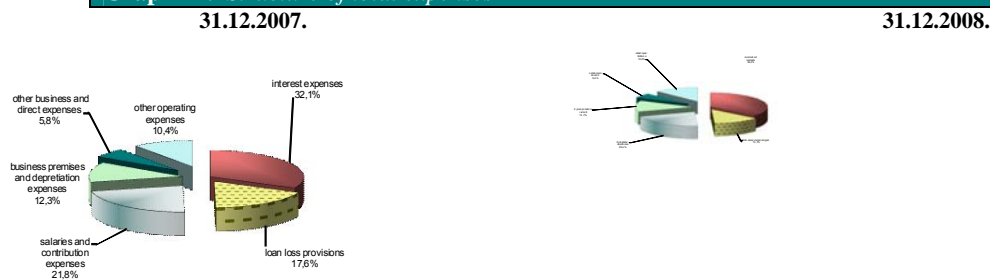


- in 000 KM-

Table 30: Structure of total expenses

Structure of total expenses	31.12.2006.		31.12.2007.		31.12.2008.		RATIO	
	Amount	%	Amount	%	Amount	%	4/2	6/4
1	2	3	4	5	6	7	8	9
I Interest expenses and similar expenses								
Deposits	173.231	21,1	225.465	22,3	291.575	24,6	130	129
Liabilities for borrowings	53.987	6,6	83.192	8,3	112.074	9,4	154	135
Other interest expenses	7.412	0,9	15.139	1,5	23.664	2,0	204	156
TOTAL	234.630	28,6	323.796	32,1	427.313	36,0	138	132
II Total non-interest bearing expenses								
General loan risk and potential loan losses Provisioning	143.059	17,3	177.279	17,6	156.171	13,1	124	88
Salary expenses	185.907	22,7	219.730	21,8	243.080	20,4	118	111
Business premises and depreciation expenses	110.239	13,4	124.706	12,3	151.354	12,7	113	121
Other business and direct expenses	53.615	6,5	58.260	5,8	64.635	5,4	109	111
Other operating expenses	94.451	11,5	105.410	10,4	146.841	12,4	112	139
TOTAL	587.271	71,4	685.385	67,9	762.081	64,0	117	111
TOTAL EXPENSES (I + II)	821.901	100,0	1.009.181	100,0	1.189.394	100,0	122	118

Graph 27: Structure of total expenses



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

- in %-

Table 31: Ratios of profitability, productivity and effectiveness by periods			
RATIOS	31.12.2006.	31.12.2007.	31.12.2008.
Return on Average Assets	0,86	0,85	0,36
Return on Average Total Capital	7,95	8,07	3,46
Return on Average Equity	10,64	11,64	5,22
Net Interest Income/Average Assets	3,86	3,97	3,61
Fee Income/Average Assets	2,80	2,34	2,21
Total Income/Average Assets	6,65	6,31	5,82
Operating and Direct Expenses ³⁰ /Average Assets	1,91	1,83	1,54
Operating Expenses/Average Assets	3,80	3,50	3,76
Total Non-interest Expenses/Average Assets	5,71	5,33	5,30

- in %-

Table 32: Ratios of profitability, productivity and effectiveness as of 31.12.2008.			
RATIOS	31.12. 2008.		
	STATE BANKS	PRIVATE BANKS	AVERAGE IN THE FBiH
Return on Average Assets	0,91	0,35	0,36
Return on Average Total Capital	4,13	3,44	3,46
Return on Average Equity	5,28	5,22	5,22
Net Interest Income/Average Assets	3,05	3,62	3,61
Fee Income/Average Assets	5,75	2,16	2,21
Total Income/Average Assets	8,80	5,78	5,82
Operating and Direct Expenses/Average Assets	1,20	1,54	1,54
Operating Expenses/Average Assets	6,62	3,72	3,76
Total Non-interest Expenses/Average Assets	7,81	5,26	5,30

Based on the analysis of general parameters for assessment of profitability quality, we could conclude that profitability of the entire system has deteriorated; realized profit has significantly declined, resulting by downfall of ROAA (Return on Average Assets) from 0,85% to 0,36% and ROAE (Return on Average Equity) from 11,64% to 5,22%. In addition, productivity of banks, measured as ratio of total income and average assets, continues with decreasing trend (from 6,31% to 5,82%) as result of, on one side, slightly faster increase of average total assets than average interest-bearing assets, and, on the other side, due to slower increase of net interest-bearing income caused by increase of funding sources expenses (both deposit and credit side) and downfall of income, that is, securities trading loss.

All key financial indicators of profitability analyzed based on the ownership criteria in banks indicate that private banks operate more cost-effectively, productively and efficiently, which gives them competitive advantage if compared to state banks, emphasizing the need to finish privatization process in remaining state banks.

Profitability of banks, in the forthcoming period, will still mostly depend on assets quality, that is, banks' exposure to credit risk, especially related to the non-performing assets growth as result of interest income suspension. Following important indicator should be effective management and control of operating income and expenses. Largest banks, as learned from the past, should especially pay attention to the securities trading activities. In addition, profit of banks, that is, financial result will mostly depend on price and interest rate risk, both in the sources and price

³⁰ Expenses include provisions for potential loan losses.

changes in funding sources of banks and possibility to realize interest rate margin sufficient to cover all non-interest bearing expenses, and, eventually, provide for satisfactory profit on the invested capital for bank owners. That is the reason why the key factor of effectiveness and profitability of each bank is management quality and business policy the management is running, since that is the most direct way to influence its performance.

2.3. Risk-weighted nominal and effective interest rates

In order to increase transparency and facilitate comparative 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 01.07.2008., prescribed unified method of computation and disclosure of effective interest rate³¹ 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, income from a deposit, expressed as per cent at the annual level.

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

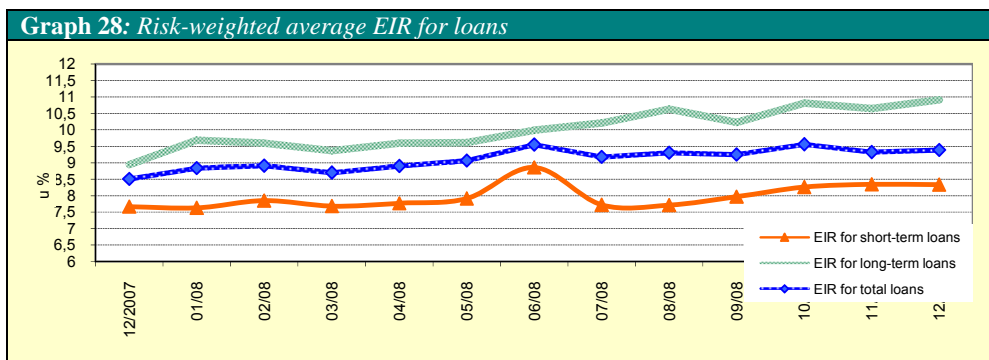
Banks are obliged to monthly report to the FBA of risk-weighted nominal and effective interest rates on loans and deposits originated or accepted within the reporting month, in accordance with the methodology prescribed³².

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

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

³¹ Decision on unified method of computation and disclosure of effective interest rates on loans and deposits (“Official Gazette of the FBiH”, number 27/07).

³² Guidelines for implementation of Decision on unified method of computation and disclosure of effective interest rates on loans and deposits and Guidelines for computation of risk-weighted nominal and effective interest rate.



When analyzing the trend of interest rates 2008, it is relevant to monitor risk-weighted EIR, while difference in the risk-weighted NIR is exclusively the result of fees and provisions paid to banks for originated loans, which is included in computation of the loan price. That is the reason why the EIR represents a real loan price.

During 2008, risk-weighted EIR for loans, along with some minor oscillations, has had increasing trend. If compared to December of 2007 (it was 8,51%), it has increased by 9,39% in December 2008, primarily due to increase of the EIR for long-term loans.

Risk-weighted EIR for short-term loans, in December 2008, was 8,33%, representing an increase by 0,66 per cent if compared to the same month in 2007.

Banks in the Federation of BiH, in December 2008, originated long-term loans per risk-weighted EIR of 10,92% (increase by 2,09 per cent if compared to the same month of 2007).

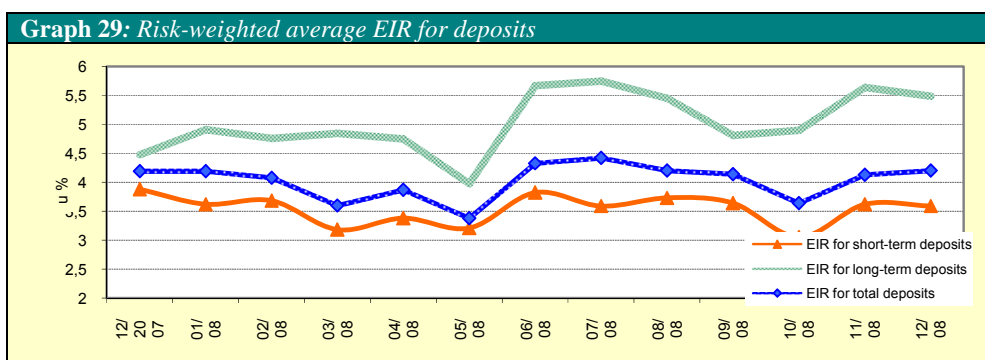
If we analyze interest rates for loans originated to the two most significant sectors: economy and citizens³³, we could conclude that interest rates for loans originated to the economy are much lower, that is, loans to this sector are less expensive. On the other hand, there was higher increase in risk-weighted EIR for loans originated to citizens (comparative period: December 2007 and 2008, EIR increased from 9,96% to 12,58%) than for loans to the economy (increase from 7,62% to 8,37%).

Risk-weighted EIR for the two most important sectors in short-term and long-term loans show opposite direction, that is, EIR for the economy is lower in short-term loans than in long-term loans. The EIR for citizens show opposite direction. But still, although risk-weighted EIR for short-term loans to the economy showed increasing trend in 2008, the EIR for citizens has been substantially decreased. The result is that in December 2008, the EIR for the economy was 8,19% and for citizens 13,04% (7,45% and 13,47% in December 2007). For long-term loans, the risk-weighted EIR for the economy was 8,92% and for citizens 12,54% (8,07% and 9,75% in December 2007).

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

³³ Based on the methodology of classification in sectors: entrepreneurs are included in the sector of citizens.

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



Apart from 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 the end of 2007, risk-weighted EIR for total term deposits show minor growth of 0,01 per cent (from 4,19% to 4,20%). If we analyze changes in interest rates for short-term and long-term deposits, we see obvious increase of interest rates for long-term deposits (EIR in December 2008 increased by 1,01 per cent in comparison to the same month in 2007), while interest rates for short-term deposits recorded downfall (EIR by 0,29 per cent, that is, from 3,88% to 3,59%).

Although loans originated to the economy and citizens show significant differences in interest rates, the difference is minor in interest rates for deposits, while the situation is opposite if compared to the loans. However, banks pay to the economy slightly higher interest rates for term deposits than to the citizens. In December 2008, risk-weighted EIR for short-term deposits of the economy was 3,59%, and of citizens 2,83%, and for long-term 6,13% and 5,31%.

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

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

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

Risk-weighted EIR for total loans in overdrafts for the banking sector in December 2008 was 8,81% (decrease by 0,2 per cent in comparison to December 2007), and 0,4% for demand deposits, which represents a slight increase in comparison to the past year.

2.4. Liquidity

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

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

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

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

In the structure of financing sources of banks in the Federation of BiH, as of 31.12.2008., deposits still have the highest participation of 69,4% (72,4% at the end of 2007), followed by borrowings (including subordinated debts³⁴) of 16,2% with longer maturity, representing quality source for long term placements, and have made a significant contribution to maturity match between assets and liabilities.

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

- in 000 KM-

DEPOSITS	31.12.2006.		31.12.2007.		31.12.2008.		RATIO	
	Amount	Partic	Amount	Partic	Amount	Partic	4/2	6/4
		%		%		%		
1	2	3	4	5	6	7	8	9
Savings and demand deposits	4.079.002	48,7	4.747.689	46,6	4.186.764	40,0	116	88
Up to 3 months	293.735	3,5	430.784	4,2	460.100	4,4	147	107
Up to 1 year	742.994	8,9	1.045.768	10,3	979.516	9,4	141	94
1. Total S-T	5.115.731	61,1	6.224.241	61,1	5.626.380	53,8	122	90
Up to 3 years	2.212.076	26,4	2.722.927	26,7	3.018.766	28,9	123	111
Over 3 years	1.051.515	12,5	1.243.809	12,2	1.816.695	17,3	118	146
2. Total L-T	3.263.591	38,9	3.966.736	38,9	4.835.461	46,2	122	122
TOTAL (1 + 2)	8.379.322	100,0	10.190.977	100,0	10.461.841	100,0	122	103

³⁴ Subordinated debts: borrowings and permanent liabilities

Analysis of maturity structure of deposits in two main groups, if compared to 2007, shows positive changes. Specifically, participation of short term deposits declined by 7,3 per cent, while long term deposits increased by the same per cent, so their participation, at the end of 2008, was 53,8% and 46,2%.

Total short term deposits, if compared to 2007, declined by KM 598 million or 10%, observing that in the fourth quarter of 2008, the decline was KM 634 million.

In short term deposits, if compared to 2007, nominal downfall of KM 561 million or 12% was realized in demand deposits, primarily in the fourth quarter, which at the same time show the highest participation of 40% in total deposits. Deposits up to three months increased by KM 29 million or 7%, and deposits up to one year decreased by KM 66 million or 6%. The highest participation in total deposits was recorded by citizen deposits (39,6%), that, if compared to 2007, decreased by KM 87 million or 5%. If compared to 30.09.2008., citizen deposits decreased by KM 164 million or 9%.

Total long term deposits in 2008 increased by KM 869 million or 22%, while minimum growth of KM 84 million or 2% was generated in the fourth quarter.

It should be emphasized that in long term deposits, two sectors show dominant participation, as follows: citizens of 40,6% and banking institutions of 35,8%. The increasing trend of banking institutions' participation has continued over 2008 (from 25,6% to 35,8%). In term deposits up to three years, the highest participation of 51,8% was recorded by citizen deposits (62% at the end of 2007), while participation of 70% in the period over three years was recorded in banking institutions' deposits (64,4% at the end of 2007).

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

-in 000 KM-

Table 37: Maturity structure of loans

LOANS	31.12.2006.		31.12.2007.		31.12.2008.		RATIO	
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	4/2	6/4
1	2	3	4	5	6	7	8	9
Pastdue claims and paid off-balance sheet liabilities	210.852	3,1	214.223	2,4	234.178	2,2	102	109
Short term loans	1.360.381	19,9	1.719.297	19,4	2.337.206	22,4	126	136
Long term loans	5.248.921	77,0	6.941.464	78,2	7.862.948	75,4	132	113
TOTAL LOANS	6.820.154	100,0	8.874.984	100,0	10.434.332	100,0	130	118

In 2008, long term loans increased by 13% or KM 921 million KM (of which citizen loans represent 73% or KM 674 million), while short term loans increased by 36% or KM 618 million (private companies represent 91% or KM 563 million).

Sectorial analysis by maturity indicates, in two most significant sectors, that long term loans represent 92% of total loans originated to citizens and 59% of loans originated to private companies.

In the assets structure, as the most significant category, loans still have the highest participation of 69,2%, with constant increasing trend that, over the nine months of 2008, was relatively high of 17% or KM 1,5 billion, financed from deposit and credit sources, while, as effect of financial crisis, in the fourth quarter this growth was only 1%. Cash funds declined by KM 687 million or 14% and their participation decreased from 34,5% to 27,9%.

In 2008, banks were regularly meeting required reserves with the Central Bank of BiH. The required reserve rate, as of 01.01.2008., was raised to 18% (it has been 15% from 01.12.2005. to 31.12.2007.). Dated of 11.10.2008., with purpose to enable additional liquidity for banks, the rate was decreased to 14%. 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 of 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. 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 keep on the reserve account with the Central Bank in domestic currency, which provides for high liquidity of individual banks and the banking sector.

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

- in % -

Table 38: Liquidity ratios			
Ratios	31.12.2006.	31.12.2007.	31.12.2008.
1	2	3	4
Liquid assets ³⁵ / Total assets	37,4	34,5	28,2
Liquid assets / Short term financial liabilities	62,2	58,1	51,2
Short term financial liabilities / Total financial liabilities	68,0	67,3	62,9
Loans / Deposits and borrowings ³⁶	69,6	73,7	82,6
Loans / Deposits, borrowings and subordinated debts ³⁷	68,5	72,2	80,9

In 2008, a trend of slight deterioration of general liquidity indicators quality has continued, primarily due to faster growth of credit placements (18%) and slower deposit growth (3%). If compared to 2007, almost all indicators show negative changes between six and nine per cent. In the fourth quarter of 2008, primarily due to decline of deposits (5%), the last two indicators have deteriorated that has been assessed as insufficient. Still, we could say that liquidity position of the banking system of the Federation of BiH is good, with satisfactory participation of liquid assets in total assets and coverage of short-term liabilities by liquid assets, while the mentioned changes in 2008, especially in the last quarter, indicate an increase of liquidity risk due to the financial crisis worldwide that has adversely reflected to the banking systems of individual European countries. Banks in BiH are owned by large European banking groups that offer significant financial support to our banks through deposit and credit funds. There is additional concern that impact of the crisis is increasing in the real sector, while adverse consequences will reflect to the overall economy and economic environment in which banks operate in BiH.

³⁵ Liquidity assets in the narrow sense: cash and deposits and other financial assets with maturity below three months, except inter-banking deposits.

³⁶ Empiric standards: below 70%-very solid, 71%-75%-satisfactory, 76%-80%-marginal to satisfactory, 81%-85%-insufficient, over 85%-critical.

³⁷ Prior ratio has been modified. Subordinated debts are included in the sources, which gives more realistic indicator.

All banks continue meeting, 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%, according to the same dynamics, as presented in the following schedule.

- in 000 KM-

Description	31.12.2006.	31.12.2007.	31.12.2008.	RATIO	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6
1. Average daily balance of cash assets	3.478.292	3.974.722	3.687.406	114	93
2. Minimum total daily balance of cash assets	3.201.670	3.686.972	3.310.173	115	90
3. Short term sources (accrual basis)	5.135.086	6.094.193	5.821.848	119	96
4. Liabilities:					
4.1. ten-day average 20% of Item 3	1.027.017	1.218.839	1.164.370	119	96
4.2. daily minimum 10% of Item 3	513.509	609.419	582.185	119	96
5. Meeting requirement :ten-day average					
Surplus = Item 1 – Item 4.1.	2.451.275	2.755.883	2.523.036	112	92
6. Meeting requirement :daily minimum					
Surplus = Item.2 – Item 4.2.	2.688.161	3.077.553	2.727.988	114	89

Apart from the mentioned prescribed minimum standards, monitoring of remaining maturity of financial assets and liabilities according to the time scale is of crucial significance for the liquidity position analysis. The time scale is from the aspect of prescribed minimum limits created based on time horizon up to 180 days.³⁸

- in 000 KM -

Description	31.12.2006.	31.12.2007.	31.12.2008.	RATIO	
	Amount	Amount	Amount	3/2	4/3
1	2	3	4	5	6
I. 1- 30 days					
1. Financial assets	5.111.643	5.678.451	5.132.568	111	90
2. Financial liabilities	4.626.466	5.291.774	4.759.714	114	90
3. Difference (+ or -) = 1-2	485.177	386.677	372.854	80	
Accrual of requirement in %					
a) Performed %= Item 1 / Item 2	110,5%	107,3 %	107,8%		
b) Required minimum %	100,0%	100,0%	85,0 %		
Surplus (+) or shortage (-) = a – b	10,5%	7,3%	22,8 %		
II. 1-90 days					
1. Financial assets	5.622.709	6.283.942	5.897.755	112	94
2. Financial liabilities	5.107.109	5.957.300	5.438.078	117	91
3. Difference (+ or -) = 1-2	515.600	326.642	459.677	63	
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	110,1%	105,5%	108,5 %		
b) Required minimum %	100,0%	100,0%	80,0%		
Surplus (+) or shortage (-) = a – b	10,1%	5,5%	28,5 %		
III. 1-180 days					
1. Financial assets	6.245.949	7.032.175	7.004.751	113	100
2. Financial liabilities	5.662.698	6.861.962	6.474.248	121	94
3. Difference (+ or -) = 1-2	583.251	170.213	530.503	29	
Accrual of requirement in %					
a) Performed %= Item 1 / Item.2	110,3%	102,5%	108,2 %		
b) Required minimum %	95,0%	95,0%	75,0 %		
Surplus (+) or shortage (-) = a – b	15,3%	7,5%	33,2 %		

³⁸ 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 above presented, we may conclude that as of 31.12.2008., banks were compliant with the prescribed limits, and have realized better maturity match between financial assets and liabilities in relation to the prescribed limits. However, based on the analysis of maturity structure of single items, especially liabilities in time periods exceeding 180 days, at the banking system level for the period 181-365 days, there is maturity mismatch (liabilities are higher by 12% than assets items), which is not concerning, but banks have to take timely and adequate measures and activities in order to prevent this mismatch from moving into shorter time periods, which is a realistic danger, considering the increasing credit risk and expected deterioration in claims collection in 2009. Also, additional burdening circumstance to the banking system's liquidity, is that of total credit commitments (KM 2,17 billion) KM 794 million or 36% will become due in 2009 (KM 75 million in the first quarter; KM 364 million in the second quarter and KM 355 million in the second half of the year).

At the end of 2008, liquidity of the banking system of the Federation of BiH, based on the presented indicators, was satisfactory. However, although assessed with majority of banks that liquidity risk is low or moderate, there is obvious increasing trend of this risk. Since this segment of performance and level of liquidity risk exposure is in correlation with credit risk, having in mind the effects of global financial crisis expansion in BiH and impact on the banking sector of the FBiH (primarily through stronger pressure on banks' liquidity) on one side through outflow of deposits and deterioration of deposit basis, and on the other side through drained inflow and liquid funds due to the expected downfall of loan collection in 2009, it should be emphasized that in the forthcoming period banks will have to pay more attention to the liquidity risk management by establishing and implementing liquidity policies, which will make sure that all matured liabilities of banks are timely realized, based on continuous planning of future liquidity needs and taking into account changes in operating, economic, regulatory and other segments of business environment of banks. The FBA will, both through reports and on-site examinations in banks, monitor how banks manage this risk and if they acted 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 these risks is foreign exchange risk (FX) created as a result of changes of exchange rates and/or imbalance in assets, liabilities and off-balance sheet items of the same currency – individual foreign currency position or all currencies together used by a bank in its operations – total foreign currency position of a bank.

In order to enable application and implementation of prudential principles in foreign exchange activities of banks and to decrease influence of foreign exchange risk to their profitability, liquidity and capital, the FBA has issued Decision on Minimum Standards for Foreign Exchange Risk Management in Banks³⁹ 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.⁴⁰

Banks daily report to the FBA as part of the monitoring of prescribed limits and level of exposure to foreign exchange risk. Based on examination, monitoring and analysis of submitted

³⁹ Official Gazette of the FBiH, number 3/03, 31/03, 64/03, 54/04.

⁴⁰ Article 8 of Decision on Minimum Standards for Capital Management of Banks determines limits for individual foreign currency position in EUR up to 30% of core capital, for other currencies up to 20% and foreign currency of bank up to 30%.

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 31.12.2008., currency structure of banks' assets on the level of banking system recorded participation of items in foreign currencies of 13,5% or KM 2 billion (15,6% or KM 2,2 billion at the end of 2007). On the other hand, currency structure of liabilities is essentially different, since participation of liabilities in foreign currency is significantly higher of 57,9% or KM 8,7 billion (53,9% or KM 7,6 billion at the end of 2007).

The following table presents structure and trend of financial assets and liabilities and foreign currency position for EUR as the most significant currency⁴¹ and total:

-in KM millions-

Table 41: Foreign currency adjustment of financial assets and liabilities (EUR and total)										
Description	31.12.2007.				31.12.2008.				RATIO	
	EUR		TOTAL		EUR		TOTAL		EUR	TOTAL
	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	Amount	Partic. %	6/2	8/4
1	2	3	4	5	6	7	8	9	10	11
<i>I. Financial assets</i>										
1. Cash assets	1.330	17,7	1.882	22,3	1.213	14,2	1.738	18,2	91	92
2. Loans	157	2,1	205	2,4	149	1,8	185	1,9	95	90
3. Loans with currency clause	5.910	78,9	6.233	73,8	7.075	83,0	7.505	78,7	120	120
4. Other	98	1,3	130	1,5	83	1,0	110	1,2	85	85
Total (1+2+3+4)	7.495	100,0	8.450	100,0	8.520	100,0	9.538	100,0	114	113
<i>II. Financial liabilities</i>										
1. Deposits	4.632	65,8	5.518	69,0	5.333	65,5	6.292	68,7	115	114
2. Borrowings	1.752	24,9	1.806	22,6	2.045	25,1	2.095	22,9	117	116
3. Deposits and loans with currency clause	341	4,8	341	4,3	434	5,3	433	4,7	127	126
4. Other	315	4,5	325	4,1	332	4,1	339	3,7	105	105
Total (1+2+3+4)	7.040	100,0	7.990	100,0	8.144	100,0	9.159	100,0	116	115
<i>III. Off-balance sheet</i>										
1. Assets	38		41		71		73			
2. Liabilities	429		431		350		358			
<i>IV. Position</i>										
Long (amount)	64		70		96		94			
%	4,8%		5,2%		6,5%		6,4%			
Short										
%										
Limit	30%		30%		30%		30%			
Below limit	25,2%		24,8%		23,5%		23,6%			

If we analyze the structure of foreign currencies, we see a dominant participation of EUR in the financial assets⁴², which in 2008 was slightly decreased (from 71,5% to 71,1%), along with decrease of nominal amount from 1,6 billion to 1,4 billion. Participation of EUR in the liabilities has increased from 87,6% to 88,4%, or nominally from KM 6,7 billion to KM 7,7 billion.

⁴¹ Source: Form 5-Foreign currency position.

⁴² 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).

However, calculation of the FX risk exposure also includes the amount of indexed items of assets (loans) and liabilities⁴³, which is especially important in the assets (78,7% or KM 7,5 billion) with continuous increasing trend, which is partially the result of the increase of foreign borrowings as financing source in bank's liabilities structure that is becoming more important. Other foreign currency assets items represent 21,3% or KM two billion, of which EUR items make 15,1% or KM 1,4 billion, and other currencies 6,2% or KM 0,6 billion (at the end of 2007, loans contracted with currency clause amounted to KM 6,2 billion with participation of 73,8%, and other items in EUR of 18,7% or KM 1,6 billion). Of total net loans (KM 10 billion), 74,7% were contracted with currency clause, primarily tied to EUR (94,3%).

On the other hand, the structure of financial liabilities stipulates and determines the structure of financial assets, for each currency respectively. In foreign currency liabilities (KM 9,2 billion) items in EUR (primarily deposits) had the highest participation of 84,2% or KM 7,7 billion, while participation and amount of indexed liabilities was at minimum, amounting to 4,7% or KM 0,4 billion (at the end of 2007, participation of liabilities in EUR was 83,8% or KM 6,7 billion, while indexed liabilities were 4,3% or KM 0,3 billion).

Observed by banks and overall on the level of the banking system of the FBiH, we can conclude that foreign exchange risk exposure of banks and the system in 2008 ranged within the prescribed limits.

As of 31.12.2008., there were 13 banks with long foreign currency position, and 7 with short position. At the system level, long foreign currency position represented 6,4% of banks' core capital, which is lower by 23,6% than the limit. Individual foreign currency position for EUR was 6,5%, with financial assets items being higher than financial liabilities (long position), representing decline of 23,5% than the limit.

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

⁴³ 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).

IV CONCLUSIONS AND RECCOMENDATIONS

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

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

- Take measures and activities within its powers to overcome and mitigate adverse impact to the banking sector of the FBiH caused by the global financial crisis,
- Continue, as so far, implementing activities, from the scope of its authority, to consolidate supervision on state level,
- Proceed with a continues supervision of banks through on-site and off-site examinations, emphasizing targeted examination of dominant risk segments of banking operations, which will make supervision more effective, in regard to:
 - Continue systematic monitoring of banks' activities in prevention of money laundering and terrorism financing and improve cooperation with other supervisory and examination institutions,
 - Persist on capital strengthening of banks, especially those recording outstanding assets growth,
 - Continue permanent monitoring of banks with the highest concentration of savings and other deposits in order to protect depositors,
 - Continue working on development of regulation based on the Basle Principles and European Directives as part of preparation to join the European Union,
 - Maintain continuity in payment system examinations,
 - Establish and expand cooperation with home country supervisors of the investors present in the banking sector of the FBiH, and other countries in order to have more effective supervision,
 - Improve cooperation with the Banks Association in all banking performance segments, organization of counseling and professional assistance in the area of implementation of banking laws and regulations, etc.,
- Continuous operational development of the new IT system for early warning and prevention in elimination of weaknesses in banks,
- Work on continuous education and training of staff,
- Finalize remaining provisional administrations and liquidations based on the conclusion made by the Management Board.

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

- Realize Program of measures to mitigate effects of the global economic crisis and advance business environment, as accepted by the Economic Social Council in the territory of the FBiH in December 2008, pursuant to the document issued by the FBiH Government,
- Realize the conclusion made by the Federation of BiH Parliament to establish banking supervision on state level,
- Form opinion about status of state (Federal) banks,
- Define and build on regulation for financial sector related to the activity, status and performance of micro-credit organizations, leasing companies, insurance companies,
- Accelerate implementation of economic reform in the real sector in order to reach the level of monetary and banking sector;

- Based on the documented material, specialized and professionally processed in the Banks Association of BiH, and through the Ministry of Finance of the Federation of BiH, it is necessary to accelerate the activities in order to:
 - Continuously build on legal regulation for banking sector and financial system based on Basle Principles and European Banking Directives,
 - Establish specialized court departments for economy,
 - Establish more efficient process for realization of pledges,
 - Adopt law on protection of creditors and full responsibility of debtors,
 - Adopt law or improve existing legislation regulating the area of safety and protection of money in banks and in transportation.

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

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

Number: U.O.-11-6/09
Sarajevo, 26.03.2009.

ATTACHMENTS

ATTACHMENT 1..... General data about banks in the F BiH

**ATTACHMENT 2..... Legal Framework of the Banking Agency of
the FBiH and banks in the FBiH**

ATTACHMENT 3..... Balance sheet of banks, FBA Schedule

ATTACHMENT 4..... Citizen savings in banks of the F BiH

**ATTACHMENT 5..... Report on changes in balance sheet assets and
off-balance sheet risk items**

ATTACHMENT 6..... Income statement of banks

ATTACHMENT 7..... Report on capital balance and adequacy

ATTACHMENT 8..... Information about employees in banks of the F BiH

ATTACHMENT 1

Banks in the Federation of Bosnia and Herzegovina - 31.12.2008.

Ord · No.	BANKS	Address		Telephone	Director
1	ABS BANKA dd – SARAJEVO	Sarajevo	Trampina 12/VI	033/280-300, fax:280-230	GERHARD MAIER Acting Director
2	BOSNA BANK INTERNATIONAL dd – SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	AMER BUKVIĆ
3	BOR BANKA dd – SARAJEVO	Sarajevo	Obala Kulina bana 18	033/663-500, fax:278-550	HAMID PRŠEŠ
4	FIMA BANKA dd – SARAJEVO	Sarajevo	Kolodvorska br. 5.	033/720-070, fax:720-100	EDIN MUFTIĆ
5	HERCEGOVAČKA BANKA dd MOSTAR	Mostar	Nadbiskupa Ćule bb.	036/332-901, fax:332-903	Provisional Administrator - Nikola Fabijanić - 16.04.2007.
6	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	036/444-444, fax:444-235	PETAR JURČIĆ
7	INTESA SANPAOLO BANKA DD BiH	Sarajevo	Obala Kulina bana 9a	033/497-555, fax:497-589	ALMIR KRKALIĆ
8	INVESTICIONO-KOMERCIJALNA BANKA dd – ZENICA	Zenica	Trg B&H 1	032/448-400, fax:448-501	SUVAD IBRANOVIĆ
9	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Ibrahima Mržljaka 3.	037/771-253, fax:772-416	HASAN PORČIĆ
10	NLB TUZLANSKA BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/259-259, fax:250-596	ALMIR ŠAHINPAŠIĆ
11	POŠTANSKA BANKA BiH dd - SARAJEVO	Sarajevo	Put zivota 2	033/564-000, fax: 564-050	ADNAN ZUKIĆ
12	PRIVREDNA BANKA SARAJEVO dd – SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:664-175	AZRA ČOLIĆ
13	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Emerika Bluma 8.	033/250-950, fax:250-971	PETER MÖLDERS
14	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Danijela Ozme 3	033/287-100, fax: 213-851	MICHAEL MÜLLER
15	RAZVOJNA BANKA FEDERACIJE BiH	Sarajevo	Igmanska 1	033/277-900, fax: 668-952	RAMIZ DŽAFEROVIĆ
16	TURKISH ZIRAAT BANK BOSNIA dd – SARAJEVO	Sarajevo	Dženetića Ćikma br. 2.	033/252-230, fax: 252-245	KENAN BOZKURT
17	UNA BANKA dd – BIHAĆ	Bihać	Bosanska 25	037/222-400, fax: 222-331	Provisional Administrator - Stjepan Blagović - 01.05.2005.
18	UNICREDIT BANK dd – MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:312-121	BERISLAV KUTLE
19	UNION BANKA dd – SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	ESAD BEKTEŠEVIĆ
20	VAKUFСКА BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/666-288, fax: 663-399	AMIR RIZVANOVIĆ
21	VOLKSBANK BH dd – SARAJEVO	Sarajevo	Fra Andela Zvizdovića 1	033/295-601, fax:295-603	REINHOLD KOLLAND

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)
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 and 84/08)
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: 35/98)
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)
8. Law on Opening Balance Sheet of Enterprises and Banks (“Official Gazette of the FBiH”, number 12/98, 40/99, 47/06, 38/08)
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: 32/05)
17. 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)
18. 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 and 79/07)
19. Law on Debt, Indebtedness and Guarantees in the FBiH („Official Gazette of the FBiH“, number: 86/07)
 20. Law on Treasury of the FBiH (“Official Gazette of the FBiH”, number: 19/03)
 21. Law on Registration of Legal Entities in the FBiH (“Official Gazette of the FBiH”, number 27/05 and 68/05)
 22. Law on Classification of Activities in the FBiH (“Official Gazette of the FBiH”, number: 64/07)
 23. Law on Foreign Exchange Operations (“Official Gazette of the FBiH”, number: 35/98)
 24. Law on Audit (“Official Gazette of the F BiH”, number: 32/05)
 25. Law on Property-Legal Relationships (“Official Gazette of the FBiH”, number 06/9 and 29/03)
 26. Law on Land Books in the F BiH (“Official Gazette of the F BiH”, number 19/03 and 54/04)
 27. Law on Profit Tax (“Official Gazette of the F BiH”, number: 97/07)
 28. Law on Salary Tax (“Official Gazette of the F BiH”, number: 10/08)
 29. 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)
 30. Law on Foreign Investments (“Official Gazette of the F BiH”, number 61/01 and 50/03)
 31. Labor Law (“Official Gazette of the F BiH”, number 43/99, 32/00 and 29/03)
 32. Law on Conflict of Interest in the Government Bodies in the F BiH (“Official Gazette of the F BiH”, number: 70/08)
 33. Law on Violations of the FBiH (“Official Gazette of the F BiH”, number: 31/06)
 34. Law on Courts in the F BiH (“Official Gazette of the F BiH”, number 38/95 and 22/06)
 35. Law on Appraisers (“Official Gazette of the F BiH”, number 49/05 and 38/08)
 36. Law on Free Access to Information in the FBiH („Official Gazette of the FBiH“, number: 32/01)
 37. Law on Expropriation (“Official Gazette of the FBiH”, number: 70/07)
 38. Law on Administrative Disputes („Official Gazette of the FBiH“, number: 9/05)
 39. 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)
 40. Law on Bankruptcy Proceeding (“Official Gazette of the F BiH”, number 29/03, 32/04, 42/06),
 41. Law on Liquidation Proceeding (“Official Gazette of the FBiH”, number: 29/03),
 42. Law on Executive Proceeding (“Official Gazette of the F BiH”, number 32/03 and 33/06, 39/06-correction),
 41. Law on Civil Proceeding (“Official Gazette of the FBiH”, number 53/03, 73/05 and 19/06),
 42. Law on Extrajudiciary Proceeding („Official Gazette of the FBiH“, number 2/98, 39/04, 73/05)
 43. Law on Administrative Proceeding (“Official Gazette of the FBiH”, number: 2/98 and 48/99)
 44. Guidelines to Open and Close Accounts to Perform Payment Transactions and Records („Official Gazette of the FBiH“, number: 55/00, 61/05)
 45. Guidelines on Conditions and Proceeding to Transporting Cash, Securities and Securities Registered as Foreign Currencies („Official Gazette of the FBiH“, number: 35/00)

Laws of BiH

1. Law on Prevention of Money Laundering (“Official Gazette of BiH“, number: 29/04)
2. Law on Deposit Insurance in BiH („Official Gazette of BiH“, number 20/02, 18/05 and 100/08)
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 and 76/07)
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)
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 and 72/07)
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)
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 and 70/06)
33. 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)
34. 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)
3. Decision on Minimum Standards for Loan Risk and Assets Classification Management in Banks (“Official Gazette of the F BiH”, number 3/03, 54/04, 68/05)
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)
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)
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)
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 Interest and Fee Accrual for Dormant Accounts (“Official Gazette of the F BiH”, number 7/03)
20. Decision on Amount and Conditions for Origination of Loans to Bank Employees (“Official Gazette of the F BiH”, number 7/03)
21. Guidelines for Licensing and Other Approvals Issued by the Banking Agency of the Federation of the F BiH ”, 6/08 cleaned text)
22. Decision on Minimum Standards for Market Risks Management in Banks (“Official Gazette of the Federation of BiH“, number: 55/07, 81/07)
23. Decision on Unified Accrual and Declaration of Effective Interest Rate on Loans and Deposits (“Official Gazette of the Federation of BiH“, number 27/07)
24. Decision on Minimum Standards for Operating Risk Management in Banks („Official Gazette of the FBiH“, number: 6/08).

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)
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)
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).

ATTACHMENT 3

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

in 000 KM

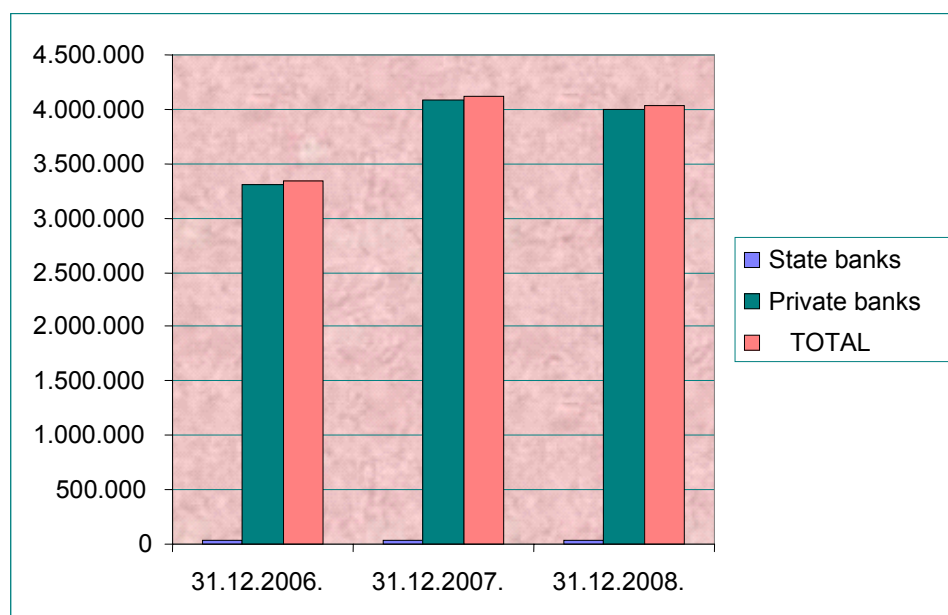
Ord.No.	DESCRIPTION	31.12.2006.	31.12.2007.	31.12.2008.
	ASSETS			
1.	Cash funds and deposit accounts at depository institutions	4.286.202	4.894.973	4.207.559
1a	Cash and non-interest deposit accounts	1.514.758	349.241	417.601
1b	Interest deposit accounts	2.771.444	4.545.732	3.789.958
2.	Trading securities	41.121	44.361	10.923
3.	Placements in other banks	105.390	69.314	90.415
4.	Loans, receivables in leasing and past due receivables	6.820.154	8.874.984	10.434.332
4a	Loans	6.609.122	8.660.593	10.199.933
4b	Receivables on leasing	180	168	221
4c	Past due receivables - loans and leasing	210.852	214.223	234.178
5.	Securities held until maturity	4.801	4.204	7.630
6.	Premises and other fixed assets	314.012	363.270	442.739
7.	Other real estate	27.659	41.846	26.908
8.	Investments in non-consolidated related enterprises	27.679	34.390	40.732
9.	Other assets	170.492	215.938	212.252
10.	MINUS: Reserves for potential losses	299.155	347.358	401.449
10a	Reserves on item 4 in Assets	288.433	334.139	385.042
10b	Reserves on Assets except item 4	10.722	13.219	16.407
11.	TOTAL ASSETS	11.498.355	14.195.922	15.072.041
	LIABILITIES			
12.	Deposits	8.379.322	10.190.977	10.461.841
12a	Interest deposits	7.529.517	9.368.121	9.586.215
12b	Non-interest deposits	849.805	822.856	875.626
13.	Loans - past due	7.802	7.376	3.025
13a	Balance of payable loans, unpaid	0	0	0
13b	Unpaid - called for payment off-balance sheet items	7.802	7.376	3.025
14.	Loans from other banks	2.890	3.289	3.089
15.	Payables to Government	0	0	0
16.	Payables on loans and other borrowings	1.420.944	1.856.471	2.176.594
16a	payable within one year	196.381	357.425	793.837
16b	payable longer than one year	1.224.563	1.499.046	1.382.757
17.	Subordinated debts and subordinated bonds	145.079	242.791	267.737
18.	Other liabilities	315.733	384.976	520.973
19.	TOTAL LIABILITIES	10.271.770	12.685.880	13.433.259
	CAPITAL			
20.	Permanent priority shares	30.180	26.224	26.136
21.	Common shares	858.610	1.018.997	1.091.879
22.	Shares issued	71.130	94.739	152.892
22a	Permanent priority shares	8.332	8.332	8.420
22b	Common shares	62.798	86.407	144.472
23.	Undistributed income and capital reserves	172.581	260.146	307.465
24.	Currency rate difference	0	0	0
25.	Other capital	94.084	109.936	60.410
26.	TOTAL CAPITAL (20. TO 25.)	1.226.585	1.510.042	1.638.782
27.	TOTAL LIABILITIES AND CAPITAL (19+26)	11.498.355	14.195.922	15.072.041
	PASSIVE AND NEUTRAL SUBBALANCE	641.164	606.788	626.468
	TOTAL BALANCE SHEET IN BANKS	12.139.519	14.802.710	15.698.509

ATTACHMENT 4

NEW CITIZEN SAVINGS BY PERIODS

in 000 KM

	31.12.2006.	31.12.2007.	31.12.2008.
State banks	31.723	30.469	32.481
Private banks	3.308.413	4.086.820	4.003.184
TOTAL	3.340.136	4.117.289	4.035.665



ATTACHMENT 5

CLASSIFICATION OF ASSETS AND OFF-BALANCE SHEET RISK ITEMS
as of 31.12.2008.

- ACTIVE BALANCE SHEET -

in 000 KM

Ord.No.	BALANCE SHEET ASSETS AND OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	1.995.242	337.824	3.038	1.102	0	2.337.206
2.	Long-term loans	6.890.413	779.628	117.960	74.882	0	7.862.883
3.	Other placements	35.338	3.991	34	30	0	39.393
4.	Interest accrued	48.959	10.605	0	0	0	59.564
5.	Past due receivables	64.870	57.607	34.356	75.057	0	231.890
6.	Receivables on guarantees paid	756		1.029	568	0	2.353
7.	Other assets	4.922.354	4.236	8.302	1.462	3.847	4.940.201
8.	TOTAL ACTIVE BALANCE SHEET	13.957.932	1.193.891	164.719	153.101	3.847	15.473.490
	a) Guarantees payable	350.152	48.148	272	932	0	399.504
9.	b) Performing guarantees	512.189	109.704	6	73	0	621.972
10.	Unsecured LoC	39.240	15.977	0	0	0	55.217
11.	Irrevocable loans	1.407.578	78.784	312	62	0	1.486.736
12.	Other potential liabilities	18.664	0	0	0	0	18.664
13.	TOTAL OFF-BALANCE SHEET	2.327.823	252.613	590	1.067	0	2.582.093
14.	TOTAL BALANCE AND OFF-BALANCE SHEET (8+13)	16.285.755	1.446.504	165.309	154.168	3.847	18.055.583
15.	General credit risk and potential loan losses (#14 x % of loss)	230.793	103.385	40.558	83.300	3.847	461.883
16.	Allocated general reserves (A) and special reserves (B, C, D, E)	230.639	103.386	40.558	83.300	3.847	461.730
17.	MORE (LESS) of the allocated reserves (#16 - 15) +or -	-154	1	0	0	0	-153

ATTACHMENT 6

INCOME STATEMENT

in 000 KM

ELEMENTS	PERFORMED 31.12. 2007.		PERFORMED 31.12.2008.		RATIO 4 : 2
	Amount	Partic.in total income	Amount	Partic.in total income	
INCOME					
Interest income	834.524	103%	946.177	113%	113
Interest expenses	323.796	40%	427.313	51%	132
Net interest income	510.728	63%	518.864	62%	102
Fee income and other operating income	300.820	37%	318.045	38%	106
TOTAL INCOME	811.548	100%	836.909	100%	103
EXPENSES					
Reserves for potential losses	177.279	22%	156.171	19%	88
Salaries and contribution expenses	219.730	27%	243.080	29%	111
Fixed assets and overhead expenses	124.706	15%	151.354	18%	121
Other expenses	163.670	20%	211.476	25%	129
TOTAL EXPENSES (without interests)	685.385	84%	762.081	91%	111
NET INCOME BEFORE TAX	126.163	16%	74.828	9%	59
Income Tax	16.227	2%	22.861	2%	141
NET INCOME	109.936	14%	51.967	7%	47

ATTACHMENT 7

COMPARATIVE SCHEDULE OF CAPITAL BALANCE AND ADEQUACY

ACTIVE SUB-BALANCE SHEET

in 000 KM

Ord. No.	DESCRIPTION	31.12.2006.	31.12.2007.	31.12.2008.
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	873.390	1.029.756	1.102.636
1.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. And rights	12.550	12.550	12.550
1.3.	Issued shares income at share payments	71.130	94.739	152.892
1.4.	General regulatory reserves (reserves as regulated by the Law)	61.228	65.945	84.319
1.5.	Other reserves not related to assets quality assessment	86.990	128.882	166.200
1.6.	Retained - undistributed income from previous years	93.543	130.354	136.947
1.a.	TOTAL (from 1.1. to 1.6.)	1.198.831	1.462.226	1.655.544
1.b.	Offsetting items from 1.a.			
1.7.	Uncovered losses transferred from previous years	62.603	65.908	73.464
1.8.	Losses from current year	7.030	8.156	38.177
1.9.	Book value of treasury shares owned by the bank		2	81
1.10.	Amount of intangible assets	40.105	52.089	60.299
1.b.	TOTAL (from 1.7.to 1.10.)	109.738	126.155	172.021
1.	AMOUNT OF CORE CAPITAL: (1.a.-1.b.)	1.089.093	1.336.071	1.483.523
2	BANK'S SUPPLEMENTARY CAPITAL			
2.1.	Share capital - common and perm. priority non-cumulat. shares - cash payments	2.850	2.917	2.829
2.2.	Share capital - comm. and perm. prior. non-cumul. shares-invested posses. And rights	0	0	0
2.3.	General reserves for losses on loans from class. A - performing assets	150.200	197.782	230.639
2.4.	Accrued income for current year audited and confirmed by external auditor	85.689	93.945	74.543
2.5.	Income under FBA's temporary restriction on distribution	0	0	0
2.6.	Subordinated debts, the most 50% of core capital	139.251	191.575	211.360
2.7.	Hybrid convertible items - the most 50% of core capital	0	0	0
2.8.	Items-permanent liabilities without repayment duty	5.828	50.855	56.377
2.	AMOUNT OF SUPPLEMENTARY CAPITAL: (from 2.1. to 2.8.)	383.818	537.074	575.748
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	17.236	16.036	16.036
3.3.	Receivables from shareholders for significant voting shares - approved aside from regulations	0	0	0
3.4.	VIKR to shareholders with significant voting shares in the bank without FBA's permission	0	0	0
3.	AMOUNT OF OFFSETTING ITEMS FROM BANK'S CAPITAL (3.1. to 3.4.)	17.236	16.036	16.036
A.	AMOUNT OF BANK'S NET CAPITAL (1.+2.-3.)	1.455.675	1.857.109	2.043.235
B.	RISK FROM RISK-WEIGHTED ASSETS AND CREDIT EQUIVALENTS	8.282.086	10.740.880	12.303.578
C.	POR (RISK-WEIGHTED OPERATING RISK)			130.975
D.	PTR (RISK-WEIGHTED MARKET RISK)			0
E.	TOTAL RISK-WEIGHTED RISKS B+C+D	8.282.086	10.740.880	12.434.553
F.	NET CAPITAL RATE (CAPITAL ADEQUACY) (A.:B.) X 100	17,6%	17,3%	16,4%

ATTACHMENT 8

NUMBER OF EMPLOYEES BY BANKS

Ord. No.	BANK	31.12.2006.	31.12.2007.	31.12.2008.
1	ABS BANKA dd SARAJEVO	297	326	379
2	BOR BANKA dd SARAJEVO	40	42	45
3	BOSNA BANK INTERNATIONAL dd Sarajevo	104	145	171
4	FIMA BANKA dd SARAJEVO	58	101	149
5	HERCEGOVACKA BANKA dd MOSTAR	98	93	87
6	HVB CENTRAL PROFIT BANKA dd SARAJEVO	476	465	
7	HYPO ALPE ADRIA BANK dd MOSTAR	492	550	626
8	INTESA SANPAOLO BANKA dd BiH	233	479	501
9	INVESTICIJSKA BANKA FBiH SARAJEVO	84	104	
10	INVESTICIONO KOMERCIJALNA BANKA dd ZENICA	163	154	179
11	KOMERCIJALNO INVESTICIONA BANKA dd VELIKA KLADUŠA	66	65	67
12	LT GOSPODARSKA BANKA BANKA dd SARAJEVO	196		
13	NLB TUZLANSKA BANKA dd TUZLA	479	472	507
14	POŠTANSKA BANKA dd SARAJEVO	63	97	119
15	PRIVREDNA BANKA dd SARAJEVO	170	163	175
16	PROCREDIT BANK dd SARAJEVO	595	831	888
17	RAIFFEISEN BANK BH dd SARAJEVO	1.348	1.543	1.745
18	TURKISH ZIRAAT BANK dd SARAJEVO	108	129	149
19	UNA BANKA dd BIHAĆ	61	59	59
20	UNI CREDIT BANKA BH dd MOSTAR	840	840	1.412
21	UNION BANKA dd SARAJEVO	175	179	175
22	VAKUFСКА BANKA dd SARAJEVO	175	184	204
23	VOLKSBANK BH dd SARAJEVO	285	340	354
	TOTAL	6.606	7.361	7.991