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

INFORMATION
ON THE BANKING SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
31. 03. 2017

Sarajevo, May 2017

The Banking Agency of the Federation of B&H, as a regulatory institution conducting banking supervision, has prepared the Information on the Banking System of the Federation of B&H (as of 31.03.2017) based on financial statements and other information and data provided by banks. This also encompasses results and information obtained during on-site examinations in banks and off-site financial analyses in the Agency.

CONTENTS

I INTRODUCTION

For quite some time, the operations of the banking sector have been carried out in an unfavourable environment and conditions of stagnating economic growth and development in countries of the EU zone. Insufficient economic growth, the difficult situation in the real sector and numerous domestic problems caused by the political situation in the country, limited access to stable sources of financing have all adversely reflected upon the condition and prospects in the banking sector. The first quarter of 2017 was characterised by a slight increase in the balance sheet total and deposits, a continuation of positive trends which are reflected in the increase in loans, retail savings and capital. A positive financial result was recorded at system level and, on the basis of all that, it can be concluded that the banking sector has remained stable and adequately capitalised, with still satisfactory liquidity.

As of 31.03.2017, there were 15 licensed banks in the Federation of B&H, as was the case at the end of 2016. The headcount amounted to 6 647, slightly up by 0.5% or 32 employees compared to the end of 2016.

The balance sheet total of the banking sector at the end of the first quarter of 2017 amounted KM 18.5 billion, thus posting a slight increase in the amount of 0.7% or KM 122 million compared to the end of 2016. The increase in the balance sheet total with respect to sources (liabilities) is primarily the result of a slight increase in deposits and total capital, while the assets structure saw changes related to key material items: an increase in the share of loans from 66.8% to 67.9% and a decrease in the share of cash funds from 28.3% to 26.6%.

Loans, being the largest assets item in banks, recorded an increase of 2.3% or KM 288 million in the first quarter of 2017, amounting to KM 12.6 billion as of 31.03.2017. Positive trends from 2016 continued in the first quarter of 2017 as well and they are reflected in the segment of sectoral lending, i.e. greater lending to private companies compared to the retail segment. Loans to private companies recorded a growth rate of 3.2% or KM 182 million in 2016, so that loans to this sector amounted to KM 5.9 billion and had a share of 47.3% as of 31.03.2017. Retail loans recorded a growth rate of 1.1% or KM 67 million in the same period, while their share slightly decreased from 48.7% to 48.1%. As of 31.03.2017, they amounted to KM 6 billion.

Loan quality indicators improved in the first quarter of 2017 as well, as was the case in the previous two years, which particularly impacted the sector of legal entities. A somewhat higher increase in the loan portfolio, a significantly lower inflow of new non-performing loans as well as permanent write-offs had a positive effect on the ratio of the share of non-performing loans in total loans, which is down from 11.7%, to which it amounted at the end of 2016, to 11.4% as of 31.03.2017. The share of non-performing loans granted to legal entities in relation to total corporate loans amounted to 14.5%, while the share of non-performing retail loans in relation to total retail loans amounted to 8%. The aforementioned is the result of the situation in the real sector and the effects of the economic crisis on the overall economy of B&H, due to which the loan portfolio of legal entities is of a significantly poorer quality than that of the retail sector.

Cash funds amounted to KM 4.9 billion or 26.6% of the balance sheet total of banks in the FB&H and recorded a decrease of 5.5% or KM 287 million in the first quarter of 2017.

Investments in securities are an assets item that recorded a significant increase of 6% or KM 74 million in the first quarter of 2017, and amounted to KM 1.3 billion as of 31.03.2017, with a 7% share in the assets of the banking sector in the FB&H.

In the structure of banks' sources of funding, deposits, holding a share of 77% and amounting to KM 14.2 billion, are the most significant source of funding. In the first quarter of 2017, deposits recorded a slight increase in the amount of 0.5% or KM 71 million. Savings deposits, as the most important and largest segment of the deposit and financial potential of banks, maintained a positive trend of growth and amounted to KM 8 billion as of 31.03.2017, which is up by 1.3% or KM 101 million compared to the end of 2016.

As of 31.03.2017, loan commitments of banks amounted to KM 852 million or 4.6% of total sources of funding and are at approximately the same level compared to the end of 2016. In the last eight years, due to the impact of the financial and economic crisis, banks borrowed significantly less from abroad, and by paying receivables due these sources were significantly reduced.

In the first quarter of 2017, total capital increased by 2% or KM 63 million on the basis of current profit and amounted to KM 2.8 billion as of 31.03.2017 (share capital: KM 1.2 billion).

As of 31.03.2017, regulatory capital amounted to KM 2.4 billion and was up by 2% or KM 37 million compared to the end of 2016, without any significant changes in its structure.

The capital adequacy ratio of the banking system, as one of the most important indicators of the strength and capital adequacy of banks, was 15.5% as of 31.03.2017, which is down by 0.2% compared to the end of 2016, but still significantly above the legal minimum (12%), which represents a satisfactory capitalisation of the overall system and a strong foundation and basis for preserving its security and stability. The financial leverage ratio at the level of the banking system amounted to 9.7% as of 31.03.2017 (prescribed minimum: 6%).

According to data from the income statement, a positive financial result – profit in the amount of KM 78.8 million was recorded at the level of the banking system in the Federation of B&H in the first quarter of 2017. A positive financial result was recorded by 14 banks in the total amount of KM 80 million, while one bank posted a loss in the amount of KM 1.2 million.

II BUSINESS PERFORMANCE OF BANKS IN THE FEDERATION OF B&H

1. BANKING SYSTEM STRUCTURE

1.1. Status, Number and Network of Branches

As of 31.03.2017, there were 15 banks with a banking licence in the Federation of B&H. The number of banks is the same compared to 31.12.2016. A special law from 01.07.2008 regulates the establishment and operations of the Development Bank of the FB&H Sarajevo, a legal successor of the Investment Bank of the FB&H d.d. Sarajevo.

In the first quarter of 2017, there was no major expansion of the banks' network of organisational units, chiefly attributable to the financial crisis and the reduced volume of the banks’ business activities as well as the already completed market positioning.

Banks have reorganised their networks of organisational units by changing the organisational form, membership or address of their organisational parts. This also entailed closings of some organisational parts, all for the purpose of business rationalisation and operating costs reduction. There was a total of 10 such changes among banks in the Federation of B&H (8 on the territory of the Federation of B&H, and 2 in Republika Srpska): 2 new organisational units were established, 1 organisational unit was closed, and 7 underwent changes. Also, there was a change in one organisational unit of a bank from Republika Srpska in the Federation of B&H

Subsequent to these changes, banks in the Federation of B&H had a total of 552 organisational units as of 31.03.2017, up by 0.2% compared to 31.12.2016.

The number of organisational units of banks from Republika Srpska in the Federation of B&H (22) is the same compared to 31.12.2016.

As of 31.03.2017, seven banks from the Federation of B&H had 52 organisational units in Republika Srpska, and nine banks had 11 organisational units in Brčko District. Three banks from Republika Srpska had 22 organisational units in the Federation of B&H.

As of 31.03.2017, all banks had licences to effect interbank transactions within the domestic payment system, and all 15 banks had secured deposits.

1.2. Ownership Structure

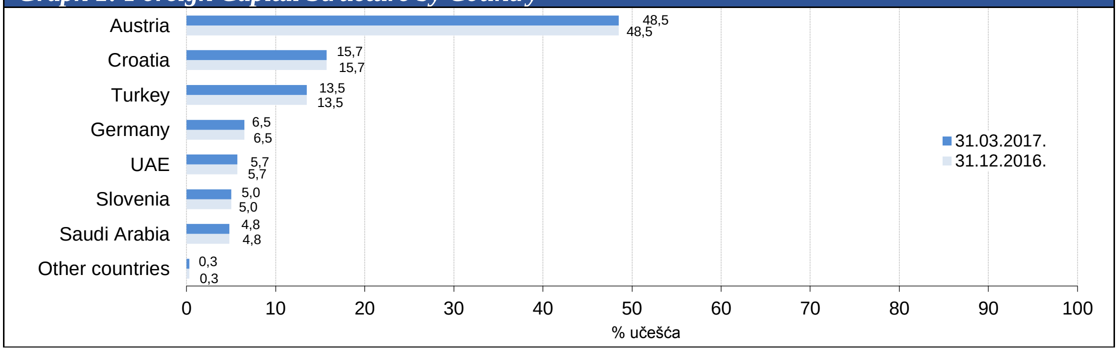
The ownership structure of banks[1] as of 31.03.2017, assessed on the basis of available information and reviews conducted in the banks themselves, is as follows:

- In private or mostly private ownership 14 banks
- In state or mostly state ownership[2] 1 bank.

Out of the 14 banks in mostly private ownership, four banks are in majority ownership of local legal entities and natural persons (residents), while 10 banks are in majority foreign ownership.

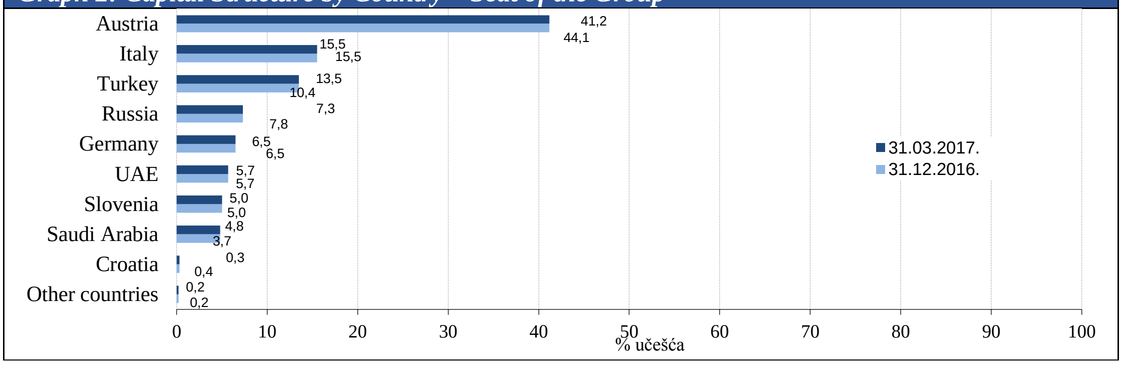
If observed solely from the perspective of foreign capital, using the criterion of the shareholders' home country, there were no changes as of 31.03.2017 compared to the end of 2016: the largest share of foreign capital in the amount of 48.5% still refers to shareholders from Austria, followed by shareholders from Croatia with 15.7% and Turkey with 13.5%. Other countries hold individual shares below 7%.

Graph 1: Foreign Capital Structure by Country



However, if taking into account capital relations, the structure of foreign capital can also be observed using the criterion of the home country of the parent bank or parent group having majority ownership (direct or indirect via group members) of banks in the Federation of B&H. According to this criterion, there were also no changes: the share of banking groups and banks from Austria amounts to 41.2%, followed by Italian banks with a share of 15.5%, while the share of capital from Turkey amounts to 13.5% and from Russia to 7.3%. Other countries hold individual shares below 7%.

Graph 2: Capital Structure by Country – Seat of the Group[3]



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[1] The criterion for this particular bank classification is ownership of share capital in banks.
[2] State ownership refers to domestic state capital of B&H.
[3] In addition to home countries of parent groups whose members are banks from the Federation of B&H, the graph also outlines countries of all other foreign shareholders of banks in the Federation of B&H.

The ownership structure may also be observed from the aspect of financial ratios, i.e. according to the total capital value.

- in KM 000 -

Table 1: Ownership Structure by Total Capital

BANKS	31.12.2015		31.12.2016		31.03.2017		INDEX	
1	2		3		4		5 (3/2)	6 (4/3)
State-owned banks	52 319	2%	52 499	2%	62 566	2%	100	119
Private banks	2 517 669	98%	2 655 621	98%	2 708 671	98%	105	102
T O T A L	**2 569 988**	**100%**	**2 708 120**	**100%**	**2 771 237**	**100%**	**105**	**102**

In the first quarter of 2017, total capital increased by 2% or KM 63 million as a result of the positive impact of the current financial result – profit in the amount of KM 79 million – and the negative one, i.e. a decrease on the basis of a transfer of dividends (one bank) in the amount of 16 KM million to Liabilities. As of 31.03.2017, total capital amounted to KM 2.8 billion.

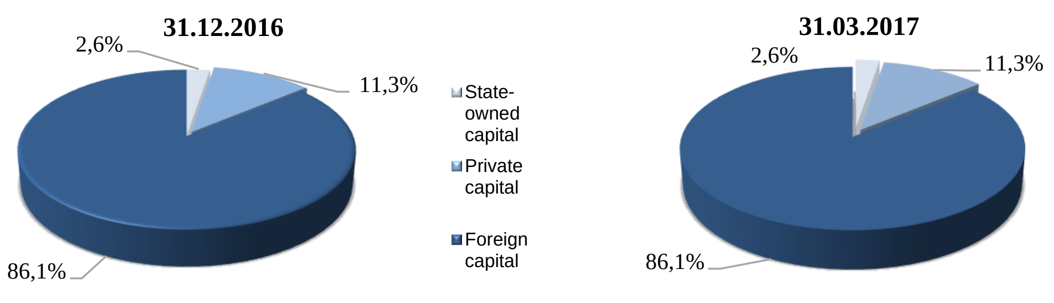
If observed from the perspective of the share of state-owned, private and foreign capital in the banks' share capital, it results in a more detailed picture of the capital ownership structure of banks in the Federation of B&H.

- in KM 000 -

Table 2: Ownership Structure by Share of State-Owned, Private and Foreign Capital

SHARE CAPITAL	31.12.2015		31.12.2016		31.03.2017		INDEX	
	Iznos	Učešće %	Iznos	Učešće %	Iznos	Učešće %	4/2	6/4
1	2	3	4	5	6	7	8	9
State-owned capital	31 647	2.7	31 647	2.6	31 647	2.6	100	100
Private capital (residents)	156 574	13.4	137 557	11.3	137 567	11.3	88	100
Foreign capital (non-residents)	979 271	83.9	1 046 673	86.1	1 046 663	86.1	107	100
T O T A L	**1 167 492**	**100.0**	**1 215 877**	**100.0**	**1 215 877**	**100.0**	**104**	**100**

Graph 3: Ownership Structure (by Share Capital)



As of 31.03.2017, share capital of banks in the FB&H was the same compared to 31.12.2016, amounting to KM 1.2 billion.

As of 31.03.2017, the share of state-owned capital in total share capital amounted to 2.6% and was the same compared to 31.12.2016.

The 11.3% share of private capital (of residents) in total share capital was the same compared to 31.12.2016, according to both relative and absolute indicators.

The 86.1% share of private capital (of non-residents) in total share capital was the same compared to 31.12.2016, according both to relative and absolute indicators.

The market share of banks according to the ownership criterion has been almost unchanged for a long time, i.e. has seen only minor changes. The market share of banks in majority foreign ownership as of 31.03.2017 stood at a high 90.9%, while banks with majority domestic private capital had a 6.5% share and one bank with majority state-owned capital had a 2.6% share.

- *in %* -

Table 3: Market Shares of Banks by Ownership Type (Majority Capital)

BANKS	31.12.2015 No. of banks	31.12.2015 Share in total capital	31.12.2015 Share in total assets	31.12.2016 No. of banks	31.12.2016 Share in total capital	31.12.2016 Share in total assets	31.03.2017 No. of banks	31.03.2017 Share in total capital	31.03.2017 Share in total assets
1	2	3	4	5	6	7	8	9	10
Banks woth majority state-owned capital	1	2.0	2.8	1	1.9	2.8	1	2.3	2.6
Banks with majority private domestic capital	6	7.0	6.8	4	6.6	6.4	4	6.4	6.5
Banks with majority foreign capital	10	91.0	90.4	10	91.5	90.8	10	91.3	90.9
TOTAL	17	100.0	100.0	15	100.0	100.0	15	100.0	100.0

Graph 4: Market Shares by Ownership Type

1.3. Human Resources

As of 31.03.2017, banks in the Federation of B&H had a headcount of 6 647 employees, 3% of which were employed in banks with majority state-owned capital and 97% of which were employed in private banks.

Table 4: Employees in Banks of the Federation of B&H

BANKS	HEADCOUNT 31.12.2015.		HEADCOUNT 31.12.2016		HEADCOUNT 31.03.2017		INDEX 3/2	INDEX 4/3
1	2		3		4		5	6
State-owned banks	181	3%	192	3%	190	3%	106	99
Private banks	6 502	97%	6 423	97%	6 457	97%	99	101
TOTAL	**6 683**	**100%**	**6 615**	**100%**	**6 647**	**100%**	**99**	**100**
Number of banks	17		15		15			

Table 5: Qualification Structure of Employees

LEVEL OF QUALIFICATION	HEADCOUNT 31.12.2015		HEADCOUNT 31.12.2016		HEADCOUNT 31.03.2017		INDEX 4/2	INDEX 6/4
1	2	3	4	5	6	7	8	9
University degree	3 757	56.2%	3 821	57.8%	3 881	58.4%	99	102
Two-year post-secondary school qualification	551	8.3%	555	8.4%	544	8.2%	94	98
Secondary school qualification	2 360	35.3%	2 226	33.6%	2 209	33.2%	92	99
Other	15	0.2%	13	0.2%	13	0.2%	55	100
TOTAL	**6 683**	**100.0%**	**6 615**	**100.0%**	**6 647**	**100.0%**	**96**	**100**

The headcount in the first quarter of 2017 was slightly up by 0.5% or 32 compared to the end of 2016.

Slight changes in the qualification structure (a further increase in the share of employees with university degrees to 58.4%) are primarily the result of an increase in the number of employees with university degrees by 2% or 60 and a decrease in the number of employees with post-secondary and secondary school qualification by 1% or 28.

One of the indicators affecting the performance assessment of individual banks and the banking system as a whole is staff efficiency, expressed as a ratio of assets over the number of employees, i.e. assets per employee. A higher ratio is an indicator of better efficiency of both the bank's and the entire system's operations.

Table 6: Assets per Employee

BANKS	31.12.2015			31.12.2016			31.03.2017		
	Head-count	Assets (KM 000)	Assets per employee	Head-count	Assets (KM 000)	Assets per employee	Head-count	Assets (KM 000)	Assets per employee
State-owned	181	476.866	2.635	192	520.387	2.710	190	487.823	2.567
Private	6.502	16.684.859	2.566	6.423	17.861.647	2.781	6.457	18.016.681	2.790
TOTAL	**6.683**	**17.161.725**	**2.568**	**6.615**	**18.382.034**	**2.779**	**6.647**	**18.504.504**	**2.784**

At the end of the first quarter of 2017, there were KM 2.8 million of assets per employee at banking system level.

Table 7: Assets per Employee – by Group

Assets (KM 000)	31.12.2015	31.12.2016	31.03.2017
	Number of banks	Number of banks	Number of banks
Up to 1 000	0	0	0
1 000 to 2 000	7	5	5
2 000 to 3 000	8	7	6
Over 3 000	2	3	4
TOTAL	17	15	15

Analytical indicators for individual banks range from KM 1.2 million to KM 3.8 million of assets per employee. There are five banks in which this ratio is better than the one at the banking sector level, while this ratio exceeds the amount of KM 3 million in the three largest banks in the system.

2. FINANCIAL PERFORMANCE INDICATORS OF BANKS

Off-site bank examinations are performed by means of reports defined by the Agency and reports of other institutions, thus making up a database resting on three sources of information:

1) Balance sheet information for all banks submitted on a monthly basis, together with additional annexes on a quarterly basis. This information contains details of cash funds, loans, deposits and off-balance sheet items, as well as basic statistical data,
2) Information on the solvency of banks, information on capital and capital adequacy, asset classification, concentrations of certain risk types, liquidity position, FX risk exposure, interest rates on loans and deposits, all based on reports prescribed by the Agency,
3) Information on business results of banks (income statement according to the FBA model) and statements of cash flows, all submitted to the FBA on a quarterly basis.

In addition to these standardised reports, the reporting database also consists of information obtained on the basis of additional reporting requests by the Agency in the interest of ensuring quality monitoring and analysis of banks' operations, followed by reports on audits of financial statements of banks prepared by external audit firms, as well as any other information of relevance for the performance assessment of individual banks and the banking system as a whole.

In accordance with the provisions of the Law on Opening Balance Sheet of Banks, banks with majority state-owned capital are required to report to the Agency on the basis of the "full" balance sheet divided into: liabilities, neutral items and assets. In order to obtain more realistic indicators of the operations banks in the Federation of B&H, further analysis of the banking system will be based on indicators from the assets side of the balance sheet of banks with majority state-owned capital.[4]

[4] State-owned banks post the „full balance sheet", meaning liabilities and neutral items, which the state will take over once the privatisation process gets finalised. As of 31.03.2017, these items amounted to KM 718 million in the case of one state-owned bank.

2.1. Balance Sheet

The balance sheet total of the banking sector amounted to KM 18.5 billion at the end of the first quarter of 2017, slightly up by 0.7% or KM 122 million compared to the end of 2016. The aforementioned is expected and in accordance with trends in the previous few years, considering that the first quarter is mainly characterised by stagnation or a slight increase in key balance sheet categories.

- KM 000 -

Table 8: Balance Sheet

DESCRIPTION	31.12.2015		31.12.2016		31.03.2017		INDEX	
	AMOUNT	Share %	AMOUNT	Share %	AMOUNT	Share %		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
ASSETS:								
Cash funds	4 857 483	28.3	5 204 564	28.3	4 917 829	26.6	107	94
Securities[5]	1 050 206	6.1	1 226 163	6.7	1 299 925	7.0	117	106
Facilities to other banks	78 420	0.5	96 569	0.5	173 006	0.9	123	179
Loans	11 610 744	67.7	12 270 228	66.8	12 558 567	67.9	106	102
Value adjustment	1 181 736	6.9	1 193 721	6.5	1 199 989	6.5	101	101
Net loans (loans minus value adjust.)	10 429 008	60.8	11 076 507	60.3	11 358 578	61.4	106	103
Business premises and other fixed assets	516 894	3.0	530 977	2.9	516 382	2.8	103	97
Other assets	229 714	1.3	247 254	1.3	238 784	1.3	108	97
TOTAL ASSETS	**17 161 725**	**100.0**	**18 382 034**	**100.0**	**18 504 504**	**100.0**	**107**	**101**
LIABILITIES:								
LIABILITIES								
Deposits	13 098 983	76.3	14 176 274	77.1	14 247 009	77.0	108	100
Borrowings from other banks	0	0.0	0	0	0	0	0	0
Loan commitments	904 050	5.3	848 001	4.6	851 716	4.6	94	100
Other liabilities	588 704	3.4	649 639	3.5	634 542	3.4	110	98
CAPITAL								
Capital	2 569 988	15.0	2 708 120	14.8	2 771 237	15.0	105	102
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**17 161 725**	**100.0**	**18 382 034**	**100.0**	**18 504 504**	**100.0**	107	101

- KM 000 -

Table 9: Banks‘ Assets by Ownership Structure

BANKS	31.12.2015			31.12.2016			31.03.2017			INDEX	
	No. of banks	Assets (KM 000)		No. of banks	Assets (KM 000)		No. of banks	Assets (KM 000)			
1	2	3		4	5		6	7		8 (5/3)	9(7/5)
State-owned	1	476 866	2.8%	1	487 387	2.8%	1	487 823	2.6%	126	109
Private	16	16 684 859	97.2%	14	17 861 647	97.2%	14	18 016 681	97.4%	106	107
TOTAL	**17**	**17 161 725**	**100%**	**15**	**18 382 034**	**100%**	**15**	**18 504 504**	**100%**	**106**	**107**

In the reporting period of 2017, the majority of banks saw minor changes in the balance sheet total. Eight banks recorded growth rates ranging from 1% to 6.5%, while seven banks had rates of decline that ranged from 0.4% to 6.3%.

The concentration indicator used for three key segments of banking operations (assets, loans and deposits) is the Herfindahl index.[6]

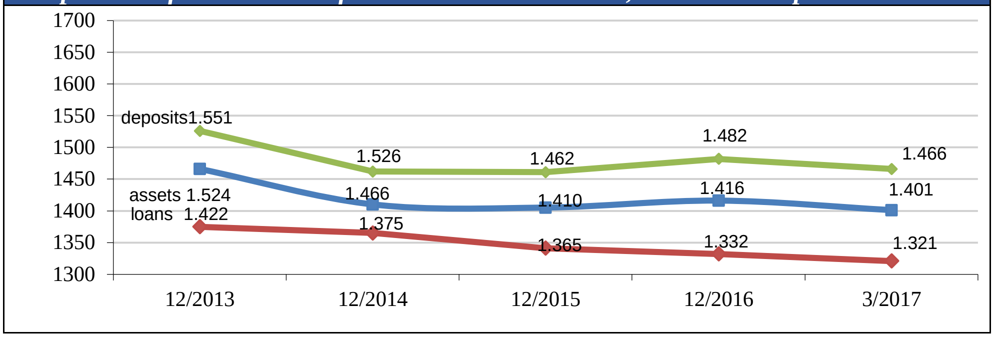
[5] Trading securities, securities available for sale and held to maturity securities.

[6] This index is also called Hirschmann-Herfindahl index or HHI and is calculated according to this formula:

$$HI = \sum_{j=1}^{n} (S)_j^2 ,$$

It represents a sum of squares of percentage shares of specific elements (e.g. assets, deposits, loans) of all market participants in the system. It should be noted that this index does not grow linearly and that the value of e.g. 3 000 does not mean that the concentration in the system is 30%. Hypothetically, if there were just one bank in the entire system, the HHI would be 10 000 at most.

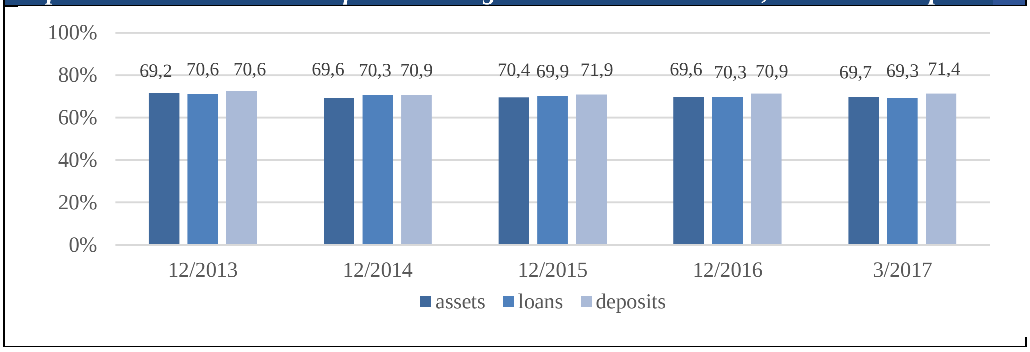
Graph 5: Herfindahl Index of Concentrations in Assets, Loans and Deposits



In the first three months of 2017, the Herfindahl index of concentration in all three relevant categories (assets, loans and deposits) changed slightly, so that it amounted to 1 401 units for assets (-15), 1 331 units for loans (-11), and 1 466 units for deposits (-16) as of 31.3.2017, which is indicative of a moderate concentration.[7]

The second concentration indicator for the banking system is the ratio of market concentrations, i.e. the concentration rate[8] (hereinafter: the CR) showing the total share of the largest institutions in the system in selected relevant categories: assets, loans and deposits. Like Herfindahl's index of concentrations, the CR5 also changed slightly in 2017 and amounted to 69.7% for market share, 69.3% for loans, and 71.4% for deposits as of 31.03.2017. For a long period of time, the value of the CR5 saw slight changes across all three categories, but the domination of the five largest banks in the system, which hold approximately 70% of the market, loans and deposits, is still evident.

Graph 6: Concentration Rates for the 5 Largest Banks – CR5: Assets, Loans and Deposits



The banking sector can also be analysed on the basis of the criterium of belonging to groups formed according to asset size.[9] Changes in share percentage compared to the end of 2016 are minor, which is the result of slight changes in the assets of most banks.

The banking system is dominated by the two largest banks (I group with assets in the amount of over KM 2 billion, with it being noted that both banks have assets in the amount of more than KM 4 billion) with a share of 46.9%, followed by the share of the II group (four banks with assets in the amount ranging from KM 1 billion to KM 2 billion) of 28.2%, which increased by 5.7 percentage points due to to one bank moving from the III group to this group). The largest change was recorded with respect to the share of the III group (banks with assets ranging from KM 500 million to KM 1 billion), which decreased from 21.9% to 13.6% due to the number of banks decreasing from five to three. The number of banks in the IV group (banks with assets ranging from KM 100 million to KM 500 million) is up by one (move from the III group to this group), which resulted in the share increasing from 7.9% to 10.8%. One bank in the V and last group (with assets below KM 100 million) has a share of a negligible 0.5%.

[7] If the value of the HHI is below 1 000, this shows no presence of the concentration on the market, while an index value between 1 000 and 1 800 shows moderate concentration, and a HHI value above 1 800 shows high concentration on the market.
[8] The concentration ratio (CR) rests on the number of institutions included in the calculation.
[9] Banks are divided into 5 groups depending on asset size.

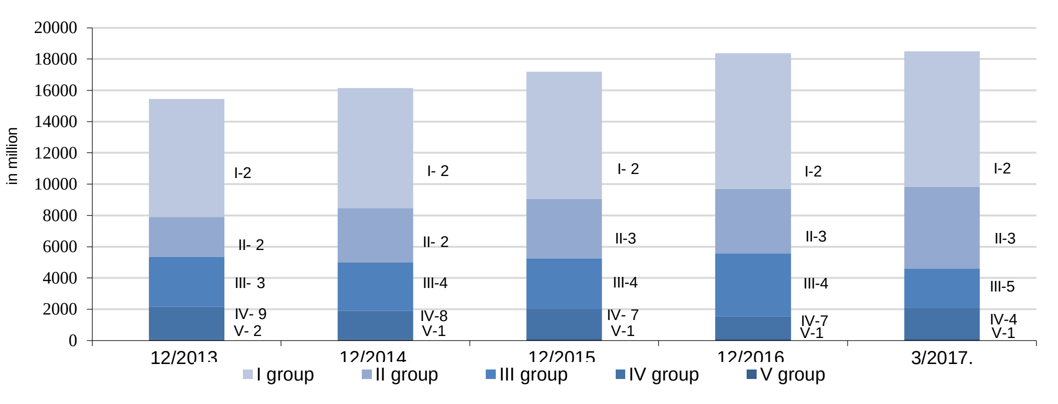
The table below provides an overview of the amounts and shares of individual groups of banks in total assets by period.

- KM 000 -

Table 10: Share of Individual Banking Groups in Total Assets by Period

ASSETS	31.12.2015			31.12.2016			31.03.2017		
	Amount	**Share %**	**No. of banks**	**Amount**	**Share %**	**No. of banks**	**Amount**	**Share %**	**No. of banks**
I- Over 2 000	8 120 953	47.3	2	8 681 651	47.2	2	8 684 334	46.9	2
II- 1000 to 2000	3 821 569	22.3	3	4 142 732	22.5	3	5 224 889	28.2	4
III- 500 to 1000	3 171 936	18.5	4	4 015 627	21.9	5	2 512 070	13.6	3
IV- 100 to 500	1 963 450	11.4	7	1 449 350	7.9	4	1 990 873	10.8	5
V- Below 100	83 817	0.5	1	92 674	0.5	1	92 338	0.5	1
TOTAL	**17 161 725**	**100.0**	**17**	**18 382 034**	**100.0**	**15**	**18 504 504**	**100.0**	**15**

Graph 7: Share of Individual Banking Groups in Total Assets by Period



In the first quarter of 2017, the balance sheet total increased slightly by 0.7% or KM 122 million, amounting to KM 18.5 billion as of 31.03.2017. Deposits also increased minimally by 0.5% or KM 71 million, thus amounting to KM 14.2 billion, while total capital amounted to KM 2.8 billion following an increase in the amount of 2.3% or KM 63 million. Loan commitments remained at approximately the same level compared to the end of 2016 (KM 852 million).

Following a decrease in the amount of 5.5% or KM 287 million, cash funds amounted to KM 4.9 billion at the end of the first quarter of 2017.

Due to the low growth of loan facilities, some banks approved short-term excess liquidity to domestic and foreign banks, which brings additional interest income. Facilities to other banks increased by 79.2% or KM 76 million, amounting to KM 173 million as of 31.03.2017.

The positive trend of increase continued in the lending segment as well. A growth rate in the amount of 2.3% or KM 288 million was recorded and loans amounted to KM 12.6 billion as of 31.03.2017.

The increase in investments in securities continued in 2017 as well, with a rate of 6.0% or KM 74 million (in 2016, the increase amounted to 16.8% or KM 176 million), which primarily refers to larger investments in government bonds of other countries and treasury bonds issued by Republika Srpska. The securities portfolio amounted to KM 1.3 billion at the end of the reporting period, thus having a 7.0% share in assets.

Table 11: Investments in Securities by Type of Instrument

INVESTMENTS IN SECURITIES	31.12.2015		31.12.2016		31.03.2017		INDEX	
	Amount	**Share %**	**Amount**	**Share %**	**Amount**	**Share %**	4/2	6/4
1	2	3	4	5	6	7	8	9
Equity securities	2 388	0.2	1 637	0.1	1 678	0.1	69	103
Debt securities:	1 047 818	99.8	1 224 526	99.9	1 298 247	99.9	117	106

- Debt securities of B&H entities	662 544	63.1	823 956	67.2	844 544	65.0	124	102
- Government bonds (other countries)	247 302	23.6	278 386	22.7	321 341	24.7	113	115
- Corporate bonds[10]	137 972	13.1	122 184	10.0	132 362	10.2	89	108
TOTAL	**1 050 206**	**100.0**	**1 226 163**	**100.0**	**1 299 925**	**100.0**	**117**	**106**

Banks allocated the majority (almost 80%) of total investments in securities to the portfolio of financial instruments available for sale, which is up by 7% or KM 67 million, amounting to KM 1 billion, while securities held to maturity increased by 6% or KM 9 million, i.e. to KM 159 million.

Table 12: Investments in Securities – Categorisation According to IAS 39

INVESTMENTS IN SECURITIES	31.12.2015		31.12.2016		31.03.2017		INDEx	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Financial assets at fair value through profit and loss	109 613	10.4	106 941	8.7	104 757	8.1	98	98
Financial assets available for sale	773 216	73.7	968 647	79.0	1 035 799	79.7	125	107
Investments held to maturity	167 377	15.9	150 575	12.3	159 369	12.3	90	106
TOTAL	**1 050 206**	**100.0**	**1 226 163**	**100.0**	**1 299 925**	**100.0**	**117**	**106**

In terms of investments in debt securities, the most important item are securities of the entity governments, particularly securities issued by the Federation of B&H[11] in the total amount of KM 678 million, as well as securities issued by Republika Srpska in the amount of KM 167 million.

Table 13: Securities of the Entity Governments of B&H

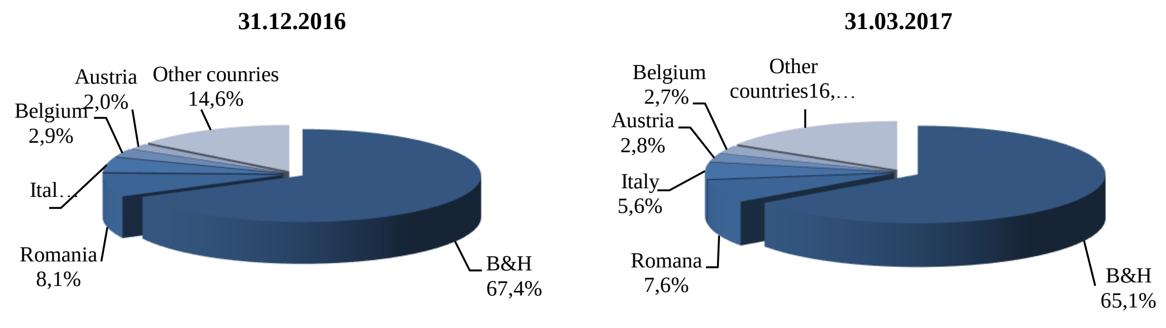
INVESTMENTS IN SECURITIES	31.12.2015		31.12.2016		31.03.2017		INDEx	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Debt securities issued by the Federation of B&H:	545 723	82.4	676 832	82.1	677 916	80.3	124	100
- Treasury bills	99 775	15.1	118 031	14.3	118 329	14.0	118	100
- Bonds	445 948	67.3	558 801	67.8	559 587	66.3	125	100
Debt securities issued by Republika Srpska:	116 821	17.6	147 124	17.9	166 628	19.7	126	113
- Treasury bills	38 016	5.7	56 758	6.9	72 305	8.6	149	127
- Bonds	78 805	11.9	90 366	11.0	94 323	11.2	115	104
TOTAL	**662 544**	**100.0**	**823 956**	**100.0**	**844 544**	**100.0**	**124**	**102**

The majority of the treasury bills and bonds of the entity governments with a book value of KM 779 million was classified in the trading portfolio and the available-for-sale portfolio, while the rest in the amount of KM 66 million was classified in the held-to-maturity portfolio.

When analysing the overall investments in securities (KM 1.3 billion) from the aspect of exposure by country, the largest share in the amount of 65.1% is that toward issuers from B&H, followed by Romania (7.6%), Italy (5.6%), Austria (2.8%), etc.

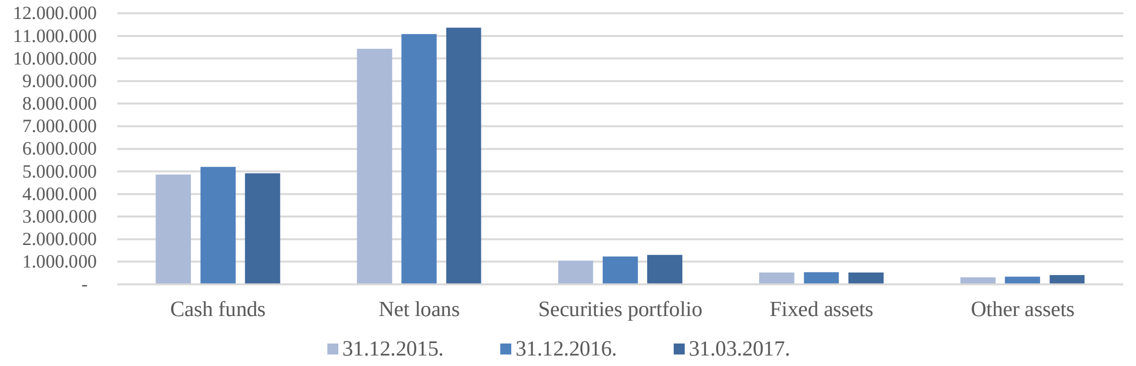
[10] The largest share of almost 90% refers to EU bonds.
[11] All types of securities issued by the Federation of B&H.

Graph 8: Sructure of Investments in Securities According to Criteria of the Issuing Country

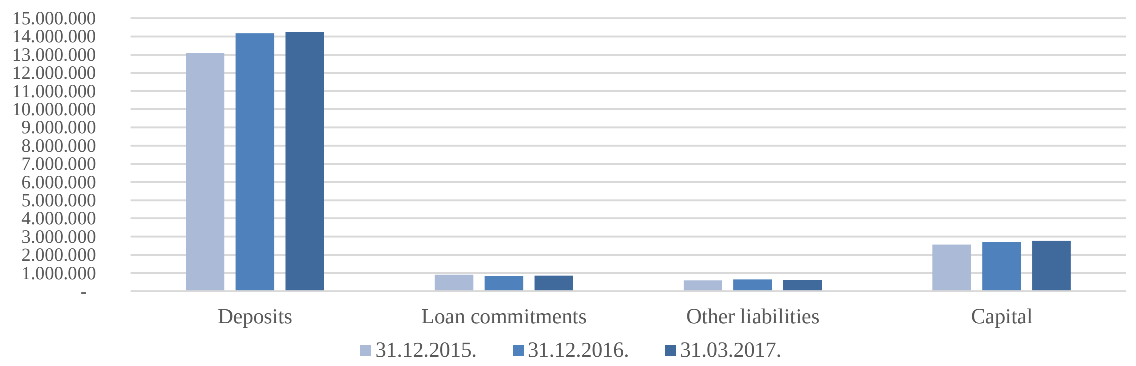


The graphs below show the structure of the key items of the banks' balance sheet.

Graph 9: Assets Structure within the Balance Sheet of Banks



Graph 10: Liabilities Structure within the Balance Sheet of Banks



Within the liabilities structure of the banks' balance sheets, deposits still represent a dominant source of funding for banks in the Federation of B&H (with an amount of KM 14.2 billion and a 77.0% share). The long-standing trend of decrease of loan commitments was halted in the first three months of 2017, which resulted in an unchanged share of 4.6%. Capital continued to increase in the reporting period as well. As of 31.03.2017 capital amounted to KM 2.8 billion, with a share of 15.0% (+0.3 percentage points).

The share of loans, as the largest and most important assets item, increased from 66.8% to 67.9%, while the share of cash funds decreased to 26.6% (-2.3 percentage points).

- in KM 000 -

Table 14: Cash Funds of Banks

CASH FUNDS	31.12.2015		31.12.2016		31.03.2017		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4

1	2	3	4	5	6	7	8	9
Cash	581 152	12.0	754 059	14.5	751 035	15.3	130	100
RR at the CB B&H	3 181 721	65.5	3 295 391	63.3	2 986 762	60.7	104	91
Accounts at deposit institutions in B&H	2 100	0.0	9 101	0.2	10 573	0.2	433	116
Accounts at deposit institutions abroad	1 092 273	22.5	1 145 886	22.0	1 169 340	23.8	105	102
Cash funds in the process of collection	237	0.0	127	0.0	119	0.0	54	94
TOTAL	4 857 483	100.0	5 204 564	100.0	4 917 829	100.0	107	94

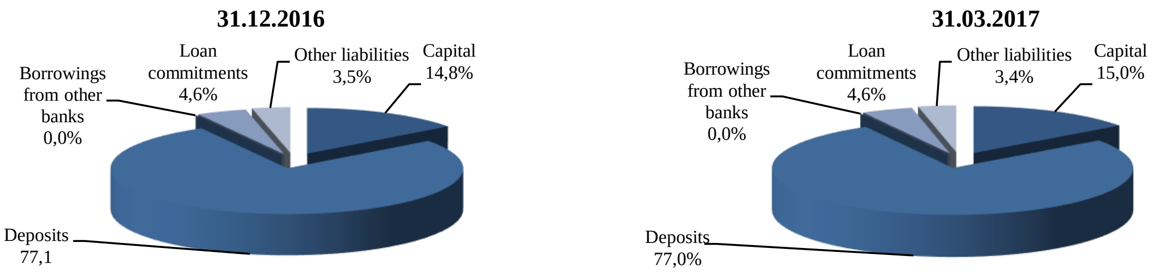
The banks' cash funds in the CBBH reserves account were down by 9% or KM 309 million in the reporting period of 2017 and amounted to KM 3 billion or 60.7% of total cash funds as of 31.03.2017 (63.3% at the end of 2016). Banks' funds in accounts of deposit institutions abroad increased by 2% or KM 23 million. As of 31.03.2017, they amounted to KM 1.2 billion or 23.8% of total cash funds (22.0% at the end of 2016). As was the case at the end of 2016, banks held cash funds in the amount of KM 751 million in vaults and treasuries as of 31.03.2017, which represents 15.3% of total cash funds.

These trends prompted a change in the currency structure of cash funds: in the reporting period, the share of local currency decreased from 74.5% to 72.8%, while cash in foreign currency increased by the same percentage.

2. 1. 1. Liabilities

The total liabilities structure (liabilities and capital) within the banks' balance sheet as of 31.03.2017 is provided in the graph below:

Graph 11: Liabilities Structure of Banks



At the end of the first quarter of 2017, the share of deposits (77.0%) as the most significant source of funding for banks remained almost the same compared to the end of 2016, as was the case with the share of loan commitments (4.6%), the second-largest source.

Following a slight increase in the amount of 0.5% or KM 71 million in the reporting period, deposits amounted to KM 14.2 billion as of 31.03.2017 and are still the largest source of funding for banks in the Federation of B&H.

The second-largest source of funding are loans in the same amount of KM 0.8 billion and with a share of 4.6%, as was the case at the end of 2016, which banks received mostly by borrowing from foreign financial institutions. In the past few years, due to the effect of the financial and economic crisis, as well as reduced lending activities, banks incurred significantly fewer loans abroad and, coupled with the payment of receivables due, reduced these sources of funding by app. 60% (at the end of 2008, deposits amounted to KM 2.18 billion), with them being down by 6.2% or KM 56 million in 2016. If subordinated loans in the amount of KM 122 million, which the banks withdrew in the interest of strengthening the capital base and improving capital adequacy, were added to loan commitments, total loan funds would hold a share of 5.3% in total sources of funding.

As of 31.03.2017, banks held the largest amount of liabilities towards the following creditors (7 out of a total of 24 creditors), accounting for 83% of total loan commitments: TC ZIRAAT BANKASI A.S. (Turkey), European Investment Bank (EIB), UniCredit Bank Austria AG, the World Bank, Procredit

Holding AG and Procredit Bank AG Frankfurt, the European Fund for Southeast Europe (EFSE), and the European Bank for Reconstruction and Development (EBRD).

Capital amounted to KM 2.8 billion at the end of the first quarter of 2017, thus having recorded an increase in the amount of 2.3% or KM 63 million compared to the end of 2016 as a result of the following most important changes: an increase on the basis of the financial result (profit) in the reporting period (KM 79 million) and a decrease due to dividends from profit recorded in 2016 being transferred to Liabilities (one bank, KM 16 million).

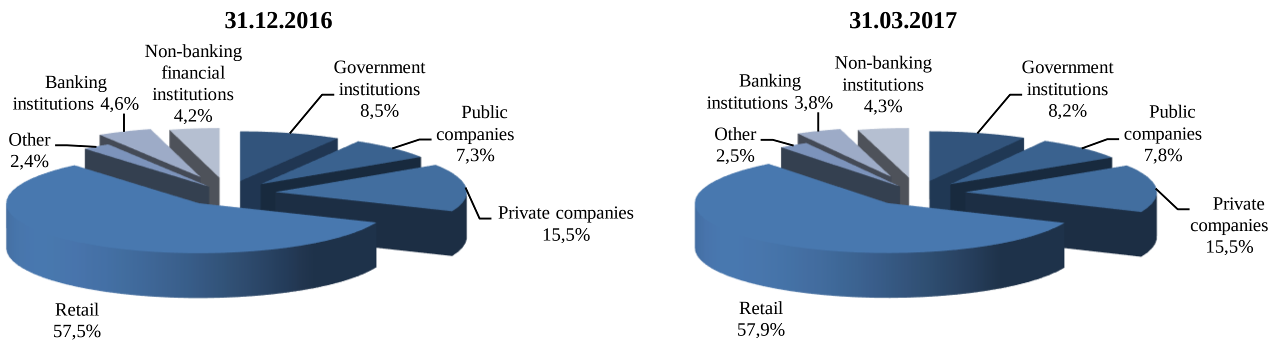
According to the information submitted by banks, out of the total deposit amount at the end of the reporting period, only 6.1% relates to deposits collected in organisational units of banks from the Federation of B&H, which are doing business in Republika Srpska and Brčko District.

- in KM 000 -

Table 15: Deposit Structure by Sector [12]

SECTORS	31.12.2015		31.12.2016		31.03.2017		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	1 002 438	7.7	1 200 513	8.5	1 170 596	8.2	120	98
Public companies	927 692	7.1	1 036 461	7.3	1 106 547	7.8	112	107
Private companies and enterprises	2 008 364	15.3	2 191 328	15.5	2 203 777	15.5	109	101
Banking institutions	752 217	5.7	647 901	4.6	541 432	3.8	86	84
Non-banking financial institutions	583 387	4.5	603 757	4.2	618 600	4.3	103	102
Retail	7 465 252	57.0	8 154 484	57.5	8 246 328	57.9	109	101
Other	359 633	2.7	341 830	2.4	359 729	2.5	95	105
TOTAL	**13 098 983**	**100.0**	**14 176 274**	**100.0**	**14 247 009**	**100.0**	**108**	**100**

Graph 12: Deposit Structure by Sector



A slight increase in deposits in the amount of 0.5% or KM 71 million in the first quarter of 2017 also resulted in minor changes in the deposit structure by sector, due to, on the one hand, an increase in retail deposits and deposits of public companies and, on the other hand, due to a decrease in deposits of banking and government institutions.

The sectoral structure is still dominated by the retail sector and the continuous increase in this sector's deposits continued in 2017 as well, with a rate of 1% or KM 92 million. They amounted to KM 8.2 billion as of 31.03.2017, while the share rose from 57.5% to 57.9%, so that this sector's deposits are still the largest source of funding for banks. Analytical data by bank indicate that the share ranges from 21% to 82%, the share of this sector's deposits is the largest in 14 out of 15 banks, and it is above 50% in ten banks.

[12] Information from the auxiliary BS-D form, which banks submit on a quarterly basis in addition to the balance sheet (as based on the FBA model).

The second largest sector source in terms of amount and share, although significantly lower than the retail sector, are deposits of private companies, which are slightly up by 1% or KM 12 million. As of 31.03.2017, they amounted to KM 2.2 billion, which is the same 15.5% share as at the end of 2016.

A slight change, i.e. a drop in the amount of 2% or KM 30 million was recorded with respect to deposits of government institutions. At the end of the first quarter of 2017, they amounted to KM 1.2 billion or 8.2% of total deposits.

Deposits of public companies had the largest growth rate in the amount of 7% or KM 70 million, i.e. they amount to KM 1.1 billion and hold a share of 7.8%.

It should be noted that the trend of long-standing decrease in deposits of banking institutions due to the effects of the crisis, the reduced volume of lending and high liquidity also continued in the first three months of 2017 as a result of debt reduction, i.e. the repayment of funds to groups that own the banks in the Federation of B&H.

In the reporting period of 2017, the deposits of the aforementioned sector fell by 16% or KM 106 million, to the level of KM 541 million, with the share dropping from 4.6% to 3.8%, mostly as a result of deposits that some banks had received from banking groups at the end of 2016 having been withdrawn at maturity immediately in early 2017. Based on the aforementioned information, it can be concluded that the foreign debt level of banks from the Federation of B&H is much lower, especially in terms of deposit funds of parent groups. It should be noted that maturity has changed singificantly in favour of short-term deposits, which have the function of maintining the maturity adjustment within the prescribed limits and/or improving certain indicators (structural balance, growth of certain categories, e.g. assets, deposits, followed by liquidity indicators, etc.). The aforementioned is also indicated by the fact that KM 112 million or 29% of term deposits of the group mature in the second quarter of 2017, while an additional KM 20 million or 5% mature by the end of 2017, and KM 123 million or 32% mature in 2018. Considering that the same trend of decrease is present with respect to loan commitments, a number of banks have been facing the problem of maintaining their maturity adjustment for quite some time, with this being caused by the unfavourable maturity of local deposit funds, due to which they must continuously work on securing better quality sources in terms of maturity in order to intensify the increase in approved loans.

It is worth noting that 74% or KM 401 million of deposits of banking institutions relate to deposits of banks from the group (mostly shareholders). Financial support by parent groups is present with respect to nine banks in the Federation of B&H, wherein such financing is still concentrated in three large banks (74%). In this way, banks in majority foreign ownership had financial support and secured inflows of new funds by their foreign groups in previous periods. If these funds are coupled with loan commitments and subordinated debt, the financial support of banks from the group is higher (with respect to 11 banks) and amounts to KM 793 million as of 31.03.2017 (or 4.3% of total liabilities of the banking sector, which is lower compared to the end of 2016 (KM 857 million or 4.7% of liabilities)). In total deposits, the funds of banking groups hold a share of 2.8% (3.6% at the end of 2016), while loan commitments to the group account for 33.2% of total loan commitments (this share is up by 3.8%). In the first quarter of 2017, these funds dropped by 7.4% or KM 64 million, largely based on regular maturities (deposits fell by 21% or KM 107 million, loan commitments remained at the same level of KM 282 million, while subordinated loans amounted to KM 110 million following an increase in the amount of 9.8% or KM 10 million).

Considering that lending activities of banks got significantly reduced due to the economic crisis, thus resulting in high liquidity and a good capitalisation rate of most of foreign-owned banks in the Federation of B&H, the trend of the past couple of years is still present when it comes to reduced exposures to the group. This primarily relates to the segment of both deposit sources and loan sources, largely on the basis of regular repayments of matured liabilities. It is especially important to underline that deposit funds that certain banks received from their parent groups over the past two years are mostly of short-term maturity (most often one to two months) and mainly serve the purpose of improving certain indicators (balance sheet: assets, deposits, cash funds, etc.) at a quarterly level, and therefore do not constitute a quality source of long-term funding.

Other sectors with a low share in total deposits also saw minor changes in nominal and relative terms.

The currency structure of deposits as of 31.03.2017 changed slightly due to the opposite trend of deposits in KM and foreign currency. Deposits in KM increased by 1.5% or KM 118 million, while those in foreign currency recorded a decrease in the amount of 0.8% or KM 48 million. The aforementioned resulted in the share of deposits in local currency increasing to 57.0% (+0.6 percentage points) and them amounting to KM 8.1 billion. With respect to the same relative change, the share of deposits in foreign currency (with a dominant share of EUR currency) decreased, with them amounting to KM 6.1 billion.

At the end of the first quarter of 2017, the structure of deposits by domicile status of depositors also changed slightly: resident funds amounted to KM 13.4 billion and had a share of 94% (+0.8 percentage points), while non-resident deposits amounted to KM 0.9 billion and represented 6 % of total deposits. The increase in the share of resident deposits is, on the one hand, the result of their nominal increase in the amount of 1.4% or KM 183 million, and, on the other hand, the result of the drop in non-resident deposits by 11.6% or KM 118 million. Over the past few years, non-resident deposits continuously decreased as a result of the withdrawal, i.e. return of deposits to the parent bank or member of the banking group to which non-resident funds mostly refer.

The long-standing trend of increase in savings deposits, as the most significant segment of the deposit and financial potential of banks, continued in 2017 as well, with a rate of 1.3% or KM 101 million. As of 31.03.2017, they amounted to KM 8 billion.

Table 16: New Retail Savings By Period

BANKS	AMOUNT (in KM 000)			INDEX	
	31.12.2015	31.12.2016	31.03.2017	3/2	4/3
1	2	3	4	5	6
State-owned	78 771	86 481	85 928	110	99
Private	7 156 178	7 810 404	7 912 645	109	101
TOTAL	**7 234 949**	**7 896 885**	**7 998 573**	**109**	**101**

Graph 16: New Retail Savings by Period

The two largest banks hold 55% of savings, while five banks hold individual shares of less than 2%, which amounts to 6.5% of total savings at system level.

Out of the total amount of savings, 44% refer to saving deposits in local currency and 56% to savings deposits in foreign currency.

Table 17: Maturity Structure of Retail Savings Deposits by Period

BANKS	AMOUNT (in KM 000)						INDEX	
	31.12.2015		31.12.2016		31.03.2017		3/2	4/3
1	2		3		4		5	6
Short-term savings deposits	3 537 982	48.9%	4 074 910	51.6%	4 175 784	52.2%	113	102
Long-term savings deposits	3 696 967	51.1%	3 821 975	48.4%	3 822 789	47.8%	104	100
TOTAL	**7 234 949**	**100.0%**	**7 896 885**	**100.0%**	**7 998 573**	**100.0%**	**108**	**101**

Compared to the end of 2016, the maturity structure of savings deposits changed slightly due to an increase in short-term deposits by 2% or KM 101 million, while long-term deposits remained at the same level, which resulted in the share of short-term deposits being up from 51.6% to 52.2%.

Long-standing continuous growth and positive trends in the savings segment of banks in the Federation of B&H are the result of, on the one hand, better safety and stability of the overall banking system (as chiefly attributable to the functional, effective and efficient banking supervision implemented by the Agency) and, on the other hand, the existence of the deposit insurance system, the primary objective of which is increased stability of the banking, i.e. financial sector and the protection of savers. In order to preserve and strengthen the trust of citizens in the safety and stability of the banking system in B&H, the deposit insurance level rose following the onset of the financial crisis, and according to the latest decision by the Management Board of the Deposit Insurance Agency of B&H from December 2013, the insured deposit limit increased from the KM 35 000 to KM 50 000, effective as of 01.01.2014. All these actions are aimed towards limiting the effect of the global economic crisis on the banking and the overall economic system in the Federation of B&H and B&H.

As of 31.03.2017, all 15 banks from the Federation of B&H included in the deposit insurance program (i.e. holding licences issued by the Deposit Insurance Agency of B&H).

2.1.2. Capital – Strength and Adequacy

The capital[13] of banks in the Federation of B&H as of 31.03.2017 amounted to KM 2.4 billion.

It should be noted that the FBA, in order to comply with international standards of regulatory capital, adopted a new Decision on Minimum Standards for Bank Capital Management and Capital Hedge (hereinafter: the Decision) in mid-2014, which constitutes an innovated concept of capital, in which the previously prescribed and applied minimum standards in capital management are supplemented by additional measures for strengthening and preserving capital. New and amended provisions have influenced the form and content of regulatory reports in the segment of capital, with them having to be applied as of 30.09.2014.

- in KM 000 -

Table 18: Regulatory Capital

DESCRIPTION	31.12.2015		31.12.2016		31.03.2017		INDEX	
1	2		3		4		5 (3/2)	6 (4/3)
1.a.Core capital before reduction	2 010 634		2 167 814		2 193 464		108	101
1.1. Share capital – common and permanent non-cumulative shares	1 164 402		1 215 668		1 215 668		104	100
1.2. Issue premiums	132 667		138 786		138 786		105	100
1.3. Reserves and retained profit	713 565		813 360		839 010		114	103
1.b. Deductible items	183 755		112 297		113 809		61	101
1.1. Uncovered losses from previous years	28 371		16 690		59 004		59	354
1.2. Current year loss	102 108		42 314		1 204		41	3
1.3. Treasury shares	102		3 034		3 034		2975	100
1.4.. Intangible assets	49 837		47 315		47 517		95	100
1.5. Deferred tax assets	1 641		1 881		1 854		115	99
1.6. Negative revalorised reserves	1 696		1 063		1 196		63	113
1. Core capital (1a-1b)	**1 826 879**	**85%**	**2 055 517**	**88%**	**2 079 655**	**88%**	113	101
2. Supplementary capital	**330 784**	**15%**	**284 917**	**12%**	**297 414**	**12%**	86	104
2.1. Share capital – common and permanent cumulative shares	3 090		209		209		7	100
2.2. General loan loss reserves	208 619		170 420		174 884		82	103
2.3. Positive revalorised reserves	9 735		9 741		10 247		100	105
2.4. Amount of audited profit	N/a		N/a		N/a		N/a	N/a
2.5. Subordinated debt	107 918		103 122		110 649		96	107
2.5. Hybrid items and other instruments	1 422		1 425		1 425		100	100
3. Capital (1 + 2)	**2 157 663**	**100%**	**2 340 434**	**100%**	**2 377 069**	**100%**	108	102
4. Deductible items from capital	**206 321**		**200 035**		**212 340**		97	106
4.1. Bank's shares in capital of other legal entities above 5% of core capital	1 007		0		0		N/a	N/a
4.2. Loan loss reserves shortfall at regulatory request	204 559		200 035		212 340		98	106
4.3. Other deductible items	755		0		0		N/a	N/a
5. Net capital (3- 4)	**1 951 342**		**2 140 399**		**2 164 729**		110	101

[13] Regulatory capital is defined in Articles 7, 8 and 9 of the Decision on Minimum Standards for Capital Management in Banks and Capital Hedge („Official Gazette of the Federation of B&H", No. 46/14).

In the first quarter of 2017, capital went up by 2% or KM 37 million, without any changes in its structure (88% core capital, 12% supplementary capital). Core capital increased by 1% or KM 24 million, while supplementary capital increased by 4% or KM 12 million.

The slight increase in core capital was mostly recorded on the basis of the allocation of profit for 2016, following the adoption of decisions of the assembly (three banks), into reserves or retained profit (KM 25 million).

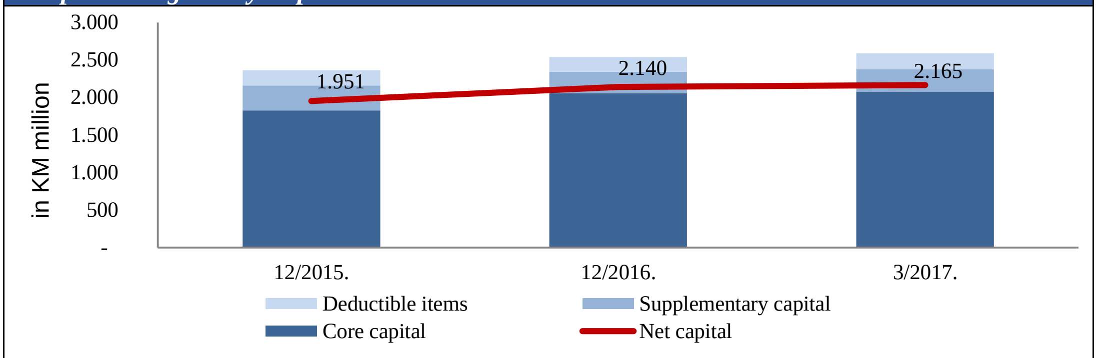
Deductible items (which decrease core capital) increased slightly by 1% or KM 1 million, mostly as a result of an increase in current loss in the amount of KM 1.2 million, while other items changed only slightly.
Supplementary capital increased slightly by 4% or KM 12 million, which is mostly the result of subordinated debt increasing by KM 8 million and general loan loss provisions (GLLP) increasing by KM 4 million.

It should be noted that 10 banks did not include profit from 2016 in core capital because not all activities related to the external audit of financial statements for 2016 and the adoption of decisions on the allocation of profit by the assembly have been completed.

According to regulatory changes in late 2011, deductible items from capital include a new accounting item: the shortfall of loan loss reserves upon regulator's request (i.e. a difference between required regulatory loan loss reserves according to balance sheet and off-balance sheet items and loan loss reserves formed from profit). As of 31.03.2017, this item amounted to KM 212 million, which is slightly up (6% or KM 12 million) compared to 2016 (this item was down by 2% or KM 4.5 million in 2016).

The graph below shows the regulatory capital structure.

Graph 14: Regulatory Capital Structure



As a result of the aforementioned changes, net capital increased by 1% or KM 24 million and amounted to KM 2.2 billion as of 31.03.2017.

Capital adequacy of individual banks, i.e. the overall system, depends, on the one hand, from the net capital level, and, on the other hand, on total risk-bearing assets (risk-bearing balance sheet and off-balance sheet assets and weighted operational risk).

The table below provides a structure of the net exposure of banks by credit risk weight, i.e. conversion ratio for off-balance sheet items.

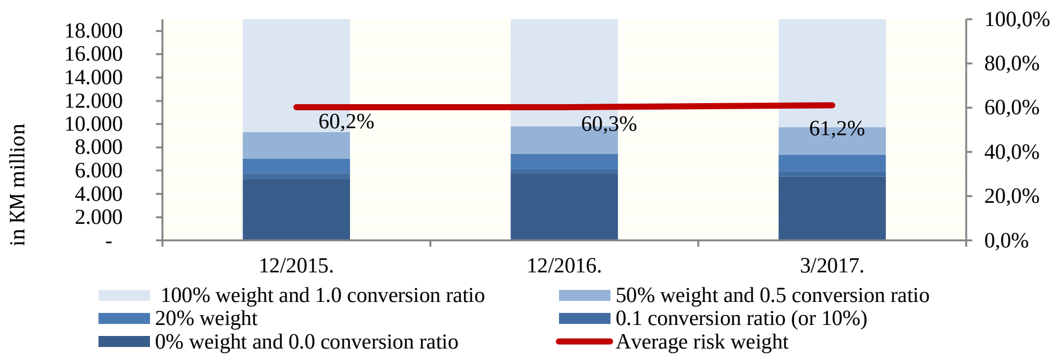
- in KM 000 -

Table 19: Structure of Net Exposure of Banks by Credit Risk Weight

DESCRIPTION	31.12.2015	31.12.2016	31.03.2017	INDEX	
1	2	3	4	5 (3/2)	6 (4/3)
TOTAL EXPOSURE (1+2):	**19 799 548**	**20 994 773**	**21 177 359**	106	101
1 Balance sheet assets	16 635 188	17 863 737	17 971 258	107	101
2. Off-balance sheet items	3 164 360	3 131 036	3 206 101	99	102
DISTRIBUTION BY RISK WEIGHT AND CONVERSION RATIO					
0% weight	5 255 223	5 695 758	5 424 987	108	95

20% weight	1 279 029	1 309 962	1 410 462	102	108
50% weight	52 241	75 541	82 193	145	109
100% weight	10 048 695	10 782 476	11 053 616	107	103
0.0 conversion ratio	51 199	43 699	61 891	85	142
0.1 conversion ratio	456 896	396 664	457 534	87	115
0.5 conversion ratio	2 227 852	2 291 106	2 291 894	103	100
1.0 conversion ratio	428 413	399 567	394 782	93	99
RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	**11 918 650**	**12 667 026**	**12 963 287**	**106**	**102**
Average risk weight	**60.2%**	**60.3%**	**61.2%**	**100**	**101**

Grafikon 15: Struktura neto izloženosti banaka prema ponderima kreditnog rizika



In the first quarter of 2017, total net exposure of banks (before being weighted) increased slightly by 1%. As of 31.03.2017, risk-bearing balance sheet and off-balance sheet items (after being weighted) amounted to KM 13 billion, with a 2% growth rate, which was primarily influenced by an increase in items with a 100% weight (mostly refers to the loan portfolio being up). As a result of the aforementioned, the average risk weight increased from 60.3% to 61.2%.

The same trend was seen with respect to the weighted operational risk (WOR), which rose slightly (4%) and amounted to KM 1 billion as of 31.03.2017. All of this resulted in an increase in total risk-bearing assets by 2% or KM 338 million, i.e. to the level of KM 14 billion.

As of 31.03.2017, the share of risk-bearing balance and off-balance sheet assets exposed to credit risk amounted to 93% and to 7% on the basis of operational risk.

One of the key indicators of capital strength and adequacy[14] of banks is the capital adequacy ratio, which constitutes a ratio between net capital and risk-weighted assets. At the banking sector level, this ratio stood at 15.5% as of 31.03.2017, down by 0.2 percentage points compared to the end of 2016 due to the increase in total risk-bearing assets (2%) being larger than the increase in net capital (1%) as well as due to the negative impact of not including the majority of profit recorded in 2016 and the implementation of certain provisions of the new Decision, starting with 31.12.2015.

Also, the indicator of capital strength and quality is the ratio of the core capital (Tier I) and total risk assets, which amounted to 14.8% at the level of the banking sector as of 31.03.2017. An important provision of the new Decision is the obligation of banks to intend part of the core capital above 9% (in application since 31.12.2016) of total risk assets to cover the risks related to preventive protection from potential losses in times of crisis or stressful situations through a protective layer for preserving the capital that has been prescribed in the amount of 2.5% of the amount of total risk assets under this Decision. Two other protective layers were introduced – a countercyclical protective layer and a protective layer for systemic risk, which the FBA would determine by a special resolution, if necessary.

Banks are also, according to the new Decision, obligated to establish and maintain the financial leverage ratio as an additional security and a simple capital hedge, at least in the amount of 6%, starting as of

[14] The legally defined minimum capital adequacy ratio is 12%.

31.12.2015. The financial leverage ratio at the level of the banking sector amounted to 9.7% as of 31.03.2017, as was the case at the end of 2016.

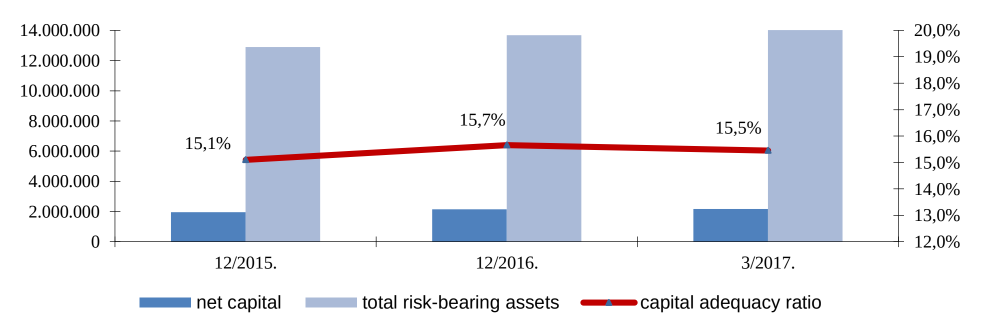
Although banking sector operations have been strongly affected by the economic crisis for the past few years, the capital adequacy of the banking sector has been continuously maintained at the level above 16% until 2015, when, for the aforementioned reasons, it decreased to 15.1%, only to increase slightly again and amount to 15.5% as of 31.03.2017, which is still a satisfactory capitalisation rate at system-level. The reason for this is, on the one hand, modest credit growth and a decrease of total risk-bearing assets in previous years (until 2013, after which gradual growth was recorded), and, on the other hand, the fact that banks have retained the largest share of profit from previous years within their capital and several banks have also improved their capitalisation rate by means of additional capital injections. However, problems related to non-performing loans and items not covered by loan loss reserves (net non-performing assets) may significantly impact and cause weakening of the capital base in several banks in the period to come. This is illustrated by the following information: at the end of 2008, net non-performing assets amounted to KM 197 million and its ratio (vs. core capital) was 13.2%. At the end of 2013, net non-performing assets amounted to KM 474 million, which is 25.5% of core capital, while dropping to the amount of KM 431 million in 2014, with a ratio of 24.3% (this is the result of a decrease on the basis of the sale of a part of non-performing loans in one bank, but also of an increase in loan loss reserves, i.e. greater coverage of non-performing facilities). In 2015, net non-performing had a further trend of decrease (mostly on the basis of a significant write-off in one bank) and amounted to KM 399 million, with a ratio of 21.5%. In 2016, the downward trend continued (a significant write-off was also recorded), net non-performing assets amounted to KM 337 million as of 31.12.2016, having a 16.4% ratio, which, despite the significant decrease, is still a high level and indicator. In the first quarter of 2017, net non-performing assets are still decreasing and amount to KM 319 million, with the ratio amounting to 15.4%. Also, according to existing regulations, banks do not calculate the capital requirement for market risks, due to which the capital adequacy rate is higher.

- KM 000 -

Table 20: Net Capital, Total Weighted Risks and Capital Adequacy Ratio

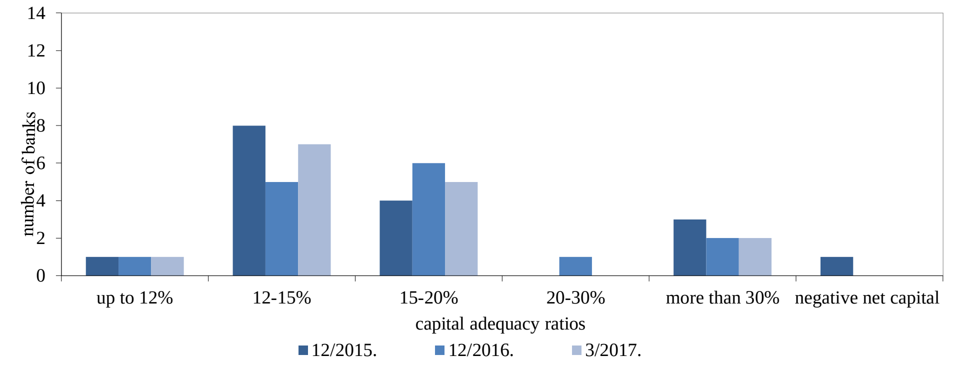
O P I S	31.12.2015	31.12.2016	31.03.2017	INDEX	
1	2	3	4	5(3/2)	6(4/3)
1. NET CAPITAL	1 951 342	2 140 399	2 164 729	110	101
2. RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ITEMS	11 918 650	12 667 026	12 963 287	106	102
3. WOR (WEIGHTED OPERATIONAL RISK)	976 734	1 001 018	1 042 691	102	104
4. TOTAL RISK-BEARING ASSETS (2+3)	12 895 384	13 668 044	14 005 978	106	102
5. NET CAPITAL RATIO (CAPITAL ADEQUACY) (1/ 4)	15.1%	15.7%	15.5%	104	99

Graph 16: Net Capital, Total Weighted Risks and Capital Adequacy Ratio



The capital adequacy ratio of the banking system as of 31.03.2017 was 15.5%, which is still quite above the legal minimum (12%) and represents a satisfactory capitalisation rate of the overall system considering the existing level of risk exposure and it represents a strong basis and foundation for the preservation of its safety and stability.

Graph 20: Capital Adequacy Ratios of Banks



Out of a total of 15 banks in the Federation of B&H as of 31.03.2017, 14 banks had capital adequacy ratios that were above the legal minimum of 12%, while one bank had a ratio that was below the legal minimum. According to analytical data, 10 banks had a capital adequacy ratio below the one at the end of 2016, while 5 banks had improved this ratio.

Below is an overview of capital adequacy ratios of banks compared to the legal minimum of 12%:

- 1 bank had a ratio below 12%,
- 4 banks had a ratio between 13.2% and 13.8%,
- 5 banks had a ratio between 14.5% and 15.4%,
- 3 banks had a ratio between 17.4% abd 18.2%,
- 2 banks had a ratio between 38.2% and 39.5%.

By supervising the operations and financial condition of banks in the Federation of B&H in accordance with its legal competences and for the purpose of improving the safety of both individual banks and the banking system as a whole, the Agency instructed banks to take appropriate measures to strengthen their capital base and ensure capital adequacy in terms of the level and profile of the existing and potential exposure to all risks inherent to banking operations, primarily credit risk, as the most significant risk banks are exposed to in their business operations.

As has been the case before, the priority task of most of banks in the system is to further strengthen the capital base, wherein the focus is placed on large banks in the system, especially due to changes in the business and operating environment of the Federation of B&H, actions caused by and negative effects of the global financial and economic crisis on our country, the banking sector and the overall economy in B&H. Also, the focus is on troubled banks whose total business operations are under increased supervision and in which it is necessary to strengthen the capital base, as the basic prerequisite for the resolution of these banks and their exiting the zone of unsafe and unsound business operations. The capital of banks with adverse trends regarding asset quality, which negatively reflects on the capital and represents a realistic possibility for additional weakening of the capital base, is also under special supervision. Under conditions of economic crisis and credit risk growth caused by the downfall of the loan portfolio quality (due to an increase in uncollectable receivables), this requirement has a high priority and the capital segment is therefore under a continuous reinforced supervision in order to prevent the impairment of the banks' stability and the erosion of the capital base to a level that might jeopardise not only the banks' operations, but also impact the stability of the entire banking system.

2.1.3. Assets and Asset Quality

The Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks defines criteria for the assessment of banks' exposure to credit risk by means of asset quality assessment and assessment of adequacy of reserves for loan losses and other losses as per risk level of loans and balance sheet and off-balance sheet assets items.

With the Law on Accounting and Audit in the Federation of Bosnia and Herzegovina entering into force on 31.12.2011, banks are required to prepare and present financial statements in accordance with the

International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS), with recognition and measurement of financial assets and liabilities being subject to the IAS 39 – Financial instruments, recognition and measurement and the IAS 37 – Provisioning, contingent liabilities and contingent assets. Therefore, during the assessment of banks' exposure to credit risk, banks are required to continue calculating loan loss reserves in accordance with the criteria from the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks, thereby considering already formed value adjustments of balance sheet assets and loss provisions for off-balance sheet items recorded in the banks' books, as well as loan loss reserves formed from profit (found on capital accounts).

- in KM 000 -

Table 21: Assets (BS and off-BS), Loan Loss Reserves according to the Regulatory Body and Value Adjustments According to IAS)

DESCRIPTION	31.12.2015	31.12.2016	31.03.2017	INDEX	
1	2	3	4	5(3/2	6(4/3)
1. Risk-bearing assets[15]	14 850 813	15 678 467	16 188 525	106	103
2. Calculated regulatory reserves for loan losses	1 507 523	1 533 712	1 557 654	102	102
3. Value adjustment and reserves for off-balance sheet items	1 269 548	1 294 471	1 300 459	102	100
4. Required regulatory reserves formed from profit for assessed	408 247	405 019	418 462	99	103
5. Formed regulatory reserves from profit for assessed losses	315 734	315 734	315 734	100	100
6. Shortfall of regulatory reserves formed from profit for assessed losses	204 558	200 035	212 340	98	106
7. Non-risk bearing items	6 797 824	7 175 607	6 866 439	106	96
8. TOTAL ASSETS (1+7)	**21 648 637**	**22 854 074**	**23 054 964**	**106**	**101**

Total assets with off-balance sheet items (assets)[16] of banks in the Federation of B&H amounted to KM 23 billion as of 31.03.2017 and are up by 1% or KM 201 million compared to the end of 2016. Risk-bearing assets amount to KM 16.2 billion and are up by 3% or KM 510 million.

Non-risk bearing items amount to KM 6.9 billion or 30% of total assets with off-balance sheet items, thus being down by 4% or KM 309 million compared to the end of 2016.

Total calculated loan loss reserves based on regulatory requirements are up (2% or KM 24 million) and amount to KM 1.6 billion, while formed value adjustments for balance sheet assets and provisions for losses are at the same level of KM 1.3 billion. Required regulatory reserves[17] amount to KM 418 million and are up by 3% or KM 13 million. Formed regulatory reserves from profit in the amount of KM 316 million are at the same level as at the end of 2016. As of 31.03.2017, the shortfall of regulatory reserves[18] amounts to KM 212 million, thus being up by 6% or KM 12 million compared to the end of 2016.

- in KM 000 -

Table 22: Total Assets, Gross Balance Sheet Assets, Risk-Bearing and Non-Risk-Bearing Assets Items

DESCRIPTION	31.12.2015		31.12.2016		31.03.2017		INDEX	
	Amount	Struct. %	Amount	Struct. %	Amount	Struct. %		
1.	2	3	4	5	6	7	8 (4/2)	9 (6/4)
Loans	10 186 613	84.1	10 850 532	84.2	11 145 708[19]	83.1	106	103
Interest	71 680	0.6	69 237	0.5	69 868	0.5	97	101
Past due receivables	1 161 853	9.6	1 164 973	9.0	1 157 583	8.6	100	99
Receivables on paid guarantees	24 648	0.2	26 537	0.2	31 194	0.2	108	118
Other facilities	139 457	1.1	138 995	1.1	266 419	2.0	100	192
Other assets	526 871	4.4	638 228	5.0	735 168	5.5	121	115
1. RISK-BEARING BALANCE SHEET ASSETS	12 111 122	100.0	12 888 502	100.0	13 405 940	100.0	106	104

[15] Does not include amount of facilities and contingent liabilities of KM 236 million that is secured with a cash deposit.

[16] Assets, as defined in Article 2 of the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks („Official Gazette of the Federation of B&H", No. 85/11 – consolidated text and 33/12 – correction, 15/13).

[17] Required regulatory reserves represent a positive difference between calculated loan loss reserves and value adjustments (calculated loan loss reserves are higher than value adjustments).

[18] Shortfall of regulatory reserves represents a positive difference between required and formed loan loss reserves.

[19] This does not include the loan amount of KM 183 million covered by a cash deposit (included in non-risk bearing assets of the balance sheet).

2. NON-RISK BEARING BALANCE SHEET ASSETS	6 289 910	6 745 740	6 357 997	107	94
3. GROSS BALANCE SHEET ASSETS (1+2)	18 401 032	19 634 242	19 763 937	107	101
4. RISK-BEARING OFF-BS ITEMS	2 739 691	2 789 965	2 782 585	102	100
5. NON-RISK BEARING OFF-BS ITEMS	507 914	429 867	508 442	85	118
6. TOTAL OFF-BS ITEMS (4+5)	3 247 605	3 219 832	3 291 027	99	102
7. RISK-BEARING ASSETS WITH OFF-BS ITEMS (1+4)	14 850 813	15 678 467	16 188 525	106	103
8. NON-RISK BEARING ITEMS (2+5)	6 797 824	7 175 607	6 866 439	106	96
9. ASSETS WITH OFF-BS ITEMS (3+6)	21 648 637	22 854 074	23 054 964	106	101

Gross balance sheet assets[6] amount to KM 19.8 billion and are up by 1% or KM 130 million compared to the end of 2016. Risk-bearing balance sheet assets amount to KM 13.4 billion or 68% of gross balance sheet assets (thus being up by 4% or KM 517 million). Non-risk bearing balance sheet assets amount to KM 6.4 billion and are down by 6% or KM 388 million compared to the end of 2016.

Off-balance sheet risk-bearing items in the amount of KM 2.8 billion are at the same level as at the end of 2016, while non-risk bearing items amount to KM 508 million and are up by 18% or KM 79 million compared to the end of 2016.

The effects of the economic crisis on the overall economy and industry in B&H are still pronounced, which is reflected in the key business segment of banks – the lending segment. In the first quarter of 2017, credit growth in the amount of 2% or KM 288 million was recorded (6% or KM 659 million in 2016). As of 31.03.2017, loans amounted to KM 12.6 billion, with a share of 67.9% (+1.1 percentage points).

In the first quarter of 2017, a total of KM 2.5 billion of new loans was approved, up by 34% or KM 638 million compared to the same period of the previous year. Out of the total loans approved, 71% relate to the corporate segment and 26% to the retail segment (at the end of 2016: 72% corporate, 25% retail). The maturity structure of the newly-approved loans: 42% long-term loans, 58% short-term loans (at the end of 20165: 45% long-term loans, 55% short-term loans).

The three largest banks in the Federation of B&H have an aggregate amount of approved loans of KM 6.8 billion, thus holding a share of 54% in total loans at system level.

The table below provides an overview of the trend and change in shares of individual sectors regarding total loan structure.

- in KM 000 -

Table 23: Loan Structure by Sector

SECTORS	31.12.2015		31.12.2016		31.03.2017		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Government institutions	250 805	2.2	265 892	2.2	285 259	2.2	106	107
Public companies	269 507	2.3	226 891	1.8	238 921	1.9	84	105
Private companies and enterprises	5 328 591	45.9	5 756 280	46.9	5 938 523	47.3	108	103
Banking institutions	5 701	0.0	58	0.0	29	0.0	1	50
Non-banking financial institutions	41 542	0.4	40 365	0.3	48 185	0.4	97	119
Retail	5 705 684	49.1	5 972 074	48.7	6 038 781	48.1	105	101
Other	8 914	0.1	8 668	0.1	8 869	0.1	97	102
TOTAL	**11 610 744**	**100.0**	**12 270 228**	**100.0**	**12 558 567**	**100.0**	**106**	**102**

In the loan structure by sector, there are two dominant sectors: retail and private companies, while lending to other sectors is negligible. In the first quarter of 2017, positive trends in the segment of sectoral lending that were recorded in 2016 continued, i.e. increased lending to private companies compared to retail. The growth rate of loans to private companies amounted to 3% or KM 182 million (in 2016, an increase in the amount of 8% or KM 428 million was recorded), so that this sector's loans amounted to KM 5.9 billion and had a share of 47.3% (+0.4 percentage points) as of 31.03.2017. In the same period of 2017, the increase in loans to the retail sector amounted to 1% or KM 67 million (in

2016, an increase in the amount of 5% or KM 266 million was recorded), while the share decreased slightly from 48.7% to 48.1%. As of 31.03.2017, they amounted to KM 6 billion.

According to information submitted by the banks (as of 31.03.2017) the retail loan structure by purpose is almost the same as at the end of 2016: consumer loans[6] hold a share of 81%, followed by housing loans with 17%, while the remaining 2% refer to loans to small crafts, small businesses and agriculture.

As was the case at the end of 2016, the three largest banks in the system have approved 61% of retail loans and 45% of loans to private companies out of the total number of loans approved to these sectors.

The currency structure of loans: the largest share of 55.4% or KM 6.9 billion refers to currency clause loans (EUR: KM 6.8 billion or 99%, CHF: KM 99 million or 1.4%), followed by local currency loans with a share of 44.2% or KM 5.5 billion, while the smallest share of just 0.5% or KM 56 million refers to foreign currency loans (almost the entire amount thereof refers to EUR: KM 52 million or 92%). The total amount of loans with a currency clause in CHF of KM 99 million has a 0.8% share in the total loan portfolio and refers almost entirely to one bank in the banking system (0.9% at the end of 2016).

Since loans are the highest risk category of banks' assets, their quality represents one of key factors determining the stability and success of the banks' operations. Asset quality assessment is in fact an evaluation of credit risk exposure of the banks' loans, i.e. the identification of potential loan losses.

The table below provides an overview of the quality of assets and off-balance sheet risk-bearing items, general credit risk and potential loan losses by classification category.

- in KM 000 -

Table 24: Asset Classification, General Credit Risk (GCR) and Potential Loan Losses (PLL)

Classification category	31.12.2015			31.12.2016			31.03.2017			INDEX	
	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL		
1	2	3	4	5	6	7	8	9	10	11(5/2)	12(8/5)
A	12 316 066	82.9	246 321	13 166 182	84.0	263 324	13 638 966	84.3	272 782	107	104
B	950 153	6.4	76 023	982 398	6.3	77 167	1 024 882	6.3	79 528	103	104
C	301 862	2.0	75 796	224 335	1.4	58 086	226 556	1.4	59 149	74	101
D	426 025	2.9	252 682	423 766	2.7	253 348	378 969	2.3	226 964	99	89
E	856 707	5.8	856 701	881 786	5.6	881 787	919 152	5.7	919 231	103	104
Risk-bearing assets (A-E)	14 850 813	100.0	1 507 523	15 678 467	100.0	1 533 712	16 188 525	100.0	1 557 654	106	103
Classified (B-E)	2 534 747	17.1	1 261 202	2 512 285	16.0	1 270 389	2 549 559	15.7	1 284 872	99	101
Non-performing (C-E)	1 584 594	10.7	1 185 179	1 529 887	9.8	1 193 221	1 524 677	9.4	1 205 344	97	100
Non-risk bearing assets[20]	6 797 824			7 175 607			6 866 439			106	96
TOTAL (risk-bearing and non-risk bearing)	21 648 637			22 854 074			23 054 964			106	101

The first indicator and a warning sign of potential problems with loan repayment is an increase in past due receivables and their share in total loans. As of 31.03.2017, past due receivables amounted to KM 1.2 billion, which is the same level as in the past two years.

When analysing the quality of risk-bearing assets through trends and changes of key indicators, it can be concluded that key indicators of asset quality improved slightly in the first quarter of 2017 compared to the end of 2016. In some banks, these indicators showed slight fluctuations (upgrade or downgrade), i.e. there were seven banks with ratios of the share of classified (compared to risk-bearing assets) below the level of the banking sector, while there were six banks with ratios of the share of non-performing assets (compared to risk-bearing assets) below the level of the banking sector.

[20] In accordance with Article 2, Paragraph 2 of the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks, assets items that are not classified and items for which no general loan loss reserves of 2% are being calculated (as per Article 22, Paragraph 8 of the same Decision).

As of 31.03.2017, classified assets amounted to KM 2.5 billion and non-performing assets to KM 1.5 billion.

Classified assets (B-E) increased by 1% or KM 37 million compared to the end of 2016 (in 2016, there was a drop of 1% or KM 22 million). Category B increased by 4% or KM 42 million, which is an increase that is larger than the one in all of 2016. Non-performing assets (C-E) remained at the same level as at the end of 2016 (in 2016, non-performing decreased by 3% or KM 55 million).

The ratio expressed through the share of classified assets in risk-bearing assets is 15.7%, and the 0.3% drop compared to the end of 2016 is exclusively the result of an increase in risk-bearing assets by 3% or KM 510 million.

The most significant indicator of asset quality is the ratio between non-performing assets and risk-bearing assets, which amounts to 9.4%, down by 0.4% compared to the end of 2016. However, this should be taken with a grain of salt due to the share of category B being 6.3% and due to the suspicion that a part of the loans classified in this category are of poor quality and need to be classified as non-performing assets.

Sector-level data analysis is based on loan quality indicators for two key sectors: corporate and retail. The two aforementioned indicators for these sectors show major deviation and point to a higher exposure to credit risk and consequently to potential loan losses regarding the corporate segment.

Table 25: Classification of Corporate and Retail Loans

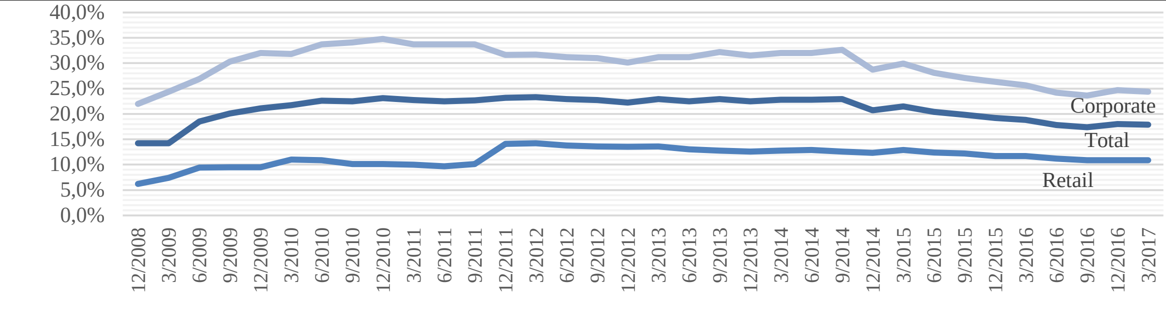
Classification category	31.12.2016						31.03.2017						INDEX
	Retail	Share %	Corporate	Share %	TOTAL Amount	TOTAL Share	Retail	Share %	Corpo-rate	Share %	TOTAL Amount	TOTAL Share	
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14(12/6)
A	5 319 385	89.1	4 744 319	75.3	10 063 704	82.0	5 378 440	89.1	4 926 433	75.6	10 304 873	82.1	102
B	161 278	2.7	600 184	9.7	770 462	6.3	175 176	2.9	646 703	9.9	821 879	6.5	107
C	61 962	1.0	149 040	2.4	211 002	1.7	59 292	1.0	153 505	2.4	212 797	1.7	101
D	77 142	1.3	329 597	5.2	406 739	3.3	66 246	1.1	302 321	4.6	368 567	2.9	91
E	352 307	5.9	466 014	7.4	818 321	6.7	359 627	5.9	490 824	7.5	850 451	6.8	104
TOTAL	5 972 074	100.0	6 298 154	100.0	12 270 228	100.0	6 038 781	100.0	6 519 786	100.0	12 558 567	100.0	102
Class. loans. B-E	652 689	10.9	1 553 835	24.7	2 206 524	18.0	660 341	10.9	1 593 353	24.4	2 253 694	17.9	102
Non-perf. loans C-E	491 411	8.2	944 651	15.0	1 436 062	11.7	485 165	8.0	946 650	14.5	1 431 815	11.4	100
		48.7		51.3		100.0		48.1		51.9		100.0	
Individual sector's share in classified loans, non-performing loans and category B:													
Categories B-E		29.6		70.4		100.0		29.3		70.7		100.0	
Non-performing C-E		34.2		65.8		100.0		33.9		66.1		100.0	
Category B		20.9		79.1		100.0		21.3		78.7		100.0	

Loan quality indicators improved slightly in the first quarter of 2017 and the share of classified loans dropped to a still high 17.9% (-0.1 percentage points) despite the same growth rate with respect to both total and classified loans (2%), but a significantly higher absolute amount of total loans. Classified retail loans saw an increase in the amount of 1% or KM 8 million, while corporate ones saw an increase in the amount of 3% or KM 39 million.

The share of non-performing loans, as a key indicator of loan quality, decreased from 11.7% to 11.4% as a result of credit growth in the amount of 2% or KM 288 million. Total non-performing loans remained at the same level compared to the end of 2016, with it being noted that the permanent write-off in the first quarter of 2017 amounted to KM 11 million, which shows that there is still an increase in non-performing loans.

Non-performing corporate loans remained at the same level as at the end of 2016, while the retail segment recorded a slight drop in the amount of 1% or KM 6 million.

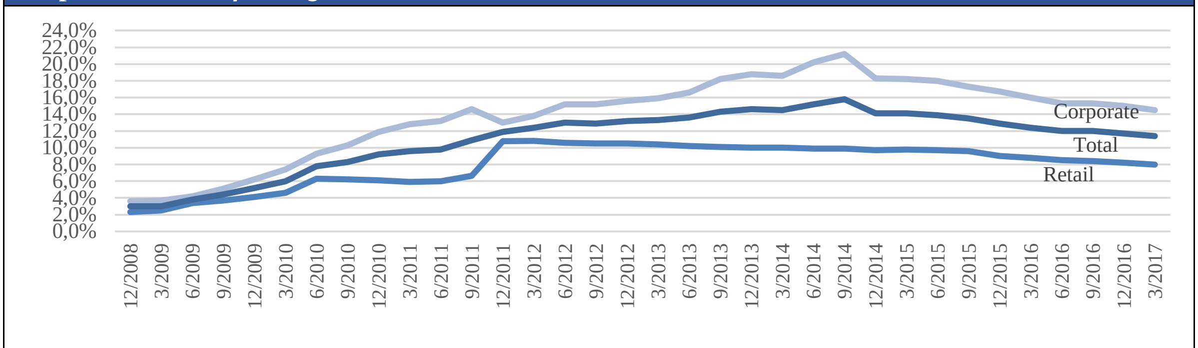
Graph 18: Classified Loans



Out of the total approved corporate loans in the amount of KM 6.5 billion as of 31.03.2017, there was still an alarmingly high 24.4% or KM 1.6 billion of loans classified within categories B to E, which is a 0.3% decrease compared to the end of 2016 (in 2016, this share went down by 1.6 percentage points). This indicator is much better for the retail segment. Out of the total approved retail loans in the amount of KM 6 billion, there were KM 660 million or 10.9% of loans classified in the aforementioned categories, which is the same share compared to the end of 2016 (in 2016, this share went down by 0.8 percentage points).

These trends are the result of the condition in the real sector and the effects of the economic crisis on the overall economy in B&H, due to which the corporate loan portfolio has a significantly lower quality than loans of the retail segment.

Graph 19: Non-Performing Loans



The most significant indicator of the loan portfolio quality is the share of non-performing loans. Out of total non-performing loans, corporate loans hold a share of 66% and retail loans a share of 34%, as was the case at the end of 2016. In the first quarter of 2017, the share of non-performing loans in both the retail and the corporate segment dropped. In the case of the retail segment, this was the result of previously mentioned factors: a decrease in non-performing loans in the amount of 1% or KM 6 million and credit growth in the amount of 1% or KM 67 million. In the case of the corporate segment, this was exclusively the result of credit growth in the amount of 4% or KM 222 million. Out of total approved corporate loans, non-performing loans hold a share of 14.5% or KM 947 million, which is down by 0.5 percentage points compared to the end of 2016 (this share fell by 1.7 percentage points in 2016). The aforementioned amounts to 8% or KM 485 million in the retail segment, down by 0.2 percentage points (the share dropped by 0.8 percentage points in 2016).

A more detailed and comprehensive analysis is based on information on loan concentration by industry sector for the corporate segment (by sector) and for the retail segment (by purpose).

Table 26: Concentration of Loans by Industry Sector

DESCRIPTION	31.12.2016				31.03.2017				INDEX	
	Total loans		Non-performing loans		Total loans		Non-performing loans			
	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5 (4/2)	6	7	8	9 (8/6)	10 (6/2)	11(8/4)

1. Corporate loans for:										
Agriculture (AGR)	143 318	1.2	24 461	17.1	220 969	1.8	30 144	13.6	154	123
Production (IND)	1 792 572	14.6	328 438	18.3	1 755 729	14.0	321 709	18.3	98	98
Construction (CON)	443 523	3.6	78 173	17.6	425 416	3.4	77 373	18.2	96	99
Trade (TRD)	2 398 752	19.5	313 660	13.1	2 530 081	20.1	324 104	12.8	105	103
Catering (HTR)	239 322	2.0	16 182	6.8	258 516	2.1	11 695	4.5	108	72
Other[21]	1 280 667	10.4	183 737	14.3	1 329 075	10.6	181 625	13.7	104	99
TOTAL 1.	**6 298 154**	**51.3**	**944 651**	**15.0**	**6 519 786**	**51.9**	**946 650**	**14.5**	**104**	**100**
2. Retail loans for:										
General consumption	4 795 884	39.1	310 215	6.5	4 873 117	38.8	313 543	6.4	102	101
Housing	1 051 760	8.6	155 825	14.8	1 042 175	8.3	146 389	14.0	99	94
Business activities (small business owners)	124 430	1.0	25 371	20.4	123 489	1.0	25 233	20.4	99	99
TOTAL 2.	**5 972 074**	**48.7**	**491 411**	**8.2**	**6 038 781**	**48.1**	**485 165**	**8.0**	**101**	**99**
TOTAL (1. + 2.)	**12 270 228**	**100**	**1 436**	**11.7**	**12 558 567**	**100**	**1 431**	**11.0**	**102**	**100**

The largest share in total corporate loans refers to the trade sector (20.1%) and the production sector (14%), while the retail segment is dominated by general consumption loans (38.8%) and housing loans (8.3%; 31.12.2016: corporate segment: 19.5% trade and 14.6% production, retail segment: 39.1% general consumption and 8.6% housing loans).

For an extensive period of time, the negative and strong effect of the economic crisis is especially pronounced in several key sectors, which is evident from the indicator of the share of non-performing loans. The construction sector, which has a low share of merely 3.4% in total loans, still has a high share of non-performing loans in the amount of 18.2%, which is slightly up by 0.6 percentage points (in 2016, the share dropped by as much as 9.1 percentage points) due to a decrease in loans to this sector by 4% or KM 18 million, although there is still a downward trend with respect to non-performing loans of the aforementioned sector. Also, the agricultural sector, which has the lowest share of 1.8%, has a significant share of non-performing loans in the amount of 13.6%, which is, despite the 23% increase in non-performing loans, down by 3.5 percentage points compared to the end of the previous year due to the impact of the high growth rate of this sector (54%).

However, the focus is on the two sectors with the highest share in total loans – the trade sector (20.1%) and the production sector (14%). The amount of loans to the production sector (KM 1.8 billion) was down by 2% or KM 37 million in the first quarter of 2017, while non-performing loans decreased by 2% or KM 7 million, i.e. to the level of KM 322 million. The share remained a high 18.3% (in 2016, the drop amounted to 7% or KM 24 million, and the share amounted to 18.3%, down by 2.9 percentage points). On the other hand, trade sector lending was up by 5% or KM 131 million in the first quarter of 2017, i.e. to the level of KM 2.5 billion. Non-performing loans in this sector went up by 3% or KM 10 million, amounting to KM 324 million as of 31.03.2017, while the share amounted to 12.8%, down by 0.3 percentage points (in 2016, an increase of 3% or KM 10 million was recorded and the share dropped from 13.2% to 13.1%), which is a better indicator compared to that of the production sector.

The retail segment is dominated by general consumption loans, which also have the largest share in total loans (38.8%). In the first quarter of 2017, these loans recorded an increase in the amount of 2% or KM 77 million, while loans to small business owners went down by 1% or KM 1 million and housing loans by 1% or KM 10 million. The poorest indicator of the non-performing loans share in the amount of 20.4%, as was the case at the end of 2016, refers to loans to small business owners whose share in total loans is a low 1%. A relatively high share of non-performing loans in the amount of 14% refers to housing loans (at the end of 2016: 14.8%), while general consumption loans hold the lowest share of non-performing loans in the amount of 6.4% (at the end of 2016: 6.5%).

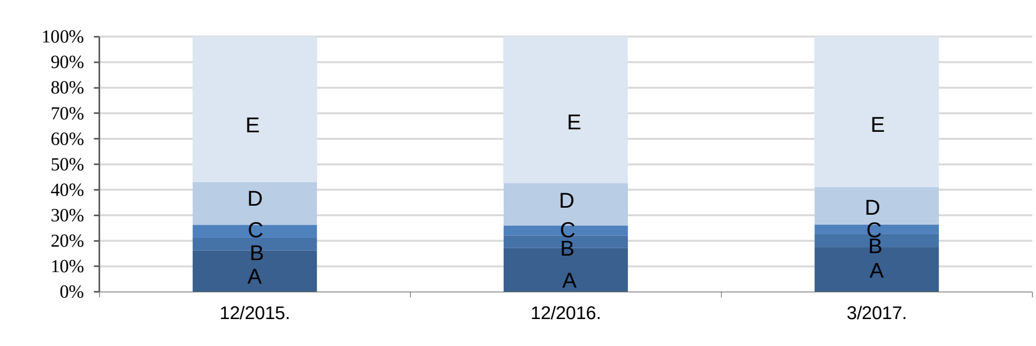
The general credit risk level and estimated potential loan losses by classification category, as determined in accordance with the criteria and methodology defined by the decisions of the Agency, along with their trend and structure at the banking sector level, is provided in the table and graph below.

[21] This includes the following sectors: traffic, warehouse and communications (TRC); financial mediation (FIN); real estate, renting and business services (RER); public administration and defence, mandatory social insurance (GOV) and other.

Table 27: Structure and Trend of General Credit Risk and Potential Loan Losses

Classification category	AMOUNT (in KM 000) AND STRUCTURE (in %)						INDEX	
	31.12.2015		31.12.2016		31.03.2017			
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
A	246 321	16.3	263 324	17.2	272 782	17.5	107	104
B	76 023	5.0	77 167	5.0	79 528	5.1	102	103
C	75 796	5.0	58 086	3.8	59 149	3.8	77	102
D	252 682	16.7	253 348	16.5	226 964	14.6	100	90
E	856 701	57.0	881 787	57.5	919 231	59.0	103	104
TOTAL	**1 507 523**	**100.0**	**1 533 712**	**100.0**	**1 557 654**	**100.0**	**102**	**102**

Graph 20: Structure and Trend of General Credit Risk and Potential Loan Losses



Based on an analysis of the calculated loan loss reserves (in aggregate terms and by classification category) compared to the end of 2016, the reserves for general credit risk (category A) and potential loan losses are up by 2% or KM 24 million, amounting to KM 1.6 billion. The reserves for general credit risk are up by 4% or KM 9 million, while the reserves for potential loan losses are up by 1% or KM 14 million compared to the end of 2016. The reserves for category B are up by 3% or KM 2 million and amount to KM 80 million, while the reserves for non-performing assets are up by 1% or KM 12 million, i.e. amount to KM 1.2 billion, mostly on the basis of the reserves for category E being up by 4% or KM 37 million due to items moving from category D to category E, which is also why reserves for category D are down by 10% or KM 26 million, while reserves for category C are up by 2% or KM 1 million.

One of the key indicators of asset quality is the ratio between potential loan losses (PLL) and risk-bearing assets with off-balance sheet items. This ratio amounts to 7.9% and is down by 0.2 percentage points compared to the end of 2016.

As of 31.03.2017, banks had an average calculated reserves in the amount of 8% for category B, 26% for category C, 60% for category D and 100% for category E, as was the case at the end of 2016.[22]

In accordance with the IAS/IFRS, banks are required to book assets depreciation through expenses by forming value adjustments for balance sheet items and provisions for risk-bearing off-balance sheet items (previously called costs of loan loss reserves).

An overview of total assets items (balance sheet and off-balance sheet) and default items, as well as relevant value adjustments and provisions (defined in accordance with the banks' internal methodologies, the minimum contents of which are regulated by decisions of the Agency) is provided in the table below.

Table 28: Assessment and Valuation of Risk-Bearing Items According to IAS 39 and IAS 37

Description	AMOUNT (in KM 000) AND SHARE (in %)				INDEX
	31.12.2016		31.03.2017		
	Amount	Share	Amount	Share	
1	2	3	4	5	6 (4/2)

[22] According to the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks, banks are required to calculate loan loss reserves by classification category bearing the following percentages: A-2%, B 5-15%, C 16-40%, D 41-60% and E 100%.

1. RISK-BEARING ASSETS (a+b)	**15 678 467**	**100.0%**	**16 188 525**	**100.0%**	103
a) Default items	**1 601 022**	10.2%	**1 582 139**	9.8%	99
a.1. BS-items in default	1 574 439		1 560 098		99
a.2. off-BS items in default	26 583		22 041		83
b) Performing assets	**14 077 445**	89.8%	**14 606 386**	90.2%	104
1.1 TOTAL VALUE ADJUSTMENTS FOR RISK-BEARING ASSETS	**1 294 471**	**100.0%**	**1 300 459**	**100.0%**	100
a) Value adjustments for default	**1 118 894**	86.4%	**1 115 568**	85.8%	100
a.1. Value adjustment for BS-items in default	1 102 461		1 101 959		100
a.2. reserves for off-BS items in default	16 433		13 609		83
b) Value adjustments for performing assets (IBNR[23])	175 577	13.6%	184 891	14.2%	105
2. TOTAL LOANS (a+b)	**12 270 228**	**100.0%**	**12 558 567**	**100%**	102
a) Defaulted loans (non-performing loans)	1 518 811	12.4%	1 504 255	12.0%	99
b) Performing loans	10 751 417	87.6%	11 054 312	88.0%	103
2.1. VALUE ADJUSTMENT FOR LOANS (a+b)	**1 193 721**	**100.0%**	**1 199 989**	**100.0%**	101
a) Value adjustments for defaulted loans	1 055 454	88.4%	1 054 636	87.9%	100
b) Value adjustments for performing loans (IBNR loans)	138 267	11.6%	145 353	12.1%	105
Coverage rate of default items	**69.9%**		**70.5%**		
Coverage rate of performing assets	**1.2%**		**1.3%**		
Coverage rate of risk-bearing assets with total value adjustments	**8.3%**		**8.0%**		

In the first quarter of 2017, default loans went down by 1% or KM 15 million (in 2016: down by 5% or KM 87 million), while non-performing loans remained at the same level compared to the end of 2016. The share of default loans in total loans is down by 0.4 percentage points and amounts to 12% and the share of non-performing loans amounts to 11.4%. The share of all default items in total risk-bearing assets is down by 0.4 percentage points and amounts to 9.8%.

The coverage rate of default items with value adjustments is up and amounts to 70.5% (at the end of 2016: 69.9%) due to a drop in the amount of default (1% or KM 19 million), while value adjustments for default remained unchanged. The coverage rate of non-performing assets with loan loss reserves is at the same level as at the end of 2016 and amounts to 78%.

The coverage rate of performing assets is slightly up by 0.1 percentage points and amounts to 1.3%, while the coverage rate of risk-bearing assets with total value adjustments is down and amounts to 8% (at the end of 2016: 8.3%). The coverage ratio of risk-bearing assets with total calculated regulatory reserves for loan losses (reserves for general credit risk and special reserves for loan losses) decreased from 9.8% to 9.6%.

In order to mitigate the negative effects of the natural disaster, on 30.06.2014, the Agency adopted the Decision on Provisional Measures for Treatment of Loan Commitments of Bank Clients Affected by Natural Disasters.[24]

Acting in accordance with the aforementioned Decision, in the second half of 2014, banks in the Federation of B&H approved moratoriums on loan commitments in the amount of KM 34 million. As of 31.12.2016, the balance of the aforementioned loans amounts to KM 6 million, KM 4 million of which refer to legal entities and KM 2 million of which refer to natural persons.

Also, in accordance with the aforementioned Decision, in the second half of 2014, banks in the Federation of B&H approved restructurings of loan commitments in the total amount of KM 39 million. As of 31.3.2017, the balance of the restructured loans amounts to KM 31 million, KM 30 million of which refer to legal entities and KM 1 million of which refer to natural persons. Restructured loans also include loans with a grace period following the expiration of the moratorium.

As of 31.03.2017, loans approved in accordance with the aforementioned Decision have a very low share in relation to total loans: moratorium 0.05% and restructuring 0.25%.

[23] IBNR (identified but not reported) – latent losses.
[24] "Official Gazette of the Federation of B&H", No. 55/14.

The upward trend of uncollectable receivables, i.e. customer defaults in the payment of past due loan commitments, has caused the activation of the guarantor's obligation in a certain number of defaulted loans (with this form of security). As of 31.12.2009, the Agency has prescribed a report on the repayment of loans by guarantors in order to collect, monitor and analyse information on loans being repaid by guarantors. According to the reports filed by banks in the Federation of B&H as of 31.03.2017, there was a total of 1 189 874 loan accounts, 998 of which were being repaid by guarantors (1 142 guranators). The share of loans and number of loan accounts being repaid guarantors in relation to information for the overall system is low and amounts to a mere 0.21% and 0.1%.

An analysis of asset quality, i.e. the quality of the loan portfolio of individual banks, as well as on-site examinations in the banks themselves, indicate that credit risk is the dominant risk in most banks and the
fact that some banks have inadequate practices for managing, i.e. assessing, measuring, monitoring and controlling credit risk and for classifying assets is worrisome, which our on-site examinations determined on the basis of major amounts related to the shortfall of loan loss reserves (which were later on adequately formed as per the Agency's orders). Also, the analysis of asset quality in banks grouped according to ownership structure revealed that ratios of banks in majority ownership of residents (4 "local" private banks) were worse than those of banks in majority foreign ownership (10 banks).

The share of non-performing loans in banks that are in majority foreign ownership amounts to 10.5% (12/16: 10.8%), while it amounts to 24.4% in "local banks", as was the case at the end of 2016. This is the result of inadequate and weak systems for credit risk management, especially in relation to the key stage – loan approval, as well as the result of an underdeveloped risk function. Major weaknesses and inefficient practices were also identified in the preventive actions stage, i.e. in the early recognition of problems in loan settlement (servicing), as well as when handling non-performing assets in the interest of reducing such assets through collection or sound restructuring.

Banks, in which the Agency identified (through bank examinations) low asset quality and poor practices of credit risk management and/or which displayed adverse trends, i.e. decrease in asset quality, were ordered to apply corrective actions in the sense of drafting an operational program for the management of non-performing assets, which had to contain an action plan for the improvement of existing practices of credit risk management, i.e. asset quality management, for the reduction of existing concentrations and for solving the problem of non-performing assets and preventing their further impairment, as well as for strenghtening the risk function, i.e. its significance and quality.

Compliance with the Agency's orders is being continuously monitored through an intensified follow-up process based on reports and other documentation submitted by banks, as well as through targeted on-site examinations. The supervision of this segment of operations has been intensified due to evident negative trends significantly affecting and causing the deterioration of the banks' profitability and the weakening of the capital base of certain banks, due to which banks need to take timely actions to obtain capital from external sources.

Transactions with Related Entities

In their business operations, banks are exposed to different risks, with the risk of transactions with their related entities being especially significant.

In accordance with the Basel Committee standards, the Agency has established prudential principles and requirements for bank transactions with related entities, as regulated by the Decision on Minimum Standards for Banks' Operations with Related Entities, which defines the conditions and manner of the banks' business operations with related parties. Based on this Decision and the Law on Banks, a bank's Supervisory Board (acting on the Director's proposal) is required to adopt special bank policies for operations with related entities and to monitor their implementation.

The Agency's Decision also prescribes a special set of reports on transactions with one part of related entities, encompassing loans and contingent and assumed off-balance sheet liabilities (guarantees, letters of credit, assumed loan commitments) as the most frequent and most risky form of transactions between banks and their related entities.

The regulated set of reports includes information on loans approved to the following types of related entities:

- bank shareholders with over 5% of voting rights,
- members of the bank's Supervisory Board and Management Board, and
- subsidiaries and other companies related to the bank.

- KM 000 -

Table 29: Transactions with Related Entities

DESCRIPTION	LOANS APPROVED[25]			INDEX	
	31.12.2015	31.12.2016	31.03.2017	3/2	4/3
1	2	3	4	5	6
To shareholders with over 5% voting rights, subsidiaries and other related entities	89 014	126 956	136 627	143	108
To members of the Supervisory Board and Audit Board	446	581	579	130	100
To the Management of the bank	3 023	2 516	2 487	83	99
TOTAL	**92 483**	**130 053**	**139 693**	**141**	**107**
Contingent and assumed off-balance sheet liabilities	9 326	7 227	7 286	77	101

During the reporting period, loan exposures to related entities increased by 7% due to an increase in exposures in the case of one bank, while contingent liabilities increased by 1%. Based on the presented information, it can be concluded that the volume of loans and guarantees with related entities is still low, as is the level of risk. However, it is evident that this risk is significantly higher in banks that have a dispersed ownership structure, i.e. in „local banks“ owned by residents. The Agency pays special attention (during its on-site controls) to the banks' operations with related entities, especially in terms of assessing their system of identification and monitoring of risk exposure in transactions with related entities. The Agency's examiners give on-site orders for eliminating identified omissions within certain time frames and also initiate violation proceedings, the integral part being monitoring and overseeing the compliance with the issued orders in the post-control procedure. This has reflected positively on this segment of their operations since banks have significantly improved the quality of their risk management in this segment.

2.2. Profitability

According to data from the income statement, a positive financial result – profit in the amount of KM 79 million was recorded at the level of the banking system in the Federation of B&H in the first quarter of 2017, up by 8% or KM 6 million compared to the the same period of the previous year. Higher profit having been recorded by four banks that had operated positively in the same period of the previous year (the effect was KM 14 million, KM 10 million of which refers to only one bank as a result of one-off income) as well as a profit having been recorded by two banks that had operated at a loss in the previous year (the effect was KM 6 million) had a positive effect on the financial result of the system in particular. On the other hand, a negative effect in the amount of KM 15 million is primarily due to lower profit having been recorded by eight banks (the effect was KM 13 million), a loss having been recorded by one bank that had operated positively in the same period of the previous year, as well as the effects of a merger of two banks. Compared to the same period of the previous year, the number of banks is lower by two banks and amounts to 15.

A better financial result having been recorded compared to the same period of the previous year, despite the significant increase in non-interest expenses (mainly value adjustment costs), is the result of an increase in total income, supported by a significant increase in operating income (mostly one-off income and service fees), together with a present increase in net interest income as well (solely as a result of a significant decrease in interest expenses, which compensates for a slight decrease in interest income on the basis of a drop in active interest rates).

A positive financial result in the amount of KM 80 million was recorded by 14 banks and it is up by 8% or KM 6 million compared to the same period of the previous year. At the same time, an operating loss

[25] In addition to loans, this includes other receivables, deposits and facilities to shareholders (financial institutions) with over 5% of voting rights.

in the amount of KM 1 million was recorded by one bank and it is up by 5% compared to the same period of the previous year.

More detailed data is shown in the following table.

- KM 000 -

Table 30: Recorded Financial Result: Profit/Loss

DESCRIPTION	31.03.2015		31.03.2016		31.03.2017	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7
Loss	-472	1	-1 147	2	-1 204	1
Profit	62 814	16	74 223	15	80 014	14
Total	**62 342**	**17**	**73 076**	**17**	**78 810**	**15**

As in other segments, this segment also shows some concentrations: out of the total profit (KM 80 million), 60% or KM 46 million refer to the two largest banks in the system with an assets share of 47% in the banking sector, while the KM 1 million loss refers to only one bank. Analytical data indicates that a total of 6 banks has a better financial result (by KM 21 million), while 9 banks have a poorer financial result (by KM 15 million).

Based on analytical data as well as on indicators for the assessment of profitability quality (i.e. the level of the recorded financial result – profit/loss and ratios used in evaluating profitability, productivity and efficiency of operations, as well as other parameters related to business result assessment), it is evident that the overall profitability of the system has improved, largely on the basis of increased income from service fees (large banks), reduced interest expenses, occasional one-off income and it is greatly influenced by the fluctuating trends of value adjustment costs.

However, a profitability assessment that is based solely on the recorded financial result would not be an adequate assessment since other important factors that affect sustainability and quality of earnings, i.e. profit, should also be taken into account. In that sense, it is of utmost importance to emphasise credit risk and negative trends in asset quality over the past several years, as evidenced by the increase in non-performing and uncollectable loans (with it being noted that there was a decrease in non-performing loans in late 2015 and 2016, primarily as a result of the significant amount of the permanent write-off, with a slight downward trend in the first quarter of 2017 as well), which does not correlate with the trends of value adjustment costs, this being the most important factor affecting the improvement of the financial result in most banks following the implementation of IAS 39 and 37 (after 31.12.2011). The aforementioned, together with the results of the analysis of non-performing loans coverage with value adjustments, leads to the conclusion and suspicion that value adjustments are still undervalued and not at an adequate level in some banks.

At system level, total income in the amount of KM 252 million was recorded, up by 9% or KM 22 million compared to the same period of the previous year, largely as a result of operating income being up. Total non-interest expenses amounted to KM 173 million, having a growth rate of 10% or KM 16 million compared to the same period of the previous year.

Despite the increase in average interest-bearing loans (in the majority of banks) by 6.8% as well as the fact that the increase in non-performing loans was halted with a slight drop in the first quarter of 2017 as well (on the basis of write-offs), the reduced average interest rate on loans, which is the result of a decrease in active interest rates, resulted in a slight decrease in interest income. Interest income amounts to KM 188 million, which is the same level compared to the parallel reporting period, with the share in the structure of total income being down from 81.8% to 74.4%. The largest share refers to loan interest income, which amounts to KM 166 million and recorded a nominal drop of 2% or KM 3 million, which resulted in average interest rates on loans for the reporting period decreasing from 5.81% to 5.36% and the share in total income dropping from 73.4% to 66% (mostly due to an increase in total income on the basis of operating income being up).

The long-standing downward trend with respect to interest expenses continued in the first quarter of 2017 as well. Compared to the same period of the previous year, interest expenses had a rate of decrease in the amount of 13% or KM 6 million, while the level of interest income remained the same. Interest expenses amounted to KM 39 million, and their share in the structure of total income decreased from 19.2% to 15.3%. In the structure of interest expenses, it should be noted that, despite an increase in average interest-bearing deposits by 4%, interest expenses on deposits are down by 14% or KM 6 million as a result of the structure of the deposit base, i.e. a greater share of deposits with a lower interest rate, but also as a result of the interest rate policy and continued decrease in interest rates on deposits, which ultimately resulted in average interest rates on deposits for the parallel period dropping from 1.58% to 1.30%. Interest expenses on loans taken and other borrowings continued to decrease and they are down by 25% or app. KM 1 million compared to the same period of the previous year, having a low 1% share in total income.

As a result of the decrease in interest expenses (-13%), net interest income went up by 3% or KM 5 million and amounts to KM 149 million, holding a 59.1% share in the total income structure.

Operating income amounts to KM 103 million and is up by 20% or KM 17 million compared to the same period of the previous year, primarily on the basis of Other Operating Income being up by KM 12 million (KM 10 million of which accounts for one-off income in only one bank). Its share in the total income structure increased from 37.4% to 40.9%. Within operating income, the largest share refers to service fees, which continue to have an upward trend in the amount of 7% or KM 4 million. It can be concluded that banks are compensating for the drop in interest income with a continuous increase in service fees.

Total non-interest expenses amount to KM 173 million and are up by 10% or KM 16 million compared to the same period of the previous year, mostly due to increased operating expenses (38% or KM 14 million), mainly value adjustment costs. At the same time, their share in the total income structure remained at approximately the same level, amounting to 68.7%. Value adjustment costs amounted to KM 27 million and increased by 82% or KM 12 million compared to the same period of the previous year (78% of which relates to two banks), which had a negative impact on the increase in their share in the total income structure from 6.4% to 10.6%.

On the other hand, operating expenses, which amount to KM 122 million and hold a share of 48% in total income, increased by 2% or KM 2 million compared to the same period of the previous year. Costs of salaries and contributions, as the largest item of operating expenses, increased slightly (0.7%) and amount to KM 60 million or 23.7% of total income, costs of fixed assets remained at approximately the same level and amount to KM 37 million, while other operating expenses increased by 7% or KM 2 million (with 50% of the increase referring to one bank). After the crisis emerged, banks took numerous measures to rationalise costs of operations, primarily to reduce operating expenses, which partly mitigated the adverse effects of the interest income decrease caused by the reduced volume of lending activities and the decrease in loan portfolio quality.

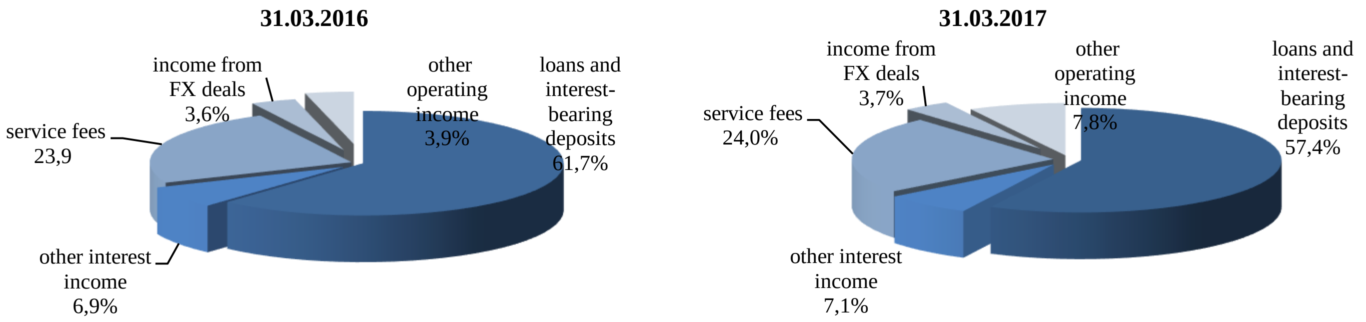
The trend and structure of total income and total expenses is provided in the tables and graphs below.

- in KM 000 -

Table 31: Total Income Structure

Total income structure	31.03.2015		31.03.2016		31.03.2017		INDEX	
	Amount	%	Amount	%	Amount	%		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
I Interest income and similar income								
Interest-bearing deposit accounts at deposit institutions	253	0.1	546	0.2	547	0.2	216	100
Loans and leasing facilities	170 739	63.6	168 949	61.5	166 297	57.2	99	98
Other interest income	18 256	6.8	18 883	6.9	20 719	7.1	103	110
TOTAL	**189 248**	**70.5**	**188 378**	**68.6**	**187 563**	**64.5**	**100**	**100**
II Operating income								
Service fees	58 016	21.6	65 518	23.9	69 795	24.0	113	107
Income from FX deals	10 815	4.0	9 812	3.6	10 614	3.7	91	108
Other operating income	10 464	3.9	10 832	3.9	22 663	7.8	108	209
TOTAL	**79 295**	**29.5**	**86 162**	**31.4**	**103 072**	**35.5**	**109**	**120**
TOTAL INCOME (I + II)	**268 543**	**100.0**	**274 540**	**100.0**	**290 635**	**100.0**	**102**	**106**

Graph 21: Total Income Structure

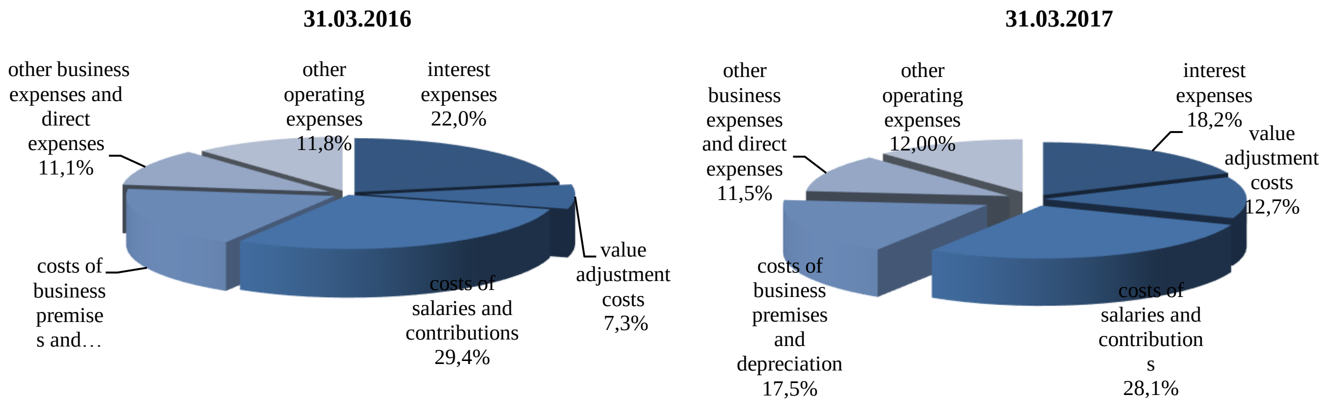


- in KM 000 -

Table 32: Total Expenses Structure

Total expenses structure	31.03.2015 Amount	%	31.03.2016 Amount	%	31.03.2017 Amount	%	INDEX 8 (4/2)/	INDEX 9 (6/4)
1	2	3	4	5	6	7	8 (4/2)/	9 (6/4)
I Interest expenses and similar expenses								
Deposits	44 359	21.5	38 601	19.2	33 052	15.6	87	86
Liabilities based on loans and other borrowings	5 065	2.5	3 235	1.6	2 426	1.1	64	75
Other interest expenses	1 619	0.8	2 420	1.2	3 175	1.5	149	131
TOTAL	**51 043**	**24.8**	**44 256**	**22.0**	**38 653**	**18.2**	**87**	**87**
II Total non-interest bearing expenses								
Costs of value adjustment of risk-bearing assets and provisions for contingent liabilities and other value adjustments	20 531	10.0	14 741	7.3	26 793	12.7	72	182
Costs of salaries and contributions	59 205	28.7	59 194	29.4	59 614	28.1	100	101
Costs of business premises and depreciation	35 593	17.3	37 106	18.4	36 995	17.5	104	100
Other business expenses and direct expenses	18 734	9.0	22 324	11.1	24 374	11.5	119	109
Other operating expenses	21 095	10.2	23 843	11.8	25 396	12.0	115	107
TOTAL	**155 158**	**75.2**	**157 208**	**78.0**	**173 172**	**81.8**	**102**	**110**
TOTAL EXPENSES (I + II)	**206 201**	**100.0**	**201 464**	**100.0**	**211 825**	**100.0**	**98**	**105**

Graph 22: Total Expenses Structure



The table below provides an overview of key ratios for the assessment of profitability, productivity and efficiency of banks.

- in %-

Table 33: Profitability, Productivity and Efficiency Ratios by Period

RATIOS	31.03.2015	31.03.2016	31.03.2017
Profit from average assets	0.4	0.4	0.4
Profit from average total capital	2.5	2.8	2.9
Profit from average share capital	5.0	6.3	6.5
Net interest income/average assets	0.9	0.8	0.8
Operating income/average assets	0.5	0.5	0.6

Total income/average assets	1.4	1.4	1.4
Business expenses and direct expenses[26]/average assets	0.3	0.2	0.3
Operating expenses/average assets	0.7	0.7	0.7
Total non-interest bearing expenses/average assets	1.0	0.9	0.9

An analysis of the key ratios for the assessment of profitability shows that the ROAA (return on average assets) remained at the same level of 0.4% due to higher profit having been recorded compared to the same period of the previous year as well as due to an increase in average assets, while the ROAE (return on average equity) increased slightly from 6.3% to 6.5% due to the increase in profit being larger than the increase in average share capital. Most other indicators remained unchanged. The banks' productivity, measured as a ratio between total income and average assets (1.4%), remained at the same level due to the increase in total income and average assets being almost the same. The operating income/average assets ratio improved from 0.5% to 0.6%, mainly as a consequence of other (one-off) operating income being significantly up.

As a consequence of increased value adjustment costs, the business expenses and direct expenses/average assets ratio saw a slight deterioration, i.e. it increased from 0.2% to 0.3%.

In negative conditions of the banks' operations and prompted by effects of the economic and financial crisis on the banking sector of the Federation of B&H, the profitability of banks will continue to be mostly affected by and will depend on two key factors: a) the further trend of assets quality, i.e. the level of loan losses and credit risk, and b) the efficiency of management and control over operating income and operating expenses. On the other hand, it is necessary to maintain the upward trend of credit growth in order to increase the banks' profitability, along with applying and strictly observing prudent lending standards when it comes to loan approval. Also, the banks' profit, i.e. their financial result, will be largely affected by the price and interest rate risk in terms of both sources of funding and an interest margin sufficient enough to cover all non-interest bearing expenses and thus eventually ensure satisfactory profit related to capital invested by bank owners. Therefore, a key factor for the efficiency and profitability of every bank is the quality of management and business policies, as well as the quality and efficiency of risk management systems, since this directly affects its performances.

2.3. Weighted Nominal and Effective Interest Rates

In the interest of greater transparency and easier comparability of banks' loan approval terms and deposit taking terms, as well as in the interest of customer protection by means of introducing transparent disclosure of loan approval costs, i.e. deposit income, all in accordance with international standards, criteria and practices in other countries, on 01.07.2007, the Agency prescribed a uniform manner of calculating and disclosing the effective interest rate[27] for all banks seated in the Federation of B&H as well as the organisational units of banks from Republika Srpska operating on the territory of the Federation of B&H. The effective interest rate represents an actual loan price, i.e. income earned on a deposit, expressed as an annual percentage.

The effective interest rate is a decursive interest rate calculated on an annual level by applying complex interest calculation in such a manner that discounted cash receipts are brought to an equivalent level with discounted cash expenditures related to the approved loans, i.e. related to the received deposits.

Banks are required to report to the Agency on a monthly basis regarding weighted nominal and effective interest rates on loans and deposits approved/received in the reporting month in question, all in accordance with regulated methodology.[28]

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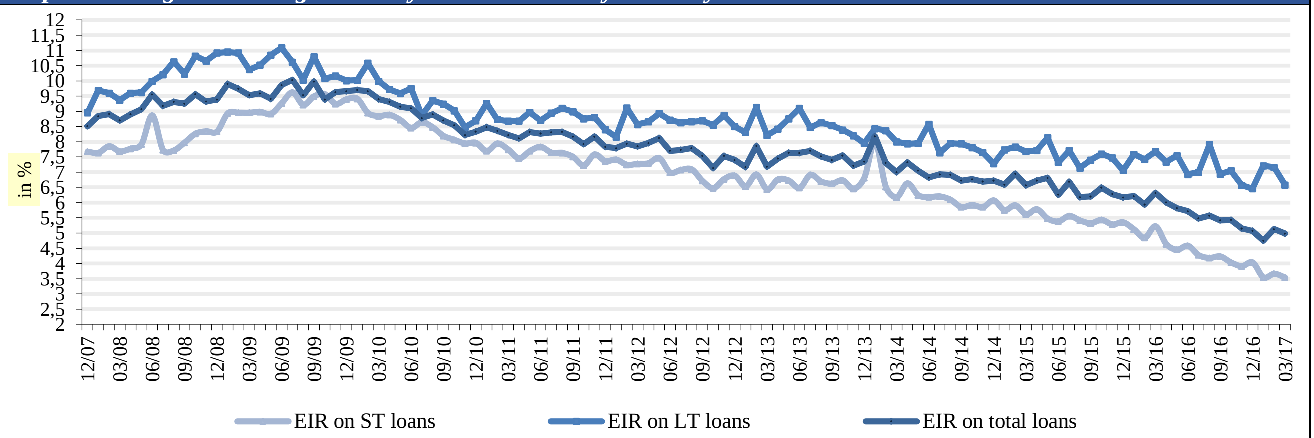
[26] Expenses also include value adjustment costs.
[27] Decision on Uniform Method of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits („Official Gazette of the Federation of B&H", No. 48/12 – consolidated text and 23/14).
[28] Instructions for Implementation of the Decision on Uniform Method of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits and Instructions for Calculation of Weighted Nominal and Effective Interest Rate.

The table below shows an overview of weighted nominal and effective interest rates (hereinafter: NIR and EIR) on loans at the banking sector level and for two key customer segments (corporate and retail) for December 2015, March, June, September and December 2016, as well as March 2017.

Table 34: Weighted Average NIR and EIR on Loans

DESCRIPTION	12/2015		03/2016		06/2016		09/2016		12/2016		03/2017	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on short-term loans	4.89	5.35	4.49	5.22	4.15	4.58	3.89	4.23	3.69	4.03	3.27	3.54
1.1. Corporate	4.84	5.25	4.43	5.10	4.08	4.42	3.92	4.21	3.61	3.90	3.21	3.40
1.2. Retail	8.21	11.74	7.92	13.40	8.05	14.68	8.25	15.00	9.60	15.16	8.30	15.19
2. Weighted IR on long-term loans	6.18	7.06	6.52	7.68	5.93	6.93	5.88	6.94	5.60	6.46	5.59	6.58
2.1. Corporate	5.31	5.67	5.24	5.61	4.66	4.97	4.93	5.31	4.86	5.18	4.43	4.69
2.2. Retail	7.1	8.55	7.33	8.99	7.15	8.82	7.02	8.78	6.55	8.10	6.46	7.96
3. Total weighted IR on loans	5.51	6.17	5.40	6.32	5.01	5.72	4.76	5.42	4.51	5.07	4.37	4.98
3.1. Corporate	4.99	5.38	4.63	5.22	4.26	4.59	4.18	4.48	3.98	4.28	3.53	3.74
3.2. Retail	7.13	8.64	7.35	9.12	7.17	8.98	7.05	8.96	6.65	8.32	6.49	8.09

Graph 23: Weighted Average Monthly EIR on Loans by Maturity



When analysing interest rate trends, it is important to monitor trends of the weighted EIR, with the difference between this interest rate and the weighted NIR representing a fee and commission paid to the bank for an approved loan (and this is factored in the loan price calculation). This is why the EIR represents the actual price of a loan.

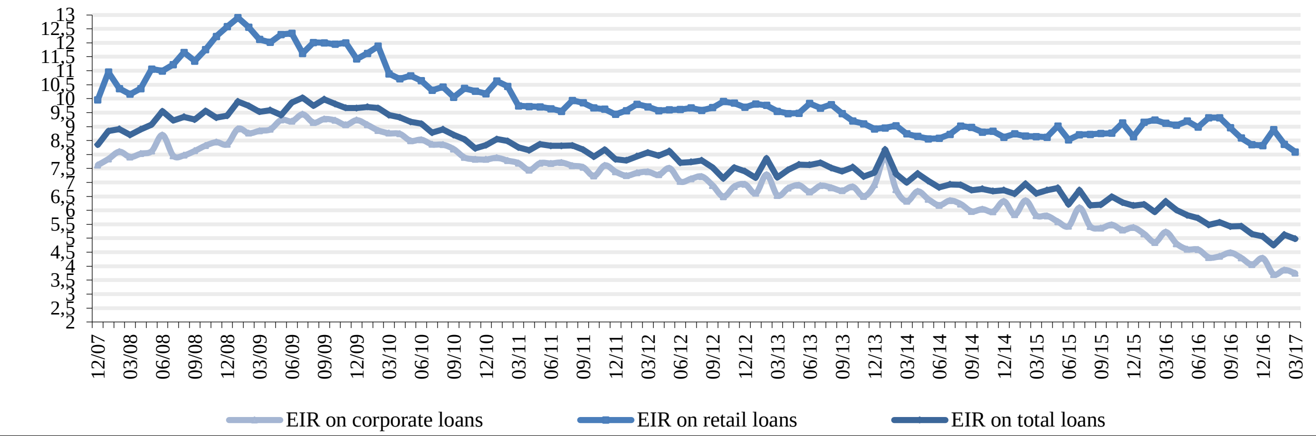
In the first quarter of 2017, the weighted EIR on loans recorded fluctuations within the range of 0.38 percentage points, with the highest rate having been recorded in February (5.13%) and the lowest in January (4.75%). Weighted interest rates on short-term loans recorded fluctuations within the range of 0.12 percentage points, while those on long-term ones were within the range of 0.63 percentage points.

The weighted EIR on short-term loans stood at 3.54% in March 2017, which is down by 0.49 percentage points compared to December 2016, while the weighted EIR on long-term loans amounted to 6.58%, up by 0.12 percentage points compared to December 2016.

Interest rates on loans to the two most important sectors: corporate and retail[29], had the same trends in the reporting period of 2017. Interest rates on corporate loans recorded a further downward trend, while the weighted EIR on retail loans were somewhat higher in the first two months compared to the previous year, with a decrease being evident in the third month, as shown in the graph below.

[29] According to the methodology of sector classification, small business owners are included in the retail sector.

Graph 24: Weighted Average Monthly EIR on Corporate and Retail Loans



The weighted EIR on corporate loans is still significantly lower than the EIR on retail loans, having amounted to 3.74% in March 2017 (12/2016: 4.28%). In the case of long-term corporate loans, the EIR dropped from 5.18% to 4.69%, while the EIR on short-term loans saw a decrease in the amount of 0.5 percentage points (from 3.9% to 3.4%).

The EIR on retail loans was 8.09% in March 2017, which is down by 0.23 percentage points compared to the level in December 2017. The EIR on short-term loans to this sector increased from the level of 15.16% in December 2016 to 15.19%, with it being noted that the level in January 2017 (16.66%) was the highest one in the first quarter of 2017, whereas the EIR stood at 14.78% in February 2017. The EIR on long-term retail loans recorded a slight decrease and amounted to 7.96% in March 2017, which is down by 0.14 percentage points compared to December 2016.

When observing the period of the last five years, it is evident that there is a moderate, but continuous decrease in the weighted average EIR on loans calculated on an annual basis, primarily in the corporate sector, while the retail sector's continuous decrease from previous years was halted in 2015. Following that, a slight increase was recorded in 2016 (although nominal interest rates on retail loans have a slight downward trend, the EIR is up due to increased fees and other related loan costs) and a slight drop is evident in the first quarter of 2017, as can be seen in the following table.

Table 35: Weighted Average NIR and EIR on Loans per Annum

DESCRIPTION	2013		2014		2015		2016		Q1 2017	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on short-term loans	6.17	6.66	5.72	6.25	5.10	5.50	4.01	4.41	3.32	3.58
1.1. Corporate	6.22	6.66	5.70	6.17	5.07	5.42	3.96	4.28	3.26	3.46
1.2. Retail	8.09	11.08	7.98	11.39	7.84	11.37	8.07	13.91	8.37	15.46
2. Weighted IR on long-term loans	7.66	8.48	6.98	7.80	6.60	7.57	6.08	7.14	5.81	6.90
2.1. Corporate	6.65	7.12	6.19	6.81	5.63	6.20	4.91	5.23	4.55	4.86
2.2. Retail	8.35	9.40	7.66	8.66	7.36	8.65	7.10	8.79	6.65	8.21
3. Total weighted IR on loans	6.82	7.46	6.32	6.98	5.81	6.48	4.94	5.64	4.36	4.96
3.1. Corporate	6.33	6.78	5.84	6.35	5.23	5.64	4.22	4.54	3.55	3.77
3.2. Retail	8.33	9.48	7.68	8.77	7.37	8.74	7.13	8.95	6.68	8.35

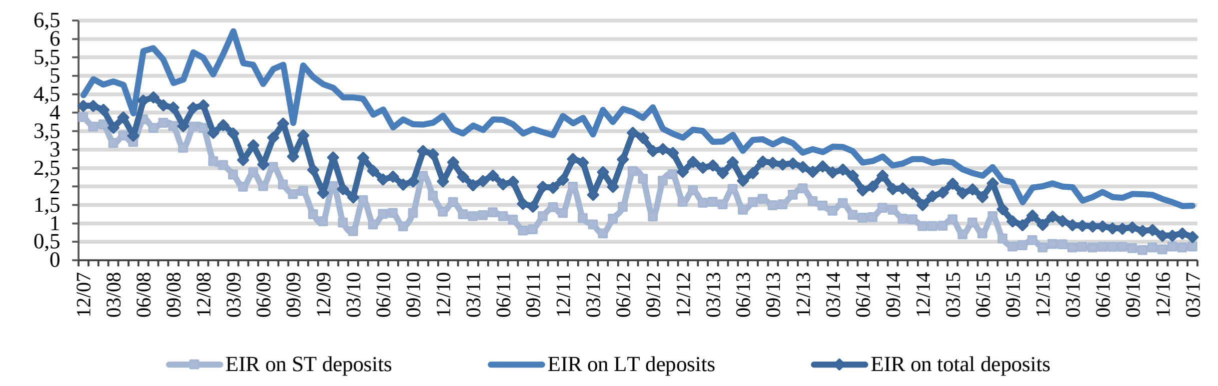
Weighted NIR and EIR on term deposits for the banking sector, calculated on the basis on monthly reports, are shown in the table below.

Table 36: Weighted Average NIR and EIR on Deposits

DESCRIPTION	12/2015		03/2016		06/2016		09/2016		12/2016		03/2017	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on short-term deposits	0.34	0.35	0.34	0.35	0.36	0.36	0.33	0.33	0.29	0.29	0.37	0.37

1.1. up to three months	0.21	0.21	0.25	0.25	0.25	0.25	0.28	0.28	0.26	0.26	0.36	0.37
1.2. up to one year	1.18	1.25	0.86	0.87	0.72	0.76	0.66	0.67	0.58	0.58	0.41	0.41
2. Weighted IR on long-term deposits	1.92	2.01	1.97	1.98	1.81	1.85	1.79	1.80	1.64	1.66	1.46	1.48
2.1. up to three years	1.67	1.68	1.88	1.89	1.65	1.70	1.43	1.44	1.43	1.45	1.31	1.33
2.2. more than three years	2.46	2.72	2.29	2.32	2.23	2.21	2.51	2.52	2.25	2.26	1.94	1.96
3. Total weighted IR on deposits	0.92	0.96	0.94	0.95	0.90	0.92	0.89	0.89	0.66	0.67	0.62	0.63

Graph 25: Weighted Average Monthly EIR on Deposits



As opposed to loans, the actual price of which is affected by costs related to approval and servicing of loans (on the condition that such costs are known at the time of approval), deposits show almost no difference between the nominal and effective interest rate.

Compared to December 2016, the weighted EIR on total term deposits decreased by 0.04 percentage points (from 0.67% to 0.63%) in March 2017. The weighted EIR on short-term term deposits amounted to 0.37% in March 2017, which is up by 0.8 percentage points compared to the level in December 2016.

When analysing the trends of interest rates on short-term deposits by maturity, the EIR on term deposits up to three months increased by 0.11 percentage points compared to the level in December 2016 and amounted to 0.37%. On the other hand, the interest rate on term deposits up to one year decreased by 0.17 percentage points and amounted to 0.41% (12/2016: 0.58%).

The weighted EIR on long-term deposits amounted to 1.48%, which is down by 0.18 percentage points compared to December 2016 (1.66%).

The weighted EIR on long-term deposits up to three years is 1.33%, which is a drop in the amount of 0.12 percentage points compared to the level in December 2016. The EIR on term deposits over three years was 1.96% in March 2017, down by 0.3 percentage points compared to December 2016, when the aforementioned amounted to 2.26%.

The average EIR on retail and corporate deposits are lower in March 2017 compared to December 2016. The average EIR on retail deposits is down by 0.25 percentage points compared to December 2016 and amounts to 1.27%. In the corporate sector, the average EIR stood at 0.95% in March 2017, down by 0.37 percentage points compared to December 2016.

When analysing the trends of weighted average interest rates on deposits per annum in the last five years, a continuous decrease in interest rates on long-term deposits is evident, while interest rates on short-term deposits are also at the lowest level in the last five years, with present oscillations, as can be seen in the table below.

Table 37: Weighted Average NIR and EIR on Deposits per Annum

DESCRIPTION	**2013**		**2014**		**2015**		**2016**		**Q1 2017**	
	NIR	**EIR**	**NIR**	**EIR**	**NIR**	**EIR**	**NIR**	**EIR**	**NIR**	**EIR**
1	2	3	4	5	6	7	8	9	10	11

1. Weighted IR on short-term deposits	1.65	1.67	1.20	1.23	0.60	0.61	0.35	0.35	0.36	0.36
1.1. up to three months	1.47	1.47	0.79	0.80	0.27	0.28	0.27	0.27	0.34	0.34
1.2. up to one year	1.85	1.87	1.72	1.76	1.25	1.28	0.68	0.69	0.53	0.54
2. Weighted IR on long-term deposits	3.20	3.23	2.79	2.82	2.20	2.23	1.78	1.80	1.48	1.50
2.1. up to three years	2.97	3.00	2.61	2.64	2.08	2.10	1.59	1.62	1.36	1.38
2.2. more than three years	4.15	4.18	3.32	3.34	2.48	2.52	2.33	2.34	1.93	1.96
3. Total weighted IR on deposits	2.51	2.53	2.04	2.07	1.41	1.43	0.88	0.89	0.67	0.68

Weighted interest rates on loans related to transaction account overdraft facilities and call deposits, as calculated on the basis of monthly reports, are provided in the table below.

Table 38: Weighted Average NIR and EIR on Overdraft Facilities and Call Deposits

DESCRIPTION	12/2015		03/2016		06/2016		09/2016		12/2016		03//2017	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on overdraft facilities	7.81	8.01	7.65	7.85	7.26	7.45	7.16	7.35	7.01	7.22	6.78	7.00
2. Weighted IR on call deposits	0.09	0.09	0.08	0.08	0.08	0.08	0.07	0.07	0.05	0.05	0.04	0.04

The weighted EIR on total overdraft facilities for the banking sector in March 2017 amounted to 7% (down by 0.22 percentage points compared to December 2016) and to 0.04% on call deposits (slightly lower compared to December 2016). As a rule, the EIR on these assets and liabilities items is equal to the nominal interest rate.

2.4. Liquidity

Along with credit risk management, liquidity risk management is one of the most important and most complex segments of banking operations. Liquidity maintenance within the market economy is a permanent liability of the bank and the basic premise for its sustainability on the financial market, along with being a key precondition to establishing and preserving trust in the banking system of any country as well as in the banking system's stability and safety.

Until the onset of the global financial and economic crisis, in normal operating conditions of banks and a stable environment, the liquidity risk was of secondary importance to banks, i.e. credit risk was the focal point and established management systems, i.e. systems for identification, measurement and control of this risk were under continuous supervision for the purpose of being improved and upgraded.

When financial markets got disrupted due to the effect of the global crisis, liquidity risk suddenly gained importance and managing this risk became a key factor for smooth operations, the timely handling of liabilities due and the preservation of the long-term position of the bank in terms of its solvency and capital base. In addition, it is worth noting that the interdependence of all risks the bank is or may be exposed to in its operations has also come to light with the onset of the crisis.

In the last quarter of 2008, after the global crisis and its negative effect spread to the financial and economic system of B&H, the liquidity risk of banks in the Federation of B&H increased. Although one part of savings deposits got withdrawn and the trust in banks impaired, it was found that the liquidity of the banking system was never at stake since banks in the Federation of B&H (due to regulatory requirements and defined limits based on a conservative approach) had significant liquid assets and a good liquidity position.

The banking sector in the FB&H also maintained good performances in the area of liquidity risk in the following years, basic indicators of liquidity, largely thanks to reduced lending activities, have improved, and the biggest changes took place in the maturity structure of sources, primarily deposits, due to the continuous reduction of the exposure to parent groups, whose deposits in several banks in majority foreign ownership were the main source of funding for the aggressive credit growth that was recorded in the years leading up to the crisis. Also, there is a continuous trend of reduced liabilities to foreign financial institutions-creditors, which is also part of the deleveraging process and the banks' strategic orientation toward domestic deposits as the main source of funding credit growth.

The liquidity of the banking system in the Federation of B&H is still seen as sound, having satisfactory share of liquid assets in total assets, as well as a very good maturity adjustment of financial assets and liabilities. Still, due to the still present effect and impact of the economic crisis, it was found that the liquidity risk should still be kept under close supervision. Also, it should be kept in mind that the effect of the crisis on the real sector is still present, with its negative consequences reflected in the overall industrial and economic environment in which banks in B&H operate, thus resulting in defaults in terms of the settlement of loan obligations and increases in uncollectable receivables, i.e. reductions of inflows of liquid funds to banks and the conversion of credit risk into liquidity risk. In that sense, one of key influences on the liquidity position of banks in the period to come will be their capacity to adequately manage their assets, which encompasses obtaining assets with good performances and the quality of which ensures that bank loans (and interest) are repaid in accordance with maturity dates.

The Decision on Minimum Standards for Liquidity Risk Management defines minimum standards that a bank is required to ensure and maintain in the liquidity risk management process, i.e. minimum standards for the development and implementation of the liquidity policy that ensures the bank's capacity to meet its obligations on the maturity date fully and without a delay.

This regulation represents a framework for liquidity risk management and encompasses qualitative and quantitative provisions and requirements for banks. It also defines limits that banks are to meet in relation to the average 10-day minimum and daily minimum of cash funds compared to short-term sources of funds, as well as minimum limits of the maturity adjustment of instruments of financial assets and financial liabilities (up to 180 days).

In the structure of the sources of funding of FB&H banks as of 31.03.2017, the largest share of 77.0% still refers to deposits, followed by loans taken (including subordinated debt[30]) with a share of 5.3%. Loans taken have longer maturities and represent a quality source for the approval of long-term loans, while also improving the maturity adjustment of assets and liabilities items, although a downward trend of the aforementioned has been evident for an extensive period of time.

On the other hand, the maturity structure of deposits is much more unfavourable,[31] with changes in the direction of trends in the past few years being present. After improving and an increase in the share of long-term deposits in the period from 2011 to 2013, 2014 saw a stagnation, while a slight deterioration was recorded in 2015, which continued in 2016 and the first quarter of 2017 as well.

- in KM 000 -

Tabela 42: Ročna struktura depozita po ugovorenom dospijeću

DEPOSITS	31.12.2015		31.12.2016		31.03.2017		INDEX	
	Amount	**Share %**	**Amount**	**Share %**	**Amount**	**Share %**		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and call deposits	6 645 840	50.8	7 727 481	54.5	7 853 381	55.1	116	102
Up to 3 months	266 464	2.0	272 799	1.9	189 869	1.3	102	70
Up to 1 year	679 876	5.2	538 344	3.8	557 522	3.9	79	104
1. Total short-term deposits	7 592 180	58.0	8 538 624	60.2	8 600 772	60.4	112	101
Up to 3 years	3 502 798	26.7	3 546 491	25.0	3 565 673	25.0	101	101
More than 3 years	2 004 005	15.3	2 091 159	14.8	2 080 564	14.6	104	99
2. Total long-term deposits	5 506 803	42.0	5 637 650	39.8	5 646 237	39.6	102	100
TOTAL (1 + 2)	**13 098 983**	**100.0**	**14 176 274**	**100.0**	**14 247 009**	**100.0**	**108**	**100**

Compared to the end of 2016, total deposits are at the same level, with slight changes in their sectoral structure, which is mostly due to deposits of some sectors being up (in nominal terms, retail deposits recorded the largest increase and are up by 1% or KM 92 million, deposits of public companies are up by 7% or KM 70 million, deposits of non-profit organisations by 6% or KM 20 million, deposits of non-banking institutions by 2% or KM 15 million and deposits of private companies by 1% or KM 12 million). On the other hand, deposits of government institutions are down by 2% or KM 30 million, as

[30] Subordinated debt: loans taken and permanent items.

[31] As per remaining maturity.

are deposits of banking institutions, which still have a downward trend (down by 16% or KM 106 million). With a share of 57.9%, retail deposits are the largest sectoral source of funding of banks in the FB&H.

The maturity structure of deposits with contractual maturity has had a continuous slight downward trend since 2012. In 2016, the share of short-term deposits increased from 58.0% to 60.2%, while the share of long-term deposits decreased from 42.0% to 39.8%. The same trend continued in the first quarter of 2017 as well, when the share of short-term loans increased slightly by 0.2 percentage points.

Changes in the maturity structure stem from an increase in short-term deposits by 1% or KM 62 million as a result of, on the one hand, an increase in retail deposits by KM 93 million, deposits of public companies by KM 40 million and deposits of non-profit organisations by KM 18 million, and, on the other hand, a decrease in deposits of banking institutions by KM 66 million and deposits of government institutions by KM 31 million. Long-term deposits are up by a neglibile KM 9 million as a result of deposits up to three years being up by 0.5% or KM 19 million, mostly those belonging to the sector of non-banking financial organisations and private companies, while deposits with a term over three years went down by 0.5% or KM 11 million, primarily on the basis of deposits of banking institutions, deposits of private companies and deposits of non-banking financial institutions being down. It should be noted that long-term deposits are still dominated by two sectors: retail, with the share decreasing slightly from 69.1% to 69.0%, and public companies, with the share increasing from 9.8% to 10.3%. In deposits with a term from one to three years, the largest share of 70.8% (-0.3 percentage points) is held by retail deposits, followed by public companies (13.8%, -0.2 percentage points). Deposits over three years mostly consist of retail deposits (65.9%, +0.1 percentage points), while deposits of banking institutions, with a long-lasting trend of decrease that has slowed down somewhat, have a share of 10.8% (at the end of 2016: 12.2%).

Although the maturity structure of deposits with contractual maturity is relatively good, residual maturity of deposits is of greater relevance for the liquidity risk analysis since it includes deposit balances from the reporting period to the due date (as presented in the table below).

- in KM 000 -

Table 40: Maturity Structure of Deposits by Remaining Maturity

DEPOSITS	31.12.2015		31.12.2016		31.03.2017		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and call deposits (up to 7 days)	6 852 863	52.3	7 961 438	56.1	7 984 653	56.0	116	100
7- 90 days	770 687	5.9	690 281	4.9	777 383	5.5	90	113
91 days to one year	2 080 342	15.9	1 982 775	14.0	1 942 968	13.6	95	98
1. Total short-term deposits	9 703 892	74.1	10 633 494	75.0	10 705 004	75.1	110	101
Up to 5 years	3 190 290	24.3	3 344 169	23.6	3 349 367	23.5	105	100
More than 5 years	204 801	1.6	197 611	1.4	192 638	1.4	96	97
2. Total long-term deposits	3 395 091	25.9	3 542 780	25.0	3 542 005	24.9	104	100
TOTAL (1 + 2)	**13 098 983**	**100.0**	**14 176 274**	**100.0**	**14 247 009**	**100.0**	**108**	**100**

Based on the data above, it can be concluded that the maturity structure of deposits by remaining maturity is much worse due to a high share of short-term deposits in the amount of 75.1%, with a trend of slight deterioration in 2016, which continued in the first quarter of 2017. Compared to the end of 2016, short-term deposits increased by 1% or KM 72 million, with the share being up by 0.1 percentage points, while long-term deposits stagnated, with the share in total deposits dropping from 25.0% to 24.9%. When analysing the structure of long-term deposits, it is evidently dominated by deposits with remaining maturity of up to 5 years (94.6% of long-term deposits and 23.5% of total deposits). Although the decrease in deposits with remaining maturity of over 5 years was halted in 2014, when a moderate increase of 17% or KM 23 million was recorded, with an increase in the amount of 34% or KM 52 million having been recorded in 2015, there was a decrease in the amount of 4% or KM 7.2 million in 2016 and a decrease in the amount of 3% or KM 5 million in the first quarter of 2017. When comparing information on deposit maturities by contractual and remaining maturity, it can be concluded that out of the KM 5.6 billion of total long-term contracted deposits, there were approximately KM 2.1 billion, i.e. 38%, of long-term contracted deposits with the remaining maturity of up to one year as of 31.03.2017.

The existing maturity structure of deposits (being the largest source of funding of banks in the Federation of B&H) has become an increasingly limiting factor of credit growth in relation to most banks since they incline more towards approving long-term loans. Therefore, banks are faced with the problem of finding ways to obtain quality sources of funding in terms of maturity, especially due to the considerably reduced inflow of financial assets (borrowings) from abroad, i.e. both from parent groups and financial institutions-creditors, while local sources of funding are mostly short-term. In June 2014, the FBA amended the existing regulations on liquidity.[32] Having previously met the prescribed requirements and obtained the approval of the FBA, banks have the opportunity to use a certain amount (i.e. a corrective amount) of retail call deposits for loans with longer maturities. As of 31.03.2017, six banks are using a corrective amount (KM 457 million) after being granted approval by the FBA. The objective of the regulation amendment is primarily aimed at stimulating credit growth, mostly real sector lending, and positive effects have already been recorded.

However, supervisory concern is also present due to to the fact that banks, due to the lack of quality long term-sources of funding and for the purpose of ensuring compliance with legally defined limits related to maturity adjustment, resort to approving revolving short-term loans, i.e. settling existing ones with new short-term facilities, which basically means long-term lending from short-term sources of funding. In such a way, the real loan maturity and its adjustment with sources of funding is being kept hidden. This may become a serious problem in the period to come as well as a potential threat to the bank's liquidity position.

For the purpose of planning the required level of liquid assets, banks need to account for both their sources of funding and the structure of an adequate liquidity potential, which is also tied to plans for their credit policy. Loan maturity, i.e. the maturity of the loan portfolio, is, in fact, determined by the maturity of sources of funding. Since maturity transformation of funds in banks is inherently related to the functional characteristics of banking operations, banks are required to continuously control and maintain maturity mismatches between sources of funding and loans approved in accordance with theregulated minimum limits.

- in KM 000 -

Table 41: Maturity Structure of Loans

LOANS	31.12.2015		31.12.2016		31.03.2017		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Past due receivables and paid off-balance liabilities	1 186 501	10.2	1 191 510	9.7	1 188 777	9.5	100	100
Short-term loans	2 283 316	19.7	2 378 849	19.4	2 580 798	20.5	104	108
Long-term loans	8 140 927	70.1	8 699 869	70.9	8 788 992	70.0	107	101
TOTAL LOANS	**11 610 744**	**100.0**	**12 270 228**	**100.0**	**12 558 567**	**100.0**	**106**	**102**

At the end of the first quarter of 2017, long-term loans were up by 1% or KM 89 million, amounting to KM 8.8 billion, and short-term loans were up by 8% or KM 202 million, amounting to KM 2.6 billion, while past due receivables amounted to KM 1.2 billion, remaining at the same level despite a permanent write-off in the amount of KM 11 million, which is yet another indicator of the deterioration of the collection rate of past due loan commitments and the difficulties that debtors have in servicing their debt towards banks in light of the effects of the economic crisis. In the structure of past due receivables, 64.6% refers to private companies, 33.4% to the retail sector and 2.0% to other sectors.

An analysis of maturities of two key sectors shows that 86.8% of retail loans are long-term loans, while 52.7% of total approved loans refers to private companies.

In the structure of assets, loans, as the key category, still hold the largest share of 67.9%, up by 1.1 percentage points compared to the end of 2016. They recorded a slight increase in the amount of 2% or KM 288 million in the first quarter of 2017. Cash funds decreased by 5.5% or KM 287 million, as did their share of 26.6% (-1.7 percentage points), compared to the end of 2016.

An overview of the main liquidity ratios is provided in the table below.

[32] Decision on Amending the Decision on Minimum Standards for Liquidity Risk Management in Banks („Official Gazette of the Federation of B&H“, No. 46/14)

- in % -

Table 42: Liquidity Ratios			
Ratios	31.12.2015	31.12.2016	31.03.2017
1	3	4	4
Liquid assets[33]/total assets	28.4	28.4	27.0
Liquid assets/short-term financial liabilities	48.4	47.1	44.7
Short-term financial liabilities/total financial liabilities	70.0	71.9	72.0
Loans/deposits and loans taken[34]	82.9	81.7	83.2
Loans/deposits, loans taken and subordinated debt[35]	82.2	81.0	82.5

As of 31.03.2017, the ratios deteriorated slightly compared to the end of 2016.

As of 31.03.2017, the loans/deposits and loans taken ratio deteriorated to 83.2% (+1.5 percentage points) as a result of slight credit growth, together with the stagnation of deposits and loans taken. The ratio was above 85% (critical level) with respect to 9 banks. On the one hand, this was the result of their liabilities structure (relatively significant share of capital) and, on the other hand, the result of the high share of loans in assets. During its on-site controls, the Agency paid special attention to banks with identified weaknesses in this business segment and instructed them to take actions and measures to improve the liquidity level, as well as practices of managing sources of funding in order to ensure a satisfactory liquidity position.

In 2017, banks have duly fulfilled the requirement of maintaining the defined level of the required reserve at the Central Bank of B&H.[36] The required reserve, being the key instrument of the monetary policy in B&H in relation to the Currency Board and the financially undeveloped market, is the only instrument of the monetary policy that ensures monetary control in sense of the prevention of rapid growth of loans and reduced multiplication, as well as increased liquidity in banks in conditions of crisis and a higher outflow rate of funds from banks (as compared to the situation in B&H as of 01.10.2008). On the other hand, the implementation of foreign currency risk regulations and the maintenance of currency adjustment to the defined limits has also significantly impacted the amount banks hold in their reserve accounts at the Central Bank of B&H (in local currency), thus ensuring a high liquidity of banks, individually and at the banking sector level.

All banks continuously meet and significantly exceed the defined minimum of the 10-day average of 10% in relation to short-term sources of funding and the daily minimum of 5% in relation to the same basis, as illustrated in the table below.

- in KM 000 -

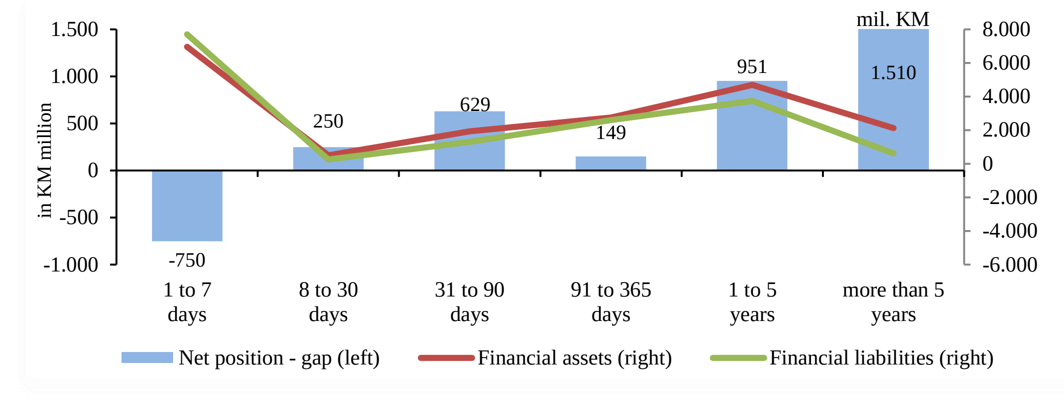
Table 43: Liquidity Position – 10-Day Average and Daily Minimum					
	31.12.2015	31.12.2016	31.03.2017	INDEX	
	Amount	Amount	Amount		
1	2	3	4	5(3/2)	6(4/3)
1. Average daily balance of cash	4 592 752	4 921 452	4 730 645	107	96
2. Lowest total daily cash balance	4 310 524	4 532 844	4 635 452	105	102
3. Short-term sources of funding (calculation basis)	7 358 839	8 413 922	8 531 282	114	101
4. Amount of liabilities:					
4.1. 10-day average 10% of the amount under item 3	735 884	841 392	853 128	114	101
4.2. daily minimum 5% of the amount under item 3	367 942	420 696	426 564	114	101
5. Performance of liabilities: 10-day average					
Surplus = item no. 1 – item no. 4.1.	3 856 868	4 080 060	3 877 517	106	95

[33] In narrow terms, liquid assets are: cash and deposits and other financial assets with remaining maturity of less than 3 months (excluding interbank deposits).
[34] Empirical standards are: below 70% - very sound, 71%-75% - satisfactory, 76%-80% - marginally satisfactory, 81%-85% - insufficient, over 85% - critical.
[35] The previous ratio was expanded and sources now include subordinated debt, thus being a more realistic indicator.
[36] The Decision on Establishing and Maintaining Required Reserves and Determining the Remuneration of the CBBH to Banks on the Reserve Amount was published in the "Official Gazette of B&H", No. 30/16 and is in application since 1 July 2016.

6. Performance of liabilities: daily minimum Surplus = item no. 2 – item no. 4.2.	3 942 582	4 112 148	4 208 888	104	102

When observing the maturity adjustment of remaining maturities of total financial assets[37] and liabilities, it can be concluded that the adjustment rate is good, although somewhat lower compared to 31.12.2017.

Graph 26: Maturity Adjustment of Financial Assets and Liabilities as of 31.03.2017



As of 31.03.2017, short-term financial assets of banks in the amount of KM 11.1 billion were the same as short-term liabilities, which led to the 99.6% coverage ratio for short-term liabilities remaining unchanged.

Short-term financial assets and short-term financial liabilities increased by 0.7%. In the structure of short-term financial assets, the largest increase in the amount of 4.8% or KM 214 million was recorded with respect to net loans, followed by cash borrowings (facilities) to other banks (87.2% or KM 76 million), trading assets (6.1% or KM 65 million) and securities held to maturity (33% or KM 17 million), while a decrease was recorded with respect to cash funds (5.5% or KM 287 million) and other financial assets (3.8% or KM 7 million). Financial assets with remaining maturity of over one year increased by 1.0% or KM 70 million, mostly as a result of loans being up by 1.0% or KM 68 million.

Liabilities with maturity of up to one year (KM 11.2 billion) increased by 0.7%, with changes in the following items: an increase in deposits (up by 0.7% or KM 73 million), loan commitments (up by 4.1% or KM 10 million) and subordinated debt and bonds (up by KM 2 million). Liabilities with maturity of over one year (KM 4.4 billion) recorded a slight increase in the amount of 0.1% or KM 3 million.

In addition to the said prescribed minimum standard, a very important aspect of the monitoring and analysis of the liquidity position is the maturity adjustment of remaining maturities of financial assets and liabilities items in accordance with the time scale created to capture a time horizon of 180 days in line with the prescribed minimum limits.[38]

- in KM 000 -

Table 44: Maturity Adjustment of Financial Assets and Liabilities – up to 180 Days

Description	31.12.2015 Amount	31.12.2016 Amount	31.03.2017 Amount	INDEX	
1	2	3	4	5 (3/2)	6(4/3)
I. 1- 30 days					
1. Financial assets	6 878 280	7 515 361	7 454 517	109	99
2. Financial liabilities	7 037 944	7 909 801	7 954 197	112	101
3. Difference (+ or -) = 1-2	-159 664	-394 440	-499 680	n/a	n/a
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	97.7%	95.0%	93.7%		
b) Prescribed minimum %	85.0%	85.0%	85.0%		

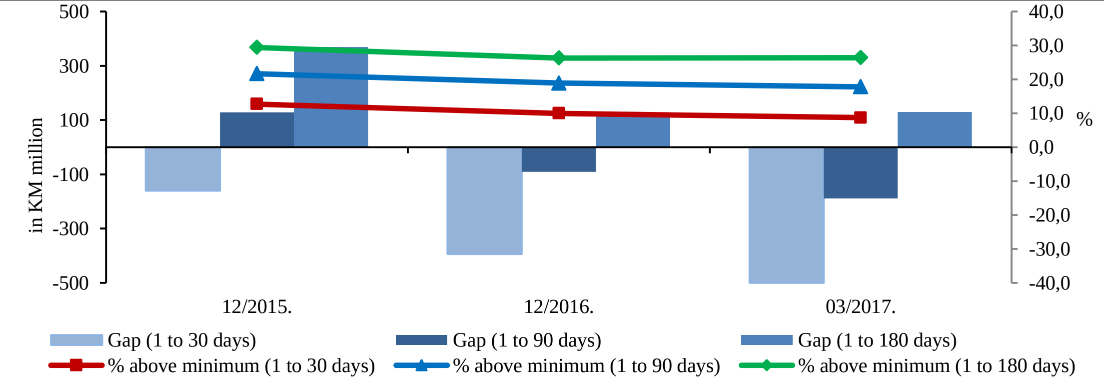
[37] Financial assets are posted on a net basis (after deductions for value adjustments).

[38] The Decision on Minimum Standards for Liquidity Risk Management in Banks defines the following percentages for the maturity adjustment of financial assets and liabilities: min. 85% of sources of funding with maturity of up to 30 days must be used for facilites with maturity of up to 30 days, min. 80% of sources of funding with maturity of up to 90 days must be used for facilities with maturity of up to 90 days, and min. 75% of sources of funding with maturity of up to 180 days must be used for facilities with maturity of up to 180 days.

Plus (+) or minus (-) = a - b	12.7%	10.0%	8.7%		
II. 1-90 days					
1. Financial assets	7 750 227	8 384 767	8 390 010	108	100
2. Financial liabilities	7 621 496	8 476 151	8 578 606	111	101
3. Difference (+ or -) = 1-2	128 731	-91 384	-188 596	n/a	n/a
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	101.7%	98.9%	97.8%		
b) Prescribed minimum %	80.0%	80.0%	80.0%		
Plus (+) or minus (-) = a - b	21.7%	18.9%	17.8%		
III. 1-180 days					
1. Financial assets	8 735 123	9 387 062	9 394 729	107	100
2. Financial liabilities	8 365 780	9 263 730	9 265 182	111	100
3. Difference (+ or -) = 1-2	369 343	123 332	129 547	33	105
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	104.4%	101.3%	101.4%		
b) Prescribed minimum %	75.0%	75.0%	75.0%		
Plus (+) or minus (-) = a - b	29.4%	26.3%	26.4%		

Based on the information presented, it is found that, as of 31.03.2017, banks have adhered to prescribed limits and achieved a better maturity adjustment of financial assets and liabilities in relation to the prescribed limits.

Graph 27: Maturity Adjustment of Financial Assets and Liabilities – up to 180 Days

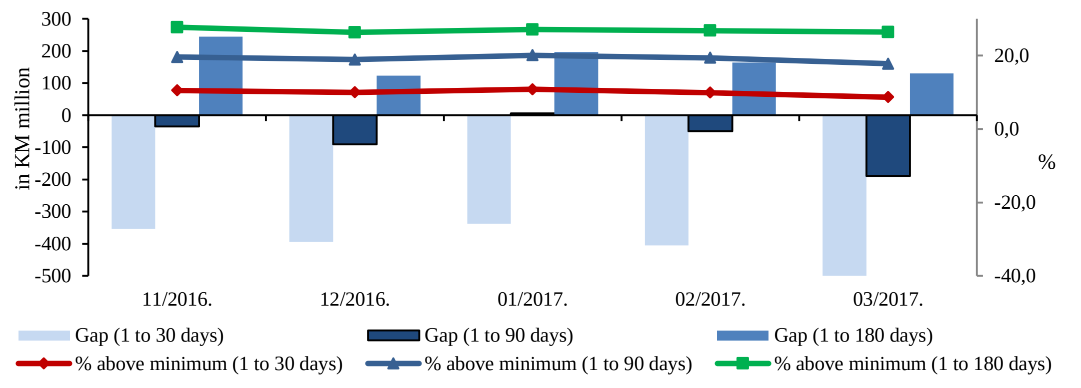


As of 31.03.2017, financial assets in the first and second period were lower than financial liabilities, due to the increase in financial liabilities, primarily deposits in both periods and loan commitments in the second period, being higher than the increase in financial assets (an increase in loans, trading assets, borrowings to other banks and securities held to maturity). Despite financial liabilities being up, financial assets surpassed financial liabilities in the third period due to an increase in assets (primarily an increase in net loans, borrowings to other banks and trading assets).

As a result of the aforementioned, the recorded maturity adjustment percentages in the first two periods were somewhat lower than at the end of 2016, but still significantly above the prescribed minimum by 8.7% in the first period, 17.8% in the second period, and 26.4% in the third period.

The chart below shows the trend of the maturity adjustment of financial assets and liabilities in the period from November 2016 to March 2017 (by period of time and maturity adjustment percentages in relation to the legally defined minimum standards).

Graph 28: Maturity Adjustment of Financial Assets and Liabilities (up to 180 Days) – by Period



Based on all presented ratios, the liquidity of the banking system in the Federation of B&H is still deemed satisfactory. However, we should underline that banks should pay even more attention to liquidity risk management in the period to come by means of establishing and implementing liquidity policies that would ensure the settlement of all liabilities due in a timely manner and based on continuous planning of future liquidity needs while factoring in changes in operating, economic, regulatory and other conditions of the banks' business environment since this business segment and the exposure level to liquidity risk correlate with credit risk, and also considering the effects of the financial crisis on B&H and the banking sector of the Federation of B&H (primarily in the sense of increased pressure on the banks' liquidity). On the one hand, this rests on the poor maturity structure of deposits, the repayment of loan commitments due and a much smaller amount of borrowings from financial institutions (which, over the past few years, were the best source of funding for banks from a maturity perspective) and, on the other hand, on the poor inflow of liquid funds due to problems with loan collection.

Through its off-site and on-site examinations of banks, the Agency will continue to monitor and oversee the manner in which banks manage this risk and whether they act in accordance with adopted policies and programmes.

2.5. FX Risk – Foreign Currency Adjustment of Balance Sheet and Off-Balance Sheet Assets and Liabilities

Banks' operations are exposed to major risks originating from possible losses related to balance sheet and off-balance sheet items, as incurred due to market price changes. One of these risks is the foreign currency risk arising as a result of changes in exchange rates and/or unadjusted levels of assets, liabilities and off-balance sheet items denominated in the same currency – individual FX position or all currencies of the bank's operations together – total FX position of the bank.

In order to ensure the implementation and realisation of prudent principles related to FX activities of banks and to reduce FX risk effects on their profitability, liquidity and capital, the Agency has adopted the Decision on Minimum Standards for Foreign Exchange Risk Management in Banks[39], which regulates minimum standards for adopting and implementing the programmes, policies and procedures for FX risk assumption, monitoring, control and management, as well as limits for the open individual and total FX position (long or short) calculated in relation to the core capital of the bank.[40]

In order for the Agency to monitor the banks' compliance with the regulated limits and their exposure level to FX risk, banks are required to report daily to the Agency. Based on the review, monitoring and analysis of the submitted reports, it can be concluded that banks adhere to regulated limits and conduct their FX activities within such limits.

[39] "Official Gazette of the Federation of B&H", No. 48/12 – consolidated text.

[40] Article 7 of the Decision on Minimum Standards for Foreign Exchange Risk Management in Banks defines the following limits: for the individual FX position – up to 30% of the core capital for EUR, up to 20% for other currencies and up to 30% for the total bank position.

Since the Central Bank of B&H functions as a currency board pegged to the EUR, banks are not exposed to FX risk in their daily operations with the EUR as the key currency.

As of 31.03.2017, the currency structure of banks' assets included 10.9% or KM 2 billion of foreign currency items (at the end of 2016, these items amounted 10.4% or KM 1.9 billion). On the other hand, the currency structure of liabilities is quite different since the share of foreign currency liabilities is much higher and equals 38.3% or KM 7 billion (at the end of 2016, this share was 38.8% or KM 7.1 billion).

The table below provides the structure and trend of financial assets and liabilities and FX positions for the EUR as the key currency and for the total position.

- in KM million -

Table 45: FX Adjustment of Financial Assets and Liabilities (EUR and Aggregate)[41]

Description	31.12.2016				31.03.2017				INDEX	
	EURO		TOTAL		EURO		TOTAL		EURO	TOTAL
	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %	6/2	8/4
1	2	3	4	5	6	7	8	9	10	11
I. Financial assets										
1. Cash	830	10.7	1 324	15.7	910	11.7	1 392	16.6	110	105
2. Loans	24	0.3	25	0.3	22	0.3	24	0.3	92	96
3. Loans with a currency clause	6 323	81.5	6 350	75.4	6 178	79.7	6 201	73.8	98	98
4. Other	417	5.4	561	6.7	451	5.8	593	7.0	108	106
5. Other financial assets with a currency clause	165	2.1	165	1.9	194	2.5	194	2.3	118	118
Total (1+2+3+4)	7 759	100.0	8 425	100.0	7 755	100.0	8 404	100.0	100	100
II. Financial liabilities										
1. Deposits	5 535	72.8	6 186	74.9	5 453	72.5	6 127	74.8	99	99
2. Loans taken	763	10.0	763	9.2	771	10.3	771	9.4	101	101
3.Deposits and loans with a currency clause	1 135	14.9	1 135	13.7	1 116	14.8	1 116	13.6	98	98
4. Other	174	2.3	180	2.2	178	2.4	183	2.2	102	102
Total (1+2+3+4)	7 607	100.0	8 264	100.0	7 518	100.0	8 197	100.0	99	99
III. Off-balance sheet										
1. Assets	78		96		15		69			
2. Liabilities	203		222		284		301			
IV.Position										
Long (amount)	27		35							
%	1.3%		1.7%							
Short					32		25			
%					1.5%		1.2%			
Allowed	30%		30%		30%		30%			
Lower than the allowed level	28.7%		28.3%		28.5%		28.8%			

In terms of the structure of foreign currencies, the dominant share among financial assets is held by the EUR with 68.9% (31.12.2016: 66.6%), along with an increase in the nominal amount (from KM 1.3 billion to KM 1.4 billion). The 90.4% share of the EUR in liabilities is at approximately the same level (31.12.2016: 90.8%), coupled with a decrease in the nominal amount by KM 70 million.

However, FX risk exposure calculation also includes the amount of indexed assets items (loans and other financial assets) and liabilities items[42], which is particularly significant on the assets side (76.1% or KM 6.4 billion), which is somewhat down compared to the end of 2016 (77.3% or KM 6.5 billion). Other FX items on the assets side hold a share of 23.9% or KM 2 billion and have the following structure: items in EUR 16.5% or KM 1.4 billion and other currencies 7.4% or KM 0.6 billion (at the end of 2016, other items in EUR held a share of 15.1% or KM 1.3 billion). Out of total net loans (KM 11.4 billion), app. 54.6% have a currency clause (mostly pegged to the EUR – 99.6%).

As for the sources of funding, financial liabilities condition and determine the structure of financial assets items for every currency. The largest share in FX liabilities (KM 8.2 billion) is 78.1% or KM 6.4

[41] Source: Form 5 – FX position.

[42] In order to protect against foreign exchange rate changes, banks arrange certain assets items (loans) and liabilities items with a currency clause (regulations allow only for a two-way currency clause).

billion and refers to items in EUR, mostly deposits (at the end of 2016, the share of liabilities in EUR amounted to 78.3% or KM 6.5 billion). The share and amount of indexed liabilities in the last five years (with the exception of 2013, when a drop in the amount of 13% or KM 117 million was recorded) have had an upward trend from when they amounted to KM 661 million in 2011, thus having held a share of 8%, to the level of KM 1.1 billion (with a 13.6% share) as of 31.03.2017. The increase in indexed liabilities (almost all relate to deposits) is conditioned, on the one hand, by the outflow of deposits and loan commitments in foreign currencies, which have been a source of loans approved with a currency clause, and, on the other hand, by the continuously high amount of loans with a currency clause. In order to maintain the FX adjustment, banks are increasing indexed liabilities items (deposits), with it being noted that most banks have a long FX position.

When observing banks and the banking sector level of the Federation of B&H, it can be concluded that FX risk exposure of banks and the banking system in the first quarter of 2017 was within the defined limits. As of 31.03.2017, the long FX position was recorded with 10 banks and the short position with 5 banks. At system level, there is a short FX position of 1.2% of the total core capital of banks, which is 28.8% below the allowed limit. The individual FX position for the EUR was 1.5%, which is 28.5% below the allowed limit, with financial assets items being lower than financial liabilities (net short position).

Although the currency board protects banks from FX risk exposure related to the EUR, they are required to adhere to regulated limits for all currencies, as well as for the total FX position, and to conduct daily risk management activities in accordance with the adopted programmes, policies, procedures and plans.

IV CONCLUSIONS AND RECOMMENDATIONS

During the reform period, the banking sector of the Federation of B&H achieved an enviable level of its development and it represents the most developed and the strongest part of the financial and the overall economic system in the Federation B&H. Future activities should be aimed towards the preservation of its stability, with this being a priority in present stressful conditions, and towards the banking system's future progress and development. These objectives are conditioned by a continuous and committed involvement of all elements of the system, the legislative and executive authorities, thus forming grounds for a more favourable economic environment for banks and the real sector of the economy, as well as for the general population.

The FBA adopted regulations, their improvement and upgrade, as well as operational decisions within its jurisdiction while taking all the prescribed steps whose main goal was for banks to fully ensure the legality, full implementation of the FBA's provisions and the generally accepted principles and practices for their, especially in terms of the ever-present recession, careful and successful work. Furthermore, the insistence and the objectives of the FBA's efforts were aimed at strengthening banks' capital, improving their credit policies and their consistent application in practice, raising caution to the highest level in the management of credit risk, which is still dominant in our environment, and liquidity risk, but also at strengthening the ability to manage a potential crisis situation.

In the period to come, the Banking Agency of the Federation of B&H will:

- continue with activities to draft a regulatory framework, prepare and adopt a significant number of new by-laws in accordance with the new Law on Banks, the Law on the Banking Agency and the adopted Strategy and Annual Plan for the Drafting of Regulations in order to implement Basel II/III and EU directives and as part of the preparation for B&H's joining of the European Union;
- reorganise the Banking Agency in accordance with the new Law on the Banking Agency of the FB&H and establish an internal organisational unit for bank restructuring operations and prepare and adopt by-laws related to the restructuring of banks;
- begin with the project of preparing and implementing the SREP (Supervisory Review and Evaluation Process) as a long-term (three years) project aimed at strengthening and improving supervision in accordance with the new regulatory framework;
- take measures and actions within its competences for more secure and stable banking operations and the banking system as a whole and its support to the economy and the population;

- continue with activities within its competences to consolidate the supervision function at state level;
- take measures and actions within its competences for the purpose of implementing measures from the Reform Agenda and the Economic Reforms Programme, which are related to the banking and financial sector;
- work to implement the recommendations of the FSAP Mission in order to improve the quality of banking sector supervision;
- maintain continuous supervision of banks through on-site and off-site examinations, placing an emphasis on dominant risk segments of banking operations and aiming to improve efficiency by means of:
  - further insistence on capital strengthening in banks, especially in those banks with an above average increase in assets and reduction of the capital adequacy ratio,
  - continuing banking supervision that is of systemic importance for the development of lending activities where large savings and other deposits are concentrated (all for the purpose of protecting depositors);
  - continuing system-based monitoring of banks' activities to prevent money laundering and the financing of terrorism and the improvement of the cooperation with other supervisory and regulatory institutions;
  - reviewing and regularly updating the contingency plan as part of crisis preparations,
  - continuing to develop and implement the Early Warning System tool (EWS) for the purpose of an early identification of financial and operational inefficiencies and/or adverse trends in the banks' operations,
  - monitoring the compliance of banks with laws and regulations and the practices employed in banks in the segment of protecting users of financial services and guarantors,
  - establishing and expanding cooperation with supervisory authorities in countries with investors in the banking sector of the FB&H, as well as with other countries in order to maintain effective supervision,
  - continuing the cooperation with the ECB and the EBA and the exchange of information on banking supervision, as well as with international financial institutions, the IMF, the WB, the EBRD, etc.;
  - improving cooperation with the B&H Banks' Association across all segments of the banking business (e.g. introduction of new products, collection of receivables, functioning of the Central Credit Registry of legal entities and natural persons, daily updating of data, etc.), organising consultations and providing professional assistance in the implementation of banking laws and regulations, improving cooperation in the sense of professional training, proposing amendments to all laws or regulations that have become a limiting factor to the banks' development;
- carry out a new AQR cycle in 2017, in which 8 banks will be included and which will cover about 75% of the banking system of the FB&H;
- continue to improve cooperation by signing new Cooperation Agreements with other institutions in Bosnia and Herzegovina, which are involved in the areas of supervision, preparedness for crisis situations and their management and systemic risk control: the Banking Agency of Republika Srpska, the Deposit Insurance Agency, the Central Bank of Bosnia and Herzegovina and the state and entity Ministries of Finance;
- continue with efforts to improve the information system, as an important prerequisite for efficient and proactive banking supervision, i.e. IT support with the function of early warning and preventive actions with respect to the elimination of weaknesses in the banks' operations;
- continue with the on-going training and professional education of the staff;
- accelerate actions regarding the finalisation of bank liquidation processes.

Further strong engagement of other institutions and bodies of Bosnia and Herzegovina and the Federation of Bosnia and Herzegovina is also necessary with regards to the following:

- the implementation of activities from the Reform Agenda for Bosnia and Herzegovina for the period 2015-2018;
- the implementation of conclusions reached by the Parliament of the Federation of B&H regarding the establishment of state-level bank supervision;
- the implementation of the Economic Reforms Programme for 2016-2018 (ERP B&H 2016-2018);

- the implementation of the commitments taken on by the Letter of Intent signed by the Governments in B&H as part of the arrangement with the IMF;
- creating and upgrading legislation pertaining to the financial and banking sector, starting with the Basel Principles, Basel Capital Frameworks and European Banking Directives, which refer to the actions, status and operations of banks, and especially to the implementation of the new Banking Law;
- accelerating the implementation of economic reforms in the real sector of the economy in order for it to approach the level achieved in the monetary and banking sector more rapidly;
- the preparation and adoption of the Law on Asset Management Companies;
- the adoption of the Law on Accounting and Auditing in the FB&H;
- the establishment of special commercial departments within courts;
- the establishment of more efficient enforcement proceedings;
- the establishment of a mechanism for out-of-court debt restructuring of companies;
- the creation and adoption of measures for resolving or mitigating the problem of over-indebted persons;
- the adoption of a law or the improvement of existing legislation regulating the area of safety and protection of money in banks and in transit, etc.

As key segments of the banking system, banks should concentrate their efforts on the following activities:

- increasing the volume of lending activities in order to support the economy, together with full commitment to quality and prudent operations and to combating the crisis effects presently posing the biggest threat to banks, the real sector of the economy and the general population;
- improvement of the risk management system and the system of early identification of loan portfolio deterioration and more effective measures for the resolution of non-performing loans;
- further capital strengthening and ensuring the level of solvency in proportion to the increase in assets and risk, greater profitability, strengthening of the internal control system and the internal audit function as segments that are fully independent in the performance of their duties and roles;
- compliance with the new Law on Banks and the by-laws adopted on the basis of it;
- more consistent implementation of adopted policies and procedures to prevent money laundering and the financing of terrorism, the safety and protection of money in banks and in transit, all in accordance with laws and by-laws;
- the implementation of laws and by-laws in the segment of protecting users of financial services and guarantors;
- active participation in the implementation of measures for resolving the problem of individuals' over-indebtedness and the financial consolidation of companies;
- preparing and updating their contingency measures plans;
- regular, timely and accurate submission of information to the Central Credit Registry and the Uniform Central Registry of Accounts at the Central Bank of B&H.

No.: U.O.-04-05/17
Sarajevo, 26.05.2017

IV ANNEXES

ANNEX 1

Main Data on Banks in the FB&H

No.	BANK	Adress		Telephone	Director
1.	ADDIKO BANK D.D. - SARAJEVO	Sarajevo	Trg solidarnosti br. 12.	033/755-867, 755-755 fax: 755-790	SANELA PAŠIĆ
2.	ASA BANKA D.D. - SARAJEVO	Sarajevo	Trg međunarodnog prijateljstva 25.	033/586-870, fax: 586-880	SAMIR MUSTAFIĆ
3.	BOSNA BANK INTERNATIONAL dd - SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	AMER BUKVIĆ
4.	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Sarajevo	Obala Kulina bana 9a.	033/497-555, 497-500 fax:497-589	ALMIR KRKALIĆ
5.	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Tone Hrovata bb	037/771-253, fax: 037/772-416	HASAN PORČIĆ
6.	NLB BANKA dd - SARAJEVO	Sarajevo	Džidžikovac 1.	033/720-300, fax:035/302-802	LIDIJA ŽIGIĆ
7.	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Obala Kulina bana 18	033/278-520, fax:278-550	HAMID PRŠEŠ
8.	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Franca Lehara bb	033/250-950, fax:250-971	EDIN HRNJICA
9.	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb.	033/755-010, fax: 213-851	KARLHEINZ DOBNIGG
10.	SBERBANK BH dd - SARAJEVO	Sarajevo	Fra Anđela Zvizdovića 1	033/954-702, fax:263-832	EDIN KARABEG
11.	SPARKASSE BANK dd BOSNA I HERCEGOVINA- SARAJEVO	Sarajevo	Zmaja od Bosne br. 7.	033/280-300, fax:280-230	SANEL KUSTURICA
12.	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:356-227	DALIBOR ĆUBELA
13.	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	VEDRAN HADŽIAHMETOVIĆ
14.	VAKUFSKA BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	DAMIR SOKOLOVIĆ
15.	ZIRAATBANK BH dd - SARAJEVO	Sarajevo	Zmaja od Bosne 47c	033/955-000, fax: 525-701	ALI RIZA AKBAŞ

ANNEX 2

BALANCE SHEET OF BANKS IN THE FB&H ACCORDING TO THE FBA MODEL
ACTIVE SUB-BALANCE

-in KM 000 -

No.	DESCRIPTION	31.12.2015	31.12.2016	31.03.2017
	ASSETS			
1.	Cash and deposit accounts with deposit-taking institutions	4 857 483	5 204 564	4 917 829
1a	Cash and non-interest bearing deposit accounts	1 058 837	2 418 582	2 383 965
1b	Interest-bearing deposits accounts	3 798 646	2 785 982	2 533 864
2.	Trading securities	882 829	1 075 588	1 141 154
3.	Loans to other banks	78 420	96 569	173 006
4.	Loans, receivables based on leasing facilities and past due receivables	11 610 744	12 270 228	12 558 567
4a	Loans	10 424 207	11 078 689	11 369 763
4b	Receivables based on leasing facilities	36	29	27
4c	Past due receivables based on loans and leasing facilities	1 186 501	1 191 510	1 188 777
5.	Held to maturity securities	167 377	150 575	158 771
6.	Business premises and other fixed assets	482 817	488 711	471 533
7.	Other real estate	34 077	42 266	44 849
8.	Investments in unconsolidated related companies	22 114	22 999	22 946
9.	Other assets	265 171	282 742	275 282
10.	LESS: value adjustments	1 239 307	1 252 208	1 259 433
10a	Value adjustments for Item 4. of the Assets	1 181 736	1 193 721	1 199 989
10b	Value adjustments for Assets items, except for the Item 4.	57 571	58 487	59 444
11.	**TOTAL ASSETS**	**17 161 725**	**18 382 034**	**18 504 504**
	LIABILITIES			
12.	Deposits	13 098 983	14 176 274	14 247 009
12a	Interest-bearing deposits	9 935 353	10 312 971	10 208 588
12b	Non-interest bearing deposits	3 163 630	3 863 303	4 038 421
13.	Borrowings – liabilities due	150	150	150
13a	Past due liabilities	0	0	0
13b	Past due – invoked off-balance sheet liabilities	150	150	150
14.	Borrowings from other banks	0	0	0
15.	Liabilities to the Government	0	0	0
16.	Loan commitments and other borrowings	904 050	848 001	851 716
16a	With remaining maturity of up to one year	161 356	231 260	240 762
16b	With remaining maturity of more than one year	742 694	616 741	610 954
17.	Subordinated debt and subordinated bonds	119 835	119 678	129 417
18.	Other liabilities	468 719	529 811	504 975
19.	**TOTAL LIABILITIES**	**14 591 737**	**15 673 914**	**15 733 267**
	CAPITAL			
20.	Permanent preferred shares	11 709	8 828	8 828
21.	Common shares	1 155 783	1 207 049	1 207 049
22.	Issue premiums	132 667	138 786	138 786
22a	Over permanent preferred shares	88	88	88
22b	Over common shares	132 579	138 698	138 698
23.	Undistributed profit and capital reserves	836 609	864 475	1 022 030
24.	Foreign exchange rate differences	0	0	0
25.	Other capital	117 486	173 248	78 810
26.	Loan loss provisions formed from profit	315 734	315 734	315 734
27.	**TOTAL EQUITY (20. to 25.)**	**2 569 988**	**2 708 120**	**2 771 237**
28.	**TOTAL LIABILITIES AND EQUITY (19 +26)**	**17 161 725**	**18 382 034**	**18 504 504**
	PASSIVE AND NEUTRAL SUB-BALANCE	**713 765**	**718 625**	**718 332**
	BALANCE SHEET TOTAL OF BANKS	**17 875 490**	**19 100 659**	**19 222 836**

ANNEX 3

OVERVIEW OF ASSETS, LOANS, DEPOSITS AND FINANCIAL RESULTS OF BANKS IN THE FB&H as of 31.03.2017

- in KM 000 -

No.	BANK	Assets		Loans		Deposits		Fin. result
		Amount	%	Amount	%	Amount	%	Amount
1.	ADDIKO BANK d.d. - SARAJEVO	802 685	4.3%	586 042	4.7%	553 894	3.9%	4 756
2.	ASA BANKA d.d. - SARAJEVO	414 159	2.2%	282 264	2.2%	329 874	2.3%	502
3.	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	809 292	4.4%	564 555	4.5%	541 749	3.8%	1 308
4.	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	1 747 888	9.4%	1 284 120	10.2%	1 272 059	8.9%	5 415
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	92 338	0.5%	51 445	0.4%	63 931	0.4%	319
6.	NLB BANKA d.d. - SARAJEVO	1 011 911	5.5%	704 061	5.6%	836 934	5.9%	5 320
7.	PRIVREDNA BANKA SARAJEVO d.d. - SARAJEVO	373 036	2.0%	266 258	2.1%	258 735	1.8%	207
8.	PROCREDIT BANK d.d. - SARAJEVO	394 463	2.1%	325 745	2.6%	241 552	1.7%	-1 204
9.	RAIFFEISEN BANK d.d. BiH - SARAJEVO	4 015 526	21.7%	2 340 728	18.6%	3 263 392	22.9%	21 850
10.	SBERBANK BH d.d. - SARAJEVO	1 225 719	6.6%	997 159	7.9%	970 645	6.8%	2 259
11.	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	1 239 371	6.7%	946 390	7.5%	997 652	7.0%	3 247
12.	UNICREDIT BANK d.d. - MOSTAR	4 668 808	25.2%	3 136 350	25.0%	3 666 673	25.7%	24 499
13.	UNION BANKA d.d. - SARAJEVO	487 823	2.6%	150 299	1.2%	408 945	2.9%	10 058
14.	VAKUFSKA BANKA d.d. - SARAJEVO	321 392	1.7%	215 401	1.7%	278 700	2.0%	65
15.	ZIRAATBANK BH d.d.- SARAJEVO	900 093	4.9%	707 750	5.6%	562 274	3.9%	209
	TOTAL	**18 504 504**	**100.0%**	**12 558 567**	**100.0%**	**14 247 009**	**100.0%**	**78 810**

ANNEX 4

CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET RISK-BEARING ITEMS
as of 31.03.2017
- CLASSIFICATION OF BALANCE SHEET ASSETS ITEMS –

- in *KM 000* -

No.	BALANCE SHEET ASSETS ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	2 341 534	224 444	7 428	4 151	1 096	2 578 653
2.	Long-term loans	7 890 589	575 090	188 640	87 619	8 397	8 750 335
3.	Other facilities	262 286	2 018	12	160	1 943	266 419
4.	Accrued interest and fees	35 734	4 212	1 394	4 068	24 460	69 868
5.	Past due receivables	31 947	22 345	16 709	276 752	809 830	1 157 583
6.	Receivables based on paid guarantees	0	0	20	45	31 129	31 194
7.	Other balance sheet assets being classified	689 554	3 751	511	1 278	40 074	735 168
8.	**TOTAL BALANCE SHEET ASSETS BEING CLASSIFIED (sum of items 1 through 7 – calculation basis for regulatory loan loss provisions)**	**11 251 644**	**831 860**	**214 714**	**374 073**	**916 929**	**13 589 220**
9.	**CALCULATED REGULATORY RESERVES FOR LOAN LOSSES BASED ON BS ASSETS**	**221 369**	**67 725**	**55 509**	**224 086**	**917 008**	**1 485 697**
10.	**VALUE ADJUSTMENT FOR BS ASSETS**	**141 112**	**53 493**	**83 164**	**202 043**	**779 620**	**1 259 432**
11.	**REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT FOR PURPOSE OF ASSESSED LOSSES BASED ON BS ASSETS**	**124 034**	**43 152**	**13 355**	**59 250**	**136 846**	**376 637**
12.	**FORMEED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**	**85 416**	**30 677**	**19 903**	**78 982**	**63 931**	**278 909**
13.	**SHORTFALL OF REGULATORY RESERVE FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**						**205 107**
14.	**BALANCE SHEET ASSETS NOT BEING CLASSIFIED (gross book value)**						**6 174 717**
15.	**TOTAL BALANCE SHEET ASSETS (gross book value)**						**19 763 937**

OVERVIEW OF BALANCE SHEET ASSETS NOT BEING CLASSIFIED AND FACILITIES SECURED WITH A CASH DEPOSIT

14.a	Cash in cash desk and vault and cash funds at the account with the Central Bank of B&H, gold and other precious metals	3 738 405
14.b	Demand deposits and term deposits up to one month located on accounts of banks with defined investment rating	908 500
14.c	Tangible and intangible assets	487 768
14.d	Financial and tangible assets acquired in the process of collection of receivables (within one year upon such acquisition)	12 444
14.e	Own (treasury) shares	0
14.f	Receivables based on overpaid taxes	13 201
14.g	Trading securities	97 737
14.h	Receivables from the B&H Government, FB&H Government and RS Government, securities issued by the B&H Government, FB&H Government and RS Government and receivables secured with unconditional guarantees payable upon the first call	916 662
	TOTAL Item 14	**6 174 717**
8a.	Facilities secured with a cash deposit	183 280

ANNEX 5

INCOME STATEMENT OF BANKS IN THE FB&H ACCORDING TO THE FBA MODEL

- in KM 000 -

No.		DESCRIPTION	31.03.2015	31.03.2016	31.03.2017
1.		**INTEREST INCOME AND EXPENSES**			
	a)	Interest income and similar income			
	1)	Interest-bearing deposit accounts with deposit-taking institutions	253	546	547
	2)	Loans to other banks	474	413	358
	3)	Loans and leasing facilities	170 739	168 949	166 297
	4)	Held to maturity securities	1 742	1 248	1 463
	5)	Equity securities	2	8	16
	6)	Receivables based on paid-off balance sheet liabilities	1	1	1
	7)	Other interest income and similar income	16 037	17 213	18 881
	8)	**TOTAL INTEREST INCOME AND SIMILAR INCOME**	**189 248**	**188 378**	**187 563**
	b)	Interest expenses and similar expenses			
	1)	Deposits	44 359	38 601	33 052
	2)	Borrowings from other banks	0	0	0
	3)	Borrowings taken – liabilities due	0	0	0
	4)	Liabilities based on loans and other borrowings	5 065	3 235	2 426
	5)	Subordinated debt and subordinated bonds	1 298	1 909	1 882
	6)	Other interest and similar expenses	321	511	1 293
	7)	**TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES**	**51 043**	**44 256**	**38 653**
	c)	**NET INTEREST AND SIMILAR INCOME**	**138 205**	**144 122**	**148 910**
2.		**OPERATING INCOME**			
	a)	FX income	10 815	9 812	10 614
	b)	Loan fees	1 622	2 199	2 770
	c)	Fees based on off-balance sheet items	6 020	5 623	5 491
	d)	Service fees	50 374	57 696	61 534
	e)	Trading income	68	152	59
	f)	Other operating income	10 396	10 680	22 604
	g)	**TOTAL OPERATING INCOME a) to f)**	**79 295**	**86 162**	**103 072**
3.		**NON-INTEREST EXPENSES**			
	a)	Business and direct expenses			
	1)	Costs of value adjustments, risk-bearing assets, provisions for contingent liabilities and other value adjustments	20 531	14 741	26 793
	2)	Other business and direct expenses	18 734	22 324	24 374
	3)	**TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)**	**39 265**	**37 065**	**51 167**
	b)	Operating expenses			
	1)	Costs of salaries and contributions	59 205	59 194	59 614
	2)	Costs of business premises, other fixed assets and utilities	35 593	37 106	36 995
	3)	Other operating expenses	21 095	23 843	25 396
	4)	**TOTAL OPERATING EXPENSES 1) to 3)**	**115 893**	**120 143**	**122 005**
	c)	**TOTAL NON-INTEREST BEARING EXPENSES**	**155 158**	**157 208**	**173 172**
4.		**PROFIT BEFORE TAXES**	**62.814**	**74 223**	**80 014**
5.		**LOSS**	**472**	**1 147**	**1 204**
6.		**TAXES**	**0**	**0**	**0**
7.		**PROFIT BASED ON INCREASE OF DEFERRED TAX FUNDS AD REDUCTION OF DEFERRED TAX LIABILITIES**	**0**	**0**	**0**
8.		**LOSS BASED ON REDUCTION OF DEFERRED TAX FUNDS AND INCREASE OF DEFERRED TAX LIABILITIES**	**0**	**0**	**0**
9.		**NET PROFIT 4. - 6.**	**62 814**	**74 223**	**80 014**
10.		**NET LOSS 4. - 6.**	**472**	**1 147**	**1 204**
11.		**FINANCIAL RESULT 9.-10.**	**62 342**	**73 036**	**78 810**

ANNEX 6

REPORT ON CAPITAL CONDITION AND ADEQUACY OF BANKS IN THE FB&H
- ASSETS SIDE OF THE BALANCE SHEET -

- in KM 000 -

No.	DESCRIPTION	31.12.2015	31.12.2016	31.03.2017
	CORE CAPITAL OF THE BANK			
1.a.	Share capital, reserves and profit			
1.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	1 151 971	1 203 237	1 203 237
1.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	12 431	12 431	12 431
1.3.	Amount of issue premiums earned upon payment of shares	132 667	138 786	138 786
1.4.	General mandatory reserves (reserves mandated by the law)	163 794	143 166	144 438
1.5.	Other reserves from profit after tax based on the decision of the Bank's assembly	427 706	529 121	548 412
1.6.	Retained, undistributed profit from previous years and current year's profit	122 065	141 073	146 160
1.a.	**TOTAL (1.1 to 1.6)**	**2 010 634**	**2 167 814**	**2 193 464**
1.b.	Deductible items from 1.a			
1.7.	Uncovered losses from previous years	28 371	16 690	59 004
1.8.	Current year's loss	102 108	42 314	1 204
1.9.	Book value of own (treasury) shares of the bank	102	3 034	3 034
1.10.	Intangible assets in accordance with the applicable accounting framework	49 837	47 315	47 517
1.11.	Amount of deferred tax assets	1 641	1 881	1 854
1.12.	Amount of negative revalorised reserves based on the effect of the change in the fair value of assets	1 696	1 063	1 196
1.b.	TOTAL (1.7. to 1.10)	183 755	112 297	113 809
1.	**AMOUNT OF CORE CAPITAL: (1.a. - 1.b.)**	**1 826 879**	**2 055 517**	**2.079.655**
	SUPPLEMENTARY CAPITAL OF THE BANK			
2.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	3 090	209	209
2.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	0	0	0
2.3.	General loan loss provisions for the category A – performing assets	208 619	170 420	174 884
2.4.	Amount of positive revalorised reserves based on the effect of the change in the fair value of assets	9 735	9 741	10 247
2.5.	Current year profit – audited and confirmed by an external audit	0	0	
2.6.	Profit amount for which the FBA issues an order restricting its disbursement	107 918	103 122	110 649
2.7.	Amount of subordinated debt	0	0	0
2.8.	Amount of hybrid convertible items – capital instruments	1 422	1 425	1 425
2.	**AMOUNT OF SUPPLEMENTARY CAPITAL: (2.1 to 2.8)**	**330 784**	**284 917**	**297 414**
	DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL			
3.1.	Portion of invested share capital that, according to the FBA, represents a received, but over-appraised value	0	0	0
3.2.	Capital contributions of other legal entities exceeding 5% of the bank's core capital	1 007	0	0
3.3.	Receivables from shareholders with significant voting rights – approved by the bank contrary to Law provisions, FBA regulations and the bank's work policy	755	0	0
3.4.	LCRE towards shareholders with significant voting rights in the bank (no FBA approval required)	0	0	0
3.5.	LLP shortfall as per regulatory requirement	204 559	200 035	212 340
3.	**AMOUNT OF DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL: (3.1 to 3.5)**	**206 321**	**200 035**	**212 340**
A.	**NET CAPITAL OF THE BANK (1.+2.-3.)**	**1 951 342**	**2 140 399**	**2 164 729**
B.	**RISK OF BALANCE AND OFF-BALANCE ASSETS**	**11 918 650**	**12 667 026**	**12 963 287**
C.	**WEIGHTED OPERATIONAL RISK**	**976 734**	**1 001 018**	**1 042 691**
D.	**WEIGHTED MARKET RISK**	**0**	**0**	**0**
E.	**TOTAL ASSETS RISK B+C+D**	**12 895 384**	**13 668 044**	**14 005 978**
F.	**NET CAPITAL RATE (A/E) (% 1 dec.)**	**15.1%**	**15.7%**	**15.5%**

DATA ON EMPLOYEES IN BANKS IN THE FB&H

No.	BANK	31.12.2015	31.12.2016	31.03.2017
1	ADDIKO BANK d.d. - SARAJEVO	490	435	452
2	ASA BANKA d.d. - SARAJEVO	125	211	213
3	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	341	371	385
4	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	537	561	569
5	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	77	77	76
6	MOJA BANKA d.d. - SARAJEVO	133		
7	NLB BANKA d.d. - SARAJEVO	424	444	449
8	PRIVREDNA BANKA d.d - SARAJEVO	142		
9	PRIVREDNA BANKA d.d - SARAJEVO	66	139	143
10	PROCREDIT BANK d.d. - SARAJEVO	248	206	205
11	RAIFFEISEN BANK d.d. BiH - SARAJEVO	1 355	1 312	1313
12	SBERBANK BH d.d. - SARAJEVO	420	425	426
13	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	471	521	513
14	UNICREDIT BANK d.d. - MOSTAR	1 208	1 225	1 229
15	UNION BANKA d.d. - SARAJEVO	181	192	190
16	VAKUFSKA BANKA d.d. - SARAJEVO	200	197	187
17	ZIRAATBANK BH d.d. - SARAJEVO	265	299	297
	TOTAL	6 683	6 615	6 647