

**CENTRALNA BANKA
BOSNE I HERCEGOVINE**



**ЦЕНТРАЛНА БАНКА
БОСНЕ И ХЕРЦЕГОВИНЕ**

April – June 2009



C B B H

info



Dear colleagues,

We begin this edition with the information on the new appointed Governing Board of the Central Bank of Bosnia and Herzegovina. The Presidency of Bosnia and Herzegovina has fulfilled its legal obligation and appointed the new Governing Board of the CBBH, taking into account that terms of office of the previous members were close to their expiry. Further procedure defined that the members of the Governing Board should elect, among themselves, the Governor of the CBBH for the following six years mandate.

As we are used to speak about the crisis which is also reflected in our country, this edition will not be an exception. So, the crisis was the subject of various events which the CBBH representatives participated in: during the visit to the National Bank of Serbia, during the conversation with the Turkish delegation which the Memorandum of Understanding in the area of banking supervision was signed with, during the round table on advancement of banking supervision, and because of the crisis, the banks whose daughter banks operate in BH also signed a document saying that they remain to be adequately capitalized and active in respect of lending in BH.

The CBBH was visited by the High Representative and EU Special Representative in BH Valentin Inzko, and he talked with Governor and Vice Governors on the crisis, as well. There were also some unusual visits which attracted more attention of the employees than the visits by people whose "description of duties" includes visits to the Bank.

Public Relations Section

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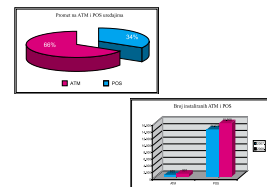
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NEW GOVERNING BOARD OF THE CBBH

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Appointment took place at the session of the Presidency of Bosnia and Herzegovina held on 10 June 2009. In the previous mandate, the members of the CBBH Governing Board were Kemal Kozarić, Ph.D., Mehmed Jahić, Ph.D., Manojlo Ćorić, Ljubomir Kovačević, Ph.D. and Mila Gadžić, Ph.D. Here are the Curriculum Vitas of newly appointed members of the CBBH Governing Board.

KEMAL KOZARIĆ, Ph.D.



He was born on October 13, 1956 in Sarajevo, BH, where he completed his elementary and high school education. He graduated from the Faculty of Economics, Marketing Department Sarajevo in 1981. He successfully defended his Master thesis "Perspectives of the Monetary Policy Model of Bosnia and Herzegovina on the Path Towards the European Union" in September 2006, which promoted him into Master in Economics. At the same Faculty he defended Doctoral Dissertation with the topic "Impact of Credit Growth on the Economic Development of Transitional Countries", and thereby he became entitled to the academic degree of the Ph.D. in Economics on

February 11, 2009. He was employed in "Bosna" Construction Company as a post studies trainee. Afterwards, in the period from 1982 to 1996 he worked in, once named Privredna Banka Sarajevo, i.e. Kreditna banka, later named Central Profit Banka, where he performed duties of Head of Branch, Assistant to the General Director in the City Savings Bank, Executive Director for the Retail Banking Operations, Executive Director for the General Affairs, Director of the Assets Investments Department. From 1996 until early 2000 he was the Minister of Finance in the Sarajevo Canton Government and after that he was appointed Vice Governor of the Central Bank of Bosnia and Herzegovina. Based on the Decision of the BH Presidency from May 20, 2003, he was appointed member of the Governing Board of the CBBH and the BH Presidency also delivered the consent that he could continue to perform his duties of the CBBH Vice Governor. As of January 1, 2005, he assumed the duties of the Governor of the CBBH and Chairman of the CBBH Governing Board. Governor Kozarić was elected Deputy Chairman to the Governors' Club of the Central Banks of Central Asia, Black Sea Region, and the Balkans' Countries for the period 2007 - 2008 and in 2007 he has been appointed to the presiding position of the BH Deposit Insurance Agency Governing Board. Since 2005, Kemal Kozarić, Ph.D., delivered several lectures at different faculties and academic gatherings and presented a number of papers in conferences abroad and in the country. In this period he published a whole range of texts on actual subjects from the banking area and on modern trends in economy of BH and the Region, published in professional magazines. Kemal Kozarić, Ph.D. has been awarded with the special prize "Businessman of the Year" for 2005, which was presented to him for successful running of stable monetary policy in BH by the Directorate of the Selection of BH Manager and the Manager of South East Europe. Magazine "Banks in BH" awarded him with a special award "Golden BAM" for the contribution in safeguarding stability of the banking sector in 2008/2009.

FIKRET ČAUŠEVIĆ, Ph.D.

He was born on 6 August 1963 in Bihać, BH, where he completed his elementary school and gymnasium. He graduated at the Faculty of Economics, at which he defended his Master's and Doctoral thesis. At the Economics Institute of Sarajevo he worked as an Assistant Lecturer-Researcher from 1989 until 1991, after that, he worked as a researcher from 1991 until 1996, as research fellow from 1997 until 2003, and as senior research fellow from 2003 until 2007. He is employed as an associate professor at the Economics Faculty in Sarajevo. He is a member of several professional associations: Board for Economic Sciences of the Academy of Science and Art of BH, Center for Systemic Research of the Academy of Sciences and Art of BH, Council of Chamber of Commerce of Sarajevo Canton and Advisory Board of the Agency for Work and Employment of BH. Čaušević, Ph.D., amongst other, was a visiting professor at the London School of Economic and Political Sciences, he worked as an expert in the projects funded by the European Union/European Commission in BH, was a member of Economic Council of the Chairman of the Council of Ministers of BH, and participated in the program of support to the local organizations in conducting the research of economic policies. The key qualifications of Čaušević, Ph.D., are international trend of capital and portfolio analysis, monetary theory and policy, macroeconomic analysis, analysis of labor market and analysis of trading policies and competitiveness. He published a large number of books and scientific papers.

VASILJ ŽARKOVIĆ, Ph.D.

He was born on October 20, 1951 in Nedajno, Montenegro. He finished Secondary School in Nikšić. He graduated at the Faculty of Economics in Podgorica in 1974. He achieved a Master Degree at the University in Belgrade in 2001 and Doctor's Degree at the Faculty of Economics in Banja Luka in 2007. From 1974 to 1998 in a firm "Rudi Čajavec" he performed various jobs, from the Head of Department, Director of the Financial Sector, Deputy Director of the Basic Organization of Associated Labor to the member of the Executive Board for Economic Issues of the Work Organization "Professional Electronic", which employed around 3500 employees. From 1988 to 1996 he was the member of the Governing Board of Banjalučka banka and from 2003 to 2006 he was the member of the Supervisory Board of the Nova banjalučka banka. He was the member of the Governing Board of the Deposit Insurance Agency of Republika Srpska from 2001 to 2002. That year, as a visiting fellow, he held lectures from the "International Financing" course at the Faculty of Economics in Banja Luka. Since 1998 he has performed the duty of the adviser for economic issues of the member of the BH Presidency from Republika Srpska. He published several expert and scientific papers in local and foreign publications, as well as, the book with the title "Privatization" in 2002. He assumed the duty of the Main Internal Auditor of the Central Bank of Bosnia and Herzegovina on June 1, 2008 where he was appointed by the Governing Board of the CBBH.

MILENKO KRAJIŠNIK, Ph.D.

He was born on 10 August 1966 in Srbac, BH, where he completed elementary and primary and secondary economics school. He graduated at the Economics faculty, with Business Economics Major in 1989 in Banja Luka. He obtained Master's Degree on the thesis "Role of Currency Board within the Economic Policy in transitional conditions" in 2004 at the Economics Faculty in Banja Luka, at which he also defended doctoral thesis in 2009, with the topic "Public Finances as an Instrument of Creating Economic Policy". He started his professional career in 1990 as a financial-commercial director in the company "Motajica" in Srbac. From 1991 until 1993 he worked as Secretary for Economy, Finances and Budget in Srbac Municipality, from 1993 until 1997 he was director of Development Bank, affiliate Srbac, and from 1998 until 2001, he was employed as an Assistant to the Minister for Trade of Republika Srpska. From 2002 he has been employed as an Assistant Lecturer at the Economics Faculty in Banja Luka. He was a member of several governing and supervising boards in several companies and funds, he participated in creation of several studies and projects in the field of strategic planning and public finances management. He is the author of several scientific and professional studies. He is employed as Senior Assistant Lecturer at the Economics Faculty in Banja Luka on the subjects "Economics and Development of National Economy" and "Economy of European Union". He is also Advisor to the Minister of Finance of Republika Srpska. Within his professional development, he obtained a certificate of an assessor of companies values, and also attended a large number of seminars in the country and abroad.

ŽELJKO ŠAIN, Ph.D.

He was born on 30 December 1954 in Kakanj, BH. He graduated from the Faculty of Economics in 1977 in Sarajevo, at which he obtained Master's degree in 1988, and then doctoral thesis in 2004. At this Faculty, he is a senior lecturer and Head of Banking and Insurance Division. From 1977 until 1980 he was the Head of Expert Service and member of Secretariat SSOBH, and at the Economics Faculty he worked as an Assistant Lecturer and Senior Assistant Lecturer. He is a member of several professional organizations – Actuary Association of BH, Association of Internal Auditors, Association of Economists "Sarajevo" and "Benko Kotruljić", Association of Accountants and Auditors of the Federation of BH, and Expert Team of Foreign Chamber of Commerce of BH. Šain's Ph.D. core qualifications Šain are Insurance, actuarial issues, business mathematics, financial and actuarial mathematics, financial management and business finances. His specific professional experience is tied to managerial, supervisory and team businesses, actuarial calculations in life insurances, financial expertise, value assessments of companies and due diligence operations. He was rewarded with several prizes and awards, he is an author of large number of books, publications, monographs, scientific and professional studies, as well as member of international and domestic projects, associations and commissions.

Zijada Kovač,
Coordinator of Public Relations Section

VISIT TO THE NATIONAL BANK OF SERBIA

On the invitation of the Governor of the National Bank of Serbia (NBS), and as a part of cooperation of the two monetary institutions, the Central Bank of Bosnia and Herzegovina (CBBH) took a group of BH journalists on the study visit to the NBS. The visit, apart from the official part, in which the Governors have discussed the actual situation in the two countries, also included the unofficial part. Thus, a tour was arranged to the new business premises of NBS, located in Slavija, visit to the Money Museum and the Treasury of NBS were arranged, as well as to the Mint premises, located in Topčider, to the Royal Beli Dvor, followed by the visit to Sremski Karlovci, where the tour was organized to the Živanović Museum of Honey and Vine, to the first Serb Gymnasium that is located in Sremski Karlovci, Metropolitan Church and Residence of Patriarch. A three-day study visit ended with the lunch in 137 Salaši. This was a non-every day atmosphere and getting to see what we do not have an opportunity to see every day, stated the colleagues journalists from about twenty media houses in BH.

Why program with IMF?

The Governors of NBS and CBBH, Radovan Jelašić and Kemal Kozarić, Ph.D., have exchanged views on negotiations with the International Monetary Fund (IMF), with which, at that time, Serbia reached an agreement on new arrangement, and Bosnia and Herzegovina was at that time awaiting the negotiations with this international financial institution. They presented to the Serbian and BH journalists the data on the actual macroeconomic trends in the two countries, they also pointed out problems that they were facing with in the midst of the economic crisis, and emphasized extremely good mutual, but also regional cooperation of central banks.

The Governor Jelašić explained as to why Serbia needs the program with the IMF. According to him, the first reason is major balance of payment deficit in the amount of six billion euros, which, in newly occurred circumstances cannot be financed in the amount and under the circumstances as before. The second reason is decline of trade and economic activity which resulted in the decline of tax revenues and which requires a substantial financial adjustment. The third reason is possible incapability of legal entities, companies and banks, to refinance their existing obligations. Finally, stated Jelašić, it is obvious that Serbia always needs someone external that can be used in order to implement measures that are not popular. "The Program with the IMF implies



the macroeconomic stability guarantee, not only by the Government, not only by the National Bank of Serbia, but we now have an additional ally as well, and it is called IMF”, stated the Governor of NBS. According to him, it was quickly realized that, on the basis of the existing economic trends, revenues and the budget of the Republic of Serbia will be considerably below the expected level. Budget adjustment through non-inflationary measures by 140 billion dinars, which is around 4.3% of GDP, that is, 12% of the budget, is necessary because in case that it is not applied, the budget deficit growth to more than 6% of GDP would be recorded, instead of the originally planned 1.75%, and mostly because of the fact that revenues are lower by 140 billion dinars. Program with the IMF implies much more responsible fiscal policy, that is, for the first time, major reduction of public expenditure, as well as higher level of transparency in implementing the economic policy and provision of assistance not only by the IMF, but also other international financial institutions. Equally important is lower pressure to the exchange rate, that is, lower inflation rate. Whether the measures will be sufficient enough, will be verified through the first audit

of the program by the middle of August this year, emphasized Jelašić.

He emphasized that the program with the IMF and agreement with private creditors are mutually supplemented. Willingness of the IMF to approve assistance to Serbia, according to him, would have been disputable, if the banks were not willing to refinance the claims due for this year. Ten major banks in Serbia agree that the arrangement with the IMF is substantial, as it is the guarantee for the macroeconomic and financial stability, and that it is also in the interest of banks as well as of Serbia to maintain the overall level of exposure towards Serbia, and to support implementation of stress tests within the program of the Serbian Government, supported by the IMF, in accordance with the IMF methodology.

Bilateral relations of NBS and CBBH

Talking about the relations of central banks, the Governor Jelašić reminded that the CBBH, NBS and Central Bank of Montenegro at the end of 2007, signed the Agreement on clearing of international payments that



enables more efficient, faster and cheaper payment operations amongst physical and legal entities from the territory of three countries. In the inter-banking clearing, 23 banks participate; 17 from Serbia, NBS also participates in this clearing and five banks from BH. In the course of 2008, on the basis of this Agreement, 4,776 payments in total were realized with the value of around 44 million euros. In the first three months, nearly 2,000 payments were realized, with the value of around 10 million euros. “Considerable increase is noticeable, the reason for that is obvious – far lower costs for transfer, much more efficient manner, and what is very important, commission fee is not paid abroad, but in BH, i.e. Serbia. That is the support to free trade, as well as to the preparations for the European Integrations, that is, for the cooperation in the region”, emphasized Jelašić. Bilateral relations of the two central banks, apart from the payment operations and clearing, are also mirrored in joint activities and initiatives in the field of the banking sector supervision, participation in the regional seminars organized in Sarajevo, that is, in Belgrade, exchange of employees between the central banks, and sports, as well as other activities.

Economic crisis

As for the crisis in Serbia, Jelašić emphasized that this is not a local nor temporary crisis, but the structural crisis, which, requires from these countries to reconsider their existing economic earning models, and that structural adjustments is unavoidable, in which, loans cannot help. “Even with the frozen earnings, frozen pensions until the end of the next year, with the existing inflation rate, and of course, with the considerable decrease of public expenditure, domestic demand will significantly deteriorate and decrease”, stated Jelašić, adding that with the drastic decline of domestic demand, the only way of stopping, even higher decline of economic activity, are investments in the infrastructure. So far reduced budget revenues are the consequence, of, above all, reduced import, that is, revenues from customs and import VAT. Other effects of the economic activity decline, such as reduced revenues from excise duties on oil derivatives and decline of revenues on income taxes are only to come in Serbia. For Serbia, it is specific, added Jelašić, that the economic crisis is still connected with





the inflation, and its level will, with the undertaken measures, certainly reduce. Time is a critical factor, every day of delay imposes the need for even more restrictive measures, concluded the Governor Jelašić.

The Governor Kozarić emphasized that the situation is largely similar in the two countries, and that no country is in favorable position. For the CBBH, he confirmed, there is no dilemma yet from a long time ago, Bosnia and Herzegovina needs the arrangement with the IMF. He labeled the crisis as an external factor and shock, emphasizing that small and open economies, such as BH, do not have sufficient instruments to fight against such shocks, but that “we cannot sit and wait without doing anything”. Foreign trade deficit in 2008 in BH was recorded at 14.6% of GDP, and unemployment was recorded at 23.4%. It can be expected that in this year, these two indicators get even worse, and BH has already now recorded decline of economic activity, stated the Governor Kozarić. For the first two months of 2009, export declined by 22%, and import declined by 23.5%. Compared with Serbia, as one of the major foreign trade partners, decline of trade activity was recorded, and export to Serbia declined by 23%, and import from Serbia declined by 25%. “It clearly indicates that these effects have domino effect attributes and that the same events are taking place in the region, only that figure indicators are different”, stated the Governor Kozarić. It is known that BH has major public expenditure in the region, and its participation in the GDP is around 44%, which is not sustainable on long-term even for the economies that are in better condition than BH. Inflation in BH is low, and an average salary is KM 759. The Governor pointed out the fact that the revenues are declining, which can lead to the problems with the financing of the foreign trade deficit, but also large liabilities from the budget, especially to the socially deprived categories and those who receive their salaries from the budget. One of the better macroeconomic indicators is public debt of BH which amounts to around two billion euros, that is KM 4,1 billion. “I would say that at present BH does

not have a problem with servicing its foreign liabilities and that is not the reason for which we seek the arrangement. The problem at present is deficit of budgets at all levels”, stated the Governor.

As far as the banking sector is concerned, the Governor stated that it is still stable, although at the end of the last year 6% of deposits were withdrawn from commercial banks. In the past months, one portion of it was returned into the banks. Commercial banks have played an important role in BH, they placed around KM 14.5 billion in BH. “If we know that the savings amount to KM 5.6 billion, a considerable amount of capital came into BH from abroad. Out of total amount of credits, 50% was placed to the private companies, and 50% to the citizens. Of course, we have decline of activities in this segment as well, credit growth declined to 21%. It is good that the credit growth of citizens is 14%, and of private companies 27%, explained the governor Kozarić. He added that requirements for obtaining credits are slightly stricter, that banks are more cautious, that they are having more difficulties with obtaining foreign credit lines and that they mainly place the funds provided from the repayment of previously approved credits. “It is important what Serbia did; it has a written document of commercial banks that operate in the region of Serbia, that they will not withdraw its funds and that they will provide the same level of credit activity in the forthcoming period as well, as they did before”, stated the Governor. Arrangement with the IMF will open the door to the World Bank, European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB) and others, is the opinion of the Governor of CBBH. He also indicated extremely good relationship of the two monetary institutions, which, according to him, established contacts far before the official politics.

Zijada Kovač,
Coordinator of Public Relations Section

MEMORANDUM OF UNDERSTANDING SIGNED BETWEEN THE INSTITUTIONS FOR BANKING SUPERVISION OF BH AND TURKEY

Representatives of the Agency for Banking Regulation and Supervision of the Republic of Turkey, Central Bank of Bosnia and Herzegovina (CBBH) and Entities Banking Agencies have signed on 12 June 2009 in Sarajevo, Memorandum of Understanding and Cooperation in the field of supervision over the commercial banks operations.

By signing this Memorandum of Understanding, Turkish Agency for Banking Regulation and Supervision on one side and Central Bank of Bosnia and Herzegovina and Banking Agencies of the Federation of Bosnia and Herzegovina and Republika Srpska on the other side, have expressed their willingness to cooperate in the field of supervision of financial institutions that operate on the territory of Turkey and BH.

Information Exchange

Subject of Memorandum of Understanding is cooperation of the signatories in the field of supervision of cross-border offices of financial institutions, whose seat is located in Turkey, that is, in BH, with the aim of conducting the efficient consolidated supervision of financial institutions that operate outside the countries of their origin. Signatories of Memorandum will endeavor to cooperate on routine supervision procedures, and enable timely disclosure and provision of relevant

information in terms of significant supervisory issues relating to cross border offices.

Information exchange implies contacts during the process of issuing authorizations and licensing, in the course of supervision of the current activities of the aforementioned cross-border offices, opening of new affiliates, when there is a change in the ownership that is the subject of issuing the permit by relevant competent institution and in case of license revocation.

Cooperation between the Signatories of Memorandum contain written information exchange, conveying regu-



lar meetings, enabling the employees of one Signatory of Memorandum to perform on-site controls on the territory of another Signatory of Memorandum with the aim of information exchange on the supervision methods. Cooperation, also, implies arranging informal visits. Memorandum of Understanding shall come into effect on the day of its signing.



Relevant BH institutions have so far signed Memorandum of Understanding in the field of banking supervision with the authorities for Banking Supervision with Slovenia and Croatia, as well as multilateral Memorandum with the authorities responsible for supervision in the countries of South-Eastern Europe (Albania, Bulgaria, former Yugoslav Republic of Macedonia, Greece, Montenegro, Romania and Serbia).

Characteristics of Turkish Banking Sector

On the occasion of signing the Memorandum, Mr. Mustafa Ekim, Member of the Board of the Agency for Banking Regulation and Supervision emphasized that intensified coordination and cooperation between supervisory institutions are becoming more and more important for achieving the more efficient supervision and regulation in the existing financial system. By presenting the banking sector of the Republic of Turkey, he emphasized that the Agency for Banking Regulation and Supervision is solely authorized to implement regulations and supervision of all 238 financial institutions in Turkey, out of which, there are 50 banks, 47 of them are representation offices of foreign banks, 50 leasing companies, 81 factoring companies and ten consumer financial companies. Total balance of these institutions at the end of 2008 amounted to around 763 billion of

Turkish liras and accounts for 80% of GDP.

Turkish banking sector is restructured and modernized in accordance with the program on restructuring of banking sector that followed economic crises at the end of 2000 and in early 2001. Banks with poor financial structure were eliminated or they merged with larger banks. Operating within the scope of regulations of the Agency for Banking Regulation and Supervision, Turkish banking sector has become more efficient and more competitive, stimulated by the increase of foreign direct investments.

“I believe that we shall all, who are present here, agree with the fact that we are facing tough times. Although financial crisis effects are becoming milder, we can accept that this situation has created a very difficult period for the world economy, global financial system and institutions responsible for regulations and supervision. In order to overcome these challenging times, Turkey, the same as other countries in the world, is undertaking and implementing all the measures and mechanisms in order to minimize risks that cause market vulnerability”, stated the representative of Turkish Agency for Banking Regulation and Supervision.

By March 2009, total assets of Turkish banking sector amounted to USD 449 billion, while loans amounted to USD 218 billion. In the same period, banking sector deposits amounted to USD 278 billion. Turkish banking system operates through 9250 branches of domestic and 54 affiliates of foreign banks. Banking sector in Turkey employs 182,662 persons.

Given the fact that it is responsible for the Turkish financial sector, the Agency for Banking Regulation and Supervision is aware of the significance of intensified cooperation with the authorities for supervision of other countries. Up to date, the Agency has signed Memorandums of Understanding with 18 institutions for banking supervision.

At present, in BH, there is only one Turkish Bank, Turkish Ziraat Bank Bosnia, and from the Agency for Banking Regulation and Supervision emphasize that banking sector can invest even more in BH.

Signing of the Memorandum on Understanding with the institutions responsible for the banking supervision in BH will enable for all sides easier and more adequate access to the necessary information that will be useful in expert surveys, concluded Ekim.

Zijada Kovač,
Coordinator for Public Relations Section

ROUND TABLE “ADVANCING BANKING SUPERVISION COMPLIANCE WITH INTERNATIONAL STANDARDS”

At the round table on the subject “Advancing banking supervision compliance with international standards” held on 22 May 2009 in Sarajevo, Governor of the Central Bank of Bosnia and Herzegovina, Kemal Kozarić, Ph.D. stressed the need to implement Basel II as a new and more comprehensive approach to risk management and bank supervision. Governor Kozarić said that after each big crisis, the role of the body in charge of supervision, control and maintenance of the system stability is re-examined. The weaknesses of the country’s banking system, he said, can certainly be a threat for the financial stability of that country.

Features of Basel I and Basel II

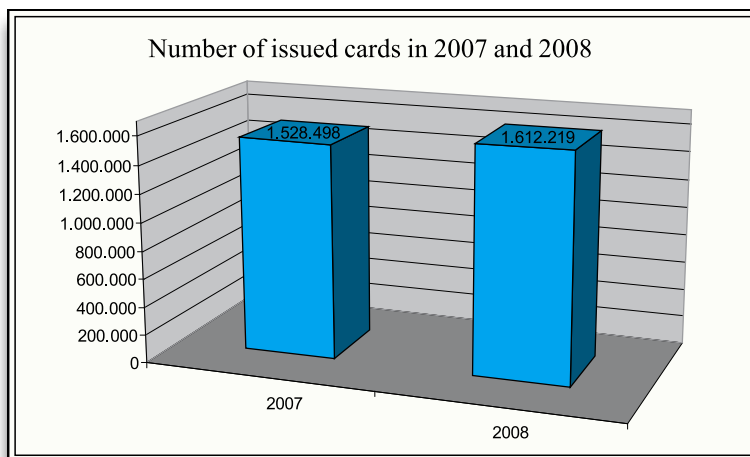
Many European countries are affected by the current banking crisis which appeared on the U.S. market in 2007 for the very reasons of insufficient guarantees, inadequate supervision, lending activities, run for profits etc... In such circumstances, the need to regulate and strengthen the individual financial systems should be in compliance with the international standards. The wish to have uniform frameworks, standards and conditions of bank operations on the global market resulted in the implementation of Basel I in 1988, Governor reminded. However, Basel I did not fully and adequately reply to all the significant issues related to risk, caution in operations and bank capital management. For these reasons, the Basel Committee in the end of 2006 adopted and published a new document titled “International Convergence of Capital Measurement and Capital Standards”, which is better known as Basel II. This document represents a completely new concept in calculating bank capital adequacy, i.e. a new and more comprehensive approach to risk management and supervision of banks. “BH, which pretends to become a member of the European Union, is obliged to carry out the preparations for a complete adoption of Basel II”, Governor stressed. Basel II is based on three principles, i.e. pillars – adequate bank capitalization, supervision examination, i.e. better risk management and the increase of transparency, i.e. market discipline. “We have an example that currently in BH there is discussion on the issue if banks and their contracts are sufficiently transparent for clients. Clients need to be aware of all the potential risks for them, and that is, actually, the point

of these pillars of Basel II. It is good that we have a part of banks which have their mother banks abroad and which have already started to implement some parts of Basel II”, Kozarić said. Basel II and events on other markets define our future as well, and only the strongest ones will survive, Governor concluded and presented, during the round table, the main economic indicators in BH for 2008 and the situation in banking and real sector. He also spoke of the consequences of the financial crisis on BH economy, and also the measures of governments for coping with such crisis. The round table was organized by the Project of the United States Agency for International Development (USAID), Partnership for Advancing Reforms in the Economy (PARE) and the Office of KfW in BH

Zijada Kovač,
Coordinator of Public Relations Section

DATA ON BANKING CARD OPERATIONS IN BH

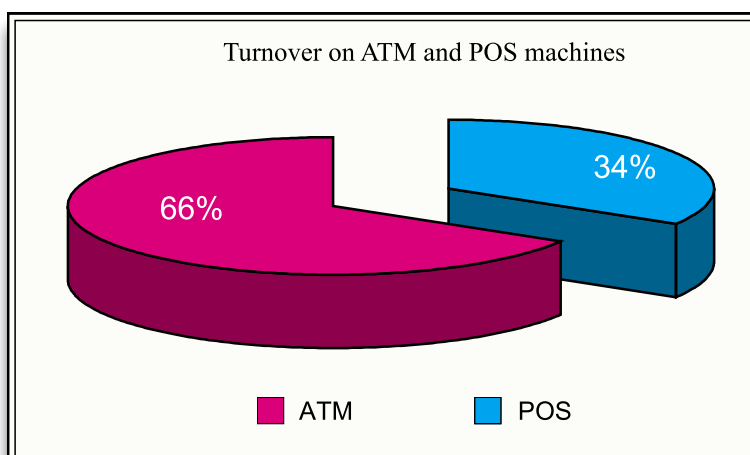
At the end of 2008, out of total number of 30 commercial banks that are operating in BH, including payment operations, 25 banks provided services of card operations. Banking card operations were performed with the international cards; MasterCard, Visa, American Express and Diners. In total, eight banks in BH, from the Federation of BH, also provided services for Bamcard, the only domestic card for payment operations. At the end of December 2008, total number of issued cards was recorded at 1,612,219, which represented an increase of 83,721 cards compared with 2007.



Total value of transactions was KM 3.7 billion

Total value of transactions realized with the use of cards in the last year amounted to around KM 3.7 billion, which is an increase by around KM 260 million compared with the previous year. Out of total value of transactions, cash in the amount of around KM 2.5 billion was withdrawn from ATM or 66%, and from POS terminals, KM 1.2 billion was realized or 34%, out of which, around KM 700 million (59%) related to cash withdrawal, and around KM 500 million (41%) related to the payment of goods and services.

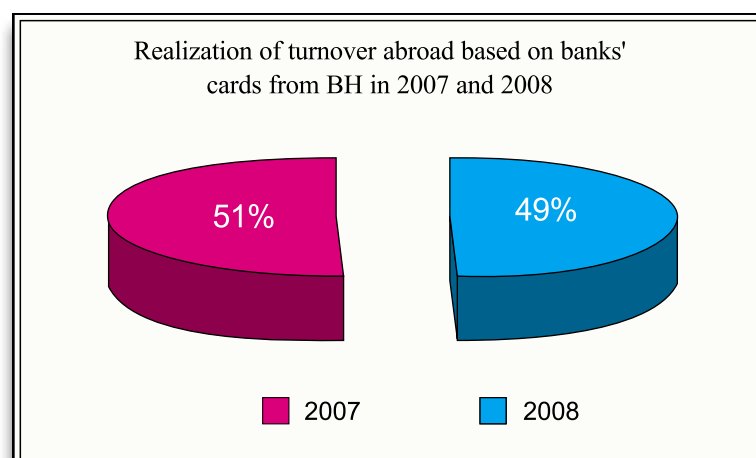
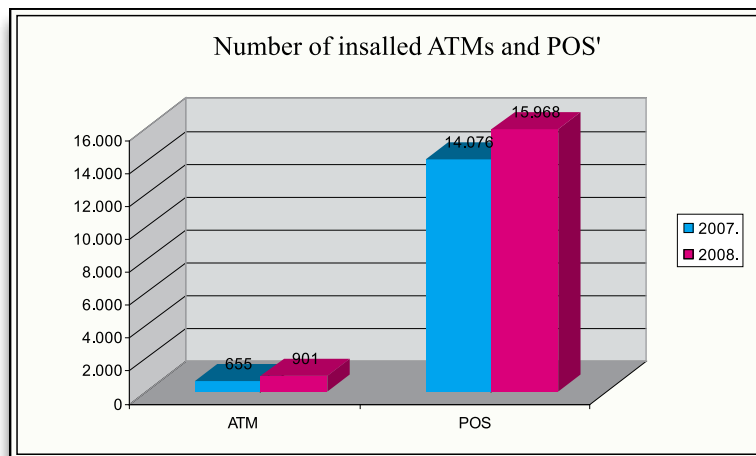
An average value of a single transaction was recorded at KM 149 and was higher only by 4 KM compared with the previous year, when it amounted to KM 145. Annually, an average transaction per one card amounted to KM 2,335, while in 2007, it amounted to KM 2,296. Monthly transactions per a single card in 2008 amounted to KM 192 and were higher only by one KM compared with 2007.



At ATM and POS machines abroad, cash from BH banks was withdrawn in the amount of KM 76 million, and goods were paid in the amount of around KM 100 million. Compared with 2007, last year recorded a slight growth of consumption with the use of cards.

With the cards of banks from abroad, on ATM and POS machines of BH bank, turnover was recorded in the amount of KM 563.5 million. Out of this amount, cash was withdrawn in the amount of around KM 452 million, and the value of goods and services paid with the cards of foreign banks amounted to around KM 111.5 million, on ATM and POS terminals.

In the card operations, it is noticeable that banks are increasing a number of ATM and POS terminals, so in 2008 there were 901 ATM machines and 15,968 POS terminals in Bosnia and Herzegovina.



Small number of the electronic banking users

With the exception of one bank, all the other banks perform some kind of electronic banking. Thus, banks have 14,000 of legal entities and slightly above 18,000 physical entities, users of the electronic banking. It is evident that there are still a small number of clients amongst citizens, using so-called "home banking". Possible "justification" is that there is a small number of citizens that are using the internet.

In the past year, commercial banks in BH have performed the work via affiliates and branches. In total, there are 392 affiliates and 424 branches of banks.

Sead Bijedić,
Coordinator of Gyro-Clearing Section

HIGH REPRESENTATIVE VISITED THE CBBH

Strong confidence in Convertible Mark and the ability to preserve the country's financial stability despite all the challenges represent the best example of success of the Central Bank of Bosnia and Herzegovina (the CBBH), said High Representative and Special Representative of EU Valentin Inzko who visited the CBBH on 17 April 2009.

After a conversation with Governor and Vice Governors of the CBBH, Inzko said that the CBBH worked efficiently, professionally and responsibly in relation to the public, and that its reactions when the crisis in Europe and BH started were timely and well focused. Governor of the CBBH, Kemal Kozarić, Ph.D. informed the High Representative on macroeconomic indicators for the previous year and the trends and potential challenges for this year.

Some indicators and projections show that in the first three months the effects of economic crisis had an effect on BH as well.

Both High Representative and Governor of the CBBH emphasized the monetary stability as the anchor of BH economy, and that the CBBH would keep the currency board principles. Governor stressed once again that, according to the CBBH Law, it is not allowed to use free foreign exchange reserves which represent an additional element of monetary stability. He also informed the High Representative on the consequences of the campaign being conducted against commercial banks, pointing out that such campaign is not good as there is no economy without commercial banks. KM 14.5 billion

I remember, while I was Ambassador of the Republic of Austria in BH, when the CBBH started to operate, when we received the banknotes and read in the papers that Convertible Mark can be exchanged in Austria and the neighbouring countries. It was the first big success, we were excited then. Today, there is continuity in operations and the CBBH is more than a Dayton institution. It is a Dayton institution, however, it also represents a story of success and it is a base, with its Convertible Mark, for a common economic area, Inzko said.



is extended in BH, many people have solved their housing issues and new jobs have been created, Kozarić added. "We may like or dislike banks which are active here today, but they are necessary for citizens and economy", he said.

Zijada Kovač,
Coordinator of Public
Relations Section

VISITS TO THE CBBH

The outgoing Head of the U.S. Agency for International Development (USAID) in BH, Gregg Viitala, paid his farewell visit to the Central Bank of Bosnia and Herzegovina (CBBH) and to the Governor, Kemal Kozarić, Ph.D. During the term of Mr. Viitala, in capacity of the Head of Mission, the USAID and the CBBH have signed the Memorandum of Understanding within a new project of USAID under the title "Partnership for Advancing Reforms in the Economy (PARE)". This Memorandum has set out the roles and responsibilities of USAID and CBBH in view of technical assistance for education of the public on various financial services. Intention of CBBH and USAID is to promote, within the PARE project, public conception of



economy and to enhance the understanding of financial services, which are new in the economic practice in Bosnia and Herzegovina. Partnership between the CBBH and USAID in building a strong banking sector that enhanced economic recovery of BH dates back to the time when USAID provided assistance to the payment system reforms. Since then, joint projects have been realized, including, amongst other, establishment of single registry of accounts, introduction of cash monitoring software in the vaults of CBBH, as well as establishment of credit registry.

An interesting visit to our institution was the one by Miroslav Ćiro Blažević,

selector of BH football representation team. The football expert who attracted quite an interest by employees, had a brief discussion with the Governor of CBBH, Kemal Kozarić, after which, accompanied by the Governor, he toured the CBBH building, sight-seeing money postulates.

Zijada Kovač,
Coordinator of Public
Relations Section



MOST SUCCESSFUL BANKS AWARDED WITH “GOLDEN BAM”, SPECIAL AWARD TO THE GOVERNOR KOZARIĆ

Also in this year, the financial-business magazine “Banks in BH” has awarded the most successful banks in BH with “Golden BAM”. These awards, which have been presented for the last seven consecutive years, to the most successful banks in our country, are provided on the basis of condensed audit statements on business operations in 2008, and in line with the well-established criteria: amount of banks total assets, amount of banks assets with predominantly or exclusively domestic capital, amount of total capital, amount of equity capital, return on equity capital, return on assets and deposits growth.

Award winners of “Golden BAM” are Raiffeisen Bank BH – triple winner for the highest amount of assets, highest amount of total capital and highest amount of equity capital, Bobar Bank Bijeljina with the highest amount of banks assets with predominantly or exclusively domestic capital, NLB Razvojna Bank Banja Luka for the highest return on equity capital, Privredna banka Sarajevo for the highest return on assets and FIMA Bank Sarajevo for the highest deposits growth.

Magazine “Banks in BH” awarded the Governor of the Central Bank of Bosnia and Herzegovina (CBBH), Kemal Kozarić, Ph.D. with a special award “Golden BAM” for contribution to safeguarding the banking



sector stability in 2008/2009. In citation of award winners, timely reaction of the CBBH with the Governor Kozarić at its lead was emphasized, and within the competencies for adopting the measures related to the banking sector stabilization and mitigating economic crisis effects. Since the beginning of crisis, CBBH, with its measures, has freed more than a billion KM to the banking sector with the aim of continuous lending support to the economy development, maintaining of working posts, as well as provision of support to the citizens in order to overcome the recession effects as easier as possible.

The Vice Governor Mrs. Ankica Kolobarić, MSc. has received the award on behalf of the Governor, and she emphasized in the occasional speech that CBBH was glad that efforts of this institution are recognized and, of course, efforts of the Governor, in safeguarding the banking sector stability in Bosnia and Herzegovina. The aim of the measures undertaken by the CBBH was stren-





gthening the banking sector liquidity, and encouraging banks, in the circumstances of more difficult access to the funds at the international market, to continue lending to BH economy and citizens. Banking sector has remained liquid and stable, as a result of, amongst other, the fact that cautious manner of business operations is a characteristic of this sector, which contributed to mitigating crisis effects in Bosnia and Herzegovina. "In our activities, we have endeavored to be open to the public to the maximum extent and we are pleased that results of our operations represented grounds for obtaining the "Golden BAM" award to the Governor,

who is the most upfront person of the institution. I hereby express gratitude to the magazine "Banks in BH" and wish them continuation of successful work in the forthcoming years", stated the Vice Governor Ankica Kolobarić, who was one of the presentors of awards to the commercial banks.

Award presentation ceremony was held on 17 June 2009 in the Sarajevo Club "Colosseum".

Zijada Kovač,
Coordinator of Public Relations Section

CBBH DIVISION FOR RISK ASSESSMENT AS A REPLY TO CRISIS

The Central Bank of Bosnia and Herzegovina (CBBH) has been enlarged by one more division. The establishment of the Risk Management Division (RISK) was first of all the reply of the CBBH to crisis which had appeared on the financial markets in the end of the last year, and also the need to devote more attention to the assessment of financial risks such as credit risk, interest rate risk, liquidity risk and foreign exchange risk. In RISK, beside the Manager, there are three staff members employed, and the basic task of this young team is the analyzing and suggesting the strategy of investment of foreign exchange reserves and also financial instruments in respect of diversification of foreign exchange reserve portfolio, with purpose of decreasing the overall portfolio risk with the realization of potentially higher yields.

By the establishment of RISK, the CBBH would like to improve, through the adoption of up-to-dated methods of identification, measuring, monitoring and control of risk exposure, the process of foreign exchange reserve management according to the model of central banks of the countries which apply the currency board and the countries with the developed market economies.

Vidosav Pantić, M.Sc.,
Manager of Risk Management Division

