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

I N F O R M A T I O N

ON THE BANKING SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
31. 12. 2015

Sarajevo, March 2016

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 31.12.2015) 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.

I INTRODUCTION

Operations of the banking sector in 2015 were also characterised by an unfavourable environment and conditions of stagnating economic development resulting from the global financial and debtor crisis, recession and the absence of economic growth in countries of the EU zone and in the surrounding countries as well. Insufficient economic growth, the difficult situation in the real sector and numerous domestic problems caused by the political situation in the country, the absence of significant reforms, limited access to stable sources of financing have all adversely reflected upon the condition and prospects in the banking sector. Despite all these negative factors, in 2015, positive trends were also recorded, which are reflected in the increase of the balance sheet volume, loans, deposits, and especially retail savings, as well as the improved profitability of the overall banking sector. 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 31.12.2015, there were 17 licensed banks in the Federation of B&H, as was the case at the end of 2014. In 2015, the trend of a decline in the number of bank employees in the FB&H continued. As of 31.12.2015, the headcount amounted to 6 683, down by 277 employees or 4% compared to the end of 2014.

In 2015, the upward trend of the balance sheet total continued (for the third year in a row), and it is expected that the same trend will continue in the period to come. The balance sheet total of the banking sector as of 31.12.2015 amounted KM 17.2 billion, thus posting an increase in the amount of KM 1 billion or 6.5% compared to the end of 2014. The increase in the balance sheet total with respect to sources (liabilities) is primarily the result of an increase in deposits and total capital, while the downward trend of loan commitments was continued in 2015 as well. The asset structure saw minor changes related to key material items: a reduction of the share of loans from 69.2% to 67.5%, an increase of the share of trading securities from 3.6% to 5.1%, while the share of cash funds (28.3%) remained at almost the same level as at the end of 2014.

Loans, being the largest assets item in banks, recorded an increase of 3.9% or KM 440 million in 2015, amounting to KM 11.6 billion at the end of the year. Retail loans amount to KM 5.7 billion and recorded an increase of 5% or KM 257 million, reaching a share of 49.1% in total loans. Loans to legal entities amount to KM 5.9 billion and have recorded an increase in the amount of 3.2% or KM 183 million, thus recording a share of 50.9% at the end of 2015.

Loan quality indicators have improved in 2015 as well, as was the case in the previous year, which particularly reflected upon the sector of legal entities. A somewhat higher increase in the loan portfolio, a decrease in the 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 14.1%, to which it amounted at the end of 2014, to 12.9%, to which it amounts as of 31.12.2015. The share of non-performing loans granted to legal entities in relation to total corporate loans is still worryingly high and amounts to 16.7%, while the share of non-performing retail loans in relation to total retail loans amounts to 9%. 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 4.86 billion or 28.3% of the balance sheet total of banks in the FB&H and recorded an increase of 6.5% or KM 297 million compared to the end of 2014.

Investments in securities are an assets item that recorded a high increase of 31.1% or KM 249 million in 2015, and amounted to KM 1.05 billion as of 31.12.2015, with a 6.1% share in the assets of the banking sector in the FB&H.

In the structure of banks' sources of funding, deposits in the amount of KM 13.1 billion with a share of 76.2% continued to be the most significant source of funding for banks in the FB&H, and they increased by 8% or KM 968 million in 2015. 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 7.2 billion at the end of 2015, which is up by 8% or KM 543 million compared to the end of 2014. Savings deposits, compared to the end of 2008, when they amounted to KM 4 billion, increased by 79.3% or KM 3.2 billion in the previous period.

As of 31.12.2015, loan commitments of banks amounted to KM 904 million or 5.3% of total sources of funding and are down by KM 122 million or 11.9% compared to the end of 2014. In the last seven 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 reduced by 58% or KM 1.3 billion (at the end of 2008, they amounted to KM 2.2 billion). In that same period, sources of funding for banks in the FB&H (loans taken, deposits and subordinated debt) from their group (parent banks and other group members and/or other shareholders) decreased by 67% or KM 2.3 billion, amounting to KM 1.1 billion or 6.6% of liabilities as of 31.12.2015. It is evident that the financial support of parent groups decreased significantly, and thus credit growth in the FB&H will be based more on the increase in domestic sources of funding in the period to come.

As of 31 12.2015, total capital of banks amounted to KM 2.6 billion, up by 7.5% or KM 182 million compared to the end of 2014. Increase on the basis of profit and the recapitalisation of six banks had the largest positive impact on capital. Regulatory capital is KM 2.2 billion and slightly up (by KM 5 million) compared to the end of 2014, with minor changes in its structure. The change in the capital structure was also influenced by the application of the provisions of the new Decision on Minimum Standards for Capital Management in Banks and Capital Hedge.

The capital adequacy ratio of the banking system, as one of the most important indicators of the strength and capital adequacy of banks, is 15.3% as of 31.12.2015, which is down by 0.7 percentage points compared to the end of 2014, 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.

According to unaudited data from the income statement for 2015, banks in the Federation of B&H have recorded the best financial result since 1996, profit in the amount of KM 149 million. The positive financial result was recorded by 14 banks in the total amount of KM 220 million, while three banks posted a loss in the amount of KM 71 million.

• ***Growth and development of the banking sector and its ownership structure:*** The table below provides an overview of changes regarding the number and ownership structure of banks in the past five years.

Table 1: *Overview of Changes in the Number and Ownership Structure of Banks*

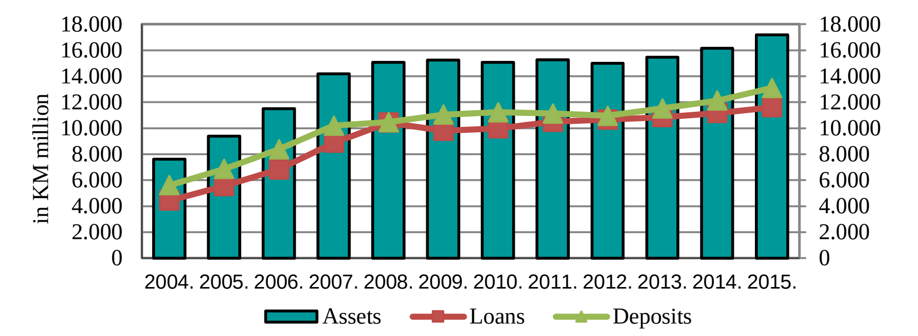
	State-owned banks	Private banks	TOTAL
31.12.2010	1	18	19
There were no changes in 2011.			
31.12.2011	1	18	19
Changes in 2012			
- licences revoked		-1	-1
31.12.2012	1	17	18
Changes in 2013			
- licences revoked		-1	17
31.12.2013	1	16	17

There were no change sin 2014.			
31.12.2014	1	16	17
There were no changes in 2015.			
31.12.2015	1	16	17

Balance Sheet

For the past few years, due to the effects of the economic and financial crisis and its consequences, the banking sector was characterised by stagnation, along with slight changes in the key banking categories: balance sheet total, deposits, cash funds, loans and total capital. After 2012, there have been slight positive trends, i.e. the increase in the balance sheet total as a result of an increase in deposits and capital, which positively affected the level of loan facilities and cash funds. Loans, as sources of funding, mostly refer to credit lines by foreign credit institutions and are steadily declining as a result of debt reduction, i.e. payment of liabilities due and weak inflow of new investments from abroad. In 2015, the lending segment continued to display a positive trend of slight growth from the past four years. In the period from 2009 to 2013, the balance sheet total ranged from KM 15 billion to KM 15.5 billion, i.e. it oscillated within +/- KM 470 million (the lowest level being KM 15 billion as of the end of 2012), while the rates oscillated within +/- two percentage points. In 2014, a slightly higher growth rate (4.6%) was recorded, which is a trend that continued in 2015 with a rate of 6.5% or KM 1 billion, so that the banking sector's assets amounted to KM 17.2 billion at the end of 2015.

Graph 1: *Balance Sheet of Banks in the FB&H (Assets, Loans and Deposits)*



The increase in the balance sheet total in 2015 was primarily generated by an increase in deposits in the amount of of 8% or KM 968 million and an increase in total capital in the amount of 7.5% or KM 182 million. In 2015, the trend of reducing loan commitments continued, with a rate of 11.9% or KM 122 million. As of the end of 2015, deposits amounted to KM 13.1 billion, total capital to KM 2.6 billion and loan commitments to KM 0.9 million.

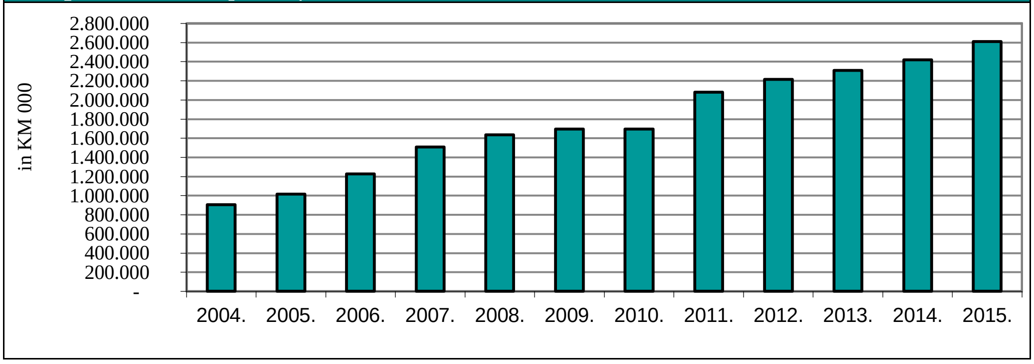
In terms of the assets of banks, the key item, with a share of 67.5%, are loan facilities, which increased by 3.9% or KM 440 million in 2015 and amount to KM 11.6 billion. The most significant changes relate to two sectors: retail and government institutions. Retail loans rose by 5% or KM 257 million (in 2014, also by 5% or KM 253 million), thus amounting to KM 5.7 billion and having a share of 49.1% in total loans. The largest growth rate was recorded by loans approved to government institutions, which, as was the case in the previous year, increased significantly in the amount of 32% or KM 60 million (in 2014, 34% or KM 48 million). However, with a loan amount of KM 251 million at the end of 2015, this sector still has a low share of only 2.2%. Private companies, along with retail, are the second dominant sector, holding a share of 45.9%, with it being noted that, following a stagnation in 2014, a slight increase in the amount of 2% or KM 112 million was recorded in 2015 and that the loan portfolio granted to this sector amounted to KM 5.3 billion as of 31.12.2015.

Cash funds saw an increase of 6.5% or KM 297 million and amounted to KM 4.9 billion, thus holding approximately the same share in assets (28.3%) as at the end of 2014.

Deposits, with a share of 76.2% in total sector liabilities and the amount of KM 13.1 billion, are still the most significant source of funding for banks in the FB&H, while retail deposits with a share of 57% and the amount of KM 7.5 billion are the largest sectoral source of deposits.

Total capital of banks amounted to KM 2.6 billion (share capital KM 1.2 billion), up by 7.5% or KM 182 million, mainly on the basis of the profit recorded in the current period and the recapitalisation of six banks.

Graph 2: *Total Capital of Banks*



Income Statement

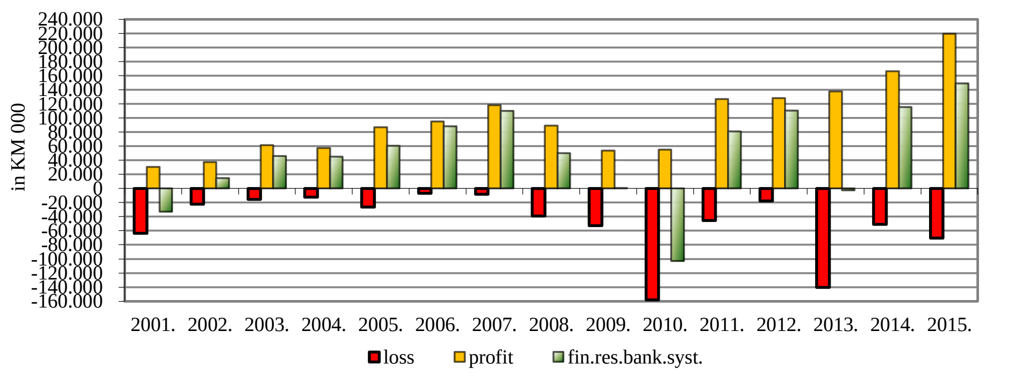
After 2001, when a loss in the amount of KM 33 million was recorded at system level, a positive trend of a successful business operations began, which was halted as a result of the expansion of the global economic and financial crisis in 2008, and thus there has been a significant decline in the profitability of the overall banking system in the Federation of B&H. In 2010, as a consequence of the negative impact of the crisis, the decline in profitability was most pronounced. However, in 2011 and 2012, positive trends in the profitability segment were recorded, the trend was the opposite in 2013 and a slight loss was recorded at system level, only for the banking sector to achieve the best financial results since 1996 in 2014 and 2015. It should, of course, be noted that the financial result of the entire system in the past few years has been under the key positive influence of the two largest banks in the system, and the negative influence of one large bank.

According to data from the income statement for 2015, banks in the Federation of B&H posted a financial result-profit in the amount of KM 149 million.

A positive financial result of KM 220 million was generated by 14 banks, with the aforementioned being up by 32% or KM 53 million compared to 2014 (14 banks, KM 166 million). At the same time, a loss in business operations in the amount of KM 71 million was recorded in three banks, which is up by 39% or KM 20 million compared to the previous year, largely as a result of the high amount of loss recorded by one large bank.

The reason for the significant increase in the financial result of the entire sector in 2015 is primarily the effect of higher profit in banks that had positive business operations in the previous year (the effect is KM 55 million), as well as the positive business operations of a bank that recorded a loss in the previous year (the effect is KM 27 million). Although most banks recorded a better financial result-profit compared to the previous year and the upward trend of asset quality indicators at the level of the entire sector continued in 2015 as well, there are still suspicions that the impairment provisions in some banks are undervalued, while the financial result is overvalued.

Graph 3: *Financial Result of the Banking Sector in the FB&H*



Total income in 2015 amounted to KM 917 million and is up by 5% or KM 45 million compared to 2014, net interest income amounted to KM 569 million, with an increase of 4% or KM 23 million and the same share in the total income structure (62%). Operating income, as the second component of total income, saw an increase of 7% or KM 22 million, amounting to KM 348 million, which is almost the same share of 37.9% as at the end of 2014. As far as expenses are concerned, value adjustment costs are down by 13% or KM 19 million compared to 2014, amounting to KM 129 million (14.1% of total income). Non-interest expenses saw a slight increase of 1% or KM 7 million and amounted to KM 740 million as of 31.12.2015.

• ***Ownership Structure:*** As was the case in 2014, there were no changes in the ownership structure in 2015: one bank was in majority state ownership, and out of 16 banks in majority private ownership, six banks were in majority ownership of domestic legal entities and natural persons (residents), while 10 banks were in majority foreign ownership. According to the criterion of the owner-shareholder's country of origin, i.e. the criterion of direct or indirect majority ownership through group members, at the end of 2015, despite a significant decrease in the amount of 8.5 percentage points, the highest share was still that of banking groups and banks from Austria (44.1%), followed by Italian banks (16.5%), Turkish (10.4%) and Russian capital (7.8%), while other countries have a share of less than 7%.

In 2015, there were small changes in the share of state, foreign and private domestic (residents) capital in total share capital, which amounted to KM 1.2 billion as of 31.12.2015. The state capital's share of 2.7% increased by 0.1 percentage points. Foreign capital was nominally reduced by KM 60 million, thus amounting to KM 1 billion, and its share was reduced from 84.2% to 83.9%. Private capital (residents) saw an decrease of KM 6 million, amounting to KM 157 million, and its share in total share capital increased from 13.2% to 13.4%.

• ***Concentrations and competition:*** As far as concentrations and competition in the banking market of the Federation of B&H are concerned, in the fight for clients and a greater market share, the banks entered into acquisition and integration processes through mergers/acquisitions in the years prior to the crisis. However, in the past six years, the period of action of the economic and financial crisis, there were no mergers/acquisitions of banks, but the number of banks is lower by three due to the revocation of those banks' banking licences, with it being noted that there were 17 banks in the Federation of B&H at the end of 2015, as was the case in the previous two years. The assessment of financial experts is that, following the end of the integration processes, up to 15 strong banks will remain in the system. Namely, six to seven major banks in foreign ownership will control 90% of the market, which they already rule expertly, while smaller banks will stand out as local and/or regional banks.

The system is dominated by the two largest banks with a total share of 47.2% (at the end of 2014, 47.6%), with assets in the amount of KM 4.4 billion and KM 3.7 billion. They are followed by three banks (assets between KM 1 and 1.6 billion) with a share of 22.3%. Four banks have assets between KM 500 million and KM 1 billion and a share of 18.6%.The largest number of banks (eight) has assets in the amount of less than KM 500 million and a market share of 11.9%, one of which has assets in the amount of less than KM 100 million and a slight share of 0.5%.

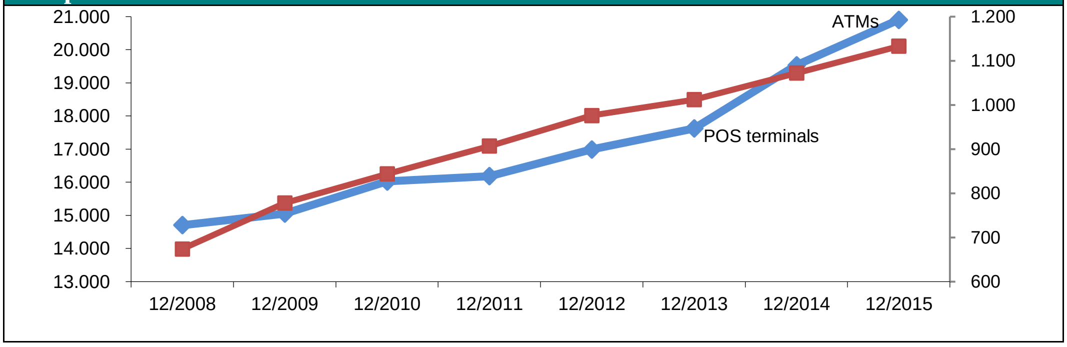
One indicator of concentration in the banking system is the market concentration ratio, i.e. the concentration ratio[1] (hereinafter: CR), which indicates the total share of the five largest institutions in the system in selected relevant categories. CR5 as an indicator of market share (assets) amounted to 69.5% in the banking system in the Federation of B&H at the end of 2015, and to 70.3% and 70.9% for loans and deposits, respectively (2014: assets 69.2%, loans and deposits 70.6%), but the domination of the two largest banks in the system that „hold“ approximately 45% of the market is still evident (assets 47.2%, loans 44.4%, and deposits 48.8%).

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

Cards business represents a significant business activity in most banks in the Federation of B&H, primarily of the credit variety, which is reflected in the more widespread use of credit and debit cards and the increased volume of non-cash payments.

During 2015, 61 new ATMs were installed, and at the end of the year their number was 1 133. The number of POS terminals, compared to the previous year, increased by 1 373, so that their number was 20 903 at the end of 2015.

Graph 4: *ATMs and POS Terminals*



[1] The concentration ratio (CR) rests on the number of institutions included in the calculation.

II BANKING SYSTEM SUPERVISION

1. THE BANKING AGENCY

The Banking Agency of the FB&H (hereinafter: the FBA) fully contributed to the banking sector reform although it frequently encountered a lack of understanding for its actions. It was established in the second half of 1996 as an independent institution for banking supervision and licencing. From the very beginning, its operations were aimed towards creating a strong and stable banking system that is market-oriented and rests upon international business standards and international standards of banking supervision.

The Law on FBA regulates its main duties that specifically relate to the issuance of banking licences for the establishment and operations of banks, the adoption of regulatory by-laws, the supervision of banks, microcredit organisations and leasing companies, as well as taking measures in accordance with the Law, which also includes introducing provisional administration and liquidation proceedings over banks, i.e. the initiation of a bankruptcy proceedings over them.

According to local and foreign officials, over the past 19 years, the FBA has achieved a high level of professionalism with employees possessing expertise and knowledge in the area of supervision, gained through different training courses attended in the country and abroad.

In the past year, the FBA successfully invested its efforts with a view to the banks in the Federation of B&H managing risks more soundly, especially when it comes to credit risk. The banks adhere to that to a great extent by complying with the prescribed minimum prudential criteria and also by considering the interests of all stakeholders, as well as its own financial health.

With a primary objective of protecting depositors' interests, the FBA has imposed measures (provisional administrations, liquidation and bankruptcy proceedings) in 27 banks in the period from its establishment until the end of 2015. A provisional administration was introduced in one bank on the basis of an order issued by the High Representative to B&H. Provisional administration measures was imposed on 25 banks.

Out of the 27 banks that were subjected to these measures, the process was finalised with respect to 20 banks and there are 7 banks undergoing the process as of 31.12.2015.

Out of the 27 banks that were subjected to these measures:

- 11 banks underwent bankruptcy proceedings before competent courts. This process was finalised in 7 banks and is still pending in 4 banks.
- 9 banks underwent liquidation proceedings. This process was finalised in 6 banks (all liabilities to creditors and shareholders were settled in 4 banks and 2 banks were sold).
- The process is still pending in 3 banks;
- 4 banks got merged to other banks;
- 3 banks recovered and resumed their operations. One bank underwent a recapitalisation and was privatised, the second one also underwent a recapitalisation and the third one solved its status issues and appointed management bodies, thus resuming itsregular course of business.

2. BANKING SUPERVISION

Starting with the need for global macroeconomic and financial stability, in 1997, the Committee on Banking Supervision in Basel adopted twenty-five core principles for effective banking supervision that were to be followed in order for the supervisory system in banking to be efficient. The core principles are „de facto“ minimum standards for good prudential regulations and supervision of banks and the banking system. Bearing in mind the significant changes that have taken place on global financial markets and in regulatory environments, as well as lessons learned from the crisis since the last revision in October 2006, the Basel Committee revised the core principles again in September 2012. With this revision, the Core Principles are joined together with the Core Principles of Methodology (assessment methodology) into one comprehensive document. The number of core principles has been increased from 25 to 29, reorganised into two groups: supervisory powers, responsibilities and functions (Principles 1-13) and prudential regulations and requirements (Principles 14-29), which stress the importance of good corporate governance, risk management and compliance with regulatory standards.

The principles are minimum requirements to be met and in many cases need to be supplemented by other measures in order for specific requirements to be fulfilled or risks in financial systems of individual countries to be regulated. The principles relate to the preconditions for effective banking supervision, licencing, prudential regulations and requirements, supervisory approaches and methods for ongoing banking supervision, necessary information, supervisory powers, cross-border banking, corporate governance, risk management processes, internal controls and audit, as well as financial reporting and external audit.

The generally accepted international principles, standards and practices for banking supervision that the FBA applies in an increasingly comprehensive and consistent manner, with a constant heightened attention to current and easily transmitted crisis causes, were the main concern of the FBA in preparing and activating the available defence activities and measures that are the result of own experiences as well as „lessons learned“ in more developed and stronger banking systems that have been especially affected by the crisis.

During 2014, the FSAP (Financial Sector Assessment Program) was conducted in B&H. IMF and WB experts participated in the FSAP Mission. The main objective of this assessment was the assessment of financial stability, the identification of weaknesses and the development of the entire financial sector, banking supervision quality, the development of legal framework, standards of corporate governance, etc. Based on the FSAP Mission’s Reports and recommendations, an Action Plan with deadlines and authorities responsible for the realisation of the aforementioned recommendations of the FSAP Mission was drafted in 2015.

Banking supervision was realised through an ongoing process of direct (on-site) and indirect (offsite) examinations of banks and direct communication with representatives of banks' management bodies in order to synchronise and coordinate activities to stabilise the banking sector in the Federation of B&H. With the help of on-site and off-site examination processes, weaknesses in banking operations are identified are initiated, along with extensive examinations of business operations or targeted on-site examinations, with a focus on asset quality, credit risk management and the impact on capital. The goal of the examinations was to assess the ability of banks to manage key business risks and the compliance of their business operations with the law and the FBA's regulations. The banks on which the FBA imposed specific measures are the focus of special attention, and an assessment of compliance with the imposed measures is made in the follow-up off-site procedure and via direct on-site examinations monitoring the execution of imposed measures.

Upon the drafting of the protocols, all examined banks are issued orders to execute and eliminate identified shortcomings. The examination found that banks complied with the orders regularly and mostly in a timely manner. A concrete, competent and professional approach by the supervision in the examination of banks is aimed at further improving the quality of the banks' business operations, their profitability, solvency and safety in operations, which is a mutual interest.

Activities related to the proper application of IAS/IFRS in banks were significant in 2014 as well. As a special segment of on-site examinations, examinations of the management of risks arising from information systems as well as the outsourcing of certain activities of banks were continued, based on regulations that entered into force in early 2012. Also, in 2015, there was also a continuation of targeted examinations in the segment of protection of users of financial services and banks' operations with guarantors in accordance with laws and regulations that entered into force in 2013 and 2014.

As part of the off-site supervision of banks, the enhancement of the system for monitoring banks through the development and improvement of additional off-site supervision tools has been continued: the „Early Warning System (EWS)“ and the „risk matrix“, which further improves the consistency of the methodology for planning the supervision and examination of banks.

During 2015, there was a continuation of the activities to develop a regulatory framework through the drafting of the new Banking Law and the drafting of by-laws (FBA decisions) in accordance with the adopted Strategy and annual plan for the development of regulations in the interest of implementing Basel II/III and EU directives.

In 2015, the FBA, together with the Central Bank of B&H and the BARS (Banking Agency of Republika Srpska) continued and intensified its work on developing the ability to collect and analyse „indicators of financial health“ as one of the preconditions for strengthening and greater efficiency of supervision of the total financial, and not only the banking sector. The development of the methodology and application of stress tests for credit risk and the impact on capital was also continued, with it being based on macroeconomic assumptions as well as familiarising banks with the results of completed stress tests, while also improving the Criteria and determining a list of systemically important banks in B&H.

The cooperation with the BARS and the Deposit Insurance Agency as part of a regular exchange of information and joint action was continued, with the cooperation with the BARS also pertaining to the creation of a new regulatory framework. A continuous exchange of information within banking coordination and the SCFS (Standing Committee for Financial Stability) was also carried out.

Cooperation was realised with the Association of Banks both in terms of the application of existing regulatory solutions and proposals to amend them, and in terms of the process of adopting new regulatory solutions.

The FBA, together with representatives of the IMF mission, regularly and on a quarterly basis reviewed and analysed the effect of the consequences of the global economic and debt crisis on the domestic banking and financial sector, developments in the banking sector, the capitalisation of banks in the FB&H, the results of stress tests for the banking system and for individual banks, the current regulatory and banking legislative framework, the implementation of recommendations from previous IMF missions, as well as planned changes in the regulatory framework.

In accordance with the requirements of Principle 13 (formerly Principle 25) from the list of „Core Principles for Effective Banking Supervision“, issued by the Basel Committee, by the end of 2015, the FBA had, together with the CBBH and the BARS, signed a multilateral agreement with the supervisory authorities of SEE countries, namely: Albania, Greece, Macedonia, Romania, Bulgaria, Serbia, Montenegro and Cyprus and Agreements on mutual cooperation (MoUs) with the competent supervisory authorities of Austria, Slovenia, Croatia, Serbia, Montenegro and Turkey. An MoU more closely defines the following: exchange of information, on-site examinations, requests for information and examinations, protection of information, ongoing cooperation, and other provisions.

In July 2015, an MoU was signed with the supervisory authorities of Austria (the FMA – the financial markets regulator, the Austrian National Bank, and the Austrian Ministry of Finance) on mutual cooperation in the area of supervision of credit institutions.

For the purpose of promoting the efficient, effective and consistent functioning of supervisory colleges, the EBA (European Banking Authority) has taken over the task of coordinating the implementation of regulatory provisions on the equivalence of confidentiality and professional secrecy regimes in non-EU countries in the interest of the relevant supervisory authorities' participation in these colleges. Accordingly, the EBA has assessed confidentiality/professional secrecy regimes that are applicable in various third countries. Bosnia and Herzegovina is also one of the countries that received a positive assessment of the regualtory framework's compliance with European directives in terms of information exchange and the protection of confidential information.

Based on the aforementioned assessment of compliance and the established cooperation with the EBA, the FBA, together with the BARS, the National Bank of Macedonia, the Central Bank of Montenegro, the National Bank of Serbia and the Central Bank of Albania, signed a Cooperation Agreement with the European Banking Authority (EBA) in October 2015, by way of which the signatory countries shall enjoy the status of equal participation in the exchange of information with members of the European Union (EU) when it comes to the business operations and supervision of banking systems.

The agreement was reached under the auspices of the Vienna Initiative, and it is guaranteed as part of the agreement that the EBA shall inform the competent supervisors of relevant changes in legislation and will thus facilitate their participation in supervisory colleges. The EBA will also open regular educational activities for the signatories of the agreement, which will send notices to the EBA with all the information related to changes in their banking systems, which will be used to analyse potential risks. On the other hand, the authorities of the signatory countries will tend to harmonise their laws, supervisory standards and institutional policies with those in the EU according to a schedule adapted to the conditions in each individual country, with the signatories being able to provide suggestions regarding the regulations that are being prepared.

With the establishment of the SSM (Single Supervisory Mechanism), in the eurozone, special tasks in the supervision of credit institutions were transferred from national regulators to the European Central Bank (ECB). On the basis of the EBA's positive assessment of compliance and the agreement signed with the EBA, Bosnia and Herzegovina has been placed in the first group of countries outside the EU with which the ECB is planning to sign joint cooperation agreements in 2016. The signing of the Agreement with the ECB would create the preconditions for a comprehensive exchange of information and joint supervision of banking groups whose subsidiaries operate in the FB&H and are under the direct supervision of the ECB.

In 2015, the FBA established cooperation not only with the regulatory institutions of the countries with which memorandums of understanding had already been signed, but also with other supervisory institutions of countries in a closer and wider environment. Special forms of concrete cooperation with the supervisory institutions were realised through regional and bilateral meetings and the regular exchange of information on operations and the state of parent banks and their „daughters“, i.e. subsidiaries, and in some cases through joint on-site examinations of their subsidiaries in the FB&H.

The FBA has also actively participated in the work of the BSCEE, as well as in the work of the Vienna Initiative 2.0. Substantial cooperation with international financial institutions: the IMF, the WB, the ECB and others has also been realised with respect to the issue of information and analysis of trends in the banking system of the FB&H, as well as the participation in various projects in order to strengthen the capacity for effective banking supervision.

In accordance with the decision of the Parliament of the Federation of B&H from 2006 and the subsequent „CARDS Program“, which was prepared by experts from the ECB and a group of European central banks, in 2015, the FBA at all times supported the idea of unifying banking supervision at state level, because it is recognised that, for many pragmatic reasons, without the establishment of such supervision of major segments of the financial system, the road toward the European Union is impossible. European experts have also confirmed that „banking supervision is truly organised at state level in European countries, whether under the patronage of the central bank or outside it“, and that „...membership in the European Union implies the establishment of a single banking market leading toward unified supervision“.

The increasingly aggressive globalisation and development of the banking industry, as well as the upgrade and evolution of supervisory principles, rules and standards, but also the painful reflections of the current global financial and economic crisis that has „taught“ everything and everyone affected many lessons, have shown that especially banking supervisors must constantly be up-to-date and continuously develop their knowledge, skills and tools for more efficient action in the exercising of their mission. For all these reasons, and for reasons of hiring of new, especially young employees, in 2015, the FBA took care of those needs and, independently and with the help of various international highly qualified and specialised institutions, conducted necessary trainings of its employees, which were held in the country and abroad, but also provided assistance in specialist trainings of other supervisory bodies and institutions in the Federation of B&H.

3. PREVENTION OF MONEY LAUNDERING AND COMBATING OF TERRORISM FINANCING

The rating of the banking sector for 2015 is based on assessments of business operations' compliance with operating standards to prevent money laundering, the financing of terrorist activities that were identified in examinations of compliance, the analysis of reports banks submit to the FBA, and based on information from external sources.

Based on the state of the banks in the previous supervisory cycle, the conducted examinations of compliance of business operations and the reports banks submit to the FBA, it can be concluded that there are no reasons for supervisory concern with respect to managing the risks of money laundering and terrorism financing. The quantity of risk has stayed within moderate limits. The quality of managing the risks that can appear in the banks' operations as a result of money laundering and terrorism financing (reputation risk, operational risk, legal risk, concentration risk in assets and deposits) is satisfactory and continuing its upward trend. Accordingly, the following assessment can be made: the banking sector of the FB&H is mostly consistent with the standards to prevent money laundering and terrorism financing.

Client Eligibility

Banks have adopted customer acceptance policies and defined which clients are acceptable for establishing business relationships. Based on this policy, banks have organised special client profile registries. Updating data on clients classified in the highest risk group represents certain problems in the functioning of these registries. However, it is very important that banks have adopted and apply a kind of client approach that rests on the analysis of risks that a particular client brings to the bank, i.e. that they defined which clients are eligible for the bank. This approach of the banks is especially important and represents very high-quality risk management in a situation in which the state has not performed a risk assessment and in which the state has no defined strategy for combating money laundering and terrorism financing.

Client Identification

Banks have adopted client identification as a key element of the „know your customer“ standard. The client identification policy is being applied by banks upon establishing business relationships with clients. However, the problem of updating the documentation used in verifying the completed identification of already established business relationships is still present. Banks do not apply consistent measures of identification depending on the identified risk, so that standard measures of identification prevail, which are carried out for medium-risk clients, as opposed to simplified and enhanced measures, which are implemented for low-risk and high-risk clients.

Continuous Account and Transaction Monitoring

This policy has been adhered to, thus further reducing the formal account and transaction monitoring of clients. In order to get to the essence of account and transaction monitoring of clients, banks have, by applying the „know your customer“ principle, defined transaction limits with respect to certain account and transaction types and have built information systems enabling the application of established limits for account and transaction monitoring. The defined limits are increasingly used in preventive account and transaction monitoring. As is the case with client identification, the banks do not apply consistent measures for monitoring accounts and transactions, i.e. the business activities of clients, depending on the identified risk. Also, standard monitoring measures prevail, which are carried out for medium-risk clients, as opposed to simplified and enhanced measures, which are implemented for low-risk and high-risk clients.

Managing the Risk of Money Laundering and Terrorism Financing

Reporting

The elements of the aforementioned policy are outlined in the banks' programmes. They have defined reporting lines, both internal and external. Based on reports submitted to the FBA by banks regarding cash, related and suspicious transactions reported by the Financial Intelligence Department of the Investigation and Protection Agency of Bosnia and Herzegovina (AML/CTF Form) and based on controls carried out in on-site supervision, the number and value of the reported transactions is determined.

Accordingly, in 2015, banks reported 254 132 transactions, which is 0.3% of total transactions carried out in the banking system of the FB&H (78 150 569 carried out transactions, according to bank data) in the amount of KM 13 026 093 thousand, thus constituting 9.7% of the total value of transactions carried out in the banking system of the FB&H (KM 134 164 785 thousand, according to bank data). The number of transfers reported in 2015 is up by 2.2% compared to the previous year, and their value is up by 3.8%.

The table below provides a comparative overview of the number and value of reported transfers according to the reporting method used (before transfer execution, within the defined deadline and upon the expiry of that deadline):

Transfer value in KM 000

Table 2: Comparative Overview of Number and Value of Reported Transfers

No.	Description (transfer name)	Transfers in 2014		Transfers in 2015		%	
		Number	Value	Number	Value	Number	Value
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	**Total reported transfers**	**248 536**	**12 550 795**	**254 132**	**13 026 093**	**102.2**	**103.8**
2.	Transfers reported before their execution	13	24 640	28	10 558	215.4	42.8
3.	Transfers reported within 3 days	248 346	12 515 291	253991	13 002 639	102.3	103.9
4.	Transfers reported after 3 days	177	10 864	113	12 896	63.8	118.7

The structure of reported transactions shows a major increase in the number (215.4% of transfers reported before their execution compared to the previous year), although the value of these transfers is down (42.8% compared to the previous year). This leads to the conclusion that banks employ preventive measures regarding anti-money laundering and counter-terrorism financing, as prescribed for financial institutions. This conclusion is confirmed by the number of transfers reported upon the expiry of the 3-day deadline (63.8% compared to the previous year). The fact that the value of these transfers increased by 18.7% compared to the previous year does not cast doubt on the reliability of the defined conclusion. Thus, it is representative and confirms that the quality of managing the risk of money laundering and terrorism financing is in an upward trend. The number of transfers reported within the prescribed period remained within the framework of the increased number of total reported transfers (up by 2.3%), as is the case with their value (up by 3.9%), which is also within the framework of the increase in volume (number and value) of payment transactions in the FB&H.

Suspicious transactions: In their reports, banks have tagged 145 transfers as suspicious (290% compared to the previous year). The value of these transfers amounts to KM 26 124 thousand, which is 82.8% compared to the previous year. All transfers relate to suspicion of money laundering. There were no reported transfers suspected of terrorism financing.

The table below provides a comparative overview of the number and value of reported suspicious transfers according to the reporting method used (before transfer execution, within the defined deadline and upon the expiry of that deadline).

Transfer value in KM 000

Table 3: Comparative Overview of Number and Value of Reported Suspicious Transfers

No.	Suspicious transfers	Transfers in 2014		Transfers in 2015		%	
		Number	Value	Number	Value	Number	Value
1	2	3	4	5	6	7 (5/3)	8(6/4)
1.	**Total reported transfers**	**50**	**31 563**	**145**	**26 124**	**290.0**	**82.8**
2.	Transfers reported before their execution	13	24 640	28	10 558	192.3	36.3
3.	Transfers reported within 3 days	21	2 529	40	4 285	190.5	169.4
4.	Transfers reported after 3 days	16	4 394	77	11 281	480.0	256.7

The structure of reported suspicious transfers, as well as the structure of total reported transfers, confirms earlier statements about the quality of managing the risk of money laundering and terrorism financing and the lack of a reason for supervisory concern.

There are 28 cases of preventive action of banks, in which banks submitted reports on suspicious transactions to the Financial Intelligence Department prior to their execution. There are 40 cases of quality monitoring, in which banks spotted suspicious transaction characteristics in a period of 3 days and submitted reports on it, while the other 77 cases refer to corrective action, most often ordered by the FBA.

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

1. BANKING SECTOR STRUCTURE

1.1. Status, Number and Network of Branches

As of 31.12.2015, there were 17 banks with a banking licence in the Federation of B&H. The number of banks is the same as on 31.12.2014. 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 dd Sarajevo.

In 2015, there was no major expansion of the banks' network of organisational units, chiefly attributable to the financial crisis and the reduced volume of the bans' business activities.

Banks have reorganised their networks of organisational units by changing the organisational form, membership or address of their organisational parts. This also entailed mergers and closings of some organisational parts, all for the purpose of business rationalisation and operating costs reduction. There was a total of 89 such changes among banks in the Federation of B&H (84 changes on the territory of the Federation of B&H, 4 in Republika Srpska, and 1 in Brčko District): 8 new organisational units were established, 16 organisational units were closed, and 65 underwent changes.

Subsequent to such changes, banks in the Federation of B&H had a total of 557 organisational units as of 31.12.2015, down by 2.6% compared to 31.12.2014.

The number of organisational units of banks from Republika Srpska in the Federation of B&H (36) changed compared to 31.12.2014, when there were 32 organisational units, which is a increase of 12.5%.

As of 31.12.2015, seven banks from the Federation of B&H had 50 organisational units in Republika Srpska, and nine banks had 12 organisational units in Brčko District. Four banks from Republika Srpska had 36 organisational units in the Federation of B&H.

As of 31.12.2015, all banks had licences to effect interbank transactions within the domestic payment system, and 16 banks had secured deposits.

1.2. Ownership Structure

The ownership structure of banks[2] as of 31.12.2015, assessed on the basis of available information and reviews conducted in the banks themselves, is as follows:

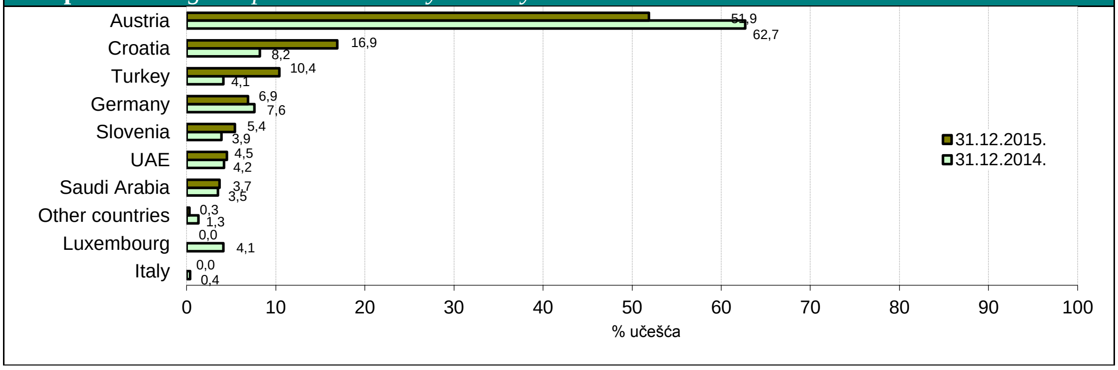
- In private or mostly private ownership 16 banks
- In state or mostly state ownership[3] 1 bank.

Out of the 16 banks in mostly private ownership, six 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, the conditions as of 31.12.2015 changed compared to those as of the end of 2014 as a result of recapitalisations and changes in the ownership structure of two groups (transfer/acquisition among group members and coverage of accumulated losses): the largest share of foreign capital in the amount of 51.9% refers to shareholders from Austria, although a significant drop in the amount of 10.8 percentage points was recorded in 2015, followed by shareholders from Croatia with 16.9% (share up by 8.7 percentage points) and Turkey with 10.4% (share up by 6.3 percentage points). Other countries hold individual shares below 7%.

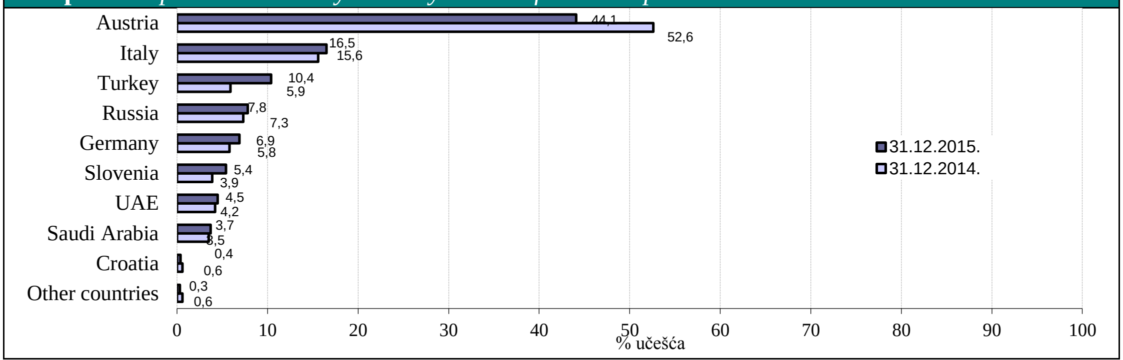
[2] The criterion for this particular bank classification is ownership of share capital in banks.
[3] State ownership refers to domestic state capital of B&H.

Graph 5: *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, the conditions also changed compared to the end of 2014: after a drop in the amount of 8.5 percentage points, the share of banking groups and banks from Austria amounts to 44.1%, followed by Italian banks with a share of 16.5%, while the share of capital from Turkey amounts to 10.4% and from Russia to 7.8%. Other countries held individual shares below 7%.

Graph 6: *Capital Structure by Country – Seat of the Group* [4]



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 4: *Ownership Structure by Total Capital*

BANKS	31.12.2013		31.12.2014		31.12.2015		INDEX	
1	2		3		4		5 (3/2)	6 (4/3)
State-owned banks	51 618	2%	51 929	2%	52 319	2%	101	101
Private banks	2 256 327	98%	2 367 574	98%	2 549 228	98%	105	108
T O T A L	2 307 945	100%	2 419 503	100%	2 601 547	100%	105	108

In 2015, total capital was up by 7.5% or KM 182 million, which is the net effect of the following most significant changes: increase based on current profit in the amount of KM 149 million and recapitalisation in the amount of KM 110 million in six banks, as well as decrease due to the transfer of the payment of dividends in the amount of 70 KM million to Liabilities.

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.

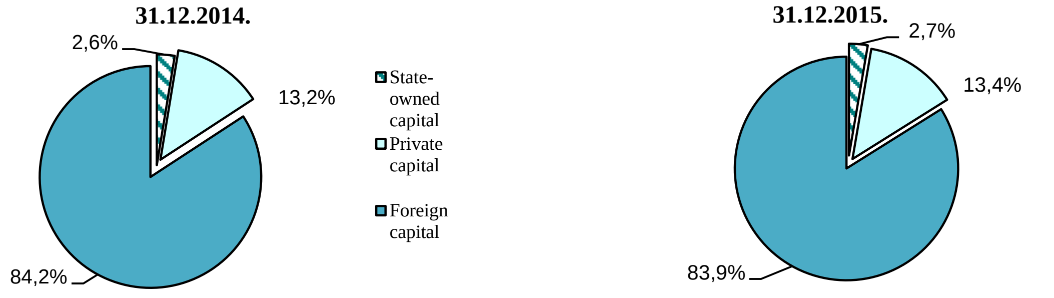
[4] In addition to home countries of parent groups whose members are banks from the Federation of B&H, the graph also outlines countries of all other foreign shareholders of banks in the Federation of B&H.

- in KM 000 -

Table 5: *Ownership Structure by Share of State-owned, Private and Foreign Capital*

SHARE CAPITAL	31.12.2013		31.12.2014		31.12.2015		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
State-owned capital	32 364	2.7	32 364	2.6	31 647	2.7	100	98
Private capital (residents)	153 549	12.8	162 354	13.2	156 574	13.4	106	96
Foreign capital (non-residents)	1 017 822	84.5	1 038 832	84.2	979 271	83.9	102	94
T O T A L	1 203 735	100.0	1 233 550	100.0	1 167 492	100.0	102	95

Graph 7: *Ownership Structure (by Share Capital)*



In 2015, share capital of banks in the Federation of B&H was down by KM 66 million or 5.4% compared to 31.12.2014. Share capital rose by KM 74 million following recapitalisation in five banks, and dropped by KM 140 million due to the coverage of cumulative losses at the expense of share capital in two banks.

The analysis of the ownership structure of banks from the aspect of the share capital shows changes and trends in the banking system of the Federation of B&H, namely changes in the ownership structure, in a more detailed manner.

As of 31.12.2015, the share of state-owned capital in total share capital amounts to 2.7% and is up by 0.1 percentage points compared to 31.12.2014, according to relative indicators. According to absolute indicators, the share is down by KM 0.7 million due to the coverage of cumulative losses at the expense of share capital in one bank.

The share of private capital (of residents) in total share capital amounts to 13.4%, up by 0.2 percentage points compared to 31.12.2014, according to relative indicators. According to absolute indicators, the share is down by KM 6 million net due to an increase in the share of residents after trade with residents in the amount of KM 9 million and recapitalisation in two banks in the amount of KM 8 million, as well as due to a decrease in the amount of KM 23 million due to the coverage of cumulative losses at the expense of share capital in one bank.

The share of private capital (of non-residents) in total share capital decreased by 0.3 percentage points (from 84.2% to 83.9%), according to relative indicators. According to absolute indicators, the share is down by KM 60 million net, i.e. up due by KM 66 million due to recapitalisation in four banks, and down due by KM 9 million due to a decrease in the share of non-residents after trade with residents and by KM 116 million due to the coverage of losses at the expense of share capital in two banks.

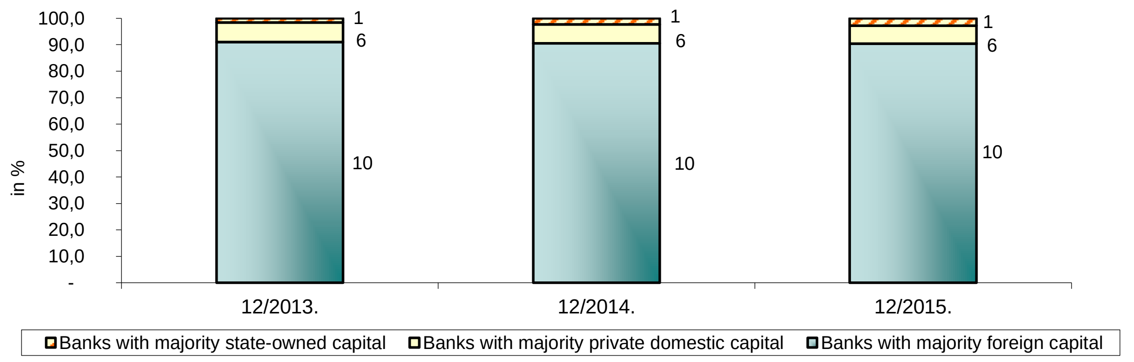
The market share of banks according to the ownership criterion has been almost unchanged for a long time, i.e. has seen only minor changes. The market share of banks in majority foreign ownership as of 31.12.2015 stood at a high 90.4%, while banks with majority domestic private capital had a 6.8% share and one bank with majority state-owned capital had a 2.8% share.

- in % -

Table 6: *Market Shares of Banks by Ownership Type (Majority Capital)*

BANKS	31.12.2013			31.12.2014			31.12.2015		
	No. of banks	Share in total capital	Share in total assets	No. of banks	Share in total capital	Share in total assets	No. of banks	Share in total capital	Share in total assets
1	2	3	4	5	6	7	8	9	10
Banks woth majority state-owned capital	1	2.2	1.6	1	2.1	2.3	1	2.0	2.8
Banks with majority private domestic capital	6	9.2	7.4	6	7.8	7.1	6	7.0	6.8
Banks with majority foreign capital	10	88.6	91.0	10	90.1	90.6	10	91.0	90.4
TOTAL	17	100.0	100.0	17	100.0	100.0	17	100.0	100.0

Graph 8: *Market Shares by Ownership Type*



1.3. Human Resources

As of 31.12.2015, banks in the Federation of B&H had a headcount of 6 683 employees, 3% of which were employed in banks with majority state-owned capital and 97% of which were employed in private banks.

Table 7: *Employees in Banks of the Federation of B&H*

BANKS	HEADCOUNT						INDEX	
	31.12.2013		31.12.2014		31.12.2015		3/2	4/3
1	2		3		4		5	6
State-owned banks	200	3%	202	3%	181	3%	101	90
Private banks	6 851	97%	6 758	97%	6 502	97%	99	96
TOTAL	7 051	100%	6 960	100%	6 683	100%	99	96
Number of banks	17		17		17		100	100

Table 8: *Qualification Structure of Employees*

LEVEL OF QUALIFICATION	HEADCOUNT						INDEX	
	31.12.2013		31.12.2014		31.12.2015		4/2	6/4
1	2	3	4	5	6	7	8	9
University degree	3 673	52.1%	3 775	54.2%	3 757	56.2%	103	99
Two-year post-secondary school qualification	601	8.5%	587	8.5%	551	8.3%	98	94
Secondary school qualification	2 750	39.0%	2 571	36.9%	2 360	35.3%	93	92
Other	27	0.4%	27	0.4%	15	0.2%	100	55

T O T A L	7 051	100.0%	6 960	100.0%	6 683	100.0%	99	96

As a result of the impact of the longtime economic crisis as well as the measures that banks have undertaken in order to streamline business operations, especially in the business network segment, but also due to a reduction in business, primarily lending activities, the number of employees in the banking sector has been continuously decreasing. In 2015, the number of employees was reduced by 277 or 4%, and cumulatively by 705 or 9.5% in the last five years.

A positive fact is that the trend of an improved qualification structure of employees by means of a larger share of employees with university degrees was continued in 2015 as well, mostly as a result of the number of employees with secondary school qualifications being down by 8% or 211 employees.

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 9: *Assets per Employee*

BANKS	31.12.2013			31.12.2014			31.12.2015		
	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	200	241 605	1 208	202	379 330	1 878	181	476 866	2 635
Private	6 851	15 204 945	2 220	6 758	15 771 200	2 334	6 502	16 716 435	2 571
TOTAL	7 051	15 446 550	2 191	6 960	16 150 530	2 320	6 683	17 193 301	2 573

At the end of the reporting period, there were KM 2.6 million of assets per employee at banking system level (KM 2.3 million at the end of 2014).

Table 10: *Assets per Employee – by Group*

Assets (KM 000)	31.12.2013	31.12.2014	31.12.2015
	Number of banks	Number of banks	Number of banks
Up to 1 000	1	1	0
1 000 to 2 000	8	7	7
2 000 to 3 000	7	7	8
Over 3 000	1	2	2
TOTAL	17	17	17

Analytical indicators for individual banks range from KM 1.1 million to KM 3.6 million of assets per employee. There are seven banks in which this ratio is better than the one at the banking sector level, while this ratio exceeds the amount of KM 2.7 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.[5]

2.1. Balance Sheet

The balance sheet total of the banking sector amounted to KM 17.2 billion at the end of 2015, thus posting an increase in the amount of KM 1 billion or 6.5% compared to the end of 2014, mostly as a result of an increase in deposits and total capital, i.e. the current financial result. In 2015, the positve trend of a slight increase, which was recorded in the previous two years, was continued in both the balance sheet total and key balance sheet categories: deposits, total capital, cash funds and loans, although the impact of the financial and economic crisis is still felt, i.e. the environment in which the banks in the FB&H, i.e. in B&H, operate. This still constitutes an obstacle for faster growth and development of the entire banking sector.

- KM 000 -

Table 11: *Balance Sheet*

DESCRIPTION	31.12.2013		31.12.2014		31.12.2015		INDEX	
	AMOUNT	Share %	AMOUNT	Share %	AMOUNT	Share %		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
ASSETS:								
Cash funds	4 417 898	28.6	4 560 234	28.2	4 857 483	28.3	103	107
Securities[6]	562 513	3.6	801 289	5.0	1 050 206	6.1	142	131
Facilities to other banks	51 960	0.3	50 836	0.3	78 420	0.5	98	154
Loans	10 852 400	70.3	11 170 277	69.2	11 610 744	67.5	103	104
Value adjustment	1 165 928	7.5	1 160 481	7.2	1 153 570	6.7	100	99
Net loans (loans minus value adjust.)	9 686 472	62.8	10 009 796	62.0	10 457 174	60.8	103	104
Business premises and other fixed assets	512 985	3.3	525 860	3.2	520 214	3.0	103	99
Other assets	214 722	1.4	202 515	1.3	229 804	1.3	94	113
TOTAL ASSETS	**15 446 550**	**100.0**	**16 150 530**	**100.0**	**17 193 301**	100.0	**105**	**106**
LIABILITIES:								
LIABILITIES								
Deposits	11 523 849	74.6	12 130 746	75.1	13 098 983	76.2	105	108
Borrowings from other banks	0	0.0	0	0.0	0	0.0	0	0
Loan commitments	1 039 381	6.7	1 026 503	6.4	904 050	5.3	99	88
Other liabilities	575 375	3.7	573 778	3.5	588 721	3.4	100	103
CAPITAL								
Capital	2 307 945	15.0	2 419 503	15.0	2 601 547	15.1	105	108
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**15 446 550**	**100.0**	**16 150 530**	**100.0**	**17 193 301**	**100.0**	**105**	**106**

- KM 000 -

Table 12: *Banks' Assets by Ownership Structure*

BANKS	31.12.2013	31.12.2014	31.12.2015	INDEX

[5] 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 31.12.2015, these items amounted to KM 714 million in the case of one state-owned bank.

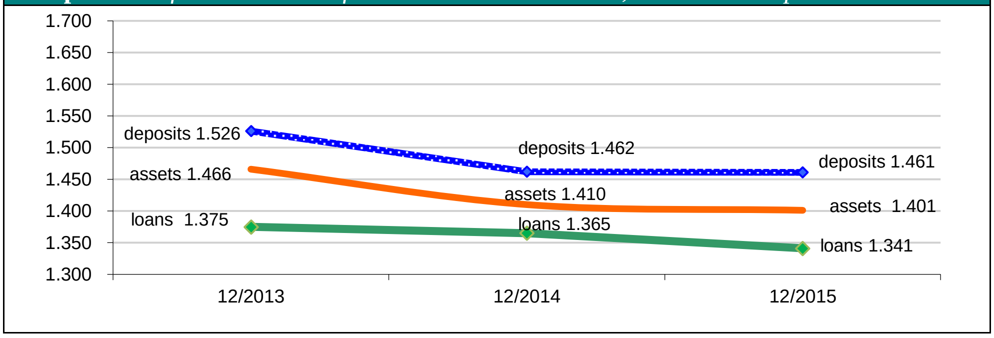
[6] Trading securities, securities available for sale and held to maturity securities.

	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	241 605	2%	1	379 330	2%	1	476 866	2.8%	157	126
Private	16	15 204 945	98%	16	15 771 200	98%	16	16 716 435	97.2%	104	106
TOTAL	17	15 446 550	100%	17	16 150 530	100%	17	17 193 301	100%	105	106

In most banks (13), assets are up compared to the end of 2014, while the other banks saw a decrease in assets. Nine banks recorded a moderate growth rate (between 5% and 13%), while two banks recorded a large increase in assets (26% and 31%, respectively). A slight drop in the balance sheet total was recorded in three banks, while only one bank had a somewhat higher rate of decrease (14%).

The concentration indicator used for three key segments of banking operations (assets, loans and deposits) is the Herfindahl index.[7]

Graph 9: *Herfindahl Indeks of Concentrations in Assets, Loans and Deposits*



In 2015, the Herfindahl index of concentrations in all three relevant categories (assets, loans and deposits) decreased slightly: it decreased by 9 units for assets, by 1 unit for deposits and by 24 units for loans, so that it amounted to 1 401 units for assets, 1 341 units for loans, and 1 461 units for deposits as of 31.12.2015, which is indicative of a moderate concentration.[8]

The second concentration indicator for the banking system is the ratio of market concentrations, i.e. the concentration rate[9] (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 only slightly and amounted to 69.5% for market share, 70.3% for loans, and 70.9% for deposits. 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.

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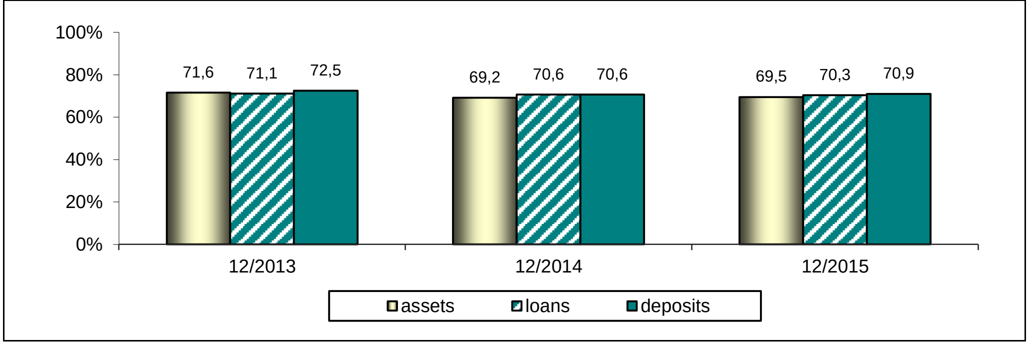
[7] This index is also called Hirschmann-Herfindahl index or HHI and is calculated according to this formula: $HI = \sum_{j=1}^{n} (S)_j^2$,

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%. Hypotethically, if there were just one bank in the entire system, the HHI would be 10 000 at most.

[8] 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.

[9] The concentration ratio (CR) rests on the number of institutions included in the calculation.

Graph 10: *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.[10] Changes in share percentage compared to the end of 2014 are minor, which is the result of changes in the assets of most banks.

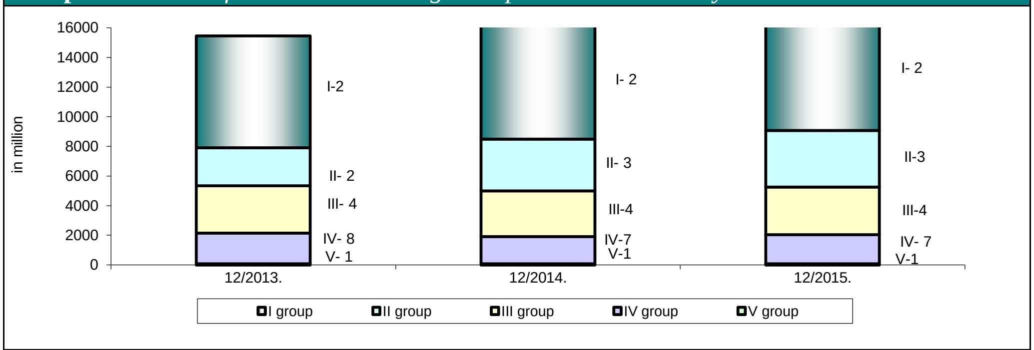
The banking system is dominated by the two largest banks (I group with assets in the amount of over KM 2 billion) with a share of 47.2%, followed by the share of the II group (three banks with assets in the amount ranging from KM 1 billion to KM 2 billion) of 22.3%, while the III group has a somewhat lower share of 18.6% (four banks with assets ranging from KM 500 million to KM 1 billion). The share of the IV and largest group (seven banks with assets ranging from KM 100 million to KM 500 million) amounts to 11.4%, while one bank in the V and last group (with assets below KM 100 million) has a share of a negligible 0.5%.

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

Table 13: *Share of Individual Banking Groups in Total Assets by Period*

ASSETS	31.12.2013			31.12.2014			31.12.2015		
	Amount	**Share %**	**No. of banks**	**Amount**	**Share %**	**No. of banks**	**Amount**	**Share %**	**No. of banks**
I- Over 2 000	7 546	48.8	2	7 685	47.6	2	8 121	47.2	2
II- 1000 to 2000	2 555	16.5	2	3 488	21.6	3	3 821	22.3	3
III- 500 to 1000	3 195	20.7	4	3 077	19.0	4	3 202	18.6	4
IV- 100 to 500	2 078	13.5	8	1 823	11.3	7	1 965	11.4	7
V- Below 100	73	0.5	1	78	0.5	1	84	0.5	1
TOTAL	15 447	100.0	17	16 151	100.0	17	17 193	100.0	17

Graph 11: *Share of Individual Banking Groups in Total Assets by Period*



[10] Banks are divided into 5 groups depending on asset size.

The slight balance sheet total increase of 6.5% or KM 1.1 billion, i.e. to the level of KM 17.2 billion at the end of 2015 is mostly the result of an increase in deposits in the amount of 8% or KM 968 million, i.e. to the level of KM 13.1 billion, as well as an increase in total capital in the amount of 7.5% or KM 182 million on the basis of current profit and the recapitalisation of six banks in the amount of KM 110 million (by means of a new issue of shares, the conversion of subordinated debt and/or reserve payments). At the end of 2015, total capital amounted to KM 2.6 billion. The downward trend of loan commitments continued, with a share of 11.9% or KM 122 million, i.e. to the level of KM 904 million.

Cash funds went up by 6.5% or KM 297 million, i.e. to the level of KM 4.9 billion as a result of an increase in the deposit base. The recorded nominal increase in cash funds is significantly lower than the increase in deposits, since the banks used a part of the funds for credit growth, investments in securities and a smaller part for facilities to other banks, and, on the other hand, for the payment of due loan commitments.

In 2015, credit growth in the amount of 3.9% or KM 440 million was recorded and loans amounted to KM 11.6 billion as of 31.12.2015.

Investments in securities recorded a significant increase of 31.1% or KM 249 million (in 2014, their growth was 42.4% or KM 239 million), which was primarily related to securities issued by the Government of the FB&H. In the past two years, the securities portfolio almost doubled, i.e. it increased from KM 563 million at the end of 2013 to KM 1.05 billion at the end of 2015, thus having a 6.1% share in assets.

The portfolio of securities available for sale (a small part thereof refers to the trading portfolio), up by 50.5% or KM 296 million, amounted to KM 883 million, while the securities held to maturity decreased by 22%, i.e. from KM 215 million to KM 167 million. Both portfolios include securities issued by the Government of the Federation of B&H[11] in the total amount of KM 546 million, as well as securities issued by the Government of Republika Srpska in the amount of KM 117 million. Also, the trading portfolio includes shares issued by local companies totaling KM 6 million. The remaining portion of the securities portfolio amounts to app. KM 382 million and refers mostly to bonds of EU countries, and to a lesser extent to corporate bonds, primarily those of EU banks. The increase in investments in securities in 2015 is primarily the result of an increase in the exposure to the Government of the FB&H on the basis of the purchase of treasury bills and bonds, which rose from KM 355 million to KM 518 in 2015.

As of 31.12.2015, the balance and book value of treasury bills issued by the Government of the FB&H amounted to KM 100 million and KM 99.6 million, respectively.

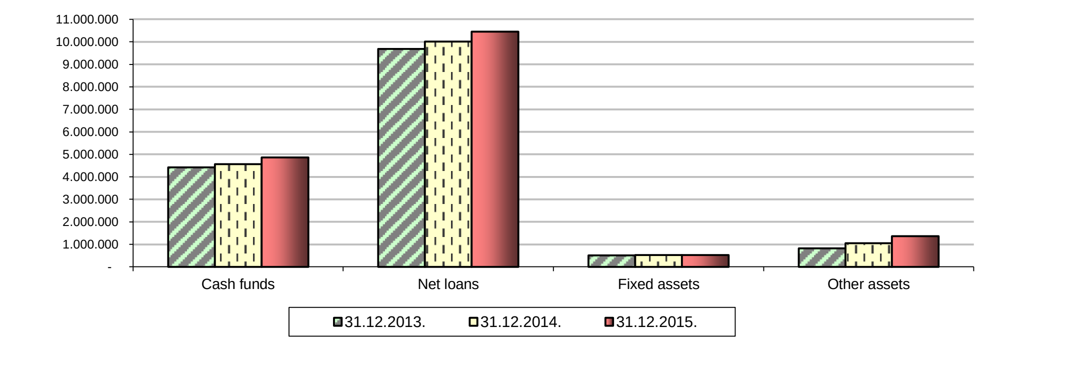
In addition to treasury bills, the securities portfolios of banks also include market bonds issued by the Government of the Federation of B&H. The balance of the nominal amount of bonds as of 31.12.2015 was KM 418 million (KM 255 million at the end of 2014). The majority of the treasury bills and market bonds with a book value of KM 484 million was classified in the portfolio of securities available for sale, while the rest in the amount of KM 34 million is classified in the portfolio of securities held to maturity.

When analysing the overall securities portfolio (KM 1.05 billion) from the aspect of exposure by country, the largest share is that of B&H (63.6%) (56.6% at the end of 2014) as a result of an increase in the amount of 47% or KM 215 million, i.e. to the level of KM 668 million at the end of 2015, followed by Austria (11.6%), Romania (9.6%), Belgium (3.3%), etc.

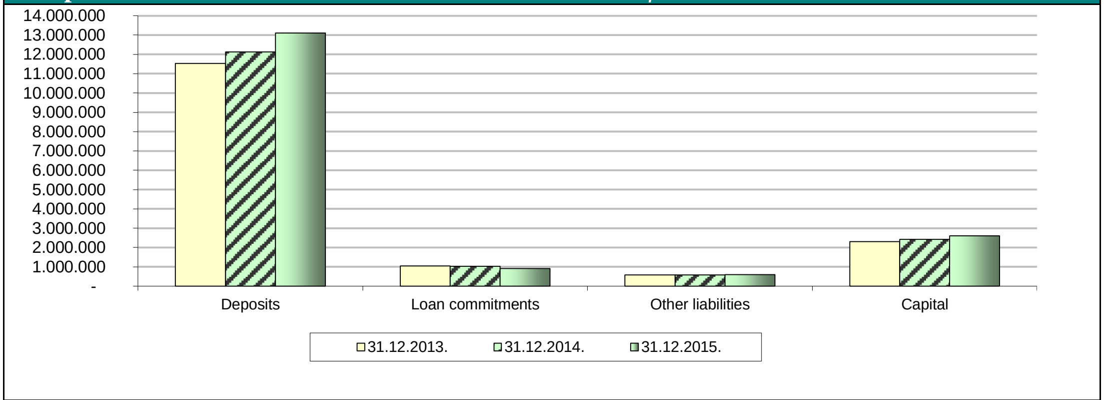
[11] All types of securities issued by the Government of the Federation of B&H.

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

Graph 12: *Assets Structure within the Balance Sheet of Banks*



Graph 13: *Liabilities Structure within the Balance Sheet of Banks*



Within the liabilities structure of the banks' balances sheets, deposits still represent a dominant source of funding for banks in the Federation of B&H (with an amount of KM 13.1 billion and a 76.2% share). The long-standing trend of decrease of loan commitments continued in 2015 as well and, following a drop in the amount of 11.9%, the share of loan commitments in the amount of KM 0.9 billion decreased from 6.4% to 5.3%, while the share of capital, which amounted to KM 2.6 billion as of 31.12.2015, increased slightly from 15.0% to 15.1%.

Two key items in the structure of assets: loans and cash funds, saw minor changes, i.e. a decrease in the loan share from 69.2% to 67.5%, while the share of cash funds (28.3%) remained almost unchanged (+0.1 percentage points).

- in KM 000 -

Table 14: *Cash Funds of Banks*

CASH FUNDS	31.12.2013		31.12.2014		31.12.2015		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	431 592	9.8	456 750	10.0	581 152	12.0	106	127
RR at the CB B&H	2 622 277	59.4	2 854 559	62.6	3 181 721	65.5	109	111
Accounts at deposit institutions in B&H	25 181	0.5	22 759	0.5	2 100	0.0	90	9
Accounts at deposit institutions abroad	1 338 347	30.3	1 225 850	26.9	1 092 273	22.5	92	89
Cash funds in the process of collection	501	0.0	316	0.0	237	0.0	63	75
TOTAL	4 417 898	100.0	4 560 234	100.0	4 857 483	100.0	103	107

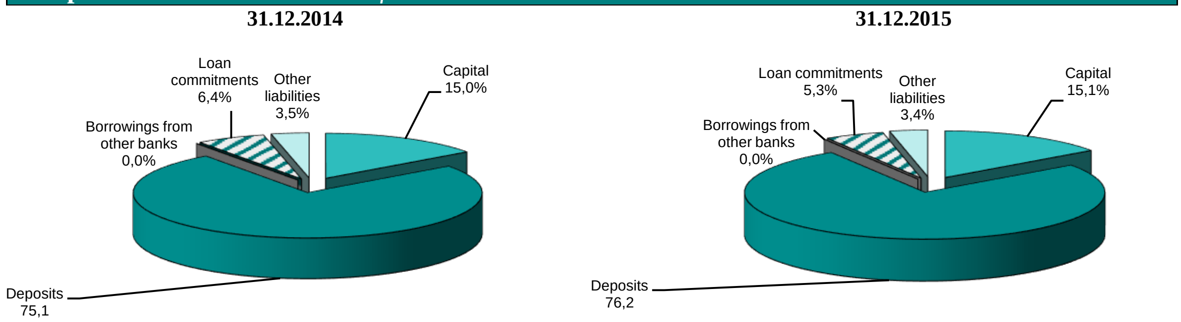
The banks' cash funds in the CBBH reserves account were up by a 11% or KM 327 million in 2015 and amounted to KM 3.2 billion or 65.5% of total cash funds as of 31.12.2015 (62.6% at the end of 2014). The continuous drop in banks' funds in accounts of deposit institutions abroad was continued in 2015 as well (a result of the outflow or withdrawal of deposits by non-residents, primarily parent groups, as well as the repayment of outstanding loan commitments). These funds recorded a decrease of 11% or KM 134 million and amounted to KM 1.1 billion or 22.5% of total cash funds (26.9% at the end of 2014). Following their increase of 27% or KM 124 million, banks held cash funds in the amount of KM 581 million, which represents 12% of total cash funds, in vaults and treasuries as of 31.12.2015.

These trends prompted a change in the currency structure of cash funds: in the reporting period, the share of local currency increased from 70.2% to 73.1%, while cash in foreign currency decreased by the same percentage.

2. 1. 1. Liabilities

The total liabilities structure (liabilities and capital) within the banks' balance sheet as of 31.12.2015 is provided in the graph below:

Graph 14: *Liabilities Structure of Banks*



In 2015, the share of deposits (76.2%), as the most significant source of funding of banks, was up by 1.1 percentage points, while the continuous trend of decrease in the share of loan commitments, the second largest source of funding, continued in 2015 as well (by 1.1 percentage points, i.e. to the level of 5.7%).

As of 31.12.2015, deposits amounted to KM 13.1 million, thus still being the largest source of funding of banks in the Federation of B&H.

The second-largest source of funding are loans in the amount of KM 0.9 billion, thus having a share of 5.3%, 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, 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 the rate of decrease amounting to 11.9% or KM 122 million in 2015. If subordinated loans in the amount of KM 112 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 5.9% in total sources of funding.

As of 31.12.2015, banks held the largest amount of liabilities towards the following creditors (6 out of a total of 26 creditors), accounting for 82% of total loan commitments: European Investment Bank (EIB), TC ZIRAAT BANKASI A.S. (Turkey), the World Bank, UniCredit Bank Austria AG, the European Bank for Reconstruction and Development (EBRD), and the European Fund for Southeast

Europe (EFSE).

As of 31.12.2015, capital amounted to KM 2.6 billion, up by 7.5% or KM 182 million compared to the end of 2014. This primarily relates to the financial result (profit) recorded in 2015 as well as the recapitalisation in six banks (KM 110 million).

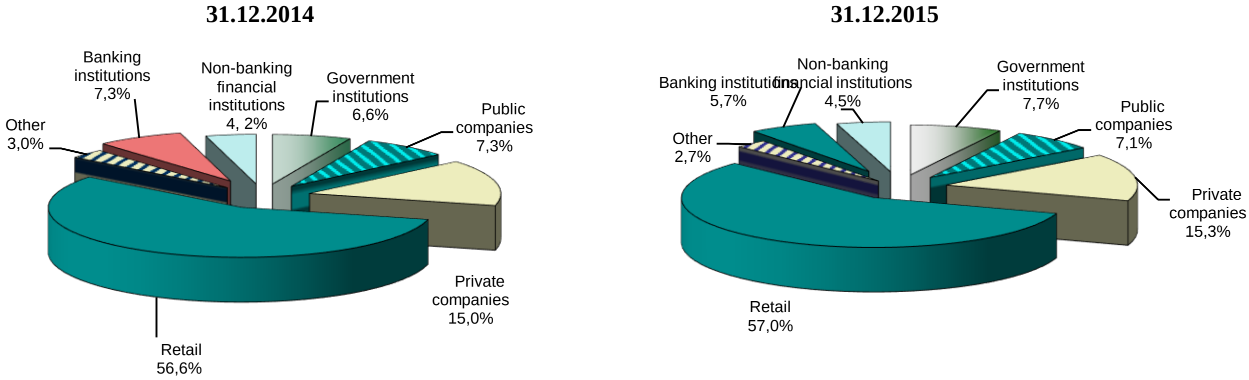
According to the information submitted by banks, out of the total deposit amount at the end of the reporting period, only 5.7% relates to deposits collected in organisational units of banks from the Federation of B&H, which are doing business in Republika Srpska and Brčko District.

- in KM 000 -

Table 15: *Deposit Structure by Sector* [12]

SECTORS	31.12.2013		31.12.2014		31.12.2015		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	565 533	4.9	795 985	6.6	1 002 438	7.7	141	126
Public companies	1 076 527	9.3	883 463	7.3	927 692	7.1	82	105
Private companies and enterprises	1 668 034	14.5	1 821 094	15.0	2 008 364	15.3	109	110
Banking institutions	1 012 274	8.8	886 007	7.3	752 217	5.7	88	85
Non-banking financial institutions	535 915	4.7	517 110	4.2	583 387	4.5	96	113
Retail	6 366 218	55.2	6 863 296	56.6	7 465 252	57.0	108	109
Other	299 348	2.6	363 791	3.0	359 633	2.7	122	99
TOTAL	11 523 849	100.0	12 130 746	100.0	13 098 983	100.0	105	108

Graph 15: *Deposit Structure by Sector*



In 2015, minor changes occurred in the deposit structure by sector, which were, on the one hand, primarily the result of an increase in deposits, mostly deposits of government institutions and retail deposits, and, on the other hand, the result of a decrease in deposits of banking institutions, which have had a downward trend for a few years already.

The continuous growth of retail deposits has been present for a few years already, with an average growth rate of 8% in the past three years, and a cumulative increase in this sector's deposits by 26% or KM 1.6 billion in the period from 2013 to 2015, i.e. from KM 5.9 billion to KM 7.5 billion, which is what they amounted to at the end of 2015. They rose by 9% or KM 602 million in 2015, while their share in total deposits rose from 56.6% to 57%, so that retail deposits are still the largest source of funding for banks. Analytical data indicates that the share of this sector's deposits is the largest in 15 out of 17 and it ranges from 39% to 83%, i.e. it is above 50% in nine 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 source of funding (based on amount and share) are deposits of private companies. In the past three years, this sector's deposits have had a moderate stable growth of app. 10%, i.e. the increase amounted to 34% or KM 0.5 billion in that period. They recorded an increase in the amount of 10% or KM 187 million in 2015 and amounted to KM 2 billion at the end of 2015, which constitutes a share of 15.3% (+0.3 percentage points).

Following a drop in the period from 2011 to 2013, deposits of government institutions recorded a large increase in 2014 and 2015: by 41% or KM 230 million in 2014 and by 26% or KM 206 million in 2015, so that they had a 7.7% share in total deposits (+1.1 percentage points) at the end of 2015, amounting to KM 1 billion.

Following two years in which they recorded a decrease, deposits of public companies rose by 5% or KM 44 million and amounted to KM 928 million as of 31.12.2015, with their share being 7.1% of total deposits (-0.2 percentage points).

Due to the effects of the crisis, the reduced volume of lending and high liquidity, deposits of banking institutions have had a trend of significant decrease for a few years, thus resulting in a reduced share. From the end of 2009 to 31.12.2015, deposits of this sector dropped by app. 65% or KM 1.4 billion. Negative trends in previous years (related to these funds at sector level) are mostly the result of debt reduction, i.e. the repayment of funds to groups that own the banks in the Federation of B&H.

In 2015, deposits of banking institutions fell by 15% or KM 134 million, thus amounting to KM 752 million as of 31.12.2015. This resulted in their share in total deposits dropping from 7.3% to 5.7%. The real drop would have been significantly larger if, in late December 2015, two banks had not increased deposits by an amount of app. KM 130 million, with very short maturity, i.e. the aforementioned was withdrawn in early January 2016. Deposits of banking institutions are lower than loan commitments by KM 152 million, which are the second-largest source of funding in banks from the Federation of B&H, just after deposits. 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 197 million or 33% of term deposits of the group mature in 2016, while KM 84 million or 14% mature in 2017. 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 79% or KM 595 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 (76%). 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 931 million as of 31.12.2015 (or 5.4% of total liabilities of the banking sector, which is lower compared to the end of 2014 (KM 1.2 billion or 7.4% of liabilities)). In total deposits, the funds of banking groups hold a share of 4.5% (6.4% at the end of 2014), while loan commitments to the group account for 26.2% of total loan commitments (this share is down by 0.8%). Compared to the end of 2014, these funds dropped by 22.3% or KM 268 million, largely based on regular maturities (deposits fell by 23.8% or KM 186 million, loan commitments by 14.6% or KM 40 million and subordinated loans by 29.2% or KM 41 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 evident that the financial support of parent banking groups got significantly reduced, so that credit growth in the Federation of B&H will have to rely more on local sources of funding in the period to come. 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 maintaining maturity adjustment within the prescribed limits, and therefore do not constitute a quality source of long-term funding.

In terms of deposits of other sectors, a slight increase in the non-banking financial institutions sector should also be noted (13% or KM 66 million).
The currency structure of deposits as of 31.12.2015 has slightly changed: deposits in local currency, after a moderate increase in the amount of 12.9% or KM 797 million, increased their share from 50.8% to 53.1% and amounted to KM 7 billion, while deposits in foreign currency (with a dominant share of EUR currency), following a slight increase in the amount of 2.9% or KM 171 million, amounted to KM 6.1 billion, thus holding a share of 46.9% (-2.3 percentage points).

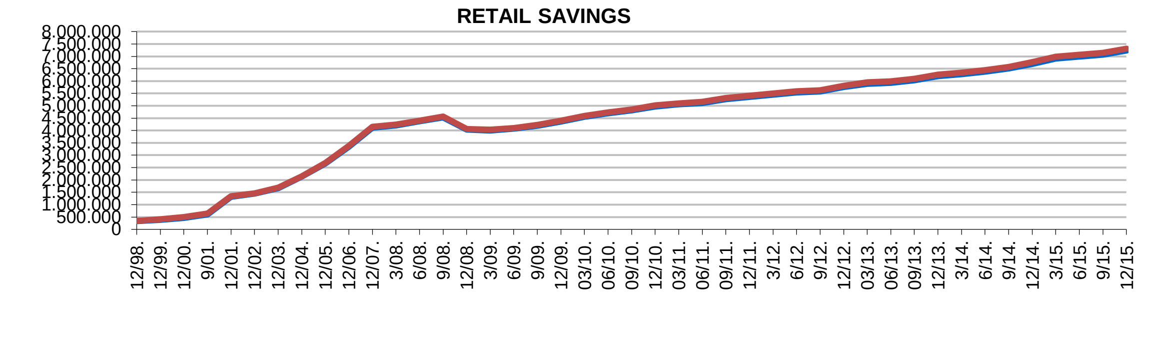
At the end of 2015, the structure of deposits by domicile status of depositors also changed slightly: resident funds amounted to KM 12.1 billion and had a share of 92% (+1.6 percentage points), while non-resident deposits amounted to KM 1 billion and represented 8.0% of total deposits. The increase in the share of resident deposits is, on the one hand, the result of their nominal increase in the amount of 9.9% or KM 1.1 billion, and, on the other hand, the result of the drop in non-resident deposits by 10.1% 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.

Savings deposits, as the most significant segment of the deposit and financial potential of banks, recorded an annual increase in the amount of 8% for the third year in a row, i.e. in the amount of 8.1% or KM 543 million in 2015, thus amounting to KM 7.2 billion as of 31.12.2015.

Table 16: *New Retail Savings By Period*

BANKS	A M O U N T (in KM 000)			INDEX	
	31.12.2013	31.12.2014	31.12.2015	3/2	4/3
1	2	3	4	5	6
State-owned	65 179	73 072	78 771	112	108
Private	6 135 711	6 618 891	7 156 178	108	108
TOTAL	6 200 890	6 691 963	7 234 949	108	108

Graph 16: *New Retail Savings by Period*



The two largest banks hold 56% of savings, while eight banks hold individual shares of less than 2%, which amounts to 9.2% of total savings at system level.

Out of the total amount of savings, 41% refer to saving deposits in local currency and 59% to savings deposits in foreign currency.

Table 17: *Maturity Structure of Retail Savings Deposits by Period*

BANKS	A M O U N T (in KM 000)						INDEX	
	31.12.2013		31.12.2014		31.12.2015		3/2	4/3
1	2		3		4		5	6
Short-term savings deposits	2 911 827	47.0%	3 129 098	46.8%	3 537 982	48.9%	107	113
Long-term savings deposits	3 289 063	53.0%	3 562 865	53.2%	3 696 967	51.1%	108	104
TOTAL	6 200 890	100.0%	6 691 963	100.0%	7 234 949	100.0%	108	108

Compared to the end of 2014, the maturity structure of savings deposits changed slightly through an increase in short-term deposits by 13% or KM 409 million, while long-term deposits rose by 4% or KM 134 million, thus resulting in a slightly lower share of long-term deposits from 53.2% to 51.1%.

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 31.12.2015, there was a total of 16 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). There is one bank that is not eligible for this program because it does not meet the criteria defined 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 31.12.2015 amounted to KM 2.2 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	31.12.2013		31.12.2014		31.12.2015		INDEX	
1	2		3		4		5 (3/2)	6 (4/3)
1.a.Core capital before reduction	2 155 188		1 991 385		2 010 634		92	101
1.1. Share capital – common and permanent non-cumulative shares	1 200 644		1 230 459		1 164 402		102	95
1.2. Issue premiums	136 485		136 485		132 667		100	97
1.3. Reserves and retained profit	818 059		624 441		713 565		76	114
1.b. Deductible items	294 629		219 589		152 319		75	69
1.1. Uncovered losses from previous years	112 610		122 705		28 371		109	23
1.2. Current year loss	140 445		50 868		70 599		36	139
1.3. Treasury shares	156		81		102		52	126
1.4.. Intangible assets	41 418		41 873		49 910		101	119
1.5. Deferred tax assets	N/a		2 780		1 641		N/a	59
1.6. Negative revalorised reserves	N/a		1 282		1 696		N/a	132
1. Core capital (1a-1b)	**1 860 559**	**80%**	**1 771 796**	**81%**	**1 858 315**	**85%**	95	105
2. Supplementary capital	**457 047**	**20%**	**412 922**	**19%**	**331 219**	**15%**	90	80
2.1. Share capital – common and permanent cumulative shares	3 091		3 091		3 090		100	100
2.2. General loan loss reserves	215 083		229 895		209 054		107	91
2.3. Positive revalorised reserves	N/a		23 703		9 735		N/a	41
2.4. Amount of audited profit	71 984		N/a		N/a		N/a	N/a
2.5. Subordinated debt	165 473		154 814		107 918		94	70
2.5. Hybrid items and other instruments	1 416		1 419		1 422		100	100
3. Capital (1 + 2)	**2 317 606**	**100%**	**2 184 718**	**100%**	**2 189 534**	**100%**	94	100
4. Deductible items from capital	**159 710**		**203 077**		**207 617**		127	102
4.1. Bank's shares in capital of other legal entities above 5% of core capital	2 844		1 678		1 007		59	60
4.2. Loan loss reserves shortfall at regulatory request	156 866		199 890		205 855		127	103
4.3. Other deductible items	0		1 509		755		N/a	50
5. Net capital (3- 4)	**2 157 896**		**1 981 641**		**1 981 917**		92	100

In 2015, capital[14] increased slightly (by KM 5 million) compared to the end of 2014, and the changes in core capital and supplementary capital affected the change in the regulatory capital structure. Core capital increased by 5% or KM 87 million, while supplementary capital fell by 20% or KM 82 million.

The increase in core capital is primarily based on the inclusion (the transfer from supplementary capital to share capital) of profit recorded for 2014. Following the implementation of the legal procedure of decisions being issued and adopted by the banks' assembly, the recorded profit (15 banks) in the amount of KM 166 million was allocated as follows: 29% or KM 49 million to core capital (retained profit and reserves), two banks allocated a part of the profit in the amount of KM 0.3 million to partially cover accumulated losses, four banks decided on the payment of dividends (a total of KM 55 million), while one bank allocated the recorded profit of KM 62 million to retained profit,

[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).
[14] Source of information: quarterly Report on Capital Condition in Banks (Form 1-Table A).

but the aforementioned is not a core capital item. Also, one bank, along with the payment of dividends from the profit for 2014, additionally allocated the amount of KM 15 million for dividends from retained profit. The increase in core capital was also influenced by the recapitalisation of six banks in the amount of KM 110 million: an increase in the share capital by means of an issue of shares in the amount of KM 42 million and by means of a conversion of subordinated debt in the amount of KM 22 million, as well as reserve payments in the amount of KM 46 million.

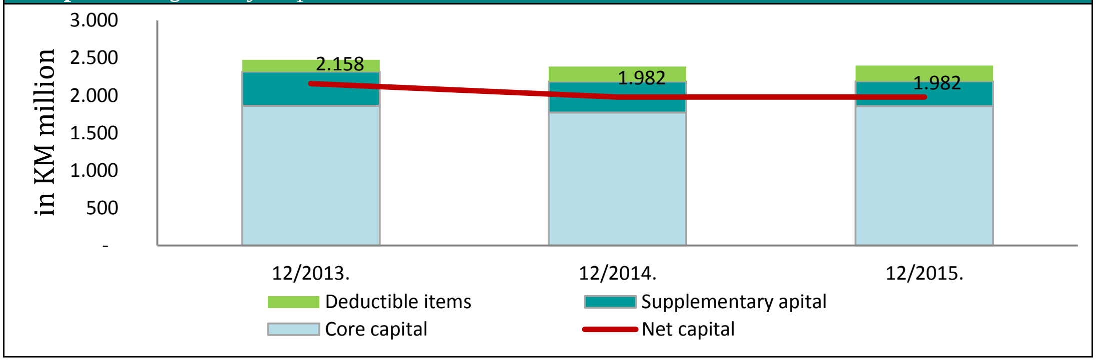
Deductible items (which decrease core capital) fell by KM 67 million as a result of a reduction on the basis of partial coverage of uncovered losses in five banks in the amount of KM 145 million (KM 113 million of which refers to one bank) at the expense of share capital and/or reserves, as well as on the basis of an increase in current losses and intangible assets.

Supplementary capital decreased by 20% or KM 82 million, with the implementation of certain provisions of a new Decision from 31.12.2015 having had the greatest impact (approximately KM 47 million): the depreciation of subordinated debt (the effect was KM 8 million), a reduction of the amount of general reserves for covering loan losses, good assets – category A recognised in the calculation of supplementary capital up to 1.625% of total risk assets (the effect was KM 37 million), and the ratio of core and supplementary capital (supplementary capital cannot exceed one half of the core capital, the effect was approximately KM 2 million, only in one bank). When observed individually by item, the largest decrease in the amount of KM 47 million referred to subordinated debt, due to the aforementioned depreciation and conversion into share capital, as well as regular repayment (KM 27 million), along with a simulatenous increase in new subordinated debt in the amount of KM 10 million (KM 5 million in two banks, respectively).

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 31.12.2015, this item amounted to KM 206 million, up by 3% compared to the end of 2014 (this item was up by 30% or KM 46 million in 2014).

The graph below shows the regulatory capital structure.

Graph 17: *Regulatory Capital Structure*



Net capital remained unchanged and amounted to KM 2 billion as of 31.12.2015.

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).

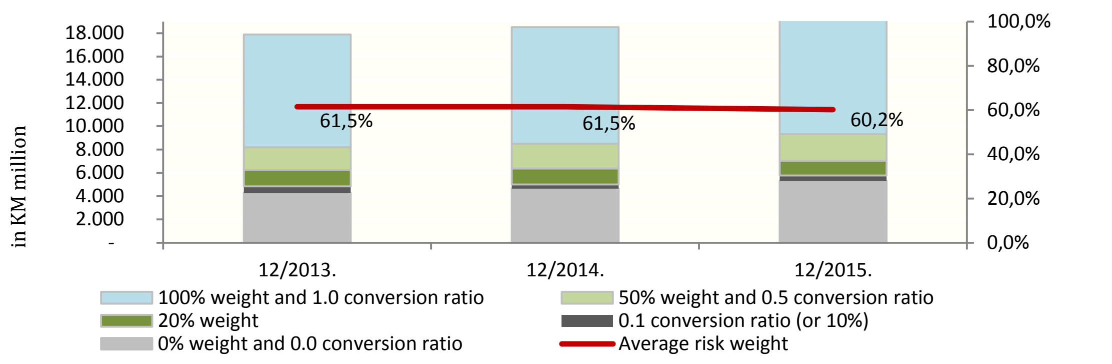
The table below provides a structure of the net exposure of banks by credit risk weight, i.e. conversion ratio for off-balance sheet items.

- in KM 000 -

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

DESCRIPTION	31.12.2013	31.12.2014	31.12.2015	INDEX	
1	2	3	4	5 (3/2)	6 (4/3)
TOTAL EXPOSURE (1+2):	**17 893 904**	**18 518 813**	**19 829 624**	103	107
1 Balance sheet assets	14 969 445	15 627 474	16 665 374	104	107
2. Off-balance sheet items	2 924 459	2 891 339	3 164 250	99	109
DISTRIBUTION BY RISK WEIGHT AND CONVERSION RATIO					
0% weight	4 198 260	4 598 235	5 258 580	110	114
20% weight	1 424 069	1 361 199	1 279 029	96	94
50% weight	33 110	54 096	52 241	163	97
100% weight	9 314 006	9 613 944	10 075 524	103	105
0.0 conversion ratio	86 947	52 453	51 199	60	98
0.1 conversion ratio	550 966	356 611	456 896	65	128
0.5 conversion ratio	1 916 076	2 073 404	2 227 742	108	107
1.0 conversion ratio	370 470	408 871	428 413	110	105
RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	**10 998 977**	**11 394 469**	**11 945 423**	**104**	**105**
Average risk weight	**61.5%**	**61.5%**	**60.2%**	**100**	**98**

Graph 18: *Structure of Net Exposure of Banks by Credit Risk Weight*



In 2015, total net exposure of banks (before being weighted) increased by 7% or KM 1.3 billion, which was mostly influenced by an increase in balance sheet items (7% or KM 1 billion), as a net effect of an increase in items with 0% weight (receivables from the CBBH and cash funds) and 100% weight (which primarily refers to loan portfolio growth), while off-balance sheet items also increased slightly (mainly items weighted with a 0.5 and 0.1 conversion ratio). As a result of the aforementioned, the average risk weight decreased from 61.5% to 60.2%.

The opposite trend was seen with respect to the weighted operational risk (WOR), which fell slightly (1%) and amounts to KM 977 million. All of this resulted in a slight increase in total risk-bearing assets (4% or KM 545 million), i.e. to the level of KM 12.9 billion.

As of 31.12.2015, the share of risk-bearing balance and off-balance sheet assets exposed to credit risk amounted to 92% and to operational risk 8%.

The banks' capitalisation rate, expressed as a ratio between capital and assets, amounted to 11.9% as of 31.12.2015, which is down by 0.7 percentage points compared to the end of 2014.

One of the key indicators of capital strength and adequacy[15] 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 15.3% as of 31.12.2015, down by 0.7 percentage points compared to the end of 2014, with it being noted that net capital remained almost unchanged despite the negative impact of the implementation of certain provisions of the new Decision, starting with 31.12.2015, in the amount of app. KM 47 million, with the effect being a drop in the capital adequacy ratio by 0.4 percentage points.

Also, the indicator of capital strength and quality is the ratio of the core capital (Tier I) and total risk assets, which amounted to 14.4% at the level of the banking sector as of 31.12.2015. An important provision of the new Decision is the obligation of banks to intend part of the core capital above 8% (in application since 31.12.2015) 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 31.12.2015. The financial leverage ratio at the level of the banking sector amounted to 9.4% as of 31.12.2015.

Although operations of the banking sector 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 dropped to 15.4%, which is still a satisfactory capitalisation rate at system-level. The reason for this is, on the one hand, the slight credit growth and decrease of total risk-bearing assets in previous years (gradual growth after 2013), 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 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%. Also, according to existing regulations, banks do not calculate the capital requirement for market risks, due to which the capital adequacy rate is higher.

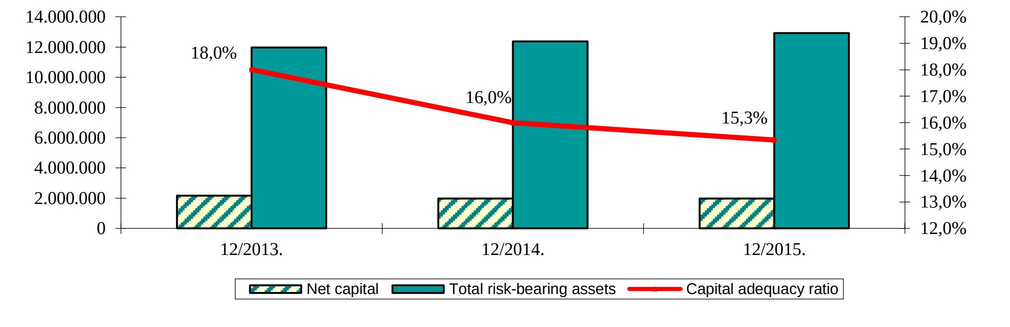
[15] The legally defined minimum capital adequacy ratio is 12%.

- KM 000 -

Table 20: *Net Capital, Total Weighted Risks and Capital Adequacy Rate*

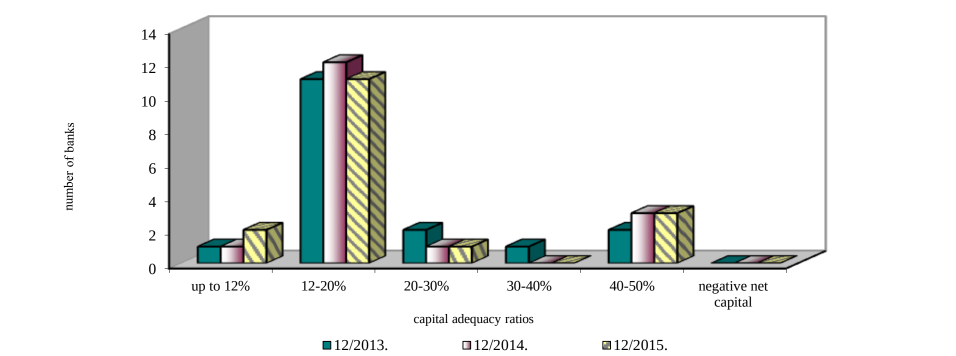
DESCRIPTION	31.12.2013	31.12.2014	31.12.2015	INDEX	
1	2	3	4	5(3/2)	6(4/3)
1. NET CAPITAL	2 157 896	1 981 641	1 981 917	92	100
2. RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	10 998 977	11 394 469	11 945 423	104	105
3. WOR (WEIGHTED OPERATIONAL RISK)	981 318	982 250	976 734	100	99
4. TOTAL RISK-BEARING ASSETS (2+3)	11 980 295	12 376 719	12 922 157	103	104
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/ 4)	18.0%	16.0%	15.3%	89	96

Graph 19: *Net Capital, Total Weighted Risks and Capital Adequacy Ratio*



The capital adequacy rate of the banking system as of 31.12.2015 was 15.3%, 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 17 banks in the Federation of B&H as of 31.12.2015, 15 banks had capital adequacy ratios that were above the legal minimum of 12%, while two banks had a ratio that was below the legal minimum. According to analytical data, 11 banks had a capital adequacy ratio below the one at the end of 2014, one bank's ratio remained unchanged, while five banks had improved this ratio.

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

- 2 banks had a ratio below 12%,
- 7 banks had a ratio between 13.0% and 14.2%,

- 3 banks had a ratio between 15.2% and 16.4%,
- 2 banks had a ratio between 20.0% and 20.6%,
- 3 banks had a ratio between 42.9% and 43.0%.

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	31.12.2013	31.12.2014	31.12.2015	INDEX

1	2	3	4	5(3/2	6(4/3)
1. Risk-bearing assets[16]	13 517 944	14 119 056	14 853 967	104	105
2. Calculated regulatory reserves for loan losses	1 504 174	1 551 075	1 510 690	103	97
3. Value adjustment and reserves for off-balance sheet items	1 255 162	1 253 270	1 241 411	100	99
4. Required regulatory reserves formed from profit for assessed	411 515	447 920	431 146	109	96
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	156 866	199 889	205 854	127	103
7. Non-risk bearing items	6 145 092	6 217 740	6 797 978	101	109
8. TOTAL ASSETS (1+7)	19 663 036	20 336 796	21 651 945	103	106

Total assets with off-balance sheet items (assets)[17] of banks in the Federation of B&H amounted to KM 21.7 billion as of 31.12.2015 and are up by 6% compared to the end of 2014. Risk-bearing assets amount to KM 14.9 billion and are up by 5% or KM 735 million.

Non-risk bearing items amount to KM 6.8 billion or 31% of total assets with off-balance sheet items, thus being up by 9% or KM 580 million compared to the end of 2014.

Total calculated loan loss reserves based on regulatory requirements are down (3% or KM 40 million) and amount to KM 1.5 billion and formed value adjustments for balance sheet assets and provisions for losses are slightly down by 1% or KM 12 million, amounting to KM 1.24 billion. Required regulatory reserves[18] amount to KM 431 million and are down by 4% or KM 17 million. Formed regulatory reserves from profit, which amount to KM 316 million, are at the same level as at the end of 2014. The shortfall of regulatory reserves[19] as of 31.12.2015 amounts to KM 206 million, with a growth rate of 3% or KM 6 million compared to the end of 2014, which is the result of the continuous deterioration of the loan portfolio quality in some banks.

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

DESCRIPTION	31.12.2013		31.12.2014		31.12.2015		INDEX	
	Amount	Struct. %	Amount	Struct.%	Amount	Struct.%		
1.	2	3	4	5	6	7	8 (4/2)	9 (6/4)
Loans	9 396 444	84.3	9 725 304[20]	84.1	10 186 613	84.1	103	105
Interest	81 456	0.7	74 573	0.6	71 680	0.6	92	96
Past due receivables	1 144 042	10.3	1 184 588	10.2	1 161 853	9.6	103	98
Receivables on paid guarantees	31 783	0.3	26 218	0.3	24 648	0.2	82	94
Other facilities	201 786	1.8	194 440	1.7	139 457	1.1	96	72
Other assets	294 623	2.6	361 666	3.1	530 025	4.4	123	147
1. RISK-BEARING BALANCE SHEET ASSETS	11 150 134	100.0	11 566 789	100.0	12 114 276	100.0	104	105
2. NON-RISK BEARING BALANCE SHEET ASSETS	5 523 506		5 806 579		6 290 064		105	108
3. GROSS BALANCE SHEET ASSETS (1+2)	16 673 640		17 373 368		18 404 340		104	106
4. RISK-BEARING OFF-BS ITEMS	2 367 810		2 552 267		2 739 691		108	107
5. NON-RISK BEARING OFF-BS ITEMS	621 586		411 161		507 914		66	124
6. TOTAL OFF-BS ITEMS (4+5)	2 989 396		2 963 428		3 247 605		99	110
7. RISK-BEARING ASSETS WITH OFF-BS ITEMS (1+4)	13 517 944		14 119 056		14 853 967		104	105
8. NON-RISK BEARING ITEMS (2+5)	6 145 092		6 217 740		6 797 978		101	109

[16] Does not include amount of facilities and contingent liabilities of KM 232 million that is secured with a cash deposit.

[17] 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).

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

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

[20] This does not include the loan amount of KM 185 million covered by a cash deposit (included in non-risk bearing assets of the balance sheet).

9. ASSETS WITH OFF-BS ITEMS (3+6)	19 663 036	20 336 796	21 651 945	103	106

Gross balance sheet assets[21] amount to KM 18.4 billion and are up by 6% or KM 1 billion compared to the end of 2014, with the most significant changes having been recorded in the following items: slight credit growth (4% or KM 440 million), moderate increase in cash funds (7% or KM 297 million) and an increase in trading securities (50% or KM 296 million). Risk-bearing balance sheet assets amount to KM 12 billion or 66% of gross balance sheet assets (thus being up by 5% or KM 547 million compared to the end of 2014). Non-risk bearing balance sheet assets amount to KM 6.3 billion and are up by 8% or KM 483 million compared to the end of the previous year. Off-balance sheet risk-bearing items amount to KM 2.7 billion, up by 7% or KM 187 million, while non-risk bearing items amount to KM 508 million and are up by 24% or KM 97 million compared to the end of 2014.

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 2015, banks recorded a slight credit growth of 4% or KM 440 million (3% or KM 318 million in 2014). As of 31.12.2015, loans amounted to KM 11.6 billion, with a share of 67.5% (-1.7 percentage points).

In 2015, a total of KM 7.9 billion of new loans was approved, up by 3% or KM 216 million compared to the same period of the previous year. Out of the total loans approved, 68% relate to the corporate segment and 27% to the retail segment (at the end of 2014: 69% corporate, 27% retail). The maturity structure of newly approved loans: 48% long-term loans, 52% short-term loans (at the end of 2014: 47% long-term loans, 53% short-term loans).

The three largest banks in the Federation of B&H have an aggregate amount of approved loans of KM 6.4 billion, thus holding a share of 55% in total loans at the banking 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	31.12.2013		31.12.2014		31.12.2015		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Government institutions	142 010	1.3	190 401	1.7	250 805	2.2	134	132
Public companies	259 769	2.4	253 057	2.3	269 507	2.3	97	106
Private companies and enterprises	5 202 269	47.9	5 216 068	46.7	5 328 591	45.9	100	102
Banking institutions	6 671	0.1	10 449	0.1	5 701	0.0	157	55
Non-banking financial institutions	37 791	0.3	43 424	0.3	41 542	0.4	115	96
Retail	5 194 971	47.9	5 448 307	48.8	5 705 684	49.1	105	105
Other	8 919	0.1	8 571	0.1	8 914	0.1	96	104
TOTAL	10 852 400	100.0	11 170 277	100.0	11 610 744	100.0	103	104

In the loan structure by sector, there are two dominant sectors: retail and corporate, while lending to other sectors is negligible. In 2015, the upward trend of the share of retail loans continued, with them being up from 48.8% to 49.1% as a result af a recorded increase in the amount of 5% or KM 257 million, thus amounting to KM 5.7 billion as of 31.12.2015. Loans to private companies amount to KM 5.3 billion, slightly up by 2% or KM 112 million, with the share being down from 46.7% to 45.9%.

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

According to information submitted by the banks (as of 31.12.2015) regarding the retail loan structure by purpose: consumer loans[22] hold a share of 78.5%, followed by housing loans with 19%, while the remaining 2.5% refer to loans to small crafts, small businesses and agriculture (at the end of 2014: 77% consumer loans, 20% housing loans, and 3% small crafts, small businesses and agriculture).

The three largest banks in the system have approved 62% of retail loans and 45.6% of private company (at the end of 2014: 62.4% retail, 47.5% private companies).

The currency structure of loans: the largest share of 64% or KM 7.4 billion refers to currency clause loans (EUR: KM 7.2 billion or 97%, CHF: KM 201 million or 2.7%), followed by local currency loans with a share of 35% or KM 4 billion, while the smallest share of just 1% or KM 67 million refers to foreign currency loans (almost the entire amount thereof refers to EUR: KM 61 million or 92%). The total amount of loans with a currency clause in CHF of KM 201 million has a 1.7% share in the total loan portfolio and refers almost entirely to one bank in the banking system.

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.

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

Classification category	31.12.2013			31.12.2014			31.12.2015			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	10 754 079	79.6	215 083	11 494 730	81.4	229 895	12 316 053	82.9	246 320	107	107
B	1 094 361	8.1	93 547	955 518	6.8	83 031	950 153	6.4	76 024	87	99
C	356 646	2.6	90 541	272 134	1.9	64 168	301 862	2.0	75 796	76	111
D	502 803	3.7	295 224	523 939	3.7	301 942	426 025	2.9	252 682	104	81
E	810 055	6.0	809 779	872 735	6.2	872 039	859 874	5.8	859 868	108	98
Risk-bearing assets (A-E)	13 517 944	100.0	1 504 174	14 119 056	100.0	1 551 075	14 853 967	100.0	1 510 690	104	105
Classified (B-E)	2 763 865	20.4	1 289 091	2 624 326	18.6	1 321 180	2 537 914	17.1	1 264 370	95	97
Non-performing (C-E)	1 669 504	12.4	1 195 544	1 668 808	11.8	1 238 149	1 587 761	10.7	1 188 346	100	95
Non-risk bearing assets[23]	6 145 092			6 217 740			6 797 978			101	109
TOTAL (risk-bearing and non-risk bearing)	19 663 036			20 336 796			21 651 945			103	106

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. Due to the significant amount of assets permanently written-off in 2015 (KM 124 million, KM 85 million in 2014), past due receivables fell by 2% or KM 24 million (the aforementioned went up by 3% or KM 35 million in 2014). As of 31.12.2015, past due receivables amounted to KM 1.2 billion, while the share decreased slightly from 10.8% to 10.2%.

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 2015 compared to the end of 2014 (exclusively due to a significant permanent write-off of assets in the amount of KM 124

[22] Including cards business

[23] 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).

million). In some banks, these indicators showed slight oscillations (upgrade or downgrade), i.e. there were nine banks with ratios of the share of both classified and non-performing assets (compared to risk-bearing assets) below the level of the banking sector.

As of 31.12.2015, classified assets amounted to KM 2.5 billion and non-performing assets to KM 1.6 billion.

Classified assets (B-E) dcreased by 3% or KM 86 million (in 2014, there was a drop of 5% or KM 139 million). Category B decreased slightly by 1% or KM 5 million compared to the end of 2014 (in 2014, there was a drop of 13% or KM 139 million), while non-performing assets (C-E) went down by 5% or KM 81 million (in 2014, non-performing remained at the same level) due to a significant permanent write-off of assets in the amount of KM 124 million, which is a real indicator of there still being an increase in non-performing assets (in a certain number of banks). There was a decrease in category E by 2% or KM 13 million (in 2014, the increase amounted to 8% or KM 63 million), with the share decreasing from 6.2% to 5.8%. If it were not for the permanent write-off, category E would be up by 13% or KM 111 million, which indicates that the “deterioration” of the loan portfolio is still present.

The ratio expressed through the share of classified assets in risk-bearing assets is 17.1%, and the drop of 1.5% compared to the end of 2014 is mostly the result of an increase in assets classified into category A (performing assets) by 7% or KM 821 million.

The most significant indicator of asset quality is the ratio between non-performing assets and risk-bearing assets, amounting to 10.7%, which is down by 1.1% compared to the end of 2014 as a result of the aforementioned reasons. However, this should be taken with a grain of salt due to the share of category B being 6.4% (at the end of 2014: 6.8%) 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.

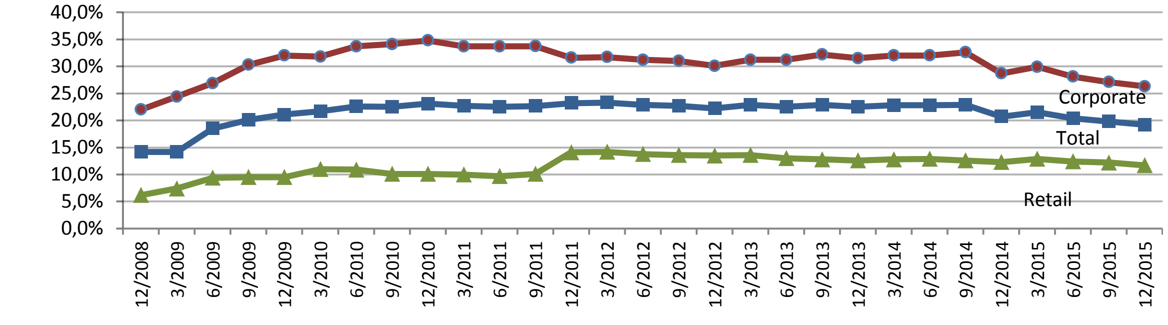
Table 25: *Classification of Corporate and Retail Loans*

Classification category	31.12.2014						31.12.2015						
	Retail	Share %	Corporate	Share %	TOTAL Amount	TOTAL Share	Retail	Share %	Corpo-rate	Share %	TOTAL		INDEX
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14(12/6)
A	4 775 466	87.6	4 080 845	71.3	8 856 311	79.3	5 036 775	88.3	4 349 749	73.7	9 386 524	80.8	106
B	144 930	2.7	595 817	10.4	740 747	6.6	154 179	2.7	568 108	9.6	722 287	6.2	97
C	64 360	1.2	199 117	3.5	263 477	2.4	71 098	1.3	223 704	3.8	294 802	2.5	112
D	82 705	1.5	416 311	7.3	499 016	4.5	87 497	1.5	324 282	5.5	411 779	3.6	83
E	380 846	7.0	429 880	7.5	810 726	7.2	356 132	6.2	439 220	7.4	795 352	6.9	98
TOTAL	5 448 307	100.0	5 721 970	100.0	11 170 277	100.0	5 705 681	100.0	5 905 063	100.0	11 610 744	100.0	104
Class. loans. B-E	672 841	12.3	1 641 125	28.7	2 313 966	20.7	668 906	11.7	1 555 314	26.3	2 224 220	19.2	96
Non-perf. Loans C-E	527 911	9.7	1 045 308	18.3	1 573 219	14.1	514 727	9.0	987 206	16.7	1 501 933	12.9	95
		48.8		51.2		100.0		49.1		50.9		100.0	
Individual sector's share in classified loans, non-performing loans and category B:													
Categories B-E		29.1		70.9		100.0		30.1		69.9		100.0	
Non-performing C-E		33.6		66.4		100.0		34.3		65.7		100.0	
Category B		19.6		80.4		100.0		21.3		78.7		100.0	

Loan quality indicators have improved slightly compared to the end of the previous year and the share of classified loans dropped to a still high 19.2% (-1.5 percentage points), due to a decrease in the aforementioned in the amount of 4% or KM 90 million, with the corporate segment being down by 5% or KM 86 million and the retail segment by 1% or KM 4 million.

The share of non-performing loans, as a key indicator of loan quality, decreased from 14.1% to 12.9%. Total non-performing loans are down by 5% or KM 71 million compared to the end of 2014, as a result of a decrease in non-performing corporate loans by 6% or KM 58 million and non-performing retail loans by 3% or KM 13 million due to the aforementioned permanent write-off of loans in the amount of KM 119 million, which means that this absorbed the increase in non-performing loans in 2015 in the amount of KM 48 million. Credit growth in the amount of 4% or KM 440 million also had a positive effect on the improvement of this indicator.

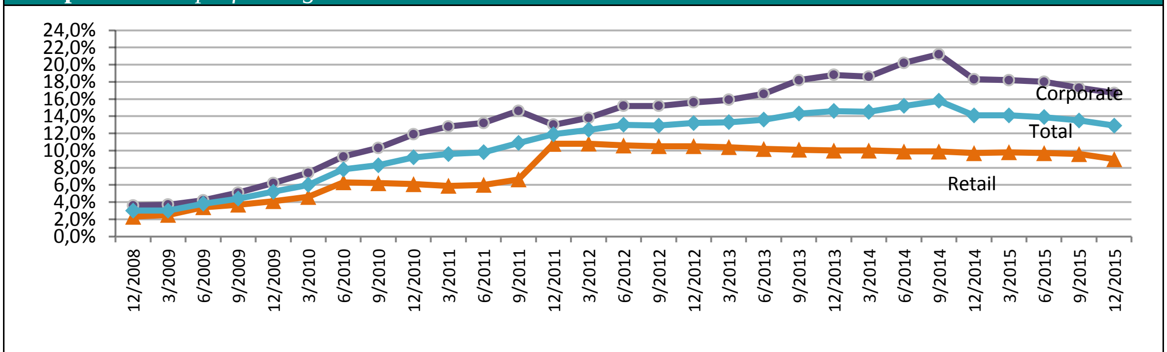
Graph 21: *Classified Loans*



Out of the total approved corporate loans in the amount of KM 5.9 billion as of 31.12.2015, there was still an alarmingly high 26.3% or KM 1.6 billion of loans classified within categories B to E, which is a 2.4% decrease compared to the end of 2014 (in 2014, this share went down by 1.8 percentage points). This indicator is much better for the retail segment. Out of the total approved retail loans in the amount of KM 5.7 billion, there were 11.7% or KM 669 million of loans classified in the aforementioned categories, down by 0.6 percentage points compared to the end of 2014 (in 2014, this share went down by 0.3 percentage points), which is also relatively high.

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 22: *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 2014. In 2015, the share of non-performing loans in both the retail and the corporate segment dropped. Out of total approved corporate loans, non-performing loans hold a share of 16.7% or KM 987 million, which is down by 1.6 percentage points compared to the end of 2014 (this share fell by 0.5 percentage points in 2014). The aforementioned amounts to 9% or KM 515 million in the retail segment, down by 0.7 percentage points (the share dropped by 0.3 percentage points in 2014).

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	31.12.2014				31.12.2015				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)	123 863	1.1	24 336	19.6	121 964	1.1	20 754	17.0	98	85
Production (IND)	1 596 479	14.3	376 607	23.6	1 662 318	14.3	352 021	21.2	104	93
Construction (CON)	381 631	3.4	111 056	29.1	437 853	3.8	116 850	26.7	115	105
Trade (TRD)	2 263 740	20.3	349 642	15.4	2 298 963	19.8	303 715	13.2	102	87
Catering (HTR)	165 227	1.5	26 039	15.8	196 355	1.7	24 929	12.7	119	96
Other[24]	1 191 030	10.7	157 628	13.2	1 187 610	10.2	168 937	14.2	100	107
TOTAL 1.	5 721 970	51.2	1 045 308	18.3	5 905 063	50.9	987 206	16.7	103	94
2. Retail loans for:										
General consumption	4 210 605	37.7	316 997	7.5	4 503 904	38.8	301 755	6.7	107	95
Housing	1 109 191	9.9	176 846	15.9	1 088 139	9.3	181 511	16.7	98	103
Business activities (small business owners)	128 511	1.2	34 068	26.5	113 638	1.0	31 461	27.7	88	92
TOTAL 2.	5 448 307	48.8	527 911	9.7	5 705 681	49.1	514 727	9.0	105	98
TOTAL (1. +2.)	**11 170 277**	**100.0**	**1 573 219**	**14.1**	**11 610 744**	**100.0**	**1 501 933**	**12.9**	**104**	**95**

The largest share in total corporate loans refers to the trade sector (19.8%) and the production sector (14.3%), while the retail segment is dominated by general consumption loans (38.8%) and housing loans (9.3%) (at the end of 2014: trade 20.3%, production 14.3%, general consumption 37.7% and housing loans 9.9%).

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 3.8% in total loans, still has the highest share of non-performing loans in the amount of 26.7%, with a slight downward trend: in 2015, it dropped by 2.4 percentage points (in 2014, it dropped by 1.8 percentage points), primarily as a result of the credit growth recorded by this sector (15% or KM 56 million). Also, the agricultural sector, despite the lowest share of 1.1%, has a high share of non-performing loans in the amount of 17% (12/14: 19.6%), which fell by 2.6 percentage points compared to the end of the previous year as a result of a significant drop in non-performing loans by 15% or KM 4 million.

However, the focus is on the two sectors with the highest share in total loans – the trade sector (19.8%) and the production sector (14.3%). The amount of loans to the production sector (KM 1.7 billion) was up by 4% or KM 66 million, while non-performing loans decreased by 7% or KM 25 million in 2015, i.e. to the level of KM 352 million, which affected the drop in the share from 23.6% to 21.2% (in 2014, the increase amounted to 13% or KM 43 million, and the share amounted to 23.6%, up by 2 percentage points). On the other hand, trade sector lending was up by 2% or KM 35 million in 2015, i.e. to the level of KM 2.3 billion. Non-performing loans in this sector went down by 13% or KM 46 million, amounting to KM 304 million as of 31.12.2015, while the share amounted to 13.2%, down by 2.2 percentage points (in 2014, a drop of 11% or KM 42 million was recorded and

[24] 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.

the share dropped from 17.1% to 15.4%), which is a significantly better indicator compared to that of the production sector.

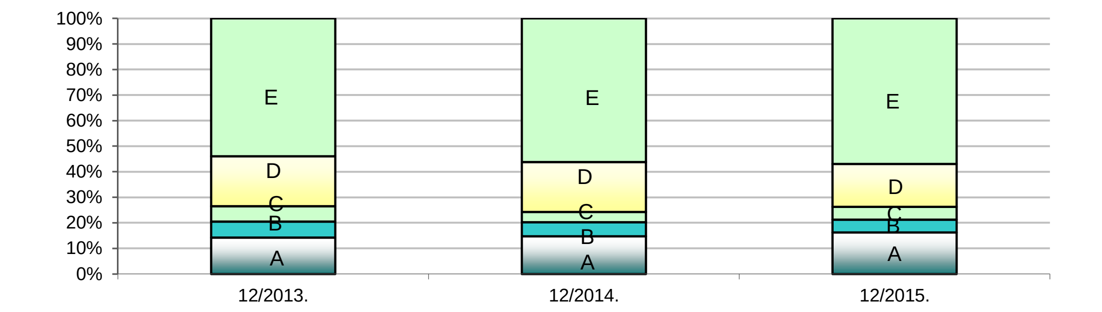
The retail segment is dominated by general consumption loans, which also have the largest share in total loans (38.8%). In 2015, these loans recorded an increase in the amount of 7% or KM 293 million, while housing loans and loans to small business owners went down (by 2% or KM 21 million and 12% or KM 15 million, respectively). The poorest indicator of the non-performing loans share in the amount of 27.7% (at the end of 2014: 26.5%) 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 16.7% refers to housing loans (at the end of 2014: 15.9%), while general consumption loans hold the lowest share of non-performing loans in the amount of 6.7% (at the end of 2014: 7.5%).

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.

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

Classification category	AMOUNT (in KM 000) AND STRUCTURE (in %)						INDEX	
	31.12.2013		31.12.2014		31.12.2015			
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
A	215 083	14,3	229 895	14,8	246 320	16,3	107	107
B	93 547	6,2	83 031	5,4	76 024	5,0	89	92
C	90 541	6,0	64 168	4,1	75 796	5,0	71	118
D	295 224	19,6	301 942	19,5	252 682	16,7	102	84
E	809 779	53,9	872 039	56,2	859 868	57,0	108	99
TOTAL	1 504 174	100,0	1 551 075	100,0	1 510 690	100,0	103	97

Graph 23: *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 2014, the reserves for general credit risk (category A) and potential loan losses went down by 3% or KM 40 million and stand at KM 1.5 billion. The reserves for general credit risk are up by 7% or KM 16 million, while the reserves for potential loan losses are down by 4% or KM 57 million compared to the end of 2014. By category of classification, there were trends in both directions: the reserves for category B are down by 8% or KM 7 million and amount to KM 76 million. The reserves for non-performing assets are down by 4% or KM 50 million, i.e. amount to KM 1.2 billion, mostly on the basis of the reserves for category D and E being down by 16% or KM 49 million and 1% or KM 12 million, respectively. Meanwhile, the reserves for category C are up by 18% or KM 12 million. The aforementioned trends of loan loss reserves are the result of further effects of the economic crisis on the real sector.

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 8.5% and is down by 0.9% compared to the end of 2014.

As of 31.12.2015, banks had an average calculated reserves in the amount of 8% for category B, 25% for category C, 59% for category D and 100% for category E (at the end of 2014: 8.8% for B, 24.2% for C, 57.7% for D and 100% for E).[25]

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
	31.12.2014		31.12.2015		
	Amount	Share	Amount	Share	
1	2	3	4	5	6 (4/2)
1. RISK-BEARING ASSETS (a+b)	**14 119 056**	**100.0%**	**14 853 967**	**100.0%**	105
a) Default items	**1 802 238**	12.8%	**1 678 841**	11.3%	93
a.1. BS-items in default	1 784 233		1 661 011		93
a.2. off-BS items in default	18 005		17 830		99
b) Performing assets	**12 316 818**	87.2%	**13 175 126**	88.7%	107
1.1 TOTAL VALUE ADJUSTMENTS FOR RISK-BEARING ASSETS	**1 253 270**	**100.0%**	**1 241 411**	**100.0%**	99
a) Value adjustments for default	**1 106 595**	88.3%	**1 088 482**	87.7%	98
a.1. Value adjustment for BS-items in default	1 099 846		1 081 845		98
a.2. reserves for off-BS items in default	6 749		6 637		98
b) Value adjustments for performing assets (IBNR[26])	146 675	11.7%	152 929	12.3%	104
2. TOTAL LOANS (a+b)	**11 170 277**	**100.0%**	**11 610 744**	**100.0%**	104
a) Defaulted loans (non-performing loans)	1 719 139	15.4%	1 603 807	13.8%	93
b) Performing loans	9 451 138	84.6%	10 006 937	86.2%	106
2.1. VALUE ADJUSTMENT FOR LOANS (a+b)	**1 160 481**	**100.0%**	**1 153 570**	**100.0%**	99
a) Value adjustments for defaulted loans	1 045 863	90.1%	1 032 549	89.5%	99
b) Value adjustments for performing loans (IBNR loans)	114 618	9.9%	121 021	10.5%	106
Coverage rate of default items	**61.4%**		**64.8%**		
Coverage rate of performing assets	**1.2%**		**1.2%**		
Coverage rate of risk-bearing assets with total value adjustments	**8.9%**		**8.4%**		

In 2015, default loans went slightly down by 7% or KM 115 million (in 2014: up by 9% or KM 155 million), while non-performing loans decreased by 5% or KM 71 million. The share of default loans in total loans is down by 1.6 percentage points and amounts to 13.8% and the share of non-performing loans amounts to 12.9%. The share of all default items in total risk-bearing assets is down by 1.5 percentage points and amounts to 11.3%.

The coverage rate of default items with value adjustments is up and amounts to 64.8% (at the end of 2014: 61.4%) due to the drop in the amount of default (7%) being larger than the drop in value

[25] 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%.
[26] IBNR (identified but not reported) – latent losses.

adjustments for default (2%). The coverage rate of non-performing assets with loan loss reserves is slightly up and amounts to 74.8% (at the end of 2014: 74.2%).

The coverage rate of performing assets remains the same and amounts to 1.2%, while the coverage rate of risk-bearing assets with total value adjustments is slightly down and amounts to 8.4% (at the end of 2014: 8.9%). 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 slightly from 11% to 10.2%.

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. [27]

Acting in accordance with the aforementioned Decision, in the second half of 2014 and out of a total number of 296 received requests for moratoriums on loan commitments, banks in the Federation of B&H approved 207 requests in the total amount of KM 34 million or 70% of the total number of submitted requests for moratoriums. As of 31.12.2015, the balance of the aforementioned loans amounts to KM 7 million, KM 5 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 and out of a total number of 285 submitted requests for restructurings of loan commitments, banks in the Federation of B&H approved 190 requests in the total amount of KM 39 million or 67% of the total number of submitted requests for restructurings of loan commitments. As of 31.12.2015, the balance of the restructured loans amounts to KM 48 million, KM 46 million of which refer to legal entities and KM 2 million of which refer to natural persons. In these categories of loans, a decrease in terms of exposure was not recorded, since restructured loans also include loans with a grace period following the expiration of the moratorium.

As of 31.12.2015, loans approved in accordance with the aforementioned Decision have a very low share in relation to total loans: moratorium 0.06% and restructuring 0.41%.

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 31.12.2015, there was a total of 1 164 648 loan accounts, 1 139 of which were being repaid by guarantors (1 461 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 0.27% and 0.10%.

An analysis of asset quality, i.e. the quality of the loan portfolio of individual banks, as well as on-site controls 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

[27] "Official Gazette of the Federation of B&H", No. 55/14.

residents (6 “local” private banks) were worse than those of banks in majority foreign ownership (10 banks).

After a significant increase in non-performing loans in “local” banks in the previous period (45% in 2013, 7% in 2014), 2015 saw a slight drop of 2% or KM 5 million, while banks that are in majority foreign ownership recorded a drop in the amount of 5% or KM 70 million (non-performing loans went down by 4% in 2014) due to a significant permanent write-off in one large bank in the system. The share of non-performing loans in banks that are in majority foreign ownership amounts to 11.7%, while it amounts to 30.4% in “local banks”. 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 post-control process based on reports and other documentation submitted by banks, as well as through targeted on-site controls. 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[28]			INDEX	
	31.12.2013	31.12.2014	31.12.2015	3/2	4/3
1	2	3	4	5	6
To shareholders with over 5% voting rights, subsidiaries and other related entities	123 889	160 135	89 014	129	56
To members of the Supervisory Board and Audit Board	570	409	446	72	109
To the Management of the bank	2 507	1 994	3 023	79	152
TOTAL	126 966	162 538	92 483	128	57
Contingent and assumed off-balance sheet liabilities	16 046	21 826	9 326	136	43

During the reporting period, loan exposures to related entities decreased by 43%, while contingent liabilities decreased by 57% due to reduced exposure with respect to one large bank in the system. 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 final unaudited data from financial statements showing the success of banks’ business operations (income statement) for 2015, a positive financial result – profit in the amount of KM 149 million (up by 29% or KM 34 million compared to the end of 2014) was recorded at the level of the banking system in the Federation of B&H. This represents the best financial result recorded so far, with it being noted that the second highest profit was recorded in the previous year (KM 116 million), followed by profit recorded in 2012 (KM 112 million) and immediately prior to the crisis in 2007 (KM 110 million). The positive effect on the financial result at system level is particularly due to banks that had operated positively in the previous year as well having recorded higher profit (effect KM 55 million), followed by profit in one bank that had operated at a high loss in 2014 (effect KM 27 million) as well as a minor loss in another bank (by KM 1 million). On the other hand, a negative effect in the amount of app. KM 49 million is primarily the result of a significantly greater loss recorded by one large bank (effect KM 42 million), followed by a loss recorded by one bank that had operated positively in the previous year (effect KM 5 million) and lower profit in three banks (KM 2 million).

The key effect on the improved profitability of most banks is primarily the result of the application of a new methodological approach (implementation of IAS 37/39 starting from 31.12.2011), which led to lower value adjustment costs. Due to the increase in non-performing loans and low credit growth, along with a drop in active interest rates, interest income has had a downward trend in the last five years, which the banks compensate for by reducing interest expenses and increasing operating income (service fees).

The significantly better financial result compared to the previous year is the result of an increase in

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

total income, which is supported by an increase in net interest income (as a consequence of the positive effect that is due to the decrease in interest expenses being significantly greater than the decrease in interest income) and an increase in operating income, as well as, on the other hand, a further reduction of non-interest expenses, primarily value adjustment costs.

A positive financial result in the amount of KM 220 million was recorded by 14 banks and it is up by 32% or KM 53 million compared to 2014. At the same time, an operating loss in the amount of KM 71 million was recorded by three banks, and it is up by 39% or KM 20 million compared to the previous year, mainly as a result of a significantly greater loss in one large bank. More detailed data is shown in the following table.

- KM 000 -

Table 30: *Recorded Financial Result: Profit/Loss*

Description	31.12.2013		31.12.2014		31.12.2015	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7
Loss	-140 445	3	-50 868	3	-70 599	3
Profit	137 775	14	166 388	14	219 644	14
Total	**-2 670**	**17**	**115 520**	**17**	**149 045**	**17**

As in other segments, this segment also shows some concentrations: out of the total profit (KM 220 million), 67% or KM 147 million refers to the two largest banks in the system with an assets share of 47% in the banking sector, while 87% or KM 61 million of the total loss of KM 71 million refers to only one bank. Analytical data indicates that a total of 12 banks has a better financial result (by KM 83 million), while 5 banks have a poorer financial result (by KM 49 million).

Based on analytical data and on indicators for the assessment of profitability quality (i.e. the level of the recorded financial result 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 compared to the previous year, especially with respect to some large banks that recorded greater profit compared to the previous year. This is primarily the result of the implemented new methodological approach and/or increase in total income generated by an increase in net interest income and, to a smaller extent, operating income. 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 outmost importance to emphasise credit risk and negative trends in asset quality over the past six years, which is evident from the increase in non-performing and uncollectable loans (with it being noted that there was a drop in non-performing loans at the end of 2015, primarily as a result of the significant amount of the permanent write-off), and which does not correlate with the reduction of value adjustment costs, this being the most important factor affecting the improvement of the financial result in most banks over the past foir years (following the implementation of IAS 39 and 37). This, as well as the results of the analysis of the coverage of non-performing loans with impairement provisions, leads to the conclusion and suspicion that value adjustments are underestimated and not at an adequate level in some banks.

At system level, total income amounted to KM 917 million, up by 5% or KM 45 million compared to the previous year. Total non-interest expenses amount to KM 741 million, which is up by 1% or KM 7 million compared to the previous year (in 2014, there was a significant decrease in the amount of 13% or KM 110 million), which had a positive effect on the total financial result of the sector.

Despite the increase in average interest-bearing loans (in the majority of banks) by 3.9%, the reduced average interest rate on loans, which is the result of a decrease in active interest rates and an increase in bad loans (with it being noted that there was a drop in non-performing loans at the end of the year, primarily on the basis of the large amount of the permanent write-off) resulted in a further decrease in terms of interest income. However, it is evident that the trend has slowed down: the decrease amounted to 7% or KM 57 million in 2012, it amounted to 4% or KM 28 million in 2013, to 1% or KM 10 million in 2014, and to 1% or KM 5 million in 2015. Although a number of banks recorded an increase in interest income compared to the previous year as a result of intensified loan activity, significantly lower interest income in two large banks (as a result of reduced loan activity) affected the drop at system level the most. Interest income amounts to KM 765 million, with the share in the structure of total income being down from 88.4% to 83.5%. The largest share refers to loan interest income, which amount to KM 689 million and recorded the biggest nominal drop of 1% or KM 4 million, continuing the trend from previous years, with the share in total income being down from 79.4% to 75.1%.

In the structure of loan interest income, the largest part (58%) relates to interest income from retail loans, which are up by 2% compared to the previous year and amount to KM 403 million, thus having a 49% share in the total loan portfolio (in 2015, the increase in loans to this sector amounted to 5% or KM 257 million). It is followed by interest income from loans to private companies with a share of 38% and a 5% drop, amounting to KM 261 million, so that loans to this sector have a 46% share in the loan portfolio (in 2015, they went up by 2% or KM 112 million). Based on the aforementioned, it can be concluded that the retail loan portfolio is still more profitable for banks and less risky, given the lower level of non-performing loans in the structure of loans, but also due to higher interest rates on retail loans, which were, on average, 55% higher than the interest rates on corporate loans in 2015. However, the impact of the maturity of the loans to the aforementioned sectors should be noted as well: in the retail sector, approximately 85% are long-term loans, whereas approximately 53% of loans to private companies are long-term loans.

As was the case in the previous five years, positive trends were recorded with respect to interest expenses, which had a higher rate of decrease (-12% or KM 28 million) compared to the rate of decrease of interest income (-1% or KM 5 million) in 2015. Interest expenses amounted to KM 197 million, and their share in the structure of total income went down from 25.7% to 21.5%. Average interest-bearing deposits increased by 1%, while interest expenses on deposit accounts, which amount to KM 172 million, as the largest item in both relative and nominal terms in total interest expenses, recorded a decrease of 11% or KM 20 million as a result of the structure of the deposit base (a larger share of deposits with a lower interest rate) and the drop in passive interest rates, which resulted in average interest rates on deposits for the parallel period being down from 2.06% to 1.83%. Interest expenses on loans taken and other borrowings amounted to KM 15 million and recorded a decrease of 21% compared to the previous year, with the share in total income dropping from 2.2% to 1.6%.

As a result of the decrease in interest expenses (-12%) being larger than the decrease in interest income (-1%), net interest income, as the most significant and most stable source of income for banks, went up by 4% or KM 23 million and amounts to KM 569 million (in 2014, it amounted to KM 546 million, which is slightly higher compared to 2013), with its share in the total income structure being almost the same (62%).

Operating income amounts to KM 348 million and is up by 7% or KM 22 million compared to the previous year, with its share in the total income structure remaining at almost the same level of 37.9%. Within operating income, the largest share (64%) refers to service fees, with them having recorded an increase of 7% or KM 15 million. It can be concluded that banks are compensating for the drop in interest income with a continuous increase in service fees.

Major oscillations in interest income in the last four years are primarily the result of changes (increases or decreases) in value adjustment costs. In fact, after having a downward trend for two years (17% or KM 163 million in 2011, 9% or KM 69 million in 2012), total non-interest bearing expenses increased by 17% or KM 123 million in 2013, while being down by 13% or KM 110 million in 2014 (despite posting additional provisions, mainly on the basis of the AQR that was conducted in four banks). In 2015, they amounted to KM 740 million, up by 1% or KM 7 million compared to the end of the previous year, while the share in total income decreased from 84.1% to 80.8%, which is, once more, primarily due to trends regarding value adjustment costs, which amount to KM 129 million and are down by 13% or KM 19 million, due to which the share in total income is down from 17.0% to 14.1%.

In 2011, when the new methodology framework was applied, i.e. IAS 37/39 was implemented, value adjustment costs had a high rate of decrease in the amount of 51% or KM 196 million (compared to the cost of loan loss reserves under the regulatory requirement – regulation until the introduction of IAS/IFRS). In 2012, they were reduced by an additional 24% or KM 46 million. In 2013, value adjustment costs had a high growth rate in the amount of 61% or KM 88 million, 84% of which referred to one bank, only to record a large drop in the amount of 36% or KM 85 million again in 2014.

On the other hand, operating expenses as a significant non-interest bearing expenses item (with a share ranging from app. 65% to 70%), which amount to KM 522 million and have a share of 56.9% in total income, are slightly up by 3% or KM 16 million (in 2014, they recorded a decrease in the amount of 6% or KM 30 million). Salary and contribution costs, as the largest item of operating expenses, are at the same level as at the end of the previous year, amounting to KM 248 million or 27.1% of total income, while costs of fixed assets went up by 5% or KM 7 million, amounting to KM 159 million and thus having a 17.4% share in total income. Other operating expenses recorded an increase in the amount of 8% or KM 9 million, which is 12.4% of total income. After the crisis emerged, banks took numerous measures to rationalise costs of operations, primarily to reduce operating and interest expenses, which has partly mitigated adverse effects of the interest income decrease caused by the lower volume of lending activities and 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	31.12.2013		31.12.2014		31.12.2015		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	2 461	0.2	3 459	0.3	1 574	0.1	141	46
Loans and leasing facilities	703 462	64.1	692 603	63.2	688 699	61.9	98	99
Other interest income	75 122	6.8	74 654	6.8	75 233	6.8	99	101
TOTAL	781 045	71.1	770 716	70.3	765 506	68.8	99	99
II Operating income								
Service fees	227 150	20.7	240 362	21.9	256 105	23.0	106	107
Income from FX deals	42 695	3.9	45 760	4.2	49 261	4.4	107	108
Other operating income	47 377	4.3	39 799	3.6	42 595	3.8	84	107
TOTAL	317 222	28.9	325 921	29.7	347 961	31.2	103	107
TOTAL INCOME (I + II)	1 098 267	100.0	1 096 637	100.0	1 113 467	100.0	100	102

Graph 24: *Total Income Structure*

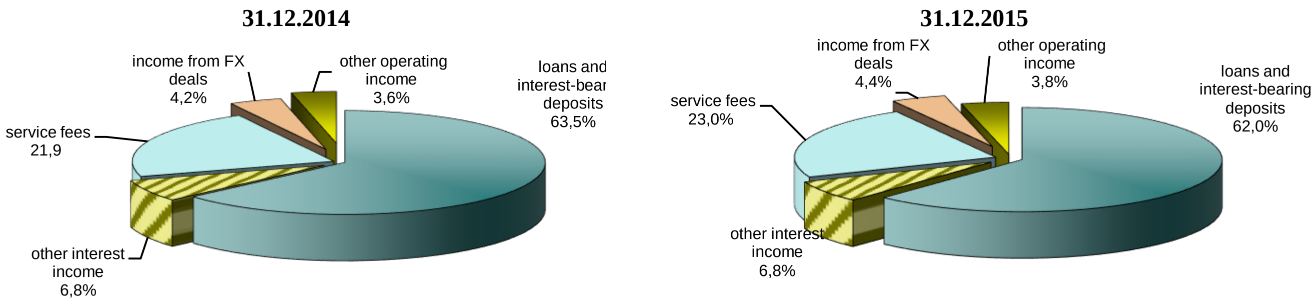
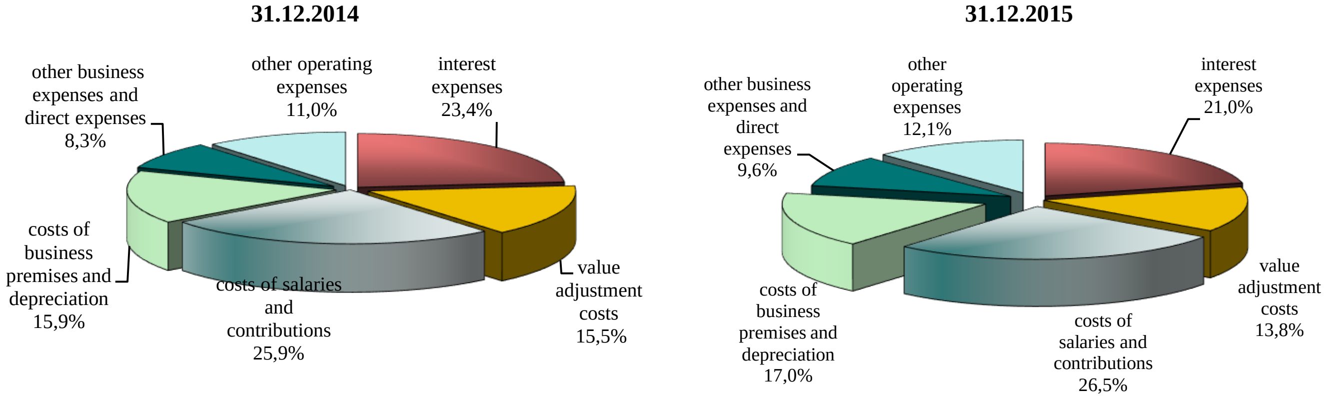


Table 32: *Total Expenses Structure*								
Total expenses structure	**31.12.2013**		**31.12.2014**		**31.12.2015**		**INDEX**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**		
1	2	3	4	5	6	7	8 (4/2)/	9 (6/4)
I Interest expenses and similar expenses								
Deposits	205 187	18.9	192 455	20.0	172 146	18.4	94	89
Liabilities based on loans and other borrowings	21 253	2.0	18 880	2.0	14 823	1.6	89	79
Other interest expenses	12 862	1.2	13 083	1.4	9 661	1.0	102	74
TOTAL	239 302	22.1	224 418	23.4	196 630	21.0	94	88
II Total non-interest bearing expenses								
Costs of value adjustment of risk-bearing assets and provisions for contingent liabilities and other value adjustments	232 804	21.5	148 251	15.5	128 992	13.8	64	87
Costs of salaries and contributions	246 087	22.7	248 007	25.9	248 495	26.5	101	100
Costs of business premises and depreciation	168 794	15.6	152 243	15.9	159 460	17.0	90	105
Other business expenses and direct expenses	75 621	7.0	80 006	8.3	89 564	9.6	106	112
Other operating expenses	120 634	11.1	105 326	11.0	114 070	12.1	87	108
TOTAL	843 940	77.9	733 833	76.6	740 581	79.0	87	101
TOTAL EXPENSES (I + II)	1 083 242	100.0	958 251	100.0	937 211	100.0	88	98

Graph 25: *Total Expenses Structure*



U sljedećoj tabeli dati su najznačajniji koeficijenti za ocjenu profitabilnosti, produktivnosti i efikasnosti banaka.

- in %-

Table 33: *Profitability, Productivity and Efficiency Ratios by Period*			
RATIOS	**31.12.2013**	**31.12.2014**	**31.12.2015**
Profit from average assets	-0.02	0.74	0.91
Profit from average total capital	-0.12	4.82	5.85
Profit from average share capital	-0.23	9.44	11.89
Net interest income/average assets	3.60	3.50	3.46
Operating income/average assets	2.11	2.09	2.12
Total income/average assets	5.71	5.60	5.58
Business expenses and direct expenses[29]/average assets	2.05	1.46	1.33
Operating expenses/average assets	3.56	3.24	3.18
Total non-interest bearing expenses/average assets	5.61	4.71	4.51

An analysis of key ratios for profitability quality assessment has shown that the profitability of the entire system has improved significantly, recorded profit is significantly higher compared to the previous year, which resulted in improved key profitability indicators: the ROAA (return on average assets) amounts to 0.91%, while the ROAE (return on average equity) amounts to 11.9%,

[29] Expenses also include value adjustment costs.

approximately at the level of empirical standards.

The banks' productivity ratio, measured as a ratio between total income and average assets (5.6%), remained almost unchanged compared to the previous year due to the simultaneous increase in total income and average assets. As a result of reduced value adjustment costs, there has been an improvement in the business expenses and direct expenses/average assets ratio from 1.5% to 1.3%. The aforementioned also had an effect on the total non-interest bearing expenses/average assets ratio, which improved from 4.7% to 4.5%. Other indicators have not recorded significant changes compared to the previous year.

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[30] for all banks seated in the Federation of B&H as well as their organisational units 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.[31]

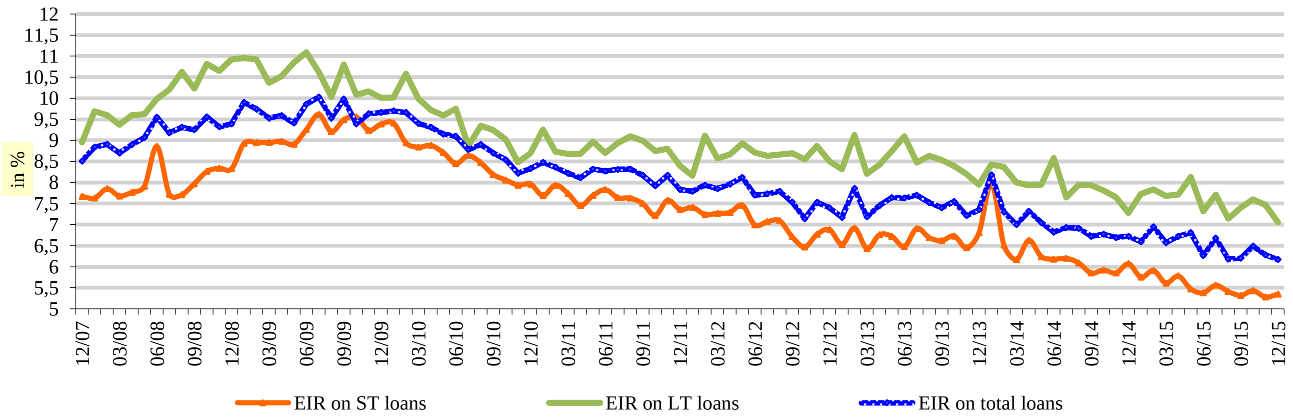
[30] Decision on Uniform Method of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits („Official Gazette of the Federation of B&H", No. 48/12 – consolidated text and 23/14).
[31] Instructions for Implementation of the Decision on Uniform Method of Calculation and Disclosure of 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 2013, June and December 2014, as well as June and December 2015.

Table 34: *Weighted Average NIR and EIR on Loans*

DESCRIPTION	12/2013		06/2014		12/2014		06/2015		12/2015	
	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	6.18	6.81	5.70	6.24	5.58	6.07	5.01	5.35	4.89	5.35
1.1. Corporate	6.21	6.79	5.64	6.13	5.55	5.99	4.99	5.26	4.84	5.25
1.2. Retail	6.42	8.51	8.32	11.72	6.57	8.90	7.66	11.47	8.21	11.74
2. Weighted IR on long-term loans	7.31	7.95	6.81	7.44	6.00	7.28	6.49	7.24	6.18	7.06
2.1. Corporate	6.83	7.17	6.03	6.30	5.29	6.76	5.47	5.84	5.31	5.67
2.2. Retail	7.93	8.95	7.54	8.47	7.50	8.60	7.35	8.44	7.10	8.55
3. Total weighted IR on loans	6.72	7.35	6.24	6.82	5.80	6.72	5.69	6.21	5.51	6.17
3.1. Corporate	6.41	6.92	5.76	6.18	5.43	6.32	5.13	5.43	4.99	5.38
3.2. Retail	7.84	8.92	7.56	8.58	7.44	8.62	7.36	8.53	7.13	8.64

Graph 26: *Weighted Average Monthly EIR on Loans*



When analysing interest rate trends, it is important to monitor trends of the weighted EIR, with the difference between this interest rate and the 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

During 2015, as was the case in the previous three years, the slight downward trend of weighted EIR continued. The main reasons for the slight, but continuous decrease in weighted EIR are the application of a business policy of lower interest rates in some banks, followed by increasingly pronounced competition on the banking market of the FB&H, as well as the generally weak demand for loans and the related more restrictive credit policy of banks in the process of analysing the creditworthiness of potential borrowers.

The weighted EIR stood at 6.17% in December 2015, which is down by 0.55 percentage points compared to the level in December 2014. During 2015, the weighted EIR recorded minor oscillations, with the lowest rate having been recorded in December (6.17%), and the highest in February (6.95%).

Weighted interest rates on long-term loans recorded minor oscillations in 2015 within the range of 1.07 percentage points, while those on short-term loans were within the range of 0.63 percentage points.

The weighted EIR on short-term loans was 5.35% in December 2015, which is down by 0.72 percentage points compared to December 2014. The lowest recorded rate in the amount of 5.28% was recorded in November and the highest in the amount of 5.91% in February 2015.

The weighted EIR on long-term loans amounted to 7.06% in December 2015, down by 0.22 percentage points compared to December 2014. It is also the lowest recorded rate since data started being collected (2007), while the highest rate of the year was recorded in May (8.13%).

Interest rates on loans to the two most important sectors: corporate and retail[32], did not have identical trends in 2015, i.e. while interest rates on corporate loans recorded a further slight decrease, weighted EIR on retail loans stagnated. The weighted EIR on corporate loans, although having significant oscillations within the range of 1.06 percentage points, is still much lower than the EIR on retail loans, amounting to 5.38% (12/2014: 6.32%). When it comes to long-term corporate loans, the decrease amounted to 1.09 percentage points (from 6.76% to 5.67%), while the EIR on short-term loans recorded a drop in the amount of 0.74 percentage points (from 5.99% to 5.25%).

The EIR on retail loans was 8.64% in December 2015, which is up by 0.02 percentage points compared to the level in December 2014. The EIR on short-term loans to this sector increased to 11.74% in December 2015 (from the level of 8.90% in December 2014), with it being noted that the level in December 2014 was the lowest in that year (it was above 11% in the previous 11 months), so that the real EIR in December 2015 stood at about the same level as in 2014. In 2015, the lowest level of 9.18% was recorded in February, only for it to range from 10.73% to 12.08% after that. On the other hand, the EIR on long-term retail loans was 8.55% in December 2015, which is down by 0.05 percentage points compared to December 2014.

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, as can be seen in the following table.

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

DESCRIPTION	2011		2012		2013		2014		2015	
	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	7.04	7.61	6.45	7.01	6.17	6.66	5.72	6.25	5.10	5.50
1.1. Corporate	6.97	7.45	6.43	6.94	6.22	6.66	5.70	6.17	5.07	5.42
1.2. Retail	9.08	12.52	8.41	11.52	8.09	11.08	7.98	11.39	7.84	11.37
2. Weighted IR on long-term loans	7.97	8.84	7.78	8.70	7.66	8.48	6.98	7.80	6.60	7.57
2.1. Corporate	7.39	7.89	6.86	7.51	6.65	7.12	6.19	6.81	5.63	6.20
2.2. Retail	8.45	9.62	8.44	9.57	8.35	9.40	7.66	8.66	7.36	8.65
3. Total weighted IR on loans	7.49	8.21	6.99	7.70	6.82	7.46	6.32	6.98	5.81	6.48
3.1. Corporate	7.09	7.58	6.52	7.07	6.33	6.78	5.84	6.35	5.23	5.64
3.2. Retail	8.49	9.78	8.44	9.68	8.33	9.48	7.68	8.77	7.37	8.74

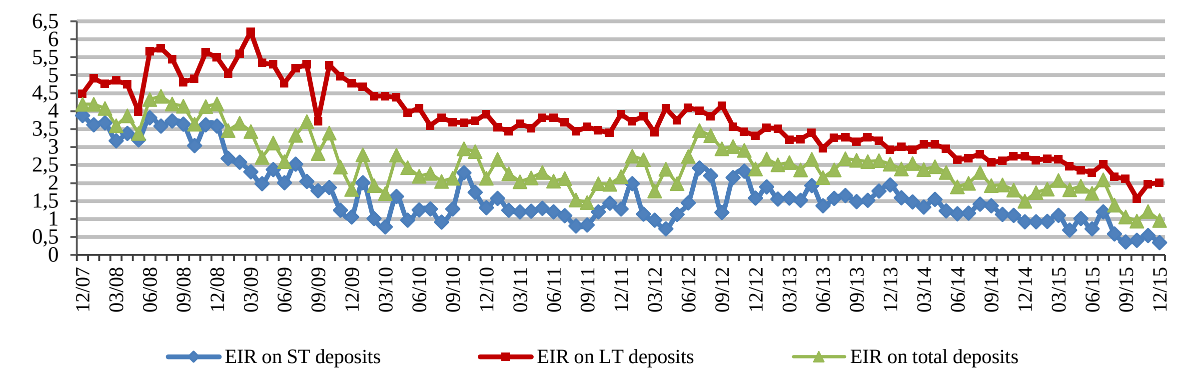
Weighted NIR and EIR on term deposits for the banking sector, calculated on the basis on monthly reports, are shown in the table below.

Table 36: *Weighted Average NIR and EIR on Deposits*

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

DESCRIPTION	12/2013		06/2014		12/2014		06/2015		12/2015	
	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	1.94	1.95	1.13	1.15	0.92	0.93	0.72	0.73	0.34	035
1.1. up to three months	1.92	1.92	0.94	0.95	0.42	0.42	0.27	0.27	0.21	0.21
1.2. up to one year	1.99	2.01	1.59	1.62	1.94	1.97	1.26	1.28	1.18	1.25
2. Weighted IR on long-term deposits	2.89	2.92	2.62	2.65	2.67	2.74	2.25	2.29	1.92	2.01
2.1. up to three years	2.58	2.61	2.55	2.58	2.40	2.48	2.21	2.26	1.67	1.68
2.2. more than three years	4.24	4.28	2.83	2.84	3.41	3.43	2.33	2.33	2.46	2.72
3. Total weighted IR on deposits	2.50	2.53	1.88	1.90	1.47	1.50	1.69	1.72	0.92	0.96

Graph 27: *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 2014, the weighted EIR on total term deposits was down by 0.54 percentage points in December 2015 (from 1.50% to 0.96%). The weighted EIR on short-term deposits recorded trends within the range of 0.85 percentage points in 2015, with the lowest rate in the amount of 0.35% having been recorded in December, and the highest in July 2015, when it stood at 1.20%.

When analysing the trends of interest rates on short-term deposits by maturity, the EIR on term deposits up to three months decreased by 0.21 percentage points compared to the level in December 2014 and amounted to 0.21%. A drop was also recorded by the interest rate on term deposits up to one year, which stood at 1.25% in December 2015 (12/2014: 1.97%).

The weighted EIR on long-term deposits was 2.01% in December 2015 (12/2014: 2.74%), with the lowest rate having been recorded in October 2015 (1.57%), while the highest was recorded in February in the amount of 2.68%.

The weighted EIR on long-term deposits up to three years is 1.68%, which represents a drop in the amount of 0.80 percentage points compared to the level in December 2014. The EIR on term deposits over three years was 2.72% in December 2015, down by 0.71 percentage points compared to December 2014, when the aforementioned amounted to 3.43%.

Prosječne EKS na depozite stanovništva i pravnih lica u decembru 2015. godine imaju niže vrijednosti u odnosu na decembar 2014. godine. Prosječna EKS na depozite stanovništva je niža za 0,39 procentnih poena u odnosu na decembar 2014. godine i iznosi 1,74%. Najniža stopa u toku 2015.

godine zabilježena je u septembru 1,65%, a najviša u julu 2,19%. Kod privrede, prosječna EKS u decembru 2015. godine je iznosila 1,81%, što je za 0,40 procentnih poena manje u odnosu na decembar 2014. godine, sa najnižim nivoom od 1,55% zabilježenim u novembru i najvišim od 2,79% u februaru.

Average EIR on retail and corporate deposits are lower in December 2015 compared to December 2014. The average EIR on retail deposits is down by 0.39 percentage points compared to December 2014 and amounts to 1.74%. The lowest rate in 2015 was recorded in September (1.65%) and the highest in July (2.19%). In the corporate sector, the average EIR stood at 1.81% in December 2015, down by 0.40 percentage points compared to December 2014, with the lowest level (1.55%) having been recorded in November and the highest (2.79%) in February.

When analysing the trends of weighted average interest rates on deposits per annum in the last five years, a decrease in interest rates on long-term deposits is evident, except in 2012, while interest rates on short-term deposits are at the lowest level in the last five years, with present annual oscillations, as can be seen in the table below.

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

DESCRIPTION	12/2011		12/2012		12/2013		12/2014		12/2015	
	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	1.16	1.16	1.45	1.47	1.65	1.67	1.20	1.23	0.60	0.61
1.1. up to three months	0.87	0.87	0.86	0.88	1.47	1.47	0.79	0.80	0.27	0.28
1.2. up to one year	2.53	2.53	2.55	2.57	1.85	1.87	1.72	1.76	1.25	1.28
2. Weighted IR on long-term deposits	3.59	3.63	3.78	3.81	3.20	3.23	2.79	2.82	2.20	2.23
2.1. up to three years	3.47	3.50	3.69	3.71	2.97	3.00	2.61	2.64	2.08	2.10
2.2. more than three years	4.9	4.29	4.44	4.50	4.15	4.18	3.32	3.34	2.48	2.52
3. Total weighted IR on deposits	1.99	2.00	2.61	2.64	2.51	2.53	2.04	2.07	1.41	1.43

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	12/2013		06/2014		12/2014		06/2015		12/2015	
	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 overdraft facilities	8.25	8.42	8.14	8.31	8.05	8.22	7.91	8.08	7.81	8.01
2. Weighted IR on call deposits	0.15	0.15	0.13	0.13	0.13	0.13	0.11	0.11	0.09	0.09

The weighted EIR on total overdraft facilities for the banking sector in December 2015 amounted to 8.01% (down by 0.21 percentage points compared to December 2014) and to 0.09% on call deposits (slightly lower compared to December 2014). 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 31.12.2015, the largest share of 76.2% still refers to deposits, followed by loans taken (including subordinated debt[33]) with a share of 6%. 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,[34] 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.

- in KM 000 -

Table 39: *Maturity Structure of Deposits by Contractual Maturity*

DEPOSITS	31.12.2013		31.12.2014		31.12.2015		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and call deposits	5 233 356	45.4	5 771 888	47.6	6 645 840	50.8	110	115
Up to 3 months	365 229	3.2	279 332	2.3	266 464	2.0	76	95
Up to 1 year	668 142	5.8	701 041	5.8	679 876	5.2	105	97
1. Total short-term deposits	6 266 727	54.4	6 752 261	55.7	7 592 180	58.0	108	112
Up to 3 years	3 541 354	30.7	3 437 563	28.3	3 502 798	26.7	97	102
More than 3 years	1 715 768	14.9	1 940 922	16.0	2 004 005	15.3	113	103
2. Total long-term deposits	5 257 122	45.6	5 378 485	44.3	5 506 803	42.0	102	102
TOTAL (1 + 2)	11 523 849	100.0	12 130 746	100.0	13 098 983	100.0	105	108

Compared to the end of 2014, total deposits are up by 8% or KM 968 million, mostly as a result of retail deposits being up by 9% or KM 602 million, as well as due to increases in deposits of other sectors: government institutions by 26% or KM 206 million, private companies by 10% or KM 187 million, non-banking financial institutions by 13% or KM 66 million, public companies by 5% or KM 44 million and other deposits by 14% or KM 5 million. On the other hand, there was a decrease in deposits of banking institutions by 15% or KM 134 million and deposits of non-profit organisations by 3% or KM 9 million. With a share of 57%, 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, i.e. a trend of increase in short-term deposits from 52.8% to 58% at the end of 2015 and a drop in the share of long-term deposits from 47.2% to 42%.

Changes in the maturity structure stem from an increase in short-term deposits by 12% or KM 840 million, largely related to an increase in retail deposits by KM 442 million, deposits of government institutions by KM 268 million and deposits of private companies by KM 185 million, while a decrease was recorded mostly with respect to banking institutions (by KM 49 million) and public companies (by KM 35 million). Long-term deposits rose slightly by 2% or KM 128 million, largely as a result of an increase in deposits up to three years by 2% (mostly retail deposits and deposits of public companies), while deposits with a term over three years increased by 3%, largely on the basis of retail deposits being up. It should be noted that long-term deposits are still dominated by two segments: retail, with the share increasing from 67.1% to 68.4%, and public companies (previously banking institutions), with the share increasing from 7.8% to 9%. In deposits with a term from one to three years, the largest and approximately same share of 71.6% is held by retail deposits, followed by public companies (12.6%, with the share being up by 2.4 percentage points). Deposits over three years mostly consist of retail deposits (63%, up by 4 percentage points), while deposits of banking institutions, with a long-lasting trend of decrease that has slowed down somewhat, have a share of

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

[34] As per remaining maturity.

16% (at the end of 2014: 20.5%, at the end of 2013: 25.6%, at the end of 2012: 33.0%, at the end of 2011: 46.9%, at the end of 2010: 60.9%).

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	31.12.2013		31.12.2014		31.12.2015		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)	5 343 263	46.4	5 874 183	48.4	6 852 863	52.3	110	117
7- 90 days	920 951	7.9	898 335	7.4	770 687	5.9	98	86
91 days to one year	2 126 249	18.5	2 054 981	17.0	2 080 342	15.9	97	101
1. Total short-term deposits	8 390 463	72.8	8 827 499	72.8	9 703 892	74.1	105	110
Up to 5 years	3 002 846	26.1	3 150 040	26.0	3 190 290	24.3	105	101
More than 5 years	130 540	1.1	153 207	1.2	204 801	1.6	117	134
2. Total long-term deposits	3 133 386	27.2	3 303 247	27.2	3 395 091	25.9	105	103
TOTAL (1 + 2)	11 523 849	100.0	12 130 746	100.0	13 098 983	100.0	105	108

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 74.1%, with a trend of slight deterioration in 2015. Compared to the end of 2014, short-term are up by 10% or KM 876 million, with the share increasing from 72.8% to 74.1%, while long-term deposits increased by 3% or KM 92 million, with the share in total deposits decreasing from 27.2% to 25.9%. Looking at the structure of long-term deposits, it is evidently dominated by deposits with remaining maturity of up to 5 years (94% of long-term deposits and 24.3% of total deposits), while the reduction of 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 recorded in 2015. When comparing information on deposit maturities by contractual and residual maturity, it can be concluded that out of the KM 5.5 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 uo one year as of 31.12.2015.

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.[35] 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 31.12.2015, four banks are using a corrective amount (KM 218 million) after being granted approval by the FBA, with it being noted that two more banks have applied for the use of the corrective amount. The objective of the regulation amendment is primarily aimed at stimulating credit growth, mostly real sector sector lending, and the effects are expected in the following period.

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

[35] 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)

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 the regulated minimum limits.

- in KM 000 -

Table 41: *Maturity Structure of Loans*

LOANS	31.12.2013		31.12.2014		31.12.2015		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Past due receivabkes abd paid off-balance liabilities	1 175 825	10.8	1 210 806	10.8	1 186 501	10.2	103	98
Short-term loans	2 360 832	21.8	2 256 837	20.2	2 283 316	19.7	96	101
Long-term loans	7 315 743	67.4	7 702 634	69.0	8 140 927	70.1	105	106
TOTAL LOANS	10 852 400	100.0	11 170 277	100.0	11 610 744	100.0	103	104

In 2015, long-term loans increased by 6% or KM 438 million and short-term loans by 1% or KM 26 million, while past due receivables, despite the increase during 2015, decreased by 2% or KM 24 million as a result of a permanent write-off in the amount of KM 120 million, which is yet another indicator of the deterioration of the collection rate of loans due and difficulties that debtors have in servicing liabilities towards banks in the light of the economic crisis. In the structure of past due receivables, 63% refers to private companies, 34% to the retail sector and 3% to other sectors.

An analysis of maturities of two key sectors shows that 86% of retail loans are long-term loans, while 53% of total approved loans refers to private companies.

In the structure of assets, loans, as the key category, still hold the largest share of 67.5%, down by 1.7% compared to the end of 2014, and recorded a slight increase of 4% in 2015. Cash funds increased by 7% or KM 297 million and their share remained at the same level of 28.2% compared to the end of 2014.

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

- in % -

Table 42: *Liquidity Ratios*

Ratios	31.12.2013	31.12.2014	31.12.2015
1	2	3	4
Liquid assets[36]/total assets	28.9	28.5	28.4
Liquid assets/short-term financial liabilities	50.6	49.1	48.4
Short-term financial liabilities/total financial liabilities	67.9	69.3	70.0
Loans/deposits and loans taken[37]	86.4	84.9	82.9
Loans/deposits, loans taken and subordinated debt[38]	85.3	83.9	82.2

[36] In narrow terms, liquid assets are: cash and deposits and other financial assets with remaining maturity of less than 3 months (excluding interbank deposits).

[37] Empirical standards are: below 70% - very sound, 71%-75% - satisfactory, 76%-80% - marginally satisfactory, 81%-85% - insufficient, over 85% - critical.

As of 31.12.2015, the ratios were at approximately the same level as at the end of 2014.

After deteriorating in 2012, the ratio of loans/deposits and loans taken improved in 2013 (from 88.1% to 86.4%), and the same trend continued in 2014 and 2015 as well. As of 31.12.2015, the ratio amounted to 82.9% and the increase (by 2 percentage points) is the result of the increase in deposits being larger than the increase in loans. The ratio was above 85% (critical level) with respect to 8 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 2015, banks have duly fulfilled the requirement of maintaining the defined level of the required reserve at the Central Bank of B&H. 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% (20% until 10.06.2014) in relation to short-term sources of funding and the daily minimum of 5% (10% until 10.06.2014) 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*

	31.12.2013 Amount	31.12.2014 Amount	31.12.2015 Amount	INDEX	
1	2	3	4	5(3/2)	6(4/3)
1. Average daily balance of cash	3 722 887	4 060 671	4 592 762	109	113
2. Lowest total daily cash balance	3 423 657	3 797 970	4 310 524	111	114
3. Short-term sources of funding (calculation basis)	5 887 967	6 351 607	7 358 839	108	116
4. Amount of liabilities[39]:					
4.1. 10-day average 10% of the amount under item 3	1 177 593	635 161	735 884	54	116
4.2. daily minimum 5% of the amount under item 3	588 798	317 580	367 942	54	116
5. Performance of liabilities: 10-day average[40]					
Surplus = item no. 1 – item no. 4.1.	2 545 294	3 425 510	3 856 868	135	113
6. Performance of liabilities: daily minimum					
Surplus = item no. 2 – item no. 4.2.	2 834 859	3 480 390	3 942 582	123	113

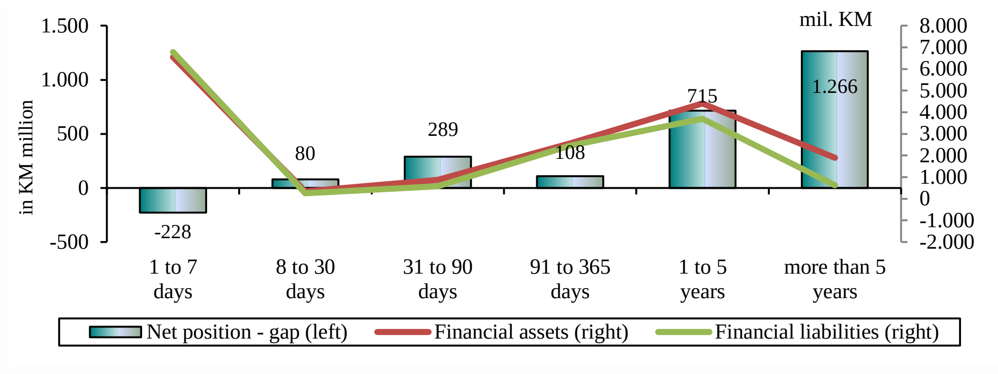
[38] The previous ratio was expanded and sources now include subordinated debt, thus being a more realistic indicator.

[39] According to Article 1 of the 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), the percentage of maintaining the 10-day average liquidity minimum and the daily average cash funds minimum was reduced from 20% to 10% and from 10% to 5%, respectively.

[40] Changes in the indexes with respect to positions 4.1, 4.2, 5 and 6 are the result of the changes mentioned in the previous footnote.

When observing the maturity adjustment of remaining maturities of total financial assets[41] and liabilities, it can be concluded that the adjustment rate is good, although somewhat lower compared to 31.12.2014.

Graph 28: *Maturity Adjustment of Financial Assets and Liabilities as of 31.12.2015*



As of 31.12.2015, short-term financial assets of banks in the amount of KM 10.3 billion were higher than short-term liabilities by KM 250 million. Compared to the end of 2014, when the positive gap amounted to KM 202 million, this represents an increase of KM 48 million or 23.4%, which has led to a slight improvement of the coverage ratio for short-term liabilities from 102.2% to 102.5%.

Short-term financial assets increased by 7.6%, while short-term financial liabilities went up by 7.3%. In the structure of short-term financial assets, the largest increase in the amount of 6.5% or KM 297 million was recorded with respect to cash funds, followed by trading assets (50.5% or KM 296 million), net loans (2.9% or KM 123 million), other financial assets (19.9% or KM 28 million) and cash borrowings to other banks (22.8% or KM 12 million), while a decrease of 23.9% or KM 22 million was recorded with respect to securities held to maturity. Financial assets with remaining maturity of over one year rose by 5.2% or KM 315 million, mostly as a result of an increase in loans by 5.6% or KM 325 million.

Liabilities with maturity of up to one year (KM 10.1 billion) increased by 7.3% or KM 686 million as a result of an increase in deposits (up by 9.9% or KM 876 million), other financial liabilities (up by 20.5% or KM 35 million), a decrease in loan commitments (down by 55.2% or KM 199 million) and subordinated debt (down by 99.4% or KM 27 million). Liabilities with maturity of over one year (KM 4.3 billion) are up by 3.9% or KM 164 million, primarily as a result of an increase in deposits by 2.8% or KM 92 million and an increase in loan commitments by 11.4% or KM 76 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.[42]

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

[42] 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.

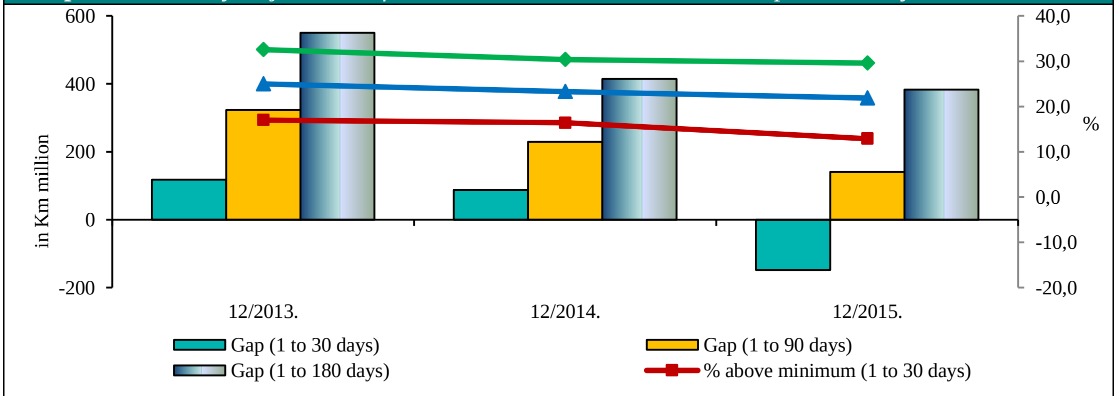
- in KM 000–

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

Description	31.12.2013 Amount	31.12.2014 Amount	31.12.2015 Amount	INDEX	
1	2	3	4	5 (3/2)	6(4/3)
I. 1- 30 days					
1. Financial assets	5 924 526	6 303 761	6 890 229	106	109
2. Financial liabilities	5 806 822	6 215 782	7 037 830	107	113
3. Difference (+ or -) = 1-2	117 704	87 979	-147 601	75	n/a
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	102.0%	101.4%	97.9%		
b) Prescribed minimum %	85.0%	85.0%	85.0%		
Plus (+) or minus (-) = a - b	17.0%	16.4%	12.9%		
II. 1-90 days					
1. Financial assets	6 809 340	7 132 287	7 762 853	105	109
2. Financial liabilities	6 485 914	6 901 893	7 621 382	106	110
3. Difference (+ or -) = 1-2	323 426	230 394	141 471	71	61
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	105.0%	103.3%	101.9%		
b) Prescribed minimum %	80.0%	80.0%	80.0%		
Plus (+) or minus (-) = a - b	25.0%	23.3%	21.9%		
III. 1-180 days					
1. Financial assets	7 812 974	8 062 506	8 748 830	103	109
2. Financial liabilities	7 263 293	7 647 885	8 365 666	105	109
3. Difference (+ or -) = 1-2	549 681	414 621	383 164	75	92
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	107.6%	105.4%	104.6%		
b) Prescribed minimum %	75.0%	75.0%	75.0%		
Plus (+) or minus (-) = a - b	32.6%	30.4%	29.6%		

Based on the information presented, it is found that, as of 31.12.2015, banks have adhered to prescribed limits and achieved a better maturity adjustment of financial assets and liabilities in relation to the prescribed limits.

Graph 29: *Maturity Adjustment of Financial Assets and Liabilities – up to 180 Days*



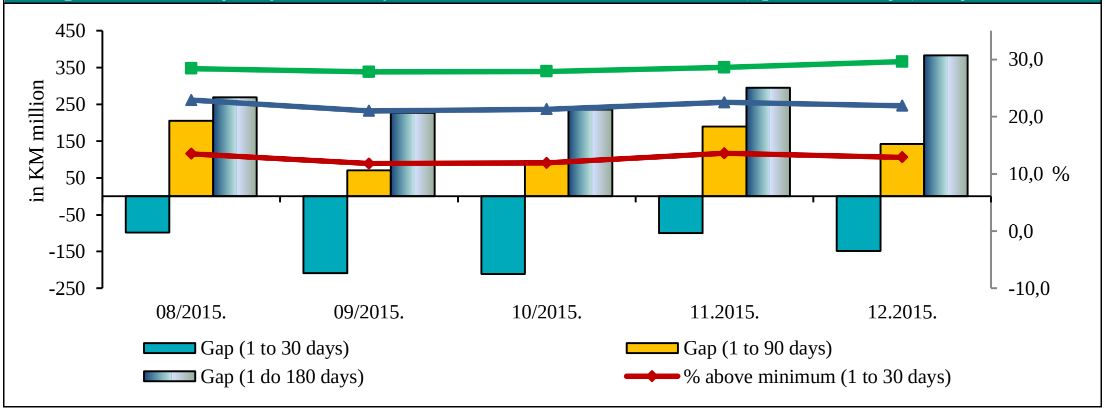
As of 31.12.2015, financial assets in the first period (up to 30 days) were lower than financial liabilities, due to the increase in financial liabilities, primarily deposits and other financial liabilities, being higher than the increase in financial assets (an increase in trading assets, cash funds and other financial assets; a decrease in borrowings to other banks, securities held to maturity and net loans). In the second and third period, financial assets surpassed financial liabilities, despite the increase in financial assets (primarily an increase in cash funds and trading assets) being lower than the increase in financial liabilities (mostly deposits, followed by other financial liabilities).

As a result of the aforementioned, the recorded maturity adjustment percentages in all three periods were somewhat lower than at the end of 2014, but still significantly above the prescribed minimum by

12.9% in the first period, 21.9% in the second period and 29.6% in the third period.

The chart below shows the trend of the maturity adjustment of financial assets and liabilities in the period from August to December 2015 (by period of time and maturity adjustment percentages in relation to the legally defined minimum standards).

Graph 30: *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, of the poor inflow of liquid funds due to a decreased collection rate of loans.

Through its off-site and on-site controls 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[43],

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

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.[44]

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.

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 31.12.2015, the currency structure of banks' assets included 10.2% or KM 1.7 billion of foreign currency items (at the end of 2014, these items amounted 11.5% or KM 2 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 41.5% or KM 7.1 billion (at the end of 2014, this share was 44.2% 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)*[45]

Description	31.12.2014				31.12.2015				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	961	12.7	1 385	16.7	839	10.6	1 311	15.2	87	95
2. Loans	38	0.5	41	0.5	29	0.4	31	0.4	76	76
3. Loans with a currency clause	6 294	82.9	6 438	77.8	6 516	82.7	6 622	77.0	104	103
4. Other	295	3.9	409	5.0	499	6.3	636	7.4	169	156
Total (1+2+3+4)	7 588	100.0	8 273	100.0	7 883	100.0	8 600	100.0	104	104
II. Financial liabilities										
1. Deposits	5 363	72.5	5 975	74.4	5 498	72.8	6 153	74.9	103	103
2. Loans taken	949	12.8	954	11.9	810	10.7	812	9.9	85	85
3.Deposits and loans with a currency clause	882	11.9	882	11.0	1 076	14.2	1 076	13.1	122	122
4. Other	209	2.8	216	2.7	170	2.3	176	2.1	81	81
Total (1+2+3+4)	7 403	100.0	8 027	100.0	7 554	100.0	8 217	100.0	102	102
III. Off-balance sheet										
1. Assets	78		78		37		48			
2. Liabilities	50		109		129		208			
IV.Position										
Long (amount)	212		216		237		223			
%	12.0%		12.2%		12.8%		12.0%			
Short										
%										
Allowed	30%		30%		30%		30%			
Lower than the allowed	18.0%		17.8%		17.2%		18.0%			

44 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.

45 Source: Form 5 – FX position.

In terms of the structure of foreign currencies, the dominant share among financial assets[46] is held by the EUR with 69.1%, which is lower compared to 31.12.2014 (70.5%), along with an increase in the nominal amount (from KM 1.29 billion to KM 1.37 billion). The share of the EUR in liabilities is 90.7%, which is somewhat lower compared to the end of 2014, coupled with a decrease in the nominal amount by KM 43 million.

However, FX risk exposure calculation also includes the amount of indexed assets items (loans) and liabilities items[47], which is quite significant on the assets side (77.0% or KM 6.6 billion) and which is somewhat up compared to 31.12.2014 (77.8% or KM 6.5 billion). Other FX items on the assets side hold a share of 23.0% or KM 2 billion and have the following structure: items in EUR 15.9% or KM 1.4 billion and other currencies 7.1% or KM 0.6 billion (at the end of 2014, other items in EUR held a share of 15.6% or KM 1.29 billion). Out of total net loans (KM 10.5 billion), app. 63.3% have a currency clause (mostly pegged to the EUR – 98.4%).

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 78.8% or KM 6.5 billion and refers to items in EUR, mostly deposits (at the end of 2014, the share of liabilities in EUR amounted to 81.2% 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 a share of 8%, to the level of KM 1.1 billion (with a 13.1% share) as of 31.12.2015, with it being noted that an increase in the amount of 22% or KM 194 million was recorded in 2015. 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 2015 was within the defined limits. As of 31.12.2015, the long FX position was recorded with 13 banks and the short position with 4 banks. At system level, there is a long FX position of 12.0% of the total core capital of banks, which is 18.0% below the allowed limit. The individual FX position for the EUR, like the total position, was 12.8%, which is 17.2% below the allowed limit, with financial assets items being larger than financial liabilities (net long 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.

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[46] Source: Form 5 – FX position: one part of financial assets (foreign currencies denominated in KM). According to the calculation methodology, financial assets were posted in accordance with the net principle until 31.12.2011 (i.e. after deductions for loan loss reserves), after which the new methodology entailed the depreciation of fixed assets according to IAS, i.e. after deductions for value adjustments and reserves for contingent liabilities

[47] 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).

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:

- 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;
- continue with activities to draft a regulatory framework (by-laws) in accordance with 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;
- 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 banks' compliance 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;
- 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 the 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);
- 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 drafting and adoption of the new Banking Law and the legal framework for the resolution of banks;
- 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 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
- 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.-82-2/16
Sarajevo, 29.03.2016

A N N E X E S

ANNEX 1

Banks in the Federation of Bosnia and Herzegovina – 31.12.2015

No.	BANKA	Adress		Telephone	Director
1	BOR BANKA dd - SARAJEVO	Sarajevo	Obala Kulina bana 18	033/278-520, fax:278-550	HAMID PRŠEŠ
2	BOSNA BANK INTERNATIONAL dd - SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	AMER BUKVIĆ
3	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	070/340-341, fax:036/444-235	DRAGAN KOVAČEVIĆ
4	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Sarajevo	Obala Kulina bana 9a.	033/497-555, fax:497-589	ALMIR KRKALIĆ
5	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032/448-400, fax:448-501	MIRZA HUREM
6	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Tone Hrovata bb	037/771-253, fax:772-416	HASAN PORČIĆ
7	MOJA BANKA dd - SARAJEVO	Sarajevo	Trg međunarodnog prijateljstva br. 25.	033/586-870, fax:586-880	EMIR SALIHOVIĆ
8	NLB BANKA dd - SARAJEVO	Sarajevo	Džidžikovac 1.	033/720-300, fax:035/302-802	SENAD REDZIĆ
9	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:664-175	ADNAN BOGUNIĆ
10	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Franca Lehara bb	033/250-950, fax:250-971	EDIN HRNJICA
11	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb.	033/755-010, fax: 213-851	KARLHEINZ DOBNIGG
12	RAZVOJNA BANKA FEDERACIJE BIH	Sarajevo	Igmanska 1	033/724-930, fax: 668-952	SALKO SELMAN
13	SBERBANK BH dd - SARAJEVO	Sarajevo	Fra Anđela Zvizdovića 1	033/295-601, fax:263-832	EDIN KARABEG
14	SPARKASSE BANK dd BOSNA I HERCEGOVINA- SARAJEVO	Sarajevo	Zmaja od Bosne br. 7.	033/280-300, fax:280-230	SANEL KUSTURICA
15	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:312-121	IVAN VLAHO
16	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	VEDRAN HADŽIAHMETOVIĆ
17	VAKUFSKA BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	MIRZET RIBIĆ
18	ZIRAATBANK BH dd - SARAJEVO	Sarajevo	Dženetića Čikma br. 2.	033/252-230, fax: 252-245	ALI RIZA AKBAŞ

ANNEX 2

LEGAL FRAMEWORK FOR OPERATIONS OF THE BANKING AGENCY OF THE FEDERATION OF B&H, BANKS, MICROCREDIT ORGANISATIONS AND LEASING COMPANIES IN THE FEDERATION OF B&H

I. REGULATIONS RELATED TO THE ORGANISATION OF THE BANKING AGENCY OF THE FEDERATION OF B&H

1. Law on the Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of the FB&H“, No. 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06, 48/08, 34/12 and 77/12),
2. Articles of Association of the Banking Agency of the Federation of B&H („Official Gazette of the FB&H“, No. 42/04),
3. Rules of Internal Organisation of the Banking Agency of the Federation of B&H („Official Gazette of the FB&H“, No. 23/14 – consolidated text).

II. REGULATIONS RELATED TO THE AGENCY'S COMPETENCES

Laws

1. Law on Banks („Official Gazette of the FB&H“, No. 39/98, 32/00, 48/01, 27/02, 41/02, 58/02, 13/03, 19/03 and 28/03, 66/13),
2. Law on Microcredit Organisations („Official Gazette of the FB&H“, No. 59/06),
3. Law on Associations and Foundations („Official Gazette of the FB&H“, No. 45/02),
4. Law on Leasing („Official Gazette of the FB&H“, No. 85/08, 39/09 and 65/13),
5. Law on the Development Bank of the Federation of B&H („Official Gazette of the FB&H“, No. 37/08),
6. Law on Deposit Insurance in B&H („Official Gazette of B&H“, No. 20/02, 18/05, 100/08 and 75/09, 58/13),
7. Law on Foreign Currency Operations („Official Gazette of the FB&H“, No. 47/10),
8. Law on Internal Payment System („Official Gazette of the FB&H“, No. 48/15),
9. Law on Prevention of Money Laundering and Terrorism Financing („Official Gazette of B&H“, No. 53/09 and 47/14),
10. Law on Guarantor Protection in the FB&H („Official Gazette of the FB&H“, No. 100/13),
11. Law on Protection of Users of Financial Services („Official Gazette of B&H“, No. 31/14).

Decisions and Instructions of the Banking Agency Related to the Operations of Banks

1. Decision on Minimum Standards for Managing Information Systems in B&H Banks („Official Gazette of the FB&H“, No. 1/12),
2. Decision on Minimum Standards for Outsourcing Management („Official Gazette of the FB&H“, No. 1/12),
3. Decision on Reporting Forms Banks Deliver to the Banking Agency of the FB&H („Official Gazette of the FB&H“, No. 110/12, 15/13, 46/14 and 62/14),
4. Decision on Minimum Standards for Managing Risk Concentrations in Banks („Official

Gazette of the FB&H“, No. 48/12 – consolidated text),

5. Decision on Minimum Standards for Capital Management in Banks and Capital Hedge („Official Gazette of the FB&H“, No. 46/14),
6. Decision on Minimum Scope, Form and Contents of the Programme and the Report on Economic-Financial Audit of Banks („Official Gazette of the FB&H“, No. 48/12 – consolidated text),
7. Decision on Uniform Method of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits („Official Gazette of the FB&H“, No. 48/12 and 23/14),
8. Decision on Determination of the Fee Tariff of the Banking Agency of the Federation of B&H („Official Gazette of the FB&H“, No. 48/12 – consolidated text),
9. Decision on Determining the Fee Amount for Supervision of Operations of the Development Bank of FB&H („Official Gazette of BiH“, No. 65/09),
10. Decision on Minimum Standards for Banks' Activities on Prevention of Money Laundering and Terrorism Financing („Official Gazette of the FB&H“, No. 48/12),
11. Decision on Minimum Standards for Managing Foreign Currency Risk in Banks („Official Gazette of the FB&H“, No. 48/12 – consolidated text),
12. Decision on Minimum Standards for Managing Liquidity Risk in Banks („Official Gazette of the FB&H“, No. 48/12, 110/12 and 46/14),
13. Decision on Minimum Standards for Managing Credit Risk and Assets Classification in Banks („Official Gazette of the FB&H“, No. 85/11, 33/12 and 15/13),
14. Decision on Temporary Measures for Rescheduling of Credit Liabilities of Natural Persons and Legal Entities in Banks („Official Gazette of the FB&H“, No. 2/10, 86/10, 1/12, 111/12 and 1/14),
15. Decision on Minimum Standards for Managing Operational Risk in Banks („Official Gazette of the FB&H“, No. 6/08 and 40/09),
16. Criteria for Internal Rating of Banks by the Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of the FB&H“, No. 3/03 and 6/03 – correction),
17. Decision on Reporting on Non-performing Customers Considered to be a Special Credit Risk for Banks („Official Gazette of the FB&H“, No. 3/03),
18. Decision on Conditions when the Bank is Considered Insolvent („Official Gazette of the FB&H“, No. 3/03),
19. Decision on Minimum Standards for Documenting Lending Activities of Banks („Official Gazette of the FB&H“, No. 3/03 and 23/14),
20. Decision on Minimum Standards for Banks' Operations with Related Entities („Official Gazette of the FB&H“, No. 3/03),
21. Decision on Bank Supervision and Actions of the Banking Agency of the Federation of B&H („Official Gazette of the FB&H“, No. 3/03),
22. Decision on Minimum Standards for Internal and External Audit in Banks („Official Gazette of the FB&H“, No. 3/03),
23. Decision on the Process of Determination of Receivables and Allocation of Assets and Liabilities during the Liquidation Process of Banks („Official Gazette of the FB&H“, No. 3/03),
24. Decision on Minimum Standards of the Internal Controls System in Banks („Official Gazette of the FB&H“, No. 3/03),
25. Decision on Bank's Handling of Dormant Accounts („Official Gazette of the FB&H“, No. 30/15 and 98/15),
26. Decision on Level and Conditions for Loan Approval to Bank Employees („Official Gazette of the FB&H“, No. 7/03 and 83/08),
27. Decision on Property Statement („Official Gazette of the FB&H“, No. 3/03),
28. Instructions for Licensing and Other Approvals of the FB&H Banking Agency („Official

Gazette of the FB&H", No. 37/15),

29. Decision on Minimum Standards for Managing Market Risks in Banks („Official Gazette of the FB&H", No. 55/07, 81/07, 6/08, 52/08 and 79/09),
30. Decision on Diligent Behaviour of Members of Bank's Bodies („Official Gazette of the FB&H", No. 60/13),
31. Decision on Suitability Assessment of Bank's Bodies („Official Gazette of the FB&H", No. 60/13),
32. Decision on the Remuneration Policy and Practice for Bank Employees („Official Gazette of the FB&H", No. 60/13),
33. Decision on Minimum Standards for Currency Exchange Operations („Official Gazette of the FB&H", No. 95/13 and 99/13),
34. Decision on Examination Process of Currency Exchange Operations („Official Gazette of the FB&H", No. 95/13),
35. Decision on Examination of Foreign Currency Operations in Banks – Payment Transactions („Official Gazette of the FB&H", No. 95/13),
36. Decree on Conditions and Manner of Cash Payments („Official Gazette of the FB&H", No. 72/15).
37. Decision on Conditions and Manner of Customer Complaint Management in Banks, Microcredit Organisations and Leasing Companies („Official Gazette of the FB&H", No. 23/14 and 62/14),
38. Decision on Conditions for Assessing and Documenting Creditworthiness („Official Gazette of the FB&H", No. 23/14),
39. Decision on Provisional Measures for Treatment of Loan Commitments of Bank Clients Affected by Natural Disasters („Official Gazette of the FB&H", No. 55/14).
40. Instructions for Revised Method of Forming, Recording and Reporting Loan Loss Reserves (December 2011, January 2013)
41. Instructions for Manner of Reporting to Provisional Administrator about Bank's Operations under Provisional Administration (19.07.2013),
42. Instructions for Form and Manner of Additional Reporting by Banks under Provisional Administration (19.07.2013),
43. Instructions for Manner of Reporting to Liquidation Administrator about Implementation of Liquidation in Bank (19.07.2013).

Decisions and Instructions of the Banking Agency Related to Operations of the Ombudsman for the Banking System

1. Code of Conduct of Ombudsmen for the Banking System („Official Gazette of the FB&H", No. 62/14 and 93/15),
2. Decision on Conditions and Manner of Handling Guarantors' Requests for Release from the Guarantor's Obligation („Official Gazette of the FB&H", No. 23/14 and 62/14),
3. Decision on Minimum Requirements in Terms of Content, Comprehensibility and Accessibility of General and Special Operating Conditions of Providers of Financial Services ("Official Gazette of the FB&H", No. 62/14).

Other Regulations:

Development Bank of the FB&H

1. Decree on Criteria and Manner of Supervision of the Development Bank of the FB&H („Official Gazette of the FB&H", No. 57/08, 77/08 and 62/10),

Internal Payment System

1. Decree on Conditions and Manner of Cash Payments („Official Gazette of the FB&H“, No. 72/15 and 82/15).

Foreign Currency Operations

1. Rulebook on the Process of Opening and Maintaining FC Accounts and FC Savings of Resident Customers of Banks („Official Gazette of the FB&H“, No. 56/10),
2. Rulebook on Conditions and Manner for Opening, Maintaining and Closing of Non-resident Accounts in Banks („Official Gazette of the FB&H“, No. 56/10),
3. Rulebook on Manner, Deadlines and Forms of Reporting on International Lending Business („Official Gazette of the FB&H“, No. 79/10),
4. Decision on Withdrawing of Foreign Cash and Cheques („Official Gazette of the FB&H“, No. 58/10),
5. Decision on Conditions and Manner of Conducting Foreign Exchange Operations („Official Gazette of the FB&H“, No. 58/10 and 49/11),
6. Decision on Minimum Standards for Managing Foreign Currency Risk in Banks („Official Gazette of the FB&H“, No. 48/12 – consolidated text),
7. Decision on Conditions for Issuing Approvals for Opening FC Accounts Abroad („Official Gazette of the FB&H“, No. 58/10),
8. Decision on Payment, Collection and Transfer of Foreign Currency and Foreign Cash („Official Gazette of the FB&H“, No. 58/10),
9. Decision on Manner and Conditions for Residents to Receive or Perform Payment in FCY and LCY Cash in Their Operations with Non-residents („Official Gazette of the FB&H“, No. 58/10),
10. Instructions for the Structure and Use of the International Bank Number (IBAN) („Official Gazette of the FB&H“, No. 4/07).

Anti-Money Laundering

1. Rulebook on Risk Assessment, Information, Data, Documentation, Identification Methods and Other Minimum Indicators for an Efficient Implementation of the Law on Prevention of Money Laundering and Terrorism Financing („Official Gazette of B&H“, No. 93/09),
2. Instructions for Manner of Filling Out Forms and Electronic Data Entry for Reporting of Cash Transactions by the Payer („Official Gazette of B&H“, No. 22/11).

III. OTHER LAWS AND REGULATIONS IN THE FB&H

1. Law on Obligations („Official Gazette of the RB&H“, No. 2/92, 13/93 and 13/94, „Official Gazette of the FB&H“, No. 29/03 and 42/11),
2. Law on Payment Transactions („Official Gazette of the FB&H“, No. 32/00 and 28/03),
    - 2.1. Instructions on Manner in which Banks Report to Customers – Treasuries and Non-Budget Funds („Official Gazette of the FB&H“, No. 55/00 and 2/01),
    - 2.2. Instructions on Form and Contents of Payment Orders and Procedures for Performing Payment Transactions („Official Gazette of the FB&H“, No. 55/00, 2/01, 45/02, 7/04 and 11/04),
    - 2.3. Instructions on Opening and Closing of Transaction Accounts and Record Keeping („Official Gazette of the FB&H“, No. 55/00, 61/05 and 62/11),
    - 2.4. Instructions on Banks’ Obligations regarding Domestic Transaction Account

Opening („Official Gazette of the FB&H“, No. 56/00, 9/01, 28/01 and 46/03),
   - 2.5. Instructions for Establishment of Unified Registry of Account Holders in Commercial Banks and Contents and Manner of Keeping the Account Registry in the Federation of B&H („Official Gazette of the FB&H“, No. 14/01),
   - 2.6. Instructions on the Structure of Transaction Accounts („Official Gazette of the FB&H“, No. 52/00),
   - 2.7. Instructions for Manner of Payment to and from Blocked Accounts Maintained with the FB&H Payments Bureau („Official Gazette of the FB&H“, No. 2/01 and 46/03),
3. Law on Cheques („Official Gazette of the FB&H“, No. 32/00 and 77/15),
4. Law on Promissory Notes („Official Gazette of the FB&H“, No. 32/00 and 28/03),
5. Law on Default Interest Rate Level („Official Gazette of the FB&H“, No. 27/98 and 51/01, 28/13),
6. Law on Default Interest Level for Unsettled Debts („Official Gazette of the FB&H“, No. 56/04, 68/04, 29/05 and 48/11, 28/13),
7. Law on Default Interest Level for Public Revenues („Official Gazette of the FB&H“, No. 48/01, 52/01, 42/06, 28/13, 66/14 and 28/13),
8. Company Law („Official Gazette of the FB&H“, No. 81/15),
9. Company Consolidation Law („Official Gazette of the FB&H“, No. 52/14),
10. Law on Stock Company Take-Over („Official Gazette of the FB&H“, No. 77/15),
11. Law on Registration of Legal Entities in the FB&H („Official Gazette of the FB&H“, No. 27/05, 68/05, 43/09 and 63/14),
12. Law on Public Sector Companies („Official Gazette of the FB&H“, No. 8/05, 81/08, 22/09 and 109/12),
13. Liquidation Proceedings Law („Official Gazette of the FB&H“, No. 29/03),
14. Bankruptcy Law („Official Gazette of the FB&H“, No. 29/03, 32/04 and 42/06),
15. Law on Debt, Debt Raising and Guarantees in the FB&H („Official Gazette of the FB&H“, No. 86/07, 24/09 and 44/10) ,
    - 15.1. Rulebook on Foreign Debt Recording in the FB&H („Official Gazette of the FB&H“, No. 14/08),
    - 15.2. Rulebook on Required Documentation for Prior Approvals to the Canton, Municipality or City for Debt Raising and Issuance of Guarantees Based on Domestic Debt („Official Gazette of the FB&H“, No. 14/08),
    - 15.3. Rulebook on Accompanying Documents and Information Relevant for Decision-Making on Issuance of FB&H Guarantee and Percentage of Premium and Fee for Guarantee Issuance („Official Gazette of the FB&H“, No. 14/08),
    - 15.4. Rulebook on Recording of Guarantees in the FB&H („Official Gazette of the FB&H“, No. 14/08),
    - 15.5. Decision on Conditions and Procedures for Issuing FB&H Bonds („Official Gazette of the FB&H“, No. 31/12),
    - 15.6. Decision on Conditions and Procedures for Issuing of FB&H Treasury Bills („Official Gazette of the FB&H“, No. 88/12),
16. Law on Accounting and Audit in the FB&H („Official Gazette of the FB&H“, No. 83/09),
17. Law on Business Classification in the FB&H („Official Gazette of the FB&H“, No. 64/07 and 80/11),
18. Law on Classification of Professions in the FB&H („Official Gazette of the FB&H“, No. 111/12),
    - 18.1. Decision on Classification of Professions in the FB&H („Official Gazette of the FB&H“, No. 60/14),
19. Law on Securities Market („Official Gazette of the FB&H“, No. 85/08, 109/12 and 86/15),
20. Law on Securities Register („Official Gazette of the FB&H“, No. 39/98, 36/99 and

33/04),

21. Law on Securities Commission („Official Gazette of the FB&H“, No. 39/98, 36/99, 33/04 and 92/13),
22. Labour Law („Official Gazette of the FB&H“, No. 62/15),
23. Law on Employees Council („Official Gazette of the FB&H“, No. 38/04),
24. Law on Employment of Foreign Citizens („Official Gazette of the FB&H“, No. 111/12),
25. Law on Investment Funds („Official Gazette of the FB&H“, No. 85/08),
26. Law on Private Insurance Companies („Official Gazette of the FB&H“, No. 24/05 and 36/10),
27. Law on Private Insurance Agency („Official Gazette of the FB&H“, No. 22/05 and 8/10),
28. Law on Tax Authority of the FB&H („Official Gazette of the FB&H“, No. 33/02, 28/04, 57/09, 40/10, 29/11 and 27/12, 7/13, 71/14 and 91/15),
29. Law on Profit Tax („Official Gazette of the FB&H“, No. 97/07, 14/08-correction and 39/09),
30. Law on Personal Income Tax („Official Gazette of the FB&H“, No. 10/08, 9/10 and 44/11, 7/13, 65/13),
31. Law on Contributions („Official Gazette of the FB&H“, No. 35/98, 54/00, 16/01, 37/01, 1/02, 17/06, 14/08 and 91/15),
32. Law on Collection and Partial Write-off of Overdue Social Insurance Contributions („Official Gazette of the FB&H“, No. 25/06 and 57/09),
33. Law on Unified System of Registration of Control and Collection of Contributions („Official Gazette of the FB&H“, No. 42/09, 109/12 and 86/15),
34. Law on Opening Balance Sheet of Companies and Banks („Official Gazette of the FB&H“, No. 12/98, 40/99, 47/06, 38/08 and 65/09),
35. Law on Audit of Privatisation of State-owned Capital in Companies and Banks („Official Gazette of the FB&H“, No. 55/12),
36. Law on Identifying and Realising Claims of Citizens in the Privatisation Process („Official Gazette of the FB&H“, No. 27/97, 8/99, 45/00, 54/00, 7/01, 32/01, 27/02, 57/03, 44/04, 79/07, 65/09, 48/11, 111/12 and 86/15),
37. Law on Identification and Manner of Settlement of Domestic Debt of the FB&H („Official Gazette of the FB&H“, No. 66/04, 49/05, 5/06, 35/06, 31/08, 32/09, 65/09, 42/11 and 35/14),
38. Law on Settlement of Liabilities Based on Pre-War FC Savings in the FB&H („Official Gazette of the FB&H“, No. 62/09, 42/11 and 91/13),
39. Law on Trade and Related Businesses („Official Gazette of the FB&H“, No. 35/09 and 42/11),
40. Expropriation Law („Official Gazette of the FB&H“, No. 70/07, 36/10 and 25/12),
41. Law Rendering Ineffective the Law on Construction („Official Gazette of the FB&H“, No. 55/02, 34/07),
42. Law on Construction Land in the FB&H („Official Gazette of the FB&H“, No. 67/05),
43. Law on Temporary Restriction over Disposing with State Property in the FB&H („Official Gazette of the FB&H“, No. 20/05, 17/06, 62/06, 40/07, 70/07, 94/07 and 41/08),
44. Law on Free Access to Information in the FB&H („Official Gazette of the FB&H“, No. 32/01 and 48/11),
45. Regulatory Offence Law of the FB&H („Official Gazette of the FB&H“, No. 63/14),
46. Law on Notaries Public („Official Gazette of the FB&H“, No. 45/02),
47. Law on Court Appraisers („Official Gazette of the FB&H“, No. 49/05 and 38/08),
48. Law on Agencies and Internal Departments for Personal and Property Protection („Official Gazette of the FB&H“, No. 78/08 and 67/13),
49. Law on Land Books in the FB&H („Official Gazette of the FB&H“, No. 58/02, 19/03 and 54/04),

50. Law on Foreign Investments („Official Gazette of the FB&H“, No. 61/01, 50/03 and 77/15),
51. Mediation Law („Official Gazette of the FB&H“, No. 49/07),
52. Law on Treasury of the FB&H („Official Gazette of the FB&H“, No. 58/02, 19/03 and 79/07),
53. Law on Government of the FB&H („Official Gazette of the FB&H“, No. 1/94, 8/95, 58/02, 19/03, 2/06 and 8/06),
54. Law on Prosecutor's Office of the FB&H („Official Gazette of the FB&H“, No. 42/02 and 19/03),
55. Law on Courts in the FB&H („Official Gazette of the FB&H“, No. 38/05, 22/06, 63/10, 72/10-correction, 7/13 and 35/12),
56. Law on Enforcement Proceedings („Official Gazette of the FB&H“, No. 32/03, 52/03, 33/06, 39/06-correction, 39/09, 74/11 and 35/12),
57. Law on Temporary Postponement of Fulfillment of Receivables Based on Executive Decisions Issued in Relation to the FB&H Budget („Official Gazette of the FB&H“, No. 9/04 and 30/04),
58. Law on Administrative Proceedings („Official Gazette of the FB&H“, No. 2/98 and 48/99),
59. Law on Administrative Disputes („Official Gazette of the FB&H“, No. 9/05),
60. Law on Civil Proceedings („Official Gazette of the FB&H“, No. 53/03, 73/05, 19/06 and 98/15),
61. Law on Non-civil Proceedings („Official Gazette of the FB&H“, No. 2/98, 39/04, 73/05 and 80/14),
62. Criminal Code of the FB&H („Official Gazette of the FB&H“, No. 36/03, 37/03, 21/04, 69/04, 18/05, 42/10, 42/11, 59/14 and 76/14),
63. Law on Criminal Proceedings in the FB&H („Official Gazette of the FB&H“, No. 35/03, 37/03, 56/03, 78/04, 28/05, 55/06, 27/07, 53/07, 9/09, 12/10, 8/13 and 59/14),
    63.1. Rulebook on Manner and Conditions of Storing Material Evidence („Official Gazette of the FB&H“, No. 53/15)
64. Regulatory Offence Law of the FB&H („Official Gazette of the FB&H“, No. 44/98, 42/99, 12/09 and 42/11),
65. Law on Conflict of Interest in Government Bodies in the FB&H („Official Gazette of the FB&H“, No. 70/08),
66. Law on Financial-Information Agency („Official Gazette of the FB&H“, No. 80/11),
67. Law on Fiscal Systems („Official Gazette of the FB&H“, No. 81/09),
68. Law on Privatisation of Banks („Official Gazette of the FB&H“, No. 12/98, 29/00, 37/01 and 33/02),
69. Law on Archive Materials of the FB&H („Official Gazette of the FB&H“, No. 45/02),
    69.1. Decree on Organisation and Manner of Archiving by Legal Entities in the FB&H („Official Gazette of the FB&H“, No. 12/03 and 22/03),
70. Law on Recognition of Public Identification Documents on Territory of the FB&H („Official Gazette of the FB&H“, No. 4/98),
71. Law on Strike („Official Gazette of the FB&H“, No. 14/00),
72. Collective Employment Agreement for the Financial Sector („Official Gazette of the FB&H“, No. 48/00),
73. Property Law („Official Gazette of the FB&H“, No. 66/13 and 100/13),

IV. OTHER LAWS AND REGULATIONS OF B&H

1. Law on Central Bank of B&H („Official Gazette of B&H“, No. 1/97, 29/02, 8/03, 13/03, 14/03, 9/05, 76/06 and 32/07),
2. Law on Consumer Protection in B&H „(Official Gazette of B&H“, No. 25/06 and 88/15),

3. Law on Market Supervision in B&H („Official Gazette of B&H“, No. 45/04, 44/07 and 102/09),
4. Competition Law („Official Gazette of B&H“, Nos. 48/05, 76/07 and 80/09),
5. Law on Direct Foreign Investment Policy in B&H („Official Gazette of B&H“, No. 4/98, 17/98, 13/03, 48/10 and 22/15),
6. Law on Protection of Personal Data („Official Gazette of B&H“, No. 49/06, 76/11 and 89/11-correction),
7. Law on Protection of Data Secrecy („Official Gazette of B&H“, No. 54/05 and 12/09),
8. Law on Electronic Signature („Official Gazette of B&H“, No. 91/06),
9. Decision on Use of Electronic Signature and Documents Certification Services („Official Gazette of B&H“, No. 21/09),
10. Law on Business Classification in B&H („Official Gazette of B&H“, No. 76/06, 100/08 and 32/10),
11. Law on Debt, Debt Raising and Guarantees in B&H („Official Gazette of B&H“, No. 52/05 and 103/09),
    - Decision Approving Issuance of State Guarantees („Official Gazette of B&H“, No. 85/10),
12. Law on Settlement of Liabilities Based on Pre-War FC Savings („Official Gazette of B&H“, No. 28/06, 76/06, 72/07 and 97/11, 100/13),
13. Law on Accounting and Audit in B&H („Official Gazette of B&H“, No. 42/04),
14. Law on Determination and Manner of Settlement of Domestic Debt in B&H („Official Gazette of B&H“, No. 44/04),
15. Framework Law on Pledges („Official Gazette of B&H“, No. 28/04 and 54/04),
16. Law on Value Added Tax („Official Gazette of B&H“, No. 9/05, 35/05 and 100/08),
17. Law on Public Procurements in B&H („Official Gazette of B&H“, No. 39/14 and 47/14),
18. Law on Customs Policy in B&H („Official Gazette of B&H“, No. 58/15),
19. Law on Customs Violations in B&H („Official Gazette of B&H“, No. 88/05),
20. Law on Customs Duties („Official Gazette of B&H“, No. 58/12),
21. Patent Law („Official Gazette of B&H“, No. 53/10),
22. Law on Free Access to Information in B&H („Official Gazette of B&H“, No. 28/00, 45/06, 102/09, 62/11 and 100/13),
23. Law on Personal Identification Number („Official Gazette of B&H“, No. 32/01, 63/08, 103/11, 87/13 and 84/15),
24. Law on Associations and Foundations in B&H („Official Gazette of B&H“, No. 32/01, 42/03, 63/08 and 76/11),
25. Law on Temporary Restriction over Disposing with State-owned Property in B&H („Official Gazette of B&H“, No. 18/05, 29/06, 85/06, 32/07, 41/07, 74/07, 99/07 and 58/08),
26. Law on Use and Protection of Name of B&H („Official Gazette of B&H“, No. 30/03, 42/04, 50/08 and 76/11),
27. Law on Fiscal Council of B&H („Official Gazette of B&H“, No. 63/08),
28. Law on the Treasury of B&H Institutions („Official Gazette of B&H“, No. 27/00 and 50/08),
29. Mediation Law („Official Gazette of B&H“, No. 37/04),
30. Law on Transfer of Mediation Business to Association of Mediators („Official Gazette of B&H“, No. 52/05),
31. Law on Enforced Collection of Indirect Taxes („Official Gazette of B&H“, No. 89/05 and 62/11),
32. Regulatory Offence Law („Official Gazette of B&H“, No. 41/07, 18/12, 36/14 and 81/15),
    - Rulebook on Application Form for Initiating Misdemeanor Proceedings („Official Gazette of the FB&H“, No. 15/14),

33. Law on B&H Courts („Official Gazette of B&H", No. 49/09, 74/09-correction and 97/09),
34. Law on High Judicial and Prosecutorial Council of B&H („Official Gazette of B&H", No. 35/02, 39/03, 42/03, 10/04, 25/04, 93/05, 32/07 and 48/07),
35. Law on Prosecutor's Office of B&H („Official Gazette of B&H", No. 49/09 and 97/09),
36. Law on Administrative Proceedings („Official Gazette of B&H", No. 29/02, 12/04, 88/07, 93/09 and 41/13),
37. Law on Administrative Disputes in B&H („Official Gazette of B&H", No. 19/02, 88/07, 83/08 and 74/10),
38. Law on Civil Proceedings before the B&H Court („Official Gazette of B&H", No. 36/04, 84/07 and 58/13),
39. Law on Enforcement Proceedings before the B&H Court („Official Gazette of B&H", No. 18/03),
40. Law on Temporary Postponement of Fulfillment of Receivables Based on Executive Decisions Issued in Relation to Budget of B&H Institutions and International Obligations of B&H („Official Gazette of B&H", No. 43/03 and 43/04),
41. Criminal Code of B&H („Official Gazette of B&H", No. 3/03, 32/03, 37/03, 54/04, 61/04, 30/05, 53/06, 55/06, 32/07, 8/10, 47/14, 22/15 and 40/15),
42. Law on Criminal Proceedings in B&H („Official Gazette of B&H", No. 3/03, 32/03, 36/03, 26/04, 63/04, 13/05, 48/05, 46/06, 76/06, 29/07, 32/07, 53/07, 76/07, 15/08, 58/08, 12/09, 16/09, 93/09 and 72/13),
43. Law on Conflict of Interest in Government Bodies of B&H („Official Gazette of B&H", No. 13/02, 16/02, 14/03, 12/04, 63/08, 18/12 and 87/13),
44. Law on Archive Materials and Archives of B&H („Official Gazette of B&H", No. 16/01).

ANNEX 3

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

in KM 000

No.	DESCRIPTION	31.12.2013	31.12.2014	31.12.2015
	ASSETS			
1.	Cash and deposit accounts with deposit-taking institutions	4 417 898	4 560 234	4 857 483
1a	Cash and non-interest bearing deposit accounts	627 016	618 460	1 058 837
1b	Interest-bearing deposits accounts	3 790 882	3 941 774	3 798 646
2.	Trading securities	381 909	586 704	882 829
3.	Loans to other banks	51 960	50 836	78 420
4.	Loans, receivables based on leasing facilities and past due receivables	10 852 400	11 170 277	11 610 744
4a	Loans	9 676 527	9 959 429	10 424 207
4b	Receivables based on leasing facilities	48	42	36
4c	Past due receivables based on loans and leasing facilities	1 175 825	1 210 806	1 186 501
5.	Held to maturity securities	180 604	214 585	167 377
6.	Business premises and other fixed assets	476 199	491 740	482 902
7.	Other real estate	36 786	34 120	37 312
8.	Investments in unconsolidated related companies	23 762	23 135	22 114
9.	Other assets	252 122	241 737	265 159
10.	LESS: value adjustments	1 227 090	1 222 838	1 211 039
10a	Value adjustments for Item 4. of the Assets	1 163 928	1 160 481	1 153 570
10b	Value adjustments for Assets items, except for the Item 4.	61 162	62 357	57 469
11.	**TOTAL ASSETS**	**15 446 550**	**16 150 530**	**17 193 301**
	LIABILITIES			
12.	Deposits	11 523 849	12 130 746	13 098 983
12a	Interest-bearing deposits	9 363 284	9 360 082	9 935 353
12b	Non-interest bearing deposits	2 160 565	2 770 664	3 163 630
13.	Borrowings – liabilities due	1 577	150	150
13a	Past due liabilities			
13b	Past due – invoked off-balance sheet liabilities	1 577	150	150
14.	Borrowings from other banks			
15.	Liabilities to the Government			
16.	Loan commitments and other borrowings	1 039 381	1 026 503	904 050
16a	With remaining maturity of up to one year	212 485	359 866	161 356
16b	With remaining maturity of more than one year	826 896	666 637	742 694
17.	Subordinated debt and subordinated bonds	166 889	156 233	119 835
18.	Other liabilities	406 909	417 395	468 736
19.	**TOTAL LIABILITIES**	**13 138 605**	**13 731 027**	**14 591 754**
	CAPITAL			
20.	Permanent preferred shares	11 959	11 959	11 709
21.	Common shares	1 196 633	1 221 591	1 155 783
22.	Issue premiums	136 485	136 485	132 667
22a	Over permanent preferred shares	8 420	88	88
22b	Over common shares	128 065	136 397	132 579
23.	Undistributed profit and capital reserves	649 879	618 214	836 609
24.	Foreign exchange rate differences			
25.	Other capital	-2 745	115 520	149 045
26.	Loan loss provisions formed from profit	315 734	**315 734**	**315 734**
27.	**TOTAL EQUITY (20. to 25.)**	**2 307 945**	**2 419 503**	**2 601 547**
28.	**TOTAL LIABILITIES AND EQUITY (19 +26)**	**15 446 550**	**16 150 530**	**17 193 301**
	PASSIVE AND NEUTRAL SUB-BALANCE	**661 321**	**638 913**	**713 765**
	BALANCE SHEET TOTAL OF BANKS	**16 107 871**	**16 789 443**	**17 907 066**

ANNEX 4

OVERVIEW OF ASSETS, LOANS, DEPOSITS AND FINANCIAL RESULTS OF BANKS IN THE FEDERATION OF B&H as of 31.12.2015

in KM 000

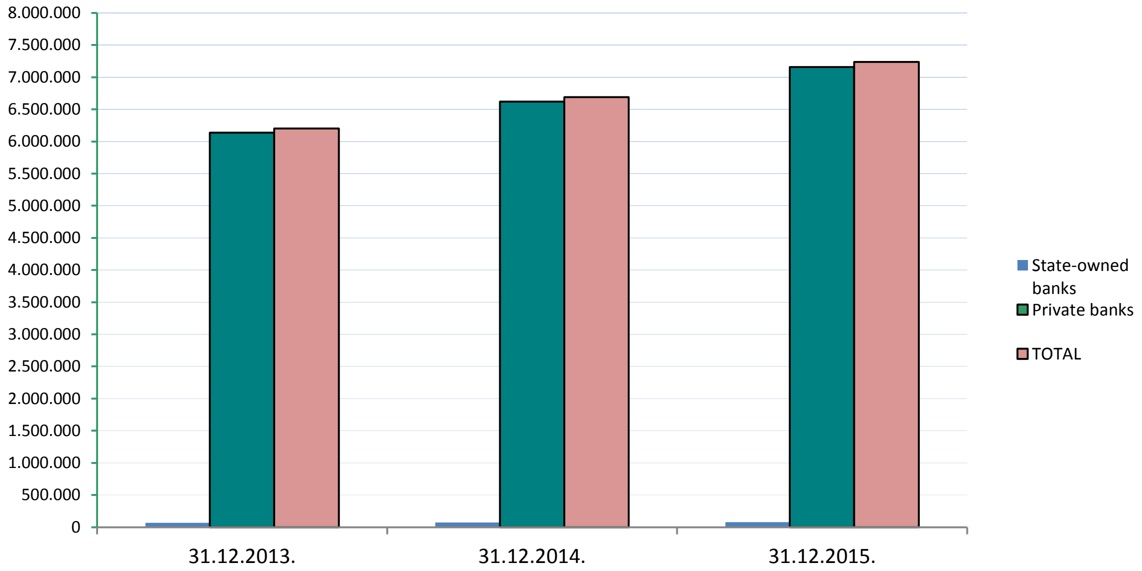
No.	BANK	Assets		Loans		Deposits		Fin. result
		Amount	%	Amount	%			Amount
1	BOR Banka d.d. Sarajevo	241 956	1.41%	174 991	1.51%	132 420	1.01%	2 132
2	Bosna Bank International d.d. Sarajevo	708 759	4.12%	470 779	4.05%	478 980	3.66%	5 609
3	Hypo Alpe Adria Bank d.d. Mostar	839 999	4.89%	569 581	4.91%	588 303	4.49%	-61 161
4	Intesa Sanpaolo banka d.d. Sarajevo	1 551 981	9.03%	1 218 236	10.49%	1 082 005	8.26%	26 106
5	Investiciono Komercijalna banka d.d. Zenica	212 421	1.24%	102 149	0.88%	154 128	1.18%	4
6	Komercijalno Investiciona banka d.d. Velika Kladuša	83 817	0.49%	46 221	0.40%	57 117	0.44%	1 001
7	Moja banka d.d.Sarajevo	213 061	1.24%	138 044	1.19%	180 115	1.38%	50
8	NLB banka d.d. Sarajevo	937 518	5.45%	662 659	5.71%	759 948	5.80%	7 691
9	Privredna Banka d.d Sarajevo	154 842	0.90%	105 130	0.91%	131 907	1.01%	-4 604
10	ProCredit Bank d.d. Sarajevo	408 956	2.38%	326 920	2.82%	260 298	1.99%	-4 834
11	Raiffeisen Bank dd Bosna i Hercegovina	3 729 423	21.69%	2 250 548	19.38%	2 967 027	22.65%	67 009
12	Sberbank BH d.d. Sarajevo	1 101 537	6.41%	913 288	7.87%	841 780	6.43%	6 207
13	Sparkasse Bank d.d. Sarajevo	1 168 051	6.79%	878 893	7.57%	971 820	7.42%	14 468
14	Union banka d.d. Sarajevo	476 866	2.77%	140 177	1.21%	407 127	3.11%	415
15	UniCredit bank d.d. Mostar	4 391 530	25.54%	2 902 582	25.00%	3 421 089	26.12%	79 584
16	Vakufska banka d.d. Sarajevo	256 953	1.49%	190 071	1.64%	216 170	1.65%	262
17	Ziraatbank BH d.d. Sarajevo	715 631	4.16%	520 475	4.48%	448 749	3.43%	9 106
	TOTAL	**17 193 301**	**100%**	**11 610 744**	**100%**	**13 098 983**	**100%**	**149 045**

ANNEX 5

NEW RETAIL SAVINGS IN BANKS IN THE FEDERATION OF B&H

in KM 000

	31.12.2013	31.12.2014	31.12.2015
State-owned banks	65 179	73 072	78 771
Private banks	6 135 711	6 618 891	7 156 178
TOTAL	**6 200 890**	**6 691 963**	**7 234 949**



ANNEX 6

CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET RISK-BEARING ITEMS as of 31.12.2015 - 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	2 095 557	168 289	15 355	2 969	1 146	2 283 316
2.	Long-term loans	7 205 581	537 218	248 096	88 678	8 367	8 087 940
3.	Other facilities	136 038	1 459	15	186	1 759	139 457
4.	Accrued interest and fees	36 263	4 268	1 902	4 647	24 600	71 680
5.	Past due receivables	32 399	16 780	31 351	319 445	761 878	1 161 853
6.	Receivables based on paid guarantees	0	0	0	687	23 961	24 648
7.	Other balance sheet assets being classified	485 640	3 056	678	3 116	37 535	530 025
8.	**TOTAL BALANCE SHEET ASSETS BEING CLASSIFIED (sum of items 1 through 7 – calculation basis for regulatory loan loss provisions)**	**9 991 478**	**731 070**	**297 397**	**419 728**	**859 246**	**12 298 919**
9.	**CALCULATED REGULATORY RESERVES FOR LOAN LOSSES BASED ON BS ASSETS**	**196 136**	**61 580**	**74 729**	**248 989**	**859 240**	**1 440 674**
10.	**VALUE ADJUSTMENT FOR BS ASSETS**	**120 311**	**46 904**	**112 195**	**214 916**	**716 714**	**1 211 040**
11.	**REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT FOR PURPOSE OF ASSESSED LOSSES BASED ON BS ASSETS**	**109 685**	**39 308**	**14 477**	**74 969**	**146 388**	**384 827**
12.	**FORMEED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**	**85 349**	**29 421**	**21 367**	**80 555**	**62 671**	**279 363**
13.	**SHORTFALL OF REGULATORY RESERVE FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**						**192 774**
14.	**BALANCE SHEET ASSETS NOT BEING CLASSIFIED (gross book value)**						**6 105 421**
15.	**TOTAL BALANCE SHEET ASSETS (gross book value)**						**18 404 340**

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	3 763 423
14.b	Demand deposits and term deposits up to one month located on accounts of banks with defined investment rating	997 204
14.c	Tangible and intangible assets	500 972
14.d	Financial and tangible assets acquired in the process of collection of receivables (within one year upon such acquisition)	6 237
14.e	Own (treasury) shares	0
14.f	Receivables based on overpaid taxes	14 478
14.g	Trading securities	101 916
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	721 191
	TOTAL Item 14	**6 105 421**
8a.	Facilities secured with a cash deposit	184 643

ANNEX 6A

CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET RISK-BEARING ITEMS
as of 31.12.2015
- CLASSIFICATION OF OFF-BALANCE SHEET ITEMS -

in KM 000

No.	OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Payment guarantees	412 950	36 632	3 465	510	300	453 857
2.	Performance guarantees	587 977	102 068	345	5 535	0	695 925
3.	Uncovered letters of credit	41 335	403	161	0	0	41 899
4.	Irrevocably approved, but undrawn loans	1 500 950	79 827	494	251	185	1 581 707
5.	Other contingent liabilities of the bank	13 360	153	0	1	143	13 657
6.	**TOTAL OFF-BALANCE SHEDET ITEMS BEING CLASSIFIED (sum of items 1 through 5 – calculation basis for regulatory loan loss provisions)**	**2 556 572**	**219 083**	**4 465**	**6 297**	**628**	**2 787 045**
7.	**CALCULATED REGULATORY RESERVES FOR LOAN LOSSES RELATED TO OFF-BALANCE SHEET ITEMS**	**50 184**	**14 444**	**1 067**	**3 693**	**628**	**70 016**
8.	**LOSS RESERVES FOR OFF-BALANCE SHEET ITEMS**	**23 612**	**1 940**	**776**	**3 752**	**291**	**30 371**
9.	**REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**	**30 863**	**13 395**	**766**	**848**	**447**	**46 319**
10.	**FORMED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**	**23 424**	**10 277**	**969**	**1 324**	**377**	**36 371**
11.	**SHORTFALL OF REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**						**13 746**
12.	**OFF-BALANCE SHEET ITEMS NOT BEING CLASSIFIED**						**460 560**
13.	**TOTAL OFF-BALANCE SHEET ITEMS**						**3 247 605**
6a.	**Contingent liabilities secured with a cash deposit**						**47.354**
6b.	**Approved undisbursed loans with a clause on unconditional cancellation**						**440.703**

ANNEX 7

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

in KM 000

No.		D E S C R I P T I O N	31.12.2013	31.12.2014	31.12.2015
1.		**INTEREST INCOME AND EXPENSES**			
	a)	Interest income and similar income			
	1)	Interest-bearing deposit accounts with deposit-taking institutions	2 461	3 459	1 574
	2)	Loans to other banks	1 964	2 199	1 693
	3)	Loans and leasing facilities	703 462	692 603	688 699
	4)	Held to maturity securities	7 496	7 246	6 393
	5)	Equity securities	153	1 307	49
	6)	Receivables based on paid-off balance sheet liabilities	0	7	3
	7)	Other interest income and similar income	65 509	63 895	67 095
	8)	**TOTAL INTEREST INCOME AND SIMILAR INCOME**	**781 045**	**770 716**	**765 506**
	b)	Interest expenses and similar expenses			
	1)	Deposits	205 187	192 455	172 146
	2)	Borrowings from other banks	436	0	0
	3)	Borrowings taken – liabilities due	0	0	0
	4)	Liabilities based on loans and other borrowings	21 253	18 880	14 823
	5)	Subordinated debt and subordinated bonds	10 050	11 206	7 834
	6)	Other interest and similar expenses	2 376	1 877	1 827
	7)	**TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES**	**239 302**	**224 418**	**196 630**
	c)	**NET INTEREST AND SIMILAR INCOME**	**541 743**	**546 298**	**568 876**
2.		**OPERATING INCOME**			
	a)	FX income	42 695	45 760	49 261
	b)	Loan fees	6 986	6 658	8 376
	c)	Fees based on off-balance sheet items	24 902	25 160	24 334
	d)	Service fees	195 262	208 544	223 395
	e)	Trading income	3 210	219	290
	f)	Other operating income	44 167	39 580	42 305
	g)	**TOTAL OPERATING INCOME a) to f)**	**317 222**	**325 921**	**347 961**
3.		**NON-INTEREST BEARING EXPENSES**			
	a)	Business and direct expenses			
	1)	Costs of value adjustments, risk-bearing assets, provisions for contingent liabilities and other value adjustments	232 804	148 251	128 992
	2)	Other business and direct expenses	75 621	80 006	89 564
	3)	**TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)**	**308 425**	**228 257**	**218 556**
	b)	Operating expenses			
	1)	Costs of salaries and contributions	246 087	248 007	248 495
	2)	Costs of business premises, other fixed assets and utilities	168 794	152 243	159 460
	3)	Other operating expenses	120 634	105 326	114 070
	4)	**TOTAL OPERATING EXPENSES 1) to 3)**	**535 515**	**505 576**	**522 025**
	c)	**TOTAL NON-INTEREST BEARING EXPENSES**	**843 940**	**733 833**	**740 581**
4.		**PROFIT BEFORE TAXES**	**155 468**	**187 898**	**245 989**
5.		**LOSS**	**140 443**	**49 512**	**69 733**
6.		**TAXES**	**17 667**	**21 304**	**26 567**
7.		**PROFIT BASED ON INCREASE OF DEFERRED TAX FUNDS AD REDUCTION OF DEFERRED TAX LIABILITIES**	**147**	**39**	**309**
8.		**LOSS BASED ON REDUCTION OF DEFERRED TAX FUNDS AND INCREASE OF DEFERRED TAX LIABILITIES**	**175**	**1 601**	**953**
9.		**NET PROFIT 4. - 6.**	**137 775**	**166 388**	**219 644**
10.		**NET LOSS 4. - 6.**	**140 445**	**50 868**	**70 599**
11.		**FINANCIAL RESULT 9.-10.**	**-2 670**	**115 520**	**149 045**

ANNEX 8

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

in KM 000

No.	DESCRIPTION	31.12.13	31.12.14	31.12.15
	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	1 188 094	1 217 909	1 151 971
1.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	12 550	12 550	12 431
1.3.	Amount of issue premiums earned upon payment of shares	136 485	136 485	132 667
1.4.	General mandatory reserves (reserves mandated by the law)	206 809	106 051	163 794
1.5. [1]	Other reserves from profit after tax based on the decision of the Bank's assembly		409 634	408 058
1.6. [1]	Retained, undistributed profit from previous years and current year's profit		108 756	141 713
1.5. [2]	Other reserves not related to the assets quality evaluation	362 349		
1.6. [2]	Retained – undistributed profit from previous years	248 901		
1.a.	**TOTAL (1.1 to 1.6)**	**2 155 188**	**1 991 385**	**2 010 634**
1.b.	Deductible items from 1.a			
1.7.	Uncovered losses from previous years	112 610	122 705	28 371
1.8.	Current year's loss	140 445	50 868	70 599
1.9.	Book value of own (treasury) shares of the bank	156	81	102
1.10. [1]	Intangible assets in accordance with the applicable accounting framework	41 418	41 873	49 910
1.11. [1]	Amount of deferred tax assets		2 780	1 641
1.12. [1]	Amount of negative revalorised reserves based on the effect of the change in the fair value of assets		1 282	1 696
1.b.	TOTAL (1.7. to 1.10)	294 629	219 589	152 319
1.	**AMOUNT OF CORE CAPITAL: (1.a. - 1.b.)**	**1 860 559**	**1 771 796**	**1 858 315**
2	SUPPLEMENTARY CAPITAL OF THE BANK			
2.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	3 091	3 091	3 090
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	215 083	229 895	209 054
2.4. [1]	Amount of positive revalorised reserves based on the effect of the change in the fair value of assets		23 703	9 735
2.4. [2]	Current year profit – audited and confirmed by an external audit	71 984		
2.5.	Profit amount for which the FBA issues an order restricting its disbursement	0	0	0
2.6. [3]	Amount of subordinated debt	165 473	154 814	107 918
2.7. [3]	Amount of hybrid convertible items – capital instruments	0	0	0
2.8. [3]	Amount of other capital instruments	1 416	1 419	1 422
2.	**AMOUNT OF SUPPLEMENTARY CAPITAL: (2.1 to 2.8)**	**457 047**	**412 922**	**331 219**
3	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	2 844	1 678	1 007
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	0	1 509	755
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	156 866	199 890	205 855
3.	**AMOUNT OF DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL: (3.1 to 3.5)**	**159 710**	**203 077**	**207 617**
A.	**NET CAPITAL OF THE BANK (1.+2.-3.)**	**2 157 896**	**1 981 641**	**1 981 917**
B. [3]	**RISK OF BALANCE AND OFF-BALANCE ASSETS**	**10 998 977**	**11 394 469**	**11 945 423**
C.	**WEIGHTED OPERATIONAL RISK**	**981 318**	**982 250**	**976 734**
D.	**WEIGHTED MARKET RISK**	**0**	**0**	**0**
E. [3]	**TOTAL ASSETS RISK B+C+D**	**11 980 295**	**12 376 719**	**12 922 157**
F.	**NET CAPITAL RATE (A/E) (% 1 dec.)**	**18.0%**	**16.0%**	**15.3%**

[1] The item description is valid since 30.09.2014.

[2] The item description is valid to 30.06.2014.

[3] The item descriptions are valid since 30.09.2014., the old descriptions being as follows:

1.10. Intangible assets: patents, licences, concessions, investments in: market research, trade name, trademark and goodwill, etc..

2. 6. Amount of subordinated debt representing max. 50% of the core capital

2. 7. Hybrid convertible items max. 50% of the core capital

2. 8. Permanent, non-refundable items

B. RISK-WEIGHTED ASSETS AND LOAN EQUIVALENTS; E. TOTAL WEIGHTED RISKS (B+C+D)

ANNEX 9

DATA ON EMPLOYEES IN BANKS IN THE FEDERATION OF B&H

No.	BANK	31.12.2013	31.12.2014	31.12.2015
1	BOR Banka d.d. Sarajevo	64	64	66
2	Bosna Bank International d.d. Sarajevo	279	312	341
3	Hypo Alpe Adria Bank d.d. Mostar	517	513	490
4	Intesa Sanpaolo banka d.d. Sarajevo	528	521	537
5	Investiciono Komercijalna banka d.d. Zenica	164	164	125
6	Komercijalno Investiciona banka d.d. Velika Kladuša	71	75	77
7	Moja banka d.d.Sarajevo	156	142	133
8	NLB banka d.d. Sarajevo	442	430	424
9	Privredna Banka d.d Sarajevo	177	164	142
10	ProCredit Bank d.d. Sarajevo	333	291	248
11	Raiffeisen Bank dd Bosna i Hercegovina	1 531	1 478	1 355
12	Sberbank BH d.d. Sarajevo	411	435	420
13	Sparkasse Bank d.d. Sarajevo	462	475	471
14	Union banka d.d. Sarajevo	200	202	181
15	UniCredit bank d.d. Mostar	1 262	1 216	1 208
16	Vakufska banka d.d. Sarajevo	225	231	200
17	Ziraatbank BH d.d. Sarajevo	229	247	265
	TOTAL	**7 051**	**6 960**	**6 683**