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. 2014

Sarajevo, March 2015

The Banking Agency of the Federation of B&H, as a regulatory institution conducting banking supervision, has prepared the Information on the Banking System of the Federation of B&H (as of 31.12.2014) based on financial statements and other information and data provided by banks. This also encompasses results and information obtained during on-site examinations in banks and off-site financial analyses in the Agency.

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I INTRODUCTION

Operations of the banking sector in 2014 were also characterised by an unfavourable environment and conditions of stagnating economic development resulting from the global financial and debtor crisis, recession and the absence of economic growth in countries of the EU zone. Modest economic growth, the difficult situation in the real sector and numerous domestic problems caused by the political situation in the country, limited access to stable sources of financing coupled with the natural disasters (floods and landslides) that hit businesses and the population in B&H in summer and spring have all adversely reflected upon the condition and prospects in the banking sector. Despite all these negative factors, in 2014, 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 31.12.2014, there were 17 licensed banks in the Federation of B&H, as was the case at the end of 2013. In 2014, the trend of a slight decline in the number of bank employees in the FB&H continued. As of 31.12.2014, the headcount amounted to 6 960, down by 91 employees or 1% compared to the end of 2013.

In 2014, a slightly higher increase in the balance sheet total was recorded compared to 2013, which is a positive sign, 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 31.12.2014 amounted KM 16.2 billion, thus posting an increase in the amount of KM 719 million or 4.7% compared to the end of 2013. The increase in the balance sheet total is primarily the result of the increase in deposits and total capital, while the downward trend of loan commitments was continued in 2014. The asset structure saw minor changes related to two key material items: the reduction of the share of loans from 70.3% to 69.1% and cash funds from 28.6% to 28.2%

Loans, being the largest assets item in banks, recorded an increase of 2.9% or KM 318 million and reached an amount of KM 11.2 billion at the end of the year. Retail loans amount to KM 5.4 billion and recorded an increase of 5% or KM 253 million, with a share of 48.8% in total loans. Loans to legal entities amount to KM 5.8 billion and are at the same level they were at as of the end of 2013, with a share of 51.2%.

Loan quality indicators have improved for the first time, after a long period, at the end of 2014 compared to the end of 2013, which particularly reflected upon the sector of legal entities. The sale of a portion of the loan portfolio (NPLs) in one bank and a permanent write-off had a positive effect on the ratio of the share of non-performing loans in total loans, which is down from 14.6%, to which it amounted at the end of 2013, to 13.9%, to which it amounts as of 31.12.2014. The share of non-performing loans granted to legal entities in relation to total corporate loans is still worryingly high and amounts to 17.9%, while the share of non-performing retail loans in relation to total retail loans amounts to 9.7%. The aforementioned is the result of the situation in the real sector and the effects of the economic crisis on the overall economy of B&H, due to which the loan portfolio of legal entities is of a significantly poorer quality than that of the retail sector.

Cash funds amounted to KM 4.6 billion or 28.2% of the balance sheet total of banks in the FB&H and recorded an increase of 3.2% or KM 142 million compared to the end of 2013.

Investments in securities are an assets item that recorded a very high increase of 42.5% or KM 239 million in 2014, and amounted to KM 801 million as of 31.12.2014, with a 5% 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 12.1 billion with a share of 75.0% continued to be the most significant source of funding for banks in the FB&H, and they increased by 5.3% or KM 607 million in 2014. 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 6.7 billion at the end of 2014, which is up by 7.9% or KM 491 million compared to the end of 2013. Savings deposits, compared to the end of 2008, when they amounted to KM four billion, increased by 67.5% or KM 2.7 billion in the previous period.

As of 31.12.2014, loan commitments of banks amounted to KM one billion or 6.4% of total sources of funding and are down by KM 13 million or 1.2% compared to the end of 2013. In the last six 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 55% or KM 1.2 billion (at the end of 2008, they amounted to KM 2.2 billion). In that same period, sources of funding for banks in the FB&H (loans taken, deposits and subordinated debt) from their group (parent banks and other group members) decreased by 62% or KM 2.1 billion. It is evident that the financial support of parent groups decreased significantly, and thus credit growth in the FB&H will be based more on the increase in domestic sources of funding in the period to come.

As of 31 12.2014, total capital of banks amounted to KM 2.43 billion, up by 5.5% or KM 127 million compared to the end of 2013. Increase on the basis of profit and the recapitalisation of three banks had the largest positive impact on capital. Regulatory capital is KM 2.2 billion and down by 5% or KM 110 million compared to the end of 2013, with minor changes in its structure. The change in the capital structure was also influenced by the application of the provisions of the new Decision on Minimum Standards for Capital Management in Banks and Capital Hedge.

The capital adequacy ratio of the banking system, as one of the most important indicators of the strength and capital adequacy of banks, is 16.1% as of 31.12.2014, which is down by 1.9 percentage points compared to the end of 2013, when it was 18.0%, but still significantly above the legal minimum (12%), which represents a satisfactory capitalisation of the overall system and a strong foundation and basis for preserving its security and stability.

According to unaudited data from the income statement for 2014, banks in the Federation of B&H have recorded the best financial result so far, profit in the amount of KM 131 million. The positive financial result was recorded by 15 banks in the total amount of KM 167 million, while two banks posted a loss in the amount of KM 36 million.

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

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

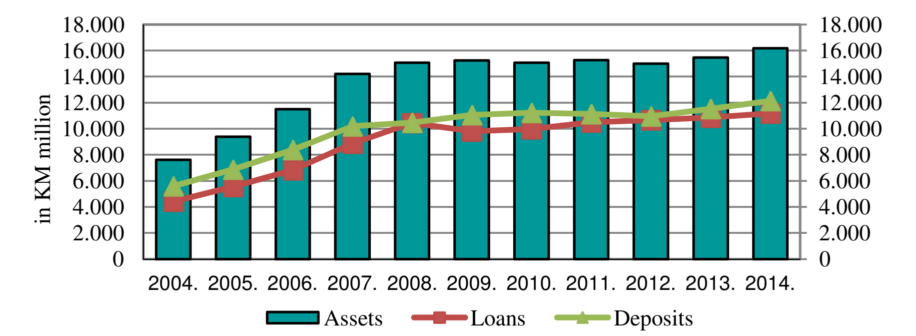
	State-owned banks	Private banks	TOTAL
31.12.2009	2	18	20
Changes in 2010			
- licences revoked	-1		-1
31.12.2010	1	18	19
There were no changes in 2011.			
31.12.2011	1	18	19
Changes in 2012			
- licences revoked		-1	-1
31.12.2012	1	17	18
Changes in 2013			

- licences revoked		-1	17
31.12.2013	1	16	17
There were no change sin 2014.			
31.12.2014	1	16	17

Balance Sheet

Over the past five years, due to the effects of the economic and financial crisis, 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. The slight positive trends from 2013 continued in 2014 as well, i.e. the increase in the balance sheet total as a result of the 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. The lending segment continues to display a positive trend of slight growth from the past four years. Banks' assets posted a modest growth of 4.7% or KM 719 million, thus amounting to KM 16.2 billion. In the period from 2009 to 2013, the balance sheet total ranged from KM 15 billion to KM 15.5 billion, i.e. it oscillated within +/- KM 470 million (the lowest level being KM 15 billion as of the end of 2012), while the rates oscillated within +/- two percentage points. In 2014, a slightly higher growth rate (4.7%) was recorded, which represents a positive sign and it is to be expected that the same trend will continue in the period to come.

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



The growth of the balance sheet total by 4.7% or KM 719 million compared to the end of 2014 is the result of an increase in deposits in the amount of of 5.3% or KM 607 million and the increase in total capital in the amount of 5.5% or KM 127 million. In 2013, the trend of reducing loan commitments continued, but at a slightly lower rate (1.2% or KM 13 million). As of the end of 2014, deposits amounted to KM 12.1 billion, total capital to KM 2.4 billion and loan commitments to KM one billion.

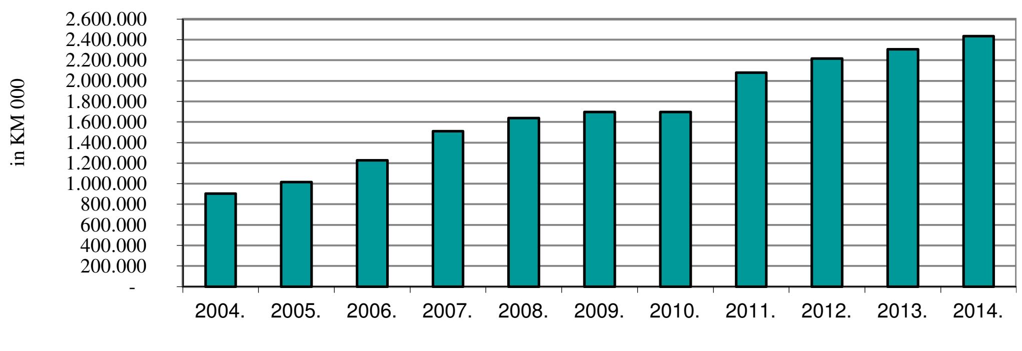
In terms of the assets of banks, the key item, with a share of 69.1%, are loan facilities, which increased by 2.9% or KM 318 million in 2014 and amount to KM 11.2 billion. The most significant changes relate to two sectors. Retail loans rose by 5% or KM 253 million, thus amounting to KM 5.4 billion and having a share of 48.8% in total loans. The other sector are loans granted to government institutions, with a significant increase in the amount of 34% or KM 48 billion, but with a loan amount of KM 190 million, this sector still had a low share of 1.7% at the end of 2014. Private companies, along with retail, are the second dominant sector, holding a share of 46.7%, with it being noted that the loan amount of KM 5.2 billion is almost at the same level it was at as of the end of 2013.

Cash funds saw an increase of 3.2% or KM 142 million and amounted to KM 4.6 billion, thus holding a share of 28.2% in assets

Deposits, with a share of 75.0% in total sector liabilities and the amount of KM 12.1 billion, are still the most significant source of funding for banks in the FB&H, while retail deposits with a share of 56.6% and the amount of KM 6.9 billion are the largest sectoral source of deposits.

Total capital of banks amounted to KM 2.4 billion (share capital KM 1.2 billion), up by 5.5% or KM 127 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

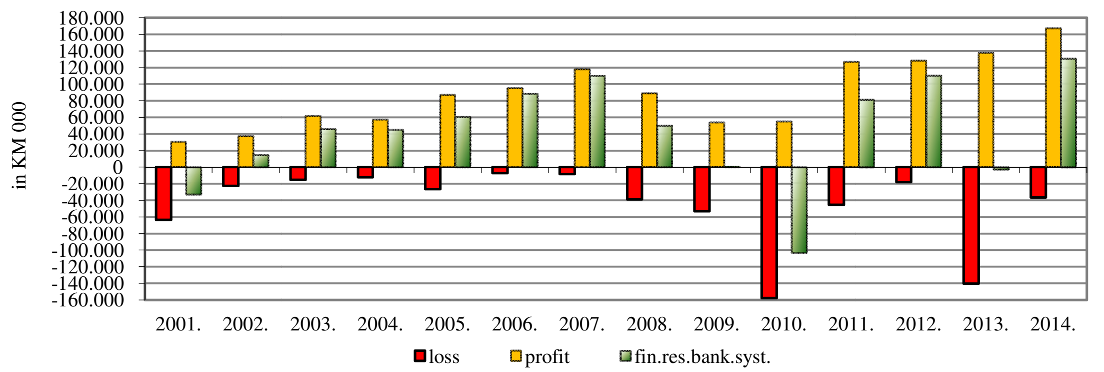
After 2001, when a loss in the amount of KM 33 million was recorded at system level, a positive trend of a successful business operations began, which was halted as a result of the expansion of the global economic and financial crisis in 2008, and thus there has been a significant decline in the profitability 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 loss was recorded at system level, only for the banking sector to achieve the best financial result since 1996 in 2014. 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 2014, banks in the Federation of B&H posted a financial result-profit in the amount of KM 131 million.

A positive financial result of KM 167 million was generated by 15 banks, with the aforementioned being up by 21% or KM 30 million compared to 2013 (14 banks, KM 138 million). At the same time, a loss in business operations in the amount of KM 36 million was recorded in two banks and it is four times lower or lower by KM 104 million compared to the previous year, largely as a result of the significantly lower loss of one large bank.

The reason for the significant increase in the financial result of the entire sector in 2014 is primarily the effect of the significantly lower recorded loss of one bank (the effect is KM 106 million), as well as higher profit in banks that had positive business operations in the previous year (the effect is KM 31 million). Although most banks recorded a better financial result-profit compared to the previous year, the trend of deteriorating asset quality, although slower, continued in 2014 in a large number of banks, leading to 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 2014 amounted to KM 874 million and is up by 2% or KM 15 million compared to 2013, net interest income amounted to KM 546 million, with an increase of a slight 1% or KM five million and a share in the total income structure reduced from 63.1% to 62.5%. Operating income, as the second component of total income, saw an increase of 3% or KM 10 million, amounting to KM 327 million, which is almost the same share of 37% as at the end of 2013. As far as expenses are concerned, value adjustment costs are down by a high 41% or KM 95 million compared to 2013 (of which 85% or KM 81 million refer to only one bank, with that being related to the sale of a part of this bank's non-performing loans), amounting to KM 138 million (15.8% of total income), which is why total non-interest expenses saw a significant drop of 15% or KM 123 million, i.e. were recorded in the amount of KM 721 million.

• ***Ownership Structure:*** At the end of 2014, the ownership structure of banks in the Federation of B&H was as follows: one bank in majority state ownership, and out of 16 banks in majority private ownership, six banks were in majority ownership of domestic legal entities and natural persons (residents), while 10 banks were in majority foreign ownership. According to the criterion of the owner-shareholder's country of origin, i.e. the criterion of direct or indirect majority ownership through group members, at the end of 2013, the highest share was that of banking groups and banks from Austria (52.6%), followed by Italian banks (15.6%), while other countries have a share of less than 7.3%.

In 2014, 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 31.12.2014. The state capital's share of 2.6% was reduced by 0.1 percentage points. Foreign capital was nominally increased by KM 21 million, thus amounting to KM one billion, and its share was reduced from 84.5% to 84.2%. Private capital (residents) saw an increase of KM nine million, amounting to KM 162 million, and its share in total share capital increased from 12.8% to 13.2%.

• ***Concentrations and competition:*** As far as concentrations and competition in the banking market of the Federation of B&H are concerned, in the fight for clients and a greater market share, the banks entered into acquisition and integration processes through mergers/acquisitions in the years prior to the crisis. However, in the past six years, the period of action of the economic and financial crisis, there were no mergers/acquisitions of banks, but the number of banks is lower by three due to the revocation of those banks' banking licences, with it being noted that, at the end of 2014, there were 17 banks in the Federation of B&H. The assessment of financial experts is that, following the end of the integration processes, up to 15 strong banks will remain in the system. Namely, six to seven major banks in foreign ownership will control 90% of the market, which they already rule expertly, while smaller banks will stand out as local and/or regional banks.

The system is dominated by the two largest banks with a total share of 47.5% (at the end of 2013, 48.8%), with assets in the amount of KM four billion and KM 3.7 billion. They are followed by three banks (assets between KM one and 1.4 billion) with a share of 21.6%. The largest number of banks (eight) has assets in the amount of less than KM 500 million and a market share of 11.8%, one of which has assets in the amount of less than KM 100 million and a slight share of 0.5%. Four banks have assets between KM 500 million and KM one billion and a share of 19.1%.

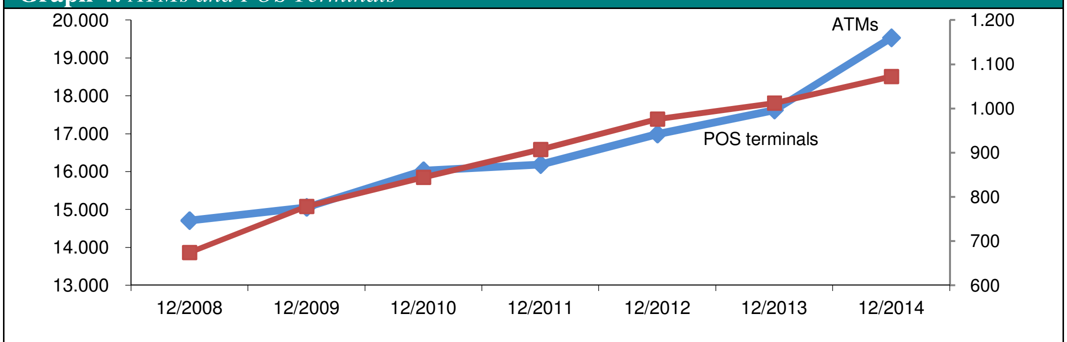
One indicator of concentration in the banking system is the market concentration ratio, i.e. the concentration ratio[1] (hereinafter: CR), which indicates the total share of the five largest institutions in the system in selected relevant categories. CR5 as an indicator of market share (assets) amounted to 69.1% in the banking system in the Federation of B&H at the end of 2014, and to 70.6% for loans and deposits (2013: assets 71.6%, loans 71.1% and deposits 72.5%), but the domination of the two largest banks in the system that „hold" 50% of the market is still evident.

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 2014, 60 new ATMs were installed, and at the end of the year their number was 1 072. The number of POS terminals, compared to the previous year, increased significantly, i.e. by 15% or 1 905, so that their number was 19 530 at the end of 2014.

Graph 4: *ATMs and POS Terminals*



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.

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

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

According to local and foreign officials, over the past 18 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 2014. A provisional administration was introduced in one bank on the basis of an order issued by the High Representative to B&H. Provisional administration measures was imposed on 25 banks.

Out of the 27 banks that were subjected to these measures, the process was finalised with respect to 20 banks and there are 7 banks undergoing the process as of 31.12.2014.

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

- 10 banks underwent bankruptcy proceedings before competent courts. This process was finalised in 7 banks and is still pending in 3 remaining banks.
- 10 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 4 remaining banks;
- 4 banks got merged to other banks;
- 3 banks recovered and resumed their operations. One bank underwent a recapitalisation and was privatised, the second one also underwent a recapitalisation and the third one solved its status issues and appointed management bodies, thus resuming itsregular course of business.

2. BANKING SUPERVISION

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

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

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

During 2014, the FSAP (Financial Sector Assessment Program) was conducted in B&H. IMF and WB experts participated in the FSAP Mission. The main objective of this assessment was the assessment of financial stability, the identification of weaknesses and the development of the entire financial sector, banking supervision quality, the development of legal framework, standards of corporate governance, etc. In addition to the FBA, the subject of the assessment in B&H were all relevant institutions of the financial sector.

The FSAP Mission included the following in the assessment: financial sector risk and its vulnerability, self-assessment of compliance with the BCPs, quality of financial sector supervision, systemic liquidity management, protection mechanisms for the financial sector, a framework for resolving insolvency and macroprudential policy, the banking sector's resilience to stress; financial safety net, corporate governance, corporate reporting, financial inclusion, insolvency and creditors' rights regimes, deposit insurance, corporate financial reporting, capital markets and the governance of banks in state and majority state ownership.

The FBA has adopted regulations, their improvement and extension, as well as made operational decisions within its competences, while taking all the prescribed steps whose main goal was for banks to ensure the legality, full implementation of the FBA's regulations and all generally accepted principles and practices to the fullest extent in their operations in the interest of their, especially in conditions of a pervasive recession, careful and successful business operations. Additonally, 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 possible level with respect to 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. Along with all this, the FBA has continuously encouraged the banks, especially those that dominate the system, to strengthen their financial potential through additional special support of their foreign parent banks as well.

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

Activities related to the proper application of IAS/IFRS in banks were significant in 2014 as well. As a special supervisory tool in 2014, at the recommendations of the IMF mission, AQRs (detailed asset reviews) were carried out in 4 banks by an external auditor and in accordance with a special framework prescribed by the FBA. The FBA used the findings of the AQRs in its supervision procedures for those banks. As part of the off-site supervision of banks, the system of monitoring banks through the implementation of two important projects, as additional off-site supervision tools, has been enhanced: 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.

In early 2012, FBA decisions related to the management of information systems and outsourcing risk in banks entered into force, and the compliance of banks in this business segment was monitored during 2014 through targeted examinations.

During 2014, there was a continuation of the activities to develop a regulatory framework through the draft of the new Banking Law and the legal framework for the recovery of banks; the Decision on Minimum Standards for Capital Management in Banks and Capital Hedge, amendments to the Decision on Minimum Standards for Liquidity Risk Management in Banks; the Decision on Provisional Measures for the Treatment of Loan Commitments of Bank Clients Affected by Natural Disasters, the drafting of by-laws in accordance with the Law on Guarantor Protection in the FB&H and the Law on Protection of Users of Financial Services in the FB&H. Also, the activities to implement Basel II, EU directives and draft legislation in accordance with the adopted Strategy and the annual plans for the development of regulations in the context of this project were continued.

In 2014, the FBA, together with the International Monetary Fund, 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. The methodology for determining a list of systemically important banks in B&H has also been adopted.

In the context of fulfilling the obligations under the stand-by arrangement, the FBA, together with representatives of the IMF mission, regularly and on a quarterly basis reviewed and analysed the impact 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 cooperation with the BARS and the Deposit Insurance Agency as part of creating a regulatory framework, regularly exchanging information and joint actions was continued. A continuous exchange of information within banking coordination and the SCFS (Standing Committee for Financial Stability) was also carried out, and the FBA has actively participated in the working group’s activities with respect to drafting the SCFS’s Comprehensive Plan of Action in Crisis Situations, which was adopted in December 2014.

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.

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 2014, the FBA had, together with the Central Bank of B&H 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 with the competent supervisory authorities of the Republic of Slovenia, the Republic of Croatia, the Republic of Serbia, Montenegro and the Republic of Turkey. The 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 2014, 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 (European Central Bank) 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, especially as part of the implementation of the FSAP project.

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 ECB. Accordingly, in the first phase of information exchange with the ECB, the FBA consented to national regulators – that are members of the ECB – forwarding data they receive from the FBA and the ECB in the context of the supervision of credit institutions that have subsidiaries on the territory of the FB&H and are under the supervision of the ECB. In the second phase, the signing of a joint cooperation agreement with the ECB is expected.

For the purpose of promoting the efficient 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. The EBA will perform or update the confidentiality/professional confidentiality regime assessments accordingly. The FBA is involved in the assessment process by the EBA on the equivalence of domestic regulations in this area with EU regulations.

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 European Central Bank and a group of European central banks, in 2014, the FBA at all times supported the idea of unifying banking supervision at state level, because it is recognised that, for many pragmatic reasons, without the establishment of such supervision of major segments of the financial system, the road toward the European Union is impossible. European experts have also confirmed that „banking supervision is truly organised at state level in European countries, whether under the patronage of the central bank or outside it“, and that „...membership in the European Union implies the establishment of a single banking market leading toward unified supervision“.

The increasingly aggressive globalisation and development of the banking industry, as well as the upgrade and evolution of supervisory principles, rules and standards, but also the painful reflections of the current global financial and economic crisis that has „taught“ everything and everyone affected many lessons, have shown that especially banking supervisors must constantly be up-to-date and continuously develop their knowledge, skills and tools for more efficient action in the exercising of their mission. For all these reasons, and for reasons of hiring of new, especially young employees, in 2014, 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 2014 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 by examinations of issued orders, the analysis of reports banks submit to the FBA, and based on information from external sources.

Taking into account all of the above, it can be concluded that there are no reasons for supervisory concern with respect to managing the risks of money laundering and terrorism financing. The quantity of risk has stayed within moderate limits. The quality of managing the risks that can appear in the banks' operations as a result of money laundering and terrorism financing (reputation risk, operational risk, legal risk, concentration risk in assets and deposits) in the banking sector of the Federation of Bosnia and Herzegovina remains satisfactory, but now with a slight upward trend. Accordingly, 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. 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, with the status of issued orders confirming the recognised upward trend in the quality of managing the risk of money laundering and terrorism financing.

Client Identification

Banks have adopted client identification as a key element of the „know your customer“ standard. The client identification policy is being applied by banks upon establishing business relationships with clients. However, the problem with respect to updating the documentation used in verifying the completed identification of already established business relationships is still present. In addition to difficulties with documentation updates, another problem concerns the identification and verification of sources of funding used by clients to perform transactions related to the payment of loan annuities. The observed upward trend in the quality of managing this risk is not characteristic of the client identification policy.

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. The observed upward trend in the quality of managing the risk of money laundering and terrorism financing is characteristic of this policy as well.

Managing the Risk of Money Laundering and Terrorism Financing

The elements of the aforementioned policy are outlined in the banks' programmes. They have defined reporting lines, both internal and external.

Reporting: In 2014, banks have reported 248 536 transactions, which is 0.33% of total transactions carried out in the banking system of the Federation of Bosnia and Herzegovina (75 323 169 of carried out transactions, according to bank data) in the amount of KM 12 550 795 thousand, thus constituting 9.50% of the total value of transactions carried out in the banking system of the Federation of Bosnia and Herzegovina (KM 132 244 489 thousand according to bank data). The number of transfers reported in 2014 is up by 2.00% compared to the previous year, and their value is up by 3.00%.

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 2013		Transfer sin 2014		%	
		Number	Value	Number	Value	Number	Value
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	**Total reported transfers (2+3+4)**	**243 741**	**12 182 777**	**248 536**	**12 550 795**	**102.0**	**103.0**
2.	Transfers reported before their execution	13	5 380	13	24 640	100.0	450.0
3.	Transfers reported within 3 days	243 605	12 151 455	248 346	12 515 291	102.0	103.0
4.	Transfers reported after 3 days	123	25 942	177	10 864	143.9	41.9

The structure of reported transactions shows a major increase in the value of transfers reported before their execution compared to the previous year (450.00%), while the number of these transfers has remained the same (100.00%). This leads to the conclusion that banks act preventively regarding anti-money laundering and combating of terrorism financing, but that uncommon and suspicious indicators were spotted only in terms of larger transactions. However, since the number is up by 43.90% and the value is down by 58.10% of transfers reported upon the expiry of the 3-day deadline, the conclusion that, in 2014, banks were focused on preventive action and on transactions of significant amounts and that corrective actions were thus focused on smaller transaction amounts is reasonable. This confirms that banks have developed policies and procedures for preventive action in order to improve the achieved quality of managing the risk of money laundering and terrorism financing and additionally eliminated the risks of money laundering and terrorism financing in their operations, which was reflected in the upward trend in the quality of risk management. The number of transfers reported within the prescribed period is in accordance with the increased number and value of total reported transfers.

Suspicious transactions: In their reports, banks have tagged 50 transfers as suspicious and they all relate to money laundering. There were no reported transfers suspected of terrorism financing. The number of reported suspicious transfers is down by 25.40% compared to the previous year. The value of these transfers amounts to KM 31 563 thousand, which is down by 28% compared to the previous year.

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	Transfer sin 2013		Transfers in 2014		%	
		Number	Value	Number	Value	Number	Value
1	2	3	4	5	6	7 (5/3)	8(6/4)
1.	**Total reported transfers**	**67**	**43 828**	**50**	**31 563**	**74.6**	**72.0**
2.	Transfers reported before their execution	13	5 380	13	24 640	100.0	458.0
3.	Transfers reported within 3 days	30	16 469	21	2 529	70.0	15.4
4.	Transfers reported after 3 days	24	21 979	16	4 394	66.7	20.0

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 13 cases of preventive action of banks, in which banks submitted reports on suspicious transactions to the Financial Intelligence Department prior to their execution. There are 21 cases of quality monitoring, in which banks spotted suspicious transaction characteristics in the period of 3 days and submitted reports on it, while the other 16 cases refer to insufficient quality monitoring because the transactions were detected and reported after the prescribed deadline for reporting.

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

1. BANKING SECTOR STRUCTURE

1.1. Status, Number and Network of Branches

As of 31.12.2014, there were 17 banks with a banking licence in the Federation of B&H. The number of banks is the same as on 31.12.2013. 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 2014, 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 62 such changes among banks in the Federation of B&H (53 changes on the territory of the Federation of B&H, eight changes on the territory of Republika Srpska and one in Brčko District): 13 new organisational units were established, 20 were closed and 29 underwent changes.

Subsequent to such changes, banks in the Federation of B&H had a total of 571 organisational units as of 31.12.2014, down by 1.6% compared to 2013.

The number of organisational units of banks from Republika Srpska in the Federation of B&H (32) changed compared to 31.12.2013, when there were 26 organisational units, which is a increase of 23%.

As of 31.12.2014, seven banks from the Federation of B&H had 48 organisational units in Republika Srpska, and nine banks had 12 organisational units in Brčko District. Four banks from Republika Srpska had 32 organisational units in the Federation of B&H.

As of 31.12.2014, all banks had licences to effect interbank transactions within the domestic payment system, and 16 banks had secured deposits.

1.2. Ownership Structure

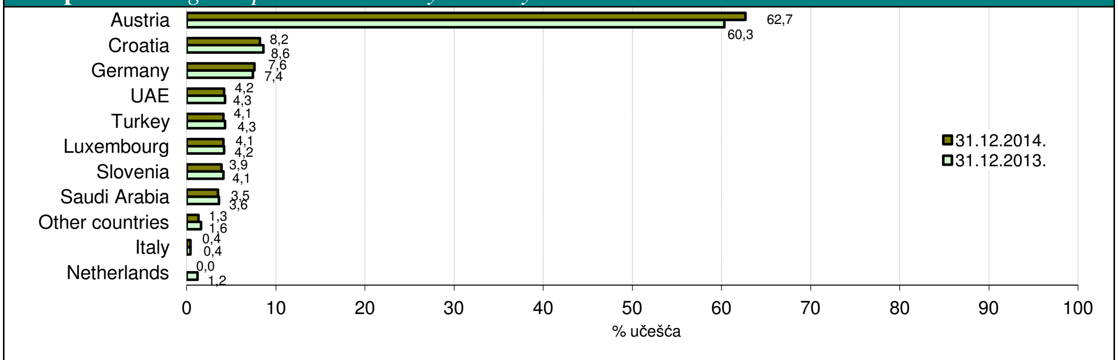
The ownership structure of banks[2] as of 31.12.2014, assessed on the basis of available information and reviews conducted in the banks themselves, is as follows:

- In private or mostly private ownership 16 banks (94.1%)
- In state or mostly state ownership[3] 1 bank (5.9%)

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

If observed solely from the perspective of foreign capital, using the criterion of the shareholders' home country, the conditions as of 31.152.2014 changed only slightly compared to those as of the end of 2013: the largest share of foreign capital in the amount of 62.7% refers to shareholders from Austria (share up by 2.4 percentage points in 2014 as a result of recapitalisation in two banks), followed by shareholders from Croatia with 8.2% (share down by 0.4 percentage points) and Germany with 7.56% (share up ny a slight 0.2 percentage points). Other countries hold individual shares below 5%.

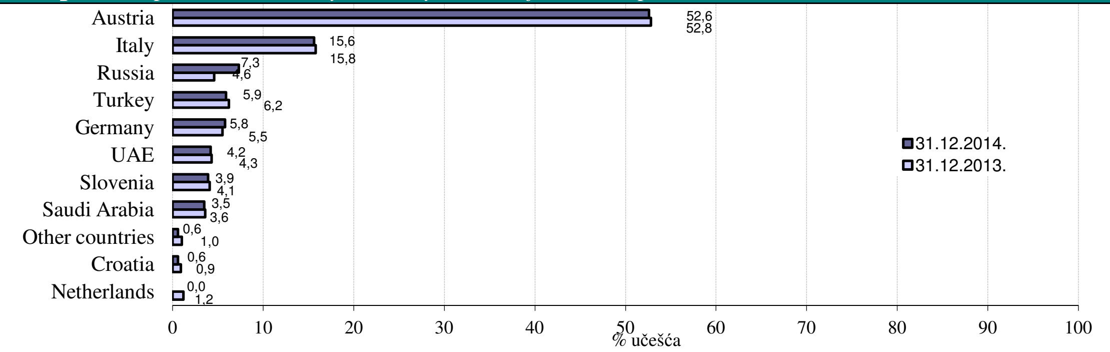
Graph 5: *Foreign Capital Structure by Country*



However, if taking into account capital relations, the structure of foreign capital can also be observed using the criterion of the home country of the parent bank or parent group having majority ownership (direct or indirect via group members) of banks in the Federation of B&H. According to this criterion, the conditions also changed only slightly compared to the end of 2013: the share of banking groups and banks from Austria amounts to 52.6%, followed by Italian banks with a share of 15.6%, while Russia's share[4] in one bank in the Federation of B&H, following recapitalisation in the second quarter, increased from 4.6% to 7.3%, which is the most significant change in the reporting period. Other countries held individual shares below 6%.

[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.
[4] In 2012, the Russian bank Sberbank purchased Volksbank International from Austria, which also owned Volksbank BH d.d. Sarajevo.

Graph 6: *Capital Structure by Country – Seat of the Group* [5]



The ownership structure may also be observed from the aspect of financial ratios, i.e. according to the total capital value.[6]

-in KM 000 -

Table 4: *Ownership Structure by Total Capital*

BANKS	31.12.2012	31.12.2013	31.12.2014	INDEX	
1	2	3	4	5 (3/2)	6 (4/3)
State-owned banks	51 114 2%	51 618 2%	51 929 2%	101	101
Private banks	2 166 261 98%	2 256 327 98%	2 382 998 98%	104	106
T O T A L	2 217 375100%	2 307 945 100%	2 434 927 100%	104	106

In 2014, total capital was up by 6% or KM 127 million, largely based on current profit and recapitalisation in the amount of KM 41 million in three banks.

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.

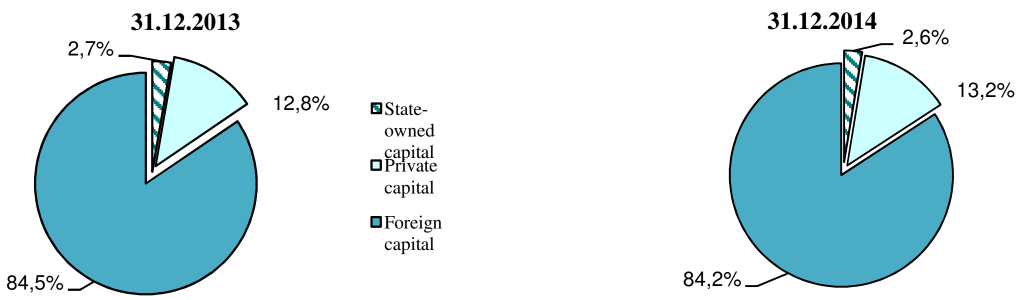
- in KM 000 -

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

SHARE CAPITAL	31.12.2012		31.12.2013		31.12.2014		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
State-owned capital	33 096	2.8	32 364	2.7	32 364	2.6	98	100
Private capital (residents)	164 603	13.7	153 549	12.8	162 354	13.2	93	106
Foreign capital (non-residents)	1 003 907	83.5	1 017 822	84.5	1 038 832	84.2	101	102
T O T A L	1 201 606	100.0	1 203 735	100.0	1 233 550	100.0	100	102

[5] 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.
[6] According to the balance sheet prepared on the basis of the FBA model: starting from 31.12.2011, loan loss provisions formed from profit were also included in total capital (in addition to share capital, issue premiums, retained profit and reserves and other capital (the financial resut of the current period)).

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



In 2014, share capital of banks in the Federation of B&H was up by KM 29.8 million or 2.5% compared to 31.12.2013. Share capital rose by KM 4.9 million in one bank after the FBA withdrew its order for the exclusion of the aforementioned amount from capital as well as following recapitalisation in the amount of KM 46.6 million in three banks (KM 41 million from external sources in three banks and KM 5.6 million by technical emission – from profit and reserves), and was reduced by KM 21.7 million following the reduction of the nominal value of a share in one bank in order to cover losses.

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

The share of state-owned capital in total share capital amounts to 2.6% as of 31.12.2014 and is lower by 0.1 percentage point compared to 31.12.2013.

The share of private capital (of residents) in total share capital amounts to 13.2% and is up by 0.4 percentage points compared to 31.12.2013, according to relative indicators. According to absolute indicators, the share is up by KM 8.8 million net due to the revocation of the FBA's order for the exclusion of the amount of KM 4.9 million from one bank's capital, recapitalisation from external sources in the amount of KM 1.8 million in one bank, recapitalisation by technical emission – from profit and reserves in the amount of KM 5.6 million in one bank, a reduction by KM 21.7 million following the reduction of the nominal value of a share in one bank in order to cover losses as well as being up due to a decrease in the share of non-residents after trade in the amount of KM 18.1 million net.

The share of private capital (of non-residents) in total share capital decreased by 0.3 percentage points (from 84.5% to 84.2%), according to relative indicators. According to absolute indicators, the share is up by KM 21 million due to recapitalisation in two banks in the amount of KM 39.1 million, and down by KM 18.1 million net due to a change and reduction of the share of non-residents after trade.

The market share of banks in majority foreign ownership as of 31.12.2014 stood at a high 90.6%, as was the case at the end of 2013, while banks with majority domestic private capital had a 7.1% share and one bank with majority state-owned capital had a 2.3% share.

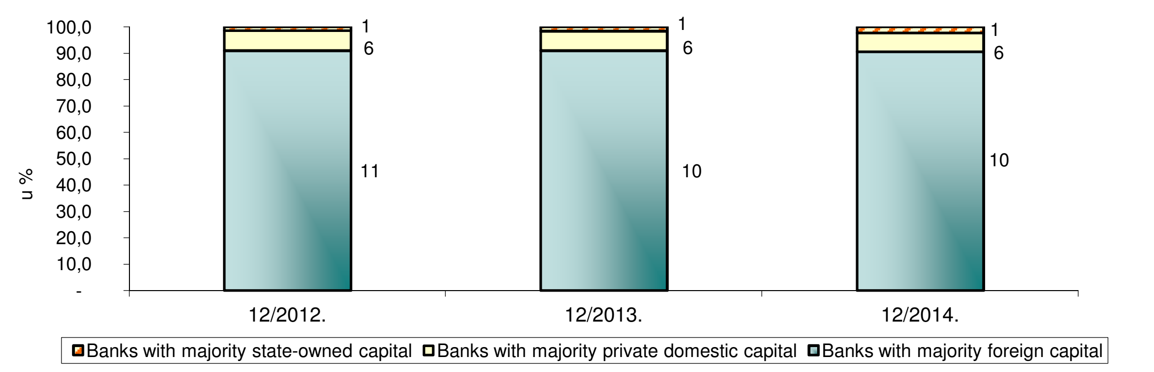
- in %-

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

BANKS	31.12.2012			31.12.2013			31.12.2014		
	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	2.3	1.4	1	2.2	1.6	1	2.1	2.3
Banks with majority private domestic capital	6	10.5	7.6	6	9.2	7.4	6	7.8	7.1
Banks with majority foreign capital	11	87.2	91.0	10	88.6	91.0	10	90.1	90.6
T O T A L	18	100.0	100.0	17	100.0	100.0	17	100.0	100.0

Graph 8: *Market Shares by Ownership Type*



1.3. Human Resources

As of 31.12.2014, banks in the Federation of B&H had a headcount of 6 960 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	
	31.12.2012		31.12.2013		31.12.2014		3/2	4/3
1	2		3		4		5	6
State-owned banks	183	3%	200	3%	202	3%	109	101
Private banks	6 947	97%	6 851	97%	6 758	97%	99	99
T O T A L	7 130	100%	7 051	100%	6 960	100%	99	99
Number of banks	18		17		17		94	100

Table 8: *Qualification Structure of Employees*

QUALIFICATION LEVEL	HEADCOUNT						INDEX	
	31.12.2012		31.12.2013		31.12.2014		4/2	6/4
1	2	3	4	5	6	7	8	9
University degree	3 479	48.8%	3 673	52.1%	3 775	54.2%	106	103
Two-year post-secondary school qualification	667	9.3%	601	8.5%	587	8.5%	90	98
Secondary school qualification	2 949	41.4%	2.750	39.0%	2 571	36.9%	93	93
Other	35	0.5%	27	0.4%	27	0.4%	77	100
T O T A L	7 130	100.0%	7.051	100.0%	6 960	100.0%	99	99

In 2014, the trend of a slight decline in the number of employees in banks of the FB&H continued (91 by or 1.3%). After the outbreak of the financial and economic crisis, the headcount in the banking sector continuously decreased and it was down from 7 997 to 6 960, or by 13%, in the period from 2008 to 2014 (six years), with the drop amounting to 5.5% or 409 employees in the last three years. Although low rates of decrease of app. 1% were recorded in the last two years, it can be concluded that this trend will continue to be present due to the reduced business activities of banks, under the influence of the crisis and the situation in the economy and the real sector in B&H, as well as in the interest of optimising operating costs.

The trend of an improved qualification structure by means of a larger share of employees with university degrees was continued in 2014 as well, as a result of this category's growth by 3% or 102 employees, on the one hand, and as a result of a reduction in the number of employees with secondary school qualifications by 7% or 179 employees, on the other hand.

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	31.12.2012			31.12.2013			31.12.2014		
	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	183	209 971	1 147	200	241 605	1 208	202	379 330	1 878
Private	6 947	14 780 795	2 128	6 851	15 204 945	2 220	6 758	15 786 000	2 336
TOTAL	7 130	14 990 766	2 102	7 051	15 446 550	2 191	6 960	16 165 330	2 323

At the end of the reporting period, there were KM 2.3 million of assets per employee at the banking system level (end of 2013: KM 2.2 million).

Table 10: *Assets per Employee – by Group*

Assets (KM 000)	31.12.2012 Number of banks	31.12.2013 Number of banks	31.12.2014 Number of banks
Up to 1 000	3	1	0
1 000 to 2 000	10	8	8
2 000 to 3 000	4	7	7
Over 3 000	1	1	2
TOTAL	18	17	17

Analytical indicators for individual banks range from KM 1.0 million to KM 3.8 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 2.5 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.[7]

2.1. Balance Sheet

The balance sheet total of the banking sector at the end of 2014 amounted to KM 16.2 billion, up by 4.7% or KM 719 million compared to the end of 2013. Trends in 2014 in the most important balance sheet categories can be divided into two periods: the first half of the year, during which negative trends were recorded (cash funds dropped by 5.5%, assets by 0.2%, deposits by 1% and loan commitments by 4.3%), and the opposite, i.e. an increase in the second half (especially in the fourth quarter), during which an increase in deposits in the amount of 6% was recorded, which reflected positively on the aforementioned segments, i.e. halted a further drop, which resulted in a slight increase on an annual level (with the exception of loan commitments). Compared to the previous three years, it can be concluded that there were significant positive trends in 2014, i.e. a slight increase in the balance sheet total growth rate, as well as in key balance sheet categories (loans, deposits, loan commitments, capital, and consequently cash funds), although the effects of the financial and economic crisis are still evident and the cause of the stagnation of the banking sector that has been present for an extensive period of time. That is why key performance indicators of the banking system have generally, with minor oscillations, maintained almost the same level as in the past two years.

- KM 000 -

Table 11: *Balance Sheet*

DESCRIPTION	31.12.2012		31.12.2013		31.12.2014		INDEX	
	AMOUNT	Share %	AMOUNT	Share %	AMOUNT	Share %		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
ASSETS:								
Cash funds	3 962 581	26.4	4 417 898	28.6	4 560 234	28.2	111	103
Securities[8]	548 467	3.7	562 513	3.6	801 394	5.0	103	142
Facilities to other banks	78 522	0.5	51 960	0.3	50 836	0.3	66	98
Loans	10 666 124	71.1	10 852 400	70.3	11 170 277	69.1	102	103
Value adjustment	1 007 459	6.7	1 165 928	7.5	1 149 468	7.1	116	99
Net loans (loans minus value adjust.)	9 658 665	64.4	9 686 472	62.8	10 020 809	62.0	100	103
Business premises and other fixed assets	521 493	3.5	512 985	3.3	527 558	3.2	98	103
Other assets	221 038	1.5	214 722	1.4	204 499	1.3	97	95
TOTAL ASSETS	**14 990 766**	**100.0**	**15 446 550**	**100.0**	**16 165 330**	**100.0**	**103**	**105**
LIABILITIES:								
LIABILITIES								
Deposits	10 961 001	73.1	11 523 849	74.6	12 130 746	75.0	105	105
Borrowings from other banks	2 000	0.0	0	0.0	0	0.0	n/a	0
Loan commitments	1 141 561	7.6	1 039 381	6.7	1 026 503	6.4	91	99
Other liabilities	668 829	4.5	575 375	3.7	573 154	3.5	86	100
CAPITAL								
Capital	2 217 375	14.8	2 307 945	15.0	2 434 927	15.1	104	106
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**14 990 766**	**100.0**	**15 446 550**	**100.0**	**16 165 330**	**100.0**	**103**	**105**

- KM 000 -

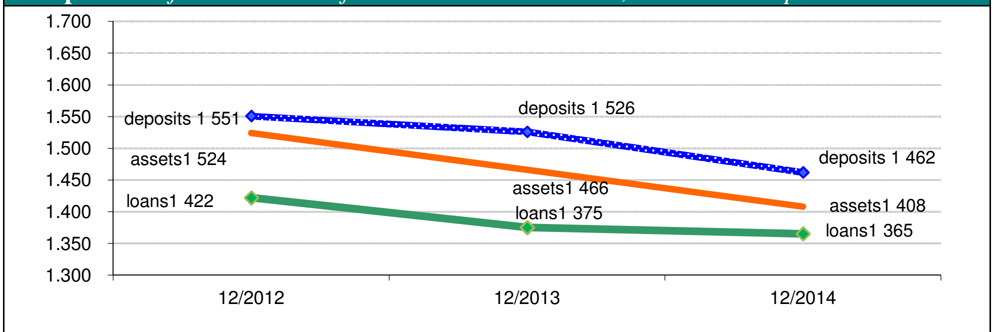
[7] State-owned banks post the „full balance sheet", meaning liabilities and neutral items, which the state will take over once the privatisation process gets finalised. As of 31.12.2014, these items amounted to KM 677 million in the case of one state-owned bank.
[8] Trading securities, securities available for sale and held to maturity securities.

Tabela 12: *Aktiva banaka prema vlasničkoj strukturi*												
BANKS	31.12.2012			31.12.2013			31.12.2014			INDEX	
	No. of banks	Assets (KM 000)		No. of banks	Assets (KM 000)		No. of banks	Assets (KM 000)			
1	2	3		4	5		6	7		8 (5/3)	9(7/5)
State-owned	1	209 971	1%	1	241 605	2%	1	379 330	2%	115	157
Private	17	14 780 795	99%	16	15 204 945	98%	16	15 786 000	98%	103	104
TOTAL	18	14 990 766	100%	17	15 446 550	100%	17	16 165 330	100%	103	105

In most banks (13), assets are up compared to the end of 2013, while the other banks saw a decrease in assets. The largest growth rates were recorded by one bank belonging to the the group of medium-sized banks (37%) and one small bank (57%), while a significant drop (18.8%) was recorded by one large bank.

The concentration indicator used for three key segments of banking operations (assets, loans and deposits) is the Herfindahl index.[9]

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



In 2014, the Herfindahl index of concentrations in all three relevant categories (assets, loans and deposits) decreased, by 58 units for assets, by 10 units for loans and by 64 units for deposits, so that it amounted to 1 408 units for assets, 1 365 units for loans, and 1 462 units for deposits as of 31.12.2014, which is indicative of a moderate concentration.[10]

The second concentration indicator for the banking system is the ratio of market concentrations, i.e. the concentration rate[11] (hereinafter: the CR) showing the total share of the largest institutions in the system in selected relevant categories: assets, loans and deposits. Like Herfindahl's index of concentrations, the CR5 also changed only slightly and amounted to 69.1% for market share and 70.6% for loans and deposits. Over the past two years, the value of the CR5 went down slightly across

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

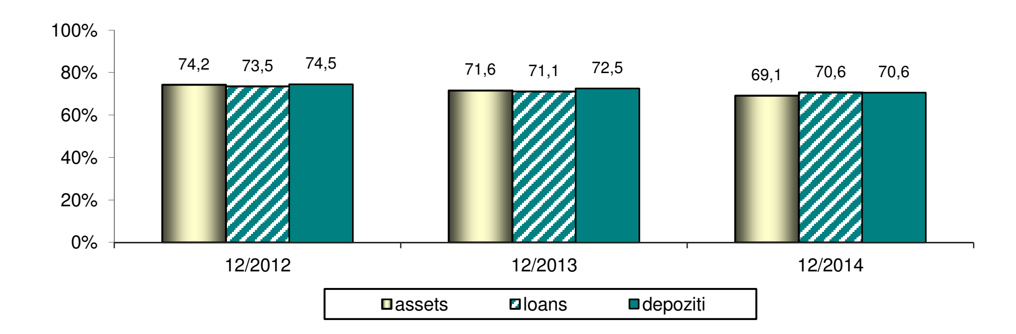
It represents a sum of squares of percentage shares of specific elements (e.g. assets, deposits, loans) of all market participants in the system. It should be noted that this index does not grow linearly and that the value of e.g. 3 000 does not mean that the concentration in the system is 30%. Hypotethically,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

[10] 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.

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

all three categories, but the domination of the five largest banks in the system, which hold approximately 70% of the market, loans and deposits, is still evident.

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



The banking sector can also be analysed from the aspect of several groups formed according to asset size.[12] Changes in share percentage compared to the end of 2013 are minor, which is the result of changes in the assets of most banks.

The banking system is dominated by the five largest banks with a share of 69.1%, of which the I group (the two largest banks in the system with assets in the amount of over KM 3 billion) has a share of 47.5% and the II group (three banks with assets in the amount ranging from KM 1 billion to KM 2 billion) has a share of 21.6%, up by 5.1 percentage points following its increase from two to three banks. The share of the III group (four banks with assets ranging from KM 500 million to KM 1 billion) is down by 1.6 percentage points, i.e. to 19.1%, due to one bank moving to the II group and another bank from the IV group moving to this group, which resulted in changes in the IV and largest group (with assets ranging from KM 100 million to KM 500 million): a reduction in the number of banks (from eight to seven banks) and in the share to 11.3% (-2.2 percentage points). One bank in the V and last group (with assets below KM 100 million) has a share of a negligible 0.5%.

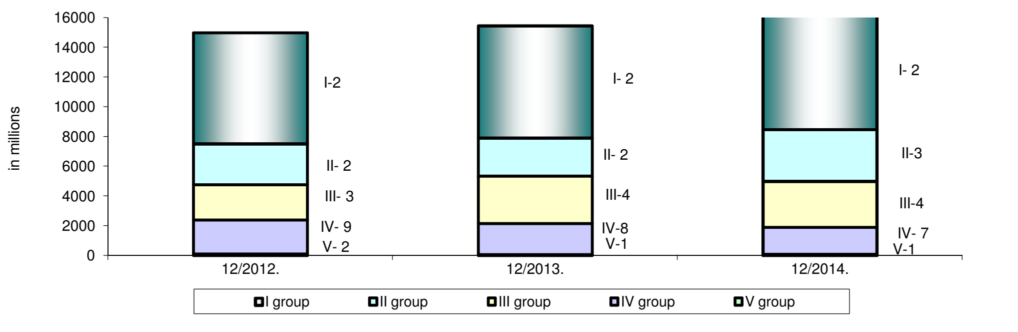
The table below provides an overview of the amounts and shares of individual groups of banks in total assets by period (in KM million).

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

ASSETS	31.12.2012			31.12.2013			31.12.2014		
	Amount	Share %	No. of banks	Amount	Share %	No. of banks	Amount	Share %	No. of banks
I- Over 2 000	7 476	49.8	2	7 546	48.8	2	7 685	47.5	2
II- 1000 to 2000	2 741	18.3	2	2 555	16.5	2	3 488	21.6	3
III- 500 to 1000	2 379	15.9	3	3 195	20.7	4	3 085	19.1	4
IV- 100 to 500	2 280	15.2	9	2 078	13.5	8	1 829	11.3	7
V- Below 100	115	0.8	2	73	0.5	1	78	0.5	1
TOTAL	14 991	100.0	18	15 447	100.0	17	16 165	100.0	17

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

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



The balance sheet total increase of 4.7% or KM 719 million, i.e. to the level of KM 16.2 billion at the end of 2014 is mostly the result of an increase in deposits by 5.3% or KM 607 million, i.e. to the level of KM 12.1 billion, coupled with a drop in loan commitments of 1.2% or KM 13 million. Total capital also rose by 5.5% or KM 127 million, originating mostly from profit of the current period and from recapitalisation in three banks. At the end of 2014, total capital amounted to KM 2.4 billion.

After a drop of 5.5% in the first half of 2014, cash funds saw an increase of 9.2% in the second half of the year, which cumulatively resulted in a growth rate of 3.2% or KM 142 million, which is significantly lower than the increase recorded in 2013 (11.5% or KM 455 million), and as of 31.12.2014 amounted to KM 4.6 billion. As was the case in previous years, the main source of the increase in cash funds is the increase in deposits, and the recorded lower growth rate in 2013 is the result of a significant increase of the securities portfolio and modest credit growth.

Although a slight credit growth of 2.9% or KM 318 million was recorded in 2014, compared to the previous two years when the increase amounted to 1.7%, it can be said that this is a positive sign, with the caveat that the rate would be up by 1.1 percentage points, i.e. 4%, if taking into account the effects of one bank removing part of the loan portfolio from the balance sheet, with that bank having sold part of its NPLs to another legal entity at the end of the year. Loans amounted to KM 11.2 billion at the end of 2014.

Investments in securities recorded a high increase of 42.5% or KM 239 million (in 2013, their growth was 2.6% or KM 14 million), which was primarily related to securities issued by the Government of the FB&H. At the end of 2014, the securities portfolio amounted to KM 801 million, thus having a share in assets of a mere 5%.

The portfolio of securities available for sale (a small part thereof refers to the trading portfolio), up by 53.7% or KM 205 million, amounted to KM 587 million, and the securities held to maturity increased by 18.8%, from KM 181 million to KM 2015 million. Both portfolios include securities issued by the Government of the Federation of B&H[13] in the total amount of KM 383 million, as well as securities issued by the Government of Republika Srpska in the amount of KM 67 million. Also, the trading portfolio includes shares issued by local companies totaling KM 3 million. The remaining portion of the securities portfolio amounts to app. KM 348 million and refers mostly to bonds of EU countries, and to a lesser extent to corporate bonds, primarily those of EU banks. The significant increase in investments in securities in 2014 is primarily the result of an increase in the exposure to the Government of the FB&H on the basis of the purchase of treasury bills and market bonds, which rose from KM 190 million to KM 355 million in 2013, followed by an increase in exposure on the basis of the purchase of corporate bonds in one bank from the FB&H.

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

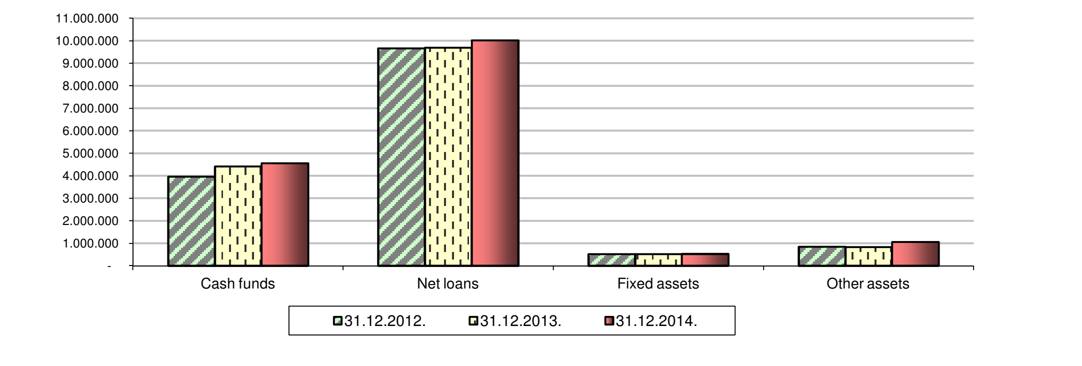
In 2014, the Government of the Federation of B&H issued 12 tranches of treasury bills in the total nominal amount of KM 240 million, which constitutes the largest total annual amount of issues in the past four years (in 2013, it amounted to KM 80 million): one tranche of the nominal value of KM 20 million in February 2014 (maturing in May 2014), two tranches in March 2014 in the amount of KM 20 million each (maturing in June 2014), two tranches in April in the amount of KM 15 million each (maturing in October 2014), one tranche in May in the amount of KM 20 million (maturing in November 2014), one tranche in June in the amount of KM 20 million (maturing in June 2015), one tranche in July in the amount of KM 30 million (maturing in October 2014), one tranche in August 2014 in the amount of KM 20 million (maturing in February 2015), two tranches in September 2014 in the amount of KM 20 million each (maturing in June 2015), and one tranche in November 2014 in the amount of KM 20 million (maturing in May 2015). As of 31.12.2014, treasury bills amount to KM 100 million, i.e. their book value is KM 99.5 million, which is twice as much or up by KM 49.7 compared to 31.12.2013, however, considering the short-term nature of these debt instruments, significant changes in the balance of treasury bills of the Government of the FB&H were recorded during 2014, and if observed by quarter, the largest amount of the portfolio was recorded at the end of the third quarter of 2014, when the the total book value of treasury bills of the Government of the FB&H in banks of the FB&H amounted to KM 159.3 million.

In addition to treasury bills, the securities portfolios of banks also include market bonds issued by the Government of the Federation of B&H (issued in 2012: the first issue in May 2012 in the amount of KM 80 million, maturing within 3 years, the second one in June and August in the total amount of KM 30 million, maturing within 5 years, the third issue in September in the amount of KM 20 million, maturing within 2 years, the fourth issue in December 2013 in the amount of KM 40 million, maturing within 3 years – with the total value of bonds purchased by banks being KM 17.5 million, the fifth issue in September 2014 in the amount of KM 50 million, maturing within three years, the sixth issue in October 2014 in the amount of KM 50 million, maturiny within five years, and the seventh issue in December 2014 in the amount of KM 40 million, maturing in December 2017) of the total nominal value of app. KM 256 million, i.e. their book value being KM 255.5 million, which is the result of a significant increase in the third and fourth quarter of 2014 (three issues of the total nominal value of KM 140 million, app. KM 134 million of which were purchased by banks). It should be noted that the issue of bonds from the third issue, issued on 25.09.2012 in the amount of KM 20 million, matured in September 2014. The majority of the treasury bills and bonds with a book value of KM 303 million was classified in the portfolio of securities available for sale, while the rest in the amount of KM 52 million is classified in the portfolio of securities held to maturity.

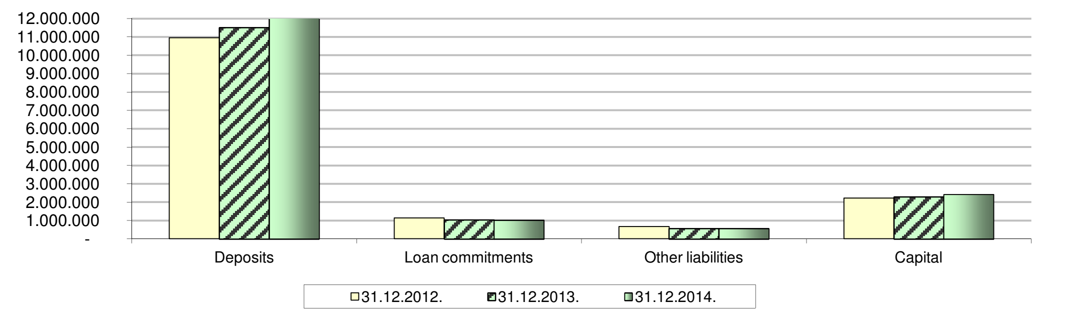
When analysing the overall securities portfolio (KM 801 million) from the aspect of exposure by country, the largest share is that of B&H (56.6%) (46.4% at the end of 2013), which is the result of a large increase of 74% or KM 192 million, followed by Austria (13.9%), Romania (11.1%), Belgium (5.1%), 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 12.1 billion and a 75.0% share). Following a further slight decrease of 1.2%, the share of loan commitments in the amount of KM 1.0 billion decreased from 6.7% to 6.4%, while the share of capital, which amounted to KM 2.4 billion as of 31.12.2014, increased slightly from 15.0% to 15.1%.

The structure of assets, as well as the structure of sources of funding, saw minor changes related to two key assets items: decrease in the loan share from 70.3% to 69.1% and in cash funds from 28.6% to 28.2%.

- in KM 000 -

Table 14: *Cash Funds of Banks*

CASH FUNDS	31.12.2012		31.12.2013		31.12.2014		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	411 726	10.4	431 592	9.8	456 750	10.0	105	106
RR at the CB B&H	2 130 626	53.8	2 622 277	59.4	2 854 559	62.6	123	109
Accounts at deposit institutions in B&H	1 930	0.0	25 181	0.5	22 759	0.5	1305	90
Accounts at deposit institutions abroad	1 417 857	35.8	1 338 347	30.3	1 225 850	26.9	94	92
Cash funds in the process of collection	442	0.0	501	0.0	316	0.0	113	63
TOTAL	3 962 581	100.0	4 417 898	100.0	4 560 234	100.0	111	103

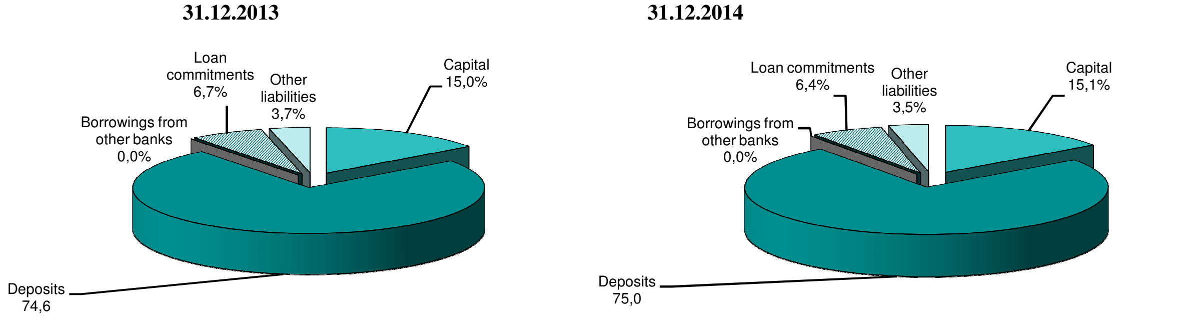
The banks' cash funds in the CBBH reserves account were up by 9% or KM 232 million in 2014 and amounted to KM 2.9 billion or 62.6% of total cash funds as of 31.12.2014 (59.4% at the end of 2013). The banks' funds in accounts of deposit institutions abroad recorded a decrease of 8% or KM 113 million and amounted to KM 1.2 billion or 26.9% of total cash funds (30.3% at the end of 2013). Following their increase of 6% or KM 25 million, banks held cash funds in the amount of KM 457 million, which represents 10% of total cash funds, in vaults and treasuries as of 31.12.2014.

These trends prompted a change in the currency structure of cash funds: in the reporting period, the share of local currency increased from 66.4% to 70.2%, 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 31.12.2014 is provided in the graph below:

Graph 14: *Liabilities Structure of Banks*



In 2014, the share of deposits (75%), as the most significant source of funding of banks, was up by 0.4 percentage points, while the continuous trend of the decrease in the share of loan commitments, the second largest source of funding, continued in 2014 as well by 0.3 percentage points (6.4%).

In the period following the outbreak of the financial and economic crisis, deposits largely stagnated, i.e. saw minor changes until 2013 (increase of 2% in 2010, followed by a decrease of 1% in the next two years), only for deposits to record an increase of 5% or KM 563 million in 2013, while the same rate (5% or KM 607 million) was recorded in 2014 as well. At the end of 2014, deposits amounted to KM 12.1 billion and are still the largest source of funding for banks in the Federation of B&H. It should be noted that, in 2014, B&H received the VI tranche of funds in the amount of KM 61.7 million in January based on the stand-by arrangement with the IMF, and the VII and VIII tranche in the amount of KM 215.9 million in July (B&H received app. KM 163 million in 2013 and KM 153 million in 2012).

The second-largest source of funding are loans in the amount of KM 1 billion, which banks received mostly by borrowing from foreign financial institutions. In the past six years (the period from 2009 to 2014), due to the effect of the financial and economic crisis, banks incurred significantly fewer loans abroad and, coupled with the payment of matured liabilities, reduced these sources of financing by over 50% (at the end of 2008, deposits amounted to KM 2.18 billion). In 2012, the decrease amounted to 13.5% or KM 178 million, in 2013, these sources dropped by 9% or KM 102 million, while in 2014, they dropped by 1.2% or KM 12 million. If subordinated loans in the amount of KM 156 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 7.3% in total sources of funding.

As of 31.12.2014, banks held the largest amount of liabilities towards the following creditors (6 out of a total of 29 creditors), accounting for 77% of total loan commitments: European Investment Bank (EIB), TC ZIRAAT BANKASI A.S. (Turkey), UniCredit Bank Austria AG, the World Bank, European Fund for Southeast Europe (EFSE), and European Bank for Reconstruction and Development (EBRD).

As of 31.12.2014, capital amounted to KM 2.4 billion, up by 5.5% or KM 127 million compared to the end of 2013. This primarily relates to the financial result (profit) recorded in 2014 as well as the recapitalisation in three banks (KM 41 million).

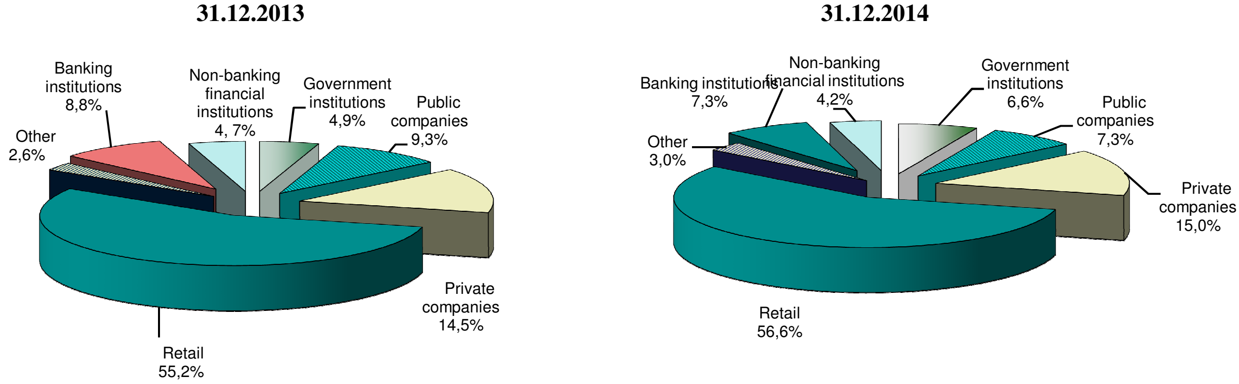
According to the information submitted by banks, out of the total deposit amount at the end of the reporting period, only 5.8% relates to deposits collected in organisational units of banks from the Federation of B&H, which are doing business in Republika Srpska and Brčko District.

- u 000 KM-

Table 15: *Deposit Structure by Sector*[14]

SECTORS	31.12.2012 Amount	31.12.2012 Share %	31.12.2013 Amount	31.12.2013 Share %	31.12.2014 Amount	31.12.2014 Share %	INDEX 4/2	INDEX 6/4
1	2	3	4	5	6	7	8	9
Government institutions	682 313	6.2	565 533	4.9	795 985	6.6	83	141
Public companies	1 090 870	10.0	1 076 527	9.3	883 463	7.3	99	82
Private companies and enterprises	1 501 232	13.7	1 668 034	14.5	1 821 094	15.0	111	109
Banking institutions	981 562	9.0	1 012 274	8.8	886 007	7.3	103	88
Non-banking financial institutions	493 689	4.5	535 915	4.7	517 110	4.2	109	96
Retail	5 933 071	54.1	6 366 218	55.2	6 863 296	56.6	107	108
Other	278 264	2.5	299 348	2.6	363 791	3.0	108	122
TOTAL	10 961 001	100.0	11 523 849	100.0	12 130 746	100.0	105	105

Graph 15: *Deposit Structure by Sector*



In 2014, minor changes occurred in the deposit structure by sector and they are mostly the result of an increase in deposits of government institutions, private companies, as well as the increase in retail deposits, and a decrease in the deposits of public companies and banking institutions.

Retail deposits displayed continuous growth over the past few years (between 7% and 8% in the past four years), and they rose by 8% or KM 497 million in 2014, while their share in total deposits rose from 55.2% to 56.6%, so that retail deposits are still the largest source of funding for banks with KM 6.9 billion. Analytical data indicates that the share of this sector's deposits is the largest in 15 out of 17 and it ranges from 33% to 86%, i.e. it is above 50% in nine banks.

The second largest source of funding (based on amount and share) are deposits of private companies. Following a drop of 2% in 2011, this sector's deposits rose continuously: by 3% in 2012, by 11% or KM 167 million in 2013, and by 9% or KM 153 million in 2014, which led to the share increasing to 15% (+0.5 percentage points) in 2014 and them amounting to KM 1.8 billion at the end of 2014.

[14] 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).

Following a significant drop of 23% or KM 323 million in 2012, deposits of public companies stagnated in 2013, only to once more record a drop of 18% or KM 193 million. They amounted to KM 883 million as of 31.12.2014, while their share dropped from 9.3% to 7.3%.

From the end of 2007 until the third quarter of 2011, deposits of banking institutions were the second-largest source in the deposit potential of banks. The growth trend was maintained by mid-2009, when they reached their peak of KM 2.3 billion and a share of 21.4% of total deposits. After that, due to the effects of the crisis, the reduced volume of lending and high liquidity, parent groups withdrew their deposits, thus resulting in the reduced share. From the end of 2009 to 31.12.2014, deposits of this sector dropped by app. 60% or KM 1.2 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 2014, deposits of banking institutions fell by 12% or KM 126 million, thus amounting to KM 886 million as of 31.12.2014. This resulted in their share in total deposits dropping from 8.8% to 7.3%. These funds are lower than loan commitments by KM 141 million, which are the second-largest source of funding in banks from the Federation of B&H, just after deposits. Based on the aforementioned information, it can be concluded that the foreign debt level of banks from the Federation of B&H is much lower, especially in terms of deposit funds of parent groups. It should be noted that maturity has changed singificantly in favour of short-term deposits, which have the function of maintining the maturity adjustment within the prescribed limits, i.e. app. KM 276 million or 37% of term deposits of the group mature by the end of 2015. Considering that the same reduction trend is present with respect to loan commitments, banks are once again facing the problem of maintaining their maturity adjustment, with this being caused by the unfavourable maturity of local deposit funds, due to which they are forced to obtain quality sources of funding in the period to come in order to uphold the trend of increase in approved loans.

It is worth noting that 88% or KM 781 million of deposits of banking institutions relate to deposits of banks from the group (mostly shareholders). Financial support by parent groups is present with respect to nine banks in the Federation of B&H, wherein such financing is still concentrated in five large banks (92%). In this way, banks in majority foreign ownership had financial support and secured inflows of new funds by their foreign groups in previous periods. If these funds are coupled with loan commitments and subordinated debt, the financial support of banks from the group is higher (with respect to 11 banks) and amounts to KM 1.2 billion as of 31.12.2014 (or 7.4% of total liabilities of the banking sector, which is lower compared to the end of 2013 (KM 1.3 billion or 8.6% of liabilities)). In total deposits, the funds of banking groups hold a share of 6.4% (8.0% at the end of 2013), while loan commitments to the group account for 27% of total loan commitments (this share is up by 0.9%). Compared to the end of 2013, these funds dropped by 10.1% or KM 135 million, largely based on regular maturities (deposits fell by 15.4% or KM 142 million, while loan commitments are up by 2.3% or KM 6 million and subordinated loans by 0.8% or KM 1 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. For reasons of unfavourable occurrences in the economies of the home countries of the owners of banks from the Federation of B&H, the problems these countries are facing and consequently, the problems of their financial systems and banking groups, as well as measures taken in Austria to strengthen and ensure the sustainability of the business models of large internationally active Austrian banks and thereby preserve the country's credit rating[15], the financial support of parent banking groups got significantly reduced, so that credit growth in the Federation of B&H will have to rely more on local sources of funding in the period to come. It is especially important to underline that deposit funds that certain banks received from their parent groups over the past two years are mostly of short-term maturity (most often one to two months) and serve the purpose of maintaining maturity adjustment within the prescribed limits, and therefore do not constitute a quality source of long-term funding.

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

After a longer period of decrease, deposits of government institutions recorded a significant increase of 41% or KM 230 million, which is primarily the result of approved and withdrawn funds on the basis of the stand-by arrangement with the IMF and they amounted to KM 796 million or 6.6% of total deposits as of 31.12.2014.

Deposits of other sectors saw slight changes in terms of both amount and share.

The currency structure of deposits as of 31.12.2014 has slightly changed: deposits in foreign currency (with a dominant share of EUR currency) in the amount of KM 6 billion decreased their share from 51.9% to 49.2% and deposits in local currency amounted to KM 6.2 billion and hold a share of 50.8%.

At the end of 2014, the structure of deposits by domicile status of depositors changed slightly: resident funds amounted to KM 11 billion and had a share of 90.4% (+1.7 percentage points) while non-resident deposits amounted to KM 1.2 billion and represented 9.6% of total deposits. Resident deposits continuously increased and the recorded rate of 7.3% or KM 750 million is the highest in the past four years (in 2013, the increase amounted to 5.2% or KM 502 million). On the other hand, non-resident deposits fell by 11% or KM 143 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. Non-resident deposits had the largest share of 22.1% and nominal amount of KM 2.31 billion at the end of 2008.

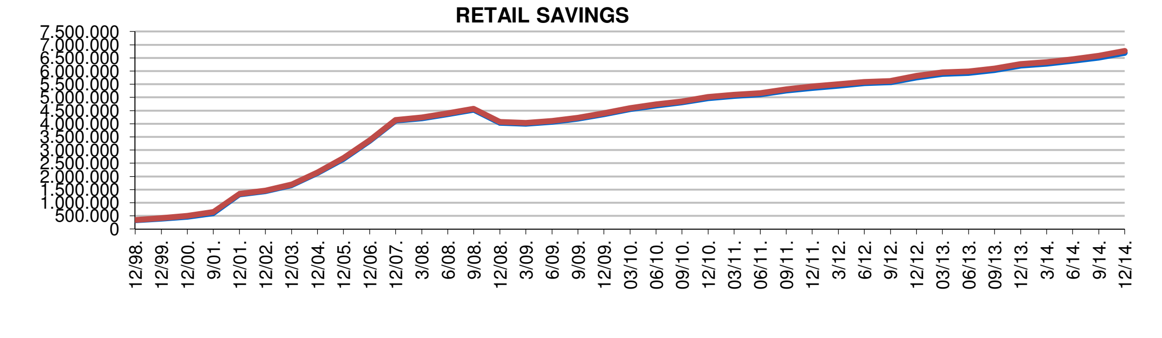
In 2014, savings deposits, as the most significant segment of the deposit and financial potential of banks, recorded an increase of 7.9% or KM 491 million and amounted to KM 6.7 billion as of 31.12.2014.

Table 16: *New Retail Savings By Period*

BANKS	AMOUNT (in KM 000)			INDEX	
	31.12.2012	31.12.2013	31.12.2014	3/2	4/3
1	2	3	4	5	6
State-owned	58 050	65 179	73 072	112	112
Private	5 698 300	6 135 711	6 618 891	108	108
TOTAL	5 756 350	6 200 890	6 691 963	108	108

[15] In essence, these measures mean that the lending activity of subsidiaries of Austrian banks in the Central, Eastern and Southeastern Europe (CESEE) is conditioned by stronger and sustainable funding from local sources.

Graph 16: *New Retail Savings by Period*



The two largest banks hold 57% of savings, while nine banks hold individual shares of less than 2%, which amounts to 11.1% of total savings at system level.

Out of the total amount of savings, 39% refer to saving deposits in local currency and 61% to savings deposits in foreign currency.

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

BANKS	AMOUNT (in KM 000)						INDEX	
	31.12.2012		31.12.2013		31.12.2014		3/2	4/3
1	2		3		4		5	6
Short-term savings deposits	2 656 934	46.2%	2 911 827	47.0%	3 129 098	46.8%	110	107
Long-term savings deposits	3 099 416	53.8%	3 289 063	53.0%	3 562 865	53.2%	106	108
TOTAL	5 756 350	100.0 %	6 200 890	100.0%	6 691 963	100.0%	108	108

Compared to the end of 2013, the maturity structure of savings deposits changed slightly through an increase in short-term deposits by 7.5% or KM 217 million, while long-term deposits rose by 8.3% or KM 274 million, thus resulting in a slightly higher share of long-term deposits from 53.0% to 53.2%.

Long-standing continuous growth and positive trends in the savings segment of banks in the Federation of B&H are the result of, on the one hand, better safety and stability of the overall banking system (as chiefly attributable to the functional, effective and efficient banking supervision implemented by the Agency) and, on the other hand, the existence of the deposit insurance system, the primary objective of which is increased stability of the banking, i.e. financial sector and the protection of savers. In order to preserve and strengthen the trust of citizens in the safety and stability of the banking system in B&H, the deposit insurance level rose to KM 20 000 in 2008. After that, an initiative was started to increase the insured deposit level. Accordingly, on 01.04.2010, this level rose to KM 35 000. 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 present 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 31.12.2014, there was a total of 16 banks from the Federation of B&H included in the deposit insurance program (i.e. holding licences issued by the Deposit Insurance Agency of B&H). There is one bank that is not eligible for this program because it does not meet the criteria defined by the Deposit Insurance Agency of B&H (due to existing composite rating).

2.1.2. Capital – Strength and Adequacy

The capital[16] of banks in the Federation of B&H as of 31.12.2014 amounted to KM 2.2 billion.

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

-in KM 000-

Table 18: *Regulatory capital*

DESCRIPTION	31.12.2012		31.12.2013		31.12.2014		INDEX	
1	2		3		4		5 (3/2)	6 (4/3)
1.a.Core capital before reduction	1 913 841		2 155 188		1 991 385		113	92
1.1. Share capital – common and permanent non-cumulative shares	1 198 516		1 200 644		1 230 459		100	102
1.2. Issue premiums	136 485		136 485		136 485		100	100
1.3. Reserves and retained profit	578 840		818 059		624 441		141	76
1.b. Deductible items	191 304		294 629		206 370		154	70
1.1. Uncovered losses from previous years	120 740		112 610		122 705		93	109
1.2. Current year loss	17 818		140 445		36 386		788	26
1.3. Treasury shares	156		156		81		100	52
1.4.. Intangible assets	52 590		41 418		41 873		79	101
1.5. Deferred tax assets	N/a		N/a		4 043		N/a	N/a
1.6. Negative revalorised reserves	N/a		N/a		1 282		N/a	N/a
1. Core capital (1a-1b)	**1 722 537**	**79%**	**1 860 559**	**80%**	**1 785 015**	**81%**	108	96
2. Supplementary capital	**467 100**	**21%**	**457 047**	**20%**	**412 916**	**19%**	98	90
2.1. Share capital – common and permanent cumulative shares	3 090		3 091		3 091		100	100
2.2. General loan loss reserves	211 433		215 083		229 889		102	107
2.3. Positive revalorised reserves	N/a		N/a		23 703		N/a	N/a
2.4. Amount of audited profit	67 243		71 984		N/a		107	N/a
2.5. Subordinated debt	120 264		165 473		154 814		138	94
2.5. Hybrid items and other instruments	65 070		1 416		1 419		2	100
3. Capital (1 + 2)	**2 189 637**	**100%**	**2 317 606**	**100%**	**2 197 931**	**100%**	106	95
4. Deductible items from capital	**98 848**		**159 710**		**206 426**		162	129
4.1. Bank's shares in capital of other legal entities above 5% of core capital	3 043		2 844		1 678		93	59
4.2. Loan loss reserves shortfall at regulatory request	95 720		156 866		203 239		164	130
4.3. Other deductible items	85		0		1 509		N/a	N/a
5. Net capital (3- 4)	**2 090 789**		**2 157 896**		**1 991 505**		103	92

In the first three quarters of 2014, capital[17] decreased by 5% or KM 120 million, and the changes in core and supplementary capital affected the changes in the structure of the regulatory capital. Core capital decreased by 4% or KM 76 million, while supplementary capital dropped by 10% or KM 44 million. The change in structure was also influenced by the application of the provisions of the new Decision, with the following provisions being the most significant: different treatment of certail capital items, inclusion of current income in capital, the statement (decision) of the bank's General Assembly on accumulated retained and/or unallocated profit earned in previous periods and other reserves formed from profit (capital decreased by KM 93.7 million on the basis of this).

The drop in core capital is the result of the net effect of the reduction in accordance with the aforementioned provisions of the new Decision, mostly on the basis of the exclusion of retained/unallocated profit earned in previous years (app. KM 94 million), as well as the increase on

[16] 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).
[17] Source of information: quarterly Report on Capital Condition in Banks (Form 1-Table A).

the basis of the inclusion (the transfer of one part of profit from supplementary to core capital) of profit earned in 2013. After the implementation of the legal procedure of adopting decisions by the banks' assemblies, the recorded profit in the amount of KM 138 million was distributed as follows: 99% or KM 136 million KM into core capital (retained profit and reserves), two banks distributed a part of the profit in the amount of 1.2 million to partly cover previous losses, while two banks made the decision to pay dividends (a total of KM 45 million). The increase in core capital was also influenced by the recapitalisation of three banks.

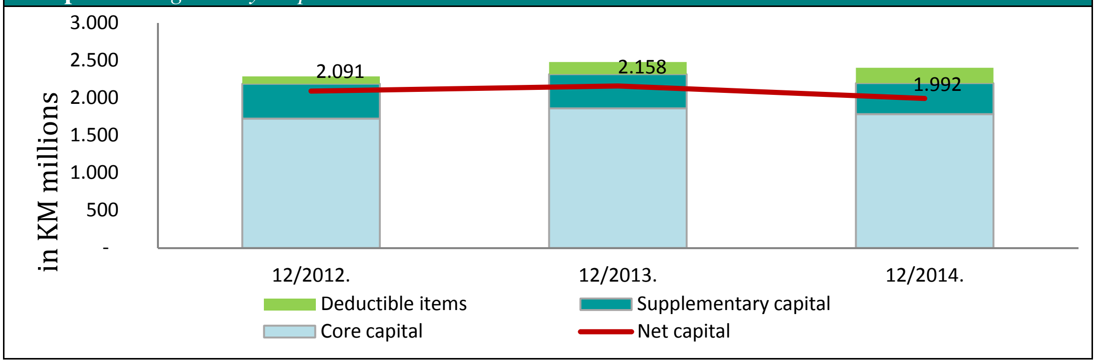
Deductible items (which decrease core capital) decreased by KM 88 million, primarily as a result of the decrease on the basis of partial coverage of uncovered losses in four banks in the amount of KM 130 million (KM 107 million of which apply to one bank) and the increase on the basis of the current loss of KM 36 million.

Supplementary capital dropped by 10% or KM 44 million, and was mostly affected by the aforementioned transfer of audited profit to the core capital and the decrease in subordinated debt by KM 11 million. The increase in supplementary capital was influenced by the inclusion of a new item of supplementary capital (transferred from core capital): positive revalorised reserves in the amount of KM 24 million and the increase in general loan loss reserves by KM 15 million.

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[18] and loan loss reserves formed from profit). As of 31.12.14, this item amounted to KM 203 million, up by 30% or KM 46 million compared to the end of 2013 (this item was up by 64% or KM 61 million in 2013).

The graph below shows the regulatory capital structure.

Graph 17: *Regulatory Capital Structure*



As a result of the aforementioned changes, especially due to the exclusion of retained/unallocated profit in the amount of app. KM 94 million and the negative effect of the increase of the shortfall of loan loss reserves (30% or KM 46 million), net capital fell by 8% or KM 166 million and amounted to KM 2 billion as of 31.12.2014.

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).

[18] Banks declare required regulatory reserves when the value adjustment (according to IAS) is below calculated regulatory reserves, as determined at the level of the individual debtor. This methodology is in application since 30.06.2012.

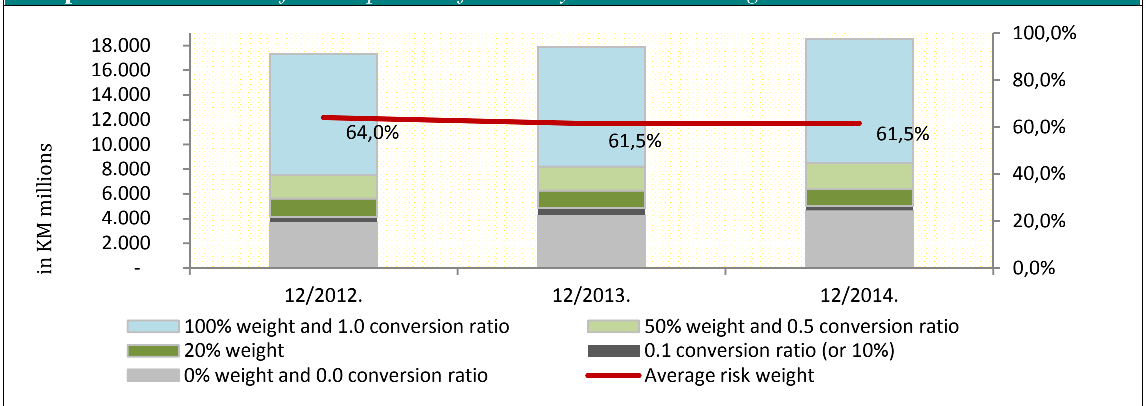
The table below provides a structure of the net exposure of banks by credit risk weight, i.e. conversion ratio for off-balance sheet items.

-in KM 000-

Table19: *Structure of Net Exposure of Banks by Credit Risk Weight*

DESCRIPTION	31.12.2012	31.12.2013	31.12.2014	INDEX	
1	2	3	4	5 (3/2)	6 (4/3)
TOTAL EXPOSURE (1+2):	**17 310 579**	**17 893 904**	**18 529 025**	103	104
1 Balance sheet assets	14 568 957	14 969 445	15 637 699	103	104
2. Off-balance sheet items	2.741.622	2.924.459	2.891.326	107	99
DISTRIBUTION BY RISK WEIGHT AND CONVERSION RATIO					
0% weight	3.647.306	4.198.260	4.599.770	115	110
20% weight	1.460.689	1.424.069	1.361.199	97	96
50% weight	53.155	33.110	54.096	62	163
100% weight	9.407.807	9.314.006	9.622.634	99	103
0.0 conversion ratio	51.131	86.947	52.453	170	60
0.1 conversion ratio	449.627	550.966	356.611	123	65
0.5 conversion ratio	1.867.703	1.916.076	2.073.391	103	108
1.0 conversion ratio	373.161	370.470	408.871	99	110
RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	**11.078.498**	**10.998.977**	**11.403.153**	**99**	**104**
Average risk weight	**64,0%**	**61,5%**	**61,5%**	**96**	**100**

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



In 2014, total net exposure of banks (before being weighted) is up by 4% or KM 635 million. This was influenced by the increase in balance sheet items (mostly as a net effect of the increase in items weighted with 0%, 50% and especially 100% - due to the slight increase of 3% in the loan portfolio, as well as the decrease in items weighted with 20%), while off-balance-sheet items dropped (the decrease in items weighted with a 0.1 conversion ratio was bigger than the increase in items weighted with a 0.5 conversion ratio). As a result of the aforementioned, the average risk weight remained the same and amounts to 61.5%.

The same direction was seen with respect to the weighted operational risk (WOR), which also rose slightly and amounts to KM 982 million. All of this resulted in an increase in total risk-bearing assets (3%).

As of 31.12.2014, the share of risk-bearing balance and off-balance sheet assets exposed to credit risk amounted to 92% and to operational risk 8%.

The banks' capitalisation rate, expressed as a ratio between capital and assets, amounted to 12.7% as of 31.12.2014, which is down by 1.2 percentage points compared to the end of 2013.

One of the key indicators of capital strength and adequacy[19] 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 16.1% as of 31.12.2014, down by 1.9% compared to the end of 2013.

Also, the indicator of capital strength and quality is the ratio of the core capital (Tier I) and total risk assets, which amounted to 14.4% at the level of the banking sector as of 31.12.2014. An important provision of the new Decision is the obligation of banks to intend part of the core capital above 6% of total risk assets to cover the risks related to preventive protection from potential losses in times of crisis or stressful situations through a protective layer for preserving the capital that has been prescribed in the amount of 2.5% of the amount of total risk assets under this Decision. Two other protective layers were introduced – a countercyclical protective layer and a protective layer for systemic risk, which the FBA would determine by a special resolution, if necessary.

Banks are also, according to the new Decision, obligated to establish and maintain the financial leverage ratio as an additional security and a simple capital hedge, at least in the amount of 6%, starting as of 31.12.2015, with the obligation of quarterly reporting as of 30.09.2014. The financial leverage ratio at the level of the banking sector amounted to 10% as of 31.12.2014.

Although operations of the banking sector have been strongly affected by the economic crisis for the past few years, the capital adequacy of the banking sector has been continuously maintained at the level above 16%. The reason for this is, on the one hand, the slight credit growth and decrease of total risk-bearing assets in previous years, with it being noted that total risk-bearing assets were slightly up by 3% in 2014 and, on the other hand , the fact that banks have retained the largest share of profit from previous years within their capital and several banks have improved their capitalisation rate by means of additional capital injections. However, problems related to the increase in non-performing loans and items not covered by loan loss reserves (net non-performing assets) may significantly impact and cause weakening of the capital base in several banks in the period to come. This is conditioned by continued negative trends regarding asset quality and the worsening of and increase in non-collectable loans. This is illustrated by the following information: at the end of 2008, net non-performing assets amounted to KM 197 million and its ratio (vs. core capital) was 13.2%. At the end of 2013, net non-performing assets amounted to KM 474 million, which is 25.5% of core capital, while dropping to the amount of KM 414 million in 2014, with a ratio of 23.2% (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). Also, according to existing regulations, banks do not calculate the capital requirement for market risks, due to which the capital adequacy rate is higher.

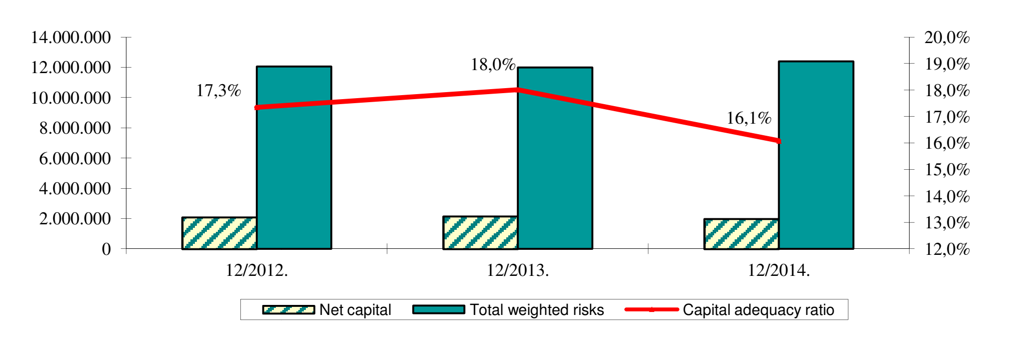
- KM 000 -

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

DESCRIPTION	31.12.2012	31.12.2013	31.12.2014	INDEX	
1	2	3	4	5(3/2)	6(4/3)
1. NET CAPITAL	2 090 789	2 157 896	1 991 505	103	92
2. RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	11 078 498	10 998 977	11 403 153	99	104
3. WOR (WEIGHTED OPERATIONAL RISK)	974 201	981 318	982 250	101	100
4. TOTAL RISK-BEARING ASSETS (2+3)	12 052 699	11 980 295	12 385 403	99	103
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/ 4)	17.3%	18.0%	16.1%	104	89

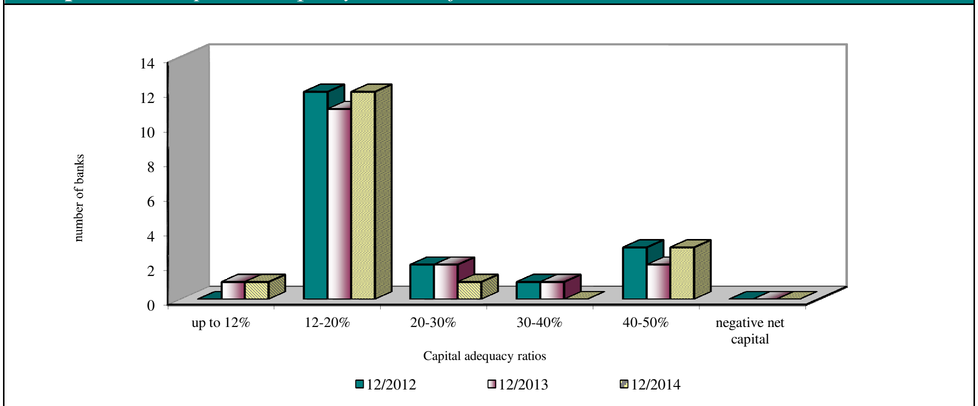
[19] The legally defined minimum capital adequacy rate is 12%.

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



The capital adequacy rate of the banking system as of 31.12.2014 was 16.1%, 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 n20: *Capital Adequacy Ratios of Banks*



Out of a total of 17 banks in the Federation of B&H as of 31.12.2014, 16 banks had capital adequacy ratios that were above the legal minimum of 12%, while one bank had a ratio that was below the legal minimum. According to analytical data, 13 banks had a capital adequacy ratio below the one at the end of 2013 (ranging from 0.1 to 8.2 percentage points), while four banks had improved this ratio compared to the end of 2013.

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

- 1 bank had a ratio below 12% (7.0%),
- 8 banks had a ratio between 12.3% and 14.8%,
- 3 banks had a ratio between 15.4% and 16.4%,
- 2 banks had a ratio between 18.2% and 22.9%,
- 3 banks had a ratio between 40.4% and 46.7%.

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

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

2.1.3. Assets and Asset Quality

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

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

-in KM 000-

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

DESCRIPTION	31.12.2012	31.12.2013	31.12.2014	INDEX	
1	2	3	4	5(3/2	6(4/3)
1. Risk-bearing assets[20]	13 286 676	13 517 944	14 120 362	102	104
2. Calculated regulatory reserves for loan losses	1 370 669	1 504 174	1 551 815	110	103
3. Value adjustment and reserves for off-balance sheet items	1 092 535	1 255 162	1 241 482	115	99
4. Required regulatory reserves formed from profit for assessed	411 077	411 515	454 602	100	110
5. Formed regulatory reserves from profit for assessed losses	315 734	315 734	315 734	100	100
6. Shortfall of regulatory reserves formed from profit for assessed losses	111 565	156 866	203 238	141	130
7. Non-risk bearing items	5.579 911	6 145 092	6 219 445	110	101
8. TOTAL ASSETS (1+7)	18 866 587	19 663 036	20 339 807	104	103

Total assets with off-balance sheet items (assets) [21] of banks in the Federation of B&H amounted to KM 20.3 billion as of 31.12.2014 and are up by 3% or KM 677 million compared to the end of 2013. Risk-bearing assets amount to KM 14.1 billion and are up by 4% or KM 602 million.

[20] Does not include amount of facilities and contingent liabilities of KM 223 million that is secured with a cash deposit.

Non-risk bearing items amount to KM 6.2 billion or 31% of total assets with off-balance sheet items, thus being up by 1% or KM 74 million compared to the end of 2013.

Total calculated loan loss reserves based on regulatory requirements amount to KM 1.5 billion and formed value adjustments for balance sheet assets and provisions for losses under off-balance sheet items amount to KM 1.2 billion. Required regulatory reserves[22] amount to KM 455 million and are up by 10% or KM 43 million. Formed regulatory reserves from profit amount to KM 316 million and are at the same level as a result of changes in regulations, i.e. the shortfall of loan loss reservess being recorded at the end of the business year (starting from 31.12.2012) is not covered by profit, but still represents a deductible item from the capital and affects the calculation of the capital adequacy ratio. The shortfall of regulatory reserves[23] as of 31.12.2014 amounts to KM 203 million, with a growth rate of 30% or KM 46 million compared to the end of 2013, which is the result of the continuous deterioration of the loan portfolio quality.

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

DESCRIPTION	31.12.2012		31.12.2013		31.12.2014		INDEX	
	Amount	Struct. %	Amount	Struct.%	Amount	Struct.%		
1.	2	3	4	5	6	7	8 (4/2)	9 (6/4)
Krediti	9 347 370	85.2	9 396 444	84.3	9 725 304[24]	84.1	101	103
Kamate	86 650	0.8	81 456	0.7	74 573	0.6	94	92
Dospjela potraživanja	1 049 891	9.5	1 144 042	10.3	1 184 588	10.2	109	103
Potraživanja po plać. garancijama	24 360	0.2	31 783	0.3	26 218	0.3	130	82
Ostali plasmani	172 479	1.6	201 786	1.8	194 440	1.7	117	96
Ostala aktiva	292 440	2.7	294 623	2.6	362 972	3.1	101	123
1. RISK-BEARING BALANCE SHEET ASSETS	10 973 190	100.0	11 150 134	100.0	11 568 095	100.0	102	104
2. NON-RISK BEARING BALANCE SHEET ASSETS	5 084 000		5 523 506		5 808 284		109	105
3. GROSS BALANCE SHEET ASSETS (1+2)	16 057 190		16 673 640		17 376 379		104	104
4. RISK-BEARING OFF-BS ITEMS	2 313 486		2 367 810		2 552 267		102	108
5. NON-RISK BEARING OFF-BS ITEMS	495 911		621 586		411 161		125	66
6. TOTAL OFF-BS ITEMS (4+5)	2 809 397		2 989 396		2 963 428		106	99
7. RISK-BEARING ASSETS WITH OFF-BS ITEMS (1+4)	13 286 676		13 517 944		14 120 362		102	104
8. NON-RISK BEARING ITEMS (2+5)	5 579 911		6 145 092		6 219 445		110	101
9. ASSETS WITH OFF-BS ITEMS (3+6)	18 866 587		19 663 036		20 339 807		104	103

Gross balance sheet assets[25] amount to KM 17.4 billion and are up by 4% or KM 703 million compared to the end of 2013, while risk-bearing balance sheet assets amount to KM 11.6 billion or 67% of gross balance sheet assets (thus being up by 4% or KM 418 million compared to the end of 2013). Non-risk bearing balance sheet assets amount to KM 5.8 billion and are up by 5% or KM 285 million. Off-balance sheet risk-bearing items amount to KM 2.5 billion and are up by 8% or KM 184 million, while non-risk bearing items amount to KM 411 million and are significantly down by 34% or KM 210 million compared to the end of 2013.

[21] 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).

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

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

[24] This does not include the loan amount of KM 169 million covered by a cash deposit (included in non-risk bearing assets of the balance sheet).

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

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 2014, banks recorded a slight credit growth of 3% or KM 318 million, with the annual growth rates amounting to 1.7% in the past two years. As of 31.12.2014, loans amounted to KM 11.2 billion, with a share of 69.1% (-1.2 percentage points).

The sale of a part of the loan portfolios (NPLs) of one major bank, as well as the high amount of permanent loan write-offs (category E) at system level in 2014 (two-thirds of which relate to one large bank in the system), had a negative effect on the 1.7% credit growth rate at system level, but, on the other hand, had a positive effect on asset quality indicators at system level. Analytical data shows that the majority of the banks' asset quality ratios continue to have a downward trend, which is reflected in the increase in non-performing loans.

In 2014, a total of KM 7.7 billion of new loans was approved, up by 14.5% or KM 972 million compared to the previous year. Out of the total loans approved, 69% relate to the corporate segment and 27% to the retail segment (as of 31.12.2013: 67% corporate segment, 28% retail segment). The maturity structure of newly approved loans: 47% long-term loans, 53% short-term loans (as of 31.12.2013: 44% long-term loans and 56% short-term loans.

The three largest banks in the Federation of B&H have an aggregate amount of approved loans of KM 6.2 billion, thus holding a share of 56% 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	31.12.2012		31.12.2013		31.12.2014		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Government institutions	132 525	1.2	142 010	1.3	190 401	1.7	107	134
Public companies	251 233	2.4	259 769	2.4	253 057	2.3	103	97
Private companies and enterprises	5 141 359	48.2	5 202 269	47.9	5 216 068	46.7	101	100
Banking institutions	11 177	0.1	6 671	0.1	10 449	0.1	60	157
Non-banking financial institutions	41 661	0.4	37 791	0.3	43 424	0.3	91	115
Retail	5 076 679	47.6	5 194 971	47.9	5 448 307	48.8	102	105
Other	11 490	0.1	8 919	0.1	8 571	0.1	78	96
TOTAL	10 666 124	100.0	10 852 400	100.0	11 170 277	100.0	102	103

According to information submitted by the banks (as of 31.12.2014) regarding the retail loan structure by purpose: consumer loans[26] hold a share of 77%, followed by housing loans with 20%, while the remaining 3% refer to loans to small crafts, small businesses and agriculture (at the end of 2013: 75% consumer loans, 22% housing loans, and 3% small crafts, small businesses and agriculture).

The three largest banks in the system have approved 62.4% of retail loans and 47.5% of private company, which is a slight change compared to the end of 2013.

The currency structure of loans: the largest share of 64% or KM 7.2 billion refers to currency clause loans (EUR: KM 7 billion or 97%, CHF: KM 205 million or 3%), followed by local currency loans with a share of 35% or KM 3.9 billion, while the smallest share of just 1% or KM 85 million refers to

[26] Including cards business

foreign currency loans (almost the entire amount thereof refers to EUR: KM 78 million or 91%). The total amount of loans with a currency clause in CHF of KM 205 million amounts to 1.8% of the total loan portfolio and refers almost entirely to one bank in the banking system (31.12.2013: KM 240 million or 2.2%).

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	31.12.2012			31.12.2013			31.12.2014			INDEX	
	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL		
1	2	3	4	5	6	7	8	9	10	11(5/2)	12(8/5)
A	10 571 555	79.6	211 433	10 754 079	79.6	215 083	11 494 400	81.4	229 889	102	107
B	1 227 301	9.3	108 313	1 094 361	8.1	93 547	976 417	6.9	86 166	89	89
C	334 226	2.5	87 874	356 646	2.6	90 541	254 235	1.8	61 643	107	71
D	443 500	3.3	252 970	502 803	3.7	295 224	520 939	3.7	300 442	113	104
E	710 094	5.3	710 079	810 055	6.0	809 779	874 371	6.2	873 675	114	108
Risk-bearing assets (A-E)	13 286 676	100.0	1 370 669	13 517 944	100.0	1 504 174	14 120 362	100.0	1 551 815	102	104
Classified (B-E)	2 715 121	20.4	1 159 236	2 763 865	20.4	1 289 091	2 625 962	18.6	1 321 926	102	95
Non-performing (C-E)	1 487 820	11.2	1 050 923	1 669 504	12.4	1 195 544	1 649 545	11.7	1 235 760	112	99
Non-risk bearing assets[27]	5 579 911			6 145 092			6 219 445			110	101
TOTAL (risk-bearing and non-risk bearing)	18 866 587			19 663 036			20 339 807			104	103

The first indicator and a warning sign of potential problems with loan repayment is the growth of past due receivables and their share in total loans. In 2014, past due receivables had an increase of 3% or KM 35 million (in 2013: 9% or KM 102 million) and their share is at the same level of 10.6% (the share would amount to 12.3% if one were to exclude the two aforementioned events that took place in the IV quarter).

When analysing the quality of risk-bearing assets through trends and changes of key indicators, it can be concluded that asset quality has improved slightly in 2014 and the reason is exclusively the aforementioned sale of a part of non-performing assets in the amount of app. KM 112 million (almost all relates to the loan portfolio) in one bank and a significant permanent write-off (category E) at system level in the amount of KM 85 million (banks permanently wrote off KM 36 million in 2013 and KM 64 million in 2012), which affected the drop in the following indicators of the share in risk-bearing assets: classified assets, non-performing assets and PLLs for app. 1 percentage point. In some banks, these indicators showed slight oscillations (upgrade or downgrade), i.e. there were nine banks with ratios of the share of classified assets and seven banks with the share of non-performing assets (compared to risk-bearing assets) below the level of the banking sector.

As of 31.12.2014, classified assets amounted to KM 2.6 billion and non-performing assets to KM 1.6 billion.

[27] 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).

Classified assets (B-E) are down by 5% or KM 138 million (in 2013, the increase amounted to 2% or KM 49 million). Within classified assets, non-performing assets (C-E) went down by 1% or KM 20 million (in 2013, the increase in non-performing assets amounted to 12% or KM 182 million). Category B is down by 11% or KM 118 million (in 2013, a drop of 11% or KM 133 million), mostly due to the transfer of items from category B to non-performing assets. In addition to the reduction of category B, if taking into account that category E, despite a reduction in the amount of KM 128 million on the basis of the aforementioned effects, recorded an increase of 8% or KM 64 million in 2014, it can be concluded that the "deterioration" of the loan portfolio is still present, i.e. the continuous increase in non-performing assets is present in the majority of banks.

The ratio expressed through the share of classified assets in risk-bearing assets is 18.6%, which is a decrease of 1.8% compared to the end of 2013 (in the past three years, this indicator ranged from 20% to 21%).

The most significant indicator of asset quality is the ratio between non-performing assets and risk-bearing assets, which dropped by 0.7 percentage points compared to the end of the previous year and amounts to 11.7% (in the past two years, it annually rose by 1.1 percentage points) as a result of the decrease in non-performing assets (by 1% or KM 20 million). However, this should be taken with a grain of salt due to the share of category B being 6.9% (end of 2013: 8.1%) 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*

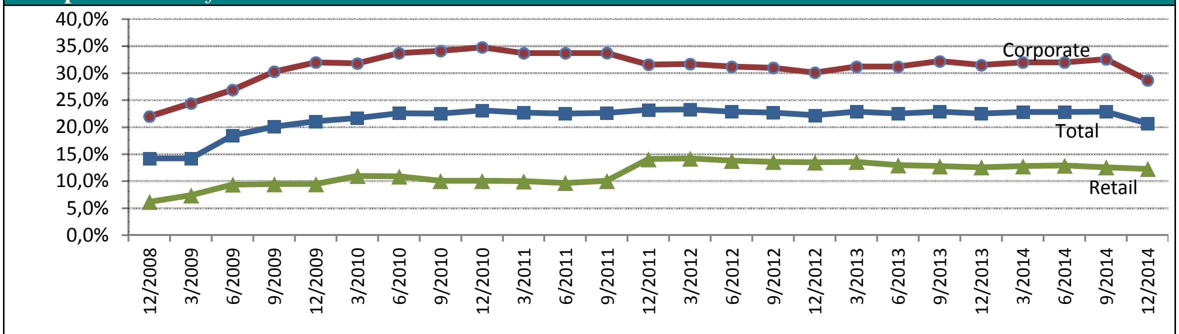
Classification category	31.12.2013						31.12.2014						
	Retail	Share %	Corporate	Share %	TOTAL Amount	TOTAL Share	Retail	Share %	Corpo-rate	Share %	TOTAL Amount	TOTAL Share	INDEX
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14(12/6)
A	4 538 704	87.4	3 874 012	68.5	8 412 716	77.5	4 775 466	87.6	4 080 845	71.3	8 856 311	79.3	105
B	135 873	2.6	717 004	12.7	852 877	7.9	144 930	2.7	616 619	10.8	761 549	6.8	89
C	70 012	1.3	272 940	4.8	342 952	3.2	64 360	1.2	178 315	3.1	242 675	2.2	71
D	128 351	2.5	361 163	6.4	489 514	4.5	82 705	1.5	416 311	7.3	499 016	4.5	102
E	322 031	6.2	432 310	7.6	754 341	6.9	380 846	7.0	429 880	7.5	810 726	7.2	107
TOTAL	5 194 971	100.0	5 657 429	100.0	10 852 400	100.00	5 448 307	100.0	5 721 970	100.0	11 170 277	100.0	103
Class. loans. B-E	656 267	12.6	1 783 417	31.5	2 439 684	22.5	672 841	12.3	1 641 125	28.7	2 313 966	20.7	95
Non-perf. Loans C-E	520 394	10.0	1 066 413	18.8	1 586 807	14.6	527 911	9.7	1 024 506	17.9	1 552 417	13.9	98
		47.9		52.1		100.0		48.8		51.2		100.0	
Individual sector's share in classified loans, non-performing loans and category B:													
Categories B-E		26.9		73.1		100.0		29.1		70.9		100.0	
Non-performing C-E		32.8		67.2		100.0		34.0		66.0		100.0	
Category B		15.9		84.1		100.0		19.0		81.0		100.0	

Following the trend of deteriorating loan quality indicators in the first three quarters of 2014, the effects of the sale of a part of the loan portfolio and the significant amount of the permanent write-off in the fourth quarter positively influenced loan quality indicators, so that the aforementioned improved at the end of 2014 compared to the end of 2013, which was particularly apparent in the corporate sector.

The share of classified loans dropped to 20.7%, i.e. by 1.8 percentage points.

At the level of the total portfolio, as of 31.12.2014, the share of non-performing loans, following a decrease of 0.7 percentage points, amounted to 13.9% (the share went up by 1.4 percentage points in 2013 and by 1.3 percentage points in 2012) as a result of the drop in total non-performing loans by 2% or KM 34 million. The aforementioned sale of a part of the loan portfolio (NPLs) in one bank and the permanent write-off had a positive effect of 1.4 percentage points on the ratio of the share of NPLs in total loans. With respect to legal entities, the drop amounted to 4% or KM 42 million (considering that the two aforementioned events related mostly to legal entities), while retail loans went up by 1% or KM 8 million (in 2013, total non-performing loans rose by 13% or KM 180 million, with corporate loans being up by 22.3% or KM 194 million, and retail loans being down by 2.7% or KM 14 million; in 2012, the total increase amounted to 12.4% or KM 155 million, with corporate loans being up by 23.3% or KM 165 million, and retail loans being down by 1.8% or KM 10 million).

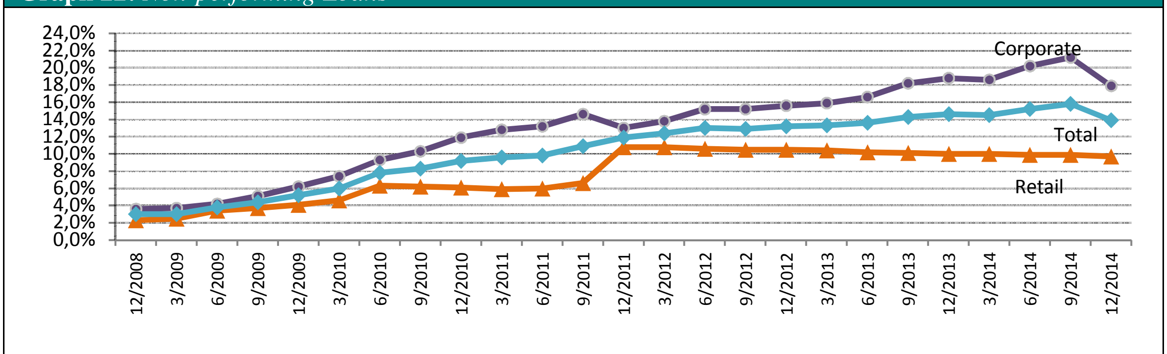
Graph 21: *Classified Loans*



Out of the total approved corporate loans in the amount of KM 5.7 billion as of 31.12.2014, there was an alarmingly high 28.7% or KM 1.6 billion of loans classified within categories B to E, although that is a drop of 2.8 percentage points compared to the end of 2013 (in 2013, this share went up by 1.4 percentage points). This indicator is much better for the retail segment. Out of the total approved retail loans in the amount of KM 5.4 billion, there were 12.3% or KM 673 million of loans classified in the aforementioned categories, down by 0.3 percentage points compared to the end of 2013, which is also high.

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

Graph 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% (at the end of 2013: 67% corporate loans, 33% retail loans). In 2014, the share of non-performing loans in both the corporate and the retail segment decreased. Out of total approved corporate loans, non-performing loans hold a share of 17.9% or KM 1 billion, which is down by 0.9 percentage points compared to the end of 2013 (this share rose by 3.2 percentage points in 2013 and by 2.6 percentage points in 2012). This increase rate in the retail segment amounts to 9.7 % or KM 528 million, with the share being down by 0.3 percentage points (the share dropped by 0.5 percentage points in 2013 and by 0.3 percentage points in 2012).

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	31.12.2013				31.12.2014				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)	112 695	1.0	30 608	27.2	123 863	1.1	24 336	19.6	110	80
Production (IND)	1 547 431	14.3	333 666	21.6	1 596 479	14.3	376 607	23.6	103	113
Construction (CON)	394 706	3.6	121 971	30.9	381 631	3.4	111 056	29.1	97	91
Trade (TRD)	2 298 260	21.2	392 161	17.1	2 263 740	20.3	349 642	15.4	98	89
Catering (HTR)	162 102	1.5	29 970	18.5	165 227	1.5	26 039	15.8	102	87
Other[28]	1 142 235	10.5	158 037	13.8	1 191 030	10.7	136 826	11.5	104	87
TOTAL 1.	5 657 429	52.1	1 066 413	18.8	5 721 970	51.2	1 024 506	17.9	101	96
2. Retail loans for:										
General consumption	3 906 142	36.0	310 450	7.9	4 210 605	37.7	316 997	7.5	108	102
Housing	1 148 230	10.6	170 282	14.8	1 109 191	9.9	176 846	15.9	97	104
Business activities (small business owners)	140 599	1.3	39 662	28.2	128 511	1.2	34 068	26.5	91	86
TOTAL 2.	5 194 971	47.9	520 394	10.0	5 448 307	48.8	527 911	9.7	105	101
TOTAL (1. +2.)	**10 852 400**	**100.0**	**1 586 807**	**14.6**	**11 170 277**	**100.0**	**1 552 417**	**13.9**	**103**	**98**

The largest share in total corporate loans refers to the trade sector (20.3%) and the production sector (14.3%), while the retail segment is dominated by general consumption loans (37.7%) and housing loans (9.9%) (at the end of 2013: trade 21.2%, production 14.3%, general consumption 36% and housing loans 10.6%).

For an extensive period of time, the negative and strong effect of the economic crisis is especially pronounced in several key sectors, which is evident from the indicator of the share of non-performing loans. The construction sector, which has a low share of merely 3.4%, still has the highest share of non-performing loans in the amount of 29.1%, although it dropped by 1.8 percentage points in 2014 (in 2013, it rose by 5 percentage points), which is the result of non-performing loans being down by 9% or KM 11 million. Also, the agricultural sector, despite the lowest share of 1.1%, has a high share of non-performing loans in the amount of 19.6% (12/13: 27.2%), with there being a drop of 20% in non-performing loans in 2014.

However, the focus is on the two sectors with the highest share in total loans – the trade sector (20.3%) and the production sector (14.3%). In 2014, there was an increase in non-performing loans in the production sector by 13% or KM 43 million, with the share increasing from 21.6% to 23.6% (in 2013, the increase amounted to a high 37% or KM 90 million, and the share amounted to 21.6%, up

[28] 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.

by 5.7 percentage points), while non-performing loans in the trade sector went down by 11% or KM 43 million, while the share amounted to 15.4%, down by 1.7 percentage points (in 2013, a high increase of 27% or KM 82 million was recorded and the share rose from 13.3% to 17.1%).

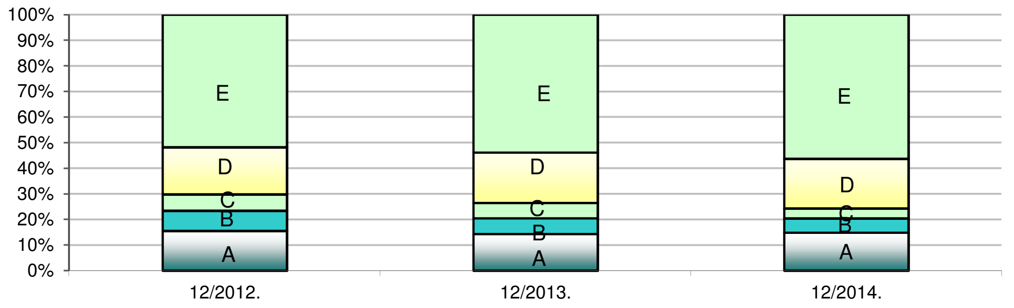
In the retail sector, consumer loans and housing loans recorded a slight increase in non-performing assets, while loans to small business owners are down. The lowest indicator of the non-performing loans share in the amount of 26.5% (at the end of 2013: 28.2%) refers to loans to small business owners whose share in total loans is a low 1.2%. A relatively high share of non-performing loans in the amount of 15.9% refers to housing loans (at the end of 2013: 14.8%), while consumer loans (with the highest share of 37.7% in total loans) hold a lower share of 7.5% (at the end of 2013: 7.9%).

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	
	31.12.2012		31.12.2013		31.12.2014			
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
A	211 433	15.4	215 083	14.3	229 889	14.8	102	107
B	108 313	7.9	93 547	6.2	86 166	5.6	86	92
C	87 874	6.4	90 541	6.0	61 643	3.9	103	68
D	252 970	18.5	295 224	19.6	300 442	19.4	117	102
E	710 079	51.8	809 779	53.9	873 675	56.3	114	108
TOTAL	1 370 669	100.0	1 504 174	100.0	1 551 815	100.0	110	103

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 2013, the reserves for general credit risk (category A) and potential loan losses went up by 3% or KM 48 million and stand at KM 1.5 billion. The reserves for general credit risk are up by 7% or KM 15 million and amount to KM 230 million, while the reserves for potential loan losses went up by 2.5% or KM 33 million. By category of classification, there were trends in both directions: the reserves for category B are down by 8% or KM 7 million and amount to KM 86 million. The reserves for non-performing assets are up by 3% or KM 40 million, i.e. amount to KM 1.2 billion, mostly on the basis of the reserves for category E and D being up by 8% or KM 64 million and by 2% or KM 5 million, respectively. The reserves for category C are down by 32% or KM 29 million. The aforementioned trends of loan loss reserves are due to the aforementioned sale of a part of the loan portfolio of one bank, a high permanent write-off at system level, but also of a constant deterioration of the loan portfolio, which is the result of further effects of the economic crisis on the real sector.

One of the key indicators of asset quality is the ratio between potential loan losses (PLL) and risk-bearing assets with off-balance sheet items. This ratio amounts to 9.4% and is down by 0.1% compared to the end of 2013.

As of 31.12.2014, banks had an average calculated reserves in the amount of 8.8% for category B, 24.2% for category C, 57.7% for category D and 100%for category E (at the end of 2013: 8.5% for B, 25.4% for C, 58.7% for D and 100% for E).[29]

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
	31.12.2013		31.12.2014		
	Amount	Share	Amount	Share	
1	2	3	4	5	6 (4/2)
1. RISK-BEARING ASSETS (a+b)	**13 517 944**	**100.0%**	**14 120 362**	**100,0%**	104
a) Default items	**1 886 251**	14.0%	**1 780 970**	12.6%	94
a.1. BS-items in default	1 863 530		1 762 966		95
a.2. off-BS items in default	22 721		18 004		79
b) Performing assets	**11 631 693**	86.0%	**12 339 392**	87.4%	106
1.1 TOTAL VALUE ADJUSTMENTS FOR RISK-BEARING ASSETS (a+b)	**1 255 162 100.0%**	**100.0%**	**1 241 482**	**100.0%**	99
a) Value adjustments for default	**1 110 375**	88.5%	**1 093 938**	88.1%	98
a.1. Value adjustment for BS-items in default	1 105 059		1 087 189		98
a.2. reserves for off-BS items in default	5 316		6 749		127
b) Value adjustments for performing assets (IBNR[30])	144 787	11.5%	147 544	11.9%	102
2. TOTAL LOANS (a+b)	**10 852 400**	**100.0%**	**11 170 277**	**100.0%**	103
a) Defaulted loans (non-performing loans)	1 799 777	16.6%	1 698 336	15.2%	94
b) Performing loans	9 052 623	83.4%	9 471 941	84.8%	105
2.1. VALUE ADJUSTMENT FOR LOANS (a+b)	**1 165 928**	**100.0%**	**1 149 468**	**100.0%**	99
a) Value adjustments for defaulted loans	1 052 412	90.3%	1 034 489	90.0%	98
b) Value adjustments for performing loans (IBNR loans)	113 516	9.7%	114 979	10.0%	101
Coverage rate of default items	**58.9%**		**61,4%**		
Coverage rate of performing assets	**1.2%**		**1,2%**		
Coverage rate of risk-bearing assets with total value adjustments	**9.3%**		**8,8%**		

In 2014, default loans went down by 6% or KM 101 million (in 2013: up by 9% or KM 155 million). For comparison's sake, non-performing loans dropped by 2% or KM 34 million. The share of default loans in total loans is down by 1.4 percentage points and amounts to 15.2% and the share of non-performing loans amounts to 13.9%. The share of all default items in total risk-bearing assets is 12.6% (end of 2013: 14%).

[29] 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%.

[30] IBNR (identified but not reported) – latent losses.

Due to the larger decrease in the amount of default (6%) compared to the decrease in value adjustments for default (2%), the coverage rate of default items with value adjustments is up and amounts to 61.4% (end of 2013: 58.9%). The coverage rate of non-performing assets with loan loss reserves is also up and amounts to 74.9% (end of 2013: 71.6%) as a result of the drop in non-performing assets (1%), along with a simultaneous increase in loan loss reserves by 3%.

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 down and amounts to 8.8% (end of 2013: 9.3%). The coverage ratio of risk-bearing assets with total calculated regulatory reserves for loan losses (reserves for general credit risk and special reserves for loan losses) dropped from 11.1% to 11.0%.

Although asset quality indicators at system level improved slightly, primarily due to the aforementioned two evenets (the sale of a part of NPLs and the permanent write-off, but also credit growth, i.e. the increase in risk-bearing assets), on the basis of analytical date for individual banks, it can be concluded that the economic crisis and conditions in the real sector still negatively affect most banks' loan portfolio, past due receivables of debtors, primarily legal entities, which results in the increase in non-performing loans. Also, it is to be expected that the negative effects the natural disasters from May 2014 had on natural persons and legal entities on territories affected by the flood in B&H, i.e. the effect of the banks' debtors' meeting loan commitments, will impact the business performance indicators of a number of banks in the following period as well, primarily through the increase in default loans and the financial result.

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.[31]

Acting in accordance with the aforementioned Decision, in the second half of 2014 and out of a total number of 242 received requests for moratoriums on loan commitments, banks in the Federation of B&H approved 190 requests in the total amount of KM 29 million or 78% of the total number of submitted requests for moratoriums. Out of the total amount of moratoriums on loan commitments, KM 25 million refer to legal entities and KM 4 million to natural persons.

Also, in accordance with the aforementioned Decision, in the second half of 2014 and out of a total number of 261 submitted requests for restructurings of loan commitments, banks in the Federation of B&H approved 163 requests in the total amount of KM 38 million or 62% of the total number of submitted requests for restructurings of loan commitments. Out of the total amount of restructured loan commitments, KM 37 million refer to legal entities and KM 1 million to natural persons.

As of 31.12.2014, loans approved in accordance with the aforementioned Decision have a very low share in relation to total loans: moratorium 0.26% and restructuring 0.34%.

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 31.12.2014, there was a total of 1 106 426 loan accounts, 1 673 of which were being repaid by guarantors (1 910 guranators). The share of loans and number of loan accounts being repaid

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

guarantors in relation to information for the overall system is lowe and amounts to a mere 0.44% and 0.17%.

For the purpose of mitigating the adverse effects of the global financial and economic crisis and considering the preservation of the banking sector's stability, in late 2009, the Agency adopted the Decision on Temporary Measures for Rescheduling of Loan Commitments of Natural Perons and Legal Entities.[32]

The primary objective of these temporary measures is to encourage banks to "boost" lending activities and restructure existing receivables without having to increase prices on loans and raise costs for existing debtors in order to help both natural persons and legal entities to overcome the situation they found themselves in due to the economic crisis (lower payment capacity of natural persons due to the loss of a job, late salaries, salary reductions, etc. and, with respect to legal entities – higher illiquidity, major reduction of business volume, very difficult condition in the real sector in general, etc.).

Acting in accordance with the said Decision, in 2014, banks in the Federation of B&H have received a total of 503 requests for loan rescheduling and approved 479 requests in the total amount of KM 80 million or 95%, which is up by 6% compared to 2013. Out of the total amount of approved rescheduled liabilities, KM 79 million refer to legal entities and KM 1 million to natural persons.

The net effect of loan loss reserves based on performed restructurings is an increase of KM 611 thousand. It is worth noting that there were also contrary trends in sense that there were both increases and decreases in loan loss reserves on this basis, which finally resulted in the aforementioned net effect.

According to the aforementioned Decision of the Agency, rescheduled loans represented only 0.7% of total loans as of 31.12.2014 (i.e. corporate rescheduled loans represented 1.4% of total corporate loans and retail rescheduled loans represented 0.02% of total retail loans).

Based on this information, it can be concluded that the result of restructured loans is relatively modest considering both their number and amount, when compared to the total loan portfolio and sector-level portfolio (for legal entities and natural persons).

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

After the significant increase in non-performing loans in "local" banks by 45% in 2013, 2014 saw an increase of 7%, with banks that are in majority foreign ownership recording a drop in the amount of 4% (the increase in non-performing loans in 2013 was 9%). The share of non-performing loans in banks that are in majority foreign ownership amounts to 12.5%, while it amounts to 31% in "local banks". This is the result of inadequate and weak systems for credit risk management, especially in relation to the key stage – loan approval. Major weaknesses and inefficient practices were also

[32] "Official Gazette of the Federation of B&H", No. 2/10, 1/12, 111/12 and 1/14 – Decision in force as of 31.12.2014.

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. 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*

Opis	LOANS APPROVED[33]			INDEX	
	31.12.2012	31.12.2013	31.12.2014	3/2	4/3
1	2	3	4	5	6
To shareholders with over 5% voting rights, subsidiaries and other related entities	156 861	123 889	160 135	79	129
To members of the Supervisory Board and Audit Board	617	570	409	92	72
To the Management of the bank	2 574	2 507	1 994	97	79
TOTAL	160 052	126 966	162 538	79	128
Contingent and assumed off-balance sheet liabilities	21 800	16 046	21 826	74	136

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

During the reporting period, loan exposures to related entities increased by 28% due to increased exposure with respect to two banks , while contingent liabilities increased by 36%. 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. The Agency pays special attention (during its on-site controls) to the banks' operations with related entities, especially in terms of assessing their system of identification and monitoring of risk exposure in transactions with related entities. The Agency's examiners give on-site orders for eliminating identified omissions within certain time frames and also initiate violation proceedings, the integral part being monitoring and overseeing the compliance with the issued orders in the post-control procedure. This has reflected positively on this segment of their operations since banks have significantly improved the quality of their risk management in this segment.

2.2. Profitability

According to information from the financial statement showing the performance of banks' operations, i.e. from the income statement, a positive financial result – profit in the amount of KM 131 million (in 2013, a KM 2.7 million loss was recorded) was recorded at the level of the banking system in the Federation of B&H in 2014. This is the best result so far, with it being noted that the second-highest profit in the amount of KM 110 million was recorded shortly before the crisis in 2007 and then in 2012. One large bank recorded a significantly smaller loss (by approximately KM 106 million) and this in particular had a positive effect on the financial result at system level, along with higher profit in banks that operated positively in the previous year (effect KM 31 million) and recorded profit in the case of one bank that operated at a loss last year (effect KM 19 million). On the other hand, a negative effect of app. KM 23 million is primarily the result of a bigger loss recorded by one bank as well as lower profit recorded by four banks.

The key effect on the improved profitability of most banks is primarily the result of the application of a new methodological approach (implementation of IAS 37/39 starting from 31.12.2011), which led to smaller value adjustment costs. Total income, as was the case in the previous year, saw a slight increase of 2% or KM 15 million. Due to the increase in non-performing loans and low credit growth, interest income went down in the last three years, which banks are compensating for by reducing interest expenses and increasing operating income (service fees). However, the key reason for the improved financial result at sector level is, as has been noted, a significant drop in non-interest expenses in the amount of 15% or KM 123 million (in 2013, an increase of 17% or KM 123 million), largely a reduction in value adjustment costs by 41% or KM 95 million (in 2013, value adjustment costs increased by 61% or KM 88 million), with 85% of the reduction referring to a bank that recorded a high increase in the previous year.

A positive financial result in the amount of KM 167 million was recorded by 15 banks and it is up by 21% or app. KM 30 million compared to 2013. At the same time, an operating loss in the amount of KM 36 million was recorded by two banks and it is four times lower or lower by KM 104 million compared to the previous year, which is mostly the result of a significantly lower loss in one large bank. Detailed information is provided in the table below.

- KM 000 -

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

Description	31.12.2012		31.12.2013		31.12.2014	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7
Loss	-17 817	4	-140 445	3	-36 386	2
Profit	128 173	14	137 775	14	167 330	15
Total	**110 356**	**18**	**-2 670**	**17**	**130 944**	**17**

As in other segments, this segment also shows some concentrations: out of the total profit (KM 167 million), app. 69% or KM 115 million refers to the two largest banks in the system with an assets share of app. 48% in the banking sector, while 72% or KM 26 million of the total loss of KM 36 million refer to only one bank with a low assets share in the system. Analytical data indicates that a total of 11 banks has a better financial result (by KM 157 million), one bank's financial result remains unchanged, while 4 banks have a poorer financial result (by KM 23 million).

Based on analytical data and 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 in relation to large banks that recorded greater profit compared to the previous year. This is primarily a result of the implementation of a new methodological approach. However, a profitability assessment that is based solely on the recorded financial result would not be an adequate assessment since other important factors that affect sustainability and quality of earnings, i.e. profit, should also be taken into account. In that sense, it is of outmost importance to emphasise credit risk and negative trends in asset quality over the past six years, which is evident from the increase in non-performing and uncollectable loans (with it being noted that there was a decrease on the basis of the sale of a part of NPLs in one bank and a significant permanent write-off amount) and which does not correlate with the reduction of value adjustment costs (following the implementation of IAS 39 and 37), this being the most important factor affecting the improvement of the financial result in most banks over the past four years. This leads to the conclusion, as well as suspicion, that value adjustments are underestimated and not at an adequate level in some banks.

At system level, total income amounted to KM 874 million, slightly up by 2% or KM 15 million compared to the previous year. Total non-interest expenses amount to KM 721 million, with a significant rate decrease in the amount of 15% or KM 123 million (in 2013, the increase was 17% or KM 123 million). This has positively affected the total finacial result of the banking sector.

Despite the increase in average interest-bearing loans in a large number of banks by 2.9%, a decrease in the average interest rate on loans due to a decrease in active interest rates and the increase in non-performing loans (with it being noted that there was a drop in non-performing loans at the end of the previous year on the basis of the sale of a part of the loan portfolio in one bank, as well as a decrease on the basis of a permanent write-off) led to the further reduction of interest income. It is evident that the trend was slowed down: the decrease amounted to 7% or KM 57 million in 2012, it amounted to 4% or KM 28 million in 2013 and to 1% or KM 10 million in 2014. Although some banks recorded higher interest income compared to the previous year (as a result of intensified lending activities), a much lower interest income in two large banks (due to reduced lending activities) has largely caused the reduction at system level. Interest income amounted to KM 771 million, with the share in the structure of total income being down from 90.9% to 88.2%. The largest share refers to loan interest income, which recorded a nominal drop of KM 11 million or 2%, with the share in total income being down from 81.9% to 79.3%.

In the structure of loan interest income, the largest part (57%) relates to interest income from retail loans, which are slightly up by 0.6% compared to the previous year, while having a share of 48.8% in the total loan portfolio. This is followed by loan interest income for loans to private companies (a share of 40% and down by 5% compared to the previous year, with the share in the loan portfolio being 46.7%). On the basis of the aforementioned, it can be concluded that the retail loan portfolio is still more profitable and less risky for banks, given 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 38% higher than the interest rates on corporate loans in 2014.

As was the case in the past five years, positive trends were recorded with respect to interest expenses whose rate of decrease was higher (-6% or app. KM 15 million) than the rate of decrease of interest income (-1% or KM 10 million). Interest expenses amount to KM 224 million, and their share in the total income structure decreased from 27.9% to 25.7%. Average interest-bearing deposits increased by 2.9% and interest expenses related to deposit accounts amount to KM 192 million and are the biggest item, in both relative and nominal terms, in total interest expenses. This item went down by 6% or KM 13 million, as a result of the deposit base structure (higher share of deposits with lower interest rate) and a reduction of passive interest rates, which resulted in a decrease in average interest rates on deposits from 2.26% to 2.06% vs. the comparable period. Interest expenses on loans and other borrowings amount to KM 19 million and are down by 11% compared to the previous year, with their share in total income going from 2.5% to 2.2%.

As a result of the decrease in interest expenses (-6%) being larger than the decrease in interest income (-1%), net interest income rose slightly by 1% or KM 5 million and amounts to KM 546 million (in 2013, it remained almost the same as in 2012, amounting to KM 540 million), with its share in the total income structure being down from 63.1% to 62.5%.

Operating income amounts to KM 327 million and is up by 3% or KM 10 million compared to the previous year, with its share in the total income structure remaining at almost the same level of 37%. Within operating income, the largest share refers to service fees, with an increase of 6% or KM 13 million. It can be concluded that banks amortise the reduction in interest income from the continuous increase in service fees.

Major oscillations in non-interest expenses in the last four years are primarily the result of a change (increase or decrease) in value adjustment costs. In fact, after two years of decline (17% or KM 163 million in 2011, 9% or KM 69 million in 2012), in 2013, total non-interest expenses increased by 17% or KM 123 million, while in 2014, they dropped by 15% or KM 123 million, thus amounting to KM 721 million, with the share in the total income structure decreasing from 98.3% to 82.5%. This is again primarily the result of significantly lower value adjustment costs, which amount to KM 138 million and are down by 41% or KM 95 million (85% or KM 81 million of which refers to only one bank that saw a pronounced increase and high value adjustment costs in the previous year), due to which the share in total income dropped from 27.1% to 15.8%.

Value adjustment costs in 2011, when a new methodological framework was applied, i.e. IAS 37/39 was implemented, had a high rate of decrease in the amount of 51% or KM 196 million, and they further decreased by 24% or KM 46 million in 2012. In 2013, value adjustment costs had a high growth rate of 61% or KM 88 million, 84% of which referred to one bank.

On the other hand, operating expenses, as a significant non-interest expenses item (a share of app. 65% to 70%) in the amount of KM 503 million and with a share of 57.6% in total income, also decreased by 6% or KM 32 million (in 2013, an increase of 7% or KM 35 million), with salary and contribution costs, as the largest item of operating expenses, increasing by a slight 1% or KM 2 million and amounting to KM 248 million or 28.4% of total income. Fixed assets costs are down by 11% or KM 18 million and amount to 151 million KM, with a 17.3% share in total income. Other operating costs decreased by 13% or KM 16 million (in 2013, they were up by 23% or KM 22 million, which was mostly due to high provisioning costs for litigation in one bank). After the crisis emerged, banks took numerous measures to rationalise costs of operations, primarily to reduce operating and interest expenses, which has partly mitigated adverse effects of the interest income decrease caused by the lower volume of lending activities and decrease in loan portfolio quality.

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

- in KM 000 -

Table 31: *Total Income Structure*

Total income structure	31.12.2012 Amount	31.12.2012 %	31.12.2013 Amount	31.12.2013 %	31.12.2014 Amount	31.12.2014 %	INDEX 8 (4/2)	INDEX 9 (6/4)
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
I Interest income and similar income								
Interest-bearing deposit accounts at deposit institutions	3 991	0.4	2 461	0.2	3 459	0.3	62	141
Loans and leasing facilities	729 602	65.2	703 462	64.1	692 603	63.1	96	98
Other interest income	75 831	6.8	75 122	6.8	74 654	6.8	99	99
TOTAL	809 424	72.4	781 045	71.1	770 716	70.2	96	99
II Operating income								
Service fees	216 711	19.4	227 150	20.7	240 362	21.9	105	106
Income from FX deals	45 081	4.0	42 695	3.9	45 760	4.2	95	107
Other operating income	47 181	4.2	47 377	4.3	41 142	3.7	100	87
TOTAL	308 973	27.6	317 222	28.9	327 264	29.8	103	103
TOTAL INCOME (I + II)	1 118 397	100.0	1 098 267	100.0	1 097 980	100.0	98	100

Graph 24: *Total Income Structure*

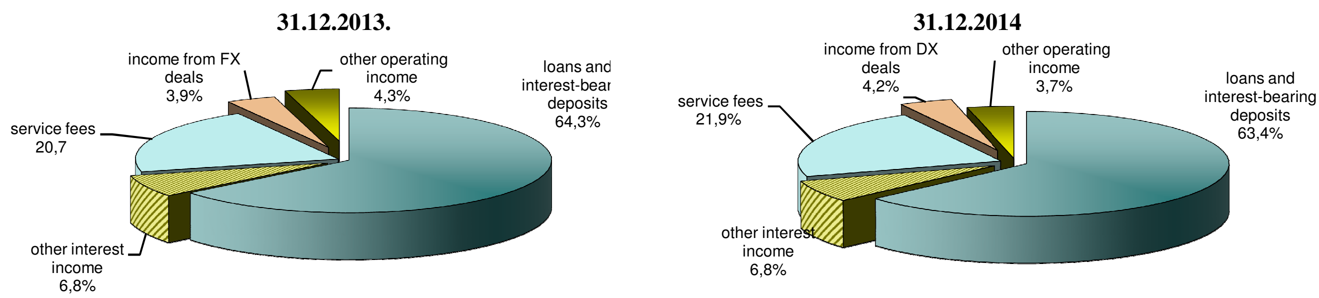
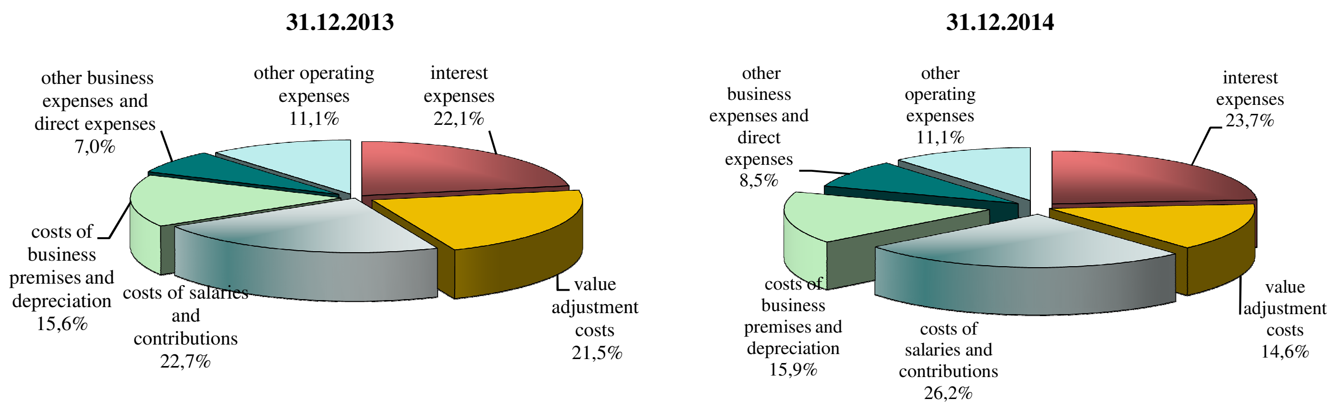


Table 32: *Total Expenses Structure*

Total expenses structure	31.12.2012 Amount	31.12.2012 %	31.12.2013 Amount	31.12.2013 %	31.12.2014 Amount	31.12.2014 %	INDEX 8 (4/2)/	INDEX 9 (6/4)
1	2	3	4	5	6	7	8 (4/2)/	9 (6/4)
I Interest expenses and similar expenses								
Deposits	218 614	22.0	205 187	18.9	192 455	20.3	94	94
Liabilities based on loans and other borrowings	36 520	3.7	21 253	2.0	18 880	2.0	58	89
Other interest expenses	14 635	1.5	12 862	1.2	13 083	1.4	88	102
TOTAL	269 769	27.2	239 302	22.1	224 418	23.7	89	94
II Total non-interest bearing expenses								
Costs of value adjustment of risk-bearing assets and provisions for contingent liabilities and other value adjustments	144 750	14.6	232 804	21.5	137 806	14.6	161	59
Costs of salaries and contributions	243 133	24.5	246 087	22.7	248 007	26.2	101	101
Costs of business premises and depreciation	158 933	16.1	168 794	15.6	150 709	15.9	106	89
Other business expenses and direct expenses	76 181	7.7	75 621	7.0	80 006	8.5	99	106
Other operating expenses	98 441	9.9	120 634	11.1	104 424	11.1	123	87
TOTAL	721 438	72.8	843 940	77.9	720 952	76.3	117	85
TOTAL EXPENSES (I + II)	991 207	100.0	1 083 242	100.0	945 370	100.0	109	87

Grafikon25: *Sruktura ukupnih rashoda*



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	31.12.2012	31.12.2013	31.12.2014
Profit from average assets	0.7	n/a	0.8
Profit from average total capital	5.1	n/a	5.5
Profit from average share capital	9.3	n/a	10.7
Net interest income/average assets	3.6	3.6	3.5
Operating income/average assets	2.1	2.1	2.1
Total income/average assets	5.7	5.7	5.6
Business expenses and direct expenses[34]/average assets	1.5	2.1	1.4
Operating expenses/average assets	3.4	3.6	3.2
Total non-interest bearing expenses/average assets	4.8	5.6	4.6

An analysis of key ratios for the profitability quality assessment has shown that the profitability of the overall system is significantly better. As a result of the profit recorded relative to the previous year, when a loss was recorded at system level, key profitability ratios are positive: the ROAA (return on average assets) amounts to 0.8%, while the ROAE (return on average equity) amounts to 10.7%.

The banks' productivity indicator, measured as a ratio between total income and average assets (5.6%), has deteriorated slightly due to the increase in total income being lower than the increase in average assets. As a result of the significant reduction of value adjustment costs (mostly in one bank), an improvement in the business expenses and direct expenses /average assets ratio is stressed, from 2.1% to 1.4%. Also, because of the rationalisation of operating costs, the operating expenses/average assets ratio improved from 3.6% to 3.2% as a consequence of lower operating expenses in the amount of 6%, along with a simultaneous increase in average assets in the amount of 4%.

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

2.3. Weighted Nominal and Effective Interest Rates

In the interest of greater transparency and easier comparability of banks' loan approval terms and deposit taking terms, as well as in the interest of customer protection by means of introducing transparent disclosure of loan approval costs, i.e. deposit income, all in accordance with international standards, criteria and practices in other countries, on 01.07.2007, the Agency prescribed a uniform

[34] Expenses also include value adjustment costs.

manner of calculating and disclosing the effective interest rate[35] for all banks seated in the Federation of B&H as well as their organisational units operating on the territory of the Federation of B&H. the effective interest rate represents an actual relative loan price, i.e. income earned on a deposit, expressed as an annual percentage.

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

Banks are required to report to the Agency on a monthly basis regarding weighted nominal and effective interest rates on loans and deposits approved/received in the reporting month in question, all in accordance with regulated methodology.[36]

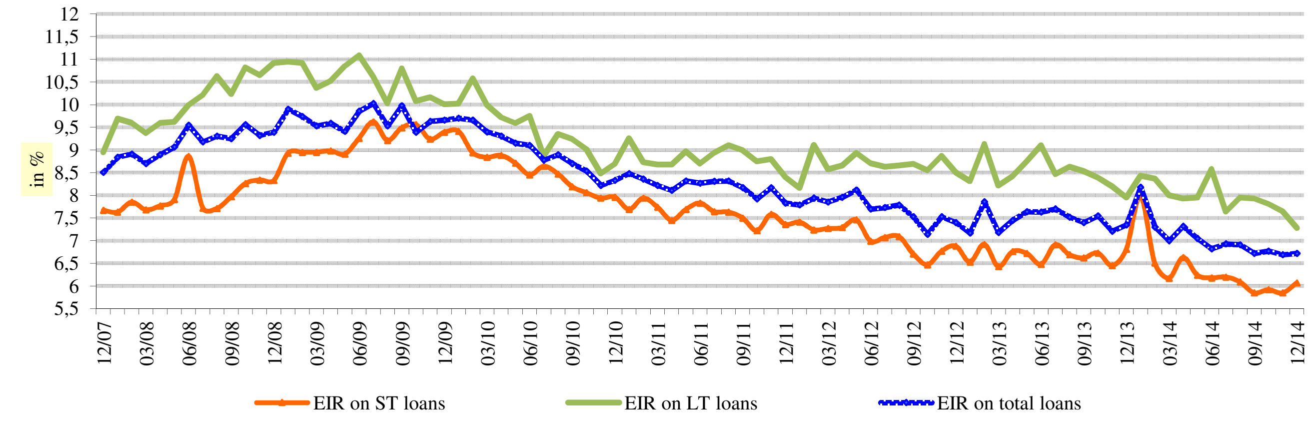
The table below shows an overview of weighted nominal and effective interest rates (hereinafter: NIR and EIR) on loans at the banking sector level and for two key customer segments (corporate and retail) for December 2012, June and December 2013, and June and December 2014.

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

DESCRIPTION	12/2012		6/2013		12/2013		6/2014		12/2014	
	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	6.39	6.88	6.04	6.48	6.18	6.81	5.70	6.24	5.58	6.07
1.1. Corporate	6.39	6.86	6.09	6.47	6.21	6.79	5.64	6.13	5.55	5.99
1.2. Retail	8.46	10.89	7.92	10.91	6.42	8.51	8.32	11.72	6.57	8.90
2. Weighted IR on long-term loans	7.66	8.50	8.07	9.10	7.31	7.95	6.81	7.44	6.00	7.28
2.1. Corporate	6.73	7.22	6.94	7.40	6.83	7.17	6.03	6.30	5.29	6.76
2.2. Retail	8.48	9.59	8.52	9.79	7.93	8.95	7.54	8.47	7.50	8.60
3. Total weighted IR on loans	6.80	7.40	6.93	7.63	6.72	7.35	6.24	6.82	5.80	6.72
3.1. Corporate	6.45	6.93	6.26	6.66	6.41	6.92	5.76	6.18	5.43	6.32
3.2. Retail	8.47	9.69	8.49	9.83	7.84	8.92	7.56	8.58	7.44	8.62

[35] 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).
[36] 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*



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

During 2014, as was the case in the previous two years, the trend of slight decrease of weighted EIR was continued. The main reasons for a slight but continuous decline of weighted EIR were the application of business policies of lower interest rates in some banks, followed by the increasingly pronounced competition on the banking market of the FB&H, as well as because of the weak demand for loans and the associated restrictive lending policy of banks in the process of analysing the creditworthiness of potential borrowers.

In December 2014, the weighted effective interest rate amounted to 6.72%, down by 0.63 percentage points compared to the level as of December 2013. During 2014, the weighted effective interest rates recorded larger oscillations compared to earlier periods, with the lowest rate having been recorded in November (6.69%), and the highest one in January 2014 (8.18%).

Weighted interest rates on long-term loans during 2014 recorded slight oscillations, within the range of 1.15 percentage points, while those on short-term loans ranged within a high 2.13 percentage points.

The weighted EIR on short-term loans was 6.07% in December 2014, down by 0.74 percentage points compared to December 2013, with the lowest rate having been recorded in September and November 2014 (5.85%) and the highest one in January 2014 (7.98%).
The weighted EIR on long-term loans stood at 7.28% in December 2014, which is a drop of 0.67 percentage points compared to December 2013 and also the lowest recorded rate since data started being collected (since 2007), while the largest one in the course of 2014 was recorded in January (8.43%).

Interest rates on loans granted to the two most important sectors: corporate and retail,[37] saw the same trends in 2014, i.e. showed a slight downward trend. During 2014, the weighted EIR on corporate loans was still lower than the EIR on retail loans and amounted to 6.32% (12/2013: 6.92%), though with present oscillations ranging within 1.95 percentage points. For long-term corporate loans, the drop amounted to 0.41 percentage points (from 7.17% to 6.76%), while the EIR on short-term loans saw twice as large a drop in the amount of 0.80 percentage points (from 6.79% to 5.99%).

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

In December 2014, the EIR on retail loans was 8.62%, which is lower by 0.30 percentage points compared to December 2013. The EIR on short-term loans to the same sector amounted to 8.90% as of December 2014, a slight increase compared to the level as of December 2013 (8.51%). It should be noted that the aforementioned recorded high oscillations ranging within 3.70 percentage points during 2014. The EIR for long-term loans was 8.60% in December 2014, which is down by 0.35 percentage points compared to December 2013.

Also, when observing the period of the past five years, a moderate but steady decline in the weighted average EIR on loans calculated on an annual basis is evident, primarily in the corporate sector, while the continuous decline in the retail sector was halted in 2013, but continued during 2014, as shown in the table below.

Table 35 : *Weighted average NIR and EIR on loans per annum*

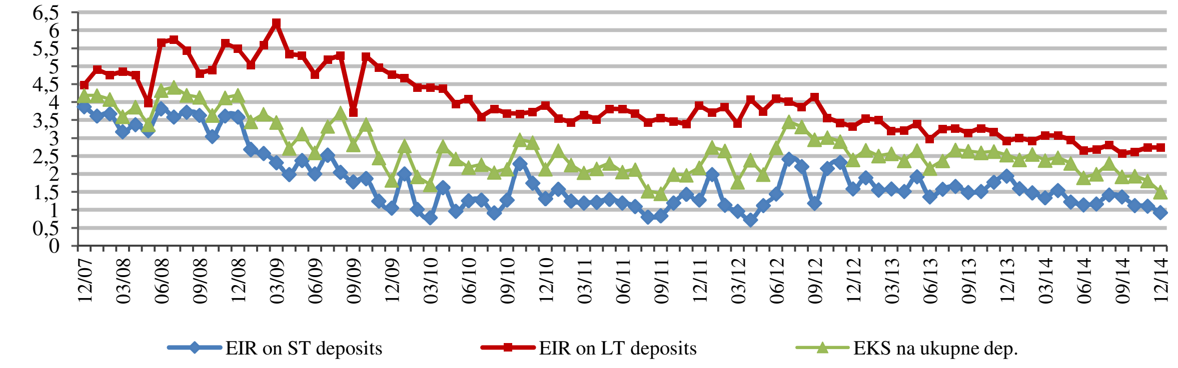
DESCRIPTION	2010		2011		2012		2013		2014	
	NIR	EKS	NIR	EKS	NIR	EKS	NIR	EKS	NIR	EKS
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on short-term loans	7.94	8.49	7.04	7.61	6.45	7.01	6.17	6.66	5.72	6.24
1.1. Corporate	7.92	8.35	6.97	7.45	6.43	6.94	6.22	6.66	5.70	6.17
1.2. Retail	9.04	12.79	9.08	12.52	8.41	11.52	8.09	11.08	7.98	11.39
2. Weighted IR on long-term loans	8.46	9.35	7.97	8.84	7.78	8.70	7.66	8.48	6.98	7.80
2.1. Corporate	7.90	8.35	7.39	7.89	6.86	7.51	6.65	7.12	6.19	6.81
2.2. Retail	9.12	10.48	8.45	9.62	8.44	9.57	8.35	9.40	7.66	8.66
3. Total weighted IR on loans	8.20	8.92	7.49	8.21	6.99	7.70	6.82	7.46	6.32	6.98
3.1. Corporate	7.92	8.35	7.09	7.58	6.52	7.07	6.33	6.78	5.84	6.35
3.2. Retail	9.11	10.60	8.49	9.78	8.44	9.68	8.33	9.48	7.68	8.77

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	12/2012		6/2013		12/2013		6/2014		12/2014	
	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 .59	1 .59	1 .35	1 .37	1 .94	1 .95	1 .13	1 .15	0 .92	0 .93
1.1. up to three months	1 .28	1 .28	1 .01	1 .01	1 .92	1 .92	0 .94	0 .95	0 .42	0 .42
1.2. up to one year	2 .53	2 .55	1 .80	1 .86	1 .99	2 .01	1 .59	1 .62	1 .94	1 .97
2. Weighted IR on long-term deposits	3 .3	3 .32	2 .95	2 .97	2 .89	2 .92	2 .62	2 .65	2 .67	2 .74
2.1. up to three years	3 .17	3 .19	2 .64	2 .66	2 .58	2 .61	2 .55	2 .58	2 .40	2 .48
2.2. more than three years	4 .42	4 .46	4 .32	4 .33	4 .24	4 .28	2 .83	2 .84	3 .41	3 .43
3. Total weighted IR on deposits	2 .39	2 .40	2 .14	2 .16	2 .50	2 .53	1 .88	1 .90	1 .47	1 .50

Graph 27: *Weighted Average Monthly EIR on Deposits*



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

Generally speaking, based on the analysis of trends of the EIR on deposits in 2014, both by sector (corporate and retail) and by maturity, it can be concluded that the level as of December 2014 was lower on all grounds compared to December 2013, although certain oscillations were recorded throughout the year.

Compared to December 2013, the weighted EIR on total term deposits decreased by 1.03 percentage points (from 2.53% to 1.50%) in December 2014. The weighted EIR on short-term deposits recorded oscillations ranging within 0.62 percentage points in 2014, with the lowest rate having been recorded in December (0.93%), and the highest one in April (1.55%).

When analysing trends of interest rates on short-term deposits by maturity, the EIR on term deposits up to three months decreased by 1.5 percentage points compared to December 2013, amounting to 0.42%. A slight drop was recorded with respect to the interest rate on term deposits up to one year, which stood at 1.97% in December 2014 (12/2013: 2.01%). Short-term deposits are generally regarded as unstable sources of funding due to the nature of their maturity and are as such subject to high oscillations, even within one year, due to the banks' efforts to more efficiently manage assets and liabilities, i.e. their sources of funding, with one instrument also being interest rate policy.

The weighted EIR on long-term deposits was 2.74% in December 2014 (12/2013: 2.92%), with the lowest rate recorded in September 2014 (2.57%), while the highest one was recorded in March in the amount of 3.08%. Looking back a few years, the weighted EIR on long-term deposits, with the exception of sporadic small oscillations, only ranged between 2% and 4%.
The weighted EIR on long-term deposits up to three years amounts to 2.48%, which represents a decrease of 0.13 percentage points compared to the level as of December 2013. The EIR on term deposits over three years in December 2014 stood at 3.43%, down by 0.85 percentage points compared to December 2013, when it amounted to 4.28%.

The average EIR on deposits of natural persons and legal entities was lower in December 2014 compared to December 2013. The average EIR on retail deposits was down by 0.52 percentage points compared to December 2013, amounting to 2.13% and also being the lowest rate recorded during 2014, while the highest one was recorded in March (2.70%). In the corporate sector, the average EIR stood at 2.21% in December 2014, down by 0.79 percentage points compared to December 2013, with the lowest level of 1.58% having been recorded in March and the highest level of 3.25% having been recorded in February.

Starting with the second half of 2012, there was a decline in newly received corporate deposits, especially short-term ones, and when observing the period of the past four years, the aforementioned were at the lowest level in this period, which resulted in a large increase in short-term interest rates to the corporate sector. Although there was a decrease in interest rates to the corporate sector during 2014, both short-term and long-term ones, the average interest rates to the corporate sector (2.21%) were still somewhat higher than the average interest rates to the retail sector (2.13%) in December 2014.

When analysing trends of weighted average interest rates on deposits on an annual level, a decrease in interest rates on long-term deposits is evident in the past five years, with the exception of 2012, while there are annual oscillations with respect to interest rates on short-term deposits, with the aforementioned resulting in a decrease in interest rates during 2014, as shown in the table below. Through their interest rate policy, banks manage profitability and plan an optimal sectoral and maturity breakdown of deposit sources, in accordance with the strategy of funding and facilities.

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

DESCRIPTION	12/2010		12/2011		12/2012		12/2013		12/2014	
	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	1.31	1.31	1.16	1.16	1.45	1.47	1.65	1.67	1.20	1.23
1.1. up to three months	0.60	0.60	0.87	0.87	0.86	0.88	1.47	1.47	0.79	0.80
1.2. up to one year	2.79	2.79	2.53	2.53	2.55	2.57	1.85	1.87	1.72	1.76
2. Weighted IR on long-term deposits	4.00	4.02	3.59	3.63	3.78	3.81	3.20	3.23	2.79	2.82
2.1. up to three years	3.90	3.92	3.47	3.50	3.69	3.71	2.97	3.00	2.61	2.64
2.2. more than three years	4.56	4.60	4.9	4.29	4.44	4.50	4.15	4.18	3.32	3.34
3. Total weighted IR on deposits	2.33	2.33	1.99	2.00	2.61	2.64	2.51	2.53	2.04	2.07

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	12/2012		6/2013		12/2013		6/2014		12/2014	
	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	8.43	8.57	8.37	8.53	8.25	8.42	8.14	8.31	8.05	8.22
2. Weighted IR on call deposits	0.19	0.19	0.18	0.18	0.15	0.15	0.13	0.13	0.13	0.13

As a rule, the EIR on these assets and liabilities items is equal to the nominal interest rate. The weighted EIR on total overdraft facilities for the banking sector in December 2014 amounted to 8.22% (down by 0.20 percentage points compared to December 2013) and to 0.13% on call deposits (slightly lower compared to December 2013).

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.

In 2009, negative trends from the last quarter of 2008 were halted and basic liquidity indicators improved (mostly thanks to reduced lending activity). 2010 saw a slight deterioration of these indicators, continuing in 2011, but in lesser intensity. A somewhat greater deterioration of these indicators was again seen in the first quarter of 2012 as a result of reduced cash funds related to a slight increase in lending activities and investments in securities, reduced deposits, payment of loan commitments due as well as the increase in outstanding receivables. This was a trend that, with minor oscillations, continued until the end of 2012. 2013 saw a slight improvement of most indicators, caused by an increase in deposits and cash funds, which continued in 2014 as well.

The banks' efforts to achieve better profitability through better allocation of financial assets (investments in securities, slight credit growth), changes in the structure of deposit sources (increase in short-term liabilities), as well as the long-present trend of reducing loan commitments and liabilities under subordinated debt, influenced by the mortgage crisis and recession in the eurozone, have all led to a slight deterioration of the short-term liabilities/total liabilities and liquid assets/short-term liabilities ratios.

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, with a trend of moderate improvement since the end of 2010. Still, due to the still present effect and impact of the global financial crisis as well as mortgage crisis in the Eurozone (that has adversely affected the banking systems of certain European countries and parent banks of FB&H banks), it was found that the liquidity risk should still be kept under close supervision. Also, it should be kept in mind that the effect of the crisis on the real sector is still present, with its negative consequences reflected in the overall industrial and economic environment in which banks in B&H operate, thus resulting in defaults in terms of the settlement of loan obligations and increases in uncollectable receivables, i.e. reductions of inflows of liquid funds to banks and the conversion of credit risk into liquidity risk. In that sense, one of key influences on the liquidity position of banks in the period to come will be their capacity to adequately manage their assets, which encompasses obtaining assets with good performances and the quality of which ensures that bank loans (and interest) are repaid in accordance with maturity dates.

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

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

In the structure of the sources of funding of FB&H banks as of 31.12.2014, the largest share of 75.0% still refers to deposits, followed by loans taken (including subordinated debts[38]) with a share of 7.3%. 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,[39] with changes in the direction of trends in the past few years being present. After a longer period of improvement (the period before the crisis), it worsened slightly in 2010, only for positive trends to emerge in 2011 and 2012 (an increase in the share of long-term deposits), after which there negative trends emerged again, i.e. a slight deterioration of the maturity structure of deposits.

- in KM 000 -

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

DEPOSITS	31.12.2012		31.12.2013		31.12.2014		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and call deposits	4 805 480	43.8	5 233 356	45.4	5 771 888	47.6	109	110
Up to 3 months	267 199	2.5	365 229	3.2	279 332	2.3	137	76
Up to 1 year	709 620	6.5	668 142	5.8	701 041	5.8	94	105
1. Total short-term deposits	5 782 299	52.8	6 266 727	54.4	6 752 261	55.7	108	108
Up to 3 years	3 576 903	32.6	3 541 354	30.7	3 437 563	28.3	99	97
More than 3 years	1 601 799	14.6	1 715 768	14.9	1 940 922	16.0	107	113
2. Total long-term deposits	5 178 702	47.2	5 257 122	45.6	5 378 485	44.3	102	102
TOTAL (1 + 2)	10 961 001	100.0	11 523 849	100.0	12 130 746	100.0	105	105

Compared to 31.12.2013, total deposits increased by 5% or KM 607 million, largely as a result of an increase in retail deposits by 8% or KM 497 million, deposits of government institutions by 41% or KM 230 million, deposits of private companies by 9% or KM 153 million and deposits of non-profit organisations by 22% or KM 58 million, and, on the other hand, a decrease in deposits of public companies by 18% or KM 193 million and deposits of banking institutions by 12% or KM 126 million. The maturity structure of deposits with contractual maturity is relatively good, with short-term deposits holding a share of 55.7% and long-term deposits a share of 44.3%, which is somewhat worse compared to 31.12.2013.

Changes in maturity structure stem from an increase in short-term deposits by 8% or KM 486 million, largely related to an increase in short-term retail deposits by KM 233 million, deposits of private companies by KM 186 million, deposits of government institutions by KM 185 million (KM 146 million of which refer to call deposits), deposits of non-profit organisations by KM 33 million and deposits of banking institutions by KM 18 million, while a drop was recorded with respect to public

[38] Subordinated debts: loans taken and permanent items.

[39] As per remaining maturity.

companies (by KM 126 million) and non-banking financial institutions (by KM 47 million). Long-term deposits rose slightly by 2% or KM 121 million, as a result the increase in deposits with a term over three years by 13% (mostly retail deposits), while deposits up to three years recorded a 3% decrease (mostly deposits of public companies and banking institutions). It should be noted that long-term deposits are still dominated by two segments: retail, with the share increasing from 63.6% to 67.1%, and banking institutions, with the share decreasing from 12.3% to 9.4%, although deposits of public companies are also a significant long-term source, with the share decreasing from 9.2% to 7.8%. In deposits with a term from one to three years, the largest share of 71.7% is held by retail deposits (up by 4.3 percentage points), followed by public companies (10.2%, with the share being down by 3.0 percentage points). Deposits over three years mostly consist of retail deposits (59.0%, up by 3.2 percentage points), while deposits of banking institutions, with a long-lasting trend of decrease that has slowed down somewhat, have a share of 20.5% (at the end of 2013: 25.6%, at the end of 2012: 33.0%; at the end of 2011: 46.9%, at the end of 2010: 60.9%).

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

- in KM 000 -

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

DEPOSITS	31.12.2012		31.12.2013		31.12.2014		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)	4 941 325	45.1	5 343 263	46.4	5 735 521	47.3	108	107
7- 90 days	908 834	8.3	920 951	7.9	898 335	7.4	101	96
91 days to one year	2 278 639	20.8	2 126 249	18.5	2 193 643	18.0	93	103
1. Total short-term deposits	8 128 798	74.2	8 390 463	72.8	8 827 499	72.8	103	105
Up to 5 years	2 609 727	23.8	3 002 846	26.1	3 150 040	26.0	115	105
More than 5 years	222 476	2.0	130 540	1.1	153 207	1.3	59	117
2. Total long-term deposits	2 832 203	25.8	3 133 386	27.2	3 303 247	27.2	111	105
TOTAL (1 + 2)	10 961 001	100.0	11 523 849	100.0	12 130 746	100.0	105	105

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 72.8%. However, there is a trend of stagnation compared to the end of 2013. Short-term deposits increased by 5% or KM 436 million, while long-term deposits increased by 5% or KM 171 million, with their shares remaining the same as at the end of 2013. Looking at the structure of long-term deposits, it is evidently dominated by deposits with remaining maturity of up to 5 years (95.4% of long-term deposits and 26.0% of total deposits), while the reduction of deposits with remaining maturity of over 5 years was halted in 2014 (when observing the period of the past two years), when a moderate increase of 17% or KM 23 million was recorded. When comparing information on deposit maturities by contractual and residual maturity, it can be concluded that out of the KM 5.3 billion of total long-term contracted deposits, there were approximately KM 2.0 billion, i.e. 38%, of long-term contracted deposits with the remaining maturity of one year as of 31.12.2014.

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.[40] 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 31.12.2014, one bank started using a corrective amount after being granted approval by the FBA, and in the following period, it is expected that some more banks will apply for the use of corrective amounts. The objective of the regulation amendment is primarily aimed at stimulating credit growth, mostly real sector sector lending, and the effects are expected in the following period.

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

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

-in KM 000-

Table 41: *Maturity Structure of Loans*

LOANS	31.12.2012		31.12.2013		31.12.2014		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Past due receivabkes abd paid off-balance liabilities	1 074 251	10.1	1 175 825	10.8	1 210 806	10.8	109	103
Short-term loans	2 472 571	23.2	2 360 832	21.8	2 256 837	20.2	95	96
Long-term loans	7 119 302	66.7	7 315 743	67.4	7 702 634	69.0	103	105
TOTAL LOANS	10 666 124	100.0	10 852 400	100.0	11 170 277	100.0	102	103

In 2014, long-term loans increased by 5% or KM 387 million, short-term loans recorded a drop in the amount of 4% or KM 104 million, while past due receivables increased slightly by 3% or KM 35 million, which is yet another indicator of the deterioration of the collection rate of loans due and difficulties that debtors have in servicing liabilities towards banks in the light of the economic crisis. In the structure of past due receivables, 64% refers to private companies, 33% to the retail sector and 3% to other sectors.

An analysis of maturities of two key sectors shows that 84.8% of retail loans are long-term loans, while 50.9% of total approved loans refers to private companies.

In the structure of assets, loans, as the key category, still hold the largest share of 69.1%, down by 1.2% compared to the end of 2013. Loans themselves recorded a slight increase of 3%. Cash funds increased by 3% or KM 142 million and their share decreased slightly from 28.6% to 28.2% compared to the end of 2013.

[40] 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)

An overview of the main liquidity ratios is provided in the table below. Banks have transitioned to new regulations as of 31.12.2011, which led to a major increase in total loans, thus causing a deterioration of the ratios: loans/deposits and loans taken (if observed across periods).

In 2012, liquidity ratios further deteriorated, as prompted by a reduction of cash funds through increased lending activities and the settlement of loan commitments due, while the ratio of short-term financial liabilities/total financial liabilities improved slightly due to the better maturity structure of sources of funding. The increase in deposits and cash funds in 2013 led to a modest improvement of the ratios. As of 31.12.2012, the ratios were at approximately the same level as at the end of 2013.

- in % -

Table 42: *Liquidity Ratios*

Ratios	31.12.2012	31.12.2013	31.12.2014
1	2	3	4
Liquid assets[41]/total assets	26.8	28.9	28.5
Liquid assets/short-term financial liabilities	46.2	50.6	49.1
Short-term financial liabilities/total financial liabilities	68.9	67.9	69.3
Loans/deposits and loans taken[42]	88.1	86.4	84.9
Loans/deposits, loans taken and subordinated debt[43]	86.8	85.3	83.9

After deteriorating in 2012, the ratio of loans/deposits and loans taken improved in 2013 (from 88.1% to 86.4%), and the same trend continued in 2014 as well, with the ratio amounting to 84.9% as of 31.12.2014. The ratio was above 85% (critical level) with respect to 9 banks. On the one hand, this was the result of their liabilities structure (relatively significant share of capital) and, on the other hand, a result of the high share of loans in assets. During its on-site controls, the Agency paid special attention to banks with identified weaknesses in this business segment and instructed them to take actions and measures to improve the liquidity level and practices of sources of funding management in order to ensure a satisfactory liquidity position.

In 2014, banks have duly fulfilled the requirement of maintaining the defined level of the required reserve at the Central Bank of B&H. The required reserve, being the key instrument of the monetary policy in B&H in relation to the Currency Board and the financially undeveloped market, is the only instrument of the monetary policy that ensures monetary control in sense of the prevention of rapid growth of loans and reduced multiplication, as well as increased liquidity in banks in conditions of crisis and a higher outflow rate of funds from banks (as compared to the situation in B&H as of 01.10.2008). On the other hand, the implementation of foreign currency risk regulations and the maintenance of currency adjustment to the defined limits has also significantly impacted the amount banks hold in their reserve accounts at the Central Bank of B&H (in local currency), thus ensuring a high liquidity of banks, individually and at the banking sector level.

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

- in KM 000 -

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

	31.12.2012	31.12.2013	31.12.2014	INDEX	
	Amount	Amount	Amount		
1	2	3	4	5(3/2)	6(4/3)

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

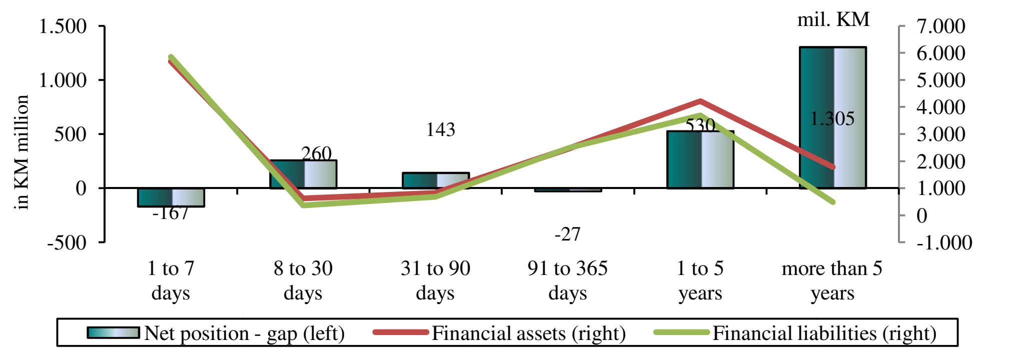
42 Empirical standards are: below 70% - very sound, 71%-75% - satisfactory, 76%-80% - marginally satisfactory, 81%-85% - insufficient, over 85% - critical.

43 The previous ratio was expanded and sources now include subordinated debts, thus being a more realistic indicator.

1. Average daily balance of cash	3 408 958	3 722 887	4 060 671	109	109
2. Lowest total daily cash balance	3 149 188	3 423 657	3 797 970	109	111
3. Short-term sources of funding (calculation basis)	5 631 431	5 887 967	6 351 607	105	108
4. Amount of liabilities[44]:					
4.1. 10-day average 10% of the amount under item 3	1 126 286	1 177 593	635 163	105	54
4.2. daily minimum 5% of the amount under item 3	563 143	588 798	317 580	105	54
5. Performance of liabilities: 10-day average[45]					
Surplus = item no. 1 – item no. 4.1.	2 282 672	2 545 294	3 425 485	112	135
6. Performance of liabilities: daily minimum					
Surplus = item no. 2 – item no. 4.2.	2 586 045	2 834 859	3 480 390	110	123

When observing the maturity adjustment of remaining maturities of total financial assets[46] and liabilities, it can be concluded that the adjustment rate is good, although somewhat lower compared to 31.12.2012.

Graph 28: *Maturity Adjustment of Financial Assets and Liabilities as of 31.12.2014*



As of 31.12.2014, short-term financial assets of banks in the amount of KM 9.6 billion were higher than short-term financial liabilities by KM 209 million. Compared to the end of 2013, when the positive gap amounted to KM 522 million, this represents a decrease of KM 313 million or 60.0%, while the coverage ratio of 102.2% is still at a satisfactory level.

Short-term financial assets are up by 2.9% and short-term financial liabilities by 6.6%. In the structure of short-term financial assets, the largest increase of 53.7% or KM 205 million was recorded with respect to trading assets, followed by cash funds (up by 3.2% or KM 142 million) and securities held until maturity (up by 13.1% or KM 11 million). A decrease was recorded in loans (down by 1.9% or KM 81 million) and other financial assets (down by 6.0% or KM 9 million). Financial assets with remaining maturity of over one year rose by 7.9% or KM 438 million, mostly as a result of the increase in loans by 7.6% or KM 415 million)

As for liabilities with maturity of up to one year (KM 9.4 billion), which have increased by 6.6% or KM 580 million, the largest increase refers to the increase in deposits (up by 5.2% or KM 436 million), loan commitments (up by 69.4% or KM 147 million), and subordinated debt (up by 8.3% or KM 2 million). Liabilities with maturity of over one year (KM 4.2 billion) remained almost the same.

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[44] According to Article 1 of the Decision on Amending the Decision on Minimum Standards for Liquidity Risk Management in Banks, ("Official Gazette of the Federation of B&H", No. 46/14), the percentage of maintaining the 10-day average liquidity minimum and the daily average cash funds minimum was reduced from 20% to 10% and from 10% to 5%, respectively.
[45] Changes in the indexes with respect to positions 4.1, 4.2, 5 and 6 are the result of the changes mentioned in the previous footnote.
[46] Financial assets are posted on a net basis (after deductions for value adjustments).

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.[47]

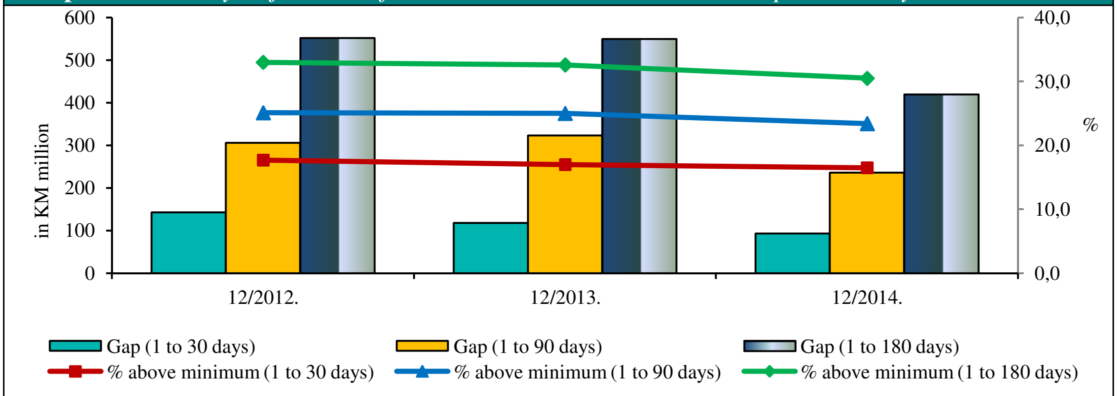
- in KM 000 -

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

Description	31.12.2012 Amount	31.12.2013 Amount	31.12.2014 Amount	INDEX	
1	2	3	4	5 (3/2)	6(4/3)
I. 1- 30 days					
1. Financial assets	5 490 582	5 924 526	6 309 132	108	106
2. Financial liabilities	5 346 703	5 806 822	6 215 782	109	107
3. Difference (+ or -) = 1-2	143 879	117 704	93 350	82	79
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	102.7%	102.0%	101.5%		
b) Prescribed minimum %	85.0%	85.0%	85.0%		
Plus (+) or minus (-) = a - b	17.7%	17.0%	16.5%		
II. 1-90 days					
1. Financial assets	6 355 017	6 809 340	7 137 846	107	105
2. Financial liabilities	6 048 777	6 485 914	6 901 893	107	106
3. Difference (+ or -) = 1-2	306 240	323 426	235 953	106	73
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	105.1%	105.0%	103.4%		
b) Prescribed minimum %	80.0%	80.0%	80.0%		
Plus (+) or minus (-) = a - b	25.1%	25.0%	23.4%		
III. 1-180 days					
1. Financial assets	7 454 731	7 812 974	8 068 361	105	103
2. Financial liabilities	6 903 027	7 263 293	7 647 885	105	105
3. Difference (+ or -) = 1-2	551 704	549 681	420 476	100	76
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	108.0%	107.6%	105.5%		
b) Prescribed minimum %	75.0%	75.0%	75.0%		
Plus (+) or minus (-) = a - b	33.0%	32.6%	30.5%		

Based on the information presented, it is found that, as of 31.12.2014, banks have adhered to prescribed limits and achieved a better maturity adjustment of financial assets and liabilities in relation to the prescribed limits.

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



[47] 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 the past two years (2012 and 2013), there was an evident trend of improvement in terms of maturity adjustment. As of 31.12.2012, financial assets surpassed financial liabilities accross all three periods of time, along with a somewhat greater improvement of liquidity positions in the period of up to 90 and up to 180 days. The positive gap in the period of up to 30 days was slightly lower compared to 31.12.2011. Maturity adjustment percentages were above the prescribed minimum by 17.7% in the first period, 25.1% in the second period and 33.0% in the third period.

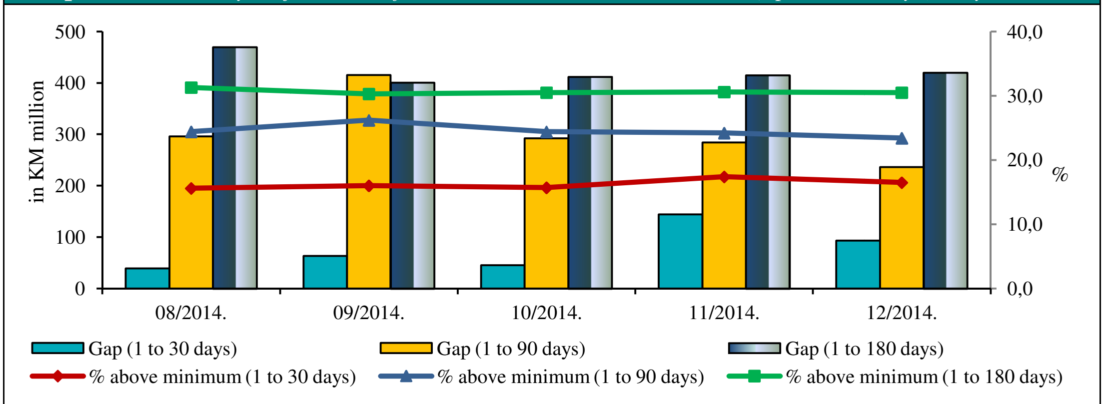
As of 31.12.2013, the maturity adjustment percentage for all three periods of time is almost the same compared to the end of 2012, and it is still well above the prescribed minimum (by 17.0% in the first period, 25.0% in the second period and 32.6% in the third period).

As of 31.12.2014, the recorded maturity adjustment percentages were somewhat lower compared to the end of 2013 due to the reduced gap on the basis of the greater increase in financial liabilities compared to financial assets, largely on the basis of the increase in deposits and loan commitments in the second and third period, while the increase in financial assets was recorded primarily on the basis of the increase in cash funds and trading assets.

The recorded maturity adjustment percentages, although somewhat lower compared to the end of 2013, were still well above the prescribed minimum (by 16.5% in the first period, 23.4% in the second period and 30.5% 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 2014 (by period of time and maturity adjustment percentages in relation to the legally defined minimum standards).

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



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

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

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

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

In order to ensure the implementation and realisation of prudent principles related to FX activities of banks and to reduce FX risk effects on their profitability, liquidity and capital, the Agency has adopted the Decision on Minimum Standards for Foreign Exchange Risk Management in Banks[48], which regulates minimum standards for adopting and implementing the programmes, policies and procedures for FX risk assumption, monitoring, control and management, as well as limits for the open individual and total FX position (long or short) calculated in relation to the core capital of the bank.[49]

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 31.12.2014, the currency structure of banks' assets included 11.4% or KM 1.8 billion of foreign currency items (at the end of 2013, these items amounted 12.6% or KM 1.9 billion). On the other hand, the currency structure of liabilities is quite different since the share of foreign currency liabilities is much higher and equals 44.2% or KM 7.1 billion (at the end of 2013, this share was 46.7% or KM 7.2 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)*[50]

Description	31.12.2013				31.12.2014				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	996	13.0	1 516	18.0	960	12.6	1 385	16.7	96	91
2. Loans	40	0.5	44	0.5	38	0.5	41	0.5	95	93

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

49 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.

50 Source: Form 5 – FX position.

3. Loans with a currency clause	6 285	82.2	6 465	76.9	6 301	83.0	6 449	77.9	100	100
4. Other	332	4.3	386	4.6	295	3.9	409	4.9	89	106
Total (1+2+3+4)	7 653	100.0	8 411	100.0	7 594	100.0	8 284	100.0	99	98
II. Financial liabilities										
1. Deposits	5 345	72.6	5 990	74.7	5 363	72.5	5 975	74.4	100	100
2. Loans taken	986	13.4	994	12.4	949	12.8	954	11.9	96	96
3.Deposits and loans with a currency clause	798	10.9	798	9.9	882	11.9	882	11.0	111	111
4. Other	226	3.1	237	3.0	209	2.8	216	2.7	92	91
Total (1+2+3+4)	7 355	100.0	8 019	100.0	7 403	100.0	8 027	100.0	101	100
III. Off-balance sheet										
1. Assets	80		80		78		78			
2. Liabilities	255		359		50		109			
IV.Position										
Long (amount)	122		113		219		226			
%	6.6%		6.1%		12.3%		12.7%			
Short										
%										
Allowed	30%		30%		30%		30%			
Lower than the allowed	23.4%		23.9%		17.7%		17.3%			

In terms of the structure of foreign currencies, the dominant share among financial assets[51] is held by the EUR with 70.4%, which is slightly higher compared to 31.12.2013 (70.3%) due to the lower nominal amount (from KM 1.36 billion to KM 1.29 billion). The share of the EUR in liabilities is 91.3%, which is somewhat higher compared to the end of 2013, coupled with a decrease of the nominal amount by KM 36 million.

However, FX risk exposure calculation also includes the amount of indexed assets items (loans) and liabilities items[52], which is quite significant on the assets side (77.8% or KM 6.5 billion) and remained almost the same as on 31.12.2013 (76.9% or KM 6.5 billion). Other FX items on the assets side hold a share of 22.2% or KM 1.8 billion and have the following structure: items in EUR 15.6% or KM 1.3 billion and other currencies 6.5% or KM 0.5 billion (at the end of 2013, other items in EUR held a share of 16.3% or KM 1.4 billion). Out of total net loans (KM 10 billion), app. 64.4% have a currency clause (mostly pegged to the EUR – 97.7%).

As for the sources of funding, financial liabilities determine the structure of financial assets items for every currency. The largest share in FX liabilities (KM 8 billion) is 81.2% or KM 6.5 billion and refers to items in EUR (deposits mostly), while the share and amount of indexed liabilities is minimal and amounts to 11.0% or KM 0.9 billion (at the end of 2013, the share of liabilities in EUR was 81.8% or KM 6.5 billion, while the share of indexed liabilities was 9.9% or KM 0.8 billion).

When observing banks and the banking sector level of the Federation of B&H, it can be concluded that FX risk exposure of banks and the banking system in 2014 was within the defined limits. As of 31.12.2014, the long FX position was recorded with 15 banks and the short position with 2 banks. At system level, there is a long FX position of 12.7% of the total core capital of banks, which is 17.3% below the allowed limit. The individual FX position for the EUR, like the total position, was 12.3%,

[51] 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

[52] 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).

which is 17.7% 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 preservation of its stability, with this being a priority in present stressful conditions, and towards the banking system's future progress and development. These objectives are conditioned by a continuous and committed involvement of all elements of the system, the legislative and executive authorities, thus forming grounds for a more favourable economic environment for banks and the real sector of the economy, as well as for the general population.

In order to further strengthen resilience of banks in the Federation of B&H in the face of a potentially more severe crisis situation, in early 2013, the Agency adopted the Decision on Temporary Measures for Dividends and Discretionary Bonus Disbursement and Repurchase of Own Shares by Banks. This meant that the disbursement of dividends is tied to the existence of a capital buffer in the amount of 2.5% compared to the prescribed minimum capital adequacy rate and core capital rate of banks compared to risk-bearing assets. In May 2014, with the adoption of the new Decision on Minimum Standards for Capital Management in Banks and Capital Hedge, this interim Decision was superseded, and the requirements of the interim Decision were included in the new Decision. In addition to the quantitative and structural strengthening of regulatory capital requirements, the new Decision introduced additional capital requirements: capital leverage 6%, a conservation buffer for the coverage of increased losses in the case of a crisis (in the amount of 2.5%). In accordance with the new Decision, the FBA can, by means of a separate decision and if necessary, prescribe other specific buffers for countercyclical protection and systemic risk, which must be made up of share capital above the prescribed minimum.

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

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

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

- take measures and actions within its competences to overcome and mitigate the effects of the global financial crisis on the banking sector in the Federation of B&H;
- continue with activities within its competences to consolidate the supervision function at state

level;

- maintain continuous supervision of banks through on-site and off-site examinations, placing an emphasis on dominant risk segments of banking operations and aiming to improve efficiency by means of:
  - further insistence on capital strengthening in banks, especially in those banks with an above average increase in assets and reduction of the capital adequacy ratio,
  - continued banking supervision that is of system relevance for the development of lending activities where large savings and other deposits are concentrated (all for the purpose of protecting depositors),
  - continued 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,
  - working on upgrades to legal regulations as based on the Basel Principles, Basel Capital Accord and European Banking Directives, as has been the case so far, all as part of the preparations for B&H joining the European Union,
  - preparing and adopting a contingency plan (as a part of the crisis preparation process),
  - developing and implementing the Early Warning System tool (EWS) for the purpose of an early identification of financial and operational inefficiencies and/or adverse trends in the banks' operations,
  - monitoring the banks' compliance with laws and regulations and practices applied in banks in the segment of protecting users of financial services and guarantors,
  - establishing and expanding cooperation with supervisory authorities in home countries of investors in the banking sector of the Federation of B&H, as well as in other countries – all for the purpose of ensuring more efficient bank supervision,
  - continuing cooperation with the ECB and the EBA towards the signing of mutual memorandums and the exchange of information in 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, 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, introducing new products, collection of receivables and ensuring full involvement in the development and functioning of a unified registry of non-performing clients – legal entities and natural persons (ensuring daily updates of information).
- continue with efforts to improve the information system that would enable early warning and preventive actions with respect to the elimination of weaknesses in the banks' operations;
- continue with the on-going training and professional education of the staff;
- accelerate actions regarding the finalisation of the liquidation processes, as per Management Board conclusions.

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

- the implementation of the Programme of measures to mitigate the results of the global economic crisis and improve the business environment (as accepted by the Economic-Social Council of the Federation of B&H in December 2008 and in accordance with the relevant document of the Government of the Federation of B&H;
- the implementation of conclusions reached by the Parliament of the Federation of B&H regarding the establishment of state-level bank supervision;
- creating and upgrading regulations pertaining to the financial sector, which refer to the actions, status and operations of banks, and especially to the drafting and adoption of the new Banking

Law and the legal bank resolution framework;
- the accelerated implementation of economic reforms in the real sector of the economy in order to ensure faster alignment with the level achieved in the monetary and banking sector;
- the preparation and adoption of the Law on Asset Management Companies;
- preparations for drafting legal regulations of relevance for the banking sector and financial system based on the Basel Principles, Basel Capital Accord and European Banking Directives;
- the establishment of special commercial departments within courts;
- the establishment of more efficient enforcement proceedings;
- the creation and adoption of measures for resolving or mitigating the problem of over-indebted persons;
- the adoption of laws or improvement of existing legal regulations defining the segment of security and protection of money in the bank and in transit, etc.

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

- full commitment to quality and prudent operations and to combating the crisis effects presently posing the biggest threat to banks, the real sector of the economy and the general population;
- further capital strengthening and ensuring a solvency level proportional to an increase in assets and risk, greater profitability, more consistent implementation of adopted policies and procedures to prevent money laundering and the financing of terrorism, the security and protection of money in the bank and in transit, all in accordance with laws and by-laws;
- 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;
- improvement of the system of early detection of loan portfolio deterioration and effective measures to resolve non-performing loans;
- active participation in the implementation of measures for resolving the problem of individuals' over-indebtedness and the financial consolidation of companies;
- the implementation of laws and by-laws in the segment of protecting users of financial services and guarantors;
- the preparation of and updates to their contingency plans;
- regular, timely and accurate submission of information to the Central Loans Registry and the Uniform Central Registry of Accounts at the Central Bank of B&H.

No.: U.O.-69-4/15
Sarajevo,31.03.2015

ANNEXES

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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**

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ANNEX 1

Banks in the Federation of Bosnia and Herzegovina -31.12.2014

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

ANNEX 2

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

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

- 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),
- Articles of Association of the Banking Agency of the Federation of B&H („Official Gazette of the FB&H", No. 42/04),
- Rules of Internal Organisation of the Banking Agency of the Federation of B&H („Official Gazette of the FB&H", No. 46/09, 32/10 , 65/12, 88/12, 60/13, 23/14 – consolidated text).

II. REGULATIONS RELATED TO THE AGENCY'S COMPETENCES

Laws

1. Law on Banks („Official Gazette of the FB&H", No. 39/98, 32/00,48/01, 27/02, 41/02, 58/02, 13/03, 19/03 and 28/03, 66/13),
2. Law on Microcredit Organisations („Official Gazette of the FB&H", No. 59/06),
3. Law on Associations and Foundations („Official Gazette of the FB&H", No. 45/02),
4. Law on Leasing („Official Gazette of the FB&H", No. 85/08 and 39/09, 65/13),
5. Law on the Development Bank of the Federation of B&H („Official Gazette of the FB&H", No. 37/08),
6. Law on Deposit Insurance in B&H („Official Gazette of B&H", No. 20/02, 18/05, 100/08 and 75/09, 57/13),
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),
9. Law on Protection of Users of Financial Services („Official Gazette of B&H", No. 31/14 – entered into force on 01.05.2014, in application since 01.11.2014)

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 and 15/13, 46/14, 62/14),
4. Decision on Minimum Standards for Managing Risk Concentrations in Banks („Official Gazette of the FB&H", No. 48/12 – consolidated text),
5. Decision on Minimum Standards for Managing Capital in Banks („Official Gazette of the FB&H", No. 48/12 – consolidated text, no longer applicable since 2014),
6. Decision on Minimum Standards for Capital Management in Banks and Capital Hedge („Official Gazette of the FB&H", No. 46/14 – entered into force on 19.06.2014),
7. Decision on Minimum Standards for Managing Foreign Currency Risk in Banks („Official Gazette of the FB&H", No. 48/12 – consolidated text),

8. 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),
9. 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 – consolidated text),
10. 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),
11. Decision on Minimum Standards for Banks' Activities on Prevention of Money Laundering and Terrorism Financing („Official Gazette of the FB&H“, No. 48/12),
12. Decision on Minimum Standards for Managing Liquidity Risk in Banks („Official Gazette of the FB&H“, No. 48/12 – consolidated text and No. 110/12, 46/14),
13. Decision on Minimum Standards for Managing Credit Risk and Assets Classification in Banks („Official Gazette of the FB&H“, No. 85/11 – consolidated text and No. 33/12 – correction and No. 15/13),
14. Decision on Conditions and Manner of Customer Complaints Management in Banks („Official Gazette of the FB&H“, No. 32/10),
15. Decision on Temporary Measures for Rescheduling of Credit Liabilities of Natural Persons and Legal Entities in Banks („Official Gazette of the FB&H“, No. 2/10, 86/10, 1/12 and 111/12 and 1/14),
16. Decision on Minimum Standards for Managing Operational Risk in Banks („Official Gazette of the FB&H“, No. 6/08 and 40/09),
17. 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),
18. 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),
19. Decision on Conditions when the Bank is Considered Insolvent („Official Gazette of the FB&H“, No. 3/03),
20. Decision on Minimum Standards for Documenting Lending Activities of Banks („Official Gazette of the FB&H“, No. 3/03, 23/14),
21. Decision on Minimum Standards for Banks' Operations with Related Entities („Official Gazette of the FB&H“, No. 3/03),
22. 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),
23. Decision on Minimum Standards for Internal and External Audit in Banks („Official Gazette of the FB&H“, No. 3/03),
24. Decision on the Process of Determination of Receivables and Allocation of Assets and Liabilities during the Liquidation Process („Official Gazette of the FB&H“, No. 3/03),
25. Decision on Minimum Standards of the Internal Controls System in Banks („Official Gazette of the FB&H“, No. 3/03),
26. Decision on Interest and Fee Calculation for Dormant Accounts („Official Gazette of the FB&H“, No. 7/03),
27. Decision on Level and Conditions for Loan Approval to Bank Employees („Official Gazette of the FB&H“, No. 7/03 and 83/08),
28. Decision on Property Statement („Official Gazette of the FB&H“, No. 3/03),
29. Decision on Minimum Standards for Managing Market Risks in Banks („Official Gazette of the FB&H“, No. 55/07, 81/07, 6/08, 52/08 and 79/09),
30. Decision on Temporary Restrictions and Minimum Requirements for Dividends and Discretionary Bonus Disbursement and Repurchase of Own Shares by Banks („Official Gazette of the FB&H“, No. 15/13),
31. Instructions for Licensing and Other Approvals of the FB&H Banking Agency („Official Gazette of the FB&H“, No. 1/14 – consolidated text),

32. Instructions for Changed Manner of Forming, Recording and Reporting Loan Loss Provisions (12/2011, 01/2013),
33. Instructions on Manner of Provisional Administrator's Reporting on Operations of the Bank Placed under Provisional Administration (19.07.2013),
34. Instructions on Form and Manner of Additional Reporting of Banks Placed under Provisional Administration (19.07.2013),
35. Instructions on Manner of Liquidation Administrator's Reporting on the Bank Liquidation Process (19.07.2013),
36. Decision on Diligent Behaviour of Members of Bank’s Bodies („Official Gazette of the FB&H“, No. 60/13),
37. Decision on Suitability Assessment of Bank's Bodies („Official Gazette of the FB&H“, No. 60/13),
38. Decision on the Remuneration Policy and Practice for Bank Employees („Official Gazette of the FB&H“, No. 60/13),
39. Decision on Minimum Standards for Currency Exchange Operations („Official Gazette of the FB&H“, No. 95/13 and 99/13),
40. Decision on Examination Process of Currency Exchange Operations („Official Gazette of the FB&H“, No. 95/13),
41. Decision on Conditions and Manner of Executing International Payments („Official Gazette of the FB&H“, No. 95/13),
42. Decision on Examination of Foreign Currency Operations in Banks – Payment Transactions („Official Gazette of the FB&H“, No. 95/13),
43. 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, 62/14),
44. Decision on Conditions for Assessing and Documenting Creditworthiness („Official Gazette of the FB&H“, No. 23/14),
45. Decision on Provisional Measures for Treatment of Loan Commitments of Bank Clients Affected by Natural Disasters („Official Gazette of the FB&H“, No. 55/14).

Decisions and Instructions of the Banking Agency Related to Operations of Microcredit Organisations

1. Decision on Conditions and Process of Issuance and Revocation of Operating License and Other Approvals to/from Microcredit Organisations („Official Gazette of the FB&H“, No. 27/07 and 46/11),
2. Decision on Conditions and Process of Issuance of Operating License and Other Approvals for Acquiring Ownership Share by Investing and Transferring Assets of a Microcredit Foundation („Official Gazette of the FB&H“, No. 27/07),
3. Decision on Conditions and Process of Issuance of Operating License and Other Approvals for Micro Credit Foundation Resulting from Changed Organisational Form of a Microcredit Organisation („Official Gazette of the FB&H“ No. 27/07),
4. Decision on Supervision of Microcredit Organisations („Official Gazette of the FB&H“, No. 27/07),
5. Decision on Form and Contents of Reports that Microcredit Organisations Submit to the Banking Agency of the FB&H and on Reporting Deadlines („Official Gazette of the FB&H“, No. 27/07 and 110/12 and 15/13),
6. Decision on Level and Manner of Forming and Maintaining Reserves for Loan Losses of Microcredit Organisations („Official Gazette of the FB&H“, No. 27/07),
7. Decision on Other General Conditions for Operations of Microcredit Organisations („Official Gazette of the FB&H“, No. 27/07),

8. Decision on Uniform Manner of Calculation and Disclosure of Interest Rate on Loans and Deposits („Official Gazette of the FB&H“, No. 27/07, 46/09 , 46/11, 48/12 – consolidated text, 23/14),
9. Decision on Conditions and Manner of Customer Complaint Management by Microcredit Organisations („Official Gazette of the FB&H“, No. 32/10),
10. Decision on Fees that Microcredit Organisations Pay to the Banking Agency of the FB&H („Official Gazette of the FB&H“, No. 46/11),
11. Decision on Minimum Standards for Activities of Microcredit Organisations on Prevention of Money Laundering and Terrorism Financing („Official Gazette of the FB&H“, No. 48/12),
12. Instructions for Calculation of Weighted and Effective Interest Rate,
13. Instructions for Calculation of Adjusted Return on Assets,
14. Instructions for Calculation of Efficiency Ratios
15. Instructions for MCO Reporting,
16. Decision on Minimum Standards for Documenting Lending Activities of Microcredit Organisation and Assessing Creditworthiness („Official Gazette of the FB&H“, No. 23/14).

Decisions of the Banking Agency Related to Operations of Leasing Companies

1. Decision on Form and Contents of Reports that Leasing Companies Submit to the Banking Agency of the FB&H and on Reporting Deadlines („Official Gazette of the FB&H“, No. 46/09, 48/12 and 110/12),
2. Decision on Conditions and Process of Issuance of Operating License to Leasing Companies („Official Gazette of the FB&H“, No. 46/09),
3. Decision on Conditions and Process of Issuance and Revocation of Approvals to/from Leasing Companies („Official Gazette of the FB&H“, No. 46/09 and 46/11),
4. Decision on Uniform Manner and Method of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Agreements („Official Gazette of the FB&H“, No. 46/09),
5. Decision on Uniform Manner and Method of Calculation and Disclosure of Leasing Fees under the Operational Leasing Agreement („Official Gazette of the FB&H“, No. 46/09 and 48/12),
6. Decision on Minimum Level and Manner of Forming, Managing and Maintaining Loss Reserves and Risk Management in Leasing Companies („Official Gazette of the FB&H“, No. 46/09),
7. Decision on Supervision of Leasing Companies („Official Gazette of the FB&H“, No. 46/09),
8. Decision on Fees that Leasing Companies Pay to the Banking Agency of the FB&H („Official Gazette of the FB&H“, No. 46/09 and 46/11),
9. Decision on Conditions and Manner of Customer Complaint Management by Leasing Companies („Official Gazette of the FB&H“, No. 48/12),
10. Decision on Minimum Standards for Activities of Leasing Companies on Prevention of Money Laundering and Terrorism Financing („Official Gazette of the FB&H“, No. 48/12),
11. Instruction on Reporting by Leasing Companies (31.01.2013),
12. Decision on Mimimum Standards for Documenting Financing via Leasing Arrangements and Assessing Creditworthiness („Official Gazette of the FB&H“, No. 46/14).

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

Ombudsman for the Banking System

1. Code of Conduct of Ombudsmen for the Banking System („Official Gazette of the FB&H“, No. 62/14)
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, 62/14),
3. Decision on Minimum Requirements in Terms of Content, Comprehensibility and Accessibility of General and Special Operating Conditions of Providers of Financial Services (“Official Gazette of the FB&H“, No. 62/14).

Other Regulations:

Development Bank of the FB&H

1. Decree on Criteria and Manner of Supervision of the Development Bank of the FB&H („Official Gazette of the FB&H“, No. 57/08, 77/08 and 62/10),
2. Decision on Determination of Supervision Fee for 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 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),
9. Instructions for the Structure and Use of the International Bank Number (IBAN) („Official Gazette of the FB&H“, No. 4//07).

Anti-Money Laundering

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

III. OTHER LAWS AND REGULATIONS IN THE FB&H

1. Law on Obligations („Official Gazette of the RB&H", No. 2/92, 13/93 and 13/94, „Official Gazette of the FB&H", No. 29/03 and 42/11),
2. Law on Payment Transactions („Official Gazette of the FB&H", No. 32/00 and 28/03),
   - 2.1. Instructions on Manner in which Banks Report to Customers – Treasuries and Non-Budget Funds („Official Gazette of the FB&H", No. 55/00 and 2/01),
   - 2.2. Instructions on Form and Contents of Payment Orders and Procedures for Performing Payment Transactions („Official Gazette of the FB&H", No. 55/00, 2/01, 45/02, 7/04 and 11/04),
   - 2.3. Instructions on Opening and Closing of Transaction Accounts and Record Keeping („Official Gazette of the FB&H", No. 55/00, 61/05 and 62/11),
   - 2.4. Instructions on Banks' Obligations regarding Domestic Transaction Account Opening („Official Gazette of the FB&H", No. 56/00, 9/01, 28/01 and 46/03),
   - 2.5. Instructions for Establishment of Unified Registry of Account Holders in Commercial Banks and Contents and Manner of Keeping the Account Registry in the Federation of B&H („Official Gazette of the FB&H", No. 14/01),
   - 2.6. Instructions on the Structure of Transaction Accounts („Official Gazette of the FB&H", No. 52/00),
   - 2.7. Instructions for Manner of Payment to and from Blocked Accounts Maintained with the FB&H Payments Bureau („Official Gazette of the FB&H", No. 2/01 and 46/03),
3. Law Rendering Ineffective the Law on Domestic Payments („Official Gazette of the FB&H", No. 56/04),
4. Law on Cheques („Official Gazette of the FB&H", No. 32/00),
5. Law on Promissory Notes („Official Gazette of the FB&H", No. 32/00 and 28/03),
6. Law on Default Interest Rate Level („Official Gazette of the FB&H", No. 27/98 and 51/01, 28/13),
7. 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),
8. Law on Default Interest Level for Public Revenues („Official Gazette of the FB&H", No. 48/01, 52/01 and 42/06),
9. Company Law („Official Gazette of the FB&H", No. 23/99, 45/00, 2/02, 6/02, 29/03, 68/05, 91/07, 84/08, 88/8-correction, 7/09-correction and 63/10, 75/13),
10. Law on Stock Company Take-Over („Official Gazette of the FB&H", No. 7/06),
11. Law on Registration of Legal Entities in the FB&H („Official Gazette of the FB&H", No. 27/05, 68/05 and 43/09),
12. Law on Public Sector Companies („Official Gazette of the FB&H", No. 8/05, 81/08, 22/09 and 109/12),
13. Liquidation Proceedings Law („Official Gazette of the FB&H", No. 29/03),
14. Bankruptcy Law („Official Gazette of the FB&H", No. 29/03, 32/04 and 42/06),
15. Law on Debt, Debt Raising and Guarantees in the FB&H („Official Gazette of the FB&H", No. 86/07, 24/09 and 44/10) ,
   - 15.1. Rulebook on Foreign Debt Recording in the FB&H („Official Gazette of the FB&H", No. 14/08),
   - 15.2. Rulebook on Required Documentation for Prior Approvals to the Canton, Municipality or City for Debt Raising and Issuance of Guarantees Based on Domestic Debt („Official Gazette of the FB&H", No. 14/08),
   - 15.3. Rulebook on Accompanying Documents and Information Relevant for Decision-Making on Issuance of FB&H Guarantee and Percentage of Premium and Fee for Guarantee Issuance („Official Gazette of the FB&H", No. 14/08),
   - 15.4. Rulebook on Recording of Guarantees in the FB&H („Official Gazette of the FB&H", No. 14/08),

15.5. Decision on Conditions and Procedures for Issuing FB&H Bonds („Official Gazette of the FB&H“, No. 31/12),
15.6. Decision on Conditions and Procedures for Issuing of FB&H Treasury Bills („Official Gazette of the FB&H“, No. 88/12),

16. Law on Accounting and Audit in the FB&H („Official Gazette of the FB&H“, No. 83/09),
17. Law on Business Classification in the FB&H („Official Gazette of the FB&H“, No. 64/07 and 80/11),
18. Law on Classification of Professions in the FB&H („Official Gazette of the FB&H“, No. 111/12),
    18.1. Decision on Standard Classification of Professions in the FB&H („Official Gazette of the FB&H“, No. 40/04, 26/09 and 40/09),
19. Law on Securities Market („Official Gazette of the FB&H“, No. 85/08 and 109/12),
20. Law on Securities Register („Official Gazette of the FB&H“, No. 39/98, 36/99 and 33/04),
21. Law on Securities Commission („Official Gazette of the FB&H“, No. 39/98, 36/99 and 33/04),
22. Labor Law („Official Gazette of the FB&H“, No. 43/99, 32/00 and 29/03),
23. Law on Employees Council („Official Gazette of the FB&H“, No. 38/04),
24. Law on Employment of Foreign Citizens („Official Gazette of the FB&H“, No. 111/12),
25. Law on Investment Funds („Official Gazette of the FB&H“, No. 85/08),
26. Law on Fund and Investment Fund Management Companies („Official Gazette of the FB&H“, No. 41/98, 36/99, 36/00, 27/02, 44/02, 50/03 and 70/04),
27. Law on Private Insurance Companies („Official Gazette of the FB&H“, No. 24/05 and 36/10),
28. Law on Private Insurance Agency („Official Gazette of the FB&H“, No. 22/05 and 8/10),
29. 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),
30. Law on Profit Tax („Official Gazette of the FB&H“, No. 97/07, 14/08-correction and 39/09),
31. Law on Personal Income Tax („Official Gazette of the FB&H“, No. 10/08, 9/10 and 44/11, 7/13, 65/13),
32. Law on Contributions („Official Gazette of the FB&H“, No. 35/98, 54/00, 16/01, 37/01, 1/02, 17/06 and 14/08),
33. Law on Collection and Partial Write-off of Overdue Social Insurance Contributions („Official Gazette of the FB&H“, No. 25/06 and 57/09),
34. Law on Unified System of Registration of Control and Collection of Contributions („Official Gazette of the FB&H“, No. 42/09 and 109/12),
35. 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),
36. Law on Audit of Privatisation of State-owned Capital in Companies and Banks („Official Gazette of the FB&H“, No. 55/12),
37. 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),
38. 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 and 42/11, 91/13),
39. Law on Settlement of Liabilities Based on Pre-War FC Savings in the FB&H („Official Gazette of the FB&H“, No. 62/09 and 42/11, 91/13),
40. Law on Associations and Foundations („Official Gazette of the FB&H“, No. 45/02),
41. Law on Trade and Related Businesses („Official Gazette of the FB&H“, No. 35/09 and

42/11),

42. Expropriation Law („Official Gazette of the FB&H“, No. 70/07, 36/10 and 25/12),
43. Law Rendering Ineffective the Law on Construction („Official Gazette of the FB&H“, No. 55/02, 34/07),
44. Law on Construction Land in the FB&H („Official Gazette of the FB&H“, No. 67/05),
45. 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),
46. Law on Free Access to Information in the FB&H („Official Gazette of the FB&H“, No. 32/01 and 48/11),
47. Regulatory Offence Law of the FB&H („Official Gazette of the FB&H“, No. 31/06 and 37/10-correction),
48. Law on Notaries Public („Official Gazette of the FB&H“, No. 45/02),
49. Law on Court Appraisers („Official Gazette of the FB&H“, No. 49/05 and 38/08),
50. Law on Agencies and Internal Departments for Personal and Property Protection („Official Gazette of the FB&H“, No. 78/08, 67/13),
51. Law on Land Books in the FB&H („Official Gazette of the FB&H“, No. 58/02, 19/03 and 54/04),
52. Law on Foreign Investments („Official Gazette of the FB&H“, No. 61/01 and 50/03),
53. Mediation Law („Official Gazette of the FB&H“, No. 49/07),
54. Law on Treasury of the FB&H („Official Gazette of the FB&H“, No. 58/02, 19/03 and 79/07),
55. 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),
56. Law on Prosecutor's Office of the FB&H („Official Gazette of the FB&H“, No. 42/02 and 19/03),
57. Law on Courts in the FB&H („Official Gazette of the FB&H“, No. 38/05, 22/06, 63/10 and 72/10-correction),
58. Law on Enforcement Proceedings („Official Gazette of the FB&H“, No. 32/03, 52/03, 33/06, 39/06-correction, 39/09, 74/11 and 35/12),
59. 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),
60. Law on Administrative Proceedings („Official Gazette of the FB&H“, No. 2/98 and 48/99),
61. Law on Administrative Disputes („Official Gazette of the FB&H“, No. 9/05),
62. Law on Civil Proceedings („Official Gazette of the FB&H“, No. 53/03, 73/05 and 19/06),
63. Law on Non-civil Proceedings („Official Gazette of the FB&H“, No. 2/98, 39/04 and 73/05),
64. 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 and 42/11),
65. 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 and 12/10, 8/13),
66. Regulatory Offence Law of the FB&H („Official Gazette of the FB&H“, No. 44/98, 42/99, 12/09 and 42/11),
67. Law on Conflict of Interest in Government Bodies in the FB&H („Official Gazette of the FB&H“, No. 70/08),
68. Law on Financial-Information Agency („Official Gazette of the FB&H“, No. 80/11),
69. Law on Fiscal Systems („Official Gazette of the FB&H“, No. 81/09),
70. Law on Privatisation of Banks („Official Gazette of the FB&H“, No. 12/98, 29/00, 37/01 and 33/02),

71. Law on Archive Materials of the FB&H („Official Gazette of the FB&H“, No. 45/02),
    71.1. Decree on Organisation and Manner of Archiving by Legal Entities in the FB&H („Official Gazette of the FB&H“, No. 12/03, 22/03),
72. Law on Recognition of Public Identification Documents on Territory of the FB&H („Official Gazette of the FB&H“, No. 4/98),
73. Law on Strike („Official Gazette of the FB&H“, No. 14/00),
74. Collective Employment Agreement for the Financial Sector („Official Gazette of the FB&H“, No. 48/00),
75. Law on Protection of Guarantors in the FB&H („Official Gazette of the FB&H“, No. 100/13),
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).

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),
   a. Decision on Use of Electronic Signature and Documents Certification Services („Official Gazette of B&H“, No. 21/09),
9. Law on Business Classification in B&H („Official Gazette of B&H“, No. 76/06, 100/08 and 32/10),
10. Law on Debt, Debt Raising and Guarantees in B&H („Official Gazette of B&H“, No. 52/05 and 103/09),
    a. Decision Approving Issuance of State Guarantees („Official Gazette of B&H“, No. 85/10),
11. 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),
12. Law on Accounting and Audit in B&H („Official Gazette of B&H“, No. 42/04),
13. Law on Determination and Manner of Settlement of Domestic Debt in B&H („Official Gazette of B&H“, No. 44/04),
14. Framework Law on Pledges („Official Gazette of B&H“, No. 28/04 and 54/04),
15. Law on Value Added Tax („Official Gazette of B&H“, No. 9/05, 35/05 and 100/08),
16. Law on Public Procurements in B&H („Official Gazette of B&H“, No. 49/04, 19/05, 52/05, 94/05, 8/06, 24/06, 70/06, 12/09 and 60/10, 87/13),
17. Law on Customs Duties („Official Gazette of B&H“, No. 58/12),
18. Law on Customs Violations in B&H („Official Gazette of B&H“, No. 88/05),
19. Patent Law („Official Gazette of B&H“, No. 53/10),
20. Law on Free Access to Information in B&H („Official Gazette of B&H“, No. 28/00, 45/06, 102/09 and 62/11, 100/13),
21. Law on Personal Identification Number („Official Gazette of B&H“, No. 32/01, 63/08 and 103/11),
22. Law on Associations and Foundations in B&H („Official Gazette of B&H“, No. 32/01,

42/03, 63/08 and 76/11),
23. 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),
24. 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),
25. Law on Fiscal Council of B&H („Official Gazette of B&H“, No. 63/08),
26. Law on the Treasury of B&H Institutions („Official Gazette of B&H“, No. 27/00 and 50/08),
27. Mediation Law („Official Gazette of B&H“, No. 37/04),
28. Law on Transfer of Mediation Business to Association of Mediators („Official Gazette of B&H“, No. 52/05),
29. Law on Enforced Collection of Indirect Taxes („Official Gazette of B&H“, No. 89/05 and 62/11),
30. Regulatory Offence Law („Official Gazette of B&H“, No. 41/07 and 18/12),
31. Law on B&H Courts („Official Gazette of B&H“, No. 49/09-consolidated text, 74/09-correction and 97/09),
32. 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),
33. Law on Prosecutor's Office of B&H („Official Gazette of B&H“, No. 49/09-consolidated text and 97/09),
34. Law on Administrative Proceedings („Official Gazette of B&H“, No. 29/02, 12/04, 88/07 and 93/09, 41/13),
35. Law on Administrative Disputes in B&H („Official Gazette of B&H“, No. 19/02, 88/07, 83/08 and 74/10),
36. Law on Civil Proceedings before the B&H Court („Official Gazette of B&H“, No. 36/04 and 84/07, 58/13),
37. Law on Enforcement Proceedings before the B&H Court („Official Gazette of B&H“, No. 18/03),
38. 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),
39. 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 and 8/10),
40. 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 and 93/09, 72/13),
41. 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 and 18/12, 87/13),
42. Law on Archive Materials and Archives of B&H („Official Gazette of B&H“, No. 16/01),
43. Rulebook on Application Form for Initiating Misdemeanor Proceedings („Official Gazette of the FB&H“, No. 15/14 – entered into force on 06.02.2014).

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	31.12.2012	31.12.2013	31.12.2014
	ASSETS			
1.	Cash and deposit accounts with deposit-taking institutions	3 962 581	4 417 898	4 560 234
1a	Cash and non-interest bearing deposit accounts	625 188	627 016	618 460
1b	Interest-bearing deposits accounts	3 337 393	3 790 882	3 941 774
2.	Trading securities	375 032	381 909	586 809
3.	Loans to other banks	78 522	51 960	50 836
4.	Loans, receivables based on leasing facilities and past due receivables	10 666 124	10 852 400	11 170 277
4a	Loans	9 591 819	9 676 527	9 959 429
4b	Receivables based on leasing facilities	54	48	42
4c	Past due receivables based on loans and leasing facilities	1 074 251	1 175 825	1 210 806
5.	Held to maturity securities	173 435	180 604	214 585
6.	Business premises and other fixed assets	491 370	476 199	493 275
7.	Other real estate	30 123	36 786	34 283
8.	Investments in unconsolidated related companies	24 756	23 762	23 135
9.	Other assets	255 247	252 122	242 945
10.	LESS: value adjustments	1 066 424	1 227 090	1 211 049
10a	Value adjustments for Item 4. of the Assets	1 007 459	1 163 928	1 149 468
10b	Value adjustments for Assets items, except for the Item 4.	58 965	61 162	61 581
11.	**TOTAL ASSETS**	**14 990 766**	**15 446 550**	**16 165 330**
	LIABILITIES			
12.	Deposits	10 961 001	11 523 849	12 130 746
12a	Interest-bearing deposits	9 281 938	9 363 284	9 626 571
12b	Non-interest bearing deposits	1 679 063	2 160 565	2 504 175
13.	Borrowings – liabilities due	1 752	1 577	150
13a	Past due liabilities	0	0	0
13b	Past due – invoked off-balance sheet liabilities	1 752	1 577	150
14.	Borrowings from other banks	2 000	0	0
15.	Liabilities to the Government	0	0	0
16.	Loan commitments and other borrowings	1 141 561	1 039 381	1 026 503
16a	With remaining maturity of up to one year	244 160	212 485	359 866
16b	With remaining maturity of more than one year	897 401	826 896	666 637
17.	Subordinated debt and subordinated bonds	186 675	166 889	156 233
18.	Other liabilities	480 402	406 909	416 771
19.	**TOTAL LIABILITIES**	**12 773 391**	**13 138 605**	**13 730 403**
	EQUITY			
20.	Permanent preferred shares	26 059	11 959	11 959
21.	Common shares	1 175 547	1 196 633	1 221 591
22.	Issue premiums	136 485	136 485	136 485
22a	Over permanent preferred shares	8 420	8 420	88
22b	Over common shares	128 065	128 065	136 397
23.	Undistributed profit and capital reserves	453 269	649 879	618 214
24.	Foreign exchange rate differences			
25.	Other capital	110 281	-2 745	130 944
26.	Loan loss provisions formed from profit	315 734	315 734	315 734
27.	**TOTAL EQUITY (20. to 25.)**	**2 217 375**	**2 307 945**	**2 434 927**
28.	**TOTAL LIABILITIES AND EQUITY (19 +26)**	**14 990 766**	**15 446 550**	**16 165 330**
	PASSIVE AND NEUTRAL SUB-BALANCE	**661 321**	**638 913**	**677 066**
	BALANCE SHEET TOTAL OF BANKS	**15 652 087**	**16 085 463**	**16 842 396**

ANNEX 4

OVERVIEW OF ASSETS, LOANS, DEPOSITS AND FINANCIAL RESULTS OF BANKS IN THE FEDERATION OF B&H as of 31.12.2014

in KM 000

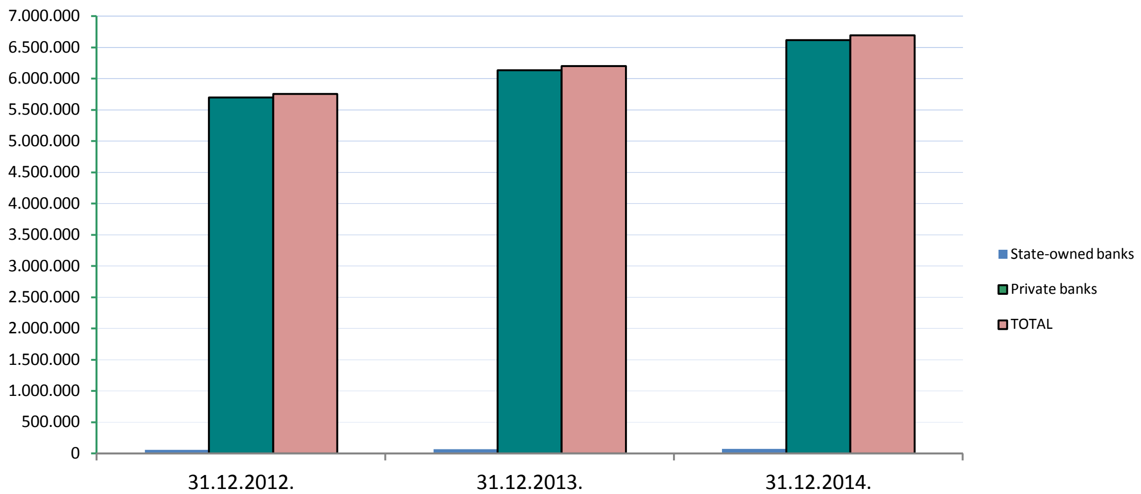
No.	BANK	Assets		Loans		Deposits		Fin. result
		Amount	%	Amount	%	Amount	%	Amount
1	BOR Banka dd - Sarajevo	242 200	1.50%	193 044	1.73%	128 767	1.06%	132
2	Bosna Bank International dd - Sarajevo	638 164	3.95%	392 266	3.51%	417 630	3.44%	4 014
3	Hypo Alpe Adria Bank dd - Mostar	991 282	6.13%	626 853	5.61%	639 538	5.27%	-10 026
4	Intesa Sanpaolo banka ddBosna i Hercegovina - Sarajevo	1 443 064	8.93%	1 156 929	10.36%	1 001 346	8.25%	19 648
5	Investiciono Komercijalna banka dd - Zenica	216 234	1.34%	95 641	0.86%	159 346	1.31%	1 788
6	Komercijalno-Investiciona banka dd - Velika Kladuša	77 658	0.48%	38 870	0.35%	51 567	0.43%	1 248
7	Moja banka dd - Sarajevo	201 273	1.25%	141 038	1.26%	171 462	1.41%	220
8	NLB banka dd - Tuzla	910 166	5.63%	656 786	5.88%	741 309	6.11%	5 226
9	Privredna Banka Sarajevo dd - Sarajevo	167 003	1.03%	100 186	0.90%	135 656	1.12%	378
10	ProCredit Bank dd - Sarajevo	388 487	2.40%	327 571	2.93%	253 458	2.09%	96
11	Raiffeisen Bank dd Bosna i Hercegovina - Sarajevo	3 708 081	22.94%	2 299 323	20.58%	2 905 196	23.95%	53 833
12	Sberbank BH dd - Sarajevo	1 006 805	6.23%	838 587	7.51%	762 044	6.28%	4 622
13	Sparkasse Bank dd Bosna i Hercegovina - Sarajevo	1 038 138	6.42%	833 285	7.46%	864 523	7.13%	10 721
14	Union banka dd - Sarajevo	379 330	2.35%	123 807	1.11%	314 586	2.59%	208
15	UniCredit bank dd - Mostar	3 976 759	24.60%	2 763 310	24.74%	3 033 124	25.00%	61 398
16	Vakufska banka dd - Sarajevo	234 764	1.45%	188 218	1.68%	204 981	1.69%	-26 360
17	Ziraatbank BH dd - Sarajevo	545 922	3.38%	394 563	3.53%	346 213	2.85%	3 798
	TOTAL	16 165 330	100%	11 170 277	100%	12 130 746	100%	130 944

ANNEX 5

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

in KM 000

	31.12.2012	31.12.2013	31.12.2014
State-owned banks	58 050	65 179	73 072
Private banks	5 698 300	6 135 711	6 618 891
TOTAL	**5 756 350**	**6 200 890**	**6 691 963**



ANNEX 6

CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET RISK-BEARING ITEMS as of 31.12.2014

- CLASSIFICATION OF BALANCE SHEET ASSETS ITEMS -

in KM 000

No.	BALANCE SHEET ASSETS ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	2 042 992	184 630	22 338	4 827	2 050	2 256 837
2.	Long-term loans	6 715 726	557 570	197 225	135 527	31 940	7 637 988
3.	Other facilities	189 758	1 110	81	1 147	2 344	194 440
4.	Accrued interest and fees	36 156	4 103	1 710	6 474	26 130	74 573
5.	Past due receivables	32 947	19 349	23 112	358 162	751 018	1 184 588
6.	Receivables based on paid guarantees	0	0	0	500	25 718	26.218
7.	Other balance sheet assets being classified	311 882	3 354	5 137	8 605	33 994	362 972
8.	**TOTAL BALANCE SHEET ASSETS BEING CLASSIFIED (sum of items 1 through 7 – calculation basis for regulatory loan loss provisions)**	**9 329 461**	**770 116**	**249 603**	**515 242**	**873 194**	**11 737 616**
9.	**CALCULATED REGULATORY RESERVES FOR LOAN LOSSES BASED ON BS ASSETS**	**183 201**	**72 668**	**60 645**	**297 087**	**872 497**	**1 486 098**
10.	**VALUE ADJUSTMENT FOR BS ASSETS**	**116 621**	**65 887**	**69 684**	**255 547**	**703 312**	**1 211 051**
11.	**REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT FOR PURPOSE OF ASSESSED LOSSES BASED ON BS ASSETS**	**102 757**	**42 062**	**19 048**	**80 865**	**168 980**	**413 712**
12.	**FORMEED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**	**79 789**	**28 505**	**23 903**	**77 360**	**69 490**	**279 047**
13.	**SHORTFALL OF REGULATORY RESERVE FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**						**196 042**
14.	**BALANCE SHEET ASSETS NOT BEING CLASSIFIED (gross book value)**						**5 638 763**
15.	**TOTAL BALANCE SHEET ASSETS (gross book value)**						**17 376 379**

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

14.a	Cash in cash desk and vault and cash funds at the account with the Central Bank of B&H, gold and other precious metals	3 311 821
14.b	Demand deposits and term deposits up to one month located on accounts of banks with defined investment rating	1 163 298
14.c	Tangible and intangible assets	509 126
14.d	Financial and tangible assets acquired in the process of collection of receivables (within one year upon such acquisition)	3 967
14.e	Own (treasury) shares	
14.f	Receivables based on overpaid taxes	14 719
14.g	Trading securities	119 296
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	516 536
	TOTAL Item 14	**5 638 763**
8a.	Facilities secured with a cash deposit	169 521

ANNEX 6A

CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET RISK-BEARING ITEMS
as of 31.12.2014
- CLASSIFICATION OF OFF-BALANCE SHEET ITEMS -

in KM 000

No.	OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Payment guarantees	388 404	40 988	2 901	3	0	432 296
2.	Performance guarantees	512 446	101 949	331	5 408	81	620 215
3.	Uncovered letters of credit	44 811	603	108	0	0	45 522
4.	Irrevocably approved, but undrawn loans	1 430 717	62 474	1 292	285	977	1 495 745
5.	Other contingent liabilities of the bank	11 356	287	0	1	119	11 763
6.	**TOTAL OFF-BALANCE SHEDET ITEMS BEING CLASSIFIED (sum of items 1 through 5 – calculation basis for regulatory loan loss provisions)**	**2 387 734**	**206 301**	**4 632**	**5 697**	**1 177**	**2 605 541**
7.	**CALCULATED REGULATORY RESERVES FOR LOAN LOSSES RELATED TO OFF-BALANCE SHEET ITEMS**	**46 688**	**13 498**	**998**	**3 355**	**1 178**	**65 717**
8.	**LOSS RESERVES FOR OFF-BALANCE SHEET ITEMS**	**22 594**	**2 437**	**992**	**3 348**	**1 060**	**30 431**
9.	**REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**	**27 891**	**11 645**	**498**	**629**	**227**	**40 890**
10.	**FORMED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**	**23 902**	**10 232**	**941**	**1 388**	**224**	**36 687**
11.	**SHORTFALL OF REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**						**7 196**
12.	**OFF-BALANCE SHEET ITEMS NOT BEING CLASSIFIED**						**357 887**
13.	**TOTAL OFF-BALANCE SHEET ITEMS**						**2 963 428**
6a.	**Contingent liabilities secured with a cash deposit**						**53 274**
6b.	**Approved undisbursed loans with a clause on unconditional cancellation**						**206 839**

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	31.12.2012	31.12.2013	31.12.2014
1.		**INTEREST INCOME AND EXPENSES**			
	a)	Interest income and similar income			
	1)	Interest-bearing deposit accounts with deposit-taking institutions	3 991	2 461	3 459
	2)	Loans to other banks	3 436	1 964	2 199
	3)	Loans and leasing facilities	729 602	703 462	692 603
	4)	Held to maturity securities	6 564	7 496	7 246
	5)	Equity securities	186	153	1 307
	6)	Receivables based on paid-off balance sheet liabilities	0	0	7
	7)	Other interest income and similar income	65 645	65 509	63 895
	8)	**TOTAL INTEREST INCOME AND SIMILAR INCOME**	**809 424**	**781 045**	**770 716**
	b)	Interest expenses and similar expenses			
	1)	Deposits	218 614	205 187	192 455
	2)	Borrowings from other banks	276	436	0
	3)	Borrowings taken – liabilities due	0	0	0
	4)	Liabilities based on loans and other borrowings	36 520	21 253	18 880
	5)	Subordinated debt and subordinated bonds	10 997	10 050	11 206
	6)	Other interest and similar expenses	3 362	2 376	1 877
	7)	**TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES**	**269 769**	**239 302**	**224 418**
	c)	**NET INTEREST AND SIMILAR INCOME**	**539 655**	**541 743**	**546 298**
2.		**OPERATING INCOME**			
	a)	FX income	45 081	42 695	45 760
	b)	Loan fees	7 674	6 986	6 658
	c)	Fees based on off-balance sheet items	24 781	24 902	25 160
	d)	Service fees	184 256	195 262	208 544
	e)	Trading income	1 139	3 210	219
	f)	Other operating income	46 042	44 167	40 923
	g)	**TOTAL OPERATING INCOME a) to f)**	**308 973**	**317 222**	**327 264**
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	144 750	232 804	137 806
	2)	Other business and direct expenses	76 181	75 621	80 006
	3)	**TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)**	**220 931**	**308 425**	**217 812**
	b)	Operating expenses			
	1)	Costs of salaries and contributions	243 133	246 087	248 007
	2)	Costs of business premises, other fixed assets and utilities	158 933	168 794	150 709
	3)	Other operating expenses	98 441	120 634	104 424
	4)	**TOTAL OPERATING EXPENSES 1) to 3)**	**500 507**	**535 515**	**503 140**
	c)	**TOTAL NON-INTEREST BEARING EXPENSES**	**721 438**	**843 940**	**720 952**
4.		**PROFIT BEFORE TAXES**	**145 003**	**155 468**	**188 996**
5.		**LOSS**	**17 813**	**140 443**	**36 386**
6.		**TAXES**	**16 706**	**17 667**	**21 367**
7.		**PROFIT BASED ON INCREASE OF DEFERRED TAX FUNDS AD REDUCTION OF DEFERRED TAX LIABILITIES**	**60**	**147**	**39**
8.		**LOSS BASED ON REDUCTION OF DEFERRED TAX FUNDS AND INCREASE OF DEFERRED TAX LIABILITIES**	**188**	**175**	**338**

9.	NET PROFIT 4. - 6.	128 173	137 775	167 330
10.	NET LOSS 4. - 6.	17 817	140 445	36 386
11.	FINANCIAL RESULT 9.-10.	110 356	-2 670	130 944

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	31.12.2012	31.12.2013	31.12.2014
1	OSNOVNI KAPITAL BANKE			
1.a.	Share capita, reserves and profit			
1.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	1 185 966	1 188 094	1 217 909
1.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	12 550	12 550	12 550
1.3.	Amount of issue premiums earned upon payment of shares	136 485	136 485	136 485
1.4.	General mandatory reserves (reserves mandated by the law)	101 836	206 809	106 051
1.5. [1]	Other reserves from profit after tax based on the decision of the Bank's assembly			409 634
1.6. [1]	Retained, undistributed profit from previous years and current year's profit			108 756
1.5. [2]	Other reserves not related to the assets quality evaluation	309 179	362 349	
1.6. [1]	Retained – undistributed profit from previous years	167 825	248 901	
1.a.	**TOTAL (1.1 to 1.6)**	**1 913 841**	**2 155 188**	**1 991 385**
1.b.	Deductible items from 1.a			
1.7.	Uncovered losses from previous years	120 740	112 610	122 705
1.8.	Current year's loss	17 818	140 445	36 386
1.9.	Book value of own (treasury) shares of the bank	156	156	81
1.10. [1]	Intangible assets in accordance with the applicable accounting framework	52 590	41 418	41 873
1.11. [1]	Amount of deferred tax assets			4 043
1.12. [1]	Amount of negative revalorised reserves based on the effect of the change in the fair value of assets			1 282
1.b.	TOTAL (1.7. to 1.10)	191 304	294 629	206 370
1.	**AMOUNT OF CORE CAPITAL: (1.a. - 1.b.)**	**1 722 537**	**1 860 559**	**1 785 015**
2	SUPPLEMENTARY CAPITAL OF THE BANK			
2.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	3 090	3 091	3 091
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	211 433	215 083	229 889
2.4. [1]	Amount of positive revalorised reserves based on the effect of the change in the fair value of assets			23 703
2.4. [2]	Current year profit – audited and confirmed by an external audit	67 243	71 984	
2.5.	Profit amount for which the FBA issues an order restricting its disbursement	0	0	0
2.6. [3]	Amount of subordinated debt	120 264	165 473	154 814
2.7. [3]	Amount of hybrid convertible items – capital instruments	0	0	0
2.8. [3]	Amount of other capital instruments	65 070	1 416	1 419
2.	**AMOUNT OF SUPPLEMENTARY CAPITAL: (2.1 to 2.8)**	**467 100**	**457 047**	**412 916**
3	DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL			
3.1.	Portion of invested share capital that, according to the FBA, represents a received, but over-appraised value	0	0	0
3.2.	Capital contributions of other legal entities exceeding 5% of the bank's core capital	3 043	2 844	1 678
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	85	0	1 509
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	95 720	156 866	203 239
3.	**AMOUNT OF DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL: (3.1 to 3.5)**	**98 848**	**159 710**	**206 426**
A.	**NET CAPITAL OF THE BANK (1.+2.-3.)**	**2 090 789**	**2 157 896**	**1 991 505**
B. [3]	**RISK OF BALANCE AND OFF-BALANCE ASSETS**	**11 078 498**	**10 998 977**	**11 403 153**
C.	**WEIGHTED OPERATIONAL RISK**	**974 201**	**981 318**	**982 250**
D.	**WEIGHTED MARKET RISK**	0	0	**0**
E. [3]	**TOTAL ASSETS RISK B+C+D**	**12 052 699**	**11 980 295**	**12 385 403**
F.	**NET CAPITAL RATE (A/E) (% 1 dec.)**	**17.3%**	**18.0%**	**16.1%**

[1] The item description is valid since 30.09.2014.

[2] The item description is valid to 30.06.2014.

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

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

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

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

2. 8. Permanent, non-refundable items

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

ANNEX 9

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

No.	BANK	31.12.2012	31.12.2013	31.12.2014
1	BOR Banka dd - Sarajevo	62	64	64
2	Bosna Bank International dd - Sarajevo	247	279	312
3	Hypo Alpe Adria Bank dd - Mostar	579	517	513
4	Intesa Sanpaolo banka ddBosna i Hercegovina - Sarajevo	537	528	521
5	Investiciono Komercijalna banka dd - Zenica	166	164	164
6	Komercijalno-Investiciona banka dd - Velika Kladuša	71	71	75
7	Moja banka dd - Sarajevo	151	156	142
8	NLB banka dd - Tuzla	456	442	430
9	Poštanska banka dd - Sarajevo	85		
10	Privredna Banka Sarajevo dd - Sarajevo	179	177	164
11	ProCredit Bank dd - Sarajevo	344	333	291
12	Raiffeisen Bank dd Bosna i Hercegovina - Sarajevo	1 552	1 531	1 578
13	Sberbank BH dd - Sarajevo	360	411	435
14	Sparkasse Bank dd Bosna i Hercegovina - Sarajevo	452	462	475
15	Union banka dd - Sarajevo	183	200	202
16	UniCredit bank dd - Mostar	1 305	1 262	1 216
17	Vakufska banka dd - Sarajevo	230	225	231
18	Ziraatbank BH dd - Sarajevo	171	229	247
	TOTAL	**7 130**	**7 051**	**6 960**