BOSNA I HERCEGOVINA
FEDERACIJA BOSNE I HERCEGOVINE
AGENCIJA ZA BANKARSTVO
FEDERACIJE BOSNE I HERCEGOVINE

INFORMATION

ON THE BANKING SYSTEM ENTITIES OF THE FEDERATION OF BOSNIA AND HERZEGOVINA AS OF 31.03.2018

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BANKING AGENCY OF THE FEDERATION OF BOSNIA AND HERZEGOVINA

Abbreviations and terms:

DIA	Deposit Insurance Agency of Bosnia and Herzegovina
BiH	Bosnia and Herzegovina
CAMELS	Single internal system for assessment of banks that includes basic components: capital, asset quality, governance and management, profitability, liquidity and vulnerability to market risks
CBBH	Central Bank of Bosnia and Herzegovina
CEDB	Council of Europe Development Bank
CRC	Central Registry of Credits in BiH
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EFSE	European Fund for Southeast Europe
EIB	European Investment Bank
EIR	Effective interest rate
EU	European Union
FBA	Banking Agency of the Federation of Bosnia and Herzegovina
FBiH	Federation of Bosnia and Herzegovina
FSAP	Financial Sector Assessment Program
FX risk	Foreign exchange risk
LCR	Liquidity coverage ratio
MCC	Microcredit company
MCF	Microcredit foundation
MCO	Microcredit organisation
IMF	International Monetary Fund
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
NIR	Nominal interest rate
NPL	Non-performing loans
GCR	General credit risk
PLL	Potential loan losses
LLP	Loan loss provisions
RS	Republika Srpska
WB	World Bank
AML/CTF	Anti-money laundering and counter-terrorism financing
SREP	Supervisory Review and Evaluation Process
BA BiH	Banks Association of Bosnia and Herzegovina
ALC BiH	Association of Leasing Companies of BiH
UO	Management Board of the Banking Agency of the FBiH
LoBA	Law on the Banking Agency of the Federation of Bosnia and Herzegovina
BL	Banking Law
LoF	Law on Factoring
LoL	Law on Leasing
LoMCO	Law on Microcredit Organisations
LoPUFS	Law on Protection of Users of Financial Services

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INTRODUCTION

The FBA was established in 1996, as an independent and autonomous institution for bank supervision and licensing, and from the beginning, its work has been focused on creating a strong and stable banking sector, market-oriented and relying on international standards of business and supervision of the banking sector. In accordance with legislation, the objectives of the establishment of the FBA are the regulation, monitoring and supervision of the banking system entities of the FBiH, and the FBA is also the bank resolution authority.

While performing tasks in accordance with the prescribed competences, in the interest of preserving and strengthening the stability of the banking sector and protecting depositors, as well as improving the safe, high-quality and legal operations of the banking system entities of the FBiH, the FBA compiles and publicly publishes quarterly and annual information on the banking system entities of the FBiH.

The legal basis for compiling the Information on the Banking System Entities of the Federation of Bosnia and Herzegovina (hereinafter: the Information) is given in Article 50 of the LoBA, with the sources of information and data used for the drafting of the Information as of 31.03.2018 being reporting data that were processed by the banking system entities in the prescribed formats and deadlines and analysed for the purposes of supervision at the sector level, as well as other data and information submitted to the FBA by the banking system entities of the FBiH. The data in the Information are expressed with one decimal place, except for the data on the amount of the NIR and EIR of the banking system entities of the FBiH.

The methodology for collecting and processing presented data is based on the form of reports that are prescribed by FBA regulations.

Considering that a new supervisory reporting framework for banks (COREP) has entered into force and that 2018 is the period of parallel reporting according to the previous regulatory framework and COREP reporting, and that the first quarter of 2018 saw banks in the FBiH submitting to the FBA the first COREP reports, which are in the process of being validated and analysed, the presented business performance indicators of banks as of 31.03.2018 were provided on the basis of analysis of reports compiled under the previous regulatory framework.

With respect to content, the Information is divided into two parts. The first part includes a detailed analysis of the banking sector of the FBiH in terms of its structure and financial performance indicators, as well as recommendations. The second part relates to a detailed analysis of the sector of non-deposit financial institutions, within which the microcredit sector, the leasing sector and factoring operations in the FBiH are processed as separate segments, with corresponding recommendations.

The segment of compliance of the banking system entities in the FBiH with the prescribed AML/CTF standards is not the subject of the quarterly information, but rather an integral part of the semi-annual and annual information on the banking system entities of the FBiH.

In the field of operations and supervision of the banking sector in the FBiH in 2018, after the harmonisation period, new regulations entered into force in 2017, so that banks started applying new regulatory requirements and reporting to the FBA in accordance with the new standardised supervisory reporting framework. This was followed by intensive FBA activities in terms of interpreting the application of regulatory requirements prescribed by FBA regulations (decisions, instructions, guidelines). In connection with these extensive and complex processes, FBA activities will continue to strengthen institutional capacities, with the aim of fully implementing the new regulatory framework, especially in terms of the SREP, bank recovery and resolution planning, and the establishment of a framework for supervisory stress testing. A particularly important segment relates to the continuation of FBA regulatory activities relating to the establishment of a framework for the application of IFRS 9 and for monitoring its implementation in banks, which is related to the regulatory requirements for the classification of bank assets.

Current FBA activities are aimed at improving the regulatory framework for the operations and supervision of non-deposit financial institutions in the FBiH, the supervision of which it is responsible for. The aforementioned are focused on additional amendments to the LoL with the aim of creating a better business environment for the operations of leasing companies in the FBiH and harmonising the existing regulatory framework with already adopted amendments to the LoL, as well as the improvement of existing regulations in the segment of operations and supervision of the microcredit sector in the FBiH. Please note that the new legal framework for MCO operations is expected in the period to come, bearing in mind that the Government of the FBiH established the draft of the new LoMCO in May 2018, after which it was forwarded for adoption in accordance with the prescribed parliamentary procedure.

In 2018, significant and demanding activities were undertaken to establish a regulatory framework for bank resolution, which resulted in the adoption and publication of a set of decisions in accordance with the provisions of the BL in April 2018, as well as the creation of preconditions for ensuring autonomy, organisational separation and separate management of the supervision of banks and the development bank and affairs related to resolution and prevention of conflicts of interest, in accordance with the provisions of the LoBA.

SUMMARY

Key Business Performance Indicators of the Banking Sector in the FBiH

15 commercial banks operated in the FBiH as of 31.03.2018, with 552 organisational units in which 6 666 persons were employed.

Total net assets at the level of the banking sector amount to KM 20.4 billion as of 31.03.2018 and are up by KM 0.2 billion or 0.8% compared to 31.12.2017.

Loans, with a 66% share in the structure of total assets, recorded an increase in the amount of KM 260 million or 2% compared to the end of the previous year. Within sectoral lending, there was a trend of increase in the share of lending to private companies in the first quarter of 2018, i.e. a slight trend of decrease in the share of lending to the retail segment.

Loans granted to private companies recorded an increase in the amount of KM 181 million or a 3% growth rate, thus reaching the amount of KM 6.5 billion as of 31.03.2018 and holding a 48.2% share in total loans. In the same period, retail loans recorded an increase in the amount of KM 100 million or a 2% growth rate, while their share decreased slightly from 48.2% to 48.1%. As of 31.03.2018, they amounted to KM 6.4 billion.

The share of NPLs decreased from 9.7% to 9.3% as a result of credit growth and a decrease in total NPL in the amount of KM 24 million or 2%, with it being noted that a permanent write-off in the first quarter of 2018 amounted to KM 14 million. The share of non-performing corporate loans in relation to total corporate loans amounted to 11.3%, and the share of non-performing retail loans in relation to total retail loans was 7.2%.

Cash funds amount to KM 6.1 billion or 30.1% of total assets and are up by KM 342 million or 6% compared to the end of 2017.

Investments in securities had the same value in the first quarter of 2018 as at the end of the previous year, amounting to KM 1.2 billion, with a 6% share in assets.

Deposits reached the amount of KM 16.1 billion, having recorded an increase in the amount of KM 243 million or 2%. They remain the most significant source of funding, with a 78.8% share in total liabilities. Savings deposits, as the most significant and largest segment of the deposit and financial potential of banks, increased by KM 113 million or 1%, amounting to KM 8.4 billion.

Loan funds amount to KM 804 million and hold a 3.9% share in total liabilities.

As of 31.03.2018, total capital amounts to KM 2.9 billion, with share capital accounting for KM 1.2 billion thereof. The share of total capital in sources at the level of the banking sector amounts to 13.6%. Regulatory capital amounts to KM 2.5 billion and it is down by KM 47 million or 2%, with a slight change in the structure, since core capital is down by KM 55 million or 2%, while supplementary capital is up by KM 7 million or 2% .

The capital adequacy ratio of the banking sector, as one of the most important indicators of the strength and adequacy of banks' capital, amounted to 15.1% as of 31.03.2018, slightly down by 0.4 percentage points compared to the end of the previous year, but still significantly above the legal minimum of 12%. It represents satisfactory capitalisation of the overall system and a strong basis for preserving its security and stability.

The financial leverage ratio amounts to 9.2% (prescribed minimum 6%) at the level of the banking sector as of 31.03.2018. It has a slight downward trend compared to the end of the previous year (9.6%). The liquidity of the banking sector is assessed to be satisfactory, given the share of liquid assets in total assets and the maturity adjustment of financial assets and financial liabilities.

As of 31.03.2018, a positive financial result – profit in the amount of 84 million KM was recorded at the level of the banking sector, which is up by 5 million KM or 6% compared to the same period of the previous year.

Key Business Performance Indicators of the Microcredit Sector in the FBiH

12 MCOs operated in the Federation of BiH as of 31.03.2018, 11 of which are MCFs and one of which is an MCC). They operate through 356 organisational units. 1 486 persons were employed in the microcredit system.

Total assets of the microcredit system amounted to KM 531.8 million, KM 422 million or 79% of which relate to MCFs and KM 109.8 million or 21% relate to the MCC. Compared to the balance as of 31.12.2017, total assets are up by KM 4.9 million or 1%.

Total microloans amount to KM 419.8 million and account for 79% of total MCO assets. They are up by 2% compared to the end of the previous year.

Loan commitments amount to KM 246.9 million, holding a 46% share in total liabilities, and they are at approximately the same level compared to 31.12.2017.

Total capital amounts to KM 259.1 million or 49% of total liabilities and it is up by KM 4 million or 2% compared to the end of the previous year. MCF capital amounted to KM 224.3 million or 86.6%, while the capital of one MCC amounted to 34.8 million KM or 13.4%.

At the level of the microcredit sector, a positive financial result in the amount of KM 4.7 million was recorded, which is up by KM 0.3 million or 7% compared to the same period of the previous year.

Key Business Performance Indicators of the Leasing Sector in the FBiH

In the first quarter of 2018, the leasing sector recorded an increase in the volume of operations (the number and value of newly concluded arrangements) compared to the same period of the previous business year, which indicates that the leasing sector is stable, with a continued trend of further development and recovery.

As of 31.03.2018, 6 leasing companies operated in the Federation of BiH. They performed leasing operations in the headquarters of the company as well as in three subsidiaries registered in RS (leasing sector). A total of 101 persons are employed in the leasing sector.

Total assets of the leasing sector as of 31.03.2018 amounted to KM 256.5 million, down by KM 3.7 million or 1.4% compared to 31.12.2017. At the same time, the same period saw an increase in receivables for financial leasing in the amount of KM 4.1 million or 2.3%, a decrease in facilities to banks in the amount of KM 6.9 million or 40.5% as well as other assets, with net loans having increased by KM 2.4 million or 17.8% as part of the aforementioned.

Total capital at the level of the leasing sector amounted to KM 43.8 million as of 31.03.2018 and it was up by KM 3 million or 7.3%. All 6 leasing companies reported a total capital amount above the minimum amount prescribed by legal provisions.

The value of newly-concluded financial and operational leasing arrangements recorded at the level of the leasing sector in the period from 01.01. to 31.03.2018 amounted to KM 35.6 million and it was up by KM 1.4 million or 3.9% compared to the previous year.

The number of newly-concluded leasing arrangements in the same period at the level of the leasing sector was 944, which is up by 76 arrangements or 8.8% compared to the same period of the previous business year. Data on the increase in the value and number of newly-concluded arrangements in the first quarter of 2018 compared to the first quarter of 2017 are the result of leasing companies' activities to develop and improve leasing products in accordance with market needs.

When observed according to the type of lessee, arrangements concluded with legal entities are dominant in the structure of newly-concluded leasing arrangements (93.8% of the total volume of newly-concluded arrangements in the first quarter of 2018), while 45.4% refer to the financing of passenger vehicles in the structure of financing by leasing object.

A KM 3 million profit was recorded at the level of the leasing sector in the period from 01.01. to 31.03.2018.

The key business performance indicators of the leasing sector indicate improvement of the situation, adjustment of the sector to the needs of the market and possibilities for further development.

Key Business Performance Indicators of Factoring Operations in the FBiH

In accordance with the regulations, factoring operations were performed by four banks as of 31.03.2018, while one factoring company, registered in the court registry in early 2018, did not have any concluded factoring agreements.

The total factoring portfolio recorded in banks as of 31.03.2018 amounted to KM 20 million, according to the nominal value of purchased monetary claims, with 55.4% referring to non-recourse factoring and 44.6% to recourse factoring. Compared to the same period of 2017, when this portfolio amounted to KM 99 million at the sector level, a significant decrease in the amount of 79.8% was evident. This change was due to the changed structure of purchased monetary claims according to the right of recourse, since the share of recourse factoring was dominant in the first quarter of 2017 – 97.4%, which decreased to 44.6%, and according to the residence of the factoring entity, since there was no international factoring as of 31.03.2018, while international factoring held a 87.7% share in the same period of 2017.
The total factoring portfolio has a small share in the balance sheet total of the banking sector, since it accounts for less than 1 permille compared to total assets and 1.6 permille compared to the total amount of net loans (loans net of impairment provisions).

The total number of active agreements for the purchase of monetary claims was 72 as of 31.03.2018, which is up by 35.8% compared to the same period of 2017. In the first quarter of 2018, a total of 69 factoring agreements were concluded, down by 11.5% compared to the same period of 2017.

According to the sectoral classification of buyers, 55.5% were monetary claims purchased from public companies, 41.6% from private companies and companies, and 2.9% from government institutions. The aforementioned percentage share is expressed in relation to the total turnover of factoring operations in the FBiH.

The total recorded income from factoring services in the first quarter of 2018 amounted to KM 0.3 million and it was significantly lower compared to the same period of 2017, when it amounted to KM 0.6 million, which represents a 47.3% decrease in total income as a consequence of the significant decrease in the volume of purchased monetary claims recorded in the reporting period.

1. BANKING SECTOR

1.1. BANKING SECTOR STRUCTURE IN THE FBiH

1.1.1. Status, Number and Network of Branches

As of 31.12.2017, there were 15 commercial banks with a banking licence in the FBiH. A special law regulates the establishment and operations of the Development Bank of the Federation of BiH Sarajevo, which has the legal successor of the Investment Bank of the Federation of BiH d.d. Sarajevo since 01.07.2008. As of 31.03.2018, all banks are in the possession of licences to effect interbank transactions in the domestic payment system and insured deposits.

Annex 1 provides an overview of the main data on banks in the FBiH.

In the first quarter of 2018, there was no significant expansion of the network of organisational units of banks. Banks reorganised their business networks and organisational units, all with the aim of rationalising and reducing operating costs. There was a total of 8 such changes with banks from the FBiH (7 on the territory of the FBiH and 1 in RS), a new organisational unit was established, 2 organisational units were closed, and 5 underwent changes. There were no changes in the organisational units of RS banks in the FBiH. With the aforementioned changes, banks from the FBiH had a total of 552 organisational units as of 31.03.2018, which is down by one organisational unit compared to 31.12.2017. The number of organisational units of RS banks in the FBiH (22) was the same as on 31.12.2017. As of 31.03.2018, 7 banks from the FBiH had 54 organisational units in RS, while 9 banks had 11 organisational units in the Brčko District. Three RS banks had 22 organisational units in the FBiH.

1.1.2. Ownership Structure and Market Share

The ownership structure of banks[1] in the FBiH as of 31.03.2018, assessed on the basis of available information and reviews conducted in the banks themselves, is as follows:

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

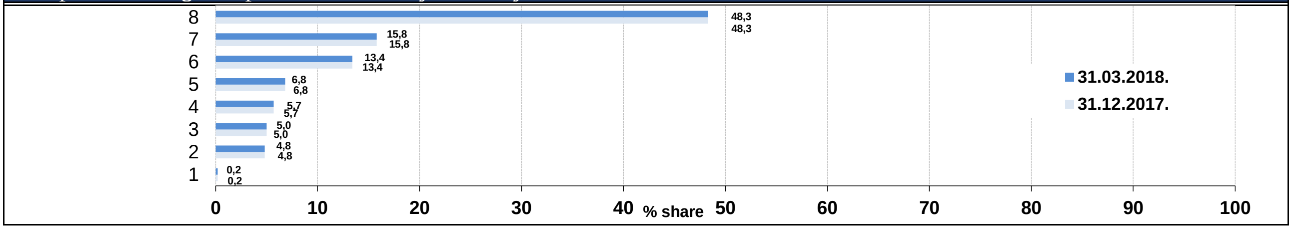
Out of the 14 banks in mostly private ownership, four banks are in majority ownership of local legal entities and natural persons (residents), while 10 banks are in majority foreign ownership.

If observed solely from the perspective of foreign capital, using the criterion of the shareholders' home country, the situation as of 31.03.2018 was unchanged compared to the end of 2017, since the largest share of foreign capital in the amount of 48.3% still refers to shareholders from Austria, followed by shareholders from Croatia with 15.8% and Turkey with 13.4%. Other countries hold individual shares below 7%.

The foreign capital structure by country is shown in the graph below.

[1] The criterion for this particular bank classification is ownership of share capital in banks.
[2] State ownership refers to state-owned capital of the FBiH.

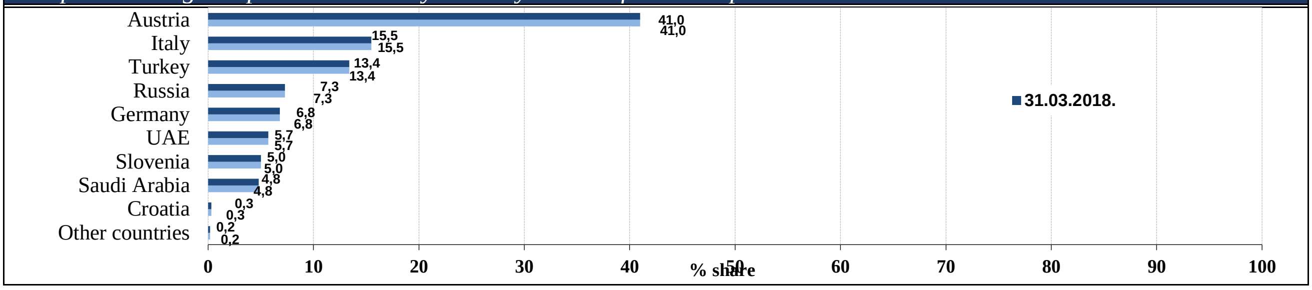
Graph 1: Foreign Capital Structure by Country



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 banking group having majority ownership (direct or indirect via group members) of banks in the FBiH. According to this criterion, the situation is also unchanged, since the share of banking groups and banks from Austria amounts to 41%, followed by banks from Italy with a share of 15.5%, while the share of capital from Turkey amounts to 13.4% and from Russia to 7.3%. Other countries hold individual shares below 7%.

The foreign capital structure by country – seat of the group is shown in the graph below.

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



The ownership structure may also be observed from the aspect of the amount of total capital, as shown in the following table.

- in KM 000 -

Table 1: Ownership Structure by Total Capital

BANKS	31.12.2016		31.12.2017		31.03.2018		Index	
1	2		3		4		5 (3/2)	6 (4/3)
State-owned banks	52 499	2%	53 507	2%	52 547	2%	102	98
Private banks	2 655 621	98%	2 811 542	98%	2 803 578	98%	106	100
T O T A L	**2 708 120**	**100%**	**2 865 049**	**100%**	**2 856 125**	**100%**	**106**	**100**

In the first quarter of 2018, at the level of the banking sector, total capital remained at the level of KM 2.9 billion, with the KM 9 million decrease being the net effect of the two most significant changes: an increase on the basis of the current financial result of KM 84 million and a decrease on the basis of the recorded effects of the first application of IFRS 9 – Financial Instruments[4] (according to preliminary reporting data) in the amount of KM 94 million.

If observed from the perspective of the share of state-owned, private and foreign capital in the banks' share capital, the result is a more detailed analytical overview of the capital ownership structure of banks in the FBiH, which is shown in the table below.

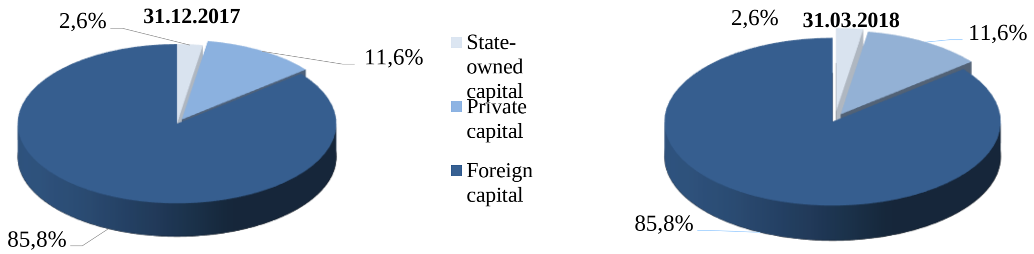
[3] In addition to home countries of parent banking groups whose members are banks from the FBiH, the graph also outlines countries of all other foreign shareholders of banks in the FBiH.
[4] Starting from 01.01.2018, the new accounting standard IFRS 9 has replaced the previously applicable IAS 39.

- in KM 000 -

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

SHARE CAPITAL	31.12.2016		31.12.2017		31.03.2018		Index	
	Share	Amount %	Share	Amount %	Share	Amount %	4/2	6/4
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
State-owned capital	31 647	2.6	31 619	2.6	31 619	2.6	100	100
Private capital (residents)	137 557	11.3	142 109	11.6	142 112	11.6	103	100
Foreign capital (non-residents)	1 046 673	86.1	1 052 061	85.8	1 052 058	85.8	101	100
T O T A L	**1 215 877**	**100.0**	**1 225 789**	**100.0**	**1 225 789**	**100.0**	**101**	**100**

Graph 3: Ownership Structure (Share Capital)



At the end of the first quarter of 2018, the amount and structure of share capital, according to the criterion of majority ownership, remained the same as at the end of 2017.

As of 31.03.2018, the market share of banks in majority foreign ownership amounted to 90.2%, the market share of banks with majority domestic private capital to 6.3%, and the market share of one bank with majority state-owned capital to 3.5%.

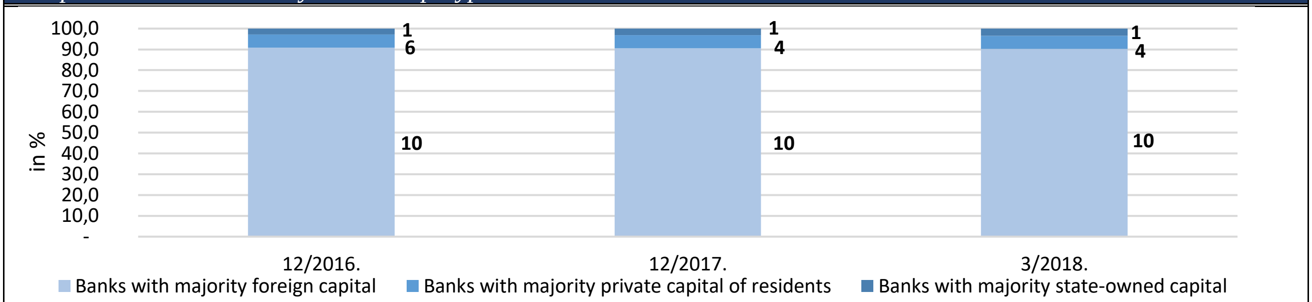
The table and graph below provide an overview of the market shares of banks by ownership type (majority capital):

- in % -

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

BANKS	31.12.2016			31.12.2017			31.03.2018		
	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 with majority state-owned capital	1	1.9	2.8	1	1.9	3.2	1	1.8	3.5
Banks with majority private capital of residents	4	6.6	6.4	4	6.4	6.3	4	5.8	6.3
Banks with majority foreign capital	10	91.5	90.8	10	91.7	90.5	10	92.4	90.2
T O T A L	**15**	**100.0**	**100.0**	**15**	**100.0**	**100.0**	**15**	**100.0**	**100.0**

Graph 4: Market Shares by Ownership Type



1.1.3. Human Resources

As of 31.03.2018, the banking sector had a headcount of 6 666 employees, 2.8% of which were employed in banks with majority state-owned capital and 97.2% of which were employed in banks with majority private capital.

Annex 2 shows data on employees in banks of the FBiH, while the tables below provide an overview of employees and their qualification structure at the level of the banking sector.

Table 4: Employees in Banks of the FBiH

B A N K S	HEADCOUNT						Index	
	31.12.2016		31.12.2017		31.03.2018		3/2	4/3
1	**2**		**3**		**4**		**5**	**6**
State-owned banks	192	2.9%	192	2.9%	188	2.8%	100	98
Private banks	6 423	97.1%	6 463	97.1%	6 478	97.2%	101	100
T O T A L	**6 615**	**100%**	**6 655**	**100%**	**6 666**	**100%**	**101**	**100**
Number of banks	15		15		15			

Table 5: Qualification Structure of Employees in Banks of the Federation of BiH

LEVEL OF QUALIFICATION	HEADCOUNT						Index	
	31.12.2016		31.12.2017		31.03.2018		4/2	6/4
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
University degree	3 821	57.8%	3 970	59.6%	4 007	60.1%	104	101
Two-year post-secondary school qualification	555	8.4%	525	7.9%	519	7.8%	95	99
Secondary school qualification	2 226	33.6%	2 149	32.3%	2 130	32.0%	97	99
Other	13	0.2%	11	0.2%	10	0.1%	85	91
T O T A L	**6 615**	**100.0%**	**6 655**	**100.0%**	**6 666**	**100.0%**	**101**	**100**

Minor changes were recorded in the number of employees and the qualification structure, in which employees with university degrees still hold the highest share in the amount of 60.1%.

One of the indicators affecting the business performance assessment of individual banks and the banking sector as a whole is the 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 sector's operations.

The following tables provide an overview of assets per employee by group of banks, according to the criterion of ownership and amount of assets.

Table 6: Assets per Employee

BANKS	31.12.2016			31.12.2017			31.03.2018		
	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	192	520 387	2 710	192	654 373	3 408	188	721 561	3 838
Private	6 423	17 861 647	2 781	6 463	19 555 478	3 026	6 478	19 644 947	3 032
TOTAL	**6 615**	**18 382 034**	**2 779**	**6 655**	**20 209 851**	**3 037**	**6 666**	**20 366 508**	**3 055**

Table 7: Assets per Employee – by Group

Assets (KM 000)	31.12.2016	31.12.2017	31.03.2018
	Number of banks	Number of banks	Number of banks
Up to 1 000	0	0	0
1 000 to 2 000	5	2	2
2 000 to 3 000	7	7	8
More than 3 000	2	6	5
TOTAL	**15**	**15**	**15**

Analytical indicators for individual banks range from KM 1.3 million to KM 4.3 million of assets per employee. There are five banks in which this ratio is better than the banking sector average, while this ratio exceeds the amount of KM 3.1 million in the three largest banks in the sector.

1.2. FINANCIAL PERFORMANCE INDICATORS

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

1) the balance sheet 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) 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, the source of which are reports prescribed by the FBA,
3) business results of banks (income statement according to the FBA model) and statements of cash flows, which banks submit 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 FBA in the interest of ensuring quality monitoring and analysis of banks' operations, 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 sector as a whole.

In accordance with the provisions of the Law on Opening Balance Sheet of Companies and Banks, banks with majority state-owned capital are required to report to the FBA on the basis of the “total” balance sheet divided into: liabilities, neutral items and active sub-balance. In order to present more realistic indicators of the operations banks in the FBiH, further analysis of the banking sector will include indicators from the active sub-balance of banks with majority state-owned capital.[5]

1.2.1. Balance Sheet

At the end of the first quarter of 2018, total assets of the banking sector amounted to KM 20.4 billion, with slight changes in key balance categories, assets and liabilities.

Annex 3 provides an overview of the balance sheet of banks in the FBiH according to the FBA model (active sub-balance), while Annex 4 shows an overview of assets, loans, deposits and financial results of banks in FBiH as of 31.03.2018.

The following table provides an overview of the balance sheet of the banking sector.

- KM 000 -

Table 8: Balance Sheet

DESCRIPTION	31.12.2016		31.12.2017		31.03.2018		Index	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
A S S E T S:								
Cash funds	5 204 564	28.3	5 794 664	28.7	6 136 914	30.1	111	106
Securities	1 226 163	6.7	1 228 432	6.1	1 227 195	6.0	100	100
Facilities to other banks	96 569	0.5	350 980	1.7	45 286	0.2	363	13
Loans	12 270 228	66.8	13 178 860	65.2	13 439 334	66.0	107	102
Value adjustment	1 193 721	6.5	1 166 804	5.8	1 235 508	6.1	98	106
Net loans (loans minus value adjust.)	11 076 507	60.3	12 012 056	59.4	12 203 826	59.9	108	102
Business premises and other fixed assets	530 977	2.9	529 941	2.6	519 520	2.6	100	98
Other assets	247 254	1.3	293 778	1.5	233 767	1.2	119	80
TOTAL ASSETS	**18 382 034**	**100.0**	**20 209 851**	**100.0**	**20 366 508**	**100.0**	**110**	**101**
L I A B I L I T I E S :								
LIABILITIES								
Deposits	14 176 274	77.1	15 814 723	78.3	16 058 079	78.8	112	102
Borrowings from other banks	0	0	0	0.0	0	0.0	0	0
Loan commitments	848 001	4.6	835 667	4.1	803 514	3.9	99	96
Other liabilities	649 639	3.5	694 412	3.4	648 790	3.3	107	93
CAPITAL								
Capital	2 708 120	14.8	2 865 049	14.2	2 856 125	14.0	106	100
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**18 382 034**	**100.0**	**20 209 851**	**100.0**	**20 366 508**	**100.0**	**110**	**101**

The table below shows an overview of bank assets by ownership structure.

- KM 000 -

[5] Banks in majority state ownership post the „total“ balance sheet, meaning liabilities and neutral items, which the state will take over once the privatisation process gets finalised. As of 31.03.2018, these items amounted to KM 98 million in the case of one bank with majority state-owned capital.

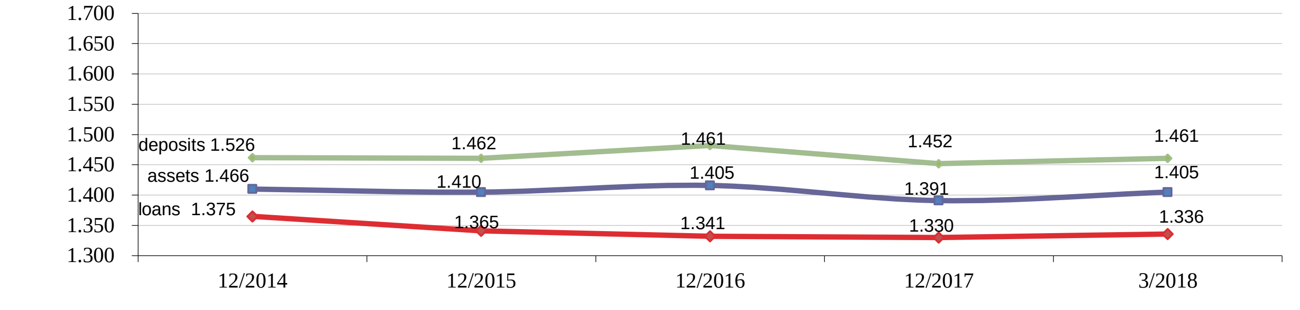
Table 9: Bank Assets by Ownership Structure

BANKS	31.12.2016			31.12.2017			31.03.2018			Index	
	No. of banks	Assets (KM 000)		No. of banks	Assets (KM 000)		No. of banks	Assets (KM 000)			
1	**2**	**3**		**4**	**5**		**6**	**7**		**8 (5/3)**	**9(7/5)**
State-owned	1	520 387	2.8%	1	654 373	3.2%	1	721 561	3.5%	126	110
Private	14	17 861 647	97.2%	14	19 555 478	96.8%	14	19 644 947	96.5%	110	100
TOTAL	**15**	**18 382 034**	**100%**	**15**	**20 209 851**	**100%**	**15**	**20 366 508**	**100%**	**110**	**101**

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

An overview of the aforementioned by period is provided in the graph below.

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



In the first three months of 2018, the Herfindahl index of concentration in all three relevant categories (assets, loans and deposits) increased slightly, so that it amounted to 1 405 units for assets (+14), 1 336 units for loans (+6), and 1 461 units for deposits (+9) as of 31.03.2018, which is indicative of a moderate concentration.[7]

The second concentration indicator for the banking sector is the ratio of market concentrations, i.e. the concentration ratio[8] (hereinafter: the CR), which shows the total share of the largest institutions in the sector in selected relevant categories: assets, loans and deposits. Like the Herfindahl index of concentration, the CR5 also increased slightly in the reporting period of 2018, amounting to 69.5% for market share, 68.9% for loans, and 70.8% for deposits as of 31.03.2018. The two largest banks in the sector account for approximately 46.9% of the market (46.9% assets, 44.0% loans, and 48.2% deposits).

An overview of the concentration ratio of the five largest banks is shown in the graph below.

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

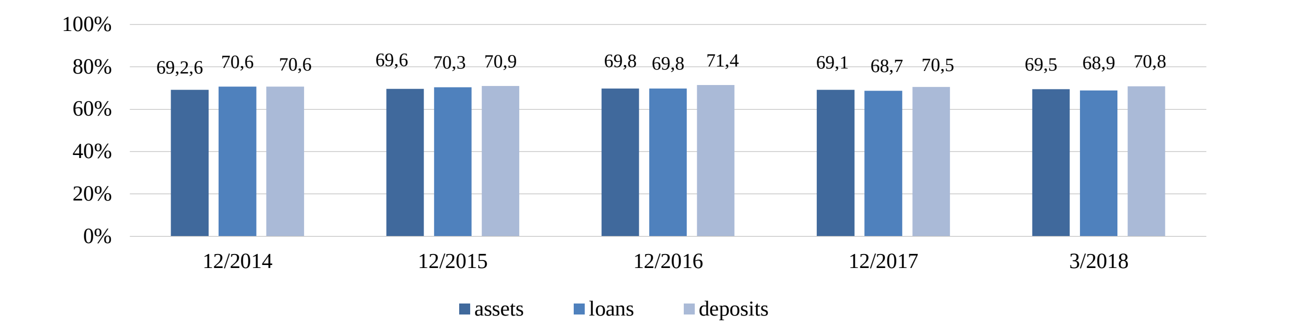
,

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

[7] If the value of the HHI is below 1 000, this shows no presence of the concentration on the market, while an index value between 1 000 and 1 800 shows moderate concentration, and a HHI value above 1 800 shows high concentration on the market.

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

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



The banking sector can also be analysed on the basis of the criterium of belonging to groups formed according to asset size.[9] Changes in share percentage compared to the end of 2017 are the result of slight changes in the assets of most banks.

The sector is dominated by two banks with a share in the amount of 46.9% (I group of banks with assets in the amount of over KM 2 billion, with one bank having assets in the amount of KM 4.2 billion, while the largest bank in the sector has assets in the amount of KM 5.4 billion). It is followed by the 27.8% share of a group which consists of four banks (II group of banks with assets in the amount ranging from KM 1 billion to KM 2 billion), which decreased by 5 percentage points due to one bank moving to the III group. As a result of the aforementioned, the share of the III group increased (four banks with assets ranging from KM 500 million to KM 1 billion) from 12.2% to 16.9%. The share of the IV group (five banks with assets ranging from KM 100 million to KM 500 million) in the amount of 8.4% increased slightly (+0.4 percentage points) due to one bank moving from the V group (assets up to KM 100 million) to this group. Thus, no bank had assets below KM 100 million as of 31.03.2018.

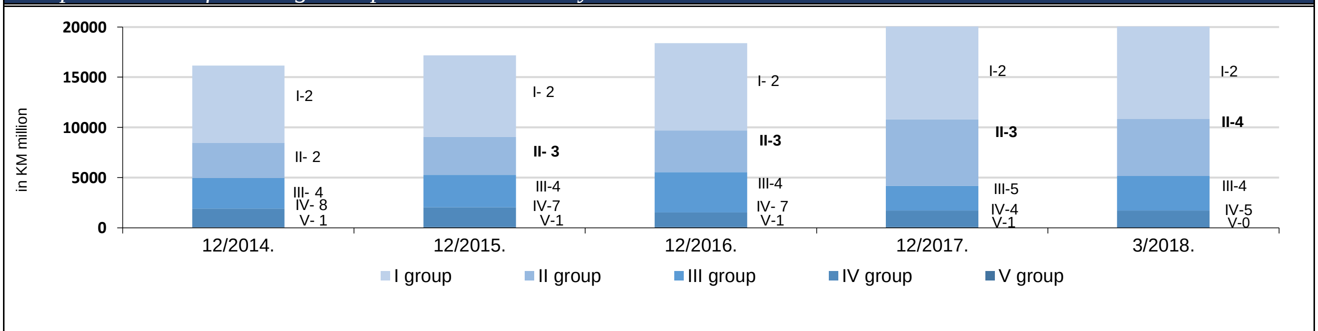
The table and graph below provide an overview of the amounts and shares of groups of banks in total assets by period.

- KM 000 -

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

ASSETS	31.12.2016			31.12.2017			31.03.2018		
	Amount	Share %	No. of banks	Amount	Share %	No. of banks	Amount	Share %	No. of banks
I- Over 2 000	8 681 651	47.2	2	9 404 805	46.5	2	9 541 857	46.9	2
II- 1000 to 2000	4 142 732	22.5	3	6 626 507	32.8	5	5 672 404	27.8	4
III- 500 to 1000	4 015 627	21.9	5	2 465 564	12.2	3	3 444 259	16.9	4
IV- 100 to 500	1 449 350	7.9	4	1 613 136	8.0	4	1 707 988	8.4	5
V- Below 100	92 674	0.5	1	99 839	0.5	1	-	-	0
TOTAL	**18 382 034**	**100.0**	**15**	**20 209 851**	**100.0**	**15**	**20 366 508**	**100.0**	**15**

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



In the first quarter of 2018, total assets increased by KM 157 million or 0.8%, amounting to KM 20.4 billion as of 31.03.2018.

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

Deposits increased by KM 243 million or 2%, amounting to KM 16.1 billion, while total capital remained at the same level of KM 2.9 billion.

Loan commitments decreased by KM 32 million or 3.8%, amounting to KM 804 million, while cash funds, following an increase in the amount of KM 342 million or 5.9%, amounted to KM 6.1 billion.

Following a large increase in facilities to other banks in 2017 (the largest increase was recorded at the end of 2017) in the amount of KM 254 million or 263% (referring to one bank in most cases), the first quarter of 2018 saw the aforementioned decrease by KM 306 million or 87%. As of 31.03.2018, they amounted to KM 45 million.

The positive trend of increase continued in the lending segment as well, by KM 260 million or 2%. As of 31.03.2018, loans amounted to KM 13.4 billion (KM 111 million of which referred to financial leasing).

As of 31.03.2018, the securities portfolio amounted to KM 1.2 billion, as was the case at the end of 2017, which is a 6% share in assets, as shown in the table below.

- KM 000 -

Table 11: Investments in Securities by Type of Instrument

INVESTMENTS IN SECURITIES	31.12.2016		31.12.2017		31.03.2018		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Equity securities	1 637	0.1	1 773	0.1	2 255	0.2	108	127
Debt securities:	1 224 526	99.9	1 226 659	99.9	1 224 940	99.8	100	100
- BiH securities of all levels of government in BiH	824 300	67.2	751 163	61.2	776 378	63.2	91	103
- Government securities (other countries)	278 386	22.7	400 855	32.6	375 198	30.6	144	94
- Corporate bonds[10]	121 840	10.0	74 641	6.1	73 364	6.0	61	98
T O T A L	**1 226 163**	**100.0**	**1 228 432**	**100.0**	**1 227 195**	**100.0**	**100**	**100**

In terms of investments in debt securities, the most important item are securities of the entity governments, particularly securities issued by the FBiH[11] in the total amount of KM 590 million, as well as securities issued by RS in the amount of KM 181 million. In the first quarter of 2018, an increase in investments in bonds issued by RS was recorded, as can be seen in the table below.

- KM 000 -

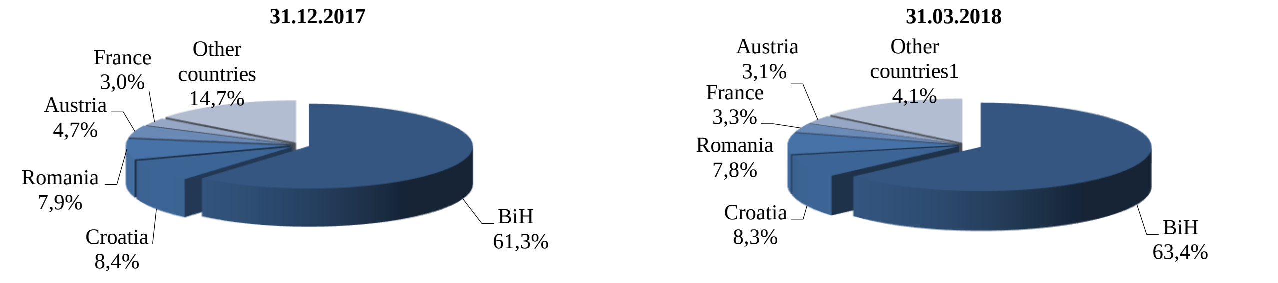
Table 12: Securities of the Entity Governments of BiH

INVESTMENTS IN SECURITIES	31.12.2016		31.12.2017		31.03.2018		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Debt securities issued by the Federation of BiH:	676 832	82.1	587 687	78.9	589 614	76.5	87	100
- Treasury bills	118 031	14.3	99 949	13.4	99 959	13.0	85	100
- Bonds	558 801	67.8	487 738	65.5	489 655	63.5	87	100
Debt securities issued by Republika Srpska:	147 124	17.9	157 353	21.1	180 669	23.5	107	115
- Treasury bills	56 758	6.9	65 848	8.8	45 074	5.9	116	68
- Bonds	90 366	11.0	91 505	12.3	135 595	17.6	101	148
T O T A L	**823 956**	**100.0**	**745 040**	**100.0**	**770 283**	**100.0**	**90**	**103**

The structure of total investments of banks in securities according to exposure by country is shown in the graph below.

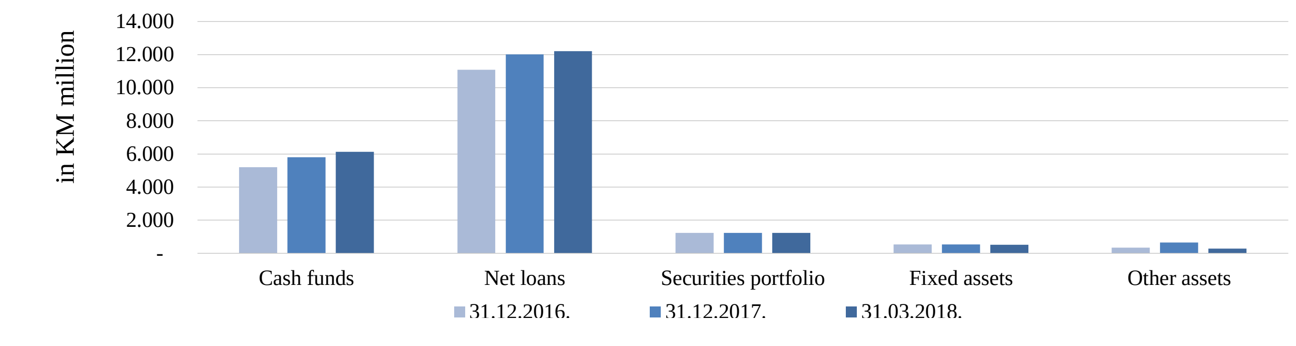
[10] The largest share of almost 97% refers to EU bonds.
[11] All types of securities issued by the FBiH.

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



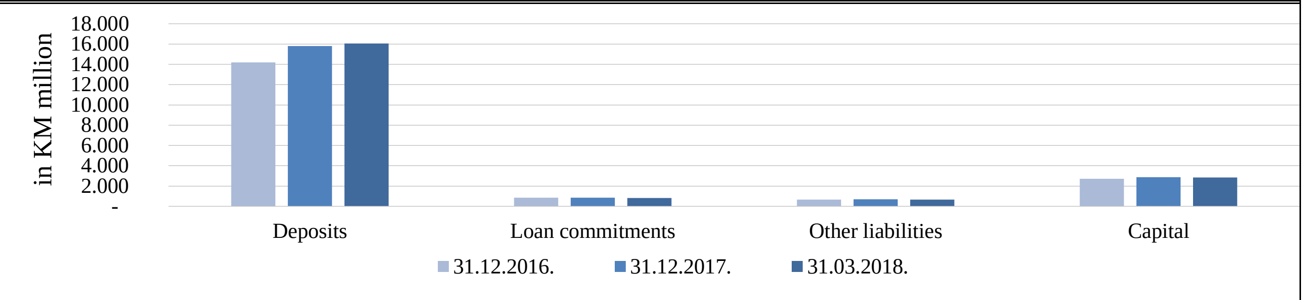
The following graph shows the structure of the key balance sheet items of bank assets.

Graph 9: Assets Structure within the Balance Sheet of Banks



The graph below shows the structure of the key balance sheet items of bank liabilities.

Graph 10: Liabilities Structure within the Balance Sheet of Banks



Within the liabilities structure of the banks' balance sheets, deposits still represent a dominant source of funding for banks in the FBiH (with an amount of KM 16.1 billion and a 78.8% share). The decrease in loan commitments continued in the first three quarters of 2018 as well, in the amount of KM 32 million or with a rate of 3.8%. At the end of the first quarter of 2018, they amounted to KM 804 million, holding a 3.9% share. Capital amounted to KM 2.9 billion as of 31.03.2018, holding a share of 14%.

The share of loans, as the largest and most important assets item, increased from 65.2% to 66%, while the share of cash funds increased to 30.1% (+1.4 percentage points).

An overview of cash funds at the level of the banking sector is provided in the table below.

- in KM 000 -

Table 13: Cash Funds of Banks

CASH FUNDS	31.12.2016		31.12.2017		31.03.2018		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	754 059	14.5	800 215	13.8	785 534	12.8	106	98
RR at the CBBH	3 295 391	63.3	3 823 980	66.0	3 963 155	64.6	116	104
Accounts at deposit institutions in BiH	9 101	0.2	41 411	0.7	35 545	0.6	455	86
Accounts at deposit institutions abroad	1 145 886	22.0	1 127 877	19.5	1 352 576	22.0	98	120
Cash funds in the process of collection	127	0.0	1 181	0.0	104	0.0	930	9
TOTAL	**5 204 564**	**100.0**	**5 794 664**	**100.0**	**6 136 914**	**100.0**	**111**	**106**

Banks’ cash funds in the CBBH reserves account were up by KM 139 million or 4% in the first quarter of 2018 and amounted to KM 4 billion or 64.6% of total cash funds as of 31.03.2018.

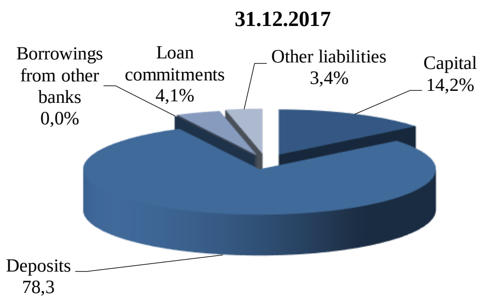
Banks’ funds in accounts of deposit institutions abroad increased by KM 225 million or 20%. As of 31.03.2018, they amounted to KM 1.4 billion or 22% of total cash funds. Banks held cash funds in the amount of KM 786 million in vaults and treasuries as of 31.03.2018, which accounts for 12.8% of total cash funds.

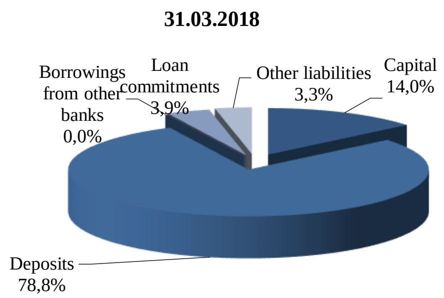
These changed prompted a change in the currency structure of cash funds, since the share of local currency decreased from 76.6% to 74.7% in the reporting period, while cash funds in foreign currency increased simultaneously.

1.2.2. Liabilities

The total liabilities structure (liabilities and capital) within the banks' balance sheet as of 31.03.2018 is provided in the graph below.

Graph 11: Liabilities Structure of Banks





At the end of the first quarter of 2018, the share of deposits as the most significant source of funding for banks increased to 78.8% (+0.3 percentage points), while the share of loan commitments, the second-largest source, amounted to 3.9% (-0.2 percentage points).

In the reporting period of 2018, deposits had a slight trend of increase in the amount of KM 243 million or 1.5%, amounting to KM 16.1 billion as of 31.03.2018.

The second-largest source in terms of total amount are loan funds, but with a significantly lower amount of KM 804 million and a 3.9% share, which refer mostly to borrowings from foreign financial institutions. In the last few years, there has been a change in the strategic planning of the financial potential of banks, i.e. the structure of sources and the reorientation to domestic deposit sources. This is especially characteristic of banks that are members of foreign banking groups, with simultaneous return to foreign creditors through repayment of past due liabilities, which resulted in a decrease in the aforementioned by about 60% (they amounted to KM 2.18 billion at the end of 2008). In the first three months of 2018, the decrease amounted to a negligible KM 32 million or 3.8%. If subordinated loans in the amount of KM 131 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 4.6% in total sources of funding.

As of 31.03.2018, banks held the largest amount of liabilities towards the following creditors (5 out of a total of 14 creditors), accounting for 90% of total loan commitments: TC Ziraat Bankasi a.s. (Turkey), the EIB, the EFSE, the EBRD, Procredit Holding AG and Procredit Bank AG Frankfurt.

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 FBiH, which are doing business in RS and the Brčko District.

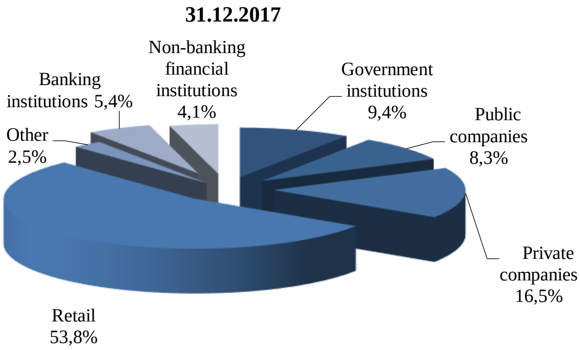
The deposit structure by sector is shown in the table and graph below.

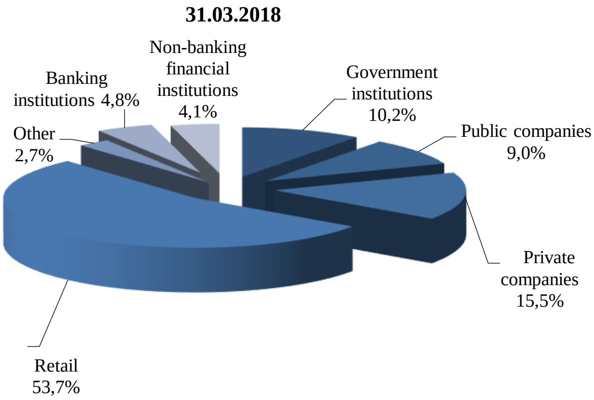
- in KM 000 -

Table 14: Deposit Structure by Sector[12]

SECTORS	31.12.2016		31.12.2017		31.03.2018		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Government institutions	1 200 513	8.5	1 482 708	9.4	1 639 111	10.2	124	111
Public companies	1 036 461	7.3	1 310 610	8.3	1 439 232	9.0	126	110
Private companies and enterprises	2 191 328	15.5	2 612 441	16.5	2 489 040	15.5	119	95
Banking institutions	647 901	4.6	847 965	5.4	765 981	4.8	131	90
Non-banking financial institutions	603 757	4.2	655 360	4.1	659 520	4.1	109	101
Retail	8 154 484	57.5	8 500 668	53.8	8 621 388	53.7	104	101
Other	341 830	2.4	404 971	2.5	443 807	2.7	118	110
TOTAL	**14 176 274**	**100.0**	**5 814 723**	**100.0**	**16 058 079**	**100.0**	**112**	**102**

Graph 12: Deposit Structure by Sector





In the first quarter of 2018, slight changes were recorded in the deposit structure by sector, as a result of an increase in deposits of government institutions, deposits of public companies and retail deposits, and a decrease in deposits of private companies.

Retail deposits, as the most important deposit source, with almost the same share of 53.7% as at the end of 2017, recorded a slight increase in the amount of KM 121 million or 1% in the first three months of 2018, amounting to KM 8.6 billion as of 31.03.2018.

The second-largest sector source in terms of amount and share, although significantly lower than the retail sector, are deposits of private companies, which are down by KM 123 million or 5%. They

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

amounted to KM 2.5 billion at the end of the reporting period, which is a share of 15.5%.

Deposits of the following two sectors recorded a moderate increase: government institutions (KM 156 million or 11%), amounting to KM 1.6 billion and holding the third-largest share in the amount of 10.2%, and public companies (KM 128 million or 10%), which amount to KM 1.4 billion and hold a share in the amount of 9%.

The long-standing decrease in deposits of banking institutions, which mostly relate to deposits of parent banking groups, influenced by the strategic change in business plans in the segment of sources of funding at the banking group level, as well as the reduced lending volume and excess liquidity, continued in the first quarter of 2018 in the amount of KM 82 million and with a rate of 10%, thus amounting to KM 766 million as of 31.03.2018, which is a share of 4.8%. The amount of KM 613 million or 80% of deposits of banking institutions refers to deposits of banks from the banking group (mostly shareholders). Financial support of the banking groups is present with respect to nine banks in the FBiH, wherein such financing is still concentrated in four banks from the group of large banks (82%).

If these funds are coupled with loan commitments and subordinated debt, the financial support of the banking groups is higher (with respect to 11 banks). In the first three months of 2018, these funds were down by KM 64 million or 5.9% (mostly on the basis of a decrease in deposits), amounting to KM 1 billion or 5% of total liabilities of the banking sector as of 31.03.2018.

Other sectors, with a low share in total deposits, recorded only slight changes.

The currency structure of deposits as of 31.03.2018 changed slightly. Deposits in KM increased by KM 202 million or 2.2%, while those in foreign currency recorded an increase in the amount of KM 41 million or 0.6%. The aforementioned resulted in the share of deposits in local currency increasing to 57.9% (+0.4 percentage points) and them amounting to KM 9.3 billion. With respect to the same relative change, the share of deposits in foreign currency (with a dominant share of EUR currency) decreased, with them amounting to KM 6.8 billion.

At the end of the first quarter of 2018, the structure of deposits by domicile status of depositors also changed slightly: resident funds amounted to KM 15 billion and had a share of 93.3% (+0.4 percentage points), while non-resident deposits amounted to KM 1.1 billion and represented 6.7% of total deposits. Changes in the structure are the result of an increase in resident deposits (2% or KM 298 million) and a decrease in non-resident deposits (KM 54 million or 4.8%).

The long-standing trend of increase in savings deposits, as the most significant segment of the deposit and financial potential of banks, continued in the first quarter of 2018 as well. Considering that the increase amounted to KM 113 million or 1.4%, they amounted to KM 8.36 billion as of 31.03.2018.

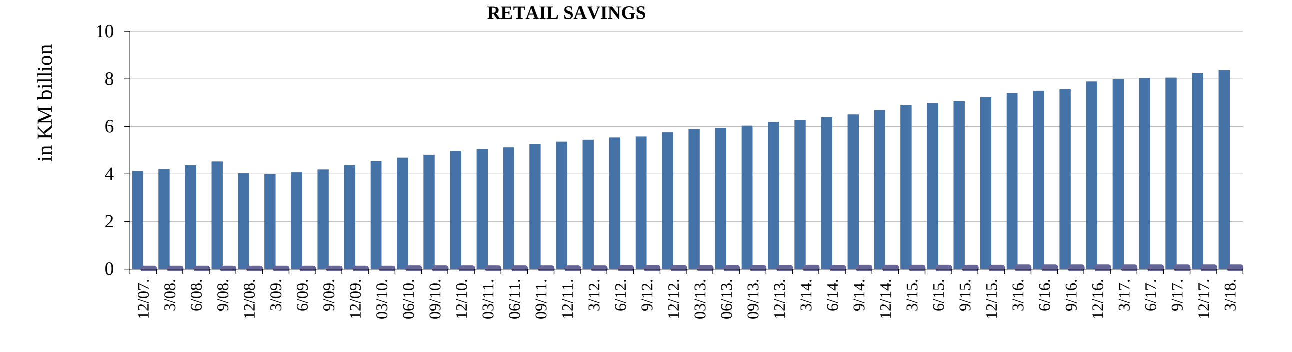
The trend of new retail savings is shown in the table and graph below.

- in KM 000 -

Table 15: New Retail Savings By Period

BANKS	AMOUNT			Index	
	31.12.2016	31.12.2017	31.03.2018	3/2	4/3
1	**2**	**3**	**4**	**5**	**6**
State-owned	86 481	83 530	84 317	97	101
Private	7 806 725	8 166 750	8 278 961	105	101
TOTAL	**7 893 206**	**8 250 280**	**8 363 278**	**105**	**101**

Graph 13: New Retail Savings By Period



The two largest banks hold 55% of savings, while five banks hold individual shares of less than 2%, which amounts to 6% of total savings at the sector level.

Compared to the end of 2017, the maturity structure of savings deposits changed slightly due to an increase in short-term deposits by 3% or KM 129 million, which resulted in their share being up to 54.9% (+0.8 percentage points), as can be seen in the table below.

- in KM 000 -

Table 16: Maturity Structure of Retail Savings Deposits by Period

BANKS	AMOUNT						Index	
	31.12.2016		31.12.2017		31.03.2018		3/2	4/3
1	2		3		4		5	6
Short-term savings deposits	4 071 231	51.6%	4 460 734	54.1%	4 589 271	54.9%	110	103
Long-term savings deposits	3 821 975	48.4%	3 789 546	45.9%	3 774 007	45.1%	99	100
TOTAL	**7 893 206**	**100.0%**	**8 250 280**	**100.0%**	**8 363 278**	**100.0%**	**105**	**101**

Out of the total amount of savings, 45% refer to saving deposits in local currency and 55% to savings deposits in foreign currency.

Long-standing continuous growth and positive trends in the savings segment of banks in the FBiH are the result of, on the one hand, better safety and stability of the overall banking sector (as chiefly attributable to the functional, effective and efficient banking supervision implemented by the FBA) 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.

1.2.3. Capital and Capital Adequacy

In the process of harmonisation of FBA regulations with the new legislation, a new Decision on Calculation of Capital in Banks entered into force at the end of 2017.

During 2018, a parallel reporting method is in force until the banks fully adjust, and further analysis is done according to the earlier regulatory reporting method.

Regulatory capital of banks in the FBiH as of 31.03.2018 amounted to KM 2.5 billion.

The following table shows the regulatory capital structure.

- in KM 000 -

Table 17: Regulatory Capital

DESCRIPTION	31.12.2016		31.12.2017		31.03.2018		Index	
1	**2**		**3**		**4**		**5 (3/2)**	**6 (4/3)**
1.a.Core capital before reduction	2 167 814		2 321 458		2 296 484		107	99
1.1. Share capital – common and permanent non-cumulative shares	1 215 668		1 225 580		1 225 580		101	100
1.2. Issue premiums	138 786		137 290		137 290		99	100
1.3. Reserves and retained profit	813 360		958 588		933 614		118	97
1.b. Deductible items	112 297		108 151		138 260		96	128
1.1. Uncovered losses from previous years	16 690		47 879		85 168		287	178
1.2. Current year loss	42 314		7 288		165		17	2
1.3. Treasury shares	3 034		81		81		3	100
1.4.. Intangible assets	47 315		49 963		49 358		106	99
1.5. Deferred tax assets	1 881		1 494		1 728		79	116
1.6. Negative revalorised reserves	1 063		1 446		1 760		136	122
1. Core capital (1a-1b)	2 055 517	88%	2 213 307	88%	2 158 224	87%	108	98
2. Supplementary capital	284 917	12%	306 237	12%	313 410	13%	107	102
2.1. Share capital – common and permanent cumulative shares	209		209		209		100	100
2.2. General loan loss reserves	170 420		186 830		189 153		110	101
2.3. Positive revalorised reserves	9 741		13 037		15 964		134	122
2.4. Amount of audited profit	0		0		0		-	-
2.5. Subordinated debt	103 122		104 733		106 656		102	102
2.5. Hybrid items and other instruments	1 425		1 428		1 428		100	100
3. Capital (1 + 2)	2 340 434	100%	2 519 544	100%	2 471 634	100%	108	98
4. Deductible items from capital	200 035		198 380		187 967		99	95
4.1. Bank's shares in capital of other legal entities above 5% of core capital	0		0		0		0	-
4.2. Loan loss reserves shortfall at regulatory request	200 035		198 380		187 967		99	95
4.3. Other deductible items	0		0		0		0	-
5. Net capital (3- 4)	2 140 399		2 321 164		2 283 667		108	98

In the first quarter of 2018, regulatory capital of the banking sector decreased by KM 47 million or 2% compared to the end of 2017, with a slight change in the structure (87% core capital and 13% supplementary capital). Core capital decreased by KM 55 million or 2%, while supplementary capital increased by KM 7 million or 2%.

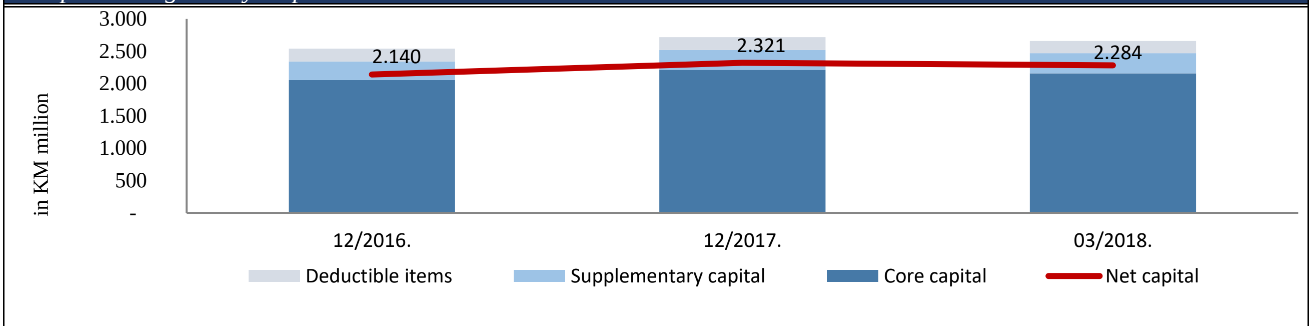
Core capital decreased mainly due to the effects of the first application of IFRS 9 (a decrease in reserves and retained profit, and an increase in uncovered losses). Deductible items (which decrease core capital) increased by KM 30 million or 28%, based on the already mentioned effects.

Supplementary capital also increased slightly by KM 7 million or 2%, mainly due to an increase in subordinated debt with one bank in the amount of KM 3.5 million and an increase in positive revalorised reserves by KM 2.9 million.

Missing LLP under the regulatory requirement, as a deductible item from capital as of 31.03.2018, amounted to KM 188 million, down by KM 10 million or 5% compared to the end of 2017.

The graph below shows the regulatory capital structure.

Graph 14: Regulatory Capital Structure



As a result of the aforementioned changes, net capital decreased by KM 37 million or 2% and amounted to KM 2.3 billion as of 31.03.2018.

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

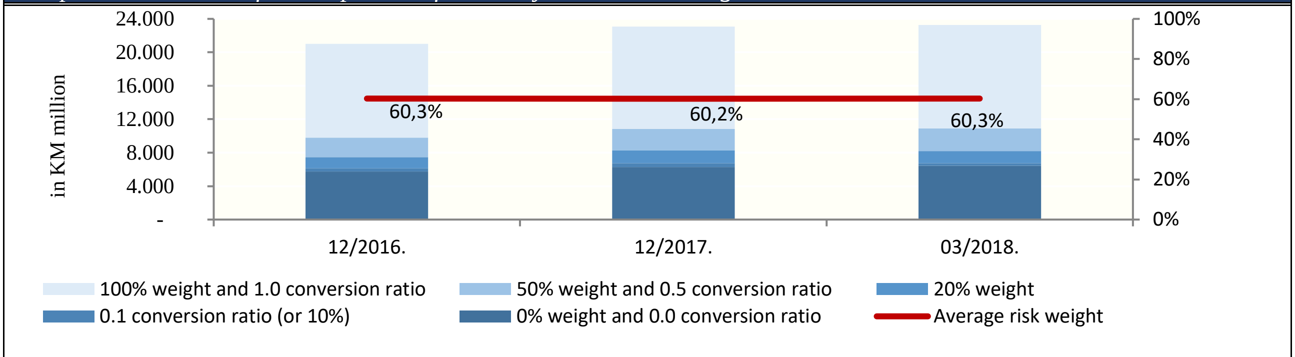
The table and graph below provide a structure of the net exposure of banks by credit risk weight, i.e. by conversion ratios for off-balance sheet items.

- in KM 000 -

Table 18: Structure of Net Exposure of Banks by Credit Risk Weight

D E S C R I P T I O N	31.12.2016	31.12.2017	31.03.2018	Index	
1	**2**	**3**	**4**	**5 (3/2)**	**6 (4/3)**
TOTAL EXPOSURE (1+2):	20 994 773	23 095 817	23 266 051	110	101
1 Balance sheet assets	17 863 737	19 692 604	19 869 944	110	101
2. Off-balance sheet items	3 131 036	3 403 213	3 396 107	109	100
DISTRIBUTION BY RISK WEIGHT AND CONVERSION RATIO					
0% weight	5 695 758	6 203 689	6 365 652	109	103
20% weight	1 309 962	1 515 686	1 444 297	116	95
50% weight	75 541	93 891	72 632	124	77
100% weight	10 782 476	11 879 338	1 987 363	110	101
0.0 conversion ratio	43 699	57 604	50 617	132	88
0.1 conversion ratio	396 664	481 880	339 047	121	70
0.5 conversion ratio	2 291 106	2 473 318	2 626 301	108	106
1.0 conversion ratio	399 567	390 411	380 142	98	97
RISK-WEIGHTED BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	12 667 026	13 904 675	14 039 739	110	101
Average risk weight	60.3%	60.2%	60.3%	100	100

Graph 15: Structure of Net Exposure of Banks by Credit Risk Weight



In the first quarter of 2018, total net exposure of banks (before being weighted) increased by 1%. As of 31.03.2018, risk-weighted balance sheet and off-balance sheet items (after being weighted) amounted to KM 14 billion, with a 1% growth rate, which was primarily influenced by an increase in items with a 100% weight (mostly refers to the loan portfolio being up). As a result of the aforementioned, the average risk weight increased slightly from 60.2% to 60.3%.

The same changes were recorded with respect to weighted operational risk (WOR), which rose (5%) and amounted to KM 1.1 billion as of 31.03.2018. All of this resulted in a slight increase in the amount of total risk-weighted assets that amounted to KM 15.1 billion, i.e. a 1% increase.

As of 31.03.2018, the share of risk-weighted balance and off-balance sheet assets (exposed to credit risk) amounted to 93%, and to 7% on the basis of operational risk.

One of the key indicators of capital strength and adequacy[13] of banks is the capital adequacy ratio, which constitutes a ratio between net capital and total risk-weighted assets. At the banking sector level, this ratio stood at 15.1% as of 31.03.2018, down by 0.4 percentage points compared to the end of 2017.

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

Annex 5 provides a Report on the capital condition and adequacy of banks in the FBiH.

The ratio of the core capital (Tier I) and total risk-weighted assets amounted to 14.3% at the level of the banking sector as of 31.03.2018. Banks have the obligation to intend part of the core capital above 9% of total risk assets to cover the risks related to preventive protection from potential losses in times of 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.

Banks are required to establish and maintain the financial leverage ratio as an additional security and a simple capital hedge, at least in the amount of 6%. The financial leverage ratio at the level of the banking sector amounted to 9.2% as of 31.03.2018 (9.6% at the end of 2017).

For the past few years, the capital adequacy of the banking sector has been continuously maintained at a level above 15%, which is a satisfactory capitalisation rate at the sector level. Banks have retained the largest portion of profit from previous years within their capital. In the previous period, several banks have also improved their capitalisation rate on the basis of recapitalisation.

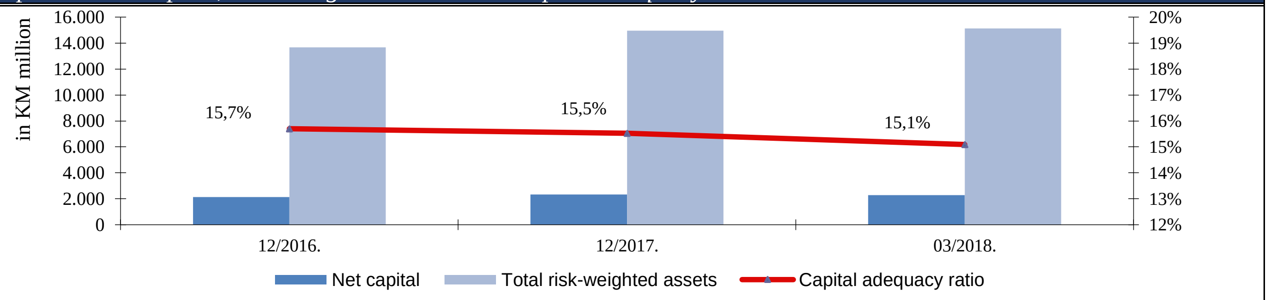
The following table and graph provide an overview of net capital, risk-weighted assets and the capital adequacy ratio at the level of the banking sector.

- KM 000 -

Table 19: Net Capital, Total Weighted Risks and Capital Adequacy Ratio

DESCRIPTION	31.12.2016	31.12.2017	31.03.2018	Index	
1	**2**	**3**	**4**	**5(3/2)**	**6(4/3)**
1. NET CAPITAL	2 140 399	2 321 164	2 283 667	108	98
2. RISK-WEIGHTED BALANCE SHEET AND OFF-BALANCE SHEET ITEMS	12 667 026	13 904 675	14 039 739	110	101
3. WOR (WEIGHTED OPERATIONAL RISK)	1 001 018	1 042 691	1 092 596	104	105
4. TOTAL RISK-WEIGHTED ASSETS (2+3)	13 668 044	14 947 366	15 132 335	109	101
5. NET CAPITAL RATIO (CAPITAL ADEQUACY) (1/ 4)	15.7%	15.5%	15.1%	99	97

Graph 16: Net Capital, Risk-Weighted Assets and Capital Adequacy Ratio



The capital adequacy ratio of the banking sector as of 31.03.2018 was 15.1%, which is still quite above the legal minimum (12%) and represents a satisfactory capitalisation rate of the overall sector considering the existing level of risk exposure and it represents a strong basis for the preservation of its safety and stability.
According to analytical data, 13 banks had a capital adequacy ratio below the one at the end of 2017, while 2 banks had improved this ratio. Below is an overview of the capital adequacy ratios of banks compared to the legal minimum of 12%:

- 4 banks had a ratio below 14%,
- 9 banks had a ratio between 14.1% and 17.3%,
- 2 banks had a ratio between 34.2% and 39.8%.

By supervising the operations and financial condition of banks in the FBiH in accordance with its legal competences and for the purpose of improving the safety of both individual banks and the banking sector as a whole, the FBA 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 dominant risk banks are exposed to in their business operations.
The priority task continues to be the maintenance of a strong and adequate capital base of the banking sector in accordance with the risk profile of the banks' operations, with a focus on large banks in the sector as well as on banks whose total business operations are under increased supervision

1.2.4. 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. When assessing banks' exposure to credit risk, banks are required to continue calculating LLP in accordance with the criteria from the aforementioned Decision, thereby considering already formed value adjustments of balance sheet assets and loss provisions for off-balance sheet items recorded in the banks' books (calculated in accordance with the applicable IAS and IFRS), while also taking into account LLP formed from profit (found on capital accounts). Since 01.01.2018, banks are required to apply the new financial reporting standard IFRS 9 – Financial Instruments, which has replaced IAS 39.

The following table provides an overview of assets, LLP according to the regulator and value adjustments according to IFRS.

- in KM 000 -

Table 20: Assets (BS and off-BS), Loan Loss Provisions According to the Regulator and Value Adjustments According to IFRS

DESCRIPTION	31.12.2016	31.12.2017	31.03.2018	Index	
1	**2**	**3**	**4**	**5(3/2)**	**6(4/3)**
1. Risk-weighted assets[14]	15 678 467	17 224 329	17 221 002	110	100
2. Calculated regulatory reserves for loan losses	1 533 712	1 492 475	1 497 498	97	100
3. Value adjustment and reserves for off-balance sheet items	1 294 471	1 262 277	1 360 289	97	108
4. Required regulatory reserves formed from profit for assessed losses	405 019	402 640	389 761	99	97
5. Formed regulatory reserves from profit for assessed losses	315 734	315 734	315 734	100	100
6. Shortfall of regulatory reserves formed from profit for assessed losses	200 035	198 771	187 966	99	95
7. Non-risk weighted items	7 175 607	7 699 195	7 952 820	107	103
8. TOTAL ASSETS (1+7)	**22 854 074**	**24 923 524**	**25 173 822**	**109**	**101**

Total assets with off-balance sheet items (assets)[15] of banks in the FBiH amounted to KM 25.2 billion as of 31.03.2018 and are up by KM 251 million or 1% compared to the end of 2017. Risk-weighted assets amount to KM 17.2 billion and are at the same level compared to the end of the previous year. Non-risk weighted items amount to KM 7.9 billion or 32% of total assets with off-balance sheet items, thus being up by KM 254 million or 3% compared to the end of 2017.

Total calculated LLP based on regulatory requirements remained at the same level and amount to KM 1.5 billion, while formed value adjustments for balance sheet assets and provisions for losses amount to KM 1.4 billion are up by KM 98 million or 8% compared to the end of the previous year, due to the application of IFRS 9.

Required regulatory reserves[16] amount to KM 390 million and are down by KM 13 million or 3%. Formed regulatory reserves from profit in the amount of KM 316 million are at the same level as at the

[14] Does not include amount of facilities and contingent liabilities of KM 235 million that is secured with a cash deposit.

[15] 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 BiH, No. 85/11 – consolidated text and 33/12 – correction, 15/13).

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

end of 2017. As of 31.03.2018, the shortfall of regulatory reserves[17] amounts to KM 188 million, thus being down by KM 11 million or 5% compared to the end of 2017.

The following table shows an overview of total assets, gross balance sheet assets, risk-weighted and non-risk weighted assets items at the level of the banking sector.

- in KM 000 -

Table 21: Total Assets, Gross Balance Sheet Assets, Risk-Weighted and Non-Risk Weighted Assets Items

DESCRIPTION	31.12.2016		31.12.2017		31.3.2018		Index	
	Amount	Struct. %	Amount	Struct.%	Amount	Struct.%		
1.	2	3	4	5	6	7	8 (4/2)	9 (6/4)
Loans	10 850 532	84.2	11 910 826	83.6	12 148 961[18]	86.1	110	102
Interest	69 237	0.5	66 894	0.5	90 643	0.6	97	135
Past due receivables	1 164 973	9.0	1 036 949	7.3	1 040 081	7.4	89	100
Receivables on paid guarantees	26 537	0.2	31 080	0.2	31 090	0.2	117	100
Other facilities	138 995	1.1	400 584	2.8	200 869	1.4	288	50
Other assets	638 228	5.0	814 496	5.6	607 082	4.3	124	75
1. RISK-WEIGHTED BALANCE SHEET ASSETS	12 888 502	100.0	14 260 829	100.0	14 118 726	100.0	111	99
2. NON-RISK WEIGHTED BALANCE SHEET ASSETS	6 745 740		7 172 606		7 571 109		106	106
3. GROSS BALANCE SHEET ASSETS (1+2)	19 634 242		21 433 435		21 689 835		109	101
4. RISK-WEIGHTED OFF-BS ITEMS	2 789 965		2 963 500		3 102 276		106	105
5. NON-RISK WEIGHTED OFF-BS ITEMS	429 867		526 589		381 711		122	72
6. TOTAL OFF-BS ITEMS (4+5)	3 219 832		3 490 089		3 483 987		108	100
7. RISK-WEIGHTED ASSETS WITH OFF-BS ITEMS (1+4)	15 678 467		17 224 329		17 221 002		110	100
8. NON-RISK WEIGHTED ITEMS (2+5)	7 175 607		7 699 195		7 952 820		107	103
9. ASSETS WITH OFF-BS ITEMS (3+6)	22 854 074		24 923 524		25 173 822		109	101

Gross balance sheet assets[6] amount to KM 21.7 billion and are up by KM 256 million or 1% compared to the end of 2017. Risk-weighted balance sheet assets amount to KM 14.2 billion or 65% of gross balance sheet assets (thus being down by KM 142 million or 1%). Non-risk weighted balance sheet assets amount to KM 7.6 billion and are up by KM 398 million or 6%.

Off-balance sheet risk-weighted items in the amount of KM 3.1 billion are up by KM 139 million or 5% compared to the end of 2017, while non-risk weighted items amount to KM 382 million and are down by KM 145 million or 28%.

In the first quarter of 2018, credit growth in the amount of KM 260 million or 2% was recorded. As of 31.03.2018, loans amounted to KM 13.4 billion. The trend and change in the share of individual sectors in the total loan structure is shown in the table below.

- in KM 000 -

Table 22: Loan Structure by Sector

SECTORS	31.12.2016		31.12.2017		31.03.2018		Index	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Government institutions	265 892	2.2	245 102	1.9	229 174	1.7	92	94
Public companies	226 891	1.8	210 461	1.6	203 114	1.5	93	97
Private companies and enterprises	5 756 280	46.9	6 295 558	47.8	6 477 031	48.2	109	103
Banking institutions	58	0.0	12	0.0	818	0.0	21	6817
Non-banking financial institutions	40 365	0.3	58 992	0.4	59 347	0.4	146	101
Retail	5 972 074	48.7	6 358 707	48.2	6 458 325	48.1	106	102
Other	8 668	0.1	10 028	0.1	11 525	0.1	116	115
TOTAL	**12 270 228**	**100.0**	**13 178 860**	**100.0**	**13 439 334**	**100.0**	**107**	**102**

The growth rate of loans to private companies amounted to KM 181 million or 9% (in 2017, an increase in the amount of KM 539 million or 9% was recorded), so that this sector's loans amounted to KM 6.5 billion and had a share of 48.2% (+0.4 percentage points) as of 31.03.2018. The increase in loans to the retail sector amounted to KM 100 million or 2% (in 2017, an increase in the amount of KM 387

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

[18] This does not include the loan amount of KM 192 million covered by a cash deposit (included in non-risk weighted assets of the balance sheet).

million or 6% was recorded), while the share decreased slightly from 48.2% to 48.1%. As of 31.03.2018, they amounted to KM 6.5 billion.

According to information submitted by the banks (as of 31.03.2018) the retail loan structure by purpose is almost the same as at the end of 2017: consumer loans hold a share of 82%, followed by housing loans with 17%, while the remaining 1% refer to loans to small crafts, small businesses and agriculture. As was the case at the end of 2017, the three largest banks in the sector have approved 61% of retail loans and 46% of loans to private companies out of the total number of loans approved to these sectors.

In the currency structure of loans, the largest share of 54.3% or KM 7.3 billion refers to currency clause loans (EUR: KM 7.2 billion or 99%, CHF: KM 60 million or 1%), followed by local currency loans with a share of 45.1% or KM 6.1 billion, while the smallest share of just 0.6% or KM 81 million refers to foreign currency loans (almost the entire amount thereof refers to EUR: KM 77 million or 95%). The total amount of loans with a currency clause in CHF of KM 60 million has a 0.4% share in the total loan portfolio and refers almost entirely to one bank in the system (0.5% at the end of 2017).

The table below provides an overview of the quality of assets and off-balance sheet risk-weighted items, GCR, PLL by classification category.

- in KM 000 -

Table 23: Asset Classification, GCR and PLL

Classification category	31.12.2016			31.12.2017			31.03.2018			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	13 166 182	84.0	263 324	14 834 609	86.1	296 693	14 854 843	86.3	297 096	113	100
B	982 398	6.3	77 167	1 032 373	6.0	82 700	1 014 823	5.9	81 162	105	98
C	224 335	1.4	58 086	166 456	1.0	45 486	156 588	0.9	45 272	74	94
D	423 766	2.7	253 348	301 598	1.7	178 304	297 203	1.7	176 422	71	99
E	881 786	5.6	881 787	889 293	5.2	889 292	897 545	5.2	897 546	101	101
Risk-weighted assets (A-E)	15 678 467	100.0	1 533 712	17 224 329	100.0	1 492 475	17 221 002	100.0	1 497 498	110	100
Classified (B-E)	2 512 285	16.0	1 270 389	2 389 720	13.9	1 195 782	2 366 159	13.7	1 200 402	95	99
Non-performing (C-E)	1 529 887	9.8	1 193 221	1 357 347	7.9	1 113 082	1 351 336	7.8	1 119 240	89	100
Non-risk weighted assets [19]	7 175 607			7 699 195			7 952 820			107	103
TOTAL (risk-weighted and non-risk weighted)	**22 854 074**			**24 923 524**			**25 173 822**			**109**	**101**

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 an evaluation of credit risk exposure of the banks' loans, i.e. the identification of PLL. The first and warning indicator of potential problems with loan repayment is an increase in past due receivables and their share in total loans. As of 31.03.2018, past due receivables amounted to KM 1.1 billion, which is the same level compared to the end of the previous year.

By analysing the quality of risk-weighted assets through trends and changes of key indicators, it can be concluded that key indicators of asset quality continued the trend of improvement in the first quarter of 2018, largely due to the effect of credit growth. In some banks, these indicators showed slight changes, i.e. there were seven banks with ratios of the share of classified (compared to risk-weighted assets) below the level of the banking sector, while there were six banks with ratios of the share of non-performing assets (compared to risk-weighted assets) below the level of the banking sector.

[19] 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 LLP of 2% are calculated (as per Article 22, paragraph 8 of the same Decision).

Annex 6 and 6a provide a classification of balance sheet assets and off-balance sheet risk-weighted items.

As of 31.03.2018, classified assets amounted to KM 2.4 billion and non-performing assets to KM 1.4 billion. Classified assets (B-E) decreased by KM 24 million or 1% compared to the end of 2017 (in 2017, there was a drop of KM 123 million or 5%). Category B decreased by KM 18 million or 2%. Non-performing assets (C-E) remained at the same level (in 2017, non-performing assets decreased by KM 173 million or 11%), with it being noted that app. KM 23 million of interest from off-balance sheet records were transferred to the balance sheet due to the application of IFRS 9.

The share of classified assets in risk-weighted assets is 13.7%, and the 0.2% drop compared to the end of 2017 is the result of a decrease in classified assets by KM 24 million or 1%. The most significant indicator of asset quality is the ratio between non-performing assets and risk-weighted assets, which amounts to 7.8%, down by 0.1 percentage points compared to the end of 2017.

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 PLL regarding the corporate segment.

Table 24: Classification of Retail and Corporate Loans

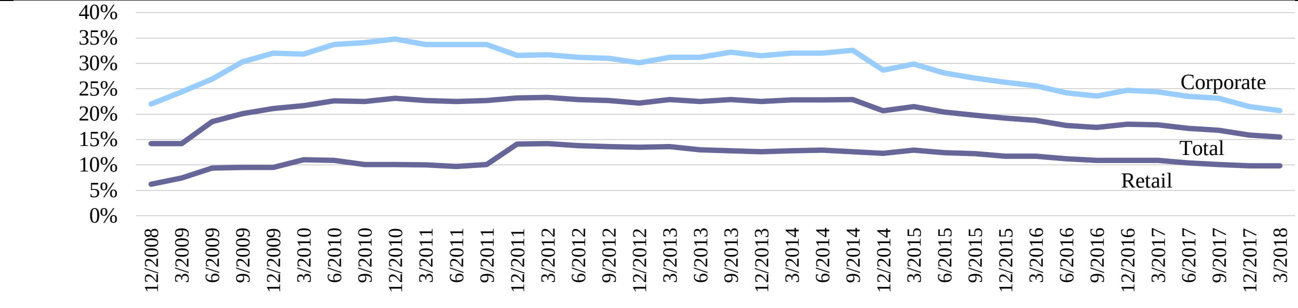
Classification category	31.12.2017						31.03.2018						Index
	Retail	Share %	Corporate	Share %	TOTAL Amount	TOTAL Share	Retail	Share %	Corpo-rate	Share %	TOTAL Amount	TOTAL Share	
1	**2**	**3**	**4**	**5**	**6 (2+4)**	**7**	**8**	**9**	**10**	**11**	**12 (8+10)**	**13**	**14(12/6)**
A	5 732 970	90.1	5 356 474	78.5	11 089 444	84.2	5 825 856	90.2	5 536 451	79.3	11 362 307	84.5	102
B	163 628	2.6	651 859	9.6	815 487	6.2	170 269	2.6	656 732	9.4	827 001	6.2	101
C	61 371	1.0	98 470	1.4	159 841	1.2	63 474	1.0	87 139	1.3	150 613	1.1	94
D	46 850	0.7	243 681	3.6	290 531	2.2	46 851	0.7	238 285	3.4	285 136	2.1	98
E	353 889	5.6	469 668	6.9	823 557	6.2	351 877	5.5	462 400	6.6	814 277	6.1	99
TOTAL	6 358 708	100.0	6 820 152	100.0	13 178 860	100.0	6 458 327	100.0	6 981 007	100.0	13 439 334	100.0	102
Class. loans. B-E	625 738	9.8	1 463 678	21.5	2 089 416	15.9	632 471	9.8	1 444 556	20.7	2 077 027	15.5	99
Non-perf. loans C-E	462 110	7.3	811 819	11.9	1 273 929	9.7	462 202	7.2	787 824	11.3	1 250 026	9.3	98
		48.2		51.8		100.0		48.1		51.9		100.0	
Individual sector's share in classified loans, non-performing loans and category B:													
Categories B-E		29.9		70.1		100.0		30.5		69.5		100.0	
Non-performing C-E		36.3		63.7		100.0		37.0		63.0		100.0	
Category B		20.1		79.9		100.0		20.6		79.4		100.0	

The following table shows a detailed overview of the classification of retail and corporate loans.

Loan quality indicators improved in the first quarter of 2018 and the share of classified loans dropped to 15.5% (-0.4 percentage points) due to, on the one hand, classified loans being down by KM 12 million or 1% and, on the other hand, the aforementioned increase in total loans. Classified loans of the retail sector saw an increase in the amount of KM 7 million or 1%, while corporate loans went down by KM 19 million or 1%.

The graph below shows an overview of classified loans by period.

Graph 17: Classified Loans

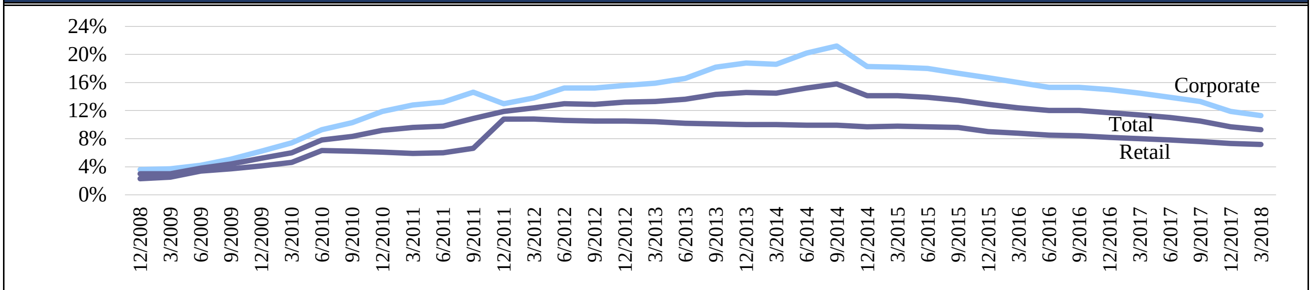


The share of NPL decreased from 9.7% to 9.3%, as a result of credit growth and a decrease in total NPL by KM 24 million or 2%, with it being noted that the permanent write-off in the first quarter of 2018 amounted to KM 14 million. Corporate NPL decreased by KM 24 million or 3%, while they remained at the same level as the end of 2017 in the retail segment.

Out of the total approved corporate loans in the amount of KM 7 billion, KM 1.4 billion or 20.7% of loans were classified within categories B to E as of 31.03.2018. This indicator is much better for the retail segment, which correlates with the degree of risk associated with lending to these two sectors. Out of the total approved retail loans in the amount of KM 6.5 billion, there were KM 632 million or 9.8% of loans classified within categories B to E.

An overview of NPL by period is provided in the graph below.

Graph 18: NPL



The most important indicator of loan portfolio quality is the share of NPL. In the first quarter of 2018, the share of NPL in both the retail sector and the corporate sector decreased as a result of a decrease in corporate NPL (KM 24 million or 3%), as well as credit growth (KM 100 million or 2% retail and KM 161 million or 2% corporate).

Of the total approved corporate loans, NPL account for KM 788 million or 11.3%, which is down by 0.6 percentage points compared to the end of 2017 (in 2017, the share decreased by 3.1 percentage points). For the retail sector, the indicator of the share of NPL amounted to KM 462 million or 7.2%, down by 0.1 percentage points (in 2017, the share decreased by 0.9 percentage points).

A more detailed and comprehensive analysis is based on data on loan concentration by industry sector for the corporate segment (by sector) and for the retail segment (by purpose) and it is provided in the following table.

- in KM 000 -

Table 25: Concentration of Loans by Industry Sector

DESCRIPTION	31.12.2017				31.03.2018				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)	206 554	1.6	30 860	14.9	192 148	1.4	31 234	16.3	93	101
Production (IND)	1 986 437	15.1	281 513	14.2	1 996 408	14.9	276 844	13.9	101	98
Construction (CON)	428 151	3.2	67 845	15.8	432 716	3.2	66 888	15.5	101	99
Trade (TRD)	2 589 004	19.6	290 802	11.2	2 690 390	20.0	276 363	10.3	104	95
Catering (HTR)	243 136	1.8	11 536	4.7	252 818	1.9	13 184	5.2	104	114
Other[20]	1 366 870	10.4	129 263	9.5	1 416 527	10.5	123 311	8.7	104	95
TOTAL 1.	**6 820 152**	**51.7**	**811 819**	**11.9**	**6 981 007**	**51.9**	**787 824**	**11.3**	**102**	**97**
2. Retail loans for:										
General consumption	5 188 942	39.4	317 089	6.1	5 253 176	39.1	320 209	6.1	101	101
Housing	1 065 987	8.1	126 907	11.9	1 101 958	8.2	124 410	11.3	103	98
Business activities (small business owners)	103 779	0.8	18 114	17.5	103 193	0.8	17 583	17.0	99	97
TOTAL 2.	**6 358 708**	**48.3**	**462 110**	**7.3**	**6 458 327**	**48.1**	**462 202**	**7.2**	**102**	**100**
TOTAL (1. + 2.)	**3 178 860**	**100**	**1 273 929**	**9.7**	**13 439 334**	**100**	**1 250 026**	**9.3**	**102**	**98**

The biggest share in total corporate loans refers to the trade sector (20%) and the production sector (14.9%), while the largest share in the retail segment is held by general consumption loans (39.1%) and housing loans (8.2%), which is approximately the same level as on 31.12.2017. The level of loans to the production sector in the amount of KM 2 billion increased slightly in the first quarter of 2018 (KM 10 million or 1%), while NPL decreased (KM 5 million or 2%) to the amount of KM 277 million, and the share, although down by 0.3 percentage points, is still as high as 13.9%.

Lending to the trade sector increased by KM 101 million or 4% in the first quarter of 2018, to the level of KM 2.7 billion. NPL in this sector decreased by KM 14 million or 5%, amounting to KM 276 million as of 31.03.2018. The share decreased by 0.9 percentage points, i.e. to 10.3%, which is a better indicator than in the production sector.

The share of NPL is particularly high in the construction sector – 15.5%, with a drop in the amount of 0.3 percentage points, and loans from this sector hold a low share in the amount of only 3.2%. In the agriculture sector, which has the lowest share of 1.4%, NPL hold a significant share of 16.3%, which increased by 1.4 percentage points compared to the end of the previous year.

In the retail segment, general consumption loans hold the highest share, which amounts to 39.1% in total loans, with an increase in the amount of KM 64 million or 1%, while housing loans increased by KM 36 million or 3%. Housing loans hold a relatively high 11.3% share of NPL, while general consumption loans hold a 6.1% share of NPL.

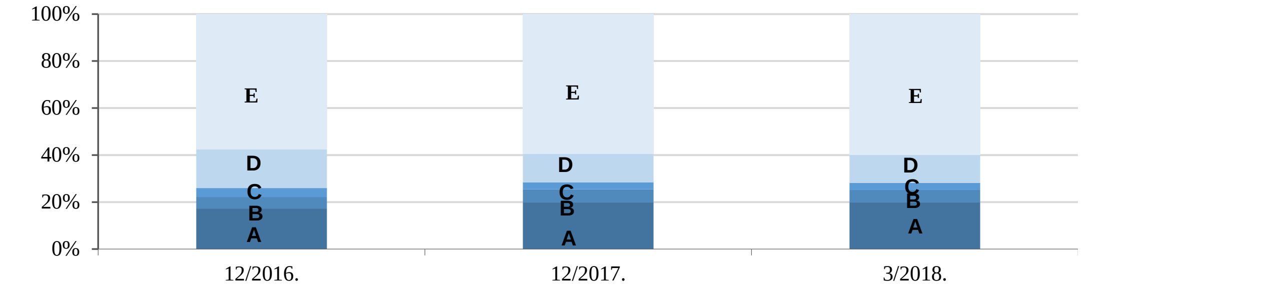
The GCR level and estimated PLL by classification category, as determined in accordance with the criteria and methodology defined by the decisions of the FBA, along with their trend and structure at the banking sector level, is provided in the table and graph below.

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

Table 26: Structure and Trend of GCR and PLL

Classification category	AMOUNT (in KM 000) AND STRUCTURE (in %)						Index	
	31.12.2016		31.12.2017		31.03.2018			
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
A	263 324	17.2	296 693	19.9	297 096	19.8	113	100
B	77 167	5.0	82 700	5.5	81 162	5.4	107	98
C	58 086	3.8	45 486	3.1	45 272	3.0	78	100
D	253 348	16.5	178 304	11.9	176 422	11.8	70	99
E	881 787	57.5	889 292	59.6	897 546	60.0	101	101
TOTAL	**1 533 712**	**100.0**	**1 492 475**	**100.0**	**1 497 498**	**100.0**	**97**	**100**

Graph 19: Structure and Trend of GCR and PLL



Based on an analysis of the calculated LLP (in aggregate terms and by classification category) compared to the end of 2017, the reserves for GCR (category A) and PLL remained at the same level of KM 1.5 billion. The reserves for GCR are unchanged compared to the end of 2017, as are the reserves for PLL.

The reserves for category B are down by KM 2 million or 2% and amount to KM 81 million, while the reserves for non-performing assets are up by KM 6 million or 1%, i.e. they amount to KM 1.1 billion. The reserves for category C remained at the same level, the reserves for category D are down by KM 2 million or 1%, while the reserves for category E are up by KM 8 million or 1%.

One of the key indicators of asset quality is the ratio between PLL and risk-weighted assets with off-balance sheet items. This ratio amounts to 7% and it is up by 0.1 percentage points compared to the end of 2017. As of 31.03.2018, banks had on average calculated reserves in the amount of 8% for category B, 29% for category C, 59% for category D and 100% for category E, as was the case at the end of 2017.[21]

An analysis of asset quality, i.e. the quality of the loan portfolio of individual banks, as well as on-site examinations in the banks themselves, indicate that credit risk is the dominant risk in most banks, which is why the focus of the supervisor is on the assessment of practices for managing, i.e. identifying, measuring, monitoring and controlling credit risk and on assets classification.

Banks in which the FBA 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 management function, i.e. its significance and quality.

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

Compliance with the FBA's orders is being continuously monitored through an intensified follow-up process based on reports and other documentation submitted by banks, as well as through direct supervision.

1.2.5. Profitability

At the level of the banking sector, a positive financial result was recorded in the first quarter of 2018 – profit in the amount of KM 84 million, which is up by KM 5 million or 6% compared to the same period of the previous year.
The positive effect on the financial result of the sector was especially achieved by higher profit having been recorded by nine banks that had operated positively in the same period of the previous year (the effect was KM 15 million, KM 11 million of which refer to the three largest banks), and profit having been recorded by one bank that had operated at a loss last year (the effect was KM 1 million).
On the other hand, the negative effect of KM 11 million is largely the result of lower profit in four banks and, to a small extent, the loss recorded by one bank that had operated positively in the same period of the previous year.

Annex 7 shows the income statement of banks in the FBiH according to the FBA model.

A better financial result having been recorded compared to the same period of the previous year is largely the result of lower non-interest expenses (value adjustment costs and other operating costs), while total income increased slightly based on a small increase in net interest income (exclusively on the basis of a decrease in interest expenses), together with a slight decrease in operating income (as a result of a significant decrease in one-off income, coupled with an increase in operating income from regular business activities, mostly service fees).

A positive financial result in the amount of KM 84 million was recorded by 14 banks and it is up by KM 4 million or 5% compared to the same period of the previous year. At the same time, an operating loss was recorded by one bank and it is down by KM 1 million or 86% compared to the previous year.

The table below shows an overview of the recorded financial result by reporting period.

- KM 000 -

Table 27: Recorded Financial Result: Profit/Loss

DESCRIPTION	31.03.2016		31.03.2017		31.03.2018	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	**2**	**3**	**4**	**5**	**6**	**7**
Loss	-1 147	2	-1 204	1	-165	1
Profit	74 223	15	80 014	14	83 815	14
Total	**73 076**	**17**	**78 810**	**15**	**83 650**	**15**

Out of the total recorded profit (KM 84 million), KM 53 million or 64% refer to the two largest banks in the sector with an assets share of 47% in the banking sector. Analytical data indicate that a total of ten banks has a better financial result (by KM 16 million), while five banks have a poorer financial result (by KM 11 million).

Based on analytical data as well as on indicators for the assessment of profitability quality, it is evident that the overall profitability of the system has improved, largely on the basis of increased income from service fees (large banks), reduced interest expenses, occasional one-off income and it is greatly influenced by fluctuations in value adjustment costs.

The total income of the banking sector in the first quarter of 2018 amounted to KM 253 million, which is almost the same level compared to the same period of the previous year (KM 1 million or +0.4%). Net interest income amounted to KM 150 million, having increased slightly by KM 2 million or 1% and holding a 59% share in the total income structure. Operating income, as the second component of total income, recorded a slight decrease (KM 1 million or 1%), amounting to KM 103 million, which is a 41% share in the total income structure. On the expenses side, total non-interest expenses decreased by 2% or KM 4 million, amounting to KM 170 million.

Despite an increase in average interest-bearing loans by 7% as well as the fact that the increase in non-performing loans was halted, the reduced average interest rate on loans, which is the result of a decrease in active interest rates, resulted in a slight decrease in interest income. Although a number of banks recorded an increase in interest income compared to the previous year, due to intensified lending activities, lower interest income with the three largest banks largely affected their slight decrease at the sector level.

Interest income amounts to KM 184 million, slightly down by KM 3 million or 2% compared to the previous year, with the share in the structure of total income being down from 74.2% to 72.6%. The largest share refers to loan interest income, which amounts to KM 164 million and is slightly down by KM 2 million or 1%, continuing the trend from previous years, which resulted in average active interest rates on loans decreasing from 5.36% to 4.94% and the share in total income dropping from 65.9% to 64.8%.

In the structure of loan interest income, the largest portion (62%) refers to interest income from retail loans, which recorded a slight increase (+1%) compared to the previous year, amounting to KM 102 million, while the share of this sector amounts to 48% in the total loan portfolio. It is followed by interest income on loans to private companies, which hold a share of 35% and recorded a decrease in the amount of 4% (amounting to KM 57 million), while the loans of this sector hold a slightly increased share in the total loan portfolio of (48%).

Positive trends, as was the case in previous years, were recorded with respect to interest expenses, which had a rate of decrease in the amount of KM 5 million or 13% compared to the same period of the previous year. Interest expenses amounted to KM 34 million, and their share in the total income structure decreased from 15.3% to 13.3%.

Average interest-bearing deposits increased by 10%, and interest expenses on deposit accounts amounted to KM 28 million, the largest item in total interest expense in both relative and nominal terms, decreased by KM 6 million or 17% as a result of a change in structure the deposit base (higher share of deposits with lower interest rates) and a decrease in passive interest rates, which resulted in a decrease in average interest rates on deposits from 1.3% to 0.98% for the parallel period.

Interest expenses for loans taken and other borrowings amounted to KM 2 million and recorded a 7% decrease compared to the same period of the previous year, holding approximately the same share in total income in the amount of 0.9%. Other interest expenses increased by 44%, amounting to approximately KM 2 million, with most of them (58%) referring to interest expenses for the CBBH based on negative interest rates on excess funds above the reserve requirement.

As a result of the significant decrease in interest expenses (-13%), and despite the decrease in interest income (-2%), net interest income, as the most important and stable source of income of banks, increased by KM 150 million or 1%.

Operating income amounted to KM 103 million, down by KM 1 million or 1% compared to the same period of the previous year (exclusively as a result of a significant decrease in other operating income, one-off income by KM 8 million or 34%), with its share in the total income structure having remained at approximately the same level of 41%. Within operating income, the largest share (65%) refers to service fees, which recorded an increase in the amount of KM 5 million or 8%. It can be concluded that banks are compensating for the drop in interest income with a continuous increase in service fees.

Total non-interest expenses amount to KM 170 million and are down by KM 4 million or 2% compared to the same period of the previous year, which is the net effect of a significant decrease in business and direct expenses (KM 5 million or 10%, exclusively on the basis of value adjustment costs) and a slight increase in operating expenses (KM 1 million or 1%). Their share in the total income structure decreased from 69% to 67%.

Value adjustment costs amounted to KM 19 million and are down by KM 8 million or 28% compared to the same period of the previous year (which was largely impacted by a decrease in value adjustment costs in two banks in the amount of KM 5 million or 61%), while the share in the total income structure decreased from 10.6% to 7.6%.

In the structure of operating expenses, which amount to KM 124 million or 49% of total income, costs of salaries and contributions, as the largest item of operating expenses, increased slightly (3%) and amount to KM 62 million or 24% of total income, costs of fixed assets are up by 2% and amount to KM 38 million, while other operating expenses decreased by KM 1 million or 4%.

Banks undertake numerous measures to rationalise costs of operations, primarily to reduce operating expenses, which partly mitigated the adverse effects of the interest income decrease.

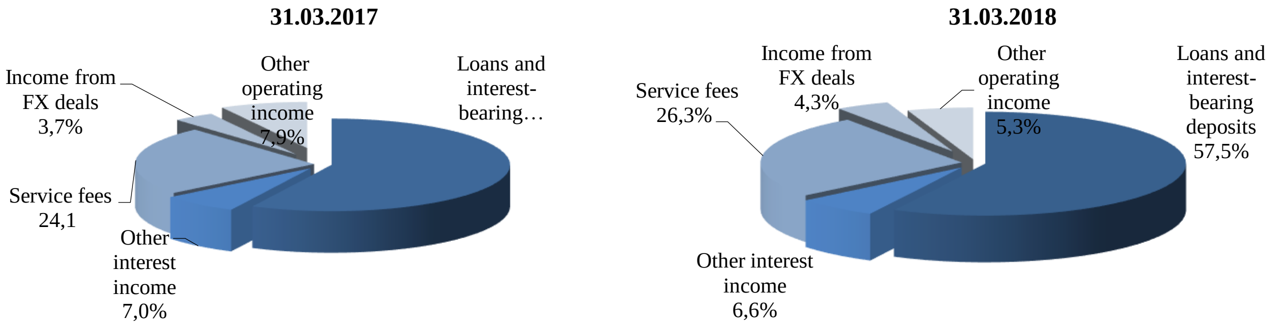
The total income structure is provided in the table and graph below.

- in KM 000 -

Table 28: Total Income Structure

Total income structure	31.03.2016		31.03.2017		31.03.2018		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	546	0.2	547	0.2	960	0.3	100	176
Loans and leasing facilities	168 949	61.5	166 297	57.1	164 118	57.2	98	99
Other interest income	18 883	6.9	20 339	7.0	18 901	6.6	108	93
TOTAL	**188 378**	**68.6**	**187 183**	**64.3**	**183 979**	**64.1**	**99**	**98**
II Operating income								
Service fees	65 518	23.9	70 175	24.1	75 387	26.3	107	107
Income from FX deals	9 812	3.6	10 614	3.7	12 242	4.3	108	115
Other operating income	10 832	3.9	23 066	7.9	15 391	5.3	213	67
TOTAL	**86 162**	**31.4**	**103 855**	**35.7**	**103 020**	**35.9**	**121**	**99**
TOTAL INCOME (I + II)	**274 540**	**100.0**	**291 038**	**100.0**	**286 999**	**100.0**	**106**	**99**

Graph 20: Total Income Structure



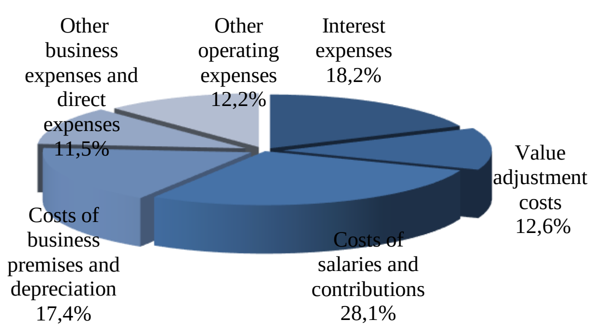
The total expenses structure is provided in the table and graph below.

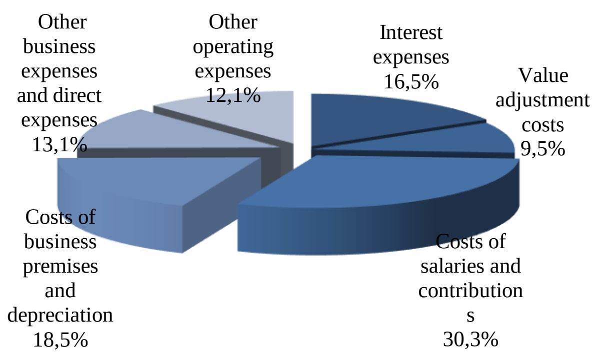
- in KM 000 -

Table 29: Total Expenses Structure

Total expenses structure	31.03.2016		31.03.2017		31.03.2018		Index	
	Amount	%	Amount	%	Amount	%		
1	**2**	**3**	**4**	**5**	**6**	**7**	**8 (4/2)**	**9 (6/4)**
I Interest expenses and similar expenses								
Deposits	38 601	19.2	33 052	15.6	27 525	13.5	86	83
Liabilities based on loans and other borrowings	3 235	1.6	2 426	1.1	2 266	1.1	75	93
Other interest expenses	2 420	1.2	3 175	1.5	3 817	1.9	131	120
TOTAL	**44 256**	**22.0**	**38 653**	**18.2**	**33 608**	**16.5**	**87**	**87**
II Total non-interest bearing expenses								
Costs of value adjustment of risk-weighted assets and provisions for contingent liabilities and other value adjustments	14 741	7.3	26 793	12.6	19 244	9.5	182	72
Costs of salaries and contributions	59 194	29.4	59 614	28.1	61 572	30.3	101	103
Costs of business premises and depreciation	37 106	18.4	36 995	17.4	37 615	18.5	100	102
Other business expenses and direct expenses	22 324	11.1	24 374	11.5	26 631	13.1	109	109
Other operating expenses	23 843	11.8	25 799	12.2	24 679	12.1	108	96
TOTAL	**157 208**	**78.0**	**173 575**	**81.8**	**169 741**	**83.5**	**110**	**98**
TOTAL EXPENSES (I + II)	**201 464**	**100.0**	**212 228**	**100.0**	**203 349**	**100.0**	**105**	**96**

Graph 21: Total Expenses Structure





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

- in %-

Table 30: Profitability, Productivity and Efficiency Ratios by Period

RATIOS	31.03.2016	31.03.2017	31.03.2018
Profit from average assets	0.4	0.4	0.4
Profit from average total capital	2.8	2.9	3.0
Profit from average share capital	6.3	6.5	6.8
Net interest income/average assets	0.8	0.8	0.7
Operating income/average assets	0.5	0.6	0.5
Total income/average assets	1.4	1.4	1.3
Business expenses and direct expenses[22]/average assets	0.2	0.3	0.2
Operating expenses/average assets	0.7	0.7	0.6
Total non-interest expenses/average assets	0.9	0.9	0.8

The ROAA (return on average assets) remained at the same level of 0.4% due to significantly higher profit having been recorded compared to the previous year, together with an increase in average assets, while the return on average equity increased slightly from 6.5% to 6.8% due to the increase in profit being larger than the increase in average equity.

The productivity of banks' operations, measured as a ratio between total income and average assets (1.3%), remained at approximately the same level, as did most other income-related indicators. The

[22] Expenses also include value adjustment costs.

business and direct expenses/average assets ratio, the operating expenses/average assets ratio and the non-interest expenses/average assets ratio improved slightly due to a decrease in expenses (value adjustment costs and other operating costs), together with and an increase in average assets.

The profitability of banks in the period to come will continue to be mostly affected by and will depend on two key factors – further trends in asset quality and the efficiency of management and control of operating income and expenses. It is necessary to maintain the upward trend of credit growth in order to increase the profitability of banks' operations, along with applying and observing prudential lending standards when it comes to loan approval.

The financial result of banks 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 a satisfactory return on invested capital for bank owners.

The key factor for the efficiency and profitability of every bank's operations 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.

1.2.6. Weighted NIR and EIR

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, the FBA prescribed a uniform manner of calculating and disclosing the EIR for all banks seated in the FBiH as well as the organisational units of banks seated in RS and operating on the territory of the FBiH. The EIR represents an actual loan price, i.e. income earned on a deposit, expressed as an annual percentage.

The EIR 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 FBA on a monthly basis regarding weighted NIR and EIR on loans and deposits approved/received in the reporting month in question, all in accordance with the prescribed methodology and Instructions.[23]

The table below shows an overview of weighted average NIR and EIR on loans at the banking sector level and for two key customer segments (corporate and retail) for the listed reporting periods.

[23] Decision on Uniform Method of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits (Official Gazette of the Federation of BiH, No. 48/12 – consolidated text and 23/14) and Instructions for Calculation of Weighted Nominal and Effective Interest Rate.

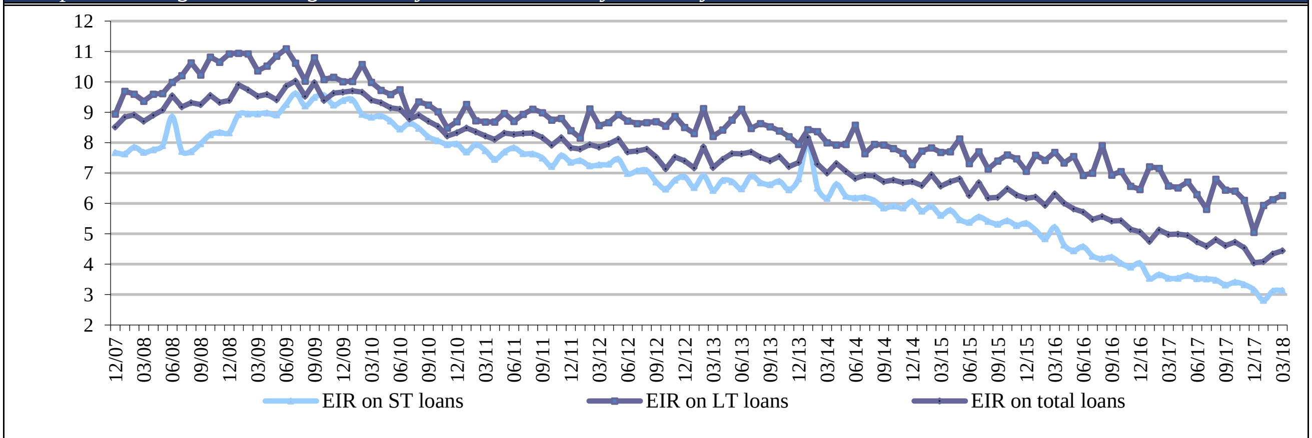
Table 31: Weighted Average NIR and EIR on Loans

DESCRIPTION	12/2016		03/2017		06/2017		09/2017		12/2017		03/2018	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	**2**	**3**	**4**	**5**	**6**	**10**	**10**	**9**	**10**	**11**	**12**	**13**
1. Weighted IR on short-term loans	3.69	4.03	3.27	3.54	3.25	3.53	3.07	3.32	2.94	3.16	2.84	3.14
1.1. Corporate	3.61	3.90	3.21	3.40	3.18	3.40	2.99	3.19	2.89	3.06	2.78	3.03
1.2. Retail	9.60	15.16	8.30	15.19	7.94	14.51	8.57	15.76	7.75	14.38	7.96	15.86
2. Weighted IR on long-term loans	5.60	6.46	5.59	6.58	5.32	6.30	5.28	6.44	4.28	5.06	5.14	6.26
2.1. Corporate	4.86	5.18	4.43	4.69	4.09	4.33	4.19	4.70	3.34	3.67	4.19	4.58
2.2. Retail	6.55	8.10	6.46	7.96	6.31	7.89	6.21	7.90	5.96	7.51	5.77	7.36
3. Total weighted IR on loans	4.51	5.07	4.37	4.98	4.14	4.74	3.98	4.61	3.57	4.05	3.79	4.44
3.1. Corporate	3.98	4.28	3.53	3.74	3.41	3.64	3.28	3.54	3.05	3.29	3.09	3.37
3.2. Retail	6.65	8.32	6.49	8.09	6.35	8.05	6.27	8.09	6.00	7.67	5.81	7.51

The graph below shows an overview of weighted average monthly EIR on loans by maturity.

- in % -

Graph 22: Weighted Average Monthly EIR on Loans by Maturity



When analysing interest rate trends, it is important to monitor trends of the weighted EIR, with the difference between this interest rate and the weighted NIR being the result of a payment the borrower makes to the bank for the approved loan, or the result of costs directly related to the loan, i.e. the conditions for using the loan, which are included in the calculation of the loan price (for example, loan processing costs, insurance premiums for natural persons if insurance is a condition for loan approval, as well as other costs related to secondary services which are paid by the client and which are a condition for using the loan).

In the first quarter of 2018, weighted EIR on loans recorded changes within the range of 0.35 percentage points. The lowest rate was recorded in January (4.09%) and the highest in March (4.44%), which is up by 0.39 percentage points compared to December 2017.

The weighted EIR on short-term loans amounted to 3.14% in March 2018, which is lower by 0.02 percentage points compared to December 2017, with fluctuations within the range of 0.33 percentage points. The weighted EIR on long-term loans amounted to 6.26%, up by 1.2 percentage points compared to December 2017, with the changes during the quarter being within the range of 0.32 percentage points.

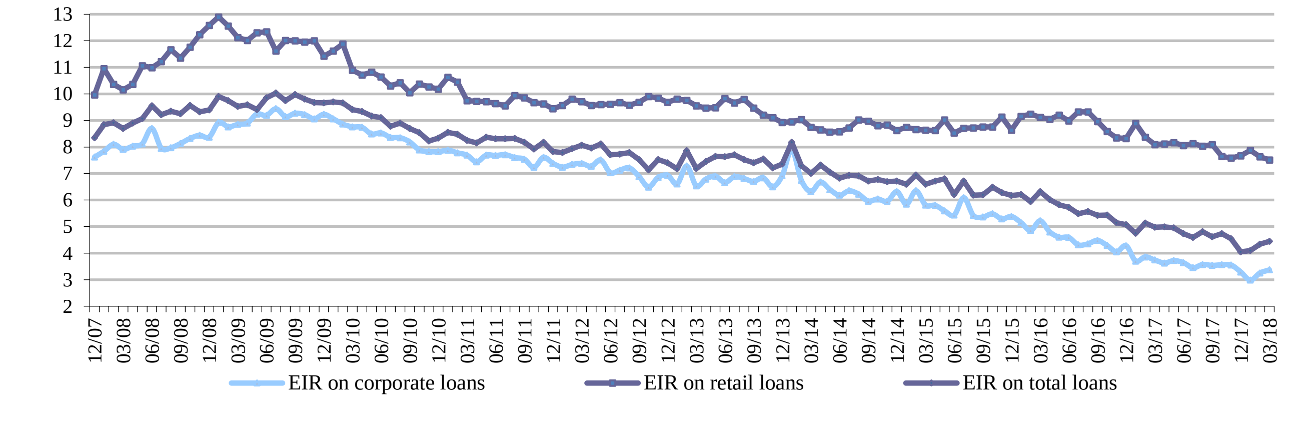
Interest rates on loans to the two most important sectors: corporate and retail[24], had the opposite trends in the first quarter of 2018. In the first month of 2018, interest rates on corporate loans continued a further downward trend, only to record a slight increase in the second and third month and remain at a level that is below the average of the previous year, while weighted EIR on retail loans, following a

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

slight increase in the first month of 2018, continued a downward trend, as presented in the following graph.

- in % -

Graph 23: Weighted Average Monthly EIR on Corporate and Retail Loans



The weighted EIR on corporate loans is still significantly lower than the EIR on retail loans, having amounted to 3.37% in March 2018, which is up by only 0.08 percentage points compared to December 2017 (3.29%). In the case of long-term corporate loans, the EIR increased from 3.67% to 4.58%, while the EIR on short-term loans decreased from 3.06% to 3.03%.

The EIR on retail loans was 7.51% in March 2018, which is down by 0.16 percentage points compared to the level in December 2017. The EIR on short-term loans to this sector increased from the level of 14.38% in December 2017 to 15.86% in the first quarter of 2018, when it also recorded its lowest level. The EIR on long-term retail loans recorded a drop and amounted to 7.36% in March 2018, down by 0.15 percentage points compared to December 2017 (7.51%).

When observing the period of the last five years, it is evident that there is a moderate, but continuous decrease in the weighted average EIR on loans calculated on an annual basis, primarily in the corporate sector, while the retail sector's continuous decrease from previous years was halted in 2015. Following that, a slight increase was recorded in 2016 (although nominal interest rates on retail loans have a slight downward trend, the EIR is up due to increased fees and other related loan costs), only for the downward trend at the level of total retail loans to continue in 2017 and the first quarter of 2018, despite interest rates on short-term loans being up.

The aforementioned can be seen in the following table.

Table 32: Weighted Average NIR and EIR on Loans per Annum

DESCRIPTION	2014		2015		2016		2017		Q1 2018	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on short-term loans	5.72	6.25	5.10	5.50	4.01	4.41	3.20	3.46	2.77	3.04
1.1. Corporate	5.70	6.17	5.07	5.42	3.96	4.28	3.13	3.33	2.71	2.92
1.2. Retail	7.98	11.39	7.84	11.37	8.07	13.91	8.32	15.36	8.40	16.44
2. Weighted IR on long-term loans	6.98	7.80	6.60	7.57	6.08	7.14	5.30	6.33	5.02	6.12
2.1. Corporate	6.19	6.81	5.63	6.20	4.91	5.23	4.02	4.33	3.83	4.19
2.2. Retail	7.66	8.66	7.36	8.65	7.10	8.79	6.31	7.89	5.86	7.49
3. Total weighted IR on loans	6.32	6.98	5.81	6.48	4.94	5.64	4.12	4.72	3.69	4.30
3.1. Corporate	5.84	6.35	5.23	5.64	4.22	4.54	3.36	3.59	2.97	3.21
3.2. Retail	7.68	8.77	7.37	8.74	7.13	8.95	6.35	8.04	5.90	7.65

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 33: Weighted Average NIR and EIR on Deposits

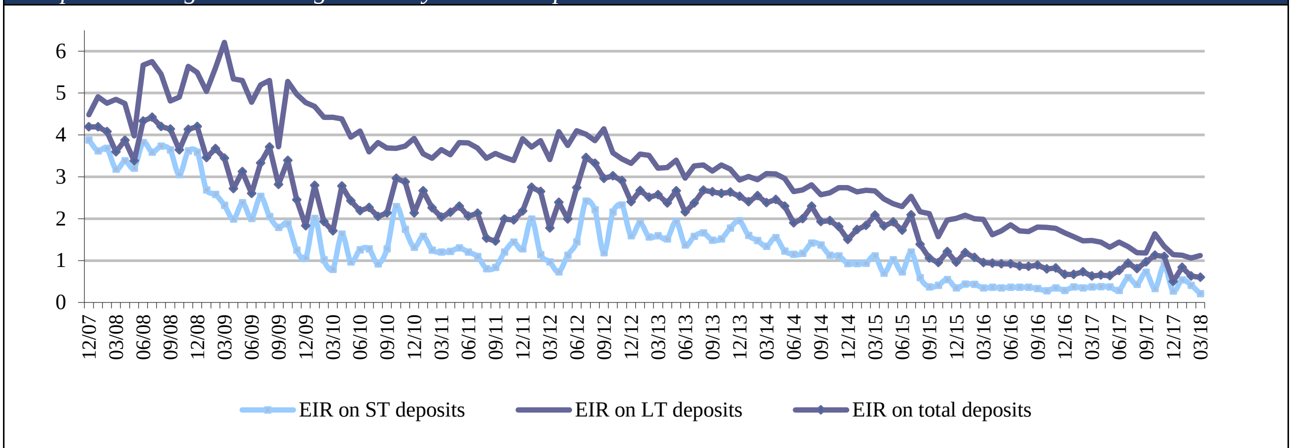
DESCRIPTION	12/2016		03/2017		06/2017		09/2017		12/2017		03/2018	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
1. Weighted IR on short-term deposits	0.29	0.29	0.37	0.37	0.29	0.29	0.72	0.72	0.27	0.27	0.21	0.21
1.1. up to three months	0.26	0.26	0.36	0.37	0.22	0.23	0.84	0.84	0.25	0.25	0.31	0.31
1.2. up to one year	0.58	0.58	0.41	0.41	0.57	0.58	0.62	0.62	0.39	0.39	0.07	0.07
2. Weighted IR on long-term deposits	1.64	1.66	1.46	1.48	1.41	1.44	1.17	1.18	1.13	1.14	1.12	1.12
2.1. up to three years	1.43	1.45	1.31	1.33	1.35	1.38	0.98	0.99	1.01	1.02	0.91	0.91
2.2. more than three years	2.25	2.26	1.94	1.96	1.72	1.74	1.78	1.79	1.51	1.51	1.45	1.45
3. Total weighted IR on deposits	0.66	0.67	0.62	0.63	0.74	0.76	0.96	0.97	0.50	0.50	0.60	0.60

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 NIR and EIR.

The graph below shows the weighted average monthly EIR on deposits.

- in %-

Graph 24: Weighted Average Monthly EIR on Deposits



The weighted EIR on total term deposits amounted to 0.60% in March 2018, which is up by 0.10 percentage points compared to December 2017. The weighted EIR on short-term deposits amounted to 0.21%, down by only 0.06 percentage points compared to the level in December 2017. The weighted EIR on long-term deposits amounted to 1.12% and is down by only 0.02 percentage points compared to December 2017. When analysing the trends of interest rates on short-term deposits by maturity, the EIR on term deposits up to three months recorded an increase in the amount of only 0.06 percentage points compared to the level in December 2017, amounting to 0.31%. The interest rate on term deposits up to one year recorded a decrease in the amount of 0.32 percentage points, amounting to only 0.07% in March 2018. The weighted EIR on long-term deposits up to three years amounted to 0.91%, which is down by 0.11 percentage points compared to the level in December 2017. The EIR on term deposits over three years amounted to 1.45% in March 2018, which is a drop in the amount of 0.06 percentage points compared to December 2017.

Average EIR on retail and corporate deposits recorded somewhat higher amounts in March 2018 compared to December 2017, with these also being the highest rates recorded in the reporting period. The average EIR on retail deposits is up by 0.18 percentage points compared to December 2017 and it amounted to 1.08%. In the case of corporate deposits, the average EIR stood at 1.09% in March 2018, up by 0.05 percentage points compared to December 2017.

When analysing the trends of weighted average interest rates on deposits per annum in the last five years, a continuous decrease in interest rates on long-term deposits is evident, while interest rates on short-term deposits recorded a slight increase in 2017 following a continuous drop, only to continue the downard trend in the first quarter of 2018, as can be seen in the table below.

Table 34: Weighted Average NIR and EIR on Deposits per Annum

DESCRIPTION	2014		2015		2016		2017		Q1 2018	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
1. Weighted IR on short-term deposits	1.20	1.23	0.60	0.61	0.35	0.35	0.40	0.41	0.34	0.35
1.1. up to three months	0.79	0.80	0.27	0.28	0.27	0.27	0.35	0.36	0.40	0.40
1.2. up to one year	1.72	1.76	1.25	1.28	0.68	0.69	0.61	0.62	0.23	0.24
2. Weighted IR on long-term deposits	2.79	2.82	2.20	2.23	1.78	1.80	1.37	1.39	1.10	1.11
2.1. up to three years	2.61	2.64	2.08	2.10	1.59	1.62	1.22	1.24	0.92	0.92
2.2. more than three years	3.32	3.34	2.48	2.52	2.33	2.34	1.82	1.85	1.47	1.48
3. Total weighted IR on deposits	2.04	2.07	1.41	1.43	0.88	0.89	0.75	0.76	0.66	0.66

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 35: Weighted Average NIR and EIR on Overdraft Facilities and Call Deposits

DESCRIPTION	12/2016		03/2017		06/2017		09/2017		12/2017		03/2018	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
1. Weighted IR on overdraft facilities	7.01	7.22	6.78	7.00	6.66	6.89	6.71	6.97	6.42	6.69	6.27	6.52
2. Weighted IR on call deposits	0.05	0.05	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.03	0.02	0.02

The weighted EIR on total overdraft facilities for the banking sector in March 2018 amounted to 6.52% (down by 0.17 percentage points compared to December 2017) and to 0.02% on call deposits (slightly lower compared to December 2017).

1.2.7. 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 sector of any country as well as in its stability and safety.

The liquidity of the banking sector in the FBiH is assessed to be satisfactory, considering the share of liquid assets in total assets as well as the maturity adjustment of financial assets and financial liabilities. Given the high correlation between credit risk, the dominant risk in banks' operations, and liquidity risk, one of the most important factors impacting the liquidity position of banks is the banks' ability to adequately manage their assets and liabilities, 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 Liquidity Risk Management in Banks prescribes the minimum qualitative requirements for liquidity risk management in banks, based on prescribed risk management standards in banks, quantitative requirements for banks in terms of the LCR and ensuring stable sources of funding, as well as the use of additional mechanisms for liquidity risk monitoring and assessment.

In the structure of sources of funding of the banking sector as of 31.03.2018, the largest share of 78.8% refers to deposits, followed by loans taken (including subordinated debt) with a share of 4.6%. 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.

The maturity structure of deposits by remaining maturity is shown in the table below.

- in KM 000 -

Table 36: Maturity Structure of Deposits by Remaining Maturity

DEPOSITS	31.12.2016		31.12.2017		31.03.2018		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)	7 961 438	56.1	9 227 317	58.4	9 477 541	59.0	116	103
7- 90 days	690 281	4.9	988 235	6.2	871 658	5.4	143	88
91 days to one year	1 982 775	14.0	2 144 316	13.6	2 318 610	14.5	108	108
1. Total short-term deposits	10 633 494	75.0	12 359 868	78.2	12 667 809	78.9	116	102
Up to 5 years	3 344 169	23.6	3 280 639	20.7	3 222 612	20.1	98	98
More than 5 years	197 611	1.4	174 216	1.1	167 658	1.0	88	96
2. Total long-term deposits	3 542 780	25.0	3 454 855	21.8	3 390 270	21.1	98	98
TOTAL (1 + 2)	**14 176 274**	**100.0**	**15 814 723**	**100.0**	**16 058 079**	**100.0**	**112**	**102**

As of 31.03.2018, short-term deposits by remaining maturity held a share in the amount of 78.9%, while long-term deposits held a 21.1% share in total deposits. Compared to the end of 2017, short-term deposits increased by KM 308 million or 2%, with the share being up by 0.7 percentage points, while long-term deposits recorded a decrease in the amount of KM 65 million or 2%, with the share in total deposits dropping from 21.8% to 21.1%.

When analysing the structure of long-term deposits, it is evidently dominated by deposits with remaining maturity of up to 5 years (95.1% of long-term deposits and 20.1% of total deposits). Deposits with remaining maturity of over 5 years recorded a decrease in the amount of KM 7 million or 4%.

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

- in %-

Table 37: Liquidity Ratios

Ratios	31.12.2016	31.12.2017	31.03.2018
1	**2**	**3**	**4**
Liquid assets[25]/total assets	28.4	30.2	30.3
Liquid assets/short-term financial liabilities	47.1	47.6	47.2
Short-term financial liabilities/total financial liabilities	71.9	74.9	75.6
Loans/deposits and loans taken[26]	81.7	79.2	83.7
Loans/deposits, loans taken and subordinated debt[27]	81.0	78.5	79.1

As of 31.03.2018, the loans/deposits and loans taken ratio increased to 83.7% (+4.5 percentage points) as a result of loans having increased more than deposits and due to a decrease in loans taken. The ratio was above 85% with respect to 7 banks. On the one hand, this was the result of their liabilities structure (relatively significant share of capital) in these banks, and, on the other hand, the result of a high share of loans in assets. The share of short-term financial liabilities in total financial liabilities is high, but the liquid assets/total assets ratio is continuously satisfactory.

In the first quarter of 2018, banks have duly fulfilled the requirement of maintaining the defined level of the required reserve at the CBBH.[28] The required reserve in BiH 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.

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

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

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

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

[28] The Decision on Establishing and Maintaining Required Reserves and Determining Remuneration of the CBBH to Banks on the Reserve Amount was published in the Official Gazette of BiH, No. 30/16 and has been in application since 1 July 2016.

scale created to capture a time horizon of 180 days in line with the prescribed minimum limits.[29] For the purpose of planning the required level of liquid assets, banks need to plan the sources of funding and structure of adequate liquidity potential, which is also tied to plans for their credit policy. Loan maturity, i.e. the maturity of the loan portfolio, is determined precisely 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 in accordance with the prescribed minimum limits.

The following table provides an overview of the maturity adjustment of financial assets and liabilities – up to 180 days.

- in KM 000 -

Table 38: Maturity Adjustment of Financial Assets and Liabilities – up to 180 Days

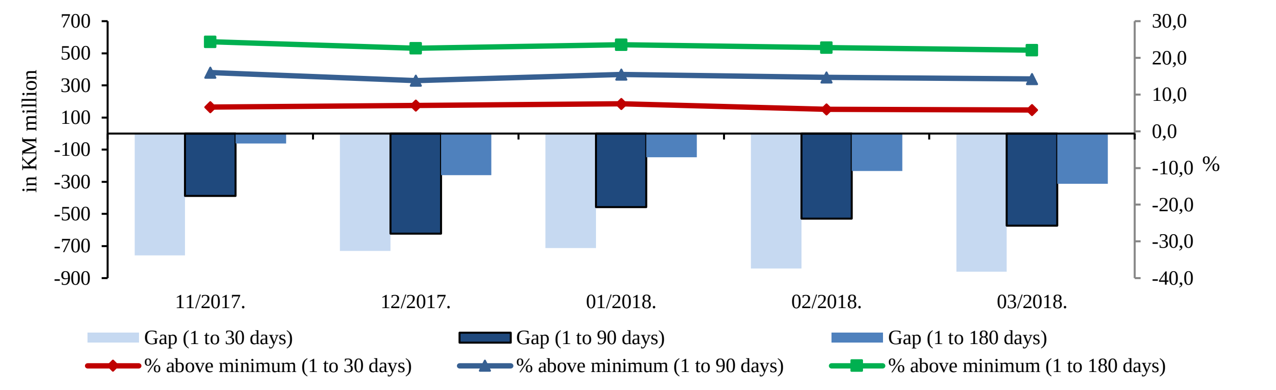
Description	31.12.2016 Amount	31.12.2017 Amount	31.03.2018 Amount	Index	
1	**2**	**3**	**4**	**5 (3/2)**	**6(4/3)**
I. 1- 30 days					
1. Financial assets	7 515 361	8 462 124	8 529 788	113	101
2. Financial liabilities	7 909 801	9 193 511	9 389 896	116	102
3. Difference (+ or -) = 1-2	-394 440	-731 387	-860 108	-	-
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	95.0%	92.0%	90.8%		
b) Prescribed minimum %	85.0%	85.0%	85.0%		
Plus (+) or minus (-) = a - b	10.0%	7.0%	5.8%		
II. 1-90 days					
1. Financial assets	8 384 767	9 416 671	9 534 406	112	101
2. Financial liabilities	8 476 151	10 041 101	10 108 745	118	101
3. Difference (+ or -) = 1-2	-91 384	-624 430	-574 339	-	-
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	98.9%	93.8%	94.3%		
b) Prescribed minimum %	80.0%	80.0%	80.0%		
Plus (+) or minus (-) = a - b	18.9%	13.8%	14.3%		
III. 1-180 days					
1. Financial assets	9 387 062	10 476 675	10 568 689	112	101
2. Financial liabilities	9 263 730	10 734 265	10 881 928	116	101
3. Difference (+ or -) = 1-2	123 332	-257 590	-313 239	-	-
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	101.3%	97.6%	97.1%		
b) Prescribed minimum %	75.0%	75.0%	75.0%		
Plus (+) or minus (-) = a - b	26.3%	22.6%	22.1%		

Based on the data presented, it is found that, as of 31.03.2018, banks have adhered to prescribed limits and achieved a better maturity adjustment of financial assets and liabilities in relation to the prescribed limits.

The graph below shows the trend of the maturity adjustment of financial assets and liabilities in the period from November 2017 to March 2018 (by period of time and recorded maturity adjustment percentages in relation to the legally defined minimum standards). The maturity adjustment percentages are above the prescribed minimum in all five periods.

[29] Article 41 of the Decision on Liquidity Risk Management in Banks (Official Gazette of the Federation of BiH, No. 81/17): „Until the introduction of the NSFR referred to in Article 34 of this Decision, as a mandatory quantitative requirement towards banks, banks shall apply and report on the maturity adjustment of financial assets and financial liabilities and the structure of the largest sources, and thus accordingly, Article 6, paragraph (3), item 1, Art. 6a, 6b, 11, paragraph (2) and 12 of the Decision on Minimum Standards for Liquidity Risk Management in Banks shall remain applicable (Official Gazette of the Federation of BiH, No. 48/12, 110/12 and 45/14)". The prescribed percentages for the maturity adjustment of financial assets and liabilities are as follows: 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.

Graph 25: Maturity Adjustment of Financial Assets and Financial Liabilities – up to 180 Days by Period



As of 31.03.2018, financial assets in all three periods were lower than financial liabilities, due to the increase in financial liabilities, primarily deposits, being higher than the increase in financial assets (mostly cash funds and net loans).

As a result of the aforementioned, the recorded maturity adjustment percentages in all three periods were somewhat lower than at the end of 2017, but still significantly above the prescribed minimum by 5.8% in the first period, 14.3% in the second period, and 22.1% in the third period.

Based on all the indicators presented, the liquidity of the banking sector is assessed to be satisfactory. Since this business segment and the exposure level to liquidity risk correlate with credit risk (lower inflows of liquid assets related to problems with loan collectability), and also considering other important factors (maturity structure of deposits, repayment of loan commitments due and significantly lower indebtedness with international financial institutions, which was the best source of funding for banks in the past years from the aspect of maturity), it should be emphasised that liquidity risk management and monitoring should be the focus of banks by means of establishing and implementing liquidity policies that will 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.

1.2.8. Foreign Exchange (FX) Risk

In their operations, banks are exposed to 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 FX 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 prudential principles related to FX activities of banks and to reduce FX risk effects on their profitability, liquidity and capital, the FBA has adopted the Decision on Foreign Currency Risk Management in Banks[30], which prescribes the method for calculating the FX position and the maximum allowed exposure to foreign currency risk, i.e. limits for the open individual and total FX position (long or short) calculated in relation to the eligible capital of the bank.[31]

[30] Official Gazette of the Federation of BiH, No. 81/17.

[31] Article 3 of the Decision on Foreign Currency Risk Management in Banks defines the following limits: for the individual FX position – up to 30% of the eligible capital for EUR, up to 20% for other currencies and up to 30% for the total FX position of the bank.

In order for the FBA to monitor the banks' compliance with the regulated limits and their exposure level to FX risk, banks are required to report daily to the FBA. 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.

Although the share of EUR dominates the currency structure of financial assets, the management of FX risk of banks for this currency is significantly determined by the fact that the CBBH functions as a currency board, with the EUR being the anchor currency.

As of 31.03.2018, foreign currency items in the currency structure of banks amounted to KM 2.3 billion and held a 11% share at the level of the banking sector (at the end of 2017, these items amounted KM 2.3 billion or 11.2%).

The currency structure of liabilities is quite different since the share of foreign currency liabilities is much higher and equals KM 7.7 billion or 38.0% (as was the case at the end of 2017, but with a 38.2% share).

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

- in KM million -

Table 39: FX Adjustment of Financial Assets and Liabilities (EUR and Aggregate)[32]

Description	31.12.2017				31.03.2018				Index	
	EUR		TOTAL		EUR		TOTAL		EUR	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	906	11.0	1 349	15.2	1 040	12.4	1 550	17.2	115	115
2. Loans	27	0.3	28	0.3	51	0.6	52	0.6	188	185
3. Loans with a currency clause	6 415	77.7	6 429	72.4	6 525	77.8	6 536	72.6	102	102
4. Other	721	8.7	884	10.0	546	6.5	648	7.2	76	73
5. Other financial assets with a currency clause	188	2.3	188	2.1	220	2.7	221	2.4	118	118
Total (1+2+3+4)	8 257	100.0	8 878	100.0	8 382	100.0	9 007	100.0	102	101
II. Financial liabilities										
1. Deposits	6 076	74.3	6 725	76.2	6 101	74.6	6 766	76.4	100	101
2. Loans taken	813	9.9	813	9.2	793	9.7	793	9.0	98	98
3.Deposits and loans with a currency clause	1 107	13.6	1 107	12.6	1 108	13.5	1 108	12.5	100	100
4. Other	176	2.2	180	2.0	180	2.2	186	2.1	102	103
Total (1+2+3+4)	8 173	100.0	8 825	100.0	8 182	100.0	8 854	100.0	100	100
III. Off-balance sheet										
1. Assets	98		147		95		157			
2. Liabilities	218		225		190		195			
IV.Position										
Long (amount)					105		115			
%					4.8%		5.3%			
Short	36		27							
%	1.6%		1.2%							
Allowed	30%		30%		30%		30%			
Below the allowed limit	28.4%		28.8%		25.2%		24.7%			

In terms of the structure of foreign currencies, the dominant share among financial assets[33] is held by the EUR with 72.8% (31.12.2017: 73.2%), with a slight decrease in the nominal amount (from KM 1.7 billion to KM 1.6 billion). The 91.3% share of the EUR in liabilities is at approximately the same level (31.12.2016: 91.5%), coupled with an increase in the nominal amount by only KM 9 million.

[32] Source: Form 5 – FX position.

[33] Source: Report on FX position of bank: one part of financial assets (foreign currencies denominated in KM). Financial assets are posted in accordance with the net principle, i.e. after deductions for value adjustments and reserves for contingent liabilities.

FX risk exposure calculation also includes the amount of indexed financial assets items (loans and other financial assets) and financial liabilities items[34], which is particularly significant on the assets side (KM 6.8 billion or 75.0%), which is at approximately the same level compared to the end of 2017 (KM 6.6 billion or 74.5%). Other FX items on the assets side hold a share of 25.0% or KM 2.3 billion and have the following structure: items in EUR KM 1.6 billion or 18.2% and other currencies 6.8% or KM 0.6 billion (at the end of 2017, other items in EUR held a share of 18.6% or KM 1.7 billion). Out of total net loans (KM 12.2 billion), app. 54% have a currency clause (mostly pegged to the EUR – 99.8%).

As for the sources of funding, the structure of financial liabilities conditions and determines the structure of financial assets items for every currency. The largest share in FX liabilities (KM 8.9 billion) is 79.9% or KM 7.1 billion and refers to items in EUR, mostly deposits (as was the case at the end of 2017, when liabilities in EUR amounted to KM 7.1 billion and held a 80.1% share).

The amount of indexed financial liabilities in the last five years has had an upward trend. The increase in indexed financial liabilities (almost all relate to deposits) is conditioned by the outflow of deposits and loan commitments in foreign currencies, which have been a source of loans approved with a currency clause, as well as by the continuously high amount of loans with a currency clause. In order to maintain the FX adjustment, banks are increasing indexed financial liabilities items (deposits).

When observing banks and the banking sector level of the FBiH, it can be concluded that FX risk exposure of banks and the banking sector in the first quarter of 2018 was within the defined limits. As of 31.03.2018, the long FX position was recorded with 9 banks and the short position with 6 banks. At the sector level, there is a long FX position of 5.3% of the total core capital of banks[35], which is 24.7% below the allowed limit. The individual FX position for the EUR was 4.8%, which is 25.2% below the allowed limit, with financial assets items being higher than financial liabilities (net long position).

1.3. RECOMMENDATIONS FOR THE BANKING SECTOR

Considering the significant, demanding and extensive processes related to the reform of the regulatory framework for banking operations and supervision and the establishment of a new framework for bank resolution, the start of a multi-year project of transitioning from the existing CAMELS-based supervisory methodology to a completely new supervisory framework – the SREP, the establishment of a new framework of supervisory reporting together with a gradual transition from existing reporting forms, in order to maintain the continuity of banking supervision and gradually adjust to the new manner of assessing risk profiles of banks, in 2018, the FBA will continue to strengthen the supervisory capacities in order to implement the new regulatory framework in accordance with with BL, LoBA and the set of regulations adopted on the basis of them. In the period to come, the FBA will continue its activities to further harmonise the regulatory framework with the relevant EU Directives, international standards and best supervisory practices, which is part of the preparations for the EU accession of BiH.

The FBA will continue to undertake measures and activities to preserve and strengthen the stability of the banking sector and protect depositors, as well as to improve the safe, high-quality and legal operations of banks in the FBiH in accordance with the prescribed competences for supervising the operations of banks in the FBiH. The aforementioned measures and activities will be directed towards the continuation of continuous banking supervision in particular, with a focus on:

- inspections of the dominant risk segments of operations, banks of systemic importance for the development of lending activities and banks in which large amounts of savings and other deposits

[34] 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).

[35] As of 31.03.2018, banks recorded an open FX position (individual and total) in relation to the core capital of banks.

are concentrated, applied practices in banks in the segment of protection of users of financial services and guarantors, etc.;
- capital strengthening of banks, especially those with above-average growth in assets and banks with a decrease in the capital adequacy ratio;
- monitoring the application of IFRS 9, with the aim of adequately evaluating financial assets and allocating reserves for expected loan losses in the function of maintaining adequate capitalisation of banks in the FBiH;
- systematic monitoring of banks' activities on the application of AML/CTF standards and improvement of cooperation with other competent institutions in this segment;
- establishment, expansion and improvement of cooperation with competent supervisory bodies for supervision of EU banking groups whose members are seated in the FBiH, as well as other countries, with the aim of more efficient supervision and improvement of supervisory practices, as well as cooperation and exchange of information with the ECB and the EBA in terms of supervision and banking regulation, and with international financial institutions;
- improvement of cooperation via the signing of new Cooperation Agreements with relevant institutions in BiH that are included in the institutional framework for supervision, crisis management and systemic risk management, protection of users of financial services, and
- continuation of cooperation with the BA BiH with the aim of improving the operations of banks, the compliance of their operations with regulations, international standards and rules of the profession, as well as the requirements of the market, etc.

Based on the prescribed competences, the FBA will continue to undertake measures and activities aimed at implementing measures from the Reform Agenda and the Economic Reform Programme, which are related to the banking and financial sector in the FBiH, the recommendations of the FSAP Mission in order to improve the quality of supervision of the banking sector, as well as the obligations assumed by the Letter of Intent signed by the governments in BiH as part of the arrangement with the IMF, which refer to the entity banking agencies, the projects of strengthening banking supervision within the framework of technical assistance provided by the international financial institutions WB and IMF, and within the USAID FINRA project, etc.

The realisation of these activities is conditioned by continuous engagement and harmonised institutional actions of all parts of the system, judicial, legislative and executive authorities, efficient implementation of economic reforms in the real sector, in order to harmonise the achieved progress in the monetary sphere and the banking sector, improvement of legislation in the segments of accounting and auditing, asset management, establishment of a mechanism for out-of-court settlement of corporate debts, security and protection of monetary assets in treasuries and cash registers of banks and in transport, resolving or mitigating overindebted citizens, special court departments for the corporate segment, etc. which is a prerequisite for creating a more favourable overall economic environment that would stimulate the banking sector, the real corporate and retail sector.

The undertaking of supervisory measures and activities presupposes continuous operational improvement of the information system as an essential prerequisite for efficient supervision of banking operations, i.e. information support in the function of warning and preventive actions in eliminating weaknesses in banking operations, permanent education and professional training of staff.
Due to the special role and responsibilities of banks in the financial system and the overall economic system, the achieved level of development of the banking sector in the FBiH and the fact that retail deposits represent the dominant source of funding for banks, banks are expected to focus their activities on the following in the period to come:
- credit support to the corporate and retail segment, applying the prescribed requirements in terms of credit risk management and maintaining adequate capitalisation in relation to the risk profile of the bank;

- efficiency of an integral risk management system and improvement of early identification system for increased credit risks, i.e. deterioration of loan portfolio quality, and more efficient management of NPL;
- harmonisation of business operations with the new regulatory requirements for banking operations and supervision;
- consistent and complete application of IFRS 9, together with adequate documentation of the first application of the aforementioned and comparative data relative to IAS 39;
- consistent application of regulations in the AML/CTF segment, protection of users of financial services and guarantors, security and protection of money in the bank and in transport, and
- active participation in the implementation of reform measures and measures to address the problem of overindebtedness of citizens, as well as financial consolidation of companies, etc.

2. SECTOR OF NON-DEPOSIT FINANCIAL INSTITUTIONS

2.1. MICROCREDIT SECTOR

2.1.1. MICROCREDIT SECTOR STRUCTURE IN THE FBiH

2.1.1.1. Status, Number and Network of Branches

As of 31.03.2018, 12 MCO have the FBA's operating licence, 11 of which are MCF (non-profit organisations) and 1 of which is an MCC (profit organisation), as well as 41 organisational units of three MCC seated in RS.

Annex 8 includes the main data on MCF and MCC, which have the FBA's operating licence for microlending business operations as of 31.03.2018.

As of 31.03.2018, there was a total of 356 organisational units of MCO seated in the FBiH according to the Registry of Microcredit Organisations and their organisational units, which is maintained by the FBA in line with Article 13 of the LoMCO. Out of this number, a total of 229 organisational units of microcredit organisations are seated in the FBiH, 123 in RS and 4 in the Brčko District. The total number of organisational units of MCO seated in the FBiH is at the same level as at the end of the previous year.

2.1.1.2. Ownership Structure

An MCO is a legal entity which, in accordance with regulations, may be established and may operate as an MCF or an MCC. MCFs in the FBiH have been established by non-governmental, mostly humanitarian organisations, citizens' associations, and natural persons. The founders are entitled to be registered as founders without capital ownership rights on the basis of the donated capital for the establishment of MCFs. One MCC is 100% owned by one MCF.

2.1.1.3. Human Resources

As of 31.03.2018, the total headcount of the microcredit sector was 1 486, which is up by 87 persons or 6% compared to 31.12.2017. MCF employ 1 221 persons or 82.2% and MCC 265 employees or 17.8%.

The aforementioned is shown in the table below.

Table 40: Qualification Structure of Employees

No.	Qualifi-cation	31.12.2017		Total	Share (%)	31.03.2018		Total	Share (%)	Index
		MCF	MCC			MCF	MCC			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	PSQ	3	0	3	0.21	3	0	3	0.20	100
2.	S	1	0	1	0.07	1	0	1	0.07	100
3.	HS	8	0	8	0.57	8	0	8	0.54	100
4.	SSQ	498	74	572	40.89	497	107	604	40.65	106
5.	PSSQ	104	31	135	9.65	105	42	147	9.89	109
6.	CD	560	76	636	45.46	568	113	681	45.83	107
7.	MR	40	1	41	2.93	37	2	39	2.62	95
8.	DR	2	1	3	0.21	2	1	3	0.20	100
	TOTAL	**1 216**	**183**	**1 399**	**100.00**	**1 221**	**265**	**1 486**[36]	**100.00**	**106**

[36] In one MCC and one MCF, 74 part-time employees were registered, and they are recorded in the reports on the qualification structure of employees of both the MCF and the MCC.

The share percentage of employees with secondary school qualification is up by 6%, with university degrees by 7%, while the share percentage of employees with two-year post-secondary school qualification is up by 9%.

2.1.2. FINANCIAL PERFORMANCE INDICATORS

2.1.2.1. Balance Sheet

As of 31.03.2018, the balance sheet total of MCO amounted to KM 531.8 million, which is up by KM 4.9 million or 1% compared to the balance as of 31.12.2017. The balance sheet total increased with 6 MCF and 1 MCC compared to the end of the previous year, 4 MCF recorded a drop, while one MCF retained approximately the same level of assets in the reporting period.

Annexes 9 and 10 show an overview of the balance sheet of MCF and MCC.

A drop in the balance sheet total of up to 10% was recorded with three MCF compared to 31.12.2017, while one MCF reduced its assets by KM 2.5 million in the first three months of 2018 and recorded a drop of 16% compared to the end of the previous year.

Five MCF and one MCC with assets in the amount of KM 490.7 million or 92% have the largest share in the balance sheet total of the microcredit sector.

The balance sheet of the microcredit sector is shown in the table below.

- KM 000 -

Table 41: Balance Sheet MCO

DESCRIPTION	31.12.2017			31.03.2018					Index
	Balance for MCF	Balance for MCC	TOTAL	Balance for MCF	%	Balance for MCC	%	TOTAL	
1	2	4	6=(2+4)	7	8	9	10	11=(7+9)	12
ASSETS									
1. Cash	21 989	24 841	46 830	34 016	8	9 427	9	43 443	93
2. Facilities to banks	1 210	0	1 210	1 220	0	0	0	1 220	101
3. Loans	329 758	81 396	411 154	320 526		99 252		419 778	102
4. Loan loss provisions	2 716	542	3 258	2 919		678		3 597	110
5. Net loans	327 042	80 854	407 896	317 607	75	98 574	90	416 181	102
6. Business premises and other fixed assets	28 383	430	28 813	28 514	7	448	0	28 962	101
7. Long-term investments	33 061	0	33 061	33 061	8	0	0	33 061	100
8. Other assets	8 062	1 243	9 305	7 730	2	1 416	1	9 146	98
9. Provisions for other assets items, except loans	158	30	188	176		39		215	114
TOTAL ASSETS	**419 589**	**107 338**	**526 927**	**421 972**	**100**	**109 826**	**100**	**531 798**	**101**
LIABILITIES									
10. Loan commitments	177 140	68 856	245 996	177 317	42	69 580	63	246 897	100
11. Other liabilities	21 215	4 656	25 871	20 366	5	5 446	5	25 812	100
12. Capital	221 234	33 826	255 060	224 289	53	34 800	32	259 089	102
TOTAL LIABILITIES	**419 589**	**107 338**	**526 927**	**421 972**	**100**	**109 826**	**100**	**531 798**	**101**
Off-balance sheet records	110 554	420	110 974	109 312		646		109 958	99

In the assets structure, cash funds amount to KM 43.4 million or 8%. They are thus down by KM 3.4 million or 7% compared to 31.12.2017.

Facilities to banks amount to KM 1.2 million and are up by 1% in the reporting period.

Net microloans, i.e. gross microloans net of LLP amount to KM 416.2 million or 78% of total assets and are up by KM 8.3 million or 2% compared to 31.12.2017. Net microloan growth compared to the end of the previous year was recorded by 5 MCF and 1 MCC, while a drop was recorded by 6 MCF.

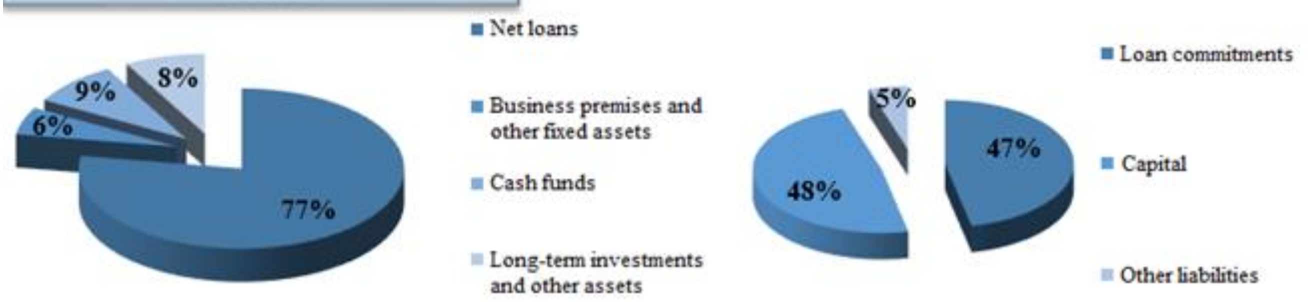
Business premises and other fixed assets amount to KM 29 million or 6% of total assets and are up by KM 1 million or 1% compared to the end of the previous year. The fixed assets percentage compared to total assets (net of donated capital) is 6% at the sector level, which is within the framework of the allowed amount (up to 10%). When observed individually, two MCF violate this standard.

Only one MCF recorded long-term investments in the amount of KM 33.1 million and there were no changes compared to the end of the previous year.

Other assets (net of provisions for other assets items except microloans) amount to KM 8.9 million, which include calculated interest, advances, accrued and deferred items, etc. These two balance sheet items make up 8% of total assets of the microcredit sector. The percentage of other assets at the level of the microcredit sector compared to total assets is 1.7%. Individually, this item is above 10% in the case of no MCF.

The assets and liabilities structure of the microcredit sector is shown in the graph below.

Graph 26: Assets and Liabilities Structure of MCO



2.1.2.2. Capital and Liabilities

In the liabilities structure of the microcredit sector, loan commitments amount to KM 246.9 million or 46% of total liabilities. They are at approximately the same level compared to 31.12.2017.

The maturity structure of taken loans is shown in the table below.

- KM 000 -

Table 42: Maturity Structure of Taken Loans

DESCRIPTION	31.12.2017				31.03.2018				Index
	MCF	MCC	TOTAL	%	MCF	MCC	TOTAL	%	
1	**2**	**3**	**4=(2+3)**	**5**	**6**	**7**	**8=(6+7)**	**9**	**10=8/4**
1. Liabilities on short-term loans	86 518	18 273	104 791	38	84 514	21 822	106 336	43	101
2. Liabilities on long-term loans	90 622	50 583	141 205	62	92 803	47 758	140 561	57	100
TOTAL	**177 140**	**68 856**	**245 996**	**100**	**177 317**	**69 580**	**246 897**	**100**	**100**

Out of total loan commitments, long-term microloans amount to KM 140.6 million or 57% and are at approximately the same level compared to the end of the previous year, while short-term microloans amount to KM 106.3 million or 43% and are up by 2% compared to the end of the previous year. There is no record of microloans taken in the case of only one MCF in the sector.

Other liabilities amount to KM 25.8 million or 5% of total liabilities. These include income tax liabilities, liabilities to employees, suppliers, accrued expenses, etc. The percentage of other liabilities at the sector level compared to total liabilities is 9.5%, and individually, a total of 5 MCF recorded more than 10% of other liabilities compared to total liabilities.

Off-balance sheet records as of 31.03.2018 amount to KM 110 million and are down by 1% compared to the end of the previous year.

The total capital of the microcredit sector as of 31.03.2018 amounts to KM 259.1 million or 49% of total liabilities, which is up by KM 4 million or 2% compared to the end of 2017. The capital of MCF amounts to KM 224.3 million or 86.6%, and the capital of one MCC to KM 34.8 million or 13.4%. The capital structure of the microcredit sector is shown in the table below.

- KM 000 -

Table 43: Capital Structure of the Microcredit Sector

DESCRIPTION	31.12.2017					31.03.2018					Index
	Balance for MCFs	%	Balance for MCCs	%	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	**2**	**3**	**4**	**5**	**6=2+4**	**7**	**8**	**9**	**10**	**11=7+9**	**12=11/6**
Donated capital	45 851	20	0	0	45 851	45 851	20	0	0	45 851	100
Core capital	3 820	2	30 600	90	34 420	3 820	2	30 600	88	34 420	100
Surplus/deficit of income over expenses	169 831	77	0	0	169 831	172 902	77	0	0	172 902	102
Issue premiums	0	0	0	0	0	0	0	0	0	0	0
Unallocated profit	0	0	1 317	4	1 317	0	0	2 291	7	2 291	174
Legal reserves	0	0	1 909	6	1 909	0	0	1 909	5	1 909	100
Other reserves	1 732	1	0	0	1 732	1 716	1	0	0	1 716	99
TOTAL CAPITAL	**221 234**	**100**	**33 826**	**100**	**255 060**	**224 289**	**100**	**34 800**	**100**	**259 089**	**102**

The total capital of the microcredit sector (net of donated capital) amounts to 40.1% of total assets, with 2 MCF having a percentage of capital amount (net of donated capital) compared to total assets that is lower than the allowed amount, i.e. less than 10% of total assets.

In the capital structure of MCF, the excess of income over expenses is the most important item and it amounts to KM 172.9 million and makes up 77% of total MCF capital, which is up by KM 3.1 million or 2% compared to the end of the previous year. A deficit of income over expenses for the period from 01.01. to 31.03.2018 was recorded by 2 MCF, while 9 MCFs recorded an excess of income over expenses and one MCC recorded a net profit. As of 31.03.2018, an excess of income over expenses, i.e. profit from regular operations was recorded by 7 MCF and 1 MCC, while 4 MCF recorded a deficit of income over expenses from regular operations. Out of those 4 MCF, 2 MCF recorded a positive result at the end of the first quarter of 2018 due to extraordinary income. Extraordinary income is a direct result of the increased collection of receivables for written-off microloans.

A significant source of MCF capital is donated capital, which amounts to KM 45.9 million or 20% of total MCF capital. The amount of donated capital, as reported by MCOs, is at the same level compared to the end of the previous year. As per the prescribed quarterly reports submitted to the FBA, 9 MCF include the amount of donated capital in their reports and keep records on its balance.

The core capital of MCF as of 31.03.2018 amounts to KM 3.8 million or 2% of total MCF capital. Other reserves, which relate to 2 MCF, amount to KM 1.7 million or 1% of total MCF capital. The core capital of one MCC amounts to KM 30.6 million and it is at the same level as at the end of the previous year, while unallocated and current profit of the MCC amount to KM 2.3 million.

2.1.2.3. Assets and Asset Quality

The main activity of MCO is microlending, to which the amount of KM 419.8 million or 79% of total assets of the microcredit sector is related. The level of total sector microloans includes MCF microloans, which account for KM 320.5 million or 76.4% of total microloans, while the MCC accounts for KM 99.3 million or 23.6% of total microloans.

Net microloans, which make up total microloans net of LLP, are presented in the following table.

- KM 000 -

Table 44: Net Microloans

No.	DESCRIPTION	31.12.2017			31.03.2018			Index
		MCFs	MCCs	Total	MCFs	MCCs	Total	
1	**2**	**3**	**4**	**5=(3+4)**	**6**	**7**	**8=(6+7)**	**9=8/5**
1.	Loans	329 758	81 396	411 154	320 526	99 252	419 778	102
2.	Loan loss provisions	2 716	542	3 258	2 919	678	3 597	110
3.	**Net loans (1.-2.)**	**327 042**	**80 854**	**407 896**	**317 607**	**98 574**	**416 181**	**102**

Net microloans amount to KM 416.2 million and are up by 2% compared to 31.12.2017, while gross microloans are also up by 2.1% compared to the end of the previous year.

LLP amount to KM 3.6 million and are up by 10% compared to 31.12.2017. The LLP to total loan portfolio ratio amounts to 0.9% and recorded a decrease of 0.07 percentage points compared to 31.12.2017.

The table below shows the sectoral and maturity structure of microloans as of 31.03.2018.

- KM 000 -

Table 45: Sectoral and Maturity Structure of Microloans as of 31.03.2018

No.	Microloans	Short-term loans	Long-term loans	Receivables due	TOTAL	%
1	**2**	**3**	**4**	**5**	**6=(3+4+5)**	**7**
1.	Legal entities					
a.)	Service activities	179	6 193	52	6 424	54%
b.)	Trade	157	2 891	20	3 068	26%
c.)	Agriculture	5	758	1	764	6%
d.)	Production	248	1 325	6	1 579	13%
e.)	Other	26	108	2	136	1%
	TOTAL 1:	**615**	**11 275**	**81**	**11 971**	**100%**
2.	Natural persons					
a.)	Service activities	4 894	69 089	231	74 214	18%
b.)	Trade	1 536	15 025	67	16 628	4%
c.)	Agriculture	7 276	134 421	328	142 025	35%
d.)	Production	667	7 529	30	8 226	2%
e.)	Housing needs	2 361	82 343	159	84 863	21%
f.)	Other	13 250	68 196	405	81 851	20%
	TOTAL 2:	**29 984**	**376 603**	**1 220**	**407 807**	**100%**
	TOTAL (1+2):	**30 599**	**387 878**	**1 301**	**419 778**	

Out of the total number of microloans, KM 12 million or 3% were granted to legal entities and KM 407.8 million or 97% were granted to natural persons. In the maturity structure of microloans, short-term loans with receivables due account for KM 31.9 million or 8% and long-term loans for KM 387.9 million or 92%. Uncollected receivables due total KM 1.3 million and are almost completely related to loans granted to natural persons.

In the sectoral structure, the largest amount of total microloans to legal entities was placed for service activities and trade – KM 6.4 million or 54% for service activities and KM 3.1 million or 26% for trade. Out of the total microloan amount to legal entities, KM 1.6 million or 13% were granted for production, while KM 0.8 million or 6% were granted for agriculture and KM 0.1 million or 1% for other purposes.

Out of the total microloan amount to natural persons, the largest share is held by microloans granted for agriculture, which amount to KM 142.8 million or 34%.

The following table shows the sectoral structure of microloans.

- KM 000 -

Table 46: Sectoral Structure of Microloans

Microloans for:	31.12.2017	31.03.2018	Share	Index
Agriculture	139 381	142 789	34%	102
Housing needs	82 832	84 863	20%	102
Other purposes	81 589	81 987	20%	100
Services	77 876	80 638	19%	104
Trade	20 202	19 696	5%	97
Production	9 274	9 805	2%	106
Total:	**411 154**	**419 778**	**100%**	**102**

When observing the sectoral structure and the maturity structure of microloans, it can be concluded that microloans mostly refer to long-term microloans granted to natural persons. This means that microloans are, in the majority of cases, approved to persons who do not have an access to traditional sources of funding due to both the riskiness of the business operations they perform and due to the lack of proper collaterals.

Compared to the end of the previous year, the total microloan percentage for all loan products shows an increase between 2% and 6%, with the exception of loans for trade, which decreased by 3%, i.e. other microloans that remained at approximately the same level in the reporting period.
In terms of microloan maturity, long-term microloans are up by 2% compared to the end of the previous year, while short-term microloans (including receivables due) remained at approximately the same level in the reporting period. The maturity structure of microloans is presented in the table below.

- KM 000 -

Table 47: Maturity Structure of Microloans

DESCRIPTION	31.12.2017	31.03.2018	Share	Index
Long-term microloans	379 401	387 878	92%	102
Short-term microloans with receivables due	31 753	31 900	8%	100
TOTAL	**411 154**	**419 778**	**100%**	**102**

According to the Decision on the Amount and Manner of Creating and Maintaining Reserves for Covering Loan Losses of Microcredit Organisations, MCO are required to allocate all loan proceeds and other receivables to certain groups by applying the days past due criterion in a way that funds for loan loss provisions and other losses are allocated to each group debiting operating expenses. The basis for the calculation of the reserves is the amount of outstanding loan, due interest and fee and any other items in which the MCO is exposed to the risk of impossible collection, i.e. business failure.

Receivables amounts divided into the groups according to the number of days past due and calculated reserves by these groups with the balance as of 31.03.2018 are shown in the table below.

- KM 000 -

Table 48: LLP with the Balance as of 31.03.2018

No.	Days past due	Provision-ing rates	Loan amount	Share (%)	Interest due		Amount of other assets items	Provisions			Total provisions
					Provisioning rate	Interest amount		By loans	By interest due	By other assets items	
1	2	3	4	5	6	7	8	9=(4x3)/100	10=(7x6)/100	11=(8x3)/100	12=(9+10+11)
1.	0	0%	410 547	97.80	0%	3	0	0	0	0	0
2.	1 – 15	2%	2 261	0.54	2%	33	0	45	1	0	46
3.	16 – 30	15%	2 813	0.67	100%	48	0	422	48	0	470
4.	31 – 60	50%	1 733	0.41	100%	47	0	867	47	0	914
5.	61 – 90	80%	888	0.21	100%	34	0	710	34	0	744
6.	91 – 180	100%	1 536	0.37	100%	86	0	1 552	86	0	1 638
TOTAL			**419 778**	**100.00**		**251**	**0**	**3 596**	**216**	**0**	**3 812**
7.	More than 180	Write-off	**1 043**		100%	**86**					

*Column 9, days past due category (91-180) includes additional provisions of one MCF for loans for additional funds and additional provisions in line with harmonising the manner of calculating provisions according to the FBA's instructions.

It is evident that 97.8% of microloans are not defaulted, while the remaining 2.2% of microloans are defaulted for 1-180 days. The total amount of interest due by current microloans which are defaulted for more than 1-180 days is KM 0.2 million. The total amount of calculated reserves on all bases is KM 3.8 million and they are up by 11% compared to 31.12.2017, which indicates a slight deterioration of asset quality.

In the first three months of 2018, KM 1 million of principal and KM 0.1 million of interest were written-off at the level of the microcredit sector, while KM 1.9 million of written-off principal and KM 0.2 million of written-off interest were collected in the same period.

Key Indicators of Microloan Portfolio Quality

Compared to the end of the previous year, the microloan portfolio saw an increase of 2% (KM 8.6 million), but recorded a slight deterioration of quality indicators of the active loan portfolio. The slight deterioration of active portfolio quality indicators was rendered by an increase in the LLP rate from 0.8%, which is what it amounted to as of 31.12.2017, to 0.9%. The portfolio at risk exceeding 30 days past due (PAR>30 days) recorded a slight deterioration, thus being up from 0.9%, to which it amounted at the end of the previous year, to 1%. The total sector result based on the portfolio at risk is within the framework of the prescribed standard (below 5%), with two MCF violating the prescribed standard if observed individually. The portfolio at risk for more than one day past due (PAR>1 day) recorded a slight deterioration, thus being up from 2%, to which it amounted at the end of the previous year, to 2.2%.

In the first three months of 2018, there was a write-off in the total amount of KM 1.1 million at the level of the microcredit sector, KM 1 million of which account for the written-off principal, which relates to 469 loan accounts (463 write-offs relate to natural persons and 6 to legal entities). As of 31.03.2018, the percentage of write-offs at the sector level amounted to 1% and this indicator is at the same level as at the end of the previous year and is thus within the framework of the prescribed standard. One MCF does not meet the prescribed standard in terms of the write-off percentage, which must be below 3%.

In the first three months of 2018, KM 1.9 million of written-off principal and KM 0.2 million of written-off interest were collected at the level of the microcredit sector, while the permanent write-off in the same reporting period amounted to KM 27 thousand of principal and KM 8 thousand of interest.

The amounts of receivables by written-off principal and interest as of 31.03.2018 are shown in the table below.

- KM 000 -

Table 49: Receivables by Written-Off Principal and Interest

DESCRIPTION	Natural persons		Legal entities		Total	
	Written-off principal	Written-off interest	Written-off principal	Written-off principal	Written-off interest	Written-off principal
1	2	3	4	5	6	7
Initial balance as of 01.01.2018.	**95 612**	**10 336**	**2 867**	**306**	**98 479**	**10 642**
Changes in 2018:						
New write-off in the current year	**966**	**80**	**77**	**6**	**1 043**	**86**
Write-off in the period 01.01.-31.03.	966	80	77	6	1 043	86
Collected in the current year	**1 929**	**162**	**16**	**0**	**1 945**	**162**
Collection of write-offs in the period 01.01.-31.03.	1 929	162	16	0	1 945	162
Permanent write-off in the current year	**27**	**8**	**0**	**0**	**27**	**8**
Permanent write-off in the period 01.01.-31.03.	27	8	0	0	27	8
Balance as of 31.03.2018	**94 622**	**10 246**	**2 928**	**312**	**97 550**	**10 558**

**Note: The data in Table 49 differ from total receivables by write-offs shown in the off-balance records in the amount of KM 1.5 million, which includes court expenses, penalty and process interest as a portion of off-court settlements in the case of three MCF.*

As of 31.03.2018, total receivables by writen-off microloans, which are in the off-balance sheet records, amount to as KM 109.6 million, down by 1% compared to the end of the previous year.

2.1.2.4. Profitability

In the period from 01.01. to 31.03.2018, one MCC recorded a net profit in the amount of KM 974 thousand (in the same period of the previous year: KM 38 thousand net profit). In the first quarter of 2018, MCF recorded more income over expenses in the total amount of KM 3.7 million, while they recorded more income over expenses in the total amount of KM 4.4 million in the same period of the previous year.

Annexes 11 and 12 provide an overview of the income statement of the MCC and MCF.

In the first quarter of 2018, out of a total of 11 MCF, 9 MCF had more income over expenses in the total amount of KM 3.8 million, while 2 MCF recorded less income over expenses in the total amount of KM 69 thousand.

At the level of the microcredit sector in the FBiH, a positive financial result in the amount of KM 4.7 million was recorded, which is up by KM 311 thousand or 7% compared to the same period of the previous year.

The structure of the income statement of the microcredit sector of the FBiH is shown in the table below.

- KM 000 -

Table 50: Income Statement of Microcredit Sector

No.	DESCRIPTION	For the period 01.01. - 31.03.2017				For the period 01.01. - 31.03.2018				Index
		MCFs	MCCs	Total	%	MCFs	MCCs	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	**INCOME**									
1.1.	Interest-based income and similar income	17 008	1 361	18 369	89	16 149	3 908	20 057	90	109
1.2.	Operating income	2 095	112	2 207	11	1 790	349	2 139	10	97
2.	**TOTAL INCOME (1.1.+1.2.)**	**19 103**	**1 473**	**20 576**	**100**	**17 939**	**4 257**	**22 196**	**100**	**108**
3.	**EXPENSES**									
3.1.	Interest-based expenses and similar expenses	2 293	445	2 738	14	2 061	842	2 903	15	106
3.2.	Operating expenses	13 901	885	14 786	79	13 305	1 998	15 303	78	103
3.3.	Expenses for loan loss provisions and other losses	1 127	109	1 236	7	1 120	377	1 497	7	121
4.	**TOTAL EXPENSES (3.1.+3.2.+3.3.)**	**17 321**	**1 439**	**18 760**	**100**	**16 486**	**3 217**	**19 703**	**100**	**105**
5.	EXTRAORDINARY INCOME	2 692	6	2 698		2 405	6	2 411		89
6.	EXTRAORDINARY EXPENSES	111	2	113		120	72	192		170
7.	**TOTAL INCOME - EXPENSES (2+5-4-6)**	**4 363**	**38**	**4 401**		**3 738**	**974**	**4 712**		**107**
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	4 363		4 363		3 738		3 738		86
9.	PROFIT BEFORE TAXES		38	38			974	974		
10.	TAXES			0			0	0		
11.	NET PROFIT/LOSS		38	38			974	974		
12.	**TOTAL FIN. RESULT**			**4 401**				**4 712**		

The total income of the microcredit sector in the first quarter of 2018 amounts to KM 22.2 million. It is up by KM 1.6 million or 8% compared to the same period of the previous year. The biggest income portion is contributed by interest income, which amounts to KM 20.1 million or 90% of total income and is up by KM 1.7 million or 9% compared to the same period of the previous year, while operating income amounts to KM 2.1 million or 10% of total income and is down by KM 0.1 million or 3% compared to the same period of the previous year.

Extraordinary income of the microcredit sector generated in the period from 01.01. to 31.03.2018 amounts to KM 2.4 million and is down by KM 0.3 million or 11% compared to the same period of the previous year. Extraordinary income is dominated by the collection of receivables from writen-off loans.

Total expenses amount to KM 19.7 million, 16.5 million or 83.7% of which account for the expenses of MCF, and KM 3.2 million or 16.3% for the expenses of one MCC. Compared to the same period of the previous year, total expenses are up by KM 0.9 million or 5%. In the expenses structure, KM 2.9 million or 15% of total expenses account for interest expenses on taken microloans and other similar expenses and they are up by KM 0.2 million or 6% compared to the same period of the previous year. Operating expenses amount to KM 15.3 million or 78% of total expenses and are up by KM 0.5 million or 3% compared to the same period of the previous year. Costs of provisions for loan losses and other losses amount to KM 1.5 million or 7% of total expenses and they are up by 21% compared to the same period of the previous year. Extraordinary expenses of MCO recorded in the first three months of 2018 amount to KM 0.2 million, up by KM 0.1 million or 70% compared to the same period of the previous year.

2.1.2.5. Weighted NIR and EIR

The EIR on microloans is the total price of those microloans and is calculated and shown in accordance with the Decision on Uniform Manner of Calculation and Disclosure of Interest Rate on Loans and Deposits. Weighted NIR and EIR on newly-approved microloans are calculated in the reporting month. In accordance with monthly statements on weighted NIR and EIR by microloan, in the first quarter of 2018, MCO placed microloans in the total amount of KM 107.5 million, which is up by KM 10.5 million or 11% compared to the microloan amount placed in the same period of the previous year. As of 31.03.2018, MCO had 160 422 active loan accounts, which is up by 4 510 loan accounts or 3% compared to the end of the previous year.
As of 31.03.2018, the average amount of microloans at the sector level was KM 2 617, the average amount of microloans in MCF was KM 2 334, while the average amount of microloans in the MCC was KM 4 302.

The following table shows the average NIR and EIR on microloans by product.

Table 51: Average Weighted NIR and EIR on Microloans for Q1 2018 – by Product

No.	DESCRIPTION	Total amount of microloan payment in Q1 2018 (in KM 000)	Weighted NIR (average)	Weighted EIR (average)
1.	**Short-term microloans for:**	**16 048**	**20.06%**	**26.78%**
1.1.	Service activities	2 518	18.88%	25.43%
1.2.	Trade	935	19.11%	26.33%
1.3.	Agriculture	3 771	18.47%	24.93%
1.4.	Production	489	17.54%	22.62%
1.5.	Housing needs	1 082	21.38%	28.92%
1.6.	Non-purpose – basic needs	1 863	19.75%	25.56%
1.7.	Other	5 390	21.97%	29.16%
2.	**Long-term microloans for:**	**91 445**	**19.58%**	**23.26%**
2.1.	Service activities	18 793	19.47%	23.03%
2.2.	Trade	3 805	19.58%	23.57%
2.3.	Agriculture	29 744	18.29%	21.54%
2.4.	Production	2 108	19.72%	23.42%
2.5.	Housing needs	18 090	19.52%	22.71%
2.6.	Non-purpose – basic needs	2 189	21.23%	26.03%
2.7.	Other	16 716	21.82%	26.73%
TOTAL		**107 493**	**19.65%**	**23.79%**

The average weighted NIR on short-term loans ranges from 17.54% for production up to 21.97% for other microloans, and the EIR ranges from 22.62% for production up to 29.16% for other microloans. The average weighted NIR on long-term loans ranges from 18.29% for agriculture up to 21.82% for other microloans, and the EIR ranges from 21.54% for agriculture up to 26.73% for other loans. When analysing the EIR by microloan product, it can be concluded that the most favourable loans are placed for agriculture and production.

EIR on total microloans decreased at the level of the microcredit sector, considering that average weighted EIR on total microloans in the microcredit sector amounted to 23.79%, thus being down by 0.94 percentage points compared to the end of the fourth quarter of 2017. Compared to the same period, average weighted EIR on short-term loans amounted to 26.78%, which is a decrease of 1.25 percentage points. Average weighted EIR on long-term loans amounted to 23.26% at the end of the first quarter of 2018, which is a decrease in the amount of 0.87 percentage points compared to the fourth quarter of the previous year.

2.1.3. RECOMMENDATIONS FOR THE MICROCREDIT SECTOR

In the segment of supervision of the microcredit sector in the FBiH and within the framework of the prescribed competences, the FBA will continue the planned activities in the period to come, with these being focused on:

- harmonising the regulatory framework with the new law, considering that the Government of the FBiH drafted the new LoMCO in May 2018;
- monitoring the compliance of MCO operations with legal regulations in order to fully apply the provisions of the LoMCO in terms of achieving the prescribed objectives of microlending in terms of improving the material position of microloan users as well as contributing to increased employment and supporing the development of entrepreneurship;
- conducting the planned inspections of MCO compliance with the prescribed regulatory requirements with the aim of full and adequate application of the current regulations and increase in the transparency of the microcredit sector in the FBiH and undertaking of appropriate supervisory measures.

In connection with the aforementioned and based on the prescribed regulatory requirements and goals of microlending, the microcredit sector in the FBiH is required to apply the prescribed standards and limitations in the performance of microcredit, reporting and auditing activities in its operations. Regarding the aforementioned, it is necessary that MCO work on harmonising and controlling interest rates on microloans with the basic objectives of microlending and the provisions on protection of users of financial services, thus contributing to the stability and sustainability of the microcredit sector in the FBiH, as well as the establishment of sound management practices for risks to which MCO are or might be exposed, effective internal controls systems, adequate and organisational independence of internal audit, optimisation of MCO resources and application of the principle of responsible lending via microloans, regular, up-to-date and accurate submission of data to the CBBH for the purposes of the CRC, etc.

2.2. LEASING SECTOR

2.2.1. LEASING SECTOR STRUCTURE IN THE FBiH

2.2.1.1. Number of Leasing Companies

As of 31.03.2018, 6 leasing companies had operating licences for leasing operations. The number of leasing companies decreased compared to 31.12.2017 due to the status change of one leasing compay, which merged with its parent bank.

Annex 13 provides the main data on leasing companies in the FBiH.

2.2.1.2. Ownership Structure

The ownership structure at the level of the leasing sector of the FBiH is as follows: three leasing companies are 100% owned by non-resident legal entities, one leasing company is in majority ownership of a non-resident legal entity, while two leasing companies are in 100% ownership of resident legal entities.

Detailed information on the overview of the ownership structure of leasing companies is provided in Annex 14.

2.2.1.3. Human Resources

As of 31.12.2018, the leasing sector in the FBiH employed a total of 101 persons, 96 of which were full-time employees, while 5 persons were recruited via student services and organisations mediating in employment (temporary employees).

The table below shows data on the number of employees in the leasing sector of the FBiH by period.

Table 52: Number of Employees in the Leasing Sector

	31.12.2016	31.12.2017	31.03.2018	Index (2/1)	Index (3/2)
	1	**2**	**3**	**4**	**5**
Number of employees in leasing companies seated in the FBiH					
Number of full-time employees	149	98	96	66	98
Number of temporary employees	11	6	5	55	83
TOTAL	**160**	**104**	**101**	**65**	**97**

There were no significant changes in the qualification structure of employees in the leasing sector of the FBiH as of 31.03.2018 compared to previous reporting periods.

The table below shows data on the qualification structure of employees in the leasing sector by period.

The assessment of the performance of a leasing company is measured by the assets/headcount ratio (assets per employee). As of 31.03.2018, every employee accounts for KM 2.5 million of assets at the level of the leasing sector in the FBiH, which is up by KM 37 thousand or 1.5% compared to the previous reporting period.

Analytical indicators for individual leasing companies range from KM 0.5 million to KM 3.2 million of assets per employee.

2.2.2. FINANCIAL PERFORMANCE INDICATORS

2.2.2.1. Balance Sheet

As of 31.03.2018, the balance sheet total of the leasing sector amounted to KM 256.5 million, which is down by KM 3.7 million or 1.4% compared to 31.12.2017.

The consolidated balance sheet of leasing companies is provided in Annex 15.

When comparing the individual balance sheet totals of six leasing companies with the data as of 31.12.2017, it can be concluded that two leasing companies saw an increase in the balance sheet total in the amount of KM 12.9 million, while four leasing companies saw a decrease in the balance sheet total in the amount of KM 16.6 million, with one leasing company accounting for KM 10.3 million or 79.7% of the total amount of the decrease in the balance sheet total as a result of a significant decrease in the balance sheet item that refers to the item Facilities to Banks.

Table 53: Qualification Structure of Employees in the Leasing Sector

	31.12.2016		31.12.2017		31.03.2018		Index (2/1)	Index (2/3)
	1		**2**		**3**		**4**	**5**
University degree	120	75.0%	81	77.9%	77	76.2%	68	95
Post-secondary school qualification	5	3.1%	4	3.8%	4	4.0%	80	100
Secondary school qualification	23	14.4%	13	12.5%	13	12.9%	57	100
Other	12	7.5%	6	5.8%	7	6.9%	50	117
TOTAL	**160**	**100.0%**	**104**	**100.0%**	**101**	**100.0%**	**65**	**97**

One leasing company (by size of assets) accounts for 43.3% of total assets of leasing companies.

Annex 16 provides a ranking of leasing companies in the FBiH in terms of assets.

The highest share in the total assets structure of leasing companies accounts for net receivables for financial leasing in the amount of KM 180.1 million or 70.2% of total assets. Compared to 31.12.2017, net receivables for financial leasing are up by KM 4.1 million or 2.3%, while gross receivables for financial leasing are up by KM 3.8 million or 2%.

A review of the reports of one bank that performs financial leasing operations found that net receivables for financial leasing in the amount of KM 68.4 million were recorded in the aforementioned, which indicates that total net receivables (receivables recorded in the balance sheets of leasing companies and banks registered in the FBiH) amounted to KM 248.5 million, down by KM 1.3 million or 1% compared to 31.12.2017.

In the structure of receivables for financial leasing at the level of the leasing sector in the FBiH, arrangements approved on the basis of financing passenger vehicles and company vehicles account for 86.2%, arrangements approved on the basis of financing equipment account for 12.2%, while financial leasing arrangements that finance real estate account for 1.6%.

The tables below provide an overview of the structure of receivables for financial leasing at the level of the leasing sector in the FBiH (receivables before impairment on the basis of reserves for losses) as of 31.03.2018 and a parallel overview of the structure of receivables as of 31.12.2017 and 31.03.2018.

- in KM 000 -

Table 54: Structure of Leasing Sector Receivables for Financial Leasing as of 31.03.2018

BY LEASING OBJECT	**Short-term receivables**	**Long-term receivables**	**Past due receivables**	**Total receivables**	**Share in total receivables**
1	**2**	**3**	**4**	**5**	**6**
Passenger vehicles	20 303	35 383	931	56 617	31.1%
Company vehicles (cargo and passenger)	39 164	59 543	1 472	100 179	55.1%
Machinery and equipment	10 416	11 267	483	22 166	12.2%
Real estate	460	2 398	44	2 902	1.6%
Other	12	3	1	16	0.0%
TOTAL	**70 355**	**108 594**	**2 931**	**181 880**	**100.0%**
BY LESSEE	**Short-term receivables**	**Long-term receivables**	**Past due receivables**	**Total receivables**	**Share in total receivables**
1	**2**	**3**	**4**	**5**	**6**
Legal entities	63 461	94 210	2 718	160 388	88.2%
Entrepreneurs	1 522	2 307	73	3 902	2.1%
Natural persons	3 903	8 489	135	12 527	6.9%
Other	1 469	3 588	5	5 063	2.8%
TOTAL	**70 355**	**108 594**	**2 931**	**181 880**	**100.0%**

- in KM 000 -

Table 55: Structure of Receivables for Financial Leasing – Comparative Overview

BY LEASING OBJECT	Receivables as of 31.12.2017	Receivables as of 31.03.2018	Index
1	2	3	4
Passenger vehicles	73 142	77 382	106
Company vehicles (cargo and passenger)	79 545	79 414	100
Machinery and equipment	22 343	22 166	99
Real estate	3 037	2 902	96
Other	18	16	89
TOTAL	**178 085**	**181 880**	**102**
BY LESSEE	**Receivables as of 31.12.2017**	**Receivables as of 31.03.2018**	**Index**
1	2	3	4
Legal entities	156 216	160 388	103
Entrepreneurs	3 951	3 902	99
Natural persons	12 678	12 527	99
Other	5 240	5 063	97
TOTAL	**178 085**	**181 880**	**102**

As of 31.03.2018, net receivables for loans amounted to KM 11.1 million or 4.3% of the amount of total assets of the leasing sector in the FBiH. Compared to 31.12.2017, net receivables for loans fell by KM 2.4 million or 17.8%, while gross receivables fell by KM 2.4 million or 15.3%.

Receivables for loans in the structure of total assets of leasing companies are down as a result of the continuous decrease in receivables for loans, since the provisions of the LoL prohibit leasing companies from concluding new loan agreements, with the aforementioned remaining in the balance sheet until the expiry of the contracted periods of time they were granted for.

The recorded amount of net receivables for loans accounts for the receivables of one leasing company with a significant amount of loan receivables from subsidiaries in its portfolio, which had been used for financing real estate construction projects before the LoL entered into force.

As of 31.03.2018, the recorded balance sheet item Cash and Cash Equivalents amounted to KM 14.3 million, which is up by KM 0.6 million or 4.1% compared to 31.12.2017. The share of this balance sheet item in total assets amounted to 5.6% as of 31.12.2018 and it is up compared to 31.12.2017, when it amounted to 5.3%.

As of 31.03.2018, the recorded balance sheet item Facilities to Banks amounted to KM 10.1 million, down by KM 6.9 million or 40.5% compared to 31.12.2017. This item mostly relates to term deposits of leasing companies with commercial banks.

The net value of fixed assets financed via operational leasing as of 31.03.2018 amounted to KM 29.8 million, up by KM 1.2 million or 4.1% compared to 31.12.2017.

If observed individually, the net value of fixed assets financed via operational leasing rose for one leasing company in the amount of KM 2 million, while five leasing companies recorded a decrease in the amount of KM 0.8 million, KM 0.6 million or 69.9% of which account for one leasing company.

The table below shows the structure of net balance sheet positions of leasing sector assets.

- in KM 000 -

Table 56: Structure of Net Balance Sheet Positions of Assets of the Leasing Sector

DESCRIPTION	31.12.2017	Share in assets %	31.03.2018	Share in assets %	Index
1	2	3	4	5	6
Financial leasing	176 007	67.6%	180 089	70.2%	102.3
Operational leasing	28 616	11.0%	29 791	11.6%	104.1
Loan	13 449	5.2%	11 059	4.3%	82.2
Other assets	42 123	16.2%	35 515	13.8%	84.3
TOTAL	**260 204**	**100.0%**	**256 454**	**100.0%**	**98.6**

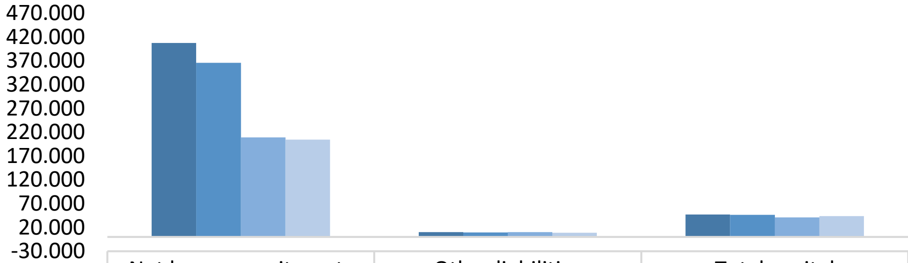
Annex 17 provides an overview of the key financial indicators of leasing companies.

2.2.2.2. Capital and Liabilities

As of 31.03.2018, loan commitments are still a dominant item in the structure of total liabilities of the leasing sector in the FBiH (79.6% of the balance sheet total). The following graph shows the liabilities structure of the leasing sector in the FBiH.

- in KM 000 -

Graph 27: Liabilities Structure



	Net loan commitments	Other liabilities	Total capital
31.12.2015	407.307	10.284	47.281
31.12.2016	365.834	9.270	46.411
31.12.2017	209.085	10.329	40.790
31.03.2018	204.176	8.516	43.762

Out of the total amount of loan commitments, long-term loan commitments account for the entirety of it.
Total loan commitments of the leasing sector as of 31.03.2018 amounted to KM 212.7 million. Compared to 31.12.2017, the aforementioned are down by KM 6.7 million or 3.1%.

38% of total loan commitments relate to indebtedness with foreign and domestic commercial banks mostly belonging to banking groups to which leasing companies belong, while 32.5% relate to direct indebtedness of the founders and 29.5% relate to indebtedness with European banks (EIB, EBRD, CEDB and DEG). The loan funds of these banks are mostly purpose funds aimed at the development of small and medium-sized enterprises and they have been provided by bank guarantees issued by parent banks or their holding companies.

The total weighted NIR paid by leasing companies on sources of funding in the period from 01.01. to 31.03.2018 amounted to 1.5% per annum (the interest rate calculated on the basis of the average balance of taken loans and interest expenses in the reporting period) and it is up compared to 31.12.2017, when it amounted to 1.2%.

The total capital of the leasing system as of 31.03.2018 amounted to KM 43.8 million. Compared to 31.12.2017, this item is up by KM 3 million or 7.3%.

If observed individually, four leasing companies saw an increase in total capital in the amount of KM 3.2 million (as a result of positive business operations of the aforementioned), while two leasing companies saw a decrease in total capital in the amount of KM 271 thousand. All leasing companies recorded a total capital amount in excess of the minimum amount (KM 250 thousand) prescribed by the provisions of Article 8 of the LoL.

2.2.2.3. Assets and Asset Quality

According to data from the reports of the leasing sector in the FBiH, loan loss provisions for financial leasing as of 31.03.2018 were recorded in the amount of KM 1.8 million and are down by KM 288 thousand or 13.9% compared to 31.12.2017. In the structure of receivables for financial leasing as of 31.03.2018, a total of KM 2.9 million outstanding past due receivables was recorded and the aforementioned are down by KM 493 thousand or 14.4% compared to 31.12.2017.

An overview of reserves for financial leasing is provided in Annex 18, while the table below shows the structure of formed reserves for losses of the leasing sector by category of default.

- in KM 000 -

Table 57: Formed Leasing Sector Reserves for Financial Leasing by Category of Default

Days past due	Total reserves 31.12.2017	Total reserves 31.03.2018	Index
1	2	3	4
0-60	931	851	91
60-90	164	147	90
90-180	104	340	327
More than 180	879	452	51
More than 360	0	0	0
TOTAL	**2 078**	**1 790**	**86**

The decrease in the amount of formed reserves for losses further points to the stabilisation of business operations and the fact that there was no deterioration in the quality of the portfolio relating to receivables for financial leasing during the first quarter of 2018.

If observed by category of default of outstanding past due receivables, a decrease in reserves for losses was recorded in the categories of default of 0-60 days, 60-90 days and more than 180 days, while an increase was recorded in the category of 90-180 days compared to 31.12.2017.

As of 31.03.2018, loan reserves amounted to KM 1.9 million and remained approximately the same compared to 31.12.2017. The total amount of formed loan reserves as of 31.03.2018 was formed by one leasing company with a significant amount of loan receivables from subsidiary companies in its portfolio.

Annex 19 provides an overview of loan reserves of leasing companies.

The total amount of written-off receivables for financial leasing and loans as of 31.03.2018 was KM 76.6 million, which is down by KM 7.6 million or 9% compared to the amount recorded at the end of the previous business year. Out of the total recorded amount of written-off receivables, KM 40.7 million or 57.8% account for write-offs by one leasing company. The decrease in the total amount of written-off receivables was caused by a significant collection amount of written-off receivables for loans by one leasing company in the amount of KM 3 million, which is 97.6% of the total collection amount of written-off receivables of the leasing sector in the FBiH. The decrease in the total amount of written-off receivables was also caused by a significant amount of permanent write-offs by the same leasing company in the amount of KM 4.9 million, which relates to the remaining uncollected receivables under the same loan agreement.

Due to the termination of leasing arrangements with lessees or the expiry of arrangements with no contracted purchase, the market value of repossessed leasing objects at the level of the leasing sector in the FBiH as of 31.03.2018 was down by KM 42 thousand or 1.4% compared to 31.12.2017. The number of repossessed objects is up by 7, which relates to the increase in repossessed company vehicles compared to 31.12.2017.

The structure of repossessed objects of the leasing sector is shown in the table below.

- in KM 000 -

Table 58: Repossessed Leasing Objects at the Leasing Sector Level

TYPE OF LEASING OBJECT	31.12.2017		31.03.2018	
	Number of units	Appraised market value of the leasing object	Number of units	Appraised market value of the leasing object
1	2	3	4	5
Passenger vehicles	12	198	8	119
Company vehicles	13	129	26	113
Machinery and equipment	8	454	6	445
Real estate	9	2 246	9	2 308
Other	0	0		0
TOTAL	**42**	**3 027**	**49**	**2 985**

Out of the total appraised value of repossessed objects of the leasing sector as of 31.03.2018, KM 2.3 million or 77.3% relate to real estate (commercial real estate) repossessed by leasing companies due to the lessees' non-compliance with legal obligations. The total amount of this item relates to two leasing companies.

If observed at the level of the leasing sector as of 31.03.2018, the market value of repossessed leasing objects amounted to KM 12.7 million and it is down by KM 357 thousand or 2.7% compared to 31.12.2017. Out of the aforementioned amount of repossessed leasing objects, KM 9.7 million or 76.6% of the total amount of repossessed objects recorded at the level of the leasing sector account for objects repossessed by the bank that performs leasing operations.

The current market situation and inadequate financing approval criteria cause difficult sales or new financing of repossessed real estate via financial or operational leasing, especially if one takes into account the fact that repossessed real estate constitutes mostly production and commercial facilities.

2.2.2.4. Profitability

In the period from 01.01. to 31.03.2018, a profit in the amount of KM 3 million was recorded at the level of the leasing sector. If observed individually, four leasing companies recorded a positive financial result in the amount of KM 3.2 million, with one leasing company accounting for KM 2.5 million or 85.8%, while two leasing companies recorded a negative financial result in the amount of KM 271 thousand (Annex 20).

The recorded profit at the level of the leasing sector in the first quarter of 2018 was significantly influenced by the collection of written-off receivables for loans by one leasing company in the amount of KM 3 million.
Based on the aforementioned, it can be concluded that the recorded profit at the level of the leasing sector in the FBiH is mostly the result of extraordinary income recorded by one leasing company.

The financial result of the leasing sector is shown in the table below.

- in KM 000 -

Table 59: Financial Result: Profit/Loss

DESCRIPTION	31.03.2016 Amount	31.03.2016 No. of leasing companies	31.03.2017 Amount	31.03.2017 No. of leasing companies	31.03.2018 Amount	31.03.2018 No. of leasing companies
1	**2**	**3**	**4**	**5**	**6**	**7**
Loss	-1 163	3	-70	1	-271	2
Profit	1 826	4	1 686	6	3 243	4
TOTAL	**663**	**7**	**1 616**	**7**	**2 972**	**6**

If observed by type of income, interest income of the leasing sector in the FBiH amounted to KM 2.7 million in the period from 01.01. to 31.03.2018. This item saw a decrease of KM 2.1 million or 43.7% compared the same period of the previous year.
A look at individual items of interest income reveals that interest income for financial leasing amounted to KM 2.2 million, down by KM 1.7 million or 44.1% compared to the same period of the previous business year.

The item Other Interest Income is down by KM 351 thousand or 53.1% compared to the same period of the previous year.

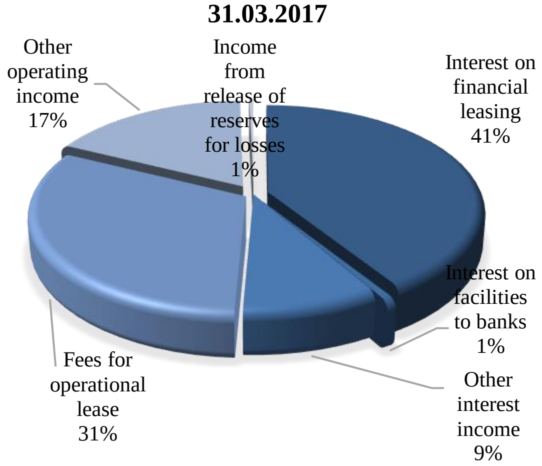
The total income structure is shown in the following table and graph.

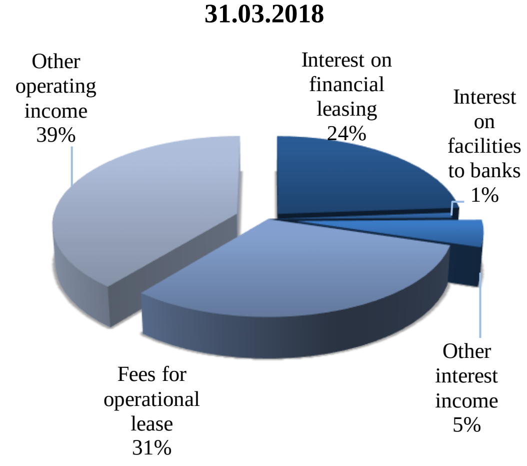
- in KM 000 -

Table 60: Total Income Structure

Total income structure	31.03.2016 Amount	31.03.2016 % share	31.03.2017 Amount	31.03.2017 % share	31.03.2018 Amount	31.03.2018 % share	Index	
1	**2**	**3**	**4**	**5**	**6**	**7**	**8(4/2)**	**9(6/4)**
I Interest income and similar income								
Interest on financial leasing	4 635	41.9	3 945	41.0	2 206	23.8	85	56
Interest on facilities to banks	83	0.8	62	0.6	86	0.9	75	139
Other interest income	1 484	13.4	874	9.1	456	4.9	59	52
TOTAL	**6 202**	**56.1**	**4 881**	**50.7**	**2 748**	**29.7**	**79**	**56**
II Operating income								
Fees for operational lease	2 755	24.9	3 042	31.6	2 886	31.2	110	95
Service fees	2	0.0	0	0.0	1	0.0	0	n/a
Other operating income	2 099	19.0	1 672	17.4	3 620	39.1	80	217
TOTAL	**4 856**	**43.9**	**4 714**	**49.0**	**6 507**	**70.3**	**97**	**138**
Income from release of reserves for losses	**0**	**0.0**	**34**	**0.4**	**0**			
Total income (I+II)	**11 058**	**100.0**	**9 629**	**100.0**	**9 255**	**100.0**	**87**	**96**

Graph 28: Total Income Structure





Total net interest income in the period from 01.01. to 31.03.2018 amounted to KM 2 million, down by KM 1.4 million or 42.1% compared to the same period of the previous year.

The category Operating Income amounted to KM 6.5 million and is down by KM 1.8 million or 38% compared to the same period of the previous year.
The aforementioned significant decreases in interest income and operating income are the result of the status change of one leasing company having merged with its parent bank in the second half of 2017.

Interest expenses amounted to KM 0.8 million, down by KM 0.7 million or 47.3% compared to the same period of the previous business year.

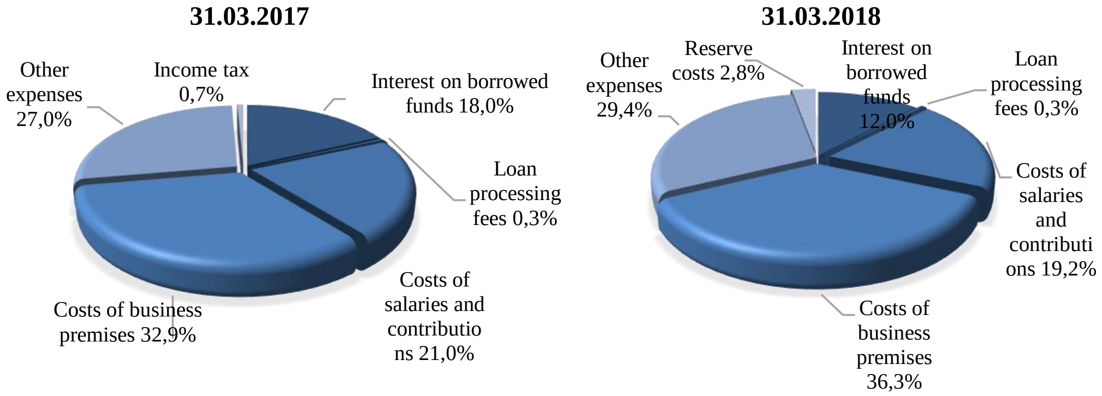
The total expenses structure is shown in the following table and graph.

- in KM 000 -

Table 61: Total Expenses Structure

Total expenses structure	31.03.2016		31.03.2017		31.03.2018		Index	Index
	Amount	% share	Amount	% share	Amount	% share		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
I Interest expenses and similar expenses								
Interest on borrowed funds	2 242	21.6	1 442	18.0	753	12.0	64	52
Loan processing fees	42	0.4	25	0.3	20	0.3	60	80
Other interest expenses	0	0.0	1	0.0	0	0.0	0	0
TOTAL	**2 284**	**22.0**	**1 468**	**18.3**	**773**	**12.3**	**64**	**53**
II Operating expenses								
Costs of salaries and contributions	1 778	17.1	1 682	21.0	1 206	19.2	95	72
Costs of business premises	2 597	25.0	2 640	32.9	2 281	36.3	102	86
Other expenses	2 828	27.2	2 166	27.0	1 845	29.4	77	85
TOTAL	**7 203**	**69.3**	**6 488**	**81.0**	**5 332**	**84.9**	**90**	**82**
III Reserve costs	**802**	**7.7**	**0**	**0.0**	**178**	**2.8**	**0**	**n/a**
Income tax	**106**	**1.0**	**57**	**0.7**	**0**	**0.0**	**54**	**0**
TOTAL EXPENSES (I+II+III)	**10 395**	**100.0**	**8 013**	**100.0**	**6 283**	**100.0**	**77**	**78**

Graph 29: Total Expenses Structure



The reason for the decrease in interest expenses is the significantly lower amount of loan commitments due to the status change of one leasing company having merged with its parent bank, as well as the continuous decrease in the EURIBOR variable index, to which the leasing companies' loan debt is mainly linked.

2.2.2.5. Weighted NIR and EIR

The EIR is an actual relative price of leasing arrangements, expressed per annum and declared in accordance with the Decision on Uniform Manner and Method of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Agreements.

The total average NIR for financial leasing arrangements concluded in the first quarter of 2018 amounted to 5.2% for short-term and 4.5% for long-term arrangements, while the EIR for short-term and long-term arrangements amounted to, respectively, 9.7% and 7.2% per annum. The total weighted NIR in the first quarter of 2018 amounted to 4.5%, while the EIR amounted to 7.3% per annum.

Compared to the same period of the previous business year, when the total weighted NIR was 4.8% and the EIR 7.3% per annum, a decrease in the NIR is evident, while the EIR remained at the same level for financial leasing arrangements.
The trend of decrease in NIR continued in the first quarter of 2018 as well compared to 2016 and 2017 and it is caused by the low value of the variable index (EURIBOR), to which output interest rates are linked, as well as the fact that, during the business year 2017 and the first quarter of 2018, most leasing providers active on the market offered promotional products for which the interest on the financing amount (in whole or in part) was subsidised by the supplier of the leasing object, while the leasing object's casco insurance fee was also subsidised by insurance companies in the case of individual promotional products.

The recorded changes in weighted EIR by period are mainly caused by the fact that the calculation of the EIR on arrangements concluded with natural persons is not identical to the calculation of the aforementioned on arrangements concluded with legal entities (its calculation does not include a casco insurance premium, which is a legal requirement when it comes to arrangements with natural persons).

The table below shows a detailed overview of the weighted NIR and EIR for financial leasing arrangements concluded in the first quarter of 2018.

Table 62: Average NIR and EIR for Financial Leasing Arrangements Concluded in Q1 2018

No.	DESCRIPTION	No. of arrange-ments	Amount of financings	Weighted NIR	Weighted EIR
1	2	3	4	5	6
1.	**Short-term leasing arrangements by leasing object:**	**8**	**104**	**5.2%**	**9.7%**
a.	Passenger vehicles	2	39	3.5%	6.1%
b.	Company vehicles (cargo and passenger)	6	65	6.3%	11.8%
c.	Machinery and equipment	0	0	0.0%	0.0%
d..	Other	0	0	0.0%	0.0%
1.1.	**Short-term leasing arrangements by type of lessee:**	**8**	**104**	**5.2%**	**9.7%**
a.	Legal entities	8	104	5.2%	9.7%
b.	Entrepreneurs	0	0	0.0%	0.0%
c.	Natural persons	0	0	0.0%	0.0%
2.	**Long-term leasing arrangements by leasing object:**	**778**	**31 209**	**4.5%**	**7.2%**
a.	Passenger vehicles	491	16 430	4.7%	7.9%
b.	Company vehicles (cargo and passenger)	256	11 169	4.4%	6.9%
c.	Machinery and equipment	30	3 422	3.9%	5.6%
d.	Real estate	1	188	4.0%	4.2%
e.	Other	0	0	0.0%	0.0%
2.1.	**Long-term leasing arrangements by type of lessee:**	**778**	**31 209**	**4.5%**	**7.2%**
a.	Legal entities	701	29 035	4.4%	6.6%
b.	Entrepreneurs	15	452	5.0%	7.1%
c.	Natural persons	62	1 722	5.0%	18.4%
	TOTAL (1+2)	**786**	**31 313**	**4.5%**	**7.3%**

The significant difference between the NIR and EIR is the consequence of the VAT paid on the interest rate, which is a mandatory part of the financial leasing arrangement and is paid in advance by the lessee, the creation of the financial leasing arrangement with purchase value, as well as additional costs of leasing arrangements that are commonly an integral part of a monthly lease in the leasing arrangement.
The difference in the amount of the NIR and EIR is also influenced by the application of the LoPUFS, according to which the calculation of the EIR for financial leasing arrangements concluded with natural persons also includes the amount of the leasing object's casco insurance fee.

The following table shows trends of weighted NIR and EIR for financial leasing arrangements by period.

Table 63: Weighted Average NIR and EIR for Financial Leasing Arrangements

DESCRIPTION	31.03.2014		31.03.2015		31.03.2016		31.03.2017		31.03.2018	
	1		2		3		4		5	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
I Short-term leasing arrangements										
1. By leasing object	**6.7%**	**11.7%**	**4.8%**	**7.3%**	**3.3%**	**7.4%**	**5.0%**	**7.9%**	**5.2%**	**9.7%**
a) Passenger vehicles	6.6%	11.2%	4.5%	6.8%	4.7%	12.2%	5.2%	7.6%	3.5%	6.1%
b) Company vehicles	6.7%	11.8%	6.4%	10.4%	3.8%	4.7%	4.0%	8.3%	6.3%	11.8%
c) Machinery and equipment	8.3%	17.7%	3.6%	4.7%	0.5%	1.9%	5.3%	7.9%	0.0%	0.0%
d) Real estate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e) Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
1.1. By type of lessee	**6.7%**	**11.7%**	**4.8%**	**7.3%**	**3.3%**	**7.3%**	**5.0%**	**7.7%**	**5.2%**	**9.7%**
a) Legal entities	6.6%	11.2%	4.7%	6.9%	3.1%	4.8%	5.0%	7.6%	5.2%	9.7%
b) Entrepreneurs	0.0%	0.0%	0.0%	0.0%	5.6%	12.5%	0.0%	0.0%	0.0%	0.0%
c) Natural persons	8.0%	18.0%	6.9%	12.9%	6.0%	86.3%	5.0%	11.4%	0.0%	0.0%
II Long-term leasing arrangements										
2. By leasing object	**6.8%**	**9.3%**	**6.2%**	**8.0%**	**5.2%**	**8.5%**	**4.8%**	**7.3%**	**4.5%**	**7.2%**
a) Passenger vehicles	6.8%	9.6%	6.1%	9.1%	5.4%	9.3%	5.1%	8.3%	4.7%	7.9%
b) Company vehicles	6.7%	9.2%	6.0%	8.2%	4.9%	7.9%	4.6%	6.7%	4.4%	6.9%
c) Machinery and equipment	7.0%	11.2%	6.4%	7.1%	5.5%	7.4%	4.5%	5.8%	3.9%	5.6%
d) Real estate	6.2%	6.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.0%	4.2%
e) Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2.1. By type of lessee	**6.8%**	**9.3%**	**6.2%**	**8.0%**	**5.8%**	**8.5%**	**4.8%**	**7.3%**	**4.5%**	**7.2%**
a) Legal entities	6.8%	9.4%	6.3%	7.9%	5.8%	7.8%	4.8%	6.7%	4.4%	5.6%
b) Entrepreneurs	6.5%	9.6%	6.9%	10.3%	6.9%	9.1%	6.0%	8.4%	5.0%	7.1%
c) Natural persons	6.3%	9.1%	5.2%	9.4%	5.5%	17.6%	4.4%	15.5%	5.0%	18.4%
TOTAL	**6.8%**	**9.4%**	**6.2%**	**8.0%**	**5.8%**	**8.5%**	**4.8%**	**7.3%**	**4.5%**	**7.3%**

2.2.2.6. Structure of Placements by Leasing Object and Type

The value of newly-concluded financial and operational leasing arrangements in the period from 01.01. to 31.03.2018 amounted to KM 35.6 million at the level of the leasing sector, up by KM 1.4 million or 3.9% compared to the same period of the previous business year.

The number of newly-concluded arrangements in the aforementioned period was 944 and it was up by 76 arrangements or 8.8% compared to the same period of the previous year.

The average value of arrangements concluded in the first quarter of 2018 at the level of the leasing sector amounted to KM 37.7 thousand, while the average value of arrangements concluded in the same period of the previous year amounted to KM 39.5 thousand.

Out of the total generated value of newly-concluded arrangements in the first quarter of 2018, KM 31.3 million or 87.9% account for financial leasing arrangements.

The following tables show a parallel overview of the recorded volume of newly-concluded arrangements in the first quarter of 2018 and the same period of the previous business year as well as the number of arrangements concluded in the same period.

- in KM 000 -

Table 64: Structure of Financing Amounts of the Leasing Sector

DESCRIPTION	31.03.2017			31.03.2018		
	Financial leasing	Operational leasing	TOTAL	Financial leasing	Operational leasing	TOTAL
1	2	3	4	5	6	7
Vehicles	24 673	4 886	29 559	27 703	4 315	32 018
Equipment	4 715	0	4 715	3 422	0	3 422
Real estate	0	0	0	188	0	188
Other	0	0	0	0	0	0
TOTAL	**29 388**	**4 886**	**34 274**	**31 313**	**4 315**	**35 628**

Table 65: Structure of Concluded Arrangements

DESCRIPTION	31.03.2017			31.03.2018		
	Financial leasing	Operational leasing	TOTAL	Financial leasing	Operational leasing	TOTAL
1	2	3	4	5	6	7
Vehicles	659	158	817	755	158	913
Equipment	51	0	51	30	0	30
Real estate	0	0	0	1	0	1
Other	0	0	0	0	0	0
TOTAL	**710**	**158**	**868**	**786**	**158**	**944**

The total amount of new financings in the first quarter of 2018 was recorded by three leasing companies and the bank via their sales channels, while three leasing companies suspended the conclusion of new arrangements, with the exception of sporadic cases of financings of repossessed leasing objects.

In the structure of new facilities by type of lessee, facilities to legal entities are predominant (93.8% of the total amount of financings in the first quarter of 2018). One important reason is the fact that financing via leasing arrangements is less favourable for natural persons than loan facilities due to the obligatory payment of the VAT on interest rates, which poses additional costs for clients that are not VAT payers.

2.2.3. RECOMMENDATIONS FOR THE LEASING SECTOR

In the period to come, the FBA will continue with the planned activities focused on creating a better business environment for leasing sector operations and improving the regulatory framework for the supervision of leasing company operations in the FBiH, with the aforementioned relating to:

- initiating additional amendments to the LoL and harmonising regulations with the amendments to the LoL, strengthening the capital of leasing companies and internally defining the parameters of capital protection and capital adequacy, a simpler and faster process of establishing new leasing companies, etc.;
- supervising the compliance of leasing company operations with regulations and good practices in risk management, in the segment of protection of users of financial services, AML/CTF, etc.;
- improving cooperation with the ALC BiH in terms of providing expert assistance in the application of laws and regulations of leasing companies, as well as cooperation with other supervisory and control institutions, as well as the CBBH regarding the structure and quality of data related to financial leasing exposure in the CRC.

Within the framework of its competences to supervise leasing company operations, the FBA expects leasing companies to continue with activities that are focused on: participatng in amendments to the LoL and consequently in the process of harmonisation of the existing regulations, harmonising business operations with the prescribed regulatory requirements, strengthening the capital of leasing companies and defining the parameters of capital protection and capital adequacy, strengthening the internal controls system, ensuring an adequate and organisationally independent internal audit function, improving the risk management process, informing users of financial services about the services they provide in a transparent, comprehensible and complete manner in relation to improving the product range and finding new sales channels, submitting data to the CBBH for the purposes of the CRC in a regular, up-to-date and accurate manner, etc.

2.3. FACTORING OPERATIONS

2.3.1. CHARACTERISTICS OF FACTORING OPERATIONS IN THE FBiH

Factoring operations in BiH are regulated by law in the FBiH and providers of factoring services from this entity are required to apply factoring regulations, whereas in the other entity – RS, factoring operations were not regulated by law as of the day this Information was compiled.
In accordance with the regulations governing factoring, factoring operations in the FBiH may be performed by a factoring company established in the FBiH and in the possession of the FBA's licence as well as a bank whose operations are regulated by the regulations governing the operations of banks in the FBiH.

The FBA monitors the operations of factoring companies in order to verify the legality, assess the safety and stability of the operations of factoring companies, to protect the interests of clients and public interest, contribute to the stability of the financial system, and establish and maintain confidence in the factoring market in the FBiH. If it determines illegalities and irregularities in the operations of a factoring company in the course of supervision, the FBA shall order the implementation of appropriate measures and activities aimed at eliminating the aforementioned.
In accordance with the prescribed competences and within the framework of supervision of the operations of the banking system entities in the FBiH, the FBA also performs supervision of the factoring operations in the banks in the FBiH.

In accordance with the prescribed competences, the FBA participated in drafting the CBBH proposal for amendments to the existing regulation on the CRC of business entities and natural persons in BiH in the part referring to the recording of concluded factoring agreements.

For factoring operations in the FBiH, it is characteristic that the first factoring company on the territory of the FBiH was entered into the court register in early 2018, based on the FBA's licence for performing factoring operations that was issued on 28.12.2017.
In the observed reporting period (first quarter of 2018), this company did not conclude any factoring agreements, so that the total number of 69 concluded factoring agreements, i.e. the total nominal value of monetary claims of KM 20 million, relates to the factoring portfolio of four banks that are seated in the FBiH and performed factoring operations, with the entirety of it relaring to domestic factoring. Out of a total of four banks that performed factoring operations, three banks are members of international banking groups based in EU member states, and one bank is in majority domestic ownership.
A decrease in the volume of factoring operations performed in banks in the FBiH in the first quarter of 2018 compared to the first quarter of 2017 is evident. More details on the volume, structure and trend of factoring operations in the FBiH are provided in Chapter 2.3.2. of this section of the Information.

2.3.2. VOLUME, STRUCTURE AND TREND OF FACTORING OPERATIONS IN THE FBiH

In the first quarter of 2018, a total of 69 factoring agreements was concluded, with all agreements relating to domestic factoring, the largest number of which, 65 agreements, was concluded with the right of recourse, i.e. with the factor's right to, in case of an inability to collect the claim from the buyer, request a settlement from the seller of the claim on the date the claim matures and thus compensate for the advance payment, interest on the advance, as well as the fee of the factor, while four agreements refer to non-recourse factoring. When comparing the reporting data with the first quarter of the previous year, when a total of 78 factoring agreements was concluded, it is evident that the number of concluded factoring agreements decreased by 11.5% in the first quarter of 2018. In the period from 01.01.2018. to 31.03.2018, no international factoring agreements were concluded, while the number of domestic factoring agreements remained at the same level as in the first quarter of the previous year.

As of 31.03.2018, there was a total of 72 active factoring agreements, with 64 agreements or 88.9% relating to domestic recourse factoring, while 8 active agreements or 11.1% refer to domestic non-recourse factoring.

Compared to the same period of 2017, the total number of active agreements for the purchase of monetary claims increased from 53 to 72 active agreements, i.e. by 35.8%.

The total nominal value of purchased monetary claims amounted to KM 20 million as of 31.03.2018, KM 11.1 million or 55.4% of which refer to non-recourse factoring, while the remaining KM 8.9 million or 44.6% refer to recourse factoring. Compared to the volume of purchased monetary claims in the same period of the previous year, which amounted to KM 99 million, a significant decrease is evident, since the total value of the volume of purchased claims as of 31.03.2018 amounts to only 20.2% of the total value of the volume of purchased claims as of 31.03.2017. The structure of purchased claims according to the the right of recourse also changed, since the share of recourse factoring was dominant in the first quarter of 2017 (97.4%).

A comparative overview of the nominal amounts and the structure of purchased monetary claims in the first quarter of 2018 compared to the same period of the previous year, according to the right of recourse rights and according to the residence of the factoring entity, is shown in the following table.

- KM 000 -

Table 66: Nominal Amount of Purchased Monetary Claims

Type	Volume of purchased monetary claims												Index (12:10)x 100
	Factoring companies				Banks				Total				
	31.03.2017		31.03.2018		31.03.2017		31.03.2018		31.03.2017		31.03.2018		
	Amount (in KM 000)	Share in %	Amount (in KM 000)	Share in %	Amount (in KM 000)	Share in %	Amount (in KM 000)	Share in %	Amount (in KM 000)	Share in %	Amount (in KM 000)	Share in %	
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
Recourse factoring	0	0	0	0	96 442	97.4%	8 930	44.6%	96 442	97.4%	8 930	44.6%	9.3
Non-recourse factoring	0	0	0	0	2 554	2.6%	11 109	55.4%	2 554	2.6%	11 109	55.4%	435.0
Total	**0**	**0%**	**0**	**0%**	**99 016**	**100%**	**20 039**	**100%**	**99 016**	**100%**	**20 039**	**100%**	**20.2**
Domestic factoring	0	0	0	0	12 067	12.2%	20 039	100.0%	12 067	12.2%	20 039	100.0%	166.1
Interna-tional factoring	0	0	0	0	86 949	87.7%	0	0.0%	86 949	87.7%	0	0.0%	0.0
Total	**0**	**0%**	**0**	**0%**	**99 016**	**100%**	**20 039**	**100%**	**99 016**	**100%**	**20 039**	**100%**	**20.2**

A decrease in the volume of purchased claims in the first quarter of 2018, compared to the same period of 2017, was recorded on the side of international factoring, since in 2018 a bank that had concluded foreign factoring agreements in the first quarter of 2017 did not conclude such contracts in the same period of 2018. On the side of domestic factoring, a total higher volume was recorded (up by 66.1%, i.e. by KM 8 million in absolute terms).

The structure of the total value (volume) of purchased monetary claims, according to the agreed maturity, as of 31.03.2018 is as follows:

- with contractual maturity of up to 90 days – 33.5%
- with contractual maturity of 91 to 180 days – 66.5%.

Compared to the first quarter of 2017, there was a significant change in the maturity structure of the total volume of purchased monetary claims, since purchased claims with contractual maturity of up to 90 days amounted to 93.1% and purchased claims with maturity of 91 to 180 days to 6.9%.

When observing the structure of the value (volume) of purchased monetary claims in the first quarter of 2018 according to the sectoral classification of buyers, it can be noted that monetary claims in the total value of KM 8.3 million were purchased from private companies, accounting for 41.6% of the total turnover of factoring operations, monetary claims in the amount of KM 11.1 million or 55.5%, were purchased from public companies, while KM 0.6 million or 2.9% were purchased from government institutions.

During the first quarter of 2018, total advances paid to suppliers in the segment of private companies (sellers of receivables) amounted to KM 19.5 million, with the amount of KM 11.1 million referring to non-recourse factoring and KM 8.4 million referring to recourse factoring.
The balance of the factoring portfolio in banks in the FBiH on the basis of purchased monetary claims that providers of factoring services recorded as of 31.03.2018 according to the right of recourse and according to the residence of the factoring entity, from the aspect of past due, i.e. unmatured purchased claims, is shown in the following table.

- KM 000 -

Table 67: Balance of Factoring Operations Portfolio as of 31.03.2018

Description	Factoring companies		Banks		Total portfolio balance	Share (in %)
	Past due receivables for nominal amount of claims	Unmatured receivables for nominal amount of claims	Past due receivables for nominal amount of claims	Unmatured receivables for nominal amount of claims		
According to right of recourse	**0**	**0**	**204**	**19 594**	**19 798**	**100**
Recourse factoring	0	0	204	8 670	8 874	44,8
Non-recourse factoring	0	0	0	10 924	10 924	55,2
According to residence of factoring entity	**0**	**0**	**204**	**19 594**	**19 798**	**100**
Domestic factoring	0	0	204	19 594	19 798	100
Export factoring	0	0	0	0	0	0
Import factoring	0	0	0	0	0	0

Based on the purchased monetary claims as of 31.03.2018, banks – providers of factoring services claimed a total of KM 19.8 million, according to the residence of entities entirely in domestic factoring, with the amount of KM 8.9 million or 44.8% referring to recourse factoring and 10.9 KM KM or 55.2% referring to non-recourse factoring.
In the total balance of receivables in the first quarter of 2018, the amount of purchased claims with contractual maturity of up to 90 days accounts for 28.5%, while receivables with contractual maturity of 91 to 180 days account for 71.5%.
In accordance with the Instructions for Filling out Financial and Other Reports that factoring companies are required to compile for the purposes of the Banking Agency of the Federation of BiH, the entities obligated to fill out the reports did so as of 31.03.2018, including liabilities to suppliers, regardless of whether it was an unconditional or conditional obligation of the company to pay the supplier. The recorded balance of liabilities to suppliers based on factoring as of 31.03.2018 (entirely related to recourse factoring) is KM 0.5 million, with the following maturity structure: up to 60 days – 22.5%, from 61 to 90 days – 16.5%, and from 91 to 180 days – 61.0%.
Total income recorded by providers of factoring services in the first quarter of 2018 amounted to KM 0.3 million, with the 45% share referring to recourse factoring, when observing interest income, factoring and administrative fees, while 55% interest income, factoring and administrative fees refer to non-recourse factoring. In the same period of 2017, total income recorded on that basis amounted to KM 0.6 million, 94% of which referred to recourse factoring.

The highest interest rate on the paid advance on the factoring market, which was valid on the last day of the reporting period (first quarter of 2018), amounted to 6%, while the discount rate was 5% and both were calculated in domestic factoring.
All four banks that perform factoring operations calculated factoring fees, while only one bank charged an administrative fee when providing factoring services.

2.3.3. RECOMMENDATIONS FOR FACTORING OPERATIONS

In the first quarter of 2018, factoring operations in the FBiH exclusively took place through the performance of the financing function, which is characteristic of banks, and there is no record of the performance of insurance services for collection and receivables management, nor of the performance of factoring-related operations, which confirms that this activity is still in the developmental stages on the market of the FBiH within the legislative and institutional frameworks defined by the LoF and the FBA regulations governing factoring operations in the FBiH.

The intentions of the Law on Financial Operations[37], in terms of strengthening financial discipline and establishing clear rules in operations, have not yet given a stronger impetus for the use of factoring as a tool for short-term financing and cash flow management, to which the insufficiently adequate establishment and education of financial functions in small and medium-sized enterprises contributed.

Since the need for short-term financing and management of monetary claims, as well as the securing of collection of receivables, is becoming increasingly significant in the real sector, it can be expected that one of the reliable instruments for solving liquidity problems in the FBiH in the period to come will be that the use of factoring, as an effective tool for accelerating cash flows in a much larger volume than so far.

Within its competences to supervise factoring operations, the FBA is guided by the principles of transparency and security, as well as adequate protection of users of financial services through factoring, with the aim of achieving financial stability and factoring activities at the level of the FBiH.

[37] Official Gazette of the Federation of BiH, No. 48/16.

CONCLUSION

In order to preserve the stability and security of the banking sector of the FBiH, the FBA has continuously monitored the operations of all entities, carrying out planned activities and taking measures in accordance with legal authorisations.

In the first quarter of 2018, positive developments in the banking sector continued, reflected in the increase in assets, loans and deposits, as well as the improved profitability of the overall banking sector. There is a continuation of the increase in lending to private companies compared to the retail segment. The share of NPL, as a key indicator of loan quality, still has a downward trend. The trend of increase in total deposits and savings deposits continued, with these being the most important and the largest segment of the deposit and financial potential of banks. In the first quarter of the current year, banks in the FBiH recorded a positive financial result, and the downward trend of weighted average NIR and EIR on loans and deposits continued in the same period. Based on the key business performance indicators of the banking sector of the FBiH as of 31.01.2018, it can be concluded that the aforementioned is stable, adequately capitalised, liquid and profitable.

When analysing the reports of the microcredit sector in the FBiH as of 31.03.2018, it can be concluded that its operations improved relative to the end of the previous year. Compared to the end of the previous year, a slight increase in assets, i.e. the microcredit portfolio, was recorded in this reporting period at the level of the microcredit sector, with a slight deterioration of portfolio quality indicators. The recorded excess of income over expenses in the first quarter of 2018 is slightly higher than in the same period of the previous year.

The leasing sector in the FBiH recorded an increase in the volume of operations (the number and value of newly-concluded arrangements) in the same reporting period, which indicates that the leasing sector is stable. At the level of the leasing sector in the FBiH, a profit was recorded in the same period. The recorded results an indicate improvement of the situation, an adjustment of the sector to the needs of the market and possibilities for further development.

Factoring operations in the FBiH during the first quarter of 2018 continued to be performed only through the operations of banks and were thus subject to supervision in accordance with the regulations governing the operations and supervision of banks in the FBiH. There is a trend of decrease in the volume of purchased monetary claims compared to the first quarter of 2017, with a significant change in the structure according to the criterion of the right of recourse.

No.: U.O.23-03/18
Sarajevo, 13.06.2018

ANNEXES FOR THE BANKING SECTOR

Annex 1 – Main Data on Banks in the FBiH as of 31.03.2018

No.	BANK	Address		Phone	Head of management
1.	ADDIKO BANK d.d. - SARAJEVO	Sarajevo	Trg solidarnosti 12	033/755-867, 755-755 fax: 755-790	SANELA PAŠIĆ
2.	ASA BANKA d.d. - SARAJEVO	Sarajevo	Trg međunarodnog prijateljstva 25	033/586-870, fax: 586-880	SAMIR MUSTAFIĆ
3.	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	AMER BUKVIĆ
4.	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	Sarajevo	Obala Kulina bana 9a	033/497-555, 497-500 fax:497-589	ALMIR KRKALIĆ
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	Velika Kladuša	Tone Hrovata bb	037/771-253, fax: 037/772-416	HASAN PORČIĆ
6.	NLB BANKA d.d. - SARAJEVO	Sarajevo	Džidžikovac 1	033/720-300, fax:035/302-802	LIDIJA ŽIGIĆ
7.	PRIVREDNA BANKA SARAJEVO d.d. - SARAJEVO	Sarajevo	Obala Kulina bana 18	033/278-520, fax:278-550	HAMID PRŠEŠ
8.	PROCREDIT BANK d.d. - SARAJEVO	Sarajevo	Franca Lehara bb	033/250-950, fax:250-971	EDIN HRNJICA
9.	RAIFFEISEN BANK d.d. BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb	033/755-010, fax: 213-851	KARLHEINZ DOBNIGG
10.	SBERBANK BH d.d. - SARAJEVO	Sarajevo	Fra Anđela Zvizdovića 1	033/954-702, fax:263-832	JASMIN SPAHIĆ
11.	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	Sarajevo	Zmaja od Bosne 7	033/280-300, fax:280-230	SANEL KUSTURICA
12.	UNICREDIT BANK d.d. - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:356-227	DALIBOR ĆUBELA
13.	UNION BANKA d.d. - SARAJEVO	Sarajevo	Hamdije Kreševljakovića 19	033/561-000, fax: 201-567	VEDRAN HADŽIAHMETOVIĆ
14.	VAKUFSKA BANKA d.d. - SARAJEVO	Sarajevo	Maršala Tita 13	033/280-100, fax: 663-399	DENIS ČIVGIN
15.	ZIRAATBANK BH d.d. - SARAJEVO	Sarajevo	Zmaja od Bosne 47c	033/955-000, fax: 525-701	ALI RIZA AKBAŞ

Annex 2 – Data on Employees in Banks in the FBiH

R.br.	BANKA	31.12.2016	31.12.2017	31.03.2018
1.	ADDIKO BANK d.d. - SARAJEVO	435	390	376
2.	ASA BANKA d.d. - SARAJEVO	211	211	222
3.	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	371	399	412
4.	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	561	567	559
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	77	77	77
6.	NLB BANKA d.d. - SARAJEVO	444	459	464
7.	PRIVREDNA BANKA d.d - SARAJEVO	139	158	160
8.	PROCREDIT BANK d.d. - SARAJEVO	206	167	156
9.	RAIFFEISEN BANK d.d. BiH - SARAJEVO	1 312	1 320	1 330
10.	SBERBANK BH d.d. - SARAJEVO	425	440	447
11.	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	521	528	526
12.	UNICREDIT BANK d.d. - MOSTAR	1 225	1 260	1 255
13.	UNION BANKA d.d. - SARAJEVO	192	192	188
14.	VAKUFSKA BANKA d.d. - SARAJEVO	197	161	161
15.	ZIRAATBANK BH d.d. - SARAJEVO	299	326	333
	TOTAL	6 615	6 655	6 666

Annex 3 – Balance Sheet of Banks in the FBiH According to the FBA Model (Active Sub-Balance)

- in KM 000 -

No.	DESCRIPTION	31.12.2016	31.12.2017	31.03.2018
	ASSETS			
1.	Cash and deposit accounts with deposit-taking institutions	5 204 564	5 794 664	6 136 914
1a	Cash and non-interest bearing deposit accounts	2 418 582	2 654 978	2 586 029
1b	Interest-bearing deposits accounts	2 785 982	3 139 686	3 550 885
2.	Trading securities	1 075 588	1 092 254	1 101 581
3.	Loans to other banks	96 569	350 980	45 286
4.	Loans, receivables based on leasing facilities and past due receivables	12 270 228	13 178 860	13 439 334
4a	Loans	11 078 689	12 012 214	12 275 985
4b	Receivables based on leasing facilities	29	98 617	92 174
4c	Past due receivables based on loans and leasing facilities	1 191 510	1 068 029	1 071 175
5.	Held to maturity securities	150 575	136 178	125 614
6.	Business premises and other fixed assets	488 711	480 500	474 879
7.	Other real estate	42 266	49 441	44 641
8.	Investments in unconsolidated related companies	22 999	18 401	16 595
9.	Other assets	282 742	332 157	304 990
10.	MINUS: value adjustments	1 252 208	1 223 584	1 323 326
10a	Value adjustments for Item 4. of the Assets	1 193 721	1 166 804	1 235 508
10b	Value adjustments for Assets items, except for the Item 4.	58 487	56 780	87 818
11.	TOTAL ASSETS	18 382 034	20 209 851	20 366 508
	LIABILITIES			
12.	Deposits	14 176 274	15 814 723	16 058 079
12a	Interest-bearing deposits	10 312 971	11 358 832	11 422 591
12b	Non-interest bearing deposits	3 863 303	4 455 891	4 635 488
13.	Borrowings – liabilities due	150	150	150
13a	Past due liabilities	0	0	0
13b	Past due – invoked off-balance sheet liabilities	150	150	150
14.	Borrowings from other banks	0	0	0
15.	Liabilities to the Government	0	0	0
16.	Loan commitments and other borrowings	848 001	835 667	803 514
16a	With remaining maturity of up to one year	231 260	184 551	173 800
16b	With remaining maturity of more than one year	616 741	651 116	629 714
17.	Subordinated debt and subordinated bonds	119 678	129 299	137 259
18.	Other liabilities	529 811	564 963	511 381
19.	TOTAL LIABILITIES	15 673 914	17 344 802	17 510 383
	CAPITAL			
20.	Permanent preferred shares	8 828	14 828	14 828
21.	Common shares	1 207 049	1 210 961	1 210 961
22.	Issue premiums	138 786	137 290	137 290
22a	Over permanent preferred shares	88	88	88
22b	Over common shares	138 698	137 202	137 202
23.	Undistributed profit and capital reserves	864 475	946 263	1 093 662
24.	Foreign exchange rate differences	0	0	0
25.	Other capital	173 248	239 973	83 650
26.	Loan loss provisions formed from profit	315 734	315 734	315 734
27.	TOTAL CAPITAL (20. to 25.)	2 708 120	2 865 049	2 856 125
28.	TOTAL LIABILITIES AND CAPITAL (19 +26)	18 382 034	20 209 851	20 366 508
	PASSIVE AND NEUTRAL SUB-BALANCE	718 625	700 018	698 284
	TOTAL	19 100 659	20 909 869	21 064 792

Annex 4 – Overview of Assets, Loans, Deposits and Financial Results of Banks in the FBiH as of 31.03.2018

-u 000 KM-

No.	BANK	Assets		Loans		Deposits		Financial result
		Amount	%	Amount	%	Amount	%	Amount
1.	ADDIKO BANK d.d. - SARAJEVO	868 063	4.3%	594 373	4.4%	635 566	4.0%	4 432
2.	ASA BANKA d.d. - SARAJEVO	471 805	2.3%	323 781	2.4%	400 871	2.5%	116
3.	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	897 442	4.4%	637 420	4.7%	640 536	4.0%	1 869
4.	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	1 867 864	9.2%	1 382 072	10.3%	1 385 658	8.6%	9 391
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	103 571	0.5%	54 881	0.4%	73 845	0.5%	432
6.	NLB BANKA d.d. - SARAJEVO	1 062 567	5.2%	743 023	5.5%	872 724	5.4%	5 194
7.	PRIVREDNA BANKA SARAJEVO d.d. - SARAJEVO	397 368	2.0%	276 678	2.1%	300 240	1.9%	851
8.	PROCREDIT BANK d.d. - SARAJEVO	433 410	2.1%	361 233	2.7%	223 567	1.4%	44
9.	RAIFFEISEN BANK d.d. BiH - SARAJEVO	4 173 892	20.5%	2 475 795	18.4%	3 392 428	21.1%	25 621
10.	SBERBANK BH d.d. - SARAJEVO	1 413 387	6.9%	988 416	7.4%	1 179 260	7.3%	3 232
11.	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	1 328 586	6.5%	979 189	7.3%	1 055 425	6.6%	4 214
12.	UNICREDIT BANK d.d. - MOSTAR	5 367 965	26.4%	3 438 502	25.6%	4 353 906	27.1%	27 698
13.	UNION BANKA d.d. - SARAJEVO	721 561	3.5%	186 912	1.4%	645 827	4.0%	364
14.	VAKUFSKA BANKA d.d. - SARAJEVO	301 834	1.5%	202 118	1.5%	261 553	1.6%	357
15.	ZIRAATBANK BH d.d.- SARAJEVO	957 193	4.7%	794 941	5.9%	636 673	4.0%	-165
	TOTAL	20 366 508	100.0%	13 439 334	100%	16 058 079	100%	83 650

Annex 5 – Report on Capital Condition and Adequacy of Banks in the FBiH

- ASSETS SIDE OF THE BALANCE SHEET -

- in KM 000 -

R.br	D E S C R I P T I O N	31.12.2016	31.12.2017	31.03.2018
	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	1 203 237	1 213 318	1 213 318
1.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	12 431	12 262	12 262
1.3.	Amount of issue premiums earned upon payment of shares	138 786	137 290	137 290
1.4.	General mandatory reserves (reserves mandated by the law)	143 166	157 513	158 907
1.5.	Other reserves from profit after tax based on the decision of the Bank's assembly	529 121	635 732	617 207
1.6.	Retained, undistributed profit from previous years and current year's profit	141 073	165 343	157 500
1.a.	TOTAL (1.1 to 1.6)	2 167 814	2 321 458	2 296 484
1.b.	Deductible items from 1.a			
1.7.	Uncovered losses from previous years	16 690	47 879	85 168
1.8.	Current year's loss	42 314	7 288	165
1.9.	Book value of own (treasury) shares of the bank	3 034	81	81
1.10.	Intangible assets in accordance with the applicable accounting framework	47 315	49 963	49 358
1.11.	Amount of deferred tax assets	1 881	1 494	1 728
1.12.	Amount of negative revalorised reserves based on the effect of the change in the fair value of assets	1 063	1 446	1 760
1.b.	TOTAL (1.7. to 1.10)	112 297	108 151	138 260
1.	AMOUNT OF CORE CAPITAL: (1.a. - 1.b.)	2 055 517	2 213 307	2 158 224
	SUPPLEMENTARY CAPITAL OF THE BANK			
2.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	209	209	209
2.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	0	0	0
2.3.	General loan loss provisions for the category A – performing assets	170 420	186 830	189 153
2.4.	Amount of positive revalorised reserves based on the effect of the change in the fair value of assets	9 741	13 037	15 964
2.5.	Current year profit – audited and confirmed by an external audit	0	0	0
2.6.	Profit amount for which the FBA issues an order restricting its disbursement	103 122	104 733	106 656
2.7.	Amount of subordinated debt	0	0	0
2.8.	Amount of hybrid convertible items – capital instruments	1 425	1 428	1 428
2.	AMOUNT OF SUPPLEMENTARY CAPITAL: (2.1 to 2.8)	284 917	306 237	313 410
	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	0	0	0
3.3.	Receivables from shareholders with significant voting rights – approved by the bank contrary to Law provisions, FBA regulations and the bank's work policy	0	0	0
3.4.	LCRE towards shareholders with significant voting rights in the bank (no FBA approval required)	0	0	0
3.5.	LLP shortfall as per regulatory requirement	200 035	198 380	187 967
3.	AMOUNT OF DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL: (3.1 to 3.5)	200 035	198 380	187 967
A.	NET CAPITAL OF THE BANK (1.+2.-3.)	2 140 399	2 321 164	2 283 667
B.	RISK OF BALANCE AND OFF-BALANCE ASSETS	12 667 026	13 904 675	14 039 739
C.	WEIGHTED OPERATIONAL RISK	1 001 018	1 042 691	1 092 596
D.	WEIGHTED MARKET RISK	0	0	0
E.	TOTAL ASSETS RISK B+C+D	13 668 044	14 947 366	15 132 335
F.	NET CAPITAL RATE (A/E) (% 1 dec.)	15.7%	15.5%	15.1%

Annex 6 – Classification of Balance Sheet Assets and Off-Balance Sheet Risk-Weighted Items of Banks in the FBiH as of 31.03.2018

– 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	2 457 217	219 611	5 154	5 025	2 179	2 689 186
2.	Long-term loans	8 827 005	586 505	137 850	87 533	12 924	9 651 817
3.	Other facilities	197 942	561	4	70	2 292	200 869
4.	Accrued interest and fees	36 708	4 666	1 880	5 338	42 051	90 643
5.	Past due receivables	50 926	20 885	6 886	192 437	768 947	1 040 081
6.	Receivables based on paid guarantees			723	141	30 226	31 090
7.	Other balance sheet assets being classified	563 772	2 913	1 720	387	38 290	607 082
8.	TOTAL BALANCE SHEET ASSETS BEING CLASSIFIED (sum of items 1 through 7 – calculation basis for regulatory loan loss provisions)	12 133 570	835 141	154 217	290 931	896 909	14 310 768
9.	CALCULATED REGULATORY RESERVES FOR LOAN LOSSES BASED ON BS ASSETS	238 830	69 506	44 518	172 661	896 910	1 422 425
10.	VALUE ADJUSTMENT FOR BS ASSETS	209 907	72 559	82 840	175 083	772 403	1 312 792
11.	REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT FOR PURPOSE OF ASSESSED LOSSES BASED ON BS ASSETS	140 740	39 161	4 716	33 888	121 505	340 010
12.	FORMEED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS	91 629	34 201	20 015	77 705	54 521	278 071
13.	SHORTFALL OF REGULATORY RESERVE FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS						177 193
14.	BALANCE SHEET ASSETS NOT BEING CLASSIFIED (gross book value)						7 379 067
15.	TOTAL BALANCE SHEET ASSETS (gross book value)						21 689 835

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 BiH, gold and other precious metals	4 749 251
14.b	Demand deposits and term deposits up to one month located on accounts of banks with defined investment rating	1 202 581
14.c	Tangible and intangible assets	501 096
14.d	Financial and tangible assets acquired in the process of collection of receivables (within one year upon such acquisition)	4 143
14.e	Own (treasury) shares	
14.f	Receivables based on overpaid taxes	13 537
14.g	Trading securities	93 469
14.h	Receivables from the BiH Government, FBiH Government and RS Government, securities issued by the BiH Government, FBiH Government and RS Government and receivables secured with unconditional guarantees payable upon the first call	814 990
	TOTAL Item 14	7 379 067
8a.	Facilities secured with a cash deposit	192 042

Annex 6a – Classification of Balance Sheet Assets and Off-Balance Sheet Risk-Weighted Items of Banks in the FBiH as of 31.03.2018

– CLASSIFICATION OF OFF-BALANCE SHEET ITEMS –

- in KM 000 -

No.	OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Payment guarantees	366 720	32 310	1 055	270		400 355
2.	Performance guarantees	635 769	62 655	139	5 924	419	704 906
3.	Uncovered letters of credit	63 439	832	35			64 306
4.	Irrevocably approved, but undrawn loans	1 874 780	83 843	694	78	194	1 959 589
5.	Other contingent liabilities of the bank	15 473	42	448		23	15 986
6.	TOTAL OFF-BALANCE SHEDET ITEMS BEING CLASSIFIED (sum of items 1 through 5 – calculation basis for regulatory loan loss provisions)	2 956 181	179 682	2 371	6 272	636	3 145 142
7.	CALCULATED REGULATORY RESERVES FOR LOAN LOSSES RELATED TO OFF-BALANCE SHEET ITEMS	58 266	11 656	754	3 761	636	75 073
8.	LOSS RESERVES FOR OFF-BALANCE SHEET ITEMS	28 554	2 399	895	4 835	280	36 963
9.	REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS	38 012	10 354	346	680	359	49 751
10.	FORMED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS	25 716	9 641	802	1 325	179	37 663
11.	SHORTFALL OF REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS						14 615
12.	OFF-BALANCE SHEET ITEMS NOT BEING CLASSIFIED						338 845
13.	TOTAL OFF-BALANCE SHEET ITEMS						3 483 987
6a.	Contingent liabilities secured with a cash deposit						42 866
6b.	Approved undisbursed loans with a clause on unconditional cancellation						689 292

Annex 7 – Income Statement of Banks in the FBiH According to the FBA Model

- in KM 000 -

No.		DESCRIPTION	31.03.2016	31.03.2017	31.03.2018
1.		INTEREST INCOME AND EXPENSES			
	a)	Interest income and similar income			
	1)	Interest-bearing deposit accounts with deposit-taking institutions	546	547	960
	2)	Loans to other banks	413	358	473
	3)	Loans and leasing facilities	168 949	166 297	164 118
	4)	Held to maturity securities	1 248	851	740
	5)	Equity securities	8	16	0
	6)	Receivables based on paid-off balance sheet liabilities	1	1	0
	7)	Other interest income and similar income	17 213	19 113	17 688
	8)	TOTAL INTEREST INCOME AND SIMILAR INCOME	188 378	187 183	183 979
	b)	Interest expenses and similar expenses			
	1)	Deposits	38 601	33 052	27 525
	2)	Borrowings from other banks	0	0	0
	3)	Borrowings taken – liabilities due	0	0	0
	4)	Liabilities based on loans and other borrowings	3 235	2 426	2 266
	5)	Subordinated debt and subordinated bonds	1 909	1 882	1 949
	6)	Other interest and similar expenses	511	1 293	1 868
	7)	TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES	44 256	38 653	33 608
	c)	NET INTEREST AND SIMILAR INCOME	144 122	148 530	150 371
2.		OPERATING INCOME			
	a)	FX income	9 812	10 614	12 242
	b)	Loan fees	2 199	2 770	3 073
	c)	Fees based on off-balance sheet items	5 623	5 491	5 510
	d)	Service fees	57 696	61 914	66 804
	e)	Trading income	152	59	105
	f)	Other operating income	10 680	23 007	15 286
	g)	TOTAL OPERATING INCOME a) to f)	86 162	103 855	103 020
3.		NON-INTEREST EXPENSES			
	a)	Business and direct expenses			
	1)	Costs of value adjustments, risk-weighted assets, provisions for contingent liabilities and other value adjustments	14 741	26 793	19 244
	2)	Other business and direct expenses	22 324	24 374	26 631
	3)	TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)	37 065	51 167	45 875
	b)	Operating expenses			
	1)	Costs of salaries and contributions	59 194	59 614	61 572
	2)	Costs of business premises, other fixed assets and utilities	37 106	36 995	37 615
	3)	Other operating expenses	23 843	25 799	24 679
	4)	TOTAL OPERATING EXPENSES 1) to 3)	120 143	122 408	123 866
	c)	TOTAL NON-INTEREST EXPENSES	157 208	173 575	169 741
4.		PROFIT BEFORE TAXES	201 464	212 228	203 349
5.		LOSS	74 223	80 014	83 815
6.		TAXES	1 147	1 204	165
7.		PROFIT BASED ON INCREASE OF DEFERRED TAX FUNDS AD REDUCTION OF DEFERRED TAX LIABILITIES	0	0	0
8.		LOSS BASED ON REDUCTION OF DEFERRED TAX FUNDS AND INCREASE OF DEFERRED TAX LIABILITIES	0	0	0
9.		NET PROFIT 4. - 6.	74 223	80 014	83 815
10.		NET LOSS 4. - 6.	1 147	1 204	165
11.		FINANCIAL RESULT 9.-10.	73 086	78 810	83 650

ANNEXES FOR THE MICROCREDIT SECTOR

Annex 8 – Main Data on MCOs

No.	*Name of microcredit organisation*	*Address and seat*	*Director*	*Phone/Fax*	*E-mail and website*	31.03.2018	
						Assets amount in KM 000	*Capital amount in KM 000*
1.	MKD "EKI" d.o.o. Sarajevo	ul. Džemala Bijedića 129 71 000 SARAJEVO	v.d. Alma Delić	033/ 754-380, 754-388 fax	alma.delic@eki.ba www.eki.ba	109 826	34 800
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića 129 71 000 SARAJEVO	v.d. Sadina Bina	033/ 754-380, 754-388 fax	sadina.bina@eki.ba www.eki.ba	101 807	68 311
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	dzavids@lider.ba www.lider.ba	18 550	11 035
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Elma Čardaklija - Bašić	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	12 715	2 781
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Jakob Finci	033/ 205-737 tel/fax	info@melaha.ba www.melaha.ba	1 227	459
6.	MKF "MI-BOSPO" Tuzla	ul. Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	mi-bospo@mi-bospo.org www.mi-bospo.org	59 921	22 727
7.	MKF "MIKRA" Sarajevo	ul. Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	mikra@mikra.ba www.mikra.ba	30 453	7 838
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	info@mikroaldi.org www.mikroaldi.org	6 238	4 851
9.	"PARTNER MKF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	partner@partner.ba www.partner.ba	137 961	78 315
10.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	info@mfi.ba	1 976	1 673
11.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	430	226
12.	MKF "SUNRISE" Sarajevo	ul. Zagrebačka 50 71 000 SARAJEVO	Samir Bajrović	033/ 727-350, 812-231 fax	sunrise@microsunrise.ba www.microsunrise.ba	50 694	26 073
TOTAL						**531 798**	**259 089**

Annex 9 – Balance Sheet of MCFs

- in KM 000 -

No.	DESCRIPTION	31.12.2017	%	31.03.2018	%	Index
1	2	3	4	5	6	7=5/3
	ASSETS					
1.	Cash (1a+1b)	21.989	5	34.016	8	155
1a)	Cash and non-interest bearing deposit accounts	9.516	2	19.893	5	209
1b)	Interest-bearing deposit accounts	12.473	3	14.123	3	113
2.	Facilities to banks	1.210	0	1.220	0	101
3.	Loans	329.758		320.526		97
3a)	Loan loss provisions	2.716		2.919		107
3b)	Net loans (3-3a)	327.042	78	317.607	75	97
4.	Business premises and other fixed assets	28.383	7	28.514	7	100
5.	Long-term investments	33.061	8	33.061	8	100
6.	Other assets	8.062	2	7.730	2	96
7.	Minus: provisions for other assets items, except loans	158		176		111
8.	Cash (1a+1b)	419.589	100	421.972	100	101
	LIABILITIES					
9.	Short-term loan commitments	86.518	20	84.514	20	98
10.	Long-term loan commitments	90.622	22	92.803	22	102
11.	Other liabilities	21.215	5	20.366	5	96
12.	TOTAL LIABILITIES	198.355	47	197.683	47	100
13.	Donated capital	45.851		45.851		100
14.	Core capital	3.820		3.820		100
15.	Surplus of income over expenses	231.183		234.286		101
15a)	For previous years	214.123		230.647		108
15b)	For current year	17.060		3.639		21
16.	Deficit of income over expenses	61.352		61.384		100
16a)	For previous years	61.279		61.315		100
16b)	For current year	73		69		95
17.	Other reserves	1.732		1.716		99
18.	TOTAL CAPITAL	221.234	53	224.289	53	101
19.	TOTAL LIABILITIES	419.589	100	421.972	100	101
	OFF-BALANCE SHEET RECORDS					
	- written-off loans	110.188		108.947		99
	- agent business	366		365		100

Annex 10 – Balance Sheet of MCCs

- in KM 000 -

No.	DESCRIPTION	31.12.2017	%	31.03.2018	%	Index
1	2	3	4	5	6	7=5/3
	ASSETS					
1.	Cash (1a+1b)	24.841	23	9.427	9	38
1a)	Cash and non-interest bearing deposit accounts	24.841	23	9.427	9	38
1b)	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Facilities to banks	0	0	0	0	n/a
3.	Loans	81.396		99.252		122
3a)	Loan loss provisions	542		678		125
3b)	Net loans (3-3a)	80.854	75	98.574	90	122
4.	Business premises and other fixed assets	430	1	448	0	104
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	1.243	1	1.416	1	114
7.	Minus: provisions for other assets items, except loans	30		39		130
8.	TOTAL ASSETS	107.338	100	109.826	100	102
	LIABILITIES					
9.	Short-term loan commitments	18.273	17	21.822	20	119
10.	Long-term loan commitments	50.583	47	47.758	43	94
11.	Other liabilities	4.656	4	5.446	5	117
12.	TOTAL LIABILITIES	73.512	68	75.026	68	102
13.	Donated capital	0		0		n/a
14.	Core capital	30.600		30.600		100
15.	Issue premiums	0		0		n/a
16.	Unallocated profit (16a+16b)	1.317		2.291		174
16a)	Of previous years	1.017		1.317		129
16b)	Of current year	300		974		325
17.	Legal reserves	1.909		1.909		100
18.	Other reserves	0		0		n/a
19.	TOTAL CAPITAL	33.826	32	34.800	32	103
20.	TOTAL LIABILITIES	107.338	100	109.826	100	102
	OFF-BALANCE SHEET RECORDS					
	- written-off loans	420		646		154
	- agent business	0		0		n/a

Annex 11 – Income Statement of MCCs

- in KM 000 -

No.	DESCRIPTION	For the period 01.01. - 31.03.2017	%	For the period 01.01. - 31.03.2018	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	0	0	0	0	n/a
1.2.	Interest on facilities to banks	0	0	0	0	n/a
1.3.	Loan interest	1 360	100	3 905	100	287
1.4.	Other financial income	1	0	3	0	300
1.5.	Total interest income and similar income (1.1. to 1.4.)	1 361	100	3 908	100	287
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	421	95	795	94	189
2.2.	Other financial expenses	24	5	47	6	196
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	445	100	842	100	189
3.	Net financial income (1.5. - 2.3.)	916		3 066		335
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	100	89	317	91	317
4.2.	Other operating income	12	11	32	9	267
4.3.	Total operating income (4.1. to 4.2.)	112	100	349	100	312
5.	Operating expenses					
5.1.	Salary and contributions costs	584	66	1 398	70	239
5.2.	Costs of business premises, other fixed assets and utility costs	200	23	325	16	163
5.3.	Other operating expenses	101	11	275	14	272
5.4.	Total operating expenses (5.1. to 5.3.)	885	100	1 998	100	226
6.	Loan loss provisions and provisions for other losses	109		377		346
7.	PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	34		1 040		3 059
8.	Extraordinary income	6		6		100
9.	Extraordinary expenses	2		72		3 600
10.	PROFIT/LOSS BEFORE TAXES	38		974		2 563
11.	TAXES	0		0		n/a
12.	NET PROFIT/LOSS	38		974		2 563

Annex 12 – Income Statement of MCFs

- in KM 000 -

No.	DESCRIPTION	For the period 01.01. - 31.03.2017	%	For the period 01.01. - 31.03.2018	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	6	0	1	0	17
1.2.	Interest on facilities to banks	1	0	5	0	500
1.3.	Loan interest	16 686	98	15 765	98	94
1.4.	Other financial income	315	2	378	2	120
1.5.	Total interest income and similar income (1.1. to 1.4.)	17 008	100	16 149	100	95
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	2 097	91	1 927	93	92
2.2.	Other financial expenses	196	9	134	7	68
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	2 293	100	2 061	100	90
3.	Net financial income (1.5. - 2.3.)	14 715		14 088		96
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	1 891	90	1 627	91	86
4.2.	Other operating income	204	10	163	9	80
4.3.	Total operating income (4.1. do 4.2.)	2 095	100	1 790	100	85
5.	Operating expenses					
5.1.	Salary and contributions costs	9 007	65	8 597	65	95
5.2.	Costs of business premises, other fixed assets and utility costs	2 844	20	2 652	20	93
5.3.	Other operating expenses	2 050	15	2 056	15	100
5.4.	Total operating expenses (5.1. to 5.3.)	13 901	100	13 305	100	96
6.	Loan loss provisions and provisions for other losses	1 127		1 120		99
7.	Surplus/deficit of income over expenses from regular operations (3.+4.3.-5.4.-6.)	1 782		1 453		82
8.	Extraordinary income	2 692		2 405		89
9.	Extraordinary expenses	111		120		108
10.	Surplus/deficit of income over expenses (7.+8.-9.)	4 363		3 738		86

ANNEXES FOR THE LEASING SECTOR

Annex 13 – Main Data on Leasing Companies

No.	Name of leasing company	Address and seat	Director	Phone	Issuance date of licence	Headcount	Website
1.	ASA LEASING d.o.o. Sarajevo	Trg međunarodnog prijateljstva 25, Sarajevo	Aida Rifelj	+ 387 33 774 852	22.03.2010	7	www.asa-leasing.ba
2.	NLB LEASING d.o.o. Sarajevo	Trg solidarnosti 2a, Sarajevo	Denis Silajdžić	+ 387 33 789 345	19.03.2010	7	www.nlbleasing.ba
3.	PORSCHE LEASING d.o.o.	Trg međunarodnog prijateljstva 24, Sarajevo	Dejan Stupar	+ 387 33 257 147	28.05.2015	18	www.porscheleasing.ba
4.	RAIFFEISEN LEASING d.o.o. Sarajevo	Z Zmaja od Bosne bb, Sarajevo	Munir Čengić	+ 387 33 254 354	19.01.2010	33	www.rlbh.ba
5.	SPARKASSE LEASING d.o.o. Sarajevo	Zmaja od Bosne 7, Sarajevo	Elma Hošo	+ 387 33 565 850	11.02.2010	19	www.s-leasing.ba
6.	VB LEASING d.o.o Sarajevo	Fra Anđela Zvizdovića 1, Sarajevo	Slobodan Vujić	+387 33 276 280	12.01.2010	12	www.vbleasing.ba
					TOTAL	96	

Annex 14 – Overview of the Ownership Structure of Leasing Companies

LEASING COMPANY	NAME OF THE OWNER	% share
ASA LEASING d.o.o. Sarajevo	ASA AUTO d.o.o. Sarajevo	82.81%
	ASA FINANCE d.d. Sarajevo	17.19%
NLB LEASING d.o.o. Sarajevo	NLB d.d. Ljubljana	100.00%
PORSCHE LEASING d.o.o.	PORSCHE BANK Aktiengesellschaft Salzburg Austrija	100.00%
RAIFFEISEN LEASING d.o.o. Sarajevo	RAIFFEISEN BANK d.d. Sarajevo, BiH	100.00%
SPARKASSE LEASING d.o.o. Sarajevo	STEIERMAERKISCHE BANK UND SPARKASSEN AG, Graz	51.00%
	SPARKASSE BANK d.d. Sarajevo	49.00%
VB LEASING d.o.o. Sarajevo	VB LEASING INTERNATIONAL GmbH, Vienna	100.00%

Annex 15 – Consolidated Balance Sheet of Leasing Companies

- in KM 000 -

DESCRIPTION	31.12.2017		31.03.2018		INDEX
ASSETS	Amount	% in total assets	Amount	% in total assets	
Cash and cash equivalents	13 738	5.3%	14 298	5.6%	104
Placements with banks	16 953	6.5%	10 088	3.9%	60
Receivables for financial leasing, net	176 007	67.6%	180 089	70.2%	102
Receivables for financial leasing, gross	192 488	74.0%	196 310	76.5%	102
Loan loss provisions	2 078	0.8%	1 790	0.7%	86
Deferred interest income	14 275	5.5%	14 302	5.6%	100
Deferred fee income	128	0.0%	129	0.1%	101
Receivables from subsidiaries	2	0.0%	2	0.0%	100
Tangible and intangible assets, net	29 606	11.4%	30 745	12.0%	104
Tangible and intangible assets – own assets	4 864	1.9%	4 582	1.8%	94
Tangible and intangible assets – operational leasing	43 673	16.8%	46 006	17.9%	105
Value adjustment – own assets	3 874	1.5%	3 628	1.4%	94
Value adjustment – operational leasing	15 057	5.8%	16 215	6.3%	108
Long-term investments	291	0.1%	291	0.1%	100
Other assets (7a + 7b)	23 607	9.1%	20 941	8.2%	89
Loans, net	13 449	5.2%	11 059	4.3%	82
Loans (due receivables + non-due principal)	15 345	5.9%	12 994	5.1%	85
Loan loss provisions	1 896	0.7%	1 935	0.8%	102
Inventories	3 087	1.2%	3 085	1.2%	100
Other assets	7 071	2.7%	6 797	2.7%	96
TOTAL ASSETS	260 204	100.0%	256 454	100.0%	99
LIABILITIES					
Receivables due for taken loans, net	209 085	80.4%	204 176	79.6%	98
Receivables due for short-term loans	0	0.0%	0	0.0%	n/a
Receivables due for long-term loans	209 275	80.4%	204 364	79.7%	98
Prepaid costs and fees	190	0.1%	188	0.1%	99
Other liabilities	10 329	4.0%	8 516	3.3%	82
TOTAL LIABILITIES	219 414	84.3%	212 692	82.9%	97
Core capital	34 004	13.1%	32 452	12.7%	95
Reserves	576	0.2%	576	0.2%	100
Accumulated profit/loss	6 210	2.4%	10 734	4.2%	173
TOTAL CAPITAL	40 790	15.7%	43 762	17.1%	107
TOTAL LIABILITIES	260 204	100.0%	256 454	100.0%	99
Written-off receivables (initial balance)	95 111	36.6%	84 175	32.8%	89
New write-off (+)	995	0.4%	404	0.2%	41
Collection (-)	6 069	2.3%	3 079	1.2%	51
Permanent write-off (-)	5 862	2.3%	4 942	1.9%	84
Written-off receivables (final balance)	84 175	32.3%	76 558	29.9%	91

Annex 16 – Balance Sheet Total Ranking of Leasing Companies

- in KM 000 -

31.12.2017					31.03.2018					
Rank	**Leasing company**	**Balance sheet total**	**Share**	**Cumul. share**	**Rank**	**Leasing company**	**Balance sheet total**	**Share**	**Cumul. share**	**INDEX**
1.	Raiffeisen Leasing d.o.o. Sarajevo	121 419	46.7%	46.7%	1.	Raiffeisen Leasing d.o.o. Sarajevo	111 143	43.3%	43.3%	92
2.	Sparkasse Leasing d.o.o. Sarajevo	57 774	22.2%	68.9%	2.	Sparkasse Leasing d.o.o. Sarajevo	56 412	22.0%	65.3%	98
3.	Porsche Leasing d.o.o. Sarajevo	47 365	18.2%	87.1%	3.	Porsche Leasing d.o.o. Sarajevo	57 714	22.5%	87.8%	122
4.	VB Leasing Leasing d.o.o. Sarajevo	20 756	8.0%	95.0%	4.	VB Leasing Leasing d.o.o. Sarajevo	15 835	6.2%	94.0%	76
5.	NLB Leasing d.o.o. Sarajevo	9 750	3.7%	98.8%	5.	NLB Leasing d.o.o. Sarajevo	12 293	4.8%	98.8%	126
6.	ASA Leasing d.o.o. Sarajevo	3 140	1.2%	100.0%	6.	ASA Leasing d.o.o. Sarajevo	3 057	1.2%	100.0%	97
Total		260 204	100.0%		Total		256 454	100.0%		99

Annex 17 – Overview of Key Financial Indicators of Leasing Companies

- in KM 000 -

No.	Leasing company	Total capital (KM 000)	Rank based on total capital	Net profit/loss (KM 000)	Rank based on net profit/loss	Facilities in Q1 2018 (KM 000)	Ramk based on facilities in Q1 2018	No. of arrangements in Q1 2018	Rank base on no. of arrangements
1.	Asa Aleasing d.o.o. Sarajevo	2 923	5.	-82	5.	0	-	0	-
2.	NLB Leasing d.o.o. Sarajevo	12 004	2.	2 549	1.	0	-	0	-
3.	Porsche Leasing d.o.o. Sarajevo	1 868	6.	251	3.	15 570	1.	492	1.
4.	Raiffeisen Leasing d.o.o. Sarajevo	17 346	1.	167	4.	9 643	2.	239	2.
5.	Sparkasse Leasing d.o.o. Sarajevo	6 519	3.	276	2.	6 817	3.	110	3.
6.	UniCredit Bank d.d.	-	-	-	-	3 598	4	103	4.
7.	VB Leasing d.o.o. Sarajevo	3 102	4.	-189	6.	0	-	0	-
	TOTAL	43 762		2 972		35 628		944	

Annex 18 – Overview of Reserves for Financial Leasing

- in KM 000 -

Days past due	Provisioning rate for financial leasing (moveables)	Provisioning rate for financial leasing (immoveables)	Amount of receivables for moveables	Amount of receivables for immoveables	Principal amount for moveables	Principal amount for immoveables	Reserves			
							For move-ables	For immove-ables	Additional calculated and allocated reserves	Total reserves
0-60	0.50%	0.50%	173 616	2 736	37 197	1 005	186	5	660	851
60-90	10%	10%	3 856	0	1 077	0	108	0	39	147
90-180	50%	50%	1 053	47	252	0	126	0	214	340
More than 180	100%	75%	435	137	435	18	435	13	4	452
More than 360	100%	100%	0	0	0	0	0	0	0	0
TOTAL			178 960	2 920	38 961	1 023	855	19	917	1 790

Annex 19 – Overview of Reserves for Loans

- in KM 000 -

Days past due	Provisioning rate	Amount of receivables	Reserves	Additional calculated allocated reserves	Total reserves
0-60	0.05%	12 994	7	1 928	1 935
60-90	5%	0	0	0	0
90-180	10%	0	0	0	0
180-270	30%	0	0	0	2
270-360	50%	0	0	0	0
More than 360	100%	0	0	0	0
TOTAL		12 994	7	1 928	1 935

Annex 20 – Consolidated Income Statement of Leasing Companies

- in KM 000 -

No.	DESCRIPTION	31.03.2017		31.03.2018		INDEX
		Amount	% in total income / expenses	Amount	% in total income / expenses	31.03.2018/ 31.03.2017
	FINANCIAL INCOME AND EXPENSES					
1.	Interest income	4 881	50.9%	2 748	29.7%	56
1a)	Interest for financial leasing	3 945	41.1%	2 206	23.8%	56
1b)	Interest on placements with banks	62	0.6%	86	0.9%	139
1c)	Fees (for processing leasing arrangements, etc.)	213	2.2%	146	1.6%	69
1d)	Other interest income	661	6.9%	310	3.3%	47
2.	Interest expenses	1 468	18.5%	773	12.3%	53
2a)	Interest on borrowed funds	1 442	18.2%	753	12.0%	52
2b)	Fees for loan processing	25	0.3%	20	0.3%	80
2c)	Other interest expenses	1	0.0%	0	0.0%	n/a
3.	Net interest income	3 413	35.6%	1 975	21.3%	58
	OPERATING INCOME AND EXPENSES					
4.	Operating income	4 714	49.1%	6 507	70.3%	138
4a)	Fees for services	0	0.0%	1	0.0%	n/a
4b)	Fee for operational lease	3 042	31.7%	2 886	31.2%	95
4c)	Income from sale of leasing facilities	19	0.2%	8	0.1%	42
4d)	Other operating income	1 653	17.2%	3 612	39.0%	219
4d)1	Income from collected written-off receivables	824	8.6%	3 073	33.2%	373
4d)2	Income from notifications	97	1.0%	52	0.6%	54
4d)3	Other	732	7.6%	487	5.3%	67
5.	Operating expenses	6 488	81.9%	5 332	84.9%	82
5a)	Salaries and contributions	1 682	21.2%	1 206	19.2%	72
5b)	Costs of business premises	2 640	33.3%	2 281	36.3%	86
5c)	Other costs	2 166	27.3%	1 845	29.4%	85
6.	Costs of loan loss provisions	-34	n/a	178	2.8%	n/a
7.	Profit before taxes	1 673	21.1%	2 972	32.1%	178
8.	Profit tax	57	0.6%	0	0.0%	n/a
9.	Net profit	1 616	16.8%	2 972	32.1%	184

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