



Financial Stability Report

2016



FINANCIAL STABILITY REPORT FOR 2016

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Abbreviations:

AQR	Asset Quality Review	ROAE	Return on Average Equity
BaFin	Federal Financial Supervisory Authority in Germany (Die Bundesanstalt für Finanzdienstleistungsaufsicht)	RS	Republika Srpska
		RTGS	Real Time Gross Settlement
		SASE	Sarajevo Stock Exchange
BARS	Banking Agency of RS	SBA	Stand-by Arrangement
BH	Bosnia and Herzegovina	SDR	special drawing rights
BHAS	BH Agency for Statistics	SREP	Supervisory Review Evaluation Process
BLSE	Banja Luka Stock Exchange	S&P	Standard and Poor's
BBRD	Bank Recovery and Resolution Directive	USA	United States of America
CBBH	Central Bank of Bosnia and Herzegovina	USD	the United States dollar
CEFTA	Central European Free Trade Agreement		
CET 1	Common Equity Tier 1		
CHF	Swiss franc		
CPI	Consumer Price Index		
CRC	Central Registry of Credits		
CRD IV	EU Capital Requirements Directive		
CRR	Capital Requirements Regulation		
DIA	Deposit Insurance Agency		
EBA	European Banking Agency		
ECB	European Central Bank		
EU	European Union		
EUR	euro		
FATF	Financial Action Task Force		
FBA	Banking Agency of FBH		
FBH	Federation of BH		
FED	Federal Reserve System		
FIA	Financial-intelligence Agency		
FSR	Financial Stability Report		
GBP	Great Britain pound		
GDP	gross domestic product		
GRECO	Group of States against Corruption		
HHI	Herfindahl-Hirschman's Index		
ILO	International Labor Organization		
IMF	International Monetary Fund		
KM	convertible mark		
KWD	Kuwaiti dinar		
LCR	Liquidity Coverage Ratio		
MCO	micro-credit organization		
MFT of BH	Ministry of Finance and Treasury of Bosnia and Herzegovina		
MONEYVAL	Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism		
NACE	Statistical classification of economic activities in the European Community		
NPL	non-performing loans		
NSFR	Net Stable Funding Ratio		
OPEC	Organization of the Petroleum Exporting Countries		
ROAA	Return on Average Assets		

Countries:

AT	Austria
BG	Bulgaria
CY	Cyprus
DE	Germany
ES	Spain
FR	France
GR	Greece
HR	Croatia
IE	Ireland
IT	Italy
PT	Portugal
RS	Serbia
SI	Slovenia
SK	Slovakia
TR	Turkey

Introduction

The Central Bank of Bosnia and Herzegovina (CBBH) considers financial stability as the condition in which a financial system can absorb shocks without significant disruptions in its current and future operations and whose functioning has no negative effects on the economy.

CBBH's mandate to monitor the financial system stability indirectly arises from the Law on CBBH. CBBH plays an active role in the development and implementation of Bosnia and Herzegovina's (BH) policy on stability and sustainable economic growth, by ensuring stability of the domestic currency and of the overall financial and economic stability in the country. One of CBBH's basic tasks is to establish and maintain adequate payment and settlement systems as a part of the financial infrastructure. CBBH contributes to preservation of financial stability through its legally defined competency for coordination of Entity Banking Agencies' activities. Based on a Decision of the Governing Board, CBBH participates in the work of international organisations engaged in the strengthening of financial and economic stability through the international monetary cooperation. CBBH's activities in the field of monitoring financial system's stability also include specialized communication with relevant international and domestic institutions that ensures continuity in the process of system risks monitoring. CBBH contributes to the preservation of financial stability through its membership at the BH Standing Committee for Financial Stability.

With publication of the Financial Stability Report (FSR), CBBH tries to contribute to the financial stability in BH through:

- Improvement of understanding and encouraging dialogue on risks for financial intermediaries in the macroeconomic environment;
- Warning financial institutions and other market participants about potential collective influence of their individual actions;
- Establishing consensus on financial stability and improvement of the financial infrastructure.

Although the FSR focuses on events from 2016, its scope was expanded to the most important developments in the first half of 2017, in line with data available at the time of its development. FSR for 2016 is organized in chapters, as follows. The executive summary points to the most important risks for the financial system stability. The first chapter introduces the main trends and risks from the international environment. This chapter particularly singles out the main risks from the EU and euro zone and describes effects of these risks on the banking sector and real economy of this geographical area, with a focus on risks that could affect the BH's banking sector and its real economy. The second chapter gives an overview of trends and potential risks from the domestic environment that have an impact on the functioning of BH's financial system. The third chapter illustrates effects that the risks identified in the previous chapters have on the claims on households. The fourth chapter focuses on the effects that the identified risks have on the companies sector. The fifth chapter evaluates risk effects on the financial system stability, focusing on the banking sector. Stress tests are a consisting part of the sixth chapter of FSR and serve to establish the banking sector's ability to absorb extreme but still possible shocks from the macroeconomic environment. The sixth chapter illustrates the main trends in the financial infrastructure: payment systems and regulatory framework. The FSR for 2016 also includes a text box, as a part of chapter 6, relating to the regulatory framework, which provides a detailed information on adopted entity laws on banks and the drafting of new bylaws in the field of banking sector operation.

Finally, it should be emphasized that the FSR exclusively deals with issues of importance for the systemic risk, because competent financial sector supervisors are in charge of supervising operations of financial intermediaries, according to the applicable laws in BH. Its main goal is to point to risks arising from the financial system and the macroeconomic environment, and to evaluate the system's ability to absorb those shocks.

Executive Summary

Some of the basic characteristics of global economy in 2016 and the first half of 2017 are: slowdown of the global economic growth, primarily under the influence of the slower growth of the US economy and that of the euro zone, gradual normalization of the FED's monetary policy and the continued implementation of unconventional monetary policy measures of the ECB and other leading central banks, as well as the reduction of deflationary pressures. Some of the most important euro zone risks are: uneven and slow economic recovery of the euro zone member states, limited progress in the structural reform implementation and the decrease of public debt in some countries, as well as the strengthening of political risks in EU and euro zone. The euro zone banking sector is characterized by a low profitability, while some banking sectors in the euro zone still face high levels of non-performing claims. Profitability of the euro zone banks is under pressure of low interest margins and the credit growth, which is still low and uneven, cannot ensure satisfactory income levels in the banking sector, wherefore the banks increasingly rely their operations on the fee and commission income. Lending to the real economy sector is still in decrease in the countries mostly affected with the financial crisis. Risks in the Italy's banking sector are especially evident and, in case of spillover, can pose a significant threat to the entire EU banking sector.

Despite the positive trends in BH economy in 2016, reflected in the real GDP growth, industrial production growth, trade deficit decline, as well as the realized fiscal surplus and intensified activities in the real estate market and a slight improvement of labour market indicators, risks from the domestic environment were not significantly mitigated. The budget surplus in 2016 was mostly the consequence of a lower intensity investments in infrastructural projects, growth of the internal and external public debt, weak recovery of domestic consumption, continued bad indicators of living standard, unfavourable business environment and poor competitive position are still significant threats to the stability of BH financial sector. According to the leading rating agencies, the sovereign rating of BH is still in the zone of speculative creditworthiness with a high credit risk.

The achieved positive trends from the real sector in 2016 were not sufficient for a significant strengthening of domestic

spending. A slight growth of households' borrowing was mostly prompted by the increased lending from banks by the households, which was contributed by the continued trend of lowering the receivable interest rates. The growth of the overall household deposits is the consequence of the increased household funds on the transaction accounts and sight deposits, whereas the household savings can be estimated as stagnating which, in addition to the low level of available income, was contributed by the lower deposit rates.

Low demand of the corporate sector for loans and the absence of a stronger credit expansion were the main characteristics of this sector in 2016 and one of the limiting factors for a stronger recovery of BH economy. The interest rates on loans to companies continued to decrease in 2016 as a consequence of the banks' desire to adapt the financing price to the market in terms of the limited demand for loans.

The year of 2016 was marked by the consolidation and a slight strengthening of the banking sector resilience. Following the status changes involving the merger of small banks and liquidation of one bank, the remaining banks in the system are fewer but stronger. Also, two banks from the same group, which faced certain operational problems in the past periods, started the reorganization process. These activities contributed to the better indicators of capitalization and profitability, and the credit portfolio quality also improved. Although mitigated, the credit risk still poses a dominant risk in the BH banking sector, and the level of non-performing loans is especially high in the non-financial corporate sector. In addition to the high liquidity of the banking sector, the poor credit activity is still one of its major characteristics. Due to the relatively low demand in the private sector, the banks continue to increase exposure to the government sector by buying securities from the entity governments. Receivable interest rates show the decreasing trend and have reached the lowest level ever in BH; however, a significant number of loan agreements is still made with floating interest rates which, in case of the interest rates increase in future, can significantly contribute to the credit risk strengthening. At the same time, deposit rates continue to decrease with more intensity as compared to the receivable interest rates, and the depositors show less interest for time deposits, which is a limiting factor for a stable financing from domestic sources.

In 2016, in line with its legal obligation, the CBBH successfully continued supporting the payment system functions through up-to-date accounting systems and payment systems for the performance of interbank payment transactions. By maintaining the Central Registry of Credits with daily updated data, the CBBH enabled financial institutions to better manage credit risks by monitoring credit exposure and credit history of clients. Also, by maintaining the Single Registry of Transaction Accounts and single database of all blocked accounts of business entities in BH, business

entities were enabled to review the status of their existing or potential business partners.

In 2016 and the first half of 2017, domestic institutions continued with the activities of changing and upgrading regulatory framework, which regulates BH financial sector, with an aim to harmonize it with the best European practices as well as to improve the business environment of financial intermediaries.

1. Trends and Risks from the International Environment

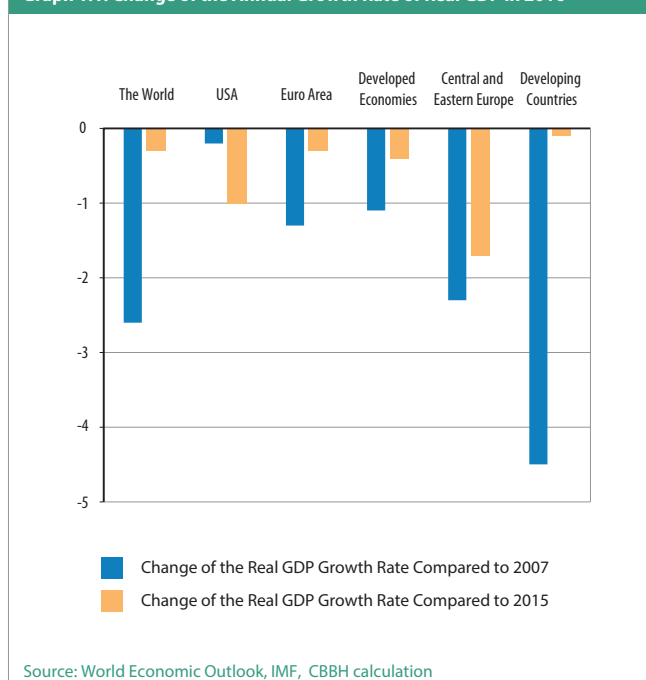
The aim of this Chapter is to point to the most important risks in the international environment. Risks from the macroeconomic environment are observed from the aspect of the effects on the banking sector of euro zone member states (Subsection 1.2.1), as well as from the aspect of the effects on the real sector of these states (Subsection 1.2.2). Special emphasis is laid on the identified risks from the macroeconomic environment that may affect the BH banking sector or the entire domestic economy.

1.1 Trends in the International Environment

The basic characteristics of global economy in 2016 are: slowdown of the global economy growth, strengthening of geopolitical risks, gradual normalization of FED monetary policy and the continued implementation of unconventional monetary policy measures by the European Central Bank (ECB) and other leading central banks, as well as the weakening of deflationary pressures. A weak recovery of global economy in 2016 was under the influence of the slower growth of US economy as compared to the expectations, as well as of the slower growth in the euro zone, despite the stimulating measures of the ECB monetary policy. The year of 2016 was marked by turbulences in financial markets caused in particular by the Great Britain referendum vote to leave the European Union, and then by the results of US presidential elections in November 2016, as well as the results of referendum in Italy at the end of the year. The prices of oil and other raw materials increased throughout the year, which stimulated inflationary trends on the global level.

In 2016, there was a slowdown of global economy growth compared to the previous year, and the growth rate was 3.1%, which was the lowest rate since 2009 (Graph 1.1). The slow economic activity growth was mainly influenced by the slowdown of the developing economies' growth, but also the continued slow growth of economic activities of the developed countries, which was mostly contributed by the slowdown of China's economic growth. Russia is gradually ending the recession, thanks to the strengthening of domestic demand and the higher oil prices on the world markets. According to IMF projections, it is expected that Russia will be out of recession in 2017 and achieve the economic activity growth of 1.4%. Expectations for 2017 also include the end of recession in Brazil, where the projected economic activity growth is 0.2%.

Graph 1.1: Change of the Annual Growth Rate of Real GDP in 2016



Economic recovery of the euro zone member states in 2016 was uneven and relatively slow, despite of the continued implementation of the ECB expansive monetary policy measures. The euro zone countries' growth rate in 2016 was 1.7%, and according to the IMF projections this growth dynamics will continue in 2017. Ireland was still the fastest growing economy of the euro zone in 2016, and apart from Ireland the significant economic growth was also achieved by Spain. German economy also experienced a significant growth in 2016. Along with the stable domestic spending, the increase of export, mainly to other euro zone member states, was the major contribution to the German economy growth. On the other hand, Italy continued to have low growth rates, primarily due to weaknesses in the public and fiscal sectors of this country. The economic growth of Greece significantly slowed down in the last quarter of 2016, due to the uncertainty related to the results of negotiations with international creditors regarding the payment of a new tranche from the third bailout package for Greece. The euro zone finance ministers took into consideration the debt mitigation and the payment of new tranche after the Greek government adopted new austerity measures in May 2017. According to IMF projections, Greek economy will recover in 2017 provided that the bailout program continues, whereby the annual GDP growth should reach 2.7%.

The growth of Great Britain's economic activity also slowed down in 2016 and made 1.8%. Nevertheless, the

growth rate at the end of 2016 was still above the average as compared to other EU countries. The consequences of Great Britain's leaving the European Union did not significantly affect the economic activity, which was supported by the strong domestic consumption as well as by the monetary policy measures of the Bank of England. It is expected that the negative consequences of Brexit could, however, significantly affect this country's economic growth in the years ahead, depending on the implementation of Brexit-related activities.

Economic recovery of the USA continued in 2016, but at a considerably lower pace as compared to the previous year. The real GDP annual growth was 1.6%, which was the lowest growth rate in the last five years. The slowdown of USA economy in 2016 was affected by the significant decline in investments as well as the exports stagnation. At the same time, conditions on the labour market continued to improve, so that the unemployment rate by the end of 2016 was 4.7%, whereas in April 2017 the unemployment rate hit the record low since May 2007 and made 4.4%.

Table 1.1: Real GDP, Annual Growth Rate

	Real GDP, Annual Growth Rate				Change Compared to Projection from October 2016	
	2015	2016	2017	2018	2016	2017
World	3,4	3,1	3,5	3,6	0,0	0,1
Developed Economies	2,1	1,7	2,0	2,0	0,1	0,2
EU	2,0	1,7	1,7	1,6	-0,2	0,0
Euro Area	2,0	1,7	1,7	1,6	0,0	0,2
USA	2,6	1,6	2,3	2,5	0,0	0,1
Japan	1,2	1,0	1,2	0,6	0,5	0,6
China	6,9	6,7	6,6	6,2	0,1	0,4
Great Britain	2,2	1,8	2,0	1,5	0,0	0,9
Russia	-2,8	-0,2	1,4	1,4	0,6	0,3
Developing Countries	4,2	4,1	4,5	4,8	-0,1	-0,1
Central and Eastern Europe	4,7	3,0	3,0	3,3	-0,3	-0,1
BH	3,1	2,5	3,0	3,5	-0,5	-0,2
Main Foreign Trade Partners						
Germany	1,5	1,8	1,6	1,5	0,1	0,2
Croatia	1,6	2,9	2,9	2,6	1,0	0,8
Serbia	0,8	2,8	3,0	3,5	0,3	0,2
Italy	0,8	0,9	0,8	0,8	0,1	-0,1
Slovenia	2,3	2,5	2,5	2,0	0,2	0,7
Austria	1,0	1,5	1,4	1,3	0,1	0,2
Montenegro	3,4	2,4	3,3	3,4	-2,7	-0,3

Source: World Economic Outlook, IMF, April 17, calculation by the CBBH

Strengthening of the global economic activity is expected in the following period owing to the recovery of investments, production and trade, and according to the IMF's projections

the real growth of the world GDP in 2017 should be 3.5% while in 2018 the growth is expected to reach 3.6%. The accelerated growth of global economy in 2017 is primarily based on the economic recovery of developing countries, i.e. the countries that export oil and other market goods, due to the recovery of raw material prices on the global market. When it comes to the developed economies, the economic activity is expected to increase in 2017, especially in USA, Japan and GB.

In 2016, FED continued to implement measures as a part of gradual normalization of monetary policy, prompted by the ongoing strengthening of the labour market and the gradual increase of inflation which is close to the desired 2%, as well as by the continued recovery of USA economy. December 2016 was the second time since the beginning of the financial crisis when FED increased the reference interest rates by the quarter percentage point, that is, from 0.50% to 0.75%, and then again in March 2017 for another quarter percentage point, namely from 0.75% to 1.00%. The reference interest rates are expected to rise two more times by the year end.

On the other hand, during 2016 and in the first quarter of 2017, ECB kept the key interest rates unchanged. The reference interest rate was maintained at 0%; the interest rate for bank deposits at ECB was maintained at -0.40%, while the ECB interest rate for loans to commercial banks was maintained at 0.25%. The key interest rates are not expected to grow in the following period. The programme of state and corporate bonds repurchase, at the total value of 80 billion a month, was addressed throughout 2016, while in April 2017 it was reduced to EUR 60 billion a month and will remain so until the end of 2017, with a possibility of extension depending on the inflationary trends in the euro zone. The inflation in euro zone was fuelled by the significant rise of energy products prices in the second half of 2016 and the first half of 2017. In December 2016, the inflation in euro zone was 1.1% and in May 2017 it was 1.4%. On the other hand, the still insufficient growth of the base inflation, which does not include the prices of energy products and food, suggest that the quantitative easing measures are still necessary to achieve the stability of prices in mid-term.

The Bank of England also continued the expansive monetary policy, and in August 2016 it introduced a new package of stimulating measures including the reduction of reference interest rate by 25 base points, thus reaching the record low of 0.25% as compared to the previous 0.50%. The program of quantitative easing was increased by GBP 60 billion, reaching the total of GBP 435 billion. This will also include a purchase of corporate bonds amounting to GBP 10 billion in the following 18 months. The package of stimulating measures also includes a new program of credit facilities (Term

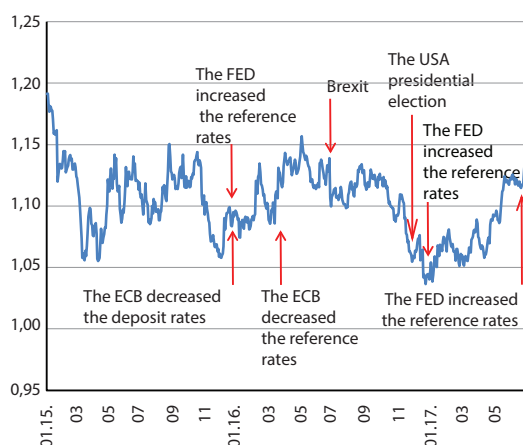
Funding Scheme) amounting to GBP 100 billion, under which it is guaranteed that banks would continue giving loans even after the decrease of the reference interest rate.

The beginning of a new cycle of increasing the FED reference interest rates, on one hand, and the continued implementation of ECB's policy of quantitative easing, on the other, as well as the strengthening of political risk in the euro zone, affected the trend of euro to dollar exchange rate in the second half of 2016. Following its strengthening in the second half of 2016, the euro to dollar exchange rate dropped in the second half of the year due to the expected increase of FED's reference interest rates. Euro additionally depreciated against dollar after the announcement of USA presidential election results in November, when it hit the record low in 2016, i.e. 1.05 EUR/USD. The announcement of another increase of FED reference interest rates in March 2017 did not affect the strengthening of dollar as compared to euro, as happened on two previous occasions, given that the market expectations about the increase of reference interest rates already affected the dollar exchange rate in the past. The dollar exchange rate depreciated against the other leading exchange rates in the first half of 2017, due to the expectations that the other leading central banks could start straining their monetary policies in the future period encouraged by the faster economic recovery. The average EUR/USD exchange rate in June 2017 was 1.12 EUR/USD. The decision about the Great Britain's leaving the EU affected the sharp drop of the value of pound as well as of euro against the world leading exchange rates. The pound to dollar exchange rate additionally depreciated in early 2017, following the beginning of negotiations about the Great Britain's exit from the EU.

In the first three quarters of 2016, the price of gold sharply increased. Following the announcement of presidential election results, the price of gold kept dropping and at the end of 2016 reached USD 1157 per ounce, which was 12.8% lower than the price at the end of the third quarter. The new rise of gold price in the first half of 2017, namely 1200 USD per ounce, was influenced by the rising political uncertainty in the euro zone due to the negotiations on Great Britain's leaving the EU, as well as the uncertainty in terms of the changed political circumstances with the new USA administration and the weakening of dollar.

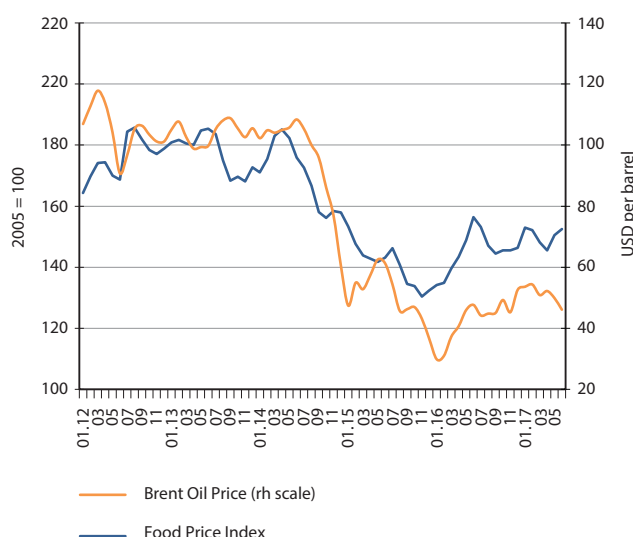
Having reached the record low in 2016 within the last 13 years, the oil prices on the world markets increased in the second half of 2016, which was mainly the result of the decreased raw oil stocks and the agreement between the OPEC member states to decrease the oil production for 1.2 million barrel a day, starting from January 2017. Russia, along with another ten countries that are not members of OPEC, agreed to decrease the oil production as a support to the rising oil prices. At the end of 2016, the oil price was 57 dollar per barrel, which was a significant increase as compared to the end of the previous year. In the beginning of 2017, the price of oil was maintained by the assessment that 11 OPEC member states achieved more than 90% of the planned production decrease as early as in January. On the other hand, the oil price in the USA is rising, which will certainly affect further oil price trends. In addition to the prices of energy products, the end of 2016 was also marked by rising prices of other raw materials, as well as food, which stimulated inflationary trends in USA and euro zone (Graph 1.3).

Graph 1.2: Trend of USD Exchange Rate in Relation to EUR



Source: Bloomberg

Graph 1.3: Food and Oil Prices



Source: IMF

1.2 Overview of the Main Risks in the EU and Euro Zone

The most significant risk in the EU and euro zone is the slow economic growth owing to the still low level of investments, slow export growth and the political uncertainty. The political circumstances considerably hamper the fiscal and structural reforms, so that the sustainability of public debt in certain EU countries is a significant source of risk. The increased pressures also result from the banking sector itself which is not able to generate necessary level of profit from its basic operations for a continuation of business activities, due to the low interest margins. Also, a high level of non-performing loans in certain countries creates an additional burden on the banking sectors of these countries. There are particularly evident risks in the banking sector of Italy that, in a case of spillover, could pose a significant threat for the entire EU banking sector.

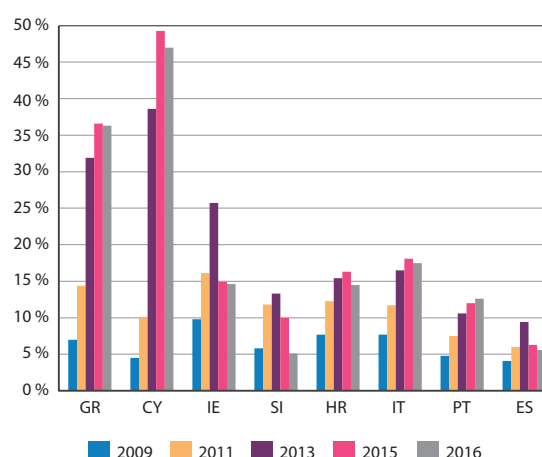
1.2.1 Effects on the Banking Sector

In 2016, the banking sector of euro zone was characterized by the improved capitalization, gradual but slow recovery of lending activity, low profitability and a high level of non-performing loans in certain countries. The continuation of low interest rates policy, along with the higher demand for loans, contributed to the more dynamic credit growth. However, the credit activity differs between the euro zone countries, where lending to the real sector is still decreasing in the countries mostly affected by the financial crisis (Italy, Cyprus, Greece, Portugal and Spain). One of the main risks for the banking sector stability in euro zone is the extremely low profitability and sustainability of the existing business models in the banks, due to the decrease of net interest income. The decline in income due to the low credit margin has been only partially compensated by the credit growth, which is still weak and uneven. In order to compensate for the decreased net interest income, banks have tried to adapt their business models relying on the income from fees and commissions. Through this approach, banks are trying to diversify their income sources, however, the income generated from fees and commissions also appeared to be quite vulnerable to deterioration of macroeconomic conditions. At the same time, the remaining high level of non-performing loans created an additional pressure on the profitability of banks in the euro zone.

The quality of EU banks' assets continued to gradually improve, and the share of non-performing loans within the

overall loans in the EU banking sector was 5.4% at the end of 2016, which was mostly contributed by the decrease in non-performing claims in the companies sector. Non-performing claims showed a declining trend in almost all euro zone countries including those with the highest share of non-performing claims within the total claims. Nevertheless, the process of resolving the non-performing claims issue was still slow, and one third of the EU member states still had quite a high share of non-performing claims within the total claims. The levels of non-performing claims significantly differ between the EU member states. The highest level of non-performing claims was recorded in the banking sectors of Cyprus (47.0%), Greece (36.3%) and Italy (17.5%), and then in the countries like Ireland, Croatia and Portugal where the share of non-performing loans within the total loans was still above 10% (Graph 1.4).

Graph 1.4: The Share of Non-performing Loans in the Total Loans in the Selected EU Countries



Source: IMF

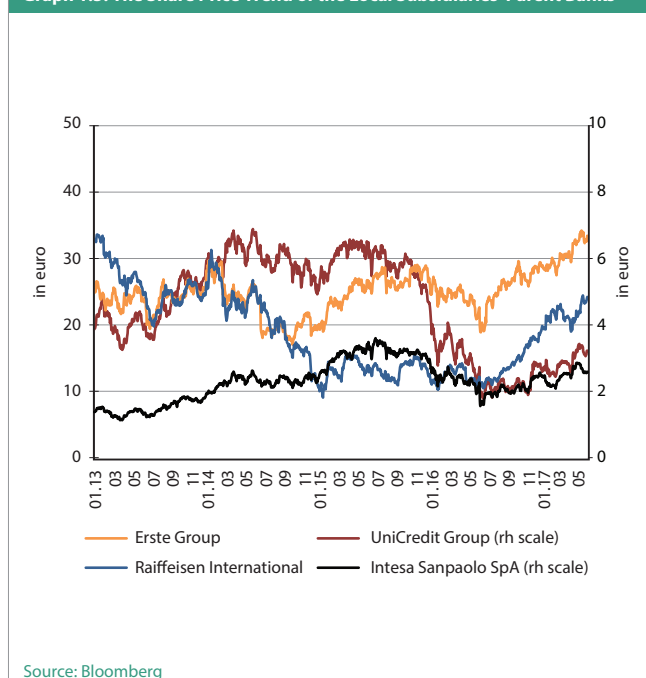
Problems in the banking sector of Italy in 2016 created another significant risk for the stability of the euro zone banking sector. During 2016, the Italian government undertook a series of measures in order to support the process of resolving the problem of non-performing loans, which amounted to 360 billion dollars or 17.5% of total loans at the end of the year. In the second half of 2016, the banking sector of Italy focused on the problems of the third major bank in Italy, namely Monte dei Paschi di Siena, and several other Italian banks such as Veneto Banca and Banca Popolare di Vicenza. The Italian Parliament passed a law stipulating establishment of a fund to support the troubled banks in

the amount of EUR 20 billion. Monte dei Paschi di Siena was the first bank that requested funds from this program given that the planned recapitalization of this bank in 2016 was not implemented. In July 2017, the European Commission approved preventive recapitalization of this bank, amounting to EUR 8.1 billion, whereby it was approved to use the state aid in the amount of EUR 5.4 billion. In June 2017, Intesa Sanpaolo S.p.A. took over a part of quality assets and liabilities of banks in the liquidation of Banca Popolare di Vicenza and Veneto Banca, while the Italian government in this case announced the biggest program of bank bailouts valued at EUR 17 billion. Significant operational weaknesses were also shown by the biggest Italian bank UniCredit S.p.A. During 2016, this bank made a one-time write-off of non-performing claims in the total amount of EUR 12.2 billion, which was a reason of major losses in the business operation at the end of the year causing the drop of the capital adequacy ratio below the regulatory minimum. At the end of 2016, the bank announced a new strategic business plan within which the recapitalization was successfully performed in March 2017, in the total amount of EUR 13 billion.

In July 2016, EBA published the results of stress tests performed during the first quarter of 2016, covering 51 bank groups or 70% assets of the euro zone banking sector. Aim of the stress tests in 2016 was to provide to supervisors, banks and participants in the market with a single analytical framework for consistent comparison and assessment of resilience of big EU banks as well as the resilience of the EU banking system against strong macroeconomic shocks. The stress test was designed in order to be used as a key input in the SREP (Supervisory Review Evaluation Process) in 2016, with a primary goal to establish guidelines for Pillar 2. There was no plan for corrective measures by regulators on the basis of the stress test results. The stress test results indicated that the banking sector of EU was resistant to assumed shocks, mainly as a result of the significant capital reinforcement of banks during the previous period. The stress test results significantly varied between individual banks, where Banca Monte dei Paschi di Siena S.p.A. showed a negative value of CET1 coefficient at the end of 2018, whereas all the other banks satisfied the minimum of required capitalization coefficients. However, some banks such as Banco Popular Espanol S.A., Allied Irish Bank Plc, Barclays Plc, Commerzbank AG and Deutsche Bank AG demonstrated a significant vulnerability to assumed shocks. In addition to these banks, significant weaknesses were shown by the groups of UniCredit S.p.A and Raiffeisen Bank International AG.

The prices of bank shares in 2016 were under a considerable pressure due to the low profitability caused by the slow economic recovery in the countries of euro zone, as well as by the low interest rates. The banking sector of euro zone is burdened with non-performing loans in the total amount of one billion euros, which creates an additional pressure on the share prices, especially in some countries with demonstrated vulnerability such as Italy, Portugal and Spain. Political uncertainty caused by Brexit, constitutional referendum in Italy and potential threat of spillover of the Italy's banking sector problems to the financial sector of other euro zone countries, had an additional impact on the share values drop in 2016. As regards the banking groups operating in BH, the market value of UniCredit S.p.A. and Intesa Sanpaolo S.p.A at the end of 2016 was reduced as compared to the end of 2015 by 47%, i.e. 22% respectively. The share prices of Raiffeisen Bank International AG at the end of 2016 was higher by 28% compared to the same period in 2015 (Graph 1.5). The share prices of euro zone banks kept rising at the end of 2016 and in the first half of 2017, due to the more optimistic expectations about the economic growth of euro zone countries, as well as the results of the presidential elections in France.

Graph 1.5: The Share Price Trend of the Local Subsidiaries' Parent Banks



Credit ratings of the banking groups operating in BH did not change considerably in 2016. The Credit Rating Agency Standard and Poor's (S&P) confirmed the credit rating of the two Italian banking groups operating in BH, namely Intesa Sanpaolo S.p.A and UniCredit S.p.A. Their credit rating is BBB- with stable outlook due to the expectations about the

continuation of the gradual recovery of the Italian economy. Credit rating of Raiffeisen Bank International AG was also confirmed, while the outlook was changed from negative to positive due to the improved economic circumstances in the countries where the bank operates and the reduced exposure of the bank on foreign markets. Long-term credit rating of Nova Ljubljanska Banka d.d. Ljubljana increased in 2017 from BB- to BB, while the outlook remained positive due to the improved economic conditions on the Slovenian market and the continued process of restructuring and efficient resolving of non-performing bank claims.

Due to the weaknesses faced by the banking sector in the previous periods, there was a gradual growth of other segments in the EU financial market, primarily the investment funds. In the period of financial crisis, the investment funds were an important source of financing for the real economy, given that banks considerably reduced their exposure to the private sector. In 2016, business activities of these institutions continued to rise, whereby the risks for financial stability were increasingly generated from the non-banking sector, business operation of which is generally less regulated. Bearing in mind their relation with the remaining financial system, operational problems of these institutions could easily spill to other financial institutions, banks in particular, through the financial markets and other financial intermediaries.

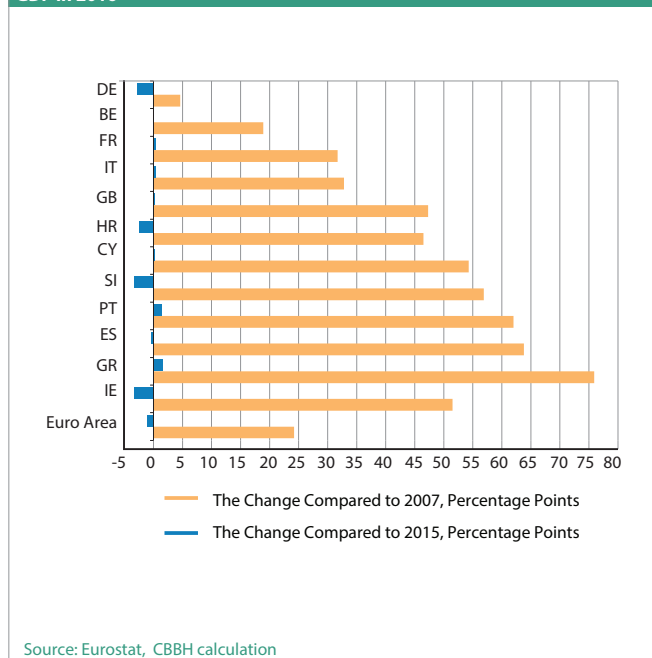
1.2.2 Effects on the Real Sector

The economic growth of the euro zone in 2016 was largely supported by the growth of domestic demand, reflected in the increase in investments and private consumption. The real GDP growth rate in the euro zone in 2016 was 1.7%. The investments growth was supported by favourable financing conditions as well as by the improved profitability of the corporate sector, while private consumption grew due to the improved conditions in labour markets. The annual inflation rate in the euro zone in 2016 was 0.2%. The inflation rate, supported by a rise in energy and food prices, grew at the end of 2016 and in the first half of 2017. In December 2016, the inflation rate was 1.1%, while in May 2017 it reached 1.4%.

The public debt of the euro zone member states, expressed as a percentage of GDP, continued to gradually decrease in 2016, and was lower by 1.1 percentage points at the euro zone level and by 1.4 percentage points at the level of EU, in relation to 2015. Despite the gradual decline in public debt at the euro zone and EU level, indebtedness in some countries is very high and keeps rising, which is why the sustainability of public debt continues to be an important

source of risk. The public debt of as many as five euro zone member states exceeded their GDP: Greece, Italy, Portugal, Belgium and Cyprus, while in eight other euro zone countries the amount of public debt exceeded 60% of GDP. Among the countries surveyed, Greece, Portugal and Italy recorded the highest growth in indebtedness in 2016 (Graph 1.6). The slow and inefficient implementation of structural and fiscal reforms in these countries, and slow economic recovery, affected the disproportionate growth in yields on bonds of these countries, which created additional pressure on strengthening the risk of sustainability of public finances. On the other hand, the largest reduction of public debt in GDP percentages was recorded in Slovenia and Ireland, and then in Germany and Croatia.

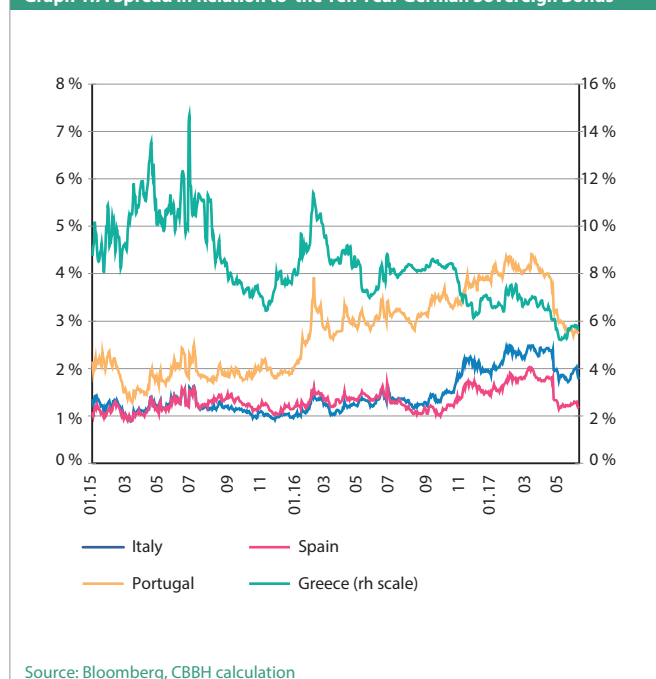
Graph 1.6: Changes in the Public Debt Expressed in the Percentage of GDP in 2016



Budget deficit of the euro zone countries expressed in GDP percentages was lower by 60 base points compared to 2015, while in the EU it was reduced by 70 base points, amounting to 1.5% and 1.7% respectively. However, fiscal sustainability remained a challenge for many euro zone and EU member states due to the slow implementation of structural reforms. Thus, despite the need to continue the significant fiscal consolidation that is necessary to keep the budget deficit at the target level of 3% of GDP, Portugal, Italy and Spain announced spending programs aimed at supporting the recovery of the economy. Political circumstances could have an impact on the slow implementation of structural reforms in the coming period, given that several major member states will hold elections in 2017.

In the first three quarters of 2016, the decline in yields on bonds of most euro zone countries continued as a result of the continuation of the ECB's expansive monetary policy measures, slow economic growth and still low inflation. The yields on German ten-year bonds reached a record low of -0.19% following the results of the GB referendum. However, due to significant economic problems faced by individual countries from the EU periphery, such as Portugal, Italy and Spain, yields on ten-year bonds of these countries remained at a much higher level than the yields of safer euro zone bonds (Graph 1.7). Having reached record low levels, the yields on euro zone government bonds gradually grew at the end of 2016, driven by speculations about a possible reduction in the volume of quantitative easing. In October 2016, for the first time since the publication of the GB referendum results, the yields on ten-year German government bonds came out of the negative zone. In addition to better prospects for the economic growth of the euro zone and the gradual recovery of inflation that affected the yield growth, the yield growth on US bonds and the expected continuation of tightening monetary policy indirectly contributed to the growth in yields on the long-term euro zone bonds. In the first half of 2017, a slight increase in yields on bonds of the euro zone countries was evident, but their trend is volatile due to the uncertainty concerning a stable recovery of inflation and the dynamics of economic cooperation with the USA.

Graph 1.7: Spread in Relation to the Ten Year German Sovereign Bonds



Source: Bloomberg, CBBH calculation

As a consequence of Great Britain's decision to leave the EU, in June 2016, the S&P credit agency lowered the long-term EU credit rating by one level, from AA+ to AA. The

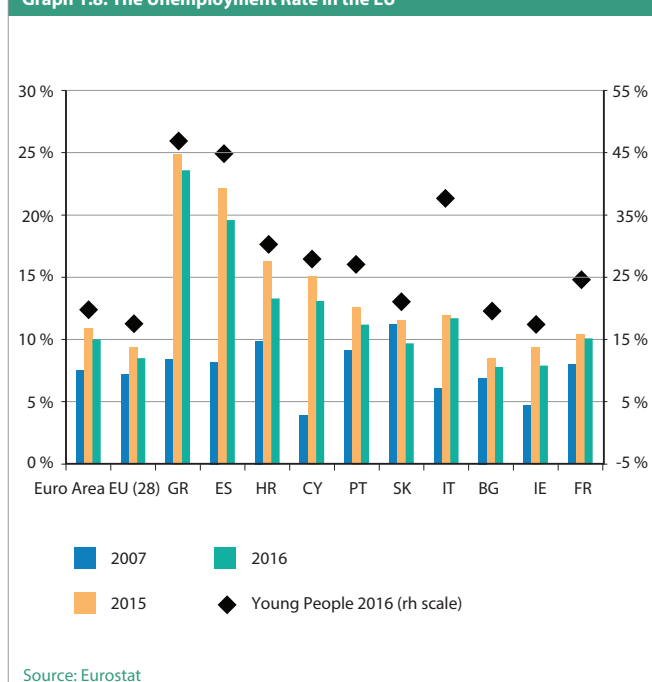
Great Britain's credit rating was also downgraded from the top AAA to AA. In 2016, the S&P agency increased Greece's credit rating from CCC + to B- with stable outlook due to better prospects for economic recovery of the country. Fitch Agency rating reduced Belgium's long-term rating by one tier, that is, to AA with "stable" prospects, due to the expectation that Belgium's budget deficit would rise in relation to GDP and that the public debt would account for 107% of GDP as largest in the group of countries with AA rating. At the beginning of 2017, S&P increased the credit rating of Cyprus due to the faster economic recovery and fiscal consolidation, and confirmed the credit ratings of Greece, Italy, Portugal and the Great Britain. Greece's credit rating was confirmed at the beginning of 2017, regardless of the standstill in the implementation of the third economic assistance program, due to the expectation that, although in delay, Greece would eventually meet all the requirements for the payment of new tranche and would be able to service the debts in a timely manner. The credit rating of Italy was also confirmed, i.e. BBB- with stable outlook due to the expectation of the continued economic recovery of the country and the stabilization of public debt. However, Italy's economic growth is still weak, while long-term challenges to the fiscal sustainability of the country are even more pronounced after the failure of the referendum on constitutional reforms, which could result in an accelerated decline in the country's credit rating in the coming period. The GB's credit rating was also confirmed as AA with negative prospects due to uncertainty about the negative consequences of Brexit on the country's economic growth. Spain's credit rating prospects increased from stable to positive, while long-term credit ratings were on BBB+ in line with the expectations of continued economic recovery and budget consolidation.

Regarding countries from the region, in late 2016, S&P increased the prospects for Croatia's credit rating from negative to stable due to stronger economic growth of the country, which also contributed to the reduction of fiscal deficit and public debt. The Serbian credit rating prospects also increased from stable to positive thanks to the continuation of the successful implementation of fiscal consolidation program, which enabled the decrease in the share of public debt in GDP, as well as due to structural reforms that increased the economy's ability to respond to shocks and accelerate its economic growth. Albania's credit rating was confirmed in 2017, after it was increased to B+ in early 2016, due to the expectation of continuing the process of fiscal consolidation and reducing public debt, as well as the progress in building and strengthening the institutional framework of the country.

Montenegro's credit rating, i.e. B+ with negative outlook, was also confirmed due to the risk of further increase in indebtedness, should the government fail to implement the fiscal consolidation plan, and the risk of further widening the balance of payments deficit. Table A1 - Statistical Appendix gives an overview of changes in the credit rating in the period from 2009 to May 2017 for countries that were most affected by the financial and economic crisis in the previous period.

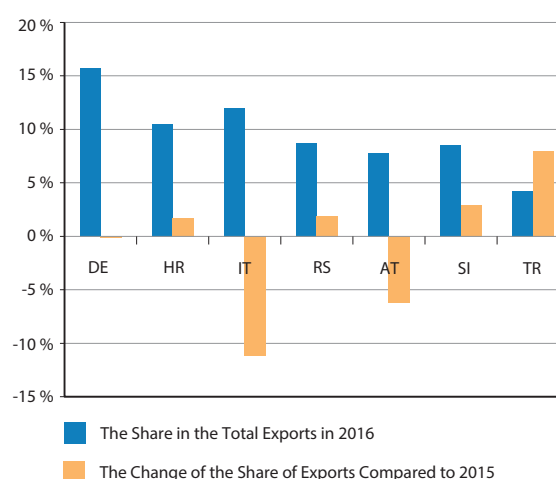
Labour market conditions continued to improve, reflected in moderate wage growth and reduced unemployment in the EU and the euro zone, which at the end of 2016 reached the lowest level since 2009. At the end of 2016, the unemployment rate was 10% at the level of the euro zone and 8.5% at the EU level. Labour market conditions continued to vary significantly among the euro zone countries. Many euro zone countries managed to reduce the unemployment rate to the levels recorded before the financial crisis, but some member states still had worryingly high unemployment rates. The highest unemployment rate at the end of 2016 was recorded in Greece (23.6%) and Spain (19.6%), while the lowest unemployment rates were recorded in the Czech Republic (4.0%) and Germany (4.1%). The largest decrease in the unemployment rate in relation to the end of 2015 was recorded in Croatia, where it was decreased by 2.8 percentage points, followed by Spain with 2.5 percentage points decrease and Cyprus with 1.9 percentage points decrease. Unemployment rates for young people, although lower than in the previous year, remained at high levels (Graph 1.8).

Graph 1.8: The Unemployment Rate in the EU



During 2016, the economic trends in the BH's main foreign trade partner countries were relatively favourable. Germany, as BH's most important trade partner, achieved a significant growth in economic activity, largely due to the growth of domestic consumption as well as exports, mainly to other EU member states. Austria's economic growth was also higher than in the previous year, and the economy of Slovenia recorded economic growth of 2.5% in 2016, mostly due to the growth of exports. On the other hand, the economy of Italy continued to record under-average growth, due to internal weaknesses. Croatia and Serbia had considerably faster economic growth in 2016 than expected, namely 2.9% and 2.8% respectively. Graph 1.9 shows the share of exports to the most important foreign trade partners of BH in 2016, presented as total exports, as well as the change in share in total exports compared to 2015. The largest export growth in the observed group of countries was recorded for Turkey. This country now accounts for 4.3% of the total exports from BH. The growth of exports to countries in the region was also recorded as a result of gradual economic recovery in 2016. On the other hand, the largest drop in exports in 2016 was recorded for the exports to Italy.

Graph 1.9: BH Exports to the Leading Trading Partner Countries



2. Trends and Potential Risks in BH

The economy of BH experienced a slight recovery in 2016, but due to the low real growth rates in the first half of 2016, the intensity of economic activity in BH at the annual level was not sufficient to reach the projected growth rates. Due to the absence of a stronger recovery in the BH's economic activity, the risks arising from the domestic environment were still present. Low purchasing power was the dominant factor in the domestic demand. Structural problems in terms of the high inactivity rate, high long-term unemployment and high youth unemployment rates were still present and made it impossible to make a significant progress on the labour market and reduce the risks arising from this segment of economy. The slow recovery in the labour market unfavourably reflected on the lending activity in the household sector and prevented a stronger lending intensity in this sector. In addition, the basic indicators of the welfare of the population, actual individual consumption per capita and GDP per capita were at a low level in 2016 as well. On the other hand, the unfavourable business environment in which the domestic corporate sector performs its business activity does not allow for a stronger momentum in lending to domestic business entities. Due to the continuous growth of public debt, the risks associated with fiscal policy were still present. Although the consolidated fiscal surplus was achieved at the BH level, the surplus of revenues in relation to expenses was achieved thanks to the implementation of fiscal savings measures and the limitation of public spending.

Although the initial estimates of international financial institutions indicated that economic growth in BH would be around 3.0%, the achieved growth rate according to the preliminary data of the BH Statistics Agency in 2016 amounted to 2.0%. The real growth of gross added value in 2016 was recorded in almost all areas of economic activity. In 2016, the greatest contribution to the growth of real GDP came from industrial activities ¹, and compared to 2015, their share in generating the gross added value slightly increased. However, service activities continued to have the largest share in the process of gross added value, while the share of agriculture remained unchanged in 2016. The moderate growth in real GDP in 2016 was partly a consequence of a slowdown in the trade growth, while the trade had the largest share in gross added value. Such trends unfavourably reflected on the credit activity in the trade segment which, after the growth period, suffered a decrease in total claims of the banking sector. The

decline in economic activity and the volume of production in the construction sector was affected by the slowdown in civil engineering and infrastructure projects, i.e. the delay in the construction of Corridor V-c. The construction industry was the only one in the group of industrial activities that recorded a lower volume of economic activity in 2016 compared to the previous year. In 2016, a dynamic growth of industrial production was registered. At an annual level, an increase in the volume of industrial production was recorded at 4.4%.

The unfavourable business environment and the poor competitive position of the country represent a significant weaknesses of the BH economy. In such circumstances, the ability to attract foreign capital is impaired. According to the annual report of the World Bank - Doing Business 2017, BH is ranked 81st in the world in terms of ease of doing business, whereby BH worsened its position and slipped two position down in comparison to the last year's report. According to this indicator, BH is lagging behind all countries in the region. BH is particularly badly ranked in the area of business start-up (174th position), while in the segment of addressing insolvency and obtaining loans BH is placed on the 41st and 44th place in the world. The low level of competitiveness of BH is also indicated in the World Economic Forum Report on Global Competitiveness for 2016-2017, according to which BH is ranked 107th out of the total of 138 countries covered by the survey. Compared to the previous report, BH recorded an improvement on the competitiveness list and advanced by 4 places. However, there are still many factors that limit the improvement of competitiveness and business, such as ineffective administration, political instability, the complexity of tax regulations and tax rates, corruption and poor financial availability. Business environment indicators and the competitive position point to the conclusion that there is a strong need for implementing structural reforms that would ensure an increase in the BH's economy growth rate. The seriousness of this problem was also recognized by BH authorities that showed their commitment through the Reform Agenda and started undertaking activities aimed at the business environment improvement.

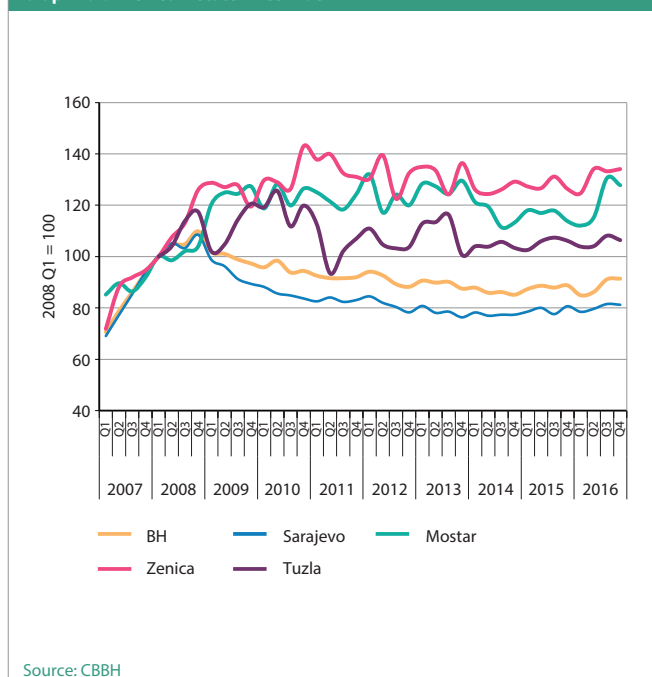
In 2016, slight strengthening of the real estate market activities in BH continued. This is indicated by data on the realized real estate turnover, both in the category of existing the constructed housing units. The volume of real estate turnover in the category of old construction, measured by the number of square meters sold, increased for the third consecutive year, namely by 4.1% in relation to the previous

¹ Agricultural activities: A; industrial activities: B, C, D, E, F; service activities: G, H, I, J, K, L, M, N,

year. In contrast to the previous year when the growth in the volume of real estate sales existed in all towns included in the calculation of the real estate price index, in the year of 2016 somewhat smaller turnover of real estate was registered in Tuzla and in the Sarajevo municipality of Novi Grad. As in the previous year, the largest volume of real estate sales was realized in the Sarajevo Municipality of Centar, which recorded the highest turnover since 2004, when the data collection for calculating the index of real estate prices started. The volume of real estate sales in Zenica and Sarajevo municipalities of Novi Grad and Novo Sarajevo did not yet reach the 2006 and 2007 levels, while the towns of Mostar and Tuzla experienced approximately similar volume of sales as in the years before the beginning of the economic crisis.

The growth in demand for residential real estate was also triggered by a slight rise in the prices of old buildings in 2016. Although the prices of these real estate in the first half of the year were lower than in the previous year, the third quarter of the year saw a rise in the price of living space per square meter. According to the real estate price index for BH², a slight rise in residential real estate prices was recorded in Sarajevo and Tuzla, while somewhat higher prices were recorded in Zenica and Mostar (Graph 2.1).

Graph 2.1: The Real Estate Price Index



Along with the strengthening of the demand for old-building apartments, there was also a rise in demand for newly built residential properties³, which was partly stimulated by the increased market offer for newly built apartments, as well as more affordable flats in peripheral urban locations. The number of sold newly built apartments in 2016 increased by 23.9% compared to the previous year, while the area of sold housing space increased by 29.4%. Also, the number of apartments sold in the first quarter of 2017 increased by 17.3% compared to the first quarter of 2016.

Although in 2016 the average price of sold new apartments decreased by 5.1% compared to 2015; at the end of 2016 and the beginning of 2017, the prices of new apartments were on the rise. Thus, the average price of sold new apartments in the fourth quarter of 2016 increased by 1.9% compared to the fourth quarter of 2015, while in the first quarter of 2017 the average price of sold new apartments increased by 10% compared to the average price in 2016, and by 14% compared to the same quarter of 2016.

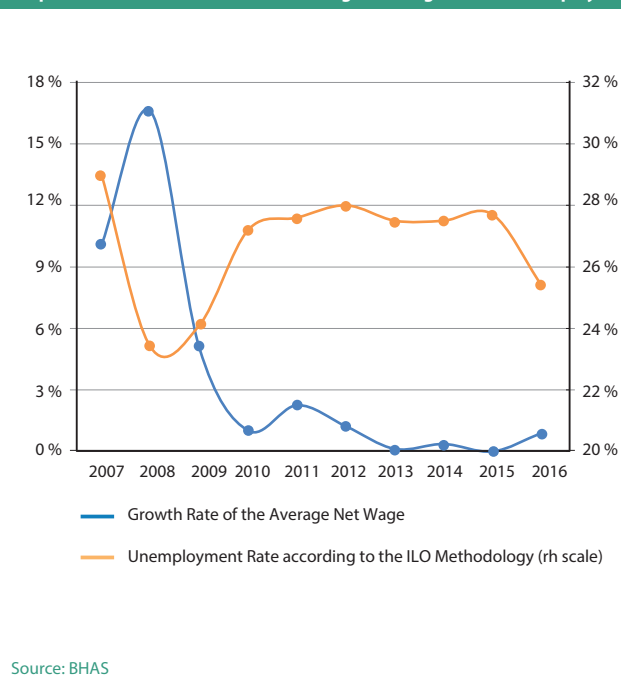
The increased activity on the real estate market was accompanied by the growth in the number of employees in the sector of Real Estate activities, as well as the relative increase in the average net wage compared to other activities. Such trends continued in the first quarter of 2017. The growth in real estate market did not follow the growth in indebtedness in relation to the loans for housing purposes, which could imply that a part of realized sales was financed either by inflows from abroad, accumulated savings or non-purpose loans. Companies from the Real Estate sector in 2016 increased their indebtedness in the domestic banking market, while the activity of housing construction was highly unlikely accompanied by financial support from banks, given that a decline in total claims of the banking sector was registered in the Construction sector. One of the key assumptions of a stronger recovery in the residential real estate market in the coming period will be the growth of available income and the improvement of the labour market conditions.

² The methodology for index calculation has been explained in FSR for 2007. Real estate price index for the City of Sarajevo does not include Old Town Municipality, which has not replied to the request for the submission of data since 2008. Municipality of Tuzla has been included since 2010 and submitted the data back from 2008. The RS Tax Authority could not submit data for the towns of Banja Luka and Bijeljina in the form required for the index calculation. The process of price index establishment does not include data about prices of the newly built residential buildings.

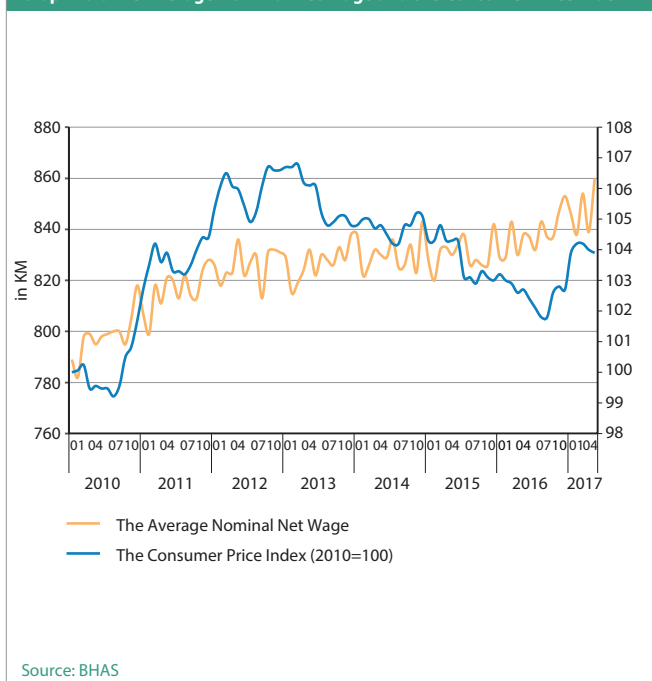
³ According to BHAS data, the number of finished apartments in 2016 increased by 35.8% compared to the previous year, whereas the area of finished apartments increased by 34%.

Although positive trends are noticeable on the labour market, the overall situation on the labour market can be characterized as unfavourable and continues to be a potential source of risk for financial stability. After a two-year stagnation period, the average nominal net wage in 2016 slightly increased. Compared to the previous year, the average nominal net wage in 2016 was higher by 0.96% and amounted to KM 838. In all business activities, except for the Hotel Management and Catering (I) and Administrative and Support Services (N), the growth of the average nominal net wage was registered. The highest increase in average monthly earnings was recorded in the activities of Real Estate (K), Professional, Scientific and Technical Activities (M), Financial and Insurance Activities (L), Agriculture (A), Art, Entertainment and Recreation (R). However, the increase in the average net wage was not sufficient to significantly increase the purchasing power of its employees, especially given the strengthening of inflationary pressures at the end of 2016 and the beginning of 2017 (Graph 2.2).

Graph 2.3: The Growth Rates of the Average Net Wage and the Unemployment



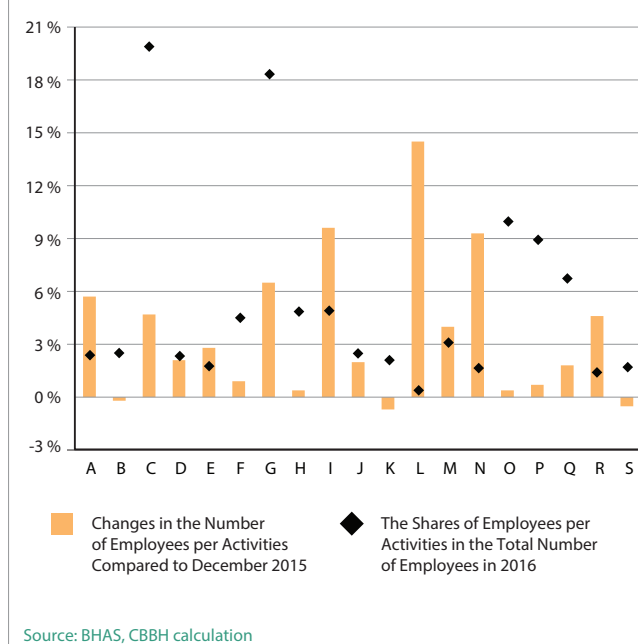
Graph 2.2: The Average Nominal Net Wage and the Consumer Price Index



According to the Survey on Labour, conducted in accordance with the International Labour Organization (ILO) methodology, in April 2016, the unemployment rate in BH was 25.4% and decreased by 2.3 percentage points as compared to the previous year. According to the survey data, the number of employed population was lower by 2.6%, while the number of unemployed population decreased by 13.3% compared to the previous year.

According to the administrative data of the Employment Bureau, the unemployment rate in 2016 was lower by 2 percentage points. Unlike the data from the Survey on Labour, the administrative data of the Employment Bureau show that the number of employed persons increased by 3.1 % in 2016, while the number of unemployed decreased by 5.1% compared to 2015. Differences between the administrative and the survey data on employed and unemployed persons arise from the differences in the methodology applied in calculating and determining the status of unemployed persons. Administrative data on the number of employed persons by area of economic activity show the employment growth in most types of activities. Exceptions only include Financial Services and Insurance Activities (-0.7%), Other Service Activities (-0.5%), and Mining (-0.2%), where negative employment growth rate was recorded. The highest rate of employment growth for the second consecutive year was registered in the Real Estate activities, which was the consequence of a stronger activity and increased turnover in the real estate market. The largest contribution to the growth of the total number of employees resulted from the increase in the number of employees in the manufacturing, trade, hotel and catering industry. Regardless of the fact that both sources suggest the existence of positive trends on the labour market, the unemployment trend in BH can still be assessed as worrying and the trends in 2016 were insufficient to significantly reduce vulnerabilities caused by imbalances on the labour market.

Graph 2.4: Changes in the Number of Employees per Activities

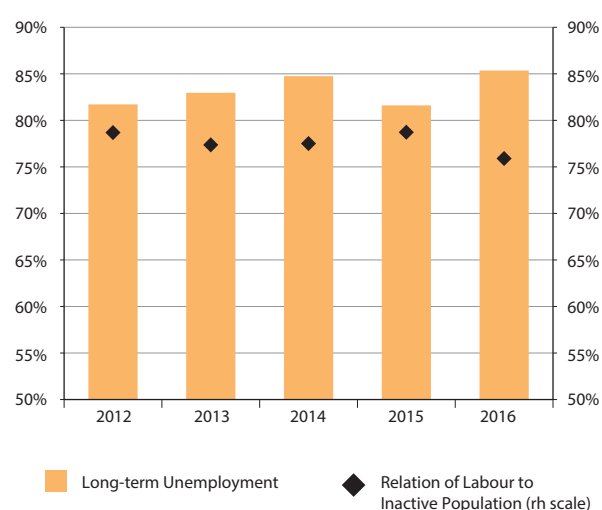
**Legend:**

- A - Agriculture, Forestry, Fishing
- B - Mining and Quarrying
- C - Manufacturing Industry
- D - Electricity, Gas, Steam Production and Supply and Air Conditioning
- E - Water Supply; Sewerage, Waste Management and Environment Remediation Activities
- F - Construction
- G - Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles
- H - Transportation and Warehousing
- I - Accommodation and Food Service Activities (Hotels and Catering)
- J - Information and Communication
- K - Financial and Insurance Activities
- L - Real Estate Activities
- M - Professional, Scientific and Technical Activities
- N - Administrative and Support Service Activities
- O - Public Administration and Defence; Compulsory Social Insurance
- P - Education
- Q - Health Care and Social Care Activities
- R - Arts, Entertainment and Recreation
- S - Other Service Activities

A particular problem in the BH labour market is the long-term unemployment, that is, unemployment for over 12 months. According to the survey data, the share of long-term unemployed in the total number of unemployed in 2016 increased in comparison to the previous year, amounting to 85.4%, far above the EU 28 average. In relation to the countries

of the region, especially in relation to the EU countries, according to this indicator BH is in a very precarious situation. In addition, the problem of inactivity of the population is quite an unfavourable characteristic of the BH's labour market, manifested in the fact that the number of inactive persons is higher than that of the labour force. Thus, in 2016 the ratio of the labour force to the inactive population was 75.9% and was lower by 2.8 percentage points compared to the previous year (Graph 2.5).

Graph 2.5: Long-term Unemployment and Relation of Labour to Inactive Population



Also, the youth unemployment rate, which made 54.3% in 2016, is quite worrying. The youth unemployment rate was lower by 8 percentage points compared to the previous year, but the decrease was partly due to a decrease in the number of young people in the labour force, owing to the increasingly intensive trend of the outflow of young people from the country. All of these indicators point to the conclusion that there are very serious structural problems on the BH's labour market, which needs to be reformed in order to increase employment and reduce poverty, and thus reduce the potential sources of risks coming from this segment of economy.

The actual individual consumption per capita and GDP per capita in 2016 also do not show a significant progress in terms of the prosperity. Both indicators remained at an extremely

low level in 2016, whereby BH lags well behind, not only the European average, but also the countries in the region. According to Eurostat data, the BH GDP per capita in 2016, expressed in the purchasing power standard, was 31% of the EU-28 average. Although the value of this indicator is higher by 1 percentage point compared to 2015, BH is ranked next to the last out of 37 countries covered by the survey ⁴. The actual individual consumption per capita, expressed in the purchasing power standard, also increased by one percentage point over the previous year, amounting to 41% of the EU-28 average. According to this indicator, BH also ranks next to the last in the aforementioned group of countries.

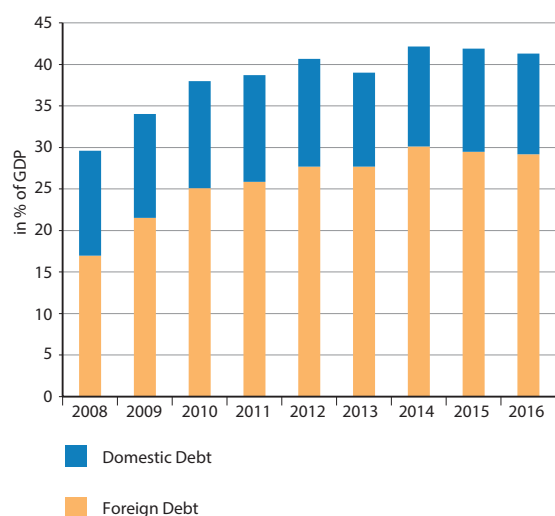
The financial stability risks associated with fiscal policy have further decreased, as the process of strong fiscal consolidation continued in 2016, and a budget surplus of 1.27% of GDP was achieved on a consolidated basis at the level of BH. The consolidated fiscal surplus was achieved thanks to the implementation of austerity measures and the limitation of public spending at all levels of government, with the continuation of positive trends in the collection of direct and indirect taxes. According to CBBH data, at the consolidated level in 2016 there was a strong growth in the collected revenues in relation to the previous year. The realized revenues of the general government sector in 2016 increased by KM 433.8 million (3.5%) compared to the previous year. The revenue growth was influenced by the growth of collected revenues from taxes and social contributions, while the amount of grants and other revenues in 2016 was lower than in the previous year. In 2016, the growth of all types of taxes was recorded, while revenues from taxes on goods and services, as the main sources of financing budgetary expenses, significantly grew in 2016 and increased by KM 173.8 million (3.2%). At the same time, there were positive developments on the expense side in terms of the public spending reduction. Interest expense was lower by 4.7% which was the sole consequence of a lower interest rate paid to residents in 2016. Additionally, in 2016, expenses were reduced both on grants and subsidies. Expenses on social welfare, as the largest item on the expense side, had a slight increase of 0.5% annually, while the employee benefit expenses did not change significantly.

The unfavourable credit rating of BH was the result of existing domestic macroeconomic environment. In 2016, the S&P international agency assessed the sovereign credit rating of BH twice and on both occasions confirmed credit rating "B" with stable outlook. Also, the agency Moody's maintained the rating "B3" for BH with stable outlook. At the end of 2016, BH had the worst credit rating of all countries in the region, which was lower for one level in relation to its credit rating before the outbreak of the global economic crisis. The credit rating of BH is still limited by the weak fiscal governance framework, vulnerable external position arising from the ongoing current account deficit, complex political system in the country affecting the efficiency of the public sector and institutions whose competencies overlap, and the low level of competitiveness. According to the ratings of international agencies, the country's credit rating and future outlook are to a considerable extent determined by the country's ability to ensure the support of international financial institutions, as well as the effectiveness of institutions in implementing the Reform Agenda. In this regard, the delay in withdrawal of the agreed tranches and the implementation of the expanded arrangement with IMF as a result of non-fulfilment of the agreed obligations within the set deadlines could also adversely affect the country's credit rating.

Despite the continuing public debt growth, BH has managed to keep its public debt within acceptable limits. However, due to changes in the currency structure of external debt, the risks associated with the sustainability of public debt further increased. The trend of increasing public indebtedness at all levels of government in BH continued in 2016, but significantly slower than the previous years. The total level of public indebtedness was partially affected by the delay in withdrawal of the agreed tranches and the implementation of the extended arrangement with the IMF. Compared to the end of 2015, according to the Ministry of Finance and Treasury (MFT BH), public debt increased by KM 140.6 million or 1.18%. The public debt at the end of 2016 amounted to KM 12,089.7 million, while the share of public debt expressed in percentage of GDP was 41.3% and by 56 basis points lower compared to the previous year (Graph 2.6).

⁴ EU 28 countries, EFTA countries (Norway, Switzerland, Island), EU membership candidate states (Turkey, Serbia, Montenegro, Former Yugoslavian Republic of Macedonia and Albania) and BH, as a potential candidate for the EU membership.

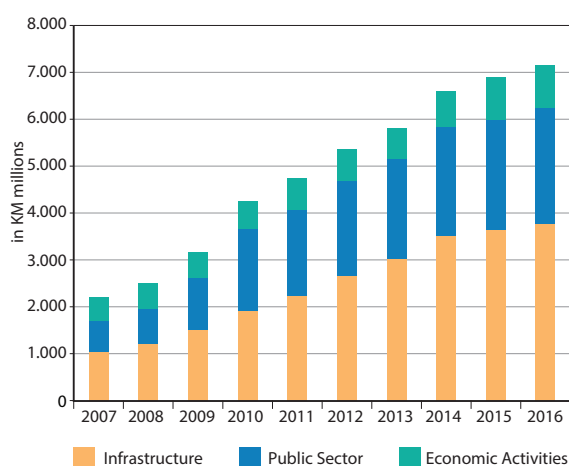
Graph 2.6: Public Debt of BH, in the Percentage of GDP



Source: MFT BH, BHAS, CBBH calculation

The external debt still has a dominant share in the structure of BH's public debt. In 2016 it increased by KM 127.96 million, amounting to KM 8,539.03 million, while the intensity of growth reduced in comparison to the previous years. The external debt increase in 2016 was the result of the engagement of previously agreed credit arrangements in the amount of KM 668.71 million. The largest share of the funds committed in 2016 (Graph 2.7) was directed towards the implementation of infrastructure projects (68.7%), while a smaller share was used for the projects of strengthening and improving the public sector (27.7%) and the projects focused on economic activities (3.7%).

Graph 2.7: The Sector Structure of Loan Purposes Based on "New" Debt

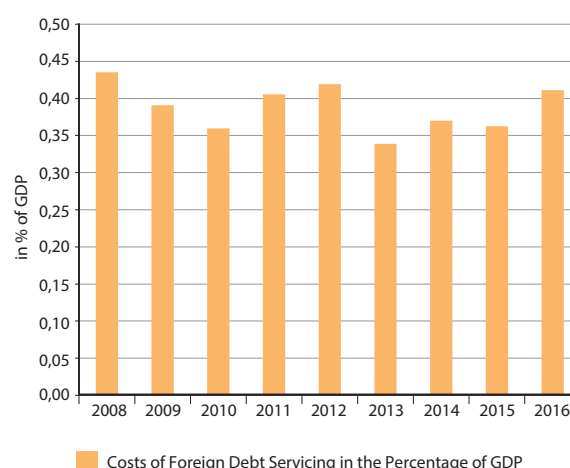


Source: MFT BH

The appreciation of individual currencies in which the debt was contracted had a partial impact on the growth of external debt. The 2016 increase in the repayment of due liabilities by KM 141.8 million, as compared to 2015, also had a positive impact on the external debt of the BH government sector.

During 2016, KM 723.1 million of external debt was repaid, KM 602.8 million of which related to the servicing of the principal and KM 120.4 million for servicing the interest. Most of the serviced liabilities in 2016 related to the repayment of debt to IMF (Table 2.1); KM 179.5 million (24.8%) was paid for that purpose. External debt servicing costs expressed in percentage of GDP in 2016 amounted to 0.41%, and were higher by 5 base points than in the previous year (Graph 2.8).

Graph 2.8: Costs of Foreign Debt Servicing, in the Percentage of GDP



Source: MFT BH, BHAS, CBBH calculation

The average interest rate on external debt is relatively favourable. In 2016, it amounted to 1.42% and was by 7 base points lower than in 2015. The low interest rates are the result of the concessional terms under which BH borrows, as well as of the low reference rates on international markets. Compared to the previous year, exposure to the interest rate risk slightly decreased, given that in 2016 the share of external debt with variable interest rate was down by 2.46 percentage points. Moreover, the exposure of external debt to interest rate risk was reduced also in terms of the average time required to refix the interest rate, which made 4.5 years in 2016, a slightly longer than in 2015 (4.2 years). However, the external debt structure is unfavourable in terms of the exposure to risk

due to the change in interest rates, since approximately half of the external debt (47.3%) was contracted with a change in interest rate clause and has a high interest-rate risk. The interest rates growth on the international financial markets would have an adverse effect on the fiscal position, which would require a recomposition of expenses. At the same time, the currency structure of external debt is unfavourable and carries a high risk, since 48.8% of external debt is contracted in foreign currencies other than euro and is exposed to a risk of changes in the foreign-currency exchange rates. Compared to the previous year, the risk is even higher, since the share of the debt denominated in EUR was reduced from 54.8% in 2015 to 50.8% in 2016. The average time to maturity of the external debt remained the same (7.2 years), while the liquidity risk increased, as the share of debt that would be due next year was higher by 2.4 percentage points compared to the previous year. According to the MFT BH projections, the debt due for collection in 2017 and 2018 is significantly higher than the amount of serviced debt in 2016.

Table 2.1: The Repayment Plan of the Stand-by Arrangement with the IMF

Year	Description	in SDR	in KM
		Repayment Amount	Repayment Amount
2016	Principal and Charges/Interest	71.989.713	179.498.433
2017	SBA Principal	136.336.875	325.109.866
	Charges/Interest	5.868.957	13.995.156
	TOTAL	142.205.832	339.105.022
2018	SBA Principal	143.735.000	342.751.487
	Charges/Interest	4.343.873	10.358.430
	TOTAL	148.078.873	353.109.917
2019	SBA Principal	68.696.875	163.815.049
	Charges/Interest	2.012.442	4.798.883
	TOTAL	70.709.317	168.613.932
2020	SBA Principal	0	0
	Charges/Interest	1.446.558	3.449.472
	TOTAL	1.446.558	3.449.472

Source: IMF, calculation by the CBBH

Note: The amounts in KM have been calculated according to the CBBH exchange rate as of 30 June 2017 1 SDR = 2,384607 BAM

The existing loan arrangements alone will have to be paid KM 976.02 million in 2017, for both the principal amount and the interest, while in 2018 the amount due for payment will be increased by an additional KM 63.2 million. According to

the arrangement with IMF, a significantly higher amount of debt is due to collection in 2017 compared to the previous periods (Table 2.1). The greater amount of external debt repayments in the coming period will exert additional pressure on preserving the budget balance.

The delay in withdrawal of the agreed tranches and the implementation of the expanded arrangement with the IMF also reflected on the intensified borrowing by entity governments on the domestic market through the issuing of short-term and long-term securities. Nevertheless, in comparison to the previous year, the growth dynamics of the internal debt slowed down considerably. According to MFT data, the internal debt of BH⁵ at the end of 2016 amounted to KM 3,550.6 million⁶, which was an increase of only 0.4% (KM 15.2 million) compared to the previous year. The slower intensity of internal debt growth compared to the previous year was the result of debt repayment on the basis of old foreign currency savings, war-related claims, general liabilities, and a significantly lower amount of social security debt. Since in 2016, there was a growth of indebtedness related to the entity treasury bills and bonds, it is obvious that one part of the repayments paid on the basis of old foreign-currency savings and war claims was financed by the issuing of new securities, the customers of which were predominantly the commercial banks in BH. This increases the concentration of government debt to few entities and dependence on the banking sector when it comes to the government financing. According to the CBBH data, the total debt of the government sector to commercial banks in BH increased by 1.4% compared to the previous year which was exclusively the consequence of the growth of indebtedness related to securities (Table 2.2). In the commercial banks portfolio, the government sector's securities increased by 22.1%, while the government debt on loans with commercial banks in BH was lower by 17.0% compared to the previous year, and was the only consequence of the decrease in indebtedness on the basis of short-term loans, i.e. repayment of loans that were due for payment in 2016. This implies that part of the government sector debt for short-term loans was refinanced by the issuance of securities in 2016, primarily the issuance of long-term bonds.

⁵ The BH's internal debt includes the debts of two entities and Brčko District and involves liabilities related to old foreign-currency savings, war-related claims, general liabilities, liabilities related to issued securities, liabilities related to loans in the country and liabilities related to tax refund and activation of guarantees.

⁶ U unutarnji dug BiH nisu uključene obaveze po osnovu restitucije, jer ovo pitanje nije još uvijek zakonski regulirano.

Table 2.2: Banks' Claims on the Government Sector									in KM millions
Claims	2008	2009	2010	2011	2012	2013	2014	2015	2016
Central Government	1,7	4,6	0,2	0,0	0,3	0,3	0,2	0,2	0,2
Loans	1,7	4,6	0,2	0,0	0,0	0,0	0,0	0,0	0,0
Securities	0,0	0,0	0,0	0,0	0,3	0,3	0,2	0,2	0,1
Government at the Entity Level	116,1	155,8	193,1	582,5	845,3	952,4	1.273,1	1.589,6	1.633,3
Loans	115,8	151,7	179,6	310,5	445,7	484,9	565,6	600,9	424,6
Securities	0,3	4,2	13,5	272,1	399,6	467,5	707,5	988,7	1.208,7
Cantonal Government	3,2	4,3	33,8	33,3	52,6	66,2	142,0	209,7	218,2
Loans	3,2	4,3	33,8	33,3	52,6	66,2	142,0	209,7	218,2
Securities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Municipal Government	142,3	188,2	225,6	273,9	314,0	341,8	342,4	304,5	282,2
Loans	141,5	186,0	222,5	269,8	309,4	337,7	339,2	301,9	280,2
Securities	0,9	2,2	3,1	4,1	4,6	4,1	3,2	2,6	2,0
TOTAL	263,4	352,9	452,6	889,8	1.212,2	1.360,6	1.757,6	2.103,8	2.133,9
Loans	262,2	346,6	436,0	613,6	807,7	888,8	1.046,7	1.112,5	923,2
Securities	1,2	6,4	16,6	276,1	404,5	471,9	710,9	991,3	1.210,7

Source: CBBH

In 2016, the governments of FBH and RS issued securities in the total amount of KM 927.64 million. The debt position on the basis of treasury bills at the end of 2016 amounted to KM 208.8 million and was higher by KM 22 million in comparison to the previous year. In relation to long-term securities, i.e. bonds, the debt ratio in 2016 was higher by KM 293.5 million and amounted to KM 1,348.02 million.

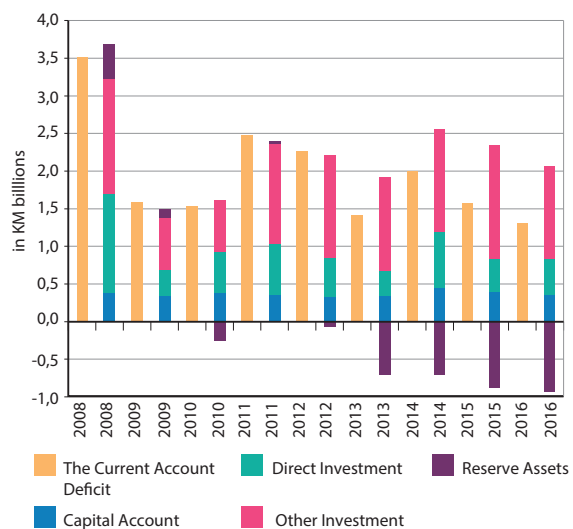
External vulnerabilities arising from the balance of payments of the country were mitigated, as in 2016 the trend of reducing the current account deficit and improving the balance of payments continued. The current account deficit in 2016 amounted to KM 1.30 billion and compared to the previous year it was lower by KM 266.1 million (16.8%). In 2016, the current account deficit accounted for 4.5% of GDP, which was by 1.1 percentage points less than in the previous year. As in previous years, the current account deficit was largely determined by the trends on the goods and services account. The reduction of deficit was mostly contributed by positive developments in foreign trade, i.e. the decrease of deficit on the goods account due to faster growth of commodity exports (8.8%) than imports (2.7%). The commodity deficit in relation to the previous year was lower by KM 219.1 million (3.0%). Positive developments on the current account balance also contributed to the increase of surplus in the international exchange of services. The total net inflows in the international service exchange amounted to KM 2.15 billion or 3.1% more than in the previous year. Net inflows generated from tourism and transport services had the largest growth on the service

account. Reduction of the current account deficit was also contributed by the balance increase on the primary income account, which in 2016 amounted to KM 160.4 million. The balance on the primary income account increased by KM 25.5 million (8.9%) mostly due to reduced outflows from direct investments (5.6%) and other investments (7.4%). Smaller outflows from foreign direct investment were the result of a decrease in the amount of dividend paid, as compared to the previous year. The balance on the secondary income account was lower by 1.2% compared to the previous year, amounting to KM 3.57 billion, and the reason for this was the decrease in the amount of inflow from pensions from abroad (2.4%). Citizens' remittances from abroad continued to grow and increased by 2.5%. Inflows on the capital account amounted to KM 355.0 million and were lower by 11.7% at annual level.

On the payment balance financial account in 2016, net inflows in the amount of KM 782.9 million were recorded, and on annual basis they decreased by KM 278.4 million (26.2%). This decrease was mainly caused by lower inflows from other investments, which were lower by KM 223.7 million (13.8%) compared to the previous year. On the other hand, an increase in net inflows from direct foreign investments (11.7%) had a positive influence on the financial account balance. In 2016, direct foreign investments amounted to KM 483.0 million, out of which KM 146.4 million related to reinvested earnings. In the financial intermediaries sector, the trend of deleveraging continued, and its foreign liabilities reduced, while the government sector and the corporate sector increased its

debt to foreign creditors. Reserve assets continued to grow and in 2016 they were KM 930.1 million higher than in the previous year. Due to dynamic growth of foreign exchange reserves and lower growth rates of imports in 2016 compared to the previous year, the level of foreign exchange reserves at the end of the year, expressed in months of import, amounted to 7.1 months.

Graph 2.9: The Current Account Deficit Financing



Source: CBBH

3. Households

Despite the slight recovery in the real sector, gradual revival of real estate market activity and improved labour market indicators, which were identified in the previous chapter, the living standard in our country remains low. The slight increase in indebtedness of households was mostly driven by the increase in indebtedness related to loans from banks. The decrease of receivable interest rates, as well as the abolition of guarantors as collateral instruments, contributed to higher availability of loans to the population. However, the households' demand for loans was still relatively low for the lending activity to intensify and reach the level from the period before the economic crisis. Although the quality of loan portfolio in the household segment continued to improve, it was mostly a result of the activities of individual banks involving the permanent write-offs of non-performing loans, liquidation of banks with a high level of non-performing loans and frequent activities to reschedule the loans, whereas due to arrears one part of the loan portfolio was still reclassified into non-performing loans. Although in 2016 the total household deposits increased, savings in the form of term deposits were stagnating, which along with the existing low level of disposable income contributed to the continued decrease in deposit rates.

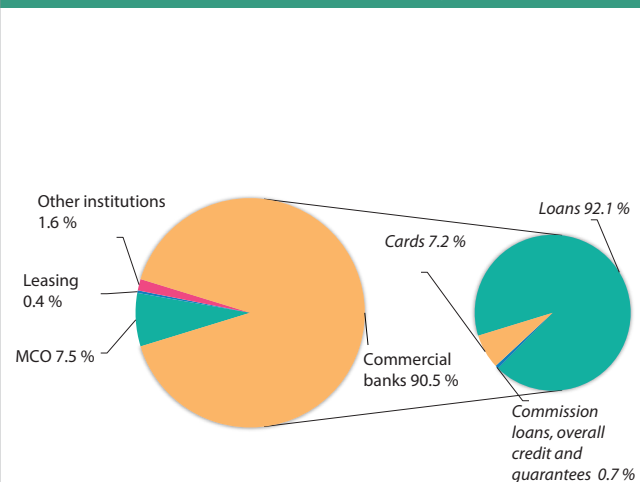
According to data from the Central Credit Registry (CRC), claims on households at the end of 2016 amounted to KM 8.75 billion, and compared to the end of 2015 they increased by 3.9%. Expressed in percentage of GDP, the exposure of financial institutions to households increased by 0.4 percentage points compared to the previous year, and at the end of 2016 reached 29.9%.

The growth of total claims on household was mainly the result of an increased households' indebtedness on conventional bank loans. These claims increased by 4.1% in relation to 2015, whereby the growth trend continued for the seventh consecutive year. After three years of the decrease of households' indebtedness in the microcredit sector, loans from microcredit organizations increased by 6.7% in 2016, which also contributed to the growth of total claims. The decrease in household indebtedness continued in the leasing sector (-19.3%), while the indebtedness on commission loans and credit lines also decreased. Unlike credit cards,

indebtedness on debit cards at the end of 2016 was higher compared to the end of the previous year.

In the total commercial banks claims on households, the increase in the share of loans continued for the third consecutive year, and at the end of 2016, 92.1% of the total household indebtedness in banks was related to loans (Graph 3.1).

Graph 3.1: Claims on Households according to the Type of Debt at 2016 End



Source: CRC

According to the CRC data, the household indebtedness on payment cards slightly increased (0.9%) compared to the previous two years, but given the higher number of issued cards, the average household indebtedness on payment cards decreased by 2.3% compared to the end of the previous year. In the segment of debit and charge cards, there was a growth in both the number of active cards and the amount used on these cards, while in the case of credit cards, despite the increase in the number of issued cards, the household indebtedness decreased, resulting in a credit card debt reduction by 7.7%. The continued trend of the credit card debt reduction indicates that households are striving to reduce the use of the limits on these cards due to the costs incurred by this type of borrowing. The average household indebtedness on debit cards did not change significantly compared to the previous two years, and at the end of 2016 amounted to KM 505 (Table 3.1).

Table 3.1: Claims on Households, Cards							in KM	
	Number of Issued Cards		Approved Amount		Used Amount		Debt per Card	
	2015	2016	2015	2016	2015	2016	2015	2016
Debit Cards	682.211	692.487	764.431.968	766.718.703	347.201.372	349.581.550	509	505
Credit Cards	207.449	223.410	343.638.459	347.262.018	182.369.372	181.189.997	879	811
Deferred Payment Cards	125.609	132.346	149.150.621	153.477.271	34.580.382	38.316.438	275	290
TOTAL	1.015.269	1.048.243	1.257.221.048	1.267.457.992	564.151.126	569.087.985	556	543

Source: CRC

Since the limit on debit cards is usually determined by the amount of average monthly income, the used part of the limit/overdraft can be used as an indicator of households consumption compared to the amount of income. The average debit card debt at the end of 2016 made 60.3% of the 2016 average net salary - lower by one percentage point compared to 2015, which was also affected by an increase in the average net wage of 1%.

If we view debit cards in terms of the range of approved overdraft, it is evident that the largest change compared to the previous year occurred in the category of debit cards with the lowest level of approved overdraft, where the used card limit decreased by 5% (Table 3.2). As the used debit card limit for this category of households decreased for the second consecutive year, we may assume that a large number of low monthly income citizens, who significantly used the overdraft option in the previous periods, were not able to continue this type of borrowing due to the reduction or cancellation of the debit card limit. This is supported by the fact that in 2016 the number of debit cards without approved overdraft increased in the CRC, whereas previously the debt ratio on these cards amounted to 16%. Although the increased borrowing trend among the lowest incomes citizens was stopped, this category of population continued to significantly use the approved debit card overdraft, since this is the simplest form of financing current spending, which this category of citizens cannot provide from regular income.

Table 3.2: The Used Debit Card Overdraft							in KM	
		The Approved Overdraft Spread						
		up to 400	400-800	800-1200	1200-1600	over 1600		
The Used Part of the Card Overdraft	XII 2015	165	299	490	698	1.105		
	XII 2016	157	299	486	690	1.124		
	Change, %	-5,0	0,1	-0,8	-1,2	1,7		

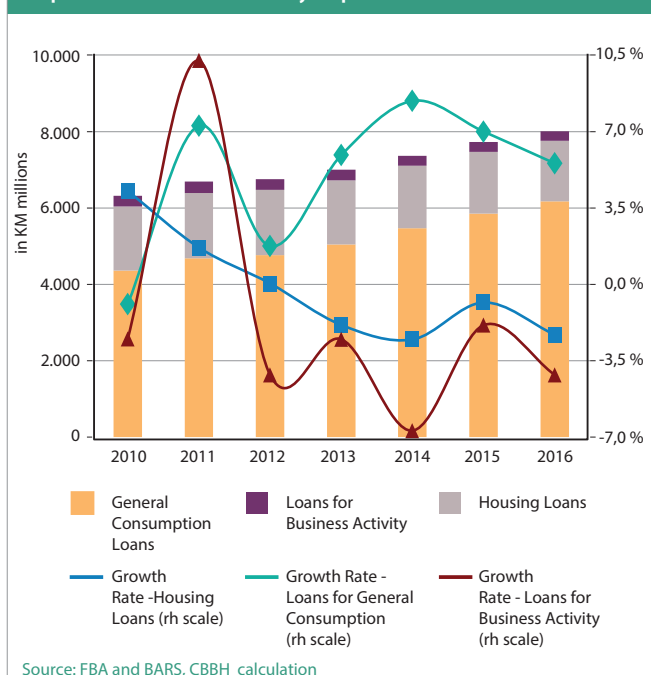
Source: CRC

Given that the lowest income population in the previous period was most affected by the worsening economic conditions in the country, this category of clients still recorded a higher ratio of non-performing claims in total claims compared to the category of clients with higher monthly income. As many as 85.3% of the total number of debit cards classified as non-performing claims is in the group of debit cards with approved limit of up to 400 KM.

The structure of claims on households is dominated by general purpose loans, which include claims on all types of cards (Graph 3.2). General consumer loans have been growing for six consecutive years, and at the end of 2016, they increased by 5.5% compared to the end of the previous year. Their share in total household loans increased by 1.5 percentage points and at the end of 2016, as much as 77.2% of loans to households involved general consumption loans. Unlike general consumption loans, the households indebtedness related to housing loans and business activity loans continued to decrease and in 2016 decreased by 2.3% and 4.1% respectively. The share of housing loans in total loans amounted to 19.8% and was lower by 1.2 percentage points compared to the end of 2015. Housing loans had negative growth rates for the fourth year in a row, which was a consequence of slower dynamics of housing loans in the past years. Despite the downward trend in interest rates for housing loans, the continuous decrease in households indebtedness related to this type of loan, along with simultaneous growth of loans for general consumption, is one of the indicators of still very low living standard of the population, whereby a large proportion of citizens does not meet the required conditions for loan approval and thus is not able to resolve the housing issue through borrowing. However, as the data on purchase of residential real estate indicate a gradual recovery of the real estate market in terms of the sales volumes and a slight rise in property prices, it can be concluded that the purchase of real estate is not fully funded with this type of loan. It is not uncommon to have several smaller general-consumption

loans taken by different household members in order to resolve the housing issue. Therefore, there is a possibility that the growth of general consumption loans - which in recent years was largely caused by the low income available and thus the needs of the population for borrowing in order to meet the basic living needs - was partly stimulated by the use of these loans for the purchase of residential real estate. Also, the increased volume of residential property purchase, along with the decrease in household debts from housing loans, was partly a consequence of financing the purchase of real estate from sources other than the commercial bank loans.

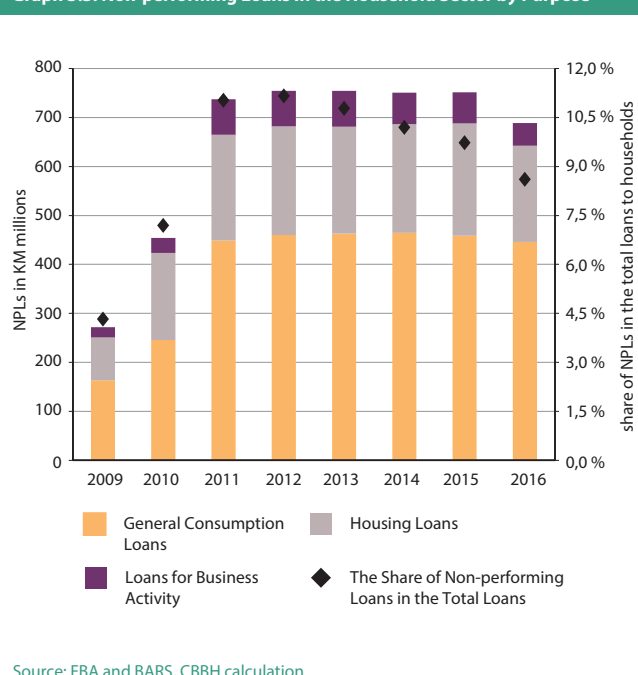
Graph 3.2: Loans to Households by Purpose and Credit Growth



The level of non-performing loans to households in 2016 underwent a significant change for the first time since 2011⁷. Non-performing loans in the total amount decreased by 8.4%, and the share of non-performing loans in total loans to households continued to decrease for the fourth consecutive year, which was also contributed by the increased lending to households. At the end of 2016, the share of non-performing loans in total loans to households was 8.6%, which was 1.1 percentage points lower than in the same period last year⁸ (Graph 3.3). Although the quality of loan portfolio in this sector improved, it is still not possible to conclude whether these improvements are due to better living standards of the population, but rather the result of permanent write-off of

non-performing loans in certain banks, conversion of loans with CHF currency clause in two banks, and the withdrawal of operating license of Banka Srpska a.d. Banja Luka, which had an extremely high level of non-performing loans. On the other hand, a more efficient credit risk management in banks over the past few years and the facilitation of loan repayment in the form of reprogramming and moratoriums on credit obligations to clients facing difficulties in the loan repayment, contributed to preventing the deterioration of loan portfolio quality in the household sector.

Graph 3.3: Non-performing Loans in the Household Sector by Purpose



Positive developments also include the continuation of downward trend in the activation of loan repayment instruments, primarily the guarantors, caused by the almost complete elimination of this category of security instruments, which enabled the households to more easily fulfil the loan granting criteria and to reduce the burden on guarantors. Thus, according to data of the banking agencies, the number of guarantors who repaid loans in 2016 decreased by 25%.

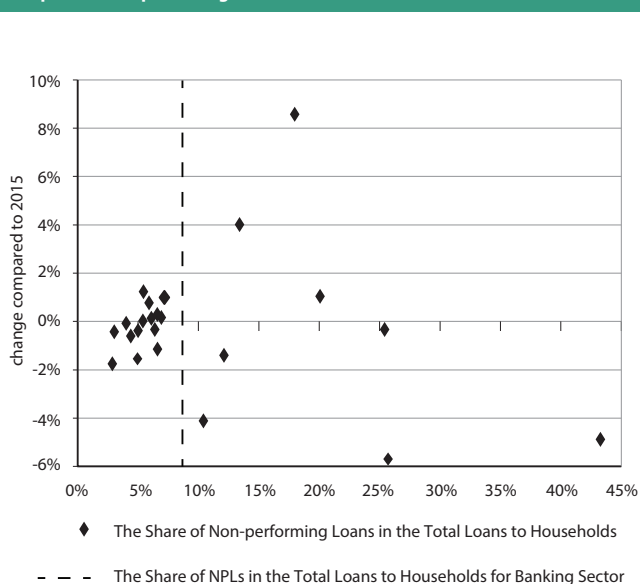
Observing the quality of loan portfolio in the household segment by individual banks, it is evident that at the end of 2016 most banks in the system had a share of non-performing loans in total household loans below the banking sector

⁷ In the period between 2009 and 2011 there was sharp growth of non-performing loans as a consequence of the economic crisis and engagement of E category loans in the banks' balance records.

⁸ If we eliminate the effect of withdrawal of licence for the Banka Srpska a.d. Banja Luka, the non-performing loans at the system level reduced by 5.6%, while the

average (between 2.9% and 7.2%). This concentration of non-performing loans in banks indicates that the problem of non-performing loans over the years accumulated predominantly in a small number of banks that approved loans to high-risk groups of citizens without an adequate assessment of their creditworthiness, and that the economic crisis was not the sole reason for the growth of credit risk in the housing segment in the past years. Among the banks whose loan portfolio quality indicator is under the banking sector average, there are four banks with more than one fifth of household loans classified as non-performing loans, one of which experienced a continued deterioration of the portfolio quality in 2016. Graph 3.4 shows several banks with significant changes in the quality of the loan portfolio compared to the previous year. The largest increase in non-performing loans was observed in two banks, as a result of taking over the portfolios from other two banks with a high level of non-performing loans in the process of status changes. On the other hand, in two banks that experienced a significant decrease in non-performing loans in total loans, a thorough reorganization of business was carried out in the past period along with writing-off a part of non-performing loans. Nevertheless, these banks still have the highest level of non-performing loans in the sector.

Graph 3.4: Non-performing Loans in the Total Loans to Households



Source: FBA and BARS, CBBH calculation

Non-performing loans, as well as their participation in total household loans in 2016, decreased in relation to all categories of loans. The absolute amount of non-performing loans decreased the most in the category of housing loans, following five years of continuous growth, and their reduction occurred mostly due to the activities carried out as part of the business reorganization in the two aforementioned banks. The share of non-performing loans in total housing loans at the end of 2016 was 12.4%, which was 5.2 percentage points more than the share of non-performing loans in total loans for general consumption. This difference was a consequence of materialization of risks related to longer maturities and larger amounts with larger monthly annuities. However, the greatest risk is expressed in the segment of loans granted to households for performing business activity, where, despite the decrease in non-performing loans, their share amounted to 18.9% of total loans intended for business activities.

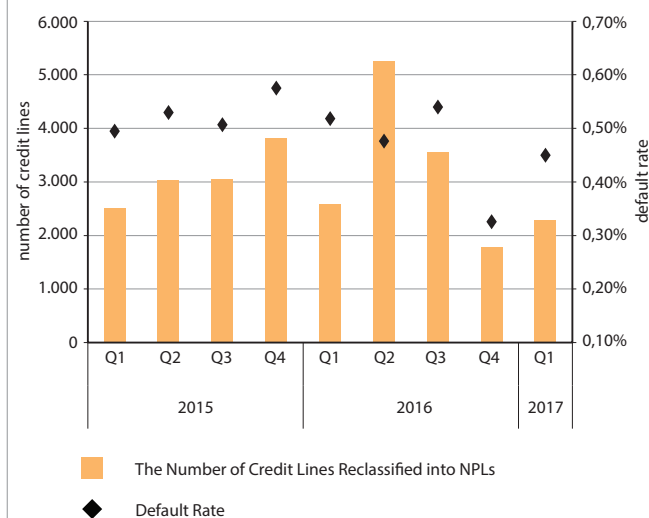
Another important indicator of the quality of the loan portfolio is the default rate, i.e. the rate of default occurrence. According to CRC data, the default rate in 2016 was 1.35%⁹, and it was lower by 12 basis points compared to the previous year. However, the number of credit lines reclassified to non-performing loans between the end of 2015 and the end of 2016 was higher by 8.3%, mostly due to the significantly higher number of reclassified credit lines in one bank, amounting to 8121 credit lines. It should be noted that the calculation of default rate on an annual basis does not include data from the banks where changes in the registration of credit lines occurred during the status change of merger.

Since the beginning of 2016, the largest number of crediting lines reclassified to non-performing loans was recorded in the second quarter, due to the significantly higher number of reclassified credit lines in two banks, while the minimum number of credit lines that became non-performing was recorded in the fourth quarter of 2016, when the lowest default rate at the quarterly level was recorded in the last two years (Graph 3.5). In the first quarter of 2017, the default rate, as well as the number of credit lines reclassified to non-performing loans, increased in relation to the last quarter of 2016, but was slightly lower than in the first quarter of the previous two years.

share of non-performing in the total loans decreased by 0.9 percentage points compared to the end of 2015.

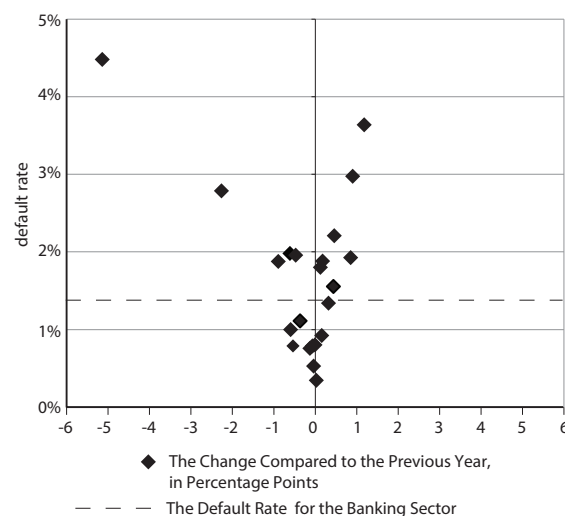
⁹ The default rate is calculated as a ratio of the residual debt based on loans to households which during a period were reclassified into nonperforming loans (categories C, D and E) and the value of the total portfolio of performing loans (categories A and B) from the previous period.

Graph 3.5: Quarterly Default Rate



Source: CRC, CBBH calculation

Graph 3.6: Default Rates by Banks in 2016

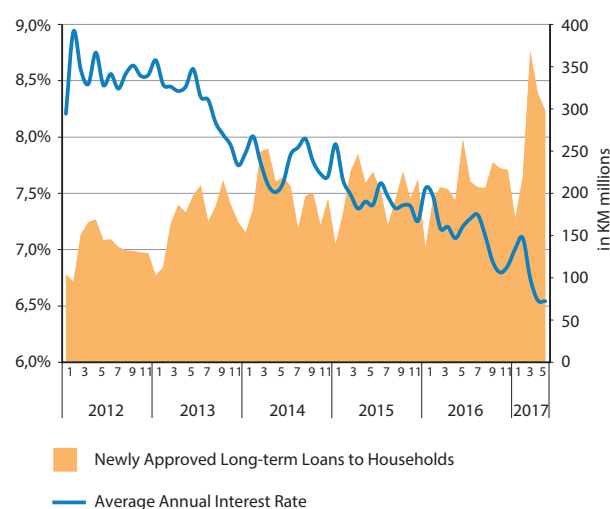


Source: CRC, CBBH calculation

Despite somewhat better indicators of loan portfolio quality in the banking sector, considering the status of non-performing loans and their participation in total loans, the default rate per individual bank in 2016 shows that the duly repayment of household loans did not improved and that the number of households facing problems with loan repayment is still similar to the previous years numbers, wherefore a part of the loan portfolio is defined as non-performing loans. In 2016, the default rate in ten banks was higher than in the previous year, of which seven banks had a higher default rate than the average rate in the banking sector. In the two banks that had the highest default rate in the previous year, the intensity of deterioration in the quality of households loans in 2016 was somewhat weaker compared to the previous year, but their default rate remained at a higher level than the average of the banking sector (Graph 3.6). Banks with higher default rates in the segment of lending to households predominantly belong to the group of banks going through a period of extremely high share of non-performing loans in total loans, which shows that the quality of a part of the loan portfolio in these banks continued to deteriorate in 2016 as well.

As a result of the decrease of interest rates on international financial markets and the efforts to achieve a higher market share, in the environment of strong competition in the banking market and still low demand for household loans, the banks in BH have gradually lowered interest rates in recent years (Graph 3.7). The downward trend of receivable interest rates from previous years continued in 2016, and more favourable borrowing conditions for households contributed in part to the growing demand for loans. According to the CBBH data, the average interest rate on long-term loans in 2016 was 7.14%, and it was lower by 31 base points compared to the previous year. During the same period, the approval of long-term loans was 4% higher.

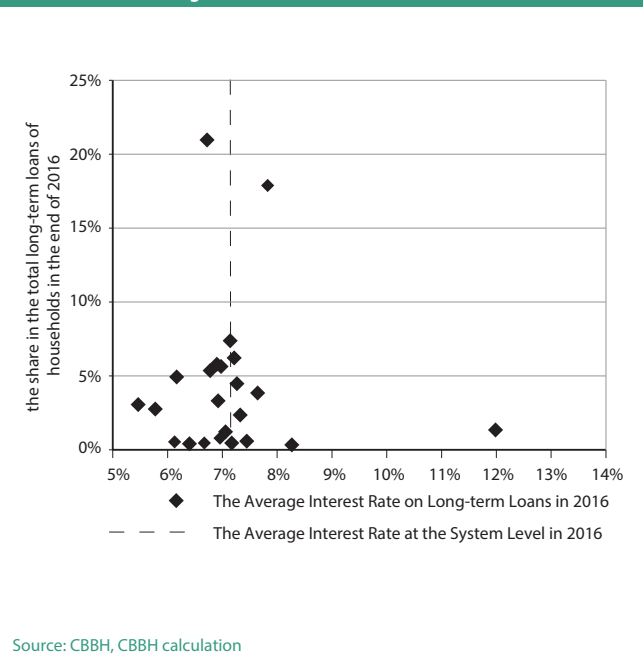
Graph 3.7: Newly Approved Loans and the Weighted Average Active Interest Rates



Source: CBBH, CBBH calculation

Graph 3.8. shows the average weighted interest rates on newly approved long-term households loans by banks during 2016, and a change in relation to the average interest rate in 2015. The average interest rate on long-term household loans in 2016 ranged from 5.46% to 11.98%. Given that the trend of low interest rates on the international financial markets continued, most of the banks in BH were able to continue the policy of lower interest rates, so that the average interest rate on long-term loans increased only in four banks in the system.

Graph 3.9: The Interest Rates on Newly Approved Long-term Loans by the Volume of Lending to Households

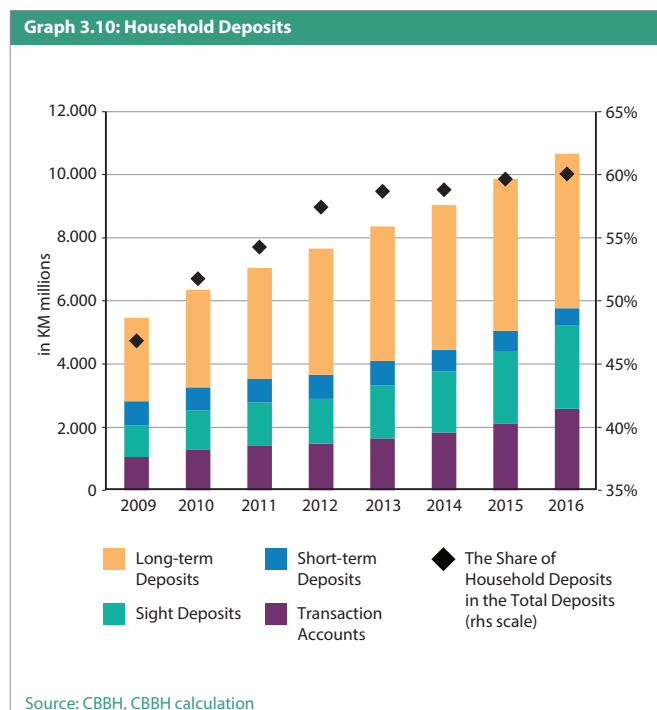


The trend of decreasing the receivable interest rates continued in 2017. So, according to the CBBH data, the average interest rate on long-term loans for the first five months of 2017 was 6.7%. Although the trend of declining interest rates continued in the beginning of 2017 and their growth is not expected by the end of the year, as early as in 2018 we can expect a slight growth in interest rates, driven by the interest rates growth in the euro zone. A shift in euro zone monetary policy in the upcoming period could affect the costs of household financing, and if the banks in BH fail to further reduce the margins, they could expect a relatively rapid growth of receivable interest rates in the domestic banking sector. If we take into account the predominance of household loans with variable interest rate or with a fixed interest rate of one year¹⁰, it may be inferred that the exposure of households to the risk of changing interest rates is not insignificant. Given the uncertain growth of available household income, even a mild increase in interest rates would pose a significant burden on a part of households and make it difficult to repay the loan.

Average interest rates on long-term loans in most banks did not deviate significantly from the average interest rate at the banking sector level. Major deviations were recorded in the case of several, mainly smaller banks, as shown in Graph 3.9. These include two smaller banks with interest rates higher than the average rate in the banking sector, which is probably the result of a poor accessibility to more favourable sources of financing from abroad. The reduction of average interest rate of more than one percentage point was recorded in three banks that were previously focused on changes in the business strategy. The banks having a significantly lower interest rates compared to the average interest rate of the banking sector continued the policy of lower interest rates in 2016, reducing them further in comparison with the previous year, in an effort to improve their competitive position and increase market share in the segment of household loans. .

¹⁰ In 2016 almost 60% of long-term loans was approved for households, with variable interests rate or with an option to change the rate one year following the approval, while the additional 19% of the total approval household loans in the past year were approved with a period of interest rate fixation between 1 and 5 years.

billion, achieving a growth of 8.1% compared to the end of the previous year. The increase in household deposits of KM 796.2 million had the largest contribution to the growth of total deposits in the banking sector, and their share in total deposits increased to 60.1% by the end of 2016 (Graph 3.10).



Despite the positive indicators of deposit trends in the banking sector, the growth in household deposits cannot be interpreted as an indication of a better living standard, and the data on high unemployment rate and low average wage in BH indicate that most households are not able to save, and that part of the savings in banks is the result of uncertainty regarding future economic opportunities in the country and, on the other hand, a lack of confidence in alternative forms of savings. In support of the fact that a small share of population is able to save, especially when it comes to higher amounts of funds, data of the Deposit Insurance Agency (DIA) show that deposits exceeding the amount of insured savings of KM 50 thousand, which include almost half of the total amount of household deposits, are placed on a small number of deposit accounts¹¹, and that these deposits had a higher relative growth both in terms of the number of deposit accounts and the amounts of deposits.

Also, the average amount of funds per one deposit account indicates that in the category of household deposits up to KM 50 thousand, deposit accounts with smaller amounts of funds prevail, since all the household current accounts are included here¹².

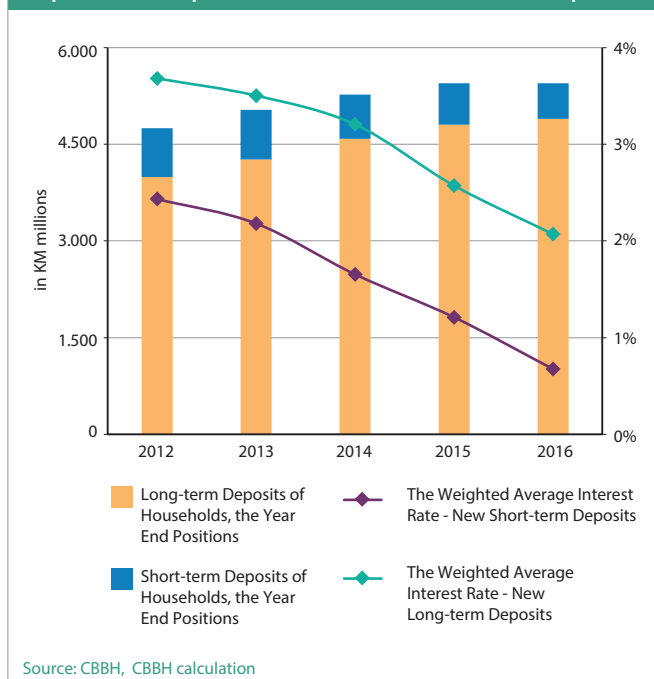
Also, when the structure of household deposits is analysed on the basis of CBBH data, it is evident that the growth of total household deposits was a consequence of the increase in funds on transaction accounts (21.6%) and sight deposits (14.8%), while the trend of time deposits growth did not continue in 2016. Namely, in 2016, the growth of long-term household deposits was considerably lower (1.8%) than in the previous years, and given that short-term deposits decreased for the third consecutive year, total time deposits in 2016 decreased by KM 1.7 million or 0.03%. One of the contributory factors to the lack of growth in total time deposits in 2016 was the continuing trend of falling deposit interest rates, which diminished the household motivation to deposit funds and increased their commitment to hold funds on transaction accounts or as sight deposits.

The deposit interest rates trend in 2016 was under the influence of low interest rates on international financial markets. The average weighted interest rate on household deposits with agreed maturity (term deposits) amounted to 1.85% in 2016 and was 46 base points lower than in the previous year, while the average weighted interest rates on long-term and short-term household deposits were lower by 50 and 54 base points respectively (Graph 3.11). The downward trend in deposit interest rates continued in 2017, and in the first five months of 2017 the average weighted interest rate was 1.51%.

¹¹ At the end of 2016, deposits exceeding KM 50 thousand made 48,5% of the total household deposit amount, while they are placed on only 1.4% deposit accounts.

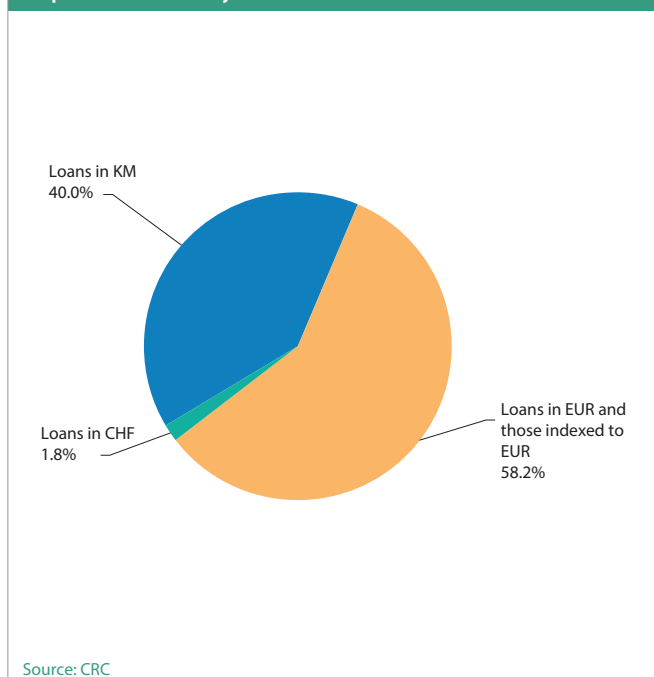
¹² The average amount on deposit accounts in the category of deposits up to KM 50 thousand amounted to KM 1.992 at the end the 2016.

Graph 3.11: Term Deposits of Households and Interest Rates on Deposits



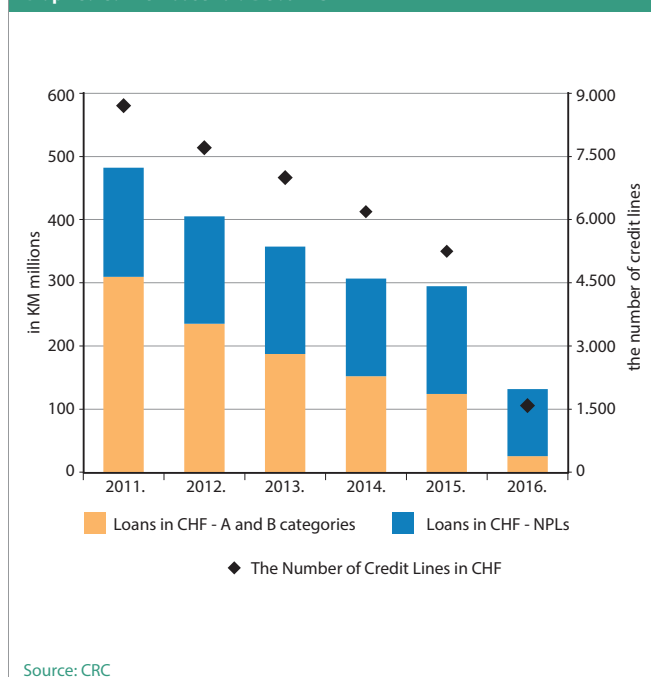
According to the CRC data, household loans in foreign currencies and with a currency clause accounted for 60% of total households loans, the largest part of which was related to the loans indexed or approved in euro, and given the existing currency board regime in BH, the population is not exposed to currency risk. The household indebtedness on loans indexed in CHF amounted to 1.8% of total households indebtedness on loans, which was 2.4 percentage points lower compared to the end of 2015 (Graph 3.12).

Graph 3.12: The Currency Structure of the Loans to Households at 2016 End



The amount of outstanding debt on loans with a currency clause in CHF, as well as the number of these credit lines, has been decreasing since 2011, as a consequence of repayment, conversion of loans to another currency and a complete cessation of the issuance of new loans in CHF currency. Two banks that the entire credit portfolio in the CHF currency relates to, offered to the credit users with CHF clause the option of restructuring credit indebtedness in March 2016, in a way to make a conversion of loan with CHF currency clause into loans with EUR currency clause, under more favourable terms of repayment at the current exchange rate¹³. Most beneficiaries of these loans accepted the offered option, so that by the end of 2016, the number of credit lines decreased by 70%, and the remaining debt on loans with CHF currency clause decreased by 45% compared to the end of 2015 (Graph 3.13). Although the number of lines and the remaining debt on the loans with CHF currency clause were reduced, the conversion did not resolve the problem of non-performing loans with CHF currency clause, mainly because the greatest volume of conversion involved the performing part of the credit portfolio. Thus, the indicator of non-performing loans in total loans in the case of the loans with CHF currency clause at the end of 2016 increased and reached as much as 80.8%. An extremely large share of non-performing loans in total loans with CHF currency clause is not, however, a systemic problem, since the CHF credit lines accounted for only 0.2% of the total number of credit lines at the end of 2016, but continued to be a major burden for households with debts in this currency, as well as for the banks that approved these loans.

Graph 3.13: The Household Debt in CHF



¹³ The offer related to the conversion of loan according to the exchange rate valid on the date of signing the annex to the agreement, and the remaining debt would be restructured with fix nominal interest rate of 5.99% and a decrease of 30%.

Compared to December 2015, the household indebtedness in KM increased by 19.2%, while the indebtedness on loans in EUR and those with EUR currency clause slightly decreased (Table 3.3). Concerning the maturity structure, the majority of claims on household refer to the loans with contracted

maturity of over ten years, and then loans with maturity of five to ten years. Credit growth in 2016 was recorded in all categories of maturity loans of over three years, of which the largest credit growth had the loans approved for a period longer than ten years.

Table 3.3: Loans to Households, Maturity and Currency Structure

Maturity / Currency	Debt Balance and Due Uncollected Principal, in thousands of KM							
	BAM		Loans in a Foreign Currency and Loans Indexed to a Foreign				TOTAL	
			Currency					
			EUR		CHF			
	2016	Annual Change	2016	Annual Change	2016	Annual Change	2016	Annual Change
Up to 1 Year	71.366	-0,8%	5.022	-12,7%	0	0,0%	76.389	-1,7%
1 - 3 Years	189.154	7,0%	142.908	-12,3%	12.493	-2,2%	344.554	-2,3%
3 - 5 Years	365.529	20,2%	399.935	-11,1%	40.958	-15,2%	806.422	0,5%
5 - 10 Years	1.094.703	20,1%	1.659.203	-2,8%	44.555	-38,2%	2.798.460	4,0%
Over 10 Years	1.196.619	21,8%	2.043.215	5,2%	33.773	-79,1%	3.273.607	6,0%
TOTAL	2.917.371	19,2%	4.250.283	-0,4%	131.778	-55,3%	7.299.432	4,1%

Source: CRC

4. Companies

The banks' claims on the corporate sector, despite favourable trends in the domestic macroeconomic conditions, shown in the growth of real GDP, the intensifying of the export activities of domestic economic entities and the growth of the industrial output, recorded a modest growth. A low demand of the corporate sector for loans and the absence of a stronger credit expansion, were one of the main features of this sector in 2016 and one of the factors restricting a stronger recovery of the economy in BH. A slow economic recovery in 2016 and positive trends in the domestic macroeconomic environment were reflected in the decrease of the credit risk in the corporate sector and the ability of the companies to service their liabilities properly, so a decrease of non-performing loans was recorded in almost all the areas of economic activities. However, despite a reduction of credit risk, the loan portfolio in the corporate sector remained burdened with a high level of non-performing loans. The weighted average interest rates on corporate loans continued to decline in 2016 reflecting an effort of banks to adjust the financing price to the conditions in the market in respect of the limited demand for financial services.

In 2016, the recorded values of imports and exports increased, and the size of foreign trade compared to the previous year was higher by 2.9%. A stronger growth of exports compared to imports was registered, so the growth rate of exports in 2016 was 4.8%, while imports increased at the rate of 1.8%. The value of recorded exports in 2016 was higher by KM 429.3 million compared to the previous year, and it was mainly a consequence of the recovery of economic activities and the export demand by the leading trading partners, i.e. the EU member countries and the CEFTA countries. Table A4 in the Statistical Appendix shows the most significant groups of the export and import products, i.e. the groups with the largest shares in foreign trade, and the estimated price effects and the effects of the changes in the volume of exported and imported goods on the value of exports and imports in the most significant commodity groups compared to 2015. In most of the main groups of export products, an increase of the nominal export value was recorded which was mainly a result of the increase of the exported quantities, and not the changes in the prices of exported goods. The only exception was the group Mineral Fuels, Mineral Oils and Products of their Distillation; Electricity, Bituminous Substances, Mineral Waxes, where the increase of the nominal export value was only the result of the price effect caused by higher prices of crude

oil. The most significant export products in 2016 were base metals and the base metal products although the recorded value of the exports of this product group continuously decreased over the last several years. The exports of this group of products accounted for 16.7% of the total value of the recorded exports in 2016, and the ten largest exporting companies in BH include the three engaged in the production and exports of base metals and their products. Compared to the previous year, the nominal value of the exports of base metals was lower by 4.9%, which was caused by decreased exports of *Iron and Steel*, and *Aluminium and Aluminium Products*.

In both categories of products, a lower value of exports resulted mainly from lower exported quantities, but also unfavourable price trends. The third position by the value of the recorded exports in 2016 in the base metal group was taken by *Products of Iron and Steel*, the exports of which were higher by 18.4% compared to the previous year, which was not enough to neutralize the decline of exports in the previous two categories of base metals. The growth of exports of this product group was only a consequence of higher exported quantities, while the price effect had a negative impact on the nominal value of exports. In the group *Miscellaneous Products* in 2016, the price effect had a negative impact on the export value, so the increase of the export value of 10.1% was only a consequence of the increase of the exported quantity. The high rate of the export growth (9.1%) was recorded in the category *Wood and Wood Products*, unlike the previous year, when the increase of exports was a result of favourable price trends, in 2016, the export growth was predominantly affected by the increase of the exported quantity, which, with the higher volume of the furniture exports in the group *Miscellaneous Products* suggests that the wood industry is becoming an increasingly important economy branch, and that the companies from this area have increasing comparative advantages in the international market. In the group *Products of Chemical and Related Industries*, the growth of the exports was a result of the increase of the exported quantity, while the price trends had a negative impact on the export value. In the group *Electric Machines and Equipment and their Parts, Sound Reproducers or Recorders, Television Image and Sound Recorders or Reproducers and Parts and Equipment for such Products*, the increase of the exports was only a consequence of a strong growth in the quantity of the exported goods, while the price effect had a very negative contribution to the growth of the export value. In the category *Machines, Appliances*

and Mechanical Devices, Boilers; their Parts, the increase of the exports resulted mainly from the increase of the quantity, although the price trends partly contributed to the increase of the export value.

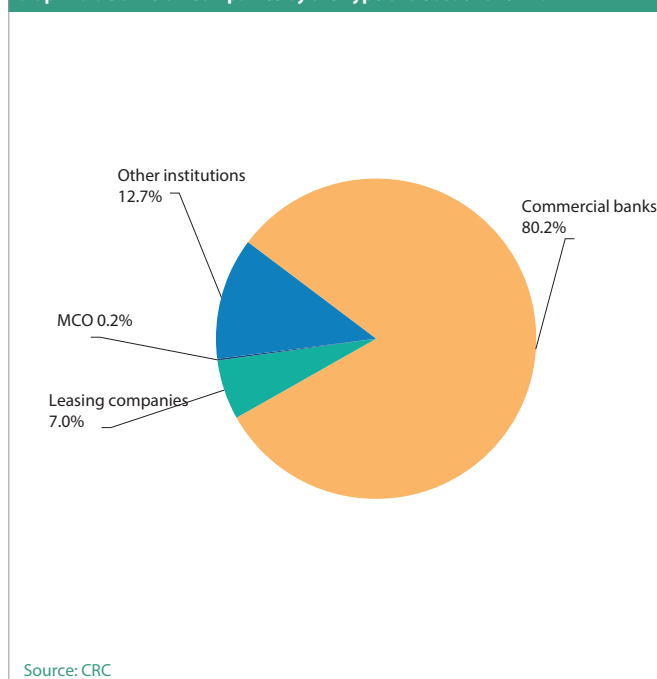
The recorded import value in 2016 amounted to KM 16.1 billion and compared to the year before, it was higher by KM 287.5 million. In 2016, in the group of products *Mineral Fuels, Mineral Oils and Products of their Distillation, Electricity, Bituminous Substances, Mineral Waxes*, a decline of the nominal import value of 10.7% was recorded, which was completely a consequence of the price effect. The value of the imports in the group *Food Products* compared to the previous year was higher by 3%, and in two out of the four most significant categories of import products in this group, strong deflationary pressures remained present which resulted in a decline of the import value in these categories of products. In the group *Base Metals*, a decrease of the value of the imports of aluminium and its products was registered, which was only a result of lower imported quantities, while in the other two categories of products (*Iron and Steel, Iron and Steel Products*) the import demand increased. In the group *Machines, Appliances, Mechanical and Electric Devices* in 2016, the import demand increased while the import prices were lower.

Although a recovery of economic activities was registered in 2016, and a growth of gross added value was recorded in almost all the economic activities, as well as a stronger export activity, the lending activity in the corporate sector remained slowed down without signs of a stronger recovery. High rates of the growth of the gross added value (over 5%) were recorded in the activity D (Production and Supply of Electric Energy), S (Other Service Activities), N (Administrative Activities), K (Financial Activities and Insurance Activities). Negative growth rates were recorded only in the activities P (Education), J (Information and Communication), H (Transport and Warehousing), F (Construction) and O (Public Administration and Defence, Compulsory Social Insurance).

According to the data from CRC, the total claims of all the groups of financial intermediaries in the end of 2016 amounted to KM 11.16 billion and they were higher by only 0.8% compared to 2015. The recorded growth was only the result of the growth of the claims of the banking sector on the corporate sector. All the other groups of financial intermediaries recorded a decline of the nominal value of the claims on the corporate sector, except for microcredit organizations, the share of which in the total debt of the corporate sector was negligible anyway. The capital market

in BH remained insufficiently developed, in order to be able to provide, at least partly, the borrowing and financing of the operations of the corporate sector. Therefore, the local credit institutions, i.e. banks remained the primary and actually the only source of financing of the corporate sector in the domestic financial market. Consequently, compared to the previous year, the share of the banking sector in the total claims on companies increased at the account of all the other non-banking financial intermediaries. The overall debt of the corporate sector towards all the groups of financial intermediaries measured by the share in GDP in the end of 2016 amounted to 38.1% of GDP, which was slightly lower compared to the end of the previous year (38.8%). Such decrease was only a consequence of a faster growth of the nominal value of GDP compared to the increase of the overall debt of companies, and not the consequence of the deleverage of corporate sector.

Graph 4.1: Claims on Companies by the Type of Debt at 2016 End

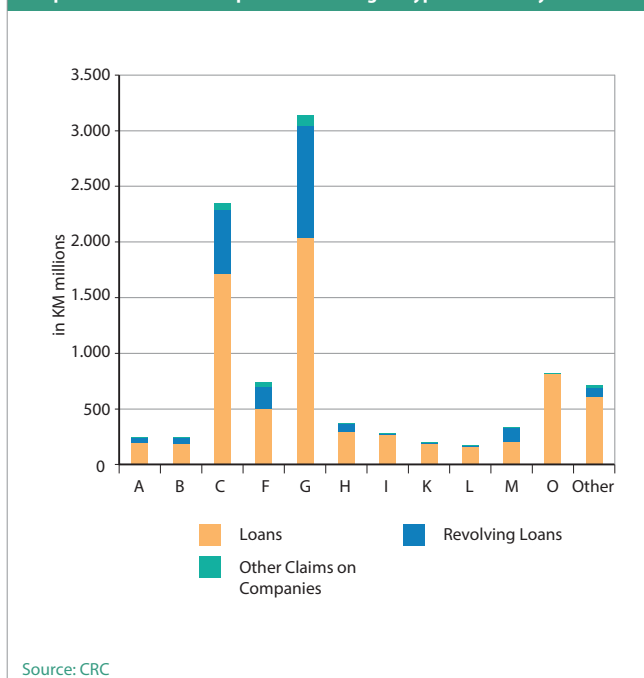


According to the data from CRC, the overall claims of the banking sector on the corporate sector amounted to KM 9.6 billion, which was higher by 1.5% compared to the end of the previous year. By activities, the largest contribution to the growth of the total exposure of the banking sector to the corporate sector came from the companies from the activity *Manufacturing Industry, Hotels and Catering, Agriculture, Construction, Transport and Warehousing and activity Water Supply, Sewerage, Waste Management and Environment Remedy Activities*. A rather modest growth of the overall claims was affected by a decrease of the banking sector exposure to the activities depending largely on domestic demand. The

strongest decrease of the total claims of the banking sector was recorded in the activities *Trade, Public Administration, Defence and Social Insurance, Financial Activities and Insurance and Professional, Scientific and Technical Activities, Production and Supply of Electric Energy, Gas, Steam* and in the activity *Art, Entertainment and Recreation and Other Service Activities*. In 2016, a slow decrease of the corporate debt was recorded in the activity *Trade* so their overall debt with the banking sector was lower by 0.5%. However, the claims of the banking sector remained the highest on the companies from this area accounting for 32.7% of the overall claims of the banking sector. Such high concentration of the exposure to only one activity may represent a potential source of risk for the banking sector, which is additionally stressed in the circumstance when Agrokor concern and the companies from that concern, performing the largest part of their operations within this activity, are faced with problems in operations. Beside the activity of trade, the banking sector in BH also recorded a considerable exposure to the manufacturing industry, which increased compared to the previous year by 4.1%. A very strong growth of the gross added value and the production output in the activity D (*Production and Supply of Electricity, Gas, Steam and Air Conditioning*) during 2016, was not accompanied by a stronger financial support of credit institutions.

The total claims of the banking sector on the companies from this activity were lower by 14.4%. As the reverse situation took place in the previous year, when, despite the decline of the economic activity in this area, a growth of the total claims of the banking sector was recorded, the conclusion is made that banks, when making decisions on the size of the financial support to the companies from this area, consider long-term trends more important than the current operating indicators. Also, in this activity, a significant percentage of large companies operate, which, due to their creditworthiness, represent an acceptable level of risk, regardless of temporary oscillations in the level of the economic activity. The companies engaged in professional, scientific and technical activities since 2014 continuously deleveraged and decreased their debt with the banking sector, and such trend was also continued in 2016, although they recorded high growth rates of the gross added value throughout the period. This might imply that the companies from this activity used the credit support mainly to overcome the economic crisis in an easier way, and due to the nature of their activities, in the periods of economic recovery, their regular operations do not require a stronger financial support by banks.

Graph 4.2: Claims on Companies according to Type and Activity



Source: CRC

Legend:

- A - Agriculture, Forestry, Fishing
- B - Mining and Quarrying
- C - Manufacturing Industry
- F - Construction
- G - Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles
- H - Transportation and Warehousing
- I - Accommodation and Food Service Activities (Hotels and Catering)
- K - Financial and Insurance Activities
- L - Real Estate Activities
- M - Professional, Scientific and Technical Activities
- O - Public Administration and Defence; Compulsory Social Insurance

OTHER:

- D - Electricity, Gas, Steam Production and Supply and Air Conditioning
- E - Water Supply; Sewerage, Waste Management and Environment Remediation Activities
- J - Information and Communication
- N - Administrative and Support Service Activities
- P - Education
- Q - Health Care and Social Care Activities
- R - Arts, Entertainment and Recreation
- S - Other Service Activities

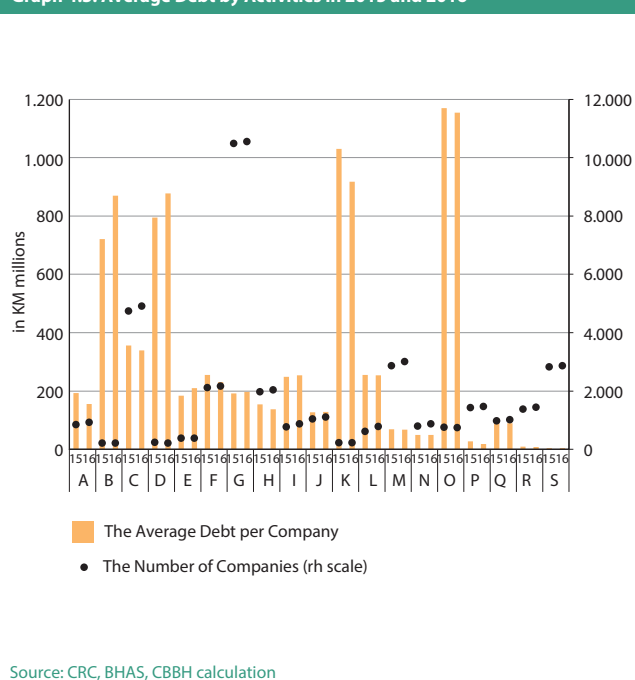
In financing their business activities, companies mainly relied on the financing through the standard loans. In almost all the activities, the share of standard loans in the overall debt was higher than 70%. The exceptions were only the activities *Construction, Trade and Professional, Technical and Scientific Activities*, which, with the financing through standard loans, used the revolving funds of banks to a higher

extent compared to other activities. The total debt balance of the corporate sector on the basis of standard loans slightly increased in 2016 amounting to KM 7.18 billion. The highest influence on the increase of the debt balance based on the standard loans was due to companies in activities *Hotels and Catering*, *Manufacturing Industry*, *Agriculture*, *Water Supply*, *Sewerage*, *Waste Management and Environment Remedial Activities*, followed by *Real Estate Business* and *Transport and Warehousing*. Taking into account a significant growth of the economic activities in the activity *Hotels and Catering*, reflected in a continuous growth of the number of nights and revenues from tourism, the companies from this activity increased their debt with the banking sector based on the standard loans. In this activity, the highest annual growth rate of debt on the basis of standard loans was registered, so the growth of the debt based on standard loans was probably the result of the investing into additional capacities due to the increased demand for such services.

A stronger economic activity and a decline of non-performing loans had a positive influence on the demand for corporate loans from the area of agriculture, so the debt balance for standard loans compared to the previous year was higher by 34%. In 2016, the growth of demand for loans was continued for companies from manufacturing industry, which, with trade, recorded the highest contributions to the growth of the gross added value. With the growth of the debt based on standard loans, these companies increased the growth of the debt on the basis of revolving loans. The largest debt reduction based on standard loans was recorded in the activities *Public Administration*, *Defence and Social Insurance*, followed by *Professional, Scientific and Technical Activities*, *Production and Supply of Electricity, Gas, Steam and Other Service Activities*. A lower construction output during 2016 was reflected in the demand of this sector for the standard loans, so the debt of the construction companies was lower compared to previous year. With regard to the companies from the area Mining, a larger production output did not result in a higher demand for the standard loans or had a considerable effect on the increase of the debt in the area of mining. A lower amount of the debt balance based on the standard loans in the activities *Construction* and *Mining* was partly substituted by the increase of debt based on revolving loans, so in these areas, the overall debt with the banking sector did not decrease.

Graph 4.3 shows the average debt per company per individual activities¹⁴. The highest increase of the average debt in 2016 was recorded in the area of *Mining (B)*, *Production and Supply of Electricity, Gas, Steam and Air Conditioning (D)* and activity *Water Supply, Sewerage, Waste Management and Environment Remedial Activities (E)*. In the activity *Production and Supply of Electricity, Gas, Steam and Air Conditioning*, the growth of the average debt was only a consequence of a lower number of the registered economic entities in 2016. The highest decline of the average debt was recorded in the activity *Agriculture (A)*, *Transport and Warehousing (H)*, *Financial Activities and Insurance Activities (K)* and *Construction (F)*. The data on the average debt per company imply that idiosyncratic risks in the corporate sector were the highest in the activities *Mining (B)*, *Production and Supply of Electricity, Gas, Steam and Air Conditioning (D)* and *Financial Activities and Insurance Activities (K)* where only few companies had very high debt levels.

Graph 4.3: Average Debt by Activities in 2015 and 2016



In 2016, in financing the current needs, the corporate sector relied on the revolving sources to a higher extent compared to the previous year. According to the data from CRC, at 2016 end, the increases of both the approved and the used amounts of revolving loans were recorded. The most significant change in respect of the debt based on revolving loans was recorded in the activity of real estate business, which was probably a result of the trends on the real estate

¹⁴ The data in the graph apply to 30 June 2015 and 30 June 2016.

market in the form of a more intensive turnover and sale of apartments and other real estate. In the activity of agriculture, a significant debt increase based on revolving loans (43.7%) was also recorded compared to the previous year, so it can be concluded that a considerable part of the agricultural production in 2016 was financed by these funds. The debt decrease on the basis of the standard loans in the activities of mining and construction was partly substituted by a higher used amount based on the revolving loans.

A part of the loan demand of a certain number of economic entities in BH was met by direct borrowing in foreign countries. According to the CBBH data, the debt of the economic entities, including also the activity of financial mediation, towards foreign countries at 2016 end, amounted to KM 7.87 billion. When the financial mediation activity is excluded, the debt of economic entities amounted to KM 4.7 billion and compared to the previous year, it additionally increased by 4.8%. From the view of the activity, the highest contribution to the growth of the foreign debt came from the economic entities engaged in the production of coke and refined oil products (62.0%) and the production of food products (24.4%). In 2016, the largest negative contribution to the growth of the foreign debt was recorded due to the deleverage of domestic companies from the activity Real Estate Business (-44.4%), Production of Base Metals (-9.9%) and the Production of Chemicals and Chemical Products (-16.9%). A detailed survey of the non-government foreign debt according to NACE 2 classification of debtors' activities is provided in Table A8 in the Statistical Appendix¹⁵.

During 2016, KM 3.6 billion of standard loans was extended in the corporate sector. Compared to the previous year, the amount of the approved loans in 2016 was higher by KM 270.7 million (8.1%), and as the debt balance based on the standard loans did not significantly change, it is likely that a part of the newly approved loans was used for the rescheduling of the existing liabilities in the corporate sector. Besides, the debt balance in the corporate sector was influenced by the write-off of claims by some banks, which additionally decreased the impact of the growth of newly approved loans on the debt balance. In 2016, KM 2.25 billion of long-term loans and 1.4 billion of short-term loans to the corporate sector was approved. The value of newly approved long-term loans was

higher by KM 375.5 million (20%), while the amount of the approved short-term loans in 2016 was lower by KM 104.8 million (7.2%). As the downward trend of short-term loans was present in the several previous years, with the increase of long-term lending, such trends, with the stagnation of the overall debt balance in the corporate sector, can mean that a part of the short-term liabilities was rescheduled into a debt with a longer maturity. The highest contribution to growth came from newly approved long-term loans in the category over EUR 1 million, which, compared to the previous year, were higher by 36.8%. Observed by the currency structure, in the corporate sector, the highest amount of funds during 2016 was extended in the local currency (KM 1.88 billion).

According to the data from CRC, in 2016, the downward trend of the debt balance based on the loans with contracted maturities exceeding ten years was continued. Besides, in the category up to one year, the amount of the debt balance was lower compared to the previous year, while in all the other maturity categories, the debt balance increased.

Table 4.1 : Loans to Companies, Maturity and Currency Structure of Debt Balance

in KM thousands						
Maturity	Debt Balance and Due Uncollected Principal					
	BAM	Loans in a Foreign Currency and Loans Indexed to a Foreign Currency				TOTAL
		EUR	CHF	USD	KWD	
Up to 1 Year	506.365	229.179	0	29.006	0	764.550
1 - 3 Years	495.662	509.308	0	11.235	2.470	1.018.676
3 - 5 Years	494.473	814.608	787	0	569	1.310.437
5 - 10 Years	686.323	2.253.154	1.883	340	1.389	2.943.089
Over 10 Years	330.555	799.338	11.022	701	64	1.141.681
TOTAL	2.513.379	4.605.588	13.691	41.282	4.493	7.178.433

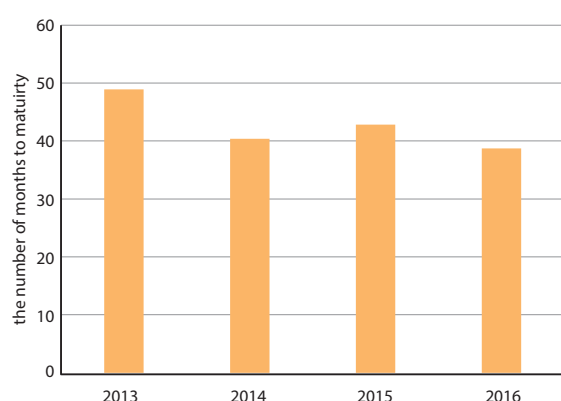
Source: CRC

The largest share, from the view of the contracted maturities, was still taken by the loans with contracted maturities from 5 to 10 years (Table 4.1). Their share in the total standard loans was 41% and compared to the previous year, it was higher by 1.2 percentage points. On the other hand, the share of the loans with contracted maturities over 10 years, and also their nominal amounts, continuously decreased since 2013. Such development was brought about by reasons related to both supply and demand. On one hand, the share of the sources with maturities over 5 years continuously

¹⁵ The data are the result of the survey on foreign investment regularly conducted by the CBBH at the quarterly and annual basis. These data include only those business entities for which the CBBH knows that they have the amount of foreign direct investment higher than KM 100,000 and microcredit organisations in BH.

decreased in the banking sector liabilities, which limited the potential of the banking sector for extending funds with longer maturities. On the other hand, the uncertainty related to future macroeconomic trends which will be reflected in a potential economic growth, does not stimulate economic entities to make such long-term investments. The data on the average loan maturities¹⁶ in the corporate sector calculated according to residual maturity indicate the existence of the declining trend of the residual maturity (Graph 4.4). The average loan maturity in the corporate sector at 2016 end was 38.7 months and compared to the previous year, it was shorter by 4.1 month.

Graph 4.4: The Average Maturity per Standard Loans



Source: CRC, CBBH calculation

The corporate sector exposure to the currency risk compared to the previous year did not significantly change, and a high euroization rate remained one of the main features of BH corporate sector. The largest part of the debt of BH companies was approved in the local currency and in euro, which under the existing currency board arrangement is the peg currency in relation to which the fixed exchange rate was defined. The sector debt in other currencies is almost negligible and decreasing year after year, so it cannot represent a significant source of risk. In the existing circumstances, the currency risk does not represent a significant source of vulnerability which could endanger or decrease the financial stability of the country, and the corporate sector is able to absorb potential shocks due to possible changes in the currency markets. Compared to the previous year, in the

currency structure of the claims on the corporate sector, the share of the loans extended in the local currency increased, and the shares of the claims extended or indexed to euro decreased, which was probably a consequence of the changes in the liabilities of the banking sector reflected through the decreased share of foreign sources of financing. By categories of maturity, the largest share of the loans in the local currency was registered in the category up to one year, while in all the other maturity categories, the largest shares were taken by the loans approved or indexed in euro. By activities, the largest share of the loans approved in the local currency was recorded in the activities usually generating low foreign exchange income, such as activities *Art, Entertainment and Recreation, Public Administration and Defence, Compulsory Social Insurance, Water Supply, Sewerage, Waste Management and Environment Remedial Activities, Professional, Scientific and Technical Activities, Activities of Health Care and Social Care, Education*.

On the other hand, a high share of the liabilities denominated or indexed to euro was recorded in the activities generally achieving high foreign exchange income, such as *Hotels and Catering, Agriculture, Production and Supply of Electricity, Gas, Steam and Air Conditioning, Information and Communication, Transport and Warehousing*. Such currency structure of the claims in the corporate sector additionally confirms the claim that the currency risk should not be considered a significant source of risk, as, observed by the activities, a higher risk is concentrated in the activities with income in foreign currencies, so they are in a better position to absorb negative effects brought about by the changes in the foreign exchange rate. In Table A6 in the Statistical Appendix, the structure of debt by activities was presented according to the currency in which the loan was approved.

The loan portfolio in the corporate sector remained burdened with a high level of non-performing loans, although in 2016, positive trends were continued in respect of the credit risk decrease in this sector. In 2016, a decrease of non-performing loans was recorded in the nominal amount of KM 211.1 million, with more than half of this decrease resulting from extraordinary circumstances, i.e. revoke of the operating licence of one bank with a high level of non-performing loans in the corporate sector (this bank was excluded from the data for the year end). The ratio of the non-performing loans in the total loan portfolio of the corporate sector decreased,

¹⁶ When calculating the average loan maturity, the data on the loans supplied by the commercial banks to the Central Registry of Credits with the CBBH at year end were used. The average loan maturity at each year end was calculated as the weighted average of the residual maturity, the used weight being the debt balance on each individual loan.

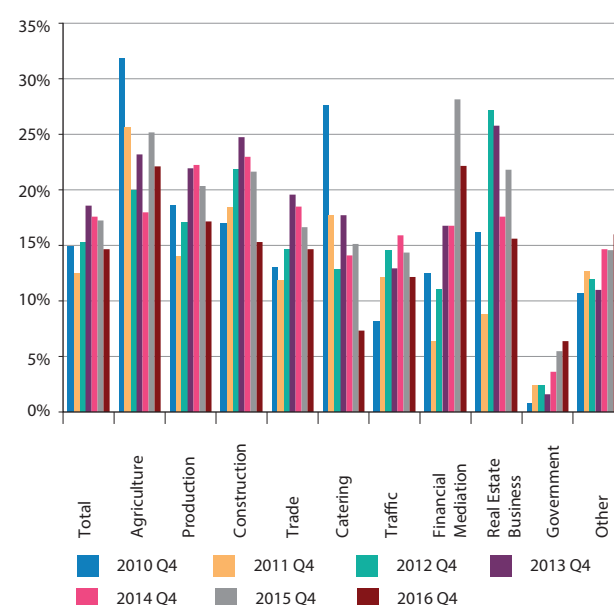
amounting to 14.7%, which was lower compared to the previous year by 2.5 percentage points. With the previously mentioned effect of excluding one bank, a slow growth of lending activities in the corporate sector also influenced the decrease of this indicator. The trend of non-performing loans by banks also showed that the credit risk coming from the corporate sector was slowly declining, as a lower level of non-performing loans was recorded with most of the banks in the system.

The growth of real GDP and the recovery of economic activities, with lower interest rates, had a stimulating effect on the quality of the loan portfolio and the ability of the companies to meet their credit liabilities on time. Also, the restructuring of some banks operations and better risk management additionally contributed to the decrease of the level of non-performing loans in the corporate sector. On the other hand, the factors limiting a stronger recovery in respect of credit risk in the corporate sector, such as the absence of a stronger lending activity and structural problems and vulnerabilities in the balance sheet positions of local companies remained present. In addition, the problems in operations, which one of the large business entities in BH is exposed to, could additionally deteriorate the quality of the loan portfolio in the corporate sector, particularly in the area of trading. From the view of economic activities, a lower share of NPLs in the loan portfolio was recorded in almost all the activities. Compared to 2015, lower amounts of NPLs in the nominal values were registered in almost all the activities.

The largest decrease of the NPL share in the total loans was recorded in the activity of hotels and catering, which was partly a consequence of the high rates of the economic growth recorded during the previous two years in this activity and the intensification of economic activity. Also, in the activity of construction, a considerable decline of the NPL share in the total loans was recorded regardless of the fact that a decline of the production output was recorded in this area. In the activity of construction, over the previous several years, a constant decrease of the NPL share was recorded, which is certainly one of the indicators that negative effects of the crisis in BH economy gradually weakened. The materialization of credit risk in the activity of agriculture was stopped, so a decline of the level of non-performing loans was recorded in this activity as well. The intensification of business activities and the growth of production in manufacturing industry, mining and production of electricity, resulted in a decrease

of credit risk in these activities as well. In the area with the highest share in generating gross added value and in the total loans to the corporate sector, trade, a decline of the ratio of non-performing loans was also recorded, although a growth of the gross added value in relation to the previous year was not so intensive as in the case of the previously mentioned activities.

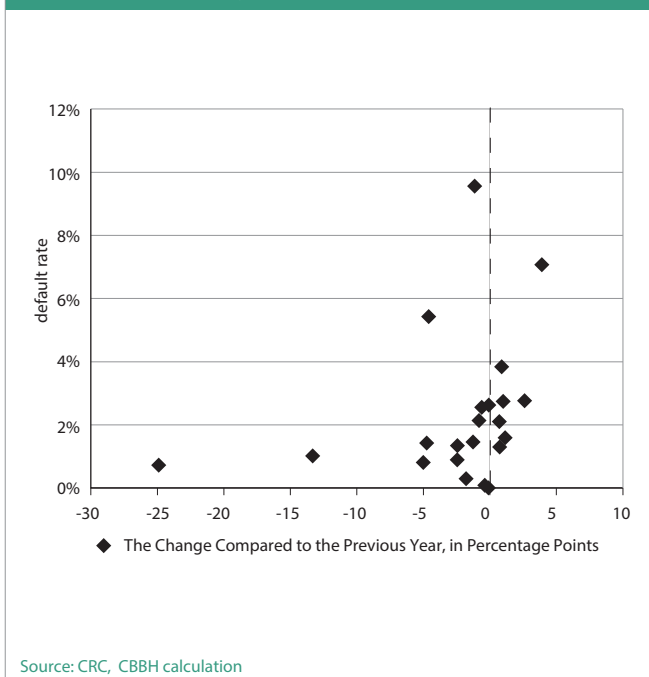
Graph 4.5: The Share of Non-Performing Loans in the Total Loans of Companies, by Activities



Source: FBA and BARS, CBBH calculation

The fact that the trend of accumulation and materialization of credit risk in the corporate sector was stopped is also shown by the data on the default rate, which in 2016 amounted to 2.37% which was lower by 2.16 percentage points compared to the previous year. In most of the banks in the system, a lower default rate was recorded compared to the previous year. A higher default rate was recorded mainly with those banks which in the previous period had stronger lending activities compared to the remaining part of the banking sector. The two banks which in the period of credit boom made an inadequate assessment of the creditworthiness of their clients, and were exposed to a strong materialization of credit risk after the outbreak of the crisis, managed to stabilize their operations considerably and they improved the policies of credit risk management in the corporate sector, which was reflected through a very low default rate during 2016. Most of systemically important banks continued to record default rates lower than the average annual rates recorded at the banking sector level.

Graph 4.6: Default Rates by Banks in 2016

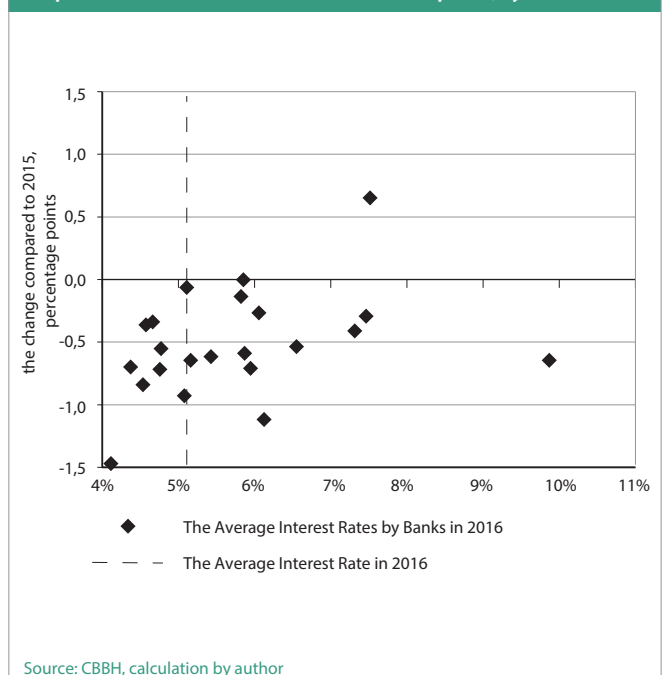


The downward trend of the interest rates on the loans to non-financial companies was continued in 2016, so the financing price of the non-financial companies with domestic credit institutions was gradually coming close to the average level of 5% per year. According to the CBBH data, the weighted average interest rate on the loans to non-financial companies during 2016 amounted to 5.25% which was lower by 71 bp compared to the previous year. Except for one, all the banks in the system decreased the interest rates on placements to non-financial companies in 2016 compared to the previous year, and the weighted average interest rate was in the range from 4.12% to 9.87%. Both the upper and the lower limit of this spread were lower compared to 2015 by approximately 70 bp. The largest decline of the interest rates was recorded with two small banks which in the previous periods had had significantly higher interest rates compared to the average level in the system. The number of banks the interest rates of which converged to the average interest rate in the system was higher compared to the previous year. The most significant factor which influenced a decline of the interest rates in 2016 was a lower financing price of banks, i.e. a decline of the financing costs of banks both in the domestic and in the foreign market.

Also, a decrease of the credit risk and non-performing loans in the corporate sector, and a stronger competition among banks in the conditions when there is no high demand for loans, additionally stimulated a decline of the interest rates. The interest rate trend on the placements to non-financial companies in the period ahead will depend on

several factors, although, during 2017, significant changes in the interest policies of domestic banks should not be expected. The indications of changes of the monetary policy of the ECB and the gradual revoke of a part of unconventional measures of the expansionary monetary policy will result in the pressures on the growth of interbank market interest rates, which will directly be reflected in the level of the interest rates on the domestic banking market. At the same time, the perception of macroeconomic risks in BH by foreign investors and international creditors will significantly determine the trend of the interest rates in the country. The implementation of the planned structural reforms, the improvement of the investment climate and business environment and the consolidation of public spending would reduce the country risk premium, which would mitigate any possible pressures on the growth of the interest rates induced by changes in international circumstances. Also, a continued declining trend of the non-performing loans in the corporate sector would have positive effects on the interest rate trend.

Graph 4.7: The Interest Rates on the Loans to Companies, by Banks



Due to a more intensive placement of loans with the fixed interest rate, the exposure of the non-financial companies sector to the interest risk decreased in 2016 compared to the previous year. Yet, there is still a significant danger of the interest risk materialization, as in 2016, more than half of the approved funds was placed with the provision on the volatility of the interest rate. In the structure of the loans approved in 2016, the share of loans with volatile interest rates, i.e. initial interest rate fixation periods up to 1 year was decreased, amounting to 63%, which was lower compared to

the previous year by 11 percentage points. At the same time, the share of the loans with volatile interest rates in the period from 1 to 5 years increased from 15% to 20%, as well as the share of the loans with volatile interest rate in the period over 5 years, which increased from 11% to 17%. Observing the interest structure of the loans, over the previous three years, the share of the loans with volatile interest rates up to 1 year decreased, which decreases the risk of a potential growth of interest rates.

This is particularly important in the circumstances when the changes of the ECB monetary policy are announced increasingly frequently, which could lead to the increase of the interest rates in the European banking market, and consequently, in the banking market of BH. In case such scenario takes place, all the companies financed by loans with volatile interest rates in the previous period would be exposed

to higher financing costs, which in certain cases, could reduce their capacity of the regular debt servicing. Such development would lead to the increase of the credit risk in the corporate sector, i.e. banking sector, which would have a negative effect on financial stability. A slow decline of the interest rates on the corporate loans was also recorded in the first quarter of 2017. However, having in mind that interest rates are at their historically lowest levels, it is not realistic to expect their significant decline in the period ahead, particularly taking into account the trends in international financial markets and the monetary policies of the leading central banks. In such circumstances, non-financial companies, by choosing fixed interest rates when financing long-term investments, would be able to restrict the possibility of the interest risk materialization and probably decrease the costs of financing in long term, regardless of the initially higher costs of borrowing.

5. Financial Intermediaries

Due to the lowering of the risk resulting from the international and local circumstances, the risks for the financial system stability in BH have been partly mitigated. The total assets of financial intermediaries during 2016 continued to grow, with the continued dominating impact on the asset growth coming from the banking sector, which was at the same time, the largest and the most developed sector in the BH financial system.

As a result of a slow risk reduction, the lending activities in the microcredit sector started to recover, but the share of microcredit organizations in the value of the total assets of financial intermediaries continued to decline. At the same time, as a reflection of insufficient activities on the development and improvement of leasing products, leasing companies continued to decrease their business activities and for the fourth successive year, they recorded a contraction of the balance sheet amount and the decrease of their share in the value of the total assets of financial intermediaries. Also, the assets of investment funds recorded a slow decline during 2016 and a decrease of the share in the total value of the financial intermediaries' assets. The absence of large domestic institutional investors and the absence of willingness of households and corporate sector to invest in securities remained a limiting factor for the growth of domestic investment funds.

Table 5.1: The Financial Intermediaries Asset Value

	2014		2015		2016	
	Value, KM Millions	Share, %	Value, KM Millions	Share, %	Value, KM Millions	Share, %
Banks ¹⁾	22.766	87,4	23.737	87,5	25.014	87,8
Leasing Companies ¹⁾	514	1,97	475	1,75	423	1,48
Microcredit Organizations ¹⁾	647	2,48	640	2,36	665	2,34
Investment Funds ²⁾	758	2,91	824	3,03	802	2,81
Insurance and Reinsurance Companies ³⁾	1.355	5,20	1.465	5,40	1.582	5,56
Total	26.039		27.141		28.486	

Source:

1 - FBA and BARS

2 - Commission for Securities of FBH and Commission for Securities of RS

3 - Entity Agencies for Supervision of Insurance Companies

Calculation: CBBH

The most developed segment of non-banking financial sector were still insurance and reinsurance companies, second by the asset size, and the only one of non-banking institutions recording an increase of the share in the total assets of financial intermediaries in 2016. The largest scope

of trading in the domestic capital market was still recorded in the segment of debt instruments in the primary market. Except for commercial banks, which were mainly oriented towards the government debt market, large institutional investors were almost absent from the capital market. Table 5.1 shows the asset value of financial intermediaries in BH and their shares in the system in the last three years.

5.1. Banking Sector

In BH banking sector in 2016 and the first half of 2017, positive developments were recorded which significantly contributed to the strengthening of the banking sector stability. This was primarily related to the strengthening of the banks resilience which was achieved by the merger of two small banks with considerable capitalization problems to other two banks; by the liquidation of one insolvent bank; by the reorganization of the operations in two systemically important banks which in the previous years had some restrictions in their operations due to a high level of credit risk which had been accumulated at the bank group level in the pre-crisis period. So, in the end of 2016, all the banks in the system, except for one small bank which was recapitalized in 2017, met the required capital adequacy level.

During 2016, the set of draft laws in the banking sector operation area was completed, the main feature being modernization and adjustment of the local regulations to the European Union regulations, which should contribute to the strengthening of the banking sector stability. Due to slow positive trends in the macroeconomic environment, a higher credit growth was recorded in the sector of non-financial private companies compared to the household sector. The asset quality continued to improve, and the growth of profitability was also recorded. The banking sector liquidity was still at the satisfactory level, while the capitalization level was increased partly due to the obligation of the adjustment with regulations but also as a support to the future growth of lending activities. Despite the lowering of the risks arising from real economy and banking sector, the level of non-performing loans remained high, particularly in the sector of non-financial companies, so credit risk still represented a dominating risk in the banking sector of BH.

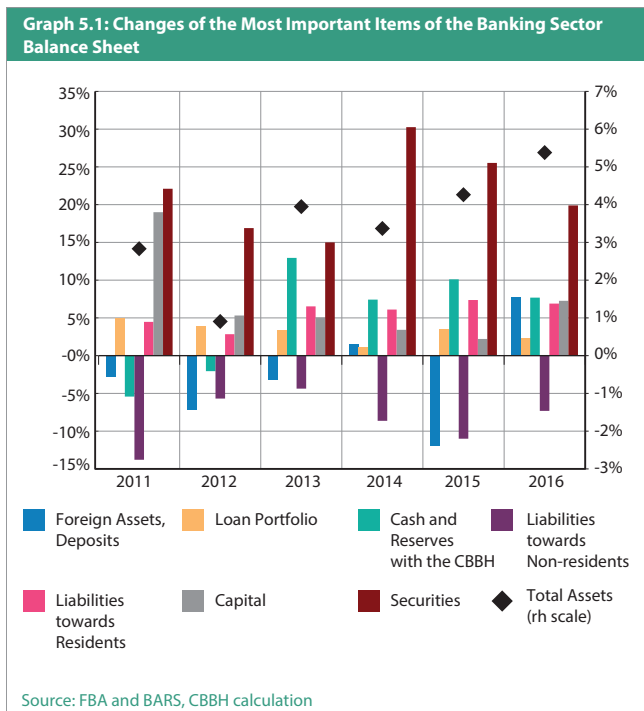
The potential risk from the household sector arose from the increasing share of non-specified purpose loans and replacement loans, with higher amounts and longer maturities, without sufficient quality security instruments, which were partly used for solving the housing issues. Also,

the structure of the loan portfolio in respect of the interest rate fixation period was unfavourable as a significant number of loan agreements was concluded with volatile interest rates. In addition to these risks, it is important to stress the risk of maturity transformation due to the substitution of long-term foreign financing sources with domestic deposits with shorter maturities. The profitability growth supported by a significant growth of the fee based income in effort to compensate for the decline of the interest income represents the risk of sustainability of a stable level of profit from the core activity of banks.

In BH banking sector, at 2016 end, 23 banks operated, and the number of the banks in the system decreased by 3 banks compared to the previous year, after the merger of two small banks in majority domestic ownership with the other two banks was implemented and Banka Srpske a.d. Banja Luka was liquidated. During the third quarter, Moja Banka d.d. Sarajevo was merged to Investiciono-komercijalna banka d.d. Zenica, and Investiciono-komercijalna banka took over all the rights and liabilities of Moja banka d.d. Sarajevo. The resulting bank has been operating since the beginning of 2017 under the name ASA Banka d.d. Sarajevo. In the beginning of the fourth quarter of 2016, the merger of Privredna banka Sarajevo d.d. Sarajevo with BOR banka d.d. Sarajevo was completed, and the new bank operates with the name Privredna banka Sarajevo d.d. Sarajevo (Table A7 in the Statistical Appendix).

In the end of 2016, the balance sheet amount of the banking sector amounted to KM 25 billion and recorded the annual growth of 5.4%. As in the previous year, the highest impact on the balance sheet amount growth came from the increase of the deposits of the domestic resident sectors. Despite the recorded slow positive trends in macroeconomic surrounding, a modest credit growth was recorded at the banking sector level. Due to the absence of significant lending activities, banks recorded an increase of liquid asset items, i.e. cash, funds in the reserve accounts with the CBBH and deposits placed with foreign banks, and they directed a part of funds into investments in securities. At the same time, the trend of the

decrease of foreign liabilities, i.e. the decrease of the liabilities towards non-residents was continued (Graph 5.1).



The deposits of the domestic resident sectors recorded a growth of KM 1.25 billion or 7.6% compared to the end of the previous year, and the highest deposit growth was recorded in the sector of households (KM 811.7 million or 8.3%). The other deposit increase was mainly related to the government institutions deposits (KM 158.7 million or 11.1%) and the deposits of private non-financial companies (KM 157 million or 6.0%). At the same time, the deleverage of banks to majority foreign owners was continued, which was still reflected through a decrease of deposits and loans from non-residents in the structure of the liabilities of commercial banks (Table 5.2).

The dynamics of deleverage in 2016 was with a weaker intensity compared to the previous years, and in the last quarter, a considerable inflow of the deposits of majority foreign owners in some banks was recorded (Graph 5.2). The

Table 5.2: Simplified Balance Sheet of Commercial Banks

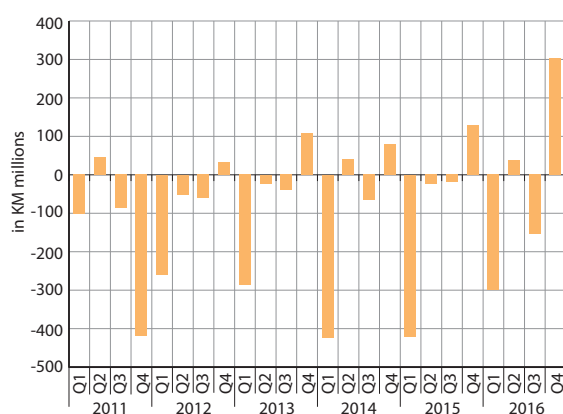
in KM million

Assets			Liabilities		
	2015	2016		2015	2016
Funds and Deposits with Banks	6.255	6.737	Residents' Deposits	16.448	17.700
of which:			Non-residents' Deposits	1.608	1.487
Reserve Accounts with the CBBH	4.023	4.193	Liabilities Based on Loans	1.530	1.384
Loans,	1.494	1.791	of which:		
Claims Based on Leasing and Due Claims	16.458	16.830	Loans from Non-residents	1.017	947
Other Assets	1.372	1.376	Other Liabilities	805	852
Impairments	-1.842	-1.720	Capital	3.346	3.591
TOTAL	23.737	25.014	TOTAL	23.737	25.014

Source: FBA and BARS, calculation by the CBBH

liabilities towards non-residents¹⁷ decreased by KM 199.6 million or 7.3% compared to the end of the previous year, by which bank dependence on cross-border financing was reduced to the lowest level so far, so the liabilities towards non-residents amounted to only 11.8% of the total bank liabilities at 2016 end¹⁸. The sources of funds coming from the domestic resident sectors, observed from the beginning of 2010, when the deleverage towards foreign countries started, increased by KM 5.64 billion¹⁹, while the liabilities towards non-residents in the same period decreased by KM 2.78 billion. Although the sources of funds coming from the domestic resident sectors increased two times more than the decrease of the liabilities toward non-residents, the substitution of the sources of financing from the view of stability was not so favourable having in mind a rather unfavourable maturity structure of these deposits.

Graph 5.2: The Flows of Foreign Liabilities in the Banking Sector

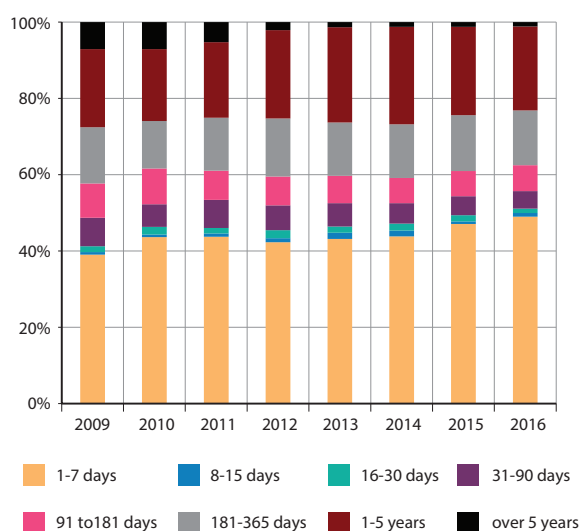


Source: CBBH

Due to the increase of the deposits in transaction accounts (KM 485.5 million or 21.6%) and sight deposits (KM 339.5 million or 14.8%) primarily, the several year long growth trend of the total household deposits was continued. According to the CBBH data, at 2016 end, in the total household deposits, the deposits in transaction accounts and sight deposits accounted for 24.2% and 24.7% respectively. At the same time, the share of long-term deposits in the total household deposits was decreased, from the level of 48.7%, which was

the level recorded in the end of the previous year, to 45.9% in the end of 2016. A strong growth of the deposits in transaction accounts and sight deposits was probably a reaction of households to the conditions prevailing in the banking market for a longer period of time, but also the absence of alternative options for safer ways of investing. The decline trend of the interest rates on household deposits was continued in 2016, and the weighted average interest rate on household term deposits in the end of December 2016 amounted to 1.69%, which was lower by 46 basis points compared to the previous year. On the basis of the analysis of the maturity structure of the total deposits by the remaining maturity, a continuous increase of the deposits with maturities 1-7 days was evident, and their share in the total deposits accounted for 49% in the end of 2016 (Graph 5.3)²⁰. On the other hand, the share of the deposits with maturities over five years was negligible in the total deposit structure (only 1.1%). On the basis of the data from 2016 end, the deposits with the remaining maturities shorter than one year accounted for even 76.9% of the total deposits. As a result of a continuous decrease of the remaining maturities of liabilities, the maturity mismatch between assets and liabilities was growing, i.e. the risk of maturity transformation of short-term sources into long-term placements increased.

Graph 5.3: The Total Deposit Structure by Residual Maturity



Source: FBA and BARS, CBBH calculation

¹⁷ The liabilities towards non-residents include deposits and loans from non-residents, and the liabilities based on subordinate debt and subordinate bonds.

¹⁸ At 2015 end, the liabilities towards non-residents accounted for 13.4% of the total liabilities of the banking sector.

¹⁹ This amount does not include the loans in liabilities from Investicijsko-razvojna banka RS, which, in the end of 2016 amounted to KM 436.3 million.

²⁰ The analysis was prepared on the basis of the data of the Entity Banking Agencies on the maturity adjustment of assets and liabilities. The graph shows the total deposits, including deposits from non-residents by the remaining maturities.

The item capital and reserves in the balance sheet at 2016 end amounted to KM 3.6 billion and recorded the annual increase of 7.2% (Table 5.2). The largest positive impact on capital came from the increase of the equity on the basis of the recapitalization implemented by six banks in 2016. Except for the four banks which paid dividends²¹ during 2016, all the other banks retained their profits from the previous year and increased their capital reserves.

In the assets structure, the largest share was taken by loans, with the annual growth rate of 2.3%. Unlike the previous year, when the household sector recorded significantly higher rates of credit growth than the sector of non-financial companies, opposite trends were recorded in this year. A slow recovery of economic activities in real sector resulted in gradual intensification of credit activities in the sector of non-financial companies, particularly in the second part of the year, so this sector, at 2016 end, recorded a higher annual rate of credit growth (4.1%) than the household sector (3.6%)²². The recovery of lending activities was continued in the first quarter of 2017 (the annual growth rate in the end of March amounted to 5.5%). Yet, the share of loans to the sector of non-financial companies in the total assets at 2016 end was still slightly lower than the share of the loans to the household sector (Graph 5.4).

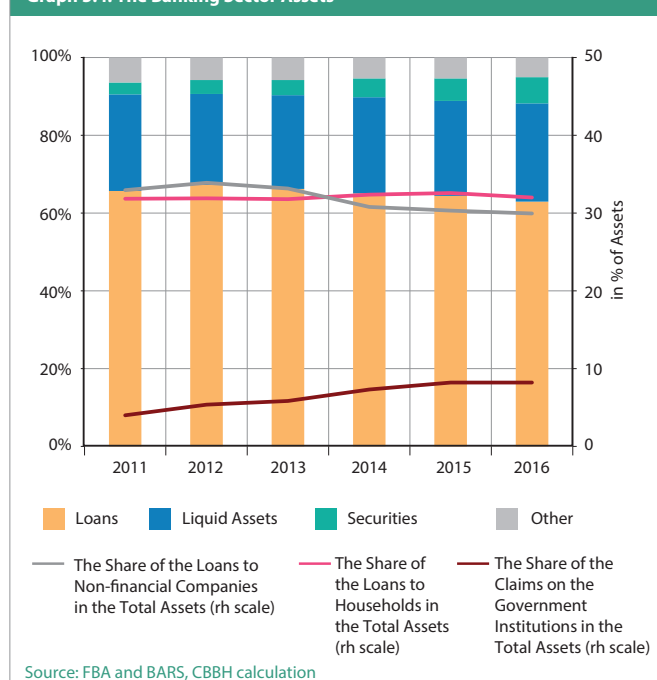
In the sector of households in 2016, lending declined compared to the previous year. The most considerable decline was recorded with the housing loans, although in 2016, activities in the real estate market were not decreased (a more detailed explanation in Chapter 2 Trends and Potential Risks in BH). Also, loans for the business activity recorded a negative growth rate, so only the general consumption loans gave a positive contribution to the credit growth in the household sector. As the non-specified purpose and replacement loans with higher amounts and longer maturities²³ are increasingly present among the loans for the general consumption, with security instruments of insufficient quality, the credit risk in the household sector increased.

The rate of credit growth of this sector at 2016 end amounted to 3.6%, which was lower by 1.4 percentage points compared to the previous year. A lower rate of credit growth in the household sector resulted from a weaker lending activity in this sector in 2016, and the effect of the excluding of Banka Srpske a.d. Banja Luka from the system²⁴. The intensification of lending was recorded in the first part of 2017, so the credit growth rate of the household sector in the end of March 2017 was 4.4%.

Although a stronger focus of the banking sector on the government sector could have been expected, both due to the insufficient recovery of the loan demand of the private sector and also due to the growing budget needs of the government sector and delays in the implementation of the arrangement with the IMF, the overall debt of the government sector with the banking sector increased by only 1.4% compared to the previous year (see Table 2.2). It resulted from the decrease of the government sector debt on the basis of the loans from commercial banks (17%). As the lending to the government sector considerably declined, the increase of the exposure through the purchase of securities (22.1%) did not bring about the growth of the share of the claims on this sector in the total assets, and, the same as in the previous year, the overall claims on the government sector amounted to 8.2% of the total assets (Graph 5.4).

The increase of the total deposits was considerably reflected in the increase of the liquid asset items of banks. All the liquid asset items recorded a growth including the cash in the vaults, the funds in the reserve accounts with the CBBH and deposits with foreign banks. In the conditions of insufficient recovery of lending and the beginning of the

Graph 5.4: The Banking Sector Assets



²¹ In 2016, 4 banks paid dividends in the total amount of KM 163 million.

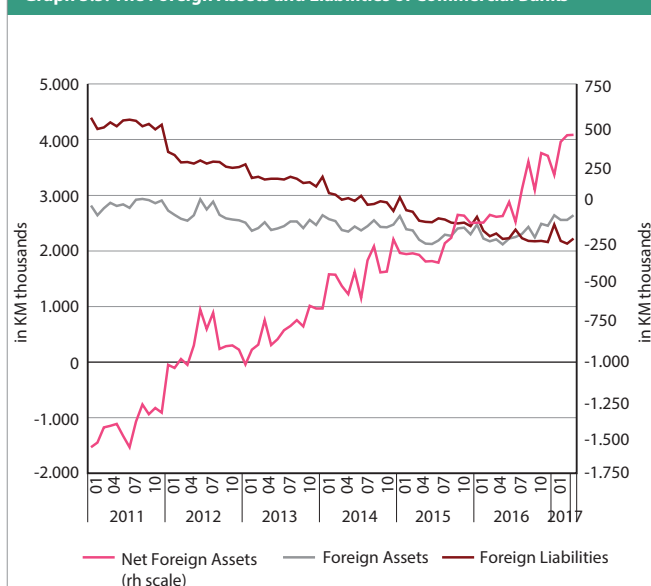
²² If Banka Srpske a.d. Banja Luka were excluded from the data for 2015, the annual rate of credit growth of the sector of non-financial companies would amount to 6.4%.

²³ Most banks in BH banking sector offer non-specified purpose/replacement loans in the maximum amounts between KM 50,000 and KM 70,000 with maximum maturities from 10 to 15 years with the bill of exchange and loan repayments taken from salary as security instruments with or without insurance policy.

²⁴ If Banka Srpske a.d. Banja Luka were excluded from the data for 2015, the annual rate of credit growth of the household sector would amount to 4.2%.

application of a new decision of the CBBH²⁵, by which, in addition to the expanding of the base and the amendment of the required reserve rate, a negative fee was introduced to be charged by the CBBH to banks on the funds exceeding the required reserve, banks recorded an increase of deposits placed with foreign banks (Graph 5.1). In July 2016, when the decision of the CBBH started to be applied, the foreign assets of commercial banks for the first time exceeded in value the foreign liabilities, due to the several year long trend of bank deleverage towards majority foreign owners and the related associations. Net foreign assets continued to record positive values until the end of the year and in the first quarter of 2017 under the impact of the continued deleverage process, as well as the growth of deposits placed with foreign banks and securities from non-residents (Graph 5.5).

Graph 5.5: The Foreign Assets and Liabilities of Commercial Banks



Source: CBBH

BH banking sector at 2016 end was adequately capitalized, and the capital adequacy rate of the banking sector recorded a growth of the value compared to the previous year and was at a considerably higher level than the defined regulatory minimum (Table 5.3). The capitalization indicators at the banking sector level increased mainly under the impact of the Tier I capital growth, while a simultaneous growth of the overall weighted risk partly neutralized a positive

contribution of the earnings recorded in the previous period and recapitalization on the growth of the capitalization indicators. By completing the process of the consolidation of the banks in majority domestic ownership, and by liquidating the bank in majority state ownership, the risks at the system level were mitigated. Yet, in some banks, it will be necessary to additionally strengthen the capital base. One small bank in majority domestic ownership, which failed to meet the regulatory requirements regarding capital adequacy at the end of the fourth quarter was recapitalized in the first half of 2017. Systemically important banks were adequately capitalized, but some of them still had a high share of non-performing claims in the total claims, which will bring about pressure in the periods ahead on the capitalization of these banks.

Table 5.3: The Basic Features of the Banking Sector

		2015	2016
Higher Capitalization	Regulatory Capital, KM Millions	2.609	2.889
	Total Weighted Risk, KM Millions	17.555	18.255
	Capital Adequacy Rate	14,9%	15,8%
Better Quality of the Loan Portfolio	Total Loans, KM Millions	16.458	16.830
	Non-Performing Loans, KM Millions	2.256	1.982
	The Ratio of Non-Performing Loans to the Total Loans	13,7%	11,8%
Considerably Higher Business Performance	Net Profit/Loss, KM Millions	32	219
	Return on Equity	2,0%	7,3%
High Liquidity	Liquid to Total Assets	26,5%	27,2%
	Liquid Assets to Short-term Financial Liabilities	44,0%	44,1%

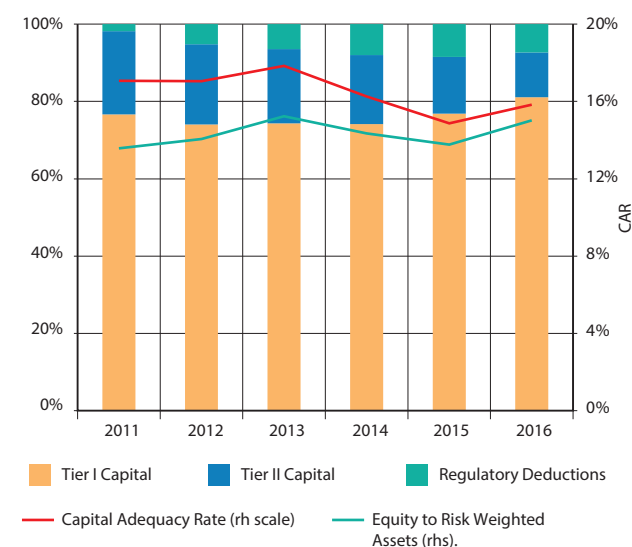
Source: CBBH

By the end of 2016, the banks completely adjusted to the regulatory provisions of the decisions on the bank capital and capital buffers of banks²⁶ in respect of the amounts and the conditions for recognizing the items of Tier II capital, and in respect of the requirements for the capital buffers which need to be met. Consequently, there were changes in the regulatory capital structure, which are reflected in the increase of the share of the Tier I capital and decrease of Tier II capital, which ensured the improvement of the regulatory capital quality (Graph 5.6).

²⁵ In mid April 2016, the CBBH made a decision on expanding the base for the required reserve calculation, the change of the required reserve rate and the fee to be charged on the required reserve funds and the funds exceeding the required reserve. The decision took effect on 01 July 2016, and according to the Decision, the base for the required reserve calculation includes all the deposits and borrowed funds. The Decision also defined the single required reserve rate of 10% to be applied by the CBBH on the base for the required reserve calculation. The Decision defined that the CBBH shall not charge any fees on the required reserve funds. On the amount of funds exceeding the required reserves, the CBBH calculates a fee at the rate equal to 50% of the rate applied by the European Central Bank (ECB) on the deposits of commercial banks.

²⁶ Decision on minimum standard for managing bank capital and capital buffers (Official Gazette FBH, 46/14) and Decision on minimum standards for managing bank capital and capital buffers (Official Gazette of RS 57/14).

Graph 5.6: The Regulatory Capital Structure

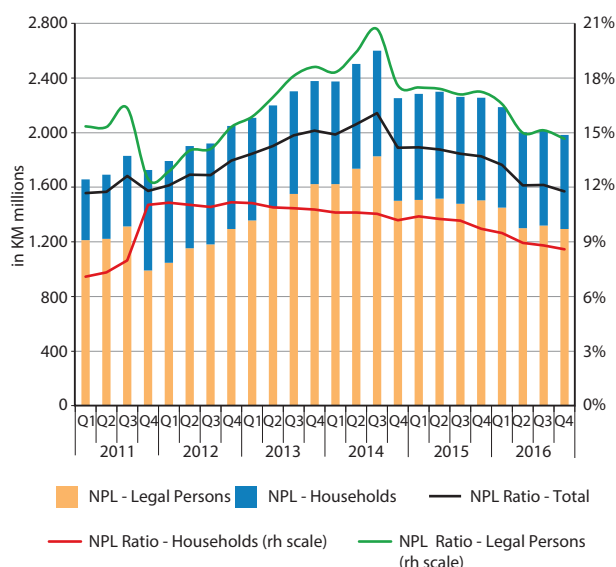


Source: FBA and BARS, CBBH calculation

As a result of the implementation of the mentioned regulatory provisions, the amount of Tier II capital included in the calculation of the regulatory capital decreased by KM 68.9 million or 14.9% at the system level. At the same time, the banks recorded an increase of Tier 1 capital by KM 327.6 million or 13.6% compared to the previous year. The adjustment to regulations was particularly demanding for the banks which met the regulations related to capitalization by using to a significant extent the items from Tier II capital.

The key indicators of the asset quality continued its upward trend. The share of non-performing loans to the total loans at 2016 end amounted to 11.8%, which was a decrease of almost two percentage points compared to the end of the previous year (Table 5.3). The improvement of the indicators of the asset quality was mainly a result of the continuation of the process of cleaning banks' balance sheets, i.e. a permanent write-off of the assets evaluated as a loss. In 2016, banks wrote off KM 127.2 million estimated as a loss, which significantly contributed to the decline of the value of the indicator of the non-performing loans to the total loans. In addition to the permanent write-off, the liquidation of Banka Srpske a.d. had a considerable positive effect on the improvement of the asset quality indicators of the banking sector as the non-performing assets in this bank at the end of the previous year accounted for even 7.2% of the total non-performing assets of the banking sector. Despite the improvement of the asset quality indicator, the share of the non-performing to the total loans remained high, particularly in the segment of the loans extended to legal persons (Graph 5.7).

Graph 5.7: The Quality of the Loan Portfolio



Source: FBA and BARS, CBBH calculation

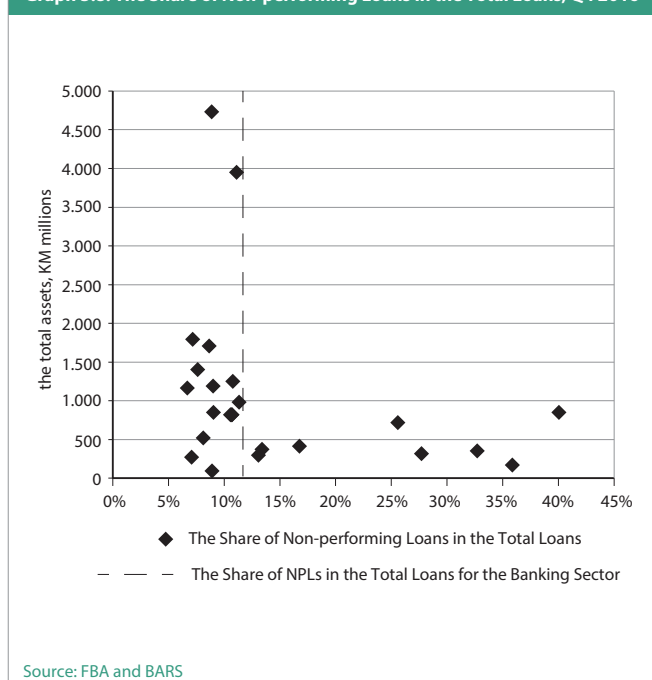
Although the downward trend of non-performing loans regarding absolute and relative amounts was continued in the sector of non-financial companies during 2016, the decrease of non-performing loans was mainly under the impact of the permanent write-off of uncollectible claims, and the effects of the excluding of Banka Srpske a.d. Banja Luka from the system. Although a lower level of non-performing loans was recorded with most of the banks from the system, so the credit risk from this sector can be assessed to be slowly declining, the improvement of macroeconomic indicators and a slow recovery of economic activities are still insufficient for a significant recovery of the sector of non-financial companies. During 2016, in some banks which had a more intensive lending activity in the previous period, and possible inadequate assessments of creditworthiness of clients, an increase of credit risk was recorded. Non-performing loans in the household sector continued the decreasing trend under the impact of a permanent write-off of non-performing claims, while a part of the decrease can be attributed to the conversion of loans in Swiss franc. Also, the decrease of the share of the non-performing loans to the total loans was affected by the growth of loans to the household sector. Two banks which in their assets had loans indexed to CHF, undertook activities during 2016 to convert the loans indexed in CHF, and the number of credit lines in CHF was decreased by 69.6% compared to 2015. Due to the conversion process, the share of the loans indexed to CHF, approved to households and companies, in the total loans was decreased, and at 2016 end it amounted to only 1% of the total loans in the banking sector. As the conversion was mainly performed in the good quality part of the portfolio,

the share of non-performing loans to the total loans indexed to CHF increased, but due to the low share of these loans in the loan portfolio of the banking sector, the risk at the system level is negligible.

The share of non-performing to the total loans at 2016 end was particularly high with six banks in the system, including the two earlier mentioned banks from the same banking group (Graph 5.8). Parallel with the process of cleaning balance sheets and conversion of loans in CHF, these banks recorded stronger lending activities in 2016 as a result of a new business strategy, which ended the many years long trend of the contraction of the balance sheet amounts in these banks and the risk for financial stability was mitigated.

The level of the credit risk in the banking sector in the period ahead could be under the influence of the strengthening of interest risk. The structure of the loan portfolio points out that there is a potential danger of the interest risk materialization, as a considerable part of the loans was agreed with a volatile interest rate (described in details in chapters Households and Companies). The potential growth of the interest rates in the European banking market and consequently in the banking market of BH, would increase the costs of financing for the clients with the agreed loans with volatile interest rates, which could cause delay in the repayment by a certain number of clients and the deterioration of the quality of the loan portfolio in the banking sector.

Graph 5.8: The Share of Non-performing Loans in the Total Loans, Q4 2016



By the end of 2016, the second cycle of the Asset Quality Review (AQR) was completed in some banks, which identified the actual risk profiles in these banks and the balance sheet adjustments were carried out according to the orders of the Banking Agencies. The expected recovery of economic activities in the periods ahead should contribute to the decrease of the share of the non-performing to the total loans, which was particularly stressed in the sector of non-financial private companies. Domestic institutions continued to undertake the activities on establishing the legal framework which should contribute to a more efficient solving of non-performing loans as the key problem in the banking sector of BH. Within the new bank laws, which were adopted in the end of 2016 and in the first half of 2017²⁷ the issue of purchase and sale of placements of banks was regulated (more details in the Text Box). In order to have a comprehensive framework for solving the non-performing loans complete, additional improvements are needed which are related to the amendments of the tax law in order to set up a special tax treatment for the purchase of the non-performing claims, and establishing the framework for solving the debt of physical persons in cases when the debtor is no longer able to settle the liabilities towards banks.

The banking sector of BH at 2016 end recorded a net profit in the amount of KM 218.6 million²⁸ (Table 5.3). The profitability of the banking sector in 2016 recovered under the effect of a considerable decrease of the costs of impairments and the increase of the operative income, with a slow growth of the net interest income. Nineteen commercial banks recorded the profit of KM 283.3 million and four banks presented the negative financial result of KM 64.7 million, while in 2015, also nineteen banks recorded the profit of KM 279.1 million and 7 banks recorded the loss of KM 247.5 million. So, with the recorded level of the profit which was approximately at the same level as in the previous year, in 2016, the net profit of the banking sector was much higher compared to the previous year. The profit of the banking sector was still concentrated in several systemically important banks, where the profit of the two largest banks accounted for 47.3% of the total recorded profit of the banking sector.

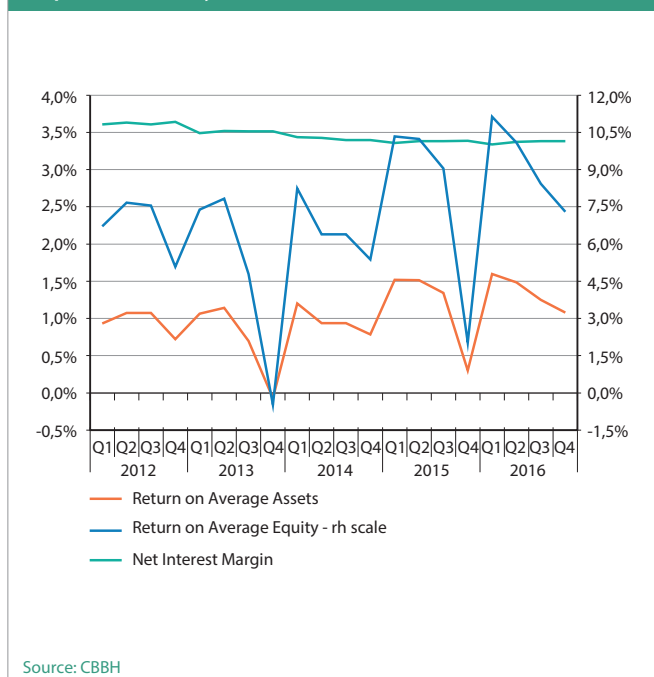
The development of ROAA and ROAE indicators over the previous five years points out the volatility of the return on assets and equity in the banking sector, caused by high losses in the operations of some banks, particularly in the end of

²⁷ The Law on Banks in RS (Official Gazette of RS, 3/17) and the Law on Banks in FBH (Official Gazette FBH, 27/17).

²⁸ The final unrevised data.

2013 and 2015 (Graph G9). However, analysing only the banks which in the previous period recorded positive financial results, it is noticeable that indicators ROAA and ROAE were stable, so the growth trend since 2012 was recorded, and these banks over the previous two years recorded a significantly higher return on assets and equity compared to the earlier periods.

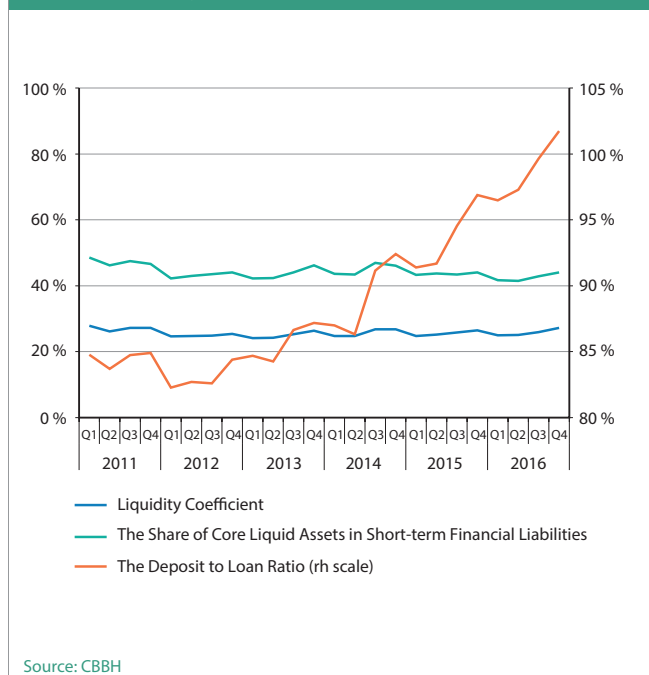
Graph 5.9: Profitability Indicators



In the end of 2016, higher returns on average assets and average equity were recorded compared to the previous year, which, with the mentioned lower costs of impairments, was a result of stable interest margins and the growth trend of the operative income recorded by banks in 2016. In the conditions of low interest rates and rather slow recovery of lending, the downward trend of the interest income was continued at the banking sector level. By lowering deposit interest rates, banks continued to mitigate a decline of the interest income, and in the end of the fourth quarter, they recorded a slightly higher net interest income than in the same period of the previous year. In the structure of income, the share of the interest income was decreased from the level of 69.7% from the end of the previous year to the level of 66.9% in the end of 2016, which was a result of a stronger growth of the operative income recorded by banks on the basis of fees and commissions, and a decline of the interest income. The growth of profitability, which was supported by a considerable growth of the income on the basis of fees in an attempt to compensate for a decline of the interest income, and weak lending activity, represents the risk for the sustainability of a stable level of profit from the core activity of banks.

The liquidity of BH banking sector during 2016 remained at the satisfactory level, which was primarily brought about by a continuous trend of deposit growth on one hand and a low growth of loans, i.e. slow recovery of lending (Graph 5.10). In the end of 2016, liquid assets accounted for 27.2% of the banking sector assets, while 44.1% of short-term liabilities was covered with liquid assets (Table 5.3). Although a satisfactory liquidity was recorded at the system level, some banks recorded an increase of due claims caused by delays in debtors' repayments of due loan liabilities, which resulted in the decrease of the inflow of liquid assets and the conversion of the credit risk into the liquidity risk in these banks. The value of the indicator deposits to loans in the end of 2016 amounted to 101.7% and recorded a significant growth over the previous two years, resulting from significantly higher growth of deposits and a rather slow growth of loans.

Graph 5.10: Liquidity Indicators



Stress Tests

At the quarterly basis, the CBBH conducted the top-down stress tests for the banking sector in the country, which are one of the basic tools for assessing its resilience to potential shocks arising from the macroeconomic environment and the banking sector. The stress testing assesses the ability of the entire banking sector, and also individual banks to endure potential losses which would occur in case of the materialization of the assumed shocks.

The testing is done in two scenarios, the baseline and extreme scenario. In the baseline scenario, the assumptions

are based on macroeconomic projections and the projections of developments in the banking sector, aimed at obtaining a likely position of the banking sector for the end of the two following calendar years. The extreme scenario assumes the unlikely events, which, if realized, will have considerable negative effects for the banking sector. The text below describes briefly the shocks, the basic macroeconomic assumptions and the findings of the stress tests conducted on the basis of the data from the end of 2016.

The stress test is based on the two assumed shocks: the slow-down of economic activities in the country and the growth of interest rates. As the credit risk is the most significant risk in BH banking sector, the stress tests are focused on testing the resilience of the banking sector to the deterioration of the loan portfolio quality, so both shocks are reflected through the growth of non-performing loans, which finally has negative effects on the profitability and capitalization of the banking sector.

The expected economic trends are based on the projections of the IMF and the estimates of the CBBH and they are used as the assumptions in the baseline stress test scenario. In the baseline scenario for 2017, a recovery of economic activity in the country is assumed which is supposed to continue in 2018. In the extreme scenario, a considerable weakening of domestic demand is assumed, which is a consequence of a decrease of the available household income, and also a decrease of external demand for domestic products. So, in both periods of extreme scenario, a significant slow-down of economic activity is assumed compared to the projections from the baseline scenario. Table 5.4 provides a survey of the basic assumptions used during the stress testing for 2016 end.

Table 5.4: The Basic Assumptions in Stress Tests

	Baseline Scenario		Extreme Scenario	
	2017	2018	2017	2018
Growth of Real GDP ¹⁾	3,0	3,5	-4,0	-1,5
Growth of Assets	5,5	6,0	-3,5	-3,2
Nominal Credit Growth	5,9	5,6	-4,0	-3,5
Growth of Securities	15,0	10,0	-5,0	0,0
Inflation ¹⁾	1,4	1,7	-1,1	-0,8

Source: IMF and the CBBH assumptions

¹⁾ The IMF projections have been taken over from the publication IMF World Economic Outlook, April 2017

The basic findings of stress tests are expressed in respect of the capitalization of the banking sector in the following two years. The findings of the stress tests done on the basis of the data from 2016 end indicate the stability of the banking

sector and its resilience to the assumed shocks. The stress test results have shown that the capital adequacy rate of BH banking sector in case of the materialization of the assumed shocks would stay above the regulatory minimum (Table 5.5). However, despite the satisfactory capitalization at the banking sector level, the stress tests have shown that there is a significant number of banks which, in case the assumed shocks are realized, would need additional capital. Although these are idiosyncratic risks, insufficient capitalisation of a higher number of banks or systemically important banks could become a threat for the stability of the entire banking sector.

Table 5.5: Results of Stress Tests

	Baseline Scenario		Extreme Scenario	
	2017	2018	2017	2018
Capital Adequacy Rate, %	16,0	16,5	14,9	14,3
The Number of Banks which Need Recapitalization	3	4	8	9

Source: CBBH

Although in the baseline scenario the banking sector appeared resilient to current risks and the existing low level of economic activities, several banks, primarily the banks facing problems in operations for a longer period of time, have expressed their needs for additional capital. In the baseline scenario at 2017 end, recapitalization needs were expressed by three banks, out of them, one had the capital adequacy rate lower than the regulated one according to the data from 2016 end. According to the results in the baseline scenario of the stress test for 2018, recapitalization needs were expressed by four banks including the three banks which in the first period had also expressed needs for additional capital and one additional small bank which in 2016 recorded a negative financial result.

In case the assumed shocks from the extreme scenario were realized, the needs for additional capital in 2017 would be expressed by eight banks, and in 2018, nine banks. With several mentioned banks which in the baseline scenario expressed needs for additional capital, in the extreme scenario, recapitalization needs appeared also with several banks which according to the current indicators of operations, had no significant problems, but in case of the assumed growth of non-performing loans and financing costs, with a decline of lending, they would record losses which they could not absorb at the existing capital level.

The results of stress tests in the extreme scenario showed that the bank capitalization was primarily sensitive to the quality of the loan portfolio, which, due to the assumed shocks

considerably deteriorated. So, due to the materialization of shocks, the share of non-performing loans at 2017 end would increase by 6.6 percentage points and by the end of 2018 it would be additionally increased by 5.1 percentage points. A significant increase of the costs of provisions, due to the deterioration of the loan portfolio quality, as well as the bank financing costs in the extreme scenario would bring about a negative financial result with a high number of the banks in the system, which would affect the deterioration of their capitalization. It is important to mention that in the stress tests it is not assumed that the banks which showed recapitalization needs in the first period compensated for the needed capital, but recapitalization needs accumulate in both periods of the stress tests. For this reason, the results in the second period of both scenarios were worse compared to the first period. Also, the stress tests did not include the assumption of the write-off of non-performing loans, i.e. a sale of this part of assets to another legal person, so non-performing loans accumulated in the periods when the stress tests were done.

Graph 5.11 presents the level of recapitalization needs and the share of the non-performing loans in the total loans according to the actual positions at 2016 end and according to the stress test results in both scenarios for the two following years.

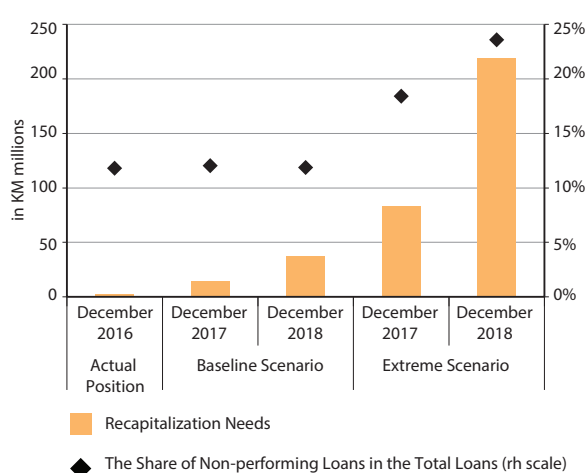
5.2 Non-banking Financial Sector

Due to a slow recovery of the economic activities in BH, a gradual but still quite slow recovery of the operations of a part of the non-banking financial sector was continued during 2016. The improvement of the indicators of the asset quality which was recorded in the microcredit sector and also a positive financial result recorded by MCOs and insurance companies indicated the continuation of the stabilization of the operations of this part of the financial sector. On the other hand, investment funds and leasing companies recorded a negative business result. The assets of the non-banking financial sector increased by KM 69.1 million compared to 2015, where the insurance and reinsurance companies and microcredit organizations recorded the growth of the balance sheet amounts, while the investment funds and leasing companies recorded a contraction of the balance sheet amounts (Table 5.1). Although the assets of the non-banking financial sector recorded an increase, the trend of decrease of the share of non-banking financial intermediaries in the total assets of the financial sector continued as the result of a stronger growth of the balance sheet amount of the banking sector and the contraction of the balance sheet amount of leasing companies and investment funds.

In the end of 2016, 21 MCOs operated in BH, out of it, 14 microcredit foundations and 7 microcredit companies. During 2016, three new MCOs were established, including one microcredit foundation and two microcredit companies. The total assets of microcredit sector in the end of 2016 amounted to KM 640 million and were higher by KM 25.2 million or 3.9% compared to 2015. In the asset structure, the largest share was taken by loans (KM 560.8 million or 84.3%) with annual growth rates of 8.3%. The recovery of lending activities was recorded in most of microcredit organisations, but some smaller MCOs still faced a problem of the insufficient sources of finance, this being the reason of the balance sheet sum contraction and inability to achieve a positive business result. Out of the total amount of microcredits, 97.8% was placed to physical persons, out of it, the largest part (36.1%) was placed for the financing of the agriculture sector. The placements for service activities accounted for 15.5% of microcredits to physical persons, followed by the loans for housing needs (14.3%).

At the level of the MCO sector, the improvement of the asset quality indicators was recorded under the impact of the cleaning of the loan portfolio, and the total result of the sector regarding the portfolio risk level was within the prescribed

Graph 5.11: The Total Recapitalization Needs and the Share of Non-performing Loans in the Total Loans



Source: CBBH

standard (below 5%). Out of the total loan portfolio, 2.4% of loans or KM 13.3 million included delays in repayment, which was a decrease of the risk portfolio by KM 408 thousand or 3% compared to the previous year. Also, a decrease of the loan loss provisions was recorded from KM 5.1 million at 2015 end to KM 4.8 million at 2016 end. The improvement of the indicators of the active portfolio quality was also shown through the decrease of the rate for loan loss provisions. The rate of the loan loss provisions at the sector level amounted to 0.85% and recorded a decrease of 13 basis points compared to the previous year. Off-balance records, consisting mainly of written-off claims, was lower by 3.4% compared to the previous year, currently accounting for 27.5% of the loan portfolio.

In the liability structure, the liabilities based on taken loans representing the basic source of assets of MCOs recorded a small decline compared to the previous year (1%). Although the liabilities based on long-term loans, accounting for 75.5% of the total liabilities based on taken loans did not record a considerable decrease compared to the previous year (1.27%) local commercial banks and international creditors still acted with a high degree of reserve and caution when lending to this sector. The total capital of the sector at 2016 end amounted to KM 293.1 million and recorded an increase of 9% compared to the previous year. The overall capital increase was under the strongest impact of the increase of profit compared to the previous year, by which the item excess income in relation to expenditures within capital recorded an increase of 18.8%.

At 2016 end, the microcredit sector recorded a positive financial result in the amount of KM 25.8 million. Four microcredit foundations presented lower income in relation to expenditures in the amount of KM 111 thousand and one microcredit company presented an operating loss, while the other MCOs recorded positive financial results. The total income at 2016 end amounted to KM 113.6 million and recorded an increase of 9.1% compared to the previous year. In the total income structure, the highest share was taken by the interest income, which at 2016 end accounted for 92.2% of the total income. The interest income recorded an increase of 10.5%, while at the same time, the operative income decreased by 5.5% compared to the previous year. The increase of the interest income resulted from the increase of the lending activities of MCOs and the increase of effective interest rates on short-term and long-term microcredits during 2016. The weighted average effective interest rate on the total loans in the fourth quarter of 2016 in FBH amounted to 25.64%, and in RS it amounted to 22.96%.

The total expenditures of the MCO sector amounted to KM 98.5 million and recorded an increase of 5.3% compared to the previous year. The operative sector costs, mainly consisting of the costs of wages and contributions, were higher by 5.3% compared to 2015, which partly resulted from the increase of the number of employees in the microcredit sector. The costs of provisions for loan and other losses amounted to KM 4.5 million and recorded a decrease of 1.4% compared to the previous year. The increase of the profitability of the microcredit sector in 2016 was mainly the result of the increase of the income based on interest and similar income. Although all the indicators of the operations of the microcredit sector pointed out a further growth and stabilisation of operations, investors still consider this sector to be risky, so the return of the investors' confidence can be expected only after a necessary consolidation of the sector in which a lower number of healthier and stronger MCOs would be operating.

At 2016 end, 8 leasing companies had operating licences. The activity of leasing during 2016 continued to record a downward trend of operating activities, reflected in a significant decrease of new concluded contracts compared to the previous year (28.3%). The total assets of the leasing sector amounted to KM 422.7 million and recorded a decrease of 11% compared to the previous year (Table 5.1). Only in case of two leasing companies, a growth was recorded, while the other leasing companies continued to record a decrease of the balance sheet amount. In the total asset structure, the most significant item of the balance sheet of leasing companies includes financial placements. Financial leasing accounted for 90% of the value of new leasing contracts, and operative leasing accounted for the remaining 10%. The total claims on the basis of financial leasing, which accounted for 72.7% of the total assets in 2016 decreased by 11.5% compared to the previous year and amounted to KM 307.3 million. The decline of business activities and a decline of the balance sheet amount of the sector can be explained by the fact that four leasing companies in 2016 were not active in the market in the process of concluding new contracts. One leasing company in the beginning of March 2017 submitted a request for the revoke of the licence for the performance of the leasing activity.

At 2016 end, the leasing sector recorded a negative financial result in the amount of KM 2 million, which was primarily caused by the presented loss in the companies which were not active in the market. Four leasing companies, which were not active in the market presented a loss in the

amount of KM 5.3 million. A positive financial result was recorded by four leasing companies in the amount of KM 3.3 million. According to the operating indicators, it can be concluded that the operations of leasing companies in 2016, indicated a decline of business activities, but favourable financial indicators were recorded in the leasing companies which did not terminate their business activities.

In BH insurance market in 2016, 27 insurance companies and one reinsurance company operated. The balance sheet amount of insurance companies was higher by 8% compared to the previous year, so its share in the total assets of financial intermediaries increased to 5.56% (Table 5.1). The insurance sector continued to record the increase of the premium in 2016, but the premium was still at a rather low level (2.17% of GDP), which shows that in 2016 there were no significant changes in respect of the development and the structure of the insurance market. The overall premium of insurance companies in BH at 2016 end amounted to KM 633.94 million and compared to the same period of the previous year it recorded an increase of 6.4%. Out of 27 insurance companies registered in BH, 23 of them recorded a growth of the total premium income, while 4 companies recorded a decrease of the total premium income compared to the same period of the previous year. Out of the total calculated premium, non-life insurance accounted for 79.6%, i.e. KM 504.7 million, and the most significant share in the total insurance premium was still taken by the insurance of car liability. The calculated premium on life insurance amounted to KM 129.3 million by which the share in the total premium in 2016 decreased again from the last year's level of 20.7% to the level of 20.4 %. Although a slow growth of the life insurance premium was recorded in 2016 (4.6%), the share of voluntary types of insurance remained low, which represented one of the indicators of a poor development of the insurance market in BH and was one of the basic risks in this sector. The total gross paid damages amounted to KM 245.7 million and accounted for 38.8% of the total calculated premium.

According to the data of the CBBH, insurance companies at 2016 end kept 36% of the total assets in the accounts with commercial banks, in various forms of deposits, which leads to the conclusion that the liquidity of the assets of insurance companies remained quite high. This was primarily a result of limited possibilities of investing in the local capital markets but also legal provisions.

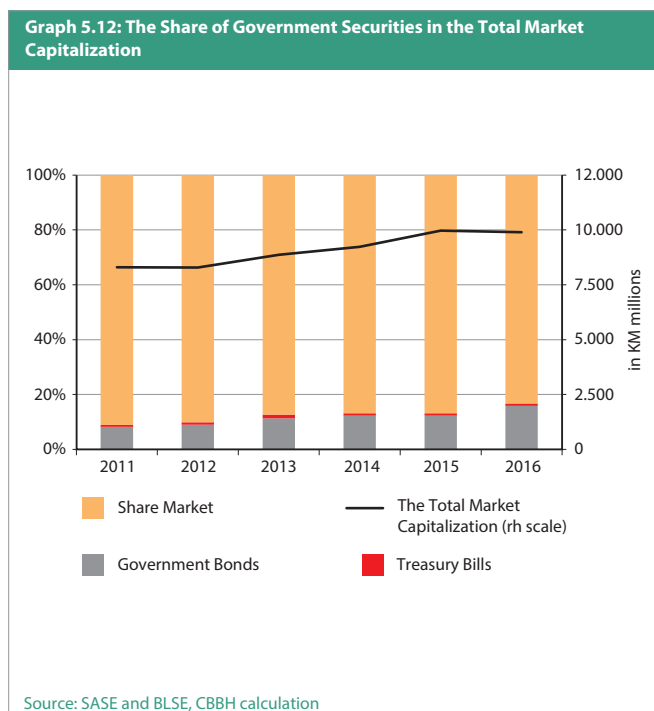
The growth of the balance sheet amount and the premium income indicates a continuation of positive trends in the insurance sector. However, a further development of the insurance market in BH is to a high extent limited by the general economic conditions such as a low level of wages and the continuously high rates of unemployment, and the absence of a sufficient level of the knowledge of citizens on the role and significance of insurance. All this results in a low share of voluntary kinds of insurance, which finally represents a limiting factor for the strengthening of investment possibilities of the insurance sector.

In 2016, 33 investment funds had operating licences, out of it, 18 in FBH and 15 in RS. Out of the total of 33 investment funds, 25 were closed investment funds, while 8 were open investment funds. The net value of the investment fund assets declined by 2.7% in 2016 compared to the end of the previous year and amounted to KM 801 million. Most of the funds recorded a decrease of the asset net value as a result of the decreased market value of securities from the funds' portfolios. The fund industry in BH, generally observed, operated with a negative result and the realized loss in 2016 amounted to KM 48.5 million²⁹.

The total trading at BH stock exchanges in 2016 recorded a decrease, and the value of trading amounted to KM 1.38 billion. Out of the total trading, SASE accounted for 54.7%, and BLSE accounted for 45.3%. The value of the total recorded trading on BH stock exchanges in 2016 was lower by 22.5% while the annual growth rates of the trading on SASE and BLSE amounted to -38.1% and 11.5%, respectively. The recorded decrease of the trading on SASE during 2016 in the amount of KM 464.4 million was mainly the result of the decrease of regular trading on free market, and a decline of trading in the primary market. A decline of trading in the free market was recorded in the amount of KM 234.4 million, and that in the primary market amounted to KM 155 million. The value of the total issues of debt instruments issued by the FBH Government in the domestic capital market in 2016 amounted to KM 460.3 million and was lower by KM 147.6 million this being the reason of the decline of the trading in the primary market in Sarajevo Stock Exchange. On the other hand, the increase of the trading on BLSE was mainly a result of the increase of public offer in the primary market, as the RS Government issued the debt instruments in the total amount of KM 468.2 million, which was higher by KM 59.1 million compared to the previous year. As in the several previous years, the highest level of trading in the domestic capital market was recorded

²⁹ The data on the operations of an open investment fund for 2016 end were not available in the moment of preparing a Report, therefore they were not included in the financial performance of the sector.

in the segment of the debt instruments issued during 2016 by the Entity governments in the total amount of KM 928.5 million. During 2016, the Entity governments continued to borrow by means of treasury bills and bonds in the domestic capital market, so the share of the government securities in the overall market capitalization reached the level of 16.7% at 2016 end (Graph 5.12)³⁰.



Except for the primary market segment, the size of trading in the local stock exchanges can still be considered modest. The domestic capital markets in respect of investment activity and possibilities are still not at the level to support a faster growth of the economic activities in BH. Except for commercial banks, which are mainly focused on the government debt market, larger institutional investors are almost absent from the capital market, and individual investors, for a number of reasons, such as low real revenue, insufficient experience and tradition of the stock exchange trading, do not take active roles in the domestic capital market. Also, private companies seldom use BH stock exchanges as an additional source of financing or as an alternative for borrowing from the banking sector.

³⁰ The Graph does not present corporate bonds, as their share in the total market capitalisation was only 0.1%, and the treasury bills of FBH Government, as they are not traded in the secondary market.

6. Financial Infrastructure

6.1 Payment Systems

According to its legal obligation, the CBBH continued in 2016 to successfully support and improve the payment system functions through modern settlement and payment systems for the performance of interbank transactions. Since March 2017, the CBBH has introduced four settlements in the giro clearing, instead of the previous three settlements, which made possible a more frequent processing of the payment orders of legal and physical persons during the day.

During 2016, the growth of the number and the value of interbank transactions was recorded in the CBBH payment systems through the systems of giro clearing and RTGS. The total number of transactions in interbank payment system was increased by 2.3%, while the overall value of transactions was increased by 3.8% compared to the previous year. The increase of the transaction value in 2016 resulted in a faster circulation of money in the economy, so the number of days needed to perform transactions in the value of the annual nominal GDP was decreased (Table 6.1). Although the number of interbank transactions continuously increased, a major part of the payment transactions is still performed within banks themselves. So, in 2016, 61% of the total transaction number was related to transactions within a bank.

Table 6.1: Payment Transactions

Year	Total Number of Transactions, in Millions	Total Turnover, KM Millions	Average Daily Turnover, KM Millions	GDP/ Average Daily Turnover
2005	22,9	36.195	140,3	122
2006	24,9	47.728	185,0	104
2007	28,4	60.193	234,2	93
2008	29,6	70.345	272,7	91
2009	29,0	64.458	251,8	95
2010	31,8	67.779	263,7	94
2011	32,5	76.653	298,3	87
2012	33,8	81.533	318,5	81
2013	35,8	76.605	298,1	88
2014	37,9	87.859	341,9	79
2015	39,1	85.106	326,1	87
2016	40,0	88.380	338,6	86

Source: CBBH, BHAS, calculation by the CBBH

The concentration of the total number and the value of interbank transactions in the payment system was illustrated by Herfindahl-Hirschman Index (HHI) ³¹. Table 6.2 shows the values of the index calculated on the basis of the data on the total number and the amount of interbank transactions for all the participants of the payment system, in both payment systems (RTGS and giro clearing). The concentration of transactions measured by HHI index, including all the banks from the system in the calculation, was higher compared to the previous year, but it does not point out the existence of systemic risks in the payment systems. As a large number of small banks operates in BH market, the same analysis was done for the ten banks with the largest shares in the total value of interbank transactions. The values of HHI index were significantly higher indicating a moderate concentration of interbank payment transactions, i.e. the fact that most of interbank payment system is done among several large banks.

Table 6.2 Concentration of Transactions in Interbank Payment System (HHI)

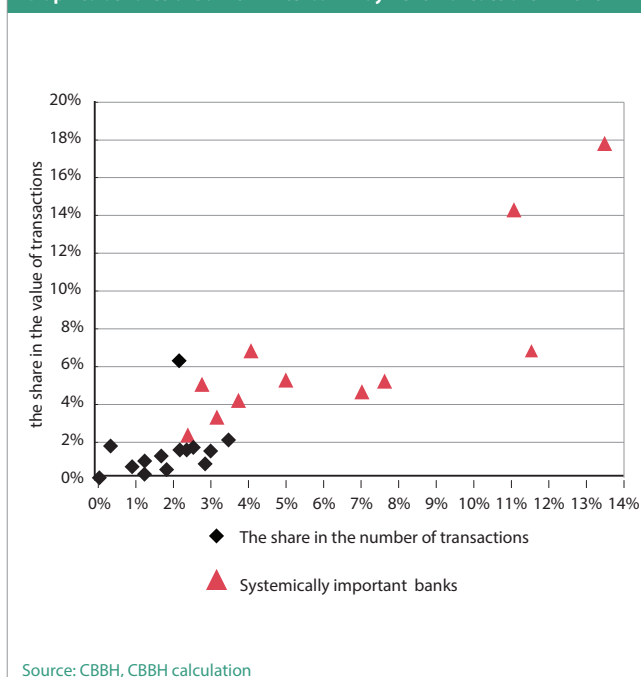
	All Banks		10 Banks with Largest Shares	
	Number of Transactions	Value of Transactions	Number of Transactions	Value of Transactions
December 2008	693	908	1.271	1.381
December 2009	651	989	1.233	1.413
December 2010	651	903	1.256	1.346
December 2011	626	836	1.230	1.287
December 2012	638	844	1.278	1.295
December 2013	654	810	1.337	1.378
December 2014	660	778	1.350	1.310
December 2015	689	810	1.314	1.305
December 2016	690	822	1.307	1.322

Source: CBBH, calculation by the CBBH

Graph 6.1 shows the shares of banks in the total number and the value of interbank transactions for 2016. Systemically important banks have dominating shares in the total value and the number of interbank transactions (74.24% and 78.32% respectively). The bank with the largest share in interbank payment system in 2016 accounted for 17.1% of the total transaction value, and the first five banks with the largest shares accounted for 51.2% of the total transaction value.

³¹ HHI is a measure of concentration and is calculated as a sum of the squares of individual shares in the observed segment. The index below 1,000 points indicates low concentration, 1,000 to 1,800 points moderate concentration and over 1,800 points high concentration.

Graph 6.1: Shares of Banks in Interbank Payment Transactions in 2016



In 2016, the CBBH continued to maintain the Central Registry of Credits (CRC). The data in the CRC are updated on daily basis by commercial banks, microcredit organisations, leasing companies and other institutions reporting data to the CRC, by which data are provided for the financial institutions which are users of this database on credit history and current debt of their existing or potential clients thus enabling better quality risk assessment when making decision on approving investments. In 2016, the CBBH continued to maintain the single registry of transaction accounts as well as the single data base of all the blocked accounts of the business entities in BH. The list of the blocked accounts of business entities is updated monthly and published on the CBBH web site. By publishing the list of the blocked accounts, the CBBH makes possible for all the business entities the insight into the status of their existing or potential business partners.

In 2016, the CBBH continued to perform international clearing of payments among banks from BH and Serbia in the total value of EUR 197.67 million. In the system of payments between the two countries, five banks from BH participated, out of it, two systemic banks from the same bank group which accounted for the largest part of the transactions.

6.2 Regulatory Framework

In 2016 and the first half of 2017, the amendments and upgrade of the existing regulatory framework regulating the operations of the financial sector of BH have been continued with purpose of its harmonisation with the best international practices and also relevant European legislation.

During 2016, the activities on the preparation of the new draft laws on banks and the laws on the banking agencies were completed, and the activities were continued for the preparation of new subordinate legal regulations according to new laws and the existing Strategy for preparing regulations with the purpose of the full implementation of Basel II/III and the EU directives. In the end of 2016 and in the first half of 2017, new bank laws were adopted in both Entities.³²

By the new laws, the latest solutions from directives of the European Union adjusted to the degree of the development of the domestic banking sector have been accepted, and also positive practices from the surrounding countries have been taken into account. By the amendments and supplements of the Law on the RS Banking Agency³³, the authorities and competencies of the RS Banking Agency have been expanded, while the amendments and supplements of the Law on the FBH Banking Agency are still in the adoption process. Also, the proposal of the amendments and supplements of the Deposit Insurance Law has been prepared, the adoption of which is expected in the period ahead. The preparation and adoption of the set of laws regulating the operations of banks in BH is one of the structural references from the Letter of Intent which has become obligatory for the local institutions through the conclusion on the Extended Fund Facility with the IMF.

³² The Law on Banks in RS (Official Gazette of RS, 3/17) and the Law on Banks in FBH (Official Gazette of FBH, 27/17)

³³ The Law on the Banking Agency of Republika Srpska (Official Gazette RS, 4/17)

Text Box: Modernisation of the Laws and Regulations Related to the Banking Sector

The new laws on banks have been prepared with purpose of the harmonisation with the best international practices and regional standards related to the supervision and resolution of banks, and the EU Directive and Regulation on Banks (CRR and CRD IV), the EU Directive on the Bank Recovery and Resolution (BRRD) and the elements of the International Regulatory Framework for Banks Basel II and Basel III have been used as the basis for harmonisation. The basic features of the new laws related to supervision include the increasing of the authorities of the banking agencies in the banking supervision area, the strengthening of prudential requirements and the requirements related to the bank management with purpose of maintaining the confidence in the banking sector, and keeping of its stability and protection of depositors. A part of the law related to supervision includes a broad range of areas, some of the basic ones being the establishing of the consolidated supervision, defining early intervention measures, defining the conditions for permitting the opening of branches of foreign banks in BH, strengthening the procedures for issuing operating licences, clear separation of the roles of different governance bodies in the bank etc... In the new bank laws, the systemically important bank has been defined for which supervisors may have special requirements. Numerous innovations have been introduced, which are primarily related to the preparation of the recovery plans for banks themselves, defining measures for the improvement of their financial position, and undertaking measures of early intervention by the banking agencies in case of a significant deterioration of the situation in the bank.

A completely new legal framework for the bank restructuring has been set up, by which the use of the budget and public resources has been reduced to the lowest possible extent, with the purpose of preserving and strengthening financial stability. The provisions on the bank restructuring have been introduced for insuring the continuity of the key functions and the undertaking of the measures which should prevent or mitigate the appearance of crises with individual banks, but also the banking and financial

system on the whole, and insure efficient restructuring of the bank which is not able or probably will not be able to continue its operations. Through the restructuring framework, a number of new instruments for solving problem banks has been introduced such as the sale of a part of operations or the entire operations to the authorized entities, a transfer of a part or entire operations to one or more banks for special purposes, the separation of assets, and internal restructuring, i.e. resolution by the use of one's own funds. According to new laws on banks, the agencies have become authorised for the resolution/restructuring of banks, which is separate from their authorities for supervision. As new competence of the Entity agencies includes the determining if the requirements have been fulfilled for starting the process of the bank restructuring, conducting the process of restructuring, deciding on the instruments and measures which will be undertaken in the restructuring and performing of other operations related to restructuring.

Within the activities on the implementation of the Strategy for introducing Basel III, the Entity Banking Agencies during 2016 worked on the preparation of draft new Decisions on managing the liquidity risk in banks. The draft decisions have defined, among other things, the minimum quantitative requirements for managing the liquidity risk according to which banks need to determine the level of the exposure to the liquidity risk which they can manage in the usual circumstances and in the stress period. The draft decisions have defined the implementation of the tests of the resilience to stress, and the preparation of the liquidity plan for contingencies and the liquidity recovery plan. The draft decisions have also defined the liquidity coverage ratio (LCR) as well as the net stable financing ratio (NSFR) as well as liquidity buffers.

By the adoption of new legal regulations through the modernisation and harmonisation in the area of banking supervision with the European Union regulations, the base will be created for the further strengthening of the banking sector, which can provide a stronger support to the development of the real sector and contribute to the economic growth in BH.

In December 2016, the Entity Banking Agencies signed the Memorandum of Understanding with the Federal Financial Supervisory Authority of Germany („BaFin“). The Memorandum of Understanding has regulated the cooperation and coordination among these institutions in the area of bank supervision.

In February 2016, the National Assembly of RS adopted a new Bankruptcy Law, while the FBH Parliament adopted the Draft Bankruptcy Law in November 2016. The new Bankruptcy Law ensures the timely beginning of a bankruptcy procedure, the financial and operative restructuring of debtors, reducing the duration and reducing the costs of the bankruptcy

procedure. The procedure of the appointment of provisional administrators has been defined with the adherence to the principles of uniformity and equality, as well as the age limit for provisional administrators and the amount of their remunerations. The rights of creditors have been protected, the reorganisation process has been improved and simplified and the authority has been determined to carry out the supervision of the implementation of the legal provision regarding the timely starting of the procedure and to define sanctions for the bankruptcy debtor, i.e. the body authorised for their representation due to the untimely starting of the process.

In July 2016, the FBH Parliament adopted the Law on Financial Operations, and the implementation of the Law has started from January 2017 ³⁴. The new Law on Financial Operations was adopted with purpose of adjusting the legislation of our country with the EU directives on the timely settlement of financial liabilities of economic entities. Beside the legal consequences for delays in performing payments, the law regulates the financial operations of companies and public institutions, and the deadlines for meeting financial liabilities. The law has regulated also the determination of illiquidity and proceeding in the cases of illiquidity of economic entities.

Within the fulfilment of the liabilities taken over by the Stabilisation and Association Agreement with the EU, the implementation of the reform is continued also in the area of accounting and audit with purpose of further adjustment with the legislation of the EU. In November 2016, the FBH Parliament adopted the Draft Law on the Registry of Financial Reports. The law defines the compulsory public disclosure of the data from financial reports and the documentation accompanying such reports for all those obliged to submit financial reports on the site of the Financial – Information Agency (FIA) with purpose of creating a safer and more

favourable business environment, decrease of the degree of systemic risk in the real sector and the financial system, the improvement of the information and security of investors, the increase of the competitiveness of the domestic economy and stimulating the inflow of foreign investments.

As it has not carried out the timely activities for removing legal deficiencies in the field of a struggle against corruption and terrorism financing, according to the recommendations of GRECO, MONEYVAL Committee and FATF, in mid 2016, BH was returned to the list of the high risk countries, which are not secure for financial investments. With purpose of implementing the recommendations from the adopted Action Plan for removing shortcomings in the struggle against money laundering and with purpose of the harmonisation of the system for preventing money laundering and terrorism financing with the standards and recommendations of FATF, in 2017, the Law on Amendments and Supplements of the Laws on the Markets of Securities were adopted in both Entities, the Law on Amendments and Supplements of the Law on Investment Funds of FBH was adopted and also the Law on Amendments and Supplements of the Law on Insurance Companies in RS.

In February 2017, the new Law on Insurance in FBH was adopted. The Law regulates the establishing, operations, supervision and termination of the insurance companies established in FBH, as well as subsidiaries of the companies operating in FBH. In the new law, the provision of the legal regulation of the EU has been adopted with regard to the obligatory separate performance of the activities of life insurance and non-life insurance, as one activity should not take over the obligations of the other activity. By passing the Insurance Law, an additional requirement of MONEYVAL committee and FATF has been met in the area of preventing money laundering and financing of terrorist activities.

³⁴ The law on the deadlines for settling financial liabilities in RS has not been adopted yet.

Statistical Appendix

Table A1: Changes of the Sovereign Rating

Country	Date of Change	Standard & Poor's Rating		
		Long-term	Outlook	Short-term
Greece	until 2009	A	Stable	A-1
	09.01.2009	A	Negative, Watch	A-1
	14.01.2009	A	Stable	A-2
	07.12.2009	A	Negative, Watch	A-2
	16.12.2009	BBB+	Negative, Watch	A-2
	16.03.2010	BBB+	Negative	A-2
	27.04.2010	BB+	Negative	B
	02.12.2010	BB+	Negative, Watch	BB+
	29.03.2011	BB-	Negative, Watch	B
	09.05.2011	B	Negative, Watch	C
	13.06.2011	CCC	Negative	C
	27.07.2011	CC	Negative	C
	05.02.2012	CCC	Stable	C
	27.02.2012	SD	NM	SD
	02.05.2012	CCC	Stable	C
	07.08.2012	CCC	Negative	C
	05.12.2012	SD	-	SD
	18.12.2012	B-	Stable	B
	28.01.2015	B-	Negative, Watch	B
	15.04.2015	CCC+	Negative	C
	22.01.2016	B-	Stable	B
Ireland	until 2009	AAA	Stable	A-1+
	09.01.2009	AAA	Negative	A-1+
	30.03.2009	AA+	Negative	A-1+
	08.06.2009	AA	Negative	A-1+
	24.08.2010	AA-	Negative	A-1+
	23.11.2010	A	Negative, Watch	A-1
	02.02.2011	A-	Negative, Watch	A-2
	01.04.2011	BBB+	Stable	A-2
	05.12.2011	BBB+	Negative, Watch	A-2
	13.01.2012	BBB+	Negative	A-2
	11.02.2013	BBB+	Stable	A-2
	12.07.2013	BBB+	Positive	A-2
	06.06.2014	A-	Positive	A-2
	05.12.2014	A	Stable	A-1
	05.06.2015	A+	Stable	A-1
Portugal	until 2009	AA-	Stable	A-1+
	13.01.2009	AA-	Negative, Watch	A-1+
	21.01.2009	A+	Stable	A-1
	07.10.2009	A+	Negative	A-1
	27.04.2010	A-	Negative	A-2
	30.11.2010	A-	Negative, Watch	A-2
	24.03.2011	BBB	Negative, Watch	A-2
	29.03.2011	BBB-	Negative	A-3
	05.12.2011	BBB-	Negative, Watch	A-3
	13.01.2012	BB	Negative	B
	06.03.2013	BB	Stable	B
	05.07.2013	BB	Negative	B
	09.05.2014	BB	Stable	B
	20.03.2015	BB	Positive	B
	18.09.2015	BB+	Stable	B

Spain	until 2009	AAA	Stable	A-1+
	12.01.2009	AAA	Negative, Watch	A-1+
	19.01.2009	AA+	Stable	A-1+
	09.12.2009	AA+	Negative	A-1+
	28.04.2010	AA	Negative	A-1+
	05.12.2011	AA-	Negative, Watch	A-1+
	13.01.2012	A	Negative	A-1
	26.04.2012	BBB+	Negative	A-2
	10.10.2012	BBB-	Negative	A-3
	23.05.2014	BBB	Stable	A-2
	02.10.2015	BBB+	Positive	A-2
Italy	until 2009	A+	Stable	A-1+
	20.05.2011	A+	Negative	A-1+
	20.09.2011	A	Negative	A-1
	05.12.2011	A	Negative, Watch	A-1
	13.01.2012	BBB+	Negative	A-2
	09.07.2013	BBB	Negative	A-2
	05.12.2014	BBB-	Stable	A-3
Cyprus	until 2009	A+	Stable	A-1
	21.07.2010	A+	Negative, Watch	A-1
	16.11.2010	A	Negative	A-1
	30.03.2011	A-	Negative	A-2
	29.07.2011	BBB	Negative, Watch	A-2
	12.08.2011	BBB+	Negative, Watch	A-2
	27.10.2011	BBB	Negative, Watch	A-3
	13.01.2012	BB+	Negative	B
	01.08.2012	BB	Negative, Watch	B
	17.10.2012	B	Negative, Watch	B
	20.12.2012	CCC+	Negative	C
	21.03.2013	CCC	Negative	C
	10.04.2013	CCC	Stable	C
	28.06.2013	SD	-	SD
	03.07.2013	CCC+	Stable	C
	29.11.2013	CCC+	Stable	B
	25.04.2014	B	Positive	B
	24.10.2014	B+	Stable	B
	27.03.2015	B+	Positive	B
	25.09.2015	BB-	Stable	B

Source: Standard & Poor's

Table A2: Real Estate Price Index

		Sarajevo	Mostar	Zenica	Tuzla	TOTAL
2004	Q1	47	84	60		52
	Q2	47	81	59		51
	Q3	47	82	60		51
	Q4	48	80	59		52
2005	Q1	49	79	61		53
	Q2	49	81	60		52
	Q3	50	79	60		53
	Q4	52	82	64		56
2006	Q1	54	84	67		59
	Q2	59	84	63		62
	Q3	58	82	66		62
	Q4	63	71	71		65
2007	Q1	69	85	72		71
	Q2	77	90	88		79
	Q3	85	86	92		86
	Q4	94	92	95		94
2008	Q1	100	100	100	100	100
	Q2	105	99	107	104	105
	Q3	103	102	113	114	105
	Q4	109	104	126	117	110
2009	Q1	99	120	129	102	102
	Q2	96	125	127	105	101
	Q3	91	124	128	114	99
	Q4	89	127	119	121	97
2010	Q1	88	119	130	119	96
	Q2	86	128	129	126	98
	Q3	85	120	126	112	94
	Q4	84	126	143	120	94
2011	Q1	83	125	138	113	93
	Q2	84	121	140	93	92
	Q3	82	118	132	102	92
	Q4	83	124	131	107	92
2012	Q1	84	132	130	111	94
	Q2	82	117	139	105	93
	Q3	80	124	122	103	89
	Q4	78	120	133	104	88
2013	Q1	81	128	135	113	91
	Q2	78	127	134	113	90
	Q3	79	124	124	116	90
	Q4	76	130	136	101	88
2014	Q1	78	121	126	104	88
	Q2	77	119	124	104	86
	Q3	77	111	126	106	86
	Q4	77	113	129	103	85
2015	Q1	79	118	127	103	87
	Q2	80	117	127	106	89
	Q3	78	118	131	107	88
	Q4	81	114	126	106	89
2016	Q1	78	112	125	104	85
	Q2	80	115	134	104	86
	Q3	82	131	133	108	91
	Q4	81	128	134	106	91

Source: CBBH

Table A3: Survey of Largest Debtors by Standard Loans		in KM thousands	
Activity	Loans, Residual Debt	Share in Activity	Share in the Total Claims
A: Agriculture, Forestry and Fishing	195.045		2,7%
<i>Plant and Cattle Production, Hunting and Related Service Activities, of which:</i>			
Poultry Farming	19.460	10,0%	0,3%
B: Mining and Quarrying	186.916		2,6%
<i>Mining of Coal and Lignite, of which:</i>			
Mining of Lignite	33.894	18,1%	0,5%
C: Manufacturing Industry	1.716.350		23,9%
<i>Production of Beverages, of which:</i>			
Beer Production	46.305	2,7%	0,6%
<i>Production of Food, of which:</i>			
Production of Bread; Fresh Rolls and Cakes	56.518	3,3%	0,8%
Other Manufacturing and Preservation of Fruits and Vegetables	24.927	1,5%	
<i>Manufacture of Wood and Products of Wood and Cork, except for Furniture; Production of Items of Straw and Wicker, of which:</i>			
Sawing and Planing of Wood (Manufacture of Sawn Timber); Wood Impregnation	76.198	4,4%	1,1%
<i>Production of Finished Metal Products, except for Machines and Equipment, of which:</i>			
Production of Metal Structures and their Parts	44.724	2,6%	0,6%
<i>Production of Refined Oil Products</i>			
Production of Refined Oil Products	84.353	4,9%	1,2%
D: Production and Supply of Electricity, Gas, Steam and Air Conditioning	159.484		2,2%
<i>Production and Supply of Electricity, Gas, Steam and Air Conditioning, of which:</i>			
Production of Electricity	64.172	40,2%	0,9%
E: Water Supply, Sewerage, Waste Management and Environment Remedial Activities	88.930		1,2%
<i>Water Collection, Treatment and Supply, of which:</i>			
Water Collection, Treatment and Supply	40.008	45,0%	0,6%
F: Construction	503.179		7,0%
<i>Building Construction</i>			
Construction of Residential and Non-residential Buildings	157.377	31,3%	2,2%
G: Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles	1.994.383		27,8%
<i>Wholesale, except for Trade in Motor Vehicles and Motorcycles, of which:</i>			
Non-specialized Wholesale	194.411	9,7%	2,7%
Wholesale of Solid, Liquid and Gas Fuels and Similar Products	66.664	3,3%	0,9%
Wholesale of Pharmaceutical Products	54.697	2,7%	0,8%
Wholesale Trade in Porcelain, Glass Products and Cleaning Aids	51.780	2,6%	0,7%
Wholesale of other Household Goods	37.416	1,9%	0,5%
Non-specialized Wholesale Trade in Food, Beverages and Tobacco Products	50.143	2,5%	0,7%
Wholesale in Metal Goods, Installation Materials, Devices and Equipment for Water Supply and Heating	36.845	1,8%	0,5%
<i>Retail Trade, except for Trade in Motor Vehicles and Motorcycles, of which:</i>			0,0%
Retail Trade in Non-specialized Stores Mainly in Food, Beverages and Tobacco Products	201.794	10,1%	2,8%
Other Retail Trade in Non-specialized Stores	74.536	3,7%	1,0%
Retail Trade in Motor Fuels in Specialized Stores	78.809	4,0%	1,1%
H: Transportation and Warehousing	297.917		4,2%
<i>Land Transport and Transport via Pipelines</i>			
Transport of Goods by Road	88.618	29,7%	1,2%
Railway Transport of Passengers and Goods	34.718	11,7%	0,5%

I: Accommodation and Food Service Activities (Hotels and Catering)	266.434		3,7%
<i>Accommodation, of which:</i>			
Hotels and Similar	115.607	43,4%	1,6%
J: Information and Communications	151.627		2,1%
<i>Publishing</i>			
Book Publishing	37.999	25,1%	0,5%
K: Financial Activities and Insurance Activities	184.352		2,6%
<i>Other Financial Service Activities, except for Insurance and Pension Funds, of which:</i>			
Other Lending Mediation	31.470	17,1%	0,4%
<i>Financial Intermediation, of which:</i>			
Other Financial Intermediation	19.216	10,4%	0,3%
L: Real Estate Business	161.557		2,3%
<i>Real Estate Business, of which:</i>			
Renting and Management of own or Leased Real Estate	76.901	47,6%	1,1%
Agency for Real Estate Business	36.819	22,8%	0,5%
M: Professional, Scientific and Technical Activities	208.055		2,9%
<i>Architecture and Engineering Activities; Technical Testing and Analysis, of which:</i>			
Engineering Activities and the Related Technical Consulting	57.496	27,6%	0,8%
N: Administrative and Support Service Activities	45.569		0,6%
<i>Travel Agencies, Travel Organizers, Tour Operators and other Booking Services and Related Activities, of which:</i>			
Activities of Travel Agencies	9.791	21,5%	0,1%
Protection and Investigation Activities			
Private Protection Activities	10.120	22,2%	0,1%
O: Public Administration and Defence; Compulsory Social Insurance	814.926		11,4%
<i>Public Administration, and Economic and Social Policy of Community, of which:</i>			
General Activities of Public Administration	473.172	58,1%	6,6%
Activities of Compulsory Social Insurance, of which:			
Activities of Compulsory Social Insurance	105.746	13,0%	1,5%
P: Education	28.380		0,4%
<i>University Education</i>			
University Education	13.701	48,3%	0,2%
Q: Activities of Health Care and Social Care	96.996		1,4%
<i>Health Care Activities</i>			
Hospital Activities	32.196	33,2%	0,4%
R: Art, Entertainment and Recreation	4.053		0,1%
<i>Gambling and Betting</i>			
Gambling and Betting	3.342	82,4%	0,0%
S: Other Service Activities	11.278		0,2%
<i>Activities of Membership Organisations</i>			
Activities of Other Membership Organisations, not Classified Elsewhere	2.330	20,7%	0,0%
T: Activities of Households as Employers; Activities of Households Producing Various Goods and Performing Various Services for Own Needs	664		0,0%
<i>Activities of Private Households Producing Various Goods for their own Needs</i>			
Activities of Private Households Producing Various Goods for their own Needs	416	62,6%	0,0%
U: Activities of Extraterritorial Organizations and Bodies	23.284		0,3%
<i>Activities of Extraterritorial Organizations and Bodies</i>			
Activities of Extraterritorial Organizations and Bodies	18.830	80,9%	0,3%

Table A4: Main Positions in Foreign Trade of Goods

Name	Value of Exports, in KM Millions	Value of Exports, in KM Millions	Export Price Index	Nominal Export Growth, in %	Change of Export Values, (in Percentage Points)	
	2015	2016	<u>I - XII 2016</u> I - XII 2015		Price Effect	Exports Volume Effect
	1	2	3	4 = 2/1	5	6
Base Metals and Base Metal Products	1.652,0	1.571,1				
Out of it: Iron and Steel	529,5	452,8	97,0	-14,5	-2,7	-11,8
Iron and Steel Products	379,2	448,8	92,8	18,4	-9,2	27,6
Aluminium and Aluminium Products	567,8	490,7	93,8	-13,6	-5,7	-7,9
Mineral Origin Products	738,3	747,5				
Of which: Mineral Fuels, Mineral Oils and Products of their Distillation, Electric Energy, Bituminous Substances and Mineral Waxes	633,8	643,6	103,6	1,5	3,5	-2,0
Miscellaneous Products	1.007,7	1.125,2				
Of which: Furniture; Mattress Supports, Bedding and Similar Products; Lamps and Lighting Fittings, not elsewhere Specified or Included; Lighting Signs, Lighting Name-plates ; Prefabricated Buildings	967,3	1.065,2	96,9	10,1	-3,6	13,7
Machinery, Appliances, Mechanical and Electrical Equipment	1.018,1	1.046,3				
Machinery, Appliances, Mechanical Equipment, Boilers and Parts thereof	596,3	618,5	101,4	3,7	1,4	2,3
Electrical Machinery, Equipment and Parts thereof, Sound Recorders or Reproducers, Television Image and Sound Recorders or Reproducers and Parts and Equipment for such Products	421,8	427,7	81,5	1,4	-23,0	24,4
Products of Chemical Industry or Related Industries	705,0	772,3				
Inorganic Chemical Products, Organic and Inorganic Compounds of Precious Metals, Rare Metals, Radioactive Elements and Isotopes	472,7	493,6	95,5	4,4	-4,9	9,3
Wood and Wood Products	668,9	729,0				
Wood and Wood Products; Charcoal	664,0	724,3	100,9	9,1	1,0	8,1

Main groups of export products

	Name	Value of Imports, in KM Millions	Value of Imports, in KM Millions	Export Price Index	Nominal Export Growth, in %	Change of Import Values, (in Percentage Points)	
		2015	2016	$\frac{I - XII\ 2016}{I - XII\ 2015}$		Price Effect	Imports Volume Effect
Main groups of import products	Mineral Origin Products	2.258,0	2.015,0				
	Of which: Mineral Fuels, Mineral Oils and Products of their Distillation, Electric Energy, Bituminous Substances and Mineral Waxes	2.142,5	1.913,1	84,6	-10,7	-16,2	5,5
	Machinery, Appliances, Mechanical and Electrical Equipment	2.198,3	2.243,7		2,1		
	Machinery, Appliances, Mechanical Equipment, Boilers and Parts thereof	1.293,5	1.284,0	93,0	-0,7	-7,4	6,7
	Electric Machinery, Equipment and Parts thereof, Sound Recorders or Reproducers, Television Image and Sound Recorders or Reproducers and Parts and Equipment for such Products	904,8	959,7	99,3	6,1	-0,8	6,8
	Chemical Industry or Related Industry Products	1.571,9	1.594,0		1,4		
	Of which: Pharmaceutical Products	526,1	541,7	103,5	3,0	3,5	-0,5
	Essential Oils and Resins, Perfumery, Cosmetic or Toilet Products	201,7	216,2	103,0	7,2	3,2	4,0
	Inorganic Chemical Products, Organic and Inorganic Compounds of Precious Metals, Rare Metals, Radioactive Elements and Isotopes	185,6	162,7	85,8	-12,3	-14,5	2,1
	Miscellaneous Chemical Industry Products	178,2	159,8	111,4	-10,3	9,2	-19,5
	Base Metals and Base Metal Products	1.386,7	1.416,1		2,1		
	Out of which: Iron and Steel Products	458,8	459,8	93,6	0,2	-6,9	7,1
	Iron and Steel	404,8	441,9	88,8	9,2	-13,8	23,0
	Aluminium and Aluminium Products	229,1	196,3	103,9	-14,3	3,2	-17,5
	Food Products	1.446,5	1.489,7		3,0		
	Beverages, Alcohols and Vinegar	335,5	322,4	94,0	-3,9	-6,1	2,2
	Miscellaneous Food Products	226,6	231,4	101,3	2,2	1,3	0,9
	Food Industry Waste and Scraps; Prepared Animal Food	191,8	183,0	94,6	-4,6	-5,4	0,8
	Cereal, Flour, Starch or Milk Products; Pastries	173,7	181,3	101,7	4,3	1,8	2,6

Source: BHAS, calculation by the CBBH

Table A5: Survey of Claims on Companies by Type and Activity

in KM thousand

2016	Loans							Potential Debt		
		Of which Overall Loans	Commission Loans	Revolving Loans	Letters of Credit	Factoring	Guarantees	Guarantees	Revolving Loans	Overall Loans
A	195.045	56.206	1.918	47.484	0	0	25	4.206	12.055	12.135
B	186.916	139.684	4.882	56.683	871	0	877	9.944	11.531	27.207
C	1.716.350	1.164.034	24.941	571.599	18.208	206	10.685	219.739	247.315	346.931
D	159.484	18.321	9.653	11.193	0	0	224	16.253	9.525	7.147
E	88.930	61.122	110	26.341	153	22	376	10.281	9.515	24.550
F	503.179	473.425	26.043	192.906	747	1.341	8.577	277.256	53.371	236.420
G	2.033.439	2.027.319	5.268	1.012.822	41.339	4.011	42.123	542.588	394.230	560.344
H	297.917	275.505	179	67.989	110	14	6.513	204.656	35.622	90.060
I	266.434	79.202	5.358	10.129	0	0	434	1.775	4.558	23.841
J	151.627	63.008	113	19.050	2.291	0	2.125	29.566	24.470	33.987
K	184.352	15.462	1.327	13.468	0	0	164	105.699	18.267	16.921
L	161.557	20.453	30	7.564	0	0	0	825	981	1.639
M	208.055	196.416	459	119.803	0	0	3.448	146.523	27.227	61.749
N	45.569	21.835	274	8.521	0	0	132	7.698	3.504	12.769
O	814.926	1.248	2.211	1.484	0	269	0	9.401	26.321	1.808
P	28.380	2.751	20	2.184	0	0	23	1.471	1.703	2.108
Q	96.996	29.772	208	11.618	0	1.200	433	10.774	6.280	5.063
R	4.053	1.649	6	685	0	0	0	2.049	568	2.238
S	11.278	8.899	0	1.224	0	0	1	531	1.056	1.054
T	664	0	0	584	0	0	0	0	88	0
U	23.284	8.619	649	2.146	0	0	8	106	1.823	5.898
TOTAL	7.178.433	4.664.931	83.649	2.185.477	63.719	7.062	76.168	1.601.343	890.012	1.473.869
Actual Debt: 9.594.508										
Potential Debt: 3.965.224										

Source: CRC

Note: Amount of claims based on Loans and Commission Loans includes a residual debt and due uncollected principal.

Table A.6 : Loans to Companies, the Currency Structure of Debt by Activities in KM thousands

Activity	Residual Debt and Due Uncollected Principal				
	Loans in a Foreign Currency and Those Indexed to a Foreign Currency				
	BAM	EUR	CHF	USD	KWD
A	28.037	162.802	326	0	141
B	68.386	118.556	0	13	0
C	615.114	1.095.510	1.839	0	2.798
D	40.913	117.094	0	0	0
E	43.358	45.851	632	0	0
F	209.087	295.687	154	0	467
G	711.486	1.317.632	1.111	0	675
H	94.667	201.283	597	0	140
I	34.276	223.545	2.727	0	273
J	41.051	109.353	0	7	0
K	37.301	114.271	0	39.356	0
L	28.257	130.663	0	0	0
M	81.316	127.153	71	0	0
N	15.490	29.986	0	0	0
O	399.068	423.369	1.286	0	0
P	10.706	17.015	649	0	0
Q	37.237	55.342	4.301	0	0
R	3.344	871	0	0	0
S	3.883	7.376	0	0	0
T	162	495	0	0	0
U	10.240	11.735	0	1.906	0
TOTAL	2.513.379	4.605.588	13.691	41.282	4.493

Source: CRC

Table A7: Status Changes in Banks in the Period 2001-2017

Number of Banks		Type of Change	Date of Change
1	Sparkasse Bank d.d. Bosna i Hercegovina Sarajevo	Sparkasse Bank d.d. Sarajevo changed its name into Sparkasse Bank d.d. BiH Sarajevo	Q3 2014
	Sparkasse Bank d.d. Sarajevo	ABS banka d.d. Sarajevo changed its name into Sparkasse Bank d.d. Sarajevo	Q3 2009
	ABS banka d.d. Sarajevo	Became a member of Steiermaerkische Bank und Sparkassen AG, Erste Group	Q4 2006
	Šeh-in banka d.d. Zenica	Merged to ABS banka d.d. Sarajevo	Q2 2002
2	Bosna Bank International (BBI) d.d. Sarajevo		
3	Privredna banka Sarajevo d.d. Sarajevo	BOR banka d.d. Sarajevo changed its name into Privredna banka Sarajevo d.d. Sarajevo	Q1 2017
	BOR banka d.d. Sarajevo	Privredna banka Sarajevo d.d. Sarajevo merged with BOR banka d.d. Sarajevo	Q4 2016
	Privredna banka Sarajevo d.d. Sarajevo	Privredna banka Sarajevo d.d. Sarajevo merged with BOR banka d.d. Sarajevo	Q4 2016
4	UniCredit Bank d.d. Mostar		
	UniCredit Zagrebačka banka BiH d.d. Mostar	UniCredit Zagrebačka banka BiH changed its name into UniCredit Bank d.d. Mostar	Q1 2008
	Zagrebačka banka BH d.d. Mostar	Merger with Univerzal banka d.d. Sarajevo into UniCredit Zagrebačka banka BiH	Q3 2004
	Univerzal banka d.d. Sarajevo	Merger with Zagrebačka banka BH d.d. Mostar into UniCredit Zagrebačka banka BiH	Q3 2004
	HVB Central Profit banka d.d. Sarajevo	HVB Central profit banka Sarajevo merged to UniCredit Zagrebačka banka BiH	Q1 2008
	HVB banka d.d. Sarajevo	Merger with Central Profit banka into HVB Central Profit banka d.d. Sarajevo	Q4 2004
	Central Profit banka d.d. Sarajevo	Merger with HVB banka d.d. Sarajevo into HVB Central Profit banka d.d. Sarajevo	Q4 2004
	Travnička banka d.d. Travnik	Merged to Central Profit banka d.d. Sarajevo	Q4 2002
5	UniCredit Bank a.d. Banja Luka	Nova Banjalučka banka a.d. Banja Luka changed its name	Q2 2008
	Nova Banjalučka banka a.d. Banja Luka	Merged to HVB group, continued its operations as a separate legal person	Q4 2005
	Banjalučka banka a.d. Banja Luka	Privatised and changed its name into Nova Banjalučka banka a.d. Banja Luka	Q1 2002
6	Addiko Bank d.d. Sarajevo		
	Hypo Alpe Adria Bank d.d. Mostar	Hypo Alpe Adria Bank d.d. Mostar changed its name and seat	Q4 2016
7	Addiko Bank a.d. Banja Luka		
	Hypo Alpe Adria Bank a.d. Banja Luka	Hypo Alpe Adria Bank a.d. Banja Luka changed its name	Q4 2016
	Kristal banka a.d. Banja Luka	Kristal banka a.d. Banja Luka changed its name	Q3 2003
8	ASA banka d.d. Sarajevo		
	Investiciono komercijalna banka (IKB) d.d. Zenica	IKB d.d. Zenica changed its name and seat into ASA banka d.d. Sarajevo	Q4 2016
	MOJA banka d.d. Sarajevo	MOJA banka d.d. Sarajevo merged with Investiciono komercijalna banka d.d. Zenica	Q3 2016
	FIMA banka d.d. Sarajevo	Changed its name into MOJA banka d.d. Sarajevo	Q4 2010
	VABA banka d.d. Sarajevo	Changed its name into FIMA banka d.d. Sarajevo	Q3 2007
	Validus banka d.d. Sarajevo	Changed its name into VABA banka d.d. Sarajevo	Q1 2007
	Ljubljanska banka d.d. Sarajevo	Established Validus banka took over a part of assets and liabilities of Ljubljanska banka d.d. Sarajevo	Q3 2006
9	Komercionalno investiciona banka (KIB) d.d. Velika Kladuša		

10	NLB Banka d.d. Sarajevo		
	NLB Tuzlanska banka d.d. Tuzla	NLB Tuzlanska banka d.d. Tuzla changed its seat and name into NLB Banka d.d. Sarajevo	Q1 2012
	Tuzlanska banka d.d. Tuzla	Tuzlanska banka d.d. Tuzla changed its name into NLB Tuzlanska banka d.d. Tuzla	Q3 2006
	Comercebank bančna skupina NLB d.d. Sarajevo	Merged with Tuzlanska banka d.d. Tuzla	Q3 2006
11	NLB a.d. Banja Luka		
	NLB Razvojna banka a.d. Banja Luka	NLB Razvojna banka a.d. Banja Luka changed its name into NLB a.d. Banja Luka	Q4 2015
	LHB banka a.d. Banja Luka	Merger with Razvojna banka jugoistočne Evrope into NLB Razvojna banka a.d. BL	Q2 2006
	Razvojna banka jugoistočne Evrope a.d. Banja Luka	Merger with LHB banka a.d. Banja Luka into NLB Razvojna banka a.d. Banja Luka	Q2 2006
12	Raiffeisen Bank d.d. BiH, Sarajevo		
	Raiffeisen Bank HPB d.d. Mostar	Merged to Raiffeisen banka d.d. Sarajevo	Q1 2003
13	ProCredit Bank d.d. Sarajevo	Microenterprise bank d.d. Sarajevo changed its name into ProCredit Bank	Q4 2003
14	ZiraatBank BH d.d. Sarajevo	Turkish Ziraat Bank Bosnia d.d. Sarajevo changed its name into Ziraat Bank BH	
15	Union banka d.d. Sarajevo		Q1 2013
16	Sberbank d.d. Sarajevo	Volksbank d.d. Sarajevo changed its name into Sberbank d.d. Sarajevo	Q1 2013
	Volksbank d.d. Sarajevo	Sberbank group acquired Volksbank d.d. Sarajevo	Q1 2013
17	Sberbank a.d. Banja Luka	Volksbank a.d. Banja Luka changed its name	Q1 2013
	Volksbank a.d. Banja Luka	Sberbank group acquired Volksbank a.d. Banja Luka	Q1 2012
	Zepter Komerc banka a.d. Banja Luka	Became a member of Volksbank International AG, changed its name into Volksbank a.d. BL	Q3 2007
18	Intesa Sanpaolo banka d.d. BiH		
	UPI banka d.d. Sarajevo	Changed its name into Intesa Sanpaolo banka d.d. BiH	Q3 2008
	LT Gospodarska banka d.d. Sarajevo	Merged to UPI banka d.d. Sarajevo	Q3 2007
	Gospodarska banka d.d. Sarajevo	Merger with LT Komercijalna banka Livno into LT Gospodarska banka d.d. Sarajevo	Q1 2003
	LT Komercijalna banka d.d. Livno	Merger with Gospodarska banka Sarajevo into LT Gospodarska banka d.d. Sarajevo	Q1 2003
19	Vakufska banka d.d. Sarajevo		
	Depozitna banka d.d. Sarajevo	Merged to Vakufska banka d.d. Sarajevo	Q2 2002
20	Nova banka a.d. Banja Luka	Nova banka a.d. Bijeljina changed its seat	Q3 2007
	Agroprom banka a.d. Banja Luka	Merged to Nova banka a.d. Bijeljina	Q1 2003
21	Pavlović International Banka a.d. Slobomir Bijeljina		
	Privredna banka a.d. Dobož	Merged to Pavlović International banka	Q2 2003
	Privredna banka a.d. Brčko	Merged to Pavlović International banka	Q4 2002
	Semlerska banka a.d. Bijeljina	Merged to Pavlović International banka	Q4 2001
22	Komercijalna banka a.d. Banja Luka		
23	MF banka a.d. Banja Luka		
	IEFK banka a.d. Banja Luka	Changed its name into MF banka a.d. Banja Luka	Q3 2010

The banks the operating licenses of which have been revoked since 2002		Date of change
1	Camelia banka d.d. Bihać	Q1 2002
2	Privredna banka a.d. Gradiška	Q1 2002
3	Ekvator banka a.d. Banja Luka	Q1 2002
4	International Commercial Bank Bosnia d.d. Sarajevo	Q3 2002
5	Banka za jugoistočnu Evropu Banja Luka	Q4 2002
6	Privredna banka a.d. Srpsko Sarajevo	Q4 2004
7	Gospodarska banka d.d. Mostar	Q4 2004
8	Ljubljanska banka d.d. Sarajevo	Q3 2006
9	Hercegovačka banka d.d. Mostar	Q3 2012
10	Postbank BH Poštanska banka BiH d.d. Sarajevo	Q2 2013
11	Bobar banka a.d. Bijeljina	Q4 2014
12	Banka Srpske a.d. Banja Luka	Q2 2016

Source: CBBH

Table A8: Positions of the Non-government Foreign Debt according to NACE Rev 2 Classification of Debtors' Activities in KM thousands

NACE CODE	NACE ACTIVITY	31.12.2012	31.12.2013	31.12.2014	31.12.2015	31.12.2016
01	<i>Crop and animal production, hunting and related service activities</i>	10.465	14.569	14.692	18.348	21.960
05	<i>Mining of coal and lignite</i>	...	...	540.526	623.551	666.938
07	<i>Mining of metal ores</i>	1.333	1.640	2.232	2.348	6.824
08	<i>Other mining and quarrying</i>	41.890	39.506	30.872	36.851	25.570
10	<i>Manufacture of food products</i>	54.187	40.610	20.166	37.761	90.609
11	<i>Manufacture of beverages</i>	21.965	15.692	16.546	16.557	16.278
12	<i>Manufacture of tobacco products</i>	...	...	32.076	27.925	10.500
13	<i>Manufacture of textiles</i>	9.395	14.386	12.852	13.681	11.420
14	<i>Manufacture of wearing apparel</i>	1.280	1.187	520	-	-
15	<i>Manufacture of leather and related products</i>	6.673	6.292	5.686	5.686	4.430
16	<i>Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials</i>	39.858	46.760	48.034	46.582	54.874
17	<i>Manufacture of paper and paper products</i>	56.274	60.722	46.042	36.999	29.524
18	<i>Printing and reproduction of recorded media</i>	-	-	-	1.101	2.837
19	<i>Manufacture of coke and refined petroleum products</i>	1.191.300	1.123.315	1.454.498	1.402.330	1.536.503
20	<i>Manufacture of chemicals and chemical products</i>	74.000	110.178	99.910	111.058	74.561
22	<i>Manufacture of rubber and plastic products</i>	7.855	9.484	14.753	18.459	24.574
23	<i>Manufacture of other non-metallic mineral products</i>	89.663	87.732	129.311	87.213	75.305
24	<i>Manufacture of basic metals</i>	161.457	185.656	200.888	194.455	173.121
25	<i>Manufacture of fabricated metal products, except machinery and equipment</i>	9.197	11.822	18.143	18.473	22.075
26	<i>Manufacture of computer, electronic and optical products</i>	7.237	8.664	10.620	10.656	10.799
27	<i>Manufacture of electrical equipment</i>	9.826	8.886	8.635	10.873	13.322
28	<i>Manufacture of machinery and equipment n.e.c.</i>	12.658	12.112	12.942	8.068	14.767
29	<i>Manufacture of motor vehicles, trailers and semi-trailers</i>	43.224	39.173	28.316	28.189	28.189
31	<i>Manufacture of furniture</i>	2.638	2.609	2.609	1.076	1.512
35	<i>Electricity, Gas, Steam Production and Supply and Air Conditioning</i>	51.327	65.622	111.612	138.127	155.634
38	<i>Waste collection, treatment and disposal activities; materials recovery</i>	664	664	664	664	664
41	<i>Construction of buildings</i>	3.197	2.796	2.894	2.894	2.918
42	<i>Civil Engineering Construction</i>	39.136	42.644	43.176	45.709	46.170
45	<i>Wholesale and Retail Trade in Motor Vehicles and Motorcycles, Repair of Motor Vehicles and Motorcycles</i>	8.582	7.615	11.494	8.740	11.013
46	<i>Wholesale trade, except of motor vehicles and motorcycles</i>	265.164	253.403	240.278	249.722	239.262
47	<i>Retail trade, except of motor vehicles and motorcycles</i>	324.596	426.891	366.168	334.391	345.692
49	<i>Land transport and transport via pipelines</i>	978	978	782	-	2.350
52	<i>Warehousing and support activities for transportation</i>	2.721	2.291	2.096	1.891	1.851
55	<i>Accommodation</i>	70.624	80.126	90.651	37.881	32.160
56	<i>Food and beverage service activities</i>	-	-	-	1.269	3.316
59	<i>Motion picture, video and television programme production, sound recording and music publishing activities</i>	...	2.473	3.744	3.744	2.209
61	<i>Telecommunications</i>	66.827	96.284	90.910	169.014	200.749
62	<i>Computer programming, consultancy and related activities</i>	1.772	1.007	1.007	2.043	1
63	<i>Information service activities</i>	...	...	1.280	1.276	3.166

64	<i>Financial service activities, except insurance and pension funding</i>	4.977.555	4.629.082	4.206.982	3.340.633	3.144.333
66	<i>Activities auxiliary to financial services and insurance activities</i>	10.708	11.472	10.855	10.855	10.732
68	<i>Real estate activities</i>	452.112	542.753	682.918	289.677	193.539
70	<i>Activities of Head Offices, Management Consultancy Activities</i>	89.034	73.099	68.662	76.929	77.961
71	<i>Architectural and engineering activities; technical testing and analysis</i>	220.363	148.135	162.802	176.965	183.987
73	<i>Advertising and market research</i>	6.001	5.481	26.991	26.995	26.017
82	<i>Office administrative, office support and other business support activities</i>	-	-	-	1.514	1.514
86	<i>Human health activities</i>	12.436	10.532	5.574	6.113	5.450
92	<i>Gambling and betting activities</i>	1.708	3.073	622	622	622
93	<i>Sports activities and amusement and recreation activities</i>	8.741	8.827	8.696	9.161	10.663
	<i>Unclassified</i>	321.856	383.036	148.951	151.299	248.080
	TOTAL	8.788.477	8.639.279	9.040.678	7.846.368	7.866.545

Source: CBBH

NOTE: Data are the result of a survey on foreign investment regularly conducted by the CBBH on quarterly and annual basis. These data include only the business entities for which we have information that they have the amounts of foreign direct investment higher than KM 100,000 and microcredit organizations in BH.