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

INFORMATION

ON THE BANKING SECTOR ENTITIES OF THE FEDERATION OF BOSNIA AND HERZEGOVINA AS OF 31.12.2017

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BANKING AGENCY OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
Zmaja od Bosne 47b
71000 Sarajevo, Bosnia and Herzegovina

Phone: +387 33 72 14 00
Fax: +387 33 66 88 11
Website: www.fba.ba
E-mail: agencija@fba.ba

For all information, please contact:
BANKING AGENCY OF THE FEDERATION OF BOSNIA AND HERZEGOVINA

Data included in the Information on the Banking System Entities of the Federation of Bosnia and Herzegovina as of: 31.12.2017

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INTRODUCTION

The Banking Agency of the Federation of Bosnia and Herzegovina (hereinafter: the FBA), in accordance with the prescribed competences, performs tasks aimed at preserving and strengthening the stability of the banking system and protecting depositors, as well as improving the safe, high-quality and legal operations of the banking system entities of the Federation of BiH (banks, microcredit organisations, leasing companies, factoring companies, exchange offices and other financial organisations).

As an independent and autonomous institution for bank supervision and licensing, it was founded in the second half of 1996 and its work has been focused on the creation of a strong and stable banking system, market-oriented and relying on international standards of business and supervision of banking system entities.

In 2017, the new Banking Law and the Law on the Banking Agency were adopted, which were the basis for the adoption of a set of regulations in the field of banking sector operations, the main purpose of which is the harmonisation of domestic regulations with EU regulations, which will certainly contribute to the further strengthening of the stability of the banking system of the Federation of BiH.

In accordance with the Banking Law, the FBA's competences refer to: determining and implementing activities and measures in order to preserve and strengthen the stability of the banking system, establishing, implementing and monitoring the system of rules for safe and prudential business operations, which regulates the work of the banking system entities, issuing and revoking operating licences and other relevant acts to the banking system entities, supervising the operations of the banking system entities, supervising the operations of the development bank, adopting acts, supervising and taking necessary measures in relation to the prevention of money laundering and terrorism financing related to the banking system entities, adopting acts and conducting activities aimed at the protection of rights and interests of users of financial services in the banking system, supervising the application of regulations in this field, adopting and updating the resolution plan, determining the fulfillment of the conditions for initiating the bank resolution process, implementing the resolution process, deciding on instruments and measures to be taken in resolution and conducting other resolution activities.

Since the founding of the FBA, it has reached a high level of professionalism, with employees who possess expertise and knowledge in the field of supervision, acquired by conducting supervisory activities and through numerous trainings in the country and abroad.

The legal basis for compiling the Information on the Banking System Entities of the Federation of Bosnia and Herzegovina (hereinafter: the Information) is given in Article 50 of the Law on the Banking Agency, while the data for compiling the Information as of 31.12.2017 were collected on the basis of the final unaudited reports of the banking system entities, as well as other data and information submitted to the FBA by the banking system entities.

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

In terms of content, the Information is divided into three chapters. Chapter I includes a detailed analysis of all business segments of the banking system of the Federation of BiH, which includes factoring data that banks have in their portfolios. Chapter II includes an analysis of the microcredit system of the Federation of BiH, while Chapter III contains a detailed analysis of the leasing system, which includes aggregate data on the leasing sector and data provided in the reports of banks that have receivables for financial leasing in their portfolios.

SUMMARY

Key Business Performance Indicators of the Banking System

15 commercial banks operated in the Federation of BiH as of 31.12.2017, with 533 organisational units in which 6 655 persons were employed.

Total net assets amount to KM 20.2 billion and are up by KM 1.8 billion or 9.9% compared to the end of 2016.

Loans, with a share of 65.2% in the total assets structure, recorded an increase in the amount of 7.4% or KM 909 million, amounting to KM 13.2 billion at the end of the year. In 2017, positive trends were recorded in the segment of sectoral lending, i.e. higher lending to private companies compared to the retail segment.

Loans granted to private companies recorded a growth rate in the amount of 9% or KM 539 million, thus reaching the amount of KM 6.3 billion as of 31.12.2017 and holding a 47.8% share in total loans. In the same period, retail loans recorded a growth rate in the amount of 6% or KM 387 million, while their share decreased slightly from 48.7% to 48.2%. As of 31.12.2017, they amounted to KM 6.4 billion.

The share of non-performing loans in total assets decreased compared to the previous year. The larger increase in the loan portfolio, the decrease in the inflow of new non-performing loans, as well as permanent write-offs, had a positive effect on the ratio of the share of non-performing loans in total loans, which dropped from 11.7% at the end of 2016 to 9.7% as of 31.12.2017.

The share of non-performing corporate loans in relation to total corporate loans amounted to 11.9%, and the share of non-performing retail loans in relation to total retail loans was 7.3%.

Cash funds amounted to KM 5.8 billion or 28.7% of total assets, up by 11.3% or KM 590 million compared to the end of 2016. Significant changes were recorded with respect to investments in securities in 2017, only for them to amount to KM 1.23 billion at the end of 2017, which is the same level as at the end of 2016, with a 6.1% share in assets.

Deposits reached the amount of KM 15.8 billion, having recorded an increase in the amount of 11.6% or KM 1.6 billion, and they remain the most important source of funding, with a 78.3% share in total liabilities. Savings deposits, as the most significant and largest segment of the deposit and financial potential of banks, increased by 4.5% or KM 357 million and amounted to KM 8.25 billion.

The second-largest source in terms of total amount are loan funds with KM 836 million and they hold a 4.1% share in total liabilities.

As of 31.12.2017, total capital amounted to KM 2.9 billion (KM 1.2 billion share capital), which is up by 5.8% or KM 157 million compared to the end of 2016. Regulatory capital amounted to KM 2.5 billion and increased by 8% or KM 180 million without significant changes in its structure.

The capital adequacy ratio of the banking system, as one of the most important indicators of the strength and adequacy of banks' capital, amounted to 15.5% as of 31.12.2017, which is significantly above the legal minimum of 12% and represents satisfactory capitalisation of the overall system and a strong basis for preserving its security and stability.

The financial leverage ratio at the level of the banking system was 9.6% as of 31.12.2017, as was the case at the end of 2016 (prescribed minimum 6%).

The liquidity of the banking system in the Federation of BiH is assessed to be good, with a satisfactory share of liquid assets in total assets and satisfactory maturity adjustment of financial assets and liabilities.

According to the final unaudited data from the income statement, a KM 240 million profit was recorded at the level of the banking system in the Federation of BiH in 2017, up by 39% or KM 67 million compared to the end of 2016.

Key Business Performance Indicators of the Microcredit System

12 microcredit organisations (hereinafter: MCOs) operated in the Federation of BiH as of 31.12.2017, 11 of which are microcredit foundations (hereinafter: MCFs) and one of which is a microcredit company (hereinafter: MCC), which operate through 356 organisational units. 1 399 persons were employed in the microcredit system.

Total assets of the microcredit system amounted to KM 526.9 million, KM 419.6 million of which relate to MCFs and KM 107.3 million relate to the MCC. Compared to the balance as of 31.12.2016, it is up by KM 86.8 million or 20%.

Total loans amounted to KM 411.2 million and account for 78% of total MCO assets. They are up by 9% compared to the end of the previous year.

Loan commitments are the most important source of funding of MCOs, with a share in the amount of 47% of total liabilities and amounting to KM 246 million. The are up by KM 38.1 million or 18% compared to the balance as of 31.12.2016.

Total capital amounts to KM 255.1 million or 48% of total liabilities and it is up by KM 47.4 million or 23% compared to the end of the previous year. The capital MCFs accounts for KM 221.3 million or 86.7% and the capital of one MCC accounts for KM 33.8 million or 13.3%.

At the level of the microcredit system in the Federation of BiH, a positive financial result in the amount of KM 18.6 million was recorded, which is up by KM 2.1 million or 13% compared to the same period of the previous year.

The FBA's activities are particularly focused on system restructuring and adjustment for the purpose of protecting users as well as further strengthening the system.

Key Business Performance Indicators of Leasing Companies

As of 31.12.2017, 6 leasing companies operated in the Federation of BiH. They performed leasing operations in the headquarters of the company as well as in three subsidiaries registered in Republika Srpska. A total of 104 persons are employed in the leasing sector.

Total assets of the leasing sector in the Federation of BiH amounted to KM 260.2 million as of 31.12.2017, down by KM 161.3 million or 38.3% compared to 31.12.2016. The decrease in assets in the amount of KM 146.2 million was mainly due to the status change of one leasing company's merger with its parent bank.

Total capital of the leasing sector as of 31.12.2017 amounted to KM 40.8 million and it was down by KM 5.6 million or 12.1%. All 6 leasing companies reported a total capital amount above the minimum amount prescribed by legal provisions.

The value of newly-concluded financial and operational leasing arrangements agreements recorded at the level of the leasing system in 2017 amounted to KM 145.8 million and it was up by KM 2.2 million or 1.5% compared to the previous year.

Broj novozaključenih lizing ugovora u istom periodu na nivou sistema lizinga je iznosio 3.395, što je za 98 ugovora ili 3,0% više u odnosu na isti period prethodne godine. Podaci o povećanju vrijednosti i broju novozaključenih ugovora u 2017. godini su odraz razvoja i unaprijeđenja lizing proizvoda i blagog porasta privrednih aktivnosti.

The number of newly-concluded leasing arrangements in the same period at the level of the leasing system was 3 395, which is up by 98 agreements or 3.0% compared to the same period of the previous year. Data on the increase in the value and the number of newly-concluded arrangements in 2017 are a reflection of the development and improvement of leasing products and a slight increase in economic activities.

When observed according to the type of lessee, arrangements concluded with legal entities are dominant in the structure of newly-concluded leasing arrangements (94.3% of the total volume of newly-concluded arrangements), while 45.4% refer to the financing of passenger vehicles in the structure of financing by leasing object.

A KM 5 million profit was recorded at the level of the leasing sector in the Federation of BiH.

The recorded results indicate improvement of the situation, adjustment of the system to the needs of the market and possibilities for further development.

I BANKING SYSTEM

1. BANKING SUPERVISION

Starting with the need for global macroeconomic and financial stability, in 1997, the Committee on Banking Supervision in Basel adopted twenty-five core principles for effective banking supervision that were to be followed in order for the supervisory system in banking to be efficient. The core principles are „de facto“ minimum standards for good prudential regulations and supervision of banks and the banking system.

Bearing in mind the significant changes that have taken place on global financial markets and in regulatory environments, the Basel Committee revised the core principles again in September 2012. With this revision, the Core Principles are joined together with the Core Principles of Methodology (assessment methodology) into one comprehensive document.

The number of core principles has been increased from 25 to 29, reorganised into two groups: supervisory powers, responsibilities and functions, focusing on effective risk-based supervision, early intervention and timely supervisory measures (Principles 1-13), and prudential regulations and requirements (Principles 14-29), which include supervisory expectations of banks, stressing the importance of good corporate governance, risk management and compliance with regulatory standards.

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

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

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

In June 2016, as part of the arrangement with the IMF, the governments in BiH signed a Letter of Intent, in which the entity Banking Agencies were designated as the principal bodies in charge of the part of the activities in the area of preserving financial system stability and providing support for credit growth.

In 2017, the FBA actively worked on the execution of activities in accordance with the aforementioned Action Plan, as well as on fulfilling the obligations in accordance with the Letter of Intent.

Banking supervision was realised through an ongoing process of direct (on-site) and indirect (offsite) examinations of banks and direct communication with representatives of banks' managing and governing bodies, external auditors of banks, as well as regulators from countries in which banking groups with subsidiaries in the Federation of BiH are seated, in order to synchronise and coordinate activities as part of the supervision of the banking sector.

In 2017, the examination of the operations of the banking system in the Federation of BiH was intensified through the continuous monitoring of the operations of all banks in the system, especially systemically important banks. With the help of on-site and off-site examination processes, weaknesses in banking operations are identified are initiated, along with extensive examinations of business operations or targeted on-site examinations, with a focus on asset quality, credit risk management and the impact on capital.

The goal of the examinations was to assess the ability of banks to manage key business risks and the compliance of their business operations with the law and the FBA's regulations. The banks on which the FBA imposed specific measures are the focus of special attention, and an assessment of compliance with the imposed measures is made in the follow-up off-site procedure and via direct on-site examinations monitoring the execution of imposed measures.

As a separate segment of on-site examinations, with examinations of the management of risks arising from information systems and the outsourcing of certain activities of banks continued. In 2017, apart from banks, these included the examination of a significant provider of electronic banking services. In 2017, targeted controls in the segment of protection of users of financial services and operations of banks with guarantors also continued, in accordance with the laws and regulations that entered into force in 2013 and 2014.

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

In 2017, as a special supervisory tool, the third round of a detailed asset quality review (AQR), which included eight banks from the Federation of BiH (over 70% share in the banking system of the Federation of BiH), was carried out. The aforementioned activities have been carried out in accordance with the obligations and within the deadlines set in the Letter of Intent. The FBA specifically monitored this process and the implementation of the results of the AQR's findings. The results of the AQR conducted in 2017 showed that the banking sector in the Federation of BiH is adequately capitalised and that the identified individual shortcomings do not have a significant impact on the banking system of the Federation of BiH.

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

During 2017, following the entry into force of the new Banking Law and the Law on the Banking Agency, significant activities were undertaken to develop the regulatory framework, through the drafting of a large number of new regulations – FBA decisions, public discussion with the banking sector on the new regulations through the Banks Association of BiH, the procedure for reviewing and adopting the regulations, in the interest of harmonisation with the new legislation, as well as the implementation of Basel II/III and relevant EU directives. Annex 1 provides an overview of the legal framework for FBA operations.

In cooperation with the Central Bank of Bosnia and Herzegovina (hereinafter: the CBBH) and the Banking Agency of Republika Srpska (hereinafter: BARS), macro stress testing for credit risk and capital impact, based on macroeconomic assumptions, continued, as did informing the banks about the results of the conducted stress tests.

Cooperation aimed at improving the Criteria and Determination of List of Systemically Important Banks continued, as well as the preparation of a draft for a new Methodology for Determination of Systemically

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

In accordance with the obligations arising from the arrangement with the IMF and with the technical assistance of the IMF, the FBA undertook a number of activities to prepare a draft for a new Memorandum of Understanding on Financial Stability (MoU), which would include three pillars: Pillar I – Supervisory cooperation, Pillar II – Cooperation on crisis preparedness and management, and Pillar III – Cooperation on systemic risk control, signed by several institutions: both entity Banking Agencies, the CBBH, the DIA, the Ministry of Finance and Treasury (as a representative of the Fiscal Council of BiH), and the entity Ministries of Finance.

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

Significant cooperation was achieved with international financial institutions, primarily with the IMF and the World Bank. The FBA, together with representatives of the IMF Mission, regularly and on a quarterly basis reviewed and analysed developments in the banking sector, capitalisation of banks in the Federation of BiH, stress test results for the banking system and for individual banks, the fulfillment of recommendations from the Letter of Intent, as well as changes in the regulatory framework. The IMF provided technical assistance in preparing drafts of the Banking Law and the Law on the Banking Agency, and the World Bank in capacity building for efficient banking supervision (regulations, QIS implementation, improving the AQR framework, education in different areas of supervision, preparation for the introduction of the new Supervisory Review and Evaluation Procedure– SREP), as well as in establishing a regulatory framework for the bank resolution.

In accordance with the requirements of Principle 13 (formerly Principle 25) from the list of „Core Principles for Effective Banking Supervision“, issued by the Basel Committee, by the end of 2017, the FBA had, together with the CBBH and the BARS, signed a multilateral agreement with the supervisory authorities of SEE countries, namely: Albania, Greece, Macedonia, Romania, Bulgaria, Serbia, Montenegro and Cyprus and Agreements on mutual cooperation (MoUs) with the competent supervisory authorities of Austria, Slovenia, Croatia, Serbia, Montenegro, Turkey and Germany. An MoU more closely defines the following: exchange of information, on-site examinations, requests for information and examinations, protection of information, ongoing cooperation, and other provisions.

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

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

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

With the establishment of the SSM (Single Supervisory Mechanism), in the eurozone, special tasks in the supervision of credit institutions were transferred from national regulators to the European Central Bank (ECB). On the basis of the EBA's positive assessment of compliance and the agreement signed with the EBA, Bosnia and Herzegovina has been placed in the first group of countries outside the EU with which the ECB is planning to sign joint cooperation agreements. The signing of the Agreement with the ECB would create the preconditions for a comprehensive exchange of information and joint supervision of banking groups whose subsidiaries operate in the Federation of BiH and are under the direct supervision of the ECB. During 2017, bilateral cooperation with representatives of the ECB in the area of supervision of individual banks continued.

In 2017, the FBA established cooperation not only with the regulatory institutions of the countries with which memorandums of understanding had already been signed, but also with other supervisory institutions of countries in a closer and wider environment. Special forms of concrete cooperation with the supervisory institutions were realised through regional and bilateral meetings and the regular exchange of information on operations and the state of parent banks and their „daughters“, i.e. subsidiaries, and in some cases through joint on-site examinations of their subsidiaries in the Federation of BiH. The FBA actively participated in the work of the BSCEE, as well as in the work of the Vienna Initiative 2.0.

The FBA also organised the Regional Conference of Supervisors, held on 23 and 24 November 2017 in Sarajevo, attended by supervisors from the countries of the region: Croatia, Macedonia, Kosovo, Montenegro, BiH, as well as representatives of the World Bank, the IMF and USAID. The conference focused on the supervisory approaches applied by supervisors in the region, the situation in the banking sector in the region, the issue of non-performing loans, the application of IFRS 9, etc.

The development of the banking industry, as well as the upgrade and evolution of supervisory principles, rules and standards, have shown that especially banking supervisors must continuously develop the knowledge, skills and tools for more efficient action in the exercising of their mission. In 2017, the FBA took care of those needs and, independently and with the help of various international highly qualified and specialised institutions, conducted necessary trainings of its employees, which were held in the country and abroad, but also provided assistance in specialist trainings of other supervisory bodies and institutions in the Federation of BiH.

2. BANKING SYSTEM STRUCTURE IN THE FEDERATION OF BiH

2.1. Status, Number and Network of Branches

As of 31.12.2017, there were 15 banks with a banking licence in the Federation of BiH. The number of banks is the same compared to 31.12.2016. In 2016, the following status changes took place: two banks in majority private ownership of residents (legal entities and natural persons) merged with two smaller banks, so the number of banks in the Federation of BiH decreased from 17 at the end of 2015 to 15 at the end of 2016.

A special law from 01.07.2008 regulates the establishment and operations of the Development Bank of the FBiH Sarajevo, a legal successor of the Investment Bank of the FBiH d.d. Sarajevo. Annex 2 provides an overview of the main data on banks in the Federation of BiH.

In 2017, there was no significant expansion of the banks' network of organisational units. Banks have reorganised their networks of organisational units by changing the organisational form, membership or address of their existing organisational units. This also entailed closings of some organisational units, all for the purpose of rationalisation and reduction of operating costs.

There was a total of 38 such changes among banks in the Federation of BiH (35 on the territory of the Federation of BiH, and 3 in Republika Srpska): 11 new organisational units were established, 8 organisational units were closed, and 19 underwent changes. Also, there was a change in one organisational unit of a bank from Republika Srpska in the Federation of BiH

Subsequent to these changes, banks in the Federation of BiH had a total of 553 organisational units as of 31.12.2017, down by 0.5% compared to 31.12.2016. The number of organisational units of banks from Republika Srpska in the Federation of BiH (22) is the same compared to 31.12.2016.

As of 31.12.2017, seven banks from the Federation of BiH had 53 organisational units in Republika Srpska, and nine banks had 11 organisational units in the Brčko District. Three banks from Republika Srpska had 22 organisational units in the Federation of BiH. As of 31.12.2017, all banks had licences to effect interbank transactions within the domestic payment system and secured deposits.

During 2017 the number of ATMs increased by 11 and their number was 1 172 at the end of the year. The number of POS terminals, compared to previous years, increased by 647, so that their number was 22 260 at the end of 2017.

2.2. Ownership Structure and Market Share

The ownership structure of banks[1] as of 31.12.2017, assessed on the basis of available information and reviews conducted in the banks themselves, is as follows:

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

Out of the 14 banks in mostly private ownership, four banks are in majority ownership of local legal entities and natural persons (residents), while 10 banks are in majority foreign ownership. The table below shows an overview of the changes in the ownership structure of banks in the last five years.

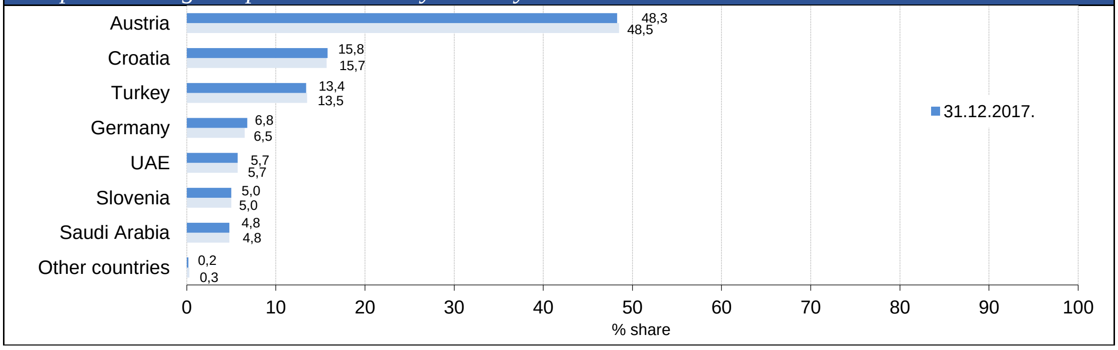
Table 1: Overview of Changes in the Number and Ownership Structure of Banks

	State-owned banks	Private banks	T O T A L
31.12.2012	1	17	18
Changes in 2013			
- licences revoked		-1	17
31.12.2013	1	16	17
There were no changes in 2014			
31.12.2014	1	16	17
There were no changes in 2015			
31.12.2015	1	16	17
Changes in 2016			
- status change of merger		-2	-2
31.12.2016	1	14	15
There were no changes in 2017			
31.12.2017	1	14	15

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

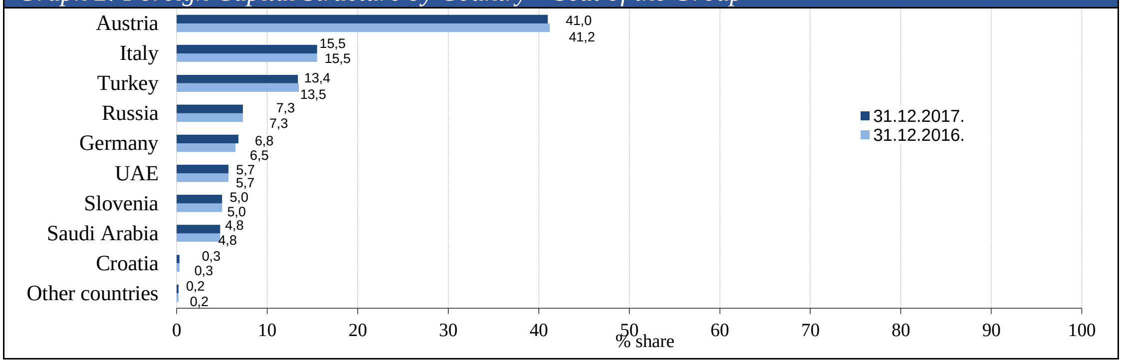
If observed solely from the perspective of foreign capital, using the criterion of the shareholders' home country, there were slight changes as of 31.12.2017 compared to the end of 2016: the largest share of foreign capital in the amount of 48.3% still refers to shareholders from Austria, followed by shareholders from Croatia with 15.8% and Turkey with 13.4%. Other countries hold individual shares below 7%.

Graph 1: Foreign Capital Structure by Country



If taking into account capital relations, the structure of foreign capital can also be observed using the criterion of the home country of the parent bank or parent group having majority ownership (direct or indirect via group members) of banks in the Federation of BiH. According to this criterion, the changes were also negligible: the share of banking groups and banks from Austria amounts to 41.0%, followed by banks from Italy with a share of 15.5%, while the share of capital from Turkey amounts to 13.4% and from Russia to 7.3%. Other countries hold individual shares below 7%.

Graph 2: Foreign 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 2: Ownership Structure by Total Capital

BANKS	31.12.2015		31.12.2016		31.12.2017		INDEX	
1	2		3		4		5 (3/2)	6 (4/3)
State-owned banks	52 319	2%	52 499	2%	53 507	2%	100	102
Private banks	2 517 669	98%	2 655 621	98%	2 811 542	98%	105	106
T O T A L	2 569 988	100%	2 708 120	100%	2 865 049	100%	105	106

In 2017, total capital increased by 5.8% or KM 157 million as a result of the following changes: an increase on the basis of the current financial result in the amount of KM 240 million, the recapitalisation of two banks in the total amount of KM 10 million, and a decrease on the basis of a transfer of dividends (three banks) in the amount of 99 KM million to Liabilities. As of 31.12.2017, total capital amounted to KM 2.9 billion.

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

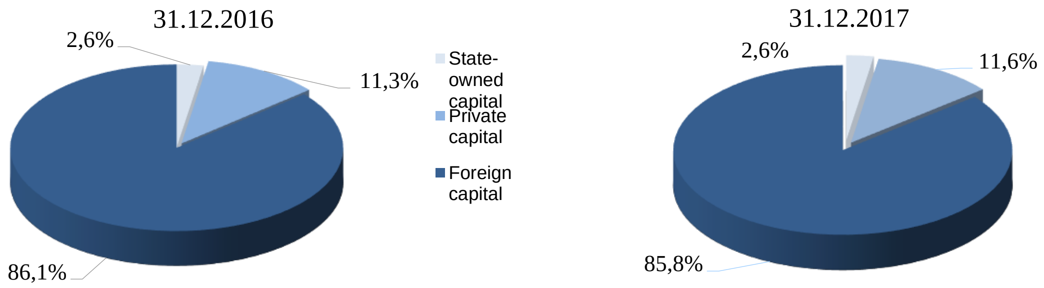
If observed from the perspective of the share of state-owned, private and foreign capital in the banks' share capital, it results in a more detailed picture of the capital ownership structure of banks in the Federation of BiH.

- in KM 000 -

Table 3: Ownership Structure by Share of State-Owned, Private and Foreign Capital

SHARE CAPITAL	31.12.2015		31.12.2016		31.12.2017		INDEX	
	Share	Amount %	Share	Amount %	Share	Amount %	4/2	6/4
1	2	3	4	5	6	7	8	9
State-owned capital	31 647	2.7	31 647	2.6	31 619	2.6	100	100
Private capital (residents)	156 574	13.4	137 557	11.3	142 109	11.6	88	103
Foreign capital (non-residents)	979 271	83.9	1 046 673	86.1	1 052 061	85.8	107	101
T O T A L	1 167 492	100.0	1 215 877	100.0	1 225 789	100.0	104	101

Graph 3: Ownership Structure (by Share Capital)



In 2017, there were slight changes in the share of foreign and private capital (of residents) in total share capital, which amounted to KM 1.2 billion as of 31.12.2017.

Foreign capital nominally increased by KM 5.4 million and amounted to KM 1.05 billion, while the share decreased from 86.1% to 85.8%, due to the issue of new shares in the amount of KM 4 million in one bank and trade with residents in the amount of KM 1.4 million.

Private capital of residents decreased by KM 4.5 million, amounting to KM 142 million, and its share in total share capital increased from 11.3% to 11.6%. The reason for this is an increase in share capital due to the issue of new shares in the amount of KM 6 million in one bank and a decrease due to trade with non-residents in the amount of KM 1.4 million.

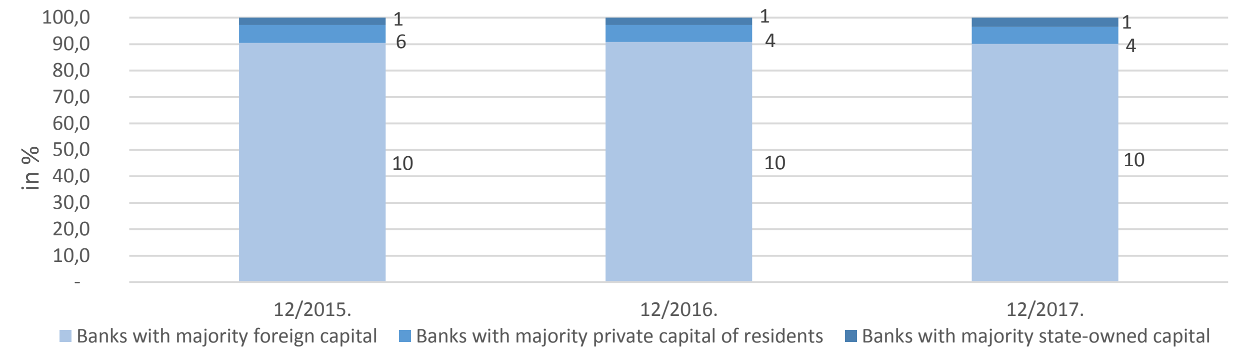
As of 31.12.2017, the share of banks in majority foreign ownership amounted to 90.5%, the share of banks with majority domestic private capital to 6.3%, and the share of one bank with majority state-owned capital to 3.2%.

- in % -

Table 4: Market Shares of Banks by Ownership Type (Majority Capital)

BANKS	31.12.2015			31.12.2016			31.12.2017		
	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 državnim kapitalom	1	2.0	2.8	1	1.9	2.8	1	1.9	3.2
Banks with majority private capital of residents	6	7.0	6.8	4	6.6	6.4	4	6.4	6.3
Banks with majority foreign capital	10	91.0	90.4	10	91.5	90.8	10	91.7	90.5
T O T A L	17	100.0	100.0	15	100.0	100.0	15	100.0	100.0

Graph 4: Market Shares by Ownership Type



2.3. Human Resources

As of 31.12.2017, banks in the Federation of BiH had a headcount of 6 655 employees, 3% of which were employed in banks with majority state-owned capital and 97% of which were employed in banks with majority private capital. Annex 3 shows data on employees in banks of the Federation of BiH.

Table 5: Employees in Banks of the FBiH

B A N K S	HEADCOUNT						INDEX	
	31.12.2015		31.12.2016		31.12.2017		3/2	4/3
1	2		3		4		5	6
State-owned banks	181	2.7%	192	2.9%	192	2.9%	106	100
Private banks	6 502	97.3%	6 423	97.1%	6 463	97.1%	99	101
T O T A L	6 683	100%	6 615	100%	6 655	100%	99	101
Number of banks	17		15		15			

Table 6: Qualification Structure of Employees in Banks of the Federation of BiH

LEVEL OF QUALIFICATION	HEADCOUNT						INDEX	
	31.12.2015		31.12.2016		31.12.2017		4/2	6/4
1	2	3	4	5	6	7	8	9
University degree	3 757	56.2%	3 821	57.8%	3 970	59.6%	99	104
Two-year post-secondary school qualification	551	8.3%	555	8.4%	525	7.9%	94	95
Secondary school qualification	2 360	35.3%	2 226	33.6%	2 149	32.3%	92	97
Other	15	0.2%	13	0.2%	11	0.2%	55	85
T O T A L	6 683	100.0%	6 615	100.0%	6 655	100.0%	96	101

The headcount in 2017 was up by 0.6% or 40 compared to the end of 2016. Slight changes in the qualification structure (a further increase in the share of employees with university degrees to 59.6%) are primarily the result of an increase in the number of employees with university degrees by 4% or 149 and a decrease in the number of employees with post-secondary and secondary school qualification by 4% or 107.

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 7: Assets per Employee

BANKS	31.12.2015			31.12.2016			31.12.2017		
	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	181	476 866	2 635	192	520 387	2 710	192	654 373	3 408
Private	6 502	16 684 859	2 566	6 423	17 861 647	2 781	6 463	19 555 478	3 026
TOTAL	6 683	17 161 725	2 568	6 615	18 382 034	2 779	6 655	20 209 851	3 037

Assets (KM 000)	31.12.2015 Number of banks	31.12.2016 Number of banks	31.12.2017 Number of banks
Up to 1 000	0	0	0
1 000 to 2 000	7	5	2
2 000 to 3 000	8	7	7
More than 3 000	2	3	6
TOTAL	17	15	15

Table 8: Assets per Employee – by Group

Analytical indicators for individual banks range from KM 1.3 million to KM 4.2 million of assets per employee. There are six banks in which this ratio is better than the banking system average, while this ratio exceeds the amount of KM 3.1 million in the three largest banks in the system.

3. FINANCIAL PERFORMANCE INDICATORS

Off-site bank examinations are performed by means of reports defined by the FBA and reports of other institutions, thus making up a database resting on three sources 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, the source of which are reports prescribed by the FBA,
3) Information on business results of banks (income statement according to the FBA model) and statements of cash flows, which banks submit to the FBA on a quarterly basis.

In addition to these standardised reports, the reporting database also consists of information obtained on the basis of additional reporting requests by the FBA in the interest of ensuring quality monitoring and analysis of banks' operations, 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, banks with majority state-owned capital are required to report to the FBA on the basis of the “total” balance sheet divided into: liabilities, neutral items and active sub-balance. In order to present more realistic indicators of the operations banks in the Federation of BiH, further analysis of the banking system will include indicators from the active sub-balance of banks with majority state-owned capital.[4]

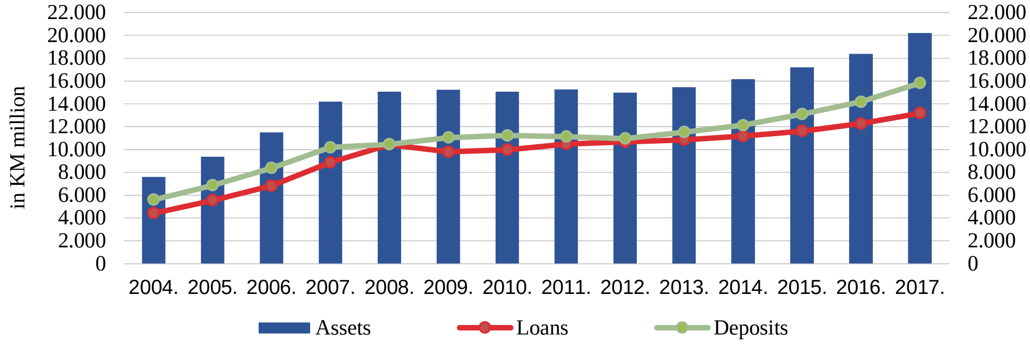
3.1. Balance Sheet

In the last three years, a slight increase in key banking aggregates of deposits and loan facilities was recorded in the banking system of the Federation of BiH, while loan sources, largely credit lines financed by foreign credit institutions, are continuously decreasing.

In 2014, 2015 and 2016, total assets recorded growth rates of 4.6%, 6.3% and 7.1%, respectively, only to record the largest increase in assets in the amount of 9.9% or KM 1.8 billion in 2017. Total assets of the banking system thus amounted to KM 20.2 billion at the end of 2017.

[4] State-owned banks post the „total“ balance sheet, meaning liabilities and neutral items, which the state will take over once the privatisation process gets finalised. As of 31.12.2017, these items amounted to KM 700 million in the case of one state-owned bank.

Graph 5: Balance Sheet of Banks in the Federation of BiH (Assets, Loans and Deposits)

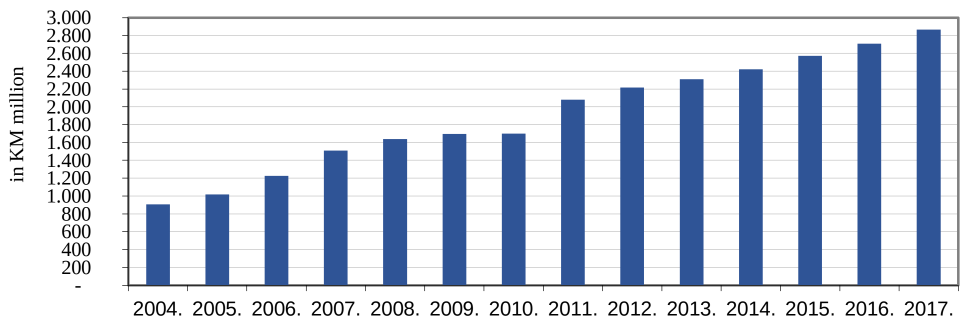


The main generator of the increase in the balance sheet total in 2017 is the increase in deposits in the amount of 11.6% or KM 1.6 billion and the increase in total capital in the amount of 5.8% or KM 157 million. At the end of 2017, deposits amounted to KM 15.8 billion or 78.3%, total capital to KM 2.9 billion or 14.2%, and loan commitments to KM 0.8 billion or 4.1% of liabilities.

The trend of increase in total loans continued. In the assets of banks, the most important position is that of loan facilities, with a share of 65.2%, while two sectors, retail (48.2%) and private companies (47.8%) are dominant in the structure of loans. Cash funds, with a share of 28.7% and an 11.3%growth rate in 2017, amounted to KM 5.8 billion as of 31.12.2017, which indicates satisfactory liquidity of the banking system in the Federation of BiH.

Total capital of banks in the last five years recorded continuous growth with a rate ranging from 4.1% to 6%, while the share in liabilities ranged from 14% to 15%.

Graph 6: Total Capital of Banks in the Federation of BiH



At the end of 2017, the total assets of the banking system exceeded the amount of KM 20 billion for the first time, amounting to KM 20.2 billion. An increase in all key balance sheet categories, assets and liabilities was recorded. Annex 4 gives an overview of the balance sheet of banks in the Federation of BiH according to the FBA model – active sub-balance, and Annex 5 gives an overview of assets, loans, deposits and the financial result of banks.

- KM 000 -

Table 9: Balance Sheet

DESCRIPTION	31.12.2015		31.12.2016		31.12.2017		INDEX	
	AMOUNT	Share %	AMOUNT	Share %	AMOUNT	Share %		
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
ASSETS:								
Cash funds	4 857 483	28.3	5 204 564	28.3	5 794 664	28.7	107	111
Securities[5]	1 050 206	6.1	1 226 163	6.7	1 228 432	6.1	117	100
Facilities to other banks	78 420	0.5	96 569	0.5	350 980	1.7	123	363
Loans	11 610 744	67.7	12 270 228	66.8	13 178 860	65.2	106	107

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

Value adjustment	1 181 736	6.9	1 193 721	6.5	1 166 804	5.8	101	98
Net loans (loans minus value adjust.)	10 429 008	60.8	11 076 507	60.3	12 012 056	59.4	106	108
Business premises and other fixed assets	516 894	3.0	530 977	2.9	529 941	2.6	103	100
Other assets	229 714	1.3	247 254	1.3	293 778	1.5	108	119
UKUPNA AKTIVA	17 161 725	100.0	18 382 034	100.0	20 209 851	100.0	107	110
L I A B I L I T I E S :								
LIABILITIES								
Deposits	13 098 983	76.3	14 176 274	77.1	15 814 723	78.3	108	112
Borrowings from other banks	0	0.0	0	0	0	0.0	0	
Loan commitments	904 050	5.3	848 001	4.6	835 667	4.1	94	99
Other liabilities	588 704	3.4	649 639	3.5	694 412	3.4	110	107
CAPITAL								
Capital	2 569 988	15.0	2 708 120	14.8	2 865 049	14.2	105	106
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	17 161 725	100.0	18 382 034	100.0	20 209 851	100.0	107	110

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

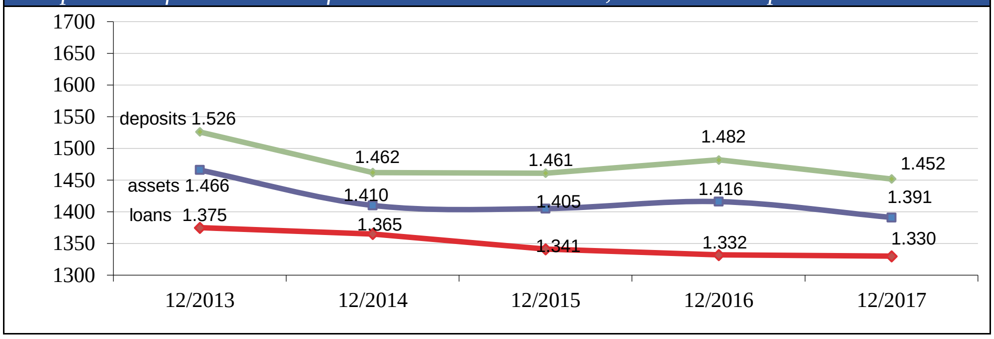
- KM 000 -

Table 10: Bank Assets by Ownership Structure

BANKS	31.12.2015			31.12.2016			31.12.2017			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	476 866	2.8%	1	520 387	2.8%	1	654 373	3.2%	109	126
Private	16	16 684 859	97.2%	14	17 861 647	97.2%	14	19 555 478	96.8%	107	110
TOTAL	17	17 161 725	100%	15	18 382 034	100%	15	20 209 851	100%	107	110

In 2017, 14 banks recorded an increase in assets, with the rate ranging from 4% to 26%, while 8 banks had a growth rate above 10%. The concentration indicator used for three key segments of banking operations (assets, loans and deposits) is the Herfindahl index.[6]

Graph 7: Herfindahl Index of Concentrations in Assets, Loans and Deposits



In 2017, the Herfindahl index of concentration in all three relevant categories (assets, loans and deposits) decreased, so that it amounted to 1 391 units for assets (-25), 1 330 units for loans (-2), and 1 452 units for deposits (-30) as of 31.12.2017, which is indicative of a moderate concentration.[7]

The second concentration indicator for the banking system is the ratio of market concentrations, i.e.

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

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

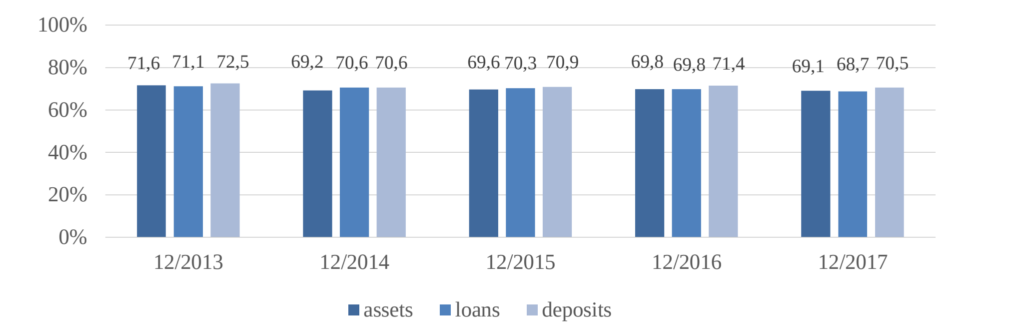
It represents a sum of squares of percentage shares of specific elements (e.g. assets, deposits, loans) of all market participants in the system. It should be noted that this index does not grow linearly and that the value of e.g. 3 000 does not mean that the concentration in the system is 30%. Hypotetically,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

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

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 decreased in 2017 and amounted to 69.1% for market share, 68.7% for loans, and 70.5% for deposits as of 31.12.2017 (2016: 69.8% assets and loans, 71.4% deposits), while the two biggest banks in the system hold approximately 45% of the market (46.5% assets, 43.9% loans, and 48.1% deposits).

For a long period of time, the value of the CR5 saw slight changes across all three categories, but the domination of five banks in the system, which hold approximately 70% of the market, loans and deposits, is still evident. It should be noted that the two largest banks account for between 44% and 48% of the shares in the aforementioned segments (46.6% assets, 43.9% loans and 48.1% deposits).

Graph 8: Concentration Rates for the Five Largest Banks – CR5: Assets, Loans and Deposits



The banking sector can also be analysed on the basis of the criterium of belonging to groups formed according to asset size.[9] Changes in share percentage compared to the end of 2016 are the result of slight changes in the assets of most banks.

The system is dominated by two banks with a share in the amount of 46.5% (I group with assets in the amount of over KM 2 billion, with one bank having assets in the amount of KM 4.5 billion, while the largest bank in the system has assets in the amount of KM 5.25 billion). It is followed by the 32.8% share of a group which consists of five banks (II group of banks with assets in the amount ranging from KM 1 billion to KM 2 billion), which increased by 10.3 percentage points due to to two banks moving from the III group to this group. Due to the aforementioned, the share of the III group decreased (three banks with assets ranging from KM 500 million to KM 1 billion) from 21.9% to 12.2%. The share of the IV group (four banks with assets ranging from KM 100 million to KM 500 million) in the amount of 8.0% changed slightly (+0.1 percentage points). One bank in the V and last group (with assets below KM 100 million) has a share of 0.5%.

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

- KM 000 -

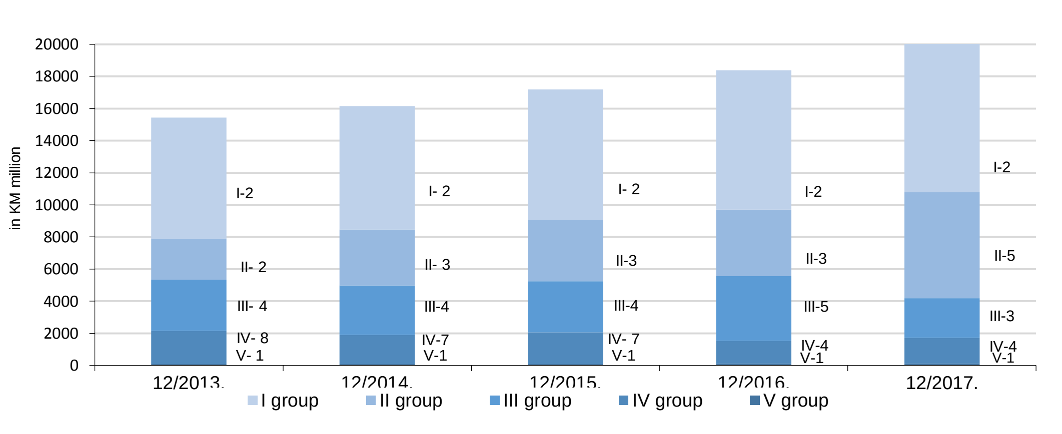
Table 11: Share of Individual Banking Groups in Total Assets by Period

ASSETS	31.12.2015			31.12.2016			31.12.2017		
	Amount	Share %	No. of banks	Amount	Share %	No. of banks	Amount	Share %	No. of banks
I- Over 2 000	8 120 953	47.3	2	8 681 651	47.2	2	9 404 805	46.5	2
II- 1000 to 2000	3 821 569	22.3	3	4 142 732	22.5	3	6 626 507	32.8	5
III- 500 to 1000	3 171 936	18.5	4	4 015 627	21.9	5	2 465 564	12.2	3
IV- 100 to 500	1 963 450	11.4	7	1 449 350	7.9	4	1 613 136	8.0	4
V- Below 100	83 817	0.5	1	92 674	0.5	1	99 839	0.5	1
TOTAL	17 161 725	100.0	17	18 382 034	100.0	15	20 209 851	100.0	15

[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.

Graph 9 shows the share of individual groups of banks in total assets.

Graph 9: Share of Individual Groups of Banks in Total Assets by Period



In 2017, total assets increased by 9.9% or KM 1.8 billion and amounted to KM 20.2 billion as of 31.12.2017. Deposits grew by 11.6% or KM 1.6 billion, amounting to KM 15.8 billion, while total capital, after an increase in the amount of 5.8% or KM 157 million, amounted to KM 2.9 billion.

Loan commitments amounted to KM 836 million, while cash funds, after a moderate increase in the amount of 11.3% or KM 590 million, amounted to KM 5.8 billion.

In the previous years, due to the low growth of loan facilities, some banks approved short-term excess liquidity to banks in BiH and abroad in the interest of generating additional interest income. Facilities to other banks increased (in late 2017) by as much as 263% or KM 254 million (one bank accounts for almost all of it) in 2017, amounting to KM 351 million as of 31.12.2017.

The positive trend of increase continued in the lending segment as well. A moderate growth rate in the amount of 7.4% or KM 909 million was recorded and loans amounted to KM 13.2 billion as of 31.12.2017 (KM 111 million of which account for financial leasing).

After two years of increased investment in securities (31% in 2015 and 16.8% in 2016), the securities portfolio recorded major changes throughout the quarters in 2017. The increase from the first half of 2017 (9% or KM 108 million) was halted in the third and fourth quarters, when a somewhat larger decrease in investments in securities of the Federation of BiH and in foreign corporate bonds was recorded, while, on the other hand, investments in government securities of other countries increased. The securities portfolio amounted to KM 1.2 billion at the end of 2017, as was the case in 2016, holding a 6.1% share in assets.

- KM 000 -

Table 12: Investments in Securities by Type of Instrument

INVESTMENTS IN SECURITIES	31.12.2015		31.12.2016		31.12.2017		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Equity securities	2 388	0.2	1 637	0.1	1 773	0.1	69	108
Debt securities:	1 047 818	99.8	1 224 526	99.9	1 226 659	99.9	117	100
- BiH Securities of all levels of government in BiH	662 544	63.1	824 300	67.2	751 163	61.2	124	91
- Government securities (other countries)	247 302	23.6	278 386	22.7	400 855	32.6	113	144
- Corporate bonds[10]	137 972	13.1	121 840	10.0	74 641	6.1	89	61
T O T A L	1 050 206	100.0	1 226 163	100.0	1 228 432	100.0	117	100

[10] The largest share of almost 97% refers to EU bonds.

Banks classified the majority (80.2%) of total investments in securities to the portfolio of financial instruments available for sale, which is up by 2% or KM 16 million, amounting to KM 985 million, while securities held to maturity decreased by 10% or KM 14 million, i.e. to KM 136 million.

- KM 000 -

Table 13: Investments in Securities – Categorisation According to IAS 39

INVESTMENTS IN SECURITIES	31.12.2015		31.12.2016		31.12.2017		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Financial assets at fair value through profit and loss	109 613	10.4	106 941	8.7	107 483	8.7	98	101
Financial assets available for sale	773 216	73.7	968 647	79.0	984 771	80.2	125	102
Investments held to maturity	167 377	15.9	150 575	12.3	136 178	11.1	90	90
T O T A L	1 050 206	100.0	1 226 163	100.0	1 228 432	100.0	117	100

In terms of investments in debt securities, the most important item are securities of the entity governments, particularly securities issued by the Federation of BiH[11] in the total amount of KM 588 million, as well as securities issued by Republika Srpska in the amount of KM 157 million.

- KM 000 -

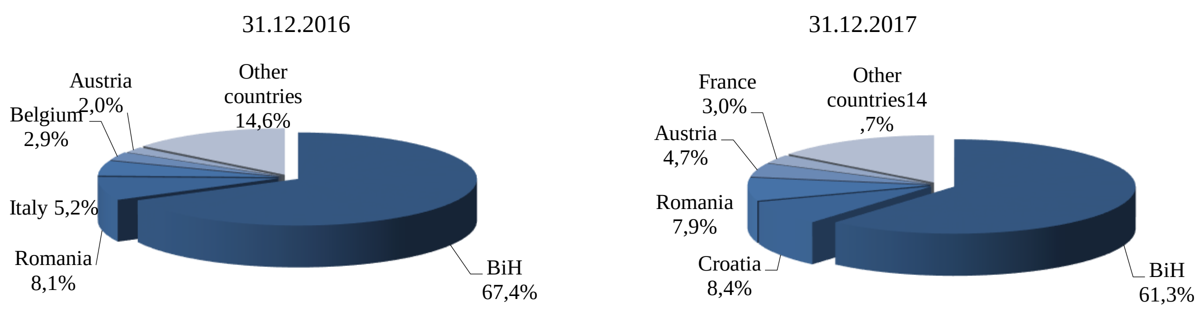
Table 14: Securities of the Entity Governments of BiH

INVESTMENTS IN SECURITIES	31.12.2015		31.12.2016		31.12.2017		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Debt securities issued by the Federation of BiH:	545 723	82.4	676 832	82.1	587 687	78.9	124	87
- Treasury bills	99 775	15.1	118 031	14.3	99 949	13.4	118	85
- Bonds	445 948	67.3	558 801	67.8	487 738	65.5	125	87
Debt securities issued by Republika Srpska:	116 821	17.6	147 124	17.9	157 353	21.1	126	107
- Treasury bills	38 016	5.7	56 758	6.9	65 848	8.8	149	116
- Bonds	78 805	11.9	90 366	11.0	91 505	12.3	115	101
T O T A L	662 544	100.0	823 956	100.0	745 040	100.0	124	90

The majority of the treasury bills and bonds of the entity governments with a book value of KM 690 million was classified in the trading portfolio and the available-for-sale portfolio, while the rest in the amount of KM 55 million was classified in the held-to-maturity portfolio.

When analysing the overall investments in securities (KM 1.23 billion) from the aspect of exposure by country, the largest share in the amount of 61.3% is that toward issuers from BiH, followed by Croatia (8.4%), Romania (7.9%), Austria (4.7%), France (3.0%), etc.

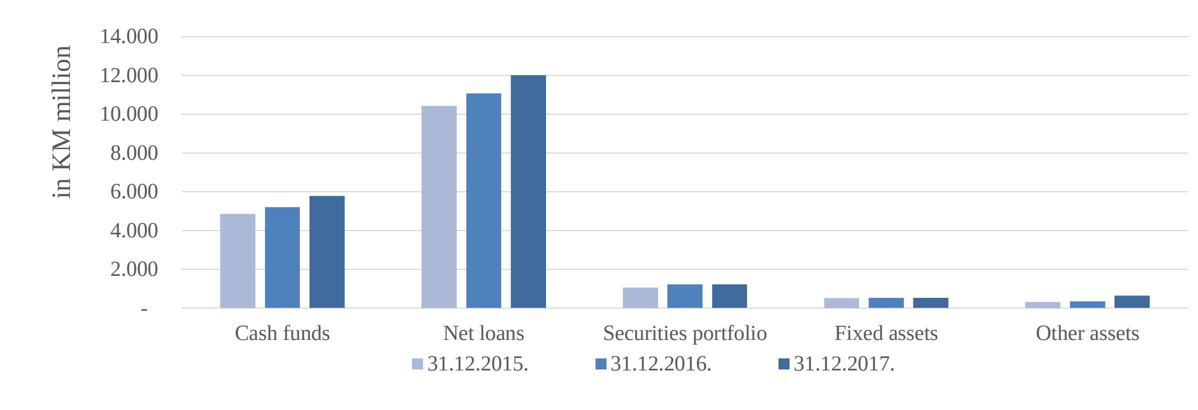
Graph 10: Sructure of Investments in Securities According to the Criterion of the Issuing Country



The graph below shows the structure of the key items of the banks' balance sheet assets.

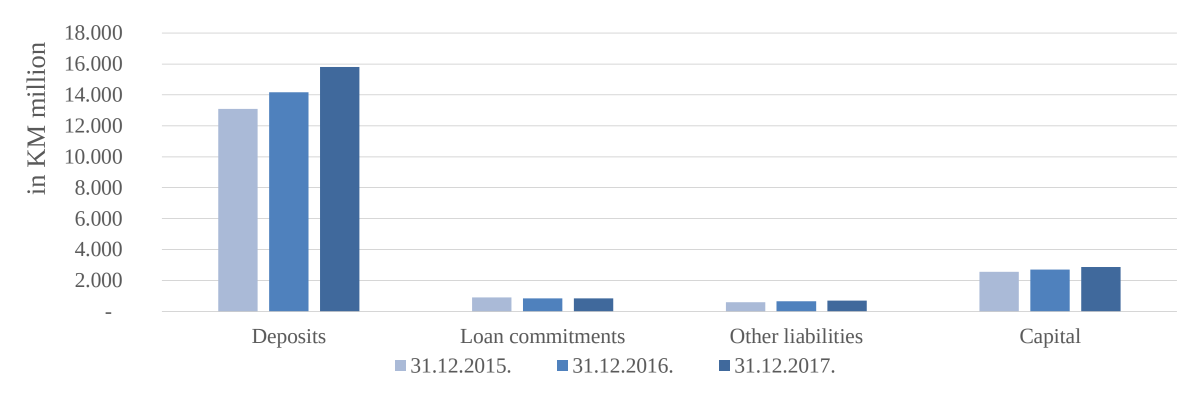
[11] All types of securities issued by the Federation of BiH.

Graph 11: Assets Structure within the Balance Sheet of Banks



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

Graph 12: Liabilities Structure within the Balance Sheet of Banks



Within the liabilities structure of the banks' balance sheets, deposits still represent a dominant source of funding for banks in the Federation of BiH (with an amount of KM 15.8 billion and a 78.3% share). The decrease in loan commitments continued in 2017 as well, with a rate of 1.5% or KM 12 million. At the end of 2017, they amounted to KM 836 million, holding a 4.1% share. The increase in capital continued, with it amounting to KM 2.9 billion as of 31.12.2017, with a share of 14.2% (-0.5 percentage points).

The share of loans, as the largest and most important assets item, decreased from 66.8% to 65.2%, while the share of cash funds increased to 28.7% (+0.4 percentage points).

- in KM 000 -

Table 15: Cash Funds of Banks

CASH FUNDS	31.12.2015		31.12.2016		31.12.2017		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	581 152	12.0	754 059	14.5	800 215	13.8	130	106
RR at the CBBH	3 181 721	65.5	3 295 391	63.3	3 823 980	66.0	104	116
Accounts at deposit institutions in BiH	2 100	0.0	9 101	0.2	41 411	0.7	433	455
Accounts at deposit institutions abroad	1 092 273	22.5	1 145 886	22.0	1 127 877	19.5	105	98
Cash funds in the process of collection	237	0.0	127	0.0	1 181	0.0	54	930
TOTAL	4 857 483	100.0	5 204 564	100.0	5 794 664	100.0	107	111

Banks' cash funds in the CBBH reserves account were up by 16% or KM 529 million in 2017 and amounted to KM 3.8 billion or 66% of total cash funds as of 31.12.2017 (63.3% at the end of 2016).

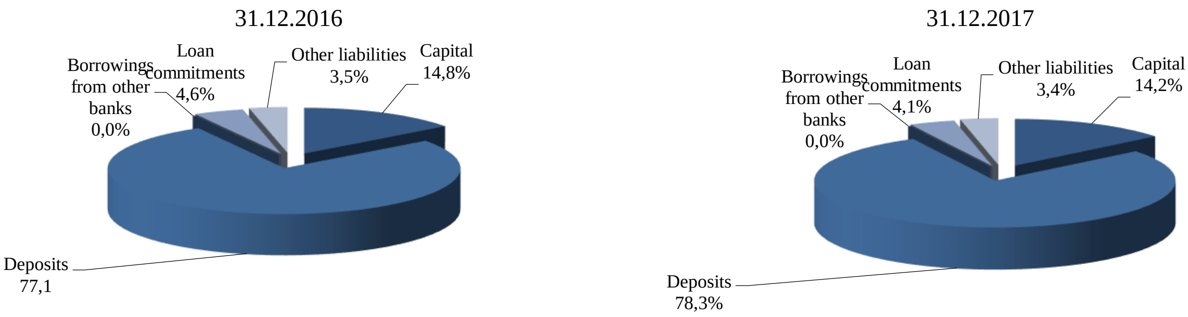
Banks’ funds in accounts of deposit institutions abroad decreased by 2% or KM 18 million. As of 31.12.2017, they amounted to KM 1.1 billion or 19.5% of total cash funds (22.0% at the end of 2016). Following an increase in the amount of 6% or KM 46 million, banks held cash funds in the amount of KM 800 million in vaults and treasuries as of 31.12.2017, which represents 13.8% of total cash funds.

These trends prompted a change in the currency structure of cash funds: in the reporting period, the share of local currency increased from 74.5% to 76.6%, while cash in foreign currency decreased by the same percentage.

3.2. Liabilities

The total liabilities structure (liabilities and capital) within the banks' balance sheet as of 31.12.2017 is provided in the graph below:

Graph 13: Liabilities Structure of Banks



At the end of 2017, the share of deposits as the most significant source of funding for banks increased to 78.3% (+1.2 percentage points), while the share of loan commitments, the second-largest source, amounted to 4.1% (-0.5 percentage points).

Following a moderate increase in the amount of 11.6% or KM 1.6 billion in 2017, deposits amounted to KM 15.8 billion as of 31.12.2017 and are still the largest source of funding for banks in the Federation of BiH.

The second largest source are loan funds, but with a significantly lower amount of 836 and a 4.1% share, which banks received mostly by borrowing from foreign financial institutions. In the last few years, there has been a change in the strategic planning of the financial potential of banks, i.e. the structure of sources and the reorientation to domestic deposit sources. This is especially noticeable for the banks that are members of foreign banking groups, with simultaneous return to foreign creditors through repayment of past due liabilities, which resulted in a decrease in the aforementioned by about 60% (they amounted to KM 2.18 billion at the end of 2008). In 2017, the decrease amounted to a negligible 1.5% or KM 12 million. If subordinated loans in the amount of KM 121 million, which the banks withdrew in the interest of strengthening the capital base and improving capital adequacy, were added to loan commitments, total loan funds would hold a share of 4.7% in total sources of funding.

As of 31.12.2017, banks held the largest amount of liabilities towards the following creditors (6 out of a total of 18 creditors), accounting for 90% of total loan commitments: TC ZIRAAT BANKASI A.S. (Turkey), European Investment Bank (EIB), Procredit Holding AG and Procredit Bank AG Frankfurt, the European Fund for Southeast Europe (EFSE), the European Bank for Reconstruction and Development (EBRD), and UniCredit Bank Austria AG.

According to the information submitted by banks, out of the total deposit amount at the end of the reporting period, only 6% relates to deposits collected in organisational units of banks from the Federation of BiH, which are doing business in Republika Srpska and the Brčko District.

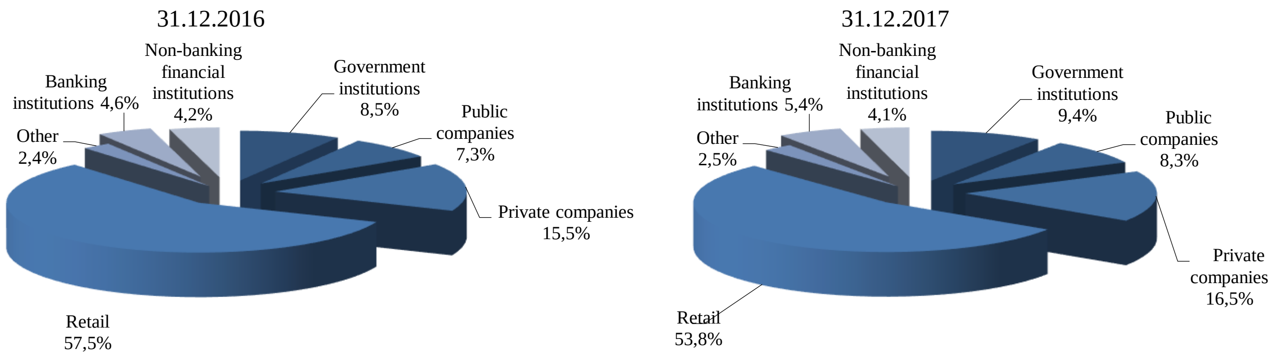
- in KM 000 -

Table 16: Deposit Structure by Sector [12]

SECTORS	31.12.2015		31.12.2016		31.12.2017		INDEX	
	Iznos	Učešće %	Iznos	Učešće %	Iznos	Učešće %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	1 002 438	7.7	1 200 513	8.5	1 482 708	9.4	120	124
Public companies	927 692	7.1	1 036 461	7.3	1 310 610	8.3	112	126
Private companies and enterprises	2 008 364	15.3	2 191 328	15.5	2 612 441	16.5	109	119
Banking institutions	752 217	5.7	647 901	4.6	847 965	5.4	86	131
Non-banking financial institutions	583 387	4.5	603 757	4.2	655 360	4.1	103	109
Retail	7 465 252	57.0	8 154 484	57.5	8 500 668	53.8	109	104
Other	359 633	2.7	341 830	2.4	404 971	2.5	95	118
TOTAL	13 098 983	100.0	14 176 274	100.0	15 814 723	100.0	108	112

The graph below shows the deposit structure by sector.

Graph 14: Deposit Structure by Sector



A moderate increase in deposits in the amount of 11.6% or KM 1.6 billion in 2017 resulted in minor changes in the deposit structure by sector, with it being noted that deposits of all sectors recorded an increase.

The sectoral structure is still dominated by the retail sector and its continuous increase continued in 2017 as well, but with a lower rate of 4% or KM 346 million compared to the previous three years, during which rates between 8% and 9% were recorded.

Retail deposits amounted to KM 8.5 billion as of 31.12.2017, while the share dropped from 57.5% to 53.8%, so that this sector's deposits are still the largest source of funding for banks. Analytical data by bank indicate that the share ranges from 14% to 74%. The share of this sector’s deposits is the largest in 14 out of 15 banks, and it is above 50% in six banks.

The second largest sector source in terms of amount and share, although significantly lower than the retail sector, are deposits of private companies, which are significantly up by 19% or KM 421 million. As of 31.12.2017, they amounted to KM 2.6 billion, which is a share of 16.5%.

Deposits of the following two sectors recorded a large increase: government institutions (24% or KM 283 million), amounting to KM 1.5 billion and holding the third largest share in the amount of 9.4% (+0.9 percentage points), and public companies (26% or KM 274 million), which amount to KM 1.3 billion and hold a share in the amount of 8.3%.

[12] 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).

The long-standing decrease in deposits of banking institutions, which mostly relate to deposits of parent companies, influenced by the strategic change in business plans in the segment of sources of funding at the group level, as well as the reduced lending volume and excess liquidity, was halted in the IV quarter of 2017, when several banks received significant deposits from the group, which resulted in a cumulative increase in deposits of this sector in 2017 in the amount of 31% or KM 200 million. At the end of 2017, they amounted to KM 848 million, which is a share of 5.4%.

The maturity of the aforementioned sector's deposits has changed significantly 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 337 million or 54% of term deposits of the group mature in the first quarter of 2018, i.e. KM 480 million or 77% mature by the end of 2018. Considering that the 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 79% or KM 672 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 BiH, wherein such financing is still concentrated in four large banks (75%).

If these funds are coupled with loan commitments and subordinated debt, the financial support of banks from the group is higher (with respect to 11 banks) and amounts to KM 1.1 billion at the end of 2017 (or 5.4% of total liabilities of the banking sector, which is higher compared to the end of 2016 (KM 857 million or 4.7% of liabilities)).

In total deposits, assets from the group hold a share of 4.3% (3.6% at the end of 2016), while 36% of total loan commitments are loan commitments to the group (the share is higher by 6.6 percentage points). In 2017, these funds increased by 26.4% or KM 226 million (deposits increased by 32.5% or KM 165 million, loan commitments by 20.8% or KM 52 million, i.e. they amounted to KM 301 million, while subordinated loans, after an increase in the amount of 8.9% or KM 10 million, amounted to KM 110 million). Other sectors, with a low share in total deposits, saw a slight increase in both nominal and relative terms.

The currency structure of deposits as of 31.12.2017 changed slightly. Deposits in KM increased by 13.6% or KM 1.1 billion, while those in foreign currency recorded an increase in the amount of 8.9% or KM 551 million.

The aforementioned resulted in the share of deposits in local currency increasing to 57.5% (+1.1 percentage points) and them amounting to KM 9.1 billion. With respect to the same relative change, the share of deposits in foreign currency (with a dominant share of EUR currency) decreased, with them amounting to KM 6.7 billion.

At the end of 2017, the structure of deposits by domicile status of depositors also changed slightly: resident funds amounted to KM 14.7 billion and had a share of 92.9% (-0.3 percentage points), while non-resident deposits amounted to KM 1.1 billion and represented 7.1% of total deposits.

Resident deposits increased by 11.2% or KM 1.5 billion, while non-resident deposits recorded an increase in the amount of 16.6% or KM 72 million. Until 2017, there was a continuous decrease in non-resident deposits and it is the result of the withdrawal, i.e. return of deposits to the parent bank or member of the banking group to which non-resident funds largely refer. For the aforementioned reasons, the trend of decrease was halted in 2017, i.e. a moderate increase was recorded.

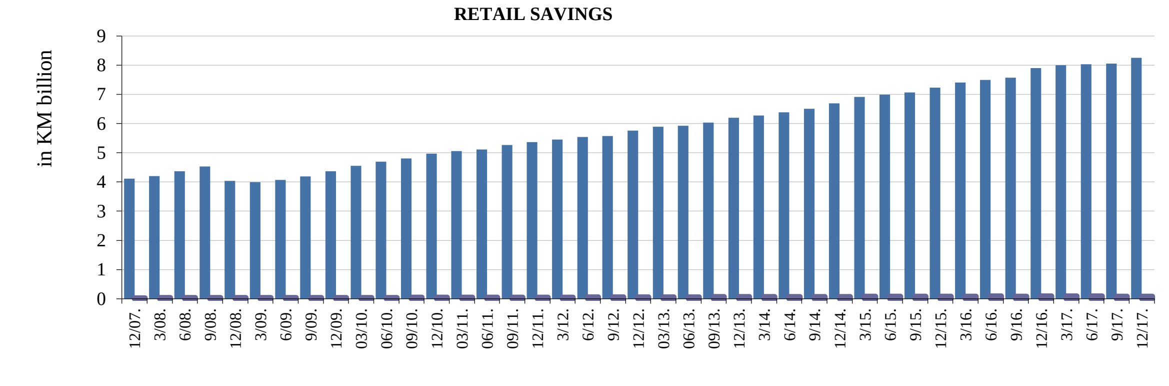
The long-standing trend of increase in savings deposits, as the most significant segment of the deposit and financial potential of banks, continued in 2017 as well, with a rate of 4.5% or KM 357 million. As of 31.12.2017, they amounted to KM 8.25 billion.

- in KM 000 -

Table 17: New Retail Savings By Period

BANKS	AMOUNT			INDEKS	
	31.12.2015	31.12.2016	31.12.2017	3/2	4/3
1	2	3	4	5	6
State-owned	78 771	86 481	83 530	110	97
Private	7 156 178	7 806 725	8 166 750	109	105
TOTAL	7 234 949	7 893 206	8 250 280	109	105

Graph 15: New Retail Savings By Period



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

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

- in KM 000 -

Table 18: Maturity Structure of Retail Savings Deposits by Period

BANKS	AMOUNT						INDEKS	
	31.12.2015		31.12.2016		31.12.2017		3/2	4/3
1	2		3		4		5	6
Short-term savings deposits	3 537 982	48.9%	4 071 231	51.6%	4 460 734	54.1%	113	110
Long-term savings deposits	3 696 967	51.1%	3 821 975	48.4%	3 789 546	45.9%	104	99
TOTAL	7 234 949	100.0%	7 893 206	100.0%	8 250 280	100.0%	108	105

Compared to the end of 2016, the maturity structure of savings deposits changed slightly due to an increase in short-term deposits by 10% or KM 390 million, while long-term deposits decreased by 1% or KM 32 million, which resulted in the share of short-term deposits being up from 51.6% to 54.1%.

Long-standing continuous growth and positive trends in the savings segment of banks in the Federation of BiH 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 FBA) and, on the other hand, the existence of the deposit insurance system, the primary objective of which is increased stability of the banking, i.e. financial sector and the protection of savers.

As of 31.12.2017, all 15 banks from the Federation of BiH are included in the deposit insurance programme, i.e. they hold licences issued by the DIA.

3.3. Capital and Capital Adequacy

Regulatory capital of banks in the Federation of BiH as of 31.12.2017 amounted to KM 2.5 billion. The following table shows the regulatory capital structure.

- in KM 000 -

Table 19: Regulatory Capital

DESCRIPTION	31.12.2015		31.12.2016		31.12.2017		INDEX	
1	2		3		4		5 (3/2)	6 (4/3)
1.a.Core capital before reduction	2 010 634		2 167 814		2 321 458		108	107
1.1. Share capital – common and permanent non-cumulative shares	1 164 402		1 215 668		1 225 580		104	101
1.2. Issue premiums	132 667		138 786		137 290		105	99
1.3. Reserves and retained profit	713 565		813 360		958 588		114	118
1.b. Deductible items	183 755		112 297		108 151		61	96
1.1. Uncovered losses from previous years	28 371		16 690		47 879		59	287
1.2. Current year loss	102 108		42 314		7 288		41	17
1.3. Treasury shares	102		3 034		81		2 975	3
1.4.. Intangible assets	49 837		47 315		49 963		95	106
1.5. Deferred tax assets	1 641		1 881		1 494		115	79
1.6. Negative revalorised reserves	1 696		1 063		1 446		63	136
1. Core capital (1a-1b)	1 826 879	85%	2 055 517	88%	2 213 307	88%	113	108
2. Supplementary capital	330 784	15%	284 917	12%	306 237	12%	86	107
2.1. Share capital – common and permanent cumulative shares	3 090		209		209		7	100
2.2. General loan loss reserves	208 619		170 420		186 830		82	110
2.3. Positive revalorised reserves	9 735		9 741		13 037		100	134
2.4. Amount of audited profit	0		0		0		-	-
2.5. Subordinated debt	107 918		103 122		104 733		96	102
2.5. Hybrid items and other instruments	1 422		1 425		1 428		100	100
3. Capital (1 + 2)	2 157 663	100%	2 340 434	100%	2 519 544	100%	108	108
4. Deductible items from capital	206 321		200 035		198 380		97	99
4.1. Bank's shares in capital of other legal entities above 5% of core capital	1 007		0		0		0	-
4.2. Loan loss reserves shortfall at regulatory request	204 559		200 035		198 380		98	99
4.3. Other deductible items	755		0		0		0	-
5. Net capital (3- 4)	1 951 342		2 140 399		2 321 164		110	108

In 2017, total capital of the banking system went up by 8% or KM 180 million compared to the end of 2016, without any changes in its structure (88% core capital, 12% supplementary capital). Core capital and supplementary capital recorded a similar growth rate (8% and 7%), which amounts to KM 158 million and KM 21 million in absolute terms.

The increase in core capital is mostly due to the inclusion of recorded profit for 2016, increased reserves of one bank in the amount of KM 50 million from retained profit (which was not an item of regulatory capital), and the recapitalisation of two banks in the amount of KM 10 million.

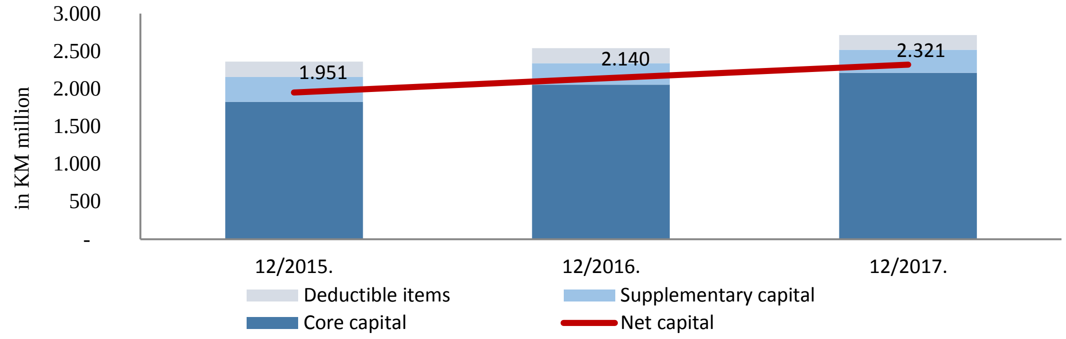
Following the implementation of the legal procedure for the passing and adoption of decisions by the Bank's Assembly, recorded profit (13 banks) in the amount of KM 212 million was allocated as follows: 49% or KM 104 million to core capital (retained profit and reserves), three banks made a decision to pay dividends (KM 99 million in total), one bank allocated a part of recorded profit in the amount of 45 million KM to retained profit, but the aforementioned is not an item of core capital, while one bank allocated its entire profit in the amount of KM 2 million to covering a previous loss.

Deductible items (which decrease core capital) decreased by 4% or KM 4 million, mostly as a result of a decrease in current uncovered losses in the amount of KM 11 million, with current loss amounting to KM 7 million, while other items changed only slightly. Supplementary capital increased by 7% or KM 21 million, which is mostly the result of an increase in general loan loss provisions (GLLP).

Missing loan loss provisions under the regulatory requirement, as a deductible item from capital, amounted to KM 198 million as of 31.12.2017, which is almost the same level as at the end of 2016.

The graph below shows the regulatory capital structure.

Graph 16: Regulatory Capital Structure



As a result of the aforementioned changes, net capital increased by 8% or KM 181 million and amounted to KM 2.3 billion as of 31.12.2017. 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-weighted assets (risk-weighted balance sheet and off-balance sheet assets and weighted operational risk).

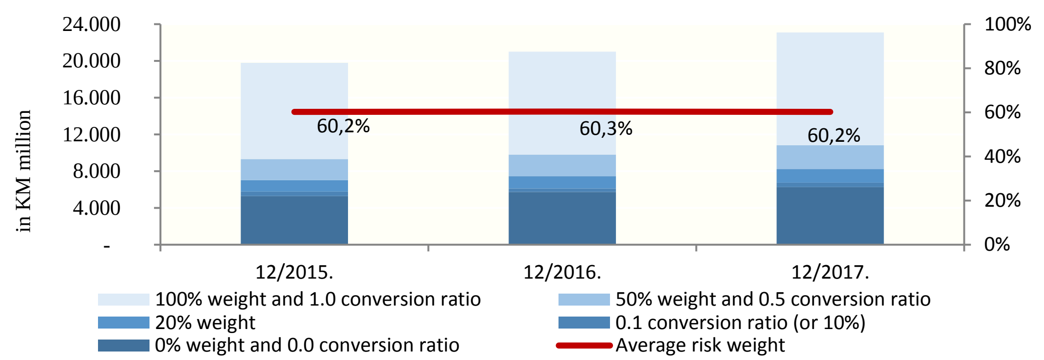
The table below provides a structure of the net exposure of banks by credit risk weight, i.e. conversion ratio for off-balance sheet items.

- in KM 000 -

Table 20: Structure of Net Exposure of Banks by Credit Risk Weight

DESCRIPTION	31.12.2015	31.12.2016	31.12.2017	INDEX	
1	2	3	4	5 (3/2)	6 (4/3)
TOTAL EXPOSURE (1+2):	19 799 548	20 994 773	23 095 817	106	110
1 Balance sheet assets	16 635 188	17 863 737	19 692 604	107	110
2. Off-balance sheet items	3 164 360	3 131 036	3 403 213	99	109
DISTRIBUTION BY RISK WEIGHT AND CONVERSION RATIO					
0% weight	5 255 223	5 695 758	6 203 689	108	109
20% weight	1 279 029	1 309 962	1 515 686	102	116
50% weight	52 241	75 541	93 891	145	124
100% weight	10 048 695	10 782 476	11 879 338	107	110
0.0 conversion ratio	51 199	43 699	57 604	85	132
0.1 conversion ratio	456 896	396 664	481 880	87	121
0.5 conversion ratio	2 227 852	2 291 106	2 473 318	103	108
1.0 conversion ratio	428 413	399 567	390 411	93	98
RISK-WEIGHTED BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	11 918 650	12 667 026	13 904 675	106	110
Average risk weight	60.2%	60.3%	60.2%	100	100

Graph 17: Structure of Net Exposure of Banks by Credit Risk Weight



In 2017, total net exposure of banks (before being weighted) increased by 10%. As of 31.12.2017, risk-weighted balance sheet and off-balance sheet items (after being weighted) amounted to KM 13.9 billion, with a 10% growth rate, which was primarily influenced by an increase in items with a 100% weight (mostly refers to the loan portfolio being up). As a result of the aforementioned, the average risk weight decreased slightly from 60.3% to 60.2%.

The same trend was seen with respect to the weighted operational risk (WOR), which rose (4%) and amounted to KM 1 billion as of 31.12.2017. All of this resulted in an increase in total risk-weighted assets by 9% or KM 1 billion, i.e. to the level of KM 15 billion. As of 31.12.2017, the share of risk-weighted balance and off-balance sheet assets exposed to credit risk amounted to 93% and to 7% on the basis of operational risk.

One of the key indicators of capital strength and adequacy[13] of banks is the capital adequacy ratio, which constitutes a ratio between net capital and risk-weighted assets. At the banking sector level, this ratio stood at 15.5% as of 31.12.2017, down by 0.2 percentage points compared to the end of 2016. Annex 6 provides a Report on the capital condition and adequacy of banks in the Federation of BiH.

The indicator of capital strength and quality is the ratio of the core capital (Tier I) and total risk assets, which amounted to 14.8% at the level of the banking sector as of 31.12.2017. Banks have the obligation to intend part of the core capital above 9% of total risk assets to cover the risks related to preventive protection from potential losses in times of 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. Two other protective layers were prescribed – a countercyclical protective layer and a protective layer for systemic risk, which the FBA would determine by a special resolution, if necessary.

Banks are required to establish and maintain the financial leverage ratio as an additional security and a simple capital hedge, at least in the amount of 6%. The financial leverage ratio at the level of the banking sector amounted to 9.6% as of 31.12.2017 (9.7% at the end of 2016).

For the past few years, the capital adequacy of the banking sector has been continuously maintained at a level above 15%, which is a satisfactory capitalisation rate at system-level. 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.

Problems related to non-performing loans and items not covered by loan loss provisions (net non-performing assets) may impact and cause weakening of the capital base in several banks in the period to come, although a positive trend of decrease in non-performing assets and an improvement of the net non-performing assets/core capital ratio was recorded. In 2017, net non-performing assets amounted to KM 244 million and the ratio to 11%, which can be considered a moderate level.

- KM 000 -

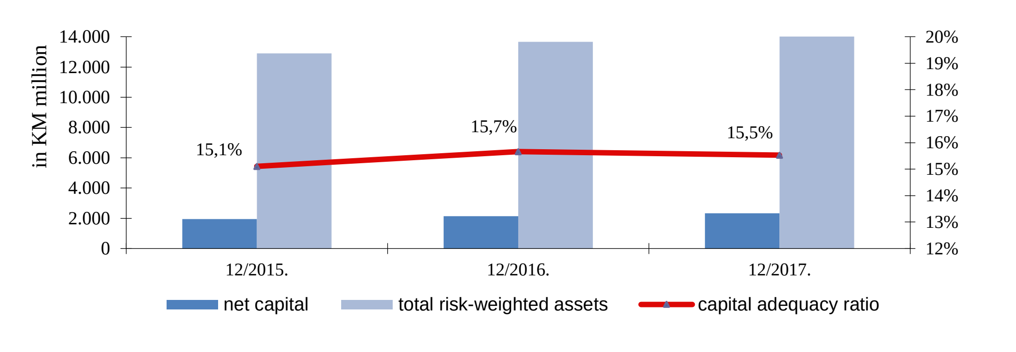
Table 21: Net Capital, Total Weighted Risks and Capital Adequacy Ratio

DESCRIPTION	31.12.2015	31.12.2016	31.12.2017	INDEX	
1	2	3	4	5(3/2)	6(4/3)
1. NET CAPITAL	1 951 342	2 140 399	2 321 164	110	108
2. RISK-WEIGHTED BALANCE SHEET AND OFF-BALANCE SHEET ITEMS	11 918 650	12 667 026	13 904 675	106	110
3. WOR (WEIGHTED OPERATIONAL RISK)	976 734	1 001 018	1 042 691	102	104
4. TOTAL RISK-WEIGHTED ASSETS (2+3)	12 895 384	13 668 044	14 947 366	106	109
5. NET CAPITAL RATIO (CAPITAL ADEQUACY) (1/ 4)	15.1%	15.7%	15.5%	104	99

The graph below provides an overview of net capital, total risk-weighted assets and the capital adequacy ratio.

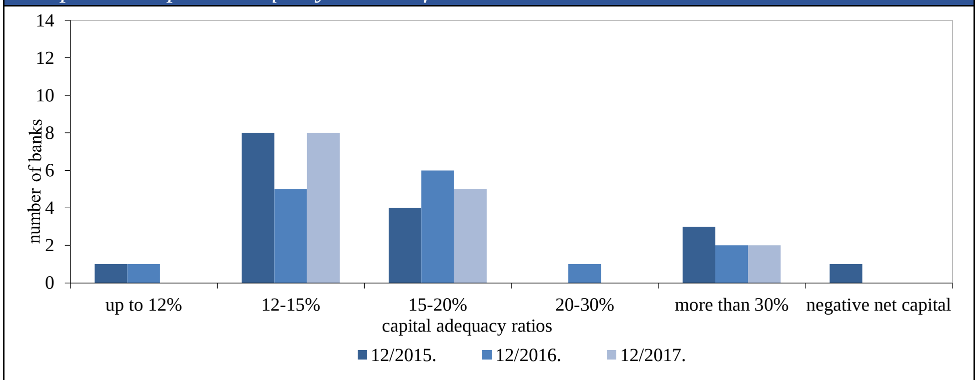
[13] The legally defined minimum capital adequacy ratio is 12%.

Graph 18: Net Capital, Risk-Weighted Assets and Capital Adequacy Ratio



The capital adequacy ratio of the banking system as of 31.12.2017 was 15.5%, 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 19: Capital Adequacy Ratios of Banks



As of 31.12.2017, all 15 banks in the Federation of BiH had capital adequacy ratios that were above the legal minimum of 12%. According to analytical data, 7 banks had a capital adequacy ratio below the one at the end of 2016, while 8 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 14% (12.8% and 13.2%),
- 11 banks had a ratio between 14% and 18%,
- 2 banks had a ratio between 33.3% and 41.1%.

By supervising the operations and financial condition of banks in the Federation of BiH 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 FBA instructed banks to take appropriate measures to strengthen their capital base and ensure capital adequacy in terms of the level and profile of the existing and potential exposure to all risks inherent to banking operations, primarily credit risk, as the dominant risk banks are exposed to in their business operations.

As has been the case before, the priority task of most of banks in the system is to maintain a strong and adequate capital base, wherein the focus is placed on large banks in the system, as well as 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 reflects on the capital and represents a realistic possibility for additional weakening of the capital base, is also under special supervision. 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.

3.4. Assets and Asset Quality

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

When assessing banks' exposure to credit risk, banks are required to continue calculating loan loss provisions (LLP) 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 (calculated in accordance with the applicable international accounting standards), while also taking into account LLP formed from profit (found on capital accounts).

- in KM 000 -

Table 22: Assets (BS and off-BS), Loan Loss Provisions according to the Regulator and Value Adjustments According to IAS)

DESCRIPTION	31.12.2015	31.12.2016	31.12.2017	INDEX	
1	2	3	4	5(3/2)	6(4/3)
1. Risk-weighted assets[14]	14 850 813	15 678 467	17 224 329	106	110
2. Calculated regulatory reserves for loan losses	1 507 523	1 533 712	1 492 475	102	97
3. Value adjustment and reserves for off-balance sheet items	1 269 548	1 294 471	1 262 277	102	97
4. Required regulatory reserves formed from profit for assessed	408 247	405 019	402 640	99	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	204 558	200 035	198 771	98	99
7. Non-risk bearing items	6 797 824	7 175 607	7 699 195	106	107
8. TOTAL ASSETS (1+7)	21 648 637	22 854 074	24 923 524	106	109

Total assets with off-balance sheet items (assets)[15] of banks in the Federation of BiH amounted to KM 25 billion as of 31.12.2017 and are up by +% or KM 2.1 billion compared to the end of 2016. Risk-weighted assets amount to KM 17.2 billion and are up by 10% or KM 1.5 billion. Non-risk weighted items amount to KM 7.7 billion or 31% of total assets with off-balance sheet items, thus being up by 7% or KM 524 million compared to the end of 2016.

Total calculated loan loss provisions based on regulatory requirements are down (3% or KM 41 million) and amount to KM 1.5 billion, while formed value adjustments for balance sheet assets and provisions for losses are down by 3% or KM 32 million, amounting to KM 1.3 billion.

Required regulatory reserves[16] amount to KM 403 million and are down by 1% or KM 2 million. Formed regulatory reserves from profit in the amount of KM 316 million are at the same level as at the end of 2016. As of 31.12.2017, the shortfall of regulatory reserves[17] amounts to KM 199 million, thus being down by 1% or KM 1.3 million compared to the end of 2016.

[14] Does not include amount of facilities and contingent liabilities of KM 217 million that is secured with a cash deposit.

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

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

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

- in KM 000 -

Table 23: Total Assets, Gross Balance-Sheet Assets, Risk-Weighted and Non-Risk Weighted Assets Items

DESCRIPTION	31.12.2015		31.12.2016		31.12.2017		INDEX	
	Amount	Struct. %	Amount	Struct.%	Amount	Struct.%		
1.	2	3	4	5	6	7	8 (4/2)	9 (6/4)
Loans	10 186 613	84.1	10 850 532	84.2	11 910 826[18]	83.6	106	110
Interest	71 680	0.6	69 237	0.5	66 894	0.5	97	97
Past due receivables	1 161 853	9.6	1 164 973	9.0	1 036 949	7.3	100	89
Receivables on paid guarantees	24 648	0.2	26 537	0.2	31 080	0.2	108	117
Other facilities	139 457	1.1	138 995	1.1	400 584	2.8	100	288
Other assets	526 871	4.4	638 228	5.0	814 496	5.6	121	124
1. RISK-WEIGHTED BALANCE SHEET ASSETS	12 111 122	100.0	12 888 502	100.0	14 260 829	100.0	106	111
2. NON-RISK WEIGHTED BALANCE SHEET ASSETS	6 289 910		6 745 740		7 172 606		107	106
3. GROSS BALANCE SHEET ASSETS (1+2)	18 401 032		19 634 242		21 433 435		107	109
4. RISK-WEIGHTED OFF-BS ITEMS	2 739 691		2 789 965		2 963 500		102	106
5. NON-RISK WEIGHTED OFF-BS ITEMS	507 914		429 867		526 589		85	122
6. TOTAL OFF-BS ITEMS (4+5)	3 247 605		3 219 832		3 490 089		99	108
7. RISK-WEIGHTED ASSETS WITH OFF-BS ITEMS (1+4)	14 850 813		15 678 467		17 224 329		106	110
8. NON-RISK WEIGHTED ITEMS (2+5)	6 797 824		7 175 607		7 699 195		106	107
9. ASSETS WITH OFF-BS ITEMS (3+6)	21 648 637		22 854 074		24 923 524		106	109

Gross balance sheet assets[6] amount to KM 21.4 billion and are up by 9% or KM 1.8 billion compared to the end of 2016. Risk-weighted balance sheet assets amount to KM 14.3 billion or 66% of gross balance sheet assets (thus being up by 11% or KM 1.4 billion). Non-risk weighted balance sheet assets amount to KM 7.2 billion and are up by 6% or KM 427 million.

Off-balance sheet risk-weighted items in the amount of KM 3 billion are up by 6% or KM 173 million compared to the end of 2016, while non-risk weighted items amount to KM 527 million and are up by 22% or KM 97 million.

In 2017, credit growth in the amount of 7% or KM 909 million was recorded (6% or KM 659 million in 2016). As of 31.12.2017, loans amounted to KM 13.2 billion, with a share of 65.2% (-1.6 percentage points).

In 2017, a total of KM 11 billion of new loans was approved, up by 19% or KM 1.7 billion compared to the previous year. Out of the total loans approved, 72% relate to the corporate segment and 25% to the retail segment, as was the case at the end of 2016. The maturity structure of the newly-approved loans: 44% long-term loans, 56% short-term loans (at the end of 20165: 45% long-term loans, 55% short-term loans).

The three largest banks in the Federation of BiH have an aggregate amount of approved loans of KM 7 billion, thus holding a share of 54% in total loans at the
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 24: Loan Structure by Sector

SECTORS	31.12.2015		31.12.2016		31.12.2017		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Government institutions	250 805	2.2	265 892	2.2	245 102	1.9	106	92
Public companies	269 507	2.3	226 891	1.8	210 461	1.6	84	93
Private companies and enterprises	5 328 591	45.9	5 756 280	46.9	6 295 558	47.8	108	109
Banking institutions	5 701	0.0	58	0.0	12	0.0	1	21

[18] This does not include the loan amount of KM 168 million covered by a cash deposit (included in non-risk weighted assets of the balance sheet).

Non-banking financial institutions	41 542	0.4	40 365	0.3	58 992	0.4	97	146
Retail	5 705 684	49.1	5 972 074	48.7	6 358 707	48.2	105	106
Other	8 914	0.1	8 668	0.1	10 028	0.1	97	116
TOTAL	11 610 744	100.0	12 270 228	100.0	13 178 860	100.0	106	107

The growth rate of loans to private companies amounted to 9% or KM 539 million (in 2016, an increase in the amount of 8% or KM 428 million was recorded), so that this sector's loans amounted to KM 6.3 billion and had a share of 47.8% (+0.9 percentage points) as of 31.12.2017. The increase in loans to the retail sector amounted to 6% or KM 387 million (in 2016, an increase in the amount of 5% or KM 266 million was recorded), while the share decreased slightly from 48.7% to 48.2%. As of 31.12.2017, they amounted to KM 6.4 billion.

According to information submitted by the banks (as of 31.12.2017) the retail loan structure by purpose is almost the same as at the end of 2016: consumer loans hold a share of 81%, followed by housing loans with 17%, while the remaining 2% refer to loans to small crafts, small businesses and agriculture. As was the case at the end of 2016, the three largest banks in the system have approved 61% of retail loans and 46% of loans to private companies out of the total number of loans approved to these sectors.

In the currency structure of loans, the largest share of 54.2% or KM 7.1 billion refers to currency clause loans (EUR: KM 7 billion or 99%, CHF: KM 66 million or 1%), followed by local currency loans with a share of 45.3% or KM 6 billion, while the smallest share of just 0.5% or KM 59 million refers to foreign currency loans (almost the entire amount thereof refers to EUR: KM 54 million or 93%). The total amount of loans with a currency clause in CHF of KM 66 million has a 0.5% share in the total loan portfolio and refers almost entirely to one bank in the system (0.9% at the end of 2016).

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

- in KM 000 -

Table 25: Asset Classification, General Credit Risk (GCR) and Potential Loan Losses (PLL)

Classification category	31.12.2015			31.12.2016			31.12.2017			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	12 316 066	82.9	246 321	13 166 182	84.0	263 324	14 834 609	86.1	296 693	107	113
B	950 153	6.4	76 023	982 398	6.3	77 167	1 032 373	6.0	82 700	103	105
C	301 862	2.0	75 796	224 335	1.4	58 086	166 456	1.0	45 486	74	74
D	426 025	2.9	252 682	423 766	2.7	253 348	301 598	1.7	178 304	99	71
E	856 707	5.8	856 701	881 786	5.6	881 787	889 293	5.2	889 292	103	101
Risk-weighted assets (A-E)	14 850 813	100.0	1 507 523	15 678 467	100.0	1 533 712	17 224 329	100.0	1 492 475	106	110
Classified (B-E)	2 534 747	17.1	1 261 202	2 512 285	16.0	1 270 389	2 389 720	13.9	1 195 782	99	95
Non-performing (C-E)	1 584 594	10.7	1 185 179	1 529 887	9.8	1 193 221	1 357 347	7.9	1 113 082	97	89
Non-risk weighted assets [19]	6 797 824			7 175 607			7 699 195			106	107
TOTAL (risk-weighted and non-risk weighted)	21 648 637			22 854 074			24 923 524			106	109

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 first indicator and a warning sign of potential problems with loan repayment is an increase in past due receivables and their share in total loans. As of 31.12.2017, past due receivables amounted to KM 1.1 billion, down by 10% or KM 123 million compared to the end of the previous year.

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

When analysing the quality of risk-weighted assets through trends and changes of key indicators, it can be concluded that key indicators of asset quality continued the trend of improvement in 2017, largely due to the effect of credit growth. In some banks, these indicators showed slight changes, i.e. there were seven banks with ratios of the share of classified (compared to risk-weighted assets) below the level of the banking system, while there were five banks with ratios of the share of non-performing assets (compared to risk-weighted assets) below the level of the banking system. Annex 7 and 7a provide a classification of balance sheet assets and off-balance sheet risk-weighted items. As of 31.12.2017, classified assets amounted to KM 2.4 billion and non-performing assets to KM 1.4 billion. Classified assets (B-E) decreased by 5% or KM 123 million compared to the end of 2016 (in 2016, there was a drop of 1% or KM 22 million). Category B increased by 5% or KM 50 million. Non-performing assets (C-E) decreased by 11% or KM 173 million, with it being noted that the permanent write-off of assets in 2017 amounted to KM 125 million (in 2016, non-performing decreased by 3% or KM 55 million).

The ratio expressed through the share of classified assets in risk-weighted assets is 13.9%, and the 2.1% drop compared to the end of 2016 is exclusively the result of an increase in risk-weighted assets by 10% or KM 1.5 billion. The most significant indicator of asset quality is the ratio between non-performing assets and risk-weighted assets, which amounts to 7.9%, down by 1.9 percentage points compared to the end of 2016.

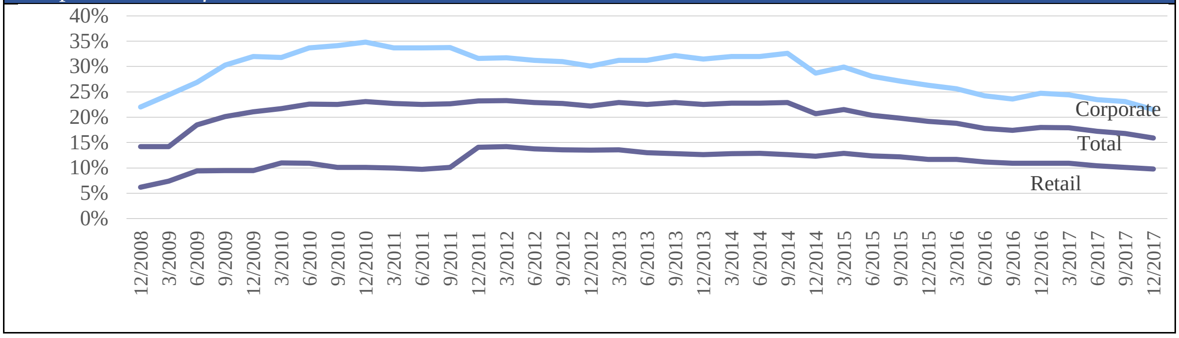
Sector-level data analysis is based on loan quality indicators for two key sectors: corporate and retail. The two aforementioned indicators for these sectors show major deviation and point to a higher exposure to credit risk and consequently to potential loan losses regarding the corporate segment.

Table 26: Classification of Corporate and Retail Loans

Classification category	31.12.2016						31.12.2017						
	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	5 319 385	89.1	4 744 319	75.3	10 063 704	82.0	5 732 970	90.1	5 356 474	78.5	11 089 185	84.2	110
B	161 278	2.7	600 184	9.7	770 462	6.3	163 628	2.6	651 859	9.6	816 141	6.2	106
C	61 962	1.0	149 040	2.4	211 002	1.7	61 371	1.0	98 470	1.4	159 449	1.2	76
D	77 142	1.3	329 597	5.2	406 739	3.3	46 850	0.7	243 681	3.6	293 141	2.2	71
E	352 307	5.9	466 014	7.4	818 321	6.7	353 889	5.6	469 668	6.9	820 953	6.2	101
TOTAL	5 972 074	100.0	6 298 154	100.0	12 270 228	100.0	6 358 708	100.0	6 820 152	100.0	13 178 869	100.0	107
Class. loans. B-E	652 689	10.9	1 553 835	24.7	2 206 524	18.0	625 738	9.8	1 463 678	21.5	2 089 684	15.9	95
Non-perf. loans C-E	491 411	8.2	944 651	15.0	1 436 062	11.7	462 110	7.3	811 819	11.9	1 273 543	9.7	89
		48.7		51.3		100.0		48.2		51.8		100.0	
Individual sector's share in classified loans, non-performing loans and category B:													
Categories B-E		29.6		70.4		100.0		29.9		70.1		100.0	
Non-performing C-E		34.2		65.8		100.0		36.3		63.7		100.0	
Category B		20.9		79.1		100.0		20.1		79.9		100.0	

Loan quality indicators improved in 2017 and the share of classified loans dropped to 15.9% (-2.1 percentage points) due to, on the one hand, classified loans being down by 5% or KM 117 million and, on the other hand, the aforementioned increase in total loans. Classified loans of both sectors saw a decrease: retail loans went down by 4% or KM 27 million, while corporate loans went down by 6% or KM 90 million.

Graph 20: Classified Loans



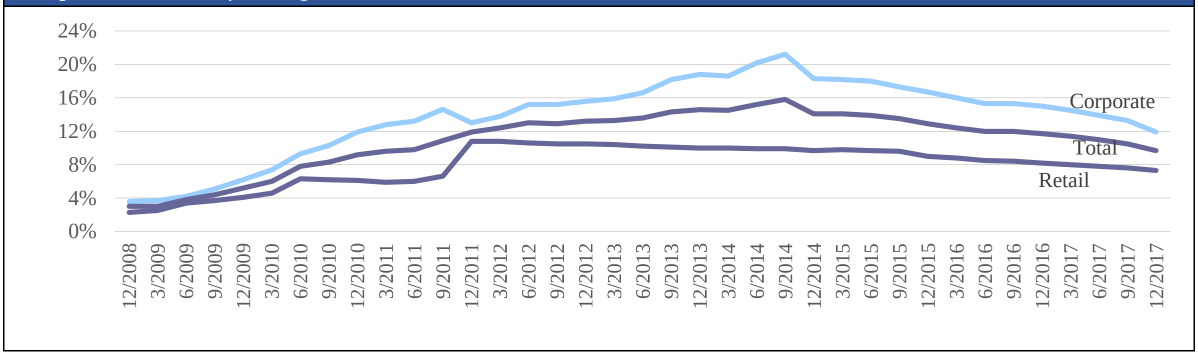
The share of non-performing loans decreased from 11.7% to 9.7% as a result of a credit growth in the amount of 7% or KM 909 million and a decrease in total non-performing loans by 11% or KM 162 million, with it being noted that the permanent write-off amounted to KM 121 million.

Non-performing corporate loans decreased by 14% or KM 133 million, while the retail segment recorded a drop in the amount of 6% or 29 million KM compared to the end of 2016.

Out of the total approved corporate loans in the amount of KM 6.8 billion, 21.5% or KM 1.5 billion of loans were classified within categories B to E as of 31.12.2017, which is a 3.2% decrease compared to the end of 2016. This indicator is much better for the retail segment, which correlates with the degree of risk associated with lending to these two sectors.

Out of the total approved retail loans in the amount of KM 6.4 billion, there were KM 626 million or 9.8% of loans classified in the aforementioned categories, which is down by 1.1 percentage points compared to the end of 2016.

Graph 21: 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 64% and retail loans a share of 36% (31.12.2016: 66% corporate, 34% retail). In 2017, the share of non-performing loans in both the retail and the corporate segment dropped as a result of previously mentioned factors: a decrease in both non-performing retail loans (6% or KM 29 million) and non-performing corporate loans (14% or KM 133 million), as well as credit growth (6% or KM 387 million retail and 8% or KM 522 million corporate).

Out of total approved corporate loans, non-performing loans account for 11.9% or KM 812 million, which is down by 3.1 percentage points compared to the end of 2016 (this share fell by 1.7 percentage points in 2016 as well). The indicator of the share of non-performing loans amounts to 7.3% or KM 462 million in the retail segment, down by 0.9 percentage points (the share dropped by 0.8 percentage points in 2016).

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).

- in KM 000 -

Table 27: Concentration of Loans by Industry Sector

DESCRIPTION	31.12.2016				31.12.2017				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)	143 318	1.2	24 461	17.1	206 554	1.6	30 860	14.9	144	126
Production (IND)	1 792 572	14.6	328 438	18.3	1 986 437	15.1	281 513	14.2	111	86
Construction (CON)	443 523	3.6	78 173	17.6	428 151	3.2	67 845	15.8	97	87
Trade (TRD)	2 398 752	19.5	313 660	13.1	2 589 004	19.6	290 802	11.2	108	93
Catering (HTR)	239 322	2.0	16 182	6.8	243 136	1.8	11 536	4.7	102	71
Other[20]	1 280 667	10.4	183 737	14.3	1 366 870	10.4	129 263	9.5	107	70
TOTAL 1.	6 298 154	51.3	944 651	15.0	6 820 152	51.7	811 819	11.9	108	86
2. Retail loans for:										
General consumption	4 795 884	39.1	310 215	6.5	5 188 942	39.4	317 089	6.1	108	102
Housing	1 051 760	8.6	155 825	14.8	1 065 987	8.1	126 907	11.9	101	81
Business activities (small business owners)	124 430	1.0	25 371	20.4	103 779	0.8	18 114	17.5	83	71
TOTAL 2.	5 972 074	48.7	491 411	8.2	6 358 708	48.3	462 110	7.3	106	94
TOTAL (1. + 2.)	12 270 228	100	1 436 062	11.7	13 178 860	100	1 273 929	9.7	107	89

The largest share in total corporate loans refers to the trade sector (19.6%) and the production sector (15.1%), while the retail segment is dominated by general consumption loans (39.4%) and housing loans (8.1%; 31.12.2016: corporate segment: 19.5% trade and 14.6% production, retail segment: 39.1% general consumption and 8.6% housing loans).

The indicator of the share of non-performing loans is particularly high in the construction sector, which has a low share of merely 3.2% in total loans, and it amounts to 15.8%, down by 1.8 percentage points (in 2016, the share dropped by as much as 9.1 percentage points). The agricultural sector, which has the lowest share of 1.6%, has a significant share of non-performing loans in the amount of 14.9%, which is down by 2.2 percentage points compared to the end of the previous year.

The focus is on the two sectors with the highest share in total loans – the trade sector (19.6%) and the production sector (15.1%). The amount of loans to the production sector (KM 2 billion) was up by 11% or KM 194 million in 2017, while non-performing loans decreased by 14% or KM 47 million, i.e. to the level of KM 282 million. The share, although down by 4.1 percentage points, remained a high 14.2% (in 2016, the drop amounted to 7% or KM 24 million, and the share amounted to 18.3%, down by 2.9 percentage points).

Trade sector lending was up by 8% or KM 190 million in 2017, i.e. to the level of KM 2.6 billion. Non-performing loans in this sector went down by 7% or KM 23 million, amounting to KM 291 million as of 31.12.2017, while the share amounted to 11.2%, down by 1.9 percentage points (in 2016, an increase of 3% or KM 10 million was recorded and the share dropped from 13.2% to 13.1%), which is a better indicator compared to that of the production sector.

The retail segment is dominated by general consumption loans, which also have the largest share in total loans (39.4%). In 2017, these loans recorded an increase in the amount of 8% or KM 393 million, housing loans recorded a slight increase in the amount of 1% or KM 14 million, while loans to small business owners went down by 17% or KM 21 million. The poorest indicator of the non-performing loans share in the amount of 17.5% (at the end of 2016: 20.4%) refers to loans to small business owners whose share in total loans is a low 0.8%. A relatively high share of non-performing loans in the amount

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

of 11.9% refers to housing loans (at the end of 2016: 14.8%), while general consumption loans hold the lowest share of non-performing loans in the amount of 6.1% (at the end of 2016: 6.5%).

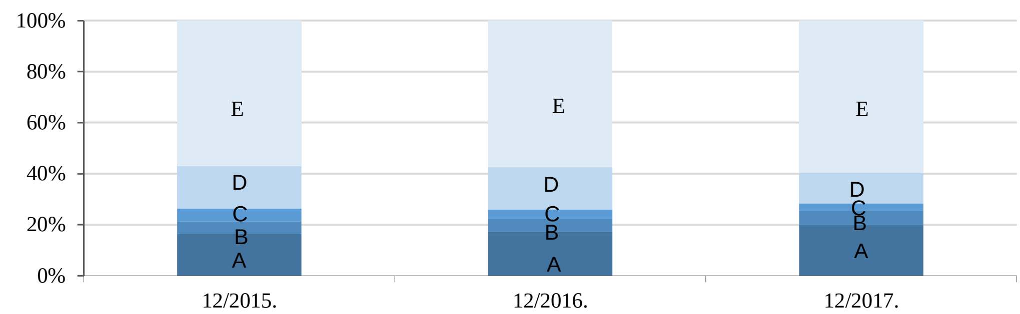
The general credit risk level and estimated potential loan losses by classification category, as determined in accordance with the criteria and methodology defined by the decisions of the FBA, along with their trend and structure at the banking sector level, is provided in the table and graph below.

Table 28: Structure and Trend of General Credit Risk and Potential Loan Losses

Classification category	AMOUNT (in KM 000) AND STRUCTURE (in %)						INDEX	
	31.12.2015		31.12.2016		31.12.2017			
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
A	246 321	16.3	263 324	17.2	296 693	19.9	107	113
B	76 023	5.0	77 167	5.0	82 700	5.5	102	107
C	75 796	5.0	58 086	3.8	45 486	3.1	77	78
D	252 682	16.7	253 348	16.5	178 304	11.9	100	70
E	856 701	57.0	881 787	57.5	889 292	59.6	103	101
TOTAL	1 507 523	100.0	1 533 712	100.0	1 492 475	100.0	102	97

The graph below shows the structure and trend of general credit risk and potential loan losses.

Graph 22: Structure and Trend of General Credit Risk and Potential Loan Losses



Based on an analysis of the calculated loan loss provisions (in aggregate terms and by classification category) compared to the end of 2016, the reserves for general credit risk (category A) and potential loan losses are down by 3% or KM 41 million, amounting to KM 1.5 billion. The reserves for general credit risk are up by 13% or KM 33 million, while the reserves for potential loan losses are down by 6% or KM 75 million compared to the end of 2016.

The reserves for category B are up by 7% or KM 6 million and amount to KM 83 million, while the reserves for non-performing assets are down by 7% or KM 80 million, i.e. amount to KM 1.1 billion, as a result of changes, i.e. items moving from category C to category D and from category D to category E and as a result of a significant write-off of items in category E. Due to the aforementioned, reserves for category C are down by 22% or KM 13 million, reserves for category D are down by 30% or KM 75 million, while reserves for category E are up by 1% or KM 7 million.

One of the key indicators of asset quality is the ratio between potential loan losses (PLL) and risk-weighted assets with off-balance sheet items. This ratio amounts to 6.9% and is down by 1.2 percentage points compared to the end of 2016. As of 31.12.2017, banks had on average calculated reserves in the amount of 8% for category B, 27% for category C, 60% for category D and 100% for category E, as was the case at the end of 2016.[21]

[21] According to the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks, banks are required to calculate loan loss provisions 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-weighted off-balance sheet items (previously called costs of loan loss provisions).

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 FBA) is provided in the table below.

Table 29: Assessment and Valuation of Risk-Weighted Items According to IAS 39 and IAS 37

DESCRIPTION	AMOUNT (in KM 000) AND SHARE (in %)				INDEX
	31.12.2016		31.12.2017		
	Amount	Share	Amount	Share	
1	2	3	4	5	6 (4/2)
1. RISK-WEIGHTED ASSETS (a+b)	15 678 467	100.0%	17 224 329	100.0%	110
a) Default items	1 601 0221	10.2%	1 418 698	8.2%	89
a.1. BS-items in default	1 574 439		1 405 930		89
a.2. off-BS items in default	26 583		12 768		48
b) Performing assets	14 077 445	89.8%	15 805 631	91.8%	112
1.1 TOTAL VALUE ADJUSTMENTS FOR RISK-WEIGHTED ASSETS		100.0%	1 262 277	100.0%	97
a) Value adjustments for default		86.4%	1 049 770	83.2%	94
a.1. Value adjustment for BS-items in default	1 102 461		1 041 270		94
a.2. reserves for off-BS items in default	16 433		8 500		52
b) Value adjustments for performing assets (IBNR[22])	175 577	13.6%	212 507	16.8%	121
2. TOTAL LOANS (a+b)	12 270 228	100.0%	13 178 860	100.0%	107
a) Defaulted loans (non-performing loans)	1 518 811	12.4%	1 347 134	10.2%	89
b) Performing loans	10 751 417	87.6%	11 831 726	89.8%	110
2.1. VALUE ADJUSTMENT FOR LOANS (a+b)	1 193 721	100.0%	1 166 804	100.0%	98
a) Value adjustments for defaulted loans	1 055 454	88.4%	998 636	85.6%	95
b) Value adjustments for performing loans (IBNR loans)	138 267	11.6%	168 168	14.4%	122
Coverage rate of default items	69.9%		74.0%		
Coverage rate of performing assets	1.2%		1.3%		
Coverage rate of risk-weighted assets with total value adjustments	8.3%		7.3%		

In 2017, default loans went down by 11% or KM 172 million (in 2016: down by 5% or KM 87 million), while non-performing loans remained decreased by 11% or KM 162 million compared to the end of 2016. The share of default loans in total loans is down by 2.2 percentage points and amounts to 10.2% and the share of non-performing loans amounts to 9.7%. The share of all default items in total risk-weighted assets is down by 2 percentage points and amounts to 8.2%.

The coverage rate of default items with value adjustments is up and amounts to 74% (at the end of 2016: 69.9%) due to the drop in the amount of default (11% or KM 182 million) being larger than the decrease in value adjustments (6% or KM 69 million). The coverage rate of non-performing assets with loan loss provisions is up and amounts to 82% (at the end of 2016: 78%).

The coverage rate of performing assets is up by 0.1 percentage points and amounts to 1.3%, while the coverage rate of risk-weighted assets with total value adjustments is down and amounts to 7.3% (at the end of 2016: 8.3%). The coverage ratio of risk-weighted assets with total calculated regulatory reserves for loan losses (reserves for general credit risk and special reserves for loan losses) decreased from 9.8% to 8.7%.

Due to 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). According to reports filed by banks in the Federation of BiH as of 31.12.2017, there was a total of 1 205 802 loan accounts, 838 of which were being repaid by guarantors (957 guranators). The share of loans and number

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

of loan accounts being repaid guarantors in relation to information for the overall system is low and amounts to a mere 0.17% and 0.07%.

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

Banks in which the FBA identified (through bank examinations) low asset quality and poor practices of credit risk management and/or which displayed adverse trends, i.e. decrease in asset quality, were ordered to apply corrective actions in the sense of drafting an operational program for the management of non-performing assets, which had to contain an action plan for the improvement of existing practices of credit risk management, i.e. asset quality management, for the reduction of existing concentrations and for solving the problem of non-performing assets and preventing their further impairment, as well as for strenghtening the risk function, i.e. its significance and quality.

Compliance with the FBA's orders is being continuously monitored through an intensified follow-up process based on reports and other documentation submitted by banks, as well as through targeted on-site examinations. The supervision of this segment of operations has been intensified, especially since the aforementioned significantly impact 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 FBA has established certain prudential principles and requirements for transactions with bank-related entities and the bank bodies are required to adopt special bank policies for operations with related entities and to monitor their implementation.

The FBA also prescribed 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 30: Transactions with Related Entities

DESCRIPTION	LOANS APPROVED[23]			INDE	
	31.12.2015	31.12.2016	31.12.2017	3/2	4/3
1	2	3	4	5	6
To shareholders with over 5% voting rights, subsidiaries and other related entities	89 014	126 956	127 077	143	100
To members of the Supervisory Board and Audit Board	446	581	533	130	92
To the bank Management	3 023	2 516	3 230	83	128
TOTAL	92 483	130 053	130 840	141	101
Contingent and assumed off-balance sheet liabilities	9 326	7 227	9 705	77	134

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

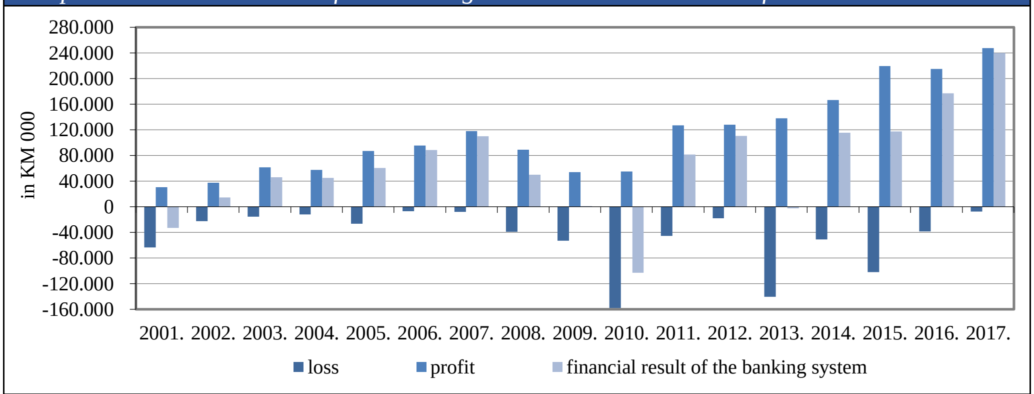
During the reporting period, loan exposures to related entities increased by 1%, while contingent liabilities increased by 34% due to an increase in exposures in the case of one bank,. Based on the presented data, it can be concluded that the volume of loans and guarantees with related entities is low, as is the level of risk.

It is evident that this risk is significantly higher in banks that have a dispersed ownership structure, i.e. in banks owned by residents. The FBA pays special attention 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 FBA'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.

3.5. Profitability

According to the final unaudited data from the financial report showing the business performance of banks (income statement) for 2017, a positive financial result – profit in the amount of KM 240 million – was recorded at the level of the banking system in the Federation of BiH, up by 39% or KM 67 million compared to the end of 2016 (after tax), and it represents the best result recorded so far. It should be noted that the second-highest profit was recorded in the previous year (KM 173 million), followed by the profit recorded in 2015 (KM 117 million). Annex 8 shows the income statement of in the Federation of BiH according to the FBA model.

Graph 23: Financial Result of the Banking Sector in the Federation of BiH



A better financial result having been recorded compared to the previous year is the result of an increase in total income, supported by a significant increase in operating income (mostly service fees and one-off income), together with a present increase in net interest income as well (mainly as a result of a significant decrease in interest expenses) and a slight decrease in non-interest expenses.

A positive financial result in the amount of KM 247 million was recorded by 13 banks and it is up by 17% or KM 36 million compared to 2016. At the same time, an operating loss in the amount of KM 7 million was recorded by two banks and it is down by 81% or KM 31 million compared to the previous year.

- KM 000 -

Table 31: Recorded Financial Result: Profit/Loss

DESCRIPTION	31.12.2015		31.12.2016		31.12.2017	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7
Loss	-102 108	4	-38 305	2	-7 288	2
Profit	219 594	13	211 753	13	247 261	13
Total	117 486	17	173 248	15	239 973	15

Out of the total recorded profit (KM 247 million), 66% or KM 162 million refer to the two largest banks in the system with an assets share of 46.5% in the banking sector, while the KM 7 million loss refers to two banks. Analytical data indicate that a total of eight banks has a better financial result (by KM 82 million), while seven banks have a poorer financial result (by KM 15 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, largely on the basis of increased income from service fees (large banks), reduced interest expenses, occasional one-off income and it is greatly influenced by the fluctuating trends of value adjustment costs.

It should be noted that there was a decrease in non-performing loans in late 2015 and 2016, with a downward trend present in 2017 as well, primarily as a result of the significant amount of the permanent write-off, which correlates with the trends of value adjustment costs, with it being noted that this was the most important factor affecting the improvement of the financial result in most banks following the implementation of IAS 39 and 37 (after 31.12.2011). The aforementioned, together with the results of the analysis of non-performing loans coverage with value adjustments, leads to the conclusion and suspicion that value adjustments are still undervalued and not at an adequate level in some banks. The FBA monitors the status of the implementation of acts related to the formation of value adjustments and undertakes measures in order to form them at an adequate level.

The total income of the banking system in 2017 amounted to KM 1 billion and it is up by 6% or KM 57 million compared to 2016. Net interest income amounted to KM 605 million, having increased by 3% or KM 18 million and holding a 59% share in the total income structure. Operating income, as the second component of total income, recorded an increase in the amount of 10% or KM 39 million, amounting to KM 422 million, which is a 41% share in the total income structure. On the expenses side, total non-interest expenses decreased by 2% or KM 13 million, amounting to KM 754 million.

Despite the increase in average interest-bearing loans by 8.9% as well as the fact that the increase in non-performing loans was halted, the reduced average interest rate on loans, which is the result of a decrease in active interest rates, resulted in a slight decrease in interest income. Although a number of banks recorded an increase in interest income compared to the previous year, due to intensified lending activities, lower interest income with the three largest banks largely affected their stagnation at the system level.

Interest income amounts to KM 755 million, almost the same level compared to the previous year (+0.3% or KM 2 million), with the share in the structure of total income being down from 77.6% to 73.5%. The largest share refers to loan interest income, which amounts to KM 670 million and is slightly down by 0.2% or KM 2 million, continuing the trend from previous years, which resulted in average interest rates on loans for the reporting period decreasing from 5.72% to 5.24% and the share in total income dropping from 69.3% to 65.3% (mostly due to an increase in total income).

In the structure of loan interest income, the largest portion (61%) refers to interest income from retail loans, which recorded a slight increase (+1%) compared to the previous year, amounting to KM 408 million, while the share of this sector amounts to 48% in the total loan portfolio (in 2017, the increase in loans to this sector amounted to 6% or KM 387 million). It is followed by interest income on loans to private companies, which hold a share of 35% and recorded a decrease in the amount of 3% (amounting to KM 236 million), while the loans of this sector hold a slightly increased share in the total loan portfolio of (48%, in 2017 they increased by 9% or KM 539 million).

Positive trends, as was the case in previous years, were recorded with respect to interest expenses, which had a rate of decrease in the amount of 9% or KM 15 million in 2017, while interest income, as has already been stated, remained at approximately the same level (+0.3% or KM 2 million). Interest expenses amounted to KM 150 million, and their share in the total income structure decreased from 17% to 14.6%.

Average interest-bearing deposits increased by 8.7%, and interest expenses on deposit accounts amounted to KM 125 million, the largest item in total interest expense in both relative and nominal terms, decreased by 13% or KM 18 million as a result of a change in structure the deposit base (higher share of deposits with lower interest rates) and a decrease in passive interest rates, which resulted in a decrease in average interest rates on deposits from 1.46% to 1.18% for the parallel period.

Interest expenses for loans taken and other borrowings amounted to KM 11 million and recorded a 5% decrease compared to the previous year, holding approximately the same share in total income in the amount of 1.1%. Other interest expenses increased by 74% or KM 3 million, amounting to approximately KM 7 million, with most of them (52%) referring to interest expenses for the CBBH based on negative interest rates on excess funds above the reserve requirement.

As a result of the decrease in interest expenses (-9%), together with approximately the same level of interest income (+0.3%), net interest income, as the most important and stable source of income of banks, increased by 3% or KM 18 million, amounting to KM 605 million and holding a 59% share in the total income structure.

Operating income amounted to KM 422 million, up by 10% or KM 39 million compared to the previous year, with its share in the total income structure having increased slightly to 41%. Within operating income, the largest share (64%) refers to service fees, which recorded an increase in the amount of 11% or KM 26 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 754 million and are down by 2% or KM 13 million compared to the previous year, which is the net effect of a significant increase in business and direct expenses (8% or KM 16 million) and a decrease in operating expenses (5% or KM 30 million). Their share in the total income structure decreased from 79% to 73%.

Value adjustment costs amounted to KM 112 million and are slightly up by 1% or KM 1 million compared to the previous year (which, in addition to a significant increase in value adjustment costs in several banks, was largely impacted by a decrease in value adjustment costs in two banks in the amount of KM 15 million on the basis of collection of non-performing receivables), while the share in the total income structure decreased from 11.5% to 10.9%.

In the structure of operating expenses, which amount to KM 527 million or 51% of total income, costs of salaries and contributions, as the largest item of operating expenses, increased (2%) and amount to KM 248 million or 24% of total income, costs of fixed assets are up by 2% and amount to KM 158 million, while other operating expenses decreased by 23% or KM 36 million (with one bank accounting for 98% of the decrease).

Banks undertake numerous measures to rationalise costs of operations, primarily to reduce operating expenses, which partly mitigated the adverse effects of the interest income decrease caused by the reduced volume of lending activities and the decrease in loan portfolio quality.

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

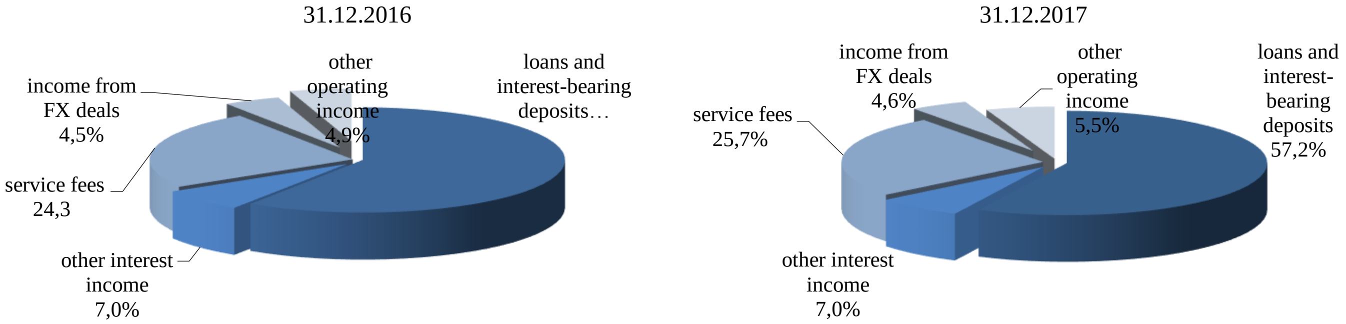
- in KM 000 -

Table 32: Total Income Structure

Total income structure	31.12.2015		31.12.2016		31.12.2017		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	1 574	0.1	1 877	0.2	2 653	0.2	119	141

Loans and leasing facilities	689 317	61.9	671 168	59.1	669 651	57.0	97	100
Other interest income	75 233	6.8	79 111	7.0	82 244	7.0	105	104
TOTAL	766 124	68.8	752 156	66.3	754 548	64.2	98	100
II Operating income								
Service fees	256 105	23.0	275 579	24.3	302 761	25.7	108	110
Income from FX deals	49 261	4.4	51 471	4.5	53 539	4.6	104	104
Other operating income	42 595	3.8	55 179	4.9	65 240	5.5	130	118
TOTAL	347 961	31.2	382 229	33.7	421 540	35.8	110	110
TOTAL INCOME (I + II)	1 114 085	100.0	1 134 385	100.0	1 176 088	100.0	102	104

Graph 24: Total Income Structure



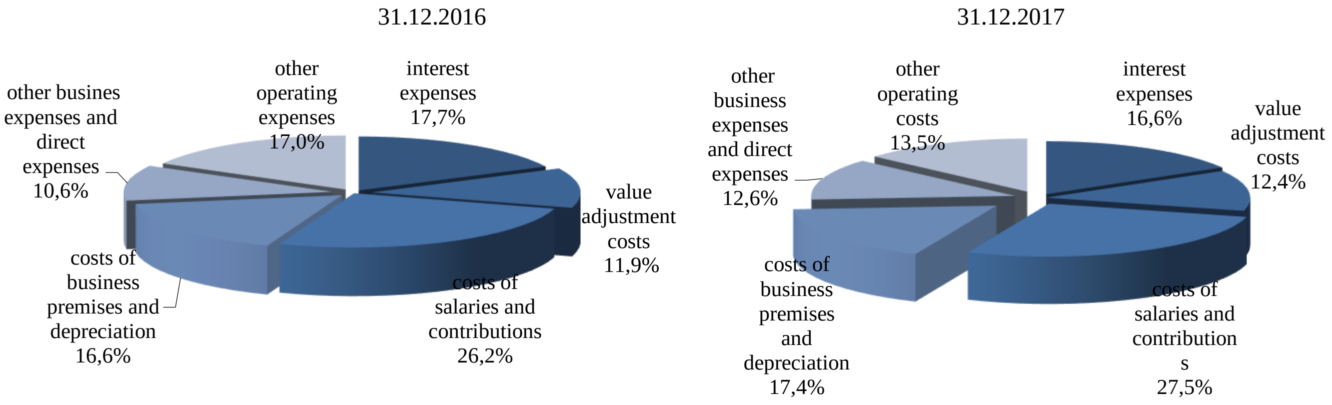
- in KM 000 -

Table 33: Total Expenses Structure

Total expenses structure	31.12.2015		31.12.2016		31.12.2017		INDEX	
	Amount	%	Amount	%	Amount	%		
1	2	3	4	5	6	7	8 (4/2)/	9 (6/4)
I Interest expenses and similar expenses								
Deposits	172 146	17.8	142 618	15.3	124 706	13.8	83	87
Liabilities based on loans and other borrowings	14 823	1.5	11 410	1.2	10 846	1.2	77	95
Other interest expenses	9 661	1.0	11 119	1.2	14 433	1.6	115	130
TOTAL	196 630	20.3	165 147	17.7	149 985	16.6	84	91
II Total non-interest bearing expenses								
Costs of value adjustment of risk-weighted assets and provisions for contingent liabilities and other value adjustments	157 747	16.3	111 305	11.9	112 074	12.4	71	101
Costs of salaries and contributions	248 495	25.6	243 892	26.2	248 113	27.5	98	102
Costs of business premises and depreciation	159 665	16.5	154 963	16.6	157 670	17.4	97	102
Other business expenses and direct expenses	89 577	9.2	98 593	10.6	114 096	12.6	110	116
Other operating expenses	117 274	12.1	158 184	17.0	121 689	13.5	135	77
TOTAL	772 758	79.7	766 937	82.3	753 642	83.4	99	98
TOTAL EXPENSES (I + II)	969 388	100.0	932 084	100.0	903 627	100.0	96	97

The graph below shows the total expenses structure of banks.

Graph 25: Total Expenses Structure



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

- in %-

Table 34: Profitability, Productivity and Efficiency Ratios by Period

RATIOS	31.12.2015	31.12.2016	31.12.2017
Profit from average assets	0.7	1.0	1.3
Profit from average total capital	4.6	6.5	8.5
Profit from average share capital	9.4	15.0	19.6
Net interest income/average assets	3.5	3.4	3.2
Operating income/average assets	2.1	2.2	2.2
Total income/average assets	5.6	5.6	5.4
Business expenses and direct expenses[24]/average assets	1.5	1.2	1.2
Operating expenses/average assets	3.2	3.2	2.8
Total non-interest expenses/average assets	4.7	4.4	3.9

An analysis of the key ratios for the assessment of profitability shows that the ROAA (return on average assets) increased from 1% to 1.3% due to significantly higher profit having been recorded compared to the previous year together with a lower increase in average assets and share capital, while the ROAE (return on average equity) increased significantly from 15% to 19.6%.

The banks' productivity, measured as a ratio between total income and average assets (5.4%), remained at approximately the same level, as did most other income-related indicators. The operating expenses/average assets ratio and the non-interest expenses/average assets ratio improved due to a simultanous decrease in expenses (on the basis of a decrease in other operating costs) and an increase in average assets.

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

The financial result of banks will be largely affected by the price and interest rate risk in terms of both sources of funding and an interest margin sufficient enough to cover all non-interest bearing expenses and thus eventually ensure a satisfactory return on invested capital for bank owners.

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

3.6. 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, the FBA prescribed a uniform manner of calculating and disclosing the effective interest rate for all banks seated in the Federation of BiH as well as the organisational units of banks seated in Republika Srpska and operating on the territory of the Federation of BiH. The effective interest rate represents an actual loan price, i.e. income earned on a deposit, expressed as an annual percentage.

[24] Expenses also include value adjustment costs.

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 FBA 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 the prescribed methodology and Instructions.[25]

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 2015, June and December 2016, as well as June and December 2017.

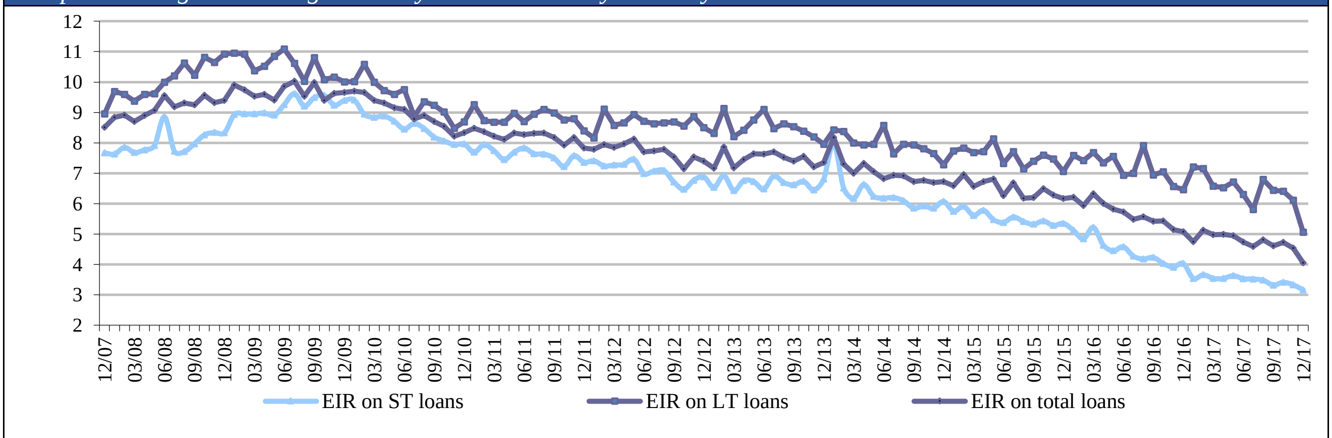
Table 35: Weighted Average NIR and EIR on Loans

DESCRIPTION	12/2015		06/2016		12/2016		06/2017		12/2017	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on short-term loans	4.89	5.35	4.15	4.58	3.69	4.03	3.25	3.53	2.94	3.16
1.1. Corporate	4.84	5.25	4.08	4.42	3.61	3.90	3.18	3.40	2.89	3.06
1.2. Retail	8.21	11.74	8.05	14.68	9.6	15.16	7.94	14.51	7.75	14.38
2. Weighted IR on long-term loans	6.18	7.06	5.93	6.93	5.60	6.46	5.32	6.30	4.28	5.06
2.1. Corporate	5.31	5.67	4.66	4.97	4.86	5.18	4.09	4.33	3.34	3.67
2.2. Retail	7.10	8.55	7.15	8.82	6.55	8.10	6.31	7.89	5.96	7.51
3. Total weighted IR on loans	5.51	6.17	5.01	5.72	4.51	5.07	4.14	4.74	3.57	4.05
3.1. Corporate	4.99	5.38	4.26	4.59	3.98	4.28	3.41	3.64	3.05	3.29
3.2. Retail	7.13	8.64	7.17	8.98	6.65	8.32	6.35	8.05	6.00	7.67

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

- in % -

Graph 26: Weighted Average Monthly EIR on Loans by Maturity



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

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

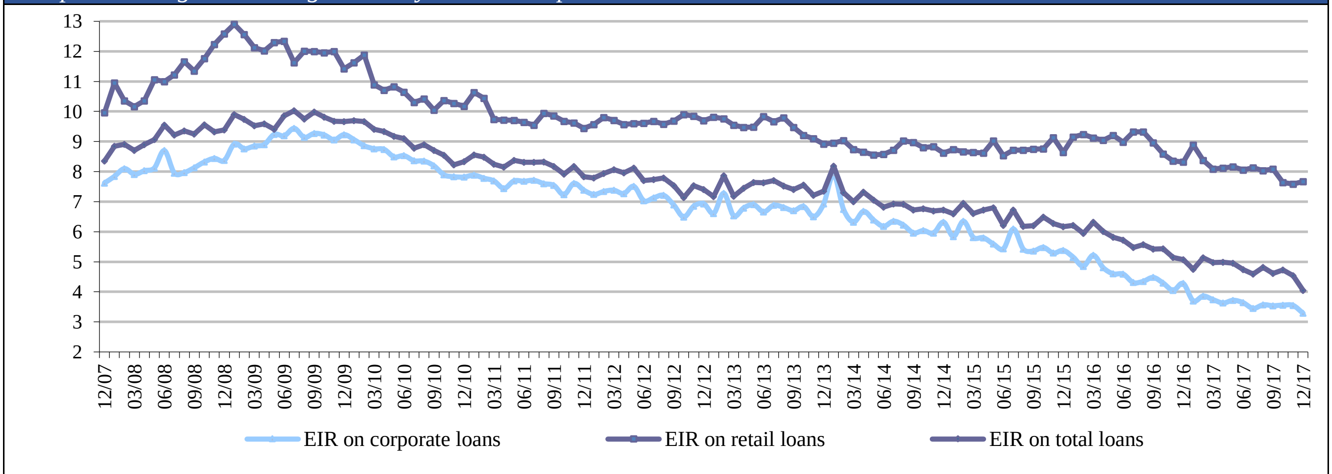
In 2017, as was the case in the last three years, the downward trend of weighted EIR continued. The weighted EIR on loans amounted to 4.05% in December 2017, down by 1.02 percentage points compared to December 2016. It recorded fluctuations that were within the range of 1.08 percentage points in 2017. The highest rate was recorded in February (5.13%) and the lowest in December.

The weighted EIR on short-term loans amounted to 3.16% in December 2017, which is lower by 0.87 percentage points compared to December 2016. The weighted EIR on long-term loans amounted to 5.06%, down by 1.4 percentage points compared to December 2016, when it was 6.46%. The changes were even more pronounced during 2017 and they were within the range of 2.15 percentage points, with the highest rate having been recorded in January (7.21%) and the lowest in December.

Interest rates on loans to the two most important sectors: corporate and retail[26], had mostly the same trends in 2017. Interest rates on corporate loans recorded a further slight downward trend, while the weighted EIR on retail loans were lower compared to the previous year, as shown in the graph below.

- in % -

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



The weighted EIR on corporate loans is still significantly lower than the EIR on retail loans, having amounted to 3.29% in December 2017, which is down by 0.99 percentage points compared to December 2016 (4.28%). In the case of long-term corporate loans, the EIR dropped from 5.18% to 3.67%, while the EIR on short-term loans decreased from 3.90% to 3.06%.

The EIR on retail loans was 7.67% in December 2017 2017, which is down by 0.65 percentage points compared to the level in December 2016. The EIR on short-term loans to this sector decreased from the level of 15.16% in December 2016 to 14.38%, when it also recorded its lowest level. Throughout 2017, it was generally higher than in December 2016. The EIR on long-term retail loans recorded a drop and amounted to 7.51% in December 2017, down by 0.59 percentage points compared to December 2016 (8.10%).

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

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

Table 36: Weighted Average NIR and EIR on Loans per Annum

DESCRIPTION	2013		2014		2015		2016		2017	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on short-term loans	6.17	6.66	5.72	6.25	5.10	5.50	4.01	4.41	3.20	3.46
1.1. Corporate	6.22	6.66	5.70	6.17	5.07	5.42	3.96	4.28	3.13	3.33
1.2. Retail	8.09	11.08	7.98	11.39	7.84	11.37	8.07	13.91	8.32	15.36
2. Weighted IR on long-term loans	7.66	8.48	6.98	7.80	6.60	7.57	6.08	7.14	5.30	6.33
2.1. Corporate	6.65	7.12	6.19	6.81	5.63	6.20	4.91	5.23	4.02	4.33
2.2. Retail	8.35	9.40	7.66	8.66	7.36	8.65	7.10	8.79	6.31	7.89
3. Total weighted IR on loans	6.82	7.46	6.32	6.98	5.81	6.48	4.94	5.64	4.12	4.72
3.1. Corporate	6.33	6.78	5.84	6.35	5.23	5.64	4.22	4.54	3.36	3.59
3.2. Retail	8.33	9.48	7.68	8.77	7.37	8.74	7.13	8.95	6.35	8.04

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

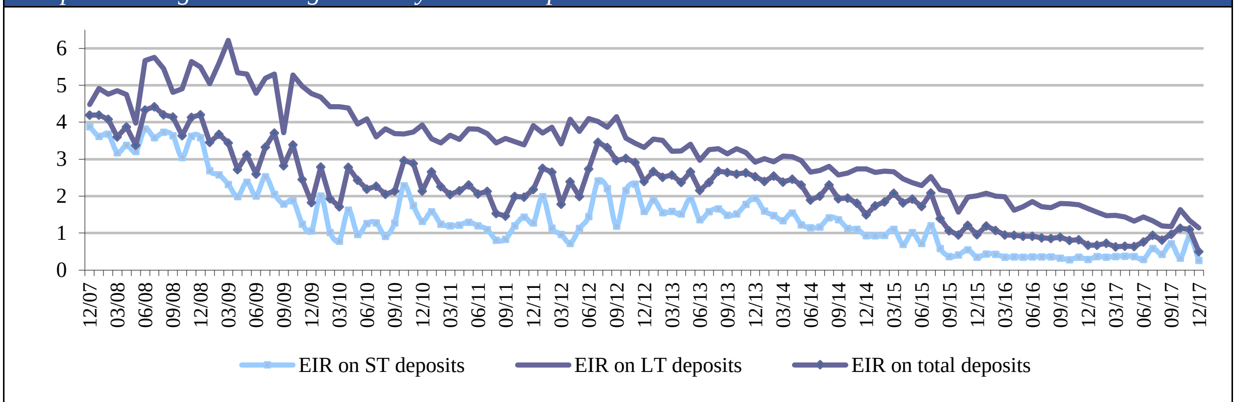
Table 37: Weighted Average NIR and EIR on Deposits

DESCRIPTION	12/2015		06/2016		12/2016		06/2017		12/2017	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on short-term deposits	0.34	0.35	0.36	0.36	0.29	0.29	0.29	0.29	0.27	0.27
1.1. up to three months	0.21	0.21	0.25	0.25	0.26	0.26	0.22	0.23	0.25	0.25
1.2. up to one year	1.18	1.25	0.72	0.76	0.58	0.58	0.57	0.58	0.39	0.39
2. Weighted IR on long-term deposits	1.92	2.01	1.81	1.85	1.64	1.66	1.41	1.44	1.13	1.14
2.1. up to three years	1.67	1.68	1.65	1.70	1.43	1.45	1.35	1.38	1.01	1.02
2.2. more than three years	2.46	2.72	2.23	2.21	2.25	2.26	1.72	1.74	1.51	1.51
3. Total weighted IR on deposits	0.92	0.96	0.90	0.92	0.66	0.67	0.74	0.76	0.50	0.50

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.

- in % -

Graph 28: Weighted Average Monthly EIR on Deposits



The weighted EIR on total term deposits amounted to 0.50% in December 2017, which is down by 0.17 percentage points compared to December 2016. The weighted EIR on short-term deposits amounted to 0.27%, down by only 0.02 percentage points compared to the level in December 2016. The aforementioned 0.27% rate is also the lowest recorded rate for short-term deposits in 2017, while the highest was recorded in November 2017 (0.88%).

The weighted EIR on long-term deposits recorded fluctuations within the range of 0.50 percentage points and amounted to 1.14% in December 2017, which constitutes the lowest recorded rate during 2017, down by 0.52 percentage points compared to December 2016, while the highest was recorded in October 2017 (1.64%).

When analysing the trends of interest rates on short-term deposits by maturity, the EIR on term deposits up to three months recorded a decrease in the amount of only 0.01 percentage points compared to the level in December 2016, amounting to 0.25%. The interest rate on term deposits up to one year also recorded a decrease and amounted to 0.39% in December 2017, which is also the lowest level in 2017 (12/2016: 0.58%).

The weighted EIR on long-term deposits up to three years amounted to 1.02%, which is down by 0.43 percentage points compared to the level in December 2016. The EIR on term deposits over three years was the lowest in December 2017, when it amounted to 1.51%, which is a drop in the amount of 0.75 percentage points compared to December 2016, when the aforementioned amounted to 2.26%.

Average EIR on retail and corporate deposits recorded lower amounts in December 2017 compared to December 2016. The average EIR on retail deposits is lower by 0.62 percentage points compared to December 2016 and it amounted to 0.90%, which is also the lowest rate recorded in 2017, while the highest was recorded in October (1.38%). In the case of corporate deposits, the average EIR stood at 1.04% in December 2017, down by 0.28 percentage points compared to December 2016, with the lowest level (0.86%) having been recorded in January and the highest (1.62%) in October.

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, which continued in 2017 as well, while interest rates on short-term deposits are slightly up compared to 2016, following a continuous drop in the last five years, as can be seen in the table below.

Table 38: Weighted Average NIR and EIR on Deposits per Annum

DESCRIPTION	2013		2014		2015		2016		2017	
	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	1.65	1.67	1.20	1.23	0.60	0.61	0.35	0.35	0.40	0.41
1.1. up to three months	1.47	1.47	0.79	0.80	0.27	0.28	0.27	0.27	0.35	0.36
1.2. up to one year	1.85	1.87	1.72	1.76	1.25	1.28	0.68	0.69	0.61	0.62
2. Weighted IR on long-term deposits	3.20	3.23	2.79	2.82	2.20	2.23	1.78	1.80	1.37	1.39
2.1. up to three years	2.97	3.00	2.61	2.64	2.08	2.10	1.59	1.62	1.22	1.24
2.2. more than three years	4.15	4.18	3.32	3.34	2.48	2.52	2.33	2.34	1.82	1.85
3. Total weighted IR on deposits	2.51	2.53	2.04	2.07	1.41	1.43	0.88	0.89	0.75	0.76

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

DESCRIPTION	12/2015		06/2016		12/2016		06/2017		12/2017	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on overdraft facilities	7.81	8.01	7.26	7.45	7.01	7.22	6.66	6.89	6.42	6.69
2. Weighted IR on call deposits	0.09	0.09	0.08	0.08	0.05	0.05	0.03	0.03	0.03	0.03

The weighted EIR on total overdraft facilities for the banking sector in December 2017 amounted to 6.69% (down by 0.53 percentage points compared to December 2016) and to 0.03% on call deposits (slightly lower compared to December 2016).

3.7. Liquidity

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

The liquidity of the banking system in the Federation of BiH is assessed to be sound, having satisfactory share of liquid assets in total assets, as well as a very good maturity adjustment of financial assets and liabilities. Given the high correlation between credit risk, the dominant risk in banks' operations, and liquidity risk, one of the most important factors impacting the liquidity position of banks is the banks' ability to adequately manage their assets, which encompasses obtaining assets with good performances and the quality of which ensures that bank loans (and interest) are repaid in accordance with maturity dates.

The Decision on Liquidity Risk Management in Banks prescribes the minimum qualitative requirements for liquidity risk management in banks, based on prescribed risk management standards in banks, quantitative requirements for banks in terms of the liquidity coverage ratio and ensuring stable sources of funding, as well as the use of additional mechanisms for liquidity risk monitoring and assessment.

In the structure of sources of funding of banks in the Federation of BiH as of 31.12.2017, the largest share of 78.3% refers to deposits, followed by loans taken (including subordinated debt[27]) with a share of 4.7%. 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.

Compared to the end of 2016, total deposits are up by 12% or KM 1.6 billion, which is the result of the increase in deposits of all sectors, mostly private companies (19% or KM 421 million), the retail segment (4% or KM 346 million), government institutions (24% or KM 282 million), public companies (26% or KM 274 million), and banking institutions (31% or KM 200 million). Retail deposits, with a share of 53.8%, are the largest sectoral source of of funding of banks in the Federation of BiH.

- in KM 000 -

Table 40: Maturity Structure of Deposits by Contractual Maturity

DEPOSITS	31.12.2015		31.12.2016		31.12.2017		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and call deposits	6 645 840	50.8	7 727 481	54.5	9 069 475	57.4	116	117
Up to 3 months	266 464	2.0	272 799	1.9	387 454	2.5	102	142
Up to 1 year	679 876	5.2	538 344	3.8	732 581	4.6	79	136
1. Total short-term deposits	7 592 180	58.0	8 538 624	60.2	10 189 510	64.5	112	119
Up to 3 years	3 502 798	26.7	3 546 491	25.0	3 560 538	22.5	101	100
More than 3 years	2 004 005	15.3	2 091 159	14.8	2 064 675	13.0	104	99
2. Total long-term deposits	5 506 803	42.0	5 637 650	39.8	5 623 213	35.5	102	100
TOTAL (1 + 2)	13 098 983	100.0	14 176 274	100.0	15 814 723	100.0	108	112

The maturity structure of deposits with contractual maturity has had a continuous trend of slight deterioration since 2012. In 2016, the share of short-term deposits increased from 58.0% to 60.2%, while the share of long-term deposits decreased from 42.0% to 39.8%. The trend of deterioration continued in 2017 as well, when the share of short-term deposits increased to 64.5% (+4.3 percentage points).

Promjene u ročnoj strukturi rezultat su rasta kratkoročnih depozita za 19% ili 1,6 milijardi KM, kao posljedica rasta depozita svih sektora: privatnih preduzeća za 428 miliona KM, stanovništva za 389 miliona KM, vladinih institucija za 285 miliona KM, bankarskih institucija za 251 milion KM, javnih

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

preduzeća za 184 miliona KM, nebankarskih instutucija za 60 miliona KM, te neprofitnih organizacija za 38 miliona KM.

Changes in the maturity structure stem from an increase in short-term deposits by 19% or KM 1.6 billion as a result of an increase in deposits of all sectors: deposits of private companies by KM 428 million, retail deposits by KM 389 million, deposits of government institutions by KM 285 million, deposits of banking institutions by KM 251 million, deposits of public companies by KM 184 million, deposits of non-banking institutions by KM 60 million, and deposits of non-profit organisations by KM 38 million.

Long-term deposits are at almost the same level, slightly down by KM 12 million as a result of deposits with a term over three years being down by 1.3% or KM 26 million, mostly on the basis of deposits of banking institutions being down by KM 31 million and deposits of non-banking institutions being down by KM 24 million, while deposits up to three years went up by 0.4% or KM 14 million, primarily on the basis of deposits of public companies being up by KM 92 million and retail deposits and deposits of banking institutions simultaneously being down by KM 52 million and KM 20 million, respectively.

Long-term deposits are dominated by two sectors: retail, with a slightly lower 68.5% share (-0.6 percentage points), and public companies, with the share having increased from 9.8% to 11.4%. In deposits with a term from one to three years, the largest share of 69.4% (-1.7 percentage points) is held by retail deposits, followed by deposits of public companies (16.5%, +2.5 percentage points). Deposits over three years mostly consist of retail deposits (67.1%, +1.3 percentage points), while deposits of banking institutions, with a long-lasting trend of decrease that has slowed down somewhat, have a share of 10.8% (at the end of 2016: 12.2%).

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

- in KM 000 -

Table 41: Maturity Structure of Deposits by Remaining Maturity

DEPOSITS	31.12.2015		31.12.2016		31.12.2017		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)	6 852 863	52.3	7 961 438	56.1	9 227 317	58.4	116	116
7- 90 days	770 687	5.9	690 281	4.9	988 235	6.2	90	143
91 days to one year	2 080 342	15.9	1 982 775	14.0	2 144 316	13.6	95	108
1. Total short-term deposits	9 703 892	74.1	10 633 494	75.0	12 359 868	78.2	110	116
Up to 5 years	3 190 290	24.3	3 344 169	23.6	3 280 639	20.7	105	98
More than 5 years	204 801	1.6	197 611	1.4	174 216	1.1	96	88
2. Total long-term deposits	3 395 091	25.9	3 542 780	25.0	3 454 855	21.8	104	98
TOTAL (1 + 2)	13 098 983	100.0	14 176 274	100.0	15 814 723	100.0	108	112

As of 31.12.2017, short-term deposits by remaining maturity held a share in the amount of 78.2%, while long-term deposits held a 21.8% share in total deposits. Compared to the end of 2016, short-term deposits increased by 16% or KM 1.7 billion, with the share being up by 3.2 percentage points, while long-term deposits recorded a decrease in the amount of 2% or KM 88 million, with the share in total deposits dropping from 25.0% to 21.8%.

When analysing the structure of long-term deposits, it is evidently dominated by deposits with remaining maturity of up to 5 years (95.0% of long-term deposits and 20.7% of total deposits). Although the decrease in 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 having been recorded in 2015, there was a decrease in the amount of 4% or KM 7.2 million in 2016 and the decrease amounted to 12% or KM 23 million in 2017.

When comparing information on deposit maturities by contractual and remaining maturity, it can be concluded that out of the KM 5.6 billion of total long-term contracted deposits, there were approximately KM 2.1 billion, i.e. 37.5%, of long-term contracted deposits with the remaining maturity of up to one year as of 31.12.2017.

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 prescribed minimum limits.

- in KM 000 -

Table 42: Maturity Structure of Loans

LOANS	31.12.2015		31.12.2016		31.12.2017		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	1 186 501	10.2	1 191 510	9.7	1 068 029	8.1	100	90
Short-term loans	2 283 316	19.7	2 378 849	19.4	2 557 906	19.4	104	108
Long-term loans	8 140 927	70.1	8 699 869	70.9	9 552 925	72.5	107	110
TOTAL LOANS	11 610 744	100.0	12 270 228	100.0	13 178 860	100.0	106	107

In 2017, long-term loans were up by 10% or KM 853 million, amounting to KM 9.6 billion, and short-term loans were up by 8% or KM 179 million, amounting to KM 2.6 billion, while past due receivables amounted to KM 1.1 billion, thus being slightly down by 10% or KM 124 million, with it being noted that the permanent write-off amounted to KM 121 million. In the structure of past due receivables, 62.8% refers to private companies, 35.1% to the retail sector and 2.1% to other sectors.

An analysis of maturities of two key sectors shows that 87.8% of retail loans are long-term loans, while 56.3% of total approved loans refers to private companies.

In the structure of assets, loans, as the key category, still hold the largest share of 65.2%, down by 1.6 percentage points compared to the end of 2016. They recorded an increase in the amount of 7% or KM 909 million in 2017. Cash funds increased by 11% or KM 590 million, holding a slightly higher share of 28.7% (+0.4 percentage points) compared to the end of 2016.

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

- in % -

Table 43: Liquidity Ratios

Ratios	31.12.2015	31.12.2016	31.12.2017
1	2	3	4
Liquid assets[28]/total assets	28.4	28.4	30.2
Liquid assets/short-term financial liabilities	48.4	47.1	47.6
Short-term financial liabilities/total financial liabilities	70.0	71.9	74.9
Loans/deposits and loans taken[29]	82.9	81.7	79.2
Loans/deposits, loans taken and subordinated debt[30]	82.2	81.0	78.5

As of 31.12.2017, the ratios improved slightly compared to the end of 2016.

As of 31.12.2017, the loans/deposits and loans taken ratio improved to 79.2% (-2.5 percentage points) as a result of an increase in deposits and loans taken. The ratio was above 85% (critical level) with respect to 6 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.

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

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

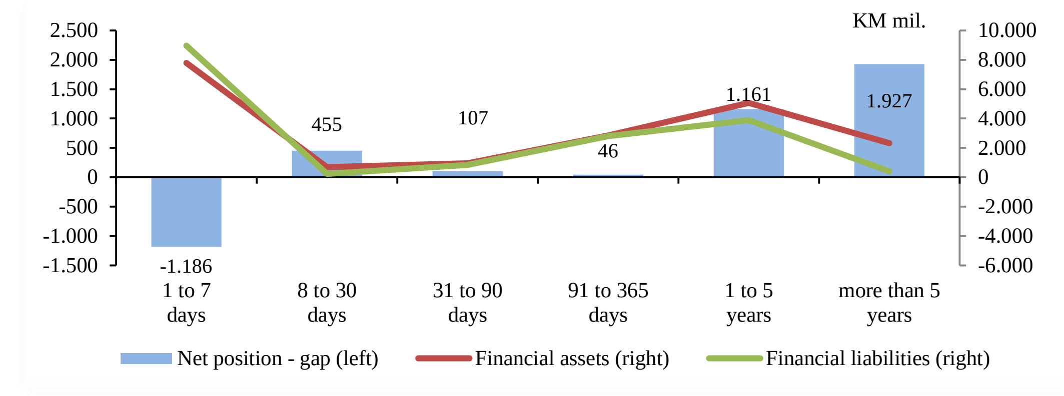
[30] The previous ratio was expanded and sources now include subordinated debt, thus being a more realistic indicator.

In 2017, banks have duly fulfilled the requirement of maintaining the defined level of the required reserve at the Central Bank of BiH.[31] The required reserve, being the key instrument of the monetary policy in BiH in relation to the Currency Board and the financially undeveloped market, is the only instrument of the monetary policy that ensures monetary control in sense of the prevention of rapid growth of loans and reduced multiplication, 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 BiH as of 01.10.2008).

The implementation of foreign currency risk regulations and the maintenance of currency adjustment to the defined limits has significantly impacted the amount banks hold in their reserve accounts at the Central Bank of BiH (in local currency), thus ensuring a high liquidity of banks, individually and at the banking sector level. When observing the maturity adjustment of remaining maturities of total financial assets[32] and liabilities, it can be concluded that the adjustment rate is good, although somewhat lower compared to 31.12.2016.

The graph below shows an overview of the maturity adjustment of financial assets and liabilities at the level of the banking system in the Federation of BiH.

Graph 29: Maturity Adjustment of Financial Assets and Liabilities as of 31.12.2017



As of 31.12.2017, short-term financial assets of banks in the amount of KM 12.3 billion were lower by KM 578 million compared to short-term liabilities, which led to the coverage ratio for short-term liabilities dropping slightly from 99.6% to 95.5%.

Short-term financial assets increased by 10.8% and short-term financial liabilities by 15.6%. In the structure of short-term financial assets, the largest increase in the amount of 16.8% or KM 857 million was recorded with respect to cash funds, followed by net loans (5.9% or KM 264 million), while a decrease was recorded with respect to cash borrowings (facilities) to other banks. Financial assets with remaining maturity of over one year increased by 9.6% or KM 648 million, mostly as a result of loans being up by 10.2% or KM 672 million.

Liabilities with maturity of up to one year (KM 12.9 billion) increased by 15.6% or KM 1.7 billion, mostly due to an increase in deposits by 16.2% or KM 1.7 billion. Liabilities with maturity of over one year (KM 4.3 billion) recorded a drop in the amount of 1.1% or KM 46 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

[31] The Decision on Establishing and Maintaining Required Reserves and Determining Remuneration of the CBBH to Banks on the Reserve Amount was published in the Official Gazette of BiH, No. 30/16 and has been in application since 1 July 2016.
[32] Financial assets are posted on a net basis (after deductions for value adjustments).

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.[33]

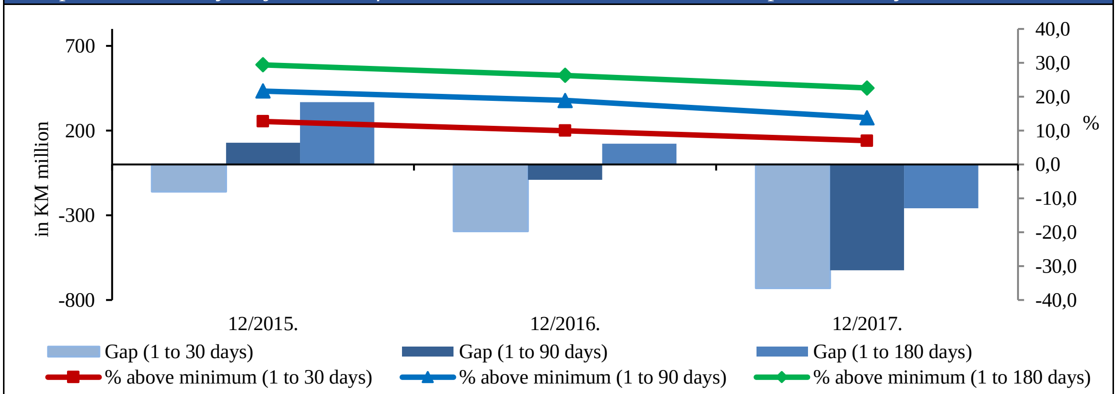
- in KM 000 -

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

Description	31.12.2015 Amount	31.12.2016 Amount	31.12.2017 amount	INDEX	
1	2	3	4	5 (3/2)	6(4/3)
I. 1- 30 days					
1. Financial assets	6 878 280	7 515 361	8 462 124	109	113
2. Financial liabilities	7 037 944	7 909 801	9 193 511	112	116
3. Difference (+ or -) = 1-2	-159 664	-394 440	-731 387	-	-
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	97.7%	95.0%	92.0%		
b) Prescribed minimum %	85.0%	85.0%	85.0%		
Plus (+) or minus (-) = a - b	12.7%	10.0%	7.0%		
II. 1-90 days					
1. Financial assets	7 750 227	8 384 767	9 416 671	108	112
2. Financial liabilities	7 621 496	8 476 151	10 041 101	111	118
3. Difference (+ or -) = 1-2	128 731	-91 384	-624 430	-	-
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	101.7%	98.9%	93.8%		
b) Prescribed minimum %	80.0%	80.0%	80.0%		
Plus (+) or minus (-) = a - b	21.7%	18.9%	13.8%		
III. 1-180 days					
1. Financial assets	8 735 123	9 387 062	10 476 675	107	112
2. Financial liabilities	8 365 780	9 263 730	10 734 265	111	116
3. Difference (+ or -) = 1-2	369 343	123 332	-257 590	33	-
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	104.4%	101.3%	97.6%		
b) Prescribed minimum %	75.0%	75.0%	75.0%		
Plus (+) or minus (-) = a - b	29.4%	26.3%	22.6%		

Based on the information presented, it is found that, as of 31.12.2017, banks have adhered to prescribed limits and achieved a better maturity adjustment of financial assets and liabilities in relation to the prescribed limits.

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



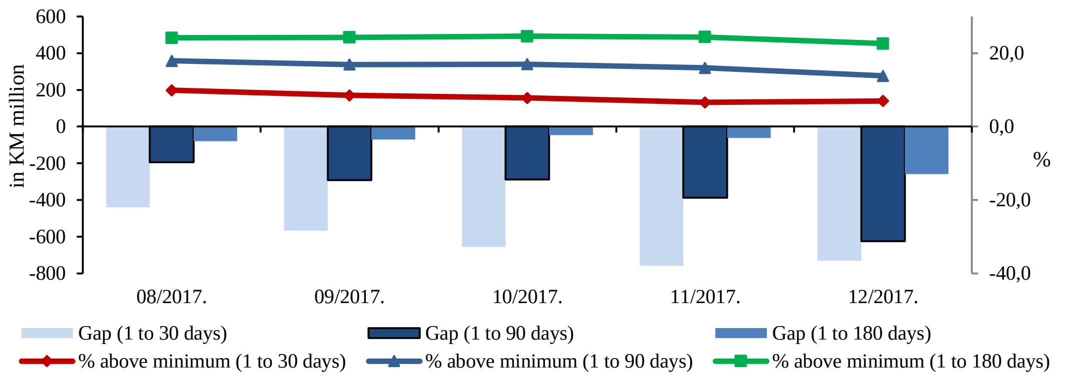
[33] Article 41 of the Decision on Liquidity Risk Management in Banks (Official Gazette of the Federation of BiH, No. 81/17): „Until the introduction of the NSFR referred to in Article 34 of this Decision, as a mandatory quantitative requirement towards banks, banks shall apply and report on the maturity adjustment of financial assets and financial liabilities and the structure of the largest sources, and thus accordingly, Article 6, paragraph (3), item 1, Art. 6a, 6b, 11, paragraph (2) and 12 of the Decision on Minimum Standards for Liquidity Risk Management in Banks shall remain applicable (Official Gazette of the Federation of BiH, No. 48/12, 110/12 and 45/14)“. The prescribed percentages for the maturity adjustment of financial assets and liabilities are as follows: min. 85% of sources of funding with maturity of up to 30 days must be used for facilites with maturity of up to 30 days, min. 80% of sources of funding with maturity of up to 90 days must be used for facilities with maturity of up to 90 days, and min. 75% of sources of funding with maturity of up to 180 days must be used for facilities with maturity of up to 180 days.

As of 31.12.2017, financial assets in all three periods were lower than financial liabilities, due to the increase in financial liabilities, primarily deposits, being higher than the increase in financial assets (mostly cash funds and net loans).

As a result of the aforementioned, the recorded maturity adjustment percentages in all three periods were somewhat lower than at the end of 2016, but still significantly above the prescribed minimum by 7.0% in the first period, 13.8% in the second period, and 22.6% in the third period.

The chart below shows the trend of the maturity adjustment of financial assets and liabilities in the period from August 2017 to December 2017 (by period of time and maturity adjustment percentages in relation to the legally defined minimum standards).

Graph 31: Maturity Adjustment of Financial Assets and Liabilities (up to 180 Days) – by Period



Based on all the indicators presented, the liquidity of the banking system in the Federation of BiH remains satisfactory. Since this business segment and the exposure level to liquidity risk correlate with credit risk (lower inflows of liquid assets related to problems with loan collectability), and also considering other important factors (poor maturity structure of deposits, repayment of loan commitments due and significantly lower indebtedness with international financial institutions, which was the best source of funding for banks in the past years from the aspect of maturity), it should be emphasised that liquidity risk management and monitoring should be the focus of banks by means of establishing and implementing liquidity policies that will ensure the settlement of all liabilities due in a timely manner, and based on continuous planning of future liquidity needs while factoring in changes in operating, economic, regulatory and other conditions of the banks' business environment.

3.8. FX Risk

In their operations, banks are exposed to risks originating from possible losses related to balance sheet and off-balance sheet items, as incurred due to market price changes. One of these risks is 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 prudential principles related to FX activities of banks and to reduce FX risk effects on their profitability, liquidity and capital, the FBA has adopted the Decision on Foreign Currency Risk Management in Banks[34], which prescribes the method for calculating the FX position and the maximum allowed exposure to foreign currency risk, i.e. limits for

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

the open individual and total FX position (long or short) calculated in relation to the eligible capital of the bank.[35]

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

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

As of 31.12.2017, the currency structure of banks' assets included 11.2% or KM 2.3 billion of foreign currency items (at the end of 2016, these items amounted 10.4% or KM 1.9 billion).

The currency structure of liabilities is quite different since the share of foreign currency liabilities is much higher and equals 38.2% or KM 7.7 billion (at the end of 2016, this share was 38.8% or KM 7.1 billion).

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

- in KM million -

Table 45: FX Adjustment of Financial Assets and Liabilities (EUR and Aggregate)[36]

Description	31.12.2016				31.12.2017				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	830	10.7	1 324	15.7	906	11.0	1 349	15.2	109	102
2. Loans	24	0.3	25	0.3	27	0.3	28	0.3	112	110
3. Loans with a currency clause	6 323	81.5	6 350	75.4	6 415	77.7	6 429	72.4	101	101
4. Other	417	5.4	561	6.7	721	8.7	884	10.0	173	158
5. Other financial assets with a currency clause	165	2.1	165	1.9	188	2.3	188	2.1	114	114
Total (1+2+3+4)	7 759	100.0	8 425	100.0	8 257	100.0	8 878	100.0	106	105
II. Financial liabilities										
1. Deposits	5 535	72.8	6 186	74.9	6 076	74.3	6 725	76.2	110	109
2. Loans taken	763	10.0	763	9.2	813	9.9	813	9.2	107	107
3.Deposits and loans with a currency clause	1 135	14.9	1 135	13.7	1 108	13.6	1 107	12.6	98	98
4. Other	174	2.3	180	2.2	176	2.2	180	2.0	101	100
Total (1+2+3+4)	7 607	100.0	8 264	100.0	8 173	100.0	8 825	100.0	107	107
III. Off-balance sheet										
1. Assets	78		96		98		147			
2. Liabilities	203		222		218		225			
IV.Position										
Long (amount)	27		35							
%	1.3%		1.7%							
Short					36		27			
%					1.6%		1.2%			
Allowed	30%		30%		30%		30%			
Lower than the allowed level	28.7%		28.3%		28.4%		28.8%			

[35] Article 3 of the Decision on Foreign Currency Risk Management in Banks defines the following limits: for the individual FX position – up to 30% of the eligible capital for EUR, up to 20% for other currencies and up to 30% for the total FX position of the bank.
[36] Source: Form 5 – FX position.

In terms of the structure of foreign currencies, the dominant share among financial assets[37] is held by the EUR with 73.2% (31.12.2016: 66.6%), along with an increase in the nominal amount (from KM 1.3 billion to KM 1.7 billion). The 91.5% share of the EUR in liabilities is at approximately the same level (31.12.2016: 90.8%), coupled with an increase in the nominal amount by KM 594 million.

FX risk exposure calculation also includes the amount of indexed assets items (loans and other financial assets) and liabilities items[38], which is particularly significant on the assets side (74.5% or KM 6.6 billion), which is at approximately the same level compared to the end of 2016 (77.3% or KM 6.5 billion).

Other FX items on the assets side hold a share of 25.5% or KM 2.3 billion and have the following structure: items in EUR 18.6% or KM 1.7 billion and other currencies 6.8% or KM 0.6 billion (at the end of 2016, other items in EUR held a share of 15.1% or KM 1.3 billion). Out of total net loans (KM 12 billion), app. 54% have a currency clause (mostly pegged to the EUR – 99.8%).

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 8.8 billion) is 80.1% or KM 7.1 billion and refers to items in EUR, mostly deposits (at the end of 2016, the share of liabilities in EUR amounted to 78.3% or KM 6.5 billion).

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

When observing banks and the banking sector level of the Federation of BiH, it can be concluded that FX risk exposure of banks and the banking system in 2017 was within the defined limits. As of 31.12.2017, the long FX position was recorded with 10 banks and the short position with 5 banks. At the system level, there is a short FX position of 1.2% of the total core capital of banks[39], which is 28.8% below the allowed limit. The individual FX position for the EUR was 1.6%, which is 28.4% below the allowed limit, with financial assets items being lower than financial liabilities (net short 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.

4. COMPLIANCE OF BANKS' BUSINESS OPERATIONS WITH AML AND CTF STANDARDS

Based on the condition of the banks in the previous supervisory cycle, the conducted examinations of compliance of business operations and the reports banks submit to the FBA, it can be concluded that there are no reasons for supervisory concern with respect to managing the risks of money laundering and terrorism financing. The quantity of risk has remained moderate.

[37] Source: Report on FX position of bank: one part of financial assets (foreign currencies denominated in KM). Financial assets are posted in accordance with the net principle, i.e. after deductions for value adjustments and reserves for contingent liabilities.
[38] 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).
[39] As of 31.12.2017, banks recorded an open FX position (individual and total) in relation to the core capital of banks.

The quality of managing the risks that can appear in the banks' operations as a result of money laundering and terrorism financing (reputation risk, operational risk, legal risk, concentration risk in assets and deposits) is still satisfactory and continuing its upward trend.

Accordingly, the following assessment can be made: the banking sector of the Federation of BiH is mostly consistent with the standards to prevent money laundering and terrorism financing.

Client Eligibility

Banks have adopted customer acceptance policies and defined which clients are acceptable for establishing business relationships. Based on this policy, banks have organised special client profile registries. Updating data on clients classified in risk groups represents certain problems in the functioning of these registries.

However, it is very important that banks have adopted and apply a kind of client approach that rests on the analysis of risks that a particular client brings to the bank, i.e. that they defined which clients are eligible for the bank. This approach of the banks is especially important and represents very high-quality risk management in a situation in which the state has still not made a risk assessment, although a risk assessment has been performed, and in which the state has no defined strategy for combating money laundering and terrorism financing.

Client Identification

Banks have adopted client identification as a key element of the „know your customer“ standard. The client identification policy is being applied by banks upon establishing business relationships with clients. However, the problem of updating the documentation used in verifying the completed identification of already established business relationships is still present.

Banks are not consistent in their application of identification measures depending on the identified risk, so that standard measures of identification prevail, which are carried out for medium-risk clients, as opposed to simplified and enhanced measures, which are implemented for low-risk and high-risk clients. The identification and verification of the identification of beneficial owners and politically exposed persons is also still a problem, since registries of beneficial owners and registries of politically exposed persons have not yet been established at the state level.

Continuous Account and Transaction Monitoring

This policy has been adhered to, thus further reducing the formal account and transaction monitoring of clients. In order to get to the essence of account and transaction monitoring of clients, banks have, by applying the „know your customer“ principle, defined transaction limits with respect to certain account and transaction types and have built information systems enabling the application of established limits for account and transaction monitoring.

The defined limits are increasingly used in preventive account and transaction monitoring. As in the case of client identification, banks are not consistent in their applicatio of measures for monitoring accounts and transactions, i.e. the business activities of clients, depending on the identified risk. Standard monitoring measures prevail, and they are implemented for medium-risk clients, as opposed to simplified and enhanced measures, which are implemented for low-risk and high-risk clients. In the reporting year, there was a problem in terms of monitoring accounts and transactions of clients who carried out electronic transfers using Internet platforms related to certain accounts in banks.

Managing the Risk of Money Laundering and Terrorism Financing

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

Accordingly, in 2017, banks reported 280 949 transactions, which is 0.32% of total transactions carried out in the banking system of the Federation of BiH (87 547 276 carried out transactions, according to bank data) in the amount of KM 13 896 736, thus constituting 8.98% of the total value of transactions carried out in the banking system of the Federation of BiH (KM 154 734 139, according to bank data). The number of transfers reported in 2017 is up by 5.80% compared to the previous year, and their value is up by 4.90%.

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

Transfer value in KM 000

Table 46: Comparative Overview of Number and Value of Reported Transfers

No.	Description (transfer name)	Transfers in 2016		Transfers in 2017		%	
		Number	Value	Number	Value	Number	Value
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Total reported transfers	265 557	13 249 004	280 949	13 896 736	105.80	104.90
2.	Transfers reported before their execution	35	9 570	12	18 450	34.30	192.80
3.	Transfers reported within 3 days	265 496	13 230 904	280 899	13 869 448	105.80	104.80
4.	Transfers reported after 3 days	26	8 530	38	8 838	146.15	103.60

The structure of reported transactions shows a decrease in the number (34.30%) of transfers reported before their execution compared to the previous year, although the value of these transfers is up (192.80% compared to the previous year). This leads to the conclusion that banks employ preventive measures regarding anti-money laundering and counter-terrorism financing, as prescribed for financial institutions, with a focus on materially significant transactions (decrease in the number and increase in the value of reported transactions).

This conclusion is confirmed by both the number (146.15%) and value (103.60%) of transfers reported upon the expiry of the 3-day deadline compared to the previous year, i.e. banks focused on materially significant transactions in this case too. The number of transfers reported within the prescribed period remained within the framework of the increased number of total reported transfers (up by 5.80%), as is the case with their value (up by 4.90%, i.e. 4.80%), which is also within the framework of the volume (number and value) of payment transactions in the Federation of Bosnia and Herzegovina.

Suspicious Transactions

In their reports, banks have tagged 103 transfers as suspicious (105.10% compared to the previous year). The value of these transfers amounts to KM 37 045 thousand, which is a value in the amount of 157.00% compared to the previous year. 102 transfers in the amount of KM 32 816 thousand relate to suspicion of money laundering, while 1 transfer in the amount of KM 4 229 thousand relates to suspicion of terrorism financing.

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

Transfer value in KM 000

Table 47: Comparative Overview of Number and Value of Reported Suspicious Transfers

No.	Suspicious transfers	Transfers in 2016		Transfers in 2017		%	
		Number	Value	Number	Value	Number	Value
1	2	3	4	5	6	7 (5/3)	8(6/4)
1.	Total reported transfers	98	23 588	103	37 045	105.10	157.00
2.	Transfers reported before their execution	35	9 570	12	18 450	34.30	192.80

3.	Transfers reported within 3 days	53	6 079	57	9 902	107.50	162.90
4.	Transfers reported after 3 days	10	7 939	34	8 693	340.00	109.50

Struktura izviještenih sumnjivih transfera, kao i struktura ukupno izviještenih transfera, potvrđuje ranije date konstatacije o kvalitetu upravljnja rizikom od pranja novca i finansiranja terorističkih aktivnosti. O preventivnom djelovanju banaka može se govoriti u 12 slučajeva (34,30% u odnosu na prethodnu godinu) u kojima su banke izvještaje o sumnjivim transakcijama dostavile Finansijsko obavještajnom odjelu prije njihovog izvršenja.

The structure of reported suspicious transfers, as well as the structure of total reported transfers, confirms earlier statements about the quality of managing the risk of money laundering and terrorism financing. There are 12 cases of preventive action of banks (34.30% compared to the previous year), in which banks submitted reports on suspicious transactions to the Financial Intelligence Department prior to their execution.

There are 57 cases of quality monitoring (107.50% compared to the previous year), in which banks spotted suspicious transaction characteristics in a period of 3 days and submitted reports on it, while the other 34 cases (340.00%) refer to corrective action, most often requested by the FBA. However, the value of these transfers (109.50% compared to the previous year) confirms that banks focused on materially significant transactions, i.e. it confirms the conclusion that banks applied the established transaction limits in suspicious transactions as well.

The table below provides a comparative overview of the number of reported suspicious clients (on which the FID requested additional data and on which the FID did not request these data) by structure.

Table 48: Comparative Overview of Number of Reported Suspicious Clients

No.	Suspicious clients reported:	In 2016	In 2017	%
1	2	3	4	5 (4/3)
1.	Total	112	133	119
1.1.	On which the FID requested data	22	6	27
1.2.	On which the FID did not request data	90	127	141

In addition to suspicious transfers, banks reported 133 suspicious clients. The FID requested additional data on 6 of these clients, while these data were not requested with respect to 127 clients.

5. RECOMMENDATIONS FOR THE BANKING SYSTEM

During the reform period, the banking system of the Federation of BiH 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 of BiH. Future activities should be aimed towards the preservation of its stability as well as its future progress and development. These objectives are conditioned by a continuous 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 corporate and retail sector.

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 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 key risks, and strengthening management and governance practices.

In the period to come, the FBA will:

- continue with activities to draft a regulatory framework in accordance with the new Banking Law, the Law on the Banking Agency, and the adopted Strategy and Annual Plan for the Drafting of Regulations in order to implement Basel II/III and EU directives and as part of the preparation for BiH's joining of the European Union;
- reorganise the FBA in accordance with the new Law on the Banking Agency and establish an internal organisational unit for bank restructuring operations and prepare and adopt regulations related to the restructuring of banks;
- begin with the project of preparing and implementing the SREP (Supervisory Review and Evaluation Process) as a long-term (three years) project aimed at strengthening and improving supervision in accordance with the new regulatory framework;
- take measures and actions within its competences for more secure and stable banking operations and the banking system as a whole and its support for the corporate and retail sector;
- 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, as well as the obligations assumed by the Letter of Intent signed by the governments in BiH within the framework of the arrangement with the IMF, which refer to the entity Banking Agencies;
- establish a regulatory framework for the application of IFRS 9 in banks and monitor its implementation, as well as improve regulatory requirements regarding the classification of assets;
- 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;
    - continuing to develop and implement the Early Warning System tool (EWS) for the purpose of an early identification of financial and operational inefficiencies and/or adverse trends in the banks' operations,
    - monitoring the compliance of banks with laws and regulations and the practices employed in banks in the segment of protecting users of financial services and guarantors,
    - establishing and expanding cooperation with supervisory authorities in countries with investors in the banking sector of the Federation of BiH, 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 Banks Association of BiH across all segments of the banking business (e.g. introduction of new products, collection of receivables, functioning of the Central Registry of Credits 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 to improve cooperation by signing new Cooperation Agreements with other institutions in Bosnia and Herzegovina, which are involved in the areas of supervision, preparedness for crisis situations and their management and systemic risk control: the Banking Agency of Republika Srpska, the Deposit Insurance Agency, the Central Bank of Bosnia and Herzegovina and the state and entity Ministries of Finance;

- continue with efforts to improve the information system, as an important prerequisite for efficient banking supervision, i.e. IT support with the function of 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 bank liquidation processes.

Stronger involvement of other institutions and bodies in Bosnia and Herzegovina and the Federation of BiH is 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 the Economic Reforms Programme for 2016-2018 (ERP BiH 2016-2018);
- the implementation of the commitments taken on by the Letter of Intent signed by the Governments in BiH as part of the arrangement with the IMF;
- creating and upgrading legislation pertaining to the financial and banking sector, starting with the Basel Principles, Basel Capital Frameworks and European Banking Directives, which refer to the actions, status and operations of banks, and especially to the implementation of the new Banking Law;
- accelerating the implementation of economic reforms in the real sector of the economy in order for it to approach the level achieved in the monetary and banking sector more rapidly;
- the preparation and adoption of the Law on Asset Management Companies;
- the adoption of the Law on Accounting and Auditing of the Federation of BiH and control of the application of IAS and IFRS;
- 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 the most important part of the system, banks should focus their activities on the following:

- increasing the volume of lending activities in order to support the economy, together with full commitment to quality and prudential operations;
- improvement of the risk management system and the system of early identification of loan portfolio deterioration and more effective measures for the resolution of non-performing loans;
- further capital strengthening and ensuring the level of solvency in proportion to the increase in assets and risk, greater profitability, strengthening of the internal control system and the internal audit function as segments that are fully independent in the performance of their duties and roles;
- compliance with the new Banking Law and the regulations adopted on the basis of it;
- more consistent implementation of adopted policies and procedures to prevent money laundering and terrorism financing, the safety and protection of money in banks and in transit, all in accordance with laws and regulations;
- the implementation of laws and regulations 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 measure plans;
- regular, timely and accurate submission of information to the Central Registry of Credits and the Uniform Central Registry of Accounts at the CBBH.

II MICROCREDIT SYSTEM

1. MICROCREDIT SYSTEM STRUCTURE IN THE FEDERATION OF BiH

1.1. Status, Number and Network of Branches

The FBA's regulatory and supervisory competences regarding the microcredit system are stipulated by the Law on the Banking Agency and the FBA's internal regulations. The FBA performs the function of supervising MCOs through direct and indirect supervision, i.e. by analysing statements/reports MCOs submitted to the FBA in accordance with the Law on Microcredit Organisations and the FBA regulations listed in Annex 9 to this Information.

As of 31.12.2017, 12 MCOs in the Federation of BiH have the FBA's operating licence, 11 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), as well as 39 organisational units of two MCCs seated in Republika Srpska. All MCFs that have obtained the FBA's operating licence have re-registered in accordance with the LoMCO, i.e. they came to be as a result of a change in the form of MCOs established in accordance with the LoMCO (Official Gazette of the Federation of BiH, No. 24/00).

All MCFs are legal successors of the property, rights and obligations of MCOs established in accordance with the LoMCO from 2000. Annex 10 includes the main data on MCFs and MCC, which have the FBA's operating licence for microlending business operations as of 31.12.2017.

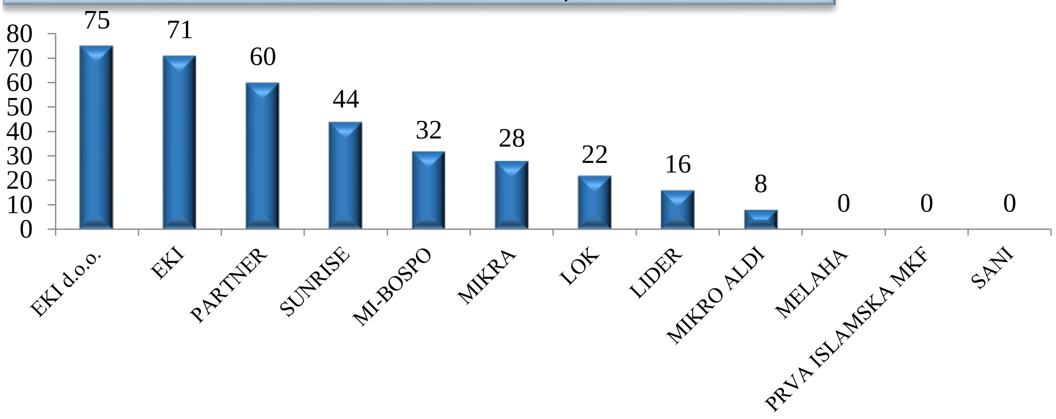
As of 31.12.2017, there was a total of 356 organisational units of MCOs seated in the Federation of BiH according to the Registry of Microcredit Organisations and their organisational units, which is maintained by the FBA in line with Article 13 of the LoMCO. Out of this number, a total of 227 organisational units of microcredit organisations are seated in the Federation of BiH, 125 in Republika Srpska and 4 in the Brčko District.

The total number of organisational units of MCOs seated in the Federation of BiH is up by 77 organisational units or 28% compared to the end of the previous year. A total of 172 organisatonal units of MCOs seated in the Federation of BiH have the authority to assign microloans and are therefore registered in the competent registry.

8 MCOs have organisational units outside the Federation of BiH, and 3 MCOs operate exclusively from their seat, i.e. they have no open organisational units in either the Federation of BiH or in Republika Srpska. The FBA has issued operating licences for the business operations of the organisational units of two MCCs, which are seated in RS and operate in the Federation of BiH through 39 branches and field offices.

The number of organisational units as of 31.12.2017 individually by MCO seated in the Federation of BiH is shown in Graph 32.

Graph 32. Number of Organisational Units as of 31.12.2017 Individually by MCO Seated in the Federation of BiH



1.2. Ownership Structure

An MCO is a legal entity which may be established and may operate as an MCF or an MCC. MCFs in the Federation of BiH have been established by non-governmental, mostly humanitarian organisations (World Vision, CHF International, HO BOSPO, Catholic Relief Service, Deputy, Mercy Corps, Islamic Relief, Melaha), citizens' associations (CA „LOK“, CA „ALDI“) and natural persons.

The founders are entitled to be registered as founders without capital ownership rights on the basis of the donated capital for the establishment of MCFs. One MCC is 100% owned by one MCF.

1.3. Human Resources

As of 31.12.2017, the total headcount of the microcredit system was 1 399, which is up by 148 employees or 12% compared to 31.12.2016. MCFs employ 1 215 employees or 86.9% and the MCC 183 employees or 13.1%. The aforementioned is shown in the table below.

Table 49. Qualification Structure of Employees

No.	Qualifi-cation	31.12.2016		Total	Share (%)	31.12.2017		Total	Share (%)	Index
		MCFs	MCCs			MCFs	MCCs			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	PSQ	3	0	3	0.24	3	0	3	0.21	100
2.	S	1	0	1	0.08	1	0	1	0.07	100
3.	HS	10	0	10	0.80	8	0	8	0.57	80
4.	SSQ	509	21	530	42.37	498	74	572	40.89	108
5.	PSSQ	110	5	115	9.19	104	31	135	9.65	117
6.	CD	518	29	547	43.73	560	76	636	45.46	116
7.	MR	41	2	43	3.44	40	1	41	2.93	95
8.	DR	2	0	2	0.16	2	1	3	0.21	150
TOTAL		1 194	57	1 251	100.00	1 216	183	1 399	100.00	112

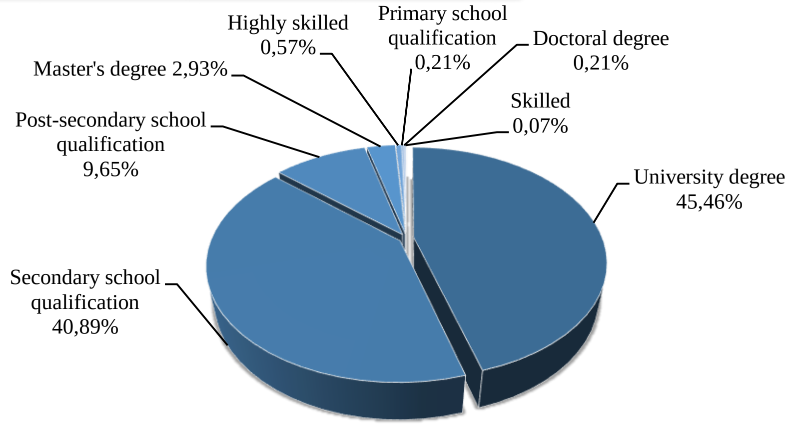
Please note that this figure does not represent thr real increase in employees, but is the result of the fact that 114 employees of one MCF were hired part-time as employees of the MCC in 2017, with the aforementioned being recorded in reports on the qualification structure of employees of both the MCF and MCC.

When excluding the aforementioned piece of data as well as the fact that the number of these employees was 42 as of 31.12.2016, the real number of employees as of 31.12.2017 amounted to 1 243 employees, which is 34 employees or 3% more compared to 31.12.2016.

The employees structure is dominated by university degrees with 45.46%, secondary school qualification with 40.89%, and two-year post-secondary school qualification with 9.65%. The share percentage of employees with secondary school qualification is up by 8%, with university degrees by 16%, with two-year post-secondary school qualification by 17%.

The qualification structure of employees in MCOs is shown in Graph 33.

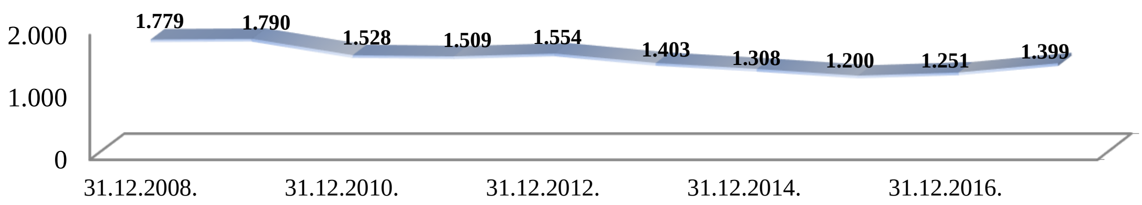
Graph 33. Qualification Structure of Employees in MCOs



An overview of the number of MCO employees throughout the years reveals that the biggest number of employees was recorded at the end of 2009, when the total headcount of MCOs was 1 790. As of 31.12.2017, MCOs had 1 399 employees, down by 22% compared to the end of 2009. A comparison of these two periods in the case of individual MCOs reveals that two MCFs recorded the largest drop in the number of employees by even 71% and 25%, respectively.

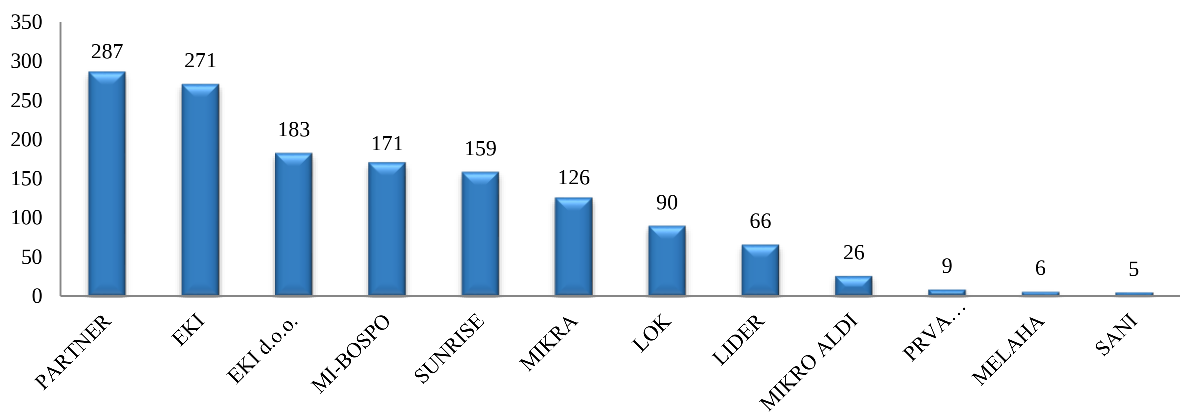
The number of employees in MCOs by year is shown in Graph 34.

Graph 34. Number of Employees in MCOs by Year



The number of employees as of 31.12.2017 individually by MCO is shown in the graph below.

Graph 35. Number of Employees as of 31.12.2017 Individually by MCO



2. FINANCIAL PERFORMANCE INDICATORS

2.1. Balance Sheet

As of 31.12.2017, the balance sheet total of MCOs amounts to KM 526.9 million, which is up by KM 86.8 million or 20% compared to the balance as of 31.12.2016. The balance sheet total increased with 8 MCFs and 1 MCC compared to the end of the previous year, two MCFs 2 MCFs recorded a drop, while one MCF retained approximately the same level of assets in the reporting period.

A drop in the balance sheet total of up to 10% was recorded with one MCF compared to 31.12.2016, while one MCF reduced its assets by KM 5.6 million in 2017 and recorded a drop of 27% compared to the end of the previous year. Five MCFs and one MCC with assets in the amount of KM 483.7 million or 92% have the largest share in the total MCO balance sheet total.

- KM 000 -

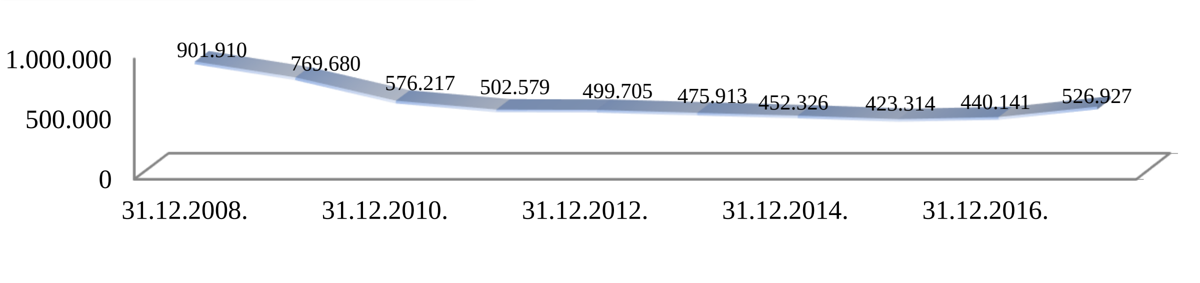
Table 50. Balance Sheet MCOs

DESCRIPTION	31.12.2016			31.12.2017					Ind.
	Balance for MCFs	Balance for MCCs	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	4	6=(2+4)	7	8	9	10	11=(7+9)	12
ASSETS									
1. Cash	22 227	4 496	26 723	21 989	5	24 841	23	46 830	175
2. Facilities to banks	733	0	733	1 210	0	0	0	1 210	165
3. Loans	349 791	28 081	377 872	329 758		81 396		411 154	109
4. Loan loss provisions	3 193	176	3 369	2 716		542		3 258	97
5. Net loans	346 598	27 905	374 503	327 042	78	80 854	75	407 896	109
6. Business premises and other fixed assets	28 734	115	28 849	28 383	7	430	1	28 813	100
7. Long-term investments	3 061	0	3 061	33 061	8	0	0	33 061	1080
8. Other assets	6 008	455	6 463	8 062	2	1 243	1	9 305	144
9. Provisions for other assets items, except loans	182	9	191	158		30		188	98
TOTAL ASSETS	407 179	32 962	440 141	419 589	100	107 338	100	526 927	120
LIABILITIES									
10. Loan commitments	179 808	28 100	207 908	177 140	42	68 856	64	245 996	118
11. Other liabilities	23 258	1 337	24 595	21 215	5	4 656	4	25 871	105
12. Capital	204 113	3 525	207 638	221 234	53	33 826	32	255 060	123
TOTAL LIABILITIES	407 179	32 962	440 141	419 589	100	107 338	100	526 927	120
Off-balance sheet records	115 630	220	115 850	110 554		420		110 974	96

Total assets of MCOs as of 31.12.2017 amounted to KM 526.9 million and were down by 42% compared to the end of 2008.

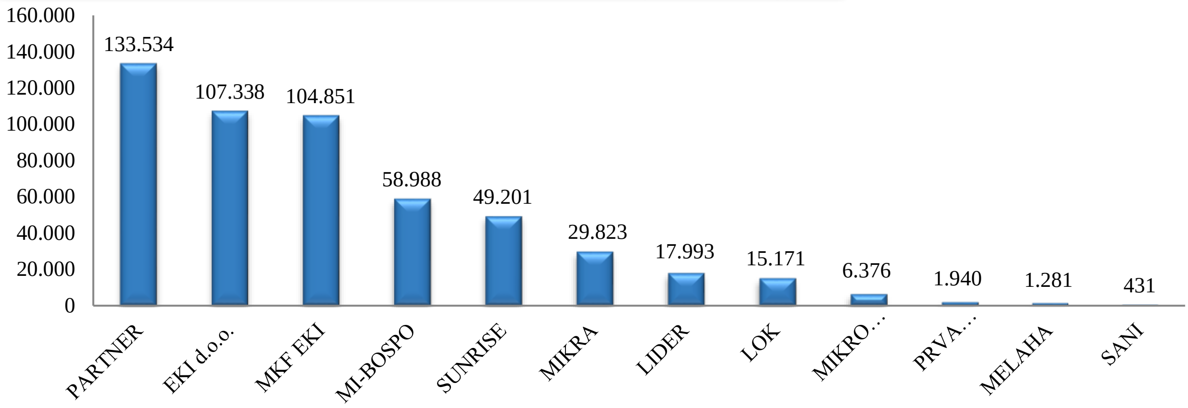
A comparison of these two periods in the case of individual MCOs shows that two MCFs recorded the largest drop in assets in the amount of 89% and 53%, respectively. Total assets of MCOs by year are shown in Graph 36.

Graph 36. Assets Amount of MCOs by Year



The following graph shows the assets amount as of 31.12.2017 individually by MCO.

Graph 37. Assets Amount as of 31.12.2017 Individually by MCO (in KM 000)

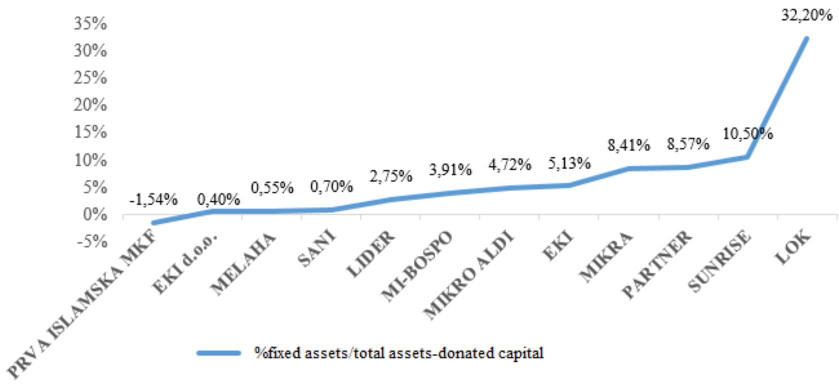


In the assets structure of MCOs, cash funds amount to KM 46.8 million or 9%. They are thus up by KM 20.1 million or 75% compared to 31.12.2016. Facilities to banks amount to KM 1.2 million and are up by KM 0.5 million or 65% in the reporting period.

Net loans, i.e. gross loans net of loan loss provisions amount to KM 407.9 million or 77% of total assets and are up by KM 33.4 million or 9% compared to 31.12.2016. Net loan growth compared to the end of the previous year was recorded by 8 MCFs and 1 MCC, while a drop was recorded by 3 MCFs.

Business premises and other fixed assets amount to KM 28.8 million or 6% of total assets and are at approximately the same level compared to the end of the previous year. The fixed assets percentage compared to total assets (net of donated capital) is 5.99% at the system level, which is within the framework of the allowed amount (up to 10%). Two MCFs violate this standard. Fixed assets vs. total assets (net of donated capital) as of 31.12.2017 individually by MCO are shown in the graph below.

Graph 38. Fixed Assets vs. Total Assets as of 31.12.2017 Individually by MCO



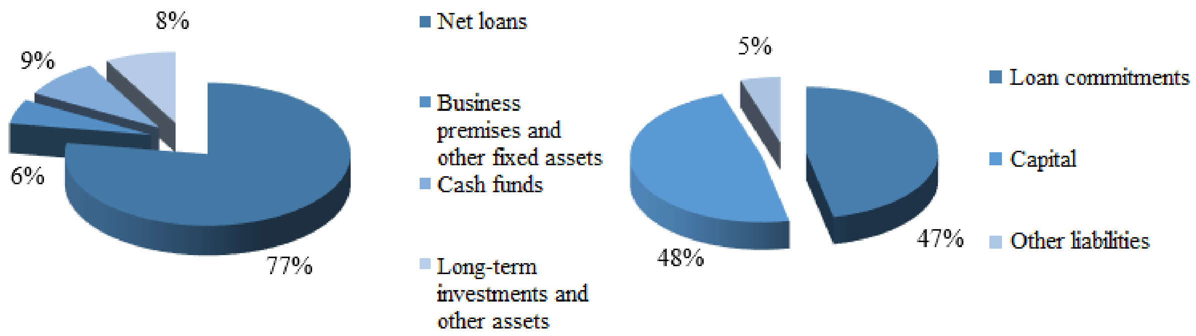
Only one MCF recorded long-term investments in the amount of KM 33.1 million,and they are up by KM 30 million compared to the end of the previous year. A significant increase in this position is the result of the investment of the assets of one MKF into the core capital of one MCD, whose founder and 100% owner it is.

Other assets (net of provisions for other assets items except loans) amount to KM 9.1 million, which include calculated interest, advances, accrued and deferred items, etc. These two balance sheet items make up 8% of total assets of the microcredit system. The percentage of other assets at the system level compared to total assets is 1.77% and individually, this item is above 10% in the case of no MCF.

Loan commitments amounted to KM 246 million or 47% of total liabilities as of 31.12.2017, thus being up by KM 38.1 million or 18% compared to the balance as of 31.12.2016. As of 31.12.2017, total MCO capital amounted to KM 255.1 million or 48% of total MCO liabilities and it is up by KM 47.4 million or 23% compared to the end of the previous year.

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

Graph 39. Assets and Liabilities Structure of MCOs



2.2. Liabilities

Loan commitments in the MCO liabilities structure are the main source of funding, amounting to KM 246 million or 47% of total liabilities. They are up by 18% compared to 31.12.2016, which is shown in more detail in the table below.

- KM 000 -

Table 51. Maturity Structure of Taken Loans

DESCRIPTION	31.12.2016				31.12.2017				Index
	MCFs	MCCs	TOTAL	%	MCFs	MCCs	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
1. Liabilities on short-term loans	73 903	5 549	79 452	38	86 518	18 273	104 791	43	132
2. Liabilities on long-term loans	105 905	22 551	128 456	62	90 622	50 583	141 205	57	110
TOTAL	179 808	28 100	207 908	100	177 140	68 856	245 996	100	118

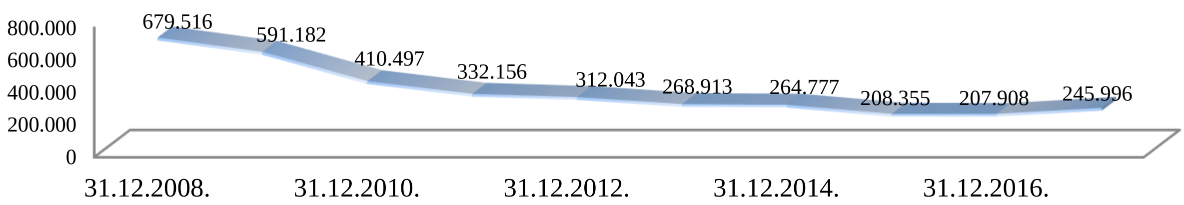
Out of total loan commitments, long-term loans (of which there is no record in the case of 1 MCF) amount to KM 141.2 million or 57% and are up by 10% compared to the end of the previous year. Out of total loan commitments, short-term loans (of which there is no record in the case of 1 MCF) amount to KM 104.8 million or 43% and are up by 32% compared to the end of the previous year.

Looking at the total loan commitments amount of MCOs throughout the years of MCO operations, the biggest amount was recorded at the end of 2008 when they amounted to KM 679.5 million. Total loan commitments of MCOs as of 31.12.2017 amounted to KM 246 million, and are lower by even 64% compared to the end of 2008.

A comparison of these two periods in the case of individual MCOs shows that two MCFs recorded the biggest drop in total loan commitments in the amount of even 91% and 80%, respectively.

The amount of loan commitments of microcredit organisations by year is shown in Graph 40.

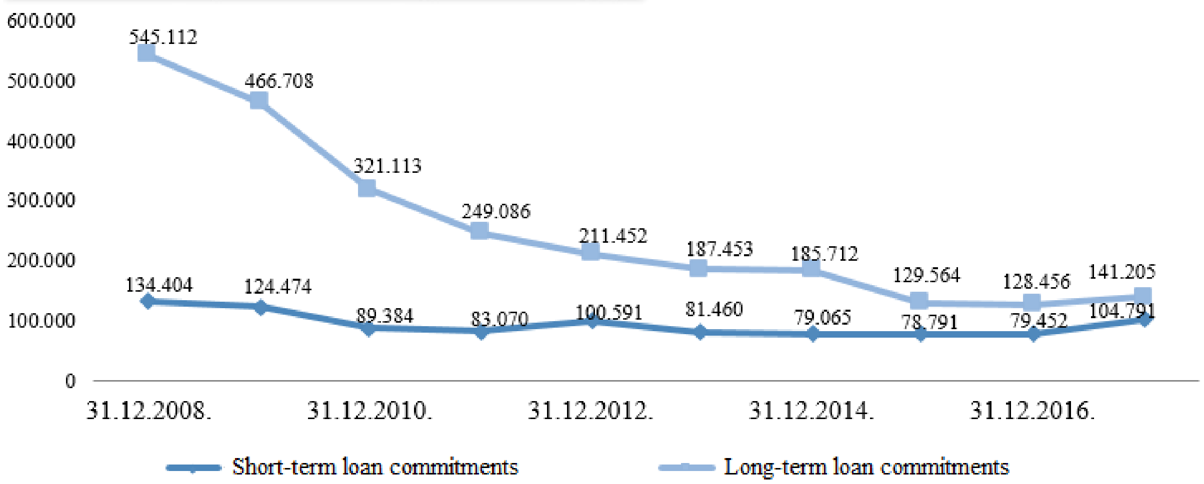
Graph 40. Loan Commitments Amount by Year (in KM 000)



Loan commitments are lower by 64% compared to 2008. Looking at loan commitments by maturity, long-term loans have dropped by even 74% compared to 2008, while short-term loans are lower by 22% compared to 2008.

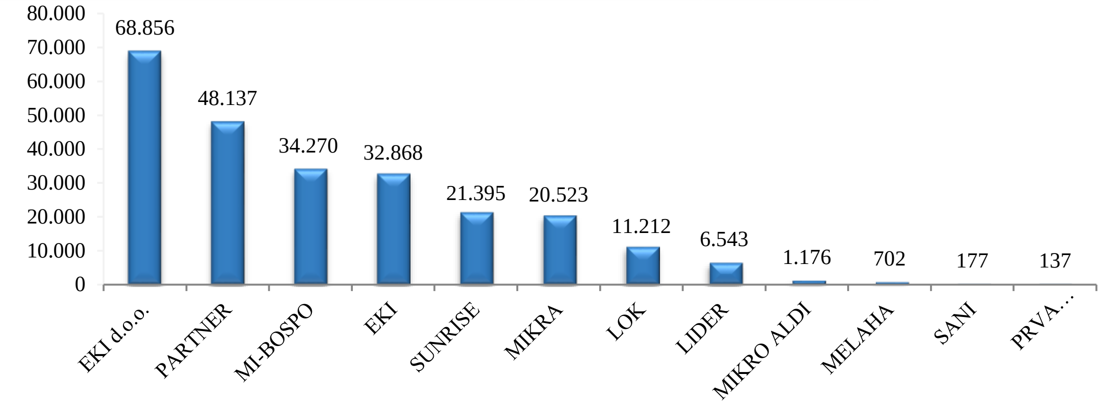
The amount of short-term and long-term loan commitments of MCOs by year is shown in the graph below.

Graph 41. Short-Term and Long-Term Loan Commitments



The following graph shows the amount of loan commitments as of 31.12.2017 individually by MCO.

Graph 42. Loan Commitments Amount as of 31.12.2017 Individually by MCO (in KM 000)

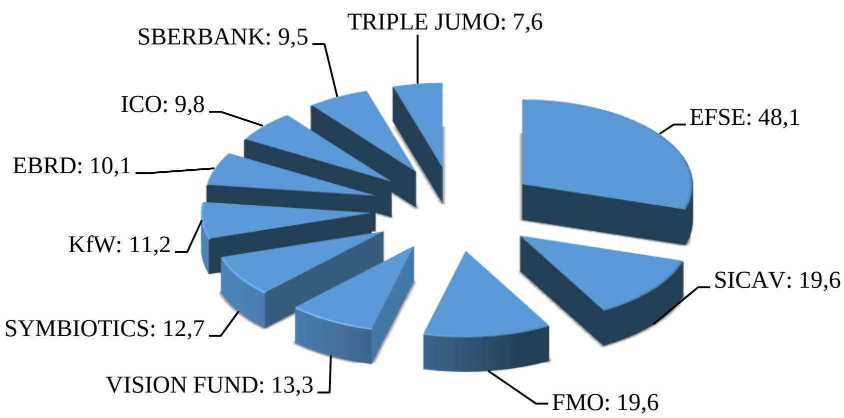


The ten most significant creditors of MCOs are:

1.) EFSE – European Fund for Southeast Europe, Luxembourg (KM 48.1 million);
2.) Responsability SICAV, Switzerland (KM 19.6 million);
3.) FMO, Netherlands (KM 19.6 million);
4.) Vision Fund, USA (KM 13.3 million);
5.) Symbiotics, Switzerland (KM 12.7 million);
6.) KfW – Kreditanstalt für Wiederaufbau, Germany (KM 11.2 million);
7.) EBRD – European Bank for Reconstruction and Development, Great Britain (KM 10.1 million);
8.) ICO – Instituto de Credito Oficial, Spain (KM 9.8 million);
9.) Sberbank BH d.d. Sarajevo, Bosnia and Herzegovina (KM 9.5 million);
10.) Triple Jump B.V, Netherlands (KM 7.6 million)

The aforementioned is shown in the graph below.

Graph 43.Most Significant Sources of Funding of MCOs (in KM million)



Other liabilities amount to KM 25.9 million or 5% of total liabilities. These include income tax liabilities, liabilities to employees, suppliers, accrued expenses and others. The percentage of other liabilities at the system level compared to total liabilities is 9.52%, and individually, a total of 5 MCFs recorded more than 10% of other liabilities compared to total liabilities.

Off-balance sheet records as of 31.12.2017 amount to KM 111 million and are down by 4% compared to the end of the previous year.

2.3. Capital

The total capital of MCOs as of 31.12.2017 amounts to KM 255.1 million or 48% of total liabilities, which is up by KM 47.4 million or 23% compared to the end of 2016. The capital of MCFs amounts to KM 221.3 million or 86.7%, and the capital of one MCC to KM 33.8 million or 13.3%, as shown in the table below.

- KM 000 -

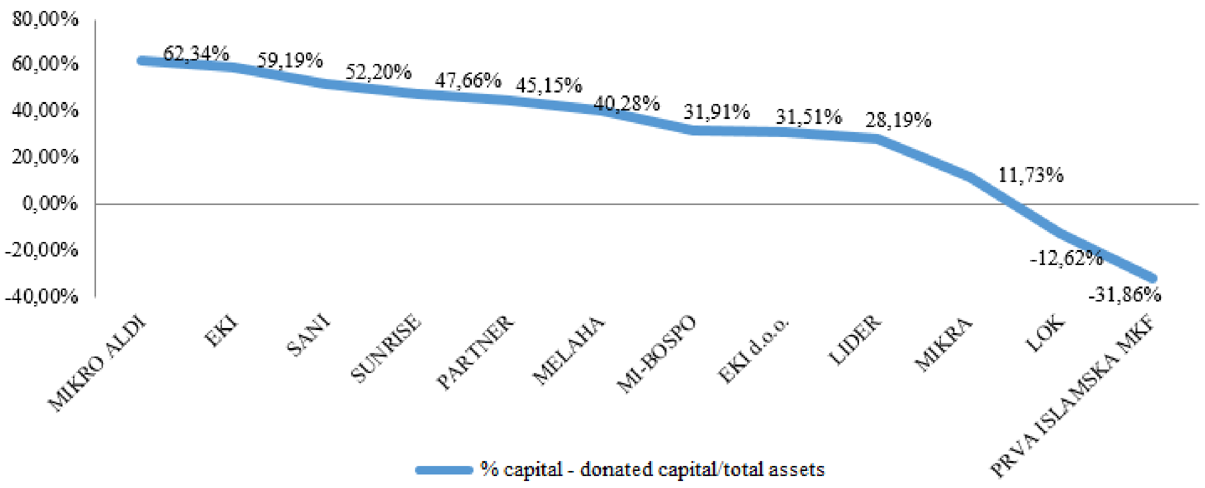
Table 52. Capital Structure of MCOs

DESCRIPTION	31.12.2016					31.12.2017					Index
	Balance for MCFs	%	Balance for MCCs	%	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	3	4	5	6=2+4	7	8	9	10	11=7+9	12=11/6
Donated capital	45 851	22	0	0	45 851	45 851	20	0	0	45 851	100
Core capital	3 820	2	600	17	4 420	3 820	2	30 600	90	34 420	779
Surplus/deficit of income over expenses	152 598	75	0	0	152 598	169 831	77	0	0	169 831	111
Issue premiums	0	0	0	0	0	0	0	0	0	0	0
Unallocated profit	0	0	1 016	29	1 016	0	0	1 317	4	1 317	130
Legal reserves	0	0	1 909	54	1 909	0	0	1 909	6	1 909	100
Other reserves	1 844	1	0	0	1 844	1 732	1	0	0	1 732	94
TOTAL CAPITAL	204 113	100	3 525	100	207 638	221 234	100	33 826	100	255 060	123

The total capital of the microcredit system (net of donated capital) amounts to 39.70% of total assets, with 2 MCFs having a percentage of capital amount (net of donated capital) compared to total assets that is lower than the allowed amount, i.e. less than 10% of total assets.

Capital (net of donated capital) vs. total assets as of 31.12.2017 individually by MCO is shown in the graph below.

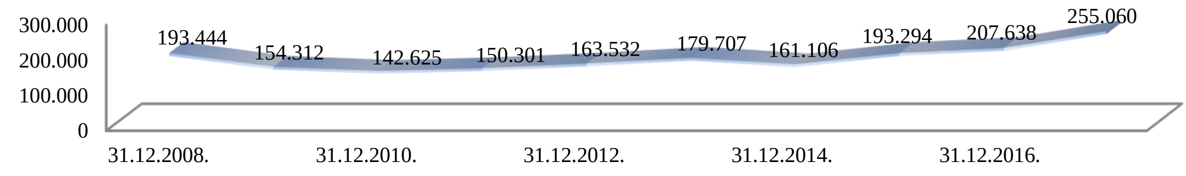
Graph 44. Capital vs. Total Assets as of 31.12.2017 Individually by MCO



An overview of the capital amount of MCOs throughout the years reveals that the biggest amount was recorded at the end of 2016, when it amounted to KM 207.6 million. The capital of MCOs as of 31.12.2017 amounted to KM 255.1 million and is up by KM 47.4 million or 23% compared to the end of 2016.

The capital amount of MCOs by year is shown in Graph 45.

Graph 45. Capital Amount of MCOs by Year (in KM 000)



In the capital structure of MCFs, the excess of income over expenses is the most important, and it amounts to KM 169.8 million and makes up 77% of total MCF capital, which is up by KM 17.2 million or 11% compared to the end of the previous year. A deficit of income over expenses for the period from 01.01. to 31.12.2017 was recorded by 1 MCF, while 10 MCFs recorded an excess of income over expenses and one MCC recorded a net profit.

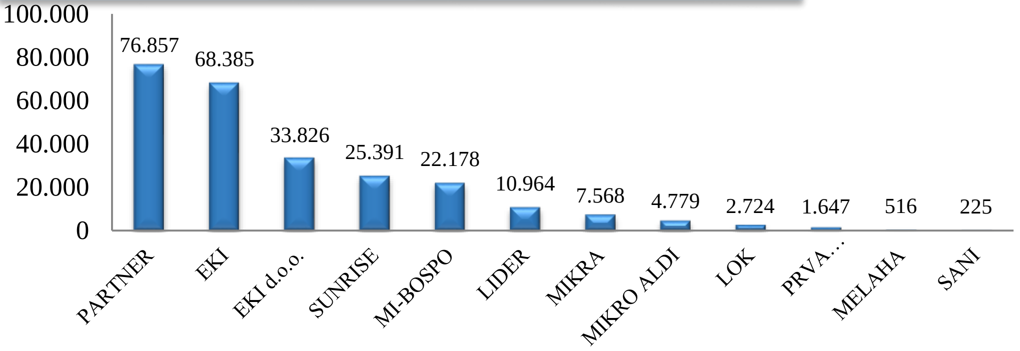
As of 31.12.2017, an excess of income over expenses, i.e. a profit from regular operations was recorded by 7 MCFs and 1 MCC, while 4 MCFs recorded a deficit of income over expenses from regular operations. Out of those 4 MCFs, 3 MCFs recorded a positive result at the end of 2017 due to extraordinary income. Extraordinary income is a direct result of the increased collection of receivables for written-off loans.

A significant source of MCF capital is donated capital, which amounts to KM 45.9 million or 20% of total MCF capital. The amount of donated capital, as reported by MCOs, is at the same level compared to the end of the previous year. In accordance with Article 11 of the Decision on General Conditions for Operations of Microcredit Organisations, MCOs shall keep records on donated funds and treat them as donated capital on which they have to report to the FBA. As per official quarterly reports, being submitted to the FBA, 9 MCFs include the amount of donated capital in their reports and keep records on its balance. Annex 13 provides an overview of donated funds of MCFs.

The core capital of MCFs as of 31.12.2017 amounts to KM 3.8 million or 2% of total MCF capital. Other reserves, which relate to 2 MCFs, amount to KM 1.7 million or 1% of total MCF capital. The core capital of one MCC amounts to KM 30.6 million and it is up by KM 30 million compared to the end of the previous year. The significant increase in the core capital of the MCC is the result of the KM 30 million investment of assets (cash funds) by the founder and 100% owner of the MCC in the increase in the core capital of the MCC, carried out in December 2017. Unallocated and current profit of the MCC amount to KM 1.3 million.

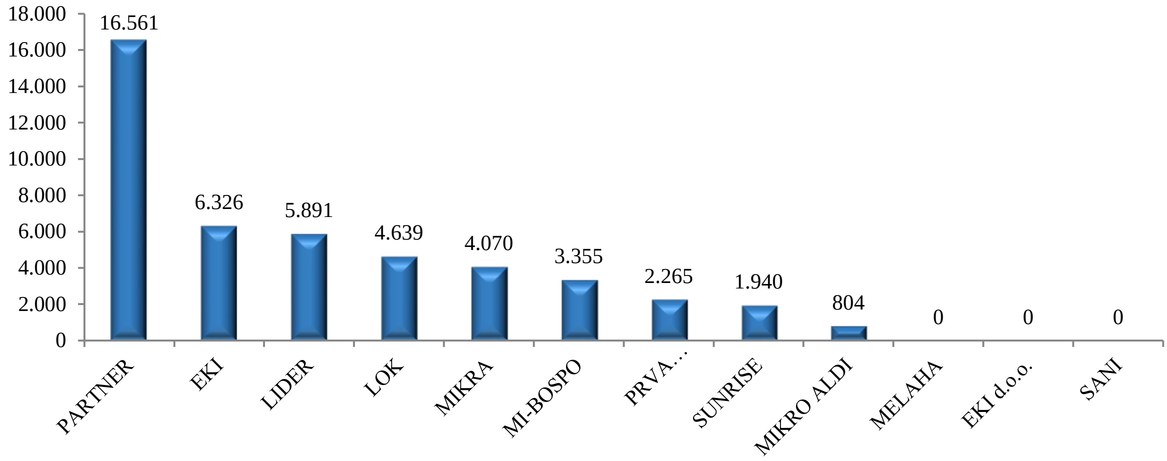
The amount of total capital as of 31.12.2017 individually by MCO is shown in the graph below.

Graph 46. Capital Amount as of 31.12.2017 Individually by MCO (in KM 000)



The amount of donated capital as of 31.12.2017 individually by MCO is shown in Graph 47.

Graph 47. Donated Capital Amount as of 31.12.2017 Individually by MCO (in KM 000)



2.4. Assets and Asset Quality

The main activity of MCOs is microlending, to which the amount of KM 411.2 million or 78% of total assets of the microcredit system is related. The level of total system loans depends on loans of MCFs, which account for KM 329.8 million or 80.2% of total loans, while the MCC accounts for KM 81.4 million or 19.8% of total loans.

Net loans, which make up total loans net of loan loss provisions, are presented in Table 53.

- KM 000 -

Table 53. Net Loans

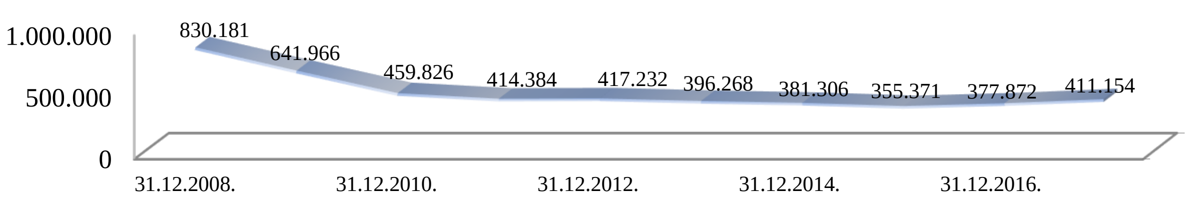
No.	DESCRIPTION	31.12.2016			31.12.2017			Index
		MCFs	MCCs	Total	MCFs	MCCs	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	349 791	28 081	377 872	329 758	81 396	411 154	109
2.	Loan loss provisions	3 193	176	3 369	2 716	542	3 258	97
3.	Net loans (1.-2.)	346 598	27 905	374 503	327 042	80 854	407 896	109

Net loans amount to KM 407.9 million and are up by 9% compared to 31.12.2016, while gross loans are also up by 9% compared to the end of the previous year.

Loan loss provisions amount to KM 3.3 million and are down by 3% compared to 31.12.2016. The loan loss provisions to total loan portfolio ratio amounts to 0.79% and recorded an improvement of 0.10% compared to 31.12.2016.

The gross portfolio of MCOs by year is shown in Graph 48.

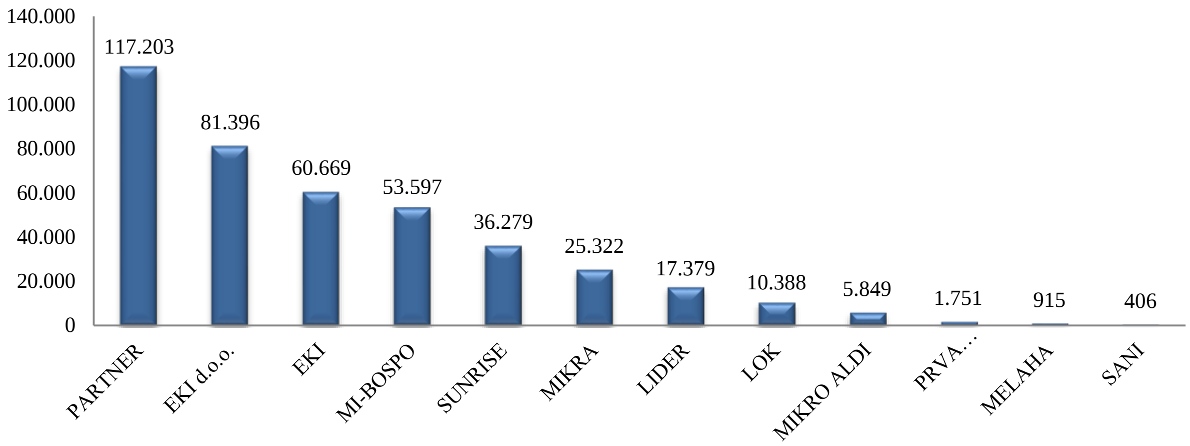
Graph 48. Gross Portfolio Amount of MCOs by Year (in KM 000)



An overview of the gross portfolio of MCOs thoroughout the years of MCO operations shows that the largest amount was recorded at the end of 2008, when it amounted to KM 830.2 million. The total gross portfolio as of 31.12.2017 amounted to KM 411.2 million and dropped by 50% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs reveals that two MCFs recorded the biggest gross portfolio drop, by even 92% and 70%, respectively.

The gross portfolio amount individually by MCO is shown in the graph below.

Graph 49. Gross Portfolio Amount as of 31.12.2017 Individually by MCO (in KM 000)



The sectoral and maturity structure of microloans as of 31.12.2017 is presented in Table 54.

- KM 000 -

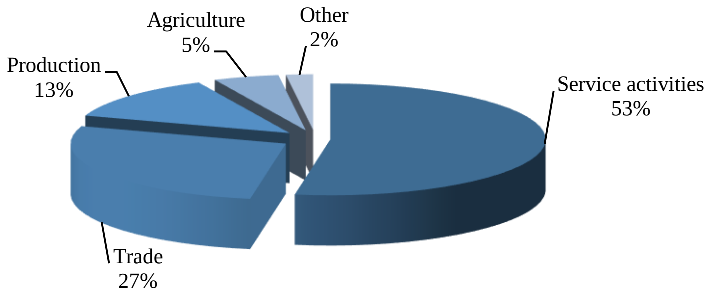
Table 54. Sectoral and Maturity Structure of Microloans as of 31.12.2017

No.	Microloans	Short-term loans	Long-term loans	Receivables due	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
1.	Legal entities					
a.)	Service activities	220	5 602	55	5 877	53%
b.)	Trade	185	2 858	18	3 061	27%
c.)	Agriculture	12	537	1	550	5%
d.)	Production	154	1 286	9	1 449	13%
e.)	Other	52	174	1	227	2%
	TOTAL 1:	623	10 457	84	11 164	100%
2.	Natural persons					
a.)	Service activities	4 953	66 837	209	71 999	18%
b.)	Trade	1 469	15 602	70	17 141	4%
c.)	Agriculture	7 323	131 163	345	138 831	35%
d.)	Production	642	7 158	25	7 825	2%
e.)	Housing needs	2 654	79 999	179	82 832	21%
f.)	Other	12 830	68 185	347	81 362	20%
	TOTAL 2:	29 871	368 944	1 175	399 990	100%
	TOTAL (1+2):	30 494	379 401	1 259	411 154	

Out of the total number of microloans, KM 11.2 million or 3% were granted to legal entities and KM 400 million or 97% were granted to natural persons. In the maturity structure of microloans, short-term loans with receivables due account for KM 31.8 million or 8% and long-term loans for KM 379.4 million or 92%.

Receivables due total KM 1.3 million and are almost completely related to loans granted to natural persons. The sectoral structure of microloans granted to legal entities is shown in Graph 50.

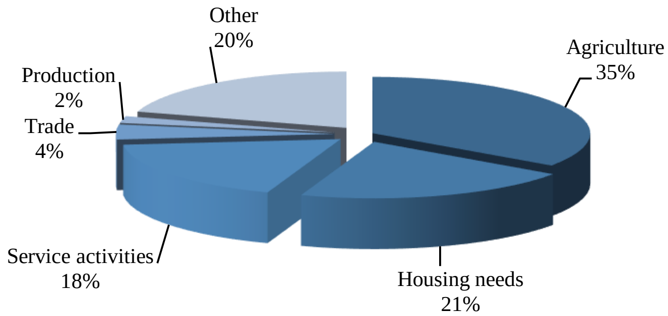
Graph 50. Sectoral Structure of Microloans to Legal Entities



The largest amount of total microloans to legal entities was placed for service activities and trade – KM 5.9 million or 53% for service activities and KM 3.1 million or 27% for trade. Out of the total microloan amount to legal entities, KM 1.4 million or 13% were granted for production, while KM 0.6 million or 5% were granted for agriculture and KM 0.2 million or 2% for other purposes.

The sectoral structure of microloans granted to natural persons is shown in Graph 51.

Graph 51. Sectoral Structure of Microloans to Natural Persons



As for loans to natural persons, KM 138.8 million or 35% was placed for agriculture, followed by KM 82.8 million or 21% for housing needs, KM 72 million or 18% for service activities, KM 17.2 million or 4% for trade, KM 7.8 million or 2% for production, and KM 81.4 million or 20% for other purposes, as shown in the table below.

- KM 000 -

Table 55. Sectoral Structure of Microloans

Microloans for:	31.12.2016	31.12.2017	Share	Index
Agriculture	126.352	139.381	34%	110
Housing	76.643	82.832	20%	108
Other	69.336	81.589	20%	118
Services	73.333	77.876	19%	106
Trade	22.441	20.202	5%	90
Production	9.767	9.274	2%	95
Total	377.872	411.154	100%	109

Based on the analysis of the industry, it can be concluded that microlending is largely directed toward lending of agriculture (34%), housing needs (20%), services (19%), and other purposes (27%), and that it mostly includes long-term loans for natural persons. This means that loans are, in the majority of cases, approved to persons who do not have an access to traditional sources of funding due to both the riskiness of the business operations they perform and due to the lack of proper collaterals.

Compared to the end of the previous year, the total loan percentage for all loan products shows an increase between 6% and 18%, with the exception of loans for production and trade, which decreased by 5% and 10%, respectively, in the reporting period. In terms of microloan maturity, long-term microloans are up by 10% compared to the end of the previous year, while short-term microloans (including receivables due) are down by 8% in the reporting period, as shown in the table below.

- KM 000 -

Table 56. Maturity Structure of Microloans

DESCRIPTION	31.12.2016	31.12.2017	Share	Index
Long-term microloans	343 405	379 401	92%	110
Short-term microloans with receivables due	34 467	31 753	8%	92
TOTAL	377 872	411 154	100%	109

According to reports that microcredit organisations submitted to the FBA in relation to the amount of risk portfolio as a result of the May 2014 natural disasters, as of 31.12.2017, the active loan portfolio, which was not past due as of 30.04.2014 and which was at risk as a result of the natural disasters, amounted to KM 0.6 million.

The loan portfolio that was past due as of 30.04.2014 and was additionally at risk as a result of the natural disasters, amounted to KM 17 thousand as of 31.12.2017. The loan portfolio that was renegotiated – rescheduled as a result of the natural disasters amounted to KM 96 thousand as of 31.12.2017. Loans for agriculture (31%) and loans for housing needs (29%) have the largest share in the amount of rescheduled loans as a result of the natural disasters.

According to the Decision on the Amount and Manner of Creating and Maintaining Reserves for Covering Loan Losses of Microcredit Organisations (Official Gazette of the Federation of BiH, No. 27/07), MCOs shall allocate all loan proceeds and other receivables to certain groups by applying the days past due criterion in a way that funds for loan loss provisions and other losses are allocated to each group debiting operating expenses.

The basis for the calculation of the reserves is the amount of outstanding loan, due interest and fee and any other items in which the MCO is exposed to the risk of impossible collection, i.e. business failure. Receivables amounts divided into the set groups and calculated reserves by these groups with the balance as of 31.12.2017 are shown in the table below.

- KM 000 -

Table 57. Loan Loss Provisions with the Balance as of 31.12.2017

No.	Days past due	Provisioning rates	Loan amount	Share (%)	Interest due		Amount of other assets items	Provisions			Total provisions
					Provisioning rate	Interest amount		By loans	By interest due	By other assets items	
1	2	3	4	5	6	7	8	9=(4x3)/100	10=(7x6)/100	11=(8x3)/100	12=(9+10+11)
1.	0	0%	403 130	98.05	0%	7	351	0	0	0	0
2.	1 – 15	2%	2 006	0.49	2%	30	0	40	1	0	41
3.	16 – 30	15%	2 371	0.58	100%	42	0	356	42	0	398
4.	31 – 60	50%	1 284	0.31	100%	39	0	642	39	0	681
5.	61 – 90	80%	776	0.19	100%	29	0	621	29	0	650
6.	91 – 180	100%	1 587	0.39	100%	78	0	1 599	78	0	1 677
TOTAL			411 154	100.00		225	351	3 258	189	0	3 447
7.	More than 180	Write-off	1 006		100%	88					

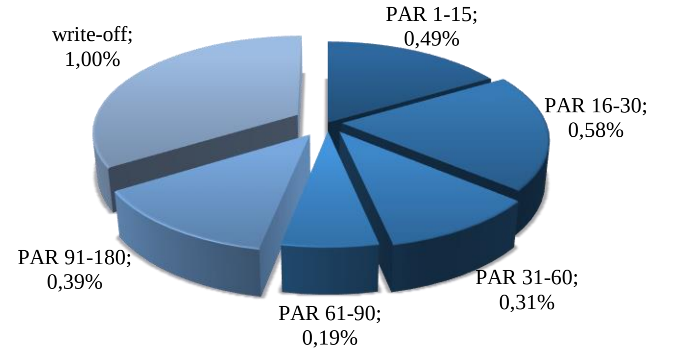
**Column 9, days past due category (91-180) includes additional provisions of one MCF for loans for additional funds and additional provisions in line with harmonising the manner of calculating provisions according to the FBA's instructions.*

The amount of defaulted loans for more than one day is KM 8 million or 1.95%, while 98.05% of loans are not defaulted. The total amount of interest due by current loans which are defaulted for more than one day is KM 0.2 million. It can be concluded from the aforementioned that the quality of the loan portfolio in the microcredit sector of the Federation of BiH is at a high level.

The total amount of calculated reserves on all bases is KM 3.4 million and they are down by 3% compared to 31.12.2016. In 2017, the MCO write-off amounted to KM 3.9 million of principal and KM 0.3 million of interest.

The quality of the active loan portfolio of microcredit organisations is shown in Graph 52.

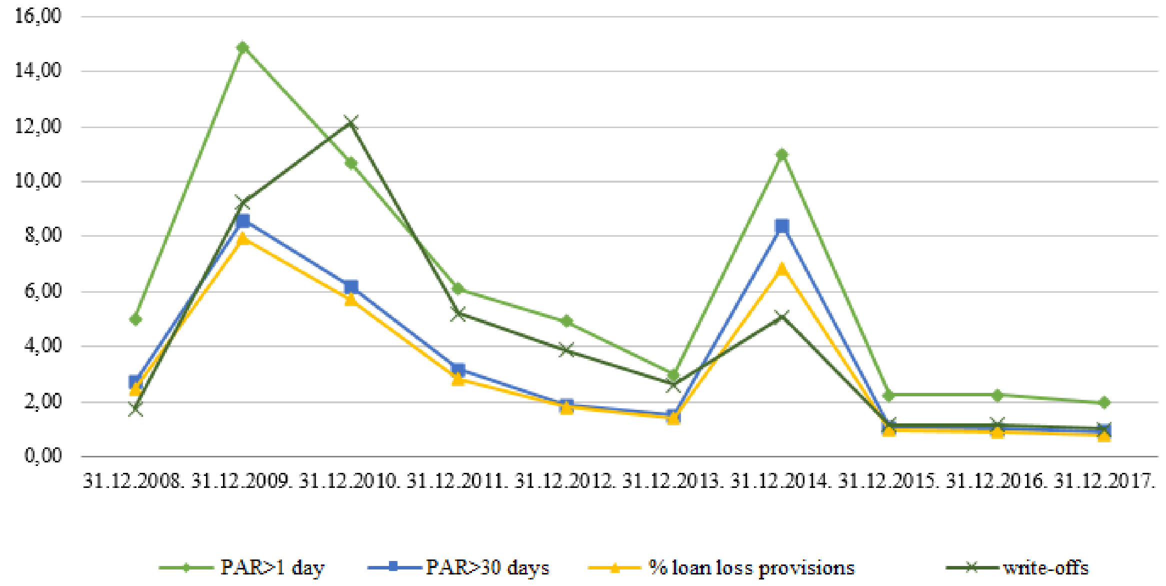
Graph 52. Portfolio Quality of MCOs - Percentage of Loans in Default



Key Indicators of Loan Portfolio Quality

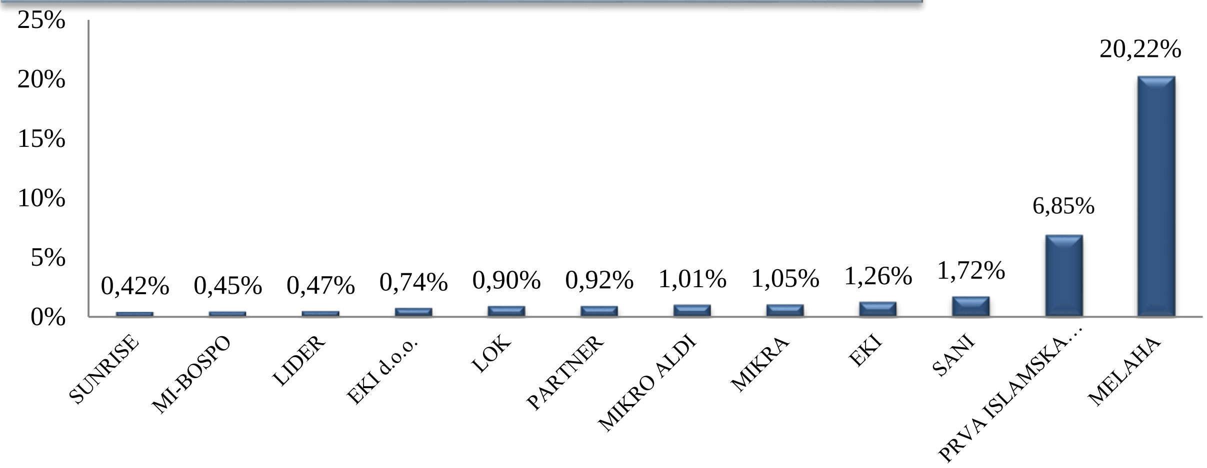
Compared to the end of the previous year, as of 31.12.2017, the microcredit portfolio saw an increase of 9% (KM 33.3 million) and recorded an improvement of quality indicators of the active loan portfolio. The majority of MCOs is exposed to the pressure of competition both from larger MCOs and from banks. Many smaller MCOs are thus faced with a lack of funds for financing the loan portfolio. Quality indicators of the active loan portfolio are shown in percentage points in Graph 53.

Graph 53. Active Portfolio Quality Indicators of MCOs



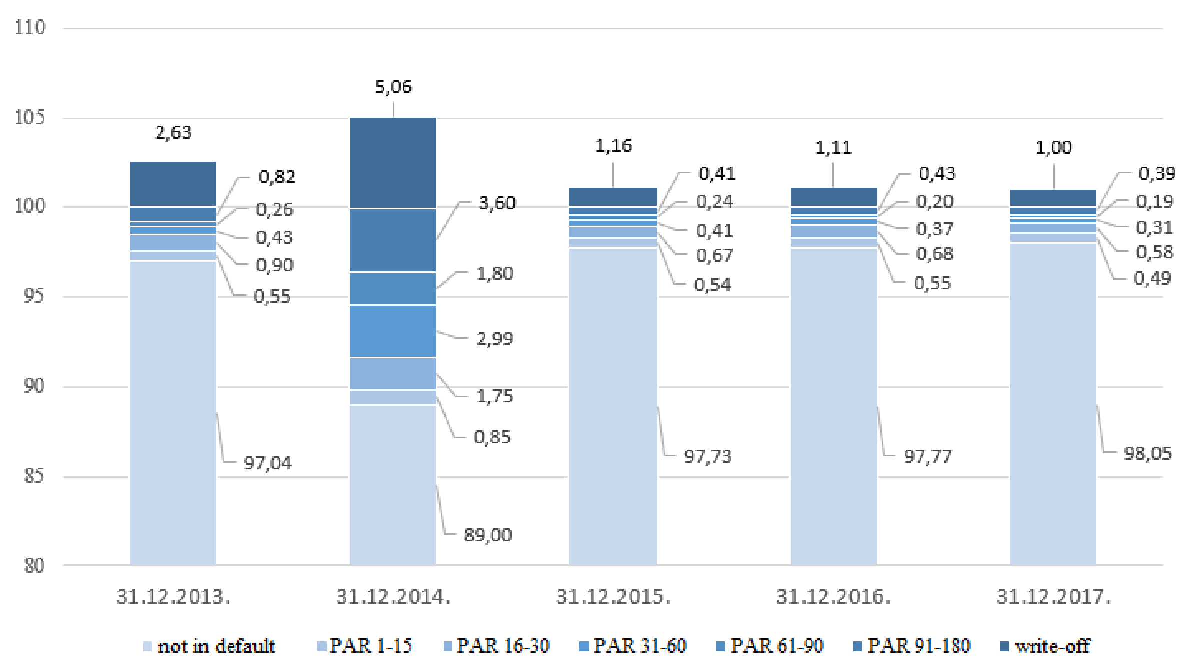
The slight of active loan portfolio quality indicators was rendered by a decrease of the loan loss provisioning rate (% of loan loss provisions) from 0.89%, which is what it amounted to as of 31.12.2016, to 0.79%. The portfolio at risk exceeding 30 days past due (PAR>30 days) recorded a slight improvement, thus being down from 1%, to which it amounted at the end of the previous year, to 0.89%. The total system result based on the portfolio at risk is within the framework of the prescribed standard (below 5%), with two MCFs violating the prescribed standard if observed individually. The portfolio at risk for more than one day past due (PAR>1 day) recorded a slight improvement, thus being down from 2.23%, to which it amounted at the end of the previous year, to 1.95%. The portfolio at risk over 30 days past due (PAR>30 days) as of 31.12.2017 individually by MCO is shown in the graph below.

Graph 54. Portfolio at Risk Over 30 Days Past Due as of 31.12.2017 Individually by MCO



The classification of the gross portfolio of microcredit organisations by year is shown in percentage points in the graph below.

Graph 55. Gross Portfolio Classification of MCOs by Year



In 2017, MCOs wrote off 2 237 loan accounts (2 207 write-offs relate to natural persons and 30 to legal entities) in the total amount of KM 4.3 million, KM 3.9 million of which relate to the written-off principal.

As of 31.12.2017, the percentage of write-offs at the system level amounted to 1.00%, with this indicator being down by 0.11 percentage points compared to the end of the previous year and thus being within the framework of the prescribed standard. Two MCFs do not meet the FBA's standard in terms of the write-off percentage, which must be below 3%.

Microcredit organisations collect receivables by write-offs and managed to collect KM 8.3 million of written-off principal and KM 0.7 million of written-off interest in 2017, while the permanent write-off in the same reporting period amounted to KM 69 thousand of principal and KM 20 thousand of interest.

Regarding the efficiency of the collection of write-offs in 2017, 3 MCFs had a collection efficiency percentage ranging from 11% to 12% compared to the total amount of receivables by write-offs, while 8 MCFs and 1 MCC had a collection efficiency percentage ranging from 6% to 9%.

The amounts of receivables by written-off principal and interest as of 31.12.2017 are shown in Table 58.

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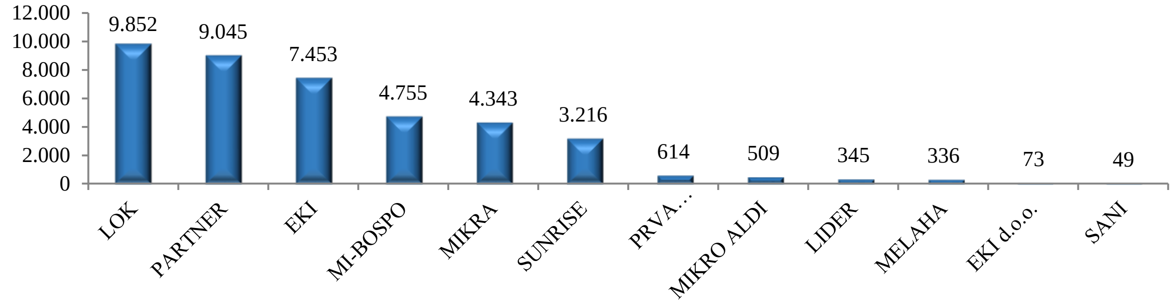
Table 58. Receivables by Written-Off Principal and Interest

DESCRIPTION	NATURAL PERSONS		LEGAL ENTITIES		TOTAL	
	Written-off principal	Written-off interest	Written-off principal	Written-off principal	Written-off interest	Written-off principal
1	2	3	4	5	6	7
Initial balance as of 01.01.2017.	100 145	10 731	2 807	298	102 952	11 029
Changes in 2017:						
New write-off in the current year	3 801	329	140	12	3 941	341
Write-off in the period 01.01.-31.03.	*906*	*75*	*43*	*6*	*949*	*81*
Write-off in the period 01.04.-30.06.	*1 046*	*92*	*24*	*2*	*1 070*	*94*
Write-off in the period 01.07.-30.09.	*885*	*77*	*30*	*1*	*915*	*78*
Write-off in the period 01.10.-31.12.	*964*	*85*	*43*	*3*	*1 007*	*88*
Collected in the current year	8 266	703	80	4	8 346	707
Collection of write-offs in the period 01.01.-31.03.	*2 000*	*173*	*27*	*1*	*2 027*	*174*
Collection of write-offs in the period 01.04.-30.06.	*2 091*	*174*	*23*	*2*	*2 114*	*176*
Collection of write-offs in the period 01.07.-30.09.	*2 051*	*183*	*13*	*0*	*2 064*	*183*
Collection of write-offs in the period 01.10.-31.12.	*2 124*	*173*	*17*	*1*	*2 141*	*174*
Permanent write-off in the current year	69	20	0	0	69	20
Permanent write-off in the period 01.01.-31.03.	*36*	*2*	*0*	*0*	*36*	*2*
Permanent write-off in the period 01.04.-30.06.	*12*	*4*	*0*	*0*	*12*	*4*
Permanent write-off in the period 01.07.-30.09.	*16*	*10*	*0*	*0*	*16*	*10*
Permanent write-off in the period 01.10.-31.12.	*5*	*4*	*0*	*0*	*5*	*4*
Balance as of 31.12.2017	95 611	10 337	2 867	306	98 478	10 643

**Note: The data in Table 10 differ from total receivables by write-offs shown in the off-balance records in the amount of KM 1.5 million, which includes court expenses, penalty and process interest as a portion of off-court settlements in the case of three MCFs.*

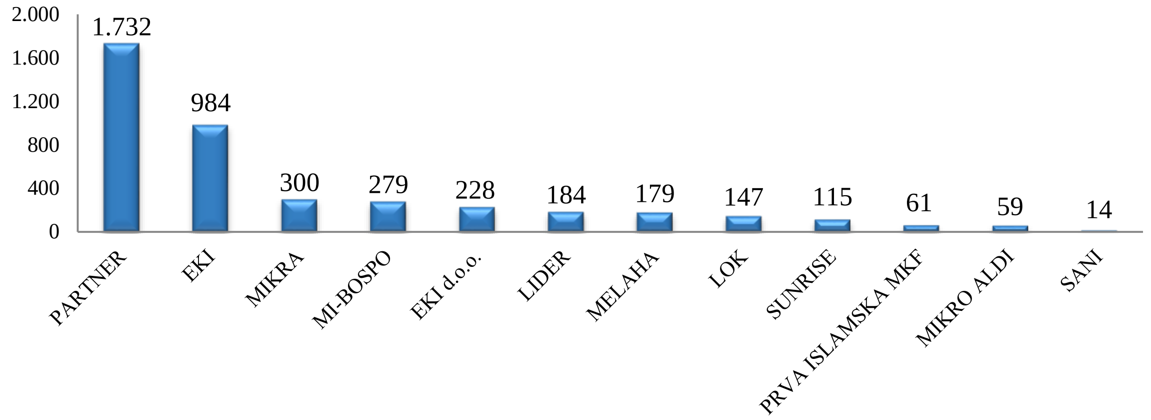
The following graph shows the number of written-off loans as of 31.12.2017 individually by MCO.

Graph 56. Number of Written-Off Loans in the Off-Balance Sheet Records as of 31.12.2017 Individually by MCO



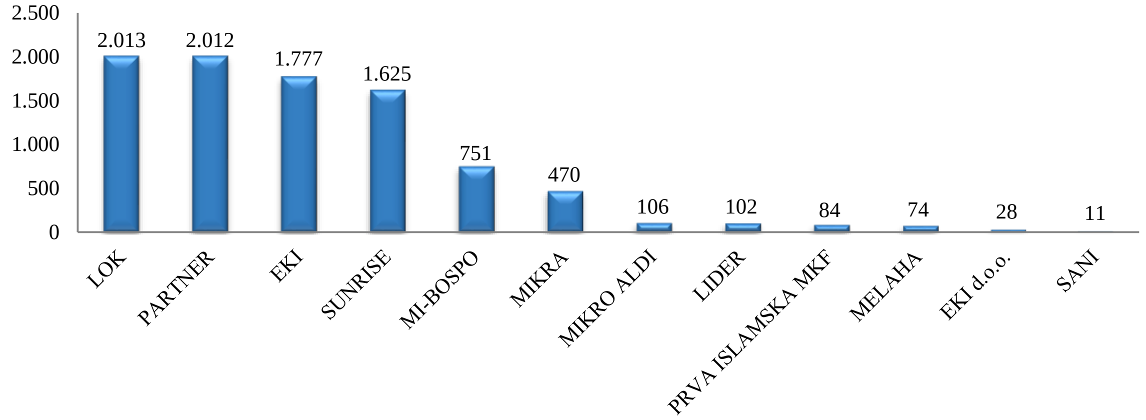
The loan amount written-off in the period 01.01.-31.12.2017 individually by MCO is shown in the following graph.

Graph 57. Loan Amount Written-Off in the Period 01.01.-31.12.2017 Individually by MCO (in KM 000)



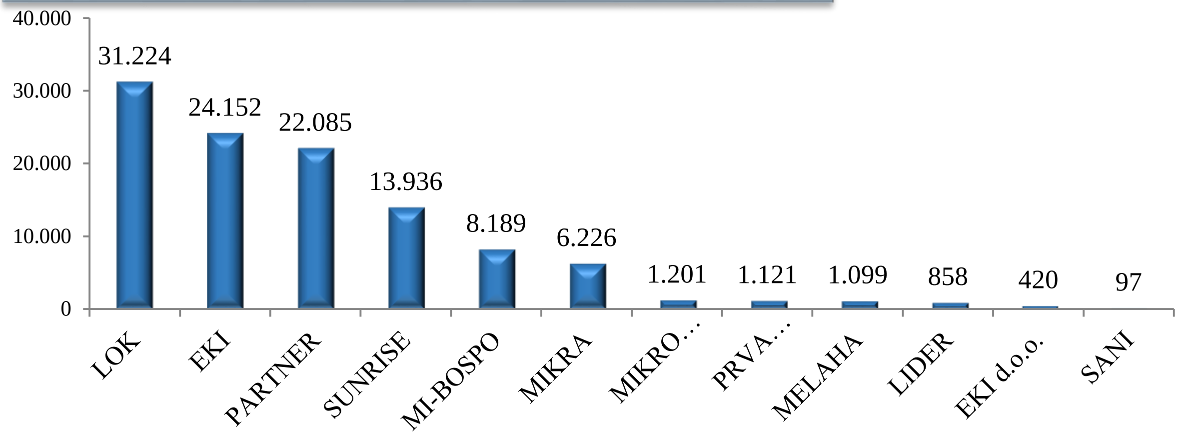
The collection amount by written-off loans in the period 01.01.-31.12.2017 is shown in the graph below.

Graph 58. Collection Amount by Written-Off Loans in the Period 01.01.-31.12.2017 Individually by MCO (in KM 000)



The total amount of receivables by written-off loans as of 31.12.2017 individually by MCO is shown in Graph 59.

Graph 59. Total Receivables Amount by Written-Off Loans as of 31.12.2017 Individually by MCO (in KM 000)



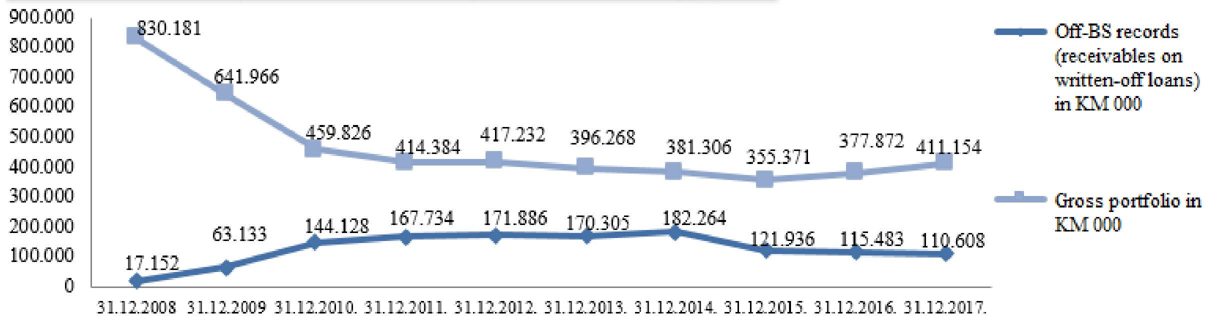
As of 31.12.2017, total receivables by write-offs, which are in the off-balance sheet records, amount to as KM 111 million, down by 4% compared to the end of the previous year.

Compared to 2008, the gross portfolio of MCOs is lower by 50%, while receivables by write-offs are almost 7 times higher and make up 27% of the total loan portfolio as of 31.12.2017.

There are significant deviations in the quality of the portfolio between different MCOs, which are evident from the data that three MCFs have over 60% of total write-offs compared to the total gross portfolio (total receivables by write-offs, which are in the off-balance records, are higher than total gross loans by 201% in the case of one MCF), which is a direct consequence of past loan expansion and the improper management of assets by MCFs.

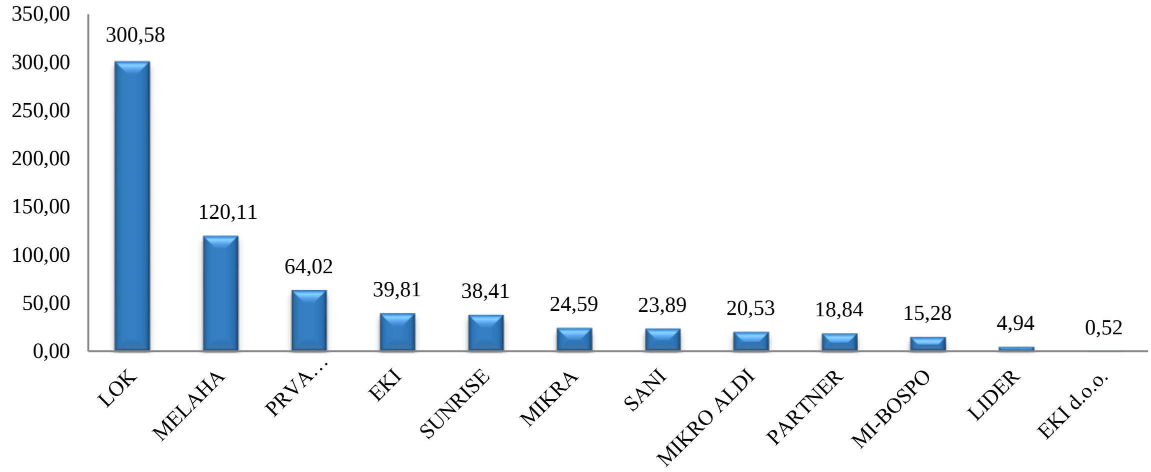
One MCF and one MCC showed total write-offs below 10% of the total gross portfolio. MCOs are required to start court disputes for the collection of write-offs which fell due and have not been collected for more than 180 days. Receivables on written-off loans and gross portfolio of MCOs by year are shown in Graph 60.

Graph 60. Receivables on Written-Off Loans and Gross Portfolio of MCOs



Total receivables by written-off loans vs. the total gross portfolio of individual MCOs as of 31.12.2017 are shown in the graph below.

Graph 61. Total Receivables by Written-Off Loans vs. Total Gross Portfolio of Individual MCOs as of 31.12.2017



Loan Repayment with Guarantorship as Security Instrument and Clients' Complaints

Inadequate credit policies and weaknesses of internal controls of MCOs as well as general overindebtedness of microloan beneficiaries have affected the lending process and loan portfolio quality. The activation of security instruments in the case of loan insurance under guarantorship happens as a result of uncollectable receivables from earlier periods or due to the clients' inability to repay matured loan commitments.

In the interest of collecting, monitoring and data analysis of loans being repaid through guarantors, the FBA has prescribed a new OKJ reporting form as of 31.12.2009.

According to the loan repayment reports of MCOs with guarantorship as a security instrument, as of 31.12.2017 in the Federation of BiH, the total number of loan accounts in the active loan portfolio of MCOs was 155 912, 1.20% of which were being repaid by guarantors, which is down by 0.03 percentage points compared to the percentage of loans being paid off by guarantors out of the total number of loans as of 31.12.2016 (2016: 1.23%).

According to quarterly reports, the total gross loan portfolio in the MCO system as of 31.12.2017 amounted to KM 411 million, with the share of the outstanding loan debt being paid off by guarantors amounting to 1.39%, up by 0.10 percentage points compared to the share of outstanding loan debt being paid off by guarantors out of the total gross loan portfolio at the end of 2016 (2016: 1.29%).

According to MCO reports and pursuant to the Decision on Manner of Customer Complaint Management of Banks, MCOs and Leasing Companies (Official Gazette of the Federation of BiH, No. 81/17), in the period from 01.01. to 31.12.2017, a total of 53 complaints was filed against MCOs. In the case of 5 MCFs, there is no evidence of complaints. Co-debtors/guarantors have filed 10 complaints, debtors 24 complaints, while other stakeholders filed 19 complaints. The MCOs resolved 5 complaints positively, 41 complaints negatively, while 7 complaints are in the process of being handled and commented on.

2.5. Profitability

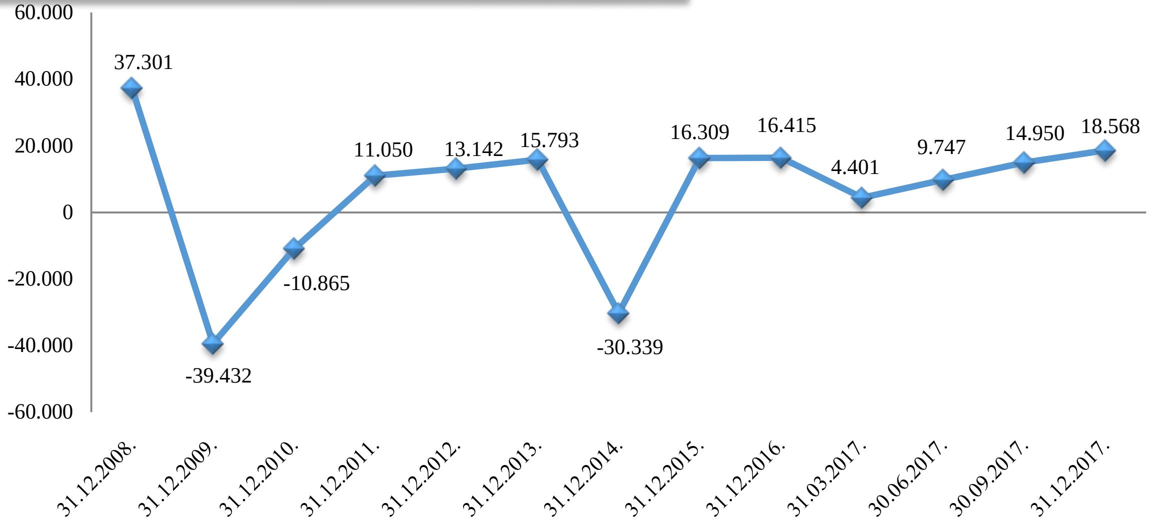
In the period from 01.01. to 31.12.2017, one MCC recorded a net profit in the amount of KM 300 thousand (at the end of 2016: KM 685 thousand net profit). In that period, MCFs recorded more income over expenses in the total amount of KM 18.3 million, while they recorded more income over expenses in the total amount of KM 15.7 million in the same period of the previous year. Annexes 14 and 15 provide an overview of the income statement of the MCC and MCFs.

In the period from 01.01. to 31.12.2017, out of a total of 11 MCFs, 10 MCFs had more income over expenses in the total amount of KM 18.3 million, while 1 MCF recorded less income over expenses in the total amount of KM 73 thousand.

At the level of the microcredit system in the Federation of BiH, a positive financial result in the amount of KM 18.6 million has been recorded, which is up by KM 2.2 million or 13% compared to the same period of the previous year. 10 MCFs calculated a profit tax in the amount of KM 1.9 million on the recorded excess of income over expenses, in accordance with the Law on Profit Tax (Official Gazette of the Federation of BiH, No. 15/16) and the opinion of the Ministry of Finance of the Federation of BiH, No. 05-14-2-5143/16-1 of 27.07.2016.

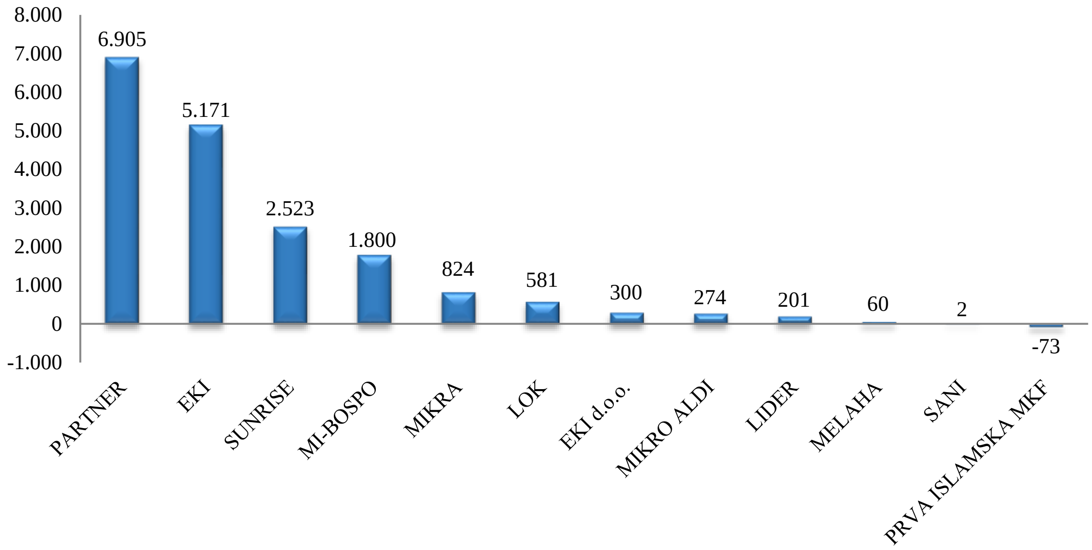
The total financial result of MCOs by year is shown in Graph 62.

Graph 62. Total Financial Result of MCOs by Year (in KM 000)



The following graph shows the financial result as of 31.12.2017 individually by MCO.

Graph 63. Surplus/Deficit of Income Over Expenses of MCFs, i.e. Net Profit/Loss of MCCs for the Period 01.01.-31.12.2017 Individually by MCO (in KM 000)



The structure of the income statement of the microcredit system of the Federation of BiH is shown in Table 59.

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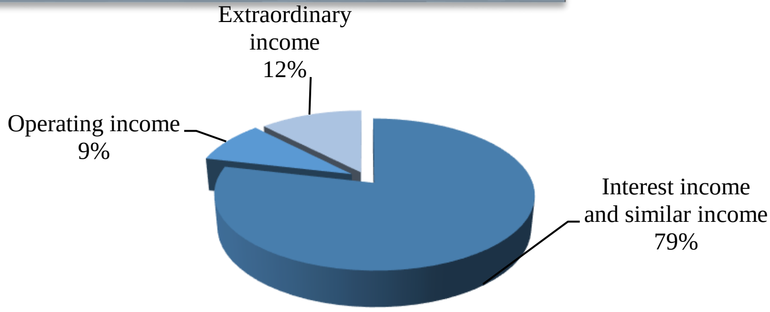
Table 59. Income Statement MCOs

No.	DESCRIPTION	For the period 01.01. - 31.12.2016				For the period 01.01. - 31.12.2017				Index
		MCFs	MCCs	Total	%	MCFs	MCCs	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	INCOME									
1.1.	Interest-based income and similar income	67 361	3 713	71 074	89	67 916	9 154	77 070	90	108
1.2.	Operating income	8 204	278	8 482	11	8 136	789	8 925	10	105
2.	TOTAL INCOME (1.1.+1.2.)	75 565	3 991	79 556	100	76 052	9 943	85 995	100	108
3.	EXPENSES									
3.1.	Interest-based expenses and similar expenses	9 800	1 355	11 155	15	8 656	2 584	11 240	15	101
3.2.	Operating expenses	56 747	1 553	58 300	79	56 850	5 605	62 455	80	107
3.3.	Expenses for loan loss provisions and other losses	4 006	346	4 352	6	3 528	614	4 142	5	95
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	70 553	3 254	73 807	100	69 034	8 803	77 837	100	105
5.	EXTRAORDINARY INCOME	11 600	15	11 615		11 975	57	12 032		104
6.	EXTRAORDINARY EXPENSES	882	6	888		725	850	1 575		177
7.	TOTAL INCOME - EXPENSES (2+5-4-6)	15 730	746	16 476		18 268	347	18 615		113
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	15 730		15 730		18 268		18 268		116
9.	PROFIT BEFORE TAXES		746	746			347	347		
10.	TAXES		61	61			47	47		
11.	NET PROFIT/LOSS		685	685			300	300		
12.	TOTAL FIN. RESULT			16 415				18 568		

The total income of MCOs in the period from 01.01. to 31.12.2017 amounts to KM 86 million. The total income is up by KM 6.4 million or 8% compared to the same period of the previous year. The biggest income portion is contributed by interest income, which amounts to KM 77.1 million or 90% of total income and is up by KM 6 million or 8% compared to the same period of the previous year, while operating income amounts to KM 8.9 million or 10% of total income and is up by KM 0.4 million or 5% compared to the same period of the previous year.

The income structure of MCOs is shown in Graph 64.

Graph 64. Income Structure (Including Extraordinary Income)



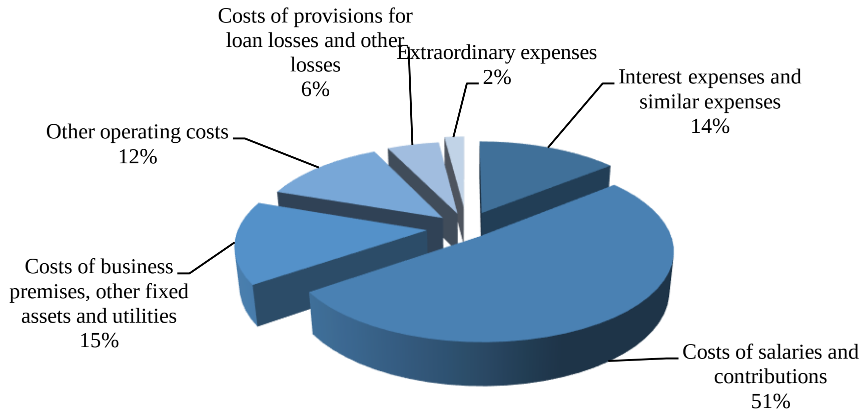
Extraordinary income of MCOs generated in the period from 01.01. to 31.12.2017 amounts to KM 12 million and is up by 4% compared to the same period of the previous year. Extraordinary income is dominated by the collection of receivables from writen-off loans. Extraordinary income of MCOs generated in 2017 amounts to KM 1.6 million and is up by KM 0.7 million or 77% compared to the same period of the previous year. The increase in extraordinary expenses is mainly the result of additional costs of business operations of one MCC, as identified in the examination.

Total expenses amount to KM 77.8 million, 69 million or 88.7% of which account for the expenses of MCFs, and KM 8.8 million or 11.3% for the expenses of one MCC. Compared to the same period of the previous year, total expenses are up by KM 4 million or 5%. In the expenses structure, KM 11.2 million or 15% of total expenses account for interest expenses on taken loans and other similar expenses and they are up by 1% compared to the same period of the previous year.

Operating expenses amount to KM 62.5 million or 80% of total expenses and are up by KM 4.2 million or 7% compared to the same period of the previous year. Operating expenses include salary and contributions costs in the amount of KM 40.7 million (01.01. to 31.12.2016: KM 38.8 million), costs of business premises, other fixed assets and utilities in the amount of KM 11.9 million (01.01. to 31.12.2016: KM 11 million) and other operating costs in the amount of KM 9.9 million (01.01. to 31.12.2016: KM 8.5 million).

Costs of provisions for loan losses and other losses amount to KM 4.1 million or 5% of total expenses and they are down by 5% compared to the same period of the previous year. The expenses structure of MCOs is shown in the graph below.

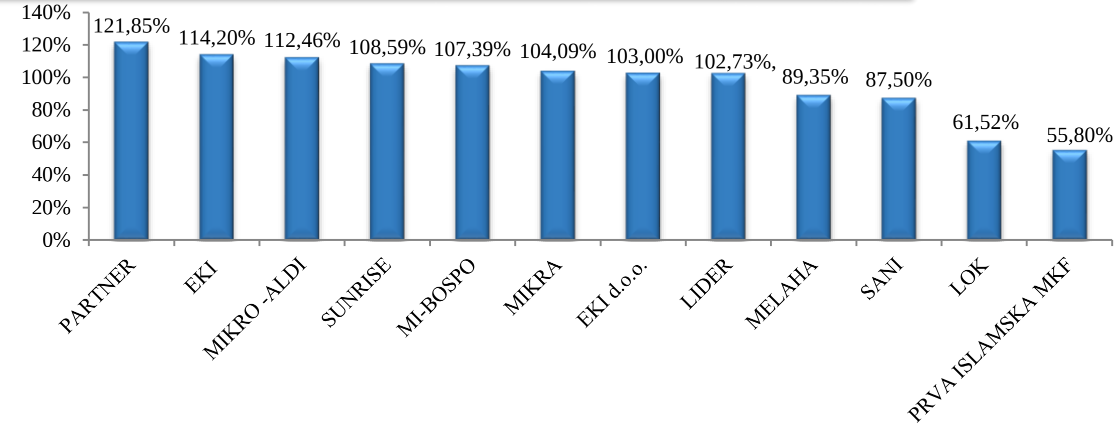
Graph 65. Expenses Structure (Including Extraordinary Expenses)



With respect to operational sustainability[40], out of 12 MCOs, 7 MCFs and 1 MCC can cover all expenses with the recorded income from regular activities, while 4 MCFs have not been operationally sustainable in the reporting period. Operational sustainability in the period from 01.01. to 31.12.2017 individually by MCO is shown in the following graph.

[40] Operational sustainability calculated according to the formula: (Total interest income and similar income + Total operating income) / (Total interest expenses and similar expenses + Total operating expenses + Costs of provisions for loan losses and other losses + Extraordinary expenses).

Graph 66. Operational Sustainability in the Period 01.01.-31.12.2017 Individually by MCO



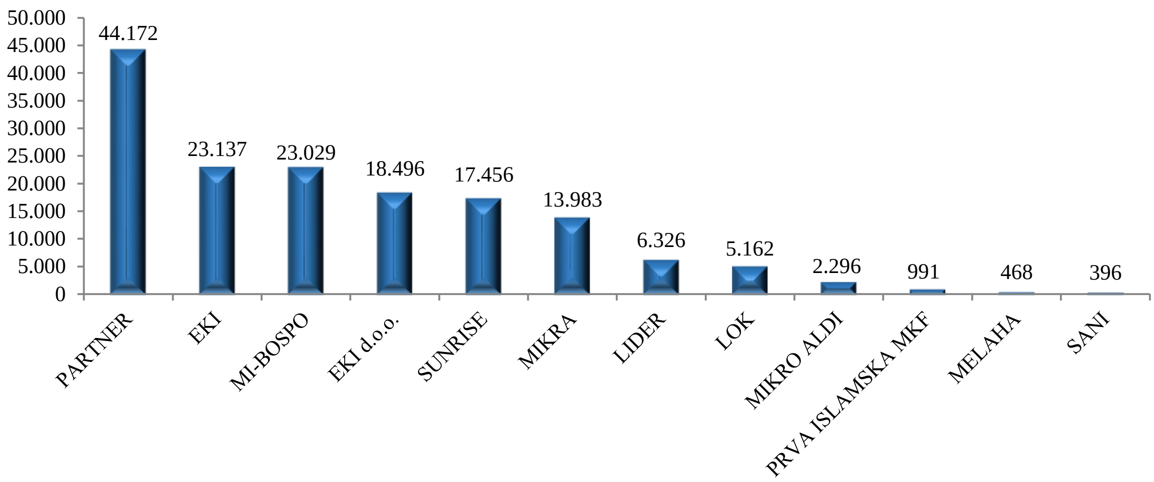
2.6. Weighted Nominal and Effective Interest Rates

The effective interest rate on microloans is the total price of those loans and is calculated and shown in accordance with the Decision on Uniform Manner of Calculation and Disclosure of Interest Rate on Loans and Deposits (Official Gazette of the Federation of BiH, No. 81/17). Weighted nominal and effective interest rates on newly-approved loans are calculated in the reporting month.

In accordance with monthly statements on weighted nominal and effective interest rates by loan, in the fourth quarter of 2017, MCOs placed microloans in the total amount of KM 103.5 million, which is up by KM 9.6 million or 10% compared to the microloan amount placed in the same period of the previous year. As of 31.12.2017, MCOs had 155 912 active loan accounts, which is up by 2 638 loan accounts or 2% compared to the end of the previous year.

The following graph shows the number of active loan accounts as of 31.12.2017 individually by MCO.

Graph 67. Number of Active Loan Accounts as of 31.12.2017 Individually by MCO



As of 31.12.2017, the average amount of microloans at the system level was KM 2 637, the average amount of microloans in MCFs was KM 2 400, while the average amount of microloans in the MCC was KM 4 400.

The average weighted nominal and effective interest rates on microloans by product for the fourth quarter of 2017 are shown in the table below.

Table 60. Average Weighted Nominal and Effective Interest Rates on Microloans for Q4 2017 – by Product

No.	DESCRIPTION	Total amount of microloan payment in Q4 2017 (in KM 000)	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
1.	Short-term microloans for:	15 901	21.22%	28.03%
1.1.	Service activities	2 867	20.98%	27.37%
1.2.	Trade	966	20.45%	27.40%
1.3.	Agriculture	3 602	19.54%	25.55%
1.4.	Production	498	18.54%	23.82%
1.5.	Housing needs	1 105	21.56%	29.15%
1.6.	Non-purpose – basic needs	2 163	19.94%	24.81%
1.7.	Other	4 700	23.60%	32.13%
2.	Long-term microloans for:	87 558	20.25%	24.13%
2.1.	Service activities	18 388	20.40%	24.38%
2.2.	Trade	3 917	20.27%	24.35%
2.3.	Agriculture	28 533	18.92%	22.32%
2.4.	Production	2 411	19.48%	23.22%
2.5.	Housing needs	16 178	19.87%	23.10%
2.6.	Non-purpose – basic needs	2 188	21.17%	25.88%
2.7.	Other	15 943	22.80%	27.94%
TOTAL		103 459	20.40%	24.73%

The average weighted nominal interest rate on short-term loans ranges from 18.54% for production up to 23.60% for other loans, and the effective interest rate ranges from 23.82% for production up to 32.13% for other loans.

The average weighted nominal interest rate on long-term loans ranges from 18.92% for agriculture up to 22.80% for other loans, and the effective interest rate ranges from 22.32% for agriculture up to 27.94% for other loans.

When analysing the effective interest rates of MCOs by loan product, it can be concluded that the most favourable loans are placed for agriculture and production, while the most expensive loans are non-purpose and other loans.

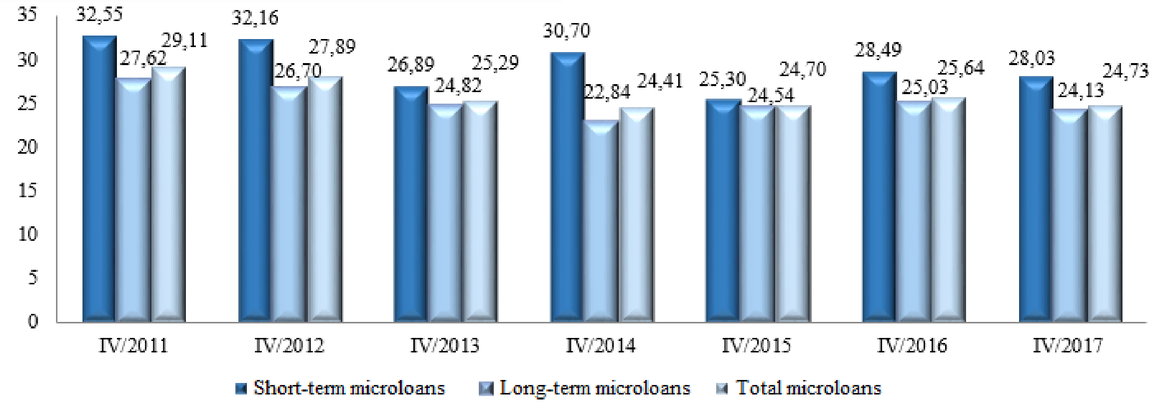
The average weighted effective interest rates on short-term, long-term and total microloans in the Federation of BiH by quarter are shown in the following table.

Table 61. Average Weighted Effective Interest Rates on Microloans – by Quarter

	IV/2011	IV/2012	IV/2013	IV/2014	IV/2015	IV/2016	IV/2017
Short-term microloans	32.55%	32.16%	26.89%	30.70%	25.30%	28.49%	28.03%
Long-term microloans	27.62%	26.70%	24.82%	22.84%	24.54%	25.03%	24.13%
Total microloans	29.11%	27.89%	25.29%	24.41%	24.70%	25.64%	24.73%

The following graph shows the average weighted effective interest rates on microloans.

Graph 68. Average Weighted EIR on Microloans (in %)

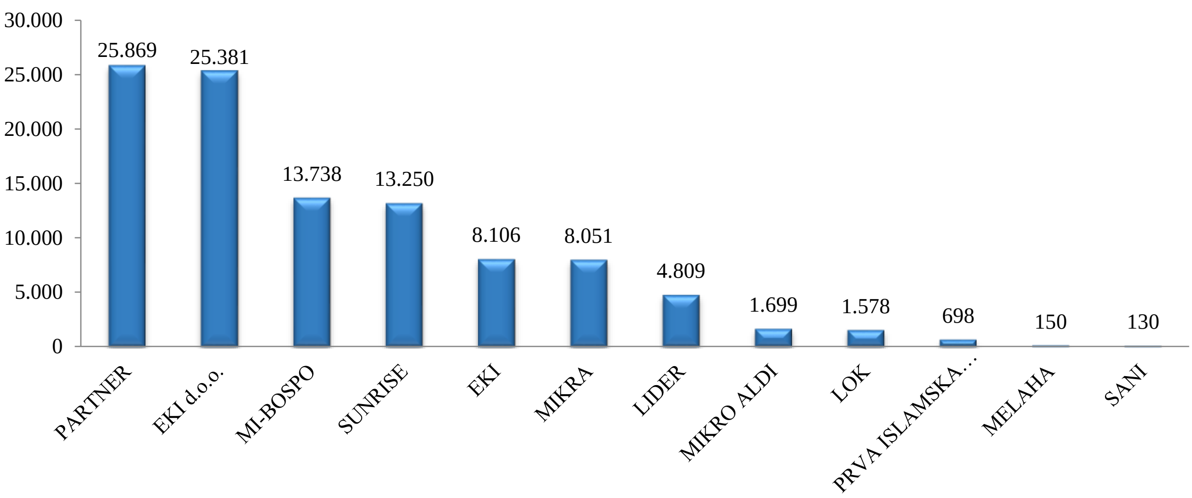


Microcredit organisations decreased effective interest rates on total microloans, so that, at the end of the fourth quarter of 2017, average weighted effective interest rates on total loans in the microcredit system amounted to 24.73% and recorded a decrease of 0.91 percentage points compared to the fourth quarter of 2016.

Compared to the same period, average weighted effective interest rates on short-term loans amounted to 28.03% and recorded a decrease of 0.46 percentage points. Average weighted effective interest rates on long-term loans amounted to 24.13% at the end of the fourth quarter of 2017 and are down by 0.90 percentage points compared to the fourth quarter of the previous year.

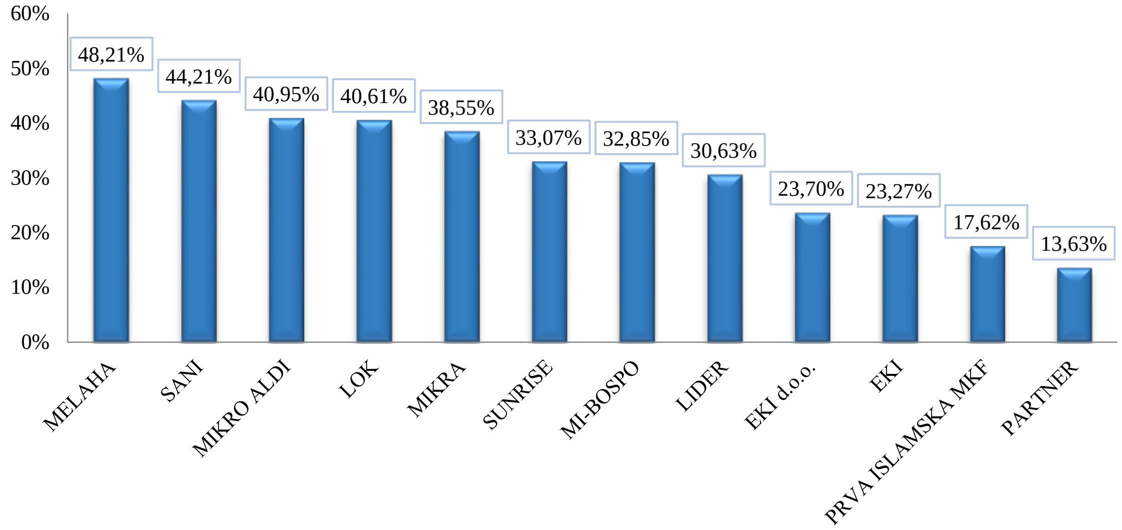
The graphs below show the total amount of microloans disbursed in the fourth quarter of 2017.

Graph 69. Total Microloans Disbursed by Individual MCOs in Q4 2017 (in KM 000)



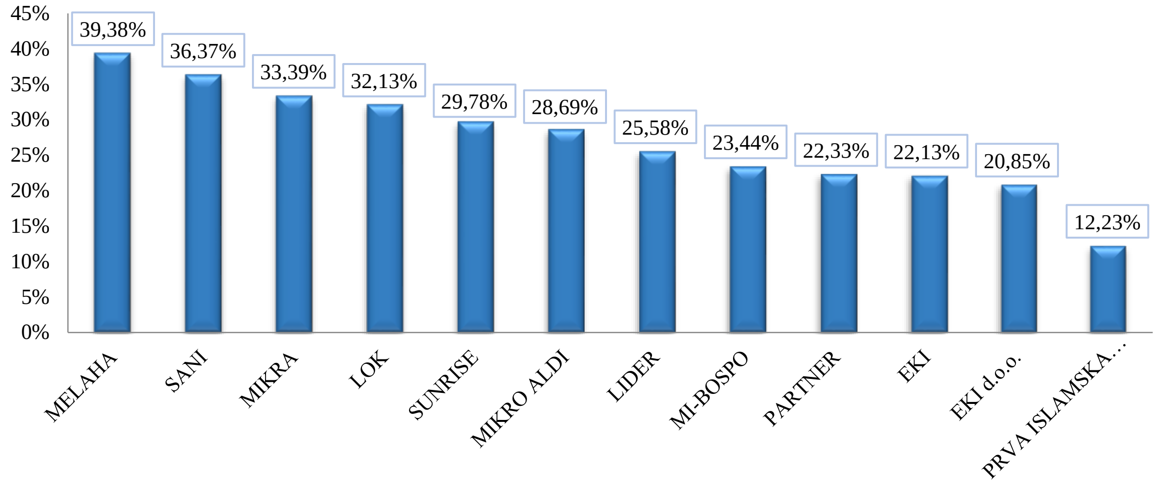
The average weighted effective interest rates on short-term loans in the fourth quarter of 2017 individually by MCO are shown in the graph below.

Graph 70. Average Weighted EIR on Short-Term Microloans in Q4 2017 Individually by MCO



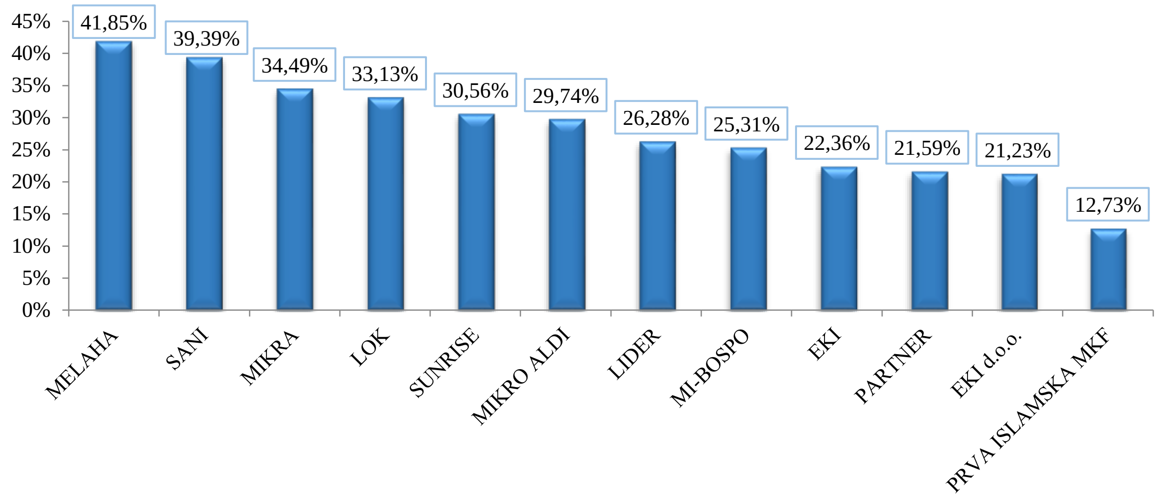
The average weighted effective interest rates on long-term loans in the fourth quarter of 2017 individually by MCO are shown in Graph 71.

Graph 71. Average Weighted EIR on Long-Term Microloans in Q4 2017 Individually by MCO



The average weighted effective interest rates on total loans in the fourth quarter of 2017 individually by MCO are shown in the graph below.

Graph 72. Average Weighted EIR on Total Microloans in Q4 2017 Individually by MCO



2.7. Liquidity and FX Risk

Creditors, local commercial banks and various international socially-oriented commercial funds still abstain from lending to a large number of MCOs, due to which many MCOs are deprived of more favourable financial assets with which they would finance their activity.

According to submitted reports on the liquidity of MCOs as of 31.12.2017, in one MCO, the liquidity position is endangered in such a way that, due to it being harder to obtain new borrowings, the repayment of current liabilities can significantly affect the difficulties of keeping the loan portfolio at approximately the same level or at a level that is down by 5%.

In the Liquidity Report of one MCO, the position loan commitments and past due installments in the category „past due and up to 30 days“, the amount of KM 13.4 million is related to liabilities towards one creditor, whose settlement can significantly influence on the liquidity of this MCO.

MCOs perform transactions denominated in foreign currencies, mainly in EUR, and they are thus not exposed to foreign exchange risk in practice.

2.8. Transactions with Related Entities

The provisions of the Decision on Other General Conditions for Operations of Microcredit Organisation (Official Gazette of the Federation of BiH, No. 27/07) prescribe minimum standards for a business relation of MCOs with the entities considered its related entities under Article 4 of the LoMCO. Article 6 of the FBA's Decision prescribes that an MCO may conduct business transactions with an entity considered its related entity only in compliance with the Law on MCOs, the FBA's decision and special policies of MCOs for business relations with related entities, which are adopted and the implementiation of which is monitored by the MCOs' managing bodies.

A transaction with a related entity is also any transaction with a third party if the funds that were employed in the transaction were transferred to a related entity or were used so that a related entity would profit. All MCOs must establish a register of related entities, which is to be regularly updated.

When conducting transactions with related entities, MCOs must act in accordance with the adopted policies that prescribe the following:
- All transactions with related entities must be approved by an MCO’s managing body,

- An entity related to an MCO that is a member of the managing body of such MCO must not participate in voting during the decision-making process on business transactions between an MCO and them or any other entity related to them,
- The managing body must sign a written statement that any transaction between them and a related entity is fair and in the best interest of the MCO,
- MCOs shall establish and maintain regular records, documentation and files on approvals of the managing bodies for transactions with related entities, etc.

When conducting transactions with related entities of an MCO, no such conditions may be offered that would be more favourable to any other entities, and MCOs shall report to the FBA through quarterly reports on all transactions conducted by the MCO with its related entities in the reporting quarter.

In 2017, out of 12 MCOs, 8 MCFs and 1 MCC submitted reports, in the prescribed form, to the FBA on transactions conducted with related entities in the total amount of KM 1.3 million. One MCF and one MCC have a 76% share in the total amount of transactions with related entities.

- in KM -

Table 62. Transactions with Related Entities

No.	Description of transaction	Transaction amount in the period 01.01.-31.12.2017	Share (%)
1.	Payment of joint expenses of a related person	554 170	41.31%
2.	Cost reimbursement	461 559	34.41%
3.	Transactions with the founder and founder-related persons	137 767	10.27%
4.	Payment by invoices for delivered goods/services	120 386	8.97%
5.	Borrowings from legal entities and natural persons	57 929	4.32%
6.	Lease of business premises	9 600	0.72%
7.	Loan annuities	0	0.00%
8.	Short-term loans from banks	0	0.00%
9.	Regular and penalty interest, management fees	0	0.00%
10.	Legal services	0	0.00%
11.	Short-term deposits to banks	0	0.00%
12.	Receivables based on lease	0	0.00%
	T O T A L	1 341 411	100.00%

Table 62 provides a breakdown of transactions with related entities in the period from 01.01. to 31.12.2017, which shows that the largest share in transactions with related entities belongs to payments of joint expenses of a related person (41.31%), followed by cost reimbursement (34.41%) and transactions with the MCOs’ founders and their related persons (10.27%). In addition to the aforementioned transactions, MCOs also reported transactions with related entities based on borrowings from legal entities and natural persons, the lease of business premises, and other transactions.

The reported transactions of MCOs with related entities refer to transactions conducted with entities related to the MCOs’ founders and their related persons (91%), members of the Management Board (6%), and members of the audit board (3%).

In the period to come, the FBA will focus on the compliance with business policies for the MCOs’ transactions with related entities, and it will evaluate the benefits the MCOs have when performing such transactions and order adequate measures to be taken in the interest of eliminating irregularities found in the MCOs’ business operations with related entities.

Standard Monthly Income in Microcredit Activities

The standard of reasonable market value is the value achieved on the labour market and the average salary of the Federation of BiH is observed as relevant data. However, since each industry has its own peculiarities, the microcredit industry, too, has its peculiarities and standards that apply to microcredit activity are used for comparison purposes.

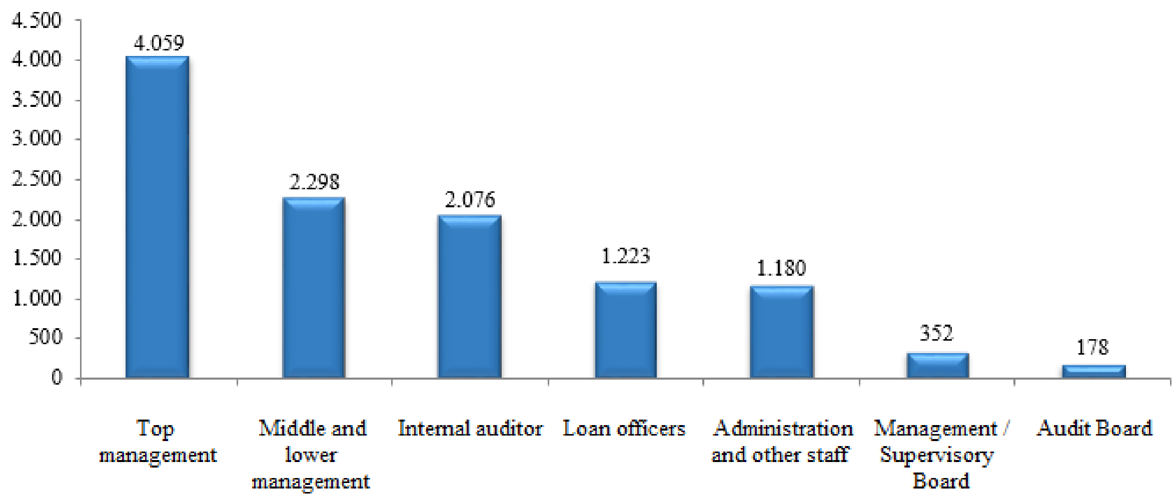
The standard of the microcredit market is the approximate or equal value paid for the same service on the microcredit market industry in an approximate or equal amount with the average of the relevant group, i.e. the average of the overall microcredit industry.

In order to determine the average, MCO values, the business operations of which are in line with the business standards prescribed by the decision on other general terms and conditions of microcredit organisations, are used because wages in these organisations are market-based considering that prescribed measurable standards ensure that the MCOs operate in accordance with the business principles of due diligence, which they are required to do in accordance with Art. 41 of the Law on Associations and Foundations.

Costs of salaries and contributions generated in the period 01.01. to 31.12.2017 are up by 5% compared to the same period of the previous year. According to MCO reports, as of 31.12.2017, the average monthly net salary of MCO employees was KM 1 263 and the average monthly net amount of incentives, stimulations and bonuses was KM 97. This means that the average monthly net salary with bonuses was KM 1 360 in the microcredit system.

As of 31.12.2017, the average monthly net salary of a senior management member in the microcredit system was KM 4 059 including bonuses, while average monthly net compensations paid to Management Board members in MCOs were KM 352 and to audit board members KM 178. As of the reporting date, the average monthly net salaries of middle and lower management of MCOs were KM 2 298, including bonuses, of internal auditors KM 2 076, of loan officers KM 1 223, and of administration and other staff KM 1 180. The aforementioned is shown in the graph below.

Graph 73. Average Monthly Salary/Compensation in MCOs, Including Bonuses (in KM)

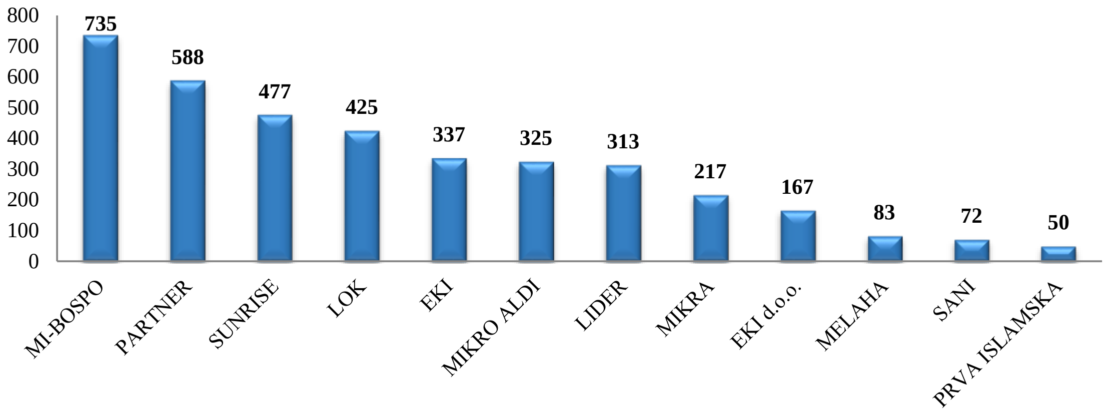


Article 39 of the LoMCO stipulates that MCFs shall invest the excess income over expenses in performing microcredit activities and that the direct or indirect allocation of the excess of income over expenses to founders, members of bodies, responsible persons and employees in the microcredit foundation is not allowed.

In the case of two MCFs, the average monthly net salary of the senior management is significantly higher compared to the microcredit system average.

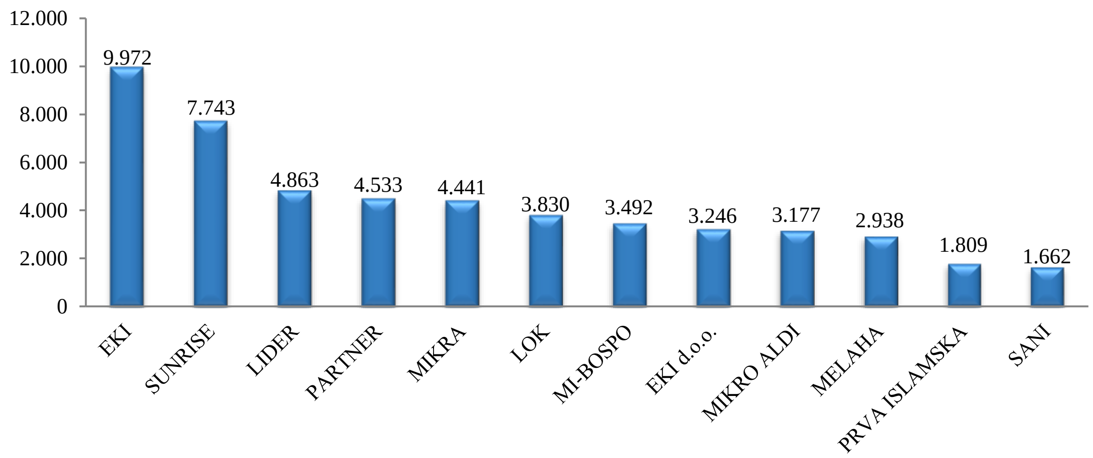
Graph 74 show the average monthly compensations to members of the Management/Supervisory Board of individual MCOs for the period 01.01.-31.12.2017.

Graph 74. Average Monthly Compensation to Members of Management/Supervisory Board of Individual MCOs for the Period 01.01.-31.12.2017 (in KM)



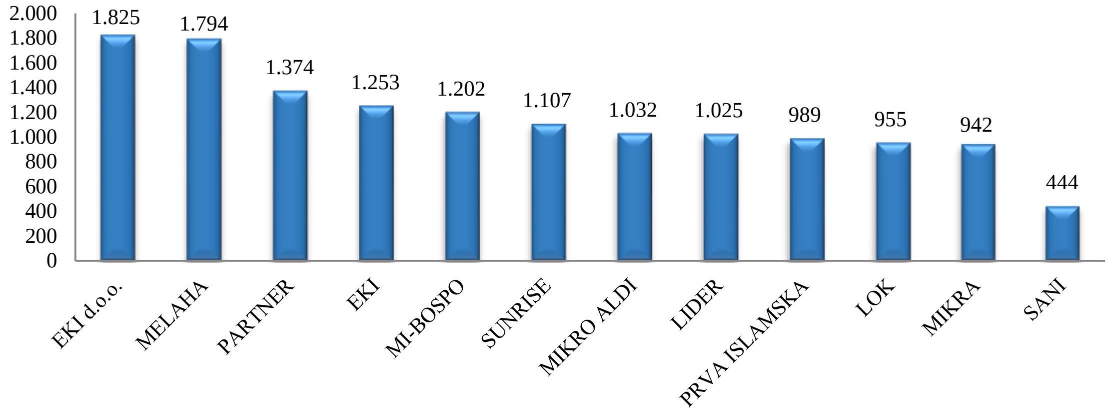
The average monthly monthly income of senior management of individual MCOs for the period 01.01.-31.12.2017 is shown in the graph below.

Graph 75. Average Monthly Income of Senior Management of Individual MCOs for the Period 01.01.-31.12.2017 (in KM)



The average monthly monthly income of loan officers of individual MCOs for the period 01.01.-31.12.2017 is shown in the graph below.

Graph 76. Average Monthly Income of Loan Officers of Individual MCOs for the Period 01.01.-31.12.2017 (in KM)



3. COMPLIANCE OF MCO BUSINESS OPERATIONS WITH AML AND CTF STANDARDS

Taking into account the assessment of MCOs' compliance in the previous year, the measures taken to eliminate the causes of the identified irregularities and discrepancies (92.3% of the issued orders were executed, i.e. 32.5 out of 39 issued orders), as well as the activities to prevent of money laundering and terrorism financing in the year that ended on 31.12.2017, it can be concluded that the quantity of the money laundering risk remains moderate, that the quality of the management of this risk is satisfactory and has an upward trend, and that there are no reasons for supervisory concern

From the aspect of the compliance assessment and related to the analysis of submitted reports, it should be noted that MCOs reported 620 suspicious transactions in 2016 in the amount of KM 860 539.00 as well as 218 suspicious clients.

From the aspect of the compliance assessment related to the conducted examinations, it should be noted that MCOs had a total of 45 instances of non-compliance, for which the same number of orders was issued, as presented in detail in the table below.

Table 63. Overview of Issued Orders

No.	Policy name	Number of orders	%	Average per MCO
1.	Client eligibility policy	12	26.70	1.00
2.	Policy on identification and monitoring client activity	13	28.90	1.10
3.	Risk management policy	20	44.40	1.60
TOTAL		45	100.00	3.70

The largest number of orders was related to the instances of non-compliance with respect to the risk management policy (44.40%), the policy on identification and monitoring client activities (28.90%), and the client eligibility policy (26.70%).

When observing the compliance of the microcredit sector with the Law on Prevention of Money Laundering and Terrorism Financing, the Decision on Minimum Standards for Activities of Microcredit Organisations to Prevent Money Laundering and Terrorism Financing, as well as other laws and regulations that govern the obligations of microcredit organisations in terms of the prevention of money laundering and terrorism financing, it can be concluded that the microcredit sector of the Federation of BiH is largely compliant with the norms prescribed by these laws and regulations.

4. RECOMMENDATIONS FOR THE MICROCREDIT SYSTEM

All MCOs are to work on the following:

- fully implementing the LoMCO, which prescribes performing activities for the purpose of improving the material status of beneficiaries of microloans, increasing employment and providing support to the development of entrepreneurship,
- reducing interest rates on microloans,
- controlling interest rates and achieving objectives from the LoMCO through the active involvement of managing bodies in the process of approving policies on establishing prices of microloans,
- cutting operating costs, the full implementation of the principles of due care for the assets of the foundation and the implementation of principles of good corporate practices, which should influence the reduction of interest rates,
- establishing mechanisms to check the justification of projects and materially significant costs of operations, including salaries and bonuses of the management, and all other benefits of the management and members of the boards of directors, which the aforementioned exercise at the expense of the assets of MCOs and which are directly compensated by high interest rates,
- increasing the responsibilities of Management Boards, ensuring independence from the management and control of the management by Management Boards,
- improving the system of internal controls, improving efficiency of business operations and optimising MCO resources as well as implementing the principles of responsible credit financing;
- establishing an internal audit that is fully independent from the MCO management and will also supervise the management segment and regularly report to the Management Board,
- the mandatory exchange of information at the level of the system and the Central Registry of Credits;
- taking all required actions in the interest of solving the problems of overindebted customers and guarantors,
- improving institutional capacities,
- fully implementing valid regulations and increasing the transparency of business operations, and
- finding partners for mergers and acquisitions; MCOs with smaller amounts of capital and a high degree of written-off loans should adopt a clear strategy for merging with bigger and stronger MCOs to optimise resources, preserve donated funds, ensure support of foreign creditors and secure the future of MCO employees.

III LEASING SYSTEM

1. REGULATORY ACTIVITIES OF THE FBA

1.1. Normative Activities

In 2017, the FBA carried out significant activities to supplement the regulatory framework for the business operations and supervision of leasing companies in the Federation of BiH in the process of harmonising the FBA regulations with the amendments to the Law on Leasing, which were adopted in December 2016.

As part of the regulatory activities, three existing Decisions were amended and a new Decision was adopted regarding the outsourcing of business processes of leasing companies with the aim of a more detailed definition of the conditions for the outsourcing of business processes.

The FBA performs the function of supervising leasing companies through direct supervision and indirect supervision, i.e. by analysing the reports leasing companies submit to the FBA, in accordance with the Law on Leasing and the FBA regulations listed in Annex 16.

1.2. Supervision

Within its competences related to the supervision of leasing companies, the FBA is guided by the principles of transparency, building trust with leasing companies, as well as adequate protection of lessees financed through leasing arrangements in the interest of ensuring the financial stability of particular leasing companies and leasing activities at the level of the Federation of BiH.

Authorised persons of the FBA conduct direct supervision of the operations of leasing companies through comprehensive and targeted examinations – on-site examinations of business operations. After the reports become final, the controlled leasing companies are instructed to eliminate identified instances of non-compliance with the law and irregularities in the interest of improvement, legal compliance, profitability, solvency and security in their business operations.

In 2017, six examinations of leasing companies were carried out, with four being direct examinations of the execution of imposed measures, one being an extensive direct examination of compliance of business operations and one being an indirect examination of compliance with the Law on Protection of Users of Financial Services.

The direct examinations in which the subject was the assessment of the execution of imposed measures resulted in the assessment that there were no outstanding orders on part of the leasing companies. The extensive examination of the leasing company's compliance with laws, FBA regulations and other regulations resulted in the issuance of a Decision to the leasing company regarding the elimination of irregularities and inconsistencies identified in the examination.

When examining the regulatory reports in the course of 2017, the examiners requested that the leasing companies correct the reports on several occasions due to them having been drafted incorrectly, as well as that they explain the significant discrepancies compared to previous reporting positions.

In accordance with the dynamics of submitting the prescribed reports, the FBA organisational unit responsible for the supervision of leasing companies regularly conducted reviews and examinations of the reports, other information and data on the business operations of leasing companies and analysed the financial situation of leasing companies, trends in business operations and the risks to which the leasing companies are exposed in their business operations on the basis of the aforementioned and used them to plan activities for the direct supervision of leasing companies.

2. LEASING SECTOR STRUCTURE IN THE FEDERATION OF BiH

2.1. Number of Leasing Companies

As of 31.12.2017, the following leasing companies had operating licences for leasing operations:

(1) ASA Leasing d.o.o. Sarajevo,
(2) NLB Leasing d.o.o. Sarajevo,
(3) Porsche Leasing d.o.o. Društvo za poslove lizinga,
(4) Raiffeisen Leasing d.o.o. Sarajevo,
(5) Sparkasse Leasing d.o.o. Sarajevo, and
(6) VB Leasing d.o.o. Sarajevo.

The reduced number of leasing companies compared to 31.12.2016 is the result of the previously mentioned status change, which was carried out on 30.06.2017. Annex 17 provides the main data on leasing companies.

2.2. Ownership Structure

The ownership structure of the aforementioned leasing companies is as follows: three leasing companies are 100% owned by non-resident legal entities, one leasing company is in majority ownership of a non-resident legal entity, while two leasing companies are in 100% ownership of resident legal entities. Detailed information on the overview of the ownership structure of leasing companies is provided in Annex 18.

2.3. Human Resources

As of 31.12.2017, leasing companies registered on the territory of the Federation of BiH had a total of 104 employees, 98 of which were hired via employment contract (full-time employees), while 6 employees were recruited via student services and organisations mediating in employment (temporary employees).

Compared to the end of the previous business year, a significant decrease in the number of employees was evident due to the status change. Table 64 of the Information shows data on the number of employees in the leasing sector by period.

Table 64: Number of Employees in the Leasing Sector

	31.12.2015	31.12.2016	31.12.2017	INDEX (2/1)	INDEX (3/2)
	1	2	3	4	5
Number of employees in leasing companies seated in the Federation of BiH					
Number of full-time employees	141	149	98	106	66
Number of temporary employees	28	11	6	39	55
Number of employees in leasing companies seated in RS on the territory of the Federation of BiH					
Number of full-time employees	9	0	0	0	0
Number of temporary employees	0	0	0	0	0
TOTAL	178	160	104	90	65

There were no significant changes in the qualification structure of employees in the leasing sector as of 31.12.2017 compared to previous reporting periods. The largest share is that of employees with a university degree (77.9%), followed by employees with secondary school qualification (12.5%).

Table 65 of the Information shows data on the structure of employees in the leasing sector by period.

Table 65: Qualification Structure of Employees

	31.12.2015		31.12.2016		31.12.2017		INDEX (2/1)	INDEX (3/2)
	1		2		3		4	5
University degree	126	70.8%	120	75.0%	81	77.9%	95	68
Post-secondary school qualification	5	2.8%	5	3.1%	4	3.8%	100	80
Secondary school qualification	33	18.5%	23	14.4%	13	12.5%	70	57
Other	14	7.9%	12	7.5%	6	5.8%	86	50
TOTAL	178	100.0%	160	100.0%	104	100.0%	90	65

The efficiency of employees during the assessment of the performance of a leasing company is measured by the assets/headcount ratio (assets per employee). As of 31.12.2017, every employee accounts for KM 2.5 million of assets at the leasing sector level, which is down by KM 325 thousand or 11.5% compared to the previous reporting period. Analytical indicators for individual leasing companies range from KM 0.5 million to KM 3.5 million of assets per employee.

3. FINANCIAL PERFORMANCE INDICATORS

3.1. Balance Sheet

As of 31.12.2017, the balance sheet total of leasing companies in the Federation of BiH amounted to KM 260.2 million, which is down by KM 161.3 million or 38.3% compared to 31.12.2016. KM 146.2 million of the aforementioned account for the status change. The consolidated balance sheet is provided in Annex 19.

When comparing the individual balance sheet totals of six leasing companies with the data as of 31.12.2016, two leasing companies saw an increase in the balance sheet total in the amount of KM 26.1 million, while four leasing companies saw a decrease in the balance sheet total in the amount of KM 41.3 million, KM 30 million or 72.6% of which account for one leasing company, which has suspended the conclusion of new arrangements.

The largest leasing company (by size of assets) accounts for 46.7% of total assets of leasing companies. Annex 20 provides a ranking of leasing companies in the Federation of BiH in terms of assets.

The highest share in the total assets structure of leasing companies accounts for net receivables for financial leasing in the amount of KM 176 million or 67.6% of total assets. Compared to 31.12.2016, net receivables for financial leasing are down by KM 130.6 million or 42.6%, while gross receivables for financial leasing are down by KM 153.5 million or 44.4%.

A review of the bank reports on the basis of the leasing portfolio concluded that net receivables in the amount of KM 73.9 million were recorded in the aforementioned, which indicates that net receivables for financial leasing at the level of the leasing system are lower by KM 25.2 million or 8.1%.

In the structure of receivables for financial leasing at the level of the leasing sector, arrangements approved on the basis of financing passenger vehicles and company vehicles account for 85.8%, arrangements approved on the basis of financing equipment account for 12.5%, while financial leasing arrangements that finance real estate account for 1.7%.

Tables 66 and 67 provide an overview of the structure of receivables for financial leasing (receivables before impairment on the basis of reserves for losses) as of 31.12.2017 and a parallel overview of the structure of receivables as of 31.12.2016.

- in KM 000 -

Table 66: Structure of Receivables for Financial Leasing – 31.12.2017

STRUCTURE BY LEASING OBJECT	Short-term receivables	Long-term receivables	Past due receivables	Total receivables	Share in total receivables
1	2	3	4	5	6
Passenger vehicles	27 110	44 831	1 201	73 142	41.1%
Company vehicles (cargo and passenger)	31 007	47 075	1 463	79 545	44.7%
Machinery and equipment	10 163	11 474	706	22 343	12.5%
Real estate	446	2 537	54	3 037	1.7%
Other	13	5	0	18	0.0%
TOTAL	68 739	105 922	3 424	178 085	100.0%
STRUCTURE BY LESSEE	Short-term receivables	Long-term receivables	Past due receivables	Total receivables	Share in total receivables
1	2	3	4	5	6
Legal entities	61 690	91 321	3 205	156 215	87.7%
Entrepreneurs	1 531	2 346	74	3 951	2.2%
Natural persons	4 077	8 459	142	12 678	7.1%
Other	1 441	3 796	3	5 241	2.9%
TOTAL	68 739	105 922	3 424	178 085	100.0%

- in KM 000 -

Table 67: Structure of Receivables for Financial Leasing – Parallel Overview

STRUCTURE BY LEASING OBJECT	Receivables as of 31.12.2016	Receivables as of 31.12.2017	INDEX
1	2	3	4
Passenger vehicles	94 388	73 142	77
Company vehicles (cargo and passenger)	104 171	79 545	76
Machinery and equipment	83 868	22 343	27
Real estate	28 553	3 037	11
Other	119	18	15
TOTAL	311 099	178 085	57
STRUCTURE BY LESSEE	Receivables as of 31.12.2016	Receivables as of 31.12.2017	INDEX
1	2	3	4
Legal entities	283 255	156 215	55
Entrepreneurs	4 229	3 951	93
Natural persons	21 840	12 678	58
Other	1 775	5 241	295
TOTAL	311 099	178 085	57

As of 31.12.2017, net receivables for loans amounted to KM 13.4 million or 5.2% of the amount of total assets of the leasing sector. Compared to 31.12.2016, net receivables for loans fell by KM 27.1 million or 66.8%, while gross receivables fell by KM 26.9 million or 63.7%.

Receivables for loans in the structure of total assets of leasing companies are down as a result of the continuous decrease in receivables for loans, since the Law on Leasing prohibits leasing companies from concluding new loan agreements, with the aforementioned remaining in the balance sheet until the expiry of the contracted periods of time they were granted for and the status change of the company that had a significant amount of receivables for loans in its portfolio.

Out of the total recorded amount of net receivables for loans, KM 15.3 million or 100% account for the receivables of one leasing company with a significant amount of loan receivables from subsidiaries in its portfolio, which had been used for financing real estate construction projects before the Law on Leasing entered into force.

As of 31.12.2017, the recorded balance sheet item Cash and Cash Equivalents amounted to KM 13.7 million, which is up by KM 5.7 million or 70.7% compared to 31.12.2016. KM 8.4 million or 61% of the aforementioned amount account for one leasing company with early repayment of a financial leasing arrangement. The share of this balance sheet item in total assets amounted to 5.3% as of 31.12.2017 and it is up compared to 31.12.2016, when it amounted to 1.9%.

As of 31.12.2017, the recorded balance sheet item Facilities to Banks amounted to KM 17 million, up by KM 6.4 million or 61.2% compared to 31.12.2016. This item mostly relates to term deposits of leasing companies with commercial banks.

The net value of fixed assets financed via operational leasing as of 31.12.2017 amounted to KM 28.6 million, down by KM 445 thousand or 1.5% compared to 31.12.2016. Please note that the company that underwent a status change as of 31.12.2016 recorded a net value of fixed assets financed via operational leasing in the amount of KM 5.5 million as of 31.12.2016, but the arrangements were terminated early after the the status change was carried out.

If observed individually, the net value of fixed assets financed via operational leasing rose for two leasing companies in the amount of KM 8.4 million, while three leasing companies recorded a decrease in the amount of KM 3.3 million, KM 2.5 million or 75.4% of which account for one leasing company.

Table 68 of the Information shows the structure of net balance sheet positions of leasing system assets.

- in KM 000 -

Table 68: Structure of Net Balance Sheet Positions of Assets of the Leasing Sector

DESCRIPTION	31.12.2016	Share in assets %	31.12.2017	Share in assets %	INDEX
1	2	3	4	5	6
Financial leasing	306 599	72.7%	176 007	67.6%	57.4
Operational leasing	29 060	6.9%	28 616	11.0%	98.5
Loan	40 500	9.6%	13 449	5.2%	33.2
Other assets	45 356	10.8%	42 132	16.2%	92.9
TOTAL	421 515	100.0%	260 204	100.0%	61.7

Annex 21 provides an overview of the key financial indicators of the leasing system in the Federation of BiH.

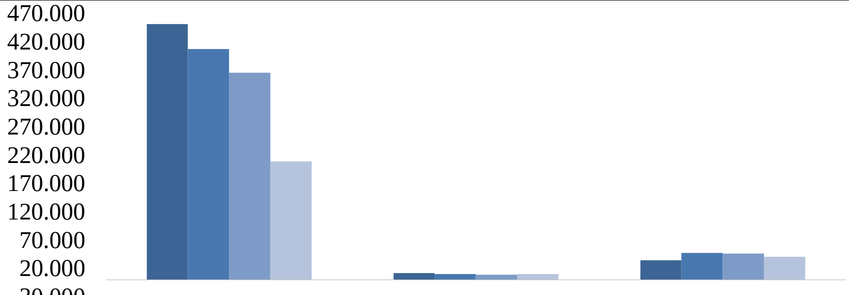
3.2. Capital and Liabilities

As of 31.12.2017, loan commitments are still a dominant item in the structure of total liabilities of the leasing sector (80.4% of the balance sheet total).

Graph 77 of the Information shows the structure of leasing sector liabilities.

- in KM 000 -

Graph 77: Liabilities Structure



	Net loan commitments	Other liabilities	Total capital
31.12.2014	451.666	12.010	34.756
31.12.2015	407.307	10.284	47.281
31.12.2016	365.834	9.270	46.411
31.12.2017	209.085	10.329	40.790

Total loan commitments of the leasing sector as of 31.12.2017 amounted to KM 219.4 million. Compared to 31.12.2016, the aforementioned are down by KM 155.7 million or 41.5% as a result of the status change. Out of the total amount of loan commitments, KM 209.1 million or 99.9% relate to long-term commitments.

34.7% of total loan commitments relate to indebtedness with foreign and domestic commercial banks mostly belonging to groups to which leasing companies belong, while 34.2% relate to direct indebtedness of the founders and 31.1% relate to indebtedness with European banks (EIB, EBRD, CEDB and DEG). These banks' funds are mostly purpose funds and relate to development of small and medium-sized enterprises and they have been provided by bank guarantees issued by parent banks or their holding companies.

The total weighted nominal interest rate paid by leasing companies on sources of funding in 2017 amounted to 1.2% per annum (the interest rate calculated on the basis of the average balance of taken loans and interest expenses in the reporting period) and it is down compared to 31.12.2016, when it amounted to 2.0%.

Interest rates on sources of funding of leasing companies are mostly linked to the EURIBOR variable index, whose average value in 2017 was still negative (average value in 2017 6MEURIBOR -0.26%).

The total capital of the leasing sector as of 31.12.2017 amounted to KM 40.8 million. Compared to 31.12.2016, this item is down by KM 5.6 million or 12.1% as a result of the status change of the merger and the payment of profit to the owner of one leasing company.

If observed individually, four leasing companies saw an increase in total capital in the amount of KM 5 million (as a result of positive business operations of the aforementioned), while two leasing companies saw a decrease in total capital in the amount of KM 3.7 million, KM 3.1 million or 85.8% of which account for one leasing company (payment of profit to the owner of the leasing company). All leasing companies recorded a total capital amount in excess of the minimum amount (KM 250 thousand) prescribed by the provisions of Article 8 of the Law on Leasing.

3.3. Assets and Asset Quality

According to data from the reports of the leasing sector, loan loss provisions for financial leasing as of 31.12.2017 were recorded in the amount of KM 2.1 million and are down by KM 2.4 million or 53.8% compared to 31.12.2016. In the structure of receivables for financial leasing as of 31.12.2017, a total of KM 3.4 million outstanding past due receivables was recorded and the aforementioned are down by KM

2.3 million or 59.4% compared to 31.12.2016. An overview of reserves for financial leasing is provided in Annex 22.

Table 69 of the Information shows the structure of formed reserves for losses by category of default.

- in KM 000 -

Table 69: Overview of Formed Reserves for Financial Leasing by Category of Default

Days past due	Total reserves 31.12.2016	Total reserves 31.12.2017	INDEX
1	2	3	4
0-60	2 610	931	36
60-90	604	164	27
90-180	715	104	15
More than 180	571	879	154
More than 360	0	0	0
TOTAL	4 500	2 078	46

When taking into account that one leasing company underwent a status change and that five leasing companies recorded a decrease in formed reserves for losses compared to 31.12.2016, the aforementioned indicates an improvement in terms of asset quality relating to receivables for financial leasing.

If observed by category of default of outstanding past due receivables, a decrease in reserves for losses was recorded in the categories of default of 0-60 days, 60-90 days and 90-180 days, while an increase was recorded in the category of more than 180 days compared to 31.12.2016.

As of 31.12.2017, loan reserves amounted to KM 1.9 million and remained approximately the same compared to 31.12.2016. The total amount of formed loan reserves as of 31.12.2017 was formed by one leasing company with a significant amount of loan receivables from subsidiary companies in its portfolio. Annex 23 provided an overview of loan reserves of leasing companies.

The total amount of written-off receivables for financial leasing and loans as of 31.12.2017 was KM 84.2 million, which is down by KM 27.6 million or 24.7% compared to the amount recorded at the end of the previous business year.

The significant decrease in the total amount of written-off receivables is due to the fact that one leasing company transferred (sold) receivables for leasing arrangements to another legal entity, which is reported under the item Permanent Write-Offs, while one leasing company underwent a status change. Out of the total recorded amount of written-off receivables, KM 48.6 million or 57.8% account for write-offs by one leasing company.

As of 31.12.2017, KM 995 thousand of new write-offs were recorded. If observing the same period, collection on the basis of written-off receivables amounted to KM 6.1 million, KM 4 million or 66.2% of which account for collection on the basis of written-off receivables by one leasing company. The item Permanent Write-Offs recorded an amount of KM 5.9 million. Out of the aforementioned amount, KM 4.7 million or 80.3% accounts for permanent write-offs by one leasing company as a result of the aforementioned sale of receivables.

Due to the termination of leasing arrangements with lessees or the expiry of arrangements with no contracted purchase, the market value of repossessed leasing objects at the level of the leasing sector as of 31.12.2017 was down by KM 10.5 million or 77.5% compared to 31.12.2016. This is down by 19 repossessed units compared to 31.12.2016. The aforementioned decrease was caused by the status change.

The structure of repossessed objects of the leasing sector is shown in Table 70 of the Information.

- in KM 000 -

Table 70: Repossessed Objects of the Leasing Sector

TYPE OF LEASING OBJECT	31.12.2016		31.12.2017	
	Number of units	Appraised market value of the leasing object	Number of units	Appraised market value of the leasing object
1	2	3	4	5
Passenger vehicles	31	283	12	198
Company vehicles	6	15	13	129
Machinery and equipment	7	408	8	454
Real estate	17	12 772	9	2 246
Other	0	0	0	0
TOTAL	61	13 478	42	3 027

Out of the total appraised value of repossessed objects of the leasing sector as of 31.12.2017, KM 2.2 million or 74.2% relate to real estate (commercial real estate) repossessed by leasing companies due to the lessees' non-compliance with legal obligations. The total amount of this item relates to two leasing companies.

If observed at the level of the leasing system as of 31.12.2017, the market value of repossessed leasing objects amounted to KM 13.1 million and it is down by KM 391 thousand or 2.9%. Out of the aforementioned amount of repossessed leasing objects, KM 10.1 million or 76.9% (99 repossessed leasing objects) account for objects repossessed by the bank. The number of repossessed leasing objects being up by 80 was caused by the bank terminating the operational leasing arrangement early as a result of the status change.

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

3.4. Profitability

In the period from 01.01. to 31.12.2017, a profit in the amount of KM 5 million was recorded at the level of the leasing sector, whereas the sector recorded a decrease in the amount of KM 798 thousand in the same period of the previous year. If observed individually, four leasing companies recorded a positive financial result in the amount of KM 6 million, while two leasing companies recorded a negative financial result in the amount of KM 1 million. The consolidated income statement of the leasing sector is provided in Annex 24.

The recorded profit at sector level in 2017 was significantly influenced by changes that occurred with respect to one leasing company and that are reflected in the collection of written-off receivables on the basis of equipment that was destroyed. The aforementioned was insured and the collection was enforced by the insurance company and the early repayment of the financial leasing arrangement.

The collection by the insurance company had an influence on income from written-off receivables increasing by 47% in the reporting period. In the structure, it increased from 5.6% to 11.2%. Please note that the aforementioned company recorded a significant loss (KM 1.5 million) in the same period of the previous year, as did the company that underwent a status change of (KM 2.3 million) (these two companies accounted for 92.0% of the recorded loss in the sector in the previous year).

At the level of the leasing sector, a significant reduction in the costs of loss reserves was recorded, since a leasing company released reserves this year due to the sale of real estate that was financed through a loan to a subsidiary and income was recorded on the basis of the release of reserves.

On the basis of the aforementioned, it can be concluded that the recorded profit at sector level is largely the result of changes that have occurred with respect to one leasing company and that it is partly the result of the business activities of leasing companies, which should increase even further in the periods to come.

The financial result of the leasing sector is shown in Table 71.

- in KM 000 -

Table 71: Financial Result: Profit/Loss

DESCRIPTION	31.12.2015		31.12.2016		31.12.2017	
	Amount	No. of leasing companies	Amount	No. of leasing companies	Amount	No. of leasing companies
1	2	3	4	5	6	7
Loss	-5 451	2	-4 062	3	-1 046	2
Profit	11 836	5	3 264	4	6 038	4
TOTAL	6 385	7	-798	7	4 992	6

If observed by type of income, interest income amounted to KM 14.2 million in 2017. This item saw a decrease of KM 9 million or 38.9% compared the same period of the previous year. A look at individual items of interest income reveals that interest income for financial leasing amounted to KM 10.1 million, down by KM 7.4 million or 42.4% compared to the same period of the previous business year, which is due to the status change. The item Other Interest Income is down by KM 1.2 million or 26.4% compared to the same period of the previous year.

The total income structure is shown in Table 71 and Graph 78.

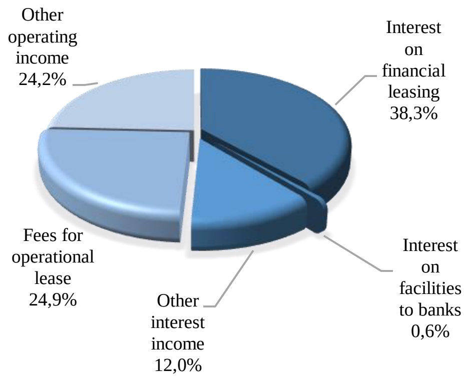
- in KM 000 -

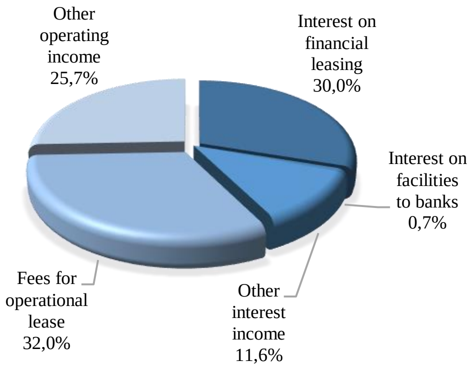
Table 72: Total Income Structure

Total income structure	31.12.2015		31.12.2016		31.12.2017		INDEX	
	Amount	% share	Amount	% share	Amount	% share		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
I Interest income and similar income								
Interest on financial leasing	19 506	31.6	17 501	38.3	10 074	30.0	90	58
Interest on facilities to banks	408	0.7	263	0.6	220	0.7	64	84
Other interest income	8 199	13.3	5 473	12.0	3 898	11.6	67	71
TOTAL	28 113	45.6	23 237	50.9	14 192	42.3	83	61
II Operating income								
Fees for operational lease	11 305	18.3	11 364	24.9	10 723	32.0	101	94
Service fees	60	0.1	10	0.0	4	0.0	17	40
Other operating income	22 176	36.0	11 061	24.2	8 629	25.7	50	78
TOTAL	33 541	54.4	22 435	49.1	19 356	57.7	67	86
TOTAL INCOME (I+II)	61 651	100.0	45 672	100.0	33 548	100.0	74	73

Graph 78: Total Income Structure

31.12.2016 31.12.2017





Total net interest income in the period from 01.01. to 31.12.2017 amounted to KM 10.8 million, down by KM 4.5 million or 29.5% compared to the same period of the previous year. The category Operating Income amounted to KM 19.3 million and is down by KM 3.1 million or 13.9% compared to the same period of the previous year.

Interest expenses amounted to KM 3.4 million, down by KM 4.5 million or 57.3% compared to the same period of the previous business year.

The reason for the decrease in interest expenses is the significantly lower amount of loan commitments due to the status change, the reduced volume of new financings in the case of three leasing companies as well as the continuous decrease in the EURIBOR variable index, to which the leasing companies' loan debt is mainly linked.

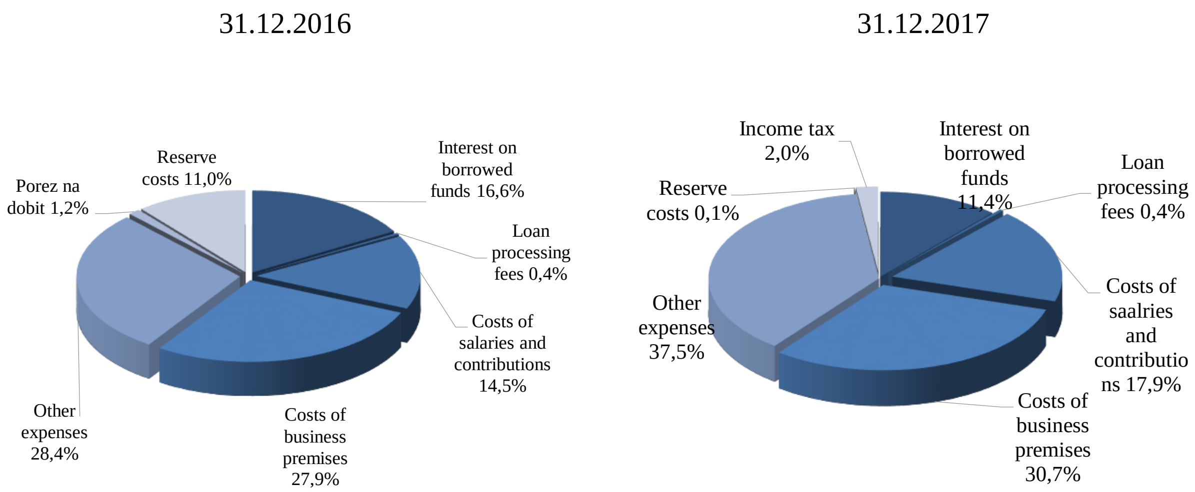
The total expenses structure is shown in Table 73 and Graph 79.

- in KM 000 -

Table 73: Total Expenses Structure

Total expenses structure	31.12.2015		31.12.2016		31.12.2017		INDEKS	
	Amount	% share	Amount	% share	Amount	% share		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
I Interest expenses and similar expenses								
Interest on borrowed funds	10 720	19.4	7 721	16.6	3 261	11.4	72	42
Loan processing fees	259	0.5	171	0.4	105	0.4	66	61
Other interest expenses	2	0.0	0	0.0	3	0.0	0	0
TOTAL	10 981	19.9	7 892	17.0	3 369	11.8	72	43
II Operating expenses								
Costs of salaries and contributions	7 281	13.2	6 756	14.5	5 102	17.9	93	76
Costs of business premises	12 847	23.2	12 947	27.9	8 771	30.7	101	68
Other expenses	19 174	34.7	13 215	28.4	10 693	37.4	69	81
TOTAL	39 302	71.1	32 918	70.8	24 566	86.0	84	75
III Reserve costs	4 643	8.4	5 110	11.0	22	0.1	110	0
Income tax	343	0.6	550	1.2	599	2.1	160	109
TOTAL EXPENSES (I+II+III)	55 269	100.0	46 470	100.0	28 556	100.0	84	61

Graph 79: Total Expenses Structure



For the purpose of analysing the leasing market, business performance indicators of leasing companies were calculated, as shown in Table 74.

Table 74: Business Performance Indicators of Leasing Companies in 2017

DESCRIPTION	31.12.2015	31.12.2016	31.12.2017
1	2	3	4
Return on average assets (ROA)	1.3%	-0.2%	1.5%
Return on average equity (ROE)	14.6%	-1.6%	12.6%
Average active interest rate (financial leasing)	5.7%	5.4%	3.7%
Average passive interest rate	2.6%	2.0%	1.2%
Total liabilities to equity	8.8	8.1	5.4

Return on average assets (ROA) recorded an increase, as did return on average equity (ROE), which is the result of the profit recorded at the level of the leasing sector in 2017.

3.5. Weighted Nominal and Effective Interest Rate

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

The total average nominal interest rate for financial leasing arrangements concluded in 2017 amounted to 3.7% for short-term and 4.7% for long-term arrangements, while the effective interest rate for short-term and long-term arrangements amounted to, respectively, 6.4% and 7.2% per annum. The total weighted nominal interest rate in 2017 amounted to 4.7%, while the effective interest rate amounted to 7.2% per annum.

Compared to the same period of the previous business year, when the total weighted nominal interest rate was 5.1% and the effective interest rate 8.0% per annum, a decrease in interest rates for financial leasing arrangements is evident.

Financial leasing arrangements concluded in UniCredit Leasing as well as financial leasing arrangements concluded in the period from 01.07. to 31.12.2017 via the bank are included in the calculation of the average nominal interest rate and the effective interest rate for financial leasing arrangements concluded in the period from 01.01. to 30.06.2017.

The trend of decrease in nominal interest rates continued in 2017 as well compared to 2015 and 2016 and it is caused by the low value of the variable index (EURIBOR), to which output interest rates are linked, as well as the fact that, during the business year 2017, most leasing providers active on the market offered promotional products for which the interest on the financing amount (in whole or in part) was subsidised by the supplier of the leasing object, while the leasing object's casco insurance fee was also subsidised by insurance companies in the case of individual promotional products.

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

Table 75 shows a detailed overview of the weighted nominal and effective interest rate for financial leasing arrangements concluded in 2017.

Table 75: Average Nominal and Effective Interest Rate for Financial Leasing Arrangements Concluded in 2017

No.	DESCRIPTION	No. of arrangements	Amount of financings in KM 000	Weighted nominal interest rate	Weighted effective interest rate
1	2	3	4	5	6
1.	Short-term leasing arrangements by leasing object:	56	1 642	3.7%	6.4%
a.	Passenger vehicles	38	790	4.9%	8.3%
b.	Company vehicles (cargo and passenger)	12	425	3.8%	6.5%
c.	Machinery and equipment	6	427	1.5%	2.8%
d..	Other	0	0	0.0%	0.0%
1.1.	Short-term leasing arrangements by type of lessee:	56	1 642	3.7%	6.4%
a.	Legal entities	53	1 600	3.6%	6.0%
b.	Entrepreneurs	1	19	5.5%	12.8%
c.	Natural persons	2	23	6.5%	30.2%
2.	Long-term leasing arrangements by leasing object:	2 891	128 567	4.7%	7.2%
a.	Passenger vehicles	1 698	55 155	5.1%	8.2%
b.	Company vehicles (cargo and passenger)	985	57 382	4.4%	6.5%
c.	Machinery and equipment	207	16 024	4.5%	6.4%
d.	Real estate	0	0	0.0%	0.0%
e.	Other	1	6	7.0%	36.5%
2.1.	Long-term leasing arrangements by type of lessee:	2 891	128 567	4.7%	7.2%
a.	Legal entities	2 572	120 338	4.6%	6.6%
b.	Entrepreneurs	87	2 571	5.8%	9.0%
c.	Natural persons	232	5 658	5.3%	17.9%
TOTAL (1+2)		2 947	130 209	4.7%	7.2%

The significant difference between the nominal and effective interest rate is the consequence of the VAT paid on the interest rate, which is a mandatory part of the financial leasing arrangement and is paid in advance by the lessee, the creation of the financial leasing arrangement with purchase value, as well as additional costs of leasing arrangements that are commonly an integral part of a monthly lease in the leasing arrangement.

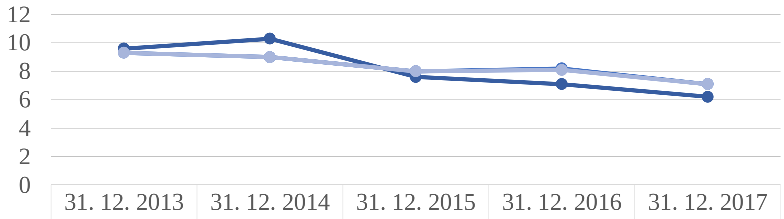
The difference in the amount of the nominal and effective interest rate is also influenced by the application of the Law on Protection of Users of Financial Services, according to which the calculation of the effective interest rate for financial leasing arrangements concluded with natural persons also includes the amount of the leasing object's casco insurance fee.

Table 76 and Graph 80 of the Information show trends of weighted nominal and effective interest rates for financial leasing arrangements by period.

Table 76: Weighted Average NIR and EIR for Financial Leasing Arrangements

DESCRIPTION	31.12.2013		31.12.2014		31.12.2015		31.12.2016		31.12.2017	
	1		2		3		4		5	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
I Short-term leasing arrangements										
1. By leasing object	6.2%	9.6%	6.2%	10.3%	4.7%	7.6%	3.8%	6.8%	3.7%	6.4%
a) Passenger vehicles	6.5%	10.1%	6.4%	11.6%	5.1%	8.2%	4.9%	10.0%	4.9%	8.3%
b) Company vehicles	5.6%	9.2%	6.0%	9.2%	4.5%	7.4%	3.8%	5.2%	3.8%	6.5%
c) Machinery and equipment	5.9%	8.7%	6.6%	10.7%	3.9%	5.4%	1.7%	3.4%	1.5%	2.8%
d) Real estate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e) Other	0.0%	0.0%	7.0%	9.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
1.1. By type of lessee	6.2%	9.6%	6.2%	10.3%	4.7%	7.6%	3.8%	6.8%	3.7%	6.4%
a) Legal entities	6.0%	9.2%	6.1%	10.0%	4.6%	7.3%	3.7%	5.7%	3.6%	6.0%
b) Entrepreneurs	9.0%	15.7%	9.1%	22.1%	6.4%	12.8%	6.0%	11.7%	5.5%	12.8%
c) Natural persons	7.4%	13.7%	8.2%	18.3%	6.4%	12.4%	5.9%	37.4%	6.5%	30.2%
II Long-term leasing arrangements										
2. By leasing object	6.8%	9.3%	6.5%	9.0%	5.8%	8.1%	5.1%	8.0%	4.7%	7.2%
a) Passenger vehicles	7.1%	9.7%	6.6%	9.5%	6.0%	9.1%	5.5%	9.5%	5.1%	8.2%
b) Company vehicles	6.7%	9.0%	6.3%	8.6%	5.4%	7.4%	4.7%	6.9%	4.4%	6.5%
c) Machinery and equipment	6.7%	9.1%	6.8%	9.1%	6.1%	7.9%	5.0%	6.5%	4.5%	6.4%
d) Real estate	7.4%	8.0%	6.2%	6.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
e) Other	8.2%	11.2%	8.1%	11.9%	7.8%	11.4%	6.1%	9.2%	7.0%	36.5%
2.1. By type of lessee	6.8%	9.3%	6.5%	9.0%	5.8%	8.1%	5.1%	8.0%	4.7%	7.2%
a) Legal entities	6.8%	9.2%	6.6%	8.9%	5.8%	7.8%	5.1%	7.2%	4.6%	6.6%
b) Entrepreneurs	7.1%	9.8%	7.1%	11.3%	6.9%	10.1%	6.3%	8.7%	5.8%	9.0%
c) Natural persons	6.9%	9.7%	5.9%	9.4%	5.5%	11.8%	5.0%	20.3%	5.3%	17.9%
TOTAL	6.8%	9.3%	6.5%	9.0%	5.8%	8.1%	5.1%	8.0%	4.7%	7.2%

Graph 80: Weighted EIR by Maturity in %



	31. 12. 2013	31. 12. 2014	31. 12. 2015	31. 12. 2016	31. 12. 2017
Short-term leasing arrangements	9,6	10,3	7,6	7,1	6,2
Long-term leasing arrangements	9,3	9	8	8,2	7,1
Total	9,3	9	8	8,1	7,1

3.6. Structure of Placements by Leasing Object and Type

The value of newly-concluded financial and operational leasing arrangements in 2017 amounted to KM 145.8 million at the level of the leasing system, up by KM 2.2 million or 1.5% compared to the same period of the previous year.

The number of newly-concluded arrangements in the aforementioned period was 3 395 and it was up by 98 arrangements or 3% compared to the same period of the previous year. The value and number of newly-concluded financial and operational leasing arrangements concluded in the period from 01.01. to 30.06.2017 includes the financial and operational leasing arrangements concluded in UniCredit Leasing as well as the financial leasing arrangements concluded in the period from 01.07. to 31.12.2017 via the bank.

The average value of arrangements concluded in 2017 at the level of the leasing system amounted to KM 42.9 thousand, while the average value of arrangements concluded in the same period of the previous year amounted to KM 43.6 thousand.

Out of the total generated value of newly-concluded arrangements in 2017, KM 130.2 million or 89.3% account for financial leasing arrangements. Compared to the same period of the previous year, when the share of financial leasing in the total amount of financings amounted to 90%, an increase in the share of operational leasing arrangements in the total amount of financings is evident.

Table 77 of the Information shows a parallel overview of the recorded volume of newly-concluded arrangements in 2017 and the previous business year.

- in KM 000 -

Table 77: Structure of Financing Amounts

	31.12.2016			31.12.2017		
DESCRIPTION	Financial leasing	Operational leasing	TOTAL	Financial leasing	Operational leasing	TOTAL
1	2	3	4	5	6	7
Vehicles	111 403	14 419	125 822	113 752	15 580	129 332
Equipment	17 487	0	17 487	16 451	0	16 451
Real estate	0	0	0		0	0
Other	318	0	318	6	0	6
TOTAL	129 208	14 419	143 627	130 209	15 580	145 789

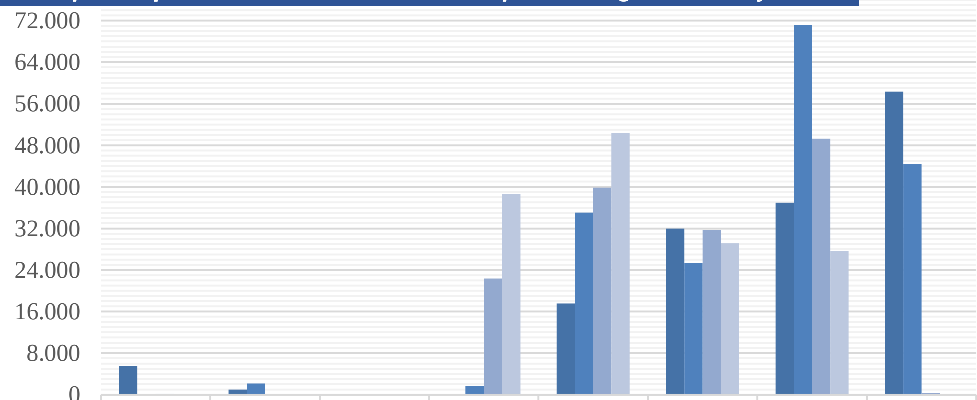
The total amount of new financings in 2017 was recorded by three leasing companies and the bank via their sales channels, while three leasing companies suspended the conclusion of new arrangements, with the exception of sporadic cases of financings of repossessed leasing objects.

In the structure of new facilities by type of lessee, facilities to legal entities are predominant (94.3% of the total amount of financings in 2017). One important reason is the fact that financing via leasing arrangements is less favourable for natural persons than loan facilities due to the obligatory payment of the VAT on interest rates, which poses additional costs for clients that are not VAT payers.

3.7. Market Share by Financial Volume and Number of Arrangements

A parallel overview of individual market shares in the leasing system by total volume and the number of newly-concluded financial and operational leasing arrangements is provided in Graphs 81 and 82.

Graph 81. of the Information - Parallel Overview of Financing Amounts by Period

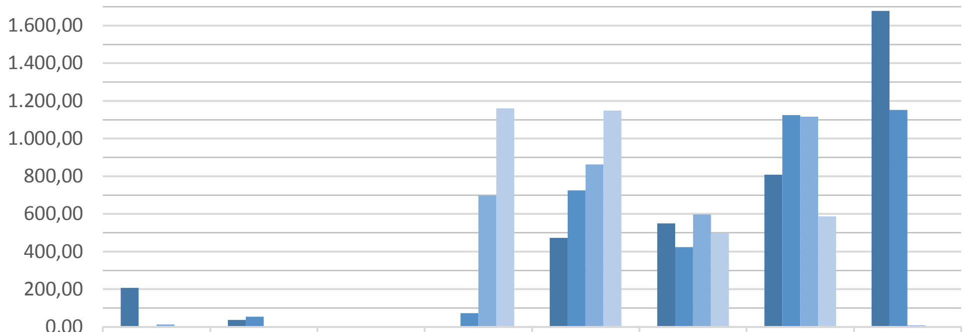


	ASA Aleasing	Hypo-Alpe-Adria Leasing	NLB Leasing*	Porsche Leasing	Raiffeisen Leasing	Sparkasse Leasing	UniCredit Leasing / UniCredit bank**	VB Leasing
31.12.2014	5.548	1.003	-	-	17.578	31.991	36.936	58.345
31.12.2015	39	2.126	-	1.646	35.023	25.291	71.151	44.362
31.12.2016	207	-	-	22.353	39.844	31.646	49.270	307
31.12.2017	-	-	-	38.599	50.380	29.164	27.646	-

* No new financings in accordance with the decision of the owner of NLB d.d. Ljubljana.
**Arrangements concluded via UniCredit Bank d.d. in the period from 30.06.2017 to 31.12.2017 (legal successor of UniCredit Leasing).

The above graphs show that two out of the three leasing companies that are active on the market saw an increase in the volume of new financings in 2017 compared to the same period of the previous year, while one leasing company saw a decrease in the recorded volume of new financings. The company that underwent a status change recorded a decrease in the value of newly-concluded arrangements recorded by the bank.

Graph 82. of the Information - Parallel Overview of Concluded Number of Arrangements by Period



	ASA Aleasing	Hypo-Alpe-Adria Leasing	NLB Leasing*	Porsche Leasing	Raiffeisen Leasing	Sparkasse Leasing	UniCredit Leasing / UniCredit Bank**	VB Leasing
31.12.2014	208	37	-	-	473	550	809	1678
31.12.2015	2	55	-	73	725	423	1125	1152
31.12.2016	14	-	-	697	863	598	1117	8
31.12.2017	-	-	-	1161	1.149	498	587	-

* No new financings in accordance with the decision of the owner of NLB d.d. Ljubljana.
**Arrangements concluded via UniCredit Bank d.d. in the period from 30.06.2017 to 31.12.2017 (legal successor of UniCredit Leasing).

4. COMPLIANCE OF LEASING COMPANIES' BUSINESS OPERATIONS WITH AML AND CTF STANDARDS

Based on the examinations of compliance of leasing companies' business operations and the reports they submit to the FBA, it can be concluded that there are no reasons for supervisory concern regarding the management of the risk of money laundering and terrorism financing. The risk quantity has remained within moderate limits, with a trend towards low. The quality of the management of risks that may arise in the business operations of leasing companies as a consequence of money laundering and the financing of terrorist activities is satisfactory.

Client Eligibility

Leasing companies have defined a client eligibility policy, which applies a risk-analysis-based approach to clients, i.e. a decision is made about which and what kind of clients the leasing company deems eligible. Based on these analyses and elements of the client eligibility policy, client profile registries are organised.

Identification and Monitoring Client Activity

Leasing companies have adopted policies on identification and monitoring client activity. They have adopted the „Know Your Customer“ standard as an essential element of this policy. The customer identification policy of leasing companies is applied when establishing business relationships with clients.

The problem regarding the updating of documentation which verifies the performed identification in the case of already established business relations is still present.

In these cases, there are also problems regarding the monitoring of client activities, so that the errors in identifying and verifying clients' sources of funding are not corrected.

Risk of Money Laundering and Financing of Terrorist Activities

Elements of the aforementioned policy are defined in the programmes of leasing companies. Reporting lines, both external and internal, are defined. The number of irregularities identified in examinations of compliance of business operations confirms that the quality of the management of risks resulting from money laundering and the financing of terrorist activities is satisfactory.

Leasing companies reported 24 suspicious transactions in 2017, which is twice as many compared to the previous year, in the amount of KM 187 thousand, which is about five times less compared to the value of the transactions in the previous year.

In addition to suspicious transactions, leasing companies also reported 24 suspicious clients in 2017, while there were 10 suspicious clients in 2016. Based on the aforementioned data, it can be concluded that the number of suspicious transactions reported and the number of suspicious clients has increased significantly. This statement does not apply to the value of the reported suspicious transactions. There are two reasons for this: leasing companies, in addition to the list of indicators of suspicious activities, base their reporting on subjective suspicion, so that the Financial Intelligence Department does not confirm the basis of suspicion in their analyses, which indicates the need for additional filtering of the reason for suspicion of money laundering.

In examinations of compliance of leasing companies' business operations with AML/CTF standards, certain discrepancies have been identified, based on which assessments are made: quantity of the risk of money laundering and terrorism financing, quality of the management of this risk, and assessment of supervisory concern, which influence the assessment of the leasing sector in terms of compliance, i.e. risk management.

Taking into account all the parameters on the basis of which the individual compliance of leasing companies is evaluated and from which the assessment of the compliance of the leasing sector with AML/CTF standards is derived (the number of total discrepancies, the average number of these discrepancies, risk quantity, quality of risk management, (un)reported supervisory concern), it can be concluded that the quantity of the risk of money laundering and terrorism financing is moderate, the quality of the management of this risk is satisfactory, and there are no reasons for supervisory concern.

When considering the compliance of the leasing sector with the provisions of the Law on Prevention of Money Laundering and Terrorism Financing, the Law on Leasing, the Decision on Minimum Standards for Activities of Leasing Companies to Prevent Money Laundering and Terrorism Financing, and other laws and implementing regulations that govern leasing companies' obligations to prevent money laundering and terrorism financing, it can be concluded that the leasing sector of the Federation of BiH largely complies with the norms prescribed by these laws and regulations.

Assessment of the Leasing System

In examinations of compliance of leasing companies' business operations with AML/CTF standards, certain discrepancies have been identified, based on which assessments are made: quantity of the risk of money laundering and terrorism financing, quality of the management of this risk, and assessment of supervisory concern, which influence the assessment of the leasing sector in terms of compliance, i.e. risk management.

5. RECOMMENDATIONS FOR THE LEASING SYSTEM

In the period to come, the FBA will focus on the following aspects:

- initiating additional amendments to the Law on Leasing in order to create a better business environment for leasing companies,

- updating regulations in terms of the drafting of new and amending of existing regulations in accordance with the adopted amendments to the Law on Leasing,
- continuing the ongoing supervision of leasing companies via reports and on-site examinations,
- insistence on the capital strengthening of leasing companies and the internal defining of capital protection and capital adequacy parameters,
- supervision of leasing companies' compliance with laws and regulations and the implementation of good practices in the segment of protection of users of financial services and guarantors,
- continuing the monitoring of leasing companies' activities to prevent money laundering and the financing of terrorism,
- improving the structure and data quality of the Central Registry of Credits at the Central Bank of BiH,
- continuing the permanent education and professional training of staff,
- improving cooperation with the Association of Leasing Companies in BiH in terms of providing support in the implementation of laws and regulations referring to leasing companies,
- improving cooperation with other supervisory and control institutions, and
- facilitating the establishment of new leasing companies.

Activities of leasing companies should be focused on the following:

- creating and furthering regulations for leasing companies in terms of activities and business operations of leasing companies,
- strengthening capital and defining parameters for capital protection and capital adequacy,
- strengthening the internal controls system in the interest of: ensuring the reliability and integrity of data and information, ensuring accuracy, validity and comprehensiveness of accounting and non-accounting records, compliance with operating policies, plans, work programmes, laws and other regulations and documents as well as the protection of company assets, preventive action and prevention of fraud and error,
- providing an adequate and organisationally independent internal audit function, which assesses the activity, efficiency and effectiveness of the internal controls system and gives expert opinions, recommendations, and advice on carried out examinations,
- improving policies and procedures in risk management (basic risks leasing companies are exposed to: credit risk, risk of financed assets, market risk, liquidity risk and operational risk)
- implementing laws and regulations in the area of protection of users of financial services and guarantors,
- improving the range of products offered on the market and finding new sales channels,
- detailed informing of clients on products offered by leasing companies in the interest of a better understanding and more serious approach to financing through leasing arrangements, and
- regular, up-to-date and accurate submission of data to the Central Registry of Credits at the CBBH.

CONCLUSION

In 2017, significant, extensive and demanding activities of the Banking Agency of the Federation of BiH were carried out in order to improve and develop the regulatory framework for business operations and supervision of the banking system entities of the Federation of BiH, especially in the process of harmonisation of by-laws with the new Banking Law and the Law on the Banking Banking Agency of the Federation of BiH. In order to preserve the stability and security of the banking system of the Federation of BiH, the Banking Agency of the Federation of BiH has continuously supervised the operations of all banking system entities, carrying out planned activities and taking measures in accordance with legal authorisations.

Positive developments were recorded in the business operations of the banking system in 2017, which are reflected in the increase in assets, loans and deposits, as well as the improved profitability of the overall banking system. In the lending segment, higher lending to private companies compared to the retail segment was recorded. The decrease in the share of non-performing loans continued as a key indicator of loan quality. Total deposits and savings deposits, as the most significant and largest segment of the deposit and financial potential of banks, continued to increase in 2017. Banks in the Federation of BiH recorded a positive financial result, and it is concluded that the banking system of the Federation of BiH is stable, adequately capitalised, liquid and profitable.

Positive changes in the structure of assets and liabilities of banks, as well as the implementation of other macroeconomic measures, influence the further decrease in active and passive interest rates, which leads to positive effects for the corporate and retail sector. Taking into account the recorded results, the Banking Agency of the Federation of BiH pays special attention to the risks and weaknesses in the operations of banks, as well as to the measures for the protection of users.

The operations of the microcredit system recorded an improvement compared to the end of the previous year. An increase in assets and the loan portfolio was recorded, together with improved quality indicators. Part of the microcredit system entities requires additional attention, and improvements in the structure of the microcredit system are expected in the period to come.

The leasing system in the Federation of BiH recorded an increase in the volume of operations in 2017, which indicates that the system is stable and shows a possibility of further development. At the level of the leasing sector, there was a decrease in balance sheet positions, which is related to the status change of a leasing company, while there was an increase in the total volume of financings and the number of newly-concluded contracts at the level of the leasing system.

The Banking Agency of the Federation of BiH is continuing activities on the improvement, harmonisation and application of the regulatory framework. These activities include an intensive approach to the implementation of prescribed competences in order to maintain and strengthen the stability of the system, protect depositors and users, and improve the safe, high-quality and legal operations of the system entities in the Federation of BiH.

No.: U.O. 20-02/18
Sarajevo, 08.05.2018

ANNEXES FOR THE BANKING SYSTEM

Annex 1 – Legal Framework for FBA Operations

REGULATIONS RELATED TO THE ORGANISATION OF THE FBA

1. Law on the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH, No. 75/17),
2. Articles of Association of the Banking Agency of the Federation of BiH (Official Gazette of the Federation of BiH, No. 42/04),
3. Rules of Internal Organisation of the Banking Agency of the Federation of BiH (Official Gazette of the Federation of BiH, No. 23/14 – consolidated text and 60/16).

FBA REGULATIONS RELATED TO THE FBA'S COMPETENCES

Laws

1. Banking Law (Official Gazette of the Federation of BiH, No. 27/17),
2. Law on Microcredit Organisations (Official Gazette of the Federation of BiH, No. 59/06),
3. Law on Associations and Foundations (Official Gazette of the Federation of BiH, No. 45/02),
4. Law on Leasing (Official Gazette of the Federation of BiH, No. 85/08, 39/09, 65/13 and 104/16),
5. Law on the Development Bank of the Federation of BiH (Official Gazette of the Federation of BiH, No. 37/08),
6. Law on Deposit Insurance in BiH (Official Gazette of BiH, No. 20/02, 18/05, 100/08, 75/09 and 58/13),
7. Law on Foreign Currency Operations (Official Gazette of the Federation of BiH, No. 47/10),
8. Law on Prevention of Money Laundering and Terrorism Financing (Official Gazette of BiH, No. 47/14 and 46/16),
9. Law on Guarantor Protection in the FBiH (Official Gazette of the Federation of BiH, No. 100/13),
10. Law on Protection of Users of Financial Services (Official Gazette of the Federation of BiH, No. 31/14),
11. Law on Internal Payment Operations (Official Gazette of the Federation of BiH, No 48/15),
12. Law on Factoring of the Federation of BiH (Official Gazette of the Federation of BiH, No. 14/16).

Decisions and Instructions/Guidelines of the FBA Relating to the Operations of Banks

1. Decision on Calculation of Capital in Banks (Official Gazette of the Federation of BiH, No. 81/17),
2. Decision on Large Exposures in Banks (Official Gazette of the Federation of BiH, No. 81/17),
3. Decision on Interest Rate Risk Management in the Banking Book (Official Gazette of the Federation of BiH, No. 18/17),
4. Decision on Risk Management in Banks (Official Gazette of the Federation of BiH, No. 81/17),
5. Decision on Internal Capital Adequacy Assessment Process in Banks (Official Gazette of the Federation of BiH, No. 81/17),
6. Decision on Liquidity Risk Management in Banks (Official Gazette of the Federation of BiH, No. 81/17),
7. Decision on Disclosure of Bank Data and Information (Official Gazette of the Federation of BiH, No. 81/17),
8. Decision on Control Functions in Banks "Official Gazette of the Federation of BiH, No. 81/17),
9. Decision on External Audit and Content of Audit in Banks (Official Gazette of the Federation of BiH, No. 81/17),
10. Decision on Conditions for Issuance of Procuration in Banks (Official Gazette of the Federation of BiH, No. 81/17),
11. Decision on Purchase and Sale of Bank Investments (Official Gazette of the Federation of BiH, No. 81/17),

12. Decision on Recovery Plans of Bank and Banking Group (Official Gazette of the Federation of BiH, No. 81/17),
13. Decision on Requirements for Consolidated Banking Group (Official Gazette of the Federation of BiH, No. 81/17),
14. Decision on Outsourcing Management in Banks (Official Gazette of the Federation of BiH, No. 81/17),
15. Decision on Exceptions to Bank Secrecy (Official Gazette of the Federation of BiH, No. 81/17),
16. Decision on Records of Banks and Organisational Units of Banks Seated in Republika Srpska or the Brčko District and Representative Offices of Banks Opened in the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH, No. 81/17),
17. Decision on Obligation of Banks to Notify the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH, No. 81/17),
18. Decision on Bank Operations with Persons in a Special Relationship with Banks (Official Gazette of the Federation of BiH, No. 81/17),
19. Decision on Uniform Method of Calculation and Reporting of Effective Interest Rate on Loans and Deposits (Official Gazette of the Federation of BiH, No. 81/17),
20. Decision on Conditions in which Banks Are Considered Insolvent (Official Gazette of the Federation of BiH, No. 81/17),
21. Decision on Conscientious Behaviour of Members of Bank Bodies (Official Gazette of the Federation of BiH, No. 81/17),
22. Decision on Remuneration Policy and Practice for Bank Employees (Official Gazette of the Federation of BiH, No. 81/17),
23. Decision of Conditions and Manner of Customer Complaint Management in Banks, Microcredit Organisations and Leasing Companies (Official Gazette of the Federation of BiH, No. 81/17),
24. Decision on Information System Management in Banks (Official Gazette of the Federation of BiH, No. 81/17),
25. Decision on Statement of Assets (Official Gazette of the Federation of BiH, No. 81/17),
26. Decision on Foreign Exchange Risk Management in Banks (Official Gazett of the Federation of BiH, No. 81/17),
27. Decision on Internal Controls System in Banks (Official Gazette of the Federation of BiH, No. 81/17),
28. Decision on Inclusion of Special Conditions for Contracting Long-Term Non-Replacement and Replacement Loans to Natural Persons into Risk Management System in Banks (Official Gazette of the Federation of BiH, No. 81/17),
29. Decision on Conditions and Procedure for Issuing, Refusing to Issue and Revoking Operating Licences (Official Gazette of the Federation of BiH, No. 90/17),
30. Decision on Conditions and Procedure for Issuing and Refusing to Issue Approvals for the Selection or Appointment of Supervisory Board and Management Members of Banks and Revoking Issued Approvals (Official Gazette of the Federation of BiH, No. 90/17),
31. Decision on Conditions and Procedure for Issuing, Refusing to Issue and Revoking Other Approvals for Performing Banking Activities (Official Gazette of the Federation of BiH, No. 90/17),
32. Decision on Assessment of Fulfillment of Requirements for Supervisory Board and Management Members of Banks (Official Gazette of the Federation of BiH, No. 90/17),
33. Decision on Supervision of Banks and Procedures of the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH, No. 90/17),
34. Decision on Procedure for Determining Claims and Distribution of Assets and Liabilities in Bank Liquidation (Official Gazette of the Federation of BiH, No. 90/17),
35. Decision on Reports Banks Submit to the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH, No. 103/17),
36. Decision on Determination of the Fee Tariff of the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH, No. 48/12 – consolidated text),
37. Decision on Minimum Standards for Credit Risk Management and Assets Classification in Banks (Official Gazette of the Federation of BiH, No. 85/11, 33/12 and 15/13),

38. Decision on Reporting on Non-Performing Customers Considered to be a Special Credit Risk for Banks (Official Gazette of the Federation of BiH, No. 3/03),
39. Decision on Minimum Standards for Bank Activities to Prevent Money Laundering and Terrorism Financing (Official Gazette of the Federation of BiH, No. 48/12),
40. Decision on Minimum Standards for Documenting Lending Activities of Banks (Official Gazette of the Federation of BiH, No. 3/03 and 23/14),
41. Criteria for the Internal Ranking of Banks by the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH, No. 3/03 and 6/03 – corr.),
42. Odluka o minimalnim standardima za obavljanje mjenjačkih poslova („Službene novine Federacije BiH“, br. 95/13 i 99/13),
43. Decision on Examination Process of Currency Exchange Operations (Official Gazette of the Federation of BiH“, No. 95/13),
44. Decision on Examination of Foreign Currency Operations in Banks – Payment Operations (Official Gazette of the Federation of BiH, No. 95/13),
45. Instructions for Completing Bank Reports on Regulatory Capital, Credit, Operational and Market Risk and the Financial Leverage Ratio (No. 01-4914/17 of 22.12.2017),
46. Instructions for Completing Reporting Forms for Large Exposures (No. 01-4915/17 of 22.12.2017),
47. Instructions for Completing Reporting Forms for Interest Rate Risk in the Banking Book (No. 01-4916/17 of 22.12.2017),
48. Guidelines on Reporting to the Banking Agency of the Federation of Bosnia and Herzegovina on Application of the ICAAP in Banks (No. 01-4917/17 of 22.12.2017),
49. Instructions on Method of Application of the provisions of the Decision on Liquidity Risk Management in Banks Relating to LCR components (No. 01-4918/17 of 22.12.2017),
50. Guidelines for Assessment of Recovery Plans (No. 01-4919/17 of 22.12.2017),
51. Instructions for Reporting on Outsourcing Management (No. 01-4920/17 of 22.12.2017),
52. Instructions for Calculation of Weighted Nominal and Effective Interest Rate (No. 01-4921/17 of 22.12.2017),
53. Instructions for Application and Drafting of Creditor Reports in Accordance with the Decision of Conditions and Manner of Customer Complaint Management in Banks, Microcredit Organisations and Leasing Companies (No. 01-4922/17 of 22.12.2017),
54. Instructions for Reporting on Information System Management (No. 01-4923/17 of 22.12.2017),
55. Instructions for Application of the Decision on Foreign Exchange Risk Management in Banks (No. 01-4924/17 of 22.12.2017),
56. Instructions for Revised Method of Forming, Recording and Reporting Loan Loss Provisions (December 2011, January 2013),
57. Instructions for Method of Reporting to Provisional Administrator about Bank Operations under Provisional Administration (19.07.2013),
58. Instructions for Form and Method of Additional Reporting by Banks under Provisional Administration (19.07.2013),
59. Instructions for Method of Reporting to Liquidation Administrator about Implementation of Liquidation in Bank (19.07.2013).

Decisions and Instructions of the FBA Relating to the Operations of the Ombudsman for the Banking System

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

Decisions of the FBA Relating to the Operations of Factoring Companies

1. Decision on Minimum Standards for Content of Factoring Agreements (Official Gazette of the Federation of BiH, No. 70/16),
2. Decision on Minimum Standards for Conditions and Manner of Performing Activities of Factoring Companies (Official Gazette of the Federation of BiH, No. 70/16),
3. Decision on Minimum Standards for Criteria, Rules and Additional Requirements for Capital of Factoring Companies (Official Gazette of the Federation of BiH, No. 70/16),
4. Decision on Minimum Standards for Criteria and Procedures of Making Decisions about Issuing Approvals for Acquisition or Increase of Qualified Stake in Factoring Companies and of Factoring Companies in Another Legal Entity (Official Gazette of the Federation of BiH, No. 70/16),
5. Decision on Minimum Standards for Closer Conditions and Manner of Issuing Operating Licences of Factoring Companies in Domestic Factoring (Official Gazette of the Federation of BiH, No. 70/16),
6. Decision on Minimum Standards for Requirements Supervisory Board and Management Members of Factoring Companies Must Meet (Official Gazette of the Federation of BiH, No. 70/16),
7. Decision on Minimum Standards for Criteria and Manner of Risk Management in Factoring Companies (Official Gazette of the Federation of BiH, No. 70/16),
8. Decision on Minimum Standards for Performing Internal Audit Operations in Factoring Companies (Official Gazette of the Federation of BiH, No. 70/16),
9. Decision on Minimum Standards for Structure, Content, Manner and Deadlines for Submission of Information and Reports of Factoring Companies to the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH, No. 70/16, 85/16 – corr. and 104/16),
10. Decision on Fees Factoring Companies Pay to the Banking Agency of the FBiH (Official Gazette of the Federation of BiH, No. 90/17),
11. Instructions for Filling Out Financial and Other Reports Factoring Companies Are Required to Draft for Purposes of the Banking Agency of the Federation of BiH (No. 4203/16 of 24.10.2016),
12. Instructions for Drafting Reports on Calculation of Capital in Factoring Companies (No. 4204/16 of 24.10.2016).

Other Regulations:

Development Bank of the Federation of BiH

1. Decree on Criteria and Manner of Supervision of the Development Bank of the FBiH (Official Gazette of the Federation of BiH, No. 57/08, 77/08 and 62/10),
2. Decision on Determining Amount of Fees for Supervision of the Development Bank of the FBiH (Official Gazette of the Federation of BiH, No. 65/09).

Foreign Currency Operations

1. Rulebook on the Process of Opening and Maintaining FC Accounts and FC Savings of Resident Customers of Banks (Official Gazette of the Federation of BiH, No. 56/10),
2. Rulebook on Conditions and Manner for Opening, Maintaining and Closing of Non-Resident Accounts in Banks (Official Gazette of the Federation of BiH, No. 56/10),
3. Decision on Withdrawing Foreign Cash and Cheques (Official Gazette of the Federation of BiH, No. 58/10),
4. Decision on Conditions and Manner of Conducting Foreign Exchange Operations (Official Gazette of the Federation of BiH, No. 58/10 and 49/11),
5. Decision on Conditions for Issuing Approvals for Opening FC Accounts Abroad (Official Gazette of the Federation of BiH, No. 58/10),
6. Decision on Payment, Collection and Transfer of Foreign Currency and Foreign Cash (Official Gazette of the Federation of BiH, No. 58/10),
7. Decision on Manner and Conditions for Residents to Receive or Perform Payment in FCY and LCY Cash in Their Operations with Non-Residents (Official Gazette of the Federation of BiH, No. 58/10),

8. Rulebook on Manner, Deadlines and Forms of Reporting on International Lending Business (Official Gazette of the Federation of BiH, No. 79/10),
9. Decision on Minimum Standards for Currency Exchange Operations (Official Gazette of the Federation of BiH, No. 95/13 and 99/13),
10. Decision on Examination Process of Currency Exchange Operations (Official Gazette of the Federation of BiH, No. 95/13),
11. Decision on Examination Process of Foreign Currency Operations in Banks – Payment Operations (Official Gazette of the Federation of BiH, No. 95/13).

Anti-Money Laundering and Counter-Terrorism Financing

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

OTHER LAWS AND REGULATIONS IN THE FEDERATION OF BiH

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

26. Law on Investment Funds (Official Gazette of the Federation of BiH, No. 85/08 and 25/17),
27. Law on Private Insurance Agency (Official Gazette of the Federation of BiH, No. 22/05, 8/10 and 30/16),
28. Law on Tax Authority of the Federation of BiH (Official Gazette of the Federation of BiH, No. 33/02, 28/04, 57/09, 40/10, 29/11 and 27/12, 7/13, 71/14 and 91/15),
29. Law on Profit Tax (Official Gazette of the Federation of BiH, No. 15/16),
30. Law on Income Tax (Official Gazette of the Federation of BiH, No. 10/08, 9/10, 44/11, 7/13 and 65/13),
31. Law on Contributions (Official Gazette of the Federation of BiH, No. 35/98, 54/00, 16/01, 37/01, 1/02, 17/06, 14/08, 91/15 and 106/16),
32. Law on Collection and Partial Write-Off of Past Due Social Insurance Contributions (Official Gazette of the Federation of BiH, No. 25/06 and 57/09),
33. Law on Single System of Registration of Control and Collection of Contributions (Official Gazette of the Federation of BiH, No. 42/09, 109/12 and 30/16),
34. Law on Opening Balance Sheet of Companies and Banks (Official Gazette of the Federation of BiH, No. 12/98, 40/99, 47/06, 38/08 and 65/09),
35. Law on Audit of Privatisation of State-Owned Capital in Companies and Banks (Official Gazette of the Federation of BiH, No. 55/12),
36. Law on Identifying and Realising Claims of Citizens in the Privatisation Process (Official Gazette of the Federation of BiH, No. 27/97, 8/99, 45/00, 54/00, 7/01, 32/01, 27/02, 57/03, 44/04, 79/07, 65/09, 48/11 and 111/12),
37. Law on Identification and Manner of Settlement of Domestic Debt of the FBiH (Official Gazette of the Federation of BiH, No. 66/04, 49/05, 5/06, 35/06, 31/08, 32/09, 65/09, 42/11 and 35/14),
38. Law on Settlement of Liabilities Based on Pre-War FC Savings in the FBiH (Official Gazette of the Federation of BiH, No. 62/09, 42/11, 91/13 and 101/16),
39. Law on Associations and Foundations (Official Gazette of the Federation of BiH, No. 45/02),
40. Law on Trade and Related Businesses (Official Gazette of the Federation of BiH, No. 35/09 and 42/11),
41. Expropriation Law (Official Gazette of the Federation of BiH, No. 70/07, 36/10, 25/12 and 34/16),
42. Law Rendering Ineffective the Law on Construction (Official Gazette of the Federation of BiH, No. 55/02, 34/07),
43. Law on Construction Land in the FBiH (Official Gazette of the Federation of BiH, No. 67/05),
44. Law on Temporary Restriction over Disposing with State Property in the FBiH (Official Gazette of the Federation of BiH, No. 20/05, 17/06, 62/06, 40/07, 70/07, 94/07 and 41/08),
45. Law on Free Access to Information in the FBiH (Official Gazette of the Federation of BiH, No. 32/01 and 48/11),
46. Regulatory Offence Law of the FBiH (Official Gazette of the Federation of BiH, No. 63/14),
47. Law on Notaries Public (Official Gazette of the Federation of BiH, No. 45/02),
48. Law on Court Appraisers (Official Gazette of the Federation of BiH, No. 49/05 and 38/08),
49. Law on Agencies and Internal Departments for Personal and Property Protection (Official Gazette of the Federation of BiH, No. 78/08 and 67/13),
50. Law on Land Books in the FBiH (Official Gazette of the Federation of BiH, No. 58/02, 19/03 and 54/04),
51. Law on Foreign Investments (Official Gazette of the Federation of BiH, No. 61/01, 50/03 and 77/15),
52. Mediation Law (Official Gazette of the Federation of BiH, No. 49/07),
53. Law on Treasury of the FBiH (Official Gazette of the Federation of BiH, No. 26/16),
54. Law on Government of the FBiH (Official Gazette of the Federation of BiH, No. 1/94, 8/95, 58/02, 19/03, 2/06 and 8/06),
55. Law on Prosecutor's Office of the FBiH (Official Gazette of the Federation of BiH, No. 42/02 and 19/03),
56. Law on Courts in the FBiH (Official Gazette of the Federation of BiH, No. 38/05, 22/06, 63/10, 72/10 – corr., 7/13 and 52/14),
57. Law on Enforcement Proceedings (Official Gazette of the Federation of BiH, No. 32/03, 52/03, 33/06, 39/06 – corr., 39/09, 74/11, 35/12 and 46/16),

58. Law on Temporary Postponment of Fulfillment of Receivables Based on Executive Decisions Issued in Relation to the FBiH Budget (Official Gazette of the Federation of BiH, No. 9/04 and 30/04),
59. Law on Administrative Proceedings (Official Gazette of the Federation of BiH, No. 2/98 and 48/99),
60. Law on Administrative Disputes (Official Gazette of the Federation of BiH, No. 9/05),
61. Law on Civil Proceedings (Official Gazette of the Federation of BiH, No. 53/03, 73/05, 19/06 and 98/15),
62. Law on Non-Civil Proceedings (Official Gazette of the Federation of BiH, No. 2/98, 39/04, 73/05 and 80/14),
63. Criminal Code of the FBiH (Official Gazette of the Federation of BiH, No. 36/03, 37/03, 21/04, 69/04, 18/05, 42/10 and 42/11, 59/14, 76/14, 46/16 and 75/17),
64. Law on Criminal Proceedings in the FBiH (Official Gazette of the Federation of BiH, No. 35/03, 37/03, 56/03, 78/04, 28/05, 55/06, 27/07, 53/07, 9/09 and 12/10, 8/13, 59/14),
65. Law on Enforcement of Criminal Sanctions in the FBiH (Official Gazette of the Federation of BiH, No. 44/98, 42/99, 12/09 and 42/11),
66. Law on Conflict of Interest in Government Bodies in the FBiH (Official Gazette of the Federation of BiH, No. 70/08),
67. Law on Financial Intelligence Agency (Official Gazette of the Federation of BiH, No. 80/11),
68. Law on Fiscal Systems (Official Gazette of the Federation of BiH, No. 81/09),
69. Law on Privatisation of Banks (Official Gazette of the Federation of BiH, No. 12/98, 29/00, 37/01 and 33/02),
70. Law on Archive Materials of the FBiH (Official Gazette of the Federation of BiH, No. 45/02),
71. Law on Recognition of Public Identification Documents on Territory of the FBiH (Official Gazette of the Federation of BiH, No. 4/98),
72. Law on Strike (Official Gazette of the Federation of BiH, No. 14/00),
73. Law on Federal Administrative Taxes and Tariffs of Federal Administrative Taxes (Official Gazette of the Federation of BiH, No. 6/98, 8/00, 45/10, 43/13 and 98/17),
74. Law on Internal Trade (Official Gazette of the Federation of BiH, No. 40/10 and 79/17),
75. Collective Employment Agreement for the Financial Sector (Official Gazette of the Federation of BiH, No. 29/14),
76. Property Law (Official Gazette of the Federation of BiH, No. 66/13 and 100/13),
77. Law on Budgets of the FBiH (Official Gazette of the Federation of BiH, No. 102/13, 9/14 – corr. 13/14, 8/15, 91/15, 102/15 and 104/16),
78. Law on Citizenship of the Federation of BiH (Official Gazette of the Federation of BiH, No. 34/16),
79. Law on Voluntary Retirement/Pension Funds (Official Gazette of the Federation of BiH, No. 104/16),
80. Law on Financial Operations (Official Gazette of the Federation of BiH, No. 48/16);
81. Law on Salaries and Remunerations in Government Bodies of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH, No. 45/10, 111/12 and 20/17),
82. Law on Single Registry of Users of Cash Benefits with no Fee Payment (Official Gazette of the Federation of BiH, No. 25/17),
83. Law on Insurance (Official Gazette of the Federation of BiH, No. 23/17),
84. Law on Development Planning and Development Management in the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH, No. 32/17).

OTHER LAWS AND REGULATIONS IN BOSNIA AND HERZEGOVINA

1. Law on Central Bank of BiH (Official Gazette of BiH, No. 1/97, 29/02, 8/03, 13/03, 14/03, 9/05, 76/06 and 32/07),
2. Law on Consumer Protection in BiH (Official Gazette of BiH, No. 25/06),
3. Law on Market Supervision in BiH (Official Gazette of BiH, No. 45/04, 44/07 and 102/09),
4. Competition Law (Official Gazette of BiH, Nos. 48/05, 76/07 and 80/09),
5. Law on Direct Foreign Investment Policy in BiH (Official Gazette of BiH, No. 4/98, 17/98, 13/03 and 48/10),

6. Law on Protection of Personal Data (Official Gazette of BiH, No. 49/06, 76/11 and 89/11 – corr.),
7. Law on Protection of Data Secrecy (Official Gazette of BiH, No. 54/05 and 12/09),
8. Law on Electronic Signature (Official Gazette of BiH, No. 91/06),
9. Decision on Use of Electronic Signature and Documents Certification Services (Official Gazette of BiH, No. 21/09),
10. Law on Business Classification in BiH (Official Gazette of BiH, No. 76/06, 100/08 and 32/10),
11. Zakon o državnoj službi u institucijama BiH Law on Civil Service in Institutions of BiH (Official Gazette of BiH, No. 12/02, 19/02, 8/03, 35/03, 4/04, 17/04, 26/04, 37/04, 48/05, 2/06, 32/07, 43/09, 8/10, 40/12 and 93/17),
12. Law on Work in Institutions of BiH (Official Gazette of BiH, No. 26/04, 7/05, 48/05, 60/10, 32/13 and 93/17),
13. Law on Debt, Debt Raising and Guarantees in BiH (Official Gazette of BiH, No. 52/05, 103/09 and 90/16),
14. Law on Salaries and Compensations in Institutions of BiH (Official Gazette of BiH, No. 50/08, 35/09, 75/09, 32/12, 42/12, 50/12, 32/13, 87/13, 75/15, 88/15, 16/16, 94/16 and 72/17),
15. Law on Settlement of Liabilities Based on Pre-War FC Savings (Official Gazette of BiH, No. 28/06, 76/06, 72/07 and 97/11, 100/13),
16. Law on Accounting and Audit in BiH (Official Gazette of BiH, No. 42/04),
17. Law on Determination and Manner of Settlement of Domestic Debt in BiH (Official Gazette of BiH, No. 44/04),
18. Framework Law on Pledges (Official Gazette of BiH, No. 28/04 and 54/04),
19. Law on Value Added Tax (Official Gazette of BiH, No. 9/05, 35/05, 100/08 and 33/17),
20. Law on Public Procurements in BiH (Official Gazette of BiH, No. 39/14),
21. Law on Customs Duties (Official Gazette of BiH, No. 58/12),
22. Law on Customs Violations in BiH (Official Gazette of BiH, No. 88/05),
23. Patent Law (Official Gazette of BiH, No. 53/10),
24. Law on Free Access to Information in BiH (Official Gazette of BiH, No. 28/00, 45/06, 102/09, 62/11, 100/13),
25. Law on Personal Identification Number (Official Gazette of BiH, No. 32/01, 63/08 and 103/11),
26. Law on Associations and Foundations in BiH (Official Gazette of BiH, No. 32/01, 42/03, 63/08, 76/11 and 94/16),
27. Law on Ministries and Other Administrative Bodies of BiH (Official Gazette of BiH, No. 5/03, 42/03, 26/04, 42/04, 45/06, 88/07, 35/09, 59/09 , 103/09, 87/12, 6/13, 19/16 and 83/17),
28. Law on Temporary Restriction over Disposing with State-Owned Property in BiH (Official Gazette of BiH, No. 18/05, 29/06, 85/06, 32/07, 41/07, 74/07, 99/07 and 58/08),
29. Law on Use and Protection of Names of BiH (Official Gazette of BiH, No. 30/03, 42/04, 50/08 and 76/11),
30. Law on Fiscal Council of BiH (Official Gazette of BiH, No. 63/08),
31. Law on the Treasury of Institutions of BiH (Official Gazette of BiH, No. 27/00 and 50/08),
32. Law on Payments to Single Account and Distribution of Revenues (Official Gazette of BiH, No. 55/04, 34/07, 49/09 and 91/17),
33. Law on Indirect Taxation System in Bosnia and Herzegovina (Official Gazette of BiH, No. 44/03, 52/04, 34/07, 4/08, 49/09, 32/13 and 91/17),
34. Mediation Law (Official Gazette of BiH“, No. 37/04),
35. Law on Transfer of Mediation Business to Association of Mediators (Official Gazette of BiH, No. 52/05),
36. Law on Excise Duties in Bosnia and Herzegovina (Official Gazette of BiH, No. 49/09, 49/14, 60/14 and 91/17),
37. Law on Enforced Collection of Indirect Taxes (Official Gazette of BiH, No. 89/05 and 62/11),
38. Regulatory Offence Law (Official Gazette of BiH, No. 41/07, 18/12 and 36/14),
39. Law on BiH Courts (Official Gazette of BiH, No. 49/09 – consolidated text, 74/09 – corr. and 97/09),
40. Law on High Judicial and Prosecutorial Council of BiH (Official Gazette of BiH, No. 35/02, 39/03, 42/03, 10/04, 25/04, 93/05, 32/07 and 48/07),

41. Law on Prosecutor's Office of BiH (Official Gazette of BiH, No. 49/09 – consolidated text and 97/09),
42. Law on Administrative Proceedings (Official Gazette of BiH, No. 29/02, 12/04, 88/07, 93/09, 41/13 and 53/16),
43. Law on Administrative Disputes in BiH (Official Gazette of BiH, No. 19/02, 88/07, 83/08 and 74/10),
44. Law on Civil Proceedings before the BiH Court (Official Gazette of BiH, No. 36/04, 84/07, 58/13 and 94/16),
45. Law on Enforcement Proceedings before the BiH Court (Official Gazette of BiH, No. 18/03),
46. Law on Administration (Official Gazette of BiH, No. 32/02, 102/09 and 72/17),
47. Law on Temporary Postponement of Fulfillment of Claims Based on Executive Decisions Issued in Relation to Budget of BiH Institutions and International Obligations of BiH (Official Gazette of BiH, No. 43/03 and 43/04),
48. Criminal Code of BiH (Official Gazette of BiH, No. 3/03, 32/03, 37/03, 54/04, 61/04, 30/05, 53/06, 55/06, 32/07, 8/10 and 47/14),
49. Law on Criminal Proceedings in BiH (Official Gazette of BiH, No. 3/03, 32/03, 36/03, 26/04, 63/04, 13/05, 48/05, 46/06, 76/06, 29/07, 32/07, 53/07, 76/07, 15/08, 58/08, 12/09, 16/09, 93/09 and 72/13),
50. Law on Conflict of Interest in Government Bodies of BiH (Official Gazette of BiH, No. 13/02, 16/02, 14/03, 12/04, 63/08, 18/12, 87/13 and 41/16),
51. Law on Archive Materials and Archives of BiH (Official Gazette of BiH, No. 16/01),
52. Law on Prohibition of Discrimination (Official Gazette of BiH, No. 59/09 and 66/16),
53. Law on Asylum (Official Gazette of BiH, No. 11/16),
54. Law on Enforcement of Criminal Sanctions, Detention and Other Measures (Official Gazette of BiH, No. 22/16 – consolidated text),
55. Law on Citizenship of BiH (Official Gazette of BiH, No. 22/16 – consolidated text),
56. Law on Employee Strike in Institutions of BiH (Official Gazette of BiH, No. 41/16),
57. Law on Free Legal Aid (Official Gazette of BiH, No. 83/16).

Annex 2 – Main Data on Banks in the Federation of BiH

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

Annex 3 – Data on Employees in Banks in the Federation of BiH

No.	BANK	31.12.2015	31.12.2016	31.12.2017
1	ADDIKO BANK d.d. - SARAJEVO	490	435	390
2	ASA BANKA d.d. - SARAJEVO	125	211	211
3	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	341	371	399
4	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	537	561	567
5	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	77	77	77
6	MOJA BANKA d.d. - SARAJEVO	133		
7	NLB BANKA d.d. - SARAJEVO	424	444	459
8	PRIVREDNA BANKA d.d - SARAJEVO	142		
9	PRIVREDNA BANKA d.d - SARAJEVO	66	139	158
10	PROCREDIT BANK d.d. - SARAJEVO	248	206	167
11	RAIFFEISEN BANK d.d. BiH - SARAJEVO	1 355	1 312	1 320
12	SBERBANK BH d.d. - SARAJEVO	420	425	440
13	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	471	521	528
14	UNICREDIT BANK d.d. - MOSTAR	1 208	1 225	1 260
15	UNION BANKA d.d. - SARAJEVO	181	192	192
16	VAKUFSKA BANKA d.d. - SARAJEVO	200	197	161
17	ZIRAATBANK BH d.d. - SARAJEVO	265	299	326
	TOTAL	6 683	6 615	6 655

Annex 4 – Balance Sheet of Banks in the Federation of BiH According to the FBA Model (Active Sub-Balance)

- in KM 000 -

No.	DESCRIPTION	31.12.2015	31.12.2016	31.12.2017
	ASSETS			
1.	Cash and deposit accounts with deposit-taking institutions	4 857 483	5 204 564	5 794 664
1a	Cash and non-interest bearing deposit accounts	1 058 837	2 418 582	2 654 978
1b	Interest-bearing deposits accounts	3 798 646	2 785 982	3 139 686
2.	Trading securities	882 829	1 075 588	1 092 254
3.	Loans to other banks	78 420	96 569	350 980
4.	Loans, receivables based on leasing facilities and past due receivables	11 610 744	12 270 228	13 178 860
4a	Loans	10 424 207	11 078 689	12 012 214
4b	Receivables based on leasing facilities	36	29	98 617
4c	Past due receivables based on loans and leasing facilities	1 186 501	1 191 510	1 068 029
5.	Held to maturity securities	167 377	150 575	136 178
6.	Business premises and other fixed assets	482 817	488 711	480 500
7.	Other real estate	34 077	42 266	49 441
8.	Investments in unconsolidated related companies	22 114	22 999	18 401
9.	Other assets	265 171	282 742	332 157
10.	MINUS: value adjustments	1 239 307	1 252 208	1 223 584
10a	Value adjustments for Item 4. of the Assets	1 181 736	1 193 721	1 166 804
10b	Value adjustments for Assets items, except for the Item 4.	57 571	58 487	56 780
11.	TOTAL ASSETS	17 161 725	18 382 034	20 209 851
	LIABILITIES			
12.	Deposits	13 098 983	14 176 274	15 814 723
12a	Interest-bearing deposits	9 935 353	10 312 971	11 358 832
12b	Non-interest bearing deposits	3 163 630	3 863 303	4 455 891
13.	Borrowings – liabilities due	150	150	150
13a	Past due liabilities	0	0	0
13b	Past due – invoked off-balance sheet liabilities	150	150	150
14.	Borrowings from other banks	0	0	0
15.	Liabilities to the Government	0	0	0
16.	Loan commitments and other borrowings	904 050	848 001	835 667
16a	With remaining maturity of up to one year	161 356	231 260	184 551
16b	With remaining maturity of more than one year	742 694	616 741	651 116
17.	Subordinated debt and subordinated bonds	119 835	119 678	129 299
18.	Other liabilities	468 719	529 811	564 963
19.	**TOTAL LIABILITIES**	14 591 737	15 673 914	17 344 802
	CAPITAL			
20.	Permanent preferred shares	11 709	8 828	14 828
21.	Common shares	1 155 783	1 207 049	1 210 961
22.	Issue premiums	132 667	138 786	137 290
22a	Over permanent preferred shares	88	88	88
22b	Over common shares	132 579	138 698	137 202
23.	Undistributed profit and capital reserves	836 609	864 475	946 263
24.	Foreign exchange rate differences	0	0	0
25.	Other capital	117 486	173 248	239 973
26.	Loan loss provisions formed from profit	315 734	315 734	315 734
27.	TOTAL CAPITAL (20. to 25.)	2 569 988	2 708 120	2 865 049
28.	TOTAL LIABILITIES AND CAPITAL (19 +26)	17 161 725	18 382 034	20 209 851
	PASSIVE AND NEUTRAL SUB-BALANCE	713 765	718 625	700 018
	TOTAL	17 875 490	19 100 659	20 909 869

Annex 5 – Overview of Assets, Loans, Deposits and Financial Results of Banks

- in KM 000 -

No.	BANK	Assets		Loans		Deposits		Financial result
		Amount	%	Amount	%	Amount	%	Amount
1.	ADDIKO BANK d.d. - SARAJEVO	893 764	4.4%	607 143	4.6%	646 497	4.1%	5 249
2.	ASA BANKA d.d. - SARAJEVO	484 487	2.4%	321 373	2.4%	399 207	2.5%	-3 178
3.	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	917 427	4.5%	611 201	4.6%	654 807	4.2%	8 615
4.	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	1 875 793	9.3%	1 344 411	10.2%	1 364 551	8.7%	24 910
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	99 839	0.5%	52 314	0.4%	70 239	0.5%	1 419
6.	NLB BANKA d.d. - SARAJEVO	1 044 031	5.2%	723 664	5.5%	840 778	5.3%	15 186
7.	PRIVREDNA BANKA SARAJEVO d.d. - SARAJEVO	365 729	1.8%	276 668	2.1%	263 895	1.7%	352
8.	PROCREDIT BANK d.d. - SARAJEVO	446 189	2.2%	346 058	2.6%	242 290	1.5%	-4 110
9.	RAIFFEISEN BANK d.d. BiH - SARAJEVO	4 154 853	20.6%	2 408 240	18.3%	3 368 311	21.3%	72 620
10.	SBERBANK BH d.d. - SARAJEVO	1 338 539	6.6%	975 554	7.4%	1 096 585	6.9%	5 770
11.	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	1 347 764	6.7%	963 660	7.3%	1 081 661	6.8%	19 842
12.	UNICREDIT BANK d.d. - MOSTAR	5 249 952	26.0%	3 368 178	25.6%	4 241 733	26.8%	89 531
13.	UNION BANKA d.d. - SARAJEVO	654 373	3.2%	182 308	1.4%	585 659	3.7%	1 003
14.	VAKUFSKA BANKA d.d. - SARAJEVO	316 731	1.6%	205 215	1.6%	272 335	1.7%	144
15.	ZIRAATBANK BH d.d.- SARAJEVO	1 020 380	5.0%	792 873	6.0%	686 175	4.3%	2 620
	TOTAL	20 209 851	100%	13 178 860	100%	15 814 723	100%	239 973

Annex 6 – Report on Capital Condition and Adequacy of Banks in the Federation of BiH

- ASSETS SIDE OF THE BALANCE SHEET -

- in KM 000 -

No.	DESCRIPTION	31.12.2015	31.12.2016	31.12.2017
	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	1 151 971	1 203 237	1 213 318
1.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	12 431	12 431	12 262
1.3.	Amount of issue premiums earned upon payment of shares	132 667	138 786	137 290
1.4.	General mandatory reserves (reserves mandated by the law)	163 794	143 166	157 513
1.5.	Other reserves from profit after tax based on the decision of the Bank's assembly	427 706	529 121	635 732
1.6.	Retained, undistributed profit from previous years and current year's profit	122 065	141 073	165 343
1.a.	TOTAL (1.1 to 1.6)	2 010 634	2 167 814	2 321 458
1.b.	Deductible items from 1.a			
1.7.	Uncovered losses from previous years	28 371	16 690	47 879
1.8.	Current year's loss	102 108	42 314	7 288
1.9.	Book value of own (treasury) shares of the bank	102	3 034	81
1.10.	Intangible assets in accordance with the applicable accounting framework	49 837	47 315	49 963
1.11.	Amount of deferred tax assets	1 641	1 881	1 494
1.12.	Amount of negative revalorised reserves based on the effect of the change in the fair value of assets	1 696	1 063	1 446
1.b.	TOTAL (1.7. to 1.10)	183 755	112 297	108 151
1.	AMOUNT OF CORE CAPITAL: (1.a. - 1.b.)	1 826 879	2 055 517	2 213 307
	SUPPLEMENTARY CAPITAL OF THE BANK			
2.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	3 090	209	209
2.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	0	0	0
2.3.	General loan loss provisions for the category A – performing assets	208 619	170 420	186 830
2.4.	Amount of positive revalorised reserves based on the effect of the change in the fair value of assets	9 735	9 741	13 037
2.5.	Current year profit – audited and confirmed by an external audit	0	0	0
2.6.	Profit amount for which the FBA issues an order restricting its disbursement	107 918	103 122	104 733
2.7.	Amount of subordinated debt	0	0	0
2.8.	Amount of hybrid convertible items – capital instruments	1 422	1 425	1 428
2.	AMOUNT OF SUPPLEMENTARY CAPITAL: (2.1 to 2.8)	330 784	284 917	306 237
	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	1 007	0	0
3.3.	Receivables from shareholders with significant voting rights – approved by the bank contrary to Law provisions, FBA regulations and the bank's work policy	755	0	0
3.4.	LCRE towards shareholders with significant voting rights in the bank (no FBA approval required)	0	0	0
3.5.	LLP shortfall as per regulatory requirement	204 559	200 035	198 380
3.	AMOUNT OF DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL: (3.1 to 3.5)	206 321	200 035	198 380
A.	NET CAPITAL OF THE BANK (1.+2.-3.)	1 951 342	2 140 399	2 321 164
B.	RISK OF BALANCE AND OFF-BALANCE ASSETS	11 918 650	12 667 026	13 904 675
C.	WEIGHTED OPERATIONAL RISK	976 734	1 001 018	1 042 691
D.	WEIGHTED MARKET RISK	0	0	0
E.	TOTAL ASSETS RISK B+C+D	12 895 384	13 668 044	14 947 366
F.	NET CAPITAL RATE (A/E) (% 1 dec.)	15,1%	15,7%	15,5%

Annex 7 – Classification of Balance Sheet Assets and Off-Balance Sheet Risk-Weighted Items

– CLASSIFICATION OF BALANCE SHEET ASSETS ITEMS –

-u 000 KM-

No.	BALANCE SHEET ASSETS ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	2 338 097	203 513	4 396	6 845	2 947	2 555 798
2.	Long-term loans	8 683 481	595 153	146 233	82 114	16 053	9 523 034
3.	Other facilities	397 693	539	11	76	2 265	400 584
4.	Accrued interest and fees	36 056	3 842	1 529	2 900	22 567	66 894
5.	Past due receivables	35 866	16 821	9 212	199 236	775 814	1 036 949
6.	Receivables based on paid guarantees	0	0	0	2 336	28 744	31 080
7.	Other balance sheet assets being classified	767 234	5 176	763	1 248	40 075	814 496
8.	TOTAL BALANCE SHEET ASSETS BEING CLASSIFIED (sum of items 1 through 7 – calculation basis for regulatory loan loss provisions)	12 258 427	825 044	162 144	294 755	888 465	14 428 835
9.	CALCULATED REGULATORY RESERVES FOR LOAN LOSSES BASED ON BS ASSETS	241 809	69 578	43 943	174 426	888 464	1 418 220
10.	VALUE ADJUSTMENT FOR BS ASSETS	175 179	45 698	73 640	167 141	761 924	1 223 582
11.	REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT FOR PURPOSE OF ASSESSED LOSSES BASED ON BS ASSETS	132 141	49 375	5 651	42 700	126 158	356 025
12.	FORMEED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS	94 092	32 932	19 498	79 011	53 521	279 054
13.	SHORTFALL OF REGULATORY RESERVE FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS						188 845
14.	BALANCE SHEET ASSETS NOT BEING CLASSIFIED (gross book value)						7 004 600
15.	TOTAL BALANCE SHEET ASSETS (gross book value)						21 433 435

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

14.a	Cash in cash desk and vault and cash funds at the account with the Central Bank of BiH, gold and other precious metals	4 602 404
14.b	Demand deposits and term deposits up to one month located on accounts of banks with defined investment rating	957 981
14.c	Tangible and intangible assets	507 644
14.d	Financial and tangible assets acquired in the process of collection of receivables (within one year upon such acquisition)	4 601
14.e	Own (treasury) shares	0
14.f	Receivables based on overpaid taxes	23 971
14.g	Trading securities	111 419
14.h	Receivables from the BiH Government, FBiH Government and RS Government, securities issued by the BiH Government, FBiH Government and RS Government and receivables secured with unconditional guarantees payable upon the first call	796 580
	TOTAL Item 14	7 004 600
8a.	Facilities secured with a cash deposit	168 006

Annex 7a – Classification of Balance Sheet Assets and Off-Balance Sheet Risk-Weighted Items

– CLASSIFICATION OF OFF-BALANCE SHEET ITEMS –

- in KM 000 -

No.	OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Payment guarantees	374 487	35 217	3 305	537	90	413 636
2.	Performance guarantees	620 709	64 595	243	6 200	482	692 229
3.	Uncovered letters of credit	44 170	274				44 444
4.	Irrevocably approved, but undrawn loans	1 734 320	107 199	316	106	218	1 842 159
5.	Other contingent liabilities of the bank	19 071	44	448		38	19 601
6.	TOTAL OFF-BALANCE SHEDET ITEMS BEING CLASSIFIED (sum of items 1 through 5 – calculation basis for regulatory loan loss provisions)	2 792 757	207 329	4 312	6 843	828	3 012 069
7.	CALCULATED REGULATORY RESERVES FOR LOAN LOSSES RELATED TO OFF-BALANCE SHEET ITEMS	54 884	13 122	1 543	3 878	828	74 255
8.	LOSS RESERVES FOR OFF-BALANCE SHEET ITEMS	29 226	1 501	2 760	4 780	428	38 695
9.	REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS	33 258	12 020	49	887	401	46 615
10.	FORMED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS	24 183	10 460	529	1 341	167	36 680
11.	SHORTFALL OF REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS						13 662
12.	OFF-BALANCE SHEET ITEMS NOT BEING CLASSIFIED						478 020
13.	TOTAL OFF-BALANCE SHEET ITEMS						3 490 089
6a.	Contingent liabilities secured with a cash deposit						48 569
6b.	Approved undisbursed loans with a clause on unconditional cancellation						498 178

Annex 8 – Income Statement of Banks in the Federation of BiH According to the FBA Model

- in KM 000 -

No.		DESCRIPTION	31.12.2015	31.12.2016	31.12.2017
1.		INTEREST INCOME AND EXPENSES			
	a)	Interest income and similar income			
	1)	Interest-bearing deposit accounts with deposit-taking institutions	1 574	1 877	2 653
	2)	Loans to other banks	1 693	1 599	1 481
	3)	Loans and leasing facilities	689 317	671 168	669 651
	4)	Held to maturity securities	6 393	5 467	3 260
	5)	Equity securities	49	35	812
	6)	Receivables based on paid-off balance sheet liabilities	3	3	3
	7)	Other interest income and similar income	67 095	72 007	76 688
	8)	TOTAL INTEREST INCOME AND SIMILAR INCOME	766 124	752 156	754 548
	b)	Interest expenses and similar expenses			
	1)	Deposits	172 146	142 618	124 706
	2)	Borrowings from other banks	0	0	0
	3)	Borrowings taken – liabilities due	0	0	0
	4)	Liabilities based on loans and other borrowings	14 823	11 410	10 846
	5)	Subordinated debt and subordinated bonds	7 834	7 352	7 895
	6)	Other interest and similar expenses	1 827	3 767	6 538
	7)	TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES	196 630	165 147	149 985
	c)	NET INTEREST AND SIMILAR INCOME	569 494	587 009	604 563
2.		OPERATING INCOME			
	a)	FX income	49 261	51 471	53 539
	b)	Loan fees	8 376	9 738	11 710
	c)	Fees based on off-balance sheet items	24 334	22 813	21 759
	d)	Service fees	223 395	243 028	269 292
	e)	Trading income	290	368	438
	f)	Other operating income	42 305	54 811	64 802
	g)	TOTAL OPERATING INCOME a) to f)	347 961	382 229	421 540
3.		NON-INTEREST EXPENSES			
	a)	Business and direct expenses			
	1)	Costs of value adjustments, risk-weighted assets, provisions for contingent liabilities and other value adjustments	157 747	111 305	112.074
	2)	Other business and direct expenses	89 577	98 593	114.096
	3)	TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)	247 324	209 898	226.170
	b)	Operating expenses			
	1)	Costs of salaries and contributions	248 495	243 892	248.113
	2)	Costs of business premises, other fixed assets and utilities	159 665	154 963	157.670
	3)	Other operating expenses	117 274	158 184	121.689
	4)	TOTAL OPERATING EXPENSES 1) to 3)	525 434	557 039	527.472
	c)	TOTAL NON-INTEREST BEARING EXPENSES	772 758	766 937	753.642
4.		PROFIT BEFORE TAXES	245.939	240 952	279 658
5.		LOSS	101 242	38 651	7 197
6.		TAXES	26 567	28 772	32 452
7.		PROFIT BASED ON INCREASE OF DEFERRED TAX FUNDS AD REDUCTION OF DEFERRED TAX LIABILITIES	309	386	712
8.		LOSS BASED ON REDUCTION OF DEFERRED TAX FUNDS AND INCREASE OF DEFERRED TAX LIABILITIES	953	667	748
9.		NET PROFIT 4. - 6.	219 594	211 753	247 261
10.		NET LOSS 4. - 6.	102 108	38 505	7 288
11.		FINANCIAL RESULT 9.-10.	117 486	173 248	239 973

ANNEXES FOR THE MICROCREDIT SYSTEM

Annex 9 – FBA Regulations for Business Operations of MCOs

FBA Decisions for business operations of MCOs	Official Gazette of the Federation of BiH
1. Decision on Conditions and Process of Issuance of Operating Licenses for Microcredit Foundations Resulting from Changed Organisational Form of Microcredit Organisations	27/07
2. Decision on Conditions and Process of Issuance and Revocation of Operating Licenses and Other Approvals to/from Microcredit Organisations	27/07 and 46/11
3. Decision on Supervision of Microcredit Organisations	27/07
4. Decision on Form and Content of Reports Microcredit Organisations Submit to the Banking Agency of the Federation of Bosnia and Herzegovina and on Reporting Deadlines	27/07, 110/12 and 15/13
5. Decision on Level and Manner of Forming and Maintaining Reserves for Loan Losses of Microcredit Organisations	27/07
6. Decision on Other General Conditions for Operations of Microcredit Organisations	27/07
7. Decision on Uniform Manner of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits	81/17
8. Decision on Conditions and Process of Issuance of Operating License and Approval for Acquiring Ownership Share by Investing and Transferring Assets of the Microcredit Foundation	27/07
9. Decision on Fees Microcredit Organisations Pay to the Banking Agency of the Federation of BiH	46/11
10. Decision on Minimum Standards for Activities of Microcredit Organisations to Prevent Money Laundering and Financing Terrorist Activities	48/12
11. Decision on Conditions and Manner of Customer Complaint Management by Banks, Microcredit Organisations and Leasing Companies	81/17
12. Decision on Minimum Standards for Documenting Lending Activities of Microcredit Organisations and Assessing Creditworthiness	23/14
13. Decision on Conditions and Manner for Handling Guarantors' Requests for Release from the Guarantor's Obligation	23/14 and 62/14
14. Decision on Minimum Requirements in Terms of Content, Comprehensibility and Availability of General and Special Business Conditions of Providers of Financial Services	62/14

FBA Instructions for business operations of MCOs

1. Instructions for Implementation of the Decision on Uniform Manner of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits
2. Instructions for Calculation of Weighted Nominal and Effective Interest Rate
3. Instructions for Calculation of Adjusted Return on Assets
4. Instructions for Calculation of Efficiency Ratios
5. Instructions for MCO Reporting

Annex 10 – Main Data on MCOs

No	Name of microcredit organisation	Address and seat	Director	Phone/Fax	E-mail and website	31.12.2017			
						Assets amount in KM 000	Capital amount in KM 000	No. of employees	No. of org. units
1.	MKD "EKI" d.o.o. Sarajevo	ul. Džemala Bijedića 129 71 000 SARAJEVO	v.d. Alma Delić	033/ 754-380, 754-388 fax	alma.delic@eki.ba www.eki.ba	107 338	33 826	183	75
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića 129, 71 000 SARAJEVO	v.d. Sadina Bina	033/ 754-380, 754-388 fax	sadina.bina@eki.ba www.eki.ba	104 851	68 385	271	71
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	dzavids@lider.ba www.lider.ba	17 993	10 964	66	16
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Elma Čardaklija - Bašić	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	15 171	2 724	90	22
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Jakob Finci	033/ 205-737 tel/fax	info@melaha.ba www.melaha.ba	1 281	516	6	0
6.	MKF "MI-BOSPO" Tuzla	ul. Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	mi-bospo@mi-bospo.org www.mi-bospo.org	58 988	22 178	171	32
7.	MKF "MIKRA" Sarajevo	ul. Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	mikra@mikra.ba www.mikra.ba	29 823	7 568	126	28
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	info@mikroaldi.org www.mikroaldi.org	6 376	4 779	26	8
9.	"PARTNER MKF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	partner@partner.ba www.partner.ba	133 534	76 857	287	60
10.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	info@mfi.ba	1 940	1 647	9	0
11.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	431	225	5	0
12.	MKF "SUNRISE" Sarajevo	ul. Zagrebačka 50 71 000 SARAJEVO	Samir Bajrović	033/ 727-350, 812-231 fax	sunrise@microsunrise.ba www.microsunrise.ba	49 201	25 391	159	44
					TOTAL	526 927	255 060	1 399	356

Annex 11 – Balance Sheet of MCFs

- in KM 000 -

No.	DESCRIPTION	31.12.2016	%	31.12.2017	%	Index
1	2	3	4	5	6	7=5/3
	ASSETS					
1.	Cash (1a+1b)	22 227	6	21 989	5	99
1a	Cash and non-interest bearing deposit accounts	11 698	3	9 516	2	81
1b	Interest-bearing deposit accounts	10 529	3	12 473	3	118
2.	Facilities to banks	733	0	1 210	0	165
3.	Loans	349 791		329 758		94
3a	Loan loss provisions	3 193		2 716		85
3b	Net loans (3-3a)	346 598	85	327 042	78	94
4.	Business premises and other fixed assets	28 734	7	28 383	7	99
5.	Long-term investments	3 061	1	33 061	8	1080
6.	Other assets	6 008	1	8 062	2	134
7.	Minus: provisions for other assets items, except loans	182		158		87
8.	TOTAL ASSETS	407 179	100	419 589	100	103
	LIABILITIES					
9.	Short-term loan commitments	73 903	18	86 518	20	117
10.	Long-term loan commitments	105 905	26	90 622	22	86
11.	Other liabilities	23 258	6	21 215	5	91
12.	TOTAL LIABILITIES	203 066	50	198 355	47	98
13.	Donated capital	45 851		45 851		100
14.	Core capital	3 820		3 820		100
15.	Surplus of income over expenses	213 906		231 183		108
15a	For previous years	199 850		214 123		107
15b	For current year	14 056		17 060		121
16.	Deficit of income over expenses	61 308		61 352		100
16a	For previous years	61 268		61 279		100
16b	For current year	40		73		183
17.	Other reserves	1 844		1 732		94
18.	TOTAL CAPITAL	204 113	50	221 234	53	108
19.	TOTAL LIABILITIES	407 179	100	419 589	100	103
OFF-BALANCE SHEET RECORDS						
	- written-off loans	115 263		110 188		96
	- agent business	367		366		100

Annex 12 – Balance Sheet of MCCs

- in KM 000 -

No.	DESCRIPTION	31.12.2016	%	31.12.2017	%	Index
1	2	3	4	5	6	7=5/3
	ASSETS					
1.	Cash (1a+1b)	4 496	14	24 841	23	553
1a	Cash and non-interest bearing deposit accounts	4 496	14	24 841	23	553
1b	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Facilities to banks	0	0	0	0	n/a
3.	Loans	28 081		81 396		290
3a	Loan loss provisions	176		542		308
3b	Net loans (3-3a)	27 905	85	80 854	75	290
4.	Business premises and other fixed assets	115	0	430	1	374
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	455	1	1 243	1	273
7.	Minus: provisions for other assets items, except loans	9		30		333
8.	TOTAL ASSETS	32 962	100	107 338	100	326
	LIABILITIES					
9.	Short-term loan commitments	5 549	17	18 273	17	329
10.	Long-term loan commitments	22 551	68	50 583	47	224
11.	Other liabilities	1 337	4	4 656	4	348
12.	TOTAL LIABILITIES	29 437	89	73 512	68	250
13.	Donated capital	0		0		n/a
14.	Core capital	600		30 600		5100
15.	Issue premiums	0		0		n/a
16.	Unallocated profit (16a+16b)	1 016		1 317		130
16a	Of previous years	331		1 017		307
16b	Of current year	685		300		44
17.	Legal reserves	1 909		1 909		100
18.	Other reserves	0		0		n/a
19.	TOTAL CAPITAL	3 525	11	33 826	32	960
20.	TOTAL LIABILITIES	32 962	100	107 338	100	326
OFF-BALANCE SHEET RECORDS						
	- written-off loans	220		420		191
	- agent business	0		0		n/a

Annex 13 – Overview of Donated Funds of MCFs

KM 000

No.	Donor	MKF EKI Sarajevo	MKF LIDER Sarajevo	LOK MKF Sarajevo	MKF MELAHA Sarajevo	MKF MI-BOSPO Tuzla	MKF MIKRA Sarajevo	MKF MIKRO ALDI Goražde	PARTNER MKF Tuzla	PRVA ISLAMSKA MKF	MKF SUNRISE Sarajevo	TOTAL
Credit fund donations		6 326	5 891	4 639	0	3 354	4 070	804	16 561	2 265	1 940	45 850
1.	Mercy Corps								10 091			10 091
2.	USAID	3 046		543					3 046			6 635
3.	CHF-(SIDA, MEDI, HILP)		5 891									5 891
4.	LIP			1 479		947			675		1 214	4 315
5.	CRS						4 070					4 070
6.	UNHCR			1 198		479		200	1 229		613	3 719
7.	Islamic Relief WW, Representative Office Sarajevo									2 265		2 265
8.	UNDP	1 932		153					59			2 144
9.	UMCOR			637		377			317			1 331
10.	IRC					371			805			1 176
11.	SIDA Housing	1 080										1 080
12.	Women's World Banking					1 034						1 034
13.	PRM/USA State Department			577								577
14.	OXFAM							500				500
15.	EZE, Germany								339			339
16.	USDA Know-How Project	237										237
17.	Church World Service					146						146
18.	Other	31		52				104			113	300
Fixed assets donations		8	0	286	0	12	235	80	229	0	85	935
19.	Mercy Corps								229			229
20.	Unipromet						170					170
21.	Nedžad Beglerović			102								102
22.	NOVIB							80				80
23.	EBRD										75	75
24.	Other	8		184		12	65				10	279
Operating expenses donations		1 019	874	2 810	500	1 344	17	146	2 573	0	711	9 994
25.	LIP			1 515					201		711	2 427
26.	USAID					1 344			591			1 935
27.	CHF		874									874
28.	Mercy Corps								808			808
29.	SIDA Housing	748										748
30.	PM			556								556
31.	BCT			519								519
32.	JKPHD La Benevolencija				500							500
33.	KfW								498			498
34.	NBR			220								220
35.	UNHCR								176			176
36.	EFSE	26						1	115			142
37.	NOVIB							110				110
38.	EBRD	105							1			106
39.	IFC	104										104
40.	Other	36					17	35	183			271
TOTAL DONATED CAPITAL		7 353	6 765	7 735	500	4 710	4 322	1 030	19 363	2 265	2 736	56 779

Annex 14 – Income Statement of MCFs

- in KM 000 -

No.	DESCRIPTION	For the period 01.01. - 31.12.2016	%	For the period 01.01. - 31.12.2017	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	63	0	13	0	21
1.2.	Interest on facilities to banks	2	0	10	0	500
1.3.	Loan interest	66 092	98	66 468	98	101
1.4.	Other financial income	1 204	2	1 425	2	118
1.5.	Total interest income and similar income (1.1. to 1.4.)	67 361	100	67 916	100	101
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	8 987	92	8 125	94	90
2.2.	Other financial expenses	813	8	531	6	65
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	9 800	100	8 656	100	88
3.	Net financial income (1.5. - 2.3.)	57 561		59 260		103
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	7 543	92	7 368	91	98
4.2.	Other operating income	661	8	768	9	116
4.3.	Total operating income (4.1. do 4.2.)	8 204	100	8 136	100	99
5.	Operating expenses					
5.1.	Salary and contributions costs	37 612	66	36 912	65	98
5.2.	Costs of business premises, other fixed assets and utility costs	10 839	19	10 999	19	101
5.3.	Other operating expenses	8 296	15	8 9939	16	108
5.4.	Total operating expenses (5.1. to 5.3.)	56 747	100	56 850	100	100
6.	Loan loss provisions and provisions for other losses	4 006		3 528		88
7.	Surplus/deficit of income over expenses from regular operations (3.+4.3.-5.4.-6.)	5 012		7 018		138
8.	Extraordinary income	11 600		11 975		103
9.	Extraordinary expenses	882		725		82
10.	Surplus/deficit of income over expenses (7.+8.-9.)	15 730		18 268		116

Annex 15 – Income Statement of MCCs

- in KM 000 -

No.	DESCRIPTION	For the period 01.01. - 31.12.2016	%	For the period 01.01. - 31.12.2017	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	1	0	0	0	0
1.2.	Interest on facilities to banks	0	0	0	0	n/a
1.3.	Loan interest	3 709	100	9 146	100	247
1.4.	Other financial income	3	0	8	0	267
1.5.	Total interest income and similar income (1.1. to 1.4.)	3 713	100	9 154	100	247
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	1 295	96	2 459	95	190
2.2.	Other financial expenses	60	4	125	5	208
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	1 355	100	2 584	100	191
3.	Net financial income (1.5. - 2.3.)	2 358		6 570		279
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	254	91	723	92	285
4.2.	Other operating income	24	9	66	8	275
4.3.	Total operating income (4.1. to 4.2.)	278	100	789	100	284
5.	Operating expenses					
5.1.	Salary and contributions costs	1 185	76	3 745	67	316
5.2.	Costs of business premises, other fixed assets and utility costs	135	9	873	15	647
5.3.	Other operating expenses	233	15	987	18	424
5.4.	Total operating expenses (5.1. to 5.3.)	1 553	100	5 605	100	361
6.	Loan loss provisions and provisions for other losses	346		614		177
7.	PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	737		1 140		155
8.	Extraordinary income	15		57		380
9.	Extraordinary expenses	6		850		14 167
10.	PROFIT/LOSS BEFORE TAXES	746		347		47
11.	TAXES	61		47		77
12.	NET PROFIT/LOSS	685		300		44

ANNEXES FOR THE LEASING SYSTEM

Annex 16 – FBA Regulations for Business Operations of Leasing Companies

FBA Decisions for business operations of leasing companies	Official Gazette of the Federation of BiH
1. Decision on Conditions and Procedure for Issuance and Revocation of Licences for Performing Leasing Operations	46/09 and 58/17
2. Decision on Conditions and Procedure for Issuance and Revocation of Approvals to/from Leasing Companies	46/09, 46/11 and 58/17
3. Decision on Minimum Standards for Activities of Leasing Companies to Prevent Money Laundering and Financing of Terrorist Activities	48/12
4. Decision on Uniform Manner and Method of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Arrangements	46/09
5. Decision on Uniform Manner and Method of Calculation and Disclosure of Leasing Fees under Operational Leasing Arrangements	46/09 and 48/12
6. Decision on Form and Content of Reports Submitted to the Banking Agency of the Federation of BiH by Leasing Companies and Reporting Deadlines	46/09, 48/12 and 110/12
7. Decision on Minimum Level and Manner of Forming, Managing and Maintaining Loss Reserves and Risk Management in Leasing Companies	46/09
8. Decision on Supervision of Leasing Companies	46/09 and 58/17
9. Decision on Fees Leasing Companies Pay to the Banking Agency of the Federation of BiH	46/09 and 46/11
10. Decision on Conditions and Manner of Handling Guarantors' Requests for Release from the Guarantor's Obligation	23/14 and 62/14
11. Decision on Minimum Standards for Documenting Financing under Leasing Arrangements and Assessing Creditworthiness,	62/14
12. Decision on Minimum Requirements in Terms of Content, Comprehensibility and Availability of General and Special Business Conditions of Providers of Financial Services	46/14
13. Decision on Outsourcing of Business Processes of Leasing Companies	58/17
14. Decision on Conditions and Manner of Customer Complaint Management in Banks, Microcredit Organisations and Leasing Companies	81/17

Codes	Official Gazette of the Federation of BiH
Code of Conduct of the Ombudsman for the Banking System of the Federation of Bosnia and Herzegovina	93/15

FBA Instructions for business operations of leasing companies
1. Instructions for Implementing the Decision on Uniform Manner and Method of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Arrangements
2. Instructions for Drafting Reports of Leasing Companies

Annex 17 – Main Data on Leasing Companies

No.	Name of leasing company	Address and seat	Director	Phone	Issuance date of licence	Headcount	Website
1.	ASA LEASING d.o.o. Sarajevo	Trg međunarodnog prijateljstva 25, Sarajevo	Aida Rifelj	+ 387 33 774 852	22.03.2010.	7	www.asa-leasing.ba
2.	NLB LEASING d.o.o. Sarajevo	Trg solidarnosti 2a, Sarajevo	Denis Silajdžić	+ 387 33 789 345	19.03.2010.	7	www.nlbleasing.ba
3.	PORSCHE LEASING d.o.o.	Trg međunarodnog prijateljstva 24, Sarajevo	Dejan Stupar	+ 387 33 257 147	28.05.2015.	17	www.porscheleasing.ba
4.	RAIFFEISEN LEASING d.o.o. Sarajevo	Zmaja od Bosne bb, Sarajevo	Munir Čengić	+ 387 33 254 354	19.01.2010.	33	www.rlbh.ba
5.	SPARKASSE LEASING d.o.o. Sarajevo	Zmaja od Bosne 7, Sarajevo	Elma Hošo	+ 387 33 565 850	11.02.2010.	19	www.s-leasing.ba
6.	VB LEASING d.o.o Sarajevo	Fra Anđela Zvizdovića 1, Sarajevo	Slobodan Vujić	+387 33 276 280	12.01.2010	15	www.vbleasing.ba
					TOTAL	98	

Annex 18 – Overview of the Ownership Structure of Leasing Companies

LEASING COMPANY	NAME OF THE OWNER	% učešća
ASA LEASING d.o.o. Sarajevo	ASA AUTO d.o.o. Sarajevo	82.8%
	ASA FINANCE d.d. Sarajevo	17.2%
NLB LEASING d.o.o. Sarajevo	NLB d.d. Ljubljana	100%
PORSCHE LEASING d.o.o.	PORSCHE BANK Aktiengesellschaft Salzburg Austrija	100%
RAIFFEISEN LEASING d.o.o. Sarajevo	RAIFFEISEN BANK d.d. Sarajevo, BiH	100%
SPARKASSE LEASING d.o.o. Sarajevo	STEIERMAERKISCHE BANK UND SPARKASSEN AG, Graz	51%
	SPARKASSE BANK d.d. Sarajevo	49%
VB LEASING d.o.o. Sarajevo	VB LEASING INTERNATIONAL GmbH, Vienna	100%

Annex 19 – Consolidated Balance Sheet of Leasing Companies

- in KM 000 -

No.	DESCRIPTION	31.12.2016		31.12.2017		INDEX
	ASSETS	Amount	% in total assets	Amount	% in total assets	
1.	Cash and cash equivalents	8 048	1.9%	13 738	5.3%	171
2.	Placements with banks	10 520	2.5%	16 953	6.5%	161
3.	Receivables for financial leasing, net	306 599	72.7%	176 007	67.6%	57
3a)	Receivables for financial leasing, gross	345 957	82.1%	192 488	74.0%	56
3b)	Loan loss provisions	4 500	1.1%	2 078	0.8%	46
3c)	Deferred interest income	34 347	8.1%	14 275	5.5%	42
3d)	Deferred fee income	511	0.1%	128	0.0%	25
4.	Receivables from subsidiaries	2	0.0%	2	0.0%	100
5.	Tangible and intangible assets, net	33 037	7.8%	29 606	11.4%	90
5a)	Tangible and intangible assets – own assets	8 973	2.1%	4 864	1.9%	54
5b)	Tangible and intangible assets – operational leasing	44 267	10.5%	43 673	16.8%	99
5c)	Value adjustment – own assets	4 996	1.2%	3 874	1.5%	78
5d)	Value adjustment – operational leasing	15 207	3.6%	15 057	5.8%	99
6.	Long-term investments	48	0.0%	291	0.1%	606
7.	Other assets (7a + 7b)	63 261	15.0%	23 607	9.1%	37
7a)	Loans, net	40 500	9.6%	13 449	5.2%	33
7a1)	Loans (due receivables + non-due principal)	42 263	10.0%	15 345	5.9%	36
7a2)	Loan loss provisions	1 763	0.4%	1 896	0.7%	108
7b)	Inventories	13 468	3.2%	3 087	1.2%	23
7c)	Other assets	9 293	2.2%	7 071	2.7%	76
	TOTAL ASSETS	421 515	100.0%	260 204	100.0%	62
	LIABILITIES					
9.	Receivables due for taken loans, net	365 834	86.8%	209 085	80.4%	57
9a)	Receivables due for short-term loans	51 431	12.2%	0	0.0%	n a
9b)	Receivables due for long-term loans	314 554	74.6%	209 275	80.4%	67
9c)	Prepaid costs and fees	151	0.0%	190	0.1%	126
10.	Other liabilities	9 270	2.2%	10 329	4.0%	111
	TOTAL LIABILITIES	375 104	89.0%	219 414	84.3%	58
11.	Core capital	48 116	11.4%	34 004	13.1%	71
12.	Reserves	3 691	0.9%	576	0.2%	16
13.	Accumulated profit/loss	-5 396	-1.3%	6 210	2.4%	n a
	TOTAL CAPITAL	46 411	11.0%	40 790	15.7%	88
	TOTAL LIABILITIES	421 515	100.0%	260 204	100.0%	62
	Written-off receivables (initial balance)	116 392	27.6%	95 111	36.6%	82
	New write-off (+)	3 224	0.8%	995	0.4%	31
	Collection (-)	3 161	0.7%	6 069	2.3%	192
	Permanent write-off (-)	4 671	1.1%	5 862	2.3%	125
	Written-off receivables (final balance)	111 784	26.5%	84 175	32.3%	75

Annex 20 – Balance Sheet Total Ranking of Leasing Companies

- in KM 000 -

31.12.2016					31.12.2017					
Rank	Leasing company	Balance sheet volume	Share 2016	Cumul. share	Rank	Leasing company	Balance sheet volume	Share 2017	Cumul. share	INDEX
1.	UniCredit Leasing d.o.o. Sarajevo	146 163	34.7%	34.7%	1.	Raiffeisen Leasing d.o.o. Sarajevo	121 419	46.7%	46.7%	97
2.	Raiffeisen Leasing d.o.o. Sarajevo	124 991	29.7%	64.3%	2.	Sparkasse Leasing d.o.o. Sarajevo	57 774	22.2%	68.9%	101
3.	Sparkasse Leasing d.o.o. Sarajevo	57 295	13.6%	77.9%	3.	Porsche Leasing d.o.o. Sarajevo	47 365	18.2%	87.1%	218
4.	VB Leasing Leasing d.o.o. Sarajevo	50 746	12.0%	90.0%	4.	VB Leasing Leasing d.o.o. Sarajevo	20 756	8.0%	95.0%	41
5.	Porsche Leasing d.o.o. Sarajevo	21 706	5.1%	95.1%	5.	NLB Leasing d.o.o. Sarajevo	9 750	3.7%	98.8%	59
6.	NLB Leasing d.o.o. Sarajevo	16 410	3.9%	99.0%	6.	ASA Leasing d.o.o. Sarajevo	3 140	1.2%	100.0%	75
7.	ASA Leasing d.o.o. Sarajevo	4 204	1.0%	100.0%	7.	UniCredit Leasing d.o.o. Sarajevo	0	0.0%	100.0%	0
TOTAL		421 515	100.0%		TOTAL		260 204	100.0%		62

Annex 21 – Overview of Key Financial Indicators of Leasing Companies

- in KM 000 -

No.	Leasing company	Ukupni kapital (000 KM)	Rank based on total capital	Net profit/loss (KM 000)	Rank based on net profit/loss	Facilities in 2017 (KM 000)	Rank based on facilities in 2017	No. of arrangeemnts in 2017	Rank based on no. of arrangements in 2017
1.	ASA Aleasing d.o.o. Sarajevo	3 005	5.	-182	5.	0	-	0	-
2.	NLB Leasing d.o.o. Sarajevo	9 455	2.	2 458	1.	0	-	0	-
3.	Porsche Leasing d.o.o. Sarajevo	1 617	6.	110	4.	38 599	2.	1 161	1.
4.	Raiffeisen Leasing d.o.o. Sarajevo	17 179	1.	1 773	2.	50 380	1.	1 149	2.
5.	Sparkasse Leasing d.o.o. Sarajevo	6 243	3.	1 697	3.	29 164	3.	498	4.
6.	UniCredit Leasing d.o.o. Sarajevo/ UniCredit Bank d.d.	-	-	-	-	27 646	4	587	3.
7.	VB Leasing d.o.o. Sarajevo	3 291	4.	-864	6.	0	-	0	-
	TOTAL	40 790		4 992		145 789		3 395	

Annex 22 – Overview of Reserves for Financial Leasing

- in KM 000 -

Days past due	Provisioning rate for financial leasing (moveables)	Provisioning rate for financial leasing (immoveables)	Amount of receivables for moveables	Amount of receivables for immoveables	Principal amount for moveables	Principal amount for immoveables	Reserves: For moveables	Reserves: For immoveables	Reserves: Additional calculated and allocated reserves	Reserves: Total reserves
0-60	0.50%	0.50%	169 001	2 859	36 080	1 059	180	5	745	931
60-90	10%	10%	4 821	0	741	0	74	0	90	164
90-180	50%	50%	355	50	152	0	76	0	28	104
More than 180	100%	75%	859	140	858	22	858	17	5	879
More than 360	100%	100%	0	0	0	0	0	0	0	0
TOTAL			175 036	3 049	37 831	1 081	1 188	22	868	2 078

Annex 23 – Overview of Reserves for Loans

- in KM 000 -

Days past due	Provisioning rate	Amount of receivables	Reserves	Additional calculated allocated reserves	Total reserves
0-60	0.05%	15 345	8	1 888	1 896
60-90	5%	0	0	0	0
90-180	10%	0	0	0	0
180-270	30%	0	0	0	2
270-360	50%	0	0	0	0
preko 360	100%	0	0	0	0
TOTAL		15 345	8	1 888	1 896

Annex 24 – Consolidated Income Statement of Leasing Companies

- in KM 000 -

No.	DESCRIPTION	31.12.2016		31.12.2017		INDEX
		Amount	% in total income / expenses	Amount	% in total income / expenses	31.12.2017/ 31.12.2016
	FINANCIAL INCOME AND EXPENSES					
1.	Interest income	23 237	50.9%	14 192	42.3%	61
1a)	Interest for financial leasing	17 501	38.3%	10 074	30.0%	58
1b)	Interest on placements with banks	263	0.6%	220	0.7%	84
1c)	Fees (for processing leasing arrangements, etc.)	1 076	2.4%	661	2.0%	61
1d)	Other interest income	4 397	9.6%	3 237	9.6%	74
2.	Interest expenses	7 892	17.2%	3 369	12.1%	43
2a)	Interest on borrowed funds	7 721	16.8%	3 261	11.7%	42
2b)	Fees for loan processing	171	0.4%	105	0.4%	61
2c)	Other interest expenses	0	0.0%	3	0.0%	n.a
3.	Net interest income	15 345	33.6%	10 823	32.3%	71
	OPERATING INCOME AND EXPENSES					
4.	Operating income	22 435	49.1%	19 356	57.7%	86
4a)	Fees for services	10	0.0%	4	0.0%	40
4b)	Fee for operational lease	11 364	24.9%	10 723	32.0%	94
4c)	Income from sale of leasing facilities	56	0.1%	1	0.0%	2
4d)	Other operating income	11 005	24.1%	8 628	25.7%	78
4d)1	Income from collected written-off receivables	2 555	5.6%	3 751	11.2%	147
4d)2	Income from notifications	475	1.0%	359	1.1%	76
4d)3	Other	7 975	17.5%	4 518	13.5%	57
5.	Operating expenses	32 918	71.7%	24 566	87.9%	75
5a)	Salaries and contributions	6 756	14.7%	5 102	18.2%	76
5b)	Costs of business premises	12 947	28.2%	8 771	31.4%	68
5c)	Other costs	13 215	28.8%	10 693	38.2%	81
6.	Costs of loan loss provisions	5 110	11.1%	22	0.1%	0
7.	Profit before taxes	-248	n.a.	5 591	16.7%	n.a
8.	Profit tax	550	1.2%	599	1.8%	109
9.	Net profit	-798	n.a.	4 992	14.9%	n.a

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PUBLISHER
BANKING AGENCY OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
Zmaja od Bosne 47b
71000 Sarajevo, Bosnia and Herzegovina
Phone: +387 33 72 14 00
Fax: +387 33 66 88 11
Website: www.fba.ba
E-mail: agencija@fba.ba