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

I N F O R M A T I O N
ON THE BANKING SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
30. 09. 2015

Sarajevo, November 2015

The Banking Agency of the Federation of B&H, as a regulatory institution conducting banking supervision, has prepared the Information on the Banking System of the Federation of B&H (as of 30.09.2015) based on financial statements and other information and data provided by banks. This also encompasses results and information obtained during on-site examinations in banks and off-site financial analyses in the Agency.

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I INTRODUCTION

For a long period of time, operations of the banking sector have been taking place in an unfavourable environment and conditions of stagnating economic development resulting from the global financial and debtor crisis, recession and the absence of economic growth in countries of the EU zone. Modest economic growth, the difficult situation in the real sector and numerous domestic problems caused by the political situation in the country, limited access to stable sources of financing have all adversely reflected upon the condition and prospects in the banking sector. In the first three quarters of this year, as was the case in previous years, there were small oscillations, i.e. changes in either direction (decrease or increase) of the balance sheet total, as well as of key balance sheet categories: deposits, total capital, loan commitments, cash funds and loans. This indicates a stagnation of the banking sector that has been present for a long period of time and that is understandable, given the environment in which the banks in the FB&H, i.e. in B&H, operate. Liquidity, profitability and capitalisation of the sector can be deemed satisfactory, and it can be concluded that the banking sector remains stable and secure.

As of 30.09.2015, there were 17 licenced banks in the Federation of B&H, as was the case at the end of 2014. The headcount amounted to 6 876, down by 84 employees or 1.2% compared to the end of 2014.

The balance sheet total of the banking sector at the end of the third quarter of 2015 amounted KM 16.6 billion, thus posting an increase in the amount of KM 482 million or 3% compared to the end of 2014. The increase in the balance sheet total is primarily the result of the increase in deposits and the current financial result. The asset structure saw minor changes related to two key material items: the increase of the share of loans from 69.2% to 69.6% and the decrease of the share of cash funds from 28.2% to 26.7%.

In the nine months of this year, cash funds dropped by KM 124 million or 3% and amounted to KM 4.4 billion as of 30.09.2015.

Loans, being the largest assets item in banks, recorded an increase of 3.6% or KM 400 million in the first three quarters of this year and reached an amount of KM 11.6 billion as of 30.09.2015. With respect to the credit growth recorded in the first nine months of this year, one should bear in mind the impact, i.e. effects of the change in the exchange rate of CHF in January 2015, so that the real credit growth was somewhat lower (approximately 3.4%). The aforementioned credit growth is primarily the result of an increase in retail loans. Retail loans amount to KM 5.7 billion and recorded an increase of 5% or KM 250 million, with the share in total loans being up from 48.8% to 49.2%. Loans to private companies amount to KM 5.3 billion and are slightly up by 1% or KM 78 million, with the share dropping from 46.7% to 45.8%. As of 30.09.2015, total non-performing loans amount to KM 1.6 billion and remained at the same level as at the end of 2014. The share of non-performing loans in total loans amounts to 13.5%, down by 0.6 percentage points compared to the end of 2014, when it amounted to 14.1%. Out of the total loans approved to legal entities, non-performing loans account for 17.3%, with this indicator amounting to 9.6% for the retail segment.

In the first three quarters of this year, investments in securities recorded an increase of 17.3% or KM 138 million, which primarily related to securities issued by the Government of the FB&H, as well as increased investments in securities in the case of one bank in the third quarter of 2015. The securities portfolio amounted to KM 940 million as of 30.09.2015, with a 5.6% share in assets.

In the structure of banks' sources of funding, deposits in the amount of KM 12.6 billion with a share of 75.5% continued to be the most significant source of funding for banks in the FB&H. Total deposits increased by 3% or KM 421 million in the first nine months of 2015. On the other hand, savings deposits, as the most important and largest segment of the deposit and financial potential of banks, saw an increase of 5.6% or KM 374 million in the first nine months of 2015 and amounted to KM 7.1 billion as of 30.09.2015.

The second largest source are credit funds in the amount of KM 0.9 billion, which banks received mainly by borrowing from foreign financial institutions. In the past few years, due to the impact of the financial and economic crisis, banks borrowed significantly less from abroad, and by paying receivables due these sources were reduced by approximately 60% (at the end of 2008, they amounted to KM 2.18 billion), with the rate of decrease amounting to 8.2% or KM 84 million in the first nine months of 2015. It is evident that the financial support of parent groups (loans taken, deposits and subordinated debt) to their banks in the FB&H was reduced significantly in the last six years, it decreased by more than 70%, and thus credit growth in the FB&H will be based more on the increase in domestic sources of funding in the period to come.

In the first three quarters of 2015, total capital of banks increased by 6% or KM 155 million, largely on the basis of current profit and the recapitalisation of four banks (KM 58 million), and amounted to KM 2.6 billion as of 30.09.2015.

As of 30.09.2015, regulatory capital is KM 2.2 billion and is up by 3% or KM 58 million compared to the end of 2014, with minor changes in its structure.

The capital adequacy ratio of the banking system, as one of the most important indicators of the strength and capital adequacy of banks, is 15.9% as of 30.09.2015, down by 0.1 percentage points compared to the end of 2014, but it is still significantly above the legal minimum (12%), which represents a satisfactory capitalisation of the overall system for the existing level of risk exposure and a strong foundation and basis for preserving its security and stability.

According to data from the income statement, a positive financial result was recorded at the level of the banking system in the Federation of B&H in the first nine months of 2015, profit in the amount of KM 174 million, up by 40% or KM 50 million compared to the same period of the previous year. A positive financial result in the amount of KM 181 million was recorded by 15 banks, while two banks posted a loss in the amount of KM 7 million.

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

1. BANKING SECTOR STRUCTURE

1.1. Status, Number and Network of Branches

As of 30.09.2015, there were 17 banks with a banking licence in the Federation of B&H. The number of banks is the same as on 31.12.2014. A special law from 01.07.2008 regulates the establishment and operations of the Development Bank of the FB&H Sarajevo, a legal successor of the Investment Bank of the FB&H dd Sarajevo.

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

Banks have reorganised their networks of organisational units by changing the organisational form, membership or address of their organisational parts. This also entailed mergers and closings of some organisational parts, all for the purpose of business rationalisation and operating costs reduction. There was a total of 24 such changes among banks in the Federation of B&H (21 changes on the territory of the Federation of B&H, 2 in Republika Srpska, and 1 in Brčko District): 3 new organisational units were established, 9 organisational units were closed, and 12 underwent changes.

Subsequent to such changes, banks in the Federation of B&H had a total of 566 organisational units as of 30.09.2015, down by 0.9% compared to 31.12.2014.

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

As of 30.09.2015, seven banks from the Federation of B&H had 49 organisational units in Republika Srpska, and nine banks had 12 organisational units in Brčko District. Four banks from Republika Srpska had 36 organisational units in the Federation of B&H.

As of 30.09.2015, all banks had licences to effect interbank transactions within the domestic payment system, and 16 banks had secured deposits.

1.2. Ownership Structure

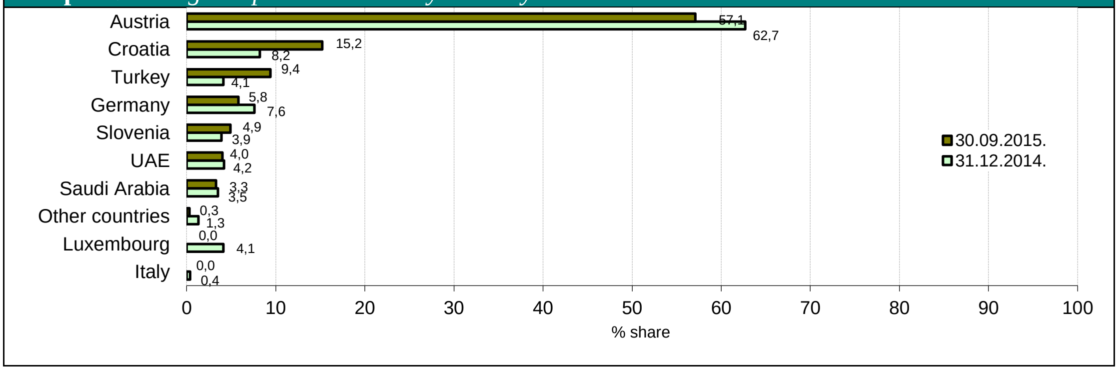
The ownership structure of banks[1] as of 30.09.2015, assessed on the basis of available information and reviews conducted in the banks themselves, is as follows:

- In private or mostly private ownership 16 banks (94.1%)
- In state or mostly state ownership[2] 1 bank (5.9%)

Out of the 16 banks in mostly private ownership, six banks are in majority ownership of local legal entities and natural persons (residents), while 10 banks are in majority foreign ownership.

If observed solely from the perspective of foreign capital, using the criterion of the shareholders' home country, the conditions as of 30.09.2015 changed compared to those as of the end of 2014 as a result of recapitalisations and changes in the ownership structure of two groups (transfer/acquisition among group members): the largest share of foreign capital in the amount of 57.1% refers to shareholders from Austria (share down by 5.6 percentage points), followed by shareholders from Croatia with 15.2% (share up by 7 percentage points) and Turkey with 9.4% (share up by 5.3 percentage points). Other countries hold individual shares below 6%.

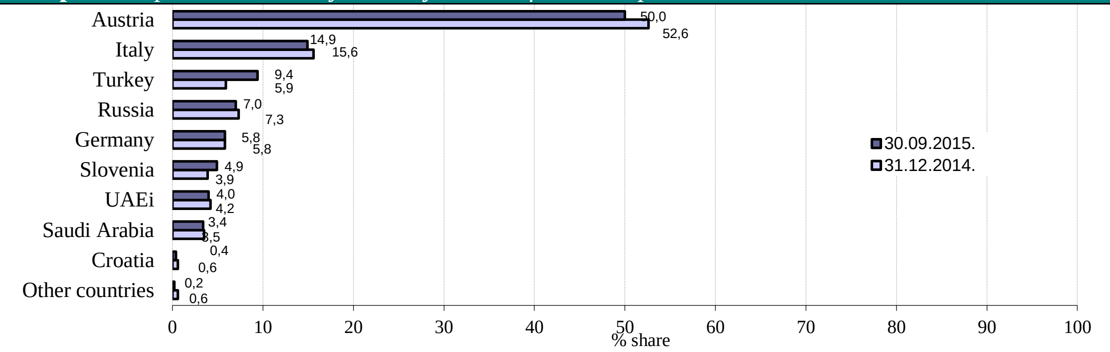
Graph 1: *Foreign Capital Structure by Country*



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

However, if taking into account capital relations, the structure of foreign capital can also be observed using the criterion of the home country of the parent bank or parent group having majority ownership (direct or indirect via group members) of banks in the Federation of B&H. According to this criterion, the conditions also changed compared to the end of 2014: the share of banking groups and banks from Austria amounts to 50%, followed by Italian banks with a share of 14.9%, while the share of capital from Turkey amounts to 9.4% and from Russia to 7%. Other countries held individual shares below 6%.

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



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

- in KM 000 -

Table 1: *Ownership Structure by Total Capital*

BANKS	31.12.2013.		31.12.2014.		30.09.2015		INDEX	
1	2		3		4		5 (3/2)	6 (4/3)
State-owned banks	51 618	2%	51 929	2%	52 016	2%	101	100
Private banks	2 256 327	98%	2 367 574	98%	2 522 832	98%	105	107
T O T A L	2 307 945	100%	2 419 503	100%	2 574 848	100%	105	106

In the first three quarters of 2015, total capital was up by 6% or KM 155 million, which is the net effect of the following changes: increase based on current profit in the amount of KM 174 million and recapitalisation in the amount of KM 58 million in four banks, as well as decrease due to the transfer of the payment of dividends in the amount of 70 KM million and revalorised reserves of KM 7 million to Liabilities.

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

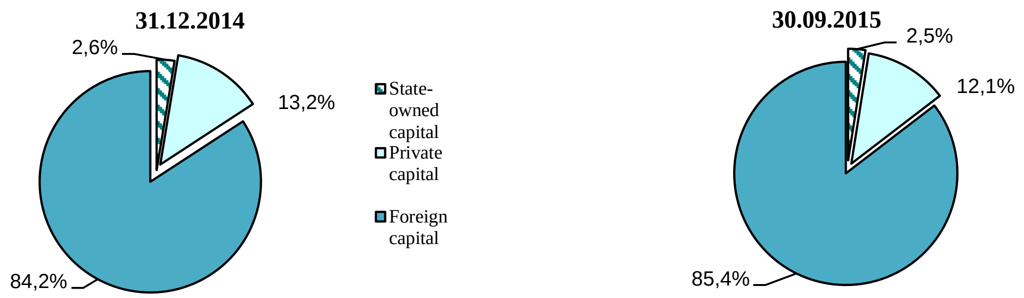
- in KM 000 -

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

SHARE CAPITAL	31.12.2013		31.12.2014		30.09.2015		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
State-owned capital	32 364	2.7	32 364	2.6	31 643	2.5	100	98
Private capital (residents)	153 549	12.8	162 354	13.2	154 423	12.1	106	95
Foreign capital (non-residents)	1 017 822	84.5	1 038 832	84.2	1 087 823	85.4	102	105
T O T A L	1 203 735	100.0	1 233 550	100.0	1 273 889	100.0	102	103

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

Graph 3: *Ownership Structure (by Share Capital)*



In the first three quarters of 2015, share capital of banks in the Federation of B&H was up by KM 40 million or 3.3% compared to 31.12.2014. Share capital rose by KM 68 million following recapitalisation in four banks, and dropped by KM 27.5 million due to the coverage of cumulative losses at the expense of share capital in one bank.

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

As of 30.09.2015, the share of state-owned capital in total share capital amounts to 2.5% and is down by 0.1 percentage points compared to 31.12.2014.

The share of private capital (of residents) in total share capital amounts to 12.1% and is down by 1.1 percentage points compared to 31.12.2014, according to relative indicators. According to absolute indicators, the share is down by KM 8 million net due to an increase in the share of residents after trade and recapitalisation in one bank, and down due to the coverage of cumulative losses at the expense of share capital in one bank.

The share of private capital (of non-residents) in total share capital increased by 1.2 percentage points (from 84.2% to 85.4%), according to relative indicators. According to absolute indicators, the share is up by KM 49 million net, i.e. up due to recapitalisation in three banks, and down due to a decrease in the share of non-residents after trade with residents.

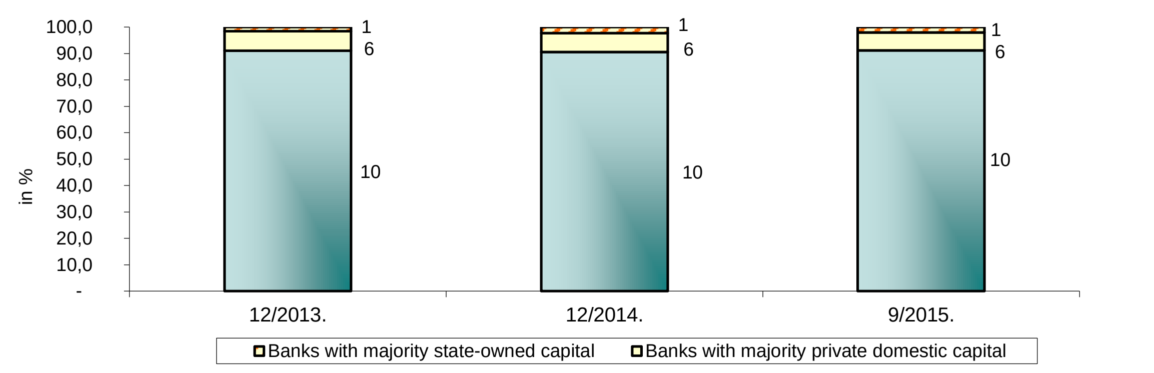
The market share of banks in majority foreign ownership as of 30.09.2015 stood at a high 91.2%, while banks with majority domestic private capital had a 6.8% share and one bank with majority state-owned capital had a 2.0% share.

- in % -

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

BANKS	31.12.2013			31.12.2014			30.09.2015		
	No. of banks	Share in total capital	Share in total assets	No. of banks	Share in total capital	Share in total assets	No. of banks	Share in total capital	Share in total assets
1	2	3	4	5	6	7	8	9	10
Banks woth majority state-owned capital	1	2.2	1.6	1	2.1	2.3	1	2.0	2.0
Banks with majority private domestic capital	6	9.2	7.4	6	7.8	7.1	6	7.2	6.8
Banks with majority foreign capital	10	88.6	91.0	10	90.1	90.6	10	90.8	91.2
T O T A L	17	100.0	100.0	17	100.0	100.0	17	100.0	100.0

Graph 4: *Market Shares by Ownership Type*



1.3. Human Resources

As of 30.09.2015, banks in the Federation of B&H had a headcount of 6 876 employees, 3% of which were employed in banks with majority state-owned capital and 97% of which were employed in private banks.

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

BANKS	HEADCOUNT						INDEX	
	31.12.2013		31.12.2014		30.09.2015		3/2	4/3
1	2		3		4		5	6
State-owned banks	200	3%	202	3%	189	3%	101	94
Private banks	6 851	97%	6 758	97%	6 687	97%	99	99
TOTAL	7 051	100%	6 960	100%	6 876	100%	99	99
Number of banks	17		17		17		100	100

Table 5: *Qualification Structure of Employees*

LEVEL OF QUALIFICATION	HEADCOUNT						INDEX	
	31.12.2013		31.12.2014		30.09.2015		4/2	6/4
1	2	3	4	5	6	7	8	9
University degree	3 673	52.1%	3 775	54.2%	3 799	55.3%	103	101
Two-year post-secondary school qualification	601	8.5%	587	8.5%	580	8.4%	98	99
Secondary school qualification	2 750	39.0%	2 571	36.9%	2 481	36.1%	93	96
Other	27	0.4%	27	0.4%	16	0.2%	100	59
TOTAL	7 051	100.0%	6 960	100.0%	6 876	100.0%	99	99

In the first nine months of 2015, the headcount decreased slightly (by 84 or 1.2%).

The trend of an improved qualification structure by means of a larger share of employees with university degrees was continued in the reporting period in 2015 as well, mostly as a result of the number of employees with secondary school qualifications being down by 4% or 90 employees.

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

Table 6: *Assets per Employee*

BANKS	31.12.2013			31.12.2014			30.09.2015		
	Head-count	Assets (KM 000)	Assets per employee	Head-count	Assets (KM 000)	Assets per employee	Head-count	Assets (KM 000)	Assets per employee

State-owned	200	241 605	1 208	202	379 330	1 878	189	342 216	1.811
Private	6 851	15 204 945	2 220	6 758	15 771 200	2 334	6 687	16 289 992	2.436
TOTAL	7 051	15 446 550	2 191	6 960	16 150 530	2 320	6 876	16 632 208	2.419

At the end of the reporting period, there were KM 2.4 million of assets per employee at banking system level (KM 2.3 million at the end of 2014).

Table 7: *Assets per Employee – by Group*

Assets (KM 000)	31.12.2013 Number of banks	31.12.2014 Number of banks	30.09.2015 Number of banks
Up to 1 000	1	1	1
1 000 to 2 000	8	7	8
2 000 to 3 000	7	7	6
Over 3 000	1	2	2
TOTAL	17	17	17

Analytical indicators for individual banks range from KM 1.0 million to KM 3.6 million of assets per employee. There are six banks in which this ratio is better than the one at the banking sector level, while this ratio exceeds the amount of KM 2.6 million in the three largest banks in the system.

2. FINANCIAL PERFORMANCE INDICATORS OF BANKS

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

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

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

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

2.1. Balance Sheet

The balance sheet total of the banking sector amounted to KM 16.6 billion at the end of the third quarter of 2015, thus posting an increase in the amount of KM 482 million or 3% compared to the end of 2014, mostly as a result of an increase in deposits and the current financial result. Trends in key

[4] State-owned banks post the „full balance sheet“, meaning liabilities and neutral items, which the state will take over once the privatisation process gets finalised. As of 30.09.2015, these items amounted to KM 710 million in the case of one state-owned bank.

balance sheet categories: deposits, total capital, loan commitments, cash funds and loans are very similar to those in previous periods (small changes or stagnation), which is still due to te impact of the financial and economic crisis and the environment in which the banks in the FB&H, i.e. in B&H, operate.

- KM 000 -

Table 8: *Balance Sheet*

DESCRIPTION	31.12.2013 AMOUNT	Share %	31.12.2014 AMOUNT	Share %	30.09.2015 AMOUNT	Share %	INDEX	
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
ASSETS:								
Cash funds	4 417 898	28.6	4 560 234	28.2	4 436 470	26.7	103	97
Securities[5]	562 513	3.6	801 289	5.0	939 676	5.6	142	117
Facilities to other banks	51 960	0.3	50 836	0.3	104 612	0.6	98	206
Loans	10 852 400	70.3	11 170 277	69.2	11 570 360	69.6	103	104
Value adjustment	1 165 928	7.5	1 160 481	7.2	1 168 896	7.0	100	101
Net loans (loans minus value adjust.)	9 686 472	62.8	10 009 796	62.0	10 401 464	62.6	103	104
Business premises and other fixed assets	512 985	3.3	525 860	3.2	535 869	3.2	103	102
Other assets	214 722	1.4	202 515	1.3	214 117	1.3	94	106
TOTAL ASSETS	**15 446 550**	**100.0**	**16 150 530**	**100.0**	**16 632 208**	**100.0**	**105**	**103**
LIABILITIES:								
LIABILITIES								
Deposits	11 523 849	74.6	12 130 746	75.1	12 551 581	75.5	105	103
Borrowings from other banks	0	0.0	0	0.0	0	0.0	0	
Loan commitments	1 039 381	6.7	1 026 503	6.4	942 635	5.7	99	92
Other liabilities	575 375	3.7	573 778	3.5	563 144	3.3	100	98
CAPITAL								
Capital	2 307 945	15.0	2 419 503	15.0	2 574 848	15.5	105	106
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**15 446 550**	**100.0**	**16 150 530**	**100.0**	**16 632 208**	**100.0**	**105**	**103**

- KM 000 -

Table 9: *Banks' Assets by Ownership Structure*

BANKS	31.12.2013 No. of banks	Assets (KM 000)		31.12.2014 No. of banks	Assets (KM 000)		30.09.2015 No. of banks	Assets (KM 000)		INDEX	
1	2	3		4	5		6	7		8 (5/3)	9(7/5)
State-owned	1	241 605	2%	1	379 330	2%	1	342 216	2%	157	90
Private	16	15 204 945	98%	16	15 771 200	98%	16	16 289 992	98%	104	103
TOTAL	17	15 446 550	100%	17	16 150 530	100%	17	16 632 208	100%	105	103

In most banks (10), assets are up compared to the end of 2014, while the other banks saw a decrease in assets. Five banks recorded a moderate growth rate (between 5% and 10%), one bank recorded a somewhat higher increase in assets (17.5%),while the other banks recorded low growth rates. Similar trends were recorded with respect to rates of decrease, with it being noted that three banks recorded a moderate rate of decrease of the balance sheet total (between 8% and 10%).

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

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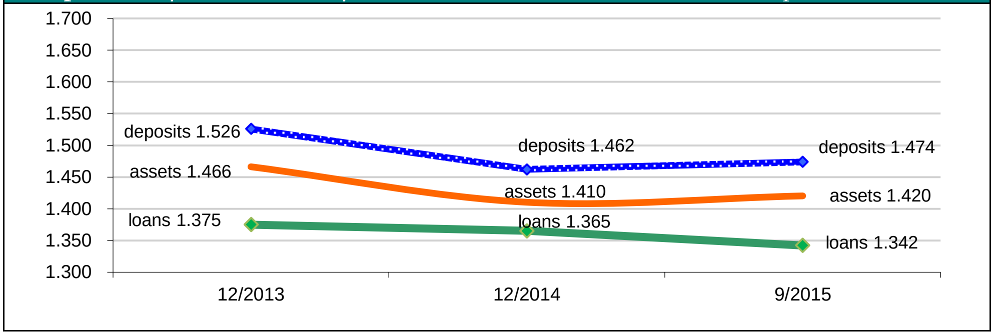
[5] Trading securities, securities available for sale and held to maturity securities.

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

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

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

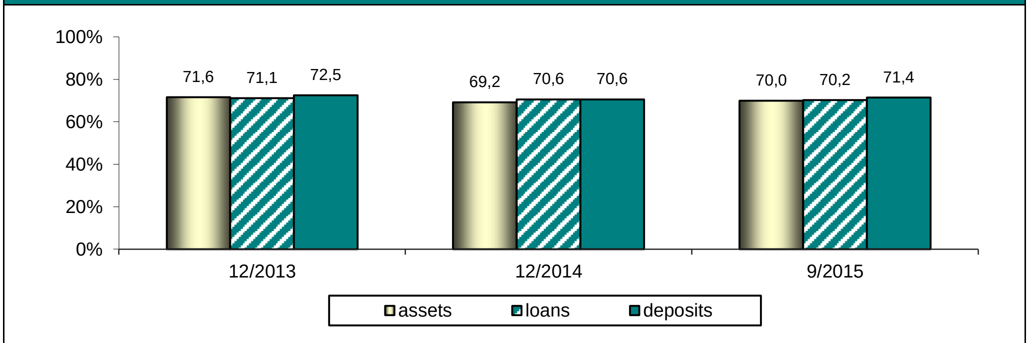
Graph 5: *Herfindahl Indeks of Concentrations in Assets, Loans and Deposits*



In the first three quarters of 2015, the Herfindahl index of concentrations in all three relevant categories (assets, loans and deposits) saw small changes: it increased by 10 units for assets, by 12 units for deposits and decreased by 23 units for loans, so that it amounted to 1 420 units for assets, 1 342 units for loans, and 1 474 units for deposits as of 30.09.2015, which is indicative of a moderate concentration.[7]

The second concentration indicator for the banking system is the ratio of market concentrations, i.e. the concentration rate[8] (hereinafter: the CR) showing the total share of the largest institutions in the system in selected relevant categories: assets, loans and deposits. Like Herfindahl's index of concentrations, the CR5 also changed only slightly and amounted to 70% for market share, 70.2% for loans, and 71.4% for deposits. For a long period of time, the value of the CR5 saw slight changes across all three categories, but the domination of the five largest banks in the system, which hold approximately 70% of the market, loans and deposits, is still evident.

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



The banking sector can also be analysed on the basis of the criterium of belonging to groups formed according to asset size.[9] Changes in share percentage compared to the end of 2014 are minor, which is the result of changes in the assets of most banks.

The banking system is dominated by the two largest banks (I group with assets in the amount of over KM 2 billion) with a share of 47.5%, followed by the share of the II group (three banks with assets in the amount ranging from KM 1 billion to KM 2 billion) of 22.5%, while the III group has a somewhat lower share of 18.6% (four banks with assets ranging from KM 500 million to KM 1 billion). The share of the IV and largest group (with assets ranging from KM 100 million to KM 500 million)

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

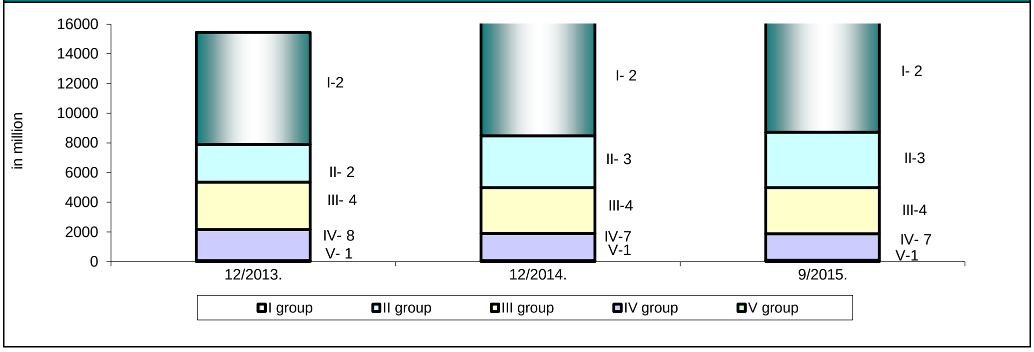
amounts to 10.9%, while one bank in the V and last group (with assets below KM 100 million) has a share of a negligible 0.5%.

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

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

ASSETS	31.12.2013			31.12.2014			30.09.2015		
	Amount	Share %	No. of banks	Amount	Share %	No. of banks	Amount	Share %	No. of banks
I- Over 2 000	7 546	48.8	2	7 685	47.6	2	7 908	47.5	2
II- 1000 to 2000	2 555	16.5	2	3 488	21.6	3	3 743	22.5	3
III- 500 to 1000	3 195	20.7	4	3 077	19.0	4	3 095	18.6	4
IV- 100 to 500	2 078	13.5	8	1 823	11.3	7	1 805	10.9	7
V- Below 100	73	0.5	1	78	0.5	1	81	0.5	1
TOTAL	15 447	100.0	17	16 151	100.0	17	16 632	100.0	17

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



The slight balance sheet total increase of 3.0% or KM 482 million, i.e. to the level of KM 16.6 billion at the end of the third quarter of 2015 is mostly the result of an increase in deposits in the amount of 3.5% or KM 421 million, i.e. to the level of KM 12.6 billion, as well as an increase in total capital in the amount of 6.4% or KM 155 million on the basis of current profit and the recapitalisation of four banks. At the end of the reporting period in 2015, total capital amounted to KM 2.6 billion. The downward trend of loan commitments continued, with a share of 8.2% or KM 84 million, i.e. to the level of KM 943 million.

During the reporting period, cash funds went down by 2.7% or KM 124 million, i.e. to the level of KM 4.4 billion as a result of, on the one hand, slight credit growth, investments in securities, and facilities to other banks, and, on the other hand, the decrease in loan commitments.

In the first three quarters of 2015, credit growth in the amount of 3.6% or KM 400 million was recorded, with it being noted that one should bear in mind the impact, i.e. effects of the change of the exchange rate of CHF in January 2015, so that the real credit growth amounted to approximately 3.4%. Loans amounted to KM 11.6 billion as of 30.09.2015.

Investments in securities recorded a significant increase of 17.3% or KM 138 million (in 2014, their growth was 42.4% or KM 239 million), which was primarily related to securities issued by the Government of the FB&H. As of 30.09.2015, the securities portfolio amounted to KM 940 million, thus having a share in assets of a mere 5.6%.

The portfolio of securities available for sale (a small part thereof refers to the trading portfolio), up by 22.2% or KM 130 million (primarily as a result of a significant increase in investments in securities in one bank in the third quarter of 2015), amounted to KM 717 million, and the securities held to maturity increased by 3.9%, i.e. from KM 215 million to KM 223 million. Both portfolios include securities issued by the Government of the Federation of B&H[10] in the total amount of KM 424 million, as well as securities issued by the Government of Republika Srpska in the amount of KM 114 million. Also, the trading portfolio includes shares issued by local companies totaling KM 3 million. The remaining portion of the securities portfolio amounts to app. KM 339 million and refers mostly to bonds of EU countries, and to a lesser extent to corporate bonds, primarily those of EU banks. The increase in investments in securities in 2015 is primarily the result of an increase in the exposure to the Government of the FB&H on the basis of the purchase of treasury bills and bonds, which rose from KM 355 million to KM 398 in the first three quarters of 2015.

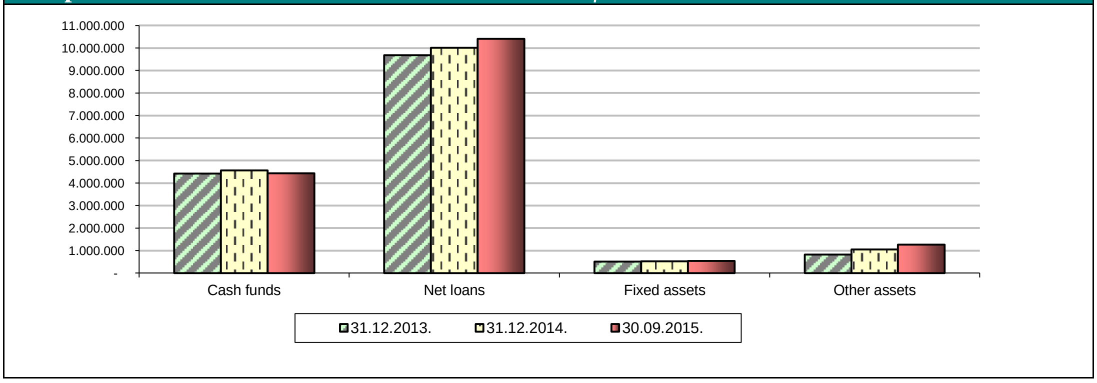
In the first three quarters of 2015, the Government of the Federation of B&H issued 11 tranches of treasury bills in the total nominal amount of KM 238 million, KM 78 million of which matured in the third quarter, so that their balance and book value as of 30.09.2015 amounted to KM 160 million and KM 159.8 million, respectively.

In addition to treasury bills, the securities portfolios of banks also include market bonds issued by the Government of the Federation of B&H. In May and June 2015, two tranches of bonds with a total nominal value of KM 30 million each were issued, while one tranche with a nominal value of KM 20 million was issued in August, with it being noted that the banks bought a total of KM 62.6 million. The balance of the nominal amount of bonds as of 30.09.2015 was KM 239 million (KM 255 million at the end of 2014). The majority of the treasury bills and market bonds with a book value of KM 328 million was classified in the portfolio of securities available for sale, while the rest in the amount of KM 70 million is classified in the portfolio of securities held to maturity.

When analysing the overall securities portfolio (KM 940 million) from the aspect of exposure by country, the largest share is that of B&H (57.6%) (56.6% at the end of 2014), followed by Austria (12.9%), Romania (10.8%), France (3.7%), etc.

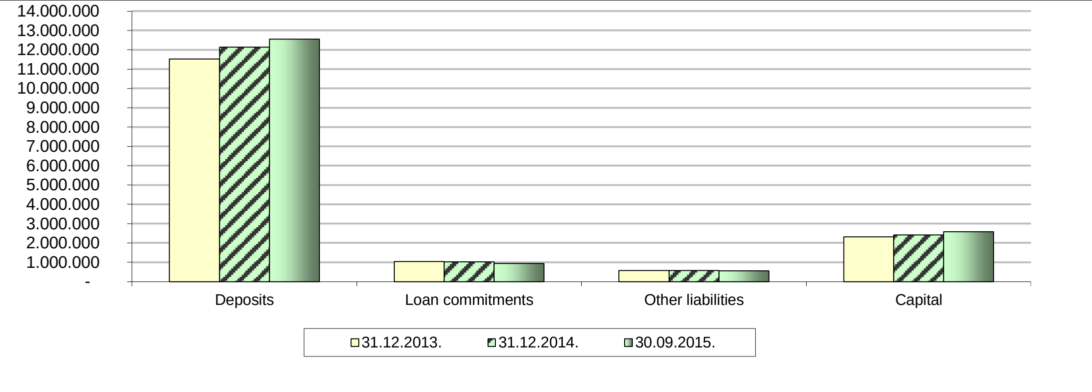
The graphs below show the structure of the key items of the banks' balance sheet.

Graph 8: *Assets Structure within the Balance Sheet of Banks*



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

Graph 9: *Liabilities Structure within the Balance Sheet of Banks*



Within the liabilities structure of the banks' balances sheets, deposits still represent a dominant source of funding for banks in the Federation of B&H (with an amount of KM 12.6 billion and a 75.5% share). The long-standing trend of decrease of loan commitments continued in 2015 as well and, following a drop in the amount of 8.2%, the share of loan commitments in the amount of KM 0.9 billion decreased from 6.4% to 5.7%, while the share of capital, which amounted to KM 2.6 billion as of 30.09.2015, increased from 15.0% to 15.5%.

The structure of assets, as well as the structure of sources of funding, saw minor changes related to two key assets items: increase in the loan share from 69.2% to 69.6% and decrease in cash funds from 28.2% to 26.7%.

- in KM 000 -

Table 11: *Cash Funds of Banks*

CASH FUNDS	31.12.2013		31.12.2014		30.09.2015		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	431 592	9.8	456 750	10.0	567 581	12.8	106	124
RR at the CB B&H	2 622 277	59.4	2 854 559	62.6	2 889 919	65.1	109	101
Accounts at deposit institutions in B&H	25 181	0.5	22 759	0.5	1 169	0.0	90	5
Accounts at deposit institutions abroad	1 338 347	30.3	1 225 850	26.9	977 590	22.1	92	80
Cash funds in the process of collection	501	0.0	316	0.0	211	0.0	63	67
TOTAL	4 417 898	100.0	4 560 234	100.0	4 436 470	100.0	103	97

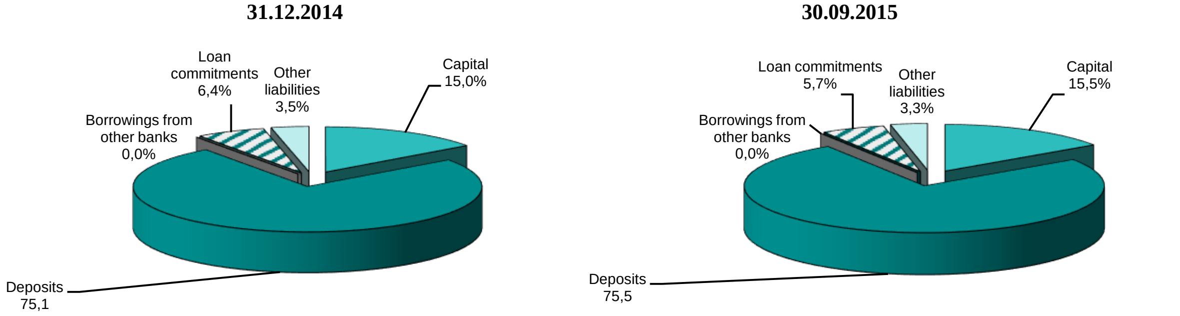
The banks' cash funds in the CBBH reserves account were up by a slight 1% or KM 35 million in the first nine months of 2015 and amounted to KM 2.9 billion or 65.1% of total cash funds as of 30.09.2015 (62.6% at the end of 2014). The continuous drop in banks' funds in accounts of deposit institutions abroad was continued in the reporting period in 2015 as well (a result of the outflow or withdrawal of deposits by non-residents, primarily parent groups, as well as the repayment of outstanding loan commitments). These funds recorded a decrease of 20% or KM 248 million and amounted to KM 1.0 billion or 22.1% of total cash funds (26.9% at the end of 2014). Following their increase of 24% or KM 111 million, banks held cash funds in the amount of KM 568 million, which represents 12.8% of total cash funds, in vaults and treasuries as of 30.09.2015.

These trends prompted a change in the currency structure of cash funds: in the reporting period, the share of local currency increased from 70.2% to 74.0%, while cash in foreign currency decreased by the same percentage.

2. 1. 1. Liabilities

The total liabilities structure (liabilities and capital) within the banks' balance sheet as of 30.09.2015 is provided in the graph below:

Graph 10: *Liabilities Structure of Banks*



In the first nine months of 2015, the share of deposits (75.5%), as the most significant source of funding of banks, was up by 0.4 percentage points, while the continuous trend of decrease in the share of loan commitments, the second largest source of funding, continued in 2015 as well by 0.7 percentage points (5.7%).

As of 30.09.2015, deposits amounted to KM 12.6 million, thus still being the largest source of funding of banks in the Federation of B&H.

The second-largest source of funding are loans in the amount of KM 0.9 billion, which banks received mostly by borrowing from foreign financial institutions. In the past few years, due to the effect of the financial and economic crisis, banks incurred significantly fewer loans abroad and, coupled with the payment of receivables due, reduced these sources of funding by app. 60% (at the end of 2008, deposits amounted to KM 2.18 billion) with the rate of decrease amounting to 8.2% or KM 84 million in the reporting period in 2015. If subordinated loans in the amount of KM 110 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 6.4% in total sources of funding.

As of 30.09.2015, banks held the largest amount of liabilities towards the following creditors (5 out of a total of 28 creditors), accounting for 74% of total loan commitments: European Investment Bank (EIB), TC ZIRAAT BANKASI A.S. (Turkey), UniCredit Bank Austria AG, the World Bank, and the European Fund for Southeast Europe (EFSE).

As of 30.09.2015, capital amounted to KM 2.6 billion, up by 6.4% or KM 155 million compared to the end of 2014. This primarily relates to the financial result (profit) recorded in the first nine months of 2015 as well as the recapitalisation in four banks (KM 58 million).

According to the information submitted by banks, out of the total deposit amount at the end of the reporting period, only 5.9% relates to deposits collected in organisational units of banks from the Federation of B&H, which are doing business in Republika Srpska and Brčko District.

- in KM 000 -

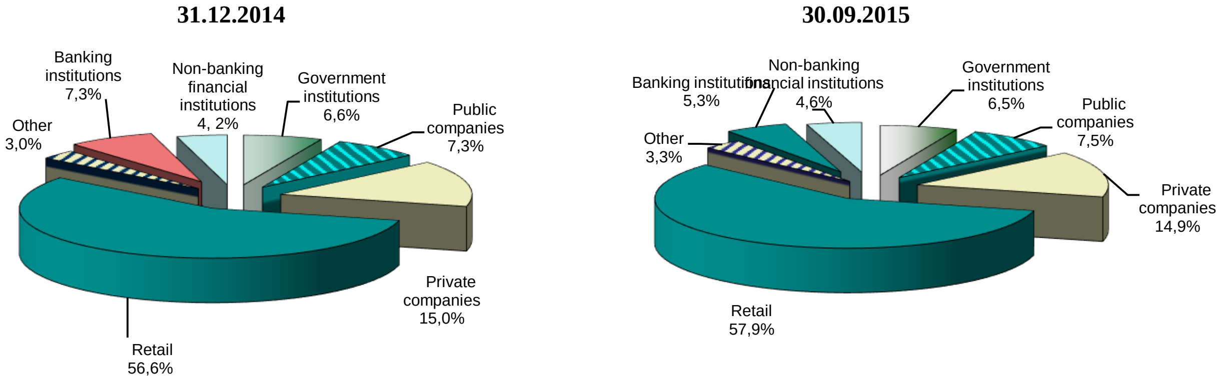
Table 12: *Deposit Structure by Sector* [11]

SECTORS	31.12.2013		31.12.2014		30.09.2015		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	565 533	4.9	795 985	6.6	820 202	6.5	141	103
Public companies	1 076 527	9.3	883 463	7.3	938 526	7.5	82	106

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

Private companies and enterprises	1 668 034	14.5	1 821 094	15.0	1 875 614	14.9	109	103
Banking institutions	1 012 274	8.8	886 007	7.3	660 484	5.3	88	75
Non-banking financial institutions	535 915	4.7	517 110	4.2	579 289	4.6	96	112
Retail	6 366 218	55.2	6 863 296	56.6	7 262 645	57.9	108	106
Other	299 348	2.6	363 791	3.0	414 821	3.3	122	114
TOTAL	11 523 849	100.0	12 130 746	100.0	12 551 581	100.0	105	103

Graph 11: *Deposit Structure by Sector*



In the first three quarters of 2015, minor changes occurred in the deposit structure by sector, which were, on the one hand, primarily the result of an increase in retail deposits, as well as other sectors, with the exception of deposits of banking institutions, which have had a downward trend for a few years.

Retail deposits displayed continuous growth over the past few years, and they rose by 6% or KM 399 million in the first nine months of 2015, while their share in total deposits rose from 56.6% to 57.9%, so that retail deposits are still the largest source of funding for banks with KM 7.3 billion. Analytical data indicates that the share of this sector’s deposits is the largest in 15 out of 17 and it ranges from 40% to 83%, i.e. it is above 50% in nine banks.

The second largest source of funding (based on amount and share) are deposits of private companies. Following an increase of 9% or KM 153 million in 2014, they recorded a slight increase of 3% or KM 55 million in the first nine months of 2015 and amounted to KM 1.9 billion, which constitutes a share of 14.9% (-0.1 percentage points).

In the reporting period, deposits of public companies rose by 6% or KM 55 million and amounted to KM 939 million as of 30.09.2015, with their share being 7.5% of total deposits (+0.2 percentage points).

Due to the effects of the crisis, the reduced volume of lending and high liquidity, deposits of banking institutions have had a trend of significant decrease for a few years, thus resulting in a reduced share. From the end of 2009 to 30.09.2015, deposits of this sector dropped by app. 70% or KM 1.5 billion. Negative trends in previous years (related to these funds at sector level) are mostly the result of debt reduction, i.e. the repayment of funds to groups that own the banks in the Federation of B&H.

In the first nine months of 2015, deposits of banking institutions fell by 25% or KM 226 million, thus amounting to KM 660 million as of 30.09.2015. This resulted in their share in total deposits dropping from 7.3% to 5.3%. These funds are lower than loan commitments by KM 283 million, which are the second-largest source of funding in banks from the Federation of B&H, just after deposits. Based on the aforementioned information, it can be concluded that the foreign debt level of banks from the Federation of B&H is much lower, especially in terms of deposit funds of parent groups. It should be noted that maturity has changed singificantly in favour of short-term deposits, which have the function of maintining the maturity adjustment within the prescribed limits, i.e. KM 69 million or 13% of term deposits of the group mature by the end of 2015, while KM 174 million or 33% mature in 2016. Considering that the same trend of decrease is present with respect to loan commitments, a number of banks have been facing the problem of maintaining their maturity adjustment for quite some time, with this being caused by the unfavourable maturity of local deposit funds, due to which they must continuously work on securing better quality sources in terms of maturity in order to intensify the increase in approved loans.

It is worth noting that 83% or KM 551 million of deposits of banking institutions relate to deposits of banks from the group (mostly shareholders). Financial support by parent groups is present with respect to nine banks in the Federation of B&H, wherein such financing is still concentrated in three large banks (83%). In this way, banks in majority foreign ownership had financial support and secured inflows of new funds by their foreign groups in previous periods. If these funds are coupled with loan commitments and subordinated debt, the financial support of banks from the group is higher (with respect to 11 banks) and amounts to KM 1 billion as of 30.09.2015 (or 5.5% of total liabilities of the banking sector, which is lower compared to the end of 2014 (KM 1.2 billion or 7.4% of liabilities)). In total deposits, the funds of banking groups hold a share of 4.5% (6.4% at the end of 2014), while loan commitments to the group account for 27.6% of total loan commitments (this share is up by 0.6%). Compared to the end of 2014, these funds dropped by 24% or KM 288 million, largely based on regular maturities (deposits fell by 29.2% or KM 230 million, loan commitments by 6.1% or KM 17 million and subordinated loans by 29.2% or KM 41 million).

Considering that lending activities of banks got significantly reduced due to the economic crisis, thus resulting in high liquidity and a good capitalisation rate of most of foreign-owned banks in the Federation of B&H, the trend of the past couple of years is still present when it comes to reduced exposures to the group. This primarily relates to the segment of both deposit sources and loan sources, largely on the basis of regular repayments of matured liabilities. It is evident that the financial support of parent banking groups got significantly reduced, so that credit growth in the Federation of B&H will have to rely more on local sources of funding in the period to come. It is especially important to underline that deposit funds that certain banks received from their parent groups over the past two years are mostly of short-term maturity (most often one to two months) and serve the purpose of maintaining maturity adjustment within the prescribed limits, and therefore do not constitute a quality source of long-term funding.

In times of crisis and difficulties in terms of accessing the money market and new funds, the increase of liquidity risk as a result of the impaired collection rate of loans and growth of uncollectable receivables, unsatisfactory maturity structure of local deposit sources and expected further reduction of foreign sources of funding, the problem of the unfavourable maturity structure of sources of funding (primarily deposits) and their growth will be the focus of most of banks in the period to come.

Deposits of other sectors also saw a slight increase: government institutions recorded an increase of 3% or KM 24 million, while non-banking financial institutions recorded an increase of 12% or KM 62 million. The aforementioned resulted in slight changes in terms of shares.

The currency structure of deposits as of 30.09.2015 has slightly changed: deposits in local currency, after being slightly up by 4.7% or KM 289 million, increased their share from 50.8% to 51.4% and amounted to KM 6.5 billion, while deposits in foreign currency (with a dominant share of EUR currency) amounted to KM 6.1 billion, thus holding a share of 48.6% (-0.6 percentage points).

Struktura depozita prema porijeklu deponenata na kraju trećeg kvartala 2015. godine neznatno je promijenjena: sredstva rezidenata u iznosu od 11,6 milijardi KM imala su učešće 92,2% (+1,8 procentnih poena), a depoziti nerezidenata iznosili su jednu milijardu KM, što je 7,8% ukupnih depozita. Rast učešća depozita rezidenata, s jedne strane, rezultat je njihovog nominalnog rasta od 5,5% ili 606 miliona KM, a s druge strane, pada depozita nerezidenata za 15,9% ili 185 miliona KM. Depoziti nerezidenata u posljednjih nekoliko godina imaju kontinuirani pad, što je rezultat povlačenja, odnosno povrata depozita „majke“ ili članica grupacije, na koje se najvećim dijelom i odnose sredstva nerezidenata.

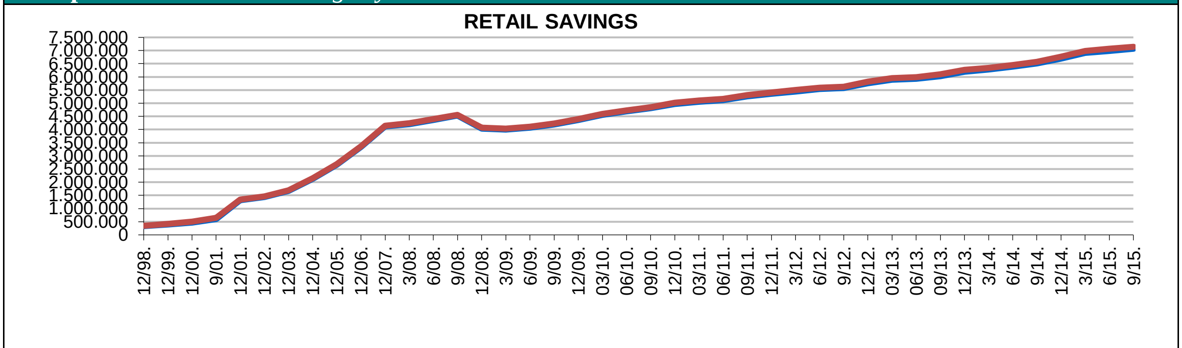
At the end of of the third quarter of 2015, the structure of deposits by domicile status of depositors changed slightly: resident funds amounted to KM 11.6 billion and had a share of 92.2% (+1.8 percentage points), while non-resident deposits amounted to KM 0.9 billion and represented 7.7% of total deposits. The increase in the share of resident deposits is, on the one hand, the result of their nominal increase in the amount of 2.4% or KM 262 million, and, on the other hand, the result of the drop in non-resident deposits by 19.3% or KM 224 million. Over the past few years, non-resident deposits continuously decreased as a result of the withdrawal, i.e. return of deposits to the parent bank or member of the banking group to which non-resident funds mostly refer.

In the first nine months of 2015, savings deposits, as the most significant segment of the deposit and financial potential of banks, recorded an increase of 5.6% or KM 374 million and exceeded the amount of KM 7 billion as of 30.09.2015, amounting to KM 7.07 billion.

Table 13: *New Retail Savings By Period*

BANKS	AMOUNT (in KM 000)			INDEX	
	31.12.2013	31.12.2014	30.09.2015	3/2	4/3
1	2	3	4	5	6
State-owned	65 179	73 072	77 215	112	106
Private	6 135 711	6 618 891	6 988 408	108	106
TOTAL	6 200 890	6 691 963	7 065 623	108	106

Graph 12: *New Retail Savings by Period*



The two largest banks hold 56% of savings, while eight banks hold individual shares of less than 2%, which amounts to 9.1% of total savings at system level.

Out of the total amount of savings, 40% refer to saving deposits in local currency and 60% to savings deposits in foreign currency.

Table 14: *Maturity Structure of Retail Savings Deposits by Period*

BANKS	AMOUNT (in KM 000)						INDEX	
	31.12.2013		31.12.2014		30.09.2015		3/2	4/3
1	2		3		4		5	6
Short-term savings deposits	2 911 827	47.0%	3 129 098	46.8%	3 386 604	47.9%	107	108
Long-term savings deposits	3 289 063	53.0%	3 562 865	53.2%	3 679 019	52.1%	108	103
TOTAL	6 200 890	100.0%	6 691 963	100.0%	7 065 623	100.0%	108	106

Compared to the end of 2014, the maturity structure of savings deposits changed slightly through an increase in short-term deposits by 8% or KM 258 million, while long-term deposits rose by 3% or

KM 116 million, thus resulting in a slightly lower share of long-term deposits from 53.2% to 52.1%.

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

As of 30.09.2015, there was a total of 16 banks from the Federation of B&H included in the deposit insurance program (i.e. holding licences issued by the Deposit Insurance Agency of B&H). There is one bank that is not eligible for this program because it does not meet the criteria defined by the Deposit Insurance Agency of B&H (due to existing composite rating).

2.1.2. Capital – Strength and Adequacy

The capital[12] of banks in the Federation of B&H as of 30.09.2015 amounted to KM 2.2 billion.

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

- in KM 000 -

Table 15: *Regulatory Capital*

DESCRIPTION	31.12.2013		31.12.2014		30.09.2015		INDEX	
1	2		3		4		5 (3/2)	6 (4/3)
1.a. Core capital before reduction	2 155 188		1 991 385		2 071 026		92	104
1.1. Share capital – common and permanent non-cumulative shares	1 200 644		1 230 459		1 270 799		102	103
1.2. Issue premiums	136 485		136 485		132 667		100	97
1.3. Reserves and retained profit	818 059		624 441		667 560		76	107
1.b. Deductible items	294 629		219 589		200 781		75	91
1.1. Uncovered losses from previous years	112 610		122 705		140 963		109	115
1.2. Current year loss	140 445		50 868		7 088		36	14
1.3. Treasury shares	156		81		81		52	100
1.4.. Intangible assets	41 418		41 873		48 124		101	115
1.5. Deferred tax assets	N/a		2 780		2 791		N/a	100
1.6. Negative revalorised reserves	N/a		1 282		1 734		N/a	135
1. Core capital (1a-1b)	**1 860 559**	**80%**	**1 771 796**	**81%**	**1 870 245**	**83%**	95	106
2. Supplementary capital	**457 047**	**20%**	**412 922**	**19%**	**372 254**	**17%**	90	90
2.1. Share capital – common and permanent cumulative shares	3 091		3 091		3 090		100	100
2.2. General loan loss reserves	215 083		229 895		241 680		107	105
2.3. Positive revalorised reserves	N/a		23 703		17 531		N/a	74
2.4. Amount of audited profit	71 984		N/a		N/a		N/a	N/a
2.5. Subordinated debt	165 473		154 814		108 534		94	70
2.5. Hybrid items and other instruments	1 416		1 419		1 419		100	100
3. Capital (1 + 2)	**2 317 606**	**100%**	**2 184 718**	**100%**	**2 242 499**	**100%**	94	103

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

4. Deductible items from capital	**159 710**	**203 077**	**212 608**	127	105
4.1. Bank's shares in capital of other legal entities above 5% of core capital	2 844	1 678	1 343	59	80
4.2. Loan loss reserves shortfall at regulatory request	156 866	199 890	210 510	127	105
4.3. Other deductible items	0	1 509	755	N/a	50
5. Net capital (3- 4)	**2 157 896**	**1 981 641**	**2 029 891**	92	102

In the first three quarters of 2015, capital[13] increased by 3% or KM 58 million compared to the end of 2014, and the changes in core capital and supplementary capital affected the change in the regulatory capital structure. Core capital increased by 6% or KM 98 million, while supplementary capital fell by 10% or KM 41 million.

The increase in core capital is primarily based on the inclusion (the transfer from supplementary capital to share capital) of profit recorded for 2014. Following the implementation of the legal procedure of decisions being issued and adopted by the banks' assembly, the recorded profit (15 banks) in the amount of KM 166 million was allocated as follows: 29% or KM 49 million to core capital (retained profit and reserves), two banks allocated a part of the profit in the amount of KM 0.3 million to partially cover accumulated losses, four banks decided on the payment of dividends (a total of KM 55 million), while one bank allocated the recorded profit of KM 62 million to retained profit, but the aforementioned is not a core capital item. Also, one bank, along with the payment of dividends from the profit for 2014, additionally allocated the amount of KM 15 million for dividends from retained profit. The increase in core capital was also influenced by the recapitalisation of two banks in the amount of KM 36 million, as well as an increase in the share capital of two banks by means of a new issue (conversion of subordinated debt) in the amount of KM 22 million and an increase in the share capital of one bank by means of a technical issue from reserves in the amount of KM 10 million.

Deductible items (which decrease core capital) fell by KM 19 million as a result of a reduction on the basis of partial coverage of uncovered losses in four banks in the amount of KM 33 million (KM 32 million of which refers to one bank) at the expense of share capital and/or reserves, as well as on the basis of an increase in intangible assets.

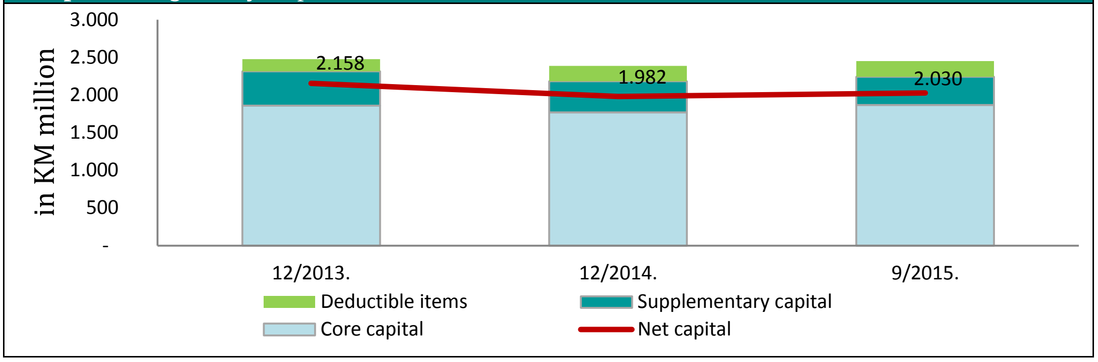
Supplementary capital decreased by 10% or KM 41 million, which was mostly influenced by a decrease in subordinated debt by KM 46 million, due to the aforementioned conversion into share capital and on the basis of regular maturity.

According to regulatory changes in late 2011, deductible items from capital include a new accounting item: the shortfall of loan loss reserves upon regulator's request (i.e. a difference between required regulatory loan loss reserves according to balance sheet and off-balance sheet items and loan loss reserves formed from profit). As of 30.09.2015, this item amounted to KM 210 million, up by 5% or KM 11 million compared to the end of 2014 (this item was up by 30% or KM 46 million in 2014).

The graph below shows the regulatory capital structure.

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

Graph 13: *Regulatory Capital Structure*



As a result of the aforementioned changes, net capital went up by 2% or KM 48 million and amounted to KM 2 billion as of 30.09.2015.

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

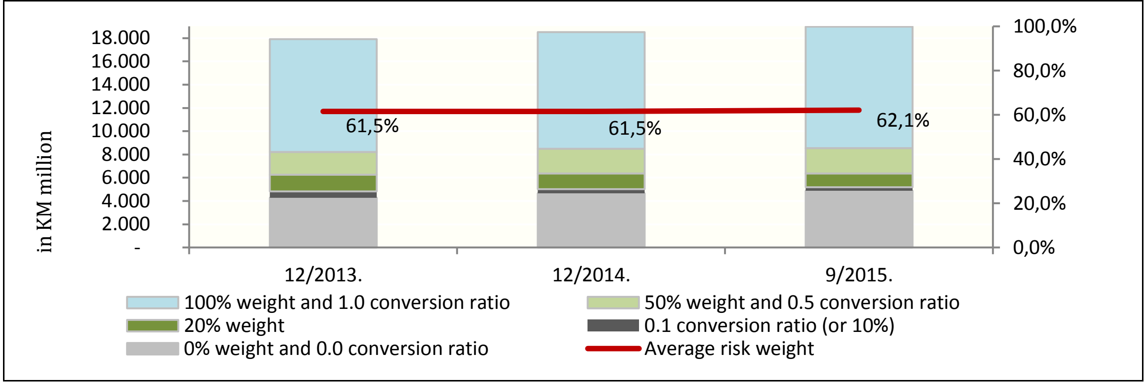
The table below provides a structure of the net exposure of banks by credit risk weight, i.e. conversion ratio for off-balance sheet items.

- in KM 000 -

Table 16: *Structure of Net Exposure of Banks by Credit Risk Weight*

DESCRIPTION	31.12.2013	31.12.2014	30.09.2015	INDEX	
1	2	3	4	5 (3/2)	6 (4/3)
TOTAL EXPOSURE (1+2):	**17 893 904**	**18 518 813**	**18 989 580**	103	103
1 Balance sheet assets	14 969 445	15 627 474	16 096 991	104	103
2. Off-balance sheet items	2 924 459	2 891 339	2 892 589	99	100
DISTRIBUTION BY RISK WEIGHT AND CONVERSION RATIO					
0% weight	4 198 260	4 598 235	4 835 494	110	105
20% weight	1 424 069	1 361 199	1 173 809	96	86
50% weight	33 110	54 096	47 765	163	88
100% weight	9 314 006	9 613 944	10 039 923	103	104
0.0 conversion ratio	86 947	52 453	49 439	60	94
0.1 conversion ratio	550 966	356 611	299 097	65	84
0.5 conversion ratio	1 916 076	2 073 404	2 150 548	108	104
1.0 conversion ratio	370 470	408 871	393 505	110	96
RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	**10 998 977**	**11 394 469**	**11 797 259**	**104**	**104**
Average risk weight	**61.5%**	**61.5%**	**62.1%**	**100**	**101**

Graph 14: *Structure of Net Exposure of Banks by Credit Risk Weight*



In the first three quarters of 2015, total net exposure of banks (before being weighted) increased by 3% or KM 471 million, which was influenced by an increase in balance sheet items (3% or KM 469 million), mostly as a net effect of an increase in items with 0% and 100% weight, which primarily refers to loan portfolio growth, and a decrease in items with 20% weight, while off-balance sheet items remained almost unchanged. As a result of the aforementioned, the average risk weight increased from 61.5% to 62.1%.

The opposite trend was seen with respect to the weighted operational risk (WOR), which fell slightly (1%) and amounts to KM 977 million. All of this resulted in a slight increase in total risk-bearing assets (3%).

As of 30.09.2015, the share of risk-bearing balance and off-balance sheet assets exposed to credit risk amounted to 92% and to operational risk 8%.

The banks' capitalisation rate, expressed as a ratio between capital and assets, amounted to 12.6% as of 30.09.2015, which is the same level as at the end of 2014.

One of the key indicators of capital strength and adequacy[14] of banks is the capital adequacy ratio, which constitutes a ratio between net capital and risk-weighted assets. At the banking sector level, this ratio stood at 15.9% as of 30.09.2015, down by 0.1 percentage points compared to the end of 2014.

Also, the indicator of capital strength and quality is the ratio of the core capital (Tier I) and total risk assets, which amounted to 14.6% at the level of the banking sector as of 30.09.2015. An important provision of the new Decision is the obligation of banks to intend part of the core capital above 6% of total risk assets to cover the risks related to preventive protection from potential losses in times of crisis or stressful situations through a protective layer for preserving the capital that has been prescribed in the amount of 2.5% of the amount of total risk assets under this Decision. Two other protective layers were introduced – a countercyclical protective layer and a protective layer for systemic risk, which the FBA would determine by a special resolution, if necessary.

Banks are also, according to the new Decision, obligated to establish and maintain the financial leverage ratio as an additional security and a simple capital hedge, at least in the amount of 6%, starting as of 31.12.2015, with the obligation of quarterly reporting as of 30.09.2014. The financial leverage ratio at the level of the banking sector amounted to 9.7% as of 30.09.2015.

Although operations of the banking sector have been strongly affected by the economic crisis for the past few years, the capital adequacy of the banking sector has been continuously maintained at the level above 16%. The reason for this is, on the one hand, the slight credit growth and decrease of total risk-bearing assets in previous years, and, on the other hand, the fact that banks have retained the largest share of profit from previous years within their capital and several banks have improved their capitalisation rate by means of additional capital injections. However, problems related to the increase in non-performing loans and items not covered by loan loss reserves (net non-performing assets) may significantly impact and cause weakening of the capital base in several banks in the period to come. This is conditioned by continued negative trends regarding asset quality and the worsening of and increase in non-collectable loans. This is illustrated by the following information: at the end of 2008, net non-performing assets amounted to KM 197 million and its ratio (vs. core capital) was 13.2%. At the end of 2013, net non-performing assets amounted to KM 474 million, which is 25.5% of core capital, while dropping to the amount of KM 431 million in 2014, with a ratio of 24.3% (this is the result of a decrease on the basis of the sale of a part of non-performing loans in one bank, but also of an increase in loan loss reserves, i.e. greater coverage of non-performing facilities). In the first three quarters of 2015, net non-performing assets decreased slightly and amounted to KM 413 million, with

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

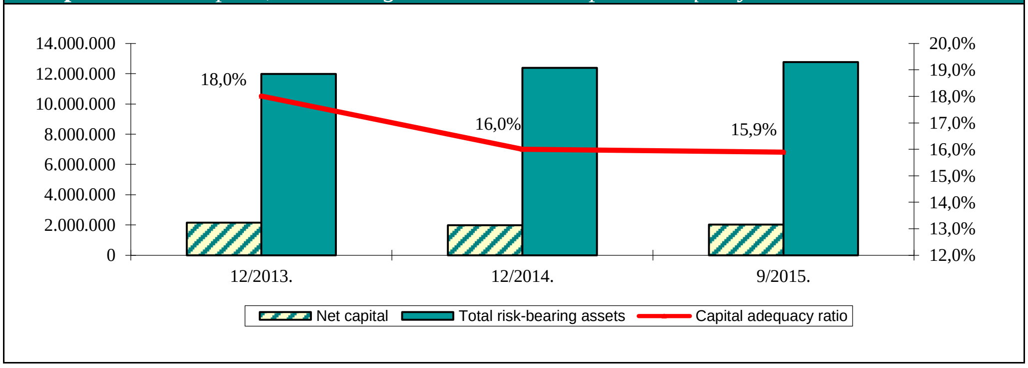
a ratio of 22.1%. Also, according to existing regulations, banks do not calculate the capital requirement for market risks, due to which the capital adequacy rate is higher.

- KM 000 -

Table 17: *Net Capital, Total Weighted Risks and Capital Adequacy Rate*

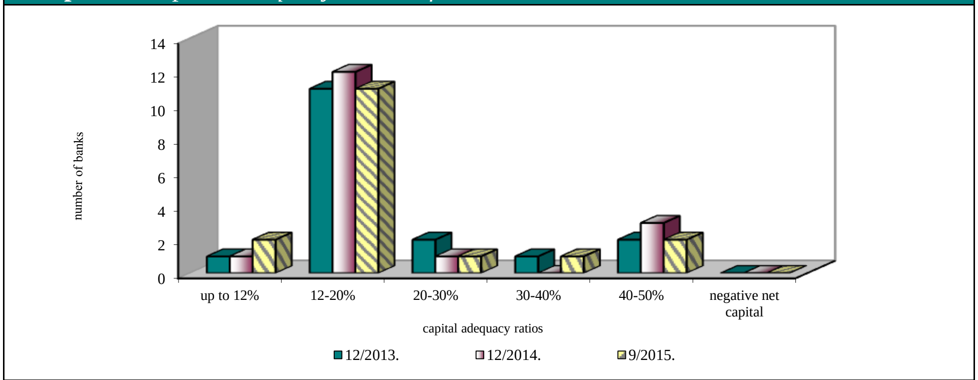
DESCRIPTION	31.12.2013	31.12.2014	30.09.2015	INDEX	
1	2	3	4	5(3/2)	6(4/3)
1. NET CAPITAL	2 157 896	1 981 641	2 029 891	92	102
2. RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	10 998 977	11 394 469	11 797 259	104	104
3. WOR (WEIGHTED OPERATIONAL RISK)	981 318	982 250	976 734	100	99
4. TOTAL RISK-BEARING ASSETS (2+3)	11 980 295	12 376 719	12 773 993	103	103
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/ 4)	18.0%	16.0%	15.9%	89	99

Graph 15: *Net Capital, Total Weighted Risks and Capital Adequacy Rate*



The capital adequacy rate of the banking system as of 30.09.2015 was 15.9%, which is still quite above the legal minimum (12%) and represents a satisfactory capitalisation rate of the overall system considering the existing level of risk exposure and it represents a strong basis and foundation for the preservation of its safety and stability.

Graph 16: *Capital Adequacy Ratios of Banks*



Out of a total of 17 banks in the Federation of B&H as of 30.09.2015, 15 banks had capital adequacy ratios that were above the legal minimum of 12%, while two banks had a ratio that was below the legal minimum. According to analytical data, 10 banks had a capital adequacy ratio below the one at the end of 2014 (ranging from 0.3 to 4.3 percentage points), one bank's ratio remained unchanged, while six banks had improved this ratio.

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

- 2 banks had a ratio below 12% (10.6%, 10.2%),
- 6 banks had a ratio between 12.4% and 14.4%,
- 3 banks had a ratio between 15.1% and 15.9%,
- 3 banks had a ratio between 17.0% and 20.7%,
- 3 banks had a ratio between 36.1% and 46.7%.

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

As has been the case before, the priority task of most of banks in the system is to further strengthen the capital base, wherein the focus is placed on large banks in the system, especially due to changes in the business and operating environment of the Federation of B&H, actions caused by and negative effects of the global financial and economic crisis on our country, the banking sector and the overall economy in B&H, which was further exacerbated by the effects of the massive damages caused by the floods in the spring and summer of 2014 to both businesses and certain sectors as well as to the population in those areas. Also, the focus is on banks with adverse trends regarding asset quality, which negatively reflects on the capital and represents a realistic possibility for additional weakening of the capital base. Under conditions of economic crisis and credit risk growth caused by the downfall of the loan portfolio quality (due to an increase in uncollectable receivables), this requirement has a high priority and the capital segment is therefore under a continuous reinforced supervision in order to prevent the impairment of the banks' stability and the erosion of the capital base to a level that might jeopardise not only the banks' operations, but also impact the stability of the entire banking system.

2.1.3. Assets and Asset Quality

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

With the Law on Accounting and Audit in the Federation of Bosnia and Herzegovina entering into force on 31.12.2011, banks are required to prepare and present financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS), with recognition and measurement of financial assets and liabilities being subject to the IAS 39 – Financial instruments, recognition and measurement and the IAS 37 – Provisioning, contingent liabilities and contingent assets. Therefore, during the assessment of banks' exposure to credit risk, banks are required to continue calculating loan loss reserves in accordance with the criteria from the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks, thereby considering already formed value adjustments of balance sheet assets and loss provisions for off-balance sheet items recorded in the banks' books, as well as loan loss reserves formed from profit (found on capital accounts).

- in KM 000 -

Table 18: *Assets (BS and off-BS), Loan Loss Reserves according to the Regulatory Body and Value Adjustments according to IAS)*

DESCRIPTION	31.12.2013	31.12.2014	30.09.2015	INDEX

1	2	3	4	5(3/2	6(4/3)
1. Risk-bearing assets[15]	13 517 944	14 119 056	14 672 584	104	104
2. Calculated regulatory reserves for loan losses	1 504 174	1 551 075	1 562 594	103	101
3. Value adjustment and reserves for off-balance sheet items	1 255 162	1 253 270	1 255 627	100	100
4. Required regulatory reserves formed from profit for assessed	411 515	447 920	461 984	109	103
5. Formed regulatory reserves from profit for assessed losses	315 734	315 734	315 734	100	100
6. Shortfall of regulatory reserves formed from profit for assessed	156 866	199 889	210 510	127	105
7. Non-risk bearing items	6 145 092	6 217 740	6 160 258	101	99
8. TOTAL ASSETS (1+7)	19 663 036	20 336 796	20 832 842	103	102

Total assets with off-balance sheet items (assets)[16] of banks in the Federation of B&H amounted to KM 20.8 billion as of 30.09.2015 and are up by 2% compared to the end of 2014. Risk-bearing assets amount to KM 14.7 billion and are up by 4% or KM 553 million.

Non-risk bearing items amount to KM 6.2 billion or 29% of total assets with off-balance sheet items, thus being down by 1% or KM 57 million compared to the end of 2014.

Total calculated loan loss reserves based on regulatory requirements are slightly up (1% or KM 12 million) and amount to KM 1.6 billion and formed value adjustments for balance sheet assets and provisions for losses under off-balance sheet items are, as was the case at the end of the past two years, at almost the same amount of KM 1.25 billion. Required regulatory reserves[17] amount to KM 462 million and are up by 2% or KM 14 million. Formed regulatory reserves from profit amount to KM 316 million and are at the same level as a result of changes in regulations, i.e. the shortfall of loan loss reservess being recorded at the end of the business year (starting from 31.12.2012) is not covered by profit, but still represents a deductible item from the capital and affects the calculation of the capital adequacy ratio. The shortfall of regulatory reserves[18] as of 30.09.2015 amounts to KM 210 million, with a growth rate of 5% or KM 11 million compared to the end of 2014, which is the result of the continuous deterioration of the loan portfolio quality, but also of the undervalued value adjustments in a number of banks, which has the function of a better (targeted) financial result being recorded.

Table 19: *Total Assets, Gross Balance Sheet Assets, Risk-Bearing and Non-Risk-Bearing Assets Items*

DESCRIPTION	31.12.2013		31.12.2014		30.09.2015		INDEX	
	Amount	Struct. %	Amount	Struct.%	Amount	Struct.%		
1.	2	3	4	5	6	7	8 (4/2)	9 (6/4)
Loans	9 396 444	84.3	9 725 304[19]	84.1	10 095 638	83.8	103	104
Interest	81 456	0.7	74 573	0.6	75 009	0.6	92	101
Past due receivables	1 144 042	10.3	1 184 588	10.2	1 217 254	10.1	103	103
Receivables on paid guarantees	31 783	0.3	26 218	0.3	26 405	0.2	82	101
Other facilities	201 786	1.8	194 440	1.7	178 267	1.5	96	92
Other assets	294 623	2.6	361 666	3.1	460 710	3.8	123	127
1. RISK-BEARING BALANCE SHEET ASSETS	11 150 134	100.0	11 566 789	100.0	12 053 283	100.0	104	104
2. NON-RISK BEARING BALANCE SHEET ASSETS	5 523 506		5 806 579		5 804 708		105	100
3. GROSS BALANCE SHEET ASSETS (1+2)	16 673 640		17 373 368		17 857 991		104	103
4. RISK-BEARING OFF-BS ITEMS	2 367 810		2 552 267		2 619 301		108	103

15 Does not include amount of facilities and contingent liabilities of KM 224 million that is secured with a cash deposit.
16 Assets, as defined in Article 2 of the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks („Official Gazette of the Federation of B&H", No. 85/11 – consolidated text and 33/12 – correction, 15/13).
17 Required regulatory reserves represent a positive difference between calculated loan loss reserves and value adjustments (calculated loan loss reserves are higher than value adjustments).
18 Shortfall of regulatory reserves represents a positive difference between required and formed loan loss reserves.
19 This does not include the loan amount of KM 175 million covered by a cash deposit (included in non-risk bearing assets of the balance sheet).

5. NON-RISK BEARING OFF-BS ITEMS	621 586	411 161	355 550	66	86
6. TOTAL OFF-BS ITEMS (4+5)	2 989 396	2 963 428	2 974 851	99	100
7. RISK-BEARING ASSETS WITH OFF-BS ITEMS (1+4)	13 517 944	14 119 056	14 672 584	104	104
8. NON-RISK BEARING ITEMS (2+5)	6 145 092	6 217 740	6 160 258	101	99
9. ASSETS WITH OFF-BS ITEMS (3+6)	19 663 036	20 336 796	20 832 842	103	102

Gross balance sheet assets[20] amount to KM 17.9 billion and are up by 3% or KM 485 million compared to the end of 2014, while risk-bearing balance sheet assets amount to KM 12 billion or 67% of gross balance sheet assets (thus being up by 4% or KM 486 million compared to the end of 2014). Non-risk bearing balance sheet assets amount to KM 5.8 billion and are at the same level compared to the end of the previous year. Off-balance sheet risk-bearing items amount to KM 2.6 billion, slightly up by 3% or KM 67 million, while non-risk bearing items amount to KM 356 million and are down by 14% or KM 56 million compared to the end of 2014.

The effects of the economic crisis on the overall economy and industry in B&H are still pronounced, which is reflected in the key business segment of banks – the lending segment. In the first nine months of 2015, banks recorded credit growth of 4% or KM 400 million (3% or KM 318 million in 2014). As of 30.09.2015, loans amounted to KM 11.6 billion, with a share of 69.6% (+0.4 percentage points).

In the first nine months of 2015, a total of KM 5.8 billion of new loans was approved, up by 7% or KM 389 million compared to the same period of the previous year. Out of the total loans approved, 67% relate to the corporate segment and 28% to the retail segment (at the end of 2014: 69% corporate, 27% retail). The maturity structure of newly approved loans is the same as at the end of 2014: 47% long-term loans, 53% short-term loans.

The three largest banks in the Federation of B&H have an aggregate amount of approved loans of KM 6.4 billion, thus holding a share of 55% in total loans at the banking system level.

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

- in KM 000 -

Table 20: *Loan Structure by Sector*

SECTORS	31.12.2013		31.12.2014		30.09.2015		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Government institutions	142 010	1.3	190 401	1.7	245 075	2.1	134	129
Public companies	259 769	2.4	253 057	2.3	264 975	2.3	97	105
Private companies and enterprises	5 202 269	47.9	5 216 068	46.7	5 294 539	45.8	100	101
Banking institutions	6 671	0.1	10 449	0.1	4 971	0.0	157	48
Non-banking financial institutions	37 791	0.3	43 424	0.3	52 576	0.5	115	121
Retail	5 194 971	47.9	5 448 307	48.8	5 698 019	49.2	105	105
Other	8 919	0.1	8 571	0.1	10 205	0.1	96	119
TOTAL	10 852 400	100.0	11 170 277	100.0	11 570 360	100.0	103	104

In the loan structure by sector, there are two dominant sectors: retail and corporate, while lending to other sectors is negligible. In the first nine months of 2015, the upward trend of the share of retail loans continued, with them being up by 5% or KM 250 million and amounting to KM 5.7 billion as of 30.09.2015, while the share increased from 48.8% to 49.2%. Loans to private companies amount to KM 5.3 billion, slightly up by 1% or KM 78 million, with the share being down from 46.7% to 45.8%.

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

According to information submitted by the banks (as of 30.09.2015) regarding the retail loan structure by purpose: consumer loans[21] hold a share of 78%, followed by housing loans with 19%, while the remaining 3% refer to loans to small crafts, small businesses and agriculture (at the end of 2014: 77% consumer loans, 20% housing loans, and 3% small crafts, small businesses and agriculture).

The three largest banks in the system have approved 62.2% of retail loans and 45.5% of private company (at the end of 2014: 62.4% retail, 47.5% private companies).

The currency structure of loans: the largest share of 64% or KM 7.5 billion refers to currency clause loans (EUR: KM 7.3 billion or 97%, CHF: KM 204 million or 3%), followed by local currency loans with a share of 35% or KM 4 billion, while the smallest share of just 1% or KM 69 million refers to foreign currency loans (almost the entire amount thereof refers to EUR: KM 64 million or 92%). The total amount of loans with a currency clause in CHF of KM 204 million has a 1.8% share in the total loan portfolio and refers almost entirely to one bank in the banking system.

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

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

Table 21: *Asset Classification, General Credit Risk (GCR) and Potential Loan Losses (PLL)*

Classification category	31.12.2013			31.12.2014			30.09.2015			INDEX	
	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL		
1	2	3	4	5	6	7	8	9	10	11(5/2)	12(8/5)
A	10 754 079	79.6	215 083	11 494 730	81.4	229 895	12 083 992	82.4	241 681	107	105
B	1 094 361	8.1	93 547	955 518	6.8	83 031	931 434	6.3	76 606	87	97
C	356 646	2.6	90 541	272 134	1.9	64 168	293 133	2.0	73 684	76	108
D	502 803	3.7	295 224	523 939	3.7	301 942	471 112	3.2	277 709	104	90
E	810 055	6.0	809 779	872 735	6.2	872 039	892 913	6.1	892 914	108	102
Risk-bearing assets (A-E)	13 517 944	100.0	1 504 174	14 119 056	100.0	1 551 075	14 672 584	100.0	1 562 594	104	104
Classified (B-E)	2 763 865	20.4	1 289 091	2 624 326	18.6	1 321 180	2 588 592	17.6	2 588 592	95	99
Non-performing (C-E)	1 669 504	12.4	1 195 544	1 668 808	11.8	1 238 149	1 657 158	11.3	1 657 158	100	99
Non-risk bearing assets[22]	6 145 092			6 217 740			6 160 258			101	99
TOTAL (risk-bearing and non-risk bearing)	19 663 036			20 336 796			20 832 842			103	102

The first indicator and a warning sign of potential problems with loan repayment is an increase in past due receivables and their share in total loans. Following a large increase in past due receivables in the first half of 2015 (6% or KM 70 million), the aforementioned fell by KM 37 million in the third quarter (mostly on the basis of a permanent write-off), so that the total increase in the first nine months of 2015 amounted to 3% or KM 33 million (3% or KM 35 million in 2014). As of 30.09.2015, past due receivables amounted to KM 1.2, while the share decreased slightly from 10.8% to 10.7%.

When analysing the quality of risk-bearing assets through trends and changes of key indicators, it can be concluded that key indicators of asset quality improved slightly in the first nine months of 2015

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

compared to the end of 2014 (exclusively due to a significant permanent write-off of assets in the amount of KM 63 million). In some banks, these indicators showed slight oscillations (upgrade or downgrade), i.e. there were nine banks with ratios of the share of classified assets and seven banks with the share of non-performing assets (compared to risk-bearing assets) below the level of the banking sector.

As of 30.09.2015, classified assets amounted to KM 2.6 billion and non-performing assets to KM 1.7 billion.

Classified assets (B-E) dcreased slightly by 1% or KM 36 million (in 2014, there was a drop of 5% or KM 139 million). Following a large increase in category B in the first quarter (10% or KM 93 million), in the first nine months of 2015, category B decreased by 3% or KM 24 million due to the deterioration (transfer) of the classification of a significant amount of credit exposure from category B to C in one bank in the system (in 2014, there was a drop of 13% or KM 139 million). Non-performing assets (C-E) went down by 1% or KM 12 million (in 2014, non-performing remained at the same level) due to a significant permanent write-off of assets in the amount of KM 63 million. In the first nine months of 2015, there was an increase in category E by 2% or KM 20 million (in 2014, the increase amounted to 8% or KM 63 million), with the share decreasing from 6.2% to 6.1%. If it were not for the permanent write-off, category E would be up by 10% or KM 83 million, which indicates that the “deterioration” of the loan portfolio is still present.

The ratio expressed through the share of classified assets in risk-bearing assets is 17.6%, and the drop of 1.0% compared to the end of 2014 is the result of an increase in assets classified into category A (performing assets) by 5% or KM 589 million.

The most significant indicator of asset quality is the ratio between non-performing assets and risk-bearing assets, amounting to 11.3%, which is down by 0.5% compared to the end of 2014. However, this should be taken with a grain of salt due to the share of category B being 6.3% (at the end of 2014: 6.8%) and due to the suspicion that a part of the loans classified in this category are of poor quality and need to be classified as non-performing assets.

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

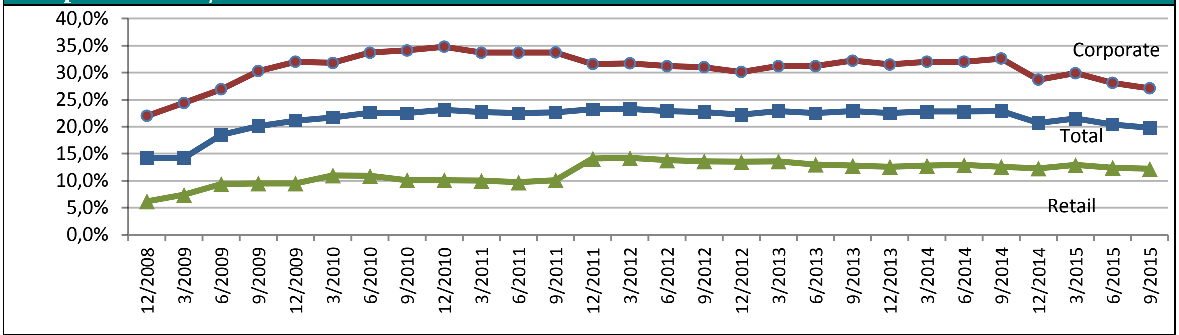
Table 22: *Classification of Corporate and Retail Loans*

Classification category	31.12.2014						30.09.2015						
	Retail	Share %	Corporate	Share %	TOTAL Amount	TOTAL Share	Retail	Share %	Corpo-rate	Share %	TOTAL Amount	TOTAL Share	INDEX
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14(12/6)
A	4 775 466	87.6	4 080 845	71.3	8 856 311	79.3	5 001 658	87.8	4 282 500	72.9	9 284 158	80.2	105
B	144 930	2.7	595 817	10.4	740 747	6.6	148 765	2.6	571 045	9.7	719 810	6.2	97
C	64 360	1.2	199 117	3.5	263 477	2.4	69 203	1.2	216 353	3.7	285 556	2.5	108
D	82 705	1.5	416 311	7.3	499 016	4.5	86 584	1.5	365 325	6.2	451 909	3.9	91
E	380 846	7.0	429 880	7.5	810 726	7.2	391 809	6.9	437 118	7.4	828 927	7.2	102
TOTAL	5 448 307	100.0	5 721 970	100.0	11 170 277	100.0	5 698 019	100.0	5 872 341	100.0	11 570 360	100.0	104
Class. loans. B-E	672 841	12.3	1 641 125	28.7	2 313 966	20.7	696 361	12.2	1 589 841	27.1	2 286 202	19.8	99
Non-perf. Loans C-E	527 911	9.7	1 045 308	18.3	1 573 219	14.1	547 596	9.6	1 018 796	17.3	1 566 392	13.5	100
		48.8		51.2		100.0		49.2		50.8		100.0	
Individual sector's share in classified loans, non-performing loans and category B:													
Categories B-E		29.1		70.9		100.0		30.5		69.5		100.0	
Non-performing C-E		33.6		66.4		100.0		35.0		65.0		100.0	
Category B		19.6		80.4		100.0		20.7		79.3		100.0	

Loan quality indicators have improved slightly compared to the end of the previous year and the share of classified loans dropped to 19.8% (-0.9 percentage points), due to a decrease in the aforementioned in the amount of 1% or KM 28 million, with the corporate segment being down by 3% or KM 51 million and the retail segment being up by 3.5% or KM 23 million and the corporate segment remaining at the same level.

The share of non-performing loans, as a key indicator of loan quality, decreased from 14.1% to 13.5%. Total non-performing loans remained at the same level compared to the end of 2014, as a result of a decrease in non-performing corporate loans by 2% or KM 26 million, while retail loans saw an increase of 4% or KM 20 million. If one were to exclude the effects of the increase in the exchange rate of the CHF currency, non-performing loans would be down by 1% or KM 19 million compared to the end of the previous year.

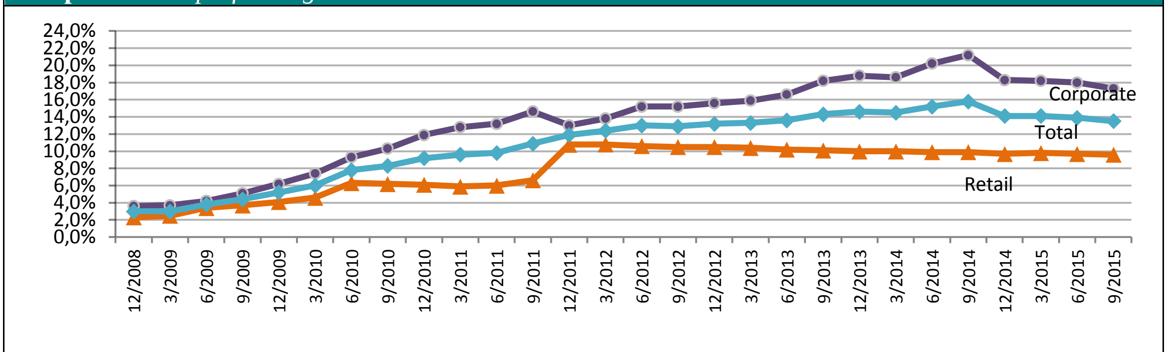
Graph 17: *Classified Loans*



Out of the total approved corporate loans in the amount of KM 5.9 billion as of 30.09.2015, there was still an alarmingly high 27.1% or KM 1.6 billion of loans classified within categories B to E, which is a decrease of 1.6 percentage points compared to the end of 2014 (in 2014, this share went down by 1.8 percentage points). This indicator is much better for the retail segment. Out of the total approved retail loans in the amount of KM 5.7 billion, there were 12.2% or KM 696 million of loans classified in the aforementioned categories, down by 0.1 percentage points compared to the end of 2014 (in 2014, this share went down by 0.3 percentage points), which is also high.

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

Graph 18: *Non-performing Loans*



The most significant indicator of the loan portfolio quality is the share of non-performing loans. Out of total non-performing loans, corporate loans hold a share of 65% and retail loans a share of 35% (at the end of 2014: corporate 66%, retail 34%). In the first nine months of 2015, the share of non-performing loans in the retail segment was almost the same, while it dropped in the corporate segment. Out of total approved corporate loans, non-performing loans hold a share of 17.3% or KM 1 billion, which is down by 1.0 percentage points compared to the end of 2014 (this share fell by 0.5

percentage points in 2014). The aforementioned amounts to 9.6% or KM 548 million in the retail segment (the share dropped by 0.3 percentage points in 2014).

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

Table 23: *Concentration of Loans by Industry Sector*

DESCRIPTION	31.12.2014				30.09.2015				INDEX	
	Total loans		Non-performing loans		Total loans		Non-performing loans			
	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5 (4/2)	6	7	8	9 (8/6)	10 (6/2)	11(8/4)
1. Corporate loans for:										
Agriculture (AGR)	123 863	1.1	24 336	19.6	124 603	1.1	20 679	16.6	101	85
Production (IND)	1 596 479	14.3	376 607	23.6	1 639 646	14.2	363 523	22.2	103	97
Construction (CON)	381 631	3.4	111 056	29.1	438 504	3.8	120 346	27.4	115	108
Trade (TRD)	2 263 740	20.3	349 642	15.4	2 275 308	19.7	318 435	14.0	101	91
Catering (HTR)	165 227	1.5	26 039	15.8	187 010	1.6	25 404	13.6	113	98
Other[23]	1 191 030	10.7	157 628	13.2	1 207 270	10.4	170 409	14.1	101	108
TOTAL 1.	5 721 970	51.2	1 045 308	18.3	5 872 341	50.8	1 018 796	17.3	103	97
2. Retail loans for:										
General consumption	4 210 605	37.7	316 997	7.5	4 484 512	38.8	329 856	7.4	107	104
Housing	1 109 191	9.9	176 846	15.9	1 096 537	9.5	184 838	16.9	99	105
Business activities (small business owners)	128 511	1.2	34 068	26.5	116 970	1.0	32 902	28.1	91	97
TOTAL 2.	5 448 307	48.8	527 911	9.7	5 698 019	49.2	547 596	9.6	105	104
TOTAL (1. +2.)	**11 170 277**	**100.0**	**1 573 219**	**14.1**	**11 570**	**100.0**	**1 566 392**	**13.5**	**104**	**100**

The largest share in total corporate loans refers to the trade sector (19.7%) and the production sector (14.2%), while the retail segment is dominated by general consumption loans (38.8%) and housing loans (9.5%) (at the end of 2014: trade 20.3%, production 14.3%, general consumption 37.7% and housing loans 9.9%).

For an extensive period of time, the negative and strong effect of the economic crisis is especially pronounced in several key sectors, which is evident from the indicator of the share of non-performing loans. The construction sector, which has a low share of merely 3.8% in total loans, still has the highest share of non-performing loans in the amount of 27.9%, with a continued downward trend: in the first nine months of 2015, it dropped by 1.7 percentage points (in 2014, it dropped by 1.8 percentage points), although non-performing loans saw a nominal increase of 8% or KM 9 million, while credit growth in the amount of 15% or KM 57 million was recorded at sector level. Also, the agricultural sector, despite the lowest share of 1.1%, has a high share of non-performing loans in the amount of 16.6% (12/14: 19.6%), which fell by 3 percentage points compared to the end of the previous year as a result of a significant drop in non-performing loans by 15% or KM 4 million.

However, the focus is on the two sectors with the highest share in total loans – the trade sector (19.7%) and the production sector (14.2%). The amount of loans to the production sector (KM 1.6 billion) was up by 3% or KM 43 million, while non-performing loans decreased by 3% or KM 13 million in the first nine months of 2015, i.e. to the level of KM 363 million, which affected the drop in the share from 23.6% to 22.2% (in 2014, the increase amounted to 13% or KM 43 million, and the share amounted to 23.6%, up by 2 percentage points). On the other hand, trade sector lending was up by 1% or KM 12 million in the first nine months of 2015, i.e. to the level of KM 2.3 billion. Non-

[23] 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.

performing loans in this sector went down by 9% or KM 31 million, amounting to KM 318 million as of 30.09.2015, while the share amounted to 14%, down by 1.4 percentage points (in 2014, a drop of 11% or KM 42 million was recorded and the share dropped from 17.1% to 15.4%), which is a significantly better indicator compared to that of the production sector.

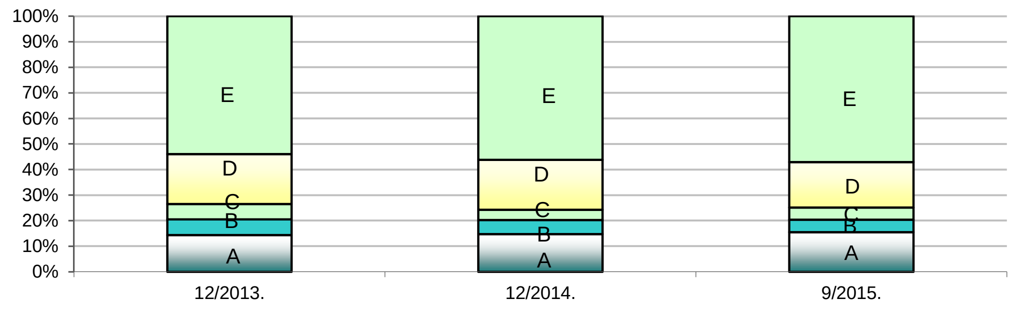
The retail segment recorded a slight increase in non-performing loans in terms of general consumption (4% or KM 13 million) and housing construction (5% or KM 8 million). The poorest indicator of the non-performing loans share in the amount of 28.1% (at the end of 2014: 26.5%) refers to loans to small business owners whose share in total loans is a low 1%. A relatively high share of non-performing loans in the amount of 16.9% refers to housing loans (at the end of 2014: 15.9%), while consumer loans (with the highest share of 38.8% in total loans) hold the lowest share of non-performing loans in the amount of 7.4% (at the end of 2014: 7.5%).

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

Table 24: *Structure and Trend of General Credit Risk and Potential Loan Losses*

Classification category	AMOUNT (in KM 000) AND STRUCTURE (in %)						INDEX	
	31.12.2013		31.12.2014		30.09.2015			
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
A	215 083	14.3	229 895	14.8	241 681	15.5	107	105
B	93 547	6.2	83 031	5.4	76 606	4.9	89	92
C	90 541	6.0	64 168	4.1	73 684	4.7	71	115
D	295 224	19.6	301 942	19.5	277 709	17.8	102	92
E	809 779	53.9	872 039	56.2	892 914	57.1	108	102
TOTAL	1 504 174	100.0	1 551 075	100.0	1 562 594	100.0	103	101

Graph 19: *Structure and Trend of General Credit Risk and Potential Loan Losses*



Based on an analysis of the calculated loan loss reserves (in aggregate terms and by classification category) compared to the end of 2014, the reserves for general credit risk (category A) and potential loan losses went up by 1% or KM 11 million and stand at KM 1.6 billion. The reserves for general credit risk are up by 5% or KM 12 million, while the reserves for potential loan losses remained at the same level compared to the end of 2014. By category of classification, there were trends in both directions: the reserves for category B are down by 8% or KM 6 million and amount to KM 77 million. The reserves for non-performing assets are up by 1% or KM 6 million, i.e. amount to KM 1.2 billion, mostly on the basis of the reserves for category C and E being up by 15% or KM 10 million and 2% or KM 21 million, respectively. The reserves for category D are down by 8% or KM 24 million. The aforementioned trends of loan loss reserves are the result of further effects of the economic crisis on the real sector.

One of the key indicators of asset quality is the ratio between potential loan losses (PLL) and risk-bearing assets with off-balance sheet items. This ratio amounts to 9% and is down by 0.4% compared to the end of 2014.

As of 30.09.2015, banks had an average calculated reserves in the amount of 8% for category B, 25% for category C, 59% for category D and 100% for category E (at the end of 2014: 8.8% for B, 24.2% for C, 57.7% for D and 100% for E).[24]

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

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

Table 25: *Assessment and Valuation of Risk-bearing Items According to IAS 39 and IAS 37*

Description	AMOUNT (in KM 000) AND SHARE (in %)				INDEX
	31.12.2014		30.09.2015		
	Amount	Share	Amount	Share	
1	2	3	4	5	6 (4/2)
1. RISK-BEARING ASSETS (a+b)	**14 119 056**	**100.0%**	**14 672 584**	**100.0%**	104
a) Default items	**1 802 238**	12.8%	**1 754 013**	11.9%	97
a.1. BS-items in default	1 784 233		1 735 881		97
a.2. off-BS items in default	18 005		18 132		101
b) Performing assets	**12 316 818**	87.2%	**12 918 571**	88.1%	105
1.1 TOTAL VALUE ADJUSTMENTS FOR RISK-BEARING ASSETS	**1 253 270**	**100.0%**	**1 255 627**	**100.0%**	100
a) Value adjustments for default	**1 106 595**	88.3%	**1 102 877**	87.8%	100
a.1. Value adjustment for BS-items in default	1 099 846		1 096 355		100
a.2. reserves for off-BS items in default	6 749		6 522		97
b) Value adjustments for performing assets (IBNR[25])	146 675	11.7%	152 750	12.2%	104
2. TOTAL LOANS (a+b)	**11 170 277**	**100.0%**	**11 570 360**	**100.0%**	104
a) Defaulted loans (non-performing loans)	1 719 139	15.4%	1 675 134	14.5%	97
b) Performing loans	9 451 138	84.6%	9 895 226	85.5%	105
2.1. VALUE ADJUSTMENT FOR LOANS (a+b)	**1 160 481**	**100.0%**	**1 168 896**	**100.0%**	101
a) Value adjustments for defaulted loans	1 045 863	90.1%	1 047 504	89.6%	100
b) Value adjustments for performing loans (IBNR loans)	114 618	9.9%	121 392	10.4%	106
Coverage rate of default items	**61.4%**		**62.9%**		
Coverage rate of performing assets	**1.2%**		**1.2%**		
Coverage rate of risk-bearing assets with total value adjustments	**8.9%**		**8.6%**		

In the first nine months of 2015, default loans went slightly down by 3% or KM 44 million (in 2014: up by 9% or KM 155 million), while non-performing loans remained unchanged. The share of default loans in total loans is down by 0.9 percentage points and amounts to 14.5% and the share of non-performing loans amounts to 13.5%. The share of all default items in total risk-bearing assets is down by 0.9 percentage points and amounts to 11.9%.

The coverage rate of default items with value adjustments is slightly up and amounts to 62.9% (at the end of 2014: 61.4%) due to a drop in the amount of default (3%), while value adjustments for default remained the same. The coverage rate of non-performing assets with loan loss reserves is also up and amounts to 75.1% (at the end of 2014: 74.2%).

[24] According to the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks, banks are required to calculate loan loss reserves by classification category bearing the following percentages: A-2%, B 5-15%, C 16-40%, D 41-60% and E 100%.
[25] IBNR (identified but not reported) – latent losses.

The coverage rate of performing assets remains the same and amounts to 1.2%, while the coverage rate of risk-bearing assets with total value adjustments is slightly down and amounts to 8.6% (at the end of 2014: 8.9%). The coverage ratio of risk-bearing assets with total calculated regulatory reserves for loan losses (reserves for general credit risk and special reserves for loan losses) decreased slightly from 11% to 10.6%.

In order to mitigate the negative effects of the natural disaster, on 30.06.2014, the Agency adopted the Decision on Provisional Measures for Treatment of Loan Commitments of Bank Clients Affected by Natural Disasters.[26]

Acting in accordance with the aforementioned Decision, in the second half of 2014 and out of a total number of 296 received requests for moratoriums on loan commitments, banks in the Federation of B&H approved 207 requests in the total amount of KM 34 million or 70% of the total number of submitted requests for moratoriums. As of 30.09.2015, the balance of the aforementioned loans amounts to KM 22 million, KM 19 million of which refer to legal entities and KM 3 million of which refer to natural persons.

Also, in accordance with the aforementioned Decision, in the second half of 2014 and out of a total number of 285 submitted requests for restructurings of loan commitments, banks in the Federation of B&H approved 190 requests in the total amount of KM 39 million or 67% of the total number of submitted requests for restructurings of loan commitments. As of 30.09.2015, the balance of the restructured loans amounts to KM 45 million, KM 43 million of which refer to legal entities and KM 2 million of which refer to natural persons. In these categories of loans, a decrease in terms of exposure was not recorded, since restructured loans also include loans with a grace period following the expiration of the moratorium.

As of 30.09.2015, loans approved in accordance with the aforementioned Decision have a very low share in relation to total loans: moratorium 0.19% and restructuring 0.39%.

The upward trend of uncollectable receivables, i.e. customer defaults in the payment of past due loan commitments, has caused the activation of the guarantor's obligation in a certain number of defaulted loans (with this form of security). As of 31.12.2009, the Agency has prescribed a report on the repayment of loans by guarantors in order to collect, monitor and analyse information on loans being repaid by guarantors. According to the reports filed by banks in the Federation of B&H as of 30.09.2015, there was a total of 1 166 480 loan accounts, 1 495 of which were being repaid by guarantors (1 507 guranators). The share of loans and number of loan accounts being repaid guarantors in relation to information for the overall system is low and amounts to a mere 0.36% and 0.13%.

An analysis of asset quality, i.e. the quality of the loan portfolio of individual banks, as well as on-site controls in the banks themselves, indicate that credit risk is the dominant risk in most banks and the fact that some banks have inadequate practices for managing, i.e. assessing, measuring, monitoring and controlling credit risk and for classifying assets is worrisome, which our on-site examinations determined on the basis of major amounts related to the shortfall of loan loss reserves (which were later on adequately formed as per the Agency's orders). Also, the analysis of asset quality in banks grouped according to ownership structure revealed that ratios of banks in majority ownership of residents (6 "local" private banks) were worse than those of banks in majority foreign ownership (10 banks).

After the significant increase in non-performing loans in "local" banks in the previous period (45% in 2013, 7% in 2014), the first nine months of 2015 saw a slight drop of 2% or KM 5 million, with banks

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

that are in majority foreign ownership also recording a drop in the amount of 1% or KM 6 million (non-performing loans went down by 4% in 2014). The share of non-performing loans in banks that are in majority foreign ownership amounts to 13%, while it amounts to 30% in “local banks”. This is the result of inadequate and weak systems for credit risk management, especially in relation to the key stage – loan approval, as well as the result of an underdeveloped risk function. Major weaknesses and inefficient practices were also identified in the preventive actions stage, i.e. in the early recognition of problems in loan settlement (servicing), as well as when handling non-performing assets in the interest of reducing such assets through collection or sound restructuring.

Banks, in which the Agency identified (through bank examinations) low asset quality and poor practices of credit risk management and/or which displayed adverse trends, i.e. decrease in asset quality, were ordered to apply corrective actions in the sense of drafting an operational program for the management of non-performing assets, which had to contain an action plan for the improvement of existing practices of credit risk management, i.e. asset quality management, for the reduction of existing concentrations and for solving the problem of non-performing assets and preventing their further impairment, as well as for strenghtening the risk function, i.e. its significance and quality. Compliance with the Agency’s orders is being continuously monitored through an intensified post-control process based on reports and other documentation submitted by banks, as well as through targeted on-site controls. The supervision of this segment of operations has been intensified due to evident negative trends significantly affecting and causing the deterioration of the banks’ profitability and the weakening of the capital base of certain banks, due to which banks need to take timely actions to obtain capital from external sources.

Transactions with Related Entities

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

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

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

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

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

- KM 000 -

Table 26: *Transactions with Related Entities*

Description	LOANS APPROVED[27]			INDEX	
	31.12.2013	31.12.2014	30.09.2015	3/2	4/3
1	2	3	4	5	6
To shareholders with over 5% voting rights, subsidiaries and other related entities	123 889	160 135	84 981	129	53

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

To members of the Supervisory Board and Audit Board	570	409	461	72	113
To the Management of the bank	2 507	1 994	2 236	79	112
TOTAL	126 966	162 538	87 678	128	54
Contingent and assumed off-balance sheet liabilities	16 046	21 826	6 511	136	30

During the reporting period, loan exposures to related entities decreased by 46%, while contingent liabilities decreased by 70% due to reduced exposure with respect to one large bank in the system. Based on the presented information, it can be concluded that the volume of loans and guarantees with related entities is still low, as is the level of risk. However, it is evident that this risk is significantly higher in banks that have a dispersed ownership structure, i.e. in „local banks" owned by residents. The Agency pays special attention (during its on-site controls) to the banks' operations with related entities, especially in terms of assessing their system of identification and monitoring of risk exposure in transactions with related entities. The Agency's examiners give on-site orders for eliminating identified omissions within certain time frames and also initiate violation proceedings, the integral part being monitoring and overseeing the compliance with the issued orders in the post-control procedure. This has reflected positively on this segment of their operations since banks have significantly improved the quality of their risk management in this segment.

2.2. Profitability

According to information from the income statement, a positive financial result – profit in the amount of KM 174 million (up by 40% or KM 50 million compared to the same period of the previous year) was recorded at the level of the banking system in the Federation of B&H in the first nine months of 2015. The positive effect on the financial result at system level is particularly due to banks that had operated positively in the same period of the previous year as well recorded higher profit (effect KM 34 million), along with profit in one bank that had operated at a loss in the previous year (effect KM 24 million). On the other hand, a negative effect in the amount of KM 8 million is primarily the result of lower profit recorded by some banks, greater loss recorded by one bank, as well as a loss recorded by one bank that had operated positively in the same period of the previous year.

The key effect on the improved profitability of most banks is primarily the result of the application of a new methodological approach (implementation of IAS 37/39 starting from 31.12.2011), which led to lower value adjustment costs.

A better financial result being recorded compared to the same period of the previous year is primarily the result of a further reduction of non-interest expenses, especially value adjustment costs, and, on the other hand, of an increase in total income, supported by an increase in operating income and net interest income (the reduction of interest expenses being significantly larger than that of interest income resulted in a positive effect, i.e. an increase in net interest income).

A positive financial result in the amount of KM 181 million was recorded by 15 banks and it is up by 18% or KM 28 million compared to the same period of the previous year. At the same time, an operating loss in the amount of KM 7 million was recorded by two banks.

- KM 000 -

Table 27: *Recorded Financial Result: Profit/Loss*

Description	30.09.2013		30.09.2014		30.09.2015	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7
Loss	-49 171	4	-29 423	2	-7 088	2
Profit	140 853	13	153 395	15	180 998	15
Total	**91 682**	**17**	**123 972**	**17**	**173 910**	**17**

As in other segments, this segment also shows some concentrations: out of the total profit (KM 181 million), 67% or KM 121 million refers to the two largest banks in the system with an assets share of 48% in the banking sector, while 88% or KM 6 million of the total loss of KM 7 million refers to only one bank. Analytical data indicates that a total of 11 banks has a better financial result (by KM 58 million), while 6 banks have a poorer financial result (by KM 8 million).

Based on analytical data as well as on indicators for the assessment of profitability quality (i.e. the level of the recorded financial result – profit/loss – and ratios used in evaluating profitability, productivity and efficiency of operations, as well as other parameters related to business result assessment), it is evident that the overall profitability of the system has improved slightly compared to the previous year, especially with respect to a number of large banks that recorded greater profit compared to the same period of the previous year. This is primarily the result of the implementation of a new methodological approach. However, a profitability assessment that is based solely on the recorded financial result would not be an adequate assessment since other important factors that affect sustainability and quality of earnings, i.e. profit, should also be taken into account. In that sense, it is of outmost importance to emphasise credit risk and negative trends in asset quality over the past few years, which is evident from the increase in non-performing and uncollectable loans and which does not correlate with the reduction of value adjustment costs, this being the most important factor affecting the improvement of the financial result in most banks over the past three years. This, as well as the results of the analysis of the coverage of non-performing loans with impairement provisions and the findings of the on-site examination, leads to the conclusion and suspicion that value adjustments are underestimated and not at an adequate level in some banks.

At system level, total income amounted to KM 679 million, up by 5% or KM 31 million compared to the same period of the previous year. Total non-interest expenses amount to KM 505 million, with a rate of decrease in the amount of 4% or KM 19 million compared to the same period of the previous year, which had a positive effect on the total financial result of the sector.

The increase in average interest-bearing loans (in the majority of banks) by 3.8% could not mitigate the effect of a reduced average interest rate on loans, which is the result of a slight decrease in active interest rates, which ultimately led to a continued trend of decrease in terms of interest income. Although a number of banks recorded an increase in interest income compared to the parallel period as a result of intensified loan activity, significantly lower interest income in two large banks affected the drop at system level most. Interest income amounts to KM 572 million, down by 1% or KM 5 million compared to the same period of the previous year, with the share in the structure of total income being down from 89.2% to 84.3%. The largest share refers to loan interest income, which recorded the biggest nominal drop of 1% or KM 4 million, with the share in total income being down from 80.2% to 75.3%.

Positive trends were recorded with respect to interest expenses, which, compared to the same period of the previous year, saw a significantly higher relative and nominal drop (-13% or KM 21 million) compared to the drop in interest income (-1% or KM 5 million). Interest expenses amounted to KM 149 million, and their share in the structure of total income went down from 26.3% to 22.0%. The largest item in both relative and nominal terms in total interest expenses refers to interest expenses on deposits accounts, which amount to KM 131 million and recorded a decrease of 10% or KM 15 million as a result of the structure of the deposit base (a larger share of deposits with a lower interest rate). Interest expenses on loans taken and other borrowings amounted to KM 11 million and recorded a decrease of 22% or KM 3 million compared to the same period of the previous year, with the share dropping from 2.3% to 1.7%.

The significant decrease in interest expenses (-13%) collateralised the decrease in interest income (-1%), which resulted in an increase in net interest income of 4% or KM 16 million, i.e. to the level of KM 423 million, with its share in the total income structure being almost the same (62%).

Operating income amounts to KM 256 million and is up by 6% or KM 15 million compared to the same period of the previous year, with its share in the total income structure remaining at almost the same level of 37%. Within operating income, the largest share refers to service fees, with them having recorded an increase of 7% or KM 11 million.

Total non-interest expenses amount to KM 505 million and decreased compared to the same period of the previous year (4% or KM 19 million), primarily as a result of lower value adjustment costs. Their share in the total income structure went down from 80.9% to 74.4%. Value adjustment costs amount to KM 78 million and are down by 25% or KM 26 million compared to the parallel period, which has reflected positively on their share in the total income structure dropping from 16.2% to 11.5%.

Operating expenses amount to KM 363 million, with a share of 53% in total income, and are slightly up by 1% or KM 3 million on the basis of other operating costs being up by 9% or KM 6 million, with a relatively low share of 11% in total income. Salary and contribution costs, as the largest item of operating expenses, recorded a drop of 1%, amounting to KM 182 million, as is the case with costs of fixed assets, which amount to KM 107 million and are also down by 1%. After the crisis emerged, banks took numerous measures to rationalise costs of operations, primarily to reduce operating expenses, which has partly mitigated adverse effects of the interest income decrease caused by the lower volume of lending activities and decrease in loan portfolio quality.

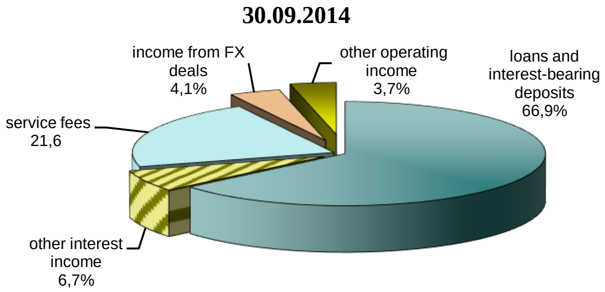
The trend and structure of total income and total expenses is provided in the tables and graphs below.

- in KM 000 -

Table 28: *Total Income Structure*

Total income structure	30.09.2013 Amount	30.09.2013 %	30.09.2014 Amount	30.09.2014 %	30.09.2015 Amount	30.09.2015 %	INDEX 8 (4/2)	INDEX 9 (6/4)
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	1 664	0.2	3 069	0.4	1 065	0.1	184	35
Loans and leasing facilities	526 568	64.3	519 657	63.5	515 294	62.2	99	99
Other interest income	55 580	6.8	55 066	6.7	55 964	6.8	99	102
TOTAL	583 812	71.3	577 792	70.6	572 323	69.1	99	99
II Operating income								
Service fees	167 613	20.5	176 261	21.6	187 459	22.6	105	106
Income from FX deals	32 568	4.0	33 836	4.1	36 716	4.4	104	109
Other operating income	34 392	4.2	30 465	3.7	31 674	3.9	89	104
TOTAL	234 573	28.7	240 562	29.4	255 849	30.9	103	106
TOTAL INCOME (I + II)	818 385	100.0	818 354	100.0	828 172	100.0	100	101

Graph 20: *Total Income Structure*



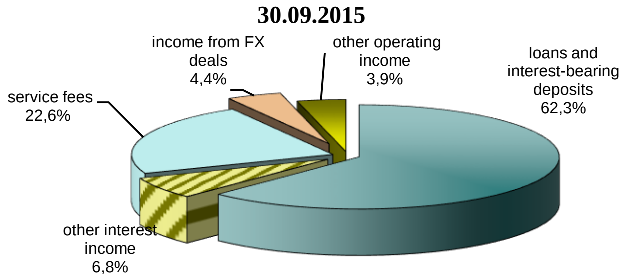
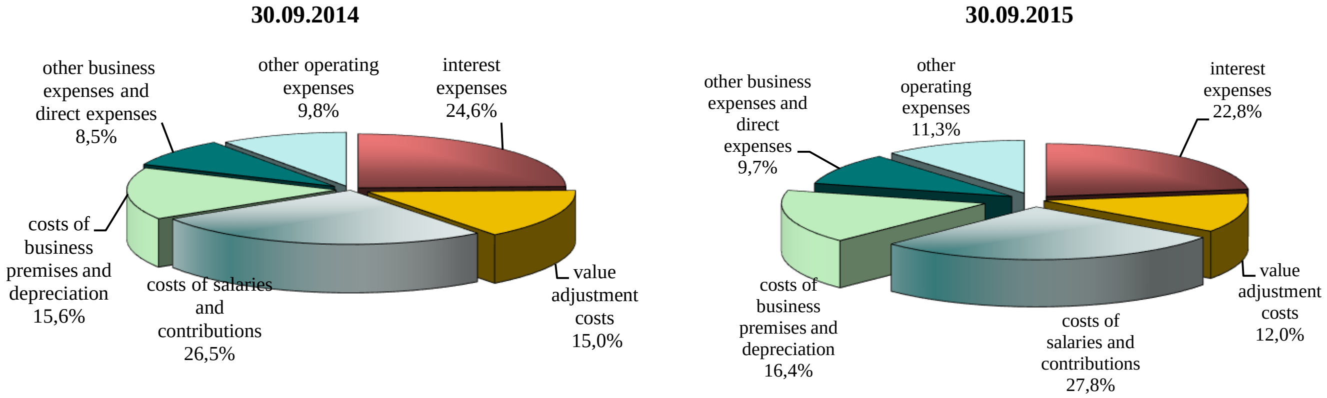


Table 29: *Total Expenses Structure*

Total expenses structure	30.09.2013 Amount	30.09.2013 %	30.09.2014 Amount	30.09.2014 %	30.09.2015 Amount	30.09.2015 %	INDEX 8 (4/2)/	INDEX 9 (6/4)
1	2	3	4	5	6	7	8 (4/2)/	9 (6/4)

I Interest expenses and similar expenses								
Deposits	154 611	21.3	145 632	21.0	130 556	20.0	94	90
Liabilities based on loans and other borrowings	16 752	2.3	14 694	2.1	11 401	1.7	88	78
Other interest expenses	8 792	1.2	10 177	1.5	7 213	1.1	116	71
TOTAL	180 155	24.8	170 503	24.6	149 170	22.8	95	87
II Total non-interest bearing expenses								
Costs of value adjustment of risk-bearing assets and provisions for contingent liabilities and other value adjustments	111 933	15.4	104 641	15.0	78 303	12.0	93	75
Costs of salaries and contributions	183 273	25.2	184 319	26.5	181 956	27.8	101	99
Costs of business premises and depreciation	114 689	15.8	108 389	15.6	107 437	16.4	95	99
Other business expenses and direct expenses	56 053	7.7	58 772	8.5	63 570	9.7	105	108
Other operating expenses	80 564	11.1	67 758	9.8	73 788	11.3	84	109
TOTAL	546 512	75.2	523 879	75.4	505 054	77.2	96	96
TOTAL EXPENSES (I + II)	726 667	100.0	694 382	100.0	654 224	100.0	96	94

Graph 21: *Total Expenses Structure*



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

- in %-

Table 30: *Profitability, Productivity and Efficiency Ratios by Period*

RATIOS	30.09.2013	30.09.2014	30.09.2015
Profit from average assets	0.6	0.8	1.1
Profit from average total capital	4.0	5.2	6.9
Profit from average share capital	7.8	10.1	13.8
Net interest income/average assets	2.7	2.6	2.6
Operating income/average assets	1.6	1.5	1.6
Total income/average assets	4.3	4.2	4.2
Business expenses and direct expenses[28]/average assets	1.1	1.1	0.9
Operating expenses/average assets	2.5	2.3	2.2
Total non-interest bearing expenses/average assets	3.7	3.4	3.1

An analysis of key ratios for profitability quality assessment has shown that, as a result of the extraordinarily high increase in the amount of recorded profit compared to the parallel period of the previous year, and despite the increase in average assets, the ROAA (return on average assets) increased from 0.8% to 1.07%, while the ROAE (return on average equity) recorded an increase from 10.15% to 13.83%. The banks' productivity ratio, measured as a ratio between total income and average assets (4.2%), remained unchanged compared to the same period of the previous year due to the simultaneous increase in total income and average assets. As a result of reduced value adjustment costs, the business expenses and direct expenses/average assets ratio improved from 1.1% to 0.9%, as well as the total non-interest bearing expenses/average assets ratio (from 3.4% to 3.1%).

[28] Expenses also include value adjustment costs.

In negative conditions of the banks' operations and prompted by effects of the economic and financial crisis on the banking sector of the Federation of B&H, the profitability of banks will continue to be mostly affected by and will depend on two key factors: a) the further trend of assets quality, i.e. the level of loan losses and credit risk, and b) the efficiency of management and control over operating income and operating expenses. On the other hand, the evident slowdown and downward trend of economic activities caused lower demand for loans and a more restrictive approach on the supply side (banks). This will directly affect the profitability of the entire banking sector in the period to come. Also, the banks' profit, i.e. their financial result, will be largely affected by the price and interest rate risk in terms of both sources of funding and an interest margin sufficient enough to cover all non-interest bearing expenses and thus eventually ensure satisfactory profit related to capital invested by bank owners. Therefore, a key factor for the efficiency and profitability of every bank is the quality of management and business policies, as well as the quality and efficiency of risk management systems, since this directly affects its performances.

2.3. Weighted Nominal and Effective Interest Rates

In the interest of greater transparency and easier comparability of banks' loan approval terms and deposit taking terms, as well as in the interest of customer protection by means of introducing transparent disclosure of loan approval costs, i.e. deposit income, all in accordance with international standards, criteria and practices in other countries, on 01.07.2007, the Agency prescribed a uniform manner of calculating and disclosing the effective interest rate[29] for all banks seated in the Federation of B&H as well as their organisational units operating on the territory of the Federation of B&H. the effective interest rate represents an actual relative loan price, i.e. income earned on a deposit, expressed as an annual percentage.

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

Banks are required to report to the Agency on a monthly basis regarding weighted nominal and effective interest rates on loans and deposits approved/received in the reporting month in question, all in accordance with regulated methodology.[30]

The table below shows an overview of weighted nominal and effective interest rates (hereinafter: NIR and EIR) on loans at the banking sector level and for two key customer segments (corporate and retail) for December 2013, June, September and December 2014, as well as June and September 2015.

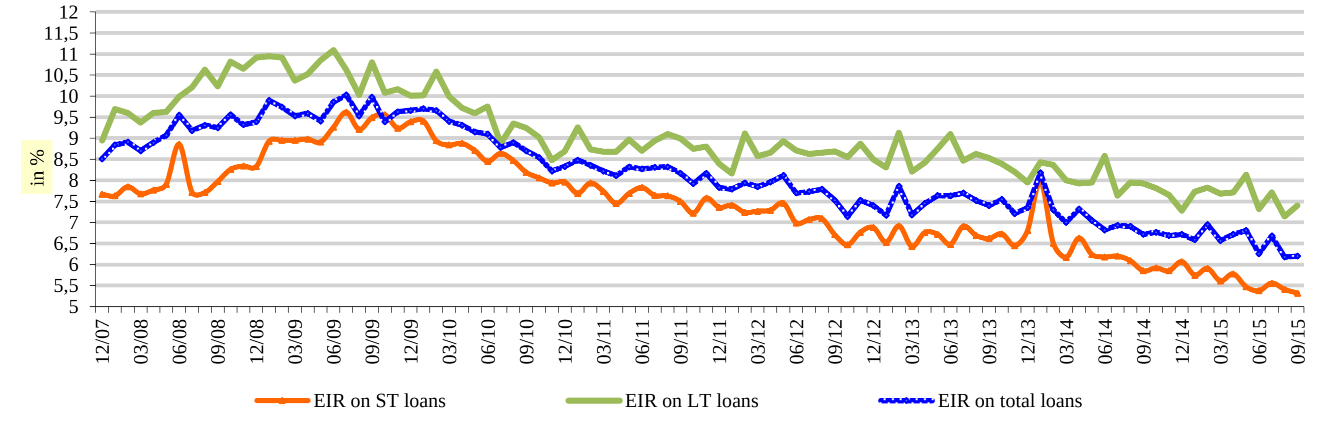
Table 31: *Weighted Average NIR and EIR on Loans*

DESCRIPTION	12/2013		06/2014		09/2014		12/2014		06/2015		09/2015	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on short-term loans	6.18	6.81	5.81	6.17	5.70	6.24	5.58	6.07	5.03	5.38	4.93	5.32
1.1. Corporate	6.21	6.79	5.78	6.07	5.64	6.13	5.55	5.99	5.01	5.30	4.89	5.23
1.2. Retail	6.42	8.51	8.27	11.80	8.32	11.72	6.57	8.90	7.68	11.47	7.91	12.01

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

2. Weighted IR on long-term loans	7.31	7.95	7.22	8.00	6.81	7.44	6.00	7.28	6.49	7.32	6.51	7.40
2.1. Corporate	6.83	7.17	6.72	7.18	6.03	6.30	5.29	6.76	5.50	6.03	5.45	5.82
2.2. Retail	7.93	8.95	7.64	8.64	7.54	8.47	7.50	8.60	7.35	8.43	7.32	8.64
3. Total weighted IR on loans	6.72	7.35	6.45	7.00	6.24	6.82	5.80	6.72	5.70	6.26	5.60	6.20
3.1. Corporate	6.41	6.92	5.99	6.32	5.76	6.18	5.43	6.32	5.15	5.52	5.02	5.36
3.2. Retail	7.84	8.92	7.65	8.74	7.56	8.58	7.44	8.62	7.36	8.52	7.34	8.75

Graph 22: *Weighted Average Monthly EIR on Loans*



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

The weighted EIS on loans amounted to 6.20% in September 2015, down by 0.52 percentage points compared to the level in December 2014, with moderate monthly oscillations within the range of 0.77 percentage points. The highest rate in the amount of 6.95% was recorded in February and the lowest in the amount of 6.18% in August.

The weighted effective interest rate on short-term loans stood at 5.32% in September 2015, which is down by 0.75 percentage points compared to December 2014, while the weighted effective interest rate on long-term loans totaled 7.40% in June 2015, which is up by 0.12 percentage points compared to the level in December 2014. During the reporting period, larger oscillations were recorded with respect to weighted interest rates on long-term loans (within the range of 0.99 percentage points) compared to those recorded on short-term loans (within the range of 0.59 percentage points).

Interest rates on loans granted to the two most important sectors: corporate and retail,[31] moved in the opposite direction in the reporting period in 2015. The weighted effective interest rate on corporate loans, which is still lower than the effective interest rate on retail loans, dropped from 6.32% in December 2014 to a level of 5.36% in September 2015. The trend of decrease in weighted effective interest rates of the corporate segment was recorded with respect to both short-term (from 5.99% to 5.23%) and long-term loans (from 6.76% to 5.82%).

The effective interest rate on retail loans was 8.75% in September 2015, which is down by 0.13 percentage points compared to December 2014. The effective interest rate on long-term loans to this sector increased slightly 8.64% compared to the December 2014 level (12/2014: 8.60%). The

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

effective interest rate on short-term loans amounted to 12.01% in September 2015, which is up by 3.11 percentage points compared to December 2014.

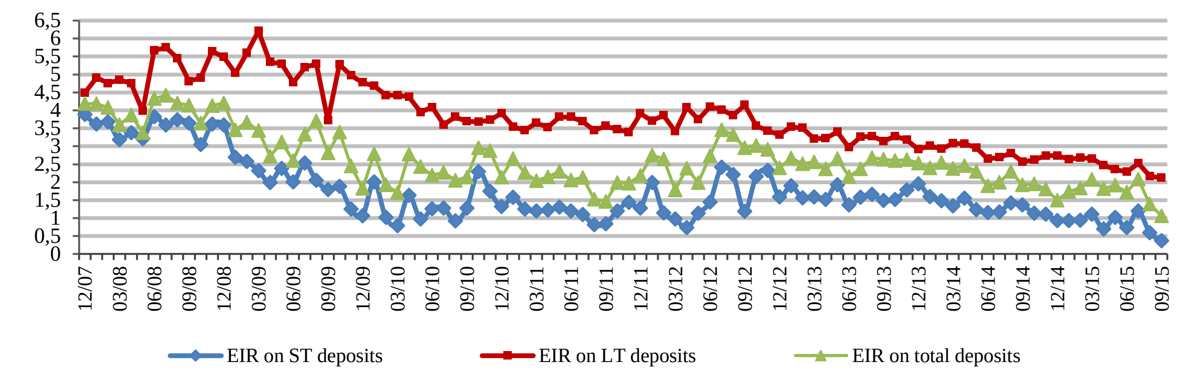
When observed in terms of sector and maturity, the largest increase was recorded in short-term retail general consumption loans (December 2014: 8.61%, September 2015: 12.12%), while the largest drop was recorded in long-term other loans (December 2014: 9%, September 2015: 6.15%).

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 32: *Weighted Average NIR and EIR on Deposits*

DESCRIPTION	12/2013		06/2014		09/2014		12/2014		06/2015		09/2015	
	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	1.94	1.95	1.13	1.15	1.35	1.37	0.92	0.93	0.72	0.73	0.37	0.37
1.1. up to three months	1.92	1.92	0.94	0.95	1.15	1.17	0.42	0.42	0.27	0.27	0.13	0.13
1.2. up to one year	1.99	2.01	1.59	1.62	1.71	1.74	1.94	1.97	1.26	1.28	1.04	1.06
2. Weighted IR on long-term deposits	2.89	2.92	2.62	2.65	2.56	2.57	2.67	2.74	2.25	2.29	2.12	2.12
2.1. up to three years	2.58	2.61	2.55	2.58	2.36	2.37	2.40	2.48	2.21	2.26	1.82	1.83
2.2. more than three years	4.24	4.28	2.83	2.84	3.36	3.37	3.41	3.43	2.33	2.33	2.88	2.89
3. Total weighted IR on deposits	2.50	2.53	1.88	1.90	1.91	1.93	1.47	1.50	1.69	1.72	1.05	1.06

Graph 23: *Weighted Average Monthly EIR on Deposits*



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

The weighted effective interest rate on total term deposits amounted to 1.06% in September 2015, down by 0.44 percentage points compared to the level in December 2014.

The weighted effective interest rate on short-term deposits is decreasing and stood at 0.37% in September 2015, a drop of 0.56 percentage points compared to December 2014.

The weighted effective interest rate on long-term deposits also decreased in the third quarter of 2015, amounting to 2.12%, down by 0.62 percentage points compared to December 2014 (12/2014: 2.74%).

In September 2015, banks paid higher interest rates on term deposits to the corporate segment (1.70%) than to the retail segment (1.65%).

The weighted EIR on short-term corporate deposits amounted to 0.42% in September 2015, down by a high 0.72 percentage points compared to the level in December 2014. The aforementioned trend resulted in the EIR on short-term corporate deposits being almost twice as low as the EIR for short-term retail deposits. The EIR on long-term corporate deposits also recorded a decrease in the amount of a high 0.96 percentage points, dropping from 3.10%, which is what it amounted to in December 2014, to the level of 2.14% in September 2015, but the aforementioned is still higher than the EIR on long-term retail deposits.

In the retail segment, the weighted EIR amounted to 1.65%, down by 0.48 percentage points compared to the level in December 2014, when it stood at 2.13%, and it is the result of a drop in the EIR on both short-term deposits (1.08% to 0.81%) and long-term deposits (2.58% to 1.94%).

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 33: *Weighted Average NIR and EIR on Overdraft Facilities and Call Deposits*

DESCRIPTION	12/2013		06/2014		09/2014		12/2014		06/2015		09/2015	
	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	8.25	8.42	8.14	8.31	8.16	8.33	8.05	8.22	7.91	8.08	7.96	8.16
2. Weighted IR on call deposits	0.15	0.15	0.13	0.13	0.13	0.13	0.13	0.13	0.11	0.11	0.09	0.09

As a rule, the EIR on these assets and liabilities items is equal to the nominal interest rate. The weighted EIR on total overdraft facilities for the banking sector in September 2015 amounted to 8.16% (down by 0.06 percentage points compared to December 2014) and to 0.09% on call deposits (slightly lower compared to December 2014).

2.4. Liquidity

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

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

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

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

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

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

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

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

In the structure of the sources of funding of FB&H banks as of 30.09.2015, the largest share of 75.5% still refers to deposits, followed by loans taken (including subordinated debt[32]) with a share of 6.4%. Loans taken have longer maturities and represent a quality source for the approval of long-term loans, while also improving the maturity adjustment of assets and liabilities items, although a downward trend of the aforementioned has been evident for an extensive period of time.

On the other hand, the maturity structure of deposits is much more unfavourable,[33] with changes in the direction of trends in the past few years being present. After improving and an increase in the share of long-term deposits in the period from 2011 to 2013, 2014 saw a stagnation, while a slight deterioration was recorded in the first nine months of 2015.

- in KM 000 -

Table 34: *Maturity Structure of Deposits by Contractual Maturity*

DEPOSITS	31.12.2013		31.12.2014		30.09.2015		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and call deposits	5 233 356	45.4	5 771 888	47.6	6 295 272	50.2	110	109
Up to 3 months	365 229	3.2	279 332	2.3	139 958	1.1	76	50
Up to 1 year	668 142	5.8	701 041	5.8	654 272	5.2	105	93
1. Total short-term deposits	6 266 727	54.4	6 752 261	55.7	7 089 502	56.5	108	105

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

[33] As per remaining maturity.

Up to 3 years	3 541 354	30.7	3 437 563	28.3	3 430 639	27.3	97	100
More than 3 years	1 715 768	14.9	1 940 922	16.0	2 031 440	16.2	113	105
2. Total long-term deposits	5 257 122	45.6	5 378 485	44.3	5 462 079	43.5	102	102
TOTAL (1 + 2)	11 523 849	100.0	12 130 746	100.0	12 551 581	100.0	105	103

Compared to the end of 2014, total deposits are up by 3% or KM 421 million, mostly as a result of retail deposits being up by 6% or KM 399 million, as well as due to increases in deposits of other sectors: non-banking financial institutions by 12% or KM 62 million, public companies by 6% or KM 55 million, private companies by 3% or KM 55 million, other deposits by 148% or KM 54 million and government institutions by 3% or KM 24 million. On the other hand, there was a decrease in deposits of banking institutions by 26% or KM 226 million and deposits of non-profit organisations by 1% or KM 3 million. With a share of 58%, retail deposits are the largest sectoral source of funding of banks in the FB&H. The maturity structure of deposits with contractual maturity is relatively good, with short-term deposits holding a share of 56.5% and long-term deposits a share of 43.5%, which is somewhat worse compared to 31.12.2014.

Slight changes in the maturity structure stem from an increase in short-term deposits by 5% or KM 337 million, largely related to an increase in retail deposits by KM 285 million, deposits of private companies by KM 71 million, deposits of government institutions by KM 70 million, deposits of non-banking financial institutions by KM 50 million, deposits of other organisations by KM 54 million, and deposits of public companies by KM 12 million, while a decrease was recorded with respect to banking institutions (by KM 203 million) and non-profit organisations (by KM 2 million). Long-term deposits rose slightly by 2% or KM 84 million, largely as a result of an increase in deposits with a term over three years by 5% (mostly retail deposits), while deposits up to three years remained almost unchanged. It should be noted that long-term deposits are still dominated by two segments: retail, with the share increasing from 67.1% to 68.2%, and banking institutions, with the share decreasing slightly from 9.4% to 8.8%. In deposits with a term from one to three years, the largest share of 72.8% is held by retail deposits (up by 1.1 percentage points), followed by public companies (11.4%, with the share being up by 1.2 percentage points). Deposits over three years mostly consist of retail deposits (60.3%, up by 1.3 percentage points), while deposits of banking institutions, with a long-lasting trend of decrease that has slowed down somewhat, have a share of 18.5% (at the end of 2014: 20.5%, at the end of 2013: 25.6%, at the end of 2012: 33.0%, at the end of 2011: 46.9%, at the end of 2010: 60.9%).

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

- in KM 000 -

Table 35: *Maturity Structure of Deposits by Remaining Maturity*

DEPOSITS	31.12.2013		31.12.2014		30.09.2015		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and call deposits (up to 7 days)	5 343 263	46.4	5 874 183	48.4	6 459 409	51.5	110	110
7- 90 days	920 951	7.9	898 335	7.4	664 435	5.3	98	74
91 days to one year	2 126 249	18.5	2 054 981	17.0	2 224 705	17.7	97	108
1. Total short-term deposits	8 390 463	72.8	8 827 499	72.8	9 348 549	74.5	105	106
Up to 5 years	3 002 846	26.1	3 150 040	26.0	3 049 946	24.3	105	97
More than 5 years	130 540	1.1	153 207	1.2	153 086	1.2	117	100
2. Total long-term deposits	3 133 386	27.2	3 303 247	27.2	3 203 032	25.5	105	97
TOTAL (1 + 2)	11 523 849	100.0	12 130 746	100.0	12 551 581	100.0	105	103

Based on the data above, it can be concluded that the maturity structure of deposits by remaining maturity is much worse due to a high share of short-term deposits in the amount of 74.5%, with a trend of slight deterioration compared to the end of 2013 and 2014. Compared to the end of 2014, short-term are up by 6% or KM 521 million, with the share increasing from 72.8% to 74.5%, while long-term deposits decreased by 3% or KM 100 million, with the share in total deposits decreasing from 27.2% to 25.5%. Looking at the structure of long-term deposits, it is evidently dominated by deposits with remaining maturity of up to 5 years (95.2% of long-term deposits and 24.3% of total deposits), while the reduction of deposits with remaining maturity of over 5 years was halted in 2014, when a moderate increase of 17% or KM 23 million was recorded, with them remaining almost unchanged in the first nine months of 2015. When comparing information on deposit maturities by contractual and residual maturity, it can be concluded that out of the KM 5.5 billion of total long-term contracted deposits, there were approximately KM 2.3 billion, i.e. 41%, of long-term contracted deposits with the remaining maturity of up uo one year as of 30.09.2015.

The existing maturity structure of deposits (being the largest source of funding of banks in the Federation of B&H) has become an increasingly limiting factor of credit growth in relation to most banks since they incline more towards approving long-term loans. Therefore, banks are faced with the problem of finding ways to obtain quality sources of funding in terms of maturity, especially due to the considerably reduced inflow of financial assets (borrowings) from abroad, i.e. both from parent groups and financial institutions-creditors, while local sources of funding are mostly short-term. In June 2014, the FBA amended the existing regulations on liquidity.[34] Having previously met the prescribed requirements and obtained the approval of the FBA, banks have the opportunity to use a certain amount (i.e. a corrective amount) of retail call deposits for loans with longer maturities. As of 30.09.2015, four banks started using a corrective amount (KM 213 million) after being granted approval by the FBA, with it being noted that two more banks have applied for the use of the corrective amount. The objective of the regulation amendment is primarily aimed at stimulating credit growth, mostly real sector sector lending, and the effects are expected in the following period.

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

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

-in KM 000 -

Table 36: *Maturity Structure of Loans*

LOANS	31.12.2013		31.12.2014		30.09.2015		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Past due receivabkes abd paid off-balance liabilities	1 175 825	10.8	1 210 806	10.8	1 243 659	10.7	103	103
Short-term loans	2 360 832	21.8	2 256 837	20.2	2 312 541	20.0	96	102
Long-term loans	7 315 743	67.4	7 702 634	69.0	8 014 160	69.3	105	104
TOTAL LOANS	10 852 400	100.0	11 170 277	100.0	11 570 360	100.0	103	104

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

In the first three quarters of 2015, long-term loans increased by 4% or KM 312 million and short-term loans by 2% or KM 56 million, while past due receivables increased by 3% or KM 33 million, which is yet another indicator of the deterioration of the collection rate of loans due and difficulties that debtors have in servicing liabilities towards banks in the light of the economic crisis. In the structure of past due receivables, 63% refers to private companies, 35% to the retail sector and 2% to other sectors.

An analysis of maturities of two key sectors shows that 85% of retail loans are long-term loans, while 52% of total approved loans refers to private companies.

In the structure of assets, loans, as the key category, still hold the largest share of 69.6%, up by 0.4% compared to the end of 2014, and recorded a slight increase of 4% in the first nine months of 2015. Cash funds decreased by 3% or KM 124 million and their share decreased from 28.2% to 26.7% compared to the end of 2014.

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

- in % -

Table 37: *Liquidity Ratios*

Ratios	31.12.2013	31.12.2014	30.09.2015
1	2	3	4
Liquid assets[35]/total assets	28.9	28.5	27.0
Liquid assets/short-term financial liabilities	50.6	49.1	45.7
Short-term financial liabilities/total financial liabilities	67.9	69.3	70.9
Loans/deposits and loans taken[36]	86.4	84.9	85.7
Loans/deposits, loans taken and subordinated debt[37]	85.3	83.9	85.1

As of 31.12.2014, the ratios were at approximately the same level as at the end of 2013, with them deteriorating slightly in the first nine of 2015 due to a decrease in cash funds, an increase in loans and deposits, and a decrease in loans taken.

After deteriorating in 2012, the ratio of loans/deposits and loans taken improved in 2013 (from 88.1% to 86.4%), and the same trend continued in 2014 as well, with the ratio amounting to 84.9% as of 31.12.2014. As of 30.09.2015, the indicator deteriorated due to an increase in loans, along with an increase in deposits and a decrease in loans taken, and amounted to 85.7%. The ratio was above 85% (critical level) with respect to 10 banks. On the one hand, this was the result of their liabilities structure (relatively significant share of capital) and, on the other hand, the result of the high share of loans in assets. During its on-site controls, the Agency paid special attention to banks with identified weaknesses in this business segment and instructed them to take actions and measures to improve the liquidity level and practices of sources of funding management in order to ensure a satisfactory liquidity position.

In 2015, banks have duly fulfilled the requirement of maintaining the defined level of the required reserve at the Central Bank of B&H. The required reserve, being the key instrument of the monetary policy in B&H in relation to the Currency Board and the financially undeveloped market, is the only instrument of the monetary policy that ensures monetary control in sense of the prevention of rapid growth of loans and reduced multiplication, as well as increased liquidity in banks in conditions of crisis and a higher outflow rate of funds from banks (as compared to the situation in B&H as of 01.10.2008). On the other hand, the implementation of foreign currency risk regulations and the

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

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

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

maintenance of currency adjustment to the defined limits has also significantly impacted the amount banks hold in their reserve accounts at the Central Bank of B&H (in local currency), thus ensuring a high liquidity of banks, individually and at the banking sector level.

All banks continuously meet and significantly exceed the defined minimum of the 10-day average of 10% (20% until 10.06.2014) in relation to short-term sources of funding and the daily minimum of 5% (10% until 10.06.2014) in relation to the same basis, as illustrated in the table below.

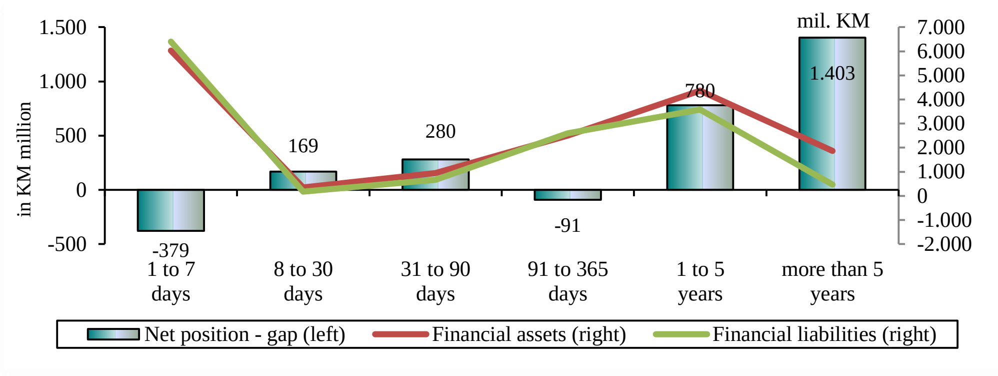
- in KM 000 -

Table 38: *Liquidity Position – 10-Day Average and Daily Minimum*

	31.12.2013	31.12.2014	30.09.2015	INDEX	
	Amount	Amount	Amount		
1	2	3	4	5(3/2)	6(4/3)
1. Average daily balance of cash	3 722 887	4 060 671	4 272 710	109	105
2. Lowest total daily cash balance	3 423 657	3 797 970	4 064 463	111	107
3. Short-term sources of funding (calculation basis)	5 887 967	6 351 607	7 022 463	108	111
4. Amount of liabilities[38]:					
4.1. 10-day average 10% of the amount under item 3	1 177 593	635 161	702 246	54	111
4.2. daily minimum 5% of the amount under item 3	588 798	317 580	351 123	54	111
5. Performance of liabilities: 10-day average[39]					
Surplus = item no. 1 – item no. 4.1.	2 545 294	3 425 510	3 570 464	135	104
6. Performance of liabilities: daily minimum					
Surplus = item no. 2 – item no. 4.2.	2 834 859	3 480 390	3 713 340	123	107

When observing the maturity adjustment of remaining maturities of total financial assets[40] and liabilities, it can be concluded that the adjustment rate is good, although somewhat lower compared to 31.12.2014.

Graph 24: *Maturity Adjustment of Financial Assets and Liabilities as of 30.09.2015*



As of 30.09.2015, short-term financial assets of banks in the amount of KM 9.8 billion were lower than short-term financial liabilities by KM 20 million. Compared to the end of 2014, when the positive gap amounted to KM 202 million, this represents a decrease of KM 222 million or 109.9%, which has led to a deterioration of the coverage ratio for short-term liabilities from 102.2% to 99.8%.

[38] According to Article 1 of the Decision on Amending the Decision on Minimum Standards for Liquidity Risk Management in Banks, ("Official Gazette of the Federation of B&H", No. 46/14), the percentage of maintaining the 10-day average liquidity minimum and the daily average cash funds minimum was reduced from 20% to 10% and from 10% to 5%, respectively.

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

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

Short-term financial assets increased by 2.5%, while short-term financial liabilities went up by 5%. In the structure of short-term financial assets, the largest increase in the amount of 3.5% or KM 145 million was recorded with respect to net loans, followed by trading assets (22.2% or KM 130 million), cash borrowings to other banks (73.8% or KM 37 million), and securities held to maturity (39.4% or KM 36 million), while a decrease of 2.7% or KM 124 million was recorded with respect to cash funds. Financial assets with remaining maturity of over one year rose by 3.9% or KM 234 million, mostly as a result of an increase in loans by 4.2% or KM 247 million.

Liabilities with maturity of up to one year (KM 9.8 billion) increased by 4.9% or KM 459 million as a result of an increase in deposits (up by 5.9% or KM 521 million), other financial liabilities (up by 26.8% or KM 46 million), a decrease in loan commitments (down by 22.5% or KM 81 million) and subordinated debt (down by 99.4% or KM 27 million). Liabilities with maturity of over one year (KM 4.0 billion) are down by 2.9% or KM 119 million, primarily as a result of a decrease in deposits by 3% or KM 100 million..

In addition to the said prescribed minimum standard, a very important aspect of the monitoring and analysis of the liquidity position is the maturity adjustment of remaining maturities of financial assets and liabilities items in accordance with the time scale created to capture a time horizon of 180 days in line with the prescribed minimum limits.[41]

- in KM 000 -

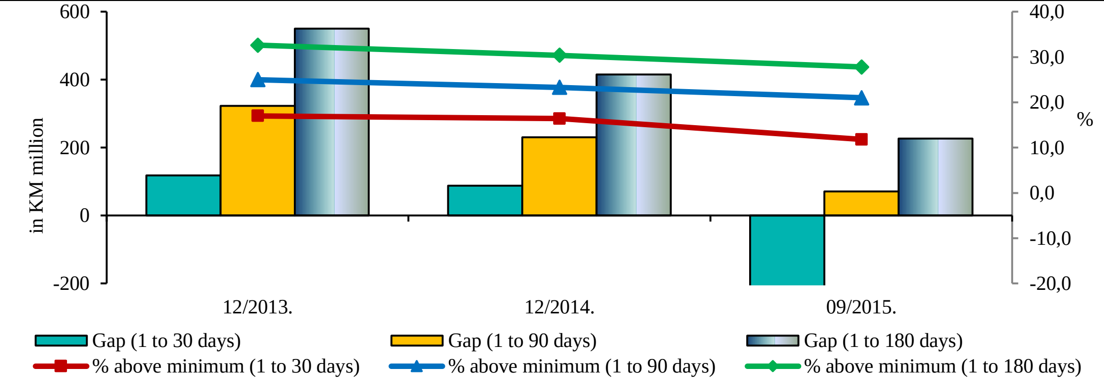
Table 39: *Maturity Adjustment of Financial Assets and Liabilities – up to 180 Days*

Description	31.12.2013 Amount	31.12.2014 Amount	30.09.2015 Amount	INDEX	
1	2	3	4	5 (3/2)	6(4/3)
I. 1- 30 days					
1. Financial assets	5 924 526	6 303 761	6 373 438	106	101
2. Financial liabilities	5 806 822	6 215 782	6 582 730	107	106
3. Difference (+ or -) = 1-2	117 704	87 979	-209 292	75	n/a
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	102.0%	101.4%	96.8%		
b) Prescribed minimum %	85.0%	85.0%	85.0%		
Plus (+) or minus (-) = a - b	17.0%	16.4%	11.8%		
II. 1-90 days					
1. Financial assets	6 809 340	7 132 287	7 322 536	105	103
2. Financial liabilities	6 485 914	6 901 893	7 251 674	106	105
3. Difference (+ or -) = 1-2	323 426	230 394	70 862	71	31
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	105.0%	103.3%	101.0%		
b) Prescribed minimum %	80.0%	80.0%	80.0%		
Plus (+) or minus (-) = a - b	25.0%	23.3%	21.0%		
III. 1-180 days					
1. Financial assets	7 812 974	8 062 506	8 225 365	103	102
2. Financial liabilities	7 263 293	7 647 885	7 998 634	105	105
3. Difference (+ or -) = 1-2	549 681	414 621	226 731	75	55
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	107.6%	105.4%	102.8%		
b) Prescribed minimum %	75.0%	75.0%	75.0%		
Plus (+) or minus (-) = a - b	32.6%	30.4%	27.8%		

Based on the information presented, it is found that, as of 30.09.2015, banks have adhered to prescribed limits and achieved a better maturity adjustment of financial assets and liabilities in relation to the prescribed limits.

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

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

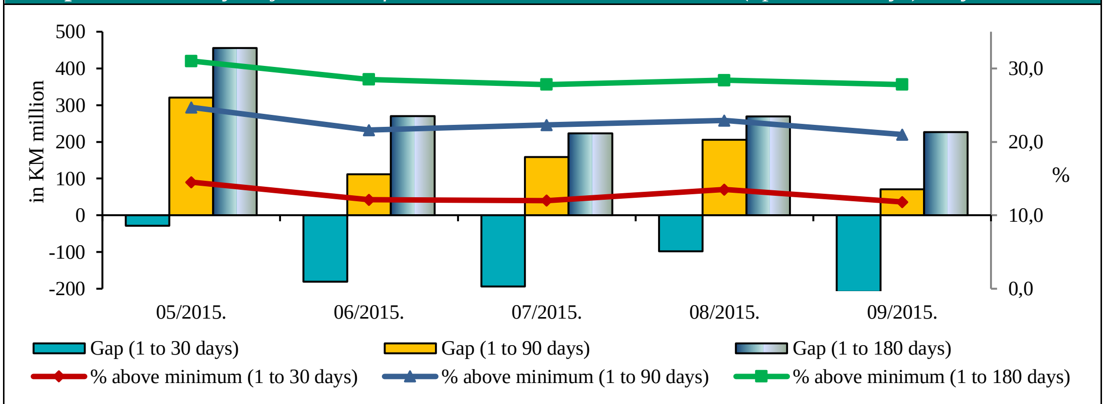


As of 30.09.2015, financial assets in the first period (up to 30 days) were lower than financial liabilities, due to the increase in financial liabilities, primarily deposits and other financial liabilities, being higher than the increase in financial assets (an increase in trading assets, net loans and securities held to maturity; a decrease in cash funds and borrowings to other banks). In the second and third period, financial assets surpassed financial liabilities, despite the increase in financial assets (primarily an increase in trading assets and net loans, along with a decrease in cash funds) being lower than the increase in financial liabilities (mostly deposits, followed by loan commitments and other liabilities).

As a result of the aforementioned, the recorded maturity adjustment percentages in all three periods were somewhat lower than at the end of 2014, but still significantly above the prescribed minimum by 11.8% in the first period, 21.0% in the second period and 27.8% in the third period.

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

Graph 26: *Maturity Adjustment of Financial Assets and Liabilities (up to 180 Days) – by Period*



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

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

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

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

In order to ensure the implementation and realisation of prudent principles related to FX activities of banks and to reduce FX risk effects on their profitability, liquidity and capital, the Agency has adopted the Decision on Minimum Standards for Foreign Exchange Risk Management in Banks[42], which regulates minimum standards for adopting and implementing the programmes, policies and procedures for FX risk assumption, monitoring, control and management, as well as limits for the open individual and total FX position (long or short) calculated in relation to the core capital of the bank.[43]

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

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

As of 30.09.2015, the currency structure of banks' assets included 10.2% or KM 1.7 billion of foreign currency items (at the end of 2014, these items amounted 11.4% or KM 1.8 billion). On the other hand, the currency structure of liabilities is quite different since the share of foreign currency liabilities is much higher and equals 42.9% or KM 7.1 billion (at the end of 2014, this share was 44.2% or KM 7.1 billion).

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

[42] "Official Gazette of the Federation of B&H", No. 48/12 – consolidated text.
[43] Article 7 of the Decision on Minimum Standards for Foreign Exchange Risk Management in Banks defines the following limits: for the individual FX position – up to 30% of the core capital for EUR, up to 20% for other currencies and up to 30% for the total bank position.

- in KM million -

Table 40: *FX Adjustment of Financial Assets and Liabilities (EUR and Aggregate)*[44]

Description	31.12.2014				30.09.2015				INDEX	
	EURO		TOTAL		EURO		TOTAL		EURO	TOTAL
	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %	6/2	8/4
1	2	3	4	5	6	7	8	9	10	11
I. Financial assets										
1. Cash	961	12.7	1 385	16.7	697	9.0	1 149	13.6	73	83
2. Loans	38	0.5	41	0.5	30	0.4	32	0.4	79	78
3. Loans with a currency clause	6 294	82.9	6 438	77.8	6 624	85.8	6 758	80.0	105	105
4. Other	295	3.9	409	5.0	371	4.8	508	6.0	126	124
Total (1+2+3+4)	7 588	100.0	8 273	100.0	7 722	100.0	8 447	100.0	102	102
II. Financial liabilities										
1. Deposits	5 363	72.5	5 975	74.4	5 426	72.8	6 105	74.9	101	102
2. Loans taken	949	12.8	954	11.9	831	11.1	832	10.2	88	87
3.Deposits and loans with a currency clause	882	11.9	882	11.0	1 008	13.5	1 008	12.4	114	114
4. Other	209	2.8	216	2.7	192	2.6	203	2.5	92	94
Total (1+2+3+4)	7 403	100.0	8 027	100.0	7 457	100.0	8 148	100.0	101	102
III. Off-balance sheet										
1. Assets	78		78		20		26			
2. Liabilities	50		109		106		143			
IV.Position										
Long (amount)	212		216		180		181			
%	12.0%		12.2%		9.6%		9.7%			
Short										
%										
Allowed	30%		30%		30%		30%			
Lower than the allowed	18.0%		17.8%		20.4%		20.3%			

In terms of the structure of foreign currencies, the dominant share among financial assets[45] is held by the EUR with 65.0%, which is somewhat lower compared to 31.12.2014 (70.5%) due to the lower nominal amount (from KM 1.29 billion to KM 1.1 billion). The share of the EUR in liabilities is 90.3%, which is somewhat lower compared to the end of 2014, coupled with a decrease in the nominal amount by KM 72 million.

However, FX risk exposure calculation also includes the amount of indexed assets items (loans) and liabilities items[46], which is quite significant on the assets side (80.0% or KM 6.8 billion) and which is somewhat up compared to 31.12.2014 (77.8% or KM 6.5 billion). Other FX items on the assets side hold a share of 20.0% or KM 1.7 billion and have the following structure: items in EUR 13.0% or KM 1.1 billion and other currencies 7.0% or KM 0.6 billion (at the end of 2014, other items in EUR held a share of 15.6% or KM 1.29 billion). Out of total net loans (KM 10.4 billion), app. 65.0% have a currency clause (mostly pegged to the EUR – 98.0%).

As for the sources of funding, financial liabilities determine the structure of financial assets items for every currency. The largest share in FX liabilities (KM 8.1 billion) is 79.1% or KM 6.4 billion and refers to items in EUR, mostly deposits (at the end of 2014, the share of liabilities in EUR amounted

[44] Source: Form 5 – FX position.

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

[46] 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).

to 81.2% or KM 6.5 billion), while the share and amount of indexed liabilities is minimal, but somewhat higher compared to the end of 2014, and amounts to 12.4% or KM 1 billion.

When observing banks and the banking sector level of the Federation of B&H, it can be concluded that FX risk exposure of banks and the banking system in 2015 was within the defined limits. As of 30.09.2015, the long FX position was recorded with 15 banks and the short position with 2 banks. At system level, there is a long FX position of 9.7% of the total core capital of banks, which is 20.3% below the allowed limit. The individual FX position for the EUR, like the total position, was 9.6%, which is 20.4% below the allowed limit, with financial assets items being larger than financial liabilities (net long position).

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

IV CONCLUSIONS AND RECOMMENDATIONS

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

In order to further strengthen resilience of banks in the Federation of B&H in the face of a potentially more severe crisis situation, in May 2014, the Agency adopted the new Decision on Minimum Standards for Capital Management in Banks and Capital Hedge. In addition to the quantitative and structural strengthening of regulatory capital requirements, the new Decision introduced additional capital requirements: capital leverage 6%, a conservation buffer for the coverage of increased losses in the case of a crisis (in the amount of 2.5%). In accordance with the new Decision, the FBA can, by means of a separate decision and if necessary, prescribe other specific buffers for countercyclical protection and systemic risk, which must be made up of share capital above the prescribed minimum.

Based on the fact that the existing maturity structure of deposits as the largest source of funding for banks in the FB&H is becoming a more limiting factor of credit growth for a number of banks and that those banks are faced with the problem of how to provide quality sources in terms of maturity, in June 2014, the FBA amended the existing regulations on liquidity. The aim of amending the regulations is primarily to stimulate credit growth, particularly lending to the real sector, and the effects are expected in the period to come.

In 2014, the Agency also adopted regulations concerning the application of the Law on Guarantor Protection in the Federation of Bosnia and Herzegovina and the Law on Protection of Users of Financial Services in the Federation of Bosnia and Herzegovina, which rounded off the regulatory framework for the proper application of the aforementioned Laws.

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

- take measures and actions within its competences that will allow an increase in the banks' lending activities and provide greater support to the economy in order to overcome and mitigate the effects of the global financial crisis on the banking sector in the Federation of B&H;

- continue with activities within its competences to consolidate the supervision function at state level;
- maintain continuous supervision of banks through on-site and off-site examinations, placing an emphasis on dominant risk segments of banking operations and aiming to improve efficiency by means of:
  - further insistence on capital strengthening in banks, especially in those banks with an above average increase in assets and reduction of the capital adequacy ratio,
  - continuing banking supervision that is of system relevance where large savings and other deposits are concentrated (all for the purpose of protecting depositors);
  - continuing to provide continuous enhanced supervision of banks in which significant weaknesses in terms of credit risk management have been identified;
  - continuing the detailed examination of the asset quality of banks which recorded significant above-average credit growth rates;
  - improving the Early Warning System tool (EWS) for the purpose of an early identification of financial and operational inefficiencies and/or adverse trends in the banks' operations,
  - continuing system-based monitoring of banks' activities to prevent money laundering and the financing of terrorism and the improvement of the cooperation with other supervisory and regulatory institutions;
  - monitoring the banks' compliance with laws and regulations and practices applied in banks in the segment of protecting users of financial services and guarantors.
- work on upgrades to legal regulations as based on the Basel Principles, Basel Capital Accord and European Banking Directives, as part of the preparations for B&H joining the European Union, and in accordance with the adopted Strategy for the introduction of Basel III and the Action Plans for the implementation of the aforementioned Strategy;
- continue to work on improving and strengthening the capacity for effective banking supervision;
- actively work on implementing the recommendations of the FSAP mission (Financial Sector Assessment Program) related to banking supervision;
- continue with efforts to improve the information system that would enable early warning and preventive actions with respect to the elimination of weaknesses in the banks' operations;
- together with other relevant member institutions of the Standing Committee for Financial Stability (SOFS), continue to oversee systemic risks and work on improving the framework for crisis management, as well as review and regularly update the contingency plan as part of crisis preparedness;
- continue and improve cooperation on a bilateral basis with the banking regulators, i.e. supervisory institutions of other countries in which the banking groups present in the FB&H are seated, on the basis of signed Memorandums of Understanding – MoU (Austria, Slovenia, Turkey, Croatia, etc.);
- actively work on establishing cooperation and the signing of MoU with relevant banking regulators with which MoU have not yet been signed (Italy, Germany and Russia);
- continue cooperation with the ECB and the EBA towards the signing of mutual memorandums and the exchange of information on banking supervision, as well as with international financial institutions, the IMF, the WB, the EBRD, etc.;
- improve cooperation with the B&H Banks' Association across all segments of the banking business, professional discussion in the development of new secondary legislation, organise consultations and provide professional assistance in the implementation of banking laws and regulations, improve cooperation in the sense of professional training, propose amendments to all laws or regulations that have become a limiting factor to the banks' development;
- continue and improve cooperation with the banks' external auditors;
- continue with the on-going training and professional education of the staff;
- accelerate actions regarding the finalisation of the liquidation processes, as per Management

Board conclusions.

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

- the implementation of conclusions reached by the Parliament of the Federation of B&H regarding the establishment of state-level bank supervision;
- speeding up the implementation of economic reforms in the real sector of the economy in order to stimulate the economic development of B&H and move closer to the EU;
- creating and upgrading regulations pertaining to the financial sector, which refer to the actions, status and operations of banks, and especially to the drafting and adoption of the new Banking Law and the legal framework for the resolution and recovery of banks in distress;
- strengthening the framework of mechanisms for financial sector protection and crisis management, strengthening the role of the Standing Committee for Financial Stability of B&H, improving coordination between SOFS members and introducing macroprudential analyses, tools and policies, etc.;
- the establishment of a framework for the financial restructuring and consolidation of business entities;
- the establishment of an effective framework for the resolution of non-performing loans;
- the preparation and adoption of the Law on Asset Management Companies;
- the establishment of special commercial departments within courts;
- the establishment of more efficient enforcement proceedings;
- the creation and adoption of measures for resolving or mitigating the problem of over-indebted persons.

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

- full commitment to quality and prudent operations and to combating the crisis effects presently posing the biggest threat to banks, the real sector of the economy and the general population;
- capital strengthening and ensuring a solvency level proportional to an increase in assets and risk;
- improvement of its risk management system, particularly with respect to credit risk;
- introducing or improving the system of early identification of loan portfolio deterioration and more effective measures for the resolution of non-performing loans;
- strengthening of the internal control system and the internal audit function as segments that are fully independent in the performance of their duties and roles;
- drafting and updating their plans for emergency or crisis situations as well as recovery plans;
- establishment and improvement of stress tests for possible scenarios of crisis situations and their impact on the bank's operations, especially capital, credit risk and liquidity risk, and, as part of that, the maturity adjustment in particular;
- more consistent implementation of adopted policies and procedures to prevent money laundering and the financing of terrorism, the security and protection of money in the bank and in transit, all in accordance with laws and by-laws;
- active participation in the implementation of measures for resolving the problem of individuals' over-indebtedness and the financial consolidation of companies;
- improving the transparency and disclosure of information;
- the implementation of laws and by-laws in the segment of protecting users of financial services and guarantors;
- regular, timely and accurate submission of information to the Central Loans Registry and the Uniform Central Registry of Accounts at the Central Bank of B&H.

No.: U.O.-76-2/15
Sarajevo, 26.11.2015

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ANNEX 1

Banks in the Federation of Bosnia and Herzegovina – 30.09.2015

No.	BANK	Address		Telephone	Director
1	BOR BANKA dd - SARAJEVO	Sarajevo	Obala Kulina bana 18	033/278-520, fax:278-550	Interim director HAMID PRŠEŠ
2	BOSNA BANK INTERNATIONAL dd - SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	AMER BUKVIĆ
3	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	070/340-341, fax:036/444-235	DRAGAN KOVAČEVIĆ
4	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Sarajevo	Obala Kulina bana 9a.	033/497-555, fax:497-589	ALMIR KRKALIĆ
5	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032/448-400, fax:448-501	SUVAD IBRANOVIĆ
6	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Ibrahima Mržljaka 3	037/771-253, fax:772-416	HASAN PORČIĆ
7	MOJA BANKA dd - SARAJEVO	Sarajevo	Trg međunarodnog prijateljstva br. 25.	033/586-870, fax:586-880	MIRZA HUREM
8	NLB BANKA dd - TUZLA	Tuzla	Maršala Tita 34	035/259-259, fax:250-596	SENAD REDŽIĆ
9	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:664-175	ADNAN BOGUNIĆ
10	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Franca Lehara bb	033/250-950, fax:250-971	EDIN HRNJICA
11	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb.	033/755-010, fax: 213-851	KARLHEINZ DOBNIGG
12	RAZVOJNA BANKA FEDERACIJE BIH	Sarajevo	Igmanska 1	033/724-930, fax: 668-952	SALKO SELMAN
13	SBERBANK BH dd - SARAJEVO	Sarajevo	Fra Anđela Zvizdovića 1	033/295-601, fax:263-832	EDIN KARABEG
14	SPARKASSE BANK dd BOSNA I HERCEGOVINA- SARAJEVO	Sarajevo	Zmaja od Bosne br. 7.	033/280-300, fax:280-230	SANEL KUSTURICA
15	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:312-121	IVAN VLAHO
16	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	VEDRAN HADŽIAHMETOVIĆ
17	VAKUFSKA BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	MIRZET RIBIĆ
18	ZIRAATBANK BH dd - SARAJEVO	Sarajevo	Dženetića Čikma br. 2.	033/252-230, fax: 252-245	ALI RIZA AKBAŞ

ANNEX 2

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

in KM 000

No.	DESCRIPTION	31.12.2013	31.12.2014	30.09.2015
	ASSETS			
1.	Cash and deposit accounts with deposit-taking institutions	4 417 898	4 560 234	4 436 470
1a	Cash and non-interest bearing deposit accounts	627 016	618 460	911 940
1b	Interest-bearing deposits accounts	3 790 882	3 941 774	3 524 530
2.	Trading securities	381 909	586 704	716 732
3.	Loans to other banks	51 960	50 836	104 612
4.	Loans, receivables based on leasing facilities and past due receivables	10 852 400	11 170 277	11 570 360
4a	Loans	9 676 527	9 959 429	10 326 664
4b	Receivables based on leasing facilities	48	42	37
4c	Past due receivables based on loans and leasing facilities	1 175 825	1 210 806	1 243 659
5.	Held to maturity securities	180 604	214 585	222 944
6.	Business premises and other fixed assets	476 199	491 740	495 152
7.	Other real estate	36 786	34 120	37 717
8.	Investments in unconsolidated related companies	23 762	23 135	22 338
9.	Other assets	252 122	241 737	251 666
10.	LESS: value adjustments	1 227 090	1 222 838	1 225 783
10a	Value adjustments for Item 4. of the Assets	1 163 928	1 160 481	1 168 896
10b	Value adjustments for Assets items, except for the Item 4.	61 162	62 357	56 887
11.	**TOTAL ASSETS**	**15 446 550**	**16 150 530**	**16 632 208**
	LIABILITIES			
12.	Deposits	11 523 849	12 130 746	12 551 581
12a	Interest-bearing deposits	9 363 284	9 360 082	9 489 612
12b	Non-interest bearing deposits	2 160 565	2 770 664	3 061 969
13.	Borrowings – liabilities due	1 577	150	150
13a	Past due liabilities			
13b	Past due – invoked off-balance sheet liabilities	1 577	150	150
14.	Borrowings from other banks			
15.	Liabilities to the Government			
16.	Loan commitments and other borrowings	1 039 381	1 026 503	942 635
16a	With remaining maturity of up to one year	212 485	359 866	279 035
16b	With remaining maturity of more than one year	826 896	666 637	663 600
17.	Subordinated debt and subordinated bonds	166 889	156 233	109 953
18.	Other liabilities	406 909	417 395	453 041
19.	**TOTAL LIABILITIES**	**13 138 605**	**13 731 027**	**14 057 360**
	CAPITAL			
20.	Permanent preferred shares	11 959	11 959	11 709
21.	Common shares	1 196 633	1 221 591	1 262 180
22.	Issue premiums	136 485	136 485	132 667
22a	Over permanent preferred shares	8 420	88	88
22b	Over common shares	128 065	136 397	132 579
23.	Undistributed profit and capital reserves	649 879	618 214	678 648
24.	Foreign exchange rate differences			
25.	Other capital	-2 745	115 520	173 910
26.	Loan loss provisions formed from profit	315 734	**315 734**	**315 734**
27.	**TOTAL EQUITY (20. to 25.)**	**2 307 945**	**2 419 503**	**2 574 848**
28.	**TOTAL LIABILITIES AND EQUITY (19 +26)**	**15 446 550**	**16 150 530**	**16 632 208**
	PASSIVE AND NEUTRAL SUB-BALANCE	**661 321**	**638 913**	**710 461**
	BALANCE SHEET TOTAL OF BANKS	**16 107 871**	**16 789 443**	**17 342 669**

ANNEX 3

OVERVIEW OF ASSETS, LOANS, DEPOSITS AND FINANCIAL RESULTS OF BANKS IN THE FEDERATION OF B&H as of 30.09.2015

in KM 000

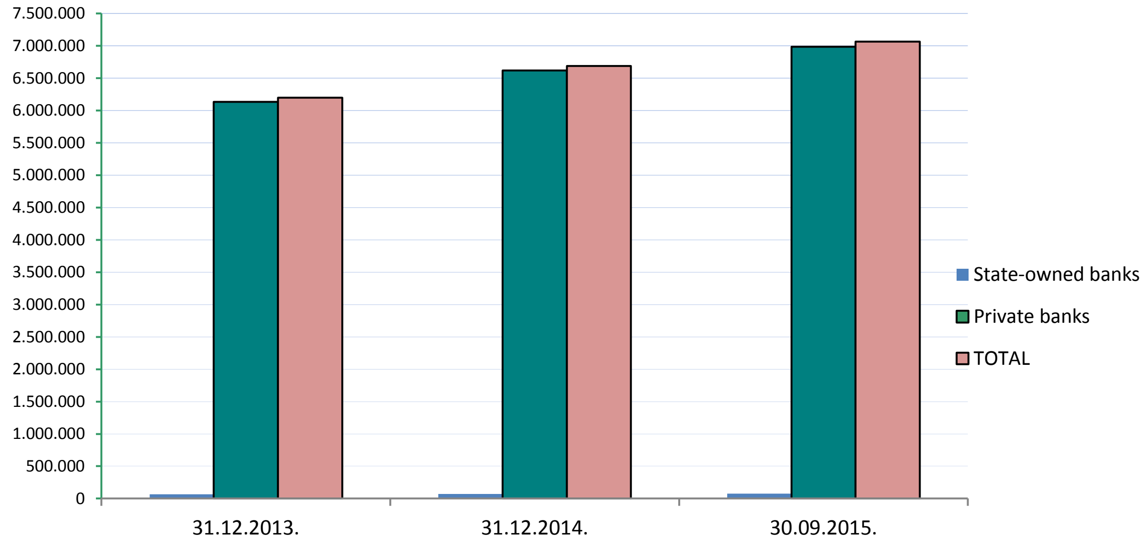
No.	BANK	Assets		Loans		Deposits		Fin. result
		Amount	%	Amount	%	Amount	%	Amount
1	BOR Banka d.d. Sarajevo	235 942	1.4%	179 544	1.6%	126 840	1.0%	2 232
2	Bosna Bank International d.d. Sarajevo	631 732	3.8%	461 773	4.0%	399 670	3.2%	3 054
3	Hypo Alpe Adria Bank d.d. Mostar	902 673	5.4%	582 160	5.0%	638 939	5.1%	-6 245
4	Intesa Sanpaolo banka d.d. Sarajevo	1 577 985	9.5%	1 212 940	10.5%	1 105 064	8.8%	21 889
5	Investiciono Komercijalna banka d.d. Zenica	196 000	1.2%	94 169	0.8%	139 912	1.1%	582
6	Komercijalno Investiciona banka d.d. Velika Kladuša	81 405	0.5%	44 945	0.4%	55 049	0.4%	643
7	Moja banka d.d.Sarajevo	202 770	1.2%	146 378	1.3%	169 865	1.4%	137
8	NLB banka d.d. Tuzla	920 639	5.5%	679 043	5.9%	752 005	6.0%	6 647
9	Privredna Banka d.d Sarajevo	157 172	0.9%	104 838	0.9%	130 586	1.0%	44
10	ProCredit Bank d.d. Sarajevo	417 720	2.5%	339 894	2.9%	264 067	2.1%	-843
11	Raiffeisen Bank dd Bosna i Hercegovina	3 649 154	21.9%	2 274 772	19.7%	2 902 109	23.1%	55 647
12	Sberbank BH d.d. Sarajevo	1 089 930	6.6%	891 160	7.7%	829 436	6.6%	4 669
13	Sparkasse Bank d.d. Sarajevo	1 075 297	6.5%	871 985	7.5%	878 035	7.0%	15 792
14	Union banka d.d. Sarajevo	342 216	2.1%	133 989	1.2%	277 957	2.2%	115
15	UniCredit bank d.d. Mostar	4 258 434	25.6%	2 875 695	24.9%	3 245 788	25.9%	65 086
16	Vakufska banka d.d. Sarajevo	252 801	1.5%	185 370	1.6%	216 670	1.7%	197
17	Ziraatbank BH d.d. Sarajevo	640 338	3.8%	491 705	4.2%	419 589	3.3%	4 264
	TOTAL	**16 632 208**	**100.0%**	**11 570 360**	**100.0%**	**12 551 581**	**100.0%**	**173 910**

ANNEX 4

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

in KM 000

	31.12.2013	31.12.2014	30.09.2015
State-owned banks	65 179	73 072	77 215
Private banks	6 135 711	6 618 891	6 988 408
TOTAL	**6 200 890**	**6 691 963**	**7 065 623**



ANNEX 5

CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET RISK-BEARING ITEMS
as of 30.09.2015
- CLASSIFICATION OF BALANCE SHEET ASSETS ITEMS –

in KM 000

No.	BALANCE SHEET ASSETS ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	2 114 350	168 023	23 385	4 688	2 095	2 312 541
2.	Long-term loans	7 076 446	528 856	236 647	99 081	17 229	7 958 259
3.	Other facilities	175 221	948	51	167	1 880	178 267
4.	Accrued interest and fees	37 083	4 713	1 753	5 527	25 933	75 009
5.	Past due receivables	37 461	22 931	24 418	347 829	784 615	1 217 254
6.	Receivables based on paid guarantees	0	0	1 107	310	24 988	26 405
7.	Other balance sheet assets being classified	412 215	4 484	1 202	7 198	35 611	460 710
8.	**TOTAL BALANCE SHEET ASSETS BEING CLASSIFIED (sum of items 1 through 7 – calculation basis for regulatory loan loss provisions)**	**9 852 776**	**729 955**	**288 563**	**464 800**	**892 351**	**12 228 445**
9.	**CALCULATED REGULATORY RESERVES FOR LOAN LOSSES BASED ON BS ASSETS**	**193 554**	**63 333**	**72 798**	**274 077**	**892 352**	**1 496 114**
10.	**VALUE ADJUSTMENT FOR BS ASSETS**	**121 576**	**48 292**	**101 676**	**233 087**	**721 153**	**1 225 784**
11.	**REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT FOR PURPOSE OF ASSESSED LOSSES BASED ON BS ASSETS**	**108 541**	**39 023**	**17 014**	**82 144**	**172 715**	**419 437**
12.	**FORMEED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**	**82 025**	**26 496**	**22 056**	**79 952**	**68 581**	**279 110**
13.	**SHORTFALL OF REGULATORY RESERVE FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**						**201 627**
14.	**BALANCE SHEET ASSETS NOT BEING CLASSIFIED (gross book value)**						**5 629 546**
15.	**TOTAL BALANCE SHEET ASSETS (gross book value)**						**17 857 991**

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

14.a	Cash in cash desk and vault and cash funds at the account with the Central Bank of B&H, gold and other precious metals	3 457 830
14.b	Demand deposits and term deposits up to one month located on accounts of banks with defined investment rating	933 638
14.c	Tangible and intangible assets	512 924
14.d	Financial and tangible assets acquired in the process of collection of receivables (within one year upon such acquisition)	5 472
14.e	Own (treasury) shares	0
14.f	Receivables based on overpaid taxes	16 341
14.g	Trading securities	103 121
14.h	Receivables from the B&H Government, FB&H Government and RS Government, securities issued by the B&H Government, FB&H Government and RS Government and receivables secured with unconditional guarantees payable upon the first call	600 220
	TOTAL Item 14	**5 629 546**
8a.	Facilities secured with a cash deposit	175 162

ANNEX 5A

CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET RISK-BEARING ITEMS
as of 30.09.2015
- CLASSIFICATION OF OFF-BALANCE SHEET ITEMS -

in KM 000

No.	OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Payment guarantees	372 445	37 765	2 768	601	300	413 879
2.	Performance guarantees	547 456	93 511	709	5 553	0	647 229
3.	Uncovered letters of credit	38 965	410	116	0	0	39 491
4.	Irrevocably approved, but undrawn loans	1 483 851	69 460	977	157	119	1 554 564
5.	Other contingent liabilities of the bank	12 897	333	0	1	143	13 374
6.	**TOTAL OFF-BALANCE SHEDET ITEMS BEING CLASSIFIED (sum of items 1 through 5 – calculation basis for regulatory loan loss provisions)**	**2 455 614**	**201 479**	**4 570**	**6 312**	**562**	**2 668 537**
7.	**CALCULATED REGULATORY RESERVES FOR LOAN LOSSES RELATED TO OFF-BALANCE SHEET ITEMS**	**48 127**	**13 273**	**886**	**3 632**	**562**	**66 480**
8.	**LOSS RESERVES FOR OFF-BALANCE SHEET ITEMS**	**22 665**	**2 434**	**1 209**	**3 301**	**234**	**29 843**
9.	**REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**	**29 387**	**11 646**	**271**	**805**	**438**	**42 547**
10.	**FORMED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**	**24 395**	**9 761**	**727**	**1 331**	**410**	**36 624**
11.	**SHORTFALL OF REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**						**7 410**
12.	**OFF-BALANCE SHEET ITEMS NOT BEING CLASSIFIED**						**306 314**
13.	**TOTAL OFF-BALANCE SHEET ITEMS**						**2 974 851**
6a.	**Contingent liabilities secured with a cash deposit**						**49 236**
6b.	**Approved undisbursed loans with a clause on unconditional cancellation**						**436 644**

ANNEX 6

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

in KM 000

No.		DESCRIPTION	30.06.2013	30.06.2014	30.09.2015
1.		**INTEREST INCOME AND EXPENSES**			
	a)	Interest income and similar income			
	1)	Interest-bearing deposit accounts with deposit-taking institutions	1 026	2 489	1.065
	2)	Loans to other banks	944	1 217	1.352
	3)	Loans and leasing facilities	351 026	346 714	515.294
	4)	Held to maturity securities	3 796	3 644	4.977
	5)	Equity securities	184	646	49
	6)	Receivables based on paid-off balance sheet liabilities	0	0	2
	7)	Other interest income and similar income	32 301	31 765	49.584
	8)	**TOTAL INTEREST INCOME AND SIMILAR INCOME**	**389 277**	**386 475**	**572.323**
	b)	Interest expenses and similar expenses			
	1)	Deposits	104 333	98 178	130.556
	2)	Borrowings from other banks	112	0	0
	3)	Borrowings taken – liabilities due	0	0	0
	4)	Liabilities based on loans and other borrowings	11 607	10 183	11.401
	5)	Subordinated debt and subordinated bonds	4 494	5 683	6.093
	6)	Other interest and similar expenses	1 438	1 362	1.120
	7)	**TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES**	**121 984**	**115 406**	**149.170**
	c)	**NET INTEREST AND SIMILAR INCOME**	**267 293**	**271 069**	**423.153**
2.		**OPERATING INCOME**			
	a)	FX income	19 106	19 405	36.716
	b)	Loan fees	3 195	3 328	5.954
	c)	Fees based on off-balance sheet items	12 102	12 351	18.018
	d)	Service fees	92 436	99 096	163.487
	e)	Trading income	2 499	445	132
	f)	Other operating income	23 501	22 963	31.542
	g)	**TOTAL OPERATING INCOME a) to f)**	**152 839**	**157 588**	**255.849**
3.		**NON-INTEREST BEARING EXPENSES**			
	a)	Business and direct expenses			
	1)	Costs of value adjustments, risk-bearing assets, provisions for contingent liabilities and other value adjustments	54 397	66 088	78.303
	2)	Other business and direct expenses	35 501	37 371	63.570
	3)	**TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)**	**89 898**	**103 459**	**141.873**
	b)	Operating expenses			
	1)	Costs of salaries and contributions	121 419	122 503	181.956
	2)	Costs of business premises, other fixed assets and utilities	76 433	72 377	107.437
	3)	Other operating expenses	46 276	44 979	73.788
	4)	**TOTAL OPERATING EXPENSES 1) to 3)**	**244 128**	**239 859**	**363.181**
	c)	**TOTAL NON-INTEREST BEARING EXPENSES**	**334 026**	**343 318**	**505.054**
4.		**PROFIT BEFORE TAXES**	**91.919**	**94 701**	**181 036**
5.		**LOSS**	**5.813**	**9 362**	**7 088**
6.		**TAXES**	**3.531**	**0**	**38**
7.		**PROFIT BASED ON INCREASE OF DEFERRED TAX FUNDS AD REDUCTION OF DEFERRED TAX LIABILITIES**	**116**	**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.**	**88.504**	**94 701**	**180 998**
10.		**NET LOSS 4. - 6.**	**5.813**	**9 362**	**7 088**
11.		**FINANCIAL RESULT 9.-10.**	**82.691**	**85.339**	**173.910**

ANNEX 7

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

in KM 000

No.	D E S C R I P T I O N	31.12.13	31.12.14	30.09.15
	CORE CAPITAL OF THE BANK			
1.a.	Share capital, reserves and profit			
1.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	1 188 094	1 217 909	1 258 368
1.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	12 550	12 550	12 431
1.3.	Amount of issue premiums earned upon payment of shares	136 485	136 485	132 667
1.4.	General mandatory reserves (reserves mandated by the law)	206 809	106 051	117 789
1.5. [1]	Other reserves from profit after tax based on the decision of the Bank's assembly		409 634	408 058
1.6. [1]	Retained, undistributed profit from previous years and current year's profit		108 756	141 713
1.5. [2]	Other reserves not related to the assets quality evaluation	362 349		
1.6. [2]	Retained – undistributed profit from previous years	248 901		
1.a.	**TOTAL (1.1 to 1.6)**	**2 155 188**	**1 991 385**	**2 071 026**
1.b.	Deductible items from 1.a			
1.7.	Uncovered losses from previous years	112 610	122 705	140 963
1.8.	Current year's loss	140 445	50 868	7 088
1.9.	Book value of own (treasury) shares of the bank	156	81	81
1.10. [1]	Intangible assets in accordance with the applicable accounting framework	41 418	41 873	48 124
1.11. [1]	Amount of deferred tax assets		2 780	2 791
1.12. [1]	Amount of negative revalorised reserves based on the effect of the change in the fair value of assets		1 282	1 734
1.b.	TOTAL (1.7. to 1.10)	294 629	219 589	200 781
1.	**AMOUNT OF CORE CAPITAL: (1.a. - 1.b.)**	**1 860 559**	**1 771 796**	**1.870.245**
2	SUPPLEMENTARY CAPITAL OF THE BANK			
2.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	3 091	3 091	3 090
2.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	0	0	0
2.3.	General loan loss provisions for the category A – performing assets	215 083	229 895	241 680
2.4. [1]	Amount of positive revalorised reserves based on the effect of the change in the fair value of assets		23 703	17 531
2.4. [2]	Current year profit – audited and confirmed by an external audit	71 984		
2.5.	Profit amount for which the FBA issues an order restricting its disbursement	0	0	0
2.6. [3]	Amount of subordinated debt	165 473	154 814	108 534
2.7. [3]	Amount of hybrid convertible items – capital instruments	0	0	0
2.8. [3]	Amount of other capital instruments	1 416	1 419	1 419
2.	**AMOUNT OF SUPPLEMENTARY CAPITAL: (2.1 to 2.8)**	**457 047**	**412 922**	**372 254**
3	DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL			
3.1.	Portion of invested share capital that, according to the FBA, represents a received, but over-appraised value	0	0	0
3.2.	Capital contributions of other legal entities exceeding 5% of the bank's core capital	2 844	1 678	1 343
3.3.	Receivables from shareholders with significant voting rights – approved by the bank contrary to Law provisions, FBA regulations and the bank's work policy	0	1 509	755
3.4.	LCRE towards shareholders with significant voting rights in the bank (no FBA approval required)	0	0	0
3.5.	LLP shortfall as per regulatory requirement	156 866	199 890	210 510
3.	**AMOUNT OF DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL: (3.1 to 3.5)**	**159 710**	**203 077**	**212 608**
A.	**NET CAPITAL OF THE BANK (1.+2.-3.)**	**2 157 896**	**1 981 641**	**2 029 891**
B. [3]	**RISK OF BALANCE AND OFF-BALANCE ASSETS**	**10 998 977**	**11 394 469**	**11 797 259**
C.	**WEIGHTED OPERATIONAL RISK**	**981 318**	**982 250**	**976 734**
D.	**WEIGHTED MARKET RISK**	**0**	**0**	**0**
E. [3]	**TOTAL ASSETS RISK B+C+D**	**11 980 295**	**12 376 719**	**12 773 993**
F.	**NET CAPITAL RATE (A/E) (% 1 dec.)**	**18.0%**	**16.0%**	**15.9%**

1 The item description is valid since 30.09.2014.

2 The item description is valid to 30.06.2014.

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

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

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

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

2. 8. Permanent, non-refundable items

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

ANNEX 8

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

No.	BANK	31.12.2013	31.12.2014	30.09.2015
1	BOR Banka d.d. Sarajevo	64	64	65
2	Bosna Bank International d.d. Sarajevo	279	312	339
3	Hypo Alpe Adria Bank d.d. Mostar	517	513	511
4	Intesa Sanpaolo banka d.d. Sarajevo	528	521	539
5	Investiciono Komercijalna banka d.d. Zenica	164	164	143
6	Komercijalno Investiciona banka d.d. Velika Kladuša	71	75	78
7	Moja banka d.d.Sarajevo	156	142	142
8	NLB banka d.d. Tuzla	442	430	455
9	Privredna Banka d.d Sarajevo	177	164	159
10	ProCredit Bank d.d. Sarajevo	333	291	266
11	Raiffeisen Bank dd Bosna i Hercegovina	1 531	1 478	1 395
12	Sberbank BH d.d. Sarajevo	411	435	432
13	Sparkasse Bank d.d. Sarajevo	462	475	477
14	Union banka d.d. Sarajevo	200	202	189
15	UniCredit bank d.d. Mostar	1 262	1 216	1 215
16	Vakufska banka d.d. Sarajevo	225	231	209
17	Ziraatbank BH d.d. Sarajevo	229	247	262
	TOTAL	**7 051**	**6 960**	**6 876**