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

INFORMATION
ON THE BANKING SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
30. 09. 2017

Sarajevo, November 2017

The Banking Agency of the Federation of B&H, as a regulatory institution conducting banking supervision, has prepared the Information on the Banking System of the Federation of B&H (as of 30.09.2017) based on financial statements and other information and data provided by banks. This also encompasses results and information obtained during on-site examinations in banks and off-site financial analyses in the Agency.

CONTENTS

I INTRODUCTION

In the first three quarters of 2017, the operations of the banking sector were characterised by an increase in the balance sheet total, deposits and loans, a continuation of positive trends which are reflected in the increase in retail savings, capital, profit and the decrease in the share of non-performing loans in total loans. A positive financial result was recorded at system level and, on the basis of all that, it can be concluded that the banking sector has remained stable and adequately capitalised, with still satisfactory liquidity.

As of 30.09.2017, there were 15 licensed banks in the Federation of B&H, as was the case at the end of 2016. The headcount amounted to 6 694, up by 1.2% or 79 employees compared to the end of 2016.

The balance sheet total of the banking sector at the end of the third quarter of 2017 amounted KM 19.6 billion, thus posting an increase in the amount of 6.5% or KM 1.2 billion compared to the end of 2016. The increase in the balance sheet total with respect to sources (liabilities) is primarily the result of an increase in deposits as well as total capital and loan commitments, while the assets structure saw minor changes related to key material items: a decrease in the share of loans from 66.8% to 66.2% and an increase in the share of cash funds from 28.3% to 29.4%.

Loans, being the largest assets item in banks, recorded an increase of 5.6% or KM 683 million in the first three quarters of 2017, amounting to KM 13 billion as of 30.09.2017. Positive trends from 2016 continued in the first three quarters of 2017 as well and they are reflected in the segment of sectoral lending, i.e. greater lending to private companies compared to the retail segment. Loans to private companies recorded a growth rate of 6.6% or KM 380 million, so that loans to this sector amounted to KM 6.1 billion and had a share of 47.4% as of 30.09.2017. Retail loans recorded a growth rate of 5.2% or KM 313 million in the same period, while their share slightly decreased from 48.7% to 48.5%. As of 30.09.2017, they amounted to KM 6.3 billion.

Loan quality indicators improved in the first three quarters of 2017 as well, as was the case in the previous two years, which particularly impacted the sector of legal entities. An increase in the loan portfolio, a significantly lower inflow of new non-performing loans as well as permanent write-offs had a positive effect on the ratio of the share of non-performing loans in total loans, which is down from 11.7%, to which it amounted at the end of 2016, to 10.5% as of 30.09.2017. The share of non-performing loans granted to legal entities in relation to total corporate loans amounted to 13.3%, while the share of non-performing retail loans in relation to total retail loans amounted to 7.6%.

Cash funds amounted to KM 5.7 billion or 29.4% of the balance sheet total of banks in the FB&H and are up by 10.4% or KM 544 million compared to the end of 2016.

Investments in securities are an assets item that recorded a slight decrease of 0.7% or KM 8 million in the first three quarters of 2017, and amounted to KM 1.2 billion as of 30.09.2017, with a 6.2% share in the assets of the banking sector in the FB&H.

In the structure of banks' sources of funding, deposits, holding a share of 76.9% and amounting to KM 15.1 billion, are the most significant source of funding. In the first three quarters of 2017, deposits recorded an increase in the amount of 6.3% or KM 886 million. Savings deposits, as the most important and largest segment of the deposit and financial potential of banks, maintained a positive trend of growth and amounted to KM 8.1 billion as of 30.09.2017, which is up by 2% or KM 161 million compared to the end of 2016.

As of 30.09.2017, loan commitments of banks amounted to KM 982 million or 5% of total sources of funding and they are up by 15.8% or KM 134 million compared to the end of 2016. In the last eight years, due to the impact of the financial and economic crisis, banks borrowed significantly less from abroad and the share of these sources in the funding of banks was significantly reduced by paying receivables due.

In the first three quarters of 2017, total capital increased by 6.8% or KM 184 million largely on the basis of current profit and amounted to KM 2.9 billion as of 30.09.2017 (share capital: KM 1.2 billion).

As of 30.09.2017, regulatory capital amounted to KM 2.5 billion and was up by 5.7% or KM 134 million compared to the end of 2016, without any significant changes in its structure.

The capital adequacy ratio of the banking system, as one of the most important indicators of the strength and capital adequacy of banks, was 15.4% as of 30.09.2017, down by 0.3% compared to the end of 2016, but still significantly above the legal minimum (12%), which represents a satisfactory capitalisation of the overall system and a strong foundation and basis for preserving its security and stability. The financial leverage ratio at the level of the banking system amounted to 9.7% as of 30.09.2017 (prescribed minimum: 6%).

According to data from the income statement, a positive financial result – profit in the amount of KM 232 million was recorded at the level of the banking system in the Federation of B&H in the first nine months of 2017. A positive financial result was recorded by 14 banks in the total amount of KM 235 million, while one bank posted a loss in the amount of KM 3 million.

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

1. BANKING SYSTEM STRUCTURE

1.1. Status, Number and Network of Branches

As of 30.09.2017, there were 15 banks with a banking licence in the Federation of B&H. The number of banks is the same compared to 31.12.2016. A special law from 01.07.2008 regulates the establishment and operations of the Development Bank of the FB&H Sarajevo, a legal successor of the Investment Bank of the FB&H d.d. Sarajevo.

In the first three quarters of 2017, there was no major expansion of the banks' network of organisational units, chiefly attributable to the financial crisis and the reduced volume of the banks’ business activities as well as the already completed market positioning.

Banks have reorganised their networks of organisational units by changing the organisational form, membership or address of their organisational parts. This also entailed closings of some organisational parts, all for the purpose of business rationalisation and operating costs reduction. There was a total of 30 such changes among banks in the Federation of B&H (28 on the territory of the Federation of B&H, and 2 in Republika Srpska): 6 new organisational units were established, 8 organisational units were closed, and 16 underwent changes. Also, there was a change in one organisational unit of a bank from Republika Srpska in the Federation of B&H

Subsequent to these changes, banks in the Federation of B&H had a total of 548 organisational units as of 30.09.2017, down by 0.5% compared to 31.12.2016.

The number of organisational units of banks from Republika Srpska in the Federation of B&H (22) is the same compared to 31.12.2016.

As of 30.09.2017, seven banks from the Federation of B&H had 52 organisational units in Republika Srpska, and nine banks had 11 organisational units in Brčko District. Three banks from Republika Srpska had 22 organisational units in the Federation of B&H.

As of 30.09.2017, all banks had licences to effect interbank transactions within the domestic payment system, and all 15 banks had secured deposits.

1.2. Ownership Structure

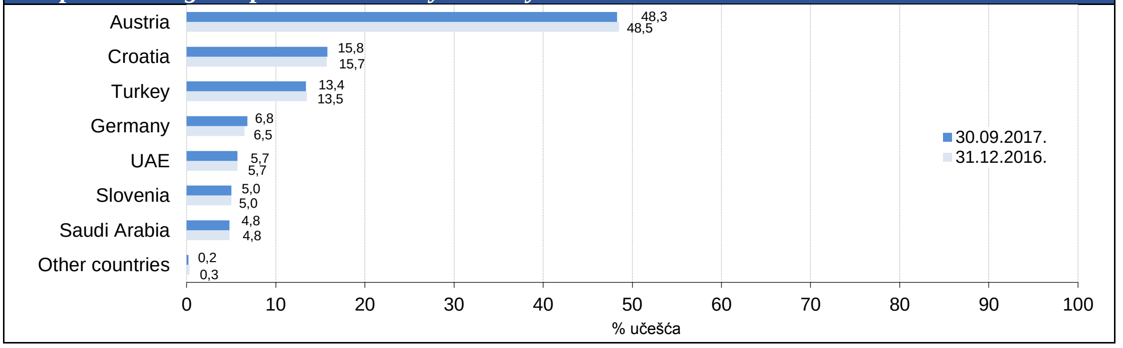
The ownership structure of banks[1] as of 30.09.2017, assessed on the basis of available information and reviews conducted in the banks themselves, is as follows:

- 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.

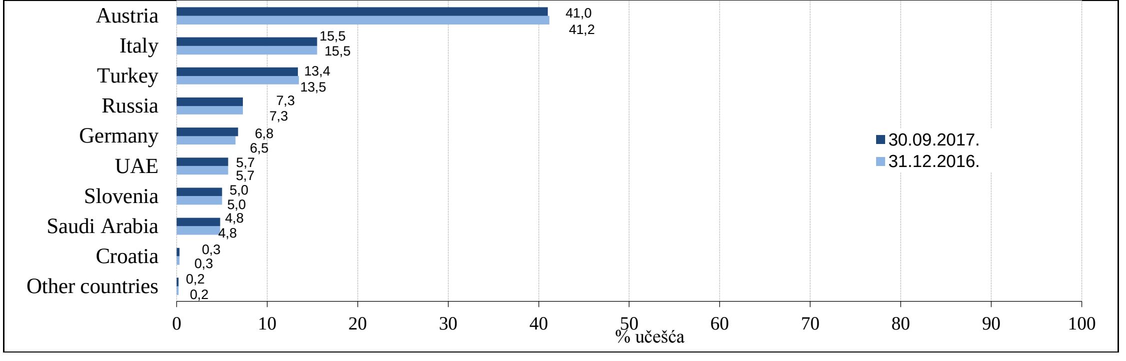
If observed solely from the perspective of foreign capital, using the criterion of the shareholders' home country, there were slight changes as of 30.09.2017 compared to the end of 2016: the largest share of foreign capital in the amount of 48.3% still refers to shareholders from Austria, followed by 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



However, if taking into account capital relations, the structure of foreign capital can also be observed using the criterion of the home country of the parent bank or parent group having majority ownership (direct or indirect via group members) of banks in the Federation of B&H. According to this criterion, the changes were also negligible: the share of banking groups and banks from Austria amounts to 41.0%, followed by Italian banks 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: 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.

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

-in KM 000 -

Table 1: Ownership Structure by Total Capital [4]								
BANKS	**31.12.2015.**		**31.12.2016**		**30.09.2017**		**INDEX**	
1	2		3		4		5 (3/2)	6 (4/3)
State-owned banks	52 319	2%	52 499	2%	59 495	2%	100	113
Private banks	2 517 669	98%	2 655 621	98%	2 832 510	98%	105	107
T O T A L	**2 569 988**	**100%**	**2 708 120**	**100%**	**2 892 005**	**100%**	**105**	**107**

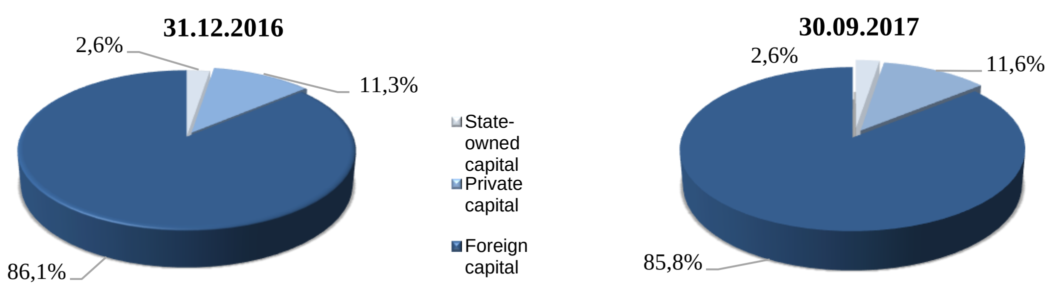
In the first three quarters of 2017, total capital increased by 7% or KM 184 million as a result of the positive impact of the current financial result – profit in the amount of KM 232 million, the recapitalisation of one bank in the total amount of KM 10 million and the effects of the revaluation of securities in the amount of KM 3 million – and the negative one, i.e. a decrease on the basis of a transfer of dividends (two banks) in the amount of 61 KM million to Liabilities. As of 30.09.2017, total capital amounted to KM 2.9 billion.

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

- in KM 000 -

Table 2: Ownership Structure by Share of State-Owned, Private and Foreign Capital								
SHARE CAPITAL	**31.12.2015**		**31.12.2016**		**30.09.2017**		**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)



As of 30.09.2017, share capital of banks in the FB&H up by KM 10 million compared to 31.12.2016, amounting to KM 1.2 billion.

As of 30.09.2017, the share of state-owned capital in total share capital amounted to 2.6% and was the same compared to 31.12.2016.

The 11.6% share of private capital (of residents) in total share capital is up by 0.3 percentage points or KM 4.6 million compared to 31.12.2016. The reason for this is the increase in share capital due to the issue of new shares in the amount of KM 6 million in the case of one bank and the decrease resulting from trade with non-residents in the amount of KM 1.4 million.

The 85.8% share of private capital (of non-residents) in total share capital is down by 0.3 percentage points, i.e. up by KM 5.4 million in absolute terms compared to 31.12 2016, due to the issue of new shares in the amount of KM 4 million in the case of one bank and as a result of trade with residents in the amount of KM 1.4 million.

[4] All data in the Information referring to 31.12.2016 are from the banks' audited financial statements.

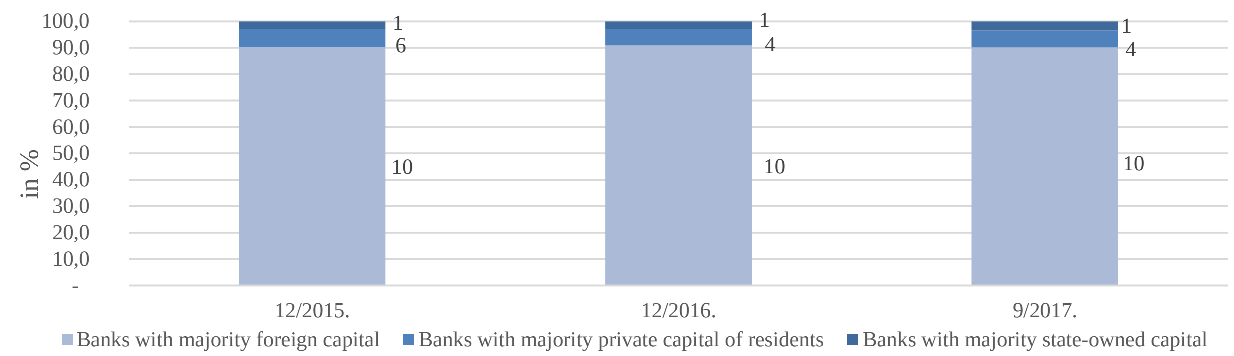
The market share of banks according to the ownership criterion has been almost unchanged for a long time, i.e. has seen only minor changes. The market share of banks in majority foreign ownership as of 30.09.2017 stood at a high 90.1%, while banks with majority domestic private capital had a 6.4% share and one bank with majority state-owned capital had a 3.5% share.

- in % -

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

BANKS	31.12.2015			31.12.2016			30.09.2017		
	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	2.1	3.5
Banks with majority private capital of residents	6	7.0	6.8	4	6.6	6.4	4	6.5	6.4
Banks with majority foreign capital	10	91.0	90.4	10	91.5	90.8	10	91.4	90.1
TOTAL	17	100.0	100.0	15	100.0	100.0	15	100.0	100.0

Graph 4: Market Shares by Ownership Type



1.3. Human Resources

As of 30.09.2017, banks in the Federation of B&H had a headcount of 6 694 employees, the same 3% of which were employed in banks with majority state-owned capital and 97% of which were employed in banks with majority private capital.

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

BANKS	HEADCOUNT						INDEX	
	31.12.2015		31.12.2016		30.09.2017		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%	6 502	97.1%	99	101
TOTAL	**6 683**	**100%**	**6 615**	**100%**	**6 694**	**100%**	**99**	**101**
Number of banks	17		15		15			

Table 5: Qualification Structure of Employees

LEVEL OF QUALIFICATION	HEADCOUNT						INDEX	
	31.12.2015		31.12.2016		30.09.2017		4/2	6/4
1	2	3	4	5	6	7	8	9
University degree	3 757	56.2%	3 821	57.8%	3 961	59.2%	99	104
Two-year post-secondary school qualification	551	8.3%	555	8.4%	533	7.9%	94	96
Secondary school qualification	2 360	35.3%	2 226	33.6%	2 188	32.7%	92	98
Other	15	0.2%	13	0.2%	12	0.2%	55	92
TOTAL	**6 683**	**100.0%**	**6 615**	**100.0%**	**6 694**	**100.0%**	**96**	**101**

The headcount in the first three quarters of 2017 was up by 1.2% or 79 compared to the end of 2016.

Slight changes in the qualification structure (a further increase in the share of employees with university degrees to 59.2%) are primarily the result of an increase in the number of employees with university degrees by 4% or 140 and a decrease in the number of employees with post-secondary and secondary school qualification by 2% or 60.

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

Table 6: Assets per Employee

BANKS	31.12.2015			31.12.2016			30.09.2017		
	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	677 421	3 528
Private	6 502	16 684 859	2 566	6 423	17 861 647	2 781	6 502	18 903 142	2 907
TOTAL	**6 683**	**17 161 725**	**2 568**	**6 615**	**18 382 034**	**2 779**	**6 694**	**19 580 563**	**2 925**

At the end of the third quarter of 2017, there were KM 2.9 million of assets per employee at banking system level.

Table 7: Assets per Employee – by Group

Assets (KM 000)	31.12.2015	31.12.2016	30.09.2017
	Number of banks	Number of banks	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	9
Over 3 000	2	3	4
TOTAL	17	15	15

Analytical indicators for individual banks range from KM 1.2 million to KM 4.0 million of assets per employee. There are six banks in which this ratio is better than the one at the banking sector level, while this ratio exceeds the amount of KM 3 million in the three largest banks in the system.

2. FINANCIAL PERFORMANCE INDICATORS OF BANKS

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

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

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

In accordance with the provisions of the Law on Opening Balance Sheet of Banks, banks with majority state-owned capital are required to report to the Agency on the basis of the "full" balance sheet divided into: liabilities, neutral items and assets. In order to obtain more realistic indicators of the operations banks in the Federation of B&H, further analysis of the banking system will be based on indicators from the assets side of the balance sheet of banks with majority state-owned capital.[5]

2.1. Balance Sheet

The balance sheet total of the banking sector amounted to KM 19.6 billion at the end of the third quarter of 2017, up by 6.5% or KM 1.2 billion compared to the end of 2016. After the first quarter of 2017, when there was mainly a stagnation or a slight increase in key balance sheet categories, positive developments from the previous year continued in the second and third quarter, i.e. a slight to moderate increase in deposits, loans and total capital. At the same time, it should be noted that the status change of a leasing company's merger with its parent bank in the third quarter had a positive effect on some indicators, primarily on the increase in the balance sheet total (0.8 percentage points), loans (1 percentage point) and loan commitments (14.4 percentage points).

- KM 000 -

Table 8: Balance Sheet

DESCRIPTION	31.12.2015		31.12.2016		30.09.2017		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	5 748 122	29.4	107	110
Securities[6]	1 050 206	6.1	1 226 163	6.7	1 218 112	6.2	117	99
Facilities to other banks	78 420	0.5	96 569	0.5	63 168	0.3	123	65
Loans	11 610 744	67.7	12 270 228	66.8	12 953 650	66.2	106	106
Value adjustment	1 181 736	6.9	1 193 721	6.5	1 189 022	6.1	101	100
Net loans (loans minus value adjust.)	10 429 008	60.8	11 076 507	60.3	11 764 628	60.1	106	106
Business premises and other fixed assets	516 894	3.0	530 977	2.9	524 340	2.7	103	99
Other assets	229 714	1.3	247 254	1.3	262 193	1.3	108	106
TOTAL ASSETS	**17 161 725**	**100.0**	**18 382 034**	**100.0**	**19 580 563**	**100.0**	**107**	**107**
LIABILITIES:								
LIABILITIES								
Deposits	13 098 983	76.3	14 176 274	77.1	15 062 458	76.9	108	106
Borrowings from other banks	0	0.0	0	0	0	0.0	0	
Loan commitments	904 050	5.3	848 001	4.6	982 282	5.0	94	116
Other liabilities	588 704	3.4	649 639	3.5	643 818	3.3	110	99
CAPITAL								
Capital	2 569 988	15.0	2 708 120	14.8	2 892 005	14.8	105	107
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**17 161 725**	**100.0**	**18 382 034**	**100.0**	**19 580 563**	**100.0**	**107**	**107**

- KM 000 -

Table 9: Banks' Assets by Ownership Structure

BANKS	31.12.2015			31.12.2016			30.09.2017			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	677 421	3.5%	109	130
Private	16	16 684 859	97.2%	14	17 861 647	97.2%	14	18 903 142	96.5%	107	106
TOTAL	**17**	**17 161 725**	**100%**	**15**	**18 382 034**	**100%**	**15**	**19 580 563**	**100%**	**107**	**107**

In the reporting period of 2017, all banks recorded an increase in the balance sheet total. Six banks recorded a low increase ranging from 1% to 4%, the majority of (eight) banks had a growth rate ranging from 5% to 13%, while one bank recorded a high 30.2% increase.

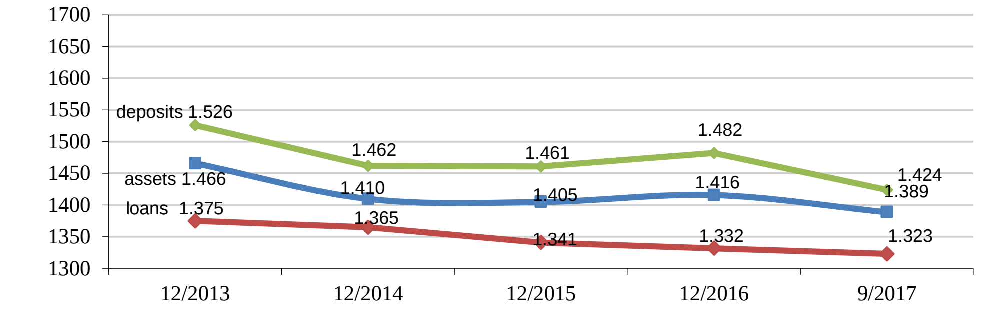
The concentration indicator used for three key segments of banking operations (assets, loans and

[5] State-owned banks post the „full balance sheet“, meaning liabilities and neutral items, which the state will take over once the privatisation process gets finalised. As of 30.09.2017, these items amounted to KM 703 million in the case of one state-owned bank.

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

deposits) is the Herfindahl index.[7]

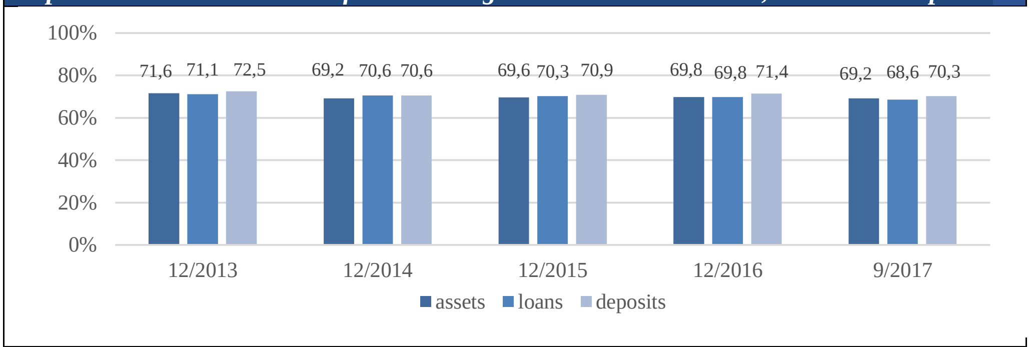
Graph 5: Herfindahl Index of Concentrations in Assets, Loans and Deposits



In the first three quarters of 2017, the Herfindahl index of concentration in all three relevant categories (assets, loans and deposits) decreased, so that it amounted to 1 389 units for assets (-27), 1 323 units for loans (-9), and 1 424 units for deposits (-58) as of 30.09.2017, which is indicative of a moderate concentration.[8]

The second concentration indicator for the banking system is the ratio of market concentrations, i.e. the concentration rate[9] (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 69.2% for market share, 68.6% for loans, and 70.3% for deposits as of 30.09.2017. For a long period of time, the value of the CR5 saw slight changes across all three categories, but the domination of the five largest banks in the system, which hold approximately 70% of the market, loans and deposits, is still evident. However, it should be noted that the two largest banks account for between 44% and 47% of the shares in the aforementioned segments (46.5% assets, 43.7% loans and 47.5% deposits).

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



The banking sector can also be analysed on the basis of the criterium of belonging to groups formed according to asset size.[10] Changes in share percentage compared to the end of 2016 are the result of slight changes in the assets of most banks.

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

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

[8] 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.

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

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

The system is dominated by the two largest banks (I group with assets in the amount of over KM 2 billion, with it being noted that one bank has assets in the amount of more than KM 4 billion, while the largest bank in the system has assets in the amount of KM 5.1 billion) with a share of 46.5%, followed by the share of the II group (four banks with assets in the amount ranging from KM 1 billion to KM 2 billion) of 28.0%, which increased by 5.5 percentage points due to to one bank moving from the III group to this group. Due to the aforementioned, the share of the III group decreased (four banks with assets ranging from KM 500 million to KM 1 billion) from 21.9% to 17.0%. 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 a negligible 0.5%.

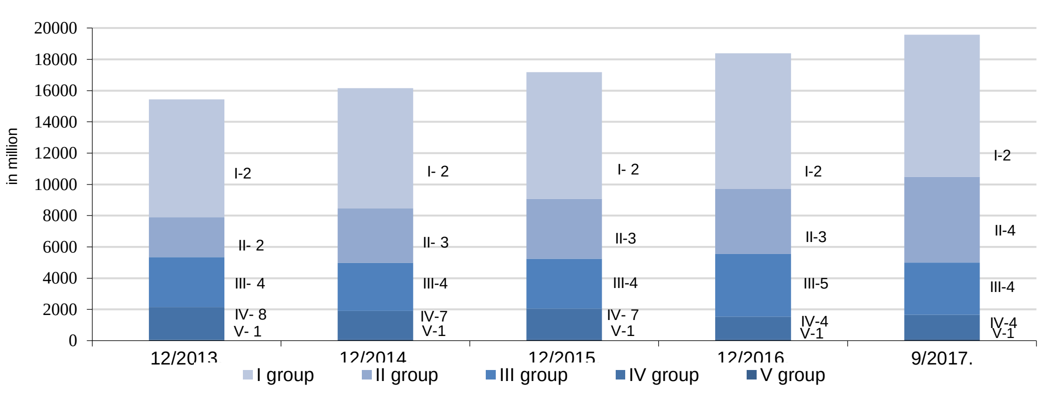
The table below provides an overview of the amounts and shares of individual groups of banks in total assets by period.

- KM 000 -

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

ASSETS	31.12.2015			31.12.2016			30.09.2017		
	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	9 099 398	46.5	2
II- 1000 to 2000	3 821 569	22.3	3	4 142 732	22.5	3	5 482 199	28.0	4
III- 500 to 1000	3 171 936	18.5	4	4 015 627	21.9	5	3 328 606	17.0	4
IV- 100 to 500	1 963 450	11.4	7	1 449 350	7.9	4	1 575 609	8.0	4
V- Below 100	83 817	0.5	1	92 674	0.5	1	94 751	0.5	1
TOTAL	**17 161 725**	**100.0**	**17**	**18 382 034**	**100.0**	**15**	**19 580 563**	**100.0**	**15**

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



In the first three quarters of 2017, the balance sheet total increased by 6.5% or KM 1.2 billion, amounting to KM 19.6 billion as of 30.09.2017. Deposits increased by 6.3% or KM 886 million, i.e. amounted to KM 15.1 billion, while total capital, following an increase in the amount of 6.8% or KM 184 million, stood at KM 2.9 billion. After a long period of continuous decrease, loan commitments went up by 15.8% or KM 134 million, which was largely influenced by the previously mentioned status change of a leasing company's merger with its parent bank (the effect on the growth rate was 14.4 percentage points). As of 30.09.2017, loan commitments amounted to KM 982 million.

Following a moderate increase in the amount of 10.4% or KM 544 million, cash funds amounted to KM 5.7 billion.

In the previous years, due to the low growth of loan facilities, some banks approved short-term excess liquidity to banks in B&H and abroad in the interest of generating additional interest income. Facilities to other banks decreased by 34.6% or KM 33 million in the reporting period of 2017, amounting to KM 63 million as of 30.09.2017.

The positive trend of increase continued in the lending segment as well. A growth rate in the amount of 5.6% or KM 683 million was recorded and loans amounted to KM 13 billion as of 30.09.2017 (KM 121 million of which account for financial leasing).

The increase in investments in securities from the first half of 2017 (9% or KM 108 million) was halted in the third quarter of 2017 when a somewhat larger decrease in investments was recorded, primarily as a result of the maturing of treasury bonds of the Federation of B&H, which cumulatively over three quarters led to a drop in the amount of a negligible 0.7% or KM 8 million. The securities portfolio amounted to KM 1.2 billion at the end of the reporting period, thus having a 6.2% share in assets.

Table 11: Investments in Securities by Type of Instrument

INVESTMENTS IN SECURITIES	31.12.2015		31.12.2016		30.09.2017		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	1 885	0.1	69	115
Debt securities:	1 047 818	99.8	1 224 526	99.9	1 216 226	99.9	117	99
- BiH Securities of all levels of government in B&H	662 544	63.1	824 300	67.2	757 739	62.2	124	92
- Government securities (other countries)	247 302	23.6	278 386	22.7	354 294	29.1	113	127
- Corporate bonds[11]	137 972	13.1	121 840	10.0	104 193	8.6	89	86
T O T A L	**1 050 206**	**100.0**	**1 226 163**	**100.0**	**1 218 111**	**100.0**	**117**	**99**

Banks classified the majority (81%) of total investments in securities to the portfolio of financial instruments available for sale, which is up by 2% or KM 18 million, amounting to KM 987 million, while securities held to maturity decreased by 13% or KM 20 million, i.e. to KM 131 million.

Table 12: Investments in Securities – Categorisation According to IAS 39

INVESTMENTS IN SECURITIES	31.12.2015		31.12.2016		30.09.2017		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	100 802	8.3	98	94
Financial assets available for sale	773 216	73.7	968 647	79.0	986 725	81.0	125	102
Investments held to maturity	167 377	15.9	150 575	12.3	130 584	10.7	90	87
T O T A L	**1 050 206**	**100.0**	**1 226 163**	**100.0**	**1 218 111**	**100.0**	**117**	**99**

In terms of investments in debt securities, the most important item are securities of the entity governments, particularly securities issued by the Federation of B&H[12] in the total amount of KM 594 million, as well as securities issued by Republika Srpska in the amount of KM 158 million.

Table 13: Securities of the Entity Governments of B&H

INVESTMENTS IN SECURITIES	31.12.2015		31.12.2016		30.09.2017		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 B&H:	545 723	82.4	676 832	82.1	593 651	79.0	124	88
- Treasury bills	99 775	15.1	118 031	14.3	95 764	12.7	118	81
- Bonds	445 948	67.3	558 801	67.8	497 887	66.3	125	89
Debt securities issued by Republika Srpska:	116 821	17.6	147 124	17.9	157 940	21.0	126	107
- Treasury bills	38 016	5.7	56 758	6.9	68 040	9.0	149	120
- Bonds	78 805	11.9	90 366	11.0	89 900	12.0	115	99
T O T A L	**662 544**	**100.0**	**823 956**	**100.0**	**751 591**	**100.0**	**124**	**91**

The majority of the treasury bills and bonds of the entity governments with a book value of KM 700 million was classified in the trading portfolio and the available-for-sale portfolio, while the rest in the amount of KM 52 million was classified in the held-to-maturity portfolio.

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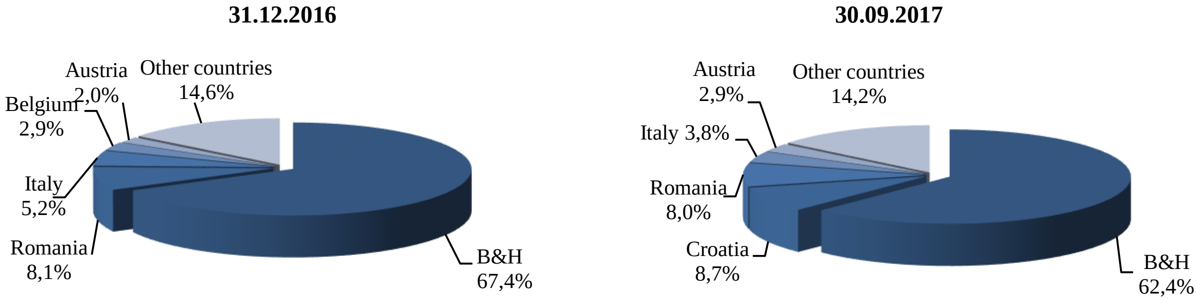
[11] The largest share of almost 97% refers to EU bonds.
[12] All types of securities issued by the Federation of B&H.

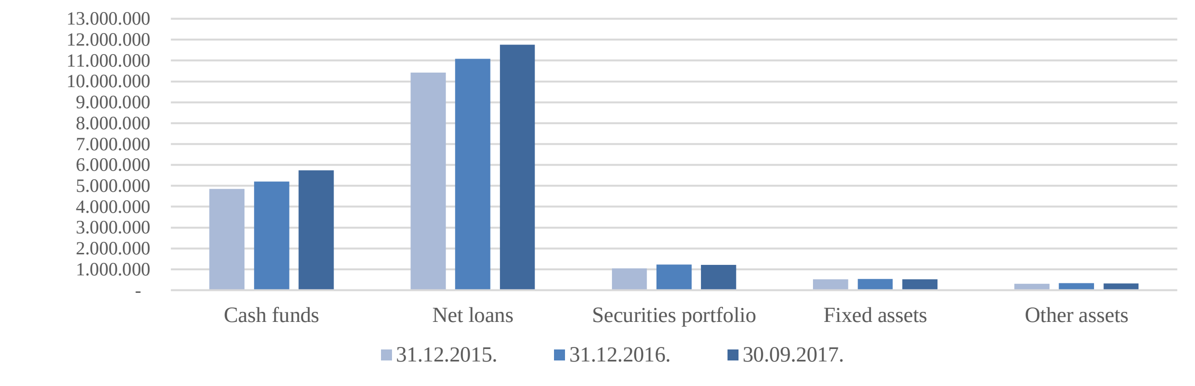
When analysing the overall investments in securities (KM 1.22 billion) from the aspect of exposure by country, the largest share in the amount of 62.4% is that toward issuers from B&H, followed by Croatia (8.7%), Romania (8.0%), Italy (3.8%), Austria (2.9%), etc.

Graph 8: Sructure of Investments in Securities According to Criteria of the Issuing Country

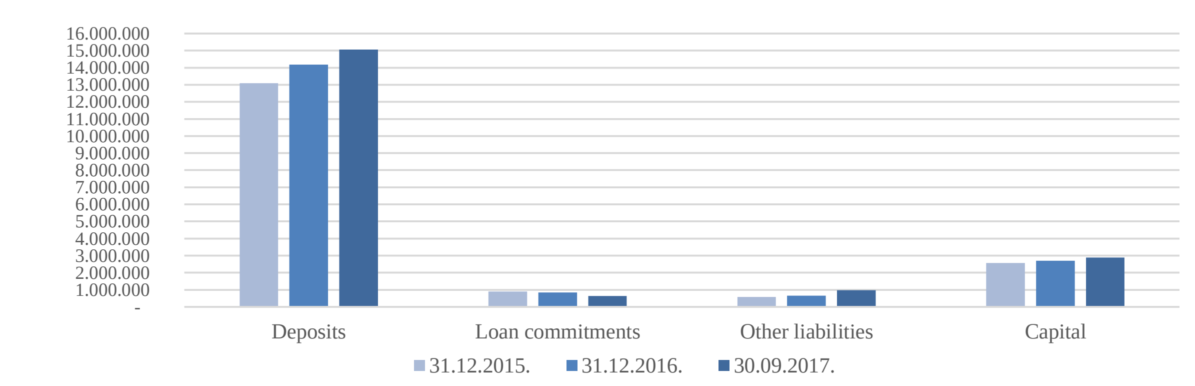


The graphs below show the structure of the key items of the banks' balance sheet.

Graph 9: Assets Structure within the Balance Sheet of Banks



Graph 10: 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 B&H (with an amount of KM 15.1 billion and a 76.9% share). The long-standing trend of decrease of loan commitments was halted in the reporting period of 2017, i.e. an increase in the amount of 15.8% or KM 134 million was recorded as a result of a leasing company's merger with its parent bank in the third quarter of 2017 (the effect on the growth rate was 14.4 percentage points), while the share went up from 4.6% to 5%. Capital continued to increase and amounted to KM 2.9 billion as of 30.09.2017, thus holding a share of 14.8% (+0.1 percentage points).

The share of loans, as the largest and most important assets item, decreased from 66.8% to 66.2%, while the share of cash funds increased to 29.4% (+1.1 percentage points).

- *in KM 000* -

Table 14: Cash Funds of Banks

CASH FUNDS	31.12.2015		31.12.2016		30.09.2017		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	795 187	13.8	130	105
RR at the CB B&H	3 181 721	65.5	3 295 391	63.3	3 472 249	60.4	104	105
Accounts at deposit institutions in B&H	2 100	0.0	9 101	0.2	22 608	0.4	433	248
Accounts at deposit institutions abroad	1 092 273	22.5	1 145 886	22.0	1 457 956	25.4	105	127
Cash funds in the process of collection	237	0.0	127	0.0	122	0.0	54	96
TOTAL	**4 857 483**	**100.0**	**5 204 564**	**100.0**	**5 748 122**	**100.0**	**107**	**110**

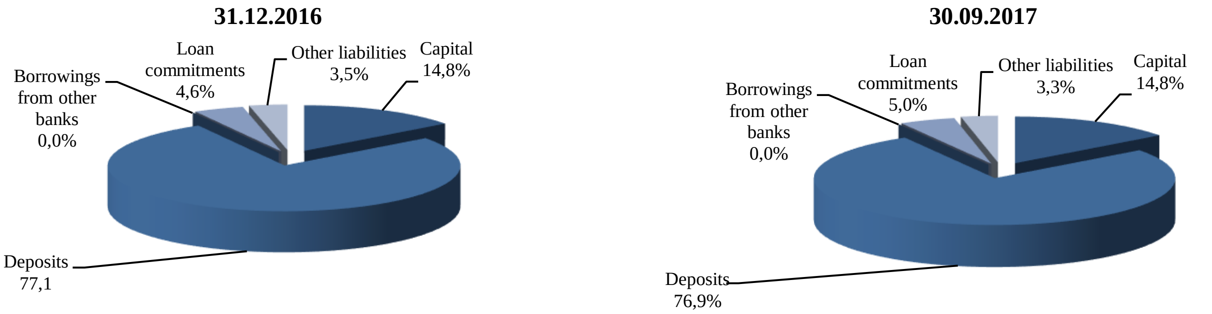
The banks' cash funds in the CBBH reserves account were up by 5% or KM 177 million in the the first three quarters of 2017 and amounted to KM 3.5 billion or 60.4% of total cash funds as of 30.09.2017 (63.3% at the end of 2016). Banks' funds in accounts of deposit institutions abroad increased by 27% or KM 312 million. As of 30.09.2017, they amounted to KM 1.5 billion or 25.4% of total cash funds (22.0% at the end of 2016). Following an increase in the amount of 5% or KM 41 million, banks held cash funds in the amount of KM 795 million in vaults and treasuries as of 30.09.2017, 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 decreased from 74.5% to 70.9%, while cash in foreign currency increased by the same percentage.

2. 1. 1. Liabilities

The total liabilities structure (liabilities and capital) within the banks' balance sheet as of 30.09.2017 is provided in the graph below:

Graph 11: Liabilities Structure of Banks



At the end of the third quarter of 2017, the share of deposits (76.9%) as the most significant source of funding for banks dropped to 77.1% (-0.2 percentage points), while the share of loan commitments, the second-largest source, amounted to 5% (+0.4 percentage points).

Following a slight increase in the amount of 6.3% or KM 886 million in the reporting period, deposits amounted to KM 15.1 billion as of 30.09.2017 and are still the largest source of funding for banks in the Federation of B&H.

The second-largest source of funding are loans in the amount of KM 1 billion and with a share of 5%, which banks received mostly by borrowing from foreign financial institutions. In the past few years, due to the effect of the financial and economic crisis, as well as reduced lending activities, banks incurred significantly fewer loans abroad and, coupled with the payment of receivables due, reduced these sources of funding by app. 60% (at the end of 2008, deposits amounted to KM 2.18 billion), with them being down by 6.2% or KM 56 million in 2016. In 2017, the decrease was halted, i.e. a moderate increase in the amount of 15.8% or KM 134 million was recorded (primarily due to the aforementioned, i.e. the merger of a leasing company with its parent bank, which resulted in a 14.4% effect on the rate). 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 5.6% in total sources of funding.

As of 30.09.2017, banks held the largest amount of liabilities towards the following creditors (6 out of a total of 18 creditors), accounting for 88% of total loan commitments: TC ZIRAAT BANKASI A.S. (Turkey), European Investment Bank (EIB), UniCredit Bank Austria AG and Unicredit S.P.A., the European Fund for Southeast Europe (EFSE), Procredit Holding AG and Procredit Bank AG Frankfurt, and the European Bank for Reconstruction and Development (EBRD).

Capital amounted to KM 2.9 billion at the end of the third quarter of 2017, thus having recorded an increase in the amount of 6.8% or KM 184 million compared to the end of 2016 as a result of the following most important changes: an increase on the basis of the financial result (profit) in the reporting period (KM 232 million) as well as the recapitalisation of two banks (KM 10 million) and a decrease due to dividends from profit recorded in 2016 being transferred to Liabilities (two banks, KM 61 million).

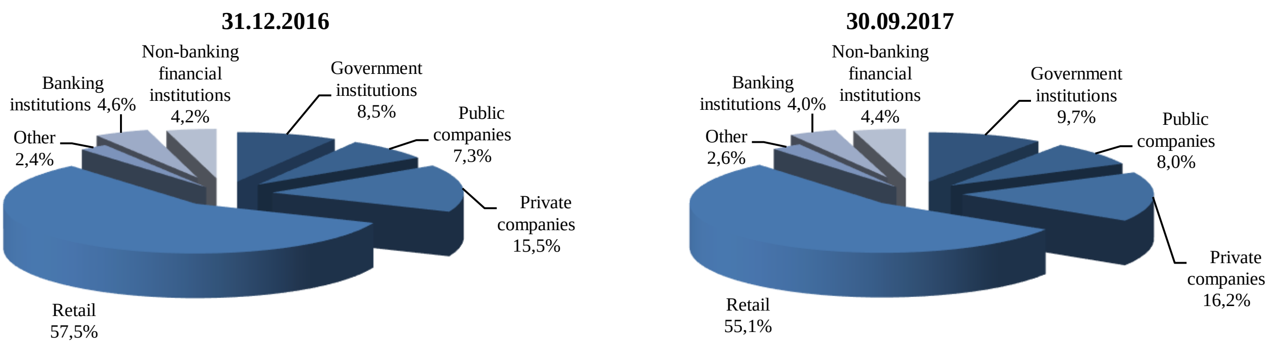
According to the information submitted by banks, out of the total deposit amount at the end of the reporting period, only 6% relates to deposits collected in organisational units of banks from the Federation of B&H, which are doing business in Republika Srpska and Brčko District.

- in KM 000 -

Table 15: Deposit Structure by Sector[13]

SECTORS	31.12.2015		31.12.2016		30.09.2017		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	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	1 454 776	9.7	120	121
Public companies	927 692	7.1	1 036 461	7.3	1 208 660	8.0	112	117
Private companies and enterprises	2 008 364	15.3	2 191 328	15.5	2 435 367	16.2	109	111
Banking institutions	752 217	5.7	647 901	4.6	598 119	4.0	86	92
Non-banking financial institutions	583 387	4.5	603 757	4.2	656 664	4.4	103	109
Retail	7 465 252	57.0	8 154 484	57.5	8 306 141	55.1	109	102
Other	359 633	2.7	341 830	2.4	402 731	2.6	95	118
TOTAL	**13 098 983**	**100.0**	**14 176 274**	**100.0**	**15 062 458**	**100.0**	**108**	**106**

Graph 12: Deposit Structure by Sector



A slight increase in deposits in the amount of 6.3% or KM 886 million in the first three quarters of 2017 resulted in minor changes in the deposit structure by sector, with it being noted that only deposits of banking institutions had a negative rate, i.e. recorded a decrease.

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

The sectoral structure is still dominated by the retail sector and the continuous increase in this sector's deposits continued in 2017 as well, but with a lower growth rate of 2% or KM 152 million. They amounted to KM 8.3 billion as of 30.09.2017, while the share dropped from 57.5% to 55.1%, 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 78%, 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 moderately up by 11% or KM 244 million. As of 30.09.2017, they amounted to KM 2.4 billion, which is a share of 16.2%.

The largest growth rate of 21% or KM 254 million was recorded by deposits of government institutions. Amounting to KM 1.5 billion, they hold the third-highest share of 9.7% (+1.2 percentage points).

Deposits of public companies also recorded a large increase in the amount of 17% or KM 172 million. As of 30.09.2017, they amounted to KM 1.2 billion, with the share having gone up from 7.3% to 8%.

The long-standing decrease in deposits of banking institutions due to the effects of the crisis, the reduced volume of lending and excess liquidity continued in 2017 as well.

In the reporting period of 2017, the deposits of the aforementioned sector fell by 8% or KM 50 million, to the level of KM 598 million, with the share dropping from 4.6% to 4%. Based on analytical data, it can be concluded that the foreign debt level of banks from the Federation of B&H in the past few years is much lower, especially in terms of deposit funds of parent groups. It should be noted that maturity has changed singificantly in favour of short-term deposits, which have the function of maintining the maturity adjustment within the prescribed limits and/or improving certain indicators (structural balance, growth of certain categories, e.g. assets, deposits, followed by liquidity indicators, etc.). The aforementioned is also indicated by the fact that KM 132 million or 29% of term deposits of the group mature by the end of 2017, while KM 178 million or 39% mature by the end of 2018. Considering that the same trend of decrease is present with respect to loan commitments, a number of banks have been facing the problem of maintaining their maturity adjustment for quite some time, with this being caused by the unfavourable maturity of local deposit funds, due to which they must continuously work on securing better quality sources in terms of maturity in order to intensify the increase in approved loans.

It is worth noting that 79% or KM 470 million of deposits of banking institutions relate to deposits of banks from the group (mostly shareholders). Financial support by parent groups is present with respect to nine banks in the Federation of B&H, wherein such financing is still concentrated in four large banks (80%). In this way, banks in majority foreign ownership had financial support and secured inflows of new funds by their foreign groups in previous periods. If these funds are coupled with loan commitments and subordinated debt, the financial support of banks from the group is higher (with respect to 11 banks) and amounts to KM 1 billion as of 30.09.2017 (or 5.1% 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, the funds of banking groups hold a share of 3.1% (3.6% at the end of 2016), while loan commitments to the group account for 42.9% of total loan commitments (this share is up by 13.5%). In the first three quarters of 2017, these funds increased by 16.9% or KM 145 million (deposits decreased by 7.4% or KM 38 million, loan commitments increased by as much as 69.3% or KM 173 million primarily due to the aforementioned status change of a leasing company's merger with its parent bank, thus amounting to KM 422 million, while subordinated loans amounted to KM 110 million following an increase in the amount of 8.9% or KM 10 million).

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

Other sectors with a low share in total deposits also recorded a slight increase in nominal and relative terms.

The currency structure of deposits as of 30.09.2017 changed slightly. Deposits in KM increased by 9.2% or KM 739 million, while those in foreign currency recorded an increase in the amount of 2.4% or KM 195 million. The aforementioned resulted in the share of deposits in local currency increasing to 58% (+1.6 percentage points) and them amounting to KM 8.7 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 6.3 billion.

At the end of the third quarter of 2017, the structure of deposits by domicile status of depositors also changed slightly: resident funds amounted to KM 14.2 billion and had a share of 94.1% (+0.9 percentage points), while non-resident deposits amounted to KM 895 million and represented 5.9% of total deposits. Resident deposits increased by 7.3% or KM 958 million, while non-resident deposits recorded a decrease in the amount of 7.4% or KM 72 million. The continuous decrease in non-resident deposits has been evident over the past few years 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.

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 only 2% or KM 161 million. As of 30.09.2017, they amounted to KM 8.1 billion.

Table 16: New Retail Savings By Period

BANKS	AMOUNT (in KM 000)			INDEX	
	31.12.2015	31.12.2016	30.09.2017	3/2	4/3
1	2	3	4	5	6
State-owned	78 771	86 481	83 632	110	97
Private	7 156 178	7 810 404	7 970 344	109	102
TOTAL	**7 234 949**	**7 896 885**	**8 053 976**	**109**	**102**

Graph 13: New Retail Savings by Period

The two largest banks hold 56% of savings, while five banks hold individual shares of less than 2%, which amounts to 6.1% of total savings at system level.

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

Table 17: Maturity Structure of Retail Savings Deposits by Period

BANKS	AMOUNT (in KM 000)						INDEX	
	31.12.2015		31.12.2016		30.09.2017		3/2	4/3
1	2		3		4		5	6
Short-term savings deposits	3 537 982	48.9%	4 074 910	51.6%	4 270 885	53.1%	113	105
Long-term savings deposits	3 696 967	51.1%	3 821 975	48.4%	3 783 091	46.9%	104	99

TOTAL	**7 234 949**	**100.0%**	**7 896 885**	**100.0%**	**8 053 976**	**100.0%**	**108**	**102**

Compared to the end of 2016, the maturity structure of savings deposits changed slightly due to an increase in short-term deposits by 5% or KM 196 million, while long-term deposits decreased by 1% or KM 39 million, which resulted in the share of short-term deposits being up from 51.6% to 53.1%.

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

As of 30.09.2017, all 15 banks from the Federation of B&H included in the deposit insurance program (i.e. holding licences issued by the Deposit Insurance Agency of B&H).

2.1.2. Capital – Strength and Adequacy

The capital[14] of banks in the Federation of B&H as of 30.09.2017 amounted to KM 2.5 billion.

- in KM 000 -

Table 18: Regulatory Capital

D E S C R I P T I O N	**31.12.2015**		**31.12.2016**		**30.09.2017**		**INDEX**	
1	2		3		4		5 (3/2)	6 (4/3)
1.a.**Core capital before reduction**	2 010 634		2 167 814		2 271 924		108	105
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		909 054		114	112
1.b. Deductible items	183 755		112 297		103 004		61	92
1.1. Uncovered losses from previous years	28 371		16 690		47 879		59	287
1.2. Current year loss	102 108		42 314		3 239		41	8
1.3. Treasury shares	102		3 034		3 034		2 975	100
1.4.. Intangible assets	49 837		47 315		45 687		95	97
1.5. Deferred tax assets	1 641		1 881		1 812		115	96
1.6. Negative revalorised reserves	1 696		1 063		1 353		63	127
1. Core capital (1a-1b)	**1 826 879**	**85%**	**2 055 517**	**88%**	**2 168 920**	**88%**	113	106
2. Supplementary capital	**330 784**	**15%**	**284 917**	**12%**	**305 407**	**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		183 582		82	108
2.3. Positive revalorised reserves	9 735		9 741		13 106		100	135
2.4. Amount of audited profit	N/a		N/a		N/a		N/a	N/a
2.5. Subordinated debt	107 918		103 122		107 085		96	104
2.5. Hybrid items and other instruments	1 422		1 425		1 425		100	100
3. Capital (1 + 2)	**2 157 663**	**100%**	**2 340 434**	**100%**	**2 474 327**	**100%**	108	106
4. Deductible items from capital	**206 321**		**200 035**		**216 767**		97	108
4.1. Bank's shares in capital of other legal entities above 5% of core capital	1 007		0		0		N/a	N/a
4.2. Loan loss reserves shortfall at regulatory request	204 559		200 035		216 767		98	108
4.3. Other deductible items	755		0		0		N/a	N/a
5. Net capital (3- 4)	**1 951 342**		**2 140 399**		**2 257 560**		110	105

In the first three quarters of 2017, capital went up by 6% or KM 134 million compared to the end of 2016, without any changes in its structure (88% core capital, 12% supplementary capital). Core capital increased by 6% or KM 113 million, while supplementary capital increased by 7% or KM 20 million.

The increase in core capital is mostly due to the inclusion of recorded profit for 2016 and the recapitalisation of two banks in the amount of KM 10 million. Following the implementation of the legal

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

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), two banks made a decision to pay dividends (KM 61 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.

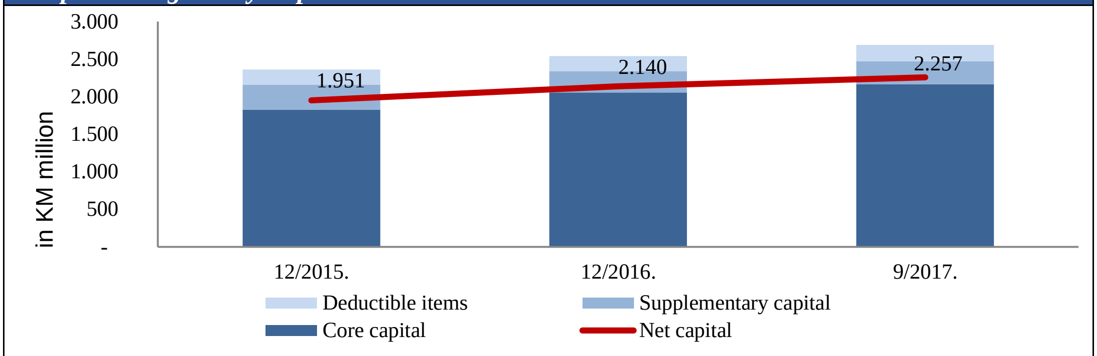
Deductible items (which decrease core capital) decreased by 8% or KM 9 million, mostly as a result of a decrease in current uncovered losses in the amount of KM 11 million (in the case of three banks), with current loss amounting to KM 3 million, while other items changed only slightly.

Supplementary capital increased by 7% or KM 20 million, which is mostly the result of an increase in general loan loss provisions (GLLP).

According to regulatory changes in late 2011, deductible items from capital include a new accounting item: the shortfall of loan loss reserves upon regulator's request (i.e. a difference between required regulatory loan loss reserves according to balance sheet and off-balance sheet items and loan loss reserves formed from profit). As of 30.09.2017, this item amounted to KM 217 million, which is slightly up (8% or KM 17 million) compared to 2016 (this item was down by 2% or KM 5 million in 2016).

The graph below shows the regulatory capital structure.

Graph 14: Regulatory Capital Structure



As a result of the aforementioned changes, net capital increased by 5% or KM 117 million and amounted to KM 2.3 billion as of 30.09.2017.

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-bearing assets (risk-bearing balance sheet and off-balance sheet assets and weighted operational risk).

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

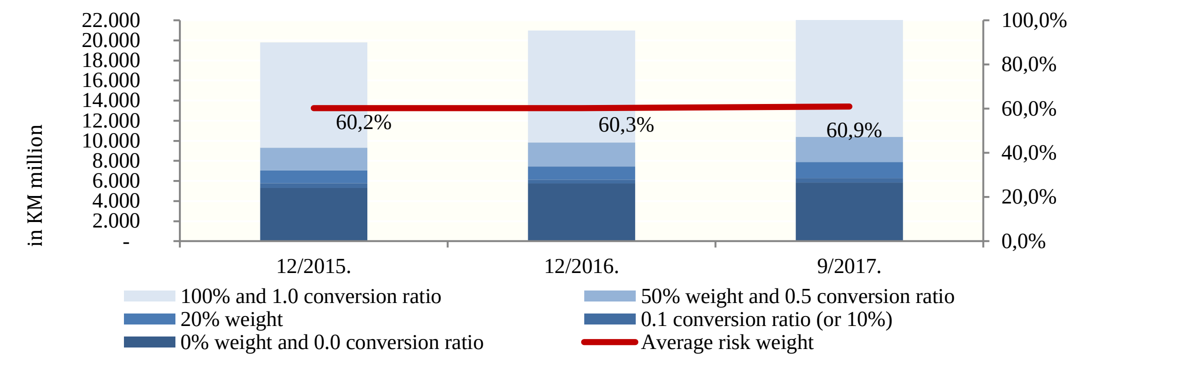
- in KM 000 -

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

DESCRIPTION	31.12.2015	31.12.2016	30.09.2017	INDEX	
1	2	3	4	5 (3/2)	6 (4/3)
TOTAL EXPOSURE (1+2):	**19 799 548**	**20 994 773**	**22 426 384**	106	107
1 Balance sheet assets	16 635 188	17 863 737	19 048 412	107	107
2. Off-balance sheet items	3 164 360	3 131 036	3 377 972	99	108
DISTRIBUTION BY RISK WEIGHT AND CONVERSION RATIO					
0% weight	5 255 223	5 695 758	5 779 906	108	101
20% weight	1 279 029	1 309 962	1 574 294	102	120
50% weight	52 241	75 541	67 599	145	89
100% weight	10 048 695	10 782 476	11 626 613	107	108
0.0 conversion ratio	51 199	43 699	59 657	85	137
0.1 conversion ratio	456 896	396 664	463 764	87	117

0.5 conversion ratio	2 227 852	2 291 106	2 458 494	103	107
1.0 conversion ratio	428 413	399 567	396 057	93	99
RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ASSETS	**11 918 650**	**12 667 026**	**13 646 955**	**106**	**108**
Average risk weight	**60.2%**	**60.3%**	**60.9%**	**100**	**101**

Graph 15: Structure of Net Exposure of Banks by Credit Risk Weight



In the first three quarters of 2017, total net exposure of banks (before being weighted) increased by 7%. As of 30.09.2017, risk-bearing balance sheet and off-balance sheet items (after being weighted) amounted to KM 13.6 billion, with an 8% growth rate, which was primarily influenced by an increase in items with a 100% weight (mostly refers to the loan portfolio being up). As a result of the aforementioned, the average risk weight increased from 60.3% to 60.9%.

The same trend was seen with respect to the weighted operational risk (WOR), which rose slightly (4%) and amounted to KM 1 billion as of 30.09.2017. All of this resulted in an increase in total risk-bearing assets by 7% or KM 1 billion, i.e. to the level of KM 14.7 billion.

As of 30.09.2017, the share of risk-bearing balance and off-balance sheet assets exposed to credit risk amounted to 93% and to 7% on the basis of operational risk.

One of the key indicators of capital strength and adequacy[15] of banks is the capital adequacy ratio, which constitutes a ratio between net capital and risk-weighted assets. At the banking sector level, this ratio stood at 15.4% as of 30.09.2017, down by 0.3 percentage points compared to the end of 2016.

Also, the indicator of capital strength and quality is the ratio of the core capital (Tier I) and total risk assets, which amounted to 14.8% at the level of the banking sector as of 30.09.2017. Banks have the obligation to intend part of the core capital above 9% (in application since 31.12.2016) of total risk assets to cover the risks related to preventive protection from potential losses in times of crisis or stressful situations through a protective layer for preserving the capital that has been prescribed in the amount of 2.5% of the amount of total risk assets. 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 also obligated to establish and maintain the financial leverage ratio as an additional security and a simple capital hedge, at least in the amount of 6%, starting from 31.12.2015. The financial leverage ratio at the level of the banking sector amounted to 9.7% as of 30.09.2017, as was the case 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. However, problems related to non-performing loans and items not covered by loan loss reserves (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

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

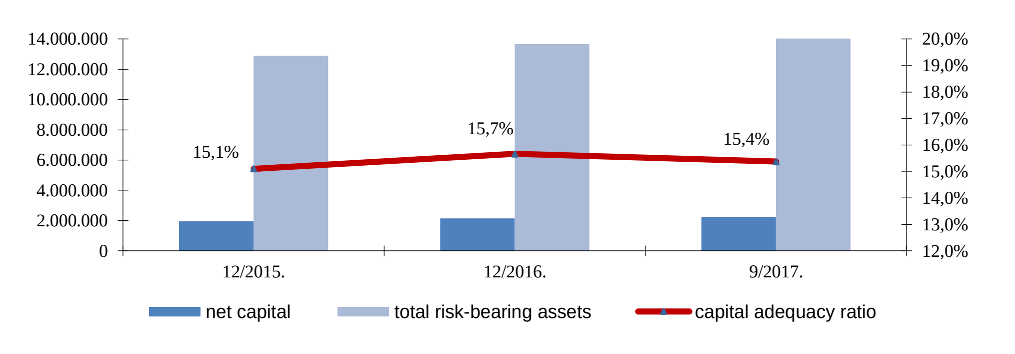
of decrease in non-performing assets and an improvement of the net non-performing assets/core capital ratio was recorded, which is illustrated by the following information: at the end of 2014, net non-performing assets amounted to KM 431 million, with a ratio of 24.3%; in 2015, net non-performing assets had a further trend of decrease (mostly on the basis of a significant write-off in one bank) and amounted to KM 399 million, with a ratio of 21.5%. In 2016, the downward trend continued (a significant write-off was also recorded), net non-performing assets amounted to KM 337 million as of 31.12.2016, having a 16.4% ratio. In the first three quarters of 2017, the trend of decrease continued, with net non-performing assets amounting to KM 282 million and the ratio amounting to 13.0% as of 30.09.2017, which, despite the significant decrease, is still a high level and indicator. Also, it is worth noting that banks do not calculate the capital requirement for market risks, due to which the capital adequacy rate is higher.

- KM 000 -

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

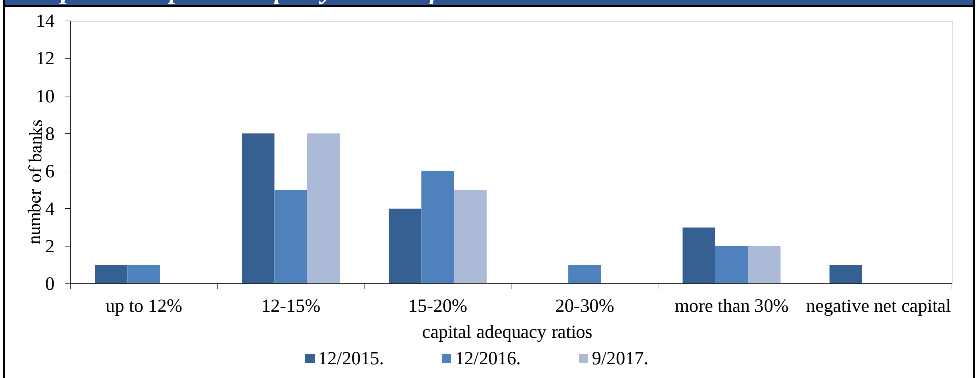
DESCRIPTION	31.12.2015	31.12.2016	30.09.2017	INDEX	
1	2	3	4	5(3/2)	6(4/3)
1. NET CAPITAL	1 951 342	2 140 399	2 257 560	110	105
2. RISK-BEARING BALANCE SHEET AND OFF-BALANCE SHEET ITEMS	11 918 650	12 667 026	13 646 955	106	108
3. WOR (WEIGHTED OPERATIONAL RISK)	976 734	1 001 018	1 042 691	102	104
4. TOTAL RISK-BEARING ASSETS (2+3)	12 895 384	13 668 044	14 689 646	106	107
5. NET CAPITAL RATIO (CAPITAL ADEQUACY) (1/ 4)	15.1%	15.7%	15.4%	104	98

Graph 16: Net Capital, Total Weighted Risks and Capital Adequacy Ratio



The capital adequacy ratio of the banking system as of 30.09.2017 was 15.4%, which is still quite above the legal minimum (12%) and represents a satisfactory capitalisation rate of the overall system considering the existing level of risk exposure and it represents a strong basis and foundation for the preservation of its safety and stability.

Graph 17: Capital Adequacy Ratios of Banks



As of 30.09.2017, all 15 banks in the FB&H had capital adequacy ratios that were above the legal minimum of 12%. According to analytical data, 9 banks had a capital adequacy ratio below the one at the end of 2016, while 6 banks had improved this ratio.

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

- 5 banks had a ratio between 12.7% and 13.9%,
- 8 banks had a ratio between 14.6% and 16.7%,
- 2 banks had a ratio between 37.3% and 42.2%.

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

As has been the case before, the priority task of most of banks in the system is to further strengthen the capital base, wherein the focus is placed on large banks in the system, especially due to changes in the business and operating environment of the Federation of B&H. Additionally, the focus is on troubled banks whose total business operations are under increased supervision and in which it is necessary to strengthen the capital base, as the basic prerequisite for the resolution of these banks and their exiting the zone of unsafe and unsound business operations. The capital of banks with adverse trends regarding asset quality, which 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.

2.1.3. Assets and Asset Quality

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

With the Law on Accounting and Audit in the Federation of Bosnia and Herzegovina having entered into force in early 2010, banks were required to draft financial statements in accordance with the IAS and the IFRS starting from 2011, with recognition and measurement of financial assets and liabilities being subject to the IAS 39 – Financial instruments, recognition and measurement and the IAS 37 – Provisioning, contingent liabilities and contingent assets. Therefore, during the assessment of banks' exposure to credit risk, banks are required to continue calculating loan loss reserves in accordance with the criteria from the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks, thereby considering already formed value adjustments of balance sheet assets and loss provisions for off-balance sheet items recorded in the banks' books, as well as loan loss reserves formed from profit (found on capital accounts).

- in KM 000 -

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

DESCRIPTION	31.12.2015	31.12.2016	30.09.2017	INDEX	
1	2	3	4	5(3/2)	6(4/3)
1. Risk-bearing assets[16]	14 850 813	15 678 467	16 736 872	106	107
2. Calculated regulatory reserves for loan losses	1 507 523	1 533 712	1 542 108	102	101
3. Value adjustment and reserves for off-balance sheet items	1 269 548	1 294 471	1 287 160	102	99
4. Required regulatory reserves formed from profit for assessed	408 247	405 019	422 594	99	104
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	216 767	98	108
7. Non-risk bearing items	6 797 824	7 175 607	7 556 595	106	105
8. TOTAL ASSETS (1+7)	**21 648 637**	**22 854 074**	**24 293 467**	**106**	**106**

[16] Does not include amount of facilities and contingent liabilities of KM 201 million that is secured with a cash deposit.

Total assets with off-balance sheet items (assets)[17] of banks in the Federation of B&H amounted to KM 24 billion as of 30.09.2017 and are up by 6% or KM 1.4 billion compared to the end of 2016. Risk-bearing assets amount to KM 16.7 billion and are up by 7% or KM 1.1 billion.

Non-risk bearing items amount to KM 7.6 billion or 31% of total assets with off-balance sheet items, thus being up by 5% or KM 381 million compared to the end of 2016.

Total calculated loan loss reserves based on regulatory requirements are up (1% or KM 8 million) and amount to KM 1.5 billion, while formed value adjustments for balance sheet assets and provisions for losses are down by 1% or KM 7 million, amounting to KM 1.3 billion. Required regulatory reserves[18] amount to KM 423 million and are up by 4% or KM 18 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 30.09.2017, the shortfall of regulatory reserves[19] amounts to KM 217 million, thus being up by 8% or KM 17 million compared to the end of 2016.

- in KM 000 -

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

DESCRIPTION	31.12.2015		31.12.2016		30.09.2017		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	11 598 818[20]	84.1	106	107
Interest	71 680	0.6	69 237	0.5	70 241	0.5	97	101
Past due receivables	1 161 853	9.6	1 164 973	9.0	1 139 703	8.3	100	98
Receivables on paid guarantees	24 648	0.2	26 537	0.2	30 110	0.2	108	113
Other facilities	139 457	1.1	138 995	1.1	204 633	1.5	100	147
Other assets	526 871	4.4	638 228	5.0	742 856	5.4	121	116
1. RISK-BEARING BALANCE SHEET ASSETS	12 111 122	100.0	12 888 502	100.0	13 786 361	100.0	106	107
2. NON-RISK BEARING BALANCE SHEET ASSETS	6 289 910		6 745 740		7 041 998		107	104
3. GROSS BALANCE SHEET ASSETS (1+2)	18 401 032		19 634 242		20 828 359		107	106
4. RISK-BEARING OFF-BS ITEMS	2 739 691		2 789 965		2 950 511		102	106
5. NON-RISK BEARING OFF-BS ITEMS	507 914		429 867		514 597		85	120
6. TOTAL OFF-BS ITEMS (4+5)	3 247 605		3 219 832		3 465 108		99	108
7. RISK-BEARING ASSETS WITH OFF-BS ITEMS (1+4)	14 850 813		15 678 467		16 736 872		106	107
8. NON-RISK BEARING ITEMS (2+5)	6 797 824		7 175 607		7 556 595		106	105
9. ASSETS WITH OFF-BS ITEMS (3+6)	21 648 637		22 854 074		24 293 467		106	106

Gross balance sheet assets[6] amount to KM 20.8 billion and are up by 6% or KM 1.2 billion compared to the end of 2016. Risk-bearing balance sheet assets amount to KM 13.8 billion or 66% of gross balance sheet assets (thus being up by 7% or KM 898 million). Non-risk bearing balance sheet assets amount to KM 7 billion and are up by 4% or KM 296 million compared to the end of 2016.

Off-balance sheet risk-bearing items in the amount of KM 3 billion are up by 6% or KM 160 million compared to the end of 2016, while non-risk bearing items amount to KM 515 million and are up by 20% or KM 85 million compared to the end of 2016.

In 2017, the positive trend in the key business segment of banks – the lending segment continued. In the first three quarters of 2017, credit growth in the amount of 6% or KM 683 million was recorded (6% or KM 659 million in 2016). As of 30.09.2017, loans amounted to KM 13 billion, with a share of 66.2% (-0.6 percentage points).

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

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

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

[20] This does not include the loan amount of KM 150 million covered by a cash deposit (included in non-risk bearing assets of the balance sheet).

In the first three quarters of 2017, a total of KM 7.9 billion of new loans was approved, up by 20% or KM 1.3 billion compared to the same period of the previous year. Out of the total loans approved, 71% relate to the corporate segment and 26% to the retail segment (at the end of 2016: 72% corporate, 25% retail). The maturity structure of the newly-approved loans: 43% long-term loans, 57% short-term loans (at the end of 20165: 45% long-term loans, 55% short-term loans).

The three largest banks in the Federation of B&H have an aggregate amount of approved loans of KM 7 billion, thus holding a share of 54% in total loans at system level.

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

- in KM 000 -

Table 23: Loan Structure by Sector

SECTORS	31.12.2015		31.12.2016		30.09.2017		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	246 029	1.9	106	93
Public companies	269 507	2.3	226 891	1.8	214 030	1.6	84	94
Private companies and enterprises	5 328 591	45.9	5 756 280	46.9	6 135 963	47.4	108	107
Banking institutions	5 701	0.0	58	0.0	46	0.0	1	79
Non-banking financial institutions	41 542	0.4	40 365	0.3	60 812	0.5	97	151
Retail	5 705 684	49.1	5 972 074	48.7	6 285 044	48.5	105	105
Other	8 914	0.1	8 668	0.1	11 726	0.1	97	135
TOTAL	**11 610 744**	**100.0**	**12 270 228**	**100.0**	**12 953 650**	**100.0**	**106**	**106**

In the loan structure by sector, there are two dominant sectors: retail and private companies, while lending to other sectors is negligible. In 2017, positive trends in the segment of sectoral lending that were recorded in 2016 continued, i.e. increased lending to private companies compared to retail. The growth rate of loans to private companies amounted to 7% or KM 380 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 6.1 billion and had a share of 47.4% (+0.5 percentage points) as of 30.09.2017. In the same period of 2017, the increase in loans to the retail sector amounted to 5% or KM 313 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 48.5%. As of 30.09.2017, they amounted to KM 6.3 billion.

According to information submitted by the banks (as of 30.09.2017) the retail loan structure by purpose is almost the same as at the end of 2016: consumer loans[6] 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 45% of loans to private companies out of the total number of loans approved to these sectors.

The currency structure of loans: the largest share of 53.7% or KM 7 billion refers to currency clause loans (EUR: KM 6.9 billion or 99%, CHF: KM 76 million or 1%), followed by local currency loans with a share of 45.9% or KM 5.9 billion, while the smallest share of just 0.4% or KM 48 million refers to foreign currency loans (almost the entire amount thereof refers to EUR: KM 43 million or 91%). The total amount of loans with a currency clause in CHF of KM 76 million has a 0.6% share in the total loan portfolio and refers almost entirely to one bank in the system (0.9% at the end of 2016).

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

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

- in KM 000 -

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

Classification category	31.12.2015			31.12.2016			30.09.2017			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	14 312 066	85.5	285 220	107	109
B	950 153	6.4	76 023	982 398	6.3	77 167	1 017 906	6.0	81 010	103	104
C	301 862	2.0	75 796	224 335	1.4	58 086	200 168	1.1	51 824	74	89
D	426 025	2.9	252 682	423 766	2.7	253 348	329 587	1.9	195 840	99	78
E	856 707	5.8	856 701	881 786	5.6	881 787	928 220	5.5	928 214	103	105
Risk-bearing assets (A-E)	14 850 813	100.0	1 507 523	15 678 467	100.0	1 533 712	16 736 872	100.0	1 542 108	106	107
Classified (B-E)	2 534 747	17.1	1 261 202	2 512 285	16.0	1 270 389	2 475 881	14.8	1 256 888	99	99
Non-performing (C-E)	1 584 594	10.7	1 185 179	1 529 887	9.8	1 193 221	1 457 975	8.7	1 175 878	97	95
Non-risk bearing assets [21]	6 797 824			7 175 607			7 556 595			106	105
TOTAL (risk-bearing and non-risk bearing)	21 648 637			22 854 074			24 293 467			106	106

The first indicator and a warning sign of potential problems with loan repayment is an increase in past due receivables and their share in total loans. As of 30.09.2017, past due receivables amounted to KM 1.2 billion, down by 2% or KM 22 million compared to the end of the previous year.

When analysing the quality of risk-bearing assets through trends and changes of key indicators, it can be concluded that key indicators of asset quality continued the trend of slight improvement in 2017, largely due to the effect of credit growth. In some banks, these indicators showed slight fluctuations (upgrade or downgrade), i.e. there were seven banks with ratios of the share of classified (compared to risk-bearing assets) below the level of the banking sector, while there were five banks with ratios of the share of non-performing assets (compared to risk-bearing assets) below the level of the banking sector.

As of 30.09.2017, classified assets amounted to KM 2.5 billion and non-performing assets to KM 1.5 billion.

Classified assets (B-E) decreased slightly by 1% or KM 36 million compared to the end of 2016 (in 2016, there was a drop of 1% or KM 22 million). Category B increased by 4% or KM 35 million. Non-performing assets (C-E) decreased by 5% or KM 72 million compared to the end of 2016, with it being noted that the permanent write-off of assets in the first nine months of 2017 amounted to KM 71 million (in 2016, non-performing decreased by 3% or KM 55 million).

The ratio expressed through the share of classified assets in risk-bearing assets is 14.8%, and the 1.2% drop compared to the end of 2016 is exclusively the result of an increase in risk-bearing assets by 7% or KM 1.1 billion.

The most significant indicator of asset quality is the ratio between non-performing assets and risk-bearing assets, which amounts to 8.7%, down by 1.1% compared to the end of 2016. However, this should be taken with a grain of salt due to the share of category B being 6% and due to the suspicion that a part of the loans classified in this category are of poor quality and need to be classified as non-performing assets.

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

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

Table 25: Classification of Corporate and Retail Loans

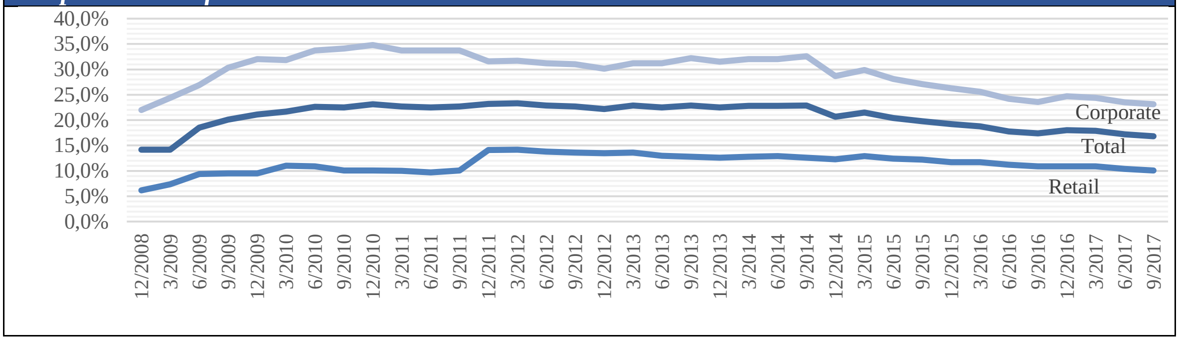
Classification category	31.12.2016						30.09.2017						
	Retail	**Share %**	**Corporate**	**Share %**	**TOTAL Amount**	**Share**	**Retail**	**Share %**	**Corpo-rate**	**Share %**	**TOTAL Amount**	**Share**	**INDEX**
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14(12/6)
A	5 319 385	89.1	4 744 319	75.3	10 063 704	82.0	5 647 746	89.8	5 125 847	76.9	10 773 593	83.2	107
B	161 278	2.7	600 184	9.7	770 462	6.3	162 415	2.6	652 545	9.8	814 960	6.3	106
C	61 962	1.0	149 040	2.4	211 002	1.7	61 985	1.0	128 229	1.9	190 214	1.5	90
D	77 142	1.3	329 597	5.2	406 739	3.3	50 421	0.8	266 647	4.0	317 068	2.4	78
E	352 307	5.9	466 014	7.4	818 321	6.7	362 477	5.8	495 338	7.4	857 815	6.6	105
TOTAL	5 972 074	100.0	6 298 154	100.0	12 270 228	100.0	6 285 044	100.0	6 668 606	100.0	12 953 650	100.0	106
Class. loans. B-E	652 689	10.9	1 553 835	24.7	2 206 524	18.0	637 298	10.1	1 542 759	23.1	2 180 057	16.8	99
Non-perf. loans C-E	491 411	8.2	944 651	15.0	1 436 062	11.7	474 883	7.6	890 214	13.3	1 365 097	10.5	95
		48.7		51.3		100.0		48.5		51.5			
Individual sector's share in classified loans, non-performing loans and category B:													
Categories B-E		29.6		70.4		100.0		29.2		70.8		100.0	
Non-performing C-E		34.2		65.8		100.0		34.8		65.2		100.0	
Category B		20.9		79.1		100.0		19.9		80.1		100.0	

Loan quality indicators improved slightly in the first three quarters of 2017 and the share of classified loans dropped to 16.8% (-1.2 percentage points) due to total loans being up, while classified loans decreased by 1% or KM 26 million. Classified loans of both sectors saw a decrease: retail loans went down by 2% or KM 15 million, while corporate loans went down by 1% or KM 11 million.

The trend of decrease in non-performing loans which has been present since the last quarter of 2014, being a key indicator of loan quality, continued in 2017 as well. In the reporting period 2017, it decreased from 11.7% to 10.5% as a result of credit growth in the amount of 6% or KM 683 million and a decrease in total non-performing loans in the amount of 5% or KM 71 million, with it being noted that the permanent write-off amounted to KM 69 million.

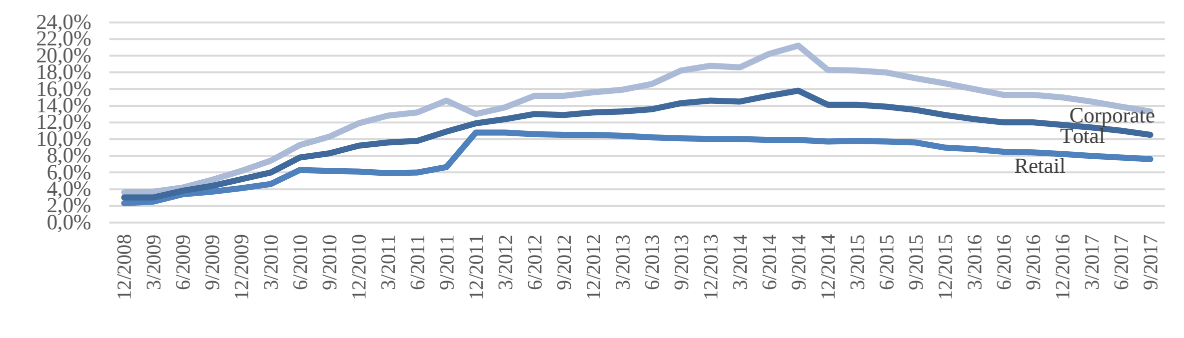
Non-performing corporate loans fell by 6% or KM 54 million, while the retail segment recorded a drop in the amount of 3% or KM 16 million compared to the end of 2016.

Graph 18: Classified Loans



Out of the total approved corporate loans in the amount of KM 6.7 billion as of 30.09.2017, there was still a high 23.1% or KM 1.5 billion of loans classified within categories B to E, which is a 1.6% decrease compared to the end of 2016 (in 2016, this share went down by 1.6 percentage points as well). This indicator is much better for the retail segment. Out of the total approved retail loans in the amount of KM 6.3 billion, there were KM 637 million or 10.1% of loans classified in the aforementioned categories, which is down by 0.8 percentage points compared to the end of 2016 (in 2016, this share went down by 0.8 percentage points as well).

Graph 19: Non-Performing Loans



The most significant indicator of the loan portfolio quality is the share of non-performing loans. Out of total non-performing loans, corporate loans hold a share of 65% and retail loans a share of 35% (31.12.2016: 66% corporate, 34% retail). In the first three quarters of 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 (3% or KM 16 million) and non-performing corporate loans (6% or KM 54 million), as well as credit growth (5% or KM 313 million retail and 6% or KM 370 million corporate). Out of total approved corporate loans, non-performing loans account for 13.3% or KM 890 million, which is down by 1.7 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 7.6% or KM 475 million in the retail segment, down by 0.6 percentage points (the share dropped by 0.8 percentage points in 2016).

It can be concluded from the aforementioned data that the corporate loan portfolio has a lower quality than the retail segment, especially the indicator of the share of classified loans, which is the result of the situation in the real sector, i.e. in the economy and the overall economy in B&H.

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

Table 26: Concentration of Loans by Industry Sector

DESCRIPTION	31.12.2016				30.09.2017				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	200 937	1.6	33 881	16.9	140	139
Production (IND)	1 792 572	14.6	328 438	18.3	1 895 354	14.6	298 728	15.8	106	91
Construction (CON)	443 523	3.6	78 173	17.6	433 219	3.3	77 176	17.8	98	99
Trade (TRD)	2 398 752	19.5	313 660	13.1	2 538 643	19.6	315 966	12.4	106	101
Catering (HTR)	239 322	2.0	16 182	6.8	246 645	1.9	11 728	4.8	103	72
Other[22]	1 280 667	10.4	183 737	14.3	1 353 808	10.5	152 735	11.3	106	83
TOTAL 1.	**6 298 154**	**51.3**	**944 651**	**15.0**	**6 668 606**	**51.5**	**890 214**	**13.3**	**106**	**94**
2. Retail loans for:										
General consumption	4 795 884	39.1	310 215	6.5	5 120 216	39.5	324 382	6.3	107	105
Housing	1 051 760	8.6	155 825	14.8	1 055 632	8.2	131 376	12.4	100	84
Business activities (small	124 430	1.0	25 371	20.4	109 196	0.8	19 125	17.5	88	75
TOTAL 2.	**5 972 074**	**48.7**	**491 411**	**8.2**	**6 285 044**	**48.5**	**474 883**	**7.6**	**105**	**97**
TOTAL (1. + 2.)	**12 270 228**	**100**	**1 436 062**	**11.7**	**12 953 650**	**100**	**1 365 097**	**10.5**	**106**	**95**

The largest share in total corporate loans refers to the trade sector (19.6%) and the production sector (14.6%), while the retail segment is dominated by general consumption loans (39.5%) and housing loans

[22] 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.

(8.2%; 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 3.3% in total loans, and it amounts to 17.8%, up by 0.2 percentage points (in 2016, the share dropped by as much as 9.1 percentage points). Also, the agricultural sector, which has the lowest share of 1.6%, has a significant share of non-performing loans in the amount of 16.9%, which is down by 0.2 percentage points compared to the end of the previous year.

However, the focus is on the two sectors with the highest share in total loans – the trade sector (19.6%) and the production sector (14.6%). The amount of loans to the production sector (KM 1.9 billion) was up by 6% or KM 103 million in the first three quarters of 2017, while non-performing loans decreased by 9% or KM 30 million, i.e. to the level of KM 299 million. The share, although down by 2.5 percentage points, remained a high 15.8% (in 2016, the drop amounted to 7% or KM 24 million, and the share amounted to 18.3%, down by 2.9 percentage points). On the other hand, trade sector lending was up by 6% or KM 140 million in the first three quarters of 2017, i.e. to the level of KM 2.5 billion. Non-performing loans in this sector went up by 1% or KM 2 million, amounting to KM 316 million as of 30.09.2017, while the share amounted to 12.4%, down by 0.7 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.

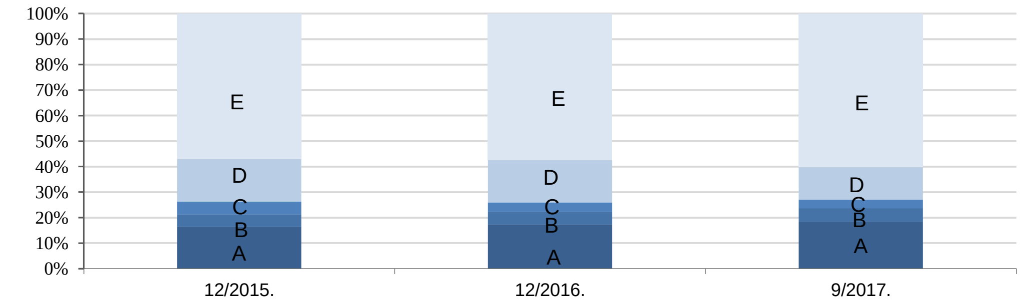
The retail segment is dominated by general consumption loans, which also have the largest share in total loans (39.5%). In the first three quarters of 2017, these loans recorded an increase in the amount of 7% or KM 324 million, while loans to small business owners went down by 12% or KM 15 million and housing loans remained at the same level. 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 of 12.4% 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 6.3% (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 Agency, along with their trend and structure at the banking sector level, is provided in the table and graph below.

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

Classification category	AMOUNT (in KM 000) AND STRUCTURE (in %)						INDEX	
	31.12.2015		31.12.2016		30.09.2017			
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
A	246 321	16.3	263 324	17.2	285 220	18.5	107	108
B	76 023	5.0	77 167	5.0	81 010	5.2	102	105
C	75 796	5.0	58 086	3.8	51 824	3.4	77	89
D	252 682	16.7	253 348	16.5	195 840	12.7	100	77
E	856 701	57.0	881 787	57.5	928 214	60.2	103	105
TOTAL	**1 507 523**	**100.0**	**1 533 712**	**100.0**	**1 542 108**	**100.0**	**102**	**101**

Graph 20: Structure and Trend of General Credit Risk and Potential Loan Losses



Based on an analysis of the calculated loan loss reserves (in aggregate terms and by classification category) compared to the end of 2016, the reserves for general credit risk (category A) and potential loan losses are up by 1% or KM 8 million, amounting to KM 1.5 billion. The reserves for general credit risk are up by 8% or KM 22 million, while the reserves for potential loan losses are down by 1% or KM 13 million compared to the end of 2016. The reserves for category B are up by 5% or KM 4 million and amount to KM 81 million, while the reserves for non-performing assets are down by 1% or KM 17 million, i.e. amount to KM 1.2 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 11% or KM 6 million, reserves for category D are down by 23% or KM 57 million, while reserves for category E are up by 5% or KM 46 million.

One of the key indicators of asset quality is the ratio between potential loan losses (PLL) and risk-bearing assets with off-balance sheet items. This ratio amounts to 7.5% and is down by 0.6 percentage points compared to the end of 2016.

As of 30.09.2017, banks had an average calculated reserves in the amount of 8% for category B, 26% for category C, 60% for category D and 100% for category E, as was the case at the end of 2016.[23]

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

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

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

DESCRIPTION	AMOUNT (in KM 000) AND SHARE (in %)				INDEX
	31.12.2016		30.09.2017		
	Amount	Share	Amount	Share	
1	2	3	4	5	6 (4/2)
1. RISK-BEARING ASSETS (a+b)	**15 678 467**	**100.0%**	**16 736 872**	**100.0%**	107
a) Default items	**1 601 022**	10.2%	**1 508 839**	9.0%	94
a.1. BS-items in default	1 574 439		1 493 344		95
a.2. off-BS items in default	26 583		15 495		58
b) Performing assets	**14 077 445**	89.8%	**15 228 033**	91.0%	108
1.1 TOTAL VALUE ADJUSTMENTS FOR RISK-BEARING ASSETS	**1 294 471**	**100.0%**	**1 287 160**	**100.0%**	99
a) Value adjustments for default	**1 118 894**	86.4%	**1 087 088**	84.5%	97
a.1. Value adjustment for BS-items in default	1 102 461		1 078 178		98
a.2. reserves for off-BS items in default	16 433		8 910		54
b) Value adjustments for performing assets (IBNR[24])	175 577	13.6%	200 072	15.5%	114
2. TOTAL LOANS (a+b)	**12 270 228**	**100.0%**	**12 953 650**	**100%**	106
a) Defaulted loans (non-performing loans)	1 518 811	12.4%	1 434 199	11.1%	94
b) Performing loans	10 751 417	87.6%	11 519 451	88.9%	107
2.1. VALUE ADJUSTMENT FOR LOANS (a+b)	**1 193 721**	**100.0%**	**1 189 022**	**100.0%**	100
a) Value adjustments for defaulted loans	1 055 454	88.4%	1 033 339	86.9%	98
b) Value adjustments for performing loans (IBNR loans)	138 267	11.6%	155 683	13.1%	113
Coverage rate of default items	**69.9%**		**72.0%**		
Coverage rate of performing assets	**1.2%**		**1.3%**		
Coverage rate of risk-bearing assets with total value adjustments	**8.3%**		**7.7%**		

In the first three quarters of 2017, default loans went down by 6% or KM 85 million (in 2016: down by 5% or KM 87 million), while non-performing loans remained decreased by 5% or KM 71 million

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

compared to the end of 2016. The share of default loans in total loans is down by 1.3 percentage points and amounts to 11.1% and the share of non-performing loans amounts to 10.5%. The share of all default items in total risk-bearing assets is down by 1.2 percentage points and amounts to 9%.

The coverage rate of default items with value adjustments is slightly up and amounts to 72% (at the end of 2016: 69.9%) due to the drop in the amount of default (6% or KM 92 million) being larger than the decrease in value adjustments (3% or KM 32 million). The coverage rate of non-performing assets with loan loss reserves is slightly up and amounts to 80.7% (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-bearing assets with total value adjustments is down and amounts to 7.7% (at the end of 2016: 8.3%). The coverage ratio of risk-bearing assets with total calculated regulatory reserves for loan losses (reserves for general credit risk and special reserves for loan losses) decreased from 9.8% to 9.2%.

In order to mitigate the negative effects of the natural disaster, on 30.06.2014, the Agency adopted the Decision on Provisional Measures for Treatment of Loan Commitments of Bank Clients Affected by Natural Disasters.[25]

Acting in accordance with the aforementioned Decision, in the second half of 2014, banks in the Federation of B&H approved moratoriums on loan commitments in the amount of KM 34 million. As of 30.09.2017, the balance of the aforementioned loans amounts to KM 2 million, almost all of which refers to legal entities.

Also, in accordance with the aforementioned Decision, in the second half of 2014, banks in the Federation of B&H approved restructurings of loan commitments in the total amount of KM 39 million. As of 30.09.2017, the balance of the restructured loans amounts to KM 28 million, KM 26 million of which refer to legal entities and KM 2 million of which refer to natural persons. Restructured loans also include loans with a grace period following the expiration of the moratorium.

As of 30.09.2017, loans approved in accordance with the aforementioned Decision have a very low share in relation to total loans: moratorium 0.01% and restructuring 0.21%.

The upward trend of uncollectable receivables, i.e. customer defaults in the payment of past due loan commitments, has caused the activation of the guarantor's obligation in a certain number of defaulted loans (with this form of security). As of 31.12.2009, the Agency has prescribed a report on the repayment of loans by guarantors in order to collect, monitor and analyse information on loans being repaid by guarantors. According to the reports filed by banks in the FB&H as of 30.09.2017, there was a total of 1 199 940 loan accounts, 821 of which were being repaid by guarantors (935 guranators). The share of loans and number of loan accounts being repaid guarantors in relation to information for the overall system is low and amounts to a mere 0.18% 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 and the fact that some banks have inadequate practices for managing, i.e. assessing, measuring, monitoring and controlling credit risk and for classifying assets is worrisome, which our on-site examinations determined on the basis of major amounts related to the shortfall of loan loss reserves (which were later on adequately formed as per the Agency's orders).

The share of non-performing loans in banks that are in majority foreign ownership amounts to 10% (12/16: 10.8%), while it amounts to 24% in banks that are in majority ownership of residents (legal entities and natural persons), as was the case at the end of 2016. This is the result of inadequate and weak systems for credit risk management, especially in relation to the key stage – loan approval, as well as the result of an underdeveloped risk function. Major weaknesses and inefficient practices were also identified in the preventive actions stage, i.e. in the early recognition of problems in loan settlement

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

(servicing), as well as when handling non-performing assets in the interest of reducing such assets through collection or sound restructuring.

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

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

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

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

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

- KM 000 -

Table 29: Transactions with Related Entities

DESCRIPTION	LOANS APPROVED[26]			INDEX	
	31.12.2015	**31.12.2016**	**30.09.2017**	**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	128 419	143	101
To members of the Supervisory Board and Audit Board	446	581	540	130	93
To the Management of the bank	3 023	2 516	2 798	83	111
TOTAL	**92 483**	**130 053**	**131 757**	**141**	**101**
Contingent and assumed off-balance sheet liabilities	9 326	7 227	9 426	77	130

During the reporting period, loan exposures to related entities increased by a negligible 1%, while contingent liabilities increased by 30% due to an increase in exposures in the case of one bank,. Based on the presented information, it can be concluded that the volume of loans and guarantees with related

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

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

2.2. Profitability

According to data from the income statement, a positive financial result – profit in the amount of KM 232 million was recorded at the level of the banking system in the Federation of B&H in the first nine months of 2017, up by 36% or KM 61 million compared to the same period of the previous year and up by 14% or KM 29 million compared to the profit (before taxes) recorded in 2016. Higher profit having been recorded by eight banks that had operated positively in the same period of the previous year (the effect was KM 33 million, KM 22 million of which refers to only two banks as a result of one-off income) as well as a profit having been recorded by one bank that had operated at a loss in the previous year (the effect was KM 43 million) had a positive effect on the financial result of the system in particular, together with the effect of the merger in the case of one bank. On the other hand, a negative effect in the amount of KM 16 million is primarily due to lower profit having been recorded by five banks (the effect was KM 14 million) and a larger loss having been recorded by one bank. Compared to the same period of the previous year, the number of banks is lower by one bank and amounts to 15.

A better financial result having been recorded compared to the same period of the previous year is the result of an increase in total income, supported by a significant increase in operating income (mostly one-off income and service fees), 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 235 million was recorded by 14 banks and it is up by 12% or KM 25 million compared to the same period of the previous year. At the same time, an operating loss in the amount of KM 3 million was recorded by one bank and it is down (92%) compared to the same period of the previous year.

More detailed data is shown in the following table.

- KM 000 -

Table 30: Recorded Financial Result: Profit/Loss

DESCRIPTION	30.09.2015		30.09.2016		30.09.2017	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7
Loss	-7 088	2	-39 935	3	-3 239	1
Profit	180 998	15	210 170	13	234 784	14
Total	**173 910**	**17**	**170 235**	**16**	**231 545**	**15**

As in other segments, this segment also shows some concentrations: out of the total profit (KM 235 million), 66% or KM 155 million refer to the two largest banks in the system with an assets share of 47% in the banking sector, while the KM 3 million loss refers to only one bank. Analytical data indicates that a total of nine banks has a better financial result (by KM 76 million), while six banks have a poorer financial result (by KM 16 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.

However, a profitability assessment that is based solely on the recorded financial result would not be an adequate assessment since other important factors that affect sustainability and quality of earnings, i.e. profit, should also be taken into account. In that sense, it is of utmost importance to emphasise credit risk and changes in the level and trends of loans in default, i.e. non-performing and uncollectable loans. 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.

At system level, total income in the amount of KM 764 million was recorded, up by 8% or KM 54 million compared to the same period of the previous year, largely as a result of operating income being up. Total non-interest expenses amounted to KM 533 million, slightly down by 1% or KM 8 million compared to the same period of the previous year.

Despite the increase in average interest-bearing loans (in the majority of banks) by 8% as well as the fact that the increase in non-performing loans was halted with a slight drop in 2017 as well (mainly on the basis of write-offs), the reduced average interest rate on loans, which is the result of a decrease in active interest rates, resulted in a slight decrease in interest income. Total interest income amounts to KM 565 million, slightly up compared to the parallel reporting period (+0.3%), with the share in the structure of total income being down from 79.3% to 73.9%. The largest share refers to loan interest income, which amounts to KM 501 million and is slightly down by 0.3% or KM 2 million, which resulted in average interest rates on loans for the reporting period decreasing from 5.71% to 5.27% and the share in total income dropping from 70.7% to 65.6% (mostly due to an increase in total income).

The long-standing downward trend with respect to interest expenses continued in 2017 as well. Compared to the same period of the previous year, interest expenses had a rate of decrease in the amount of 9% or KM 12 million, while the level of interest income remained approximately the same (+0.3% or KM 2 million). Interest expenses amounted to KM 114 million, and their share in the structure of total income decreased from 17.7% to 14.9%. In the structure of interest expenses, it should be noted that, despite an increase in average interest-bearing deposits by 7.3%, interest expenses on deposits are down by 12% or KM 14 million as a result of the structure of the deposit base, i.e. a greater share of deposits with a lower interest rate, but also as a result of the interest rate policy and continued decrease in interest rates on deposits, which ultimately resulted in average interest rates on deposits for the parallel period dropping from 1.50% to 1.22%. Interest expenses on loans taken and other borrowings continued to decrease and they are down by 9% or app. KM 1 million compared to the same period of the previous year, having a low 1% share in total income.

Net interest income amounts to KM 452 million, up by 3% or KM 14 million, mostly as a result of the decrease in interest expenses (-9%), and holding a 59.1% share in the total income structure.

Operating income amounts to KM 313 million and is up by 15% or KM 40 million compared to the same period of the previous year, primarily on the basis of Other Operating Income being up by KM 22 million (KM 10 million of which accounts for one-off income in only one bank). Its share in the total income structure increased from 38.4% to 40.9%. Within operating income, the largest share refers to service fees, which continue to have an upward trend in the amount of 9% or KM 17 million. It can be concluded that banks are compensating for the drop or slight increase in interest income with a continuous increase in service fees.

Total non-interest expenses amount to KM 533 million and are slightly down by 1% or KM 8 million compared to the same period of the previous year, which is the net effect of a significant increase in business and direct expenses (12% or KM 16 million) and a decrease in operating expenses (6% or KM 24 million). At the same time, their share in the total income structure decreased from 76% to 69.7%. Value adjustment costs amounted to KM 71 million and are up by 7% or KM 5 million compared to the same period of the previous year (which, in addition to an increase in value adjustment costs in most banks, was significantly impacted by a decrease in one bank's value adjustment costs in the amount of KM 14 million on the basis of collateral collection), while the share in the total income structure remained at the same level, amounting to 9.3%.

In the structure of operating expenses, which amount to KM 378 million or 49.4% of total income, costs of salaries and contributions, as the largest item of operating expenses, increased slightly (1%) and amount to KM 183 million or 24% of total income, costs of fixed assets are up by 3% and amount to KM 75 million, while other operating expenses decreased by 26% or KM 30 million (with one bank accounting for 89% of the decrease). After the onset of the crisis, banks took 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.

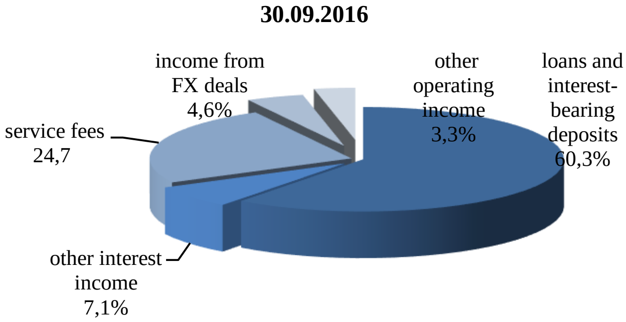
The trend and structure of total income and total expenses is provided in the tables and graphs below.

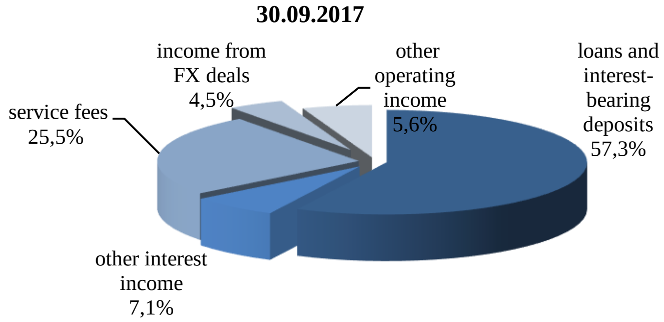
- in KM 000 -

Table 31: Total Income Structure

Total income structure	30.09.2015		30.09.2016		30.09.2017		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	1 065	0.1	1 185	0.2	1 886	0.2	111	159
Loans and leasing facilities	515 294	62.2	502 582	60.1	501 082	57.1	98	100
Other interest income	55 964	6.8	59 592	7.1	62 307	7.1	106	105
TOTAL	**572 323**	**69.1**	**563 359**	**67.4**	**565 275**	**64.4**	**98**	**100**
II Operating income								
Service fees	187 459	22.7	206 479	24.7	224 170	25.5	110	109
Income from FX deals	36 716	4.4	38 580	4.6	39 298	4.5	105	102
Other operating income	31 674	3.8	27 835	3.3	49 390	5.6	88	177
TOTAL	**255 849**	**30.9**	**272 894**	**32.6**	**312 858**	**35.6**	**107**	**115**
TOTAL INCOME (I + II)	**828 172**	**100.0**	**836 253**	**100.0**	**878 133**	**100.0**	**101**	**105**

Graph 21: Total Income Structure





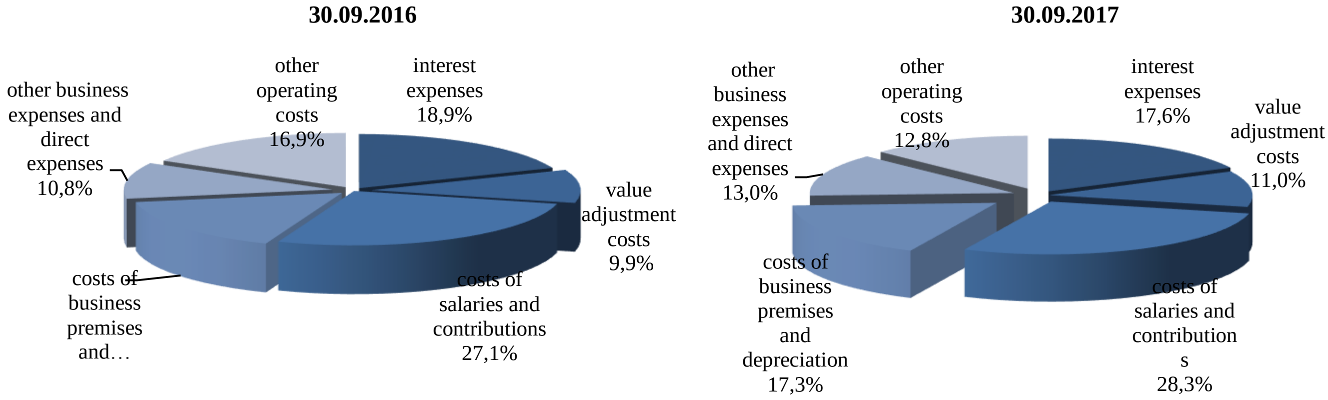
- in KM 000 -

Table 32: Total Expenses Structure

Total expenses structure	30.09.2015		30.09.2016		30.09.2017		INDEX	
	Amount	%	Amount	%	Amount	%		
1	2	3	4	5	6	7	8 (4/2)/	9 (6/4)
I Interest expenses and similar expenses								
Deposits	130 556	20.0	108 927	16.4	95 361	14.8	83	88
Liabilities based on loans and other borrowings	11 401	1.7	8 854	1.3	8 036	1.2	78	91
Other interest expenses	7 213	1.1	7 775	1.2	10 258	1.6	108	132
TOTAL	**149 170**	**22.8**	**125 556**	**18.9**	**113 655**	**17.6**	**84**	**91**
II Total non-interest bearing expenses								
Costs of value adjustment of risk-bearing assets and provisions for contingent liabilities and other value adjustments	78 303	12.0	66 237	9.9	71 044	11.0	85	107
Costs of salaries and contributions	181 956	27.8	180 480	27.1	183 178	28.3	99	101
Costs of business premises and depreciation	107 437	16.4	109 094	16.4	111 975	17.3	102	103

Other business expenses and direct expenses	63 570	9.7	72 274	10.8	84 112	13.0	114	116
Other operating expenses	73 788	11.3	112 377	16.9	82 624	12.8	152	74
TOTAL	**505 054**	**77.2**	**540 462**	**81.1**	**532 933**	**82.4**	**107**	**99**
TOTAL EXPENSES (I + II)	**654 224**	**100.0**	**666 018**	**100.0**	**646 588**	**100.0**	**102**	**97**

Graph 22: Total Expenses Structure



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

- in %-

Table 33: Profitability, Productivity and Efficiency Ratios by Period

RATIOS	30.09.2015	30.09.2016	30.09.2017
Profit from average assets	1.1	1.0	1.2
Profit from average total capital	6.9	6.4	8.2
Profit from average share capital	13.8	14.8	19.0
Net interest income/average assets	2.6	2.5	2.4
Operating income/average assets	1.6	1.6	1.7
Total income/average assets	4.2	4.1	4.0
Business expenses and direct expenses[27]/average assets	0.9	0.8	0.8
Operating expenses/average assets	2.2	2.3	2.0
Total non-interest expenses/average assets	3.1	3.1	2.8

An analysis of the key ratios for the assessment of profitability shows that the ROAA (return on average assets) increased from 1% to 1.2% due to significantly higher profit having been recorded compared to the same period of the previous year together with a lower increase in average assets and share capital, while the ROAE (return on average equity) increased from 14.8% to 19%. The banks' productivity, measured as a ratio between total income and average assets (4%), remained at approximately the same level, as did most other indicators. The operating expenses/average assets ratio and the non-interest expenses/average assets ratios improved due to a simultanous decrease in expenses (exclusively a decrease in other operating costs) and increase in average assets.

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

[27] Expenses also include value adjustment costs.

2.3. Weighted Nominal and Effective Interest Rates

In the interest of greater transparency and easier comparability of banks' loan approval terms and deposit taking terms, as well as in the interest of customer protection by means of introducing transparent disclosure of loan approval costs, i.e. deposit income, all in accordance with international standards, criteria and practices in other countries, on 01.07.2007, the Agency prescribed a uniform manner of calculating and disclosing the effective interest rate[28] for all banks seated in the Federation of B&H as well as the organisational units of banks from Republika Srpska operating on the territory of the Federation of B&H. The effective interest rate represents an actual loan price, i.e. income earned on a deposit, expressed as an annual percentage.

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

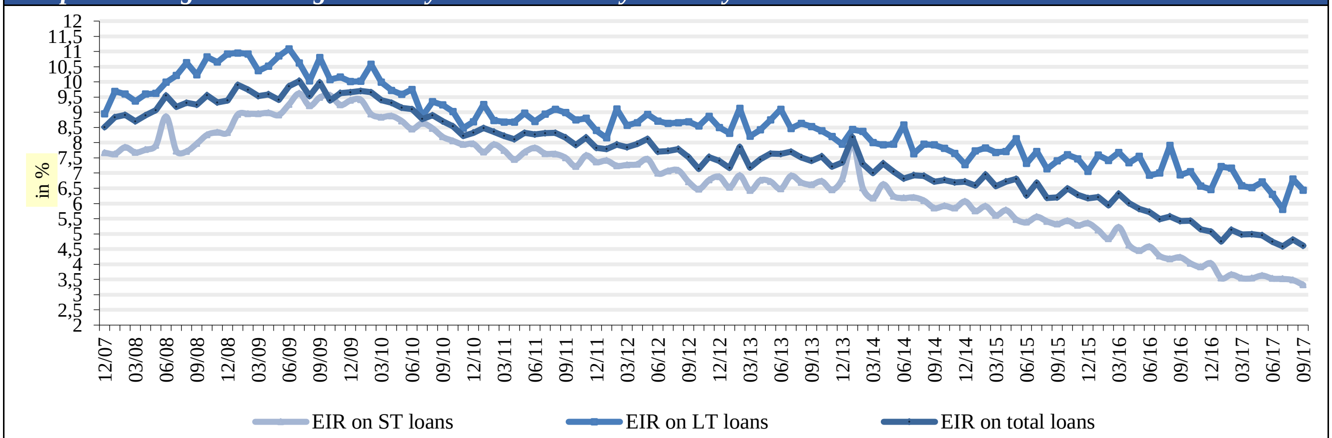
Banks are required to report to the Agency on a monthly basis regarding weighted nominal and effective interest rates on loans and deposits approved/received in the reporting month in question, all in accordance with regulated methodology.[29]

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

Table 34: Weighted Average NIR and EIR on Loans

DESCRIPTION	12/2015		06/2016		09/2016		12/2016		06/2017		09/2017	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on short-term loans	4.89	5.35	4.15	4.58	3.89	4.23	3.69	4.03	3.25	3.53	3.07	3.32
1.1. Corporate	4.84	5.25	4.08	4.42	3.92	4.21	3.61	3.90	3.18	3.40	2.99	3.19
1.2. Retail	8.21	11.74	8.05	14.68	8.25	15.0	9.6	15.16	7.94	14.51	8.57	15.76
2. Weighted IR on long-term loans	6.18	7.06	5.93	6.93	5.88	6.94	5.60	6.46	5.32	6.30	5.28	6.44
2.1. Corporate	5.31	5.67	4.66	4.97	4.93	5.31	4.86	5.18	4.09	4.33	4.19	4.70
2.2. Retail	7.10	8.55	7.15	8.82	7.02	8.78	6.55	8.10	6.31	7.89	6.21	7.90
3. Total weighted IR on loans	5.51	6.17	5.01	5.72	4.76	5.42	4.51	5.07	4.14	4.74	3.98	4.61
3.1. Corporate	4.99	5.38	4.26	4.59	4.18	4.48	3.98	4.28	3.41	3.64	3.28	3.54
3.2. Retail	7.13	8.64	7.17	8.98	7.05	8.96	6.65	8.32	6.35	8.05	6.27	8.09

Graph 23: Weighted Average Monthly EIR on Loans by Maturity



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

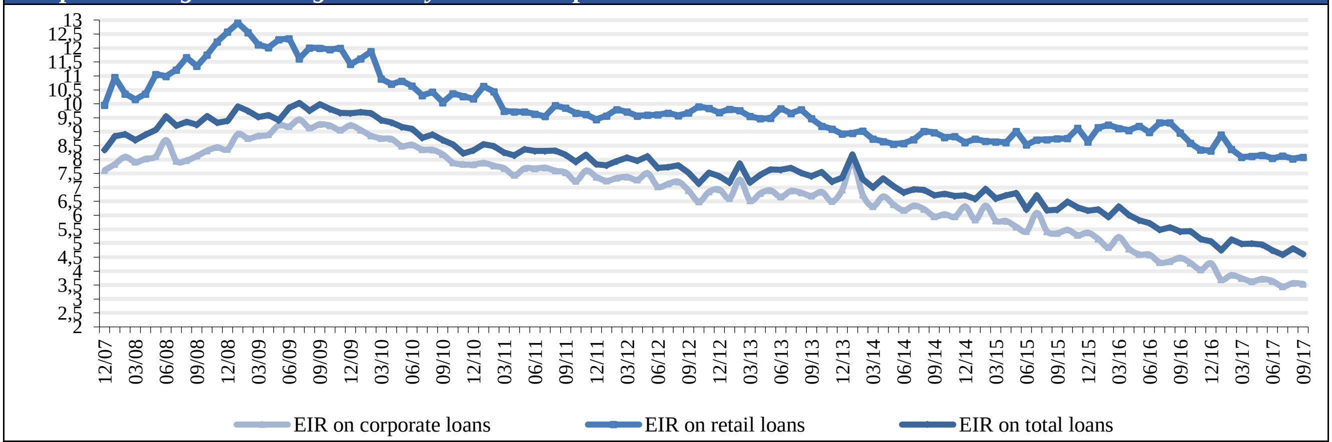
When analysing interest rate trends, it is important to monitor trends of the weighted EIR, with the difference between this interest rate and the weighted NIR representing a fee and commission paid to the bank for an approved loan (and this is factored in the loan price calculation). This is why the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

In September 2017, the weighted EIR on loans amounted to 4.61%, with present fluctuations that were within the range of 0.54 percentage points in the first three quarters of 2017. The highest rate was recorded in February (5.13%) and the lowest in July (4.59%).

The weighted EIR on short-term loans amounted to 3.32% in September 2017, which is lower by 0.71 percentage points compared to December 2016, with present fluctuations within the range of 0.34 percentage points. The weighted EIR on long-term loans amounted to 6.44%, slightly down compared to December 2016, when it was 6.46%, with more pronounced fluctuations in the reporting period (within the range of 1.4 percentage points).

Interest rates on loans to the two most important sectors: corporate and retail[30], had mostly the same trends in the reporting period of 2017. Interest rates on corporate loans recorded a further slight downward trend, while the weighted EIR on retail loans were also lower compared to the previous year, as shown in the graph below.

Graph 24: 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 3.54% in September 2017 (12/2016: 4.28%). In the case of long-term corporate loans, the EIR dropped from 5.18% to 4.70%, while the EIR on short-term loans decreased from 3.90% to 3.19%.

The EIR on retail loans was 8.09% in September 2017, which is down by 0.23 percentage points compared to the level in December 2016. The EIR on short-term loans to this sector increased from the level of 15.16% in December 2016 to 15.76%. The EIR on long-term retail loans recorded a slight drop and amounted to 7.90% in September 2017, down by 0.2 percentage points compared to December 2016.

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) and a slight drop is evident in the first three quarters of 2017, as can be seen in the following table.

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

DESCRIPTION	2013	2014	2015	2016	III quarters of 2017

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

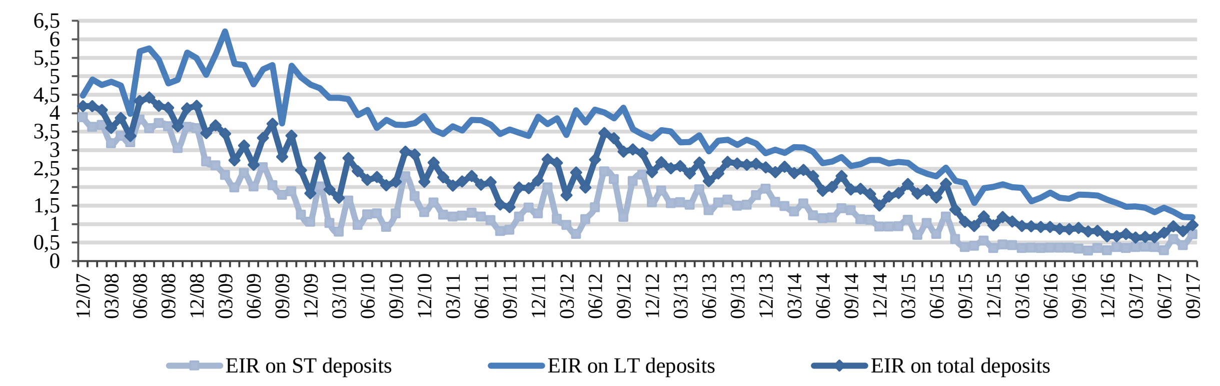
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on short-term loans	6.17	6.66	5.72	6.25	5.10	5.50	4.01	4.41	3.32	3.58
1.1. Corporate	6.22	6.66	5.70	6.17	5.07	5.42	3.96	4.28	3.26	3.46
1.2. Retail	8.09	11.08	7.98	11.39	7.84	11.37	8.07	13.91	8.37	15.46
2. Weighted IR on long-term loans	7.66	8.48	6.98	7.80	6.60	7.57	6.08	7.14	5.81	6.90
2.1. Corporate	6.65	7.12	6.19	6.81	5.63	6.20	4.91	5.23	4.55	4.86
2.2. Retail	8.35	9.40	7.66	8.66	7.36	8.65	7.10	8.79	6.65	8.21
3. Total weighted IR on loans	6.82	7.46	6.32	6.98	5.81	6.48	4.94	5.64	4.36	4.96
3.1. Corporate	6.33	6.78	5.84	6.35	5.23	5.64	4.22	4.54	3.55	3.77
3.2. Retail	8.33	9.48	7.68	8.77	7.37	8.74	7.13	8.95	6.68	8.35

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

Table 36: Weighted Average NIR and EIR on Deposits

DESCRIPTION	12/2015		06/2016		09/2016		12/2016		06/2017		09/2017	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on short-term deposits	0.34	0.35	0.36	0.36	0.33	0.33	0.29	0.29	0.29	0.29	0.72	0.72
1.1. up to three months	0.21	0.21	0.25	0.25	0.28	0.28	0.26	0.26	0.22	0.23	0.84	0.84
1.2. up to one year	1.18	1.25	0.72	0.76	0.66	0.67	0.58	0.58	0.57	0.58	0.62	0.62
2. Weighted IR on long-term deposits	1.92	2.01	1.81	1.85	1.79	1.80	1.64	1.66	1.41	1.44	1.17	1.18
2.1. up to three years	1.67	1.68	1.65	1.70	1.43	1.44	1.43	1.45	1.35	1.38	0.98	0.99
2.2. more than three years	2.46	2.72	2.23	2.21	2.51	2.52	2.25	2.26	1.72	1.74	1.78	1.79
3. Total weighted IR on deposits	0.92	0.96	0.90	0.92	0.89	0.89	0.66	0.67	0.74	0.76	0.96	0.97

Graph 25: Weighted Average Monthly EIR on Deposits



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

The weighted EIR on total term deposits amounted to 0.97% in September 2017, which is up by 0.30 percentage points compared to December 2016. The weighted EIR on short-term deposits amounted to 0.72%, up by 0.43 percentage points compared to the level in December 2016. The aforementioned 0.72% rate is also the highest recorded rate for short-term deposits in the first three quarters of 2017, while the lowest was recorded in June 2017 (0.29%). The weighted EIR on long-term deposits recorded fluctuations within the range of 0.39 percentage points and amounted to 1.18%, which constitutes the lowest recorded rate during the first three quarters of 2017, while the highest was recorded in January 2017 (1.57%).

When analysing the trends of interest rates on short-term deposits by maturity, the EIR on term deposits up to three months recorded an increase in the amount of 0.58 percentage points and amounted to 0.84%.

This increase is a consequence of the increase in the weighted EIR on deposits of banks and other financial organisations. On the other hand, the interest rate on term deposits up to one year did not record significant fluctuations and amounted to 0.62% (12/2016: 0.58%).

The weighted EIR on long-term deposits up to three years amounted to 0.99%, which is down by 0.46 percentage points compared to the level in December 2016. The EIR on term deposits over three years was 1.79% in September 2017, which is a drop in the amount of 0.47 percentage points compared to December 2016, when the aforementioned amounted to 2.26%.

The average EIR on retail deposits is lower by 0.37 percentage points compared to December 2016 and it amounted to 1.15% in September 2017. In the corporate sector, the average EIR stood at 0.76% in September 2017, down by 0.56 percentage points compared to December 2016.

When analysing the trends of weighted average interest rates on deposits per annum in the last five years, a continuous decrease in interest rates on long-term deposits is evident, while interest rates on short-term deposits are slightly up compared to 2016, with present oscillations, as can be seen in the table below.

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

DESCRIPTION	2013		2014		2015		2016		III quarters of 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	0.39	0.39
1.1. up to three months	1.47	1.47	0.79	0.80	0.27	0.28	0.27	0.27	0.36	0.36
1.2. up to one year	1.85	1.87	1.72	1.76	1.25	1.28	0.68	0.69	0.53	0.54
2. Weighted IR on long-term deposits	3.20	3.23	2.79	2.82	2.20	2.23	1.78	1.80	1.36	1.38
2.1. up to three years	2.97	3.00	2.61	2.64	2.08	2.10	1.59	1.62	1.24	1.26
2.2. more than three years	4.15	4.18	3.32	3.34	2.48	2.52	2.33	2.34	1.79	1.83
3. Total weighted IR on deposits	2.51	2.53	2.04	2.07	1.41	1.43	0.88	0.89	0.72	0.72

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

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

DESCRIPTION	12/2015		06/2016		09/2016		12/2016		06/2017		09/2017	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on overdraft facilities	7.81	8.01	7.26	7.45	7.16	7.35	7.01	7.22	6.66	6.89	6.71	6.97
2. Weighted IR on call deposits	0.09	0.09	0.08	0.08	0.07	0.07	0.05	0.05	0.03	0.03	0.03	0.03

The weighted EIR on total overdraft facilities for the banking sector in September 2017 amounted to 6.97% (down by 0.25 percentage points compared to December 2016) and to 0.03% on call deposits (slightly lower compared to December 2016).

2.4. Liquidity

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

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

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

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

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

The liquidity of the banking system in the Federation of B&H is still seen as sound, having satisfactory share of liquid assets in total assets, as well as a very good maturity adjustment of financial assets and liabilities. 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 Minimum Standards for Liquidity Risk Management defines minimum standards that a bank is required to ensure and maintain in the liquidity risk management process, i.e. minimum standards for the development and implementation of the liquidity policy that ensures the bank’s capacity to meet its obligations on the maturity date fully and without a delay.

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

In the structure of the sources of funding of FB&H banks as of 30.09.2017, the largest share of 76.9% still refers to deposits, followed by loans taken (including subordinated debt[31]) with a share of 5.7%. Loans taken have longer maturities and represent a quality source for the approval of long-term loans, while also improving the maturity adjustment of assets and liabilities items, although a downward trend of the aforementioned has been evident for an extensive period of time.

On the other hand, the maturity structure of deposits is much more unfavourable,[32] with changes in the direction of trends in the past few years being present. After improving and an increase in the share of long-term deposits in the period from 2011 to 2013, 2014 saw a stagnation, while a slight deterioration was recorded in 2015, which continued in 2016 and 2017 as well.

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

[32] As per remaining maturity.

- *in KM 000* -

Table 39: Maturity Structure of Deposits by Contractual Maturity								
DEPOSITS	**31.12.2015**		**31.12.2016**		**30.09.2017**		**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	8 621 360	57.2	116	112
Up to 3 months	266 464	2.0	272 799	1.9	286 572	1.9	102	105
Up to 1 year	679 876	5.2	538 344	3.8	561 516	3.7	79	104
1. Total short-term deposits	7 592 180	58.0	8 538 624	60.2	9 469 448	62.8	112	111
Up to 3 years	3 502 798	26.7	3 546 491	25.0	3 552 669	23.6	101	100
More than 3 years	2 004 005	15.3	2 091 159	14.8	2 040 341	13.6	104	98
2. Total long-term deposits	5 506 803	42.0	5 637 650	39.8	5 593 010	37.2	102	99
TOTAL (1 + 2)	**13 098 983**	**100.0**	**14 176 274**	**100.0**	**15 062 458**	**100.0**	**108**	**106**

Compared to the end of 2016, total deposits are up by 6% or KM 886 million, with slight changes in their sectoral structure, which is due to deposits of almost all sectors being up (in nominal terms, deposits of government institutions recorded the largest increase and are up by 21% or KM 254 million, deposits of private companies are up by 11% or KM 244 million, deposits of public companies by 17% or KM 172 million, and retail deposits by 2% or KM 152 million), with the exception of deposits of banking institutions, which are down by 8% or KM 50 million. With a share of 55.1%, retail deposits are the largest sectoral source of funding of banks in the FB&H.

The maturity structure of deposits with contractual maturity has had a continuous trend of 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 the first three quarters of 2017 as well, when the share of short-term loans increased to 62.8% (+2.6 percentage points).

Changes in the maturity structure stem from an increase in short-term deposits by 11% or KM 931 million as a result of an increase in deposits of all sectors: deposits of private companies by KM 257 million, deposits of government institutions by KM 249 million, retail deposits by KM 196 million, deposits of public companies by KM 103 million, deposits of non-banking financial institutions by KM 64 million, and deposits of non-profit organisations by KM 43 million. Long-term deposits are down by 1% or KM 47 million as a result of deposits with a term over three years being down by 2.4% or KM 51 million, mostly on the basis of deposits of banking institutions being down by KM 34 million and retail deposits being down by KM 22 million, while deposits up to three years went up by 0.2% or KM 6 million, primarily on the basis of deposits of public companies being up by KM 75 million and retail deposits simultaneously being down by KM 56 million. It should be noted that long-term deposits are dominated by two sectors: retail, with a slightly lower 68.9% share (-0.2 percentage points), and public companies, with the share increasing from 9.8% to 11.1%. 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 public companies (16.1%, +2.1 percentage points). Deposits over three years mostly consist of retail deposits (68.0%, +2.2 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%).

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

- *in KM 000* -

Table 40: Maturity Structure of Deposits by Remaining Maturity								
DEPOSITS	**31.12.2015**		**31.12.2016**		**30.09.2017**		**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	8 752 343	58.1	116	110
7- 90 days	770 687	5.9	690 281	4.9	723 459	4.8	90	105
91 days to one year	2 080 342	15.9	1 982 775	14.0	2 090 669	13.9	95	105
1. Total short-term deposits	9 703 892	74.1	10 633 494	75.0	11 566 471	76.8	110	109
Up to 5 years	3 190 290	24.3	3 344 169	23.6	3 350 032	22.2	105	100
More than 5 years	204 801	1.6	197 611	1.4	145 955	1.0	96	74
2. Total long-term deposits	3 395 091	25.9	3 542 780	25.0	3 495 987	23.2	104	99

TOTAL (1 + 2)	13 098 983	100.0	14 176 274	100.0	15 062 458	100.0	108	106

Based on the data above, it can be concluded that the maturity structure of deposits by remaining maturity is much worse due to a high share of short-term deposits in the amount of 76.8%, with the trend of slight deterioration from 2016 having continued in 2017 as well. Compared to the end of 2016, short-term deposits increased by 9% or KM 933 million, with the share being up by 1.8 percentage points, while long-term deposits recorded a decrease in the amount of 1% or KM 47 million, with the share in total deposits dropping from 25.0% to 23.2%. When analysing the structure of long-term deposits, it is evidently dominated by deposits with remaining maturity of up to 5 years (95.8% of long-term deposits and 22.2% 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 26% or KM 52 million in the first nine months of 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 30.09.2017.

The existing maturity structure of deposits (being the largest source of funding of banks in the Federation of B&H) has become an increasingly limiting factor of credit growth in relation to most banks since they incline more towards approving long-term loans. Therefore, banks are faced with the problem of finding ways to obtain quality sources of funding in terms of maturity, especially due to the considerably reduced inflow of financial assets (borrowings) from abroad, i.e. both from parent groups and financial institutions-creditors, while local sources of funding are mostly short-term. In June 2014, the FBA amended the existing regulations on liquidity.[33] Having previously met the prescribed requirements and obtained the approval of the FBA, banks have the opportunity to use a certain amount (i.e. a corrective amount) of retail call deposits for loans with longer maturities. As of 30.09.2017, six banks are using a corrective amount (KM 476 million) after being granted approval by the FBA. The objective of the regulation amendment is primarily aimed at stimulating credit growth, mostly real sector lending, and positive effects have already been recorded.

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

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

- in KM 000 -

Table 41: Maturity Structure of Loans

LOANS	31.12.2015		31.12.2016		30.09.2017		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	1 169 813	9.0	100	98
Short-term loans	2 283 316	19.7	2 378 849	19.4	2 538 087	19.6	104	107
Long-term loans	8 140 927	70.1	8 699 869	70.9	9 245 750	71.4	107	106
TOTAL LOANS	**11 610 744**	**100.0**	**12 270 228**	**100.0**	**12 953 650**	**100.0**	**106**	**106**

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

In the first three quarters of 2017, long-term loans were up by 6% or KM 546 million, amounting to KM 9.2 billion, and short-term loans were up by 7% or KM 159 million, amounting to KM 2.5 billion, while past due receivables amounted to KM 1.2 billion, thus being slightly down by 2% or KM 21 million, with it being noted that the permanent write-off amounted to KM 69 million. In the structure of past due receivables, 64.7% refers to private companies, 33.2% to the retail sector and 2.1% to other sectors.

An analysis of maturities of two key sectors shows that 87.3% of retail loans are long-term loans, while 54.6% of total approved loans refers to private companies.

In the structure of assets, loans, as the key category, still hold the largest share of 66.2%, down by 0.6 percentage points compared to the end of 2016. They recorded an increase in the amount of 6% or KM 683 million in the first three quarters of 2017. Cash funds increased by 10% or KM 544 million, holding a slightly higher share of 29.4% (+1.1 percentage points) compared to the end of 2016.

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

- in % -

Table 42: Liquidity Ratios

Ratios	31.12.2015	31.12.2016	30.09.2017
1	2	3	4
Liquid assets[34]/total assets	28.4	28.4	29.5
Liquid assets/short-term financial liabilities	48.4	47.1	47.5
Short-term financial liabilities/total financial liabilities	70.0	71.9	73.7
Loans/deposits and loans taken[35]	82.9	81.7	80.7
Loans/deposits, loans taken and subordinated debt[36]	82.2	81.0	80.1

As of 30.09.2017, the ratios improved slightly compared to the end of 2016.

As of 30.09.2017, the loans/deposits and loans taken ratio improved to 80.7% (-1.0 percentage points) as a result of an increase in deposits and loans taken. The ratio was above 85% (critical level) with respect to 8 banks. On the one hand, this was the result of their liabilities structure (relatively significant share of capital) and, on the other hand, the result of the high share of loans in assets. During its on-site controls, the Agency paid special attention to banks with identified weaknesses in this business segment and instructed them to take actions and measures to improve the liquidity level, as well as practices of managing sources of funding in order to ensure a satisfactory liquidity position.

In 2017, banks have duly fulfilled the requirement of maintaining the defined level of the required reserve at the Central Bank of B&H.[37] The required reserve, being the key instrument of the monetary policy in B&H in relation to the Currency Board and the financially undeveloped market, is the only instrument of the monetary policy that ensures monetary control in sense of the prevention of rapid growth of loans and reduced multiplication, as well as increased liquidity in banks in conditions of crisis and a higher outflow rate of funds from banks (as compared to the situation in B&H as of 01.10.2008). On the other hand, the implementation of foreign currency risk regulations and the maintenance of currency adjustment to the defined limits has also significantly impacted the amount banks hold in their reserve accounts at the Central Bank of B&H (in local currency), thus ensuring a high liquidity of banks, individually and at the banking sector level.

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

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

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

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

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

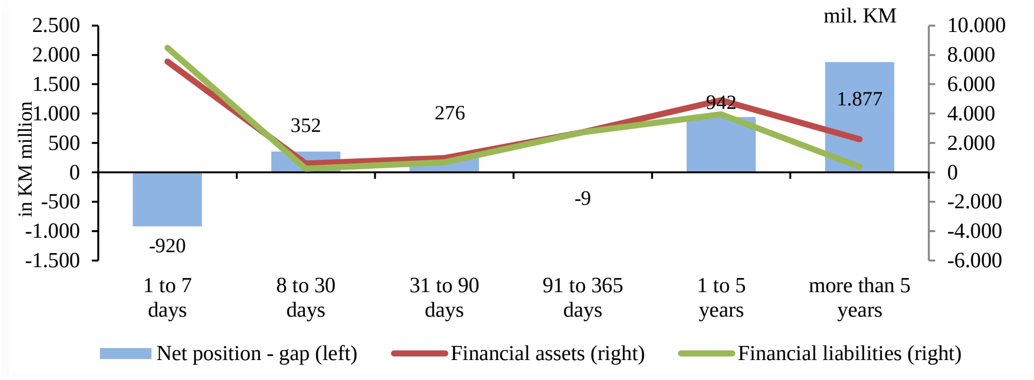
- in KM 000 -

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

	31.12.2015 Amount	31.12.2016 Amount	30.09.2017 Amount	INDEX	
1	2	3	4	5(3/2)	6(4/3)
1. Average daily balance of cash	4 592 752	4 921 452	5 506 913	107	112
2. Lowest total daily cash balance	4 310 524	4 532 844	5 307 421	105	117
3. Short-term sources of funding (calculation basis)	7 358 839	8 413 922	9 329 840	114	111
4. Amount of liabilities:					
4.1. 10-day average 10% of the amount under item 3	735 884	841 392	932 984	114	111
4.2. daily minimum 5% of the amount under item 3	367 942	420 696	466 492	114	111
5. Performance of liabilities: 10-day average					
Surplus = item no. 1 – item no. 4.1.	3 856 868	4 080 060	4 573 929	106	112
6. Performance of liabilities: daily minimum					
Surplus = item no. 2 – item no. 4.2.	3 942 582	4 112 148	4 840 929	104	118

When observing the maturity adjustment of remaining maturities of total financial assets[38] and liabilities, it can be concluded that the adjustment rate is good, although somewhat lower compared to 31.12.2016.

Graph 26: Maturity Adjustment of Financial Assets and Liabilities as of 30.09.2017



As of 30.09.2017, short-term financial assets of banks in the amount of KM 11.9 billion were lower by KM 300 million compared to short-term liabilities, which led to the coverage ratio for short-term liabilities dropping slightly from 99.6% to 97.5%.

Short-term financial assets increased by 7.1% and short-term financial liabilities by 9.5%. In the structure of short-term financial assets, the largest increase in the amount of 10.4% or KM 543 million was recorded with respect to cash funds, followed by net loans (5.8% or KM 257 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 6.2% or KM 415 million, mostly as a result of loans being up by 6.5% or KM 431 million.

Liabilities with maturity of up to one year (KM 12.2 billion) increased by 9.5% or KM 1.1 billion, with the largest changes in the following items: an increase in deposits (up by 8.8% or KM 934 million) and loan commitments (up by 45.9% or KM 106 million). Liabilities with maturity of over one year (KM 4.3 billion) recorded a slight drop in the amount of 0.2% or KM 10 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

[38] 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.[39]

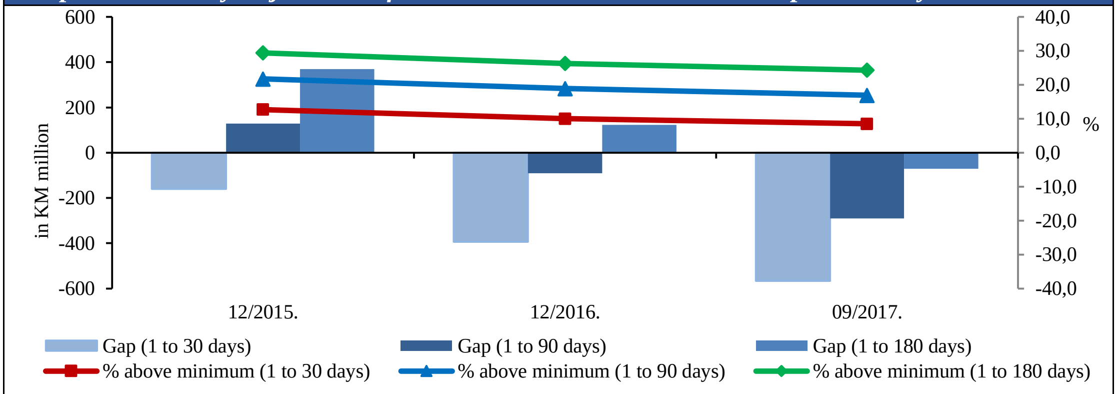
- in KM 000 -

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

Description	31.12.2015 Amount	31.12.2016 Amount	30.09.2017 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	8 147 543	109	108
2. Financial liabilities	7 037 944	7 909 801	8 715 003	112	110
3. Difference (+ or -) = 1-2	-159 664	-394 440	-567 460	N/a	N/a
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	97.7%	95.0%	93.5%		
b) Prescribed minimum %	85.0%	85.0%	85.0%		
Plus (+) or minus (-) = a - b	12.7%	10.0%	8.5%		
II. 1-90 days					
1. Financial assets	7 750 227	8 384 767	9 122 804	108	109
2. Financial liabilities	7 621 496	8 476 151	9 414 173	111	111
3. Difference (+ or -) = 1-2	128 731	-91 384	-291 369	N/a	N/a
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	101.7%	98.9%	96.9%		
b) Prescribed minimum %	80.0%	80.0%	80.0%		
Plus (+) or minus (-) = a - b	21.7%	18.9%	16.9%		
III. 1-180 days					
1. Financial assets	8 735 123	9 387 062	10 132 609	107	108
2. Financial liabilities	8 365 780	9 263 730	10 203 927	111	110
3. Difference (+ or -) = 1-2	369 343	123 332	-71 318	33	N/a
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	104.4%	101.3%	99.3%		
b) Prescribed minimum %	75.0%	75.0%	75.0%		
Plus (+) or minus (-) = a - b	29.4%	26.3%	25.3%		

Based on the information presented, it is found that, as of 30.09.2017, banks have adhered to prescribed limits and achieved a better maturity adjustment of financial assets and liabilities in relation to the prescribed limits.

Graph 27: Maturity Adjustment of Financial Assets and Liabilities – up to 180 Days



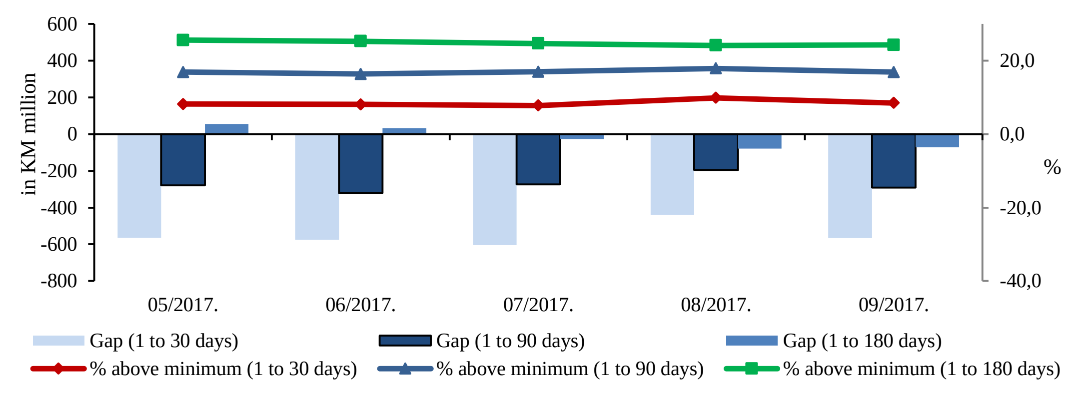
As of 30.09.2017, financial assets in all three periods were lower than financial liabilities, due to the increase in financial liabilities, primarily deposits and loan commitments, being higher than the increase in financial assets (mostly cash funds, net loans and trading assets).

As a result of the aforementioned, the recorded maturity adjustment percentages in all three periods were somewhat lower than at the end of 2016, but still significantly above the prescribed minimum by 8.5% in the first period, 16.9% in the second period, and 24.3% in the third period.

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

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

Graph 28: 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 FB&H remains satisfactory. However, 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 continue to 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.

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

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

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

In order to ensure the implementation and realisation of prudent principles related to FX activities of banks and to reduce FX risk effects on their profitability, liquidity and capital, the Agency has adopted the Decision on Minimum Standards for Foreign Exchange Risk Management in Banks[40], which prescribes minimum standards for adopting and implementing the programmes, policies and procedures for FX risk assumption, monitoring, control and management, as well as limits for the open individual and total FX position (long or short) calculated in relation to the core capital of the bank.[41]

In order for the Agency to monitor the banks' compliance with the regulated limits and their exposure level to FX risk, banks are required to report daily to the Agency. Based on the review, monitoring and

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

analysis of the submitted reports, it can be concluded that banks adhere to regulated limits and conduct their FX activities within such limits.

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

As of 30.09.2017, the currency structure of banks' assets included 11.4% or KM 2.2 billion of foreign currency items (at the end of 2016, these items amounted 10.4% or KM 1.9 billion). On the other hand, the currency structure of liabilities is quite different since the share of foreign currency liabilities is much higher and equals 38.1% or KM 7.4 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) [42]

Description	31.12.2016				30.09.2017				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	1 261	15.6	1 670	19.3	152	126
2. Loans	24	0.3	25	0.3	15	0.2	16	0.2	61	63
3. Loans with a currency clause	6 323	81.5	6 350	75.4	6 204	77.0	6 221	72.0	98	98
4. Other	417	5.4	561	6.7	396	4.9	553	6.4	95	98
5. Other financial assets with a currency clause	165	2.1	165	1.9	184	2.3	184	2.1	112	111
Total (1+2+3+4)	7 759	100.0	8 425	100.0	8 060	100.0	8 644	100.0	104	103
II. Financial liabilities										
1. Deposits	5 535	72.8	6 186	74.9	5 681	71.9	6 322	73.8	103	102
2. Loans taken	763	10.0	763	9.2	937	11.9	937	11.0	123	123
3.Deposits and loans with a currency clause	1 135	14.9	1 135	13.7	1 101	13.9	1 101	12.9	97	97
4. Other	174	2.3	180	2.2	186	2.3	193	2.3	107	107
Total (1+2+3+4)	7 607	100.0	8 264	100.0	7 905	100.0	8 553	100.0	104	103
III. Off-balance sheet										
1. Assets	78		96		44		126			
2. Liabilities	203		222		269		280			
IV.Position										
Long (amount)	27		35							
%	1.3%		1.7%							
Short					70		63			
%					3.2%		2.9%			
Allowed	30%		30%		30%		30%			
Lower than the allowed level	28.7%		28.3%		26.8%		27.1%			

In terms of the structure of foreign currencies, the dominant share among financial assets[43] is held by the EUR with 74.7% (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% 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 332 million.

However, FX risk exposure calculation also includes the amount of indexed assets items (loans and other financial assets) and liabilities items[44], which is particularly significant on the assets side (74% or

[42] Source: Form 5 – FX position.

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

[44] 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).

KM 6.4 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 26% or KM 2.2 billion and have the following structure: items in EUR 19.3% or KM 1.7 billion and other currencies 6.6% 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 11.8 billion), app. 53% have a currency clause (mostly pegged to the EUR – 99.7%).

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 8.6 billion) is 79.6% or KM 6.8 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 share and amount of indexed liabilities in the last five years (with the exception of 2013, when a drop in the amount of 13% or KM 117 million was recorded) have had an upward trend from when they amounted to KM 661 million in 2011, thus having held a share of 8%, to the level of KM 1.1 billion (with a 12.9% share) as of 30.09.2017. The increase in indexed liabilities (almost all relate to deposits) is conditioned, on the one hand, by the outflow of deposits and loan commitments in foreign currencies, which have been a source of loans approved with a currency clause, and, on the other hand, by the continuously high amount of loans with a currency clause. In order to maintain the FX adjustment, banks are increasing indexed liabilities items (deposits), with it being noted that most banks have a long FX position.

When observing banks and the banking sector level of the Federation of B&H, it can be concluded that FX risk exposure of banks and the banking system in 2017 was within the defined limits. As of 30.09.2017, the long FX position was recorded with 8 banks and the short position with 7 banks. At system level, there is a short FX position of 2.9% of the total core capital of banks, which is 27.1% below the allowed limit. The individual FX position for the EUR was 3.2%, which is 26.8% 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.

IV CONCLUSIONS AND RECOMMENDATIONS

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

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

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

- continue with activities to draft a regulatory framework, prepare and adopt a significant number of new by-laws in accordance with the new Law on Banks, the Law on the Banking Agency and the adopted Strategy and Annual Plan for the Drafting of Regulations in order to implement Basel II/III and EU directives and as part of the preparation for B&H's joining of the European Union;

- reorganise the Banking Agency in accordance with the new Law on the Banking Agency of the FB&H and establish an internal organisational unit for bank restructuring operations and prepare and adopt by-laws related to the restructuring of banks;
- begin with the project of preparing and implementing the SREP (Supervisory Review and Evaluation Process) as a long-term (three years) project aimed at strengthening and improving supervision in accordance with the new regulatory framework;
- take measures and actions within its competences for more secure and stable banking operations and the banking system as a whole and its support to the economy and the population;
- continue with activities within its competences to consolidate the supervision function at state level;
- take measures and actions within its competences for the purpose of implementing measures from the Reform Agenda and the Economic Reforms Programme, which are related to the banking and financial sector;
- work to implement the recommendations of the FSAP Mission in order to improve the quality of banking sector supervision;
- maintain continuous supervision of banks through on-site and off-site examinations, placing an emphasis on dominant risk segments of banking operations and aiming to improve efficiency by means of:
    - further insistence on capital strengthening in banks, especially in those banks with an above average increase in assets and reduction of the capital adequacy ratio,
    - continuing banking supervision that is of systemic importance for the development of lending activities where large savings and other deposits are concentrated (all for the purpose of protecting depositors);
    - continuing system-based monitoring of banks' activities to prevent money laundering and the financing of terrorism and the improvement of the cooperation with other supervisory and regulatory institutions;
    - reviewing and regularly updating the contingency plan as part of crisis preparations,
    - continuing to develop and implement the Early Warning System tool (EWS) for the purpose of an early identification of financial and operational inefficiencies and/or adverse trends in the banks' operations,
    - monitoring the compliance of banks with laws and regulations and the practices employed in banks in the segment of protecting users of financial services and guarantors,
    - establishing and expanding cooperation with supervisory authorities in countries with investors in the banking sector of the FB&H, as well as with other countries in order to maintain effective supervision,
    - continuing the cooperation with the ECB and the EBA and the exchange of information on banking supervision, as well as with international financial institutions, the IMF, the WB, the EBRD, etc.;
    - improving cooperation with the B&H Banks' Association across all segments of the banking business (e.g. introduction of new products, collection of receivables, functioning of the Central Credit Registry of legal entities and natural persons, daily updating of data, etc.), organising consultations and providing professional assistance in the implementation of banking laws and regulations, improving cooperation in the sense of professional training, proposing amendments to all laws or regulations that have become a limiting factor to the banks' development;
- continue to improve cooperation by signing new Cooperation Agreements with other institutions in Bosnia and Herzegovina, which are involved in the areas of supervision, preparedness for crisis situations and their management and systemic risk control: the Banking Agency of Republika Srpska, the Deposit Insurance Agency, the Central Bank of Bosnia and Herzegovina and the state and entity Ministries of Finance;
- continue with efforts to improve the information system, as an important prerequisite for efficient and proactive banking supervision, i.e. IT support with the function of early warning and preventive actions with respect to the elimination of weaknesses in the banks' operations;
- continue with the on-going training and professional education of the staff;
- accelerate actions regarding the finalisation of bank liquidation processes.

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

- the implementation of activities from the Reform Agenda for Bosnia and Herzegovina for the period 2015-2018;
- the implementation of conclusions reached by the Parliament of the Federation of B&H regarding the establishment of state-level bank supervision;
- the implementation of the Economic Reforms Programme for 2016-2018 (ERP B&H 2016-2018);
- the implementation of the commitments taken on by the Letter of Intent signed by the Governments in B&H as part of the arrangement with the IMF;
- creating and upgrading legislation pertaining to the financial and banking sector, starting with the Basel Principles, Basel Capital Frameworks and European Banking Directives, which refer to the actions, status and operations of banks, and especially to the 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 in the FB&H 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 key segments of the banking system, banks should concentrate their efforts on the following activities:

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

No.: U.O.-12-01/17.
Sarajevo, 29.11.2017

IV ANNEXES

ANNEX 1

Main Data on Banks in the FB&H
30.09.2017

No.	BANK	Address		Telephone	Director
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	Predsj. uprave 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	DAMIR SOKOLOVIĆ
15.	ZIRAATBANK BH d.d. - SARAJEVO	Sarajevo	Zmaja od Bosne 47c	033/955-000, fax: 525-701	ALI RIZA AKBAŞ

ANNEX 2

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

- in KM 000 -

No.	DESCRIPTION	31.12.2015	31.12.2016	30.09.2017
	ASSETS			
1.	Cash and deposit accounts with deposit-taking institutions	4 857 483	5 204 564	5 748 122
1a	Cash and non-interest bearing deposit accounts	1 058 837	2 418 582	2 532 233
1b	Interest-bearing deposits accounts	3 798 646	2 785 982	3 215 889
2.	Trading securities	882 829	1 075 588	1 087 527
3.	Loans to other banks	78 420	96 569	63 168
4.	Loans, receivables based on leasing facilities and past due receivables	11 610 744	12 270 228	12 953 650
4a	Loans	10 424 207	11 078 689	11 674 809
4b	Receivables based on leasing facilities	36	29	109 028
4c	Past due receivables based on loans and leasing facilities	1 186 501	1 191 510	1 169 813
5.	Held to maturity securities	167 377	150 575	130 585
6.	Business premises and other fixed assets	482 817	488 711	469 632
7.	Other real estate	34 077	42 266	54 708
8.	Investments in unconsolidated related companies	22 114	22 999	19 905
9.	Other assets	265 171	282 742	301 062
10.	LESS: value adjustments	1 239 307	1 252 208	1 247 796
10a	Value adjustments for Item 4. of the Assets	1 181 736	1 193 721	1 189 022
10b	Value adjustments for Assets items, except for the Item 4.	57 571	58 487	58 774
11.	**TOTAL ASSETS**	**17 161 725**	**18 382 034**	**19 580 563**
	LIABILITIES			
12.	Deposits	13 098 983	14 176 274	15 062 458
12a	Interest-bearing deposits	9 935 353	10 312 971	10 706 170
12b	Non-interest bearing deposits	3 163 630	3 863 303	4 356 288
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	982 282
16a	With remaining maturity of up to one year	161 356	231 260	337 517
16b	With remaining maturity of more than one year	742 694	616 741	644 765
17.	Subordinated debt and subordinated bonds	119 835	119 678	129 336
18.	Other liabilities	468 719	529 811	514 332
19.	**TOTAL LIABILITIES**	**14 591 737**	**15 673 914**	**16 688 558**
	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	981 647
24.	Foreign exchange rate differences	0	0	0
25.	Other capital	117 486	173 248	231 545
26.	Loan loss provisions formed from profit	315 734	315 734	315 734
27.	**TOTAL EQUITY (20. to 25.)**	**2 569 988**	**2 708 120**	**2 892 005**
28.	**TOTAL LIABILITIES AND EQUITY (19 +26)**	**17 161 725**	**18 382 034**	**19 580 563**
	PASSIVE AND NEUTRAL SUB-BALANCE	**713 765**	**718 625**	**703 014**
	BALANCE SHEET TOTAL OF BANKS	**17 875 490**	**19 100 659**	**20 283 577**

ANNEX 3

OVERVIEW OF ASSETS, LOANS, DEPOSITS AND FINANCIAL RESULTS OF BANKS IN THE FB&H as of 30.09.2017

- in KM 000 -

No.	BANK	Assets		Loans		Deposits		Fin. result
		Amount	%	Amount	%	Amount	%	Amount
1.	ADDIKO BANK d.d. - SARAJEVO	855 847	4.4%	598 277	4.6%	607 004	4.0%	5 493
2.	ASA BANKA d.d. - SARAJEVO	454 063	2.3%	308 256	2.4%	366 452	2.4%	2 053
3.	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	850 912	4.3%	623 448	4.8%	590 036	3.9%	6 210
4.	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	1 834 383	9.4%	1 297 736	10.0%	1 327 463	8.8%	21 175
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	94 751	0.5%	50 702	0.4%	65 346	0.4%	1 412
6.	NLB BANKA d.d. - SARAJEVO	1 034 209	5.3%	735 338	5.7%	843 027	5.6%	12 601
7.	PRIVREDNA BANKA SARAJEVO d.d. - SARAJEVO	390 443	2.0%	278 375	2.1%	276 819	1.8%	997
8.	PROCREDIT BANK d.d. - SARAJEVO	405 545	2.1%	327 101	2.5%	227 578	1.5%	-3 239
9.	RAIFFEISEN BANK d.d. BiH - SARAJEVO	4 025 141	20.6%	2 369 052	18.3%	3 272 212	21.7%	70 406
10.	SBERBANK BH d.d. - SARAJEVO	1 312 155	6.7%	955 366	7.4%	1 063 179	7.1%	5 743
11.	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	1 301 452	6.6%	976 403	7.5%	1 037 939	6.9%	13 761
12.	UNICREDIT BANK d.d. - MOSTAR	5 074 257	25.9%	3 284 531	25.4%	3 888 768	25.8%	84 168
13.	UNION BANKA d.d. - SARAJEVO	677 421	3.5%	157 217	1.2%	604 436	4.0%	6 988
14.	VAKUFSKA BANKA d.d. - SARAJEVO	325 558	1.7%	216 933	1.7%	278 979	1.9%	825
15.	ZIRAATBANK BH d.d.- SARAJEVO	944 426	4.8%	774 915	6.0%	613 220	4.1%	2 952
	TOTAL	**19 580 563**	**100.0%**	**12 953 650**	**100.0%**	**15 062 458**	**100.0%**	**231 545**

CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET RISK-BEARING ITEMS
as of 30.09.2017
- CLASSIFICATION OF BALANCE SHEET ASSETS ITEMS –

- in KM 000 -

No.	BALANCE SHEET ASSETS ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	2 300 129	221 788	2 567	8 202	3 254	2 535 940
2.	Long-term loans	8 364 682	569 922	176 032	82 795	19 496	9 212 927
3.	Other facilities	201 928	547	43	51	2 064	204 633
4.	Accrued interest and fees	36 547	4 085	1 578	4 373	23 658	70 241
5.	Past due receivables	73 812	23 232	11 614	226 035	805 010	1 139 703
6.	Receivables based on paid guarantees		19		36	30 055	30 110
7.	Other balance sheet assets being classified	693 527	3 596	836	992	43 905	742 856
8.	**TOTAL BALANCE SHEET ASSETS BEING CLASSIFIED (sum of items 1 through 7 – calculation basis for regulatory loan loss provisions)**	**11 670 625**	**823 189**	**192 670**	**322 484**	**927 442**	**13 936 410**
9.	**CALCULATED REGULATORY RESERVES FOR LOAN LOSSES BASED ON BS ASSETS**	**230 412**	**68 567**	**49 636**	**191 841**	**927 436**	**1 467 892**
10.	**VALUE ADJUSTMENT FOR BS ASSETS**	**160 347**	**48 340**	**75 421**	**178 659**	**785 029**	**1 247 796**
11.	**REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT FOR PURPOSE OF ASSESSED LOSSES BASED ON BS ASSETS**	**127 256**	**46 302**	**11 326**	**50 113**	**142 006**	**377 003**
12.	**FORMEED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**	**87 197**	**33 249**	**20 011**	**79 253**	**59 189**	**278 899**
13.	**SHORTFALL OF REGULATORY RESERVE FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS**						**206 255**
14.	**BALANCE SHEET ASSETS NOT BEING CLASSIFIED (gross book value)**						**6 891 949**
15.	**TOTAL BALANCE SHEET ASSETS (gross book value)**						**20 828 359**

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

14.a	Cash in cash desk and vault and cash funds at the account with the Central Bank of B&H, gold and other precious metals	4 268 008
14.b	Demand deposits and term deposits up to one month located on accounts of banks with defined investment rating	1 193 773
14.c	Tangible and intangible assets	499 845
14.d	Financial and tangible assets acquired in the process of collection of receivables (within one year upon such acquisition)	6 308
14.e	Own (treasury) shares	
14.f	Receivables based on overpaid taxes	23 679
14.g	Trading securities	92 716
14.h	Receivables from the B&H Government, FB&H Government and RS Government, securities issued by the B&H Government, FB&H Government and RS Government and receivables secured with unconditional guarantees payable upon the first call	807 620
	TOTAL Item 14	**6 891 949**
8a.	Facilities secured with a cash deposit	150 049

ANNEX 4A

CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET RISK-BEARING ITEMS
as of 30.09.2017
- CLASSIFICATION OF OFF-BALANCE SHEET ITEMS –

- in KM 000 -

No.	OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Payment guarantees	378 968	38 005	6 218	245	90	423 526
2.	Performance guarantees	608 659	65 269	414	6 689	430	681 461
3.	Uncovered letters of credit	42 381	326				42 707
4.	Irrevocably approved, but undrawn loans	1 750 167	91 075	418	169	219	1 842 048
5.	Other contingent liabilities of the bank	11 315	42	448		39	11 844
6.	**TOTAL OFF-BALANCE SHEDET ITEMS BEING CLASSIFIED (sum of items 1 through 5 – calculation basis for regulatory loan loss provisions)**	**2 791 490**	**194 717**	**7 498**	**7 103**	**778**	**3 001 586**
7.	**CALCULATED REGULATORY RESERVES FOR LOAN LOSSES RELATED TO OFF-BALANCE SHEET ITEMS**	**54 808**	**12 443**	**2 188**	**3 999**	**778**	**74 216**
8.	**LOSS RESERVES FOR OFF-BALANCE SHEET ITEMS**	**29 416**	**1 586**	**3 413**	**4 552**	**397**	**39 364**
9.	**REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**	**32 484**	**11 235**	**267**	**1 222**	**383**	**45 591**
10.	**FORMED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**	**24 403**	**10 318**	**622**	**1 340**	**152**	**36 835**
11.	**SHORTFALL OF REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSED BASED ON OFF-BALANCE SHEET ITEMS**						**13 072**
12.	**OFF-BALANCE SHEET ITEMS NOT BEING CLASSIFIED**						**463 522**
13.	**TOTAL OFF-BALANCE SHEET ITEMS**						**3 465 108**
6a.	**Contingent liabilities secured with a cash deposit**						**51 075**
6b.	**Approved undisbursed loans with a clause on unconditional cancellation**						**682 802**

ANNEX 5

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

- in KM 000 -

No.		DESCRIPTION	30.09.2015	30.09.2016	30.09.2017
1.		**INTEREST INCOME AND EXPENSES**			
	a)	Interest income and similar income			
	1)	Interest-bearing deposit accounts with deposit-taking institutions	1 065	1 185	1 886
	2)	Loans to other banks	1 352	1 543	1 062
	3)	Loans and leasing facilities	515 294	502 582	501 082
	4)	Held to maturity securities	4 971	3 926	2 450
	5)	Equity securities	49	37	812
	6)	Receivables based on paid-off balance sheet liabilities	2	2	2
	7)	Other interest income and similar income	49 590	54 084	57 981
	8)	**TOTAL INTEREST INCOME AND SIMILAR INCOME**	**572 323**	**563 359**	**565 275**
	b)	Interest expenses and similar expenses			
	1)	Deposits	130 556	108 927	95 361
	2)	Borrowings from other banks	0	0	0
	3)	Borrowings taken – liabilities due	0	0	0
	4)	Liabilities based on loans and other borrowings	11 401	8 854	8 036
	5)	Subordinated debt and subordinated bonds	6 093	5 435	5 884
	6)	Other interest and similar expenses	1 120	2 340	4 374
	7)	**TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES**	**149 170**	**125 556**	**113 655**
	c)	**NET INTEREST AND SIMILAR INCOME**	**423 153**	**437 803**	**451 620**
2.		**OPERATING INCOME**			
	a)	FX income	36 716	38 580	39 298
	b)	Loan fees	5 954	7 087	8 566
	c)	Fees based on off-balance sheet items	18 018	17 223	16 238
	d)	Service fees	163 487	182 169	199 366
	e)	Trading income	132	232	244
	f)	Other operating income	31 542	27 603	49 146
	g)	**TOTAL OPERATING INCOME a) to f)**	**255 849**	**272 894**	**312 858**
3.		**NON-INTEREST EXPENSES**			
	a)	Business and direct expenses			
	1)	Costs of value adjustments, risk-bearing assets, provisions for contingent liabilities and other value adjustments	78 303	66 237	71 044
	2)	Other business and direct expenses	63 570	72 274	84 112
	3)	**TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)**	**141 873**	**138 511**	**155 156**
	b)	Operating expenses			
	1)	Costs of salaries and contributions	181 956	180 480	183 178
	2)	Costs of business premises, other fixed assets and utilities	107 437	109 094	111 975
	3)	Other operating expenses	73 788	112 377	82 624
	4)	**TOTAL OPERATING EXPENSES 1) to 3)**	**363 181**	**401 951**	**377 777**
	c)	**TOTAL NON-INTEREST BEARING EXPENSES**	**505 054**	**540 462**	**532 933**
4.		**PROFIT BEFORE TAXES**	**181 036**	**210 170**	**234 784**
5.		**LOSS**	**7 088**	**39 935**	**3 239**
6.		**TAXES**	**38**	**0**	**0**
7.		**PROFIT BASED ON INCREASE OF DEFERRED TAX FUNDS AD REDUCTION OF DEFERRED TAX LIABILITIES**	**0**	**0**	**0**
8.		**LOSS BASED ON REDUCTION OF DEFERRED TAX FUNDS AND INCREASE OF DEFERRED TAX LIABILITIES**	**0**	**0**	**0**
9.		**NET PROFIT 4. - 6.**	**180 998**	**210 170**	**234 784**
10.		**NET LOSS 4. - 6.**	**7 088**	**39 935**	**3 239**
11.		**FINANCIAL RESULT 9.-10.**	**173 910**	**170 235**	**231 545**

ANNEX 6

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

- in KM 000 -

No.	DESCRIPTION	31.12.2015	31.12.2016	30.09.2017
	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	1 213 149
1.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	12 431	12 431	12 431
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	159 001
1.5.	Other reserves from profit after tax based on the decision of the Bank's assembly	427 706	529 121	585 732
1.6.	Retained, undistributed profit from previous years and current year's profit	122 065	141 073	164 321
1.a.	**TOTAL (1.1 to 1.6)**	**2 010 634**	**2 167 814**	**2 271 924**
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	3 239
1.9.	Book value of own (treasury) shares of the bank	102	3 034	3 034
1.10.	Intangible assets in accordance with the applicable accounting framework	49 837	47 315	45 687
1.11.	Amount of deferred tax assets	1 641	1 881	1 812
1.12.	Amount of negative revalorised reserves based on the effect of the change in the fair value of assets	1 696	1 063	1 353
1.b.	TOTAL (1.7. to 1.10)	183 755	112 297	103 004
1.	**AMOUNT OF CORE CAPITAL: (1.a. - 1.b.)**	**1 826 879**	**2 055 517**	**2 168 920**
	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	183 582
2.4.	Amount of positive revalorised reserves based on the effect of the change in the fair value of assets	9 735	9 741	13 106
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	107 085
2.7.	Amount of subordinated debt	0	0	0
2.8.	Amount of hybrid convertible items – capital instruments	1 422	1 425	1 425
2.	**AMOUNT OF SUPPLEMENTARY CAPITAL: (2.1 to 2.8)**	**330 784**	**284 917**	**305 407**
	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	216 767
3.	**AMOUNT OF DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL: (3.1 to 3.5)**	**206 321**	**200 035**	**216 767**
A.	**NET CAPITAL OF THE BANK (1.+2.-3.)**	**1 951 342**	**2 140 399**	**2 257 560**
B.	**RISK OF BALANCE AND OFF-BALANCE ASSETS**	**11 918 650**	**12 667 026**	**13 646 955**
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**	**14 689 646**
F.	**NET CAPITAL RATE (A/E) (% 1 dec.)**	**15.1%**	**15.7%**	**15.4%**

DATA ON EMPLOYEES IN BANKS IN THE FB&H

No.	BANK	31.12.2015	31.12.2016	30.09.2017
1	ADDIKO BANK d.d. - SARAJEVO	490	435	417
2	ASA BANKA d.d. - SARAJEVO	125	211	214
3	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	341	371	395
4	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	537	561	571
5	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	77	77	76
6	MOJA BANKA d.d. - SARAJEVO	133		
7	NLB BANKA d.d. - SARAJEVO	424	444	461
8	PRIVREDNA BANKA d.d - SARAJEVO	142		
9	PRIVREDNA BANKA d.d - SARAJEVO	66	139	153
10	PROCREDIT BANK d.d. - SARAJEVO	248	206	172
11	RAIFFEISEN BANK d.d. BiH - SARAJEVO	1 355	1 312	1 323
12	SBERBANK BH d.d. - SARAJEVO	420	425	440
13	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	471	521	530
14	UNICREDIT BANK d.d. - MOSTAR	1 208	1 225	1 259
15	UNION BANKA d.d. - SARAJEVO	181	192	192
16	VAKUFSKA BANKA d.d. - SARAJEVO	200	197	175
17	ZIRAATBANK BH d.d. - SARAJEVO	265	299	316
	TOTAL	6 683	6 615	6 694