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

I N F O R M A T I O N

ON THE BANKING SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
31. 12. 2016

Sarajevo, March 2017

The Banking Agency of the Federation of B&H, as a regulatory institution conducting banking supervision, has prepared the Information on the Banking System of the Federation of B&H (as of 31.12.2016 according to final unaudited data) based on financial statements and other information and data provided by banks. This also encompasses results and information obtained during on-site examinations in banks and off-site financial analyses in the Agency.

I INTRODUCTION 1

II BANKING SYSTEM SUPERVISION 7

1. THE BANKING AGENCY 7
2. BANKING SUPERVISION 7
PREVENTION OF MONEY LAUNDERING AND COMBATING OF TERRORISM FINANCING 12

III BUSINESS PERFORMANCE OF BANKS IN THE FEDERATION OF B&H 14

1. BANKING SYSTEM STRUCTURE
1.1. Status, Number and Network of Branches 14
1.2. Ownership Structure 15
1.3. Human Resources 18

2. FINANCIAL PERFORMANCE INDICATORS
2.1. Balance Sheet 20
2.1.1. Liabilities 25
2.1.2. Capital – Strength and Adequacy 30
2.1.3. Assets and Asset Quality 35
2.2. Profitability 46
2.3. Weighted Nominal and Effective Interest Rates 51
2.4. Liquidity 55
2.5. FX Risk 63

IV CONCLUSIONS AND RECOMMENDATIONS 65

A N N E X E S 69

I INTRODUCTION

For quite some time, the operations of the banking sector have been carried out in an unfavourable environment and conditions of stagnating economic growth and development in countries of the EU zone. Insufficient economic growth, the difficult situation in the real sector and numerous domestic problems caused by the political situation in the country, limited access to stable sources of financing have all adversely reflected upon the condition and prospects in the banking sector. Despite all these negative factors, in 2016, positive trends were also recorded, which are reflected in the increase of the balance sheet volume, loans, deposits, and especially retail savings, as well as the improved profitability of the overall banking sector. On the basis of all that, it can be concluded that the banking sector has remained stable and adequately capitalised, with still satisfactory liquidity.

As of 31.12.2016, there were 15 licensed banks in the Federation of B&H. The number of banks is lower by 2 banks compared to the end of 2015 (17 banks) due to status changes of mergers. As of 31.12.2016, the headcount amounted to 6 615, down by 1% or 68 employees compared to the end of 2015.

In 2016, the upward trend of the balance sheet total continued (for the fourth year in a row), and it is expected that the same trend will continue in the period to come. The balance sheet total of the banking sector as of 31.12.2016 amounted KM 18.4 billion, thus posting an increase in the amount of KM 1.2 billion or 7.1% compared to the end of 2015. The increase in the balance sheet total with respect to sources (liabilities) is primarily the result of an increase in deposits and total capital, while the downward trend of loan commitments was continued in 2016 as well. The asset structure saw minor changes related to key material items: a reduction of the share of loans from 67.7% to 66.8%, an increase of the share of trading securities from 5.1% to 5.9%, while the share of cash funds (28.3%) remained at the same level as at the end of 2015.

Loans, being the largest assets item in banks, recorded an increase of 5.7% or KM 659 million in 2016, amounting to KM 12.3 billion at the end of the year. In 2016, positive trends were also recorded in the segment of sectoral lending, i.e. greater lending to private companies compared to the retail segment. Loans to private companies recorded a growth rate of 8% or KM 428 million in 2016, so that loans to this sector amounted to KM 5.8 billion and had a share of 46.9% as of 31.12.2016. Retail loans recorded a growth rate of 5% or KM 266 million in the same period, while their share slightly decreased from 49.1% to 48.7%. As of 31. 12. 2016, they amounted to KM 6 billion.

Loan quality indicators have improved in 2016 as well, as was the case in the previous year, which particularly reflected upon the sector of legal entities. A somewhat higher increase in the loan portfolio, a decrease in the inflow of new non-performing loans as well as permanent write-offs had a positive effect on the ratio of the share of non-performing loans in total loans, which is down from 12.9%, to which it amounted at the end of 2015, to 11.7% as of 31.12.2016. The share of non-performing loans granted to legal entities in relation to total corporate loans amounted to 15%, while the share of non-performing retail loans in relation to total retail loans amounted to 8.2%. The aforementioned is the result of the situation in the real sector and the effects of the economic crisis on the overall economy of B&H, due to which the loan portfolio of legal entities is of a significantly poorer quality than that of the retail sector.

Cash funds amounted to KM 5.2 billion or 28.3% of the balance sheet total of banks in the FB&H and recorded an increase of 7.1% or KM 347 million in 2016.

Investments in securities are an assets item that recorded a high increase of 16.8% or KM 176 million in 2016, and amounted to KM 1.2 billion as of 31.12.2016, with a 6.7% share in the assets of the banking sector in the FB&H.

In the structure of banks' sources of funding, deposits in the amount of KM 14.2 billion are the most significant source of funding for banks in the FB&H and increased their share to 77.1% (76.3% at the end of 2015). In 2016, deposits recorded an increase in the amount of 8% or KM 1.1 billion. Savings deposits, as the most important and largest segment of the deposit and financial potential of banks, maintained a positive trend of growth and amounted to KM 7.9 billion at the end of 2016, which is up by 9.1% or KM 662 million compared to the end of 2015. Savings deposits, compared to the end of 2008, when they amounted to KM 4 billion, increased by 96% or KM 3.9 billion in the previous period.

As of 31.12.2016, loan commitments of banks amounted to KM 848 million or 4.6% of total sources of funding and are down by KM 56 million or 6.2% compared to the end of 2015. In the last eight years, due to the impact of the financial and economic crisis, banks borrowed significantly less from abroad, and by paying receivables due these sources were reduced by 61% or KM 1.3 billion (at the end of 2008, they amounted to KM 2.2 billion). In that same period, sources of funding for banks in the FB&H (loans taken, deposits and subordinated debt) from their groups (parent banks and other group members and/or other shareholders) decreased by 75% or KM 2.6 billion, amounting to KM 857 million or 4.7% of liabilities as of 31.12.2016.

As of 31.12.2016, total capital of banks amounted to KM 2.7 billion (share capital: KM 1.2 billion), up by 5.4% or KM 138 million compared to the end of 2015. Increase on the basis of profit and the recapitalisation of three banks had the largest positive impact on capital. Regulatory capital was KM 2.3 billion and up by 8% or KM 183 million compared to the end of 2015, with changes in its structure, an increase in the share of core capital and a decrease in the share of supplementary capital. The change in the capital structure was also influenced by the application of the provisions of the new Decision on Minimum Standards for Capital Management in Banks and Capital Hedge.

The capital adequacy ratio of the banking system, as one of the most important indicators of the strength and capital adequacy of banks, was 15.7% as of 31.12.2016, which is up by 0.6% compared to the end of 2015, when it amounted to 15.1%, but still significantly above the legal minimum (12%), which represents a satisfactory capitalisation of the overall system and a strong foundation and basis for preserving its security and stability. The financial leverage ratio at the level of the banking system amounted to 9.7% as of 31.12.2016 (prescribed minimum: 6%).

According to unaudited data from the income statement for 2016, banks in the Federation of B&H have recorded the best financial result since 1996, profit in the amount of KM 173 million. The positive financial result was recorded by 13 banks in the total amount of KM 212 million, while two banks posted a loss in the amount of KM 39 million.

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

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

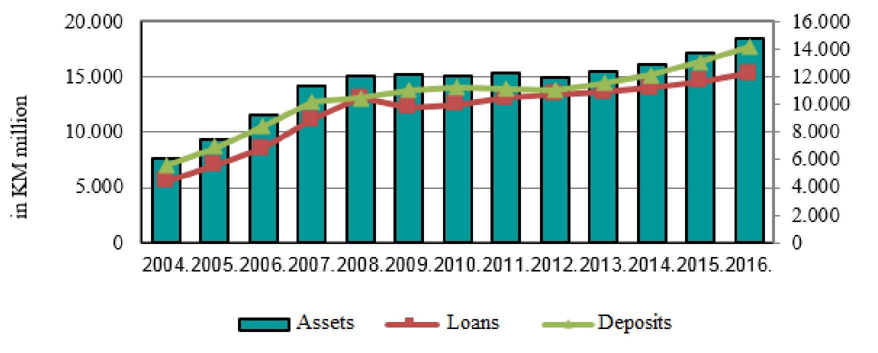
	State-owned banks	Private banks	T O T A l
31.12.2011	1	18	19
Changes in 2012			
- licences revoked		-1	-1
31.12.2012	1	17	18
Changes in 2013			
- licences revoked		-1	17

31.12.2013	1	16	17
There were no changes in 2014.			
31.12.2014	1	16	17
There were no changes in 2015.			
31.12.2015	1	16	17
Changes in 2016			
- status change of merger		-2	-2
31.12.2016	1	14	15

Balance Sheet

For the past few years, due to the effects of the economic and financial crisis and its consequences, the banking sector was characterised by stagnation, along with slight changes in the key banking categories: balance sheet total, deposits, cash funds, loans and total capital. After 2012, there have been slight positive trends, i.e. the increase in the balance sheet total as a result of an increase in deposits and capital, which positively affected the level of loan facilities and cash funds. Loans, as sources of funding, mostly refer to credit lines by foreign credit institutions and are steadily declining as a result of debt reduction, i.e. payment of liabilities due and weak inflow of new investments from abroad. In 2016, the lending segment continued to display a positive trend of slight growth from previous years. In the period from 2009 to 2013, the balance sheet total ranged from KM 15 billion to KM 15.5 billion, i.e. it fluctuated within +/- KM 470 million (the lowest level being KM 15 billion as of the end of 2012), while the rates fluctuated within +/- two percentage points. In 2014 and 2015, slightly higher growth rates (4.6% and 6.3%) were recorded, which is a trend that continued in 2016 with a rate of 7.1% or KM 1.2 billion, so that the banking sector's assets amounted to KM 18.4 billion at the end of 2016.

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



The increase in the balance sheet total in 2016 was primarily generated by an increase in deposits in the amount of of 8.2% or KM 1.1 billion and an increase in total capital in the amount of 5.4% or KM 138 million. In 2016, the trend of reducing loan commitments continued, with a rate of 6.2% or KM 56 million. As of the end of 2016, deposits amounted to KM 14.2 billion, total capital to KM 2.7 billion and loan commitments to KM 0.8 million.

In terms of the assets of banks, the key item, with a share of 66.8%, are loan facilities, which increased by 5.7% or KM 659 million in 2015 and amounted to KM 12.3 billion. The sectoral structure of loans is dominated by two sectors: retail and private companies, while lending to other sectors is slight. In 2016, positive trends were recorded in the segment of sectoral lending, i.e. greater lending to private companies compared to the retail segment. Unlike 2015, when loans to private companies saw a modest increase in the amount of 2% or KM 112 million, the growth rate in 2016 amounted to 8% or KM 428 million, so that loans to this sector amounted to KM 5.8 billion and had a share of 46.9% (+1 percentage point) as of 31.12.2016. On the other hand, the increase in loans to the retail sector continued, and in

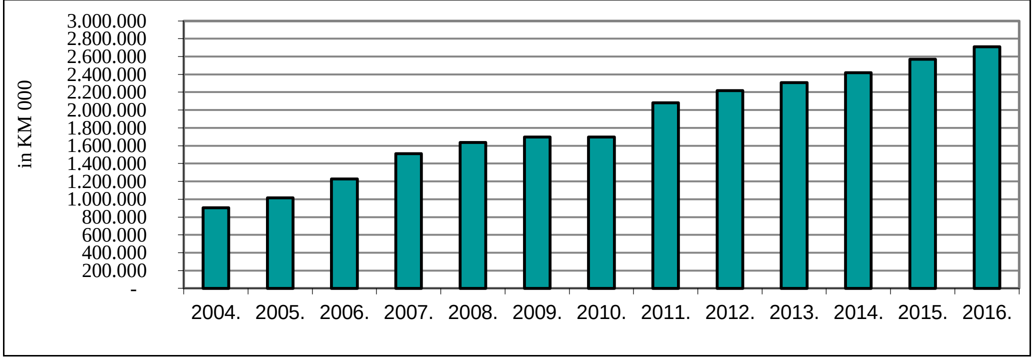
2016, as was the case in 2015, an increase in the amount of 5% was recorded, which amounted to KM 266 million in 2016, while the share decreased slightly from 49.1 % to 48.7%. As of 31.12.2016, they amounted to KM 6 billion.

Cash funds saw an increase of 7.1% or KM 347 million and amounted to KM 5.2 billion, thus holding the same share in assets (28.3%) as at the end of 2015.

Deposits, with a share of 77.1% in total sector liabilities and the amount of KM 14.2 billion, are still the most significant source of funding for banks in the FB&H, while retail deposits with a share of 57.5% and the amount of KM 8.2 billion are the largest sectoral source of deposits.

Total capital of banks amounted to KM 2.7 billion (share capital: KM 1.2 billion), up by 5.4% or KM 138 million, mainly on the basis of the profit recorded in the current period and the recapitalisation of three banks.

Graph 2: *Total Capital of Banks*



Income Statement

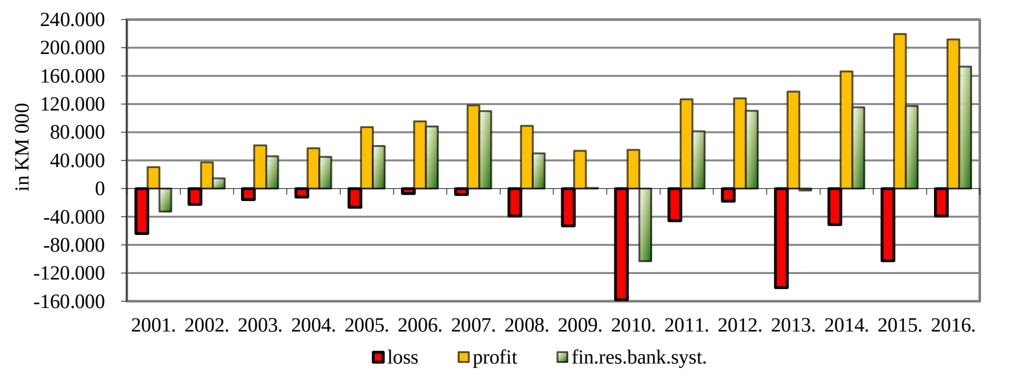
After 2001, when a loss in the amount of KM 33 million was recorded at system level, a positive trend of a successful business operations began, which was halted as a result of the expansion of the global economic and financial crisis in 2008, and thus there has been a significant decline in the profitability of the overall banking system in the Federation of B&H. In 2010, as a consequence of the negative impact of the crisis, the decline in profitability was most pronounced. However, in 2011 and 2012, positive trends in the profitability segment were recorded, the trend was the opposite in 2013 and a slight loss was recorded at system level, only for the banking sector to achieve the best financial results since 1996 in 2014, 2015 and 2016. It should, of course, be noted that the financial result of the entire system in the past few years has been under the key positive influence of the two largest banks in the system, and the negative influence of one large bank.

According to data from the income statement for 2016, banks in the Federation of B&H posted a financial result-profit in the amount of KM 173 million.

A positive financial result of KM 212 million was generated by 13 banks, with the aforementioned being down by 4% or KM 8 million compared to 2015 (13 banks, KM 220 million). At the same time, a loss in business operations in the amount of KM 38 million was recorded in two banks, which is down by 62% or KM 64 million compared to the previous year, largely as a result of a significantly lower loss recorded by one larger bank.

The reason for the significant increase in the financial result of the entire sector in 2016 is primarily the effect of a lower loss recorded by one larger bank, followed by higher profit in banks that had positive business operations in the previous year (the effect is KM 16 million). On the other hand, the negative effect in the amount of KM 23 million is primarily the result of less profit having been recorded by two larger banks compared to 2015. Although most banks recorded a better financial result-profit compared to the previous year and the upward trend of asset quality indicators at the level of the entire sector continued in 2016 as well, there are still suspicions that the impairment provisions in some banks are undervalued, while the financial result is overvalued.

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



Total income in 2016 amounted to KM 969 million and is up by 6% or KM 52 million compared to 2015, net interest income amounted to KM 587 million, with an increase of 3% or KM 18 million and a 61% share in the total income structure. Operating income, as the second component of total income, saw an increase of 10% or KM 34 million, amounting to KM 382 million, which is a 39% share in the total income structure. As far as expenses are concerned, value adjustment costs are down by 29% or KM 46 million compared to 2015, amounting to KM 111 million (11.5% of total income). Total non-interest expenses saw a decrease of 1% and amounted to KM 767 million.

• ***Ownership Structure:*** As was the case in 2015, there were no changes in the ownership structure in 2016: one bank was in majority state ownership, and out of 14 banks in majority private ownership, 4 banks were in majority ownership of domestic legal entities and natural persons – residents (6 banks as of the end of 2015, two of which were merged with banks that were also in majority ownership of domestic legal entities and natural persons), while 10 banks were in majority foreign ownership. According to the criterion of the owner-shareholder's country of origin, i.e. the criterion of direct or indirect majority ownership through group members, there were minor changes compared to the end of 2015 as a result of the recapitalisation of two banks. The highest share is still held by banking groups and banks from Austria with 41.2% (-2.9 percentage points), followed by Italian banks with 15.5% (-1.0 percentage points), the share of capital from Turkey amounts to 13.5% (+3.1 percentage points) and from Russia to 7.3% (-0.5 percentage points). Other countries held individual shares of less than 7%.

In 2016, there were small changes in the share of state, foreign and private domestic (residents) capital in total share capital, which amounted to KM 1.2 billion as of 31.12.2016. The state capital's share of 2.6% decreased by 0.1 percentage points. Foreign capital nominally increased by KM 67 million, thus amounting to KM 1.05 billion, and its share increased from 83.9% to 86.1%. Private capital (residents) saw a decrease of KM 19 million, amounting to KM 138 million, and its share in total share capital decreased from 13.4% to 11.3%.

• ***Concentrations and competition:*** As far as concentrations and competition in the banking market of the Federation of B&H are concerned, in the fight for clients and a greater market share, the banks entered into acquisition and integration processes through mergers/acquisitions in the years prior to the crisis. In the period of action of the economic and financial crisis, there were no mergers/acquisitions of banks until 2016, but the number of banks decreased due to the revocation of those banks' banking licences (three banks). In 2016, two banks in majority private ownership of domestic legal entities and natural persons executed a merger of two smaller banks, due to which the number of banks in the Federation of B&H decreased from 17, as was the case at the end of 2015, to 15 at the end of 2016. The assessment of financial experts is that the trend of integration processes will continue; in fact, the prediction is that six to seven major banks in foreign ownership will control 90% of the market, which they already rule expertly, while smaller banks will stand out as local and/or regional banks.

The system is dominated by the two largest banks with a total share of 47.2% (at the end of 2015: 47.3%), with assets in the amount of KM 4.7 billion and KM 4.0 billion. They are followed by three banks (assets between KM 1 and 1.8 billion) with a share of 22.5%. Five banks have assets between KM 500 million and KM 1 billion and a share of 21.9% and another five banks have assets in the amount of less than KM 500 million and a market share of 8.4%, one of which has assets in the amount of less than KM 100 million and a slight share of 0.5%.

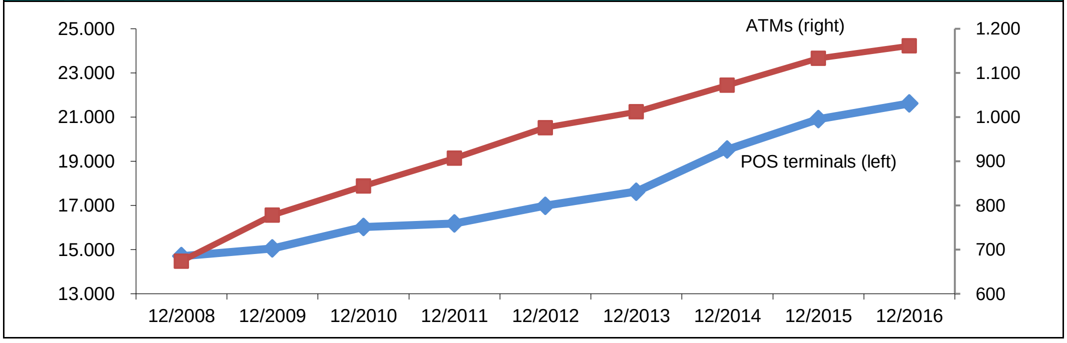
One indicator of concentration in the banking system is the market concentration ratio, i.e. the concentration ratio[1] (hereinafter: CR), which indicates the total share of the five largest institutions in the system in selected relevant categories. CR5 as an indicator of market share (assets) amounted to 69.8% in the banking system in the Federation of B&H at the end of 2016, and to 69.8% and 71.4% for loans and deposits, respectively (2015: assets 69.6%, loans 70.3% and deposits 70.9%), but the domination of the two largest banks in the system that „hold“ approximately 45% of the market is still evident (assets 47.2%, loans 43.9%, and deposits 49.0%).

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

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

During 2016, the number of ATMs increased by 35 and at the end of the year their number was 1 161. The number of POS terminals, compared to the previous year, increased by 710, so that their number was 21 613 at the end of 2016.

Graph 4: *ATMs and POS Terminals*



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

II BANKING SYSTEM SUPERVISION

1. THE BANKING AGENCY

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

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

According to local and foreign experts, over the past 20 years, the FBA has achieved a high level of professionalism with employees possessing expertise and knowledge in the area of supervision, gained through different training courses attended in the country and abroad.

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

With a primary objective of protecting depositors' interests, the FBA has imposed measures (provisional administrations, liquidation and bankruptcy proceedings) in 27 banks in the period from its establishment until the end of 2016. A provisional administration was introduced in one bank on the basis of an order issued by the High Representative to B&H. Provisional administration measures was imposed on 25 banks.

Out of the 27 banks that were subjected to these measures, the process was finalised with respect to 21 banks and there are 6 banks undergoing the process as of 31.12.2016.

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

- 11 banks underwent bankruptcy proceedings before competent courts. This process was finalised in 8 banks and is still pending in 3 banks.
- 9 banks underwent liquidation proceedings. This process was finalised in 6 banks (all liabilities to creditors and shareholders were settled in 4 banks and 2 banks were sold).
- The process is still pending in 3 banks;
- 4 banks got merged to other banks;
- 3 banks recovered and resumed their operations. One bank underwent a recapitalisation and was privatised, the second one also underwent a recapitalisation and the third one solved its status issues and appointed management bodies, thus resuming itsregular course of business.

2. BANKING SUPERVISION

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

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

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

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

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

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

Activities related to the proper application of IAS/IFRS in banks were significant in 2016 as well. In 2016, as a special supervisory tool, at the recommendation of the IMF mission and by order of the FBA, the second cycle of AQRs was carried out by an external auditor in five banks in accordance with a special framework prescribed by the FBA (the first cycle, which included 4 banks, was carried out during 2014). The FBA used the findings of the AQRs in its supervisory process of these banks and issued specific orders to the banks aimed at eliminating the shortcomings identified in the AQR procedure, with the follow-up procedures still being ongoing. As a special segment of on-site examinations, examinations of the management of risks arising from information systems as well as the outsourcing of certain activities of banks were continued, based on regulations that entered into force in early 2012. Also, in 2016, there was also a continuation of targeted examinations in the segment of protection of users of financial services and banks' operations with guarantors in accordance with laws and regulations that entered into force in 2013 and 2014.

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

During 2016, there was a continuation of the activities to develop a regulatory framework through the drafting of the new Banking Law, the Law on the Banking Agency of the Federation of Bosnia and Herzegovina as well as the drafting of by-laws (FBA decisions) in accordance with the adopted Strategy and annual plan for the development of regulations in the interest of implementing Basel II/III and EU directives.

In 2016, the FBA, together with the Central Bank of B&H and the BARS (Banking Agency of Republika Srpska) continued and intensified its work on developing the ability to collect and analyse „indicators of financial health“ as one of the preconditions for strengthening and greater efficiency of supervision of the total financial, and not only the banking sector. The development of the methodology and application of stress tests for credit risk and the impact on capital was also continued, with it being based on macroeconomic assumptions as well as familiarising banks with the results of completed stress tests, while also improving the Criteria and determining a list of systemically important banks in B&H.

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

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

The FBA, together with representatives of the IMF mission, regularly and on a quarterly basis reviewed and analysed the effect of the consequences of the global economic and debt crisis on the domestic banking and financial sector, developments in the banking sector, the capitalisation of banks in the FB&H, the results of stress tests for the banking system and for individual banks, the current regulatory and banking legislative framework, the implementation of recommendations from previous IMF missions, as well as planned changes in the regulatory framework. The IMF has also provided technical assistance in drafting the Banking Law and the Law on the Banking Agencies, while the World Bank has provided technical assistance with respect to the implementation of the QIS, improving the framework for the AQR and education in the area of recovery plans.

In accordance with the requirements of Principle 13 (formerly Principle 25) from the list of „Core Principles for Effective Banking Supervision“, issued by the Basel Committee, by the end of 2016, the FBA had, together with the CBBH and the BARS, signed a multilateral agreement with the supervisory authorities of SEE countries, namely: Albania, Greece, Macedonia, Romania, Bulgaria, Serbia, Montenegro and Cyprus and Agreements on mutual cooperation (MoUs) with the competent supervisory authorities of Austria, Slovenia, Croatia, Serbia, Montenegro, Turkey and Germany. An MoU more closely defines the following: exchange of information, on-site examinations, requests for information and examinations, protection of information, ongoing cooperation, and other provisions.

In December 2016, an MoU was signed with the Federal Financial Supervisory Authority of Germany („BaFin“) on mutual cooperation in the area of supervision of credit institutions, and the signing of such a document with the Central Bank of Russia is in preparation.

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

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

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

Under the auspices of the EBA, the Banking Agency of the Federation of B&H hosted the seminar „Common European SREP Framework and Supervisory Assessment of Recovery Plans“, held on 22 and 23 September 2016 in Sarajevo. The seminar was attended by representatives of supervisory institutions from the country and the region: the Central Bank of Albania, the Central Bank of Montenegro, the National Bank of Macedonia, the National Bank of Serbia, the Banking Agency of RS and the Banking Agency of the FB&H.

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

In 2016, the FBA established cooperation not only with the regulatory institutions of the countries with which memorandums of understanding had already been signed, but also with other supervisory institutions of countries in a closer and wider environment. Special forms of concrete cooperation with the supervisory institutions were realised through regional and bilateral meetings and the regular exchange of information on operations and the state of parent banks and their „daughters", i.e. subsidiaries, and in some cases through joint on-site examinations of their subsidiaries in the FB&H.

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

Together with the Banking Agency of Republika Srpska and the Dutch Central Bank, the FBA organised the International Conference „Supervision of Operational and Information System Risk Management", which was held on 7 and 8 April in Sarajevo. The International Conference was attended by participants from 11 European countries: the Netherlands, Austria, Turkey, Croatia, Serbia, Macedonia, Georgia, Moldova, Albania, Kosovo and Bosnia and Herzegovina. The conference of IT supervisors is a traditional conference that has been held for many years, and this year it was hosted by the Banking Agency of the FB&H and the Banking Agency of RS for the first time. The conference focused on the upcoming risks of information technology related to cyber crime and cloud computing, which represent new technological developments and challenges for supervisors.

In accordance with the decision of the Parliament of the Federation of B&H from 2006 and the subsequent „CARDS Program", which was prepared by experts from the ECB and a group of European central banks, in 2016, the FBA at all times supported the idea of unifying banking supervision at state level, because it is recognised that, for many pragmatic reasons, without the establishment of such supervision of major segments of the financial system, the road toward the European Union is impossible. European experts have also confirmed that „banking supervision is truly organised at state level in European countries, whether under the patronage of the central bank or outside it", and that „...membership in the European Union implies the establishment of a single banking market leading toward unified supervision".

The increasingly aggressive globalisation and development of the banking industry, as well as the upgrade and evolution of supervisory principles, rules and standards, but also the painful reflections of the current global financial and economic crisis that has „taught" everyone affected many lessons, have shown that especially banking supervisors must constantly be up-to-date and continuously develop their knowledge, skills and tools for more efficient action in the exercising of their mission. For all these reasons, and for reasons of hiring of new, especially young employees, in 2016, the FBA took care of those needs and, independently and with the help of various international highly qualified and specialised institutions, conducted necessary trainings of its employees, which were held in the country and abroad, but also provided assistance in specialist trainings of other supervisory bodies and institutions in the Federation of B&H.

3. PREVENTION OF MONEY LAUNDERING AND COMBATING OF TERRORISM FINANCING

The rating of the banking sector for 2016 is based on assessments of business operations' compliance with operating standards to prevent money laundering, the financing of terrorist activities in the previous period, the situations determined in examinations of the execution of issued orders (11 examinations), the analysis of reports banks submit to the Agency, and based on information from external sources.

In addition to these indicators, the assessment of compliance of the banking sector was influenced by reports on Bosnia and Herzegovina provided by international organisations and institutions. In the reports of the Moneyval Committee of the Council of Europe and the FATF, the banking sector and the Banking Agency of the Federation of Bosnia and Herzegovina were thus given a satisfactory rating and are not the subject of the action plans of these organisations with respect to additional measures and activities of other regulators and supervisory authorities of financial institutions aimed at achieving satisfactory compliance.

Based on the state of the banks in the previous supervisory cycle, the conducted examinations of compliance of business operations and the reports banks submit to the FBA, it can be concluded that there are no reasons for supervisory concern with respect to managing the risks of money laundering and terrorism financing. The quantity of risk is moderate. The quality of managing the risks that can appear in the banks' operations as a result of money laundering and terrorism financing (reputation risk, operational risk, legal risk, concentration risk in assets and deposits) is still satisfactory and continuing its upward trend in the banking sector of the Federation of Bosnia and Herzegovina. Accordingly, and taking into account the assessment of international organisations which have evaluated the compliance of B-H legislation and institutions with the standards to prevent money laundering and terrorism financing, the banking sector of the FB&H is mostly consistent with the standards to prevent money laundering and terrorism financing.

Client Eligibility

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

Client Identification

Banks have adopted client identification as a key element of the „know your customer“ standard. The client identification policy is being applied by banks both upon establishing business relationships with clients and for the duration of the business relationship, i.e. banks update the documentation used in verifying the completed identification of already established business relationships. However, the problem of consistent application of identification measures depending on the identified risk is still present, so that standard measures of identification still prevail, which are carried out for medium-risk clients, as opposed to simplified and enhanced measures, which are implemented for low-risk and high-risk clients.

Continuous Account and Transaction Monitoring

This policy has been adhered to, thus further reducing the formal account and transaction monitoring of clients. In order to get to the essence of account and transaction monitoring of clients, banks have, by applying the „know your customer“ principle, defined transaction limits with respect to certain account and transaction types and have built information systems enabling the application of established limits for account and transaction monitoring. The defined limits are increasingly used in preventive account and transaction monitoring. Therefore, as is the case with the previous two policies, the measures and activities taken resulted in an increase in the quality of managing risks which can be a result of money laundering and terrorism financing.

Managing the Risk of Money Laundering and Terrorism Financing

Reporting

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

Accordingly, in 2016, banks reported 265 557 transactions, which is 0.31% of total transactions carried out in the banking system of the Federation of Bosnia and Herzegovina (85 278 988 carried out transactions, according to bank data) in the amount of KM 13 249 004 thousand, thus constituting 8.93% of the total value of transactions carried out in the banking system of the Federation of Bosnia and Herzegovina (KM 148 350 340 thousand, according to bank data). The number of transfers reported in 2016 is up by 4.50% compared to the previous year, and their value is up by 1.70%.

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

Transfer value in KM 000

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

No.	Description (transfer name)	Transfers in 2015		Transfers in 2016		%	
		Number	Value	Number	Number	Value	Number
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	**Total reported transfers**	**254 132**	**13 026 093**	**265 557**	**13 249 004**	**104.50**	**101.70**
2.	Transfers reported before their execution	28	10 558	35	9 570	125.00	90.60
3.	Transfers reported within 3 days	253 991	13 002 639	265 496	13 230 904	104.50	101.70
4.	Transfers reported after 3 days	113	12 896	26	8 530	23.00	66.10

The structure of reported transactions shows an increase in the number (125.00% of transfers reported before their execution compared to the previous year), although the value of these transfers is down (90.60% compared to the previous year). This leads to the conclusion that banks employ preventive measures regarding anti-money laundering and counter-terrorism financing, as prescribed for financial institutions. In fact, the retention or slight fluctuation around the number (up by 25%) and value (down by 9.40%) of reported transfers in the previous year is a good indicator of preventive action, because it shows consistency in reporting and in the application of preventive action. This conclusion is confirmed by both the number (23.00%) and value (66.10%) of transfers reported upon the expiry of the 3-day deadline compared to the previous year, because this type of reported transfers in the previous year included transfers that were reported by order of the supervisor following examinations of compliance. The number of transfers reported within the prescribed period remained within the framework of the increased number of total reported transfers (up by 4.50%), as is the case with their value (up by 1.70%), which is also within the framework of the volume (number and value) of payment transactions in the Federation of Bosnia and Herzegovina.

Suspicious transactions: In their reports, banks have tagged 98 transfers as suspicious (67.60% compared to the previous year). The value of these transfers amounts to KM 23 558 thousand, which is 90.30% compared to the previous year. 95 transfers in the amount of KM 23 478 thousand relate to suspicion of money laundering, while 3 transfers in the amount of KM 110 thousand relate to suspicion of terrorism financing.

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

Transfer value in KM 000

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

No.	Suspicious transfers	Transfers in 2015		Transfers in 2016		%	
		Number	Value	Number	Number	Value	Number
1	2	3	4	5	6	7 (5/3)	8(6/4)
1.	**Total reported transfers**	**145**	**26 124**	**98**	**23 588**	**67.60**	**90.30**
2.	Transfers reported before their execution	28	10 558	35	9 570	125.00	90.60
3.	Transfers reported within 3 days	40	4 285	53	6 079	132.50	141.90
4.	Transfers reported after 3 days	77	11 281	10	7 939	13.00	70.40

The structure of reported suspicious transfers, as well as the structure of total reported transfers, confirms earlier statements about the quality of managing the risk of money laundering and terrorism financing and the lack of a reason for supervisory concern. There are 35 cases of preventive action of banks (35.8%), in which banks submitted reports on suspicious transactions to the Financial Intelligence Department prior to their execution. There are 53 cases of quality monitoring (54.0%), in which banks spotted suspicious transaction characteristics in a period of 3 days and submitted reports on it, while the other 10 cases (10.2%) refer to corrective action in the reporting year, as requested by the Financial Intelligence Department.

In addition to suspicious transfers, banks have reported 112 suspicious clients. A report for 6 clients referred to terrorism financing. The FID requested additional data on five of these clients, while this data was not requested with respect to one client. In the case of the other clients, there was suspicion of money laundering (additional data was requested on 17 of them, while it was not requested on 89 of them).

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

1. BANKING SYSTEM STRUCTURE

1.1. Status, Number and Network of Branches

As of 31.12.2016, there were 15 banks with a banking licence in the Federation of B&H. The number of banks is lower following the merger of Moja banka d.d., Sarajevo with Investiciono-komercijalna banka d.d., Zenica as of 31.07.2016 as well as the merger of Privredna banka Sarajevo d.d., Sarajevo with BOR banka d.d. Sarajevo as of 30.09.2016. A special law from 01.07.2008 regulates the establishment and operations of the Development Bank of the FB&H Sarajevo, a legal successor of the Investment Bank of the FB&H dd Sarajevo.

In 2016, 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 96 such changes among banks in the Federation of B&H (90 on the territory of the Federation of B&H, and 6 in Republika Srpska): 16 new organisational units were established, 11 organisational units were closed, and 69 underwent changes.

Subsequent to such changes, banks in the Federation of B&H had a total of 551 organisational units as of 31.12.2016, down by 1% compared to 31.12.2015.

The number of organisational units of banks from Republika Srpska in the Federation of B&H (22) is down by 14 since the banking licence of one bank in Republika Srpska was revoked and thus her organisational units in the Federation of B&H also ceased operations, while one bank closed one organizational unit.

As of 31.12.2016, seven banks from the Federation of B&H had 51 organisational units in Republika Srpska, and nine banks had 11 organisational units in Brčko District. Three banks from Republika Srpska had 22 organisational units in the Federation of B&H.

As of 31.12.2016, all banks had licences to effect interbank transactions within the domestic payment system, and all 15 banks had secured deposits.

1.2. Ownership Structure

The ownership structure of banks[2] as of 31.12.2016, assessed on the basis of available information and reviews conducted in the banks themselves, is as follows:

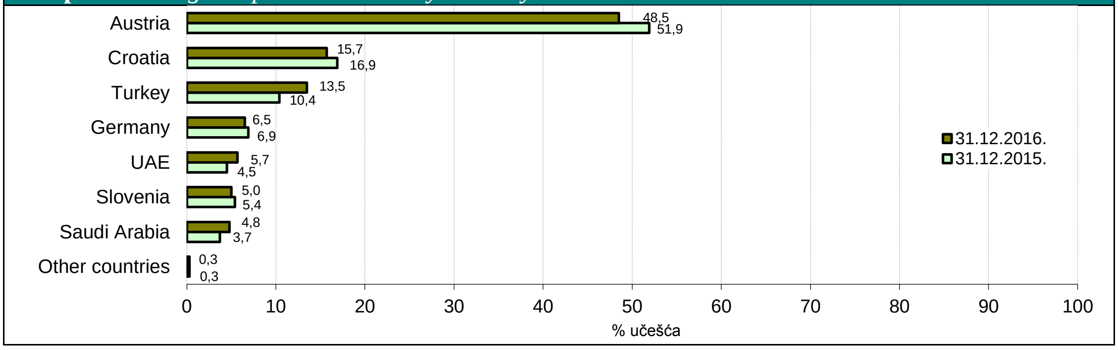
- In private or mostly private ownership 14 banks
- In state or mostly state ownership[3] 1 bank.

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

If observed solely from the perspective of foreign capital, using the criterion of the shareholders' home country, there were slight changes as of 31.12.2016 compared to the end of 2015 as a result of the recapitalisation of two banks: the largest share of foreign capital in the amount of 48.5% (-3.4 percentage points) still refers to shareholders from Austria, followed by shareholders from Croatia with 15.7% (-1.2 percentage points) and Turkey with 13.5% (+3.1 percentage points). Other countries hold individual shares below 7%.

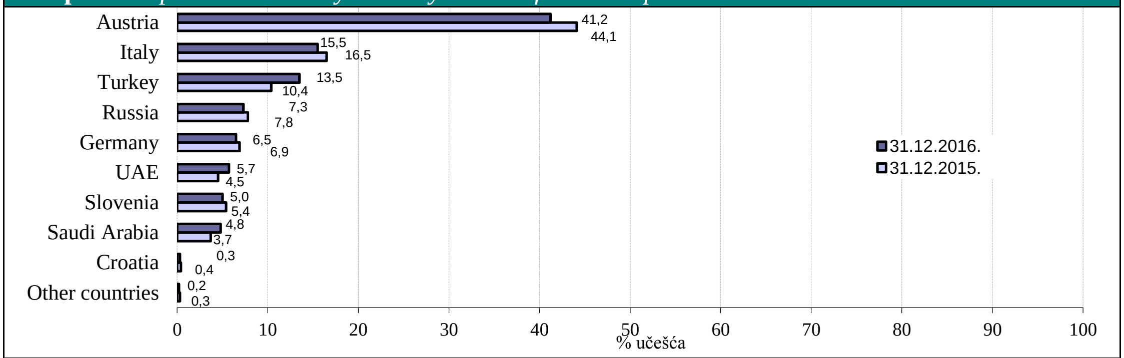
[2] The criterion for this particular bank classification is ownership of share capital in banks.
[3] State ownership refers to domestic state capital of B&H.

Graph 5: *Foreign Capital Structure by Country*



However, if taking into account capital relations, the structure of foreign capital can also be observed using the criterion of the home country of the parent bank or parent group having majority ownership (direct or indirect via group members) of banks in the Federation of B&H. According to this criterion and for the aforementioned reason, there were slight changes compared to the end of 2015: the share of banking groups and banks from Austria amounts to 41.2% (-2.9 percentage points), followed by Italian banks with a share of 15.5% (-1.0 percentage points), while the share of capital from Turkey amounts to 13.5% (+3.1 percentage points) and from Russia to 7.3% (-0.5 percentage points). Other countries held individual shares below 7%.

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



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

- in KM 000 -

Table 4: *Ownership Structure by Total Capital*

BANKS	31.12.2014		31.12.2015[5]		31.12.2016		INDEX	
1	2		3		4		5 (3/2)	6 (4/3)
State-owned banks	51 929	2%	52 319	2%	52 499	2%	101	100
Private banks	2 367 574	98%	2 517 669	98%	2 655 621	98%	108	105
TOTAL	2 419 503	100%	2 569 988	100%	2 708 120	100%	108	105

In 2016, the trend of moderate increase in total capital continued with a rate of 5% or KM 138 million, i.e. to the level of KM 2.7 billion. The current financial result – profit in the amount of KM 173 million – and a recapitalisation in the amount of KM 123 million in three banks (a reserve payment in the case of one bank) had the largest positive impact on capital, while a decrease on the basis of dividend payments (three banks) in the amount of 152 KM million had the largest negative impact.

[4] In addition to home countries of parent groups whose members are banks from the Federation of B&H, the graph also outlines countries of all other foreign shareholders of banks in the Federation of B&H.
[5] All data in the Information related to 31.12.2015 are from the banks' audited financial statements.

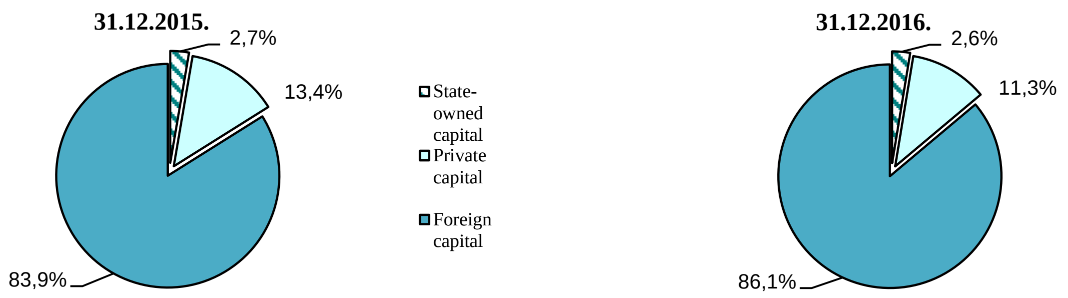
If observed from the perspective of the share of state-owned, private and foreign capital in the banks' share capital, it results in a more detailed picture of the capital ownership structure of banks in the Federation of B&H.

- in KM 000 -

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

SHARE CAPITAL	31.12.2014		31.12.2015		31.12.2016		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	2.6	31 647	2.7	31 647	2.6	98	100
Private capital (residents)	162 354	13.2	156 574	13.4	137 557	11.3	96	88
Foreign capital (non-residents)	1 038 832	84.2	979 271	83.9	1 046 673	86.1	94	107
T O T A L	1 233 550	100.0	1 167 492	100.0	1 215 877	100.0	95	104

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



As of 31.12.2016, share capital of banks in the Federation of B&H was up by KM 48 million compared to 31.12.2015, amounting to KM 1.2 billion. Share capital increased as a result of a KM 70 million recapitalisation in two banks and decreased by KM 21.6 million following the merger of two banks with two other banks due to the share exchange ratio.

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

As of 31.12.2016, the share of state-owned capital in total share capital amounts to 2.6% and is the same compared to 31.12.2015, according to the absolute amount.

The 11.3% share of private capital (of residents) in total share capital is down by 2.1 percentage points compared to 31.12.2015, according to relative indicators. According to absolute amounts, the share is down by KM 19 million net after trade with non-residents and the merger of two banks with two other banks.

The share of private capital (of non-residents) in total share capital is up by 2.2 percentage points (86.1%), according to relative indicators. According to absolute indicators, the share is up by KM 67 million net after trade with residents, recapitalisation in two banks and the merger of two banks with two other banks.

The market share of banks according to the ownership criterion has been almost unchanged for a long time, i.e. has seen only minor changes. The market share of banks in majority foreign ownership as of

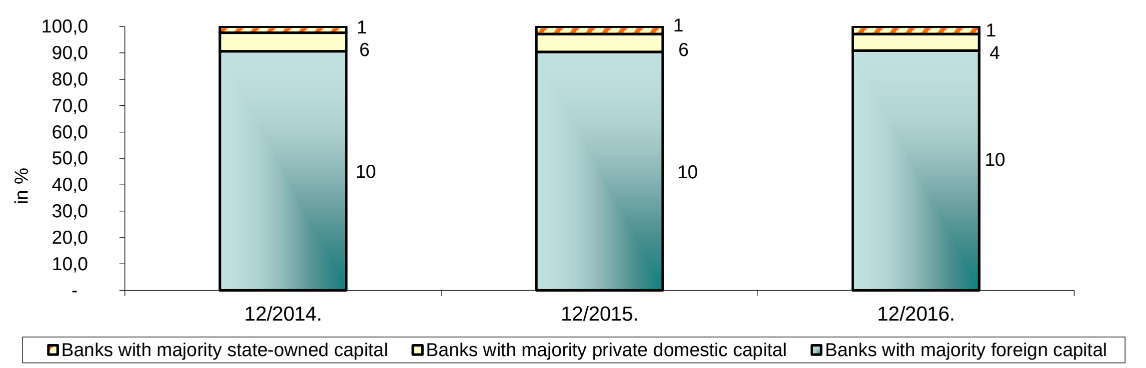
31.12.2016 stood at a high 90.8%, while banks with majority domestic private capital had a 6.4% share and one bank with majority state-owned capital had a 2.8% share.

- in % -

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

BANKS	31.12.2014			31.12.2015			31.12.2016		
	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	2.1	2.3	1	2.0	2.8	1	1.9	2.8
Banks with majority private domestic capital	6	7.8	7.1	6	7.0	6.8	4	6.6	6.4
Banks with majority foreign capital	10	90.1	90.6	10	91.0	90.4	10	91.5	90.8
T O T A L	17	100.0	100.0	17	100.0	100.0	15	100.0	100.0

Graph 8: *Market Shares by Ownership Type*



1.3. Human Resources

As of 31.12.2016, banks in the Federation of B&H had a headcount of 6 615 employees, 3% of which were employed in banks with majority state-owned capital and 97% of which were employed in private banks.

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

B A N K S	HEADCOUNT						INDEX	
	31.12.2014		31.12.2015		31.12.2016		3/2	4/3
1	2		3		4		5	6
State-owned banks	202	3%	181	3%	192	3%	90	106
Private banks	6 758	97%	6 502	97%	6 423	97%	96	99
T O T A L	6 960	100%	6 683	100%	6 615	100%	96	99
Number of banks	17		17		15		100	88

Table 8: *Qualification Structure of Employees*

LEVEL OF QUALIFICATION	HEADCOUNT						INDEX	
	31.12.2014		31.12.2015		31.12.2016		4/2	6/4
1	2	3	4	5	6	7	8	9
University degree	3 775	54.2%	3 757	56.2%	3 821	57.8%	99	102
Two-year post-secondary school qualification	587	8.5%	551	8.3%	555	8.4%	94	101
Secondary school qualification	2 571	36.9%	2 360	35.3%	2 226	33.6%	92	94
Other	27	0.4%	15	0.2%	13	0.2%	55	87
T O T A L	6 960	100.0%	6 683	100.0%	6 615	100.0%	96	99

The headcount in 2016 was down by 1% or 68 compared to the end of 2015.

Slight changes in the qualification structure (a further increase in the share of employees with university degrees to 57.8%) are primarily the result of a drop in the number of employees with secondary school qualification by 6% or 134, but also of an increase in employees with university degrees by 2% or 64.

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

Table 9: *Assets per Employee*

BANKS	31.12.2014			31.12.2015			31.12.2016		
	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	202	379 330	1 878	181	476 866	2 635	192	520 387	2 710
Private	6 758	15 771 200	2 334	6 502	16 684 859	2 566	6 423	17 861 647	2 781
TOTAL	6 960	16 150 530	2 320	6 683	17 161 725	2 568	6 615	18 382 034	2 779

At the end of 2016, there were KM 2.8 million of assets per employee at banking system level.

Table 10: *Assets per Employee – by Group*

Assets (KM 000)	31.12.2014	31.12.2015	31.12.2016
	Number of banks	Number of banks	Number of banks
Up to 1 000	1	0	0
1 000 to 2 000	7	7	5
2 000 to 3 000	7	8	7
Over 3 000	2	2	3
TOTAL	17	17	15

Analytical indicators for individual banks range from KM 1.2 million to KM 3.9 million of assets per employee. There are four banks in which this ratio is better than the one at the banking sector level, while this ratio exceeds the amount of KM 3 million in the three largest banks in the system.

2. FINANCIAL PERFORMANCE INDICATORS OF BANKS

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

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

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

In accordance with the provisions of the Law on Opening Balance Sheet of Banks, banks with majority state-owned capital are required to report to the Agency on the basis of the "full" balance sheet divided into: liabilities, neutral items and assets. In order to obtain more realistic indicators of the operations banks in the Federation of B&H, further analysis of the banking system will be based on indicators from the assets side of the balance sheet of banks with majority state-owned capital.[6]

2.1. Balance Sheet

The balance sheet total of the banking sector amounted to KM 18.4 billion at the end of 2016, up by 7.1% or KM 1.2 billion compared to the end of 2015. The positive trend of slight to moderate increase in both the balance sheet total and key balance sheet categories continued in 2016: deposits, primarily retail savings, total capital, loans, and cash funds. However, it can be argued that the impact of the conditions in the environment in which the banks in the Federation of B&H, i.e. in B&H, operate is still evident, especially in the real sector. This is an obstacle to faster growth and development of the banking sector, especially in the lending segment, which should be supporting economic development more strongly.

- KM 000 -

Table 11: *Balance Sheet*

DESCRIPTION	31.12.2014 AMOUNT	31.12.2014 Share %	31.12.2015 AMOUNT	31.12.2015 Share %	31.12.2016 AMOUNT	31.12.2016 Share %	INDEX	
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
ASSETS:								
Cash funds	4 560 234	28.2	4 857 483	28.3	5 204 564	28.3	107	107
Securities[7]	801 289	5.0	1 050 206	6.1	1 226 163	6.7	131	117
Facilities to other banks	50 836	0.3	78 420	0.5	96 569	0.5	154	123
Loans	11 170 277	69.2	11 610 744	67.7	12 270 228	66.8	104	106
Value adjustment	1 160 481	7.2	1 181 736	6.9	1 193 721	6.5	102	101
Net loans (loans minus value adjust.)	10 009 796	62.0	10 429 008	60.8	11 076 507	60.3	104	106
Business premises and other fixed assets	525 860	3.2	516 894	3.0	530 977	2.9	98	103
Other assets	202 515	1.3	229 714	1.3	247 254	1.3	113	108
TOTAL ASSETS	**16 150 530**	**100.0**	**17 161 725**	**100.0**	**18 382 034**	**100.0**	**106**	**107**
LIABILITIES:								
LIABILITIES								
Deposits	12 130 746	75.1	13 098 983	76.3	14 176 274	77.1	108	108
Borrowings from other banks	0	0.0	0	0.0	0	0	0	0
Loan commitments	1 026 503	6.4	904 050	5.3	848 001	4.6	88	94
Other liabilities	573 778	3.5	588 704	3.4	649 639	3.5	103	110
CAPITAL								
Capital	2 419 503	15.0	2 569 988	15.0	2 708 120	14.8	106	105
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**16 150 530**	**100.0**	**17 161 725**	**100.0**	**18 382 034**	**100.0**	**106**	**107**

- KM 000 -

Table 12: *Banks' Assets by Ownership Structure*

BANKS	31.12.2014 No. of banks	31.12.2014 Assets (KM 000)		31.12.2015 No. of banks	31.12.2015 Assets (KM 000)		31.12.2016 No. of banks	31.12.2016 Assets (KM 000)		INDEX	
1	2	3		4	5		6	7		8 (5/3)	9(7/5)
State-owned	1	379 330	2%	1	476 866	2.8%	1	520 387	2.8%	126	109
Private	16	15 771 200	98%	16	16 684 859	97.2%	14	17 861 647	97.2%	106	107
TOTAL	**17**	**16 150 530**	**100%**	**17**	**17 161 725**	**100%**	**15**	**18 382 034**	**100%**	**106**	**107**

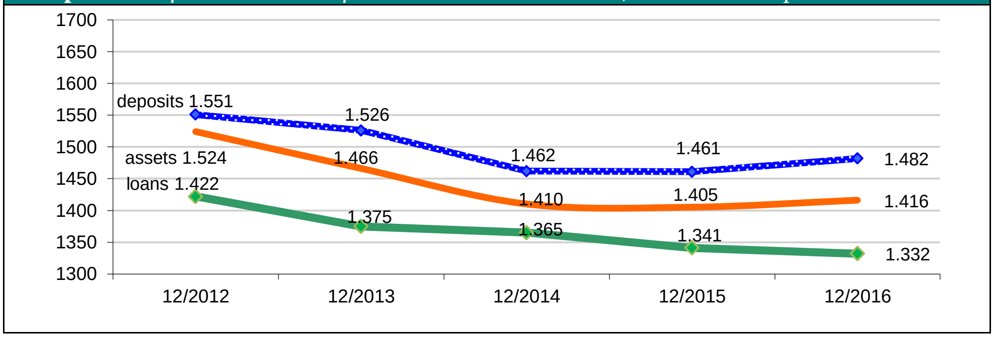
[6] State-owned banks post the „full balance sheet", meaning liabilities and neutral items, which the state will take over once the privatisation process gets finalised. As of 31.12.2016, these items amounted to KM 719 million in the case of one state-owned bank.

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

In 2016, the trend of increase in the balance sheet total continued with the majority of banks, with moderate rates ranging from 6% to 15%. Two banks saw a large increase in the amount of 19% and 23%, while the growth rate was lower than 5% in the case of three large banks, which resulted in an average increase in the amount of 7% at system level. Three smaller banks recorded a negative rate, i.e. a drop in assets.

The concentration indicator used for three key segments of banking operations (assets, loans and deposits) is the Herfindahl index.[8]

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



In 2016, the Herfindahl index of concentrations in all three relevant categories (assets, loans and deposits) changed slightly, so that it amounted to 1 416 units for assets (+11), 1 332 units for loans (-9), and 1 482 units for deposits (+21) as of 31.12.2016, which is indicative of a moderate concentration.[9]

The second concentration indicator for the banking system is the ratio of market concentrations, i.e. the concentration rate[10] (hereinafter: the CR) showing the total share of the largest institutions in the system in selected relevant categories: assets, loans and deposits. Like Herfindahl's index of concentrations, the CR5 also changed slightly in 2016 and amounted to 69.8% for market share and loans, and 71.4% for deposits as of 31.12.2016. 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.

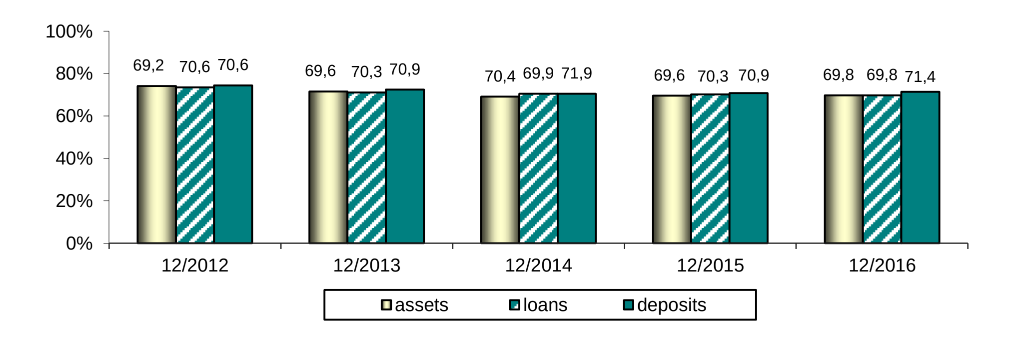
[8] This index is also called Hirschmann-Herfindahl index or HHI and is calculated according to this formula: $HI = \sum_{j=1}^{n} (S)_j^2$,

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.

[9] 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.

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

Graph 10: *Concentration Rates for the 5 Largest Banks – CR5: Assets, Loans and Deposits*



The banking sector can also be analysed on the basis of the criterium of belonging to groups formed according to asset size.[11] Changes in share percentage compared to the end of 2015 are minor, which is the result of slight to moderate changes (increase) in the assets of most banks. The number of banks is lower by two due to the status change of mergers with other banks.

The banking system is dominated by the two largest banks (I group with assets in the amount of over KM 2 billion) with a share of 47.2%, followed by the share of the II group (three banks with assets in the amount ranging from KM 1 billion to KM 2 billion) of 22.5%, while the share of the III group in the amount of 21.9% (five banks with assets ranging from KM 500 million to KM 1 billion) is up by 3.4 percentage points due to one bank moving from the IV to the II group. The number of banks in the IV group (banks with assets ranging from KM 100 million to KM 500 million) is down by three due to the status change of two banks merging with banks from this group as well as due to the aforementioned move of one bank to the III group, which resulted in the share of the IV group dropping from 11.4% to 7.9%. One bank in the V and last group (with assets below KM 100 million) has a share of a negligible 0.5%.

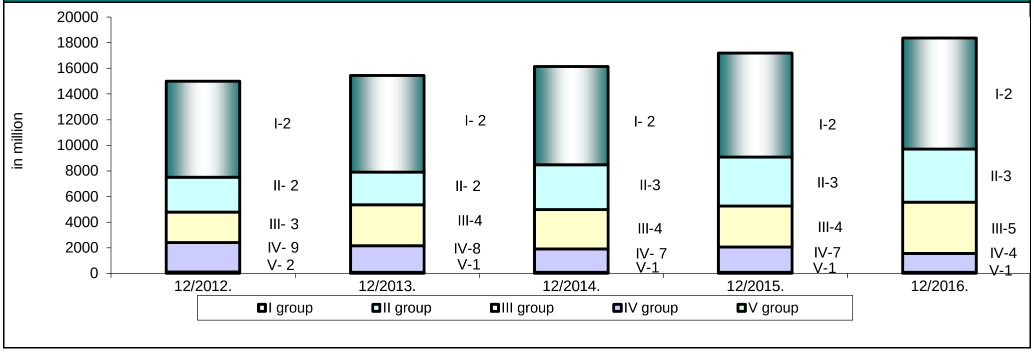
The table below provides an overview of the amounts and shares of individual groups of banks in total assets by period (in KM million).

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

ASSETS	31.12.2014			31.12.2015			31.12.2016		
	Amount	Share %	No. of banks	Amount	Share %	No. of banks	Amount	Share %	No. of banks
I- Over 2 000	7 685	47.6	2	8 121	47.3	2	8 682	47.2	2
II- 1000 to 2000	3 488	21.6	3	3 822	22.3	3	4 143	22.5	3
III- 500 to 1000	3 077	19.0	4	3 172	18.5	4	4 015	21.9	5
IV- 100 to 500	1 823	11.3	7	1 963	11.4	7	1 449	7.9	4
V- Below 100	78	0.5	1	84	0.5	1	93	0.5	1
TOTAL	16 151	100.0	17	17 162	100.0	17	18 382	100.0	15

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

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



In 2016, as was the case in previous years, the trend of increase in the balance sheet total continued, having a rate of 7.1% or KM 1.2 billion and amounting to KM 18.4 billion as of 31.12.2016. Deposits, as was the case in 2015, recorded an increase in the amount of 8.2% or KM 1.1 billion, thus amounting to KM 14.2 billion, while total capital amounted to KM 2.7 billion following an increase in the amount of 5.4% or KM 138 million. The downward trend of loan commitments continued, with a rate of 6.2% or KM 56 million, i.e. to the level of KM 848 million.

Following an increase in the amount of 7.1% or KM 347 million, cash funds in the amount of KM 5.2 billion at the end of 2016.

Due to the low growth of loan facilities, some banks approved short-term excess liquidity to domestic and foreign banks, which brings additional interest income. Facilities to other banks increased by 23.1% or KM 18 million, amounting to KM 97 million as of 31.12.2016.

The positive trend of increase continued in the lending segment as well, with an average increase in the annual rate by 1 percentage point in the period from 2013 to 2015, while the increase amounted to 2 percentage points in 2016, i.e. the growth amounted to 6% or KM 659 million. It can be concluded that the recorded indicators are still at a low level, however, that is to be expected considering the macroeconomic indicators and the conditions in the real sector, which correlates with the key function of banks, i.e. lending. At the end of 2016, loans amounted to KM 12.3 billion.

The increase in investments in securities continued in 2016 as well, with a rate of 16.8% or KM 176 million (in 2015, the increase amounted to 31.1% or KM 249 million), which primarily refers to securities issued by the Federation of B&H. The securities portfolio amounted to KM 1.2 billion at the end of the reporting period, thus having a 6.7% share in assets.

The portfolio of securities available for sale (a small part thereof refers to the trading portfolio), up by 21.8% or KM 193 million, amounted to KM 1.1 billion, while the securities held to maturity decreased by 10% or KM 17 million, i.e. to KM 151 million. Both portfolios include securities issued by the Federation of B&H[12] in the total amount of KM 677 million, as well as securities issued by Republika Srpska in the amount of KM 147 million. Also, the trading portfolio includes shares issued by local companies totaling KM 2 million. The remaining portion of the securities portfolio amounts to KM 401 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 2016 is primarily the result of an increase in the exposure to the Federation of B&H on the basis of the purchase of bonds.

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

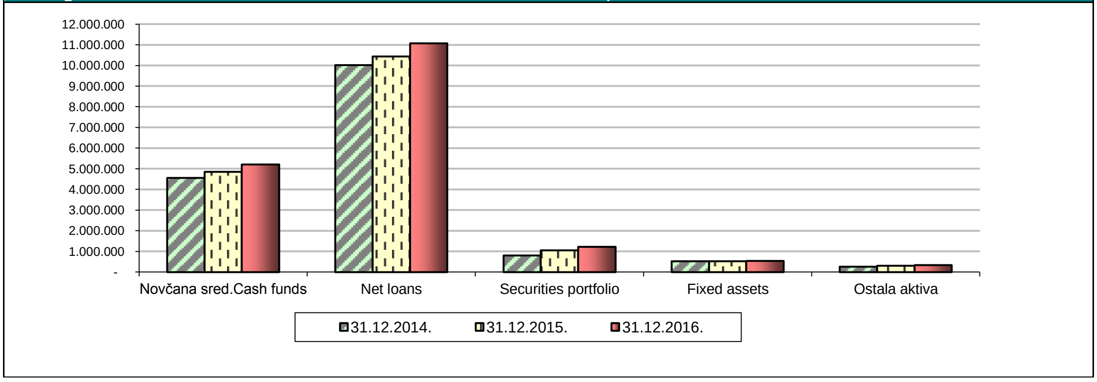
As of 31.12.2016, the balance and book value of treasury bills issued by the Federation of B&H amounted to KM 119 million (KM 100 million as of 31.12.2015) and KM 118 million, respectively.

In addition to treasury bills, the securities portfolios of banks also include market bonds issued by the Federation of B&H. The book value of the market bonds as of 31.12.2016 amounted to KM 559 million (31.12.2015: KM 419 million). The majority of the treasury bills and market bonds with a book value of KM 639 million was classified in the portfolio of securities available for sale, while the rest in the amount of KM 13 million is classified in the portfolio of securities held to maturity.

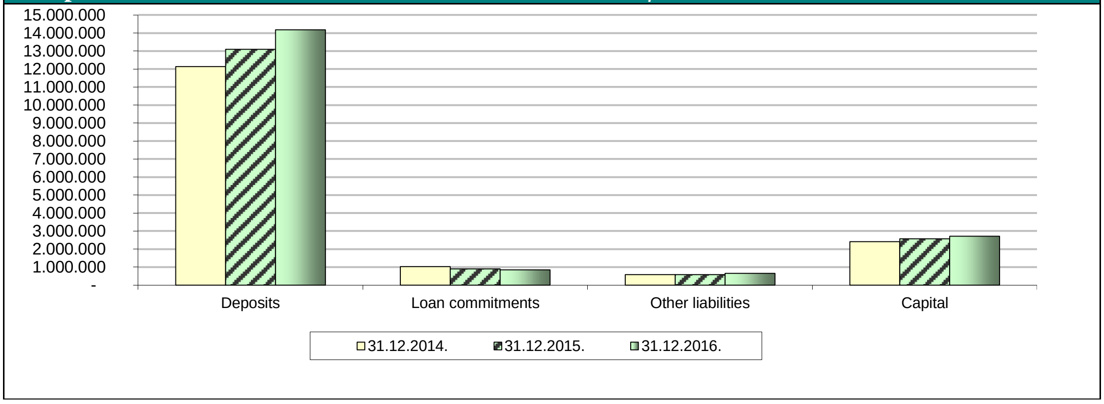
When analysing the overall securities portfolio (KM 1.23 billion) from the aspect of exposure by country, the largest share is that of B&H (67.3%) (63.6% at the end of 2015) as a result of an increase in the amount of 24% or KM 157 million, i.e. to the level of KM 825 million as of 31.12.2016, followed by Romania (8.1%), Austria (6.9%), Belgium (2.9%), etc.

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

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



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



Within the liabilities structure of the banks' balances sheets, deposits still represent a dominant source of funding for banks in the Federation of B&H (with an amount of KM 14.2 billion and a 77.1% share). The long-standing trend of decrease of loan commitments continued in 2016 as well, which resulted in the share dropping to 4.6% (-0.7 percentage points). Capital continued to increase in 2016 as well. As of 31.12.2016 capital amounted to KM 2.7 billion, with a share of 14.8% (-0.2 percentage points).

The share of loans, as the largest and most important assets item, decreased from 67.7% to 66.8%, while the share of cash funds decreased in the amount of 28.3% remained unchanged.

-in KM 000 -

Table 14: *Cash Funds of Banks*

CASH FUNDS	31.12.2014 Amount	Share %	31.12.2015 Amount	Share %	31.12.2016 Amount	Share %	INDEX 4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	456 750	10.0	581 152	12.0	754 059	14.5	127	130
RR at the CB B&H	2 854 559	62.6	3 181 721	65.5	3 295 391	63.3	111	104
Accounts at deposit institutions in B&H	22 759	0.5	2 100	0.0	9 101	0.2	9	433
Accounts at deposit institutions abroad	1 225 850	26.9	1 092 273	22.5	1 145 886	22.0	89	105
Cash funds in the process of collection	316	0.0	237	0.0	127	0.0	75	54
TOTAL	4 560 234	100.0	4 857 483	100.0	5 204 564	100.0	107	107

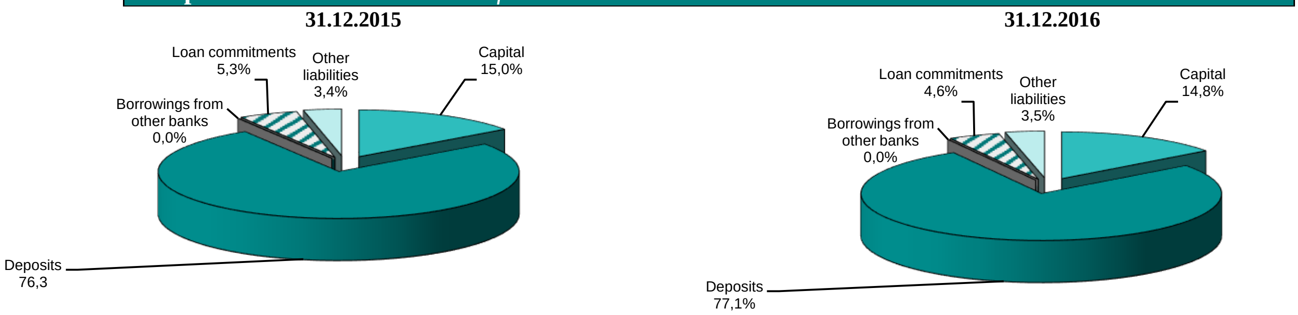
The banks' cash funds in the CBBH reserves account were up by 4% or KM 114 million in 2016 and amounted to KM 3.3 billion or 63.3% of total cash funds at the end of 2016 (65.5% at the end of 2015). The continuous drop in banks' funds in accounts of deposit institutions abroad in the previous four years was halted in 2016, when an increase in the amount of 5% or KM 54 million was recorded. As of 31.12.2016, they amounted to KM 1.1 billion or 22% of total cash funds (22.5% at the end of 2015). Following a large increase in the amount of 30% or KM 173 million, banks held cash funds in the amount of KM 754 million in vaults and treasuries as of 31.12.2016, which represents 14.5% of total cash funds. The aforementioned increase refers almost exclusively to one large bank, which increased the amount of cash in treasures and vaults by 100% in the second half of 2016, with it being noted that, out of the total amount of KM 754 million which banks hold in treasuries and vaults, 44% refer to this bank.

These trends prompted a change in the currency structure of cash funds: in the reporting period, the share of local currency increased from 73.1% to 74.5%, while cash in foreign currency decreased by the same percentage.

2. 1. 1. Liabilities

The total liabilities structure (liabilities and capital) within the banks' balance sheet as of 31.12.2016 is provided in the graph below:

Graph 14: *Liabilities Structure of Banks*



In 2016, the share of deposits (77.1%), as the most significant source of funding of banks, increased by 0.8 percentage points, while the continuous trend of decrease in the share of loan commitments, the second largest source of funding, continued in 2016 as well (by 0.7 percentage points, i.e. to the level of 4.6%).

Following the negative rates, i.e. the minimum fall of 1% in 2011 and 2012, deposits saw steady growth: by 5% or KM 563 million in 2013, while the same rate (5% or KM 607 million) was recorded in 2014 as well. In 2015, an increase in the amount of 8% or KM 968 million was recorded, with the same rate having been recorded in 2016, which nominally amounted to KM 1.1 billion. At the end of 2016, deposits amounted to KM 14.2 billion and are still the largest source of funding for banks in the Federation of B&H. Although the increase in deposits is primarily generated from an increase in retail deposits, it should be noted that, in September 2016, the IMF approved a new extended funding arrangement for B&H (Extended Fund Facility – EFF) under favourable conditions and in the amount of approximately EUR 550 million. In October 2016, funds in the amount of approximately KM 103 million were transferred to the Federation of B&H from the first tranche.

The second-largest source of funding are loans in the amount of KM 0.8 billion and with a share of 4.7%, which banks received mostly by borrowing from foreign financial institutions. In the past few years, due to the effect of the financial and economic crisis, as well as reduced lending activities, banks incurred significantly fewer loans abroad and, coupled with the payment of receivables due, reduced these sources of funding by app. 60% (at the end of 2008, deposits amounted to KM 2.18 billion), with them being down by 6.2% or KM 56 million in 2016 (in 2015, the decrease amounted to 11.9% or KM 122 million). If subordinated loans in the amount of KM 112 million, which the banks withdrew in the interest of strengthening the capital base and improving capital adequacy, were added to loan commitments, total loan funds would hold a share of 5.2% in total sources of funding.

As of 31.12.2016, banks held the largest amount of liabilities towards the following creditors (6 out of a total of 25 creditors), accounting for 81% of total loan commitments: TC ZIRAAT BANKASI A.S. (Turkey), European Investment Bank (EIB), the World Bank, UniCredit Bank Austria AG, the European Fund for Southeast Europe (EFSE), and the European Bank for Reconstruction and Development (EBRD).

Capital amounted to KM 2.7 billion at the end of 2016, thus having recorded an increase in the amount of 5.4% or KM 138 million compared to the end of 2015, as a result of the following most important changes: an increase on the basis of the financial result (profit) in 2016 (KM 173 million), recapitalisation (three banks, KM 123 million), and a decrease due to the payment of dividends from profit recorded in 2015 being transferred to Liabilities and/or retained profit (three banks, KM 152 million).

According to the information submitted by banks, out of the total deposit amount at the end of the reporting period, only 6.2% relates to deposits collected in organisational units of banks from the Federation of B&H, which are doing business in Republika Srpska and Brčko District.

- in KM 000 -

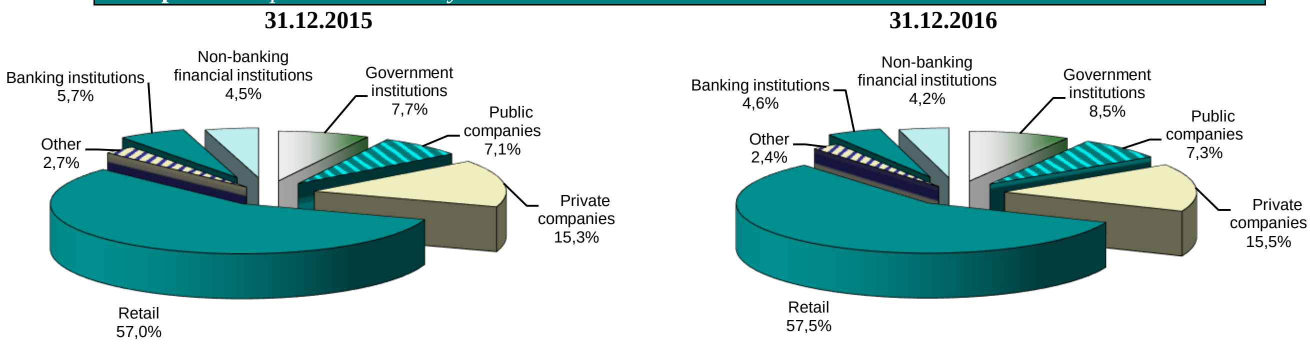
Table 15: *Deposit Structure by Sector* [13]

SECTORS	31.12.2014		31.12.2015		31.12.2016		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	795 985	6.6	1 002 438	7.7	1 200 513	8.5	126	120
Public companies	883 463	7.3	927 692	7.1	1 036 461	7.3	105	112
Private companies and enterprises	1 821 094	15.0	2 008 364	15.3	2 191 328	15.5	110	109
Banking institutions	886 007	7.3	752 217	5.7	647 901	4.6	85	86
Non-banking financial institutions	517 110	4.2	583 387	4.5	603 757	4.2	113	103
Retail	6 863 296	56.6	7 465 252	57.0	8 154 484	57.5	109	109
Other	363 791	3.0	359 633	2.7	341 830	2.4	99	95

[13] 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).

TOTAL	12 130 746	100.0	13 098 983	100.0	14 176 274	100.0	108	108

Graph 15: *Deposit Structure by Sector*



A moderate increase in deposits in 2016 in the amount of 8.2% or KM 1.1 billion, i.e. to the level of KM 14.2 billion, resulted in minor changes in the deposit structure by sector, namely due to an increase in all sectors with the exceptions of deposits of banking institutions, which still have a downward trend, as well as the sector labelled „Other".

The sectoral structure is still dominated by the retail sector and the continuous increase in this sector's deposits continued in 2016 as well, with the same rate as in 2015 (9% or KM 689 million). They thus amounted to KM 8.2 billion as of 31.12.2016., while the share rose from 57% to 57.5%, so that this sector's deposits are still the largest source of funding for banks. Analytical data by bank indicate that the share ranges from 19% to 81%, the share of this sector's deposits is the largest in 14 out of 15 banks, and it is above 50% in nine banks.

The second largest sector source in terms of amount and share, although significantly lower than the retail sector, are deposits of private companies. In the period 2013-2015, this sector's deposits saw stable growth, with the average rate being 10%, and the same trend was maintained in 2016 as well, when an increase in the amount of 9% or KM 183 million was recorded, together with a share of 15.5% (+ 0.2 percentage points). As of 31.12.2016, they amounted to KM 2.2 billion.

After 2013, deposits of government institutions saw a large increase: 41% in 2014, 26% in 2015, and 20% or KM 198 million in 2016, i.e. in the reporting period, they nominally went up from KM 565 million to KM 1.2 billion, which is what they amounted to at the end of 2016. The share increased from 4.9% to 8.5%.

After 2014, deposits of public companies had an upward trend. The growth rate amounted to 5% or KM 44 million in 2015 and to 12% or KM 109 million in 2016. At the end of 2016, they amounted to KM 1 billion, which is a share of 7.3%.

It should be noted that the trend of long-standing decrease in deposits of banking institutions due to the effects of the crisis, the reduced volume of lending and high liquidity continued in 2016 as well. From the end of 2009 to 31.12.2016, deposits of this sector dropped by app. 69% 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 2016, the deposits of the aforementioned sector fell by 14% or KM 104 million, to the level of KM 648 million, with the share dropping from 5.7% to 4.6%, mostly as a result of deposits that some banks had received from banking groups at the end of 2015 having been withdrawn immediately in early

2016. Based on the aforementioned information, it can be concluded that the foreign debt level of banks from the Federation of B&H is much lower, especially in terms of deposit funds of parent groups. It should be noted that maturity has changed singificantly in favour of short-term deposits, which have the function of maintining the maturity adjustment within the prescribed limits and/or improving certain indicators (structural balance, growth of certain categories, e.g. assets, deposits, followed by liquidity indicators, etc.). The aforementioned is also indicated by the fact that KM 176 million or 37% of term deposits of the group mature in the first quarter of 2017, while an additional KM 33 million or 7% mature by the end of 2017, and KM 134 million or 28% mature in 2018. Considering that the same trend of decrease is present with respect to loan commitments, a number of banks have been facing the problem of maintaining their maturity adjustment for quite some time, with this being caused by the unfavourable maturity of local deposit funds, due to which they must continuously work on securing better quality sources in terms of maturity in order to intensify the increase in approved loans.

It is worth noting that 78% or KM 508 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 seven banks in the Federation of B&H, wherein such financing is still concentrated in three large banks (90%). 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 857 million as of 31.12.2016 (or 4.7% of total liabilities of the banking sector, which is lower compared to the end of 2015 (KM 932 million or 5.4% of liabilities)). In total deposits, the funds of banking groups hold a share of 3.6% (4.5% at the end of 2015), while loan commitments to the group account for 29.4% of total loan commitments (this share is up by 3.2%). In 2016, these funds dropped by 8% or KM 75 million, largely based on regular maturities (deposits fell by 14.6% or KM 87 million, loan commitments are up by 5.2% or KM 12 million, while subordinated loans remained at the same level of KM 100 million).

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

When it comes to other sectors, with a low share in total deposits, it should be noted that the increase in deposits of non-banking financial institutions continued in 2016 as well, with the rate amounting to 3% or KM 20 million and the share being down from 4.5% to 4.2%.

The currency structure of deposits as of 31.12.2016 has slightly changed: deposits in local currency, after an increase in the amount of 15% or KM 1 billion, increased their share to 56.4% (+3.3 percentage points) and amounted to KM 8 billion, while deposits in foreign currency (with a dominant share of EUR currency), following a slight decrease in the amount of 0.6% or KM 34 million, amounted to KM 6.2 billion, thus holding a share of 43.6%.

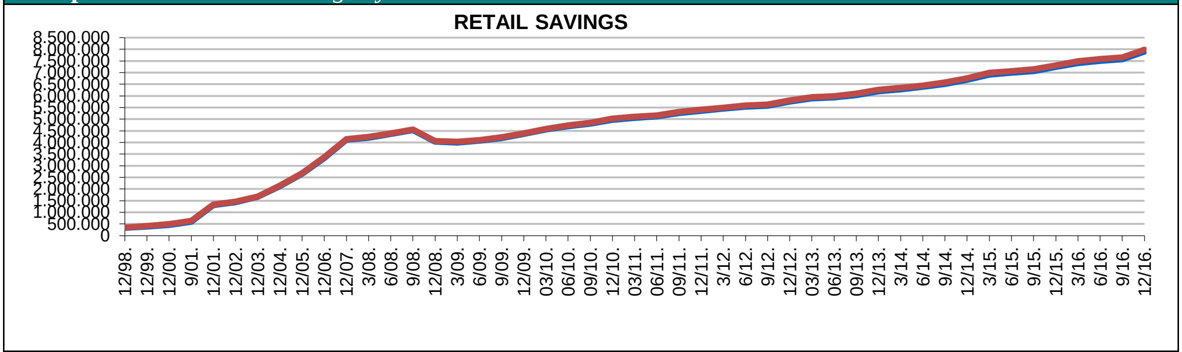
At the end of 2016, the structure of deposits by domicile status of depositors also changed slightly: resident funds amounted to KM 13.2 billion and had a share of 93.2% (+1.2 percentage points), while non-resident deposits amounted to KM 1 billion and represented 6.8% of total deposits. The increase in the share of resident deposits is, on the one hand, the result of their nominal increase in the amount of 9.6% or KM 1.2 billion, and, on the other hand, the result of the drop in non-resident deposits by 7.4% or KM 77 million. Over the past few years, non-resident deposits continuously decreased as a result of the withdrawal, i.e. return of deposits to the parent bank or member of the banking group to which non-resident funds mostly refer.

The long-standing trend of increase in savings deposits, as the most significant segment of the deposit and financial potential of banks, continued in 2016 as well, with a rate of 9.1% or KM 662 million. As of 31.12.2016, they amounted to KM 7.9 billion.

Table 16: *New Retail Savings By Period*

BANKS	AMOUNT (in KM 000)			INDEX	
	31.12.2014	31.12.2015	31.12.2016	3/2	4/3
1	2	3	4	5	6
State-owned	73 072	78 771	86 481	108	110
Private	6 618 891	7 156 178	7 810 404	108	109
TOTAL	6 691 963	7 234 949	7 896 885	108	109

Graph 16: *New Retail Savings by Period*



The two largest banks hold 56% of savings, while five banks hold individual shares of less than 2%, which amounts to 6.5% of total savings at system level.

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

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

BANKS	AMOUNT (in KM 000)						INDEX	
	31.12.2014		31.12.2015		31.12.2016		3/2	4/3
1	2		3		4		5	6
Short-term savings deposits	3 129 098	46.8%	3 537 982	48.9%	4 074 910	51.6%	113	115
Long-term savings deposits	3 562 865	53.2%	3 696 967	51.1%	3 821 975	48.4%	104	103
TOTAL	6 691 963	100.0%	7 234 949	100.0%	7 896 885	100.0%	108	109

Compared to the end of 2015, the maturity structure of savings deposits changed slightly due to an increase in short-term deposits by 15% or KM 537 million, while long-term deposits rose by 3% or KM 125 million, thus resulting in the share of long-term deposits being down from 51.1% to 48.4%.

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

As of 31.12.2016, all 15 banks from the Federation of B&H included in the deposit insurance program (i.e. holding licences issued by the Deposit Insurance Agency of B&H).

2.1.2. Capital – Strength and Adequacy

The capital[14] of banks in the Federation of B&H as of 31.12.2016 amounted to KM 2.3 billion.

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

- in KM 000 -

Table 18: *Regulatory Capital*

DESCRIPTION	31.12.2014		31.12.2015		31.12.2016		INDEX	
1	2		3		4		5 (3/2)	6 (4/3)
1.a.Core capital before reduction	1 991 385		2 010 634		2 167 814		101	108
1.1. Share capital – common and permanent non-cumulative shares	1 230 459		1 164 402		1 215 668		95	104
1.2. Issue premiums	136 485		132 667		138 786		97	105
1.3. Reserves and retained profit	624 441		713 565		813 360		114	114
1.b. Deductible items	219 589		183 755		112 297		84	61
1.1. Uncovered losses from previous years	122 705		28 371		16 690		23	59
1.2. Current year loss	50 868		102 108		42 314		201	41
1.3. Treasury shares	81		102		3 034		126	2975
1.4.. Intangible assets	41 873		49 837		47 315		119	95
1.5. Deferred tax assets	2 780		1 641		1 881		59	115
1.6. Negative revalorised reserves	1 282		1 696		1 063		132	63
1. Core capital (1a-1b)	**1 771 796**	**81%**	**1 826 879**	**85%**	**2 055 517**	**88%**	103	113
2. Supplementary capital	**412 922**	**19%**	**330 784**	**15%**	**284 917**	**12%**	80	86
2.1. Share capital – common and permanent cumulative shares	3 091		3 090		209		100	7
2.2. General loan loss reserves	229 895		208 619		170 420		91	82
2.3. Positive revalorised reserves	23 703		9 735		9 741		41	100
2.4. Amount of audited profit	N/a		N/a		N/a		N/a	N/a
2.5. Subordinated debt	154 814		107 918		103 122		70	96
2.5. Hybrid items and other instruments	1 419		1 422		1 425		100	100
3. Capital (1 + 2)	**2 184 718**	**100%**	**2 157 663**	**100%**	**2 340 434**	**100%**	99	108
4. Deductible items from capital	**203 077**		**206 321**		**200 035**		102	97
4.1. Bank's shares in capital of other legal entities above 5% of core capital	1 678		1 007		0		60	N/a
4.2. Loan loss reserves shortfall at regulatory request	199 890		204 559		200 035		102	98
4.3. Other deductible items	1 509		755		0		50	N/a
5. Net capital (3- 4)	**1 981 641**		**1 951 342**		**2 140 399**		98	110

In 2016, capital went up by 8% or KM 183 million compared to the end of 2015, with changes in its structure (88% core capital, 12% supplementary capital). Core capital increased by 13% or KM 229 million, while supplementary capital decreased by 14% or KM 46 million.

[14] 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).

The increase in core capital was primarily recorded on the basis of the inclusion of profit recorded for 2015. After implementing legal procedures to adopt decisions by the general assembly of banks, recorded profit (15 banks) in the amount of KM 220 million was distributed as follows: 63% or KM 138 million to core capital (retained profit and reserves), two banks decided on dividend payment (KM 62 million total), while one bank distributed part of the profit of KM 20 million to retained profit, although the aforementioned is not an item of core capital. One bank paid dividends in the amount of KM 90 million from retained profit of previous years (which was not a core capital item) and this had an impact on the decrease in accounting (total) capital, but not in core, i.e. regulatory capital. The recapitalisation of three banks in the amount of KM 123 million also had an impact on the increase in core capital.

At the same time, the status changes of the integration (merger) of two banks with two other banks had a positive effect on core capital in the amount of app. KM 3 million, while one bank strengthened core capital through a conversion of cumulative preference shares (Supplementary Capital item) into ordinary shares and through a reduction of negative revalorised reserves (transfer to Costs), the effect of which was an increase in the amount of KM 4 million. Also, during the merger of the two banks, uncovered losses in the amount of KM 12 million were covered. Furthermore, in order to protect the rights of minority shareholders, one bank purchased its own shares in the amount of KM 3 million.

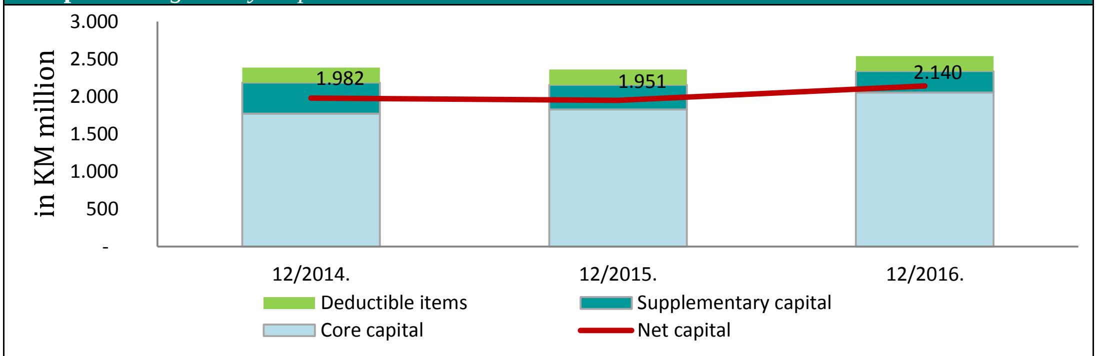
Deductible items (which decrease core capital) decreased by 39% or KM 71 million, mostly as a result of a decrease in uncovered losses of two banks in the amount of KM 100 million. Current loss amounts to KM 42 million, own (treasury) shares increased by KM 3 million, while other items changed only slightly.

Supplementary capital decreased by 14% or KM 46 million, which is mostly the result of the application of certain provisions of the new Decision: a decrease in general loan loss provisions (GLLP), i.e. the application of the 1.25% calculation rate of total risk-bearing assets starting with 31.12.2016. (the effect was KM 93 million), the ratio of core and supplementary capital (supplementary capital may not exceed one third of core capital, the effect is negligible), a decrease on the basis of conversion of cumulative preference shares into ordinary shares (KM 3 million), and a decrease in subordinated debt on the basis of depreciation.

According to regulatory changes in late 2011, deductible items from capital include a new accounting item: the shortfall of loan loss reserves upon regulator's request (i.e. a difference between required regulatory loan loss reserves according to balance sheet and off-balance sheet items and loan loss reserves formed from profit). As of 31.12.2016, this item amounted to KM 200 million, which is slightly down (2% or KM 4 million) compared to 2015 (this item was up by 2% or KM 5 million in 2015).

The graph below shows the regulatory capital structure.

Graph 17: *Regulatory Capital Structure*



As a result of the aforementioned changes, net capital increased by 10% or KM 189 million and amounted to KM 2.1 billion as of 31.12.2016.

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

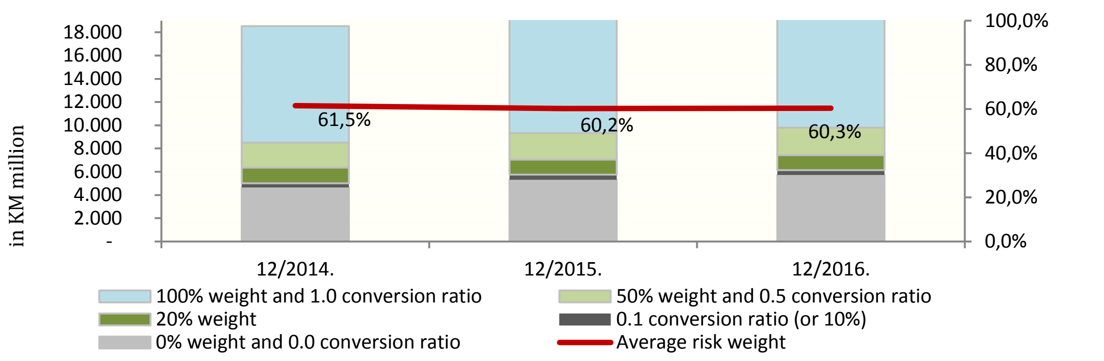
The table below provides a structure of the net exposure of banks by credit risk weight, i.e. conversion ratio for off-balance sheet items.

- in KM 000 -

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

DESCRIPTION	31.12.2014	31.12.2015	31.12.2016	INDEX	
1	2	3	4	5 (3/2)	6 (4/3)
TOTAL EXPOSURE (1+2):	**18 518 813**	**19 799 548**	**20 994 773**	107	106
1 Balance sheet assets	15 627 474	16 635 188	17 863 737	106	107
2. Off-balance sheet items	2 891 339	3 164 360	3 131 036	109	99
DISTRIBUTION BY RISK WEIGHT AND CONVERSION RATIO					
0% weight	4 598 235	5 255 223	5 695 758	114	108
20% weight	1 361 199	1 279 029	1 309 962	94	102
50% weight	54 096	52 241	75 541	97	145
100% weight	9 613 944	10 048 695	10 782 476	105	107
0.0 conversion ratio	52 453	51 199	43 699	98	85
0.1 conversion ratio	356 611	456 896	396 664	128	87
0.5 conversion ratio	2 073 404	2 227 852	2 291 106	107	103
1.0 conversion ratio	408 871	428 413	399 567	105	93
RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	**11 394 469**	**11 918 650**	**12 667 026**	**105**	**106**
Average risk weight	**61.5%**	**60.2%**	**60.3%**	**98**	**100**

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



In the reporting period of 2016, total net exposure of banks (before being weighted) increased (6%). As of 31.12.2016, risk-bearing balance sheet and off-balance sheet items (after being weighted) amounted to KM 12.7 billion, with a 6% growth rate, which was primarily influenced by an increase in items with a 100% weight (mostly refers to the loan portfolio being up). As a result of the aforementioned, the average risk weight increased from 60.2% to 60.3%.

The same trend was seen with respect to the weighted operational risk (WOR), which rose slightly (2%) and amounted to KM 1 billion as of 31.12.2016. All of this resulted in an increase in total risk-bearing assets (6% or KM 775 million), i.e. to the level of KM 13.7 billion.

As of 31.12.2016, the share of risk-bearing balance and off-balance sheet assets exposed to credit risk amounted to 93% and to 7% on the basis of operational risk.

The banks' capitalisation rate, expressed as a ratio between capital and assets, amounted to 11.9% as of 31.12.2016, which is up by 0.2 percentage points compared to the end of 2015.

One of the key indicators of capital strength and adequacy[15] of banks is the capital adequacy ratio, which constitutes a ratio between net capital and risk-weighted assets. At the banking sector level, this ratio stood at 15.7% as of 31.12.2016, up by 0.6 percentage points compared to the end of 2015 as a result of a 10% increase in net capital and despite the negative impact of the implementation of certain provisions of the new Decision, starting with 31.12.2015.

Also, the indicator of capital strength and quality is the ratio of the core capital (Tier I) and total risk assets, which amounted to 15.0% at the level of the banking sector as of 31.12.2016. An important provision of the new Decision is the obligation of banks to intend part of the core capital above 9% (in application since 31.12.2016) of total risk assets to cover the risks related to preventive protection from potential losses in times of crisis or stressful situations through a protective layer for preserving the capital that has been prescribed in the amount of 2.5% of the amount of total risk assets under this Decision. Two other protective layers were introduced – a countercyclical protective layer and a protective layer for systemic risk, which the FBA would determine by a special resolution, if necessary.

Banks are also, according to the new Decision, obligated to establish and maintain the financial leverage ratio as an additional security and a simple capital hedge, at least in the amount of 6%, starting as of 31.12.2015. The financial leverage ratio at the level of the banking sector amounted to 9.7% as of 31.12.2016.

Although banking sector operations have been strongly affected by the economic crisis for the past few years, the capital adequacy of the banking sector has been continuously maintained at the level above 16% until 2015, when, for the aforementioned reasons, it decreased to 15.1%, only to increase slightly again and amount to 15.7% as of 31.12.2016, which is still a satisfactory capitalisation rate at system-level. The reason for this is, on the one hand, modest credit growth and a decrease of total risk-bearing assets in previous years (until 2013, after which gradual growth was recorded), and, on the other hand, the fact that banks have retained the largest share of profit from previous years within their capital and several banks have also improved their capitalisation rate by means of additional capital injections. However, problems related to non-performing loans and items not covered by loan loss reserves (net non-performing assets) may significantly impact and cause weakening of the capital base in several banks in the period to come. This is illustrated by the following information: at the end of 2008, net non-performing assets amounted to KM 197 million and its ratio (vs. core capital) was 13.2%. At the end of 2013, net non-performing assets amounted to KM 474 million, which is 25.5% of core capital, while dropping to the amount of KM 431 million in 2014, with a ratio of 24.3% (this is the result of a decrease on the basis of the sale of a part of non-performing loans in one bank, but also of an increase in loan loss reserves, i.e. greater coverage of non-performing facilities). In 2015, net non-performing had a further trend of decrease (mostly on the basis of a significant write-off in one bank) and amounted to KM 399 million, with a ratio of 21.5%. In 2016, the downward trend continued (a significant write-off was also recorded), net non-performing assets amounted to KM 337 million as of 31.12.2016, having a 16.4% ratio, which, despite the significant decrease, is still a high level and indicator. Also, according to existing regulations, banks do not calculate the capital requirement for market risks, due to which the capital adequacy rate is higher.

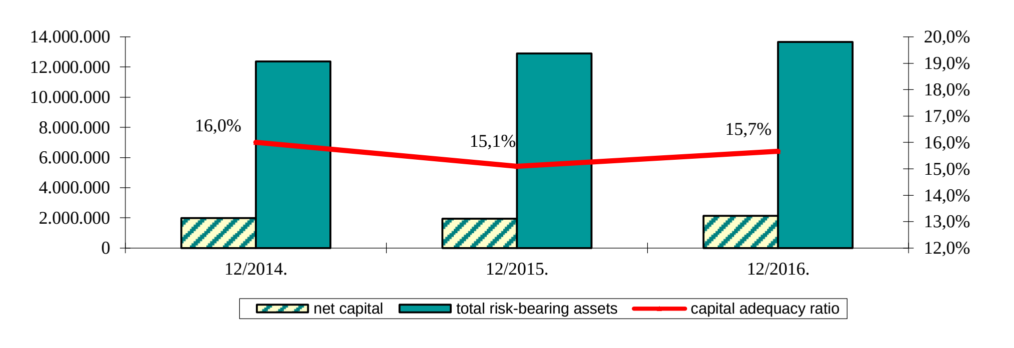
[15] The legally defined minimum capital adequacy ratio is 12%.

- KM 000 -

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

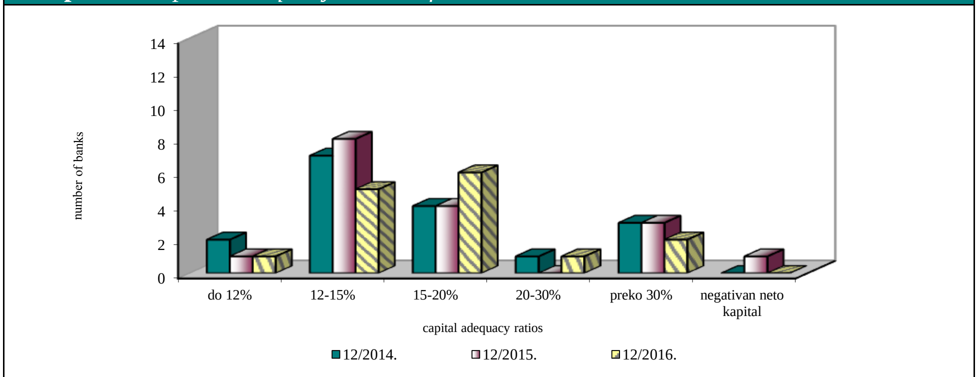
DESCRIPTION	31.12.2014	31.12.2015	31.12.2016	INDEX	
1	2	3	4	5(3/2)	6(4/3)
1. NET CAPITAL	1 981 641	1 951 342	2 140 399	98	110
2. RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	11 394 469	11 918 650	12 667 026	105	106
3. WOR (WEIGHTED OPERATIONAL RISK)	982 250	976 734	1 001 018	99	102
4. TOTAL RISK-BEARING ASSETS (2+3)	12 376 719	12 895 384	13 668 044	104	106
5. NET CAPITAL RATIO (CAPITAL ADEQUACY) (1/ 4)	16.0%	15.1%	15.7%	94	104

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



The capital adequacy ratio of the banking system as of 31.12.2016 was 15.7%, which is still quite above the legal minimum (12%) and represents a satisfactory capitalisation rate of the overall system considering the existing level of risk exposure and it represents a strong basis and foundation for the preservation of its safety and stability.

Graph 20: *Capital Adequacy Ratios of Banks*



Out of a total of 15 banks in the Federation of B&H as of 31.12.2016, 14 banks had capital adequacy ratios that were above the legal minimum of 12%, while one bank had a ratio that was below the legal minimum (two banks solved the problem of the legal minimum with the status change of a merger). According to analytical data, 7 banks had a capital adequacy ratio below the one at the end of 2015, while 8 banks had improved this ratio.

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

- 1 bank had a ratio below 12%,
- 5 banks had a ratio between 12.9% and 14.2%,
- 4 banks had a ratio between 15.3% and 16.0%,
- 3 banks had a ratio between 18.5% abd 20.2%,
- 2 banks had a ratio between 37.8% and 41.0%.

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

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

2.1.3. Assets and Asset Quality

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

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

- in KM 000 -

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

DESCRIPTION	31.12.2014	31.12.2015	31.12.2016	INDEX	
1	2	3	4	5(3/2	6(4/3)

1. Risk-bearing assets[16]	14 119 056	14 850 813	15 678 442	105	106
2. Calculated regulatory reserves for loan losses	1 551 075	1 507 523	1 533 712	97	102
3. Value adjustment and reserves for off-balance sheet items	1 253 270	1 269 548	1 294 471	101	102
4. Required regulatory reserves formed from profit for assessed	447 920	408 247	405 019	91	99
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	199 889	204 558	200 035	102	98
7. Non-risk bearing items	6 217 740	6 797 824	7 175 632	109	106
8. TOTAL ASSETS (1+7)	20 336 796	21 648 637	22 854 074	106	106

Total assets with off-balance sheet items (assets)[17] of banks in the Federation of B&H amounted to KM 22.9 billion as of 31.12.2016 and are up by 6% or KM 1.2 billion compared to the end of 2015. Risk-bearing assets amount to KM 15.7 billion and are up by 6% or KM 828 million.

Non-risk bearing items amount to KM 7.2 billion or 31% of total assets with off-balance sheet items, thus being up by 6% or KM 378 million compared to the end of 2015.

Total calculated loan loss reserves based on regulatory requirements are up (2% or KM 26 million) and amount to KM 1.53 billion, while formed value adjustments for balance sheet assets and provisions for losses are up by 2% or KM 25 million and amount to KM 1.3 billion. Required regulatory reserves[18] amount to KM 405 million and are down by 1% or KM 3 million. Formed regulatory reserves from profit in the amount of KM 316 million are at the same level as at the end of 2015. As of 31.12.2016, the shortfall of regulatory reserves[19] amounts to KM 200 million, thus being down by 2% or KM 5 million compared to the end of 2015.

- in KM 000 -

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

DESCRIPTION	31.12.2014		31.12.2015		31.12.2016		INDEX	
	Amount	Struct. %	Amount	Struct.%	Amount	Struct.%		
1.	2	3	4	5	6	7	8 (4/2)	9 (6/4)
Loans	9 725 304[20]	84.1	10 186 613	84.1	10 850 532	84.2	105	106
Interest	74 573	0.6	71 680	0.6	69 237	0.5	96	97
Past due receivables	1 184 588	10.2	1 161 853	9.6	1 164 973	9.0	98	100
Receivables on paid guarantees	26 218	0.3	24 648	0.2	26 537	0.2	94	108
Other facilities	194 440	1.7	139 457	1.1	138 995	1.1	72	100
Other assets	361 666	3.1	526 871	4.4	638 228	5.0	147	121
1. RISK-BEARING BALANCE SHEET ASSETS	11 566 789	100.0	12 111 122	100.0	12 888 502	100.0	105	106
2. NON-RISK BEARING BALANCE SHEET ASSETS	5 806 579		6 289 910		6 745 740		108	107
3. GROSS BALANCE SHEET ASSETS (1+2)	17 373 368		18 401 032		19 634 242		106	107
4. RISK-BEARING OFF-BS ITEMS	2 552 267		2 739 691		2 789 940		107	102
5. NON-RISK BEARING OFF-BS ITEMS	411 161		507 914		429 892		124	85
6. TOTAL OFF-BS ITEMS (4+5)	2 963 428		3 247 605		3 219 832		110	99
7. RISK-BEARING ASSETS WITH OFF-BS ITEMS (1+4)	14 119 056		14 850 813		15 678 442		105	106
8. NON-RISK BEARING ITEMS (2+5)	6 217 740		6 797 824		7 175 632		109	106
9. ASSETS WITH OFF-BS ITEMS (3+6)	20 336 796		21 648 637		22 854 074		106	106

[16] Does not include amount of facilities and contingent liabilities of KM 218 million that is secured with a cash deposit.

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

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

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

[20] This does not include the loan amount of KM 184 million covered by a cash deposit (included in non-risk bearing assets of the balance sheet).

Gross balance sheet assets[21] amount to KM 19.6 billion and are up by 7% or KM 1.2 billion compared to the end of 2015. Risk-bearing balance sheet assets amount to KM 12.9 billion or 66% of gross balance sheet assets (thus being up by 6% or KM 777 million). Non-risk bearing balance sheet assets amount to KM 6.7 billion and are up by 7% or KM 456 million compared to the end of 2015.

Off-balance sheet risk-bearing items in the amount of KM 2.8 billion increased by 2% or KM 50 million, while non-risk bearing items amount to KM 430 million and are down by 15% or KM 78 million compared to the end of 2015.

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 2016, credit growth in the amount of 6% or KM 659 million was recorded (4% or KM 440 million in 2015). As of 31.12.2016, loans amounted to KM 12.3 billion, with a share of 66.8% (-0.9 percentage points).

In 2016, a total of KM 9 billion of new loans was approved, up by 18% or KM 1.4 billion compared to the previous year. Out of the total loans approved, 72% relate to the corporate segment and 25% to the retail segment (at the end of 2015: 68% corporate, 27% retail). The maturity structure of the newly-approved loans: 45% long-term loans, 55% short-term loans (at the end of 2015: 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 6.7 billion, thus holding a share of 54.3% in total loans at the banking system level.

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

- in KM 000 -

Table 23: *Loan Structure by Sector*

SECTORS	31.12.2014		31.12.2015		31.12.2016		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Government institutions	190 401	1.7	250 805	2.2	265 892	2.2	132	106
Public companies	253 057	2.3	269 507	2.3	226 891	1.8	106	84
Private companies and enterprises	5 216 068	46.7	5 328 591	45.9	5 756 280	46.9	102	108
Banking institutions	10 449	0.1	5 701	0.0	58	0.0	55	1
Non-banking financial institutions	43 424	0.3	41 542	0.4	40 365	0.3	96	97
Retail	5 448 307	48.8	5 705 684	49.1	5 972 074	48.7	105	105
Other	8 571	0.1	8 914	0.1	8 668	0.1	104	97
TOTAL	11 170 277	100.0	11 610 744	100.0	12 270 228	100.0	104	106

In the loan structure by sector, there are two dominant sectors: retail and corporate, while lending to other sectors is negligible. In 2016, positive trends in the segment of sectoral lending were recorded, i.e. increased lending to private companies compared to retail. Unlike 2015, when loans to private companies increased modestly by 2% or KM 112 million, the growth rate in 2016 was 8% or KM 428 million, so that this sector's loans amounted to KM 5.8 billion and had a share of 46.9% as of 31.12.2016 (+1 percentage point). On the other hand, banks performed more lending to the retail sector in 2015, which is much less risky, and an increase in the amount of 5% or KM 257 million was recorded. In 2016, the increase in loans to this sector was the same as in 2015, with the rate amounting to 5% or KM 266 million, while the share decreased slightly from 49.1% to 48.7% and amounted to KM 6 billion as of 31.12.2016.

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

According to information submitted by the banks (as of 31.12.2016) regarding the retail loan structure by purpose: consumer loans[22] hold a share of 80%, followed by housing loans with 18%, while the remaining 2% refer to loans to small crafts, small businesses and agriculture (at the end of 2015: 78.5% consumer loans, 19% housing loans, and 2.5% small crafts, small businesses and agriculture).

The three largest banks in the system have approved 61.3% of retail loans and 45% of loans to private companies out of the total number of loans approved to these segments (at the end of 2015: 62% retail, 45.6% private companies).

The currency structure of loans: the largest share of 58% or KM 7.1 billion refers to currency clause loans (EUR: KM 7 billion or 98%, CHF: KM 106 million or 1.5%), followed by local currency loans with a share of 41.5% or KM 5.1 billion, while the smallest share of just 0.5% or KM 59 million refers to foreign currency loans (almost the entire amount thereof refers to EUR: KM 54 million or 92%). The total amount of loans with a currency clause in CHF of KM 106 million has a 0.9% share in the total loan portfolio and refers almost entirely to one bank in the banking system (1.7% at the end of 2015).

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

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

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

Classification category	31.12.2014			31.12.2015			31.12.2016			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	11 494 730	81.4	229 895	12 316 066	82.9	246 321	13 166 157	84.0	263 323	107	107
B	955 518	6.8	83 031	950 153	6.4	76 023	982 398	6.3	77 168	99	103
C	272 134	1.9	64 168	301 862	2.0	75 796	224 335	1.4	58 086	111	74
D	523 939	3.7	301 942	426 025	2.9	252 682	423 766	2.7	253 348	81	99
E	872 735	6.2	872 039	856 707	5.8	856 701	881 786	5.6	881 787	98	103
Risk-bearing assets (A-E)	14 119 056	100.0	1 551 075	14 850 813	100.0	1 507 523	15 678 442	100.0	1 533 712	105	106
Classified (B-E)	2 624 326	18.6	1 321 180	2 534 747	17.1	1 261 202	2 512 285	16.0	1 270 389	97	99
Non-performing (C-E)	1 668 808	11.8	1 238 149	1 584 594	10.7	1 185 179	1 529 887	9.8	1 193 221	95	97
Non-risk bearing assets[23]	6 217 740			6 797 824			7 175 632			109	106
TOTAL (risk-bearing and non-risk bearing)	20 336 796			21 648 637			22 854 074			106	106

The first indicator and a warning sign of potential problems with loan repayment is an increase in past due receivables and their share in total loans. As of 31.12.2016, past due receivables amounted to KM 1.2 billion, which is the same level as at the end of 2015 (the aforementioned went down by 2% or KM 24 million in 2015), while the share decreased from 10.2% to 9.7%.

---

[22] Including card business.

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

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 2016 compared to the end of 2015. In some banks, these indicators showed slight fluctuations (upgrade or downgrade), i.e. there were seven banks with ratios of the share of classified (compared to risk-bearing assets) below the level of the banking sector, while there were six banks with ratios of the share of non-performing assets (compared to risk-bearing assets) below the level of the banking sector.

As of 31.12.2016, classified assets amounted to KM 2.5 billion and non-performing assets to KM 1.5 billion.

Classified assets (B-E) decreased by 1% or KM 22 million compared to the end of 2015 (in 2015, there was a drop of 3% or KM 90 million). Category B increased by 3% or KM 32 million, while non-performing assets (C-E) went down by 3% or KM 55 million, largely on the basis of permanently written-off assets in the amount of KM 95 million (in 2015, non-performing decreased by 5% or KM 84 million).

The ratio expressed through the share of classified assets in risk-bearing assets is 16%, and the 1.1% drop compared to the end of 2015 is mostly the result of an increase in risk-bearing assets by 6% or KM 828 million as well as the aforementioned decrease in classified assets.

The most significant indicator of asset quality is the ratio between non-performing assets and risk-bearing assets, amounting to 9.8%, which is down by 0.9% compared to the end of 2015. However, this should be taken with a grain of salt due to the share of category B being 6.3% and due to the suspicion that a part of the loans classified in this category are of poor quality and need to be classified as non-performing assets.

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

Table 25: *Classification of Corporate and Retail Loans*

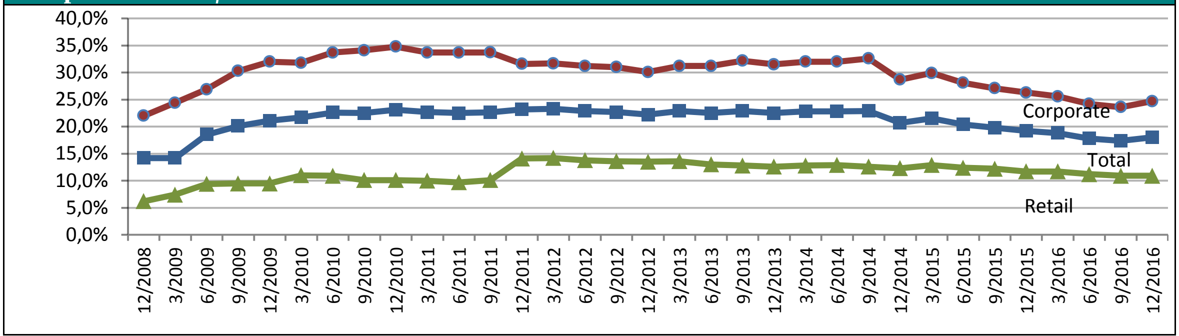
Classification category	31.12.2015						31.12.2016						INDEX
	Retail	Share %	Corporate	Share %	TOTAL Amount	TOTAL Share	Retail	Share %	Corpo-rate	Share %	TOTAL Amount	TOTAL Share	
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14(12/6)
A	5 036 775	88.3	4 349 749	73.7	9 386 524	80.8	5 319 385	89.1	4 744 319	75.3	10 063 704	82.0	107
B	154 179	2.7	568 108	9.6	722 287	6.2	161 278	2.7	600 184	9.7	770 462	6.3	107
C	71 098	1.3	223 704	3.8	294 802	2.5	61 962	1.0	149 040	2.4	211 002	1.7	72
D	87 497	1.5	324 282	5.5	411 779	3.6	77 142	1.3	329 597	5.2	406 739	3.3	99
E	356 132	6.2	439 220	7.4	795 352	6.9	352 307	5.9	466 014	7.4	818 321	6.7	103
TOTAL	5 705 681	100.0	5 905 063	100.0	11 610 744	100.0	5 972 074	100.0	6 298 154	100.0	12 270 228	100.0	106
Class. loans. B-E	668 906	11.7	1 555 314	26.3	2 224 220	19.2	652 689	10.9	1 553 835	24.7	2 206 524	18.0	99
Non-perf. loans C-E	514 727	9.0	987 206	16.7	1 501 933	12.9	491 411	8.2	944 651	15.0	1 436 062	11.7	96
		49.1		50.9		100.0		48.7		51.3		100.0	
Individual sector's share in classified loans, non-performing loans and category B:													
Categories B-E		30.1		69.9		100.0		29.6		70.4		100.0	
Non-performing C-E		34.3		65.7		100.0		34.2		65.8		100.0	
Category B		21.3		78.7		100.0		20.9		79.1		100.0	

Loan quality indicators improved slightly 2016 compared to the end of the previous year and the share of classified loans dropped to a still high 18% (-1.2 percentage points), due to a decrease in the aforementioned in the amount of 1% or KM 18 million, with the retail segment being down by 2% or KM 16 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 12.9% to 11.7%. Total non-performing loans are down by 4% or KM 66 million compared to the end of 2015, with it being noted that the permanent write-off amounted to KM 91 million (2015: KM 119 million, 2014: KM 81 million), which shows that there is still an increase in non-performing loans. Due to the lack of an adequate legal and regulatory framework for the collection and resolution of non-performing loans, some banks use the permanent write-off as a measure of portfolio „clean-up", which deals with loans that have been in the banks' portfolio for a long time even after all legal measures to collect such loans or receivables have been exhausted.

Non-performing corporate loans are down by 4% or KM 43 million and non-performing retail loans by 5% or KM 23 million. Credit growth in the amount of 6% or KM 659 million also had a positive effect on the improvement of the non-performing loans indicator.

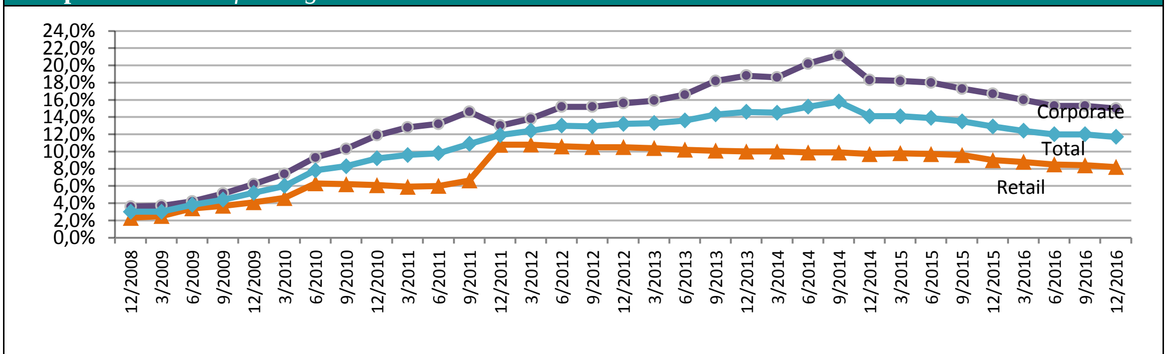
Graph 21: *Classified Loans*



Out of the total approved corporate loans in the amount of KM 6.3 billion as of 31.12.2016, there was still an alarmingly high 24.7% or KM 1.6 billion of loans classified within categories B to E, which is a 1.6% decrease compared to the end of 2015 (in 2015, this share went down by 2.4 percentage points). This indicator is much better for the retail segment. Out of the total approved retail loans in the amount of KM 6 billion, there were KM 653 million or 10.9% of loans classified in the aforementioned categories, down by 0.8 percentage points compared to the end of 2015 (in 2015, this share went down by 0.6 percentage points).

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

Graph 22: *Non-Performing Loans*



The most significant indicator of the loan portfolio quality is the share of non-performing loans. Out of total non-performing loans, corporate loans hold a share of 66% and retail loans a share of 34%, as was the case at the end of 2015. In 2016, the share of non-performing loans in both the retail and the corporate segment dropped. Out of total approved corporate loans, non-performing loans hold a share of 15% or KM 945 million, which is down by 1.7 percentage points compared to the end of 2015 (this share fell by 1.6 percentage points in 2015). The aforementioned amounts to 8.2% or KM 491 million in the retail segment, down by 0.8 percentage points (the share dropped by 0.7 percentage points in 2015).

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

Table 26: *Concentration of Loans by Industry Sector*

DESCRIPTION	31.12.2015				31.12.2016				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)	121 964	1.1	20 754	17.0	143 318	1.2	24 461	17.1	118	118
Production (IND)	1 662 318	14.3	352 021	21.2	1 792 572	14.6	328 438	18.3	108	93
Construction (CON)	437 853	3.8	116 850	26.7	443 523	3.6	78 173	17.6	101	67
Trade (TRD)	2 298 963	19.8	303 715	13.2	2 398 752	19.5	313 660	13.1	104	103
Catering (HTR)	196 355	1.7	24 929	12.7	239 322	2.0	16 182	6.8	122	65
Other[24]	1 187 610	10.2	168 937	14.2	1 280 667	10.4	183 737	14.3	108	109
TOTAL 1.	5 905 063	50.9	987 206	16.7	6 298 154	51.3	944 651	15.0	107	96
2. Retail loans for:										
General consumption	4 503 904	38.8	301 755	6.7	4 795 884	39.1	310 215	6.5	106	103
Housing	1 088 139	9.3	181 511	16.7	1 051 760	8.6	155 825	14.8	97	86
Business activities (small business owners)	113 638	1.0	31 461	27.7	124 430	1.0	25 371	20.4	109	81
TOTAL 2.	5 705 681	49.1	514 727	9.0	5 972 074	48.7	491 411	8.2	105	95
TOTAL (1. + 2.)	**11 610 744**	**100.0**	**1 501 933**	**12.9**	**12 270 228**	**100.0**	**1 436 062**	**11.7**	**106**	**96**

The largest share in total corporate loans refers to the trade sector (19.5%) and the production sector (14.6%), while the retail segment is dominated by general consumption loans (39.1%) and housing loans (8.6%; 31.12.2015: corporate segment: 19.8% trade and 14.3% production, retail segment: 38.8% general consumption and 9.3% housing loans).

For an extensive period of time, the negative and strong effect of the economic crisis is especially pronounced in several key sectors, which is evident from the indicator of the share of non-performing loans. The construction sector, which has a low share of merely 3.6% in total loans, still has a high share of non-performing loans in the amount of 17.6%, with a further downward trend: in 2016, it dropped by as much as 9.1 percentage points (in 2015, it dropped by 2.4 percentage points). Also, the agricultural sector, which has the lowest share of 1.2%, has a high share of non-performing loans in the amount of 17.1%, up by 0.1 percentage points compared to the end of the previous year.

However, the focus is on the two sectors with the highest share in total loans – the trade sector (19.5%) and the production sector (14.6%). The amount of loans to the production sector (KM 1.8 billion) was up by 8% or KM 130 million, while non-performing loans decreased by 7% or KM 24 million in 2016, i.e. to the level of KM 328 million, which affected the drop in the share from 21.2% to 18.3% (in 2015,

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

the drop amounted to 7% or KM 25 million, and the share amounted to 21.2%, down by 2.4 percentage points). On the other hand, trade sector lending was up by 4% or KM 100 million in 2016, i.e. to the level of KM 2.4 billion. Non-performing loans in this sector went up by 3% or KM 10 million, amounting to KM 314 million as of 31.12.2016, while the share amounted to 13.1%, down by 0.1 percentage points (in 2015, a drop of 13% or KM 46 million was recorded and the share dropped from 15.4% to 13.2%), which is a significantly better indicator compared to that of the production sector.

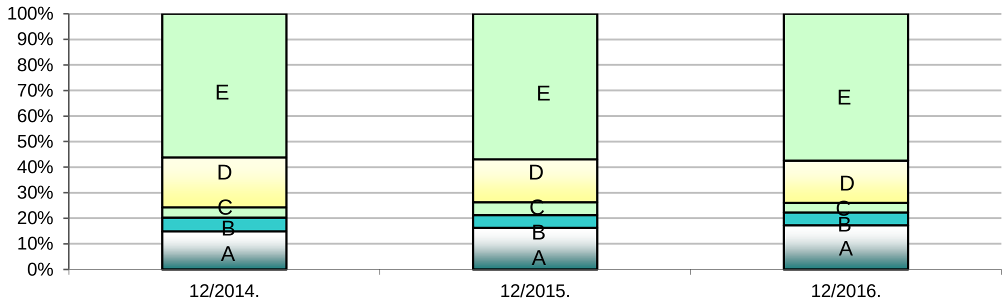
The retail segment is dominated by general consumption loans, which also have the largest share in total loans (39.1%). In 2016, these loans recorded an increase in the amount of 6% or KM 292 million, but the largest relative increase was recorded by small business owners (9% or KM 11 million), while housing loans went down by 3% or KM 36 million. The poorest indicator of the non-performing loans share in the amount of 20.4% (at the end of 2015: 27.7%) refers to loans to small business owners whose share in total loans is a low 1%. A relatively high share of non-performing loans in the amount of 14.8% refers to housing loans (at the end of 2015: 16.7%), while general consumption loans hold the lowest share of non-performing loans in the amount of 6.5% (at the end of 2015: 6.7%).

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

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

Classification category	AMOUNT (in KM 000) AND STRUCTURE (in %)						INDEX	
	31.12.2014		31.12.2015		31.12.2016			
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
A	229 895	14.8	246 321	16.3	263 323	17.2	107	107
B	83 031	5.4	76 023	5.0	77 168	5.0	92	102
C	64 168	4.1	75 796	5.0	58 086	3.8	118	77
D	301 942	19.5	252 682	16.7	253 348	16.5	84	100
E	872 039	56.2	856 701	57.0	881 787	57.5	98	103
TOTAL	1 551 075	100.0	1 507 523	100.0	1 533 712	100.0	97	102

Graph 23: *Structure and Trend of General Credit Risk and Potential Loan Losses*



Based on an analysis of the calculated loan loss reserves (in aggregate terms and by classification category) compared to the end of 2015, the reserves for general credit risk (category A) and potential loan losses are up by 2% or KM 26 million, amounting to KM 1.5 billion. The reserves for general credit risk are up by 7% or KM 17 million, while the reserves for potential loan losses are up by 1% or KM 9 million compared to the end of 2015. The reserves for category B are up by 2% or KM 1 million and amount to KM 77 million, while the reserves for non-performing assets are up by 1% or KM 8 million, i.e. amount to KM 1.2 billion, mostly on the basis of the reserves for category E being up by 3% or KM 25 million, reserves for category C being down by 23% or KM 18 million, and reserves for category D being unchanged.

One of the key indicators of asset quality is the ratio between potential loan losses (PLL) and risk-bearing assets with off-balance sheet items. This ratio amounts to 8.1% and is down by 0.4 percentage points compared to the end of 2015.

As of 31.12.2016, banks had an average calculated reserves in the amount of 8% for category B, 26% for category C, 60% for category D and 100% for category E (at the end of 2015: 8% B, 25% C, 59% D, and 100% E).[25]

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

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

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

Description	AMOUNT (in KM 000) AND SHARE (in %)				INDEX
	31.12.2015		31.12.2016		
	Amount	Share	Amount	Share	
1	2	3	4	5	6 (4/2)
1. RISK-BEARING ASSETS (a+b)	**14 850 813**	**100.0%**	**15 678 442**	**100.0%**	106
a) Default items	**1 681 006**	11.3%	**1 601 018**	10.2%	95
a.1. BS-items in default	1 662 958		1 574 439		95
a.2. off-BS items in default	18 048		26 579		147
b) Performing assets	**13 169 807**	88.7%	**14 077 424**	89.8%	107
1.1 TOTAL VALUE ADJUSTMENTS FOR RISK-BEARING ASSETS	**1 269 548**	**100.0%**	**1 294 471**	**100.0%**	102
a) Value adjustments for default	**1 117 269**	88.0%	**1 118 891**	86.4%	100
a.1. Value adjustment for BS-items in default	1 110 757		1 102 461		99
a.2. reserves for off-BS items in default	6 512		16 430		252
b) Value adjustments for performing assets (IBNR[26])	152 279	12.0%	175 580	13.6%	115
2. TOTAL LOANS (a+b)	**11 610 744**	**100.0%**	**12 270 228**	**100%**	106
a) Defaulted loans (non-performing loans)	1 605 754	13.8%	1 518 746	12.4%	95
b) Performing loans	10 004 990	86.2%	10 751 482	87.6%	107
2.1. VALUE ADJUSTMENT FOR LOANS (a+b)	**1 181 736**	**100.0%**	**1 193 721**	**100.0%**	101
a) Value adjustments for defaulted loans	1 061 476	89.8%	1 055 403	88.4%	99
b) Value adjustments for performing loans (IBNR loans)	120 260	10.2%	138 318	11.6%	115
Coverage rate of default items	**66.5%**		**69.9%**		
Coverage rate of performing assets	**1.2%**		**1.3%**		
Coverage rate of risk-bearing assets with total value adjustments	**8.5%**		**8.3%**		

In 2016, default loans went down by 5% or KM 87 million (in 2015: down by 7% or KM 115 million), while non-performing loans decreased by 4% or KM 66 million. The share of default loans in total loans is down by 1.4 percentage point and amounts to 12.4% and the share of non-performing loans amounts to 11.7%. The share of all default items in total risk-bearing assets is down by 1.1 percentage points and amounts to 10.2%.

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

The coverage rate of default items with value adjustments is up and amounts to 69.9% (at the end of 2015: 66.5%) due to a drop in the amount of default (5% or KM 80 million), while value adjustments for default remained unchanged. The coverage rate of non-performing assets with loan loss reserves is slightly up and amounts to 78% (at the end of 2015: 74.8%).

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 8.3% (at the end of 2015: 8.5%). The coverage ratio of risk-bearing assets with total calculated regulatory reserves for loan losses (reserves for general credit risk and special reserves for loan losses) decreased from 10.2% to 9.8%.

In order to mitigate the negative effects of the natural disaster, on 30.06.2014, the Agency adopted the Decision on Provisional Measures for Treatment of Loan Commitments of Bank Clients Affected by Natural Disasters.[27]

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

Also, in accordance with the aforementioned Decision, in the second half of 2014, banks in the Federation of B&H approved restructurings of loan commitments in the total amount of KM 39 million. As of 31.12.2016, the balance of the restructured loans amounts to KM 35 million, KM 34 million of which refer to legal entities and KM 1 million of which refer to natural persons. Restructured loans also include loans with a grace period following the expiration of the moratorium.

As of 31.12.2016, loans approved in accordance with the aforementioned Decision have a very low share in relation to total loans: moratorium 0.05% and restructuring 0.28%.

The upward trend of uncollectable receivables, i.e. customer defaults in the payment of past due loan commitments, has caused the activation of the guarantor's obligation in a certain number of defaulted loans (with this form of security). As of 31.12.2009, the Agency has prescribed a report on the repayment of loans by guarantors in order to collect, monitor and analyse information on loans being repaid by guarantors. According to the reports filed by banks in the Federation of B&H as of 31.12.2016, there was a total of 1 150 764 loan accounts, 1 010 of which were being repaid by guarantors (1 157 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 0.22% and 0.1%.

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 (5 "local" private banks) were worse than those of banks in majority foreign ownership (10 banks).

The share of non-performing loans in banks that are in majority foreign ownership amounts to 10.8% (12/15: 11.7%), while it amounts to 24.4% (12/15: 30.4%) in "local banks". This is the result of

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

inadequate and weak systems for credit risk management, especially in relation to the key stage – loan approval, as well as the result of an underdeveloped risk function. Major weaknesses and inefficient practices were also identified in the preventive actions stage, i.e. in the early recognition of problems in loan settlement (servicing), as well as when handling non-performing assets in the interest of reducing such assets through collection or sound restructuring.

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

Transactions with Related Entities

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

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

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

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

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

- KM 000 -

Table 29: *Transactions with Related Entities*

Description	LOANS APPROVED[28]			INDEX	
	31.12.2014	31.12.2015	31.12.2016	3/2	4/3
1	2	3	4	5	6
To shareholders with over 5% voting rights, subsidiaries and other related entities	160 135	89 014	126 956	56	143
To members of the Supervisory Board and Audit Board	409	446	581	109	130
To the Management of the bank	1 994	3 023	2 516	152	83

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

TOTAL	162 538	92 483	130 053	57	141
Contingent and assumed off-balance sheet liabilities	21 826	9 326	7 227	43	77

During the reporting period, loan exposures to related entities increased by 41% due to an increase in exposures in the case of one bank, while contingent liabilities increased by 23% due to increased exposure with respect to two banks. 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 the final non-audited data from the financial report showing the success of banks' business operations (income statement) for 2016, a positive financial result – profit in the amount of KM 173 million was recorded at the level of the banking system in the Federation of B&H, up by 47% or KM 56 million compared to the end of 2015. This represents the best result recorded so far, with it being noted that the second-highest profit was recorded in the previous year (KM 117 million), followed by the profit recorded in 2014 (KM 116 million). Two banks having recorded a smaller loss in the amount of KM 57 million had a positive effect on the financial result of the system in particular, as well as higher profit in banks that operated positively in the previous year as well (the effect was KM 16 million). On the other hand, the negative effect in the amount of KM 23 million is primarily the result of lower profit recorded by two major banks. Compared to the same period of the previous year, the number of banks is lower by two banks due to a merger, whose financial result recorded in 2016 was capitalised.

The key effect on the improved profitability of most banks is still 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 slight decrease in interest income due to a drop in active interest rates is still being compensated for by a significantly greater decrease in interest expenses, resulting in an increase in net interest income, which, together with the still good operating profitability (increase in operating income on the basis of fees), had an affect on higher profit being recorded compared to the same period of the previous year when it comes to a large number of banks.

A positive financial result in the amount of KM 212 million was recorded by 13 banks and it is down by 4% or KM 8 million compared to 2015. At the same time, an operating loss in the amount of KM 38.5 million was recorded by two banks and it is down by 62% or KM 64 million compared to the previous year, which is primarily the result of a significantly lower loss recorded by one large bank. More detailed data is shown in the following table.

- KM 000 -

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

Description	31.12.2014		31.12.2015		31.12.2016	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7

Loss	-50 868	3	-102 108	4	-38 305	2
Profit	166 388	14	219 594	13	211 753	13
Total	**115 520**	**17**	**117 486**	**17**	**173 248**	**15**

As in other segments, this segment also shows some concentrations: out of the total profit (KM 212 million), 63% or KM 134 million refer to the two largest banks in the system with an assets share of 47% in the banking sector, while 98% or KM 37.6 million of the total loss in the amount of KM 38.5 million refer to only one bank. Analytical data indicates that a total of 12 banks has a better financial result (by KM 73 million), while 3 banks have a poorer financial result (by KM 23 million).

Based on analytical data and on indicators for the assessment of profitability quality (i.e. the level of the recorded financial result and ratios used in evaluating profitability, productivity and efficiency of operations, as well as other parameters related to business result assessment), it is evident that the overall profitability of the system has improved compared to the previous year, especially with respect to some larger banks that recorded greater profit compared to the previous year. This is the result of the new implemented methodological approach and/or the result of a recorded increase in net interest and operating income. However, a profitability assessment that is based solely on the recorded financial result would not be an adequate assessment since other important factors that affect sustainability and quality of earnings, i.e. profit, should also be taken into account. In that sense, it is of utmost importance to emphasise credit risk and the still present negative trends in asset quality over the past seven years, as evidenced by the increase in non-performing and uncollectable loans (with it being noted that there was a decrease in non-performing loans primarily as a result of the significant amount of the permanent write-off), 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 following the implementation of IAS 39 and 37 (after 31.12.2011). The aforementioned, together with the results of the analysis of non-performing loans coverage with value adjustments, leads to the conclusion and suspicion that value adjustments are underestimated and not at an adequate level in some banks.

At system level, total income amounted to KM 969 million, up by 6% or KM 52 million compared to the previous year. Total non-interest bearing expenses amounted to KM 767 million, down by 1% or KM 6 million compared to the previous year.

Despite the increase in average interest-bearing loans (in the majority of banks) by 2.5% as well as the fact that the increase in non-performing loans was slowed down (mostly on the basis of write-offs), the reduced average interest rate on loans, which is the result of a decrease in active interest rates resulted in a slight decrease in terms of interest income. Although a number of banks recorded an increase in interest income as a result of increased credit activity compared to the same period of the previous year, significantly lower interest income in the case of two larger banks mainly influenced the decrease at system level. Interest income amounts to KM 752 million, which is down by 2% or KM 14 million compared to the previous year, with the share in the structure of total income being down from 83.5% to 77.6%. In the structure of interest income, the largest share refers to loan interest income, which amounts to KM 671 million and recorded a nominal drop of 3% or KM 18 million, which continued the trend from previous years, with the share in total income dropping from 75.1% to 69.3%.

In the structure of interest income on loans, the largest part (60%) refers to interest income from retail loan facilities, which did not record significant changes compared to the previous year and amounted to KM 403 million, while this sector's share in the total loan portfolio is 49% (in 2016, the increase in loans to this sector amounted to 5% or KM 266 million). The aforementioned item is followed by interest income on loans to private companies, with a 37% share and a 6% drop (amounting to KM 245 million), while loans to this sector have a 47% share in the total loan portfolio (in 2016, they increased by 8% or KM 428 million). Based on the aforementioned, it can be concluded that the retail loan portfolio is still more profitable and less risky for banks, bearing in mind the lower level of non-performing loans in the loan structure, but also because of higher interest rates on retail loans, which were, on average, almost twice as high as the interest rates on corporate loans in 2016. It is important to note the impact of the maturity of loans granted to the aforementioned sectors on the interest rate: approximately 87% of retail loans are long-term loans, while approximately 54% of loans to private companies are long-term loans.

As was the case in previous years, positive trends were recorded with respect to interest expenses, which had a higher rate of decrease (-16% or KM 31 million) in 2016 as well compared to the rate of decrease of interest income (-2% or KM 14 million). Interest expenses amounted to KM 165 million, and their share in the structure of total income went down from 21.4% to 17.0%. Average interest-bearing deposits increased by 3.6%, while interest expenses on deposit accounts, which amounted to KM 143 million, as the largest item in total interest expenses in both relative and nominal terms, are down by 17% or KM 30 million as a result of the changed structure of the deposit base (i.e. a larger share of deposits with a lower interest rate) and the decrease in passive interest rates, which ultimately led to average interest rates on deposits for the parallel period being down from 1.83% to 1.46%. Interest expenses on loans taken and other borrowings amounted to KM 11 million, down by 23% compared to the previous year, with the share in total income dropping from 1.6% to 1.2%.

As a result of the decrease in interest expenses (-16%) being higher than the decrease in interest income (-2%), net interest income, as the most significant and most stable source of income for banks, went up by 3% or KM 18 million and amounts to KM 587 million, holding a 61% share in the total income structure.

Operating income amounts to KM 382 million and is up by 10% or KM 34 million compared to the previous year, with its share in the total income structure increasing slightly to 39%. Within operating income, the largest share (64%) refers to service fees, which are up by 9% or KM 20 million. It can be concluded that banks are compensating for the drop in interest income with a continuous increase in service fees.

Significant fluctuations in non-interest expenses in the past five years are primarily the result of changes (increase or decrease) in value adjustment costs. In 2016, non-interest expenses amounted to KM 767 million, down by 1% or KM 6 million compared to the end of the previous year, while their share in the total income structure decreased from 84% to 79%. This is again primarily due to trends pertaining to value adjustment costs, which amounted to KM 111 million and decreased by 29% or KM 46 million, due to which their share in total income dropped from 17.2% to 11.5%.

On the other hand, operating expenses, as the most important item of non-interest expenses (share ranging from approximately 65% to 73%), in the amount of KM 557 million and with a share of 57.5% in total income, increased by 6% or KM 32 million (in 2015, they were up by 4% or KM 20 million). Out of the aforementioned, costs of salaries and contributions, as the largest item of operating expenses, decreased by 2% or KM 5 million, amounting to KM 244 million or 25.0% of total income. Costs of fixed assets are also down by 3% or approximately KM 5 million, amounting to KM 155 million, thus holding a share of 16.0% in total income. Other operating expenses recorded a significant increase in the amount of 35% or KM 41 million, primarily as a result of an increase in one larger bank, thus amounting to KM 158 million and holding a share of 16.3% in total income. After the crisis emerged, banks took numerous measures to rationalise costs of operations, primarily to reduce operating and interest expenses, which has mitigated the adverse effects of the interest income decrease caused by lower interest rates and the decrease in loan portfolio quality.

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

- in KM 000 -

Table 31: *Total Income Structure*

Total income structure	31.12.2014		31.12.2015		31.12.2016		INDEX	
	Amount	%	Amount	%	Amount	%		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
I Interest income and similar income								
Interest-bearing deposit accounts at deposit institutions	3 459	0.3	1 574	0.1	1 877	0.2	46	119
Loans and leasing facilities	692 603	63.2	689 317	61.9	671 168	59.1	100	97
Other interest income	74 654	6.8	75 233	6.8	79 111	7.0	101	105
TOTAL	770 716	70.3	766 124	68.8	752 156	66.3	99	98
II Operating income								
Service fees	240 362	21.9	256 105	23.0	275 579	24.3	107	108
Income from FX deals	45 760	4.2	49 261	4.4	51 471	4.5	108	104
Other operating income	39 799	3.6	42 595	3.8	57 179	4.9	107	130
TOTAL	325 921	29.7	347 961	31.2	382 229	33.7	107	110
TOTAL INCOME (I + II)	1 096 637	100.0	1 114 085	100.0	1 134 385	100.0	102	102

Graph 24: *Total Income Structure*

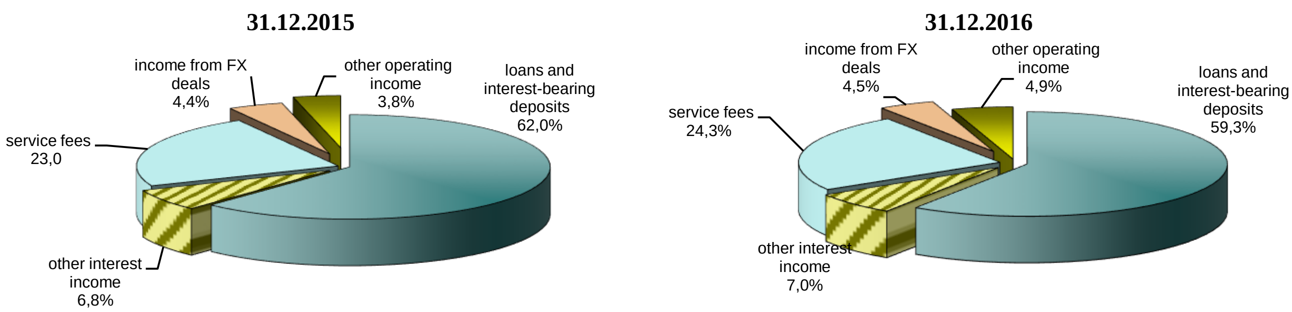
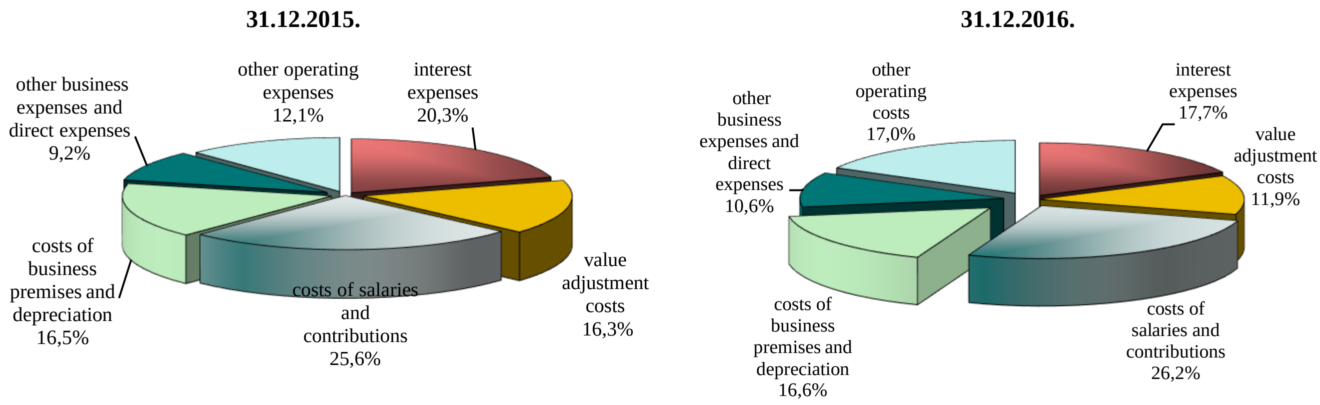


Table 32: *Total Expenses Structure*

Total expenses structure	31.12.2014		31.12.2015		31.12.2016		INDEX	
	Amount	%	Amount	%	Amount	%		
1	2	3	4	5	6	7	8 (4/2)/	9 (6/4)
I Interest expenses and similar expenses								
Deposits	192 455	20.0	172 146	17.8	142 618	15.3	89	83
Liabilities based on loans and other borrowings	18 880	2.0	14 823	1.5	11 410	1.2	79	77
Other interest expenses	13 083	1.4	9 661	1.0	11 119	1.2	74	115
TOTAL	224 418	23.4	196 630	20.3	165 147	17.7	88	84
II Total non-interest bearing expenses								
Costs of value adjustment of risk-bearing assets and provisions for contingent liabilities and other value adjustments	148 251	15.5	157 747	16.3	110 305	11.9	106	71
Costs of salaries and contributions	248 007	25.9	248 495	25.6	243 892	26.2	100	98
Costs of business premises and depreciation	152 243	15.9	159 665	16.5	154 963	16.6	105	97
Other business expenses and direct expenses	80 006	8.3	89 577	9.2	98 593	10.6	112	110
Other operating expenses	105 326	11.0	117 274	12.1	158 184	17.0	111	135
TOTAL	733 833	76.6	772 758	79.7	766 937	82.3	105	99
TOTAL EXPENSES (I + II)	958 251	100.0	969 388	100.0	932 084	100.0	101	96

Graph 25: *Total Expenses Structure*



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

- in %-

Table 33: *Profitability, Productivity and Efficiency Ratios by Period*

RATIOS	31.12.2014	31.12.2015	31.12.2016
Profit from average assets	0.74	0.72	1.00
Profit from average total capital	4.82	4.62	6.50
Profit from average share capital	9.44	9.37	15.02
Net interest income/average assets	3.50	3.47	3.38
Operating income/average assets	2.09	2.12	2.20
Total income/average assets	5.60	5.59	5.58
Business expenses and direct expenses[29]/average assets	1.46	1.51	1.21
Operating expenses/average assets	3.24	3.20	3.21
Total non-interest bearing expenses/average assets	4.71	4.71	4.42

An analysis of the key ratios for the assessment of profitability shows that the profitability of the entire system has improved. The significantly higher profit compared to the previous year resulted in the key profitability ratios improving: the ROAA (return on average assets) amounts to 1.00% and the ROAE (return on average equity) amounts to 15.0%, which is approximately the level of empirical standards.

The banks' productivity indicator, measured as ratio between total income and average assets (5.58%) is at the same level as in the previous year, which is the result of an equal percentage increase in total income and average assets. As a consequence of reduced value adjustment costs, the improved business expenses and direct expenses/average assets ratio stands out, i.e. its decrease from 1.51% to 1.21%. The aforementioned also had an impact on the improved total non-interest bearing expenses/average assets ratio, from 4.71% to 4.42%. Other indicators did not record significant deviations compared to the previous year.

In negative conditions of the banks’ operations and prompted by effects of the economic and financial crisis on the banking sector of the Federation of B&H, the profitability of banks will continue to be mostly affected by and will depend on two key factors: a) the further trend of assets quality, i.e. the level of loan losses and credit risk, and b) the efficiency of management and control over operating income and operating expenses. On the other hand, it is necessary to maintain the upward trend of credit growth in order to increase the banks’ profitability, along with applying and strictly observing prudent lending standards when it comes to loan approval. Also, the banks’ profit, i.e. their financial result, will

[29] Expenses also include value adjustment costs.

be largely affected by the price and interest rate risk in terms of both sources of funding and an interest margin sufficient enough to cover all non-interest bearing expenses and thus eventually ensure satisfactory profit related to capital invested by bank owners. Therefore, a key factor for the efficiency and profitability of every bank is the quality of management and business policies, as well as the quality and efficiency of risk management systems, since this directly affects its performances.

2.3. Weighted Nominal and Effective Interest Rates

In the interest of greater transparency and easier comparability of banks' loan approval terms and deposit taking terms, as well as in the interest of customer protection by means of introducing transparent disclosure of loan approval costs, i.e. deposit income, all in accordance with international standards, criteria and practices in other countries, on 01.07.2007, the Agency prescribed a uniform manner of calculating and disclosing the effective interest rate[30] for all banks seated in the Federation of B&H as well as the organisational units of banks from Republika Srpska operating on the territory of the Federation of B&H. The effective interest rate represents an actual loan price, i.e. income earned on a deposit, expressed as an annual percentage.

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

Banks are required to report to the Agency on a monthly basis regarding weighted nominal and effective interest rates on loans and deposits approved/received in the reporting month in question, all in accordance with regulated methodology.[31]

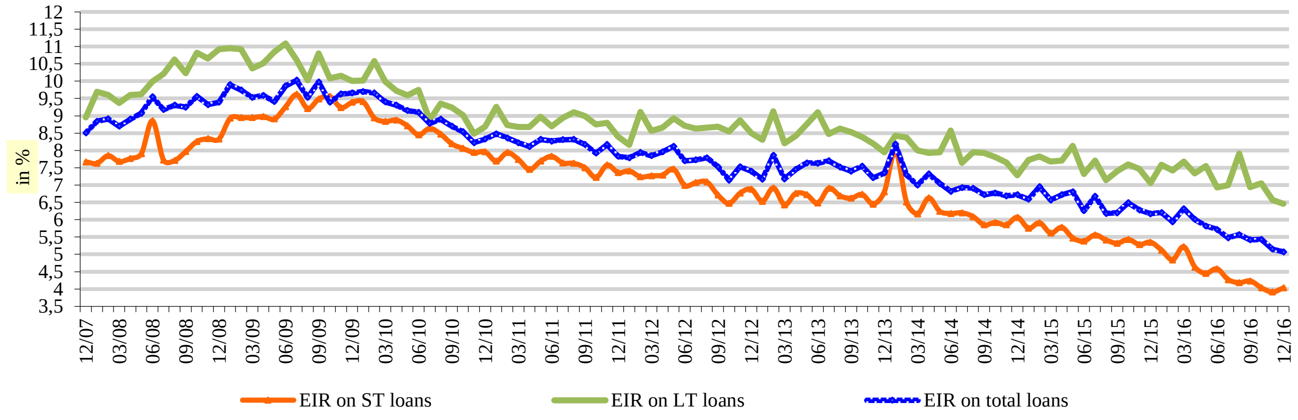
The table below shows an overview of weighted nominal and effective interest rates (hereinafter: NIR and EIR) on loans at the banking sector level and for two key customer segments (corporate and retail) for December 2014, June and December 2015, as well as June and December 2016.

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

DESCRIPTION	12/2014		06/2015		12/2015		06/2016		12/2016	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on short-term loans	5.58	6.07	5.01	5.35	4.89	5.35	4.15	4.58	3.69	4.03
1.1. Corporate	5.55	5.99	4.99	5.26	4.84	5.25	4.08	4.42	3.61	3.9
1.2. Retail	6.57	8.90	7.66	11.47	8.21	11.74	8.05	14.68	9.6	15.16
2. Weighted IR on long-term loans	6.00	7.28	6.49	7.24	6.18	7.06	5.93	6.93	5.6	6.46
2.1. Corporate	5.29	6.76	5.47	5.84	5.31	5.67	4.66	4.97	4.86	5.18
2.2. Retail	7.50	8.60	7.35	8.44	7.1	8.55	7.15	8.82	6.55	8.10
3. Total weighted IR on loans	5.80	6.72	5.69	6.21	5.51	6.17	5.01	5.72	4.51	5.07
3.1. Corporate	5.43	6.32	5.13	5.43	4.99	5.38	4.26	4.59	3.98	4.28
3.2. Retail	7.44	8.62	7.36	8.53	7.13	8.64	7.17	8.98	6.65	8.32

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

Graph 26: *Weighted Average Monthly EIR on Loans by Maturity*



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

During 2016, as was the case in the previous three years, the slight downward trend of the weighted EIR continued. The main reasons for a slight, but continuous decrease in the weighted EIR are the implementation of a business policy of lower interest rates in some banks, followed by increasingly pronounced competition on the banking market of the FB&H, as well as the generally weak demand for loans and the related restrictive credit policy of banks in the process of analysing the creditworthiness of potential borrowers.

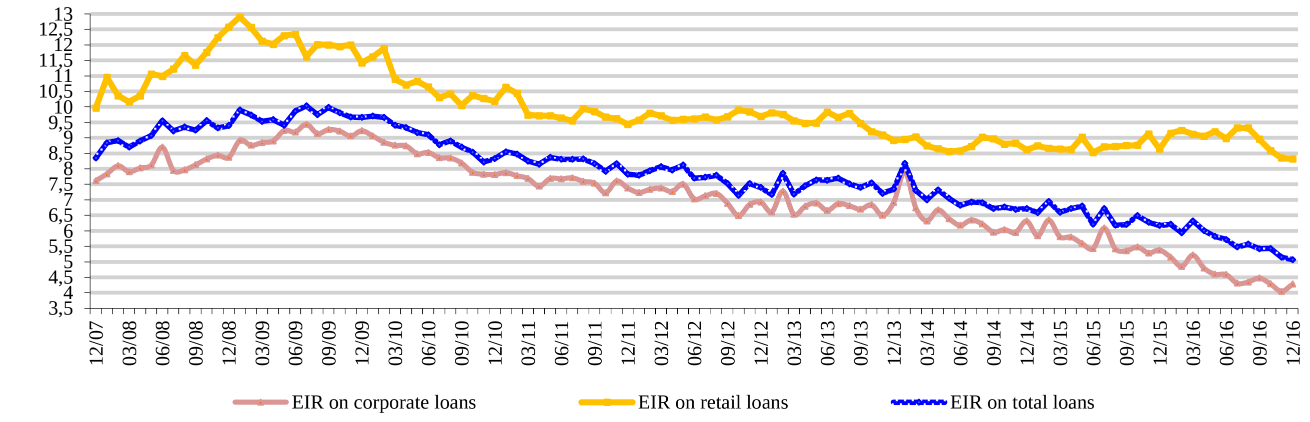
The weighted EIR on loans recorded fluctuations within the range of 1.25 percentage points, with the highest rate having been recorded in March (6.32%) and the lowest in December (5.07%). Weighted interest rates on short-term loans recorded fluctuations within the range of 1.31 percentage points, while those on long-term ones were within the range of 1.45 percentage points.

The weighted EIR on short-term loans stood at 4.03% in December 2016, which is down by 1.32 percentage points compared to December 2015, while the weighted EIR on long-term loans amounted to 6.46%, down by 0.6 percentage points compared to December 2015.

Interest rates on loans to the two most important sectors: corporate and retail[32], had opposite trends up to the fourth quarter of 2016, after which they recorded the same direction. Interest rates on corporate loans recorded a further slight downward trend, while the weighted EIR on retail loans were generally somewhat higher up to the fourth quarter compared to the previous year, with a decrease being evident in the fourth quarter, as shown in the graph below.

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

Graph 27: *Weighted Average Monthly EIR on Corporate and Retail Loans*



The weighted EIR on corporate loans is still significantly lower than the EIR on retail loans, having amounted to 4.28% in December 2016 (12/2015: 5.38%). In the case of long-term corporate loans, the EIR dropped from 5.67% to 5.18%, while the EIR on short-term loans saw a decrease in the amount of 1.35 percentage points (from 5.25% to 3.9%).

The EIR on retail loans was 8.32% in December 2016, which is down by 0.32 percentage points compared to the level in December 2015. The EIR on short-term loans to this sector increased from the level of 11.74% in December 2015 to 15.16%, with it being noted that such a high effective interest rate level has been recorded since March 2016 at the monthly level (slight fluctuations in the fourth quarter), whereas the EIR was below 11% in January and February 2016. The EIR on long-term retail loans recorded a slight increase up to and including August, followed by a slight decrease since September 2016, thus amounting to 8.1%, which is down by 0.45 percentage points compared to December 2015.

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

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

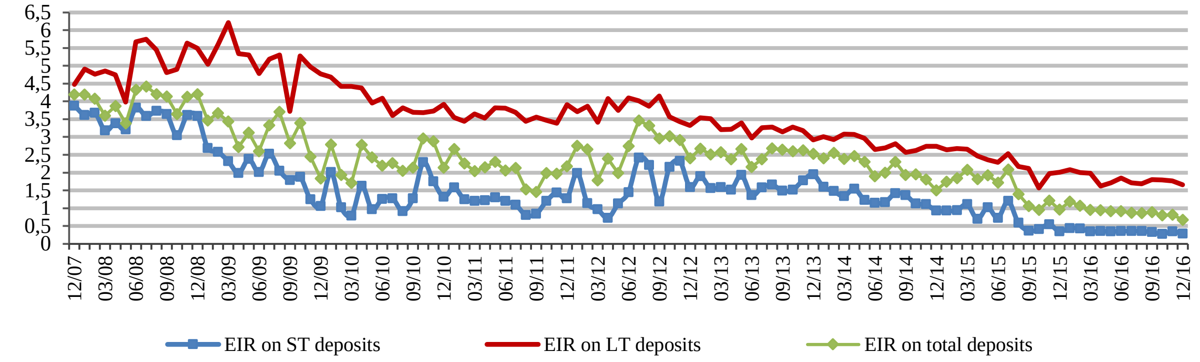
DESCRIPTION	2012		2013		2014		2015		2016	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on short-term loans	6.45	7.01	6.17	6.66	5.72	6.25	5.10	5.50	4.14	4.58
1.1. Corporate	6.43	6.94	6.22	6.66	5.70	6.17	5.07	5.42	4.10	4.45
1.2. Retail	8.41	11.52	8.09	11.08	7.98	11.39	7.84	11.37	7.89	13.61
2. Weighted IR on long-term loans	7.78	8.70	7.66	8.48	6.98	7.80	6.60	7.57	6.23	7.33
2.1. Corporate	6.86	7.51	6.65	7.12	6.19	6.81	5.63	6.20	4.98	5.29
2.2. Retail	8.44	9.57	8.35	9.40	7.66	8.66	7.36	8.65	7.25	8.99
3. Total weighted IR on loans	6.99	7.70	6.82	7.46	6.32	6.98	5.81	6.48	5.07	5.81
3.1. Corporate	6.52	7.07	6.33	6.78	5.84	6.35	5.23	5.64	4.33	4.68
3.2. Retail	8.44	9.68	8.33	9.48	7.68	8.77	7.37	8.74	7.28	9.14

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

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

DESCRIPTION	12/2014		06/2015		12/2015		06/2016		12/2016	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on short-term deposits	0.92	0.93	0.72	0.73	0.34	0.35	0.36	0.36	0.29	0.29
1.1. up to three months	0.42	0.42	0.27	0.27	0.21	0.21	0.25	0.25	0.26	0.26
1.2. up to one year	1.94	1.97	1.26	1.28	1.18	1.25	0.72	0.76	0.58	0.58
2. Weighted IR on long-term deposits	2.67	2.74	2.25	2.29	1.92	2.01	1.81	1.85	1.64	1.66
2.1. up to three years	2.40	2.48	2.21	2.26	1.67	1.68	1.65	1.70	1.43	1.45
2.2. more than three years	3.41	3.43	2.33	2.33	2.46	2.72	2.23	2.21	2.25	2.26
3. Total weighted IR on deposits	1.47	1.50	1.69	1.72	0.92	0.96	0.90	0.92	0.66	0.67

Graph 28: *Weighted Average Monthly EIR on Deposits*



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

Compared to December 2015, the weighted EIR on total term deposits decreased by 0.29 percentage points (from 0.96% to 0.67%) in December 2016. The weighted EIR on short-term term deposits recorded trends within the range of 0.16 percentage points in 2016, with the lowest rate having been recorded in October (0.28%) and the highest in January 2016 (0.44%).

When analysing the trends of interest rates on short-term deposits by maturity, the EIR on term deposits up to three months increased slightly by 0.05 percentage points compared to the level in December 2015 and amounted to 0.26%. The interest rate on term deposits up to one year also recorded a drop and amounted to 0.58% in December 2016 (12/2015: 1.25%).

The weighted EIR on long-term deposits amounted to 1.66% in December 2016 (12/2015: 2.01%), with the lowest rate having been recorded in April 2016 (1.62%) and the highest in January (2.08%).

The weighted EIR on long-term deposits up to three years is 1.45%, which is a drop in the amount of 0.23 percentage points compared to the level in December 2015. The EIR on term deposits over three years was 2.26% in December 2016, down by 0.46 percentage points compared to December 2015, when the aforementioned amounted to 2.72%.

The average EIR on retail and corporate deposits are lower in December 2016 compared to December 2015. The average EIR on retail deposits is down by 0.22 percentage points compared to December 2015 and amounts to 1.52%. During 2016, the lowest rate was recorded in October (1.31%) and the highest in February (1.68%). In the corporate sector, the average EIR stood at 1.32% in December 2016, down by 0.49 percentage points compared to December 2015, with the lowest rate having been recorded in December (1.32%) and the highest in March (1.82%).

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

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

DESCRIPTION	2012		2013		2014		2015		2016	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on short-term deposits	1.45	1.47	1.65	1.67	1.20	1.23	0.60	0.61	0.35	0.35
1.1. up to three months	0.86	0.88	1.47	1.47	0.79	0.80	0.27	0.28	0.27	0.27
1.2. up to one year	2.55	2.57	1.85	1.87	1.72	1.76	1.25	1.28	0.68	0.69
2. Weighted IR on long-term deposits	3.78	3.81	3.20	3.23	2.79	2.82	2.20	2.23	1.78	1.80
2.1. up to three years	3.69	3.71	2.97	3.00	2.61	2.64	2.08	2.10	1.59	1.62
2.2. more than three years	4.44	4.50	4.15	4.18	3.32	3.34	2.48	2.52	2.33	2.34
3. Total weighted IR on deposits	2.61	2.64	2.51	2.53	2.04	2.07	1.41	1.43	0.88	0.89

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

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

DESCRIPTION	12/2014		06/2015		12/2015		06/2016		12/2016	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on overdraft facilities	8.05	8.22	7.91	8.08	7.81	8.01	7.26	7.45	7.01	7.22
2. Weighted IR on call deposits	0.13	0.13	0.11	0.11	0.09	0.09	0.08	0.08	0.05	0.05

The weighted EIR on total overdraft facilities for the banking sector in December 2016 amounted to 7.22% (down by 0.79 percentage points compared to December 2015) and to 0.05% on call deposits (slightly lower compared to December 2015). As a rule, the EIR on these assets and liabilities items is equal to the nominal interest rate.

2.4. Liquidity

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

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

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

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

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

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

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

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

In the structure of the sources of funding of FB&H banks as of 31.12.2016, the largest share of 77.1% still refers to deposits, followed by loans taken (including subordinated debt[33]) with a share of 5.3%. Loans taken have longer maturities and represent a quality source for the approval of long-term loans, while also improving the maturity adjustment of assets and liabilities items, although a downward trend of the aforementioned has been evident for an extensive period of time.

On the other hand, the maturity structure of deposits is much more unfavourable,[34] with changes in the direction of trends in the past few years being present. After improving and an increase in the share of long-term deposits in the period from 2011 to 2013, 2014 saw a stagnation, while a slight deterioration was recorded in 2015, which continued in 2016 as well.

- in KM 000 -

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

DEPOSITS	31.12.2014		31.12.2015		31.12.2016		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and call deposits	5 771 888	47.6	6 645 840	50.8	7 727 481	54.5	115	116
Up to 3 months	279 332	2.3	266 464	2.0	272 799	1.9	95	102
Up to 1 year	701 041	5.8	679 876	5.2	538 344	3.8	97	79
1. Total short-term deposits	6 752 261	55.7	7 592 180	58.0	8 538 624	60.2	112	112
Up to 3 years	3 437 563	28.3	3 502 798	26.7	3 546 491	25.0	102	101
More than 3 years	1 940 922	16.0	2 004 005	15.3	2 091 159	14.8	103	104
2. Total long-term deposits	5 378 485	44.3	5 506 803	42.0	5 637 650	39.8	102	102
TOTAL (1 + 2)	12 130 746	100.0	13 098 983	100.0	14 176 274	100.0	108	108

Compared to the end of 2015, total deposits recorded an increase in the amount of 8% or KM 1.1 billion, with changes in their sectoral structure, which is mostly due to deposits of all sectors being up (in nominal terms, retail deposits (9% or KM 689 million), government institutions (20% or KM 198 million) and deposits of private companies (9% or KM 183 million) saw the largest increases), with the exception of deposits of banking institutions, which still have a downward trend (down by 14% or KM 104 million). With a share of 57.5%, retail deposits are the largest sectoral source of funding of banks in the FB&H.

The maturity structure of deposits with contractual maturity has had a continuous slight downward trend since 2012. In 2016, the share of short-term deposits increased from 58.0% to 60.2%, while the share of long-term deposits decreased from 42.0% to 39.8%.

Changes in the maturity structure stem from an increase in short-term deposits by 12% or KM 946 million as a result of an increase in retail deposits by KM 560 million, deposits of private companies by KM 187 million, deposits of government institutions by KM 171 million, deposits of public companies by KM 53 million and deposits of non-banking financial institutions by KM 6.5 million, while deposits of banking institutions and deposits of non-profit organisations recorded a drop in the amount of KM 20 and KM 8.6 million, respectively. Long-term deposits are up by KM 131 million as a result of deposits up to three years being up by 1.2% or KM 43.7 million, mostly those belonging to the sector of public companies and government institutions, while deposits with a term over three years went up by 4.3% or KM 87.2 million, primarily on the basis of retail deposits, deposits of non-banking financial institutions and deposits of private companies being up. It should be noted that long-term deposits are still dominated by two segments: retail, with the share increasing from 68.4% to 69.1%, and public companies, with the share increasing from 9% to 9.8%. In deposits with a term from one to three years, the largest share of 71.1% (-0.5 percentage points) is held by retail deposits, followed by public companies (14%, +1.3 percentage points). Deposits over three years mostly consist of retail

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

[34] As per remaining maturity.

deposits (65.8%, +2.9 percentage points), while deposits of banking institutions, with a long-lasting trend of decrease that has slowed down somewhat, have a share of 12.2% (at the end of 2015: 15.9%).

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

- in KM 000 -

Table 40: *Maturity Structure of Deposits by Remaining Maturity*

DEPOSITS	31.12.2014		31.12.2015		31.12.2016		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)	5 874 183	48.4	6 852 863	52.3	7 961 438	56.1	117	116
7- 90 days	898 335	7.4	770 687	5.9	690 281	4.9	86	89
91 days to one year	2 054 981	17.0	2 080 342	15.9	1 982 775	14.0	101	95
1. Total short-term deposits	8 827 499	72.8	9 703 892	74.1	10 633 494	75.0	110	110
Up to 5 years	3 150 040	26.0	3 190 290	24.3	3 344 169	23.6	101	105
More than 5 years	153 207	1.2	204 801	1.6	197 611	1.4	134	96
2. Total long-term deposits	3 303 247	27.2	3 395 091	25.9	3 542 780	25.0	103	104
TOTAL (1 + 2)	12 130 746	100.0	13 098 983	100.0	14 176 274	100.0	108	108

Based on the data above, it can be concluded that the maturity structure of deposits by remaining maturity is much worse due to a high share of short-term deposits in the amount of 75.0%, with a trend of slight deterioration in 2016. Compared to the end of 2015, short-term deposits increased by 10% or KM 929 million, with the share being up by 0.9 percentage points, while long-term deposits saw an increase in the amount of 4% or KM 149 million, with the share in total deposits dropping from 25.9% to 25.0%. When analysing the structure of long-term deposits, it is evidently dominated by deposits with remaining maturity of up to 5 years (94.4% of long-term deposits and 23.6% of total deposits). Although the reduction of deposits with remaining maturity of over 5 years was halted in 2014, when a moderate increase of 17% or KM 23 million was recorded, with an increase in the amount of 34% or KM 52 million recorded in 2015, there was a decrease in the amount of 4% or KM 7.2 million in 2016. When comparing information on deposit maturities by contractual and remaining maturity, it can be concluded that out of the KM 5.6 billion of total long-term contracted deposits, there were approximately KM 2.1 billion, i.e. 38%, of long-term contracted deposits with the remaining maturity of up to one year as of 31.12.2016.

The existing maturity structure of deposits (being the largest source of funding of banks in the Federation of B&H) has become an increasingly limiting factor of credit growth in relation to most banks since they incline more towards approving long-term loans. Therefore, banks are faced with the problem of finding ways to obtain quality sources of funding in terms of maturity, especially due to the considerably reduced inflow of financial assets (borrowings) from abroad, i.e. both from parent groups and financial institutions-creditors, while local sources of funding are mostly short-term. In June 2014, the FBA amended the existing regulations on liquidity.[35] Having previously met the prescribed requirements and obtained the approval of the FBA, banks have the opportunity to use a certain amount (i.e. a corrective amount) of retail call deposits for loans with longer maturities. As of 31.12.2016, six banks are using a corrective amount (KM 430 million) after being granted approval by the FBA, with it being noted that one more bank that has applied for the use of the corrective amount is undergoing an assessment process related to whether or not it meets the requirements. The objective of the regulation amendment is primarily aimed at stimulating credit growth, mostly real sector lending, and positive effects have already been recorded.

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

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

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

- in KM 000 -

Table 41: *Maturity Structure of Loans*

LOANS	31.12.2014		31.12.2015		31.12.2016		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Past due receivables and paid off-balance liabilities	1 210 806	10.8	1 186 501	10.2	1 191 510	9.7	98	100
Short-term loans	2 256 837	20.2	2 283 316	19.7	2 378 849	19.4	101	104
Long-term loans	7 702 634	69.0	8 140 927	70.1	8 699 869	70.9	106	107
TOTAL LOANS	11 170 277	100.0	11 610 744	100.0	12 270 228	100.0	104	106

In 2016, long-term loans were up by 7% or KM 559 million, amounting to KM 8.7 billion, and short-term loans were up by 4% or KM 96 million, amounting to KM 2.4 billion, while past due receivables amounted to KM 1.2 billion, slightly up by KM 5 million, primarily as a result of a permanent write-off in the amount of KM 91 million, which is yet another indicator of the deterioration of the collection rate of past due loan commitments and the difficulties that debtors have in servicing their debt towards banks in light of the effects of the economic crisis. In the structure of past due receivables, 64.9% refers to private companies, 33.0% to the retail sector and 2.1% to other sectors.

An analysis of maturities of two key sectors shows that 86.6% of retail loans are long-term loans, while 53.9% of total approved loans refers to private companies.

In the structure of assets, loans, as the key category, still hold the largest share of 66.8%, down by 0.9 percentage points compared to the end of 2015. They recorded a slight increase in the amount of 6% in 2016. Cash funds increased by 7% or KM 347 million and their share is the same as at the end of 2015 (28.3%).

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

- in % -

Table 39: *Liquidity Ratios*

Ratios	31.12.2014	31.12.2015	31.12.2016
1	2	3	4
Liquid assets[36]/total assets	28.5	28.4	28.4
Liquid assets/short-term financial liabilities	49.1	48.4	47.1
Short-term financial liabilities/total financial liabilities	69.3	70.0	71.9

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

Loans/deposits and loans taken[37]	84.9	82.9	81.7
Loans/deposits, loans taken and subordinated debt[38]	83.9	82.2	81.0

As of 31.12.2016, the ratios are at approximately the same level as at the end of 2015.

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, 2015 and 2016, when the ratio improved to 81.7% (-1.2 percentage points) as a result of the increase in deposits being larger than the increase in loans. The ratio was above 85% (critical level) with respect to 7 banks. On the one hand, this was the result of their liabilities structure (relatively significant share of capital) and, on the other hand, the result of the high share of loans in assets. During its on-site controls, the Agency paid special attention to banks with identified weaknesses in this business segment and instructed them to take actions and measures to improve the liquidity level, as well as practices of managing sources of funding in order to ensure a satisfactory liquidity position.

In 2016, banks have duly fulfilled the requirement of maintaining the defined level of the required reserve at the Central Bank of B&H.[39] The required reserve, being the key instrument of the monetary policy in B&H in relation to the Currency Board and the financially undeveloped market, is the only instrument of the monetary policy that ensures monetary control in sense of the prevention of rapid growth of loans and reduced multiplication, as well as increased liquidity in banks in conditions of crisis and a higher outflow rate of funds from banks (as compared to the situation in B&H as of 01.10.2008). On the other hand, the implementation of foreign currency risk regulations and the maintenance of currency adjustment to the defined limits has also significantly impacted the amount banks hold in their reserve accounts at the Central Bank of B&H (in local currency), thus ensuring a high liquidity of banks, individually and at the banking sector level.

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

- in KM 000 -

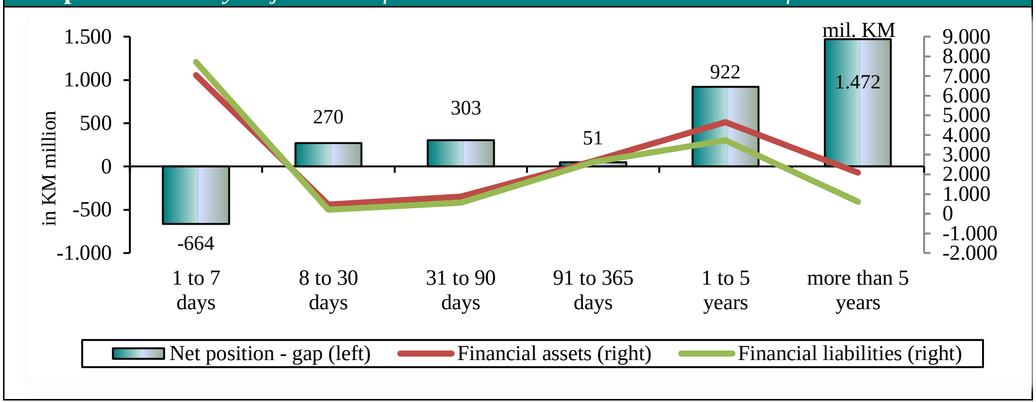
Table 43: *Liquidity Position – 10-Day Average and Daily Minimum*

	31.12.2014	31.12.2015	31.12.2016	INDEX	
	Amount	Amount	Amount		
1	2	3	4	5(3/2)	6(4/3)
1. Average daily balance of cash	4 060 671	4 592 752	4 921 452	113	107
2. Lowest total daily cash balance	3 797 970	4 310 524	4 532 844	114	105
3. Short-term sources of funding (calculation basis)	6 351 607	7 358 839	8 413 922	116	114
4. Amount of liabilities:					
4.1. 10-day average 10% of the amount under item 3	635 161	735 884	841 392	116	114
4.2. daily minimum 5% of the amount under item 3	317 580	367 942	420 696	116	114
5. Performance of liabilities: 10-day average					
Surplus = item no. 1 – item no. 4.1.	3 425 510	3 856 868	4 080 060	113	106
6. Performance of liabilities: daily minimum					
Surplus = item no. 2 – item no. 4.2.	3 480 390	3 942 582	4 112 148	113	104

[37] Empirical standards are: below 70% - very sound, 71%-75% - satisfactory, 76%-80% - marginally satisfactory, 81%-85% - insufficient, over 85% - critical.
[38] The previous ratio was expanded and sources now include subordinated debt, thus being a more realistic indicator.
[39] The Decision on Establishing and Maintaining Required Reserves and Determining the Remuneration of the CBBH to Banks on the Reserve Amount was published in the "Official Gazette of B&H", No. 30/16 and is in application since 1 July 2016.

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 31.12.2015.

Graph 29: *Maturity Adjustment of Financial Assets and Liabilities as of 31.12.2016*



As of 31.12.2016, short-term financial assets of banks in the amount of KM 11.1 billion were lower than short-term liabilities by KM 39 million. Compared to the end of 2015, when the positive gap amounted to KM 234 million, this represents a decrease of KM 273 million or 116.9%, which led to the coverage ratio for short-term liabilities deteriorating from 102.3% to 99.6%.

Short-term financial assets increased by 7.4% and short-term financial liabilities by 10.3%. In the structure of short-term financial assets, the largest increase in the amount of 7.1% or KM 347 million was recorded with respect to cash funds, followed by net loans (4.7% or KM 199 million), trading assets (21.8% or KM 193 million), cash borrowings to other banks (40.4% or KM 25 million), and other financial assets (9.7% or KM 16 million), while a decrease was recorded with respect to securities held to maturity (27.6% or KM 19 million). Financial assets with remaining maturity of over one year increased by 7.0% or KM 443 million, mostly as a result of loans being up by 7.3% or KM 449 million.

Liabilities with maturity of up to one year (KM 11.1 billion) increased by 10.3%, with changes in the following items: an increase in deposits (up by 9.6% or KM 929 million), loan commitments (up by 43.3% or KM 70 million) and other financial liabilities (up by 17.3% or KM 36 million). Liabilities with maturity of over one year (KM 4.4 billion) recorded a slight increase in the amount of 0.4% or KM 18 million, primarily as a result of an increase in deposits by 4.4% or KM 149 million and, on the other hand, a decrease in loan commitments by 17% or KM 126 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]

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

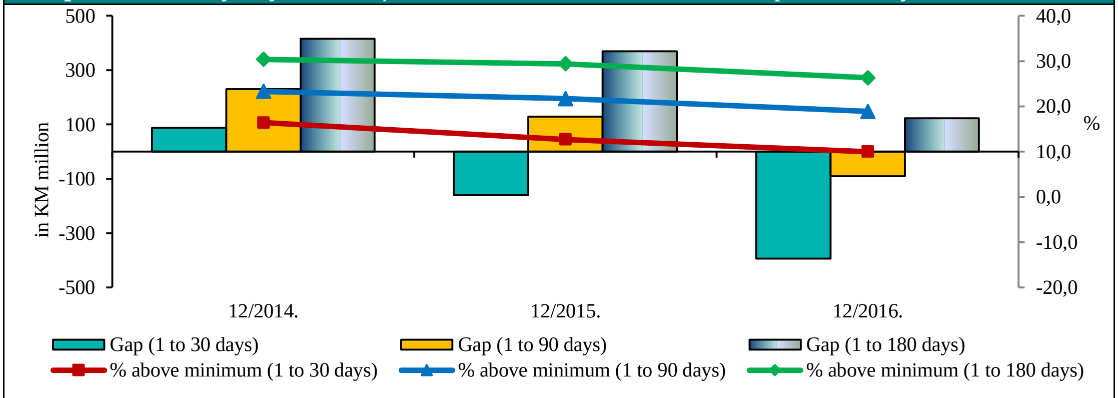
- in KM 000–

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

Description	31.12.2014 Amount	31.12.2015 Amount	31.12.2016 Amount	INDEX	
1	2	3	4	5 (3/2)	6(4/3)
I. 1- 30 days					
1. Financial assets	6 303 761	6 878 280	7 515 361	109	109
2. Financial liabilities	6 215 782	7 037 944	7 909 801	113	112
3. Difference (+ or -) = 1-2	87 979	-159 664	-394 440	n/a	n/a
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	101.4%	97.7%	95.0%		
b) Prescribed minimum %	85.0%	85.0%	85.0%		
Plus (+) or minus (-) = a - b	16.4%	12.7%	10.0%		
II. 1-90 days					
1. Financial assets	7 132 287	7 750 227	8 384 767	109	108
2. Financial liabilities	6 901 893	7 621 496	8 476 151	110	111
3. Difference (+ or -) = 1-2	230 394	128 731	-91 384	56	n/a
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	103.3%	101.7%	98.9%		
b) Prescribed minimum %	80.0%	80.0%	80.0%		
Plus (+) or minus (-) = a - b	23.3%	21.7%	18.9%		
III. 1-180 days					
1. Financial assets	8 062 506	8 735 123	9 387 062	108	107
2. Financial liabilities	7 647 885	8 365 780	9 263 730	109	111
3. Difference (+ or -) = 1-2	414 621	369 343	123 332	89	33
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	105.4%	104.4%	101.3%		
b) Prescribed minimum %	75.0%	75.0%	75.0%		
Plus (+) or minus (-) = a - b	30.4%	29.4%	26.3%		

Based on the information presented, it is found that, as of 31.12.2016, banks have adhered to prescribed limits and achieved a better maturity adjustment of financial assets and liabilities in relation to the prescribed limits.

Graph 30: *Maturity Adjustment of Financial Assets and Liabilities – up to 180 Days*

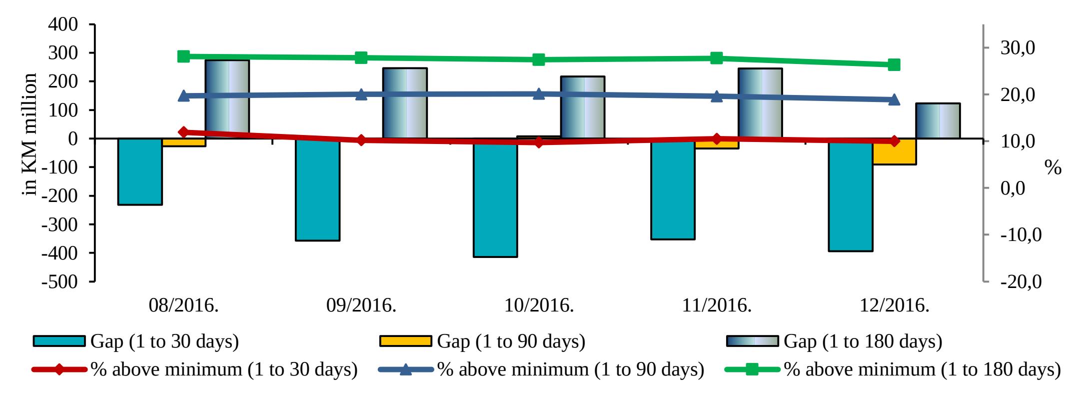


As of 31.12.2016, financial assets in the first and second period were lower than financial liabilities, due to the increase in financial liabilities, primarily deposits and other financial liabilities, being higher than the increase in financial assets (an increase in cash funds, loans, trading assets, borrowings to other banks, and other financial assets). Despite financial liabilities being up, financial assets surpassed financial liabilities in the third period, due to an increase in assets (primarily an increase in cash funds, net loans, borrowings to other banks, and trading assets).

As a result of the aforementioned, the recorded maturity adjustment percentages in all three periods were somewhat lower than at the end of 2015, but still significantly above the prescribed minimum by 10.0% in the first period, 18.9% in the second period, and 26.3% in the third period.

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

Graph 31: *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 examinations of banks, the Agency will continue to monitor and oversee the manner in which banks manage this risk and whether they act in accordance with adopted policies and programmes.

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

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

In order to ensure the implementation and realisation of prudent principles related to FX activities of banks and to reduce FX risk effects on their profitability, liquidity and capital, the Agency has adopted the Decision on Minimum Standards for Foreign Exchange Risk Management in Banks[42], which regulates minimum standards for adopting and implementing the programmes, policies and procedures

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

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 31.12.2016, the currency structure of banks' assets included 10.4% or KM 1.9 billion of foreign currency items (at the end of 2015, these items amounted 11.5% or KM 2 billion). On the other hand, the currency structure of liabilities is quite different since the share of foreign currency liabilities is much higher and equals 38.8% or KM 7.1 billion (at the end of 2015, this share was 41.6% or KM 7.1 billion).

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

- in KM million -

Table 45: *FX Adjustment of Financial Assets and Liabilities (EUR and Aggregate)* [44]

Description	31.12.2015				31.12.2016				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	839	10.7	1 311	15.3	830	10.7	1 324	15.7	99	101
2. Loans	29	0.4	31	0.4	24	0.3	25	0.3	83	81
3. Loans with a currency clause	6 510	82.6	6 595	76.9	6 323	81.5	6 350	75.4	97	96
4. Other	500	6.3	636	7.4	417	5.4	561	6.7	84	88
5. Other financial assets with a currency clause[45]	N/a	N/a	N/a	N/a	165	2.1	165	1.9	N/a	N/a
Total (1+2+3+4)	7 878	100.0	8 573	100.0	7 759	100.0	8 425	100.0	98	98
II. Financial liabilities										
1. Deposits	5 498	72.8	6 153	74.9	5 535	72.8	6 186	74.9	101	101
2. Loans taken	810	10.7	812	9.9	763	10.0	763	9.2	94	94
3.Deposits and loans with a currency clause	1 076	14.2	1 076	13.1	1 135	14.9	1 135	13.7	105	105
4. Other	170	2.3	176	2.1	174	2.3	180	2.2	102	102
Total (1+2+3+4)	7 554	100.0	8 217	100.0	7 607	100.0	8 264	100.0	101	101
III. Off-balance sheet										
1. Assets	37		48		78		96			
2. Liabilities	129		208		203		222			
IV.Position										
Long (amount)	232		196		27		35			
%	12.7%		10.7%		1.3%		1.7%			
Short										
%										
Allowed	30%		30%		30%		30%			

[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.
[44] Source: Form 5 – FX position.
[45] Items on this position as of 31.12.2015 are listed on position 3. Loans with a currency clause.

Lower than the allowed level	17.3%	19.3% 23.9%	28.7%	28.3%

In terms of the structure of foreign currencies, the dominant share among financial assets[46] is held by the EUR with 66.6% (31.12.2015: 69.2%), along with a drop in the nominal amount (from KM 1.4 billion to KM 1.3 billion). The share of the EUR in liabilities is at the same level (90.8%), coupled with a decrease in the nominal amount by KM 6 million.

However, FX risk exposure calculation also includes the amount of indexed assets items (loans and other financial assets) and liabilities items[47], which is quite significant on the assets side (77.3% or KM 6.5 billion) and which is at approximately the same level as at the end of 2015 (76.9% or KM 6.6 billion). Other FX items on the assets side hold a share of 22.7% or KM 1.9 billion and have the following structure: items in EUR 15.1% or KM 1.3 billion and other currencies 7.6% or KM 0.6 billion (at the end of 2015, other items in EUR held a share of 16.0% or KM 1.4 billion). Out of total net loans (KM 11.1 billion), app. 57.3% have a currency clause (mostly pegged to the EUR – 99.6%).

As for the sources of funding, financial liabilities condition and determine the structure of financial assets items for every currency. The largest share in FX liabilities (KM 8.3 billion) is 78.3% or KM 6.5 billion and refers to items in EUR, mostly deposits (at the end of 2015, the share of liabilities in EUR amounted to 78.8% or KM 6.5 billion). The share and amount of indexed liabilities in the last five years (with the exception of 2013, when a drop in the amount of 13% or KM 117 million was recorded) have had an upward trend from when they amounted to KM 661 million in 2011, thus having a share of 8%, to the level of KM 1.1 billion (with a 13.7% share) as of 31.12.2016. The increase in indexed liabilities (almost all relate to deposits) is conditioned, on the one hand, by the outflow of deposits and loan commitments in foreign currencies, which have been a source of loans approved with a currency clause, and, on the other hand, by the continuously high amount of loans with a currency clause. In order to maintain the FX adjustment, banks are increasing indexed liabilities items (deposits), with it being noted that most banks have a long FX position.

When observing banks and the banking sector level of the Federation of B&H, it can be concluded that FX risk exposure of banks and the banking system in 2016 was within the defined limits. As of 31.12.2016, the long FX position was recorded with 11 banks and the short position with 4 banks. At system level, there is a long FX position of 1.7% of the total core capital of banks, which is 28.3% below the allowed limit. The individual FX position for the EUR was 1.3%, which is 28.7% 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

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

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

preservation of its stability, with this being a priority in present stressful conditions, and towards the banking system's future progress and development. These objectives are conditioned by a continuous and committed involvement of all elements of the system, the legislative and executive authorities, thus forming grounds for a more favourable economic environment for banks and the real sector of the economy, as well as for the general population.

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

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

- continue with activities to draft a regulatory framework, prepare and adopt a significant number of new by-laws in accordance with the new Law on Banks, the Law on the Banking Agency and the adopted Strategy and Annual Plan for the Drafting of Regulations in order to implement Basel II/III and EU directives and as part of the preparation for B&H's joining of the European Union;
- reorganise the Banking Agency in accordance with the new Law on the Banking Agency of the FB&H and establish an internal organisational unit for bank restructuring operations and prepare and adopt by-laws related to the restructuring of banks;
- begin with the project of preparing and implementing the SREP (Supervisory Review and Evaluation Process) as a long-term (three years) project aimed at strengthening and improving supervision in accordance with the new regulatory framework;
- take measures and actions within its competences for more secure and stable banking operations and the banking system as a whole and its support to the economy and the population;
- continue with activities within its competences to consolidate the supervision function at state level;
- take measures and actions within its competences for the purpose of implementing measures from the Reform Agenda and the Economic Reforms Programme, which are related to the banking and financial sector;
- work to implement the recommendations of the FSAP Mission in order to improve the quality of banking sector supervision;
- maintain continuous supervision of banks through on-site and off-site examinations, placing an emphasis on dominant risk segments of banking operations and aiming to improve efficiency by means of:
    - further insistence on capital strengthening in banks, especially in those banks with an above average increase in assets and reduction of the capital adequacy ratio,
    - continuing banking supervision that is of systemic importance for the development of lending activities where large savings and other deposits are concentrated (all for the purpose of protecting depositors);
    - continuing system-based monitoring of banks' activities to prevent money laundering and the financing of terrorism and the improvement of the cooperation with other supervisory and regulatory institutions;
    - reviewing and regularly updating the contingency plan as part of crisis preparations,
    - continuing to develop and implement the Early Warning System tool (EWS) for the purpose of an early identification of financial and operational inefficiencies and/or adverse trends in the banks' operations,

- monitoring the compliance of banks with laws and regulations and the practices employed in banks in the segment of protecting users of financial services and guarantors,
- establishing and expanding cooperation with supervisory authorities in countries with investors in the banking sector of the FB&H, as well as with other countries in order to maintain effective supervision,
- continuing the cooperation with the ECB and the EBA and the exchange of information on banking supervision, as well as with international financial institutions, the IMF, the WB, the EBRD, etc.;
- improving cooperation with the B&H Banks' Association across all segments of the banking business (e.g. introduction of new products, collection of receivables, functioning of the Central Credit Registry of legal entities and natural persons, daily updating of data, etc.), organising consultations and providing professional assistance in the implementation of banking laws and regulations, improving cooperation in the sense of professional training, proposing amendments to all laws or regulations that have become a limiting factor to the banks' development;

• carry out a new AQR cycle in 2017, in which 8 banks will be included and which will cover about 75% of the banking system of the FB&H;
• continue to improve cooperation by signing new Cooperation Agreements with other institutions in Bosnia and Herzegovina, which are involved in the areas of supervision, preparedness for crisis situations and their management and systemic risk control: the Banking Agency of Republika Srpska, the Deposit Insurance Agency, the Central Bank of Bosnia and Herzegovina and the state and entity Ministries of Finance;
• continue with efforts to improve the information system, as an important prerequisite for efficient and proactive banking supervision, i.e. IT support with the function of early warning and preventive actions with respect to the elimination of weaknesses in the banks' operations;
• continue with the on-going training and professional education of the staff;
• accelerate actions regarding the finalisation of the liquidation processes.

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

• the implementation of activities from the Reform Agenda for Bosnia and Herzegovina for the period 2015-2018;
• the implementation of conclusions reached by the Parliament of the Federation of B&H regarding the establishment of state-level bank supervision;
• the implementation of the Economic Reforms Programme for 2016-2018 (ERP B&H 2016-2018);
• the implementation of the commitments taken on by the Letter of Intent signed by the Governments in B&H as part of the arrangement with the IMF;
• creating and upgrading legislation pertaining to the financial and banking sector, starting with the Basel Principles, Basel Capital Frameworks and European Banking Directives, which refer to the actions, status and operations of banks, and especially to the drafting and adoption of the new Banking Law and the legal framework for the resolution of banks;
• accelerating the implementation of economic reforms in the real sector of the economy in order for it to approach the level achieved in the monetary and banking sector more rapidly;
• the preparation and adoption of the Law on Asset Management Companies;
• the adoption of the Law on Accounting and Auditing in the FB&H;
• the establishment of special commercial departments within courts;
• the establishment of more efficient enforcement proceedings;
• the establishment of a mechanism for out-of-court debt restructuring of companies;
• the creation and adoption of measures for resolving or mitigating the problem of over-indebted persons;

- the adoption of a law or the improvement of existing legislation regulating the area of safety and protection of money in banks and in transit, etc.

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

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

No.: U.O.-02-02/17
Sarajevo, 27.03.2017

ANNEXES

ANNEX 1…………………….. **Basic Information on Banks in the Federation of B&H**

ANNEX 2…………………..…… **Legal Frameworks for Operations of the Banking Agency of the FB&H and Banks in the FB&H**

ANNEX 3………………….…..… **Balance Sheet of Banks in the Federation of B&H According to the FBA Model**

ANNEX 4……………………. **Overview of Assets, Loans, Deposits and Financial Results of Banks in the Federation of B&H**

ANNEX 5…………………..…… **Retail Savings in Banks in the Federation of B&H**

ANNEX 6…………………..…… **Report on Classification of Assets and Off-Balance Sheet Risk-Bearing Items in Banks in the Federation of B&H**

ANNEX 7……………………. **Income Statement of Banks in the Federation of B&H According to the FBA Model**

ANNEX 8……………………. **Report on Capital Condition and Adequacy of Banks in the Federation of B&H**

ANNEX 9……………………. **Data on Employees in Banks in the Federation of B&H**

ANNEX 1

Banks in the Federation of Bosnia and Herzegovina – 31.12.2016

No.	BANK	Address		Telephone	Director
1.	ASA BANKA D.D. - SARAJEVO	Sarajevo	Trg međunarodnog prijateljstva 25.	033/586-870, fax:586-880	SAMIR MUSTAFIĆ
2.	ADDIKO BANK D.D. - SARAJEVO	Sarajevo	Trg solidarnosti br. 12.	033/755-867, fax: 755-790	SANELA PAŠIĆ
3.	BOR BANKA dd - SARAJEVO	Sarajevo	Obala Kulina bana 18	033/278-520, fax:278-550	HAMID PRŠEŠ
4.	BOSNA BANK INTERNATIONAL dd - SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	AMER BUKVIĆ
5.	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Sarajevo	Obala Kulina bana 9a.	033/497-555, fax:497-589	ALMIR KRKALIĆ
6.	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Tone Hrovata bb	037/771-253, fax:772-416	HASAN PORČIĆ
7.	NLB BANKA dd - SARAJEVO	Sarajevo	Džidžikovac 1.	033/720-300, fax:035/302-802	LIDIJA ŽIGIĆ
8.	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Franca Lehara bb	033/250-950, fax:250-971	EDIN HRNJICA
9.	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb.	033/755-010, fax: 213-851	KARLHEINZ DOBNIGG
10.	SBERBANK BH dd - SARAJEVO	Sarajevo	Fra Anđela Zvizdovića 1	033/295-601, fax:263-832	EDIN KARABEG
11.	SPARKASSE BANK dd BOSNA I HERCEGOVINA- SARAJEVO	Sarajevo	Zmaja od Bosne br. 7.	033/280-300, fax:280-230	SANEL KUSTURICA
12.	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	VEDRAN HADŽIAHMETOVIĆ
13.	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:312-121	DALIBOR ĆUBELA
14.	VAKUFSKA BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	DAMIR SOKOLOVIĆ
15.	ZIRAATBANK BH dd - SARAJEVO	Sarajevo	Zmaja od Bosne 47c	033/252-230, fax: 252-245	ALI RIZA AKBAŞ

ANNEX 2

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

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

1. Law on the Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of the FB&H“, No. 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06, 48/08, 34/12 and 77/12),
2. Articles of Association of the Banking Agency of the Federation of B&H („Official Gazette of the FB&H“, No. 42/04),
3. Rules of Internal Organisation of the Banking Agency of the Federation of B&H („Official Gazette of the FB&H“, No. 23/14 – consolidated text and 60/16).

II. REGULATIONS RELATED TO THE AGENCY'S COMPETENCES

Laws

1. Law on Banks („Official Gazette of the FB&H“, No. 39/98, 32/00, 48/01, 27/02, 41/02, 58/02, 13/03, 19/03 and 28/03, 66/13),
2. Law on Microcredit Organisations („Official Gazette of the FB&H“, No. 59/06),
3. Law on Associations and Foundations („Official Gazette of the FB&H“, No. 45/02),
4. Law on Leasing („Official Gazette of the FB&H“, No. 85/08, 39/09, 65/13 and 104/16),
5. Law on the Development Bank of the Federation of B&H („Official Gazette of the FB&H“, No. 37/08),
6. Law on Deposit Insurance in B&H („Official Gazette of B&H“, No. 20/02, 18/05, 100/08, 75/09 and 58/13),
7. Law on Foreign Currency Operations („Official Gazette of the FB&H“, No. 47/10),
8. Law on Prevention of Money Laundering and Terrorism Financing („Official Gazette of B&H“, No. 53/09 and 47/14),
9. Law on Protection of Users of Financial Services („Official Gazette of B&H“, No. 31/14),
10. Law on Guarantor Protection in the FB&H („Official Gazette of the FB&H“, No. 100/13),
11. Law on Factoring of the Federation of B&H („Official Gazette of the FB&H“, No. 14/16).

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

1. Decision on Minimum Standards for Managing Information Systems in B&H Banks („Official Gazette of the FB&H“, No. 1/12),
2. Decision on Minimum Standards for Outsourcing Management („Official Gazette of the FB&H“, No. 1/12),
3. Decision on Reporting Forms Banks Deliver to the Banking Agency of the FB&H („Official Gazette of the FB&H“, No. 110/12, 15/13, 46/14, 62/14 and 26/16),
4. Decision on Minimum Standards for Managing Risk Concentrations in Banks („Official Gazette of the FB&H“, No. 48/12 – consolidated text),
5. Decision on Minimum Standards for Capital Management in Banks and Capital Hedge („Official Gazette of the FB&H“, No. 46/14),

6. Decision on Minimum Scope, Form and Contents of the Programme and the Report on Economic-Financial Audit of Banks („Official Gazette of the FB&H“, No. 48/12 – consolidated text),
7. Decision on Uniform Method of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits („Official Gazette of the FB&H“, No. 48/12 and 23/14),
8. Decision on Determination of the Fee Tariff of the Banking Agency of the Federation of B&H („Official Gazette of the FB&H“, No. 48/12 – consolidated text),
9. Decision on Minimum Standards for Banks' Activities on Prevention of Money Laundering and Terrorism Financing („Official Gazette of the FB&H“, No. 48/12),
10. Decision on Minimum Standards for Managing Liquidity Risk in Banks („Official Gazette of the FB&H“, No. 48/12, 110/12 and 46/14),
11. Decision on Minimum Standards for Managing Credit Risk and Assets Classification in Banks („Official Gazette of the FB&H“, No. 85/11, 33/12 and 15/13),
12. Decision on Minimum Standards for Managing Operational Risk in Banks („Official Gazette of the FB&H“, No. 6/08 and 40/09),
13. Criteria for Internal Rating of Banks by the Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of the FB&H“, No. 3/03 and 6/03 – correction),
14. Decision on Reporting on Non-Performing Customers Considered to be a Special Credit Risk for Banks („Official Gazette of the FB&H“, No. 3/03),
15. Decision on Conditions when the Bank is Considered Insolvent („Official Gazette of the FB&H“, No. 3/03),
16. Decision on Minimum Standards for Documenting Lending Activities of Banks („Official Gazette of the FB&H“, No. 3/03 and 23/14),
17. Decision on Minimum Standards for Banks' Operations with Related Entities („Official Gazette of the FB&H“, No. 3/03),
18. Decision on Bank Supervision and Actions of the Banking Agency of the Federation of B&H („Official Gazette of the FB&H“, No. 3/03),
19. Decision on Minimum Standards for Internal and External Audit in Banks („Official Gazette of the FB&H“, No. 3/03),
20. Decision on the Process of Determination of Receivables and Allocation of Assets and Liabilities during the Liquidation Process of Banks („Official Gazette of the FB&H“, No. 3/03),
21. Decision on Minimum Standards of the Internal Controls System in Banks („Official Gazette of the FB&H“, No. 3/03),
22. Decision on Calculation of Interest Rates and Fees for Dormant Accounts („Official Gazette of the FB&H“, No. 7/03),
23. Decision on Level and Conditions for Loan Approval to Bank Employees („Official Gazette of the FB&H“, No. 7/03 and 83/08),
24. Decision on Property Statement („Official Gazette of the FB&H“, No. 3/03),
25. Decision on Minimum Standards for Managing Market Risks in Banks („Official Gazette of the FB&H“, No. 55/07, 81/07, 6/08, 52/08 and 79/09),
26. Instructions for Licensing and Other Approvals of the FB&H Banking Agency („Official Gazette of the FB&H“, No. 1/14, 30/15 and 37/15),
27. Instructions for Revised Method of Forming, Recording and Reporting Loan Loss Reserves (December 2011, January 2013)
28. Instructions for Manner of Reporting to Provisional Administrator about Bank's Operations under Provisional Administration (19.07.2013),
29. Instructions for Form and Manner of Additional Reporting by Banks under Provisional Administration (19.07.2013),

30. Instructions for Manner of Reporting to Liquidation Administrator about Implementation of Liquidation in Bank (19.07.2013).
31. Decision on Diligent Behaviour of Members of Bank's Bodies („Official Gazette of the FB&H“, No. 60/13),
32. Decision on Suitability Assessment of Bank's Bodies („Official Gazette of the FB&H“, No. 60/13),
33. Decision on the Remuneration Policy and Practice for Bank Employees („Official Gazette of the FB&H“, No. 60/13),
34. Decision on Minimum Standards for Currency Exchange Operations („Official Gazette of the FB&H“, No. 95/13 and 99/13),
35. Decision on Examination Process of Currency Exchange Operations („Official Gazette of the FB&H“, No. 95/13),
36. Decision on Examination of Foreign Currency Operations in Banks – Payment Transactions („Official Gazette of the FB&H“, No. 95/13),
37. Decision on Conditions and Manner of Customer Complaint Management in Banks, Microcredit Organisations and Leasing Companies („Official Gazette of the FB&H“, No. 23/14 and 62/14),
38. Decision on Conditions for Assessing and Documenting Creditworthiness („Official Gazette of the FB&H“, No. 23/14),
39. Decision on Bank's Handling of Dormant Accounts („Official Gazette of the FB&H“, No. 30/15, 98/15 and 98/16),
40. Decision on Minimum Standards for Managing Foreign Currency Risk in Banks („Official Gazette of the FB&H“, No. 48/12 – consolidated text).

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

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

Decisions of the Banking Agency Related to the Operations of Factoring Companies

1. Decision on Minimum Standards for Content of Factoring Agreements („Official Gazette of the FB&H“, No. 70/16)
2. Decision on Minimum Standards for Conditions and Manner of Performing Activities of Factoring Companies („Official Gazette of the FB&H“, No. 70/16)
3. Decision on Minimum Standards for Criteria, Rules and Additional Requirements for Capital of Factoring Companies („Official Gazette of the FB&H“, No. 70/16)
4. Decision on Minimum Standards for Criteria and Procedures of Making Decision about Issuing Approval for Acquisition or Increase of Qualified Stake in Factoring Companies and of Factoring Companies in Another Legal Entity („Official Gazette of the FB&H“, No. 70/16)
5. Decision on Minimum Standards for Closer Conditions and Manner of Issuing Operating Licences of Factoring Companies in Domestic Factoring („Official Gazette of the FB&H“, No. 70/16)

6. Decision on Minimum Standards for Requirements Supervisory Board and Management Board Members of Factoring Companies Must Meet („Official Gazette of the FB&H", No. 70/16)
7. Decision on Minimum Standards for Criteria and Manner of Risk Management in Factoring Companies („Official Gazette of the FB&H", No. 70/16)
8. Decision on Minimum Standards for Performing Internal Audit Operations in Factoring Companies („Official Gazette of the FB&H", No. 70/16)
9. Decision on Minimum Standards for Structure, Content, Manner and Deadlines for Submission of Information and Reports of Factoring Companies to the Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of the FB&H", No. 70/16, 85/16-corr., 104/16) .
10. Instructions for Filling Out Financial and Other Reports Factoring Companies Are Required to Draft for Purposes of the Banking Agency of the Federation of Bosnia and Herzegovina, No. 4203/16 from 24.10.2016,
11. Instructions for Drafting Reports on Capital of Factoring Companies, No. 4204/16 from 24.10.2016;

Other Regulations:

Development Bank of the FB&H

1. Decree on Criteria and Manner of Supervision of the Development Bank of the FB&H („Official Gazette of the FB&H", No. 57/08, 77/08 and 62/10),
2. Decision on Determining Amount of Fees for Supervision of the Development Bank of the FB&H („Official Gazette of the FB&H", No. 65/09);

Foreign Currency Operations

1. Rulebook on the Process of Opening and Maintaining FC Accounts and FC Savings of Resident Customers of Banks („Official Gazette of the FB&H", No. 56/10),
2. Rulebook on Conditions and Manner for Opening, Maintaining and Closing of Non-resident Accounts in Banks („Official Gazette of the FB&H", No. 56/10),
3. Rulebook on Manner, Deadlines and Forms of Reporting on International Lending Business („Official Gazette of the FB&H", No. 79/10),
4. Decision on Withdrawing of Foreign Cash and Cheques („Official Gazette of the FB&H", No. 58/10),
5. Decision on Conditions and Manner of Conducting Foreign Exchange Operations („Official Gazette of the FB&H", No. 58/10 and 49/11),
6. Decision on Conditions for Issuing Approvals for Opening FC Accounts Abroad („Official Gazette of the FB&H", No. 58/10),
7. Decision on Payment, Collection and Transfer of Foreign Currency and Foreign Cash („Official Gazette of the FB&H", No. 58/10),
8. Decision on Minimum Standards for Currency Exchange Operations („Official Gazette of the FB&H", No. 95/13 and 99/13),
9. Decision on Examination Process of Currency Exchange Operations („Official Gazette of the FB&H", No. 95/13),
10. Decision on Examination of Foreign Currency Operations in Banks – Payment Transactions („Official Gazette of the FB&H", No. 95/13),
11. Decision on Manner and Conditions for Residents to Receive or Perform Payment in FCY and LCY Cash in Their Operations with Non-residents („Official Gazette of the FB&H", No. 58/10);

Anti-Money Laundering

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

III. OTHER LAWS AND REGULATIONS IN THE FB&H

1. Law on Obligations („Official Gazette of the RB&H“, No. 2/92, 13/93 and 13/94, „Official Gazette of the FB&H“, No. 29/03 and 42/11),
2. Law on Payment Transactions („Official Gazette of the FB&H“, No. 32/00 and 28/03),
3. Law on Financial Operations („Official Gazette of the FB&H“, No. 48/16),
4. Law on Internal Payment System („Official Gazette of the FB&H“, No. 48/15),
5. Law on Cheques („Official Gazette of the FB&H“, No. 32/00),
6. Law on Promissory Notes („Official Gazette of the FB&H“, No. 32/00 and 28/03),
7. Law on Default Interest Rate Level („Official Gazette of the FB&H“, No. 27/98 and 51/01, 101/16),
8. Law on Default Interest Level for Unsettled Debts („Official Gazette of the FB&H“, No. 56/04, 68/04, 29/05 and 48/11, 28/13),
9. Law on Default Interest Level for Public Revenues („Official Gazette of the FB&H“, No. 48/01, 52/01, 42/06, 28/13 and 66/14),
10. Company Law („Official Gazette of the FB&H“, No. 81/15),
11. Company Consolidation Law („Official Gazette of the FB&H“, No. 52/14),
12. Law on Stock Company Take-Over („Official Gazette of the FB&H“, No. 77/15),
13. Law on Registration of Legal Entities in the FB&H („Official Gazette of the FB&H“, No. 27/05, 68/05, 43/09 and 63/14),
14. Law on Public Sector Companies („Official Gazette of the FB&H“, No. 8/05, 81/08, 22/09 and 109/12),
15. Liquidation Proceedings Law („Official Gazette of the FB&H“, No. 29/03),
16. Bankruptcy Law („Official Gazette of the FB&H“, No. 29/03, 32/04 and 42/06),
17. Law on Debt, Debt Raising and Guarantees in the FB&H („Official Gazette of the FB&H“, No. 86/07, 24/09 and 44/10) ,
18. Law on Accounting and Audit in the FB&H („Official Gazette of the FB&H“, No. 83/09),
19. Law on Business Classification in the FB&H („Official Gazette of the FB&H“, No. 64/07 and 80/11),
20. Law on Classification of Professions in the FB&H („Official Gazette of the FB&H“, No. 111/12),
21. Law on Securities Market („Official Gazette of the FB&H“, No. 85/08, 109/12 and 86/15),
22. Law on Securities Register („Official Gazette of the FB&H“, No. 39/98, 36/99 and 33/04),
23. Law on Securities Commission („Official Gazette of the FB&H“, No. 39/98, 36/99 and 33/04),
24. Labour Law („Official Gazette of the FB&H“, No. 26/16),
25. Law on Employees Council („Official Gazette of the FB&H“, No. 38/04),
26. Law on Employment of Foreign Citizens („Official Gazette of the FB&H“, No. 111/12),
27. Law on Investment Funds („Official Gazette of the FB&H“, No. 85/08),
28. Law on Private Insurance Companies („Official Gazette of the FB&H“, No. 24/05 and 36/10),

29. Law on Private Insurance Agency („Official Gazette of the FB&H“, No. 22/05, 8/10 and 30/16),
30. Law on Tax Authority of the FB&H („Official Gazette of the FB&H“, No. 33/02, 28/04, 57/09, 40/10, 29/11 and 27/12, 7/13, 71/14 and 91/15),
31. Law on Profit Tax („Official Gazette of the FB&H“, No. 15/16),
32. Law on Personal Income Tax („Official Gazette of the FB&H“, No. 10/08, 9/10 and 44/11, 7/13, 65/13),
33. Law on Contributions („Official Gazette of the FB&H“, No. 35/98, 54/00, 16/01, 37/01, 1/02, 17/06, 14/08, 91/15 and 106/16),
34. Law on Collection and Partial Write-off of Overdue Social Insurance Contributions („Official Gazette of the FB&H“, No. 25/06 and 57/09),
35. Law on Unified System of Registration of Control and Collection of Contributions („Official Gazette of the FB&H“, No. 42/09, 109/12 and 30/16),
36. Law on Opening Balance Sheet of Companies and Banks („Official Gazette of the FB&H“, No. 12/98, 40/99, 47/06, 38/08 and 65/09),
37. Law on Audit of Privatisation of State-owned Capital in Companies and Banks („Official Gazette of the FB&H“, No. 55/12),
38. Law on Identifying and Realising Claims of Citizens in the Privatisation Process („Official Gazette of the FB&H“, No. 27/97, 8/99, 45/00, 54/00, 7/01, 32/01, 27/02, 57/03, 44/04, 79/07, 65/09, 48/11 and 111/12),
39. Law on Identification and Manner of Settlement of Domestic Debt of the FB&H („Official Gazette of the FB&H“, No. 66/04, 49/05, 5/06, 35/06, 31/08, 32/09, 65/09, 42/11 and 35/14),
40. Law on Settlement of Liabilities Based on Pre-War FC Savings in the FB&H („Official Gazette of the FB&H“, No. 62/09, 42/11 and 91/13),
41. Law on Associations and Foundations („Official Gazette of the FB&H“, No. 45/02),
42. Law on Trade and Related Businesses („Official Gazette of the FB&H“, No. 35/09 and 42/11),
43. Expropriation Law („Official Gazette of the FB&H“, No. 70/07, 36/10, 25/12 and 34/16),
44. Law Rendering Ineffective the Law on Construction („Official Gazette of the FB&H“, No. 55/02, 34/07),
45. Law on Construction Land in the FB&H („Official Gazette of the FB&H“, No. 67/05),
46. Law on Temporary Restriction over Disposing with State Property in the FB&H („Official Gazette of the FB&H“, No. 20/05, 17/06, 62/06, 40/07, 70/07, 94/07 and 41/08),
47. Law on Free Access to Information in the FB&H („Official Gazette of the FB&H“, No. 32/01 and 48/11),
48. Regulatory Offence Law of the FB&H („Official Gazette of the FB&H“, No. 63/14),
49. Law on Notaries Public („Official Gazette of the FB&H“, No. 45/02),
50. Law on Court Appraisers („Official Gazette of the FB&H“, No. 49/05 and 38/08),
51. Law on Agencies and Internal Departments for Personal and Property Protection („Official Gazette of the FB&H“, No. 78/08 and 67/13),
52. Law on Land Books in the FB&H („Official Gazette of the FB&H“, No. 58/02, 19/03 and 54/04),
53. Law on Foreign Investments („Official Gazette of the FB&H“, No. 61/01, 50/03 and 77/15),
54. Mediation Law („Official Gazette of the FB&H“, No. 49/07),
55. Law on Treasury of the FB&H („Official Gazette of the FB&H“, No. 26/16),
56. Law on Government of the FB&H („Official Gazette of the FB&H“, No. 1/94, 8/95, 58/02, 19/03, 2/06 and 8/06),
57. Law on Prosecutor's Office of the FB&H („Official Gazette of the FB&H“, No. 42/02 and 19/03),

58. Law on Courts in the FB&H („Official Gazette of the FB&H“, No. 38/05, 22/06, 63/10, 72/10-correction, 7/13 and 35/12),
59. Law on Enforcement Proceedings („Official Gazette of the FB&H“, No. 32/03, 52/03, 33/06, 39/06-correction, 39/09, 74/11, 35/12 and 46/16),
60. Law on Temporary Postponment of Fulfillment of Receivables Based on Executive Decisions Issued in Relation to the FB&H Budget („Official Gazette of the FB&H“, No. 9/04 and 30/04),
61. Law on Administrative Proceedings („Official Gazette of the FB&H“, No. 2/98 and 48/99),
62. Law on Administrative Disputes („Official Gazette of the FB&H“, No. 9/05),
63. Law on Civil Proceedings („Official Gazette of the FB&H“, No. 53/03, 73/05, 19/06 and 98/15),
64. Law on Non-Civil Proceedings („Official Gazette of the FB&H“, No. 2/98, 39/04, 73/05, 80/14, P.V. Art. 91 to 145),
65. Criminal Code of the FB&H („Official Gazette of the FB&H“, No. 36/03, 37/03, 21/04, 69/04, 18/05, 42/10, 42/11, 59/14, 76/14 and 46/16),
66. Law on Criminal Proceedings in the FB&H („Official Gazette of the FB&H“, No. 35/03, 37/03, 56/03, 78/04, 28/05, 55/06, 27/07, 53/07, 9/09, 12/10, 8/13 and 59/14),
67. Regulatory Offence Law of the FB&H („Official Gazette of the FB&H“, No. 44/98, 42/99, 12/09 and 42/11),
68. Law on Conflict of Interest in Government Bodies in the FB&H („Official Gazette of the FB&H“, No. 70/08),
69. Law on Financial-Information Agency („Official Gazette of the FB&H“, No. 80/11),
70. Law on Fiscal Systems („Official Gazette of the FB&H“, No. 81/09),
71. Law on Privatisation of Banks („Official Gazette of the FB&H“, No. 12/98, 29/00, 37/01 and 33/02),
72. Law on Archive Materials of the FB&H („Official Gazette of the FB&H“, No. 45/02),
73. Law on Recognition of Public Identification Documents on Territory of the FB&H („Official Gazette of the FB&H“, No. 4/98),
74. Law on Strike („Official Gazette of the FB&H“, No. 14/00),
75. Collective Employment Agreement for the Financial Sector („Official Gazette of the FB&H“, No. 29/14),
76. Property Law („Official Gazette of the FB&H“, No. 66/13 and 100/13),
77. Law on Budgets of the FB&H („Official Gazette of the FB&H“, No. 102/13, 9/14-corr. 13/14, 08/15, 91/15, 102/15 and 104/16),
78. Law on Citizenship of the Federation of B&H („Official Gazette of the FB&H“, No. 34/16),
79. Law on Voluntary Retirement/Pension Funds („Official Gazette of the FB&H“, No. 104/16),
80. Law on Financial Operations („Official Gazette of the FB&H“, No. 48/16);

IV. OTHER LAWS AND REGULATIONS OF B&H

1. Law on Central Bank of B&H („Official Gazette of B&H“, No. 1/97, 29/02, 8/03, 13/03, 14/03, 9/05, 76/06 and 32/07),
2. Law on Consumer Protection in B&H „(Official Gazette of B&H“, No. 25/06),
3. Law on Market Supervision in B&H („Official Gazette of B&H“, No. 45/04, 44/07 and 102/09),
4. Competition Law („Official Gazette of B&H“, Nos. 48/05, 76/07 and 80/09),

5. Law on Direct Foreign Investment Policy in B&H („Official Gazette of B&H“, No. 4/98, 17/98, 13/03 and 48/10),
6. Law on Protection of Personal Data („Official Gazette of B&H“, No. 49/06, 76/11 and 89/11-correction),
7. Law on Protection of Data Secrecy („Official Gazette of B&H“, No. 54/05 and 12/09),
8. Law on Electronic Signature („Official Gazette of B&H“, No. 91/06),
9. Decision on Use of Electronic Signature and Documents Certification Services („Official Gazette of B&H“, No. 21/09),
10. Law on Business Classification in B&H („Official Gazette of B&H“, No. 76/06, 100/08 and 32/10),
11. Law on Debt, Debt Raising and Guarantees in B&H („Official Gazette of B&H“, No. 52/05, 103/09 and 90/16),
12. Decision Approving Issuance of State Guarantees („Official Gazette of B&H“, No. 85/10),
13. Law on Settlement of Liabilities Based on Pre-War FC Savings („Official Gazette of B&H“, No. 28/06, 76/06, 72/07 and 97/11, 100/13),
14. Law on Accounting and Audit in B&H („Official Gazette of B&H“, No. 42/04),
15. Law on Determination and Manner of Settlement of Domestic Debt in B&H („Official Gazette of B&H“, No. 44/04),
16. Framework Law on Pledges („Official Gazette of B&H“, No. 28/04 and 54/04),
17. Law on Value Added Tax („Official Gazette of B&H“, No. 9/05, 35/05 and 100/08),
18. Law on Public Procurements in B&H („Official Gazette of B&H“, No. 39/14),
19. Law on Customs Duties („Official Gazette of B&H“, No. 58/12),
20. Law on Customs Violations in B&H („Official Gazette of B&H“, No. 88/05),
21. Patent Law („Official Gazette of B&H“, No. 53/10),
22. Law on Free Access to Information in B&H („Official Gazette of B&H“, No. 28/00, 45/06, 102/09, 62/11 and 100/13),
23. Law on Personal Identification Number („Official Gazette of B&H“, No. 32/01, 63/08 and 103/11),
24. Law on Associations and Foundations in B&H („Official Gazette of B&H“, No. 32/01, 42/03, 63/08, 76/11 and 94/16),
25. Law on Temporary Restriction over Disposing with State-owned Property in B&H („Official Gazette of B&H“, No. 18/05, 29/06, 85/06, 32/07, 41/07, 74/07, 99/07 and 58/08),
26. Law on Use and Protection of Name of B&H („Official Gazette of B&H“, No. 30/03, 42/04, 50/08 and 76/11),
27. Law on Fiscal Council of B&H („Official Gazette of B&H“, No. 63/08),
28. Law on the Treasury of B&H Institutions („Official Gazette of B&H“, No. 27/00 and 50/08),
29. Mediation Law („Official Gazette of B&H“, No. 37/04),
30. Law on Transfer of Mediation Business to Association of Mediators („Official Gazette of B&H“, No. 52/05),
31. Law on Enforced Collection of Indirect Taxes („Official Gazette of B&H“, No. 89/05 and 62/11),
32. Regulatory Offence Law („Official Gazette of B&H“, No. 41/07, 18/12 and 36/14),
33. Law on B&H Courts („Official Gazette of B&H“, No. 49/09 – consolidated text, 74/09-corr. and 97/09),
34. Law on High Judicial and Prosecutorial Council of B&H („Official Gazette of B&H“, No. 35/02, 39/03, 42/03, 10/04, 25/04, 93/05, 32/07 and 48/07),
35. Law on Prosecutor's Office of B&H („Official Gazette of B&H“, No. 49/09 – consolidated text and 97/09),

36. Law on Administrative Proceedings („Official Gazette of B&H", No. 29/02, 12/04, 88/07, 93/09, 41/13 and 53/16),
37. Law on Administrative Disputes in B&H („Official Gazette of B&H", No. 19/02, 88/07, 83/08 and 74/10),
38. Law on Civil Proceedings before the B&H Court („Official Gazette of B&H", No. 36/04, 84/07, 58/13 and 94/16),
39. Law on Enforcement Proceedings before the B&H Court („Official Gazette of B&H", No. 18/03),
40. Law on Temporary Postponement of Fulfillment of Receivables Based on Executive Decisions Issued in Relation to Budget of B&H Institutions and International Obligations of B&H („Official Gazette of B&H", No. 43/03 and 43/04),
41. Criminal Code of B&H („Official Gazette of B&H", No. 3/03, 32/03, 37/03, 54/04, 61/04, 30/05, 53/06, 55/06, 32/07, 8/10 and 47/14),
42. Law on Criminal Proceedings in B&H („Official Gazette of B&H", No. 3/03, 32/03, 36/03, 26/04, 63/04, 13/05, 48/05, 46/06, 76/06, 29/07, 32/07, 53/07, 76/07, 15/08, 58/08, 12/09, 16/09, 93/09 and 72/13),
43. Law on Conflict of Interest in Government Bodies of B&H („Official Gazette of B&H", No. 13/02, 16/02, 14/03, 12/04, 63/08, 18/12, 87/13 and 41/16),
44. Law on Archive Materials and Archives of B&H („Official Gazette of B&H", No. 16/01),
45. Law on Free Legal Aid („Official Gazette of B&H", No. 83/16),
46. Law on Prohibition of Discrimination („Official Gazette of B&H", No. 59/09 and 66/16),
47. Law on Employees Strike in Institutions of B&H („Official Gazette of B&H", No. 41/16),
48. Law on Execution of Criminal Sanctions, Detention and Other Measures („Official Gazette of B&H", No. 22/16 – consolidated text),
49. Law on Citizenship of B&H („Official Gazette of B&H", No. 22/16 – consolidated text),
50. Law on Salaries in Institutions of B&H („Official Gazette of B&H", No. 50/08, 35/09, 75/09, 32/12, 42/12, 50/12, 32/13, 87/13, 75 / 15, 88/15 and 16/16),
51. Law on Asylum („Official Gazette of B&H", No. 11/16).

ANNEX 3

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

in KM 000

No.	DESCRIPTION	31.12.2014	31.12.2015	31.12.2016
	ASSETS			
1.	Cash and deposit accounts with deposit-taking institutions	4 560 234	4 857 483	5 204 564
1a	Cash and non-interest bearing deposit accounts	618 460	1 058 837	2 418 582
1b	Interest-bearing deposits accounts	3 941 774	3 798 646	2 785 982
2.	Trading securities	586 704	882 829	1 075 588
3.	Loans to other banks	50 836	78 420	96 569
4.	Loans, receivables based on leasing facilities and past due receivables	11 170 277	11 610 744	12 270 228
4a	Loans	9 959 429	10 424 207	11 078 689
4b	Receivables based on leasing facilities	42	36	29
4c	Past due receivables based on loans and leasing facilities	1 210 806	1 186 501	1 191 510
5.	Held to maturity securities	214 585	167 377	150 575
6.	Business premises and other fixed assets	491 740	482 817	488 711
7.	Other real estate	34 120	34 077	42 266
8.	Investments in unconsolidated related companies	23 135	22 114	22 999
9.	Other assets	241 737	265 171	282 742
10.	LESS: value adjustments	1 222 838	1 239 307	1 252 208
10a	Value adjustments for Item 4. of the Assets	1 160 481	1 181 736	1 193 721
10b	Value adjustments for Assets items, except for the Item 4.	62 357	57 571	58 487
11.	**TOTAL ASSETS**	**16 150 530**	**17 161 725**	**18 382 034**
	LIABILITIES			
12.	Deposits	12 130 746	13 098 983	14 176 274
12a	Interest-bearing deposits	9 360 082	9 935 353	10 312 971
12b	Non-interest bearing deposits	2 770 664	3 163 630	3 863 303
13.	Borrowings – liabilities due	150	150	150
13a	Past due liabilities	0	0	
13b	Past due – invoked off-balance sheet liabilities	150	150	150
14.	Borrowings from other banks	0	0	
15.	Liabilities to the Government	0	0	
16.	Loan commitments and other borrowings	1 026 503	904 050	848 001
16a	With remaining maturity of up to one year	359 866	161 356	231 260
16b	With remaining maturity of more than one year	666 637	742 694	616 741
17.	Subordinated debt and subordinated bonds	156 233	119 835	119 678
18.	Other liabilities	417 395	468 719	529 811
19.	**TOTAL LIABILITIES**	**13 731 027**	**14 591 737**	**15 673 914**
	CAPITAL			
20.	Permanent preferred shares	11 959	11 709	8 828
21.	Common shares	1 221 591	1 155 783	1 207 049
22.	Issue premiums	136 485	132 667	138 786
22a	Over permanent preferred shares	88	88	88
22b	Over common shares	136 397	132 579	138 698
23.	Undistributed profit and capital reserves	618 214	836 609	864 475
24.	Foreign exchange rate differences	0	0	
25.	Other capital	115 520	117 486	173 248
26.	Loan loss provisions formed from profit	315 734	315 734	315 734
27.	**TOTAL EQUITY (20. to 25.)**	**2 419 503**	**2 569 988**	**2 708 120**
28.	**TOTAL LIABILITIES AND EQUITY (19 +26)**	**16 150 530**	**17 161 725**	**18 382 034**
	PASSIVE AND NEUTRAL SUB-BALANCE	**638 913**	**713 765**	**718 625**
	BALANCE SHEET TOTAL OF BANKS	**16 789 443**	**17 875 490**	**19 100 659**

ANNEX 4

OVERVIEW OF ASSETS, LOANS, DEPOSITS AND FINANCIAL RESULTS OF BANKS IN THE FEDERATION OF B&H as of 31.12.2016

in KM 000

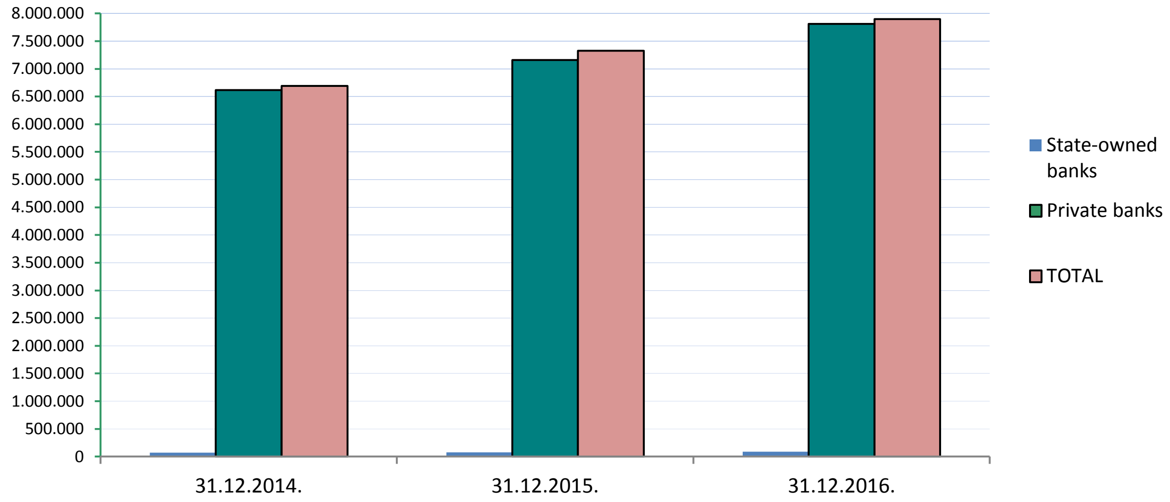
No.	BANK	Assets		Loans		Deposits		Fin. result
		Amount	%	Amount	%	Amount	%	Amount
1.	ASA BANKA dd - SARAJEVO	410 118	2.23%	274 441	2.24%	326 156	2.30%	1 826
2.	ADDIKO BANK dd - SARAJEVO	847 633	4.61%	554 145	4.52%	602 771	4.25%	-37 629
3.	BOR BANKA dd - SARAJEVO	350 258	1.91%	260 907	2.13%	234 676	1.66%	2 321
4.	BOSNA BANK INTERNATIONAL dd - SARAJEVO	818 543	4.45%	538 147	4.39%	553 283	3.90%	6 358
5.	INTESA SANPAOLO BANKA dd BOSNA I HERCEGOVINA	1 790 302	9.74%	1 277 155	10.41%	1 304 552	9.20%	27 098
6.	KOMERCIJALNO-INVESTICIONA BANKA dd - V.KLADUŠA	92 674	0.51%	50 339	0.41%	64 631	0.47%	1 422
7.	NLB BANKA dd - SARAJEVO	979 661	5.33%	688 288	5.61%	806 237	5.69%	10 513
8.	PROCREDIT BANK dd - SARAJEVO	372 031	2.02%	310 518	2.53%	237 871	1.68%	-876
9.	RAIFFEISEN BANK dd BiH - SARAJEVO	3 950 664	21.49%	2 309 696	18.82%	3 198 724	22.56%	52 529
10.	SBERBANK BH dd - SARAJEVO	1 162 534	6.32%	965 377	7.87%	907 777	6.40%	8 193
11.	SPARKASSE BANK dd BOSNA I HERCEGOVINA- SARAJEVO	1 189 896	6.47%	928 220	7.56%	962 586	6.79%	18 685
12.	UNION BANKA dd - SARAJEVO	520 387	2.83%	157 221	1.28%	451 115	3.18%	397
13.	UNICREDIT BANK dd - MOSTAR	4 730 987	25.74%	3 078 263	25.08%	3 745 498	26.42%	81 527
14.	VAKUFSKA BANKA dd - SARAJEVO	316 943	1.72%	216 344	1.76%	273 958	1.93%	688
15.	ZIRAATBANK BH dd - SARAJEVO	850 403	4.63%	661 167	5.39%	506 439	3.57%	196
	TOTAL	**18 382 034**	**100%**	**12 270 228**	**100%**	**14 176 274**	**100%**	**173 248**

ANNEX 5

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

in KM 000

	31.12.2014	31.12.2015	31.12.2016
State-owned banks	73 072	78 771	86 481
Private banks	6 618 891	7 156 178	7 810 404
TOTAL	**6 691 963**	**7 234 949**	**7 896 885**



ANNEX 6

CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET RISK-BEARING ITEMS
as of 31.12.2016
- CLASSIFICATION OF BALANCE SHEET ASSETS ITEMS –

in KM 000

No.	BALANCE SHEET ASSETS ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
l.	Short-term loans	2 171 453	190 383	7 026	6 856	985	2 376 703
2.	Long-term loans	7 805 350	557 716	191 360	95 357	8 513	8 658 296
3.	Other facilities	135 399	1 463	3	183	1 947	138 995
4.	Accrued interest and fees	35 224	3 664	1 476	4 694	24 179	69 237
5.	Past due receivables	43 182	22 363	12 616	304 490	782 322	1 164 973
6.	Receivables based on paid guarantees				36	26 501	26 537
7.	Other balance sheet assets being classified	597 764	3 233	643	1 357	35 231	638 228
8.	**TOTAL BALANCE SHEET ASSETS BEING CLASSIFIED (sum of items 1 through 7 – calculation basis for regulatory loan loss provisions)**	**10 788 372**	**778 822**	**213 124**	**412 973**	**879 678**	**13 072 969**
9.	**CALCULATED REGULATORY RESERVES FOR LOAN LOSSES BASED ON BS ASSETS**	**212 080**	**65 008**	**54 540**	**246 913**	**879 679**	**1 458 220**
10.	**VALUE ADJUSTMENT FOR BS ASSETS**	**134 817**	**53 630**	**83 137**	**227 123**	**753 501**	**1 252 208**
11.	**REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT FOR PURPOSE OF ASSESSED LOSSES BASED ON BS ASSETS**	**118 703**	**39 806**	**12 267**	**63 587**	**126 191**	**360 554**
12.	**FORMEED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**	**86 373**	**29 784**	**21 013**	**80 312**	**61 678**	**279 160**
13.	**SHORTFALL OF REGULATORY RESERVE FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**						**189 865**
14.	**BALANCE SHEET ASSETS NOT BEING CLASSIFIED (gross book value)**						**6 561 273**
15.	**TOTAL BALANCE SHEET ASSETS (gross book value)**						**19 634 242**

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	4 050 049
14.b	Demand deposits and term deposits up to one month located on accounts of banks with defined investment rating	991 779
14.c	Tangible and intangible assets	504 748
14.d	Financial and tangible assets acquired in the process of collection of receivables (within one year upon such acquisition)	13 880
14.e	Own (treasury) shares	
14.f	Receivables based on overpaid taxes	17 495
14.g	Trading securities	110 231
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	873 091
	TOTAL Item 14	**6 561 273**
8a.	Facilities secured with a cash deposit	184 467

ANNEX 6A

CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET RISK-BEARING ITEMS
as of 31.12.2016
- CLASSIFICATION OF OFF-BALANCE SHEET ITEMS -

in KM 000

No.	OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Payment guarantees	383 470	28 763	4 019	5 455	62	421 769
2.	Performance guarantees	599 873	85 159	6 148	4 771		695 951
3.	Uncovered letters of credit	49 600	290				49 890
4.	Irrevocably approved, but undrawn loans	1 545 409	88 809	1 024	331	174	1 635 747
5.	Other contingent liabilities of the bank	17 346	555	20	236	1 872	20 029
6.	**TOTAL OFF-BALANCE SHEDET ITEMS BEING CLASSIFIED (sum of items 1 through 5 – calculation basis for regulatory loan loss provisions)**	**2 595 698**	**203 576**	**11 211**	**10 793**	**2 108**	**2 823 386**
7.	**CALCULATED REGULATORY RESERVES FOR LOAN LOSSES RELATED TO OFF-BALANCE SHEET ITEMS**	**51 243**	**12 160**	**3 546**	**6 435**	**2 108**	**75 492**
8.	**LOSS RESERVES FOR OFF-BALANCE SHEET ITEMS**	**24 017**	**3 294**	**5 864**	**7 028**	**2 060**	**42 263**
9.	**REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**	**31 972**	**10 489**	**366**	**1 590**	**48**	**44 465**
10.	**FORMED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**	**24 270**	**9 418**	**635**	**2 104**	**147**	**36 574**
11.	**SHORTFALL OF REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**						**12 236**
12.	**OFF-BALANCE SHEET ITEMS NOT BEING CLASSIFIED**						**396 446**
13.	**TOTAL OFF-BALANCE SHEET ITEMS**						**3 219 832**
6a.	**Contingent liabilities secured with a cash deposit**						**33 446**
6b.	**Approved undisbursed loans with a clause on unconditional cancellation**						**614 279**

ANNEX 7

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

in KM 000

No.		D E S C R I P T I O N	31.12.2014	31.12.2015	31.12.2016
1.		**INTEREST INCOME AND EXPENSES**			
	a)	Interest income and similar income			
	1)	Interest-bearing deposit accounts with deposit-taking institutions	3 459	1 574	1 877
	2)	Loans to other banks	2 199	1 693	1 599
	3)	Loans and leasing facilities	692 603	689 317	671 168
	4)	Held to maturity securities	7 246	6 393	5 467
	5)	Equity securities	1 307	49	35
	6)	Receivables based on paid-off balance sheet liabilities	7	3	3
	7)	Other interest income and similar income	63 895	67 095	72 007
	8)	**TOTAL INTEREST INCOME AND SIMILAR INCOME**	**770 716**	**766 124**	**752 156**
	b)	Interest expenses and similar expenses			
	1)	Deposits	192 455	172 146	142 618
	2)	Borrowings from other banks	0	0	0
	3)	Borrowings taken – liabilities due	0	0	0
	4)	Liabilities based on loans and other borrowings	18 880	14 823	11 410
	5)	Subordinated debt and subordinated bonds	11 206	7 834	7 352
	6)	Other interest and similar expenses	1 877	1 827	3 767
	7)	**TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES**	**224 418**	**196 630**	**165 147**
	c)	**NET INTEREST AND SIMILAR INCOME**	**546 298**	**569 494**	**587 009**
2.		**OPERATING INCOME**			
	a)	FX income	45 760	49 261	51 471
	b)	Loan fees	6 658	8 376	9 738
	c)	Fees based on off-balance sheet items	25 160	24 334	22 813
	d)	Service fees	208 544	223 395	243 028
	e)	Trading income	219	290	368
	f)	Other operating income	39 580	42 305	54 811
	g)	**TOTAL OPERATING INCOME a) to f)**	**325 921**	**347 961**	**382 229**
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	148 251	157 747	111 305
	2)	Other business and direct expenses	80 006	89 577	98 593
	3)	**TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)**	**228 257**	**247 324**	**209 898**
	b)	Operating expenses			
	1)	Costs of salaries and contributions	248 007	248 495	243 892
	2)	Costs of business premises, other fixed assets and utilities	152 243	159 665	154 963
	3)	Other operating expenses	105 326	117 274	158 184
	4)	**TOTAL OPERATING EXPENSES 1) to 3)**	**505 576**	**525 434**	**557 039**
	c)	**TOTAL NON-INTEREST BEARING EXPENSES**	**733 833**	**772 758**	**766 937**
4.		**PROFIT BEFORE TAXES**	**187 898**	**245 939**	**240 952**
5.		**LOSS**	**49 512**	**101 242**	**38 651**
6.		**TAXES**	**21 304**	**26 567**	**28 772**
7.		**PROFIT BASED ON INCREASE OF DEFERRED TAX FUNDS AD REDUCTION OF DEFERRED TAX LIABILITIES**	**39**	**309**	**386**
8.		**LOSS BASED ON REDUCTION OF DEFERRED TAX FUNDS AND INCREASE OF DEFERRED TAX LIABILITIES**	**1 601**	**953**	**667**
9.		**NET PROFIT 4. - 6.**	**166 388**	**219 594**	**211 753**
10.		**NET LOSS 4. - 6.**	**50 868**	**102 108**	**38 505**
11.		**FINANCIAL RESULT 9.-10.**	**115 520**	**117 486**	**173 248**

ANNEX 8

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

in KM 000

No.	DESCRIPTION	31.12.2014.	31.12.2015.	31.12.2016.
	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	1 217 909	1 151 971	1 203 237
1.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	12 550	12 431	12 431
1.3.	Amount of issue premiums earned upon payment of shares	136 485	132 667	138 786
1.4.	General mandatory reserves (reserves mandated by the law)	106 051	163 794	143 166
1.5.	Other reserves from profit after tax based on the decision of the Bank's assembly	409 634	427 706	529 121
1.6.	Retained, undistributed profit from previous years and current year's profit	108 756	122 065	141 073
1.a.	**TOTAL (1.1 to 1.6)**	**1 991 385**	**2 010 634**	**2 167 814**
1.b.	Deductible items from 1.a			
1.7.	Uncovered losses from previous years	122 705	28 371	16 690
1.8.	Current year's loss	50 868	102 108	42 314
1.9.	Book value of own (treasury) shares of the bank	81	102	3 034
1.10.	Intangible assets in accordance with the applicable accounting framework	41 873	49 837	47 315
1.11.	Amount of deferred tax assets	2 780	1 641	1 881
1.12.	Amount of negative revalorised reserves based on the effect of the change in the fair value of assets	1 282	1 696	1 063
1.b.	TOTAL (1.7. to 1.10)	219 589	183 755	112 297
1.	**AMOUNT OF CORE CAPITAL: (1.a. - 1.b.)**	**1 771 796**	**1 826 879**	**2 055 517**
	SUPPLEMENTARY CAPITAL OF THE BANK			
2.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	3 091	3 090	209
2.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	0	0	0
2.3.	General loan loss provisions for the category A – performing assets	229 895	208 619	170 420
2.4.	Amount of positive revalorised reserves based on the effect of the change in the fair value of assets	23 703	9 735	9 741
2.5.	Current year profit – audited and confirmed by an external audit	0	0	0
2.6.	Profit amount for which the FBA issues an order restricting its disbursement	154 814	107 918	103 122
2.7.	Amount of subordinated debt	0	0	0
2.8.	Amount of hybrid convertible items – capital instruments	1 419	1 422	1 425
2.	**AMOUNT OF SUPPLEMENTARY CAPITAL: (2.1 to 2.8)**	**412 922**	**330 784**	**284 917**
	DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL			
3.1.	Portion of invested share capital that, according to the FBA, represents a received, but over-appraised value	0	0	0
3.2.	Capital contributions of other legal entities exceeding 5% of the bank's core capital	1 678	1 007	0
3.3.	Receivables from shareholders with significant voting rights – approved by the bank contrary to Law provisions, FBA regulations and the bank's work policy	1 509	755	0
3.4.	LCRE towards shareholders with significant voting rights in the bank (no FBA approval required)	0	0	0
3.5.	LLP shortfall as per regulatory requirement	199 890	204 559	**200 035**
3.	**AMOUNT OF DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL: (3.1 to 3.5)**	**203 077**	**206 321**	**200 035**
A.	**NET CAPITAL OF THE BANK (1.+2.-3.)**	**1 981 641**	**1 951 342**	**2 140 399**
B.	**RISK OF BALANCE AND OFF-BALANCE ASSETS**	**11 394 469**	**11 918 650**	**12 667 026**
C.	**WEIGHTED OPERATIONAL RISK**	**982 250**	**976 734**	**1 001 018**
D.	**WEIGHTED MARKET RISK**	**0**	**0**	**0**
E.	**TOTAL ASSETS RISK B+C+D**	**12 376 719**	**12 895 384**	**13 668 044**
F.	**NET CAPITAL RATE (A/E) (% 1 dec.)**	**16.0%**	**15.1%**	**15.7%**

ANNEX 9

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

No.	BANK	31.12.2014	31.12.2015	31.12.2016
1	ASA BANKA dd - SARAJEVO	164	125	211
2	ADDIKO BANK dd - SARAJEVO	513	490	435
3	BOR BANKA dd - SARAJEVO	64	66	139
4	BOSNA BANK INTERNATIONAL dd - SARAJEVO	312	341	371
5	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	521	537	561
6	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	75	77	77
7	MOJA BANKA d.d. - SARAJEVO	142	133	
8	NLB BANKA dd - SARAJEVO	430	424	444
9	PRIVREDNA BANKA d.d - SARAJEVO	164	142	
10	PROCREDIT BANK dd - SARAJEVO	291	248	206
11	RAIFFEISEN BANK dd BiH - SARAJEVO	1 478	1 355	1 312
12	SBERBANK BH dd - SARAJEVO	435	420	425
13	SPARKASSE BANK dd BOSNA I HERCEGOVINA-SARAJEVO	475	471	521
14	UNION BANKA dd - SARAJEVO	202	181	192
15	UNICREDIT BANK dd - MOSTAR	1 216	1 208	1 225
16	VAKUFSKA BANKA dd - SARAJEVO	231	200	197
17	ZIRAATBANK BH dd - SARAJEVO	247	265	299
	TOTAL	6 960	6 683	6 615