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. 03. 2016

Sarajevo, May 2016

The Banking Agency of the Federation of B&H, as a regulatory institution conducting banking supervision, has prepared the Information on the Banking System of the Federation of B&H (as of 31.03.2016) based on financial statements and other information and data provided by banks. This also encompasses results and information obtained during on-site examinations in banks and off-site financial analyses in the Agency.

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I INTRODUCTION

For a long period of time, operations of the banking sector have been taking place in an unfavourable environment and conditions of stagnating economic growth and development in countries of the EU zone. Insufficient economic growth, the difficult situation in the real sector and numerous domestic problems caused by the political situation in the country, limited access to stable sources of financing have all adversely reflected upon the condition and prospects in the banking sector. The first quarter of 2016 was characterised by a stagnation of the balance sheet total, both at system level and in the case of a majority of banks, deposits remained on the same level as at the end of 2015, and slight credit growth was recorded, while capital increased on the basis of current profit. This indicates a stagnation of the banking sector that has been present for a long period of time and that is understandable, given the environment in which the banks in the FB&H, i.e. in B&H, operate. Liquidity, profitability and capitalisation of the sector can be deemed satisfactory, and it can be concluded that the banking sector remains stable and secure.

As of 31.03.2016, there were 17 licenced banks in the Federation of B&H, as was the case at the end of 2015. The headcount amounted to 6 677.

The balance sheet total of the banking sector at the end of the first quarter of 2016 amounted to KM 17.2 billion, which is approximately the same level as at the end of 2015. Only two banks had a moderate growth rate (5% and 6%), while two banks also recorded a moderate decrease in assets (6% and 9%). Two key items in the assets structure: loans and cash funds, recorded a slight change, i.e. an increase in the share of loans from 67.5% to 67.9%, while the share of cash funds decreased from 28.3% to 27%.

Cash funds in the first quarter of 2016 decreased by 4.2% or KM 205 million and amounted to KM 4.7 billion as of 31.03.2016. The drop in cash funds is the result of an increase in facilities to other banks, moderate credit growth and investments in securities, and, on the other hand, the payment of outstanding loan commitments.

Loans, as the largest assets item of banks, recorded a modest increase in the amount of 0.8%, or KM 88 million in the first quarter of 2016, thus amounting to KM 11.7 billion as of 31.03.2016. Retail loans recorded a slight increase in the amount of 1% or KM 36 million, while the share remained at the same level of 49.1%. As of 31.03.2016, they amounted to KM 5.7 billion. Loans to private companies amounted to KM 5.4 billion, also with low growth in the amount of 1% or KM 78 million and a share that went up from 45.9% to 46.2%. Total non-performing loans as of 31.03.2016 amounted to KM 1.46 billion and decreased by 3% or KM 46 million compared to the end of 2015. The share of non-performing loans, as a key indicator of loan quality, dropped from 12.9% to 12.4%. Out of total non-performing loans, corporate ones account for 65% and retail ones for 35%. Out of the total loans to legal entities, non-performing loans make up 16% or KM 951 million, down by 0.7 percentage points compared to the end of 2015. For the retail sector, the aforementioned amount to 8.8% or KM 504 million, down by 0.2 percentage points compared to the end 2015.

Investments in securities recorded an increase of 4.1% or KM 43 million (in 2015, the increase amounted to 31.1% or KM 249 million), which primarily refers to securities issued by the Government of the FB&H. The securities portfolio amounted to KM 1.1 billion at the end of the first quarter of 2016, thus having a 6.3% share in assets.

In the structure of banks' sources of funding, deposits in the amount of KM 13.1 billion and with a share of 76% continued to be the dominant source of funding for banks in the Federation of B&H, and they remained at approximately the same level as at the end of 2015. The long-standing trend of increased savings deposits, as the most important segment of the deposit and financial potential of banks, continued in the first three months of 2016 as well, with a rate of 2.4% or KM 175 million. As of 31.03.2016, they amounted to KM 7.4 billion.

The long-standing trend of reduced loan commitments continued in the first three months of 2016 as well, with a rate of 4% or KM 36 million, to the level of KM 868 million and a share of 5% in the structure of banks' funding. In the last seven years, due to the impact of the financial and economic crisis, banks borrowed significantly less from abroad, and by paying receivables due these sources were reduced by more than 60% (at the end of 2008, they amounted to KM 2.18 billion). In that same period, sources of funding for banks in the FB&H (loans taken, deposits and subordinated debt) from their group (parent banks and other group members and/or other shareholders) decreased by 70% or KM 2.4 billion, amounting to KM 1 billion or 5.9% of liabilities as of 31.03.2016. 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.

In the first quarter of 2016, total capital increased by 2.8% or KM 72 million on the basis of current profit, amounting to KM 2.7 billion as of 31.03.2016.

As of 31.03.2016, regulatory capital amounted to KM 2.2 billion and was slightly up compared to the end of 2015, without changes in its structure.

The capital adequacy ratio of the banking system, as one of the most important indicators of the strength and capital adequacy of banks, was 15.4% as of 31.03.2016, which is still significantly above the legal minimum (12%) and which represents a satisfactory capitalisation of the overall system for the existing level of risk exposure as well as a strong foundation and basis for preserving its security and stability. The financial leverage ratio amounted to 9.3% at the level of the banking system as of 31.03.2016.

According to data from the income statement, a positive financial result, profit in the amount of KM 73 million, was recorded at the level of the banking system in the Federation of B&H in the first quarter of 2016. A positive financial result in the amount of KM 74 million was recorded by 15 banks, while two banks posted a loss in the amount of KM 1 million.

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

1. BANKING SECTOR STRUCTURE

1.1. Status, Number and Network of Branches

As of 31.03.2016, there were 17 banks with a banking licence in the Federation of B&H. The number of banks is the same as on 31.12.2015. A special law from 01.07.2008 regulates the establishment and operations of the Development Bank of the FB&H Sarajevo, a legal successor of the Investment Bank of the FB&H dd Sarajevo.

In the first quarter of 2016, there was no major expansion of the banks' network of organisational units, chiefly attributable to the financial crisis and the reduced volume of the bans' business activities.

Banks have reorganised their networks of organisational units by changing the organisational form, membership or address of their organisational parts. This also entailed mergers and closings of some organisational parts, all for the purpose of business rationalisation and operating costs reduction. There was a total of 45 such changes among banks in the Federation of B&H (all on the territory of the

Federation of B&H): 8 new organisational units were established, 8 organisational units were closed, and 29 underwent changes.

Subsequent to such changes, banks in the Federation of B&H had a total of 557 organisational units as of 31.03.2016, which was also the case as of 31.12.2015.

The number of organisational units of banks from Republika Srpska in the Federation of B&H (36) also remained the same as on 31.12.2015.

As of 31.03.2016, seven banks from the Federation of B&H had 49 organisational units in Republika Srpska, and nine banks had 11 organisational units in Brčko District. Four banks from Republika Srpska had 36 organisational units in the Federation of B&H.

As of 31.03.2016, all banks had licences to effect interbank transactions within the domestic payment system, and 16 banks had secured deposits.

1.2. Ownership Structure

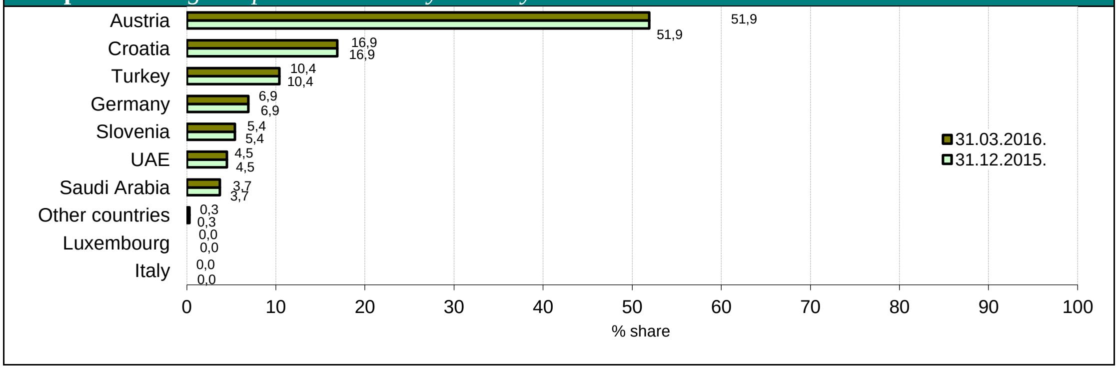
The ownership structure of banks[1] as of 31.12.2015, assessed on the basis of available information and reviews conducted in the banks themselves, is as follows:

- In private or mostly private ownership 16 banks
- In state or mostly state ownership[2] 1 bank.

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

If observed solely from the perspective of foreign capital, using the criterion of the shareholders' home country, the conditions as of 31.03.2016 are the same as those at the end of 2015: the largest share of foreign capital in the amount of 51.9% still refers to shareholders from Austria, followed by shareholders from Croatia with 16.9% and Turkey with 10.4%. Other countries hold individual shares below 7%.

Graph 1: *Foreign Capital Structure by Country*

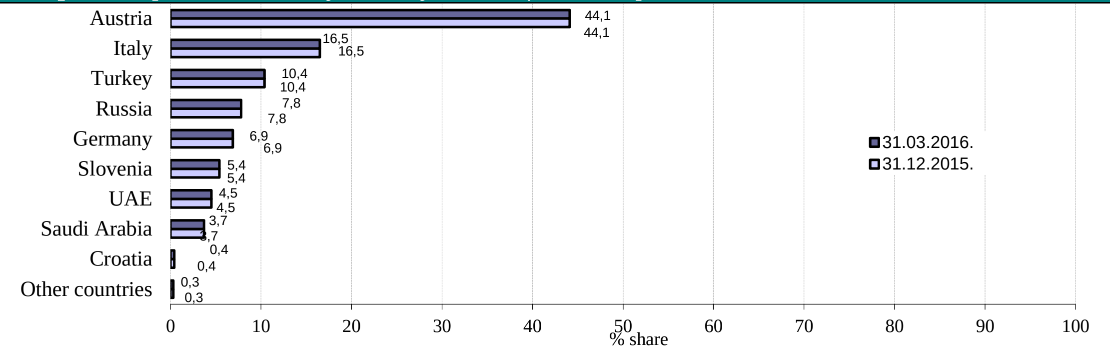


However, if taking into account capital relations, the structure of foreign capital can also be observed using the criterion of the home country of the parent bank or parent group having majority ownership (direct or indirect via group members) of banks in the Federation of B&H. According to this criterion, the conditions also remain unchanged compared to the end of 2015: the share of banking groups and

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

banks from Austria amounts to 44.1%, followed by Italian banks with a share of 16.5%, while the share of capital from Turkey amounts to 10.4% and from Russia to 7.8%. Other countries held individual shares below 7%.

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



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

- in KM 000 -

Table 1: *Ownership Structure by Total Capital*

BANKS	31.12.2014		31.12.2015		31.03.2016		INDEX	
1	2		3		4		5 (3/2)	6 (4/3)
State-owned banks	51 929	2%	52 319	2%	52 544	2%	101	100
Private banks	2 367 574	98%	2 545 398	98%	2 617 576	98%	108	103
T O T A L	2 419 503	100%	2 597 717	100%	2 670 120	100%	108	103

In the first quarter of 2016, total capital was up by 2.8% or KM 72 million on the basis of the financial result – current profit.

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

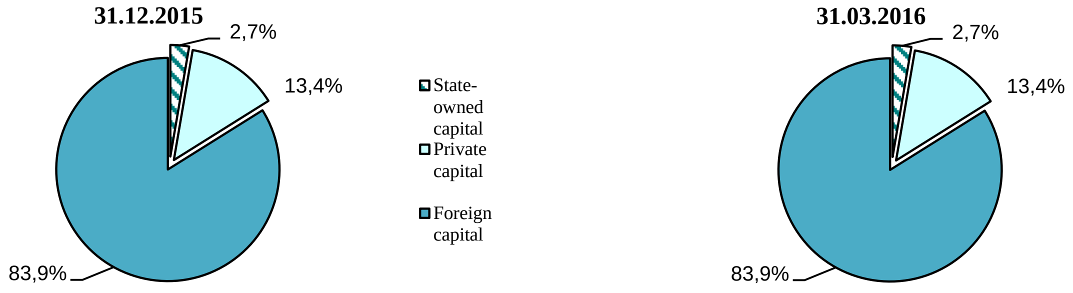
- in KM 000 -

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

SHARE CAPITAL	31.12.2014		31.12.2015		31.03.2016		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
State-owned capital	32 364	2.6	31 647	2.7	31 647	2.7	98	100
Private capital (residents)	162 354	13.2	156 574	13.4	156 774	13.4	96	100
Foreign capital (non-residents)	1 038 832	84.2	979 271	83.9	979 071	83.9	94	100
T O T A L	1 233 550	100.0	1 167 492	100.0	1 167 492	100.0	95	100

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

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



At the end of the first quarter of 2016, share capital of banks in the Federation of B&H was the same as on 31.12.2015, amounting to KM 1.2 billion.

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

As of 31.03.2016, the share of state-owned capital in total share capital amounts to 2.7% and is the same compared to 31.12.2015, according to both relative and absolute indicators

The share of private capital (of residents) in total share capital amounts to 13.4% and is the same compared to 31.12.2015, according to relative indicators. According to absolute indicators, the share is up by KM 0.2 million net after trade with non-residents in four banks.

The share of private capital (of non-residents) in total share capital remained unchanged (83.9%) compared to 31.12.2015, according to relative indicators. According to absolute indicators, the share is down by KM 0.2 million net after trade with residents in four banks.

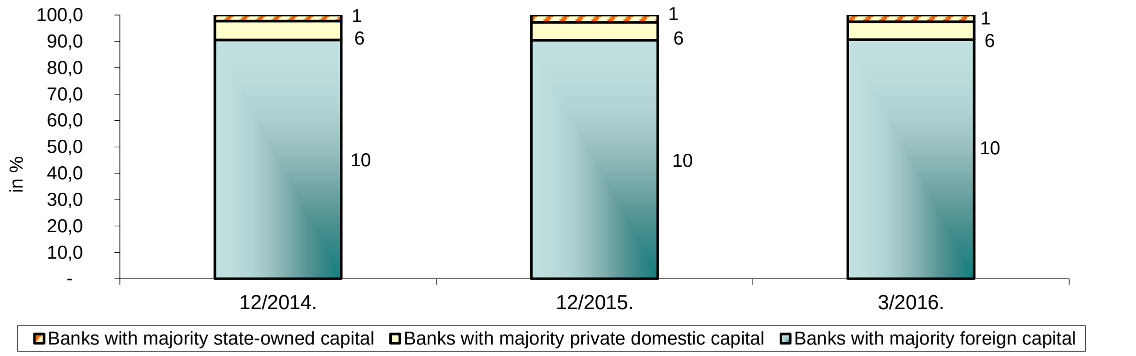
The market share of banks according to the ownership criterion has been almost unchanged for a long time, i.e. has seen only minor changes. The market share of banks in majority foreign ownership as of 31.03.2016 stood at a high 90.7%, while banks with majority domestic private capital had a 6.8% share and one bank with majority state-owned capital had a 2.5% share.

- in % -

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

BANKS	31.12.2014			31.12.2015			31.03.2016		
	No. of banks	**Share in total capital**	**Share in total assets**	**No. of banks**	**Share in total capital**	**Share in total assets**	**No. of banks**	**Share in total capital**	**Share in total assets**
1	2	3	4	5	6	7	8	9	10
Banks woth majority state-owned capital	1	2.1	2.3	1	2.0	2.8	1	2.0	2.5
Banks with majority private domestic capital	6	7.8	7.1	6	6.9	6.8	6	6.8	6.8
Banks with majority foreign capital	10	90.1	90.6	10	91.1	90.4	10	91.2	90.7
TOTAL	17	100.0	100.0	17	100.0	100.0	17	100.0	100.0

Graph 4: *Market Shares by Ownership Type*



1.3. Human Resources

As of 31.03.2016, banks in the Federation of B&H had a headcount of 6 677 employees, 3% of which were employed in banks with majority state-owned capital and 97% of which were employed in private banks.

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

BANKS	HEADCOUNT						INDEX	
	31.12.2014		31.12.2015		31.03.2016		3/2	4/3
1	2		3		4		5	6
State-owned banks	202	3%	181	3%	186	3%	90	103
Private banks	6 758	97%	6 502	97%	6 491	97%	96	100
TOTAL	6 960	100%	6 683	100%	6 677	100%	96	100
Number of banks	17		17		17		100	100

Table 5: *Qualification Structure of Employees*

LEVEL OF QUALIFICATION	HEADCOUNT						INDEX	
	31.12.2014		31.12.2015		31.03.2016		4/2	6/4
1	2	3	4	5	6	7	8	9
University degree	3 775	54.2%	3 757	56.2%	3 776	56.6%	99	101
Two-year post-secondary school qualification	587	8.5%	551	8.3%	547	8.2%	94	99
Secondary school qualification	2 571	36.9%	2 360	35.3%	2 340	35.0%	92	99
Other	27	0.4%	15	0.2%	14	0.2%	55	93
TOTAL	6 960	100.0%	6 683	100.0%	6 677	100.0%	96	100

The headcount at the end of the first quarter of 2016 was almost the same as at the end of 2015.

Slight changes in the qualification structure (a further slight increase in the share of employees with university degrees to 56.6%) are the result of a slight drop in the number of employees with post-secondary and secondary school qualifications.

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

Table 6: *Assets per Employee*

BANKS	31.12.2014			31.12.2015			31.03.2016		
	Head-count	Assets (KM 000)	Assets per employee	Head-count	Assets (KM 000)	Assets per employee	Head-count	Assets (KM 000)	Assets per employee

State-owned	202	379 330	1 878	181	476 866	2 635	186	432 627	2 326
Private	6 758	15 771 200	2 334	6 502	16 712 715	2 570	6 491	16 792 377	2 587
TOTAL	6 960	16 150 530	2 320	6 683	17 189 581	2 572	6 677	17 225 004	2 580

At the end of the reporting period, there were KM 2.6 million of assets per employee at banking system level, as was the case at the end of 2015.

Table 7: *Assets per Employee – by Group*

Assets (KM 000)	31.12.2014 Number of banks	31.12.2015 Number of banks	31.03.2016 Number of banks
Up to 1 000	1	0	0
1 000 to 2 000	7	7	8
2 000 to 3 000	7	8	7
Over 3 000	2	2	2
TOTAL	17	17	17

Analytical indicators for individual banks range from KM 1.1 million to KM 3.7 million of assets per employee. There are six banks in which this ratio is better than the one at the banking sector level, while this ratio exceeds the amount of KM 2.7 million in the three largest banks in the system.

2. FINANCIAL PERFORMANCE INDICATORS OF BANKS

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

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

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

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

2.1. Balance Sheet

The balance sheet total of the banking sector amounted to KM 17.2 billion at the end of the first quarter of 2016, which is the same level as at the end of 2015. The balance sheet total and key balance sheet

[4] State-owned banks post the „full balance sheet“, meaning liabilities and neutral items, which the state will take over once the privatisation process gets finalised. As of 31.03.2016, these items amounted to KM 711 million in the case of one state-owned bank.

categories: deposits, total capital, cash funds and loans recorded slight changes, which is to be expected since the impact of the financial and economic crisis is still felt, i.e. the conditions of the environment in which the banks in the Federation of B&H, i.e. in B&H, operate.

- KM 000 -

Table 8: *Balance Sheet*

DESCRIPTION	31.12.2014		31.12.2015		31.03.2016		INDEX	
	AMOUNT	Share %	AMOUNT	Share %	AMOUNT	Share %		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
ASSETS:								
Cash funds	4 560 234	28.2	4 857 483	28.3	4 652 946	27.0	107	96
Securities[5]	801 289	5.0	1 050 206	6.1	1 093 424	6.3	131	104
Facilities to other banks	50 836	0.3	78 420	0.5	151 406	0.9	154	193
Loans	11 170 277	69.2	11 610 744	67.5	11 698 258	67.9	104	101
Value adjustment	1 160 481	7.2	1 153 862	6.7	1 131 556	6.6	99	98
Net loans (loans minus value adjust.)	10 009 796	62.0	10 456 882	60.8	10 566 702	61.4	104	101
Business premises and other fixed assets	525 860	3.2	516 894	3.0	530 521	3.1	98	103
Other assets	202 515	1.3	229 696	1.3	230 005	1.3	113	100
TOTAL ASSETS	**16 150 530**	**100.0**	**17 189 581**	100.0	**17 225 004**	100.0	**106**	**100**
LIABILITIES:								
LIABILITIES								
Deposits	12 130 746	75.1	13 098 983	76.2	13 092 943	76.0	108	100
Borrowings from other banks	0	0.0	0	0.0	0	0.0	0	0
Loan commitments	1 026 503	6.4	904 050	5.3	867 917	5.0	88	96
Other liabilities	573 778	3.5	588 831	3.4	594 024	3.5	103	101
CAPITAL								
Capital	2 419 503	15.0	2 597 717	15.1	2 670 120	15.5	107	103
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**16 150 530**	**100.0**	**17 189 581**	**100.0**	**17 225 004**	**100.0**	**106**	**100**

- KM 000 -

Table 9: *Banks' Assets by Ownership Structure*

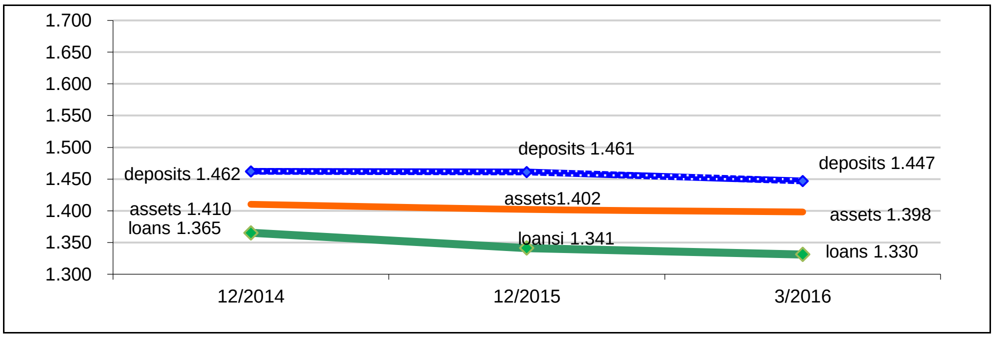
BANKS	31.12.2014			31.12.2015			31.03.2016			INDEX	
	No. of banks	Assets (KM 000)		No. of banks	Assets (KM 000)		No. of banks	Assets (KM 000)			
1	2	3		4	5		6	7		8 (5/3)	9(7/5)
State-owned	1	379 330	2%	1	476 866	2.8%	1	432 627	2.5%	126	91
Private	16	15 771 200	98%	16	16 712 715	97.2%	16	16 792 377	97.5%	106	100
TOTAL	17	16 150 530	100%	17	17 189 581	100%	17	17 225 004	100%	106	100

The first quarter of 2016 was characterised by a stagnation of the balance sheet total, both at system level and in the case of a majority of banks. Only two banks had a moderate growth rate (5% and 6%), while two banks also recorded a moderate decrease in assets (6% and 9%).

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

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

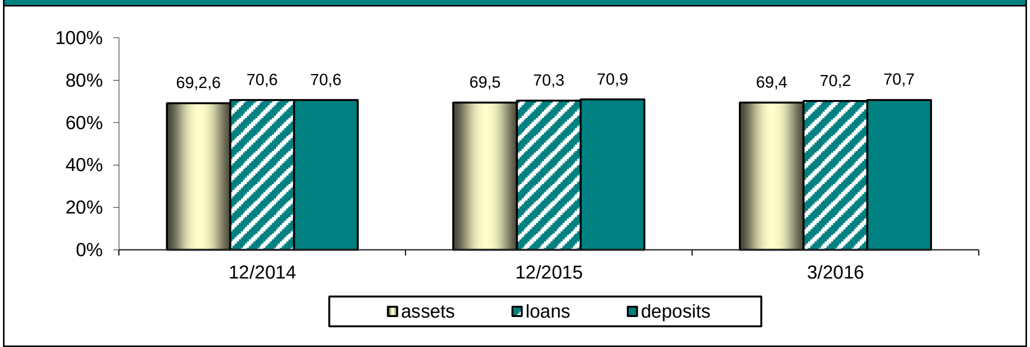
[5] Trading securities, securities available for sale and held to maturity securities.
[6] This index is also called Hirschmann-Herfindahl index or HHI and is calculated according to this formula: $HI = \sum_{j=1}^{n} (S)_j^2$,
It represents a sum of squares of percentage shares of specific elements (e.g. assets, deposits, loans) of all market participants in the system. It should be noted that this index does not grow linearly and that the value of e.g. 3 000 does not mean that the concentration in the system is 30%. Hypothetically, if there were just one bank in the entire system, the HHI would be 10 000 at most.



In the first quarter of 2016, the Herfindahl index of concentrations in all three relevant categories (assets, loans and deposits) decreased slightly: it decreased by 4 units for assets, by 11 unit for loans and by 14 units for deposits, so that it amounted to 1 398 units for assets, 1 330 units for loans, and 1 447 units for deposits as of 31.03.2016, which is indicative of a moderate concentration.[7]

The second concentration indicator for the banking system is the ratio of market concentrations, i.e. the concentration rate[8] (hereinafter: the CR) showing the total share of the largest institutions in the system in selected relevant categories: assets, loans and deposits. Like Herfindahl's index of concentrations, the CR5 also changed only slightly and amounted to 69.4% for market share, 70.2% for loans, and 70.7% for deposits. For a long period of time, the value of the CR5 saw slight changes across all three categories, but the domination of the five largest banks in the system, which hold approximately 70% of the market, loans and deposits, is still evident.

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



The banking sector can also be analysed on the basis of the criterium of belonging to groups formed according to asset size.[9] Changes in share percentage compared to the end of 2015 are minor, which is the result of a stagnation of the assets of most banks.

The banking system is dominated by the two largest banks (I group with assets in the amount of over KM 2 billion) with a share of 47.1%, followed by the share of the II group (three banks with assets in the amount ranging from KM 1 billion to KM 2 billion) of 22.3%, while the III group has a somewhat lower share of 19% (four banks with assets ranging from KM 500 million to KM 1 billion). The share of the IV and largest group (seven banks with assets ranging from KM 100 million to KM 500 million)

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

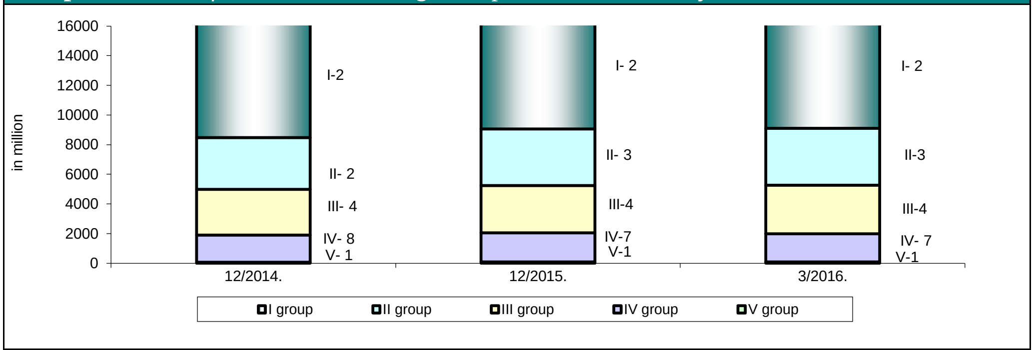
amounts to 11.1%, while one bank in the V and last group (with assets below KM 100 million) has a share of a negligible 0.5%.

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

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

ASSETS	31.12.2014			31.12.2015			31.03.2016		
	Amount	Share %	No. of banks	Amount	Share %	No. of banks	Amount	Share %	No. of banks
I- Over 2 000	7 685	47.6	2	8 121	47.3	2	8 114	47.1	2
II- 1000 to 2000	3 488	21.6	3	3 822	22.2	3	3 848	22.3	3
III- 500 to 1000	3 077	19.0	4	3 200	18.6	4	3 272	19.0	4
IV- 100 to 500	1 823	11.3	7	1 963	11.4	7	1 906	11.1	7
V- Below 100	78	0.5	1	84	0.5	1	85	0.5	1
TOTAL	16 151	100.0	17	17 190	100.0	17	17 225	100.0	17

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



In the first quarter of 2016, as was the case in previous years, the balance sheet total stagnated and is at the same level of KM 17.2 billion as at the end of 2015. Deposits also remained unchanged in the amount of KM 13.1 billion, while total capital recorded a slight increase of 2.8% or KM 72 million on the basis of current profit. The downward trend of loan commitments continued, with a rate of 4% or KM 36 million, i.e. to the level of KM 868 million.

A drop in cash funds in the amount of 4.2% or KM 2015 million, i.e. to the level of KM 4.7 billion, is the result of an increase in facilities to other banks, moderate credit growth and investments in securities, and, on the other hand, the payment of outstanding loan commitments.

Due to the stagnation of loan facilities, some banks approved short-term excess liquidity to domestic and foreign banks, which brings additional interest income. Facilities to other banks increased by 93% or KM 73 million, thus amounting to KM 151 million as of 31.03.2016.

In the reporting period of 2016, credit growth in the amount of a modest 0.8% or KM 88 million was recorded and loans amounted to KM 11.7 billion as of 31.03.2016.

Investments in securities recorded an increase of 4.1% or KM 43 million (in 2015, the increase amounted to 31.1% or KM 249 million), which primarily refers to securities issued by the Government of the FB&H. The securities portfolio amounted to KM 1.1 billion at the end of the first quarter of 2016, thus having a 6.3% share in assets.

The portfolio of securities available for sale (a small part thereof refers to the trading portfolio), up by 6.2% or KM 55 million, amounted to KM 938 million, while the securities held to maturity decreased by 7%, i.e. from KM 167 million to KM 156 million. Both portfolios include securities issued by the Government of the Federation of B&H[10] in the total amount of KM 600 million, as well as securities issued by the Government of Republika Srpska in the amount of KM 119 million. Also, the trading portfolio includes shares issued by local companies totaling KM 3 million. The remaining portion of the securities portfolio amounts to KM 371 million and refers mostly to bonds of EU countries, and to a lesser extent to corporate bonds, primarily those of EU banks. The increase in investments in securities in the first quarter of 2016 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.

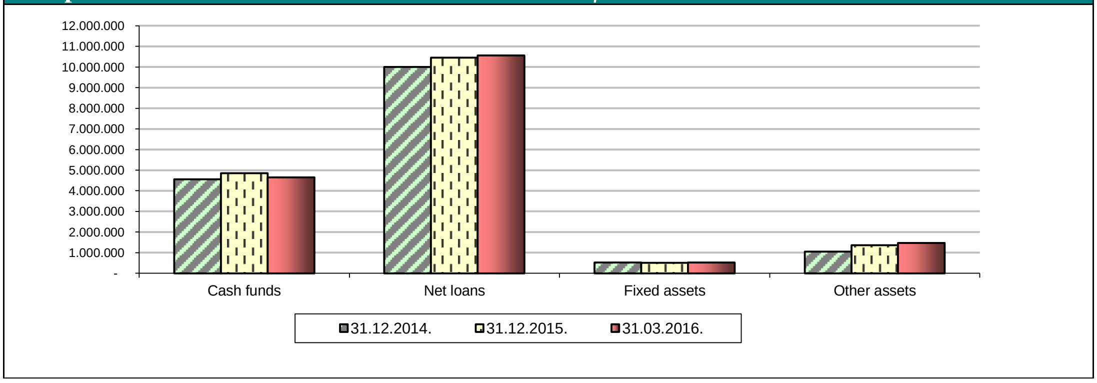
As of 31.03.2016, the balance and book value of treasury bills issued by the Government of the FB&H amounted to KM 160 million (KM 100 million as of 31.12.2015) and KM 159.8 million, respectively.

In addition to treasury bills, the securities portfolios of banks also include market bonds issued by the Government of the Federation of B&H. The balance of the nominal amount of bonds as of 31.03.2016 was the same as at the end of 2015 and amounted to KM 419. The majority of the treasury bills and market bonds with a book value of KM 560 million was classified in the portfolio of securities available for sale, while the rest in the amount of KM 19 million is classified in the portfolio of securities held to maturity.

When analysing the overall securities portfolio (KM 1.1 billion) from the aspect of exposure by country, the largest share is that of B&H (66%) (63.6% at the end of 2015) as a result of an increase in the amount of 8% or KM 64 million, i.e. to the level of KM 722 million at the end of the first quarter of 2016, followed by Romania (9.2%), Austria (8.3%), Belgium (3.1%), etc.

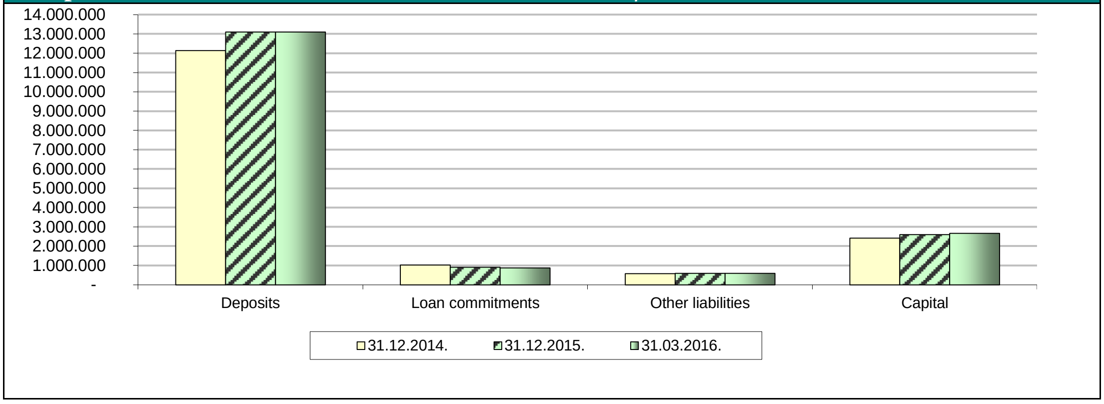
The graphs below show the structure of the key items of the banks' balance sheet.

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



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

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



Within the liabilities structure of the banks' balances sheets, deposits still represent a dominant source of funding for banks in the Federation of B&H (with an amount of KM 13.1 billion and a 76% share). The long-standing trend of decrease of loan commitments continued in the first three months of 2016 as well, with a rate of 4% or KM 36 million, to the level of KM 868 million and a share of 5%. Following an increase in the amount of 2.8% or KM 72 million, capital amounted to KM 2.7 billion as of 31.03.2016 and its share increased from 15.1% to 15.5%.

Two key items in the structure of assets: loans and cash funds, saw minor changes, i.e. an increase in the loan share from 67.5% to 67.9%, while the share of cash funds decreased from 28.3% to 27%.

- in KM 000 -

Table 11: *Cash Funds of Banks*

CASH FUNDS	31.12.2014		31.12.2015		31.03.2016		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	456 750	10.0	581 152	12.0	555 763	11.9	127	96
RR at the CB B&H	2 854 559	62.6	3 181 721	65.5	3 136 498	67.4	111	99
Accounts at deposit institutions in B&H	22 759	0.5	2 100	0.0	3 215	0.1	9	153
Accounts at deposit institutions abroad	1 225 850	26.9	1 092 273	22.5	957 312	20.6	89	88
Cash funds in the process of collection	316	0.0	237	0.0	158	0.0	75	67
TOTAL	4 560 234	100.0	4 857 483	100.0	4 652 946	100.0	107	96

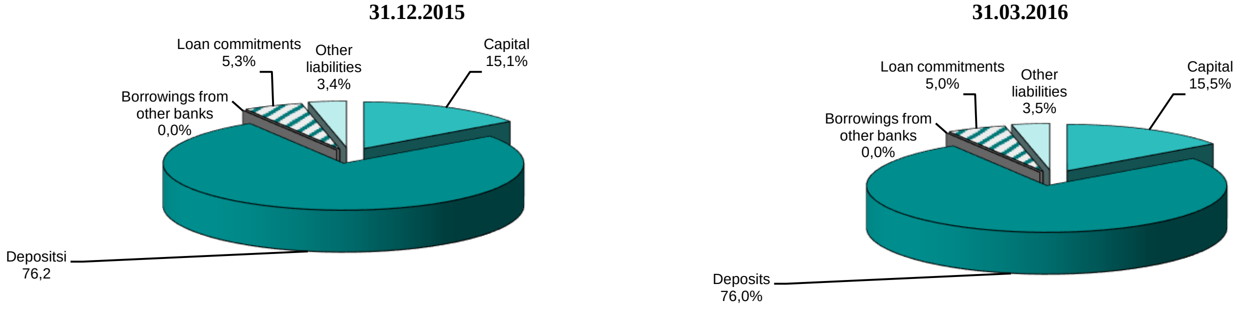
The banks' cash funds in the CBBH reserves account were down by a 1% or KM 45 million in the first quarter of 2016 and amounted to KM 3.1 billion or 67.4% of total cash funds as of 31.03.2016 (65.5% at the end of 2015). The continuous drop in banks' funds in accounts of deposit institutions abroad was continued in 2016 as well. These funds recorded a decrease of 12% or KM 135 million and amounted to KM 1 billion or 20.6% of total cash funds (22.5% at the end of 2015). Following their decrease of 4% or KM 25 million, banks held cash funds in the amount of KM 556 million, which represents 11.9% of total cash funds, in vaults and treasuries as of 31.03.2016.

These trends prompted a change in the currency structure of cash funds: in the reporting period, the share of local currency increased from 73.1% to 75.6%, 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 31.03.2016 is provided in the graph below:

Graph 10: *Liabilities Structure of Banks*



In the first quarter of 2016, the share of deposits (76.0%), as the most significant source of funding of banks, was slightly down to 76%, while the continuous trend of decrease in the share of loan commitments, the second largest source of funding, continued in 2016 as well (by 0.3 percentage points, i.e. to the level of 5.0%).

As of 31.03.2016, deposits amounted to KM 13.1 million, thus still being the largest source of funding of banks in the Federation of B&H.

The second-largest source of funding are loans in the amount of KM 0.9 billion and with a share of 5%, which banks received mostly by borrowing from foreign financial institutions. In the past few years, due to the effect of the financial and economic crisis, as well as reduced lending activities, banks incurred significantly fewer loans abroad and, coupled with the payment of receivables due, reduced these sources of funding by app. 60% (at the end of 2008, deposits amounted to KM 2.18 billion), with them being down by 4% or KM 36 million in the first three months (in 2015, the decrease amounted to 11.9% or KM 122 million). If subordinated loans in the amount of KM 112 million, which the banks withdrew in the interest of strengthening the capital base and improving capital adequacy, were added to loan commitments, total loan funds would hold a share of 5.7% in total sources of funding.

As of 31.03.2016, banks held the largest amount of liabilities towards the following creditors (6 out of a total of 26 creditors), accounting for 82% of total loan commitments: European Investment Bank (EIB), TC ZIRAAT BANKASI A.S. (Turkey), the World Bank, UniCredit Bank Austria AG, the European Bank for Reconstruction and Development (EBRD), and the European Fund for Southeast Europe (EFSE).

Capital amounted to KM 2.7 billion at the end of the first quarter of 2016, thus having recorded an increase in the amount of 2.8% or KM 72 million compared to the end of 2015 on the basis of the financial result (profit) in the first three months of 2016.

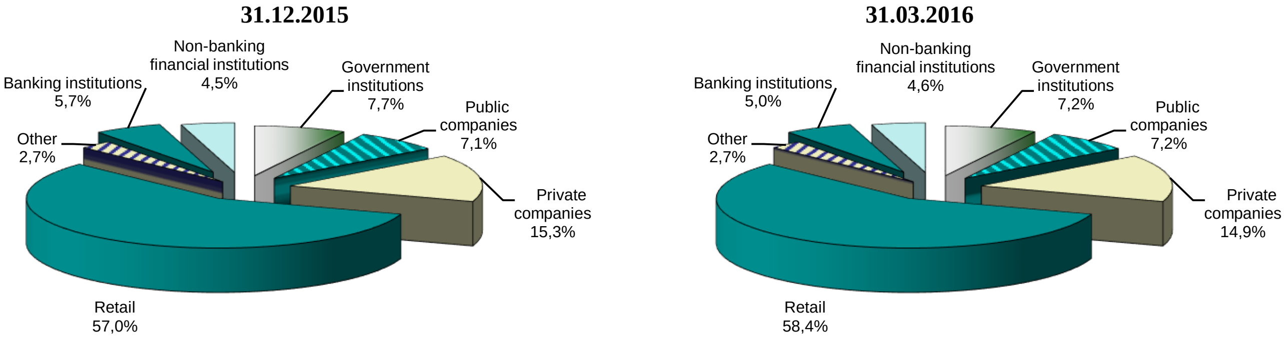
According to the information submitted by banks, out of the total deposit amount at the end of the reporting period, only 5.6% relates to deposits collected in organisational units of banks from the Federation of B&H, which are doing business in Republika Srpska and Brčko District.

- in KM 000 -

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

SECTORS	31.12.2014 Amount	31.12.2014 Share %	31.12.2015 Amount	31.12.2015 Share %	31.03.2016 Amount	31.03.2016 Share %	INDEX 4/2	INDEX 6/4
1	2	3	4	5	6	7	8	9
Government institutions	795 985	6.6	1 002 438	7.7	945 467	7.2	126	94
Public companies	883 463	7.3	927 692	7.1	938 198	7.2	105	101
Private companies and enterprises	1 821 094	15.0	2 008 364	15.3	1 947 975	14.9	110	97
Banking institutions	886 007	7.3	752 217	5.7	653 262	5.0	85	87
Non-banking financial institutions	517 110	4.2	583 387	4.5	601 011	4.6	113	103
Retail	6 863 296	56.6	7 465 252	57.0	7 646 073	58.4	109	102
Other	363 791	3.0	359 633	2.7	360 957	2.7	99	100
TOTAL	12 130 746	100.0	13 098 983	100.0	13 092 943	100.0	108	100

Graph 11: *Deposit Structure by Sector*



Although deposits stagnated in the first quarter of 2016 and remained at the same level as at the end of 2015 (KM 13.1 billion), there were still minor changes in the deposit structure by sector, which were, on the one hand, primarily the result of an increase in retail deposits, and, on the other hand, the result of a decrease in deposits of government institutions, private companies, and banking institutions.

The continuous growth of retail deposits continued in 2016 as well, with a rate of 2% or KM 181 million, thus amounting to KM 7.6 billion as of 31.03.2016., while the share rose from 57% to 58.4%, so that this sector's deposits are still the largest source of funding for banks. Analytical data indicate that the share of this sector’s deposits is the largest in 15 out of 17 and it ranges from 17% to 83%, i.e. it is above 50% in nine banks.

The second largest source of funding (based on amount and share) are deposits of private companies. In the reporting period, a slight decrease in the amount of 3% or KM 60 million was recorded, which resulted in the share dropping from 15.3% to 14.9%. They amounted to KM 1.9 billion at the end of the first quarter of 2016.

Deposits of government institutions also went down by 6% or KM 57 million, with the share dropping from 7.7% to 7.2%. They amounted to KM 0.9 billion as of 31.03.2016.

It should also be noted that the trend of long-standing decrease in deposits of banking institutions due

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

to the effects of the crisis, the reduced volume of lending and high liquidity continued in 2016 as well. From the end of 2009 to 31.12.2015, deposits of this sector dropped by app. 65% or KM 1.4 billion. Negative trends in previous years (related to these funds at sector level) are mostly the result of debt reduction, i.e. the repayment of funds to groups that own the banks in the Federation of B&H.

In the first quarter of 2016, deposits of the aforementioned sector fell by 16% or KM 99 million, with the share dropping from 5.7% to 5% as a result of deposits that some banks had received from banking groups at the end of 2015 having been withdrawn immediately in early 2016. Based on the aforementioned information, it can be concluded that the foreign debt level of banks from the Federation of B&H is much lower, especially in terms of deposit funds of parent groups. It should be noted that maturity has changed singificantly in favour of short-term deposits, which have the function of maintining the maturity adjustment within the prescribed limits and/or improving certain indicators (structural balance, growth of certain categories, e.g. assets, deposits, followed by liquidity indicators, etc.). The aforementioned is also indicated by the fact that KM 147 million or 28% of term deposits of the group mature in 2016, while KM 83 million or 16% mature in 2017, and KM 166 million or 31% mature in 2018. Considering that the same trend of decrease is present with respect to loan commitments, a number of banks have been facing the problem of maintaining their maturity adjustment for quite some time, with this being caused by the unfavourable maturity of local deposit funds, due to which they must continuously work on securing better quality sources in terms of maturity in order to intensify the increase in approved loans.

It is worth noting that 82% or KM 536 million of deposits of banking institutions relate to deposits of banks from the group (mostly shareholders). Financial support by parent groups is present with respect to nine banks in the Federation of B&H, wherein such financing is still concentrated in three large banks (76%). In this way, banks in majority foreign ownership had financial support and secured inflows of new funds by their foreign groups in previous periods. If these funds are coupled with loan commitments and subordinated debt, the financial support of banks from the group is higher (with respect to 11 banks) and amounts to KM 868 million as of 31.03.2016 (or 5% of total liabilities of the banking sector, which is lower compared to the end of 2015 (KM 932 million or 5.4% of liabilities)). In total deposits, the funds of banking groups hold a share of 4.1% (4.5% at the end of 2015), while loan commitments to the group account for 26.7% of total loan commitments (this share is up by 0.5%). In the first quarter of 2016, these funds dropped by 6.8% or KM 63 million, largely based on regular maturities (deposits fell by 9.8% or KM 58 million, loan commitments by 2% or KM 5 million, while subordinated loans remained at the same level of KM 100 million).

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

Deposits of other sectors, with a low share in total deposits, saw minor changes.

The currency structure of deposits as of 31.03.2016 has slightly changed: deposits in local currency, after a slight increase in the amount of 1% or KM 45 million, increased their share to 53.5% (+0.4 percentage points) and amounted to KM 7 billion, while deposits in foreign currency (with a dominant share of EUR currency), following a decrease in the amount of 1% or KM 51 million, amounted to KM 6.1 billion, thus holding a share of 46.5% (-0.4 percentage points).

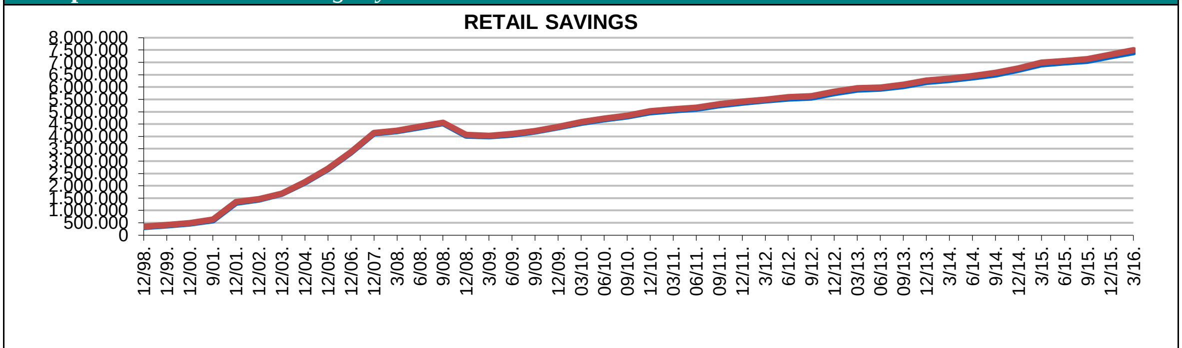
At the end of the first quarter of 2016, the structure of deposits by domicile status of depositors also changed slightly: resident funds amounted to KM 12.1 billion and had a share of 92.8% (+0.8 percentage points), while non-resident deposits amounted to KM 0.9 billion and represented 7.2% of total deposits. The increase in the share of resident deposits is, on the one hand, the result of their nominal increase in the amount of 1% or KM 91 million, and, on the other hand, the result of the drop in non-resident deposits by 9.3% or KM 97 million. Over the past few years, non-resident deposits continuously decreased as a result of the withdrawal, i.e. return of deposits to the parent bank or member of the banking group to which non-resident funds mostly refer.

The long-standing trend of increase in savings deposits, as the most significant segment of the deposit and financial potential of banks, continued in the first three months of 2016 as well, with a rate of 2.4% or KM 175 million.

Table 12: *New Retail Savings By Period*

BANKS	A M O U N T (in KM 000)			INDEX	
	31.12.2014	31.12.2015	31.03.2016	3/2	4/3
1	2	3	4	5	6
State-owned	73 072	78 771	84 714	108	108
Private	6 618 891	7 156 178	7 324 777	108	102
TOTAL	6 691 963	7 234 949	7 409 491	108	102

Graph 12: *New Retail Savings by Period*



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

Out of the total amount of savings, 42% refer to saving deposits in local currency and 58% to savings deposits in foreign currency.

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

BANKS	A M O U N T (in KM 000)						INDEX	
	31.12.2014		31.12.2015		31.03.2016		3/2	4/3
1	2		3		4		5	6
Short-term savings deposits	3 129 098	46.8%	3 537 982	48.9%	3 691 106	49.8%	113	104
Long-term savings deposits	3 562 865	53.2%	3 696 967	51.1%	3 718 385	50.2%	104	101
TOTAL	6 691 963	100.0%	7 234 949	100.0%	7 409 491	100.0%	108	102

Compared to the end of 2015, the maturity structure of savings deposits changed slightly through an increase in short-term deposits by 4% or KM 153 million, while long-term deposits rose by 1% or KM 21 million, thus resulting in a slightly lower share of long-term deposits from 51.1% to 50.2%.

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 following the onset of the financial crisis, and according to the latest decision by the Management Board of the Deposit Insurance Agency of B&H from December 2013, the insured deposit limit increased from the KM 35 000 to KM 50 000, effective as of 01.01.2014. All these actions are aimed towards limiting the effect of the global economic crisis on the banking and the overall economic system in the Federation of B&H and B&H.

As of 31.03.2016, there was a total of 16 banks from the Federation of B&H included in the deposit insurance program (i.e. holding licences issued by the Deposit Insurance Agency of B&H). There is one bank that is not eligible for this program because it does not meet the criteria defined by the Deposit Insurance Agency of B&H.

2.1.2. Capital – Strength and Adequacy

The capital[12] of banks in the Federation of B&H as of 31.03.2016 amounted to KM 2.2 billion.

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

- in KM 000 -

Table 15: *Regulatory Capital*

DESCRIPTION	31.12.2014		31.12.2015		31.03.2016		INDEX	
1	2		3		4		5 (3/2)	6 (4/3)
1.a.Core capital before reduction	1 991 385		2 010 634		2 036 740		101	101
1.1. Share capital – common and permanent non-cumulative shares	1 230 459		1 164 402		1 164 402		95	100
1.2. Issue premiums	136 485		132 667		132 667		97	100
1.3. Reserves and retained profit	624 441		713 565		739 671		114	104
1.b. Deductible items	219 589		152 026		157 402		71	101
1.1. Uncovered losses from previous years	122 705		28 371		102 751		23	362
1.2. Current year loss	50 868		74 379		1 147		146	2
1.3. Treasury shares	81		102		102		126	100
1.4.. Intangible assets	41 873		49 837		49 379		119	99
1.5. Deferred tax assets	2 780		1 641		1 550		59	94
1.6. Negative revalorised reserves	1 282		1 696		2 473		132	146
1. Core capital (1a-1b)	**1 771 796**	**81%**	**1 854 608**	**85%**	**1 879 338**	**85%**	105	101
2. Supplementary capital	**412 922**	**19%**	**331 236**	**15%**	**333 549**	**15%**	80	101
2.1. Share capital – common and permanent cumulative shares	3 091		3 090		3 090		100	100
2.2. General loan loss reserves	229 895		209 071		210 477		91	101
2.3. Positive revalorised reserves	23 703		9 735		9 759		41	100
2.4. Amount of audited profit	N/a		N/a		N/a		N/a	N/a
2.5. Subordinated debt	154 814		107 918		108 801		70	101
2.5. Hybrid items and other instruments	1 419		1 422		1 422		100	100
3. Capital (1 + 2)	**2 184 718**	**100%**	**2 185 844**	**100%**	**2 212 887**	**100%**	100	101
4. Deductible items from capital			**206 321**		**203 866**		102	99

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

4.1. Bank's shares in capital of other legal entities above 5% of	**203 077**	1 007	0	60	0
core capital	1 678	204 559	203 109	102	99
4.2. Loan loss reserves shortfall at regulatory request	199 890	755	757	50	100
4.3. Other deductible items	1 509	**1 979 523**	**2 009 021**	100	101
5. Net capital (3- 4)	**1 981 641**				

In the first quarter of 2016, capital[13] rose slightly (KM 27 million) compared to the end of 2015, without any changes in its structure (85% core capital, 15% supplementary capital). Core capital increased by 1% or KM 25 million, and supplementary capital by 1% or KM 2 million.

The slight increase in core capital was primarily due to one bank's distribution of profit for 2015 into reserves, in the amount of KM 25 million.

Deductible items (which decrease core capital) also increased slightly by 1%, as a result of an increase in current loss and negative revalorised reserves.

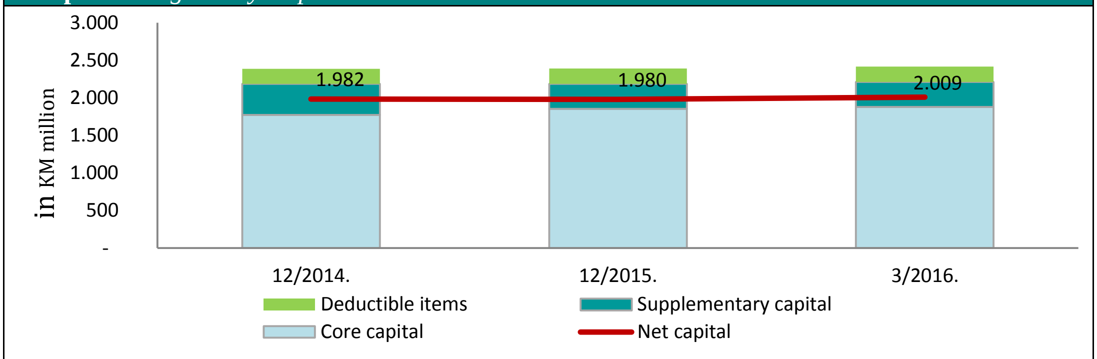
Supplementary capital went up by 1% or KM 2.3 million, which was mostly influenced by the increase in general loan loss reserves (GLLR) and subordinated debt.

It should be noted that most banks did not included profit for 2015 in core capital (a total of KM 193 million), because not all activities related to the external audit of financial statements for 2015 and the decision-making regarding profit distribution by competent authorities have been completed yet.

According to regulatory changes in late 2011, deductible items from capital include a new accounting item: the shortfall of loan loss reserves upon regulator's request (i.e. a difference between required regulatory loan loss reserves according to balance sheet and off-balance sheet items and loan loss reserves formed from profit). As of 31.03.2016, this item amounted to KM 203 million, down by 1% compared to the end of 2015 (this item was up by 2% or KM 5 million in 2015).

The graph below shows the regulatory capital structure.

Graph 13: *Regulatory Capital Structure*



Net capital remained unchanged and amounted to KM 2 billion as of 31.03.2016.

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

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

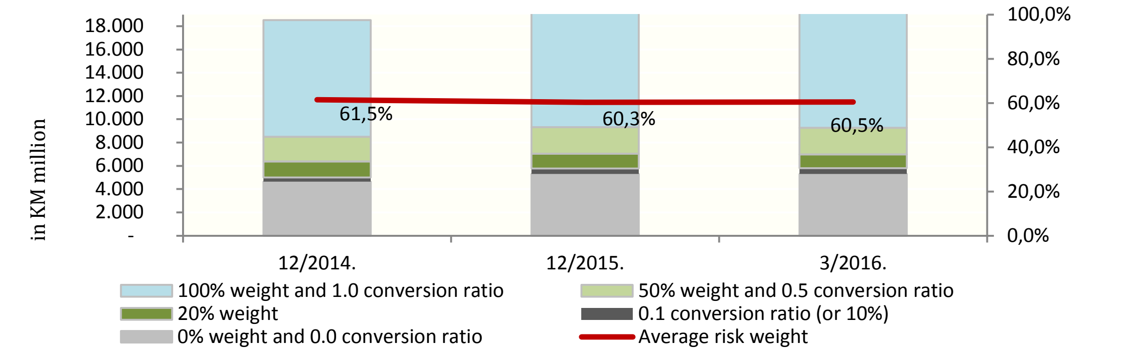
[13] Source of information: quarterly Report on Capital Condition in Banks (Form 1-Table A).

- in KM 000 -

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

DESCRIPTION	31.12.2014	31.12.2015	31.03.2016	INDEX	
1	2	3	4	5 (3/2)	6 (4/3)
TOTAL EXPOSURE (1+2):	**18 518 813**	**19 827 276**	**19 844 133**	107	100
1 Balance sheet assets	15 627 474	16 663 027	16 700 101	107	100
2. Off-balance sheet items	2 891 339	3 164 249	3 144 032	109	99
DISTRIBUTION BY RISK WEIGHT AND CONVERSION RATIO					
0% weight	4 598 235	5 255 223	5 258 626	114	100
20% weight	1 361 199	1 279 029	1 169 123	94	91
50% weight	54 096	52 241	68 777	97	132
100% weight	9 613 944	10 076 534	10 203 575	105	101
0.0 conversion ratio	52 453	51 199	48 250	98	94
0.1 conversion ratio	356 611	456 896	503 388	128	110
0.5 conversion ratio	2 073 404	2 227 741	2 209 673	107	99
1.0 conversion ratio	408 871	428 413	382 721	105	89
RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	**11 394 469**	**11 946 433**	**12 009 683**	**105**	**101**
Average risk weight	**61.5%**	**60.3%**	**60.5%**	**98**	**100**

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



In the first quarter of 2016, total net exposure of banks (before being weighted) increased slightly, and considering that risk-bearing balance sheet and off-balance sheet items went up (1%) and amount to KM 12 billion, the average risk weight also increased slightly from 60.3% to 60.5%.

The same trend was seen with respect to the weighted operational risk (WOR), which rose slightly (2%) and amounts to KM 999 million. All of this resulted in a slight increase in total risk-bearing assets (1% or KM 86 million), i.e. to the level of KM 13 billion.

As of 31.03.2016, 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 12.0% as of 31.03.2016, which is up by 0.1 percentage points compared to the end of 2015.

One of the key indicators of capital strength and adequacy[14] of banks is the capital adequacy ratio, which constitutes a ratio between net capital and risk-weighted assets. At the banking sector level, this ratio stood at 15.4% as of 31.03.2016, up by 0.1 percentage points compared to the end of 2015, while

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

net capital increased slightly despite the negative impact of the implementation of certain provisions of the new Decision, starting with 31.12.2015.

Also, the indicator of capital strength and quality is the ratio of the core capital (Tier I) and total risk assets, which amounted to 14.4% at the level of the banking sector as of 31.03.2016. An important provision of the new Decision is the obligation of banks to intend part of the core capital above 8% (in application since 31.12.2015) of total risk assets to cover the risks related to preventive protection from potential losses in times of crisis or stressful situations through a protective layer for preserving the capital that has been prescribed in the amount of 2.5% of the amount of total risk assets under this Decision. Two other protective layers were introduced – a countercyclical protective layer and a protective layer for systemic risk, which the FBA would determine by a special resolution, if necessary.

Banks are also, according to the new Decision, obligated to establish and maintain the financial leverage ratio as an additional security and a simple capital hedge, at least in the amount of 6%, starting as of 31.12.2015. The financial leverage ratio at the level of the banking sector amounted to 9.3% as of 31.03.2016.

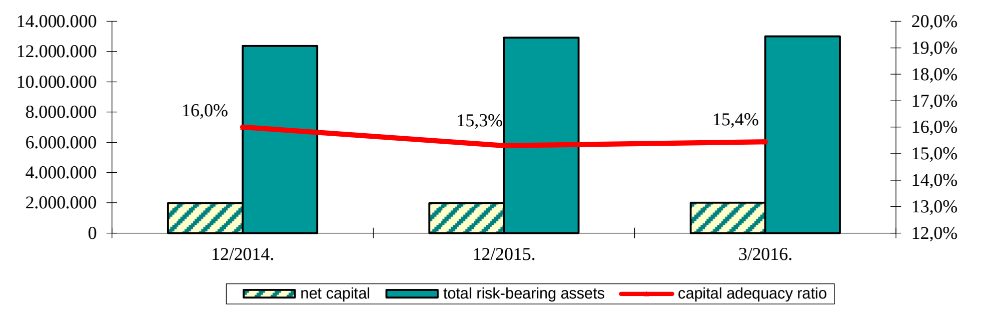
Although operations of the banking sector have been strongly affected by the economic crisis for the past few years, the capital adequacy of the banking sector has been continuously maintained at the level above 16% until 2015, when, for the aforementioned reasons, it decreased and amounted to 15.4% as of 31.03.2016, which is still a satisfactory capitalisation rate at system-level. The reason for this is, on the one hand, the slight credit growth and decrease of total risk-bearing assets in previous years (until 2013, after which gradual growth was recorded), and, on the other hand, the fact that banks have retained the largest share of profit from previous years within their capital and several banks have also improved their capitalisation rate by means of additional capital injections. However, problems related to non-performing loans and items not covered by loan loss reserves (net non-performing assets) may significantly impact and cause weakening of the capital base in several banks in the period to come. This is illustrated by the following information: at the end of 2008, net non-performing assets amounted to KM 197 million and its ratio (vs. core capital) was 13.2%. At the end of 2013, net non-performing assets amounted to KM 474 million, which is 25.5% of core capital, while dropping to the amount of KM 431 million in 2014, with a ratio of 24.3% (this is the result of a decrease on the basis of the sale of a part of non-performing loans in one bank, but also of an increase in loan loss reserves, i.e. greater coverage of non-performing facilities). In 2015, net non-performing had a further trend of decrease (mostly on the basis of a significant write-off in one bank) and amounted to KM 399 million, with a ratio of 21.5%. In the first quarter of 2016, net non-performing assets further decreased and amounted to KM 371 million, having a 19.8% ratio, which is still a high level and indicator. Also, according to existing regulations, banks do not calculate the capital requirement for market risks, due to which the capital adequacy rate is higher.

- KM 000 -

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

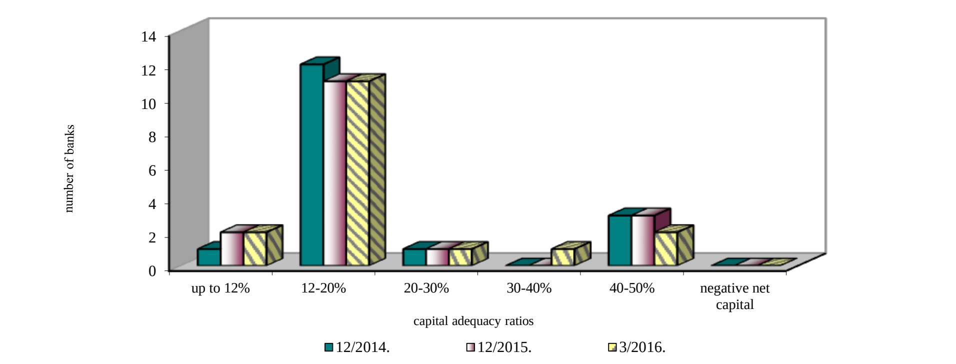
DESCRIPTION	31.12.2014	31.12.2015	31.03.2016	INDEX	
1	2	3	4	5(3/2)	6(4/3)
1. NET CAPITAL	1 981 641	1 979 523	2 009 021	100	101
2. RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	11 394 469	11 946 433	12 009 683	105	101
3. WOR (WEIGHTED OPERATIONAL RISK)	982 250	976 734	1 001 018	99	102
4. TOTAL RISK-BEARING ASSETS (2+3)	12 376 719	12 923 167	13 010 701	104	101
5. NET CAPITAL RATE (CAPITAL ADEQUACY) (1/ 4)	16.0%	15.3%	15.4%	96	101

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



The capital adequacy rate of the banking system as of 31.03.2016 was 15.4%, which is still quite above the legal minimum (12%) and represents a satisfactory capitalisation rate of the overall system considering the existing level of risk exposure and it represents a strong basis and foundation for the preservation of its safety and stability.

Graph 16: *Capital Adequacy Ratios of Banks*



Out of a total of 17 banks in the Federation of B&H as of 31.03.2016, 15 banks had capital adequacy ratios that were above the legal minimum of 12%, while two banks had a ratio that was below the legal minimum. According to analytical data, 12 banks had a capital adequacy ratio below the one at the end of 2015, one bank's ratio remained unchanged, while four banks had improved this ratio.

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

- 2 banks had a ratio below 12%,
- 6 banks had a ratio between 12.2% and 13.7%,
- 4 banks had a ratio between 15.4% and 16.0%,
- 2 banks had a ratio between 19.3% and 20.1%,
- 3 banks had a ratio between 38.3% and 42.5%.

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

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

2.1.3. Assets and Asset Quality

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

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

- in KM 000 -

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

DESCRIPTION	31.12.2014	31.12.2015	31.03.2016	INDEX	
1	2	3	4	5(3/2	6(4/3)
1. Risk-bearing assets[15]	14 119 056	14 850 813	14 955 362	105	101
2. Calculated regulatory reserves for loan losses	1 551 075	1 507 523	1 489 523	97	99
3. Value adjustment and reserves for off-balance sheet items	1 253 270	1 241 820	1 222 452	99	98
4. Required regulatory reserves formed from profit for assessed	447 920	429 087	426 231	96	99
5. Formed regulatory reserves from profit for assessed losses	315 734	315 734	315 734	100	100
6. Shortfall of regulatory reserves formed from profit for assessed	199 889	204 558	203 109	102	99
7. Non-risk bearing items	6 217 740	6 797 824	6 689 581	109	98
8. TOTAL ASSETS (1+7)	20 336 796	21 648 637	21 644 943	106	100

[15] Does not include amount of facilities and contingent liabilities of KM 221 million that is secured with a cash deposit.

Total assets with off-balance sheet items (assets)[16] of banks in the Federation of B&H amounted to KM 21.6 billion as of 31.03.2016 and are at the same level compared to the end of 2015. Risk-bearing assets amount to KM 15 billion and are up by 1% or KM 104 million.

Non-risk bearing items amount to KM 6.7 billion or 31% of total assets with off-balance sheet items, thus being down by 2% or KM 108 million compared to the end of 2015.

Total calculated loan loss reserves based on regulatory requirements are down (1% or KM 18 million) and amount to KM 1.5 billion and formed value adjustments for balance sheet assets and provisions for losses are down by 2% or KM 19 million, amounting to KM 1.2 billion. Required regulatory reserves[17] amount to KM 426 million and are down by 1% or KM 3 million. Formed regulatory reserves from profit, which amount to KM 316 million, are at the same level as at the end of 2015. The shortfall of regulatory reserves[18] as of 31.03.2016 amounts to KM 203 million, slightly down by 1% or KM 1 million compared to the end of 2015.

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

DESCRIPTION	31.12.2014		31.12.2015		31.03.2016		INDEX	
	Amount	Struct. %	Amount	Struct.%	Amount	Struct.%		
1.	2	3	4	5	6	7	8 (4/2)	9 (6/4)
Loans	9 725 304[19]	84.1	10 186 613	84.1	10 284 882	83.8	105	101
Interest	74 573	0.6	71 680	0.6	71 315	0.6	96	99
Past due receivables	1 184 588	10.2	1 161 853	9.6	1 156 571	9.4	98	99
Receivables on paid guarantees	26 218	0.3	24 648	0.2	24 257	0.2	94	98
Other facilities	194 440	1.7	139 457	1.1	225 590	1.8	72	162
Other assets	361 666	3.1	526 871	4.4	512 391	4.2	147	97
1. RISK-BEARING BALANCE SHEET ASSETS	11 566 789	100.0	12 111 122	100.0	12 275 006	100.0	105	101
2. NON-RISK BEARING BALANCE SHEET ASSETS	5 806 579		6 289 910		6 139 284		108	98
3. GROSS BALANCE SHEET ASSETS (1+2)	17 373 368		18 401 032		18 414 290		106	100
4. RISK-BEARING OFF-BS ITEMS	2 552 267		2 739 691		2 680 356		107	98
5. NON-RISK BEARING OFF-BS ITEMS	411 161		507 914		550 297		124	108
6. TOTAL OFF-BS ITEMS (4+5)	2 963 428		3 247 605		3 230 653		110	99
7. RISK-BEARING ASSETS WITH OFF-BS ITEMS (1+4)	14 119 056		14 850 813		14 955 362		105	101
8. NON-RISK BEARING ITEMS (2+5)	6 217 740		6 797 824		6 689 581		109	98
9. ASSETS WITH OFF-BS ITEMS (3+6)	20 336 796		21 648 637		21 644 943		106	100

Gross balance sheet assets[20] amount to KM 18.4 billion and are at the same level as at the end of 2015. Risk-bearing balance sheet assets amount to KM 12.3 billion or 67% of gross balance sheet assets (thus being up by 1% or KM 164 million compared to the end of 2015). Non-risk bearing balance sheet assets amount to KM 6 billion and are down by 2% or KM 151 million compared to the end of the previous year.

Off-balance sheet risk-bearing items amount to KM 2.7 billion, down by 2% or KM 59 million, while non-risk bearing items amount to KM 550 million and are up by 8% or KM 42 million compared to the end of 2015.

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[16] Assets, as defined in Article 2 of the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks („Official Gazette of the Federation of B&H", No. 85/11 – consolidated text and 33/12 – correction, 15/13).
[17] Required regulatory reserves represent a positive difference between calculated loan loss reserves and value adjustments (calculated loan loss reserves are higher than value adjustments).
[18] Shortfall of regulatory reserves represents a positive difference between required and formed loan loss reserves.
[19] This does not include the loan amount of KM 180 million covered by a cash deposit (included in non-risk bearing assets of the balance sheet).
[20] 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 the first quarter of 2016, banks recorded slight credit growth of 1% or KM 88 million (4% or KM 440 million in 2015). As of 31.03.2016, loans amounted to KM 11.7 billion, with a share of 67.9% (+0.4 percentage points).

In the first quarter of 2016, a total of KM 1.9 billion of new loans was approved, up by 5% or KM 82 million compared to the same period of the previous year. Out of the total loans approved, 70% relate to the corporate segment and 26.7% to the retail segment (at the end of 2015: 68% corporate, 27% retail). The maturity structure of the newly-approved loans: 44% long-term loans, 56% short-term loans (at the end of 2015: 47% long-term loans, 53% short-term loans).

The three largest banks in the Federation of B&H have an aggregate amount of approved loans of KM 6.4 billion, thus holding a share of 54% in total loans at the banking system level.

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

- in KM 000 -

Table 20: *Loan Structure by Sector*

SECTORS	31.12.2014		31.12.2015		31.03.2016		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Government institutions	190 401	1.7	250 805	2.2	247 975	2.1	132	99
Public companies	253 057	2.3	269 507	2.3	241 268	2.1	106	89
Private companies and enterprises	5 216 068	46.7	5 328 591	45.9	5 406 329	46.2	102	101
Banking institutions	10 449	0.1	5 701	0.0	5 286	0.0	55	93
Non-banking financial institutions	43 424	0.3	41 542	0.4	46 689	0.4	96	112
Retail	5 448 307	48.8	5 705 684	49.1	5 741 623	49.1	105	101
Other	8 571	0.1	8 914	0.1	9 088	0.1	104	102
TOTAL	11 170 277	100.0	11 610 744	100.0	11 698 258	100.0	104	101

In the loan structure by sector, there are two dominant sectors: retail and corporate, while lending to other sectors is negligible. In the first quarter of 2016, retail loans went up by 1% or KM 36 million, while their share remained at the same level (49.1%). They amounted to KM 5.7 billion as of 31.03.2016. Loans to private companies amount to KM 5.4 billion, also slightly up by 1% or KM 78 million, with the share being up from 45.9% to 46.2%.

According to information submitted by the banks (as of 31.03.2016) regarding the retail loan structure by purpose: consumer loans[21] hold a share of 78.9%, followed by housing loans with 18.8%, while the remaining 2.3% refer to loans to small crafts, small businesses and agriculture (at the end of 2015: 78.5% consumer loans, 19% housing loans, and 2.5% small crafts, small businesses and agriculture).

The three largest banks in the system have approved 61.8% of retail loans and 45.1% of loans to private companies out of the total number of loans approved to these segments (at the end of 2015: 62% retail, 45.6% private companies).

The currency structure of loans: the largest share of 62% or KM 7.3 billion refers to currency clause loans (EUR: KM 7.1 billion or 97%, CHF: KM 194 million or 2.7%), followed by local currency loans with a share of 37% or KM 4.3 billion, while the smallest share of just 1% or KM 64 million refers to foreign currency loans (almost the entire amount thereof refers to EUR: KM 59 million or 92%). The

[21] Including cards business

total amount of loans with a currency clause in CHF of KM 194 million has a 1.7% share in the total loan portfolio and refers almost entirely to one bank in the banking system.

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

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

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

Classification category	31.12.2014			31.12.2015			31.03.2016			INDEX	
	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL		
1	2	3	4	5	6	7	8	9	10	11(5/2)	12(8/5)
A	11 494 730	81.4	229 895	12 316 066	82.9	246 321	12 464 879	83 3	249 299	107	101
B	955 518	6.8	83 031	950 153	6.4	76 023	955 011	6.4	76 094	99	100
C	272 134	1.9	64 168	301 862	2.0	75 796	266 428	1 8	66 829	111	88
D	523 939	3.7	301 942	426 025	2.9	252 682	424 074	2.8	252 333	81	99
E	872 735	6.2	872 039	856 707	5.8	856 701	844 970	5.7	844 968	98	99
Risk-bearing assets (A-E)	14 119 056	100.0	1 551 075	14 850 813	100.0	1 507 523	14 955 362	100.0	1 489 523	105	101
Classified (B-E)	2 624 326	18.6	1 321 180	2 534 747	17.1	1 261 202	2 490 483	16.7	1 240 224	97	98
Non-performing (C-E)	1 668 808	11.8	1 238 149	1 584 594	10.7	1 185 179	1 535 472	10.3	1 164 130	95	97
Non-risk bearing assets[22]	6 217 740			6 797 824			6 689 581			109	98
TOTAL (risk-bearing and non-risk bearing)	20 336 796			21 648 637			21 644 943			106	100

The first indicator and a warning sign of potential problems with loan repayment is an increase in past due receivables and their share in total loans. In the first quarter of 2016, past due receivables fell by 1% or KM 6 million (the aforementioned went down by 2% or KM 24 million in 2015). As of 31.03.2016, past due receivables amounted to KM 1.2 billion, while the share decreased slightly from 10.2% to 10.1%.

When analysing the quality of risk-bearing assets through trends and changes of key indicators, it can be concluded that key indicators of asset quality improved slightly in the first quarter of 2016 compared to the end of 2015. In some banks, these indicators showed slight oscillations (upgrade or downgrade), i.e. there were nine banks with ratios of the share of classified (compared to risk-bearing assets) below the level of the banking sector, while there were seven banks with ratios of the share of non-performing assets (compared to risk-bearing assets) below the level of the banking sector.

As of 31.03.2016, classified assets amounted to KM 2.5 billion and non-performing assets to KM 1.5 billion.

Classified assets (B-E) decreased by 2% or KM 44 million (in 2015, there was a drop of 3% or KM 90 million). Category B remained at the same level compared to the end of 2015, while non-performing assets (C-E) went down by 3% or KM 49 million (in 2015, non-performing decreased by 5% or KM 84 million).

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

The ratio expressed through the share of classified assets in risk-bearing assets is 16.7%, and the drop of 0.4% compared to the end of 2015 is mostly the result of an increase in risk-bearing assets by 1% or KM 104 million.

The most significant indicator of asset quality is the ratio between non-performing assets and risk-bearing assets, amounting to 10.3%, which is down by 0.4% compared to the end of 2015. However, this should be taken with a grain of salt due to the share of category B being 6.4% and due to the suspicion that a part of the loans classified in this category are of poor quality and need to be classified as non-performing assets.

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

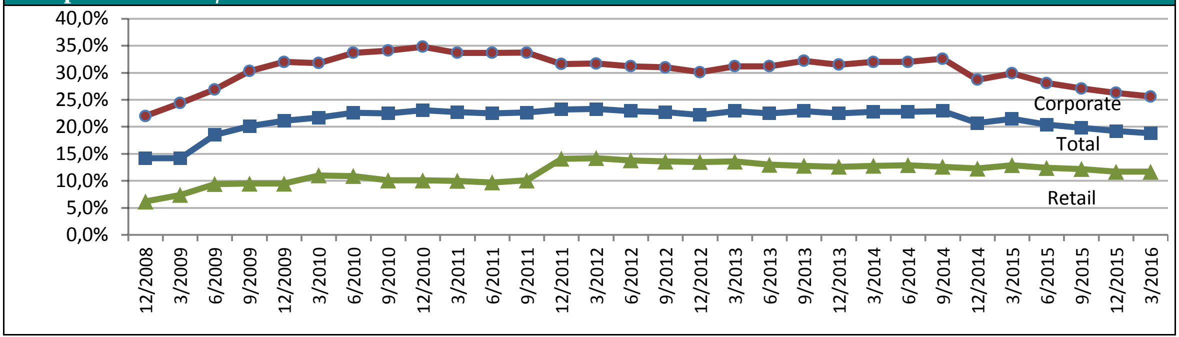
Table 22: *Classification of Corporate and Retail Loans*

Classification category	31.12.2015						31.03.2016						
	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	5 036 775	88.3	4 349 749	73.7	9 386 524	80.8	5 070 743	88.3	4 431 173	74.4	9 501 916	81.2	101
B	154 179	2.7	568 108	9.6	722 287	6.2	166 544	2.9	574 326	9.6	740 870	6.3	103
C	71 098	1.3	223 704	3.8	294 802	2.5	66 972	1.2	192 307	3.2	259 279	2.2	88
D	87 497	1.5	324 282	5.5	411 779	3.6	86 736	1.5	325 744	5.5	412 480	3.5	100
E	356 132	6.2	439 220	7.4	795 352	6.9	350 627	6.1	433 086	7.3	783 713	6.8	98
TOTAL	5 705 681	100.0	5 905 063	100.0	11 610 744	100.0	5 741 622	100.0	5 956 636	100.0	11 698 258	100.0	101
Class. loans. B-E	668 906	11.7	1 555 314	26.3	2 224 220	19.2	670 879	11.7	1 525 463	25.6	2 196 342	18.8	99
Non-perf. loans C-E	514 727	9.0	987 206	16.7	1 501 933	12.9	504 335	8.8	951 137	16.0	1 455 472	12.4	97
		49.1		50.9		100.0		49.1		50.9		100.0	
Individual sector's share in classified loans, non-performing loans and category B:													
Categories B-E		30.1		69.9		100.0		30.5		69.5		100.0	
Non-performing C-E		34.3		65.7		100.0		34.7		65.3		100.0	
Category B		21.3		78.7		100.0		22.5		77.5		100.0	

Loan quality indicators improved slightly in the first quarter of 2016 compared to the end of the previous year and the share of classified loans dropped to a still high 18.8% (-0.4 percentage points), due to a decrease in the aforementioned in the amount of 1% or KM 28 million, with the corporate segment being down by 2% or KM 30 million, while the retail segment remained at the same level.

The share of non-performing loans, as a key indicator of loan quality, decreased from 12.9% to 12.4%. Total non-performing loans are down by 3% or KM 46 million compared to the end of 2015 (KM 20 million of which refers to the permanent write-off), as a result of a decrease in non-performing corporate loans by 4% or KM 36 million and non-performing retail loans by 2% or KM 10 million. Credit growth in the amount of 1% or KM 88 million also had a positive effect on the improvement of this indicator.

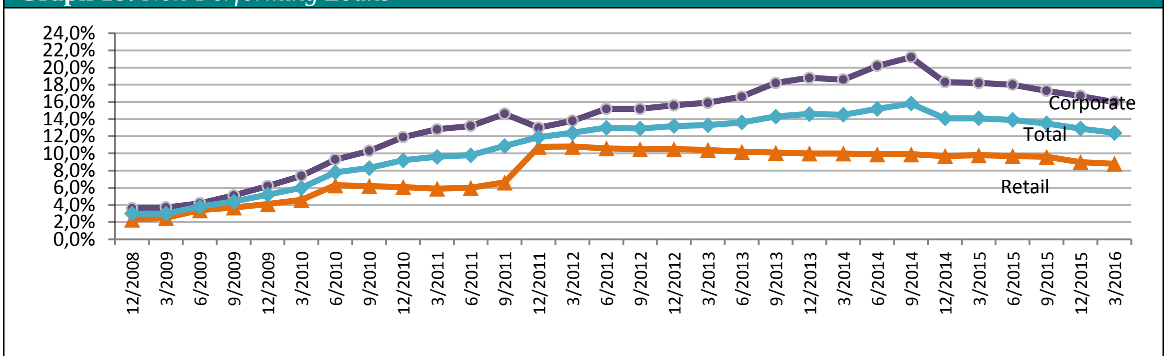
Graph 17: *Classified Loans*



Out of the total approved corporate loans in the amount of KM 5.96 billion as of 31.03.2016, there was still an alarmingly high 25.6% or KM 1.5 billion of loans classified within categories B to E, which is a 0.7% decrease compared to the end of 2015 (in 2015, this share went down by 2.4 percentage points). This indicator is much better for the retail segment. Out of the total approved retail loans in the amount of KM 5.7 billion, there were KM 671 million or 11.7% of loans classified in the aforementioned categories, which is the same share as at the end of 2015 (in 2015, this share went down by 0.6 percentage points).

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

Graph 18: *Non-Performing Loans*



The most significant indicator of the loan portfolio quality is the share of non-performing loans. Out of total non-performing loans, corporate loans hold a share of 65% and retail loans a share of 35% (at the end of 2015: 66% corporate, 34% retail). In the first quarter of 2016, the share of non-performing loans in both the retail and the corporate segment dropped. Out of total approved corporate loans, non-performing loans hold a share of 16% or KM 951 million, which is down by 0.7 percentage points compared to the end of 2015 (this share fell by 1.6 percentage points in 2015). The aforementioned amounts to 8.8% or KM 504 million in the retail segment, down by 0.2 percentage points (the share dropped by 0.7 percentage points in 2015).

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

Table 23: *Concentration of Loans by Industry Sector*

DESCRIPTION	31.12.2015		31.03.2016		INDEX
	Total loans	Non-performing loans	Total loans	Non-performing loans	

	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5 (4/2)	6	7	8	9 (8/6)	10 (6/2)	11(8/4)
1. Corporate loans for:										
Agriculture (AGR)	121 964	1.1	20 754	17.0	121 222	1.0	20 331	16.8	99	98
Production (IND)	1 662 318	14.3	352 021	21.2	1 681 342	14.4	338 008	20.1	101	96
Construction (CON)	437 853	3.8	116 850	26.7	381 648	3.3	78 218	20.5	87	67
Trade (TRD)	2 298 963	19.8	303 715	13.2	2 331 471	19.9	288 049	12.4	101	95
Catering (HTR)	196 355	1.7	24 929	12.7	215 430	1.8	24 098	11.2	110	97
Other[23]	1 187 610	10.2	168 937	14.2	1 225 523	10.5	202 433	16.5	103	120
TOTAL 1.	5 905 063	50.9	987 206	16.7	5 956 636	50.9	951 137	16.0	101	96
2. Retail loans for:										
General consumption	4 503 904	38.8	301 755	6.7	4 555 552	38.9	300 162	6.6	101	99
Housing	1 088 139	9.3	181 511	16.7	1 079 159	9.3	177 883	16.5	99	98
Business activities (small	113 638	1.0	31 461	27.7	106 911	0.9	26 290	24.6	94	84
TOTAL 2.	5 705 681	49.1	514 727	9.0	5 741 622	49.1	504 335	8.8	101	98
TOTAL (1. +2.)	**11 610 744**	**100.0**	**1 501 933**	**12.9**	**11 698 258**	**100.0**	**1 455 472**	**12.4**	**101**	**97**

The largest share in total corporate loans refers to the trade sector (19.9%) and the production sector (14.4%), while the retail segment is dominated by general consumption loans (38.9%) and housing loans (9.3%) (at the end of 2015: trade 19.8%, production 14.3%, general consumption 38.8% and housing loans 9.3%).

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 3.3% in total loans, still has the highest share of non-performing loans in the amount of 20.5%, with a further downward trend: in the first quarter of 2016, it dropped by 6.2 percentage points (in 2015, it dropped by 2.4 percentage points). Also, the agricultural sector, despite the lowest share of 1%, has a high share of non-performing loans in the amount of 16.8% (12/15: 17%), which fell by 0.2 percentage points compared to the end of the previous year.

However, the focus is on the two sectors with the highest share in total loans – the trade sector (19.9%) and the production sector (14.4%). The amount of loans to the production sector (KM 1.7 billion) was slightly up by 1% or KM 19 million, while non-performing loans decreased by 4% or KM 14 million in the first quarter of 2016, i.e. to the level of KM 338 million, which affected the drop in the share from 21.2% to 20.1% (in 2015, the drop amounted to 7% or KM 25 million, and the share amounted to 21.2%, down by 2.4 percentage points). On the other hand, trade sector lending was up by 1% or KM 32 million in the first quarter of 2016, i.e. to the level of KM 2.3 billion. Non-performing loans in this sector went down by 5% or KM 16 million, amounting to KM 288 million as of 31.03.2016, while the share amounted to 12.4%, down by 0.8 percentage points (in 2015, a drop of 13% or KM 46 million was recorded and the share dropped from 15.4% to 13.2%), which is a significantly better indicator compared to that of the production sector.

The retail segment is dominated by general consumption loans, which also have the largest share in total loans (38.9%). In the first quarter of 2016, these loans recorded a slight increase in the amount of 1% or KM 52 million, while housing loans and loans to small business owners went down (by 1% or KM 9 million and 6% or KM 7 million, respectively). The poorest indicator of the non-performing loans share in the amount of 24.6% (at the end of 2015: 27.7%) refers to loans to small business owners

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

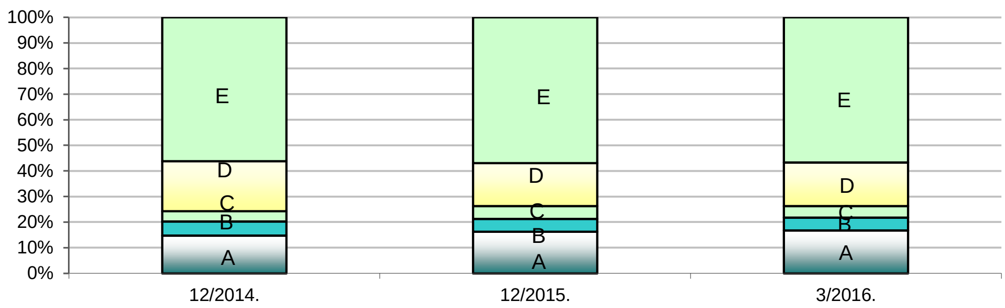
whose share in total loans is a low 0.9%. A relatively high share of non-performing loans in the amount of 16.5% refers to housing loans (at the end of 2015: 16.7%), while general consumption loans hold the lowest share of non-performing loans in the amount of 6.5% (at the end of 2015: 6.7%).

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

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

Classification category	AMOUNT (in KM 000) AND STRUCTURE (in %)						INDEX	
	31.12.2014		31.12.2015.		31.03.2016			
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
A	229 895	14.8	246 321	16.3	249 299	16.7	107	101
B	83 031	5.4	76 023	5.0	76 094	5.1	92	100
C	64 168	4.1	75 796	5.0	66 829	4.5	118	88
D	301 942	19.5	252 682	16.7	252 333	17.0	84	100
E	872 039	56.2	856 701	57.0	844 968	56.7	98	99
TOTAL	1 551 075	100.0	1 507 523	100.0	1 489 523	100.0	97	99

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



Based on an analysis of the calculated loan loss reserves (in aggregate terms and by classification category) compared to the end of 2015, the reserves for general credit risk (category A) and potential loan losses went down by 1% or KM 18 million and stand at KM 1.5 billion. The reserves for general credit risk are up by 1% or KM 3 million, while the reserves for potential loan losses are down by 2% or KM 21 million compared to the end of 2015. The reserves for category B remained at the same level of KM 76 million, while the reserves for non-performing assets are down by 2% or KM 21 million, i.e. amount to KM 1.2 billion, mostly on the basis of the reserves for category C and E being down by 12% or KM 9 million and 1% or KM 12 million, respectively.

One of the key indicators of asset quality is the ratio between potential loan losses (PLL) and risk-bearing assets with off-balance sheet items. This ratio amounts to 8.3% and is down by 0.2% compared to the end of 2015.

As of 31.03.2016, banks had an average calculated reserves in the amount of 8% for category B, 25% for category C, 59% for category D and 100% for category E, as was the case at the end of 2015.[24]

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

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

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

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

Description	AMOUNT (in KM 000) AND SHARE (in %)				INDEX
	31.12.2015		31.03.2016		
	Amount	Share	Amount	Share	
1	2	3	4	5	6 (4/2)
1. RISK-BEARING ASSETS (a+b)	**14 850 813**	**100.0%**	**14 955 362**	**100.0%**	101
a) Default items	**1 681 006**	11.3%	**1 604 339**	10.7%	95
a.1. BS-items in default	1 662 958		1 589 415		96
a.2. off-BS items in default	18 048		14 924		83
b) Performing assets	**13 169 807**	88.7%	**13 348 023**	89.3%	101
1.1 TOTAL VALUE ADJUSTMENTS FOR RISK-BEARING ASSETS (a+b)	**1 241 820 100.0%**	**100.0%**	**1 222 452**	**100.0%**	98
a) Value adjustments for default	**1 089 541**	87.7%	**1 064 820**	87.1%	98
a.1. Value adjustment for BS-items in default	1 082 901		1 057 336		98
a.2. reserves for off-BS items in default	6 640		7 484		113
b) Value adjustments for performing assets (IBNR[25])	152 279	12.3%	157 632	12.9%	103
2. TOTAL LOANS (a+b)	**11 610 744**	**100.0%**	**11 698 258**		101
a) Defaulted loans (non-performing loans)	1 605 754	13.8%	1 532 860	13.1%	95
b) Performing loans	10 004 990	86.2%	10 165 398	86.9%	102
2.1. VALUE ADJUSTMENT FOR LOANS (a+b)	**1 153 862**	**100.0%**	**1 131 556**	**100.0%**	98
a) Value adjustments for defaulted loans	1 033 601	89.6%	1 006 382	88.9%	97
b) Value adjustments for performing loans (IBNR loans)	120 261	10.4%	125 174	11.1%	104
Coverage rate of default items	**64.8%**		**66.4%**		
Coverage rate of performing assets	**1.2%**		**1.2%**		
Coverage rate of risk-bearing assets with total value adjustments	**8.4%**		**8.2%**		

In the first quarter of 2016, default loans went down by 5% or KM 73 million (in 2015: down by 7% or KM 115 million), while non-performing loans decreased by 3% or KM 46 million. The share of default loans in total loans is down by 0.7 percentage points and amounts to 13.1% and the share of non-performing loans amounts to 12.4%. The share of all default items in total risk-bearing assets is down by 0.6 percentage points and amounts to 10.7%.

The coverage rate of default items with value adjustments is up and amounts to 66.4% (at the end of 2015: 64.8%) due to the drop in the amount of default (5%) being larger than the drop in value adjustments for default (2%). The coverage rate of non-performing assets with loan loss reserves is slightly up and amounts to 75.8% (at the end of 2015: 74.8%).

The coverage rate of performing assets remains the same and amounts to 1.2%, while the coverage rate of risk-bearing assets with total value adjustments is slightly down and amounts to 8.2% (at the end of 2015: 8.4%). The coverage ratio of risk-bearing assets with total calculated regulatory reserves for loan losses (reserves for general credit risk and special reserves for loan losses) decreased slightly from 10.2% to 10%.

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

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

Acting in accordance with the aforementioned Decision, in the second half of 2014 and out of a total number of 296 received requests for moratoriums on loan commitments, banks in the Federation of B&H approved 207 requests in the total amount of KM 34 million or 70% of the total number of submitted requests for moratoriums. As of 31.03.2016, the balance of the aforementioned loans amounts to KM 7 million, KM 5 million of which refer to legal entities and KM 2 million of which refer to natural persons.

Also, in accordance with the aforementioned Decision, in the second half of 2014 and out of a total number of 285 submitted requests for restructurings of loan commitments, banks in the Federation of B&H approved 190 requests in the total amount of KM 39 million or 67% of the total number of submitted requests for restructurings of loan commitments. As of 31.03.2016, the balance of the restructured loans amounts to KM 46 million, KM 44 million of which refer to legal entities and KM 2 million of which refer to natural persons. Restructured loans also include loans with a grace period following the expiration of the moratorium.

As of 31.03.2016, loans approved in accordance with the aforementioned Decision have a very low share in relation to total loans: moratorium 0.06% and restructuring 0.39%.

The upward trend of uncollectable receivables, i.e. customer defaults in the payment of past due loan commitments, has caused the activation of the guarantor’s obligation in a certain number of defaulted loans (with this form of security). As of 31.12.2009, the Agency has prescribed a report on the repayment of loans by guarantors in order to collect, monitor and analyse information on loans being repaid by guarantors. According to the reports filed by banks in the Federation of B&H as of 31.03.2016, there was a total of 1 160 921 loan accounts, 1 085 of which were being repaid by guarantors (1 359 guranators). The share of loans and number of loan accounts being repaid guarantors in relation to information for the overall system is low and amounts to a mere 0.25% and 0.09%.

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).

The share of non-performing loans in banks that are in majority foreign ownership amounts to 11.3% (12/15: 11.7%), while it amounts to 28.9% (12/15: 30.4%) in “local banks”. This is the result of inadequate and weak systems for credit risk management, especially in relation to the key stage – loan approval, as well as the result of an underdeveloped risk function. Major weaknesses and inefficient practices were also identified in the preventive actions stage, i.e. in the early recognition of problems in loan settlement (servicing), as well as when handling non-performing assets in the interest of reducing such assets through collection or sound restructuring.

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

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

Transactions with Related Entities

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

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

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

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

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

- KM 000 -

Table 26: *Transactions with Related Entities*

Description	LOANS APPROVED[27]			INDEX	
	31.12.2014	31.12.2015	31.03.2016	3/2	4/3
1	2	3	4	5	6
To shareholders with over 5% voting rights, subsidiaries and other related entities	160 135	89 014	92 248	56	104
To members of the Supervisory Board and Audit Board	409	446	562	109	126
To the Management of the bank	1 994	3 023	3 047	152	101
TOTAL	162 538	92 483	95 857	57	104
Contingent and assumed off-balance sheet liabilities	21 826	9 326	8 612	43	92

During the reporting period, loan exposures to related entities increased by 4%, while contingent liabilities decreased by 8% due to reduced exposure with respect to one large bank in the system. Based

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

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

2.2. Profitability

According to data from the income statement, a positive financial result – profit in the amount of KM 73 million (up by 17% or KM 11 million compared to the same period of the previous year) was recorded at the level of the banking system in the Federation of B&H in the first quarter of 2016. The positive effect on the financial result at system level is particularly due to ten banks that had operated positively in the same period of the previous year as well having recorded higher profit (effect KM 10 million), ad well as recorded profit in one bank that had operated at a loss in the previous year (effect KM 4 million). On the other hand, a negative effect in the amount of app. KM 3 million is primarily the result of a loss recorded by two banks that had operated positively in the same period of the previous year.

The key effect on the improved profitability of most banks is primarily the result of the application of a new methodological approach (implementation of IAS 37/39 starting from 31.12.2011), which led to lower value adjustment costs. A significantly better financial result compared to the same period of the previous year is due to an increase in total income, supported by an increase in net interest income (as a result of interest expenses being reduced significantly more than interest income) as well as an increase in operating income (service fees), while, on the other hand, the increase in non-interest bearing expenses was mitigated by significantly lower value adjustment costs.

A positive financial result in the amount of KM 74 million was recorded by 15 banks and it is up by 18% or app. KM 11 million compared to the same period of the previous year. At the same time, an operating loss in the amount of KM 1 million was recorded by two banks, and it is up by 143% or KM 0.7 million compared to the same period of the previous year.

More detailed data is shown in the following table.

- KM 000 -

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

Description	31.03.2014		31.03.2015		31.03.2016	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7
Loss	-3 087	2	-472	1	-1 147	2
Profit	56 727	15	62 814	16	74 223	15
Total	53 640	17	62 342	17	73 076	17

As in other segments, this segment also shows some concentrations: out of the total profit (KM 74 million), 63% or KM 47 million refers to the two largest banks in the system with an assets share of 47% in the banking sector, while the total loss in the amount of KM 1 million mostly (78%) refers to one bank. Analytical data indicates that a total of 11 banks has a better financial result (by KM 14 million), while 6 banks have a poorer financial result (by KM 3 million).

Based on analytical data as well as on indicators for the assessment of profitability quality (i.e. the level of the recorded financial result – profit/loss and ratios used in evaluating profitability, productivity and efficiency of operations, as well as other parameters related to business result assessment), it is evident that the overall profitability of the system has improved, especially with respect to larger banks that recorded greater profit compared to the same period of the previous year. This is primarily the result of the implemented new methodological approach and, in the case of the largest banks, also the result of an increase in income based on service fees. However, a profitability assessment that is based solely on the recorded financial result would not be an adequate assessment since other important factors that affect sustainability and quality of earnings, i.e. profit, should also be taken into account. In that sense, it is of outmost importance to emphasise credit risk and negative trends in asset quality over the past few years, which is evident from the increase in non-performing and uncollectable loans (with it being noted that there was a drop in non-performing loans at the end of 2015, primarily as a result of the significant amount of the permanent write-off, with a slight downward trend in the first quarter of 2016 as well), 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 and suspicion that value adjustments are underestimated and not at an adequate level in some banks.

At system level, total income amounted to KM 231 million, up by 6% or KM 13 million compared to the same period of the previous year, primarily as a result of increased operating income. Total non-interest bearing expenses amount to KM 158 million, with a growth rate of 2% or KM 3 million compared to the same period of the previous year.

Despite the increase in average interest-bearing loans (in the majority of banks) by 3.0% as well as the fact that the increase in non-performing loans was halted in the first quarter of 2016 by a slight drop, the reduced average interest rate on loans, which is the result of a decrease in active interest rates resulted in a slight decrease in terms of interest income. Interest income amounts to KM 188 million, which is approximately the same level compared to the previous year (-0.5% or KM 1 million), with the share in the structure of total income being down from 87.0% to 81.6%. The largest share refers to loan interest income, which amounts to KM 169 million and recorded a nominal drop of 1% or KM 2 million, which resulted in average active interest rates on loans for the reporting period and the share in total income being down from 1.51% to 1.45% and from 78.5% to 73.2%, respectively.

The long-standing downward trend with respect to interest expenses was continued in the first quarter of 2016 as well. Compared to the same period of the previous year, interest expenses had a rate of decrease in the amount of 13% or KM 7 million, which is significantly higher compared to the rate of decrease of interest income (-0.5%). Interest expenses amounted to KM 44 million, and their share in the structure of total income went down from 23.5% to 19.2%. In the structure of interest expenses, it should be noted that interest expenses on deposit accounts, despite the increase in average interest-bearing deposits by 7%, are down by 13% or KM 6 million as a result of the structure of the deposit base (i.e. a larger share of deposits with a lower interest rate), but also as a result of the banks' interest rate policy and the continuous decrease in interest rates on deposits, which ultimately led to average interest rates on deposits for the parallel period being down from 0.49% to 0.40%. Interest expenses on loans taken and other borrowings recorded a decrease of 36% or KM 2 million compared to the same period of the previous year, with the share in total income dropping from 2.3% to 1.4%.

As a result of a decrease in interest expenses (-13%), together with a slight decrease in interest income (-0.5%), net interest income went up by 4% or KM 6 million and amounts to KM 144 million, with its share in the total income structure dropping from 63.5% to 62.5%.

Operating income amounts to KM 87 million and is up by 9% or KM 7 million compared to the same period of the previous year, with its share in the total income structure increasing from 36.5% to 37.6%. Within operating income, the largest share refers to service fees, with them also having recorded the largest increase of 14% or KM 7 million. It can be concluded that banks are compensating for the drop in interest income with a continuous increase in service fees.

Total non-interest expenses amount to KM 158 million and are slightly up (2% or KM 3 million) compared to the same period of the previous year as a result of higher operating expenses together with reduced business and direct expenses that are solely due to reduced value adjustment costs. At the same time, their share in the total income structure decreased from 71.3% to 68.3%. Value adjustment costs amount to KM 15 million and are down by 28% or KM 6 million compared to the same period of the previous year, which had a positive effect on their share in the total income structure being down from 9.4% to 6.4%.

On the other hand, operating expenses in the amount of KM 121 million and with a share of 53% in total income are up by 4% or KM 5 million compared to the parallel period. Salary and contribution costs, as the largest item of operating expenses, remained at the same level, amounting to KM 59 million or 25.7% of total income, while costs of fixed assets went up by 4% or KM 1.5 million. Other operating expenses recorded an increase in the amount of 15% or KM 3 million (with 43% of the increase accounting for one large bank). After the crisis emerged, banks took numerous measures to rationalise costs of operations, primarily to reduce operating expenses, which has partly mitigated adverse effects of the interest income decrease caused by the lower volume of lending activities and decrease in loan portfolio quality.

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

- in KM 000 -

Table 28: *Total Income Structure*

Total income structure	31.03.2014		31.03.2015		31.03.2016		INDEX	
	Amount	%	Amount	%	Amount	%		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
I Interest income and similar income								
Interest-bearing deposit accounts at deposit institutions	1 210	0.4	253	0.1	546	0.2	21	216
Loans and leasing facilities	173 913	65.0	170 739	63.6	168 949	61.4	98	99
Other interest income	18 108	6.8	18 256	6.8	18 883	6.9	101	103
TOTAL	193 231	72.2	189 248	70.5	188 378	68.5	98	100
II Operating income								
Service fees	54 981	20.6	58 016	21.6	65 518	23.8	106	113
Income from FX deals	8 678	3.2	10 815	4.0	9 812	3.6	125	91
Other operating income	10 603	4.0	10 464	3.9	11 345	4.1	99	108
TOTAL	74 262	27.8	79 295	29.5	86 675	31.5	107	109
TOTAL INCOME (I + II)	267 493	100.0	268 543	100.0	275 053	100.0	100	102

Graph 20: *Total Income Structure*

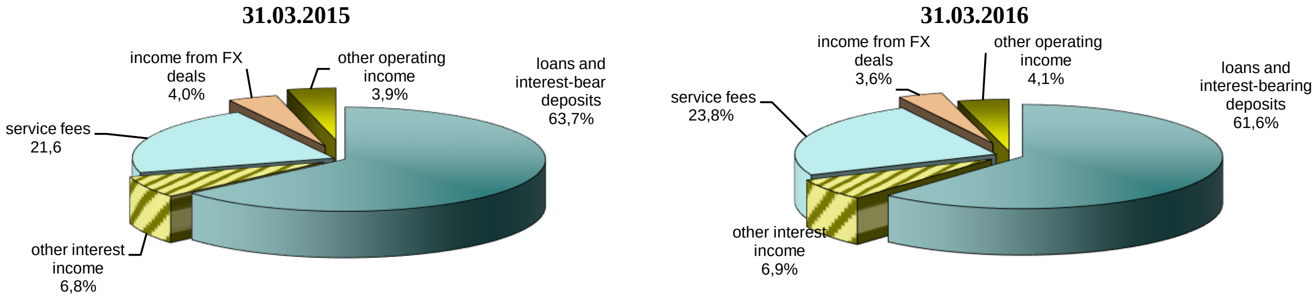
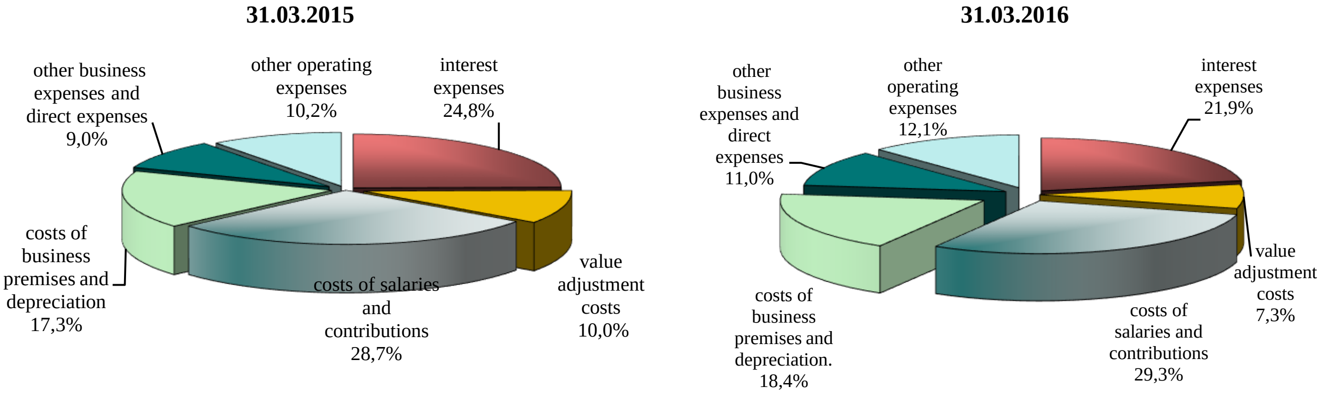


Table 29: *Total Expenses Structure*

Total expenses structure	31.03.2014 Amount	%	31.03.2015 Amount	%	31.03.2016 Amount	%	INDEX 8 (4/2)/	9 (6/4)
1	2	3	4	5	6	7	8 (4/2)/	9 (6/4)
I Interest expenses and similar expenses								
Deposits	49 146	23.0	44 359	21.5	38 601	19.1	90	87
Liabilities based on loans and other borrowings	4 970	2.3	5 065	2.5	3 235	1.6	102	64
Other interest expenses	3 562	1.7	1 619	0.8	2 420	1.2	45	149
TOTAL	57 678	27.0	51 043	24.8	44 256	21.9	88	87
II Total non-interest bearing expenses								
Costs of value adjustment of risk-bearing assets and provisions for contingent liabilities and other value adjustments	22 561	10.5	20 531	10.0	14 740	7.3	91	72
Costs of salaries and contributions	59 901	28.0	59 205	28.7	59 194	29.3	99	100
Costs of business premises and depreciation	35 311	16.5	35 593	17.3	37 106	18.4	101	104
Other business expenses and direct expenses	18 046	8.5	18 734	9.0	22 324	11.0	104	119
Other operating expenses	20 356	9.5	21 095	10.2	24 357	12.1	104	115
TOTAL	156 175	73.0	155 158	75.2	157 721	78.1	99	102
TOTAL EXPENSES (I + II)	213 853	100.0	206 201	100.0	201 977	100.0	96	98

Graph 21: *Total Expenses Structure*



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

- in %-

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

RATIOS	31.03.2014	31.03.2015	31.03.2016
Profit from average assets	0.4	0.4	0.4
Profit from average total capital	2.3	2.5	2.8
Profit from average share capital	4.4	5.0	6.3
Net interest income/average assets	0.9	0.9	0.8
Operating income/average assets	0.5	0.5	0.5
Total income/average assets	1.4	1.4	1.4
Business expenses and direct expenses[28]/average assets	0.3	0.3	0.2
Operating expenses/average assets	0.8	0.7	0.7
Total non-interest bearing expenses/average assets	1.0	1.0	0.9

An analysis of key ratios for the assessment of profitability shows that, due to the larger amount of recorded profit compared to the same period of the previous year as well as the increase in average assets, the ROAA (return on average assets) is at approximately the same level of 0.4%, while the ROAE (return on average equity) increased from 5.0% to 6.3% as a result of reduced average share

[28] Expenses also include value adjustment costs.

capital (largely due to a significant loss coverage in one bank). The banks' productivity, measured as a ratio between total income and average assets (1.4%), remained at approximately the same level due to total income and average assets having recorded almost the same increase.

In negative conditions of the banks' operations and prompted by effects of the economic and financial crisis on the banking sector of the Federation of B&H, the profitability of banks will continue to be mostly affected by and will depend on two key factors: a) the further trend of assets quality, i.e. the level of loan losses and credit risk, and b) the efficiency of management and control over operating income and operating expenses. On the other hand, it is necessary to maintain the upward trend of credit growth in order to increase the banks' profitability, along with applying and strictly observing prudent lending standards when it comes to loan approval. Also, the banks' profit, i.e. their financial result, will be largely affected by the price and interest rate risk in terms of both sources of funding and an interest margin sufficient enough to cover all non-interest bearing expenses and thus eventually ensure satisfactory profit related to capital invested by bank owners. Therefore, a key factor for the efficiency and profitability of every bank is the quality of management and business policies, as well as the quality and efficiency of risk management systems, since this directly affects its performances.

2.3. Weighted Nominal and Effective Interest Rates

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

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

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

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

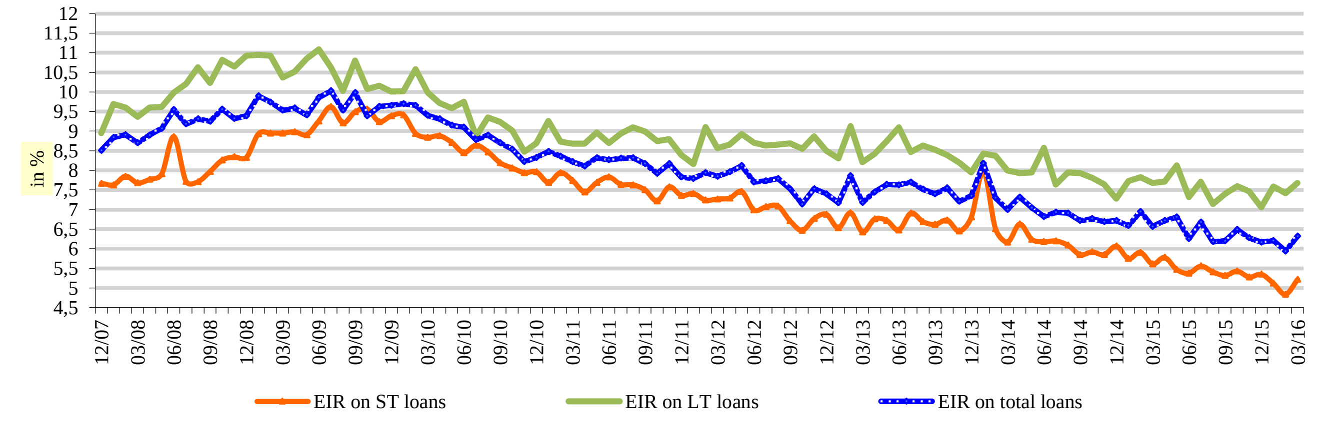
Table 31: *Weighted Average NIR and EIR on Loans*

DESCRIPTION	12/2014		03/2015		06/2015		09/2015		12/2015		03/2016	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	10	11	12	13	10	11	10	11	10	11	12	13
1. Weighted IR on short-term loans	5.58	6.07	5.23	5.62	5.01	5.35	4.94	5.33	4.89	5.35	4.49	5.22
1.1. Corporate	5.55	5.99	5.19	5.50	4.99	5.26	4.90	5.23	4.84	5.25	4.43	5.10

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

1.2. Retail	6.57	8.90	8.09	11.63	7.66	11.47	7.86	11.94	8.21	11.74	7.92	13.40
2. Weighted IR on long-term loans	6.00	7.28	6.85	7.73	6.49	7.24	6.51	7.40	6.18	7.06	6.52	7.68
2.1. Corporate	5.29	6.76	6.31	6.80	5.47	5.84	5.45	5.80	5.31	5.67	5.24	5.61
2.2. Retail	7.50	8.60	7.38	8.54	7.35	8.44	7.32	8.65	7.10	8.55	7.33	8.99
3. Total weighted IR on loans	5.80	6.72	5.98	6.60	5.69	6.21	5.60	6.20	5.51	6.17	5.40	6.32
3.1. Corporate	5.43	6.32	5.45	5.81	5.13	5.43	5.02	5.36	4.99	5.38	4.63	5.22
3.2. Retail	7.44	8.62	7.40	8.64	7.36	8.53	7.34	8.75	7.13	8.64	7.35	9.12

Graph 22: *Weighted Average Monthly EIR on Loans*



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

In the first quarter of 2016, the weighted EIR on loans recorded oscillations within the range of 0.38 percentage points, with the highest rate having been recorded in March (6.32%) and the lowest in February (5.94%). Weighted interest rates on short-term loans also recorded oscillations within the range of 0.38 percentage points, while those on long-term ones were within the range of 0.26 percentage points.

The weighted EIR on short-term loans stood at 5.22% in March 2016, which is down by 0.13 percentage points compared to December 2015, while the weighted EIR on long-term loans amounted to 7.68%, up by 0.62 percentage points compared to December 2015.

Interest rates on loans to the two most important sectors: corporate and retail[31], had opposite trends in the reporting period of 2016. Interest rates on corporate loans recorded a further slight downward trend, while the weighted EIR on retail loans were generally somewhat higher compared to the previous year.

The weighted EIR on corporate loans is still significantly lower than the EIR on retail loans, having amounted to 5.22% in March 2016 (12/2015: 5.38%). In the case of long-term corporate loans, the EIR dropped from 5.67% to 5.61%, while the EIR on short-term loans saw a decrease in the amount of 0.15 percentage points (from 5.25% to 5.10%).

The EIR on retail loans was 9.12% in March 2016, which is up by 0.48 percentage points compared to the level in December 2015. The EIR on short-term loans to this sector increased from the level of

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

11.74% in December 2015 to 13.40%, with it being noted that the level in March 2016 was the highest in 2016, whereas the EIR was below 11% in January and February 2016. The EIR on long-term retail loans recorded a slight increase, having amounted to 8.99% in March 2016, which is up by 0.44 percentage points compared to December 2015.

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

Table 32: *Weighted Average NIR and EIR on Loans per Annum and as of Q1 2016.*

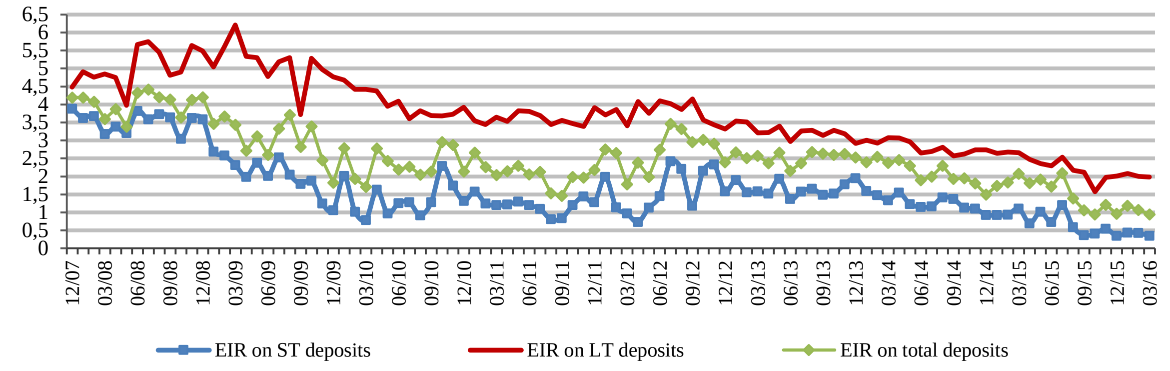
DESCRIPTION	2012		2013		2014		2015		Q1 2016	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	4	5	6	7	4	5	6	7	8	9
1. Weighted IR on short-term loans	6.45	7.01	6.17	6.66	5.72	6.25	5.10	5.50	4.33	4.84
1.1. Corporate	6.43	6.94	6.22	6.66	5.70	6.17	5.07	5.42	4.26	4.70
1.2. Retail	8.41	11.52	8.09	11.08	7.98	11.39	7.84	11.37	7.72	12.21
2. Weighted IR on long-term loans	7.78	8.70	7.66	8.48	6.98	7.80	6.60	7.57	6.45	7.55
2.1. Corporate	6.86	7.51	6.65	7.12	6.19	6.81	5.63	6.20	5.12	5.44
2.2. Retail	8.44	9.57	8.35	9.40	7.66	8.66	7.36	8.65	7.33	8.95
3. Total weighted IR on loans	6.99	7.70	6.82	7.46	6.32	6.98	5.81	6.48	5.23	5.99
3.1. Corporate	6.52	7.07	6.33	6.78	5.84	6.35	5.23	5.64	4.46	4.87
3.2. Retail	8.44	9.68	8.33	9.48	7.68	8.77	7.37	8.74	7.34	9.08

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

Table 33: *Weighted Average NIR and EIR on Deposits*

DESCRIPTION	12/2014		03/2015		06/2015		09/2015		12/2015		03/2016	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on short-term deposits	0.92	0.93	1.10	1.11	0.72	0.73	0.37	0.37	0.34	0.35	0.34	0.35
1.1. up to three months	0.42	0.42	0.27	0.27	0.27	0.27	0.13	0.13	0.21	0.21	0.25	0.25
1.2. up to one year	1.94	1.97	1.38	1.40	1.26	1.28	1.04	1.06	1.18	1.25	0.86	0.87
2. Weighted IR on long-term deposits	2.67	2.74	2.63	2.66	2.25	2.29	2.12	2.12	1.92	2.01	1.97	1.98
2.1. up to three years	2.40	2.48	2.42	2.45	2.21	2.26	1.82	1.83	1.67	1.68	1.88	1.89
2.2. more than three years	3.41	3.43	3.23	3.25	2.33	2.33	2.88	2.89	2.46	2.72	2.29	2.32
3. Total weighted IR on deposits	1.47	1.50	2.06	2.08	1.69	1.72	1.05	1.06	0.92	0.96	0.94	0.95

Graph 23: *Weighted Average Monthly EIR on Deposits*



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

Compared to December 2015, weighted EIR on short-term, long-term and total term deposits recorded only slight changes. The weighted EIR on total term deposits amounted to 0.95%, which is slightly down compared to December 2015.

The weighted EIR on short-term deposits stood at 0.35% in March 2016, the same level as in December 2015. The highest one was recorded in January 2016, when it amounted to 0.44%. The weighted EIR on long-term deposits recorded slight oscillations, amounting to 1.98%, which is slightly lower compared to December 2015 (2.01%).

When analysing the trends of interest rates on short-term deposits by maturity, the EIR on term deposits up to three months increased slightly by 0.04 percentage points compared to December 2015 and amounted to 0.25%. On the other hand, the interest rate on term deposits up to one year recorded a slightly larger drop and amounted to 0.87% (12/2015: 1.25%).

The weighted EIR on long-term deposits up to three years is 1.89%, which represents an increase in the amount of 0.20 percentage points compared to the level in December 2015. The EIR on term deposits over three years was 2.32% in March 2016, down by 0.40 percentage points compared to December 2015, when the aforementioned amounted to 2.72%.

The average EIR on retail deposits is down by 0.10 percentage points compared to December 2015 and amounts to 1.64%. In the corporate sector, the average EIR stood at 1.82% in March 2016 (December 2015: 1.81%).

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

Table 34: *Weighted Average NIR and EIR on Deposits per Annum and as of Q1 2016*

DESCRIPTION	2012		2013		2014		2015		Q1 2016	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on short-term deposits	1.45	1.47	1.65	1.67	1.20	1.23	0.60	0.61	0.40	0.40
1.1. up to three months	0.86	0.88	1.47	1.47	0.79	0.80	0.27	0.28	0.27	0.27

1.2. up to one year	2.55	2.57	1.85	1.87	1.72	1.76	1.25	1.28	0.82	0.85
2. Weighted IR on long-term deposits	3.78	3.81	3.20	3.23	2.79	2.82	2.20	2.23	1.96	1.99
2.1. up to three years	3.69	3.71	2.97	3.00	2.61	2.64	2.08	2.10	1.76	1.79
2.2. more than three years	4.44	4.50	4.15	4.18	3.32	3.34	2.48	2.52	2.49	2.50
3. Total weighted IR on deposits	2.61	2.64	2.51	2.53	2.04	2.07	1.41	1.43	1.04	1.05

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

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

DESCRIPTION	31.12.2014		31.03.2015		30.06.2015		30.09.2015		31.12.2015		31.03.2016	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on overdraft facilities	8.05	8.22	7.90	8.07	7.91	8.08	7.96	8.16	7.81	8.01	7.65	7.85
2. Weighted IR on call deposits	0.13	0.13	0.12	0.12	0.11	0.11	0.09	0.09	0.09	0.09	0.08	0.08

The weighted EIR on total overdraft facilities for the banking sector in March 2016 amounted to 7.85% (down by 0.16 percentage points compared to December 2015) and to 0.08% on call deposits (slightly lower compared to December 2015). As a rule, the EIR on these assets and liabilities items is equal to the nominal interest rate.

2.4. Liquidity

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

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

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

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

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

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

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

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

In the structure of the sources of funding of FB&H banks as of 31.03.2016, the largest share of 76% still refers to deposits, followed by loans taken (including subordinated debt[32]) with a share of 5.7%. Loans taken have longer maturities and represent a quality source for the approval of long-term loans, while also improving the maturity adjustment of assets and liabilities items, although a downward trend of the aforementioned has been evident for an extensive period of time.

On the other hand, the maturity structure of deposits is much more unfavourable,[33] with changes in the direction of trends in the past few years being present. After improving and an increase in the share of long-term deposits in the period from 2011 to 2013, 2014 saw a stagnation, while a slight deterioration was recorded in 2015, which continued in the first quarter of 2016 as well.

- in KM 000 -

Table 36: *Maturity Structure of Deposits by Contractual Maturity*

DEPOSITS	31.12.2014		31.12.2015		31.03.2016		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and call deposits	5 771 888	47.6	6 645 840	50.8	6 727 681	51.4	115	101
Up to 3 months	279 332	2.3	266 464	2.0	237 086	1.8	95	89
Up to 1 year	701 041	5.8	679 876	5.2	657 536	5.0	97	97
1. Total short-term deposits	6 752 261	55.7	7 592 180	58.0	7 622 303	58.2	112	100
Up to 3 years	3 437 563	28.3	3 502 798	26.7	3 463 875	26.5	102	99
More than 3 years	1 940 922	16.0	2 004 005	15.3	2 006 765	15.3	103	100

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

[33] As per remaining maturity.

2. Total long-term deposits	5 378 485	44.3	5 506 803	42.0	5 470 640	41.8	102	99
TOTAL (1 + 2)	12 130 746	100.0	13 098 983	100.0	13 092 943	100.0	108	100

As of 31.03.2016, total deposits are at the same level of KM 13.1 billion, as was the case at the end of 2015, with changes in their sectoral structure, which is mostly due to retail deposits being up by 2% or KM 181 million, and, on the other hand, due to deposits of banking institutions being down by 13% or KM 99 million, deposits of private companies being down by 3% or KM 60 million, and deposits of government institutions being down by 6% or KM 57 million. With a share of 58.4%, retail deposits are the largest sectoral source of funding of banks in the FB&H.

The maturity structure of deposits with contractual maturity has had a continuous slight downward trend since 2012. In the first quarter of 2016, the share of short-term deposits increased slightly from 58.0% to 58.2%, while the share of long-term deposits decreased from 42% to 41.8%.

Changes in the maturity structure stem from a decrease in long-term deposits by 1% or KM 36 million as a result of a drop in deposits up to three years by 1% (mostly the sector of non-banking financial institutions and public companies), while deposits with a term over three years increased slightly by KM 3 million, largely on the basis of retail deposits and deposits of public companies being up. Short-term deposits are up by KM 30 million, largely related to an increase in retail deposits by KM 160 million, deposits of non-banking financial institutions by KM 39 million, and deposits of public companies by KM 19 million, while a decrease was recorded mostly with respect to banking institutions (by KM 86 million), government institutions (by KM 58 million), and private companies (by KM 54 million). It should be noted that long-term deposits are still dominated by two segments: retail, with the share increasing from 68.4% to 69.3%, and public companies, with an unchanged share of 9%. In deposits with a term from one to three years, the largest share of 72.7% (+1.1 percentage points) is held by retail deposits, followed by public companies (12.3%, with the share being down by 0.3 percentage points). Deposits over three years mostly consist of retail deposits (63.4%, up by 0.4 percentage points), while deposits of banking institutions, with a long-lasting trend of decrease that has slowed down somewhat, have a share of 15.4% (at the end of 2015: 15.9%).

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

- in KM 000 -

Table 37: *Maturity Structure of Deposits by Remaining Maturity*

DEPOSITS	31.12.2014		31.12.2015		31.03.2016		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and call deposits (up to 7 days)	5 874 183	48.4	6 852 863	52.3	6 933 853	52.9	117	101
7- 90 days	898 335	7.4	770 687	5.9	750 827	5.7	86	97
91 days to one year	2 054 981	17.0	2 080 342	15.9	2 023 670	15.5	101	97
1. Total short-term deposits	8 827 499	72.8	9 703 892	74.1	9 708 350	74.1	110	100
Up to 5 years	3 150 040	26.0	3 190 290	24.3	3 190 899	24.4	101	100
More than 5 years	153 207	1.2	204 801	1.6	193 694	1.5	134	95
2. Total long-term deposits	3 303 247	27.2	3 395 091	25.9	3 384 593	25.9	103	100
TOTAL (1 + 2)	12 130 746	100.0	13 098 983	100.0	13 092 943	100.0	108	100

Based on the data above, it can be concluded that the maturity structure of deposits by remaining maturity is much worse due to a high share of short-term deposits in the amount of 74.1%, with a trend of stagnation in the first quarter of 2016. Compared to the end of 2015, short-term are at the same level, with the same share of 74.1%, with this also being the case when it comes to long-term deposits, which have the same share in total deposits (25.9%). Looking at the structure of long-term deposits, it is evidently dominated by deposits with remaining maturity of up to 5 years (94.3% of long-term deposits and 24.4% of total deposits). Although the reduction of deposits with remaining maturity of over 5 years was halted in 2014, when a moderate increase of 17% or KM 23 million was recorded, with an increase in the amount of 34% or KM 52 million recorded in 2015, there was a decrease in the amount of 5% or KM 11 million in the first quarter of 2016. When comparing information on deposit maturities by contractual and residual maturity, it can be concluded that out of the KM 5.5 billion of total long-term contracted deposits, there were approximately KM 2.1 billion, i.e. 38%, of long-term contracted deposits with the remaining maturity of up uo one year as of 31.03.2016.

The existing maturity structure of deposits (being the largest source of funding of banks in the Federation of B&H) has become an increasingly limiting factor of credit growth in relation to most banks since they incline more towards approving long-term loans. Therefore, banks are faced with the problem of finding ways to obtain quality sources of funding in terms of maturity, especially due to the considerably reduced inflow of financial assets (borrowings) from abroad, i.e. both from parent groups and financial institutions-creditors, while local sources of funding are mostly short-term. In June 2014, the FBA amended the existing regulations on liquidity.[34] Having previously met the prescribed requirements and obtained the approval of the FBA, banks have the opportunity to use a certain amount (i.e. a corrective amount) of retail call deposits for loans with longer maturities. As of 31.03.2016, five banks are using a corrective amount (KM 357 million) after being granted approval by the FBA, with it being noted that two more banks have applied for the use of the corrective amount. The objective of the regulation amendment is primarily aimed at stimulating credit growth, mostly real sector sector lending, and the effects are expected in the following period.

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

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

- in KM 000 -

Table 38: *Maturity Structure of Loans*

LOANS	31.12.2014		31.12.2015		31.03.2016		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Past due receivables and paid off-balance liabilities	1 210 806	10.8	1 186 501	10.2	1 180 828	10.1	98	99
Short-term loans	2 256 837	20.2	2 283 316	19.7	2 348 949	20.1	101	103
Long-term loans	7 702 634	69.0	8 140 927	70.1	8 168 481	69.8	106	100
TOTAL LOANS	11 170 277	100.0	11 610 744	100.0	11 698 258	100.0	104	101

At the end of the first quarter of 2016, long-term loans were at the same level of KM 8.2 billion and short-term loans were up by 3% or KM 66 million, amounting to KM 2.3 billion, while past due receivables amounted to KM 1.2 billion following a decrease in the amount of 1% or KM 6 million,

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

primarily as a result of a permanent write-off in the amount of KM 20 million, which is yet another indicator of the deterioration of the collection rate of loans due and difficulties that debtors have in servicing liabilities towards banks in the light of the economic crisis. In the structure of past due receivables, 63% refers to private companies, 35% to the retail sector and 2% to other sectors.

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

In the structure of assets, loans, as the key category, still hold the largest share of 67.9%, up by 0.4% compared to the end of 2015, and recorded a slight increase of 1% in the first quarter of 2016. Cash funds decreased by 4% or KM 205 million and their share dropped from 28.3% to 27.0% compared to the end of 2015.

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

- in % -

Table 39: *Liquidity Ratios*

Ratios	31.12.2014	31.12.2015	31.03.2016
1	2	3	4
Liquid assets[35]/total assets	28.5	28.4	27.3
Liquid assets/short-term financial liabilities	49.1	48.4	46.6
Short-term financial liabilities/total financial liabilities	69.3	70.0	70.2
Loans/deposits and loans taken[36]	84.9	82.9	83.8
Loans/deposits, loans taken and subordinated debt[37]	83.9	82.2	83.1

As of 31.03.2016, the ratios were slightly changed compared to the end of 2015.

After deteriorating in 2012, the ratio of loans/deposits and loans taken improved in 2013 (from 88.1% to 86.4%), and the same trend continued in 2014 and 2015 as well. However, as of 31.03.2016, the ratio deteriorated slightly to 83.8% (+0.9 percentage points) as a result of the increase in loans being larger than the increase in deposits. The ratio was above 85% (critical level) with respect to 8 banks. On the one hand, this was the result of their liabilities structure (relatively significant share of capital) and, on the other hand, the result of the high share of loans in assets. During its on-site controls, the Agency paid special attention to banks with identified weaknesses in this business segment and instructed them to take actions and measures to improve the liquidity level, as well as practices of managing sources of funding in order to ensure a satisfactory liquidity position.

In 2015, banks have duly fulfilled the requirement of maintaining the defined level of the required reserve at the Central Bank of B&H.[38] 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

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

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

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

[38] The Decision on Establishing and Maintaining Required Reserves and Determining the Remuneration of the CBBH to Banks on the Reserve Amount was published in the "Official Gazette of B&H", No. 30/16 and will be applied from 1 July 2016.

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.

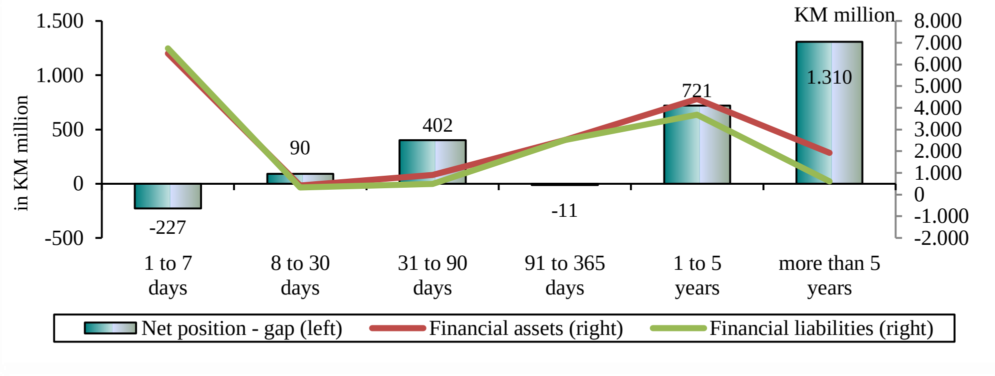
- in KM 000 -

Table 40: *Liquidity Position – 10-Day Average and Daily Minimum*

	31.12.2014	31.12.2015	31.03.2016	INDEX	
	Amount	Amount	Amount		
1	2	3	4	5(3/2)	6(4/3)
1. Average daily balance of cash	4 060 671	4 592 752	4 525 574	113	99
2. Lowest total daily cash balance	3 797 970	4 310 524	4 310 170	114	100
3. Short-term sources of funding (calculation basis)	6 351 607	7 358 839	7 413 863	116	101
4. Amount of liabilities[39]:					
4.1. 10-day average 10% of the amount under item 3	6 35 161	735 884	741 386	116	101
4.2. daily minimum 5% of the amount under item 3	317 580	367 942	370 693	116	101
5. Performance of liabilities: 10-day average[40]					
Surplus = item no. 1 – item no. 4.1.	3 425 510	3 856 868	3 784 188	113	98
6. Performance of liabilities: daily minimum					
Surplus = item no. 2 – item no. 4.2.	3 480 390	3 942 582	3 939 477	113	100

When observing the maturity adjustment of remaining maturities of total financial assets[41] and liabilities, it can be concluded that the adjustment rate is good, although somewhat lower compared to 31.12.2015.

Graph 24: *Maturity Adjustment of Financial Assets and Liabilities as of 31.03.2016*



As of 31.03.2016, short-term financial assets of banks in the amount of KM 10.3 billion were higher than short-term liabilities by KM 253 million. Compared to the end of 2015, when the positive gap amounted to KM 249 million, this represents a slight increase of KM 4 million or 1.9%, with the coverage ratio for short-term liabilities thus remaining unchanged (102.5%).

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

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

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

Short-term financial assets and short-term financial liabilities remained at almost the same level, with changes in individual items. In the structure of short-term financial assets, the largest increase in the amount of 2.2% or KM 94 million was recorded with respect to net loans, followed by cash borrowings to other banks (121.7% or KM 76 million), trading assets (6.2% or KM 55 million), and other financial assets (3.4% or KM 6 million), while a decrease was recorded with respect to cash funds (4.2% or KM 204 million) and securities held to maturity (19.8% or KM 14 million). Financial assets with remaining maturity of over one year remained unchanged.

Liabilities with maturity of up to one year (KM 10.1 billion) also saw slight a change (+0.1%), with changes in the following items: an increase in other financial liabilities (up by 5.4% or KM 11 million) and a decrease in loan commitments (down by 4.6% or KM 8 million). Liabilities with maturity of over one year (KM 4.3 billion) recorded a slight drop in the amount of 0.9% or KM 37 million, primarily as a result of a decrease in loan commitments by 3.9% or KM 29 million.

In addition to the said prescribed minimum standard, a very important aspect of the monitoring and analysis of the liquidity position is the maturity adjustment of remaining maturities of financial assets and liabilities items in accordance with the time scale created to capture a time horizon of 180 days in line with the prescribed minimum limits.[42]

- in KM 000–

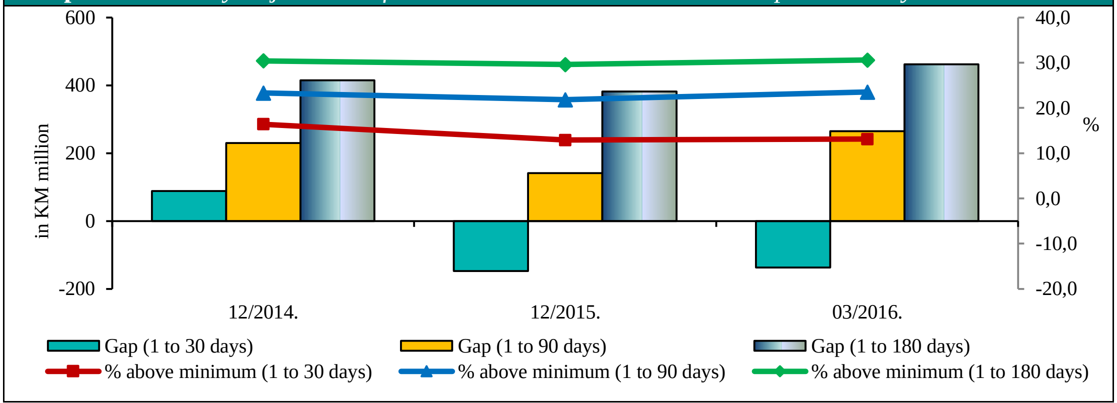
Table 41: *Maturity Adjustment of Financial Assets and Liabilities – up to 180 Days*

Description	31.12.2014 Amount	31.12.2015 Amount	31.03.2016 Amount	INDEX	
1	2	3	4	5 (3/2)	6(4/3)
I. 1- 30 days					
1. Financial assets	6 303 761	6 889 456	6 926 333	109	101
2. Financial liabilities	6 215 782	7 037 944	7 063 538	113	100
3. Difference (+ or -) = 1-2	87 979	-148 488	-137 205	n/a	n/a
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	101.4%	97.9%	98.1%		
b) Prescribed minimum %	85.0%	85.0%	85.0%		
Plus (+) or minus (-) = a - b	16.4%	12.9%	13.1%		
II. 1-90 days					
1. Financial assets	7 132 287	7 762 111	7 823 917	109	101
2. Financial liabilities	6 901 893	7 621 496	7 559 191	107	99
3. Difference (+ or -) = 1-2	230 394	140 615	264 726	61	188
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	103.3%	101.8%	103.5%		
b) Prescribed minimum %	80.0%	80.0%	80.0%		
Plus (+) or minus (-) = a - b	23.3%	21.8%	23.5%		
III. 1-180 days					
1. Financial assets	8 062 506	8 748 138	8 767 423	109	100
2. Financial liabilities	7 647 885	8 365 780	8 305 258	109	99
3. Difference (+ or -) = 1-2	414 621	382 358	462 165	92	121
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	105.4%	104.6%	105.6%		
b) Prescribed minimum %	75.0%	75.0%	75.0%		
Plus (+) or minus (-) = a - b	30.4%	29.6%	30.6%		

Based on the information presented, it is found that, as of 31.03.2016, banks have adhered to prescribed limits and achieved a better maturity adjustment of financial assets and liabilities in relation to the prescribed limits.

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

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

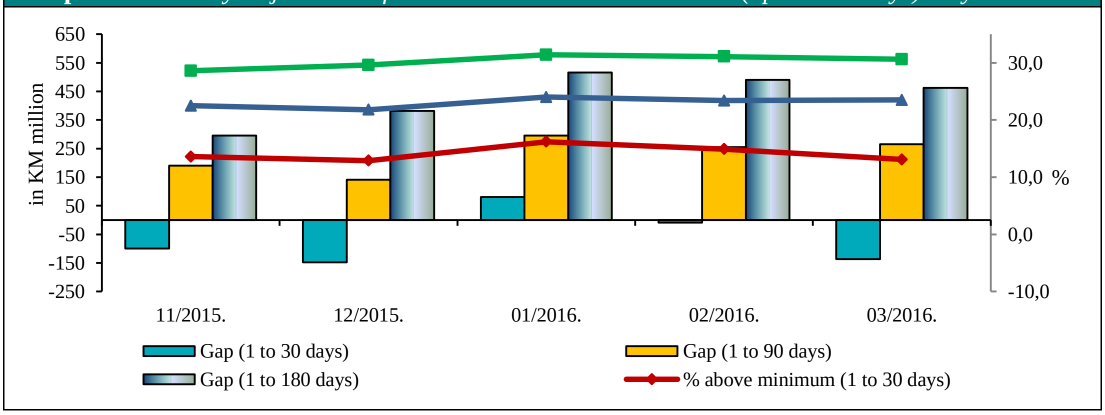


As of 31.03.2016, financial assets in the first period (up to 30 days) were lower than financial liabilities, due to the increase in financial liabilities, primarily deposits and other financial liabilities, being higher than the increase in financial assets (an increase in net loans, trading assets, borrowings to other banks, securities held to maturity and other financial assets; a decrease in cash funds). In the second and third period, financial assets surpassed financial liabilities, due to an increase in assets (primarily an increase in net loans and trading assets) and a decrease in financial liabilities (primarily deposits).

As a result of the aforementioned, the recorded maturity adjustment percentages in all three periods were somewhat higher than at the end of 2015, but still significantly above the prescribed minimum by 13.1% in the first period, 23.5% in the second period, and 30.6% in the third period.

The chart below shows the trend of the maturity adjustment of financial assets and liabilities in the period from November 2015 to March 2016 (by period of time and maturity adjustment percentages in relation to the legally defined minimum standards).

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



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

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

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

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

In order to ensure the implementation and realisation of prudent principles related to FX activities of banks and to reduce FX risk effects on their profitability, liquidity and capital, the Agency has adopted the Decision on Minimum Standards for Foreign Exchange Risk Management in Banks[43], which regulates minimum standards for adopting and implementing the programmes, policies and procedures for FX risk assumption, monitoring, control and management, as well as limits for the open individual and total FX position (long or short) calculated in relation to the core capital of the bank.[44]

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

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

As of 31.03.2016, the currency structure of banks' assets included 10.7% or KM 1.8 billion of foreign currency items (at the end of 2015, these items amounted 11.5% or KM 2 billion). On the other hand, the currency structure of liabilities is quite different since the share of foreign currency liabilities is much higher and equals 40.9% or KM 7 billion (at the end of 2015, this share was 41.5% or KM 7.1 billion).

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

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

[44] Article 7 of the Decision on Minimum Standards for Foreign Exchange Risk Management in Banks defines the following limits: for the individual FX position – up to 30% of the core capital for EUR, up to 20% for other currencies and up to 30% for the total bank position.

- in KM million -

Table 42: *FX Adjustment of Financial Assets and Liabilities (EUR and Aggregate)*[45]

Description	31.12.2015				31.03.2016				INDEX	
	EURO		TOTAL		EURO		TOTAL		EURO	TOTAL
	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %	6/2	8/4
1	2	3	4	5	6	7	8	9	10	11
I. Financial assets										
1. Cash	839	10.6	1 311	15.2	760	9.8	1 159	13.8	91	88
2. Loans	29	0.4	31	0.4	27	0.4	29	0.4	93	94
3. Loans with a currency clause	6 517	82.7	6 623	77.0	6 448	83.1	6 549	78.0	99	99
4. Other	500	6.3	636	7.4	522	6.7	662	7.8	104	104
Total (1+2+3+4)	7 885	100.0	8 601	100.0	7 757	100.0	8 399	100.0	98	98
II. Financial liabilities										
1. Deposits	5 498	72.8	6 153	74.9	5 455	73.1	6 091	75.1	99	99
2. Loans taken	810	10.7	812	9.9	763	10.2	763	9.4	94	94
3.Deposits and loans with a currency clause	1 076	14.2	1 076	13.1	1 061	14.2	1 061	13.1	99	99
4. Other	170	2.3	176	2.1	185	2.5	193	2.4	109	110
Total (1+2+3+4)	7 554	100.0	8 217	100.0	7 464	100.0	8 108	100.0	99	99
III. Off-balance sheet										
1. Assets	37		48		32		98			
2. Liabilities	129		208		178		229			
IV.Position										
Long (amount)	239		225		148		160			
%	12.9%		12.1%		7.9%		8.5%			
Short										
%										
Allowed	30%		30%		30%		30%			
Lower than the allowed level	17.1%		17.9% 23.9%		22.1%		21.5%			

In terms of the structure of foreign currencies, the dominant share among financial assets[46] is held by the EUR with 70.8% (31.12.2015: 69.2%), along with a drop in the nominal amount (from KM 1.4 billion to KM 1.3 billion). The share of the EUR in liabilities is 90.9%, which is somewhat higher compared to the end of 2015, coupled with a decrease in the nominal amount by KM 75 million.

However, FX risk exposure calculation also includes the amount of indexed assets items (loans) and liabilities items[47], which is quite significant on the assets side (78.0% or KM 6.6 billion) and which is somewhat up compared to the end of 2015 (77.0% or KM 6.6 billion). Other FX items on the assets side hold a share of 22.0% or KM 1.8 billion and have the following structure: items in EUR 15.6% or KM 1.3 billion and other currencies 6.4% or KM 0.5 billion (at the end of 2015, other items in EUR held a share of 15.9% or KM 1.4 billion). Out of total net loans (KM 10.6 billion), app. 62.0% have a currency clause (mostly pegged to the EUR – 98.5%).

As for the sources of funding, financial liabilities condition and determine the structure of financial assets items for every currency. The largest share in FX liabilities (KM 8.1 billion) is 79.0% or KM 6.4 billion and refers to items in EUR, mostly deposits (at the end of 2015, the share of liabilities in EUR

[45] Source: Form 5 – FX position.

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

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

amounted to 78.8% or KM 6.5 billion). The share and amount of indexed liabilities in the last five years (with the exception of 2013, when a drop in the amount of 13% or KM 117 million was recorded) have had an upward trend from when they amounted to KM 661 million in 2011, thus having a share of 8%, to the level of KM 1.1 billion (with a 13.1% share) as of 31.03.2016. The increase in indexed liabilities (almost all relate to deposits) is conditioned, on the one hand, by the outflow of deposits and loan commitments in foreign currencies, which have been a source of loans approved with a currency clause, and, on the other hand, by the continuously high amount of loans with a currency clause. In order to maintain the FX adjustment, banks are increasing indexed liabilities items (deposits), with it being noted that most banks have a long FX position.

When observing banks and the banking sector level of the Federation of B&H, it can be concluded that FX risk exposure of banks and the banking system in the first quarter of 2016 was within the defined limits. As of 31.03.2016, the long FX position was recorded with 13 banks and the short position with 4 banks. At system level, there is a long FX position of 8.5% of the total core capital of banks, which is 21.5% below the allowed limit. The individual FX position for the EUR, like the total position, was 7.9%, which is 22.1% 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.

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

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

- take measures and actions within its competences for more secure and stable banking operations and the banking system as a whole and its support to the economy and the population;
- continue with activities within its competences to consolidate the supervision function at state level;
- take measures and actions within its competences for the purpose of implementing measures from the Reform Agenda and the Economic Reforms Programme, which are related to the banking and financial sector;

- work to implement the recommendations of the FSAP Mission in order to improve the quality of banking sector supervision;
- continue with activities to draft a regulatory framework (by-laws) in accordance with the adopted Strategy and Annual Plan for the Drafting of Regulations in order to implement Basel II/III and EU directives and as part of the preparation for B&H's joining of the European Union;
- maintain continuous supervision of banks through on-site and off-site examinations, placing an emphasis on dominant risk segments of banking operations and aiming to improve efficiency by means of:
  - further insistence on capital strengthening in banks, especially in those banks with an above average increase in assets and reduction of the capital adequacy ratio,
  - continuing banking supervision that is of systemic importance for the development of lending activities where large savings and other deposits are concentrated (all for the purpose of protecting depositors);
  - continuing system-based monitoring of banks' activities to prevent money laundering and the financing of terrorism and the improvement of the cooperation with other supervisory and regulatory institutions;
  - reviewing and regularly updating the contingency plan as part of crisis preparations,
  - continuing to develop and implement the Early Warning System tool (EWS) for the purpose of an early identification of financial and operational inefficiencies and/or adverse trends in the banks' operations,
  - monitoring the banks' compliance with laws and regulations and the practices employed in banks in the segment of protecting users of financial services and guarantors,
  - establishing and expanding cooperation with supervisory authorities in countries with investors in the banking sector of the FB&H, as well as with other countries in order to maintain effective supervision,
  - continuing the cooperation with the ECB and the EBA and the exchange of information on banking supervision, as well as with international financial institutions, the IMF, the WB, the EBRD, etc.;
  - improving cooperation with the B&H Banks' Association across all segments of the banking business (e.g. introduction of new products, collection of receivables, functioning of the Central Credit Registry of legal entities and natural persons, daily updating of data, etc.), organising consultations and providing professional assistance in the implementation of banking laws and regulations, improving cooperation in the sense of professional training, proposing amendments to all laws or regulations that have become a limiting factor to the banks' development;
- continue with efforts to improve the information system, as an important prerequisite for efficient and proactive banking supervision, i.e. IT support with the function of early warning and preventive actions with respect to the elimination of weaknesses in the banks' operations;
- continue with the on-going training and professional education of the staff;
- accelerate actions regarding the finalisation of the liquidation processes.

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

- the implementation of activities from the Reform Agenda for Bosnia and Herzegovina for the period 2015-2018;
- the implementation of conclusions reached by the Parliament of the Federation of B&H regarding the establishment of state-level bank supervision;
- the implementation of the Economic Reforms Programme for 2016-2018 (ERP B&H 2016-2018);
- creating and upgrading legislation pertaining to the financial and banking sector, starting with the Basel Principles, Basel Capital Frameworks and European Banking Directives, which refer to the

actions, status and operations of banks, and especially to the drafting and adoption of the new Banking Law and the legal framework for the resolution of banks;
- accelerating the implementation of economic reforms in the real sector of the economy in order for it to approach the level achieved in the monetary and banking sector more rapidly;
- the preparation and adoption of the Law on Asset Management Companies;
- the establishment of special commercial departments within courts;
- the establishment of more efficient enforcement proceedings;
- the establishment of a mechanism for out-of-court debt restructuring of companies;
- the creation and adoption of measures for resolving or mitigating the problem of over-indebted persons;
- the adoption of a law or the improvement of existing legislation regulating the area of safety and protection of money in banks and in transit, etc.

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

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

No.: U.O.-83-2/16
Sarajevo, 30.05.2016

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ANNEX 1

Banks in the Federation of Bosnia and Herzegovina – 31.03.2016

No.	BANKA	Adress		Telephone	Director
1.	BOR BANKA dd - SARAJEVO	Sarajevo	Obala Kulina bana 18	033/278-520, fax:278-550	HAMID PRŠEŠ
2.	BOSNA BANK INTERNATIONAL dd - SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	AMER BUKVIĆ
3.	HYPO ALPE-ADRIA-BANK dd - MOSTAR	Mostar	Kneza Branimira 2b	070/340-341, fax:036/444-235	Privr. direktor SANELA PAŠIĆ
4.	INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Sarajevo	Obala Kulina bana 9a.	033/497-555, fax:497-589	ALMIR KRKALIĆ
5.	INVESTICIONO-KOMERCIJALNA BANKA dd - ZENICA	Zenica	Trg B&H 1	032/448-400, fax:448-501	MIRZA HUREM
6.	KOMERCIJALNO-INVESTICIONA BANKA DD V.KLADUŠA	V.Kladuša	Tone Hrovata bb	037/771-253, fax:772-416	HASAN PORČIĆ
7.	MOJA BANKA dd - SARAJEVO	Sarajevo	Trg međunarodnog prijateljstva br. 25.	033/586-870, fax:586-880	Privr. direktor SAMIR MUSTAFIĆ
8.	NLB BANKA dd - SARAJEVO	Sarajevo	Džidžikovac 1.	033/720-300, fax:035/302-802	SENAD REDŽIĆ
9.	PRIVREDNA BANKA SARAJEVO dd - SARAJEVO	Sarajevo	Alipašina 6	033/277-700, fax:664-175	ADNAN BOGUNIĆ
10.	PROCREDIT BANK dd - SARAJEVO	Sarajevo	Franca Lehara bb	033/250-950, fax:250-971	EDIN HRNJICA
11.	RAIFFEISEN BANK dd BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb.	033/755-010, fax: 213-851	KARLHEINZ DOBNIGG
12.	RAZVOJNA BANKA FEDERACIJE BIH	Sarajevo	Igmanska 1	033/724-930, fax: 668-952	SALKO SELMAN
13.	SBERBANK BH dd - SARAJEVO	Sarajevo	Fra Anđela Zvizdovića 1	033/295-601, fax:263-832	EDIN KARABEG
14.	SPARKASSE BANK dd BOSNA I HERCEGOVINA- SARAJEVO	Sarajevo	Zmaja od Bosne br. 7.	033/280-300, fax:280-230	SANEL KUSTURICA
15.	UNICREDIT BANK dd - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:312-121	IVAN VLAHO
16.	UNION BANKA dd - SARAJEVO	Sarajevo	Dubrovačka 6	033/561-000, fax: 201-567	VEDRAN HADŽIAHMETOVIĆ
17.	VAKUFSKA BANKA dd - SARAJEVO	Sarajevo	M. Tita 13.	033/280-100, fax: 663-399	MIRZET RIBIĆ
18.	ZIRAATBANK BH dd - SARAJEVO	Sarajevo	Zmaja od Bosne 47c	033/252-230, fax: 252-245	ALI RIZA AKBAŞ

ANNEX 2

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

in KM 000

No.	DESCRIPTION	31.12.2014	31.12.2015	31.03.2016
	ASSETS			
1.	Cash and deposit accounts with deposit-taking institutions	4 560 234	4 857 483	4 652 946
1a	Cash and non-interest bearing deposit accounts	618 460	1 058 837	963 298
1b	Interest-bearing deposits accounts	3 941 774	3 798 646	3 689 648
2.	Trading securities	586 704	882 829	937 710
3.	Loans to other banks	50 836	78 420	151 406
4.	Loans, receivables based on leasing facilities and past due receivables	11 170 277	11 610 744	11 698 258
4a	Loans	9 959 429	10 424 207	10 517 396
4b	Receivables based on leasing facilities	42	36	34
4c	Past due receivables based on loans and leasing facilities	1 210 806	1 186 501	1 180 828
5.	Held to maturity securities	214 585	167 377	155 714
6.	Business premises and other fixed assets	491 740	482 817	494 859
7.	Other real estate	34 120	34 077	35 662
8.	Investments in unconsolidated related companies	23 135	22 114	20 230
9.	Other assets	241 737	265 171	267 505
10.	LESS: value adjustments	1 222 838	1 211 451	1 189 286
10a	Value adjustments for Item 4. of the Assets	1 160 481	1 153 862	1 131 556
10b	Value adjustments for Assets items, except for the Item 4.	62 357	57 589	57 730
11.	**TOTAL ASSETS**	**16 150 530**	**17 189 581**	**17 225 004**
	LIABILITIES			
12.	Deposits	12 130 746	13 098 983	13 092 943
12a	Interest-bearing deposits	9 360 082	9 935 353	9 830 626
12b	Non-interest bearing deposits	2 770 664	3 163 630	3 262 317
13.	Borrowings – liabilities due	150	150	150
13a	Past due liabilities			
13b	Past due – invoked off-balance sheet liabilities	150	150	150
14.	Borrowings from other banks			
15.	Liabilities to the Government			
16.	Loan commitments and other borrowings	1 026 503	904 050	867 917
16a	With remaining maturity of up to one year	359 866	161 356	153 994
16b	With remaining maturity of more than one year	666 637	742 694	713 923
17.	Subordinated debt and subordinated bonds	156 233	119 835	119 795
18.	Other liabilities	417 395	468 846	474 079
19.	**TOTAL LIABILITIES**	**13 731 027**	**14 591 864**	**14 554 884**
	CAPITAL			
20.	Permanent preferred shares	11 959	11 709	11 709
21.	Common shares	1 221 591	1 155 783	1 155 783
22.	Issue premiums	136 485	132 667	132 667
22a	Over permanent preferred shares	88	88	88
22b	Over common shares	136 397	132 579	132 579
23.	Undistributed profit and capital reserves	618 214	836 609	981 151
24.	Foreign exchange rate differences			
25.	Other capital	115 520	145 215	73 076
26.	Loan loss provisions formed from profit	315 734	315 734	315 734
27.	**TOTAL EQUITY (20. to 25.)**	2 419 503	2 597 717	2 670 120
28.	**TOTAL LIABILITIES AND EQUITY (19 +26)**	**16 150 530**	**17 189 581**	**17 225 004**
	PASSIVE AND NEUTRAL SUB-BALANCE	**638 913**	**713 765**	**711 058**
	BALANCE SHEET TOTAL OF BANKS	**16 789 443**	**17 903 346**	**17 936 062**

ANNEX 3

OVERVIEW OF ASSETS, LOANS, DEPOSITS AND FINANCIAL RESULTS OF BANKS IN THE FEDERATION OF B&H as of 31.03.2016

in KM 000

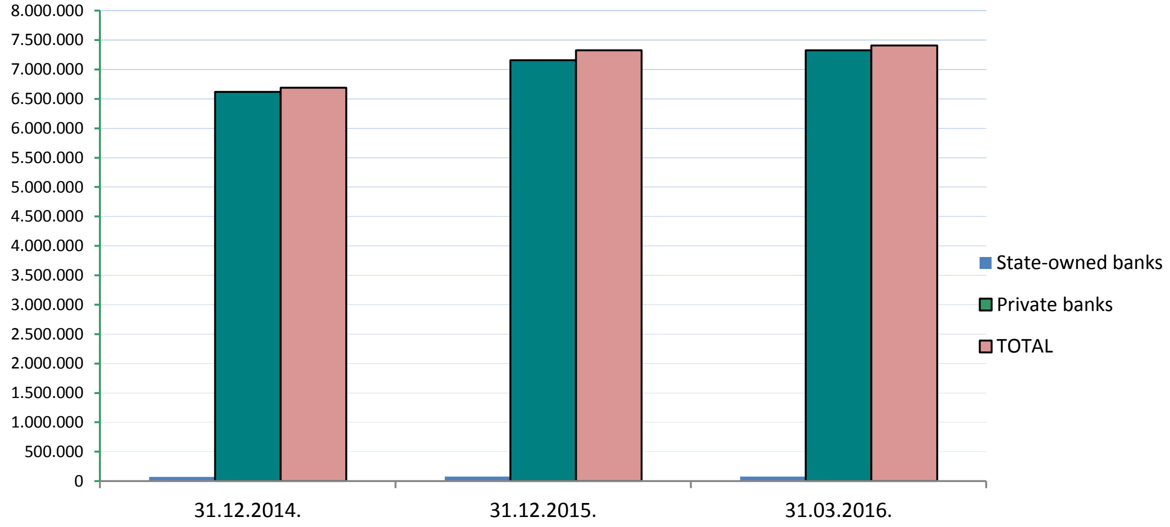
No.	BANK	Assets		Loans		Deposits		Fin. result
		Amount	%	Amount	%	Amount	%	Iznos
1.	BOR Banka d.d. Sarajevo	242 488	1.41%	176 993	1.51%	135 978	1.04%	800
2.	Bosna Bank International d.d. Sarajevo	683 654	3.97%	498 032	4.26%	452 405	3.46%	1 582
3.	Hypo Alpe Adria Bank d.d. Mostar	868 178	5.04%	565 817	4.84%	622 423	4.75%	-893
4.	Intesa Sanpaolo banka d.d. Sarajevo	1 562 793	9.07%	1 221 241	10.44%	1 091 289	8.33%	7 210
5.	Investiciono Komercijalna banka d.d. Zenica	206 150	1.20%	121 636	1.04%	150 405	1.15%	248
6.	Komercijalno Investiciona banka d.d. Velika Kladuša	85 598	0.50%	48 482	0.41%	59 073	0.45%	-254
7.	Moja banka d.d.Sarajevo	198 166	1.15%	132 159	1.13%	166 739	1.27%	311
8.	NLB banka d.d. Sarajevo	958 066	5.56%	659 664	5.64%	780 263	5.96%	4 131
9.	Privredna Banka d.d Sarajevo	158 571	0.92%	102 737	0.88%	131 850	1.01%	93
10.	ProCredit Bank d.d. Sarajevo	402 712	2.34%	322 770	2.76%	258 311	1.97%	291
11.	Raiffeisen Bank dd Bosna i Hercegovina	3 743 575	21.73%	2 230 438	19.07%	2 968 298	22.67%	25 655
12.	Sberbank BH d.d. Sarajevo	1 153 295	6.70%	944 406	8.07%	894 473	6.83%	2 619
13.	Sparkasse Bank d.d. Sarajevo	1 131 933	6.57%	898 006	7.68%	931 176	7.11%	5 767
14.	Union banka d.d. Sarajevo	432 627	2.51%	140 435	1.20%	363 546	2.78%	443
15.	UniCredit bank d.d. Mostar	4 370 057	25.37%	2 919 286	24.95%	3 369 096	25.73%	21 176
16.	Vakufska banka d.d. Sarajevo	265 149	1.54%	197 580	1.69%	223 614	1.71%	291
17.	Ziraatbank BH d.d. Sarajevo	761 992	4.42%	518 576	4.43%	494 004	3.77%	3 606
	TOTAL	**17 225 004**	**100 %**	**11 698 258**	**100 %**	**13 092 943**	**100 %**	**73 076**

ANNEX 4

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

in KM 000

	31.12.2014	31.12.2015	31.03.2016
State-owned banks	73 072	78 771	84 714
Private banks	6 618 891	7 156 178	7 324 777
TOTAL	**6 691 963**	**7 234 949**	**7 409 491**



ANNEX 5

CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET RISK-BEARING ITEMS
as of 31.03.2016
- 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	2 157 710	171 687	10 870	5 509	913	2 346 689
2.	Long-term loans	7 259 163	535 398	229 339	85 628	8 881	8 118 409
3.	Other facilities	222 065	1 473	63	188	1 801	225 590
4.	Accrued interest and fees	36 653	4 572	1 398	4 336	24 356	71 315
5.	Past due receivables	32 711	33 785	19 070	321 146	749 859	1 156 571
6.	Receivables based on paid guarantees				197	24 060	24 257
7.	Other balance sheet assets being classified	471 628	3 468	918	1 885	34 492	512 391
8.	**TOTAL BALANCE SHEET ASSETS BEING CLASSIFIED (sum of items 1 through 7 – calculation basis for regulatory loan loss provisions)**	**10 179 930**	**750 383**	**261 658**	**418 889**	**844 362**	**12 455 222**
9.	**CALCULATED REGULATORY RESERVES FOR LOAN LOSSES BASED ON BS ASSETS**	**199 997**	**62 808**	**65 575**	**249 344**	**844 360**	**1 422 084**
10.	**VALUE ADJUSTMENT FOR BS ASSETS**	**119 558**	**48 611**	**99 581**	**216 256**	**705 280**	**1 189 286**
11.	**REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT FOR PURPOSE OF ASSESSED LOSSES BASED ON BS ASSETS**	**113 721**	**39 525**	**13 477**	**71 074**	**146 087**	**383 884**
12.	**FORMEED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**	**87 032**	**29 572**	**22 304**	**80 427**	**59 757**	**279 092**
13.	**SHORTFALL OF REGULATORY RESERVE FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**						**194 221**
14.	**BALANCE SHEET ASSETS NOT BEING CLASSIFIED (gross book value)**						**5 959 068**
15.	**TOTAL BALANCE SHEET ASSETS (gross book value)**						**18 414 290**

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	3 692 817
14.b	Demand deposits and term deposits up to one month located on accounts of banks with defined investment rating	850 692
14.c	Tangible and intangible assets	513 186
14.d	Financial and tangible assets acquired in the process of collection of receivables (within one year upon such acquisition)	7 927
14.e	Own (treasury) shares	
14.f	Receivables based on overpaid taxes	12 624
14.g	Trading securities	101 452
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	780 370
	TOTAL Item 14	**5 959 068**
8a.	Facilities secured with a cash deposit	180 216

ANNEX 5A

CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET RISK-BEARING ITEMS
as of 31.03.2016
- CLASSIFICATION OF OFF-BALANCE SHEET ITEMS -

in KM 000

No.	OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Payment guarantees	370 050	31 774	3 191	200	3	405 218
2.	Performance guarantees	579 474	97 805	431	4 845	218	682 773
3.	Uncovered letters of credit	39 871	120	108			40 099
4.	Irrevocably approved, but undrawn loans	1 503 648	74 776	1 040	139	242	1 579 845
5.	Other contingent liabilities of the bank	12 988	153		1	145	13 287
6.	**TOTAL OFF-BALANCE SHEDET ITEMS BEING CLASSIFIED (sum of items 1 through 5 – calculation basis for regulatory loan loss provisions)**	**2 506 031**	**204 628**	**4 770**	**5 185**	**608**	**2 721 222**
7.	**CALCULATED REGULATORY RESERVES FOR LOAN LOSSES RELATED TO OFF-BALANCE SHEET ITEMS**	**49 302**	**13 286**	**1 254**	**2 989**	**608**	**67 439**
8.	**LOSS RESERVES FOR OFF-BALANCE SHEET ITEMS**	**24 792**	**2 724**	**923**	**4 366**	**361**	**33 166**
9.	**REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**	**29 225**	**11 785**	**887**	**197**	**253**	**42 347**
10.	**FORMED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**	**23 968**	**10 045**	**1 114**	**1 365**	**150**	**36 642**
11.	**SHORTFALL OF REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**						**11 996**
12.	**OFF-BALANCE SHEET ITEMS NOT BEING CLASSIFIED**						**509 431**
13.	**TOTAL OFF-BALANCE SHEET ITEMS**						**3 230 653**
6a.	**Contingent liabilities secured with a cash deposit**						**40 866**
6b.	**Approved undisbursed loans with a clause on unconditional cancellation**						**469 235**

ANNEX 6

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

in KM 000

No.		DESCRIPTION	31.12.2014	31.12.2015	31.03.2016
1.		**INTEREST INCOME AND EXPENSES**			
	a)	Interest income and similar income			
	1)	Interest-bearing deposit accounts with deposit-taking institutions	3 459	1 574	546
	2)	Loans to other banks	2 199	1 693	413
	3)	Loans and leasing facilities	692 603	689 317	168 949
	4)	Held to maturity securities	7 246	6 393	1 248
	5)	Equity securities	1 307	49	8
	6)	Receivables based on paid-off balance sheet liabilities	7	3	1
	7)	Other interest income and similar income	63 895	67 095	17 213
	8)	**TOTAL INTEREST INCOME AND SIMILAR INCOME**	**770 716**	**766 124**	**188 378**
	b)	Interest expenses and similar expenses			
	1)	Deposits	192 455	172 146	38 601
	2)	Borrowings from other banks	0	0	0
	3)	Borrowings taken – liabilities due	0	0	0
	4)	Liabilities based on loans and other borrowings	18 880	14 823	3 235
	5)	Subordinated debt and subordinated bonds	11 206	7 834	1 909
	6)	Other interest and similar expenses	1 877	1 827	511
	7)	**TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES**	**224 418**	**196 630**	**44 256**
	c)	**NET INTEREST AND SIMILAR INCOME**	**546 298**	**569 494**	**144 122**
2.		**OPERATING INCOME**			
	a)	FX income	45 760	49 261	9 812
	b)	Loan fees	6 658	8 376	2 199
	c)	Fees based on off-balance sheet items	25 160	24 334	5 917
	d)	Service fees	208 544	223 395	57 402
	e)	Trading income	219	290	152
	f)	Other operating income	39 580	42 305	11 193
	g)	**TOTAL OPERATING INCOME a) to f)**	**325 921**	**347 961**	**86 675**
3.		**NON-INTEREST BEARING EXPENSES**			
	a)	Business and direct expenses			
	1)	Costs of value adjustments, risk-bearing assets, provisions for contingent liabilities and other value adjustments	148 251	130 018	14 740
	2)	Other business and direct expenses	80 006	89 577	22 324
	3)	**TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)**	**228 257**	**219 595**	**37 064**
	b)	Operating expenses			
	1)	Costs of salaries and contributions	248 007	248 495	59 194
	2)	Costs of business premises, other fixed assets and utilities	152 243	159 665	37 106
	3)	Other operating expenses	105 326	117 274	24 357
	4)	**TOTAL OPERATING EXPENSES 1) to 3)**	**505 576**	**525 434**	**120 657**
	c)	**TOTAL NON-INTEREST BEARING EXPENSES**	**733 833**	**745 029**	**157 721**
4.		**PROFIT BEFORE TAXES**	**187 898**	**245 939**	**74 223**
5.		**LOSS**	**49 512**	**73 513**	**1 147**
6.		**TAXES**	**21 304**	**26 567**	**0**
7.		**PROFIT BASED ON INCREASE OF DEFERRED TAX FUNDS AD REDUCTION OF DEFERRED TAX LIABILITIES**	**39**	**309**	**0**
8.		**LOSS BASED ON REDUCTION OF DEFERRED TAX FUNDS AND INCREASE OF DEFERRED TAX LIABILITIES**	**1 601**	**953**	**0**
9.		**NET PROFIT 4. - 6.**	**166 388**	**219 594**	**74 223**
10.		**NET LOSS 4. - 6.**	**80 868**	**74 379**	**1 147**
11.		**FINANCIAL RESULT 9.-10.**	**115 520**	**145 215**	**73 076**

ANNEX 7

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

in KM 000

No.	DESCRIPTION	31.12.2014	31.12.2015	31.03.2016
	CORE CAPITAL OF THE BANK			
1.a.	Share capital, reserves and profit			
1.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	1 217 909	1 151 971	1 151 971
1.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	12 550	12 431	12 431
1.3.	Amount of issue premiums earned upon payment of shares	136 485	132 667	132 667
1.4.	General mandatory reserves (reserves mandated by the law)	106 051	163 794	163 794
1.5.	Other reserves from profit after tax based on the decision of the Bank's assembly	409 634	427 706	453 812
1.6.	Retained, undistributed profit from previous years and current year's profit	108 756	122 065	122 065
1.a.	**TOTAL (1.1 to 1.6)**	**1 991 385**	**2 010 634**	**2 036 740**
1.b.	Deductible items from 1.a			
1.7.	Uncovered losses from previous years	122 705	28 371	102 751
1.8.	Current year's loss	50 868	74 379	1 147
1.9.	Book value of own (treasury) shares of the bank	81	102	102
1.10.	Intangible assets in accordance with the applicable accounting framework	41 873	49 837	49 379
1.11.	Amount of deferred tax assets	2 780	1 641	1 550
1.12.	Amount of negative revalorised reserves based on the effect of the change in the fair value of assets	1 282	1 696	2 473
1.b.	TOTAL (1.7. to 1.10)	219 589	156 026	157 402
1.	**AMOUNT OF CORE CAPITAL: (1.a. - 1.b.)**	**1 771 796**	**1 854 608**	**1.879.338**
	SUPPLEMENTARY CAPITAL OF THE BANK			
2.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	3 091	3 090	3 090
2.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	0	0	0
2.3.	General loan loss provisions for the category A – performing assets	229 895	209 071	210 477
2.4.	Amount of positive revalorised reserves based on the effect of the change in the fair value of assets	23 703	9 735	9 759
2.5.	Current year profit – audited and confirmed by an external audit	0		
2.6.	Profit amount for which the FBA issues an order restricting its disbursement	154 814	107 918	108 801
2.7.	Amount of subordinated debt	0	0	0
2.8.	Amount of hybrid convertible items – capital instruments	1 419	1 422	1 422
2.	**AMOUNT OF SUPPLEMENTARY CAPITAL: (2.1 to 2.8)**	**412 922**	**331 236**	**333 549**
	DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL			
3.1.	Portion of invested share capital that, according to the FBA, represents a received, but over-appraised value	0	0	0
3.2.	Capital contributions of other legal entities exceeding 5% of the bank's core capital	1 678	1 007	0
3.3.	Receivables from shareholders with significant voting rights – approved by the bank contrary to Law provisions, FBA regulations and the bank's work policy	1 509	755	757
3.4.	LCRE towards shareholders with significant voting rights in the bank (no FBA approval required)	0	0	0
3.5.	LLP shortfall as per regulatory requirement	199 890	204 559	203 109
3.	**AMOUNT OF DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL: (3.1 to 3.5)**	**203 077**	**206 321**	**203 866**
A.	**NET CAPITAL OF THE BANK (1.+2.-3.)**	**1 981 641**	**1 979 523**	**2 009 021**
B.	**RISK OF BALANCE AND OFF-BALANCE ASSETS**	**11 394 469**	**11 946 433**	**12 009 683**
C.	**WEIGHTED OPERATIONAL RISK**	**982 250**	**976 734**	**1 001 018**
D.	**WEIGHTED MARKET RISK**	**0**	**0**	**0**

E.	**TOTAL ASSETS RISK B+C+D**	**12 376 719**	**12 923 167**	**13 010 701**
F.	**NET CAPITAL RATE (A/E) (% 1 dec.)**	**16.0%**	**15.3%**	**15.4%**

ANNEX 8

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

No.	BANK	31.12.2014	31.12.2015	31.03.2016
1	BOR Banka d.d. Sarajevo	64	66	65
2	Bosna Bank International d.d. Sarajevo	312	341	349
3	Hypo Alpe Adria Bank d.d. Mostar	513	490	469
4	Intesa Sanpaolo banka d.d. Sarajevo	521	537	540
5	Investiciono Komercijalna banka d.d. Zenica	164	125	127
6	Komercijalno Investiciona banka d.d. Velika Kladuša	75	77	76
7	Moja banka d.d.Sarajevo	142	133	123
8	NLB banka d.d. Sarajevo	430	424	433
9	Privredna Banka d.d Sarajevo	164	142	139
10	ProCredit Bank d.d. Sarajevo	291	248	227
11	Raiffeisen Bank dd Bosna i Hercegovina	1 478	1 355	1 345
12	Sberbank BH d.d. Sarajevo	435	420	421
13	Sparkasse Bank d.d. Sarajevo	475	471	477
14	Union banka d.d. Sarajevo	202	181	186
15	UniCredit bank d.d. Mostar	1 216	1 208	1 223
16	Vakufska banka d.d. Sarajevo	231	200	200
17	Ziraatbank BH d.d. Sarajevo	247	265	277
	TOTAL	**6 960**	**6 683**	**6 677**